



Sustainability Report 2007



NOTICE

This document has been prepared by IBERDROLA S.A. for use by shareholders, investors, analysts and the media with respect to information corresponding to fiscal year 2007 and at the General Shareholders' Meeting of IBERDROLA, S.A., which has been called for April 16 and 17, 2008. Therefore, it may not be disclosed, made public, or used by any other individual or legal entity for purposes other than as set forth above without the express written consent of IBERDROLA, S.A. The Company does not assume any responsibility for this document if it is used for a purpose other than as indicated above. IBERDROLA, S.A. also assumes no obligation to update or revise this document.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking information and statements regarding IBERDROLA, S.A., including information extracted from the 2008-2010 Strategic Plan that was approved by the Board of Directors of IBERDROLA, S.A. on October 23, 2007. The relevant documents in connection therewith were submitted to the National Securities Market Commission (Comisión Nacional del Mercado de Valores) (CNMV) on October 24, 2007, on which date they were also provided to the financial community and the media. The 2008-2010 Strategic Plan may be viewed on the Company's website: www.iberdrola.com.

Forward-looking statements are statements that are not historical facts. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. Forward-looking statements are generally identified by the words "expects," "anticipates," "believes," "intends," "estimates" and similar expressions. The projections and estimates are based on numerous subjective judgements and estimates, which may or may not be correct. Although the management of IBERDROLA, S.A. believes that the expectations contained in such statements are reasonable, investors in and holders of IBERDROLA, S.A. shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of IBERDROLA, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the public documents sent by IBERDROLA, S.A. to the National Securities Market Commission. Therefore, this document may not be considered an implicit or explicit guarantee regarding the accuracy or integrity of such projections and estimates, or of the future of IBERDROLA, S.A. Prior results should not be taken as an indication of future results⁽¹⁾. Except as required by applicable law, IBERDROLA, S.A. does not undertake any obligation to update any forward-looking information or statements.

IMPORTANT INFORMATION

This document does not constitute an offer to purchase, sell or exchange shares of IBERDROLA, S.A., or the solicitation of an offer to purchase, sell or exchange such shares. The shares of IBERDROLA, S.A. may not be sold in the United States of America except pursuant to an effective registration statement under the Securities Act of 1933 or pursuant to a valid exemption from registration. IBERDROLA, S.A. does not intend to register its shares with the Securities and Exchange Commission or to make a public offering of shares in the United States of America.

⁽¹⁾ To include if the presentation includes references to share prices or yields.





I am pleased to address all of you once again in order to submit to you IBERDROLA's Sustainability Report for Fiscal Year 2007, a year in which the Company has had a major boost thanks to a remarkable international expansion and a significant development of its business in the renewable energy area.

During this Year, we have overcome major challenges that have entailed a transformation in the size and profile of IBERDROLA.

On the one hand, the integration with ScottishPower was completed in 2007 in an exemplary fashion and in record time, thanks to the friendly nature of the agreement. As a result, IBERDROLA has confirmed its position as one of the leading energy companies in the world, with its strong presence in Spain and Latin America now being supplemented by the well-established presence of ScottishPower in the United Kingdom and the United States.

Furthermore, IBERDROLA RENEWABLES shares started trading on the Stock Exchange once all of the Group's assets had been integrated into a single company. This entailed the launch of the largest Initial Public Offering ever carried out in Spain, and has positioned the new company, even from its inception, as the world leader in its industry and one of the main companies in the IBEX-35 index.

On the other hand, IBERDROLA agreed to acquire the U.S. company Energy East, which distributes energy in the states of New York, New Hampshire, Maine, Connecticut and Massachusetts. This friendly transaction, carried out with the agreement and approval of both Boards of Directors and with the support of the shareholders at the General Shareholders' Meeting of the American company, is pending approval by the corresponding U.S. regulators.

During this Fiscal Year, we have overcome major challenges that have entailed a transformation in the size and profile of IBERDROLA

IBERDROLA will continue to work with the ultimate target of creating more wealth and well-being in the areas in which it has a presence

IBERDROLA's expansion during this Fiscal Year is reflected on the Company's income statement, which has posted profits in excess of 2,350 million euros, up 42% from the previous year. Especially worthy of note is the contribution of ScottishPower, which, in only eight months, accounted for 1,350 million euros of the Group's EBITDA (25% of the total amount). At the same time, financial strength has been maintained, with a reduction in the Group's leverage to 42%. In consideration of all of the foregoing, the rating agencies have confirmed the Company's "A" rating.

In addition, after factoring in the effect of the capital increases that have been carried out, Earnings per Share (calculated on the average number of shares) increased by 14% in 2007, more than the average percentage over the 2000-2006 period.

These figures have enabled the Company's Board of Directors to propose to the shareholders at the General Shareholders' Meeting a final dividend of 0.156 euro per share, up 5.2% from 2006, which, added to the interim dividend paid last January, results in a total dividend of 0.271 euro per share. An attendance bonus of 0.005 euro per share has also been approved.

In line with the growth in Net Profits in 2007, the Company has increased by 44% the amount payable as total dividends against 2007 earnings, up to 1,353 million euros.

The new IBERDROLA, which has become a benchmark for its size, its profitability and its focus on clean energy, as well as for its sound results and its financial strength, is perfectly prepared to face any new challenge that might arise.

In this sense, the Company has a new Strategic Plan for the 2008-2010 period, which provides for more than 24,000 million euros worth of investments in IBERDROLA's core business, i.e., renewable energy, grids, and traditional generation, with a view to further consolidating its leading position in the energy business. We estimate that the Plan will increase the Group's

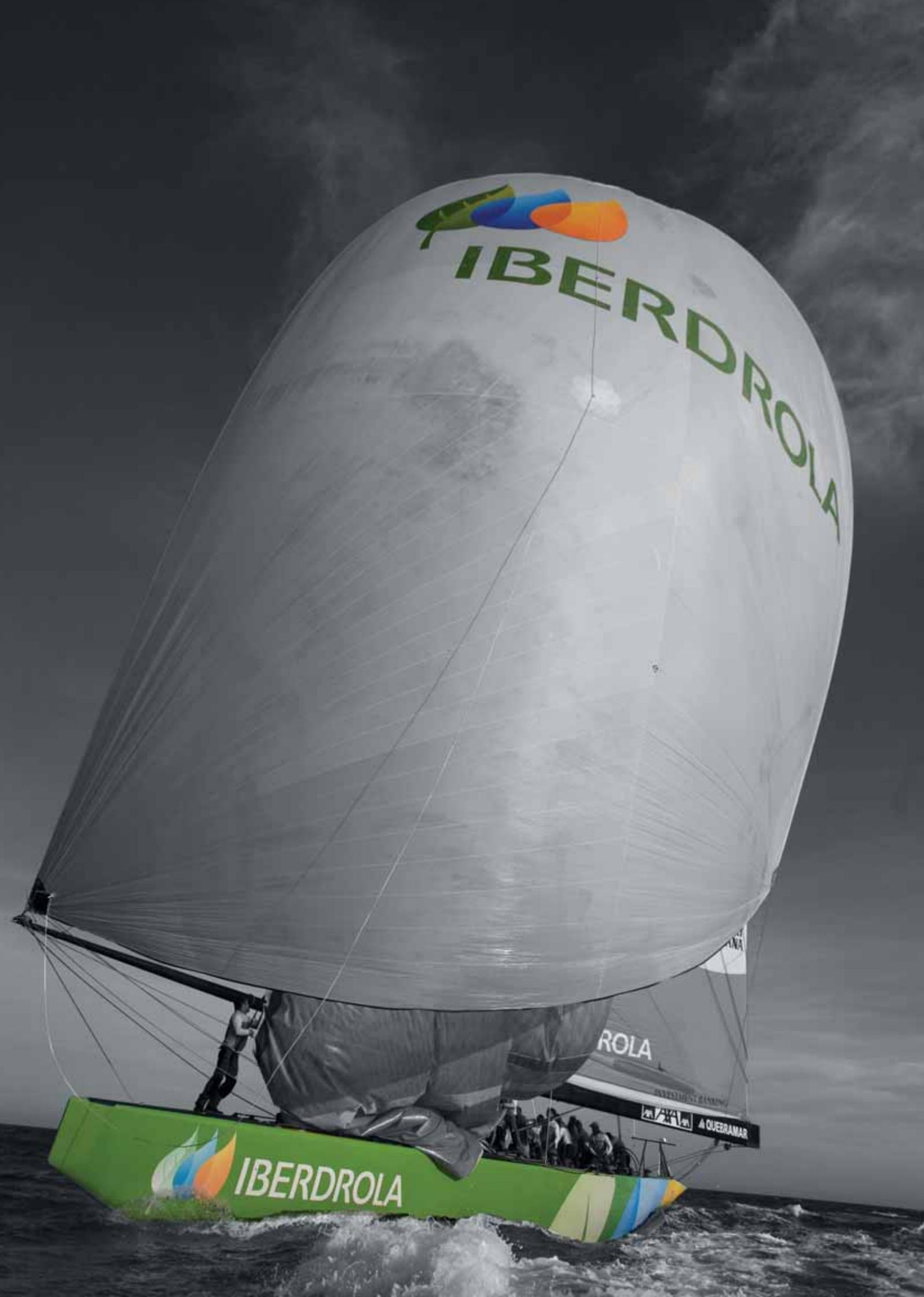
Net Profits to 3,500 million euros in 2010, while at the same time preserving the Group's financial strength.

Guided by this Strategic Plan, IBERDROLA will continue to work in pursuit of its ultimate target of creating more wealth and well-being in the areas in which it has a presence. Because IBERDROLA, a company that has always been investor-owned, with 107 years in business and a model track record, has a splendid future ahead, thanks to a clear strategy, an exceptional workforce prepared to carry it out and the confidence of its shareholders.

In view of all of the foregoing, we can look to the years ahead with optimism and with an increasingly stronger motivation to carry out an energy plan that creates value in a sustainable fashion; a model for success in which everyone wins: shareholders, customers, employees, and the communities in which we carry out our activities, always bearing in mind our firm commitment to people and environmental care.



Ignacio S. Galán
Chairman of IBERDROLA



IBERDROLA

IBERDROLA

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IBERDROLA, A GLOBAL COMPANY

01

In 2007, we ended a historic year in the internationalization and growth strategy of the IBERDROLA Group. Our Company is one of the five **leading electric companies in the world**, with a market capitalization of almost 52,000 million euros as of the close of 2007. We have more than 25 million users, more than 42,000 MW of installed capacity, and more than 26,000 employees in approximately 40 countries, **mainly in the Atlantic Area**. We also provide a benchmark commitment to cleaner energy, the creation of value, and sustainable development.



Our identity

The IBERDROLA Group

IBERDROLA is now a global company with almost two-thirds of its activities occurring outside of Spain. This is a result of the Company's wager on sustainable development and the creation of value.

A GLOBAL LEADER

The strategy of internationalization that the IBERDROLA Group commenced at the end of 2006 has transformed our Company, over an extremely brief period of time, into a model for growth and success. Thanks to the fulfillment of the 2001-2006 Strategic Plan, and to the integration with ScottishPower and the agreement to acquire Energy East in 2007, IBERDROLA has changed from a local energy leader with activities in Latin America to become a global company with a presence in almost 40 countries, mainly in the Atlantic Area, and almost two-thirds of its activities outside of Spain.

In this way, IBERDROLA has multiplied 4.5 times in size over the last seven years and increased its market capitalization from 12,000 million euros to almost 52,000 million euros as of the close of 2007. The Company is already one of the five largest electric companies in the world, as compared to the nineteenth place it held in 2001, and it is the best-positioned Spanish company in its industry at the international level. In addition, it became the fourth-highest value on the Ibex-35, the twenty-first largest company on the DJ EuroStoxx 50 index, and number 65 on the DJ Stoxx Global 1800.

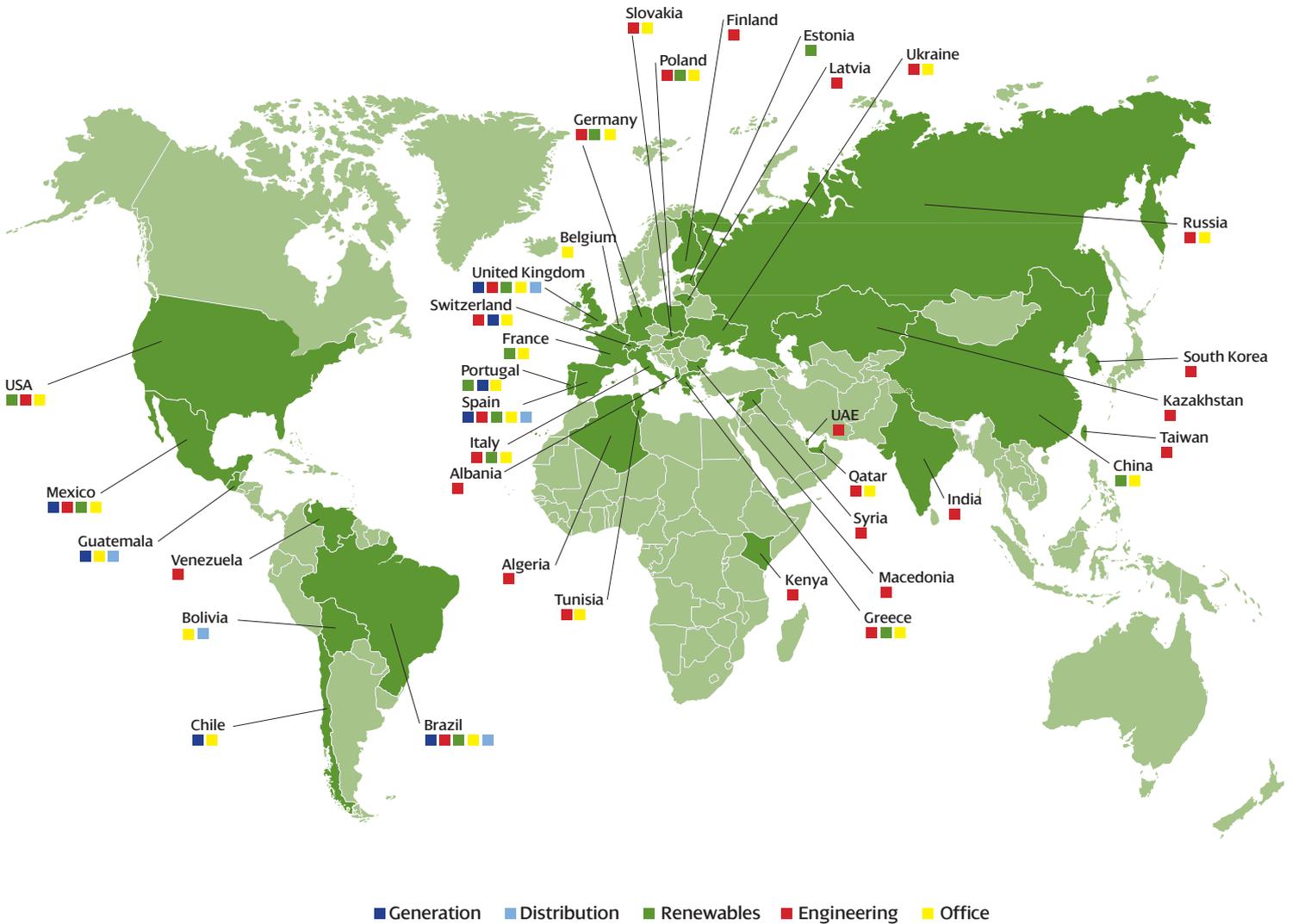
IBERDROLA has multiplied 4.5 times in size over the last seven years, and is the World leader in wind energy

A LEADER IN CLEANER TECHNOLOGIES

This significant growth has been accompanied by a strong increase in the Group's installed capacity and electricity production. The Company ended 2007 with 42,516 MW of installed capacity, 39.9% more than at the close of the previous year. Electricity production increased by 34.2%, to 123,460 million kWh.

All of the foregoing is due to IBERDROLA's wager on cleaner generation technologies, as reflected in its production structure: the total is made up of 30.8% combined-cycle, 22.8% hydro-electric, 18.1% renewable energy, 11.1% thermal, 7.9% nuclear, 6.8% fuel-oil, and 2.5% cogeneration. IBERDROLA is currently the world leader in wind energy: its subsidiary Iberdrola Renewables, 20% of the capital of which the Group floated on the Stock Exchange in December 2007, has an installed capacity of more than 7,700 MW and a portfolio of projects that equals more than 42,000 MW, more than half of which is in the United States.

PRESENCE OF THE IBERDROLA GROUP IN THE WORLD



Shares of the IBERDROLA Group have increased 205% between 2001 and 2007, as compared to 66% for the IBEX-35

IBERDROLA's firm commitment to clean technologies and the environment has made the Company a global benchmark in this area. IBERDROLA is currently one of the cleanest electric companies in Europe: almost one-half of production (42%) is free of CO₂ emissions, a figure that rises to almost two-thirds in the case of Spain.

LEADER IN THE CREATION OF VALUE

The Company's wager on sustainable development, efficiency, and the best Corporate Governance practices have made IBERDROLA one of the leading electric companies in the creation of value. In fact, between January 2001 and December 2007, the shares of the IBERDROLA Group increased by 205%, as compared to 55% for the Ibex-35 and 94% for the DJ EuroStoxx 50.

A fruit of the Company's commitment to the quality of peoples' lives is also a progressive improvement in the quality of supply, which has been experienced by our more than 25 million users throughout the world, an effort in which IBERDROLA has invested 1,300 million euros in 2007. Furthermore, the constant search for new opportunities for improvement and the efforts to incorporate

the latest technologies into the productive process has increased investment in R&D (Research & Development) to 65 million euros in 2007. In addition, the Company has dedicated another 50 million euros to initiatives connected with social development, as shown by its involvement in the improvement of the societies in which it operates.

This commitment to people could not but also extend to the IBERDROLA Group's workforce, which increased by 62% in 2007 to more than 26,000 employees throughout the world. During this fiscal year, the Company has been noteworthy for its firm commitment to training, with 810,000 hours dedicated thereto and an investment of 54 million euros, as well as its leadership in the reconciliation of work and family life by making a reality of measures supporting the family and maternity that go beyond applicable law, including being the first Ibex-35 company to implement the compressed working day [jornada intensiva].

A LEADER IN BRAND APPRECIATION

The success of IBERDROLA's strategy is also reflected in the value of the Company's brand. IBERDROLA believes that its brand is a promise to all stakeholders and their experience with respect thereto. A strong brand requires coherence and consistency in strategy and positioning, and contributes to strengthening reputation and international positioning, as well as its corporate culture.

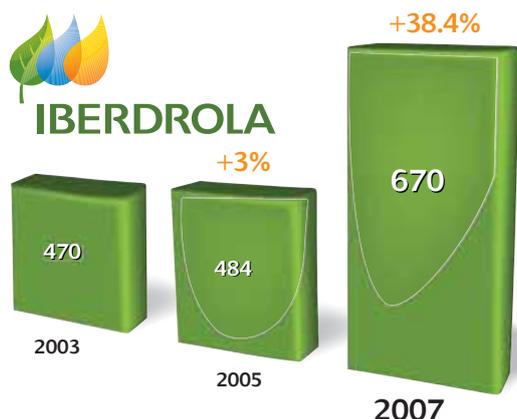
According to Interbrand's 2007 ranking of Spanish brands, our Company achieved a 38% appreciation in the value of the IBERDROLA brand in 2007. We are the company with the highest valuation in the electricity sector in Spain.

A LEADER IN GROWTH

As from this point forward, IBERDROLA embarks on a new cycle of growth based on the consolidation of its international expansion and a ratification of its wager on renewable energy and quality in supply. The new 2008-2010 Strategic Plan continues the path successfully started more than six years ago, and for 24,200 million euros are planned to be invested during the period. Thus, the IBERDROLA Group reaffirms its commitment to guaranteeing the maximum creation of value for its shareholders, users, employees and society at large, within the framework of sustainable development.

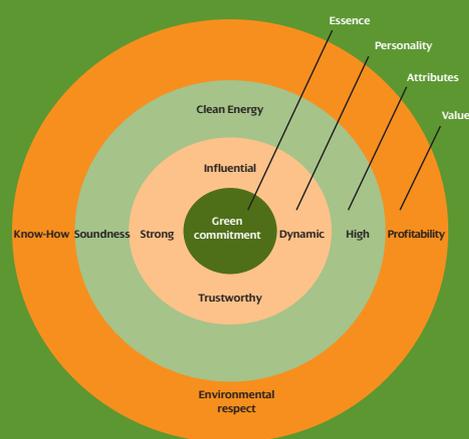
WE ARE THE COMPANY WITH THE HIGHEST BRAND VALUE IN THE ELECTRICITY SECTOR IN SPAIN

(millions of euros)



IBERDROLA, A LEADING BRAND

The brand is one of IBERDROLA's most important assets. It acts to differentiate the Company from the rest of the company's in the sector. It is the vehicle that transmits our values.



IBERDROLA is a brand with great strength. Sponsorship of the Desafío Español in the America's Cup has generated significant returns in terms of recognition of the brand and alignment with the values that our Company transmits: international leadership, renewable energy, the spirit to excel, and modernity.

This sponsorship serves to strengthen the values of the brand, and therefore those of our Company, using the challenges of IBERDROLA for such purpose.

- Environment: we wager on clean energy, we are committed to the environment, and we have a presence on the principal sustainability indices.
- Quality: we are committed to quality of service and closeness to our users.
- Strength: based on solid growth, investment, and a commitment to the development of our country.
- Expansion: more than 100 years of experience and an ambition to grow.
- Innovation: we innovate in the development of clean energy, we are world leaders in wind energy, and we have a vision for the future.
- Team: we are the best-managed European electric company, we are characterized by daily effort and teamwork.

Key points

Growth milestones

IBERDROLA ends a key year in the Company's 100-year history. Expansion in the Atlantic Area cements its position as one of the five leading electricity companies in the world.

01

Integration of ScottishPower

On April 23, IBERDROLA's friendly takeover of ScottishPower for 17,100 million euros was completed in a record time of five months, making it one of the most significant transactions in Spanish corporate history. Three capital increases were carried out in order to enable the transaction. The integration process, now complete, has been a success and, amongst other matters, has led to a 52% increase - from 175 to 266 million euros - in the synergies initially forecast for 2010. In only eight months, the Scottish electricity company has contributed 24% (1,351 million euros) of the IBERDROLA Group's gross operating income (EBITDA). Following the integration with ScottishPower, the Group has diversified and expanded its generation facilities throughout the world, and increased its electricity production by 34.2% to 123,460 GWh in 2007.



02

Agreement to acquire Energy East

The agreement to acquire Energy East, announced in June 2007 and expected to be completed at the end of the first half of 2008, will help consolidate IBERDROLA's position in the United States and raises the number of the Group's supply points for electricity and gas by 1.8 million and 0.9 million, respectively. The transaction is valued at 6,400 million euros, of which 3,300 million euros will be funded through a capital increase and the remaining 3,100 million euros through debt. IBERDROLA already has the necessary financing in place thanks to an Accelerated Bookbuilt Offer carried out in June, and has received massive support of the shareholders at the Extraordinary General Shareholders' Meeting of Energy East, 93% of whom voted in favor of the acquisition. In addition, as of February 2008, IBERDROLA has obtained the four Federal authorizations required by U.S. legislation, and three of the four needed at the state level.

03

2008-2010 Strategic Plan

Under IBERDROLA's new Strategic Plan, approved on October 23, the Company plans to invest 24,200 million euros over the next three years and expects to obtain a net profit of 3,500 million euros by 2010, twice the 2006 figure. The Company aims to allocate 17,800 million euros to organic growth, approximately 2.4 times more than during the 2004-2006 period, and a further 6,400 million euros to close the Energy East transaction. IBERDROLA will thus strengthen its international expansion, with a strong emphasis on the Atlantic Area (Europe/North America/Latin America). Along these lines, 70% of its investment is earmarked to be made overseas, compared to 25% during the 2001-2006 period. In addition, the Company confirms its commitment to renewable energy, aiming to exceed 13,600 MW in 2010, and to the quality of supply, for which it plans to invest 5,800 million euros in improvements.



04

Iberdrola Renewables, on the stock market

On December 13, the IBERDROLA Group floated 20% of its renewable energy subsidiary, which immediately became one of the top ten Spanish companies in terms of market capitalization: almost 24,000 million euros at the end of fiscal year 2007. With 4,500 million euros obtained from the flotation — the largest of its kind in Spain — IBERDROLA has crystallized the value of renewable energy and obtained the resources needed to finance the growth of Renewables while maintaining the Group's financial strength. A world leader in wind power with a presence in 19 countries, Iberdrola Renewables has an installed capacity of more than 7,700 MW and a portfolio of projects totaling more than 42,000 MW, of which more than half are in the United States, 17% in Spain, and 13% in the United Kingdom.

Our figures

Indicators for the fiscal year

IBERDROLA is one of the five largest electricity companies in the world by It is present in close to 40 countries and has over 26,000 employees,

It is a benchmark company in the Atlantic Area:

- The **leading energy company in Spain**.
- In **North America**, it is the **second-largest wind energy company** and the **third-largest independent gas storage company**.
- It is the **leading private generator in Mexico** and the **leading distribution company in Brazil**.
- The **leading wind energy company in the United Kingdom**, third-largest in electricity distribution and one of the five largest retail suppliers.

It is one of the cleanest energy companies in the world:

- **World leader in wind energy**, with **7,700 MW of installed capacity in renewable energy** and a project portfolio that exceeds **42,000 MW**.
- One of the main international developers of **combined cycles**, with **13,000 MW in installed capacity**.
- One of the **most environmentally respectful companies in Europe**: 289 grams of CO₂ per kWh, as compared to a European average of 380 grams of CO₂ per kWh. 42% of output is free of CO₂ emissions, which percentage rises to 66.5% in Spain.

Strong increase in profits:

- > + **106.5%** in assets.
- > + **41.8%** in net profits.
- > + **42.8%** in gross operating income (EBITDA)
- > + **39.3%** in net operating income (EBIT)

ECONOMIC/FINANCIAL INFORMATION (millions of euros)

Gross operating income (EBITDA)	5,538.2
Net operating income (EBIT)	3,697.5
Net income	2,353.7
Total assets	68,284
Investments	4,711
-Spain	2,256
-International	2,455

NET INCOME (millions of euros)



stock market value, almost 52 billion euros as of the end of 2007, with net profits of 2,353.7 million euros.

Diversification and expansion of generation facilities worldwide after integration with ScottishPower.

- Distribution of **over 159,000 GWh to more than 23 million users** worldwide.
- **Electricity output grew 34.2%** in 2007, to 123,460 GWh, **and installed capacity increased by 39.9%**, to 42,515 MW.

Creation of value for shareholders:

- **Shares rose 25.6%** in 2007, as compared with 7.3% for the IBEX-35.
- **Total shareholder return increased to 28.8%.**
- **Dividends grew by 44%.**

Stock market capitalization (millions of euros)	51,934
Earnings per share (euros)	0.52
Dividend yield (%)	3.21

* Pending approval by the shareholders at the General Shareholders Meeting pursuant to the Proposed Allocation of Profits/Losses.

A world leader in its social and environmental behavior, with a strengthened commitment in 2007 to:

- > **Users:** almost **six million new points of supply** of gas and electricity under management worldwide and **1,300 million euros invested** in improving the **quality of supply**. In Spain, an ICEIT (Installed Capacity Equivalent Interrupt Time) of less than two hours per year, 3,137 new transformer centers and almost 3,500 kilometers of new lines.
- > **The environment:** **further international recognition for its environmental strategy**; chosen as "Best in Class" in the "Climate Leadership Index" and included in the "Dow Jones Sustainability Index" for the eighth straight year, with the best score in the electricity industry.
- > **Society:** **50 million euros** invested in initiatives linked to social development and **65 million euros** in R&D.
- > **Over 26,000 people working at IBERDROLA: a leader in the reconciliation of professional and family life**, since it was the first Ibex-35 company to implement compressed work days and flexible working hours. **A leader in training**, with 810,000 hours.

ECONOMIC/FINANCIAL DATA

INCOME STATEMENT

(millions of euros)

	2007	2006	% change 07/06
Net sales	17,468	11,017.4	58.5%
Gross operating income (EBITDA)	5,538.3	3,889.7	42.2%
Net operating income (EBIT)	3,697.6	2,654.5	39.3%
Pre-tax income	3,098.8	2,386.2	29.8%
Net income	2,353.7	1,660.3	41.8%
Net Operating Expense / Gross Margin (%)	29.4%	31.1%	

BALANCE SHEET

(millions of euros)

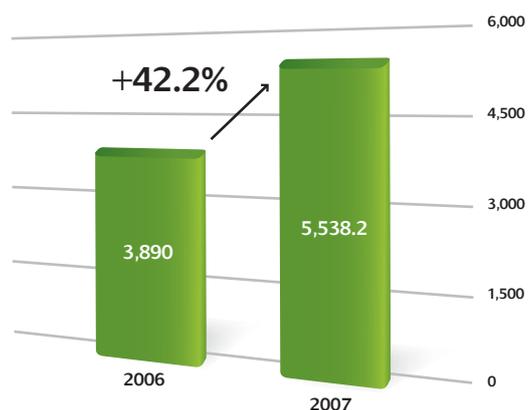
	2007	2006	% change 07/06
Total assets	68,284	33,061	106.5%
Shareholders' equity	27,832	10,567	163.3%
Adjusted net financial debt ⁽¹⁾	20,470	13,119	56%
Return on equity (ROE) (%)	12.3%	16.6%	
Financial leverage ⁽²⁾ (%)	42.4%	55.3%	
Net debt/Shareholders' equity (times)	0.74	1.36	

(1) Includes amounts corresponding to the tariff shortfall of 2006 and 2007.

(2) Net Debt/Net Debt+Shareholders' Equity. Leverage as of December 2007 not including the tariff shortfall would stand at 41%.

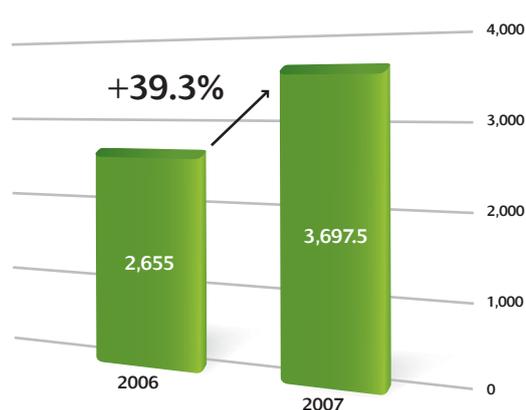
GROSS OPERATING INCOME (EBITDA)

(millions of euros)

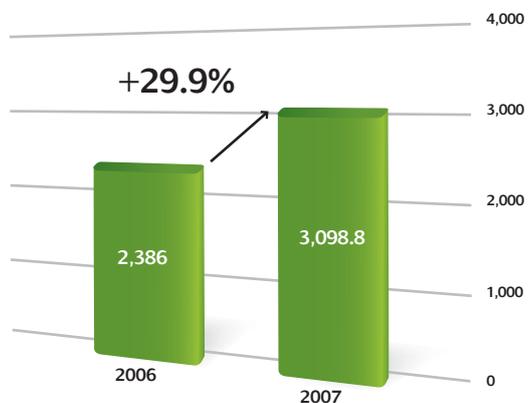


NET OPERATING INCOME (EBIT)

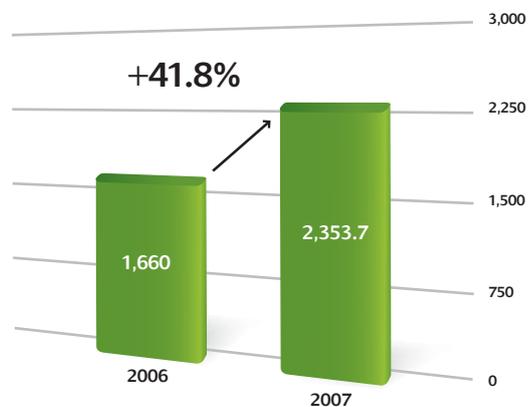
(millions of euros)



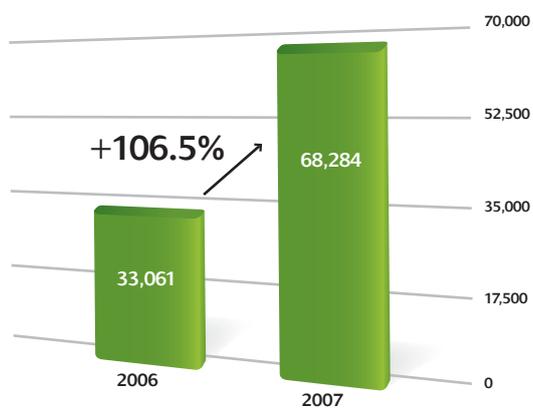
PRE-TAX INCOME
(millions of euros)



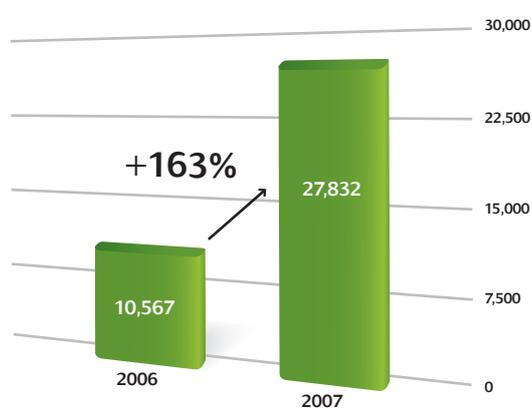
NET INCOME
(millions of euros)



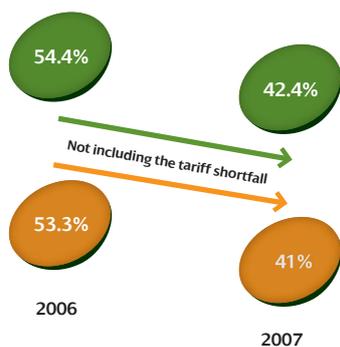
TOTAL ASSETS
(millions of euros)



SHAREHOLDERS' EQUITY
(millions of euros)



FINANCIAL LEVERAGE*
(%)



(*) Net Debt/Net Debt+Shareholders' Equity. Leverage as of December 2007 not including the tariff shortfall would stand at 41%.

OPERATING DATA

IBERDROLA Group

	2007	2006	% change 07/06
Net Output (GWh)	123,460	92,010	34.2
Gas combined cycle	51,152	36,699	39.4
Wind and mini-hydroelectric	13,309	7,867	69.2
Hydroelectric	15,883	13,154	20.7
Nuclear	22,216	25,226	-11.9
Fuel-oil	297	1,976	-84.9
Coal	16,635	5,088	226.9
Cogeneration	3,968	2,001	98.3
Installed capacity (MW)	42,516	30,384	39.9
Gas combined cycle ⁽¹⁾	13,082	8,818	48.4
Wind and mini-hydroelectric ⁽²⁾	7,704	4,434	73.7
Hydroelectric	9,710	9,149	6.1
Nuclear	3,344	3,344	0
Fuel-oil	2,889	2,889	0
Coal	4,709	1,253	275.8
Cogeneration ⁽³⁾	1,078	497	116.9
Distributed electric power (GWh)	159,096	127,171	25.1
Electricity users (supply points under management, in millions)	23	18.4	25.0
Gas users (supply points under management, in millions)	2.1		
Gas supply (GWh)	90,287	32,041	181.8
Gas storage (bcm)	1.5		
Employees	26,196	16,155	62.2

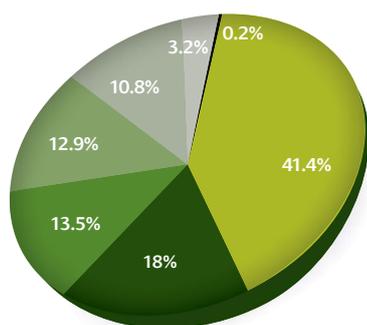
(1) Includes 300 MW gas cycles in the United States.

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

(3) Includes 47% of cogeneration by Klamath in the United States through November 2007 (237 MW) and 100% from December.

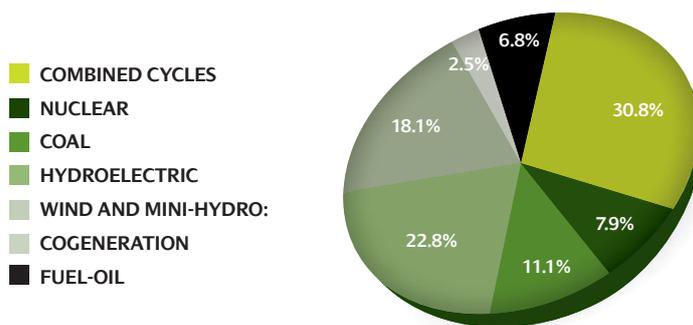
GROSS PRODUCTION OF THE IBERDROLA GROUP

(%)



INSTALLED CAPACITY OF THE IBERDROLA GROUP

(%)

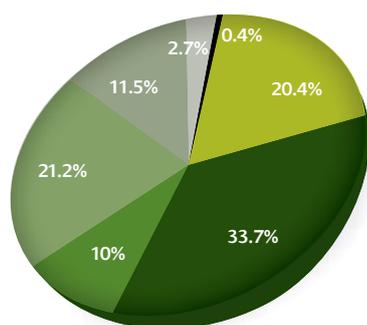


ESPAÑA

	2007	2006	% change 07/06
Net Output (GWh)	65,893	67,642	-2.6
Gas combined cycle	13,414	14,818	-9.5
Wind and Mini-hydroelectric	7,611	7,161	6.3
Hydroelectric	13,981	11,874	17.7
Nuclear	22,216	25,226	-11.9
Fuel-oil	297	1,976	-85.0
Coal	6,567	5,088	29.1
Cogeneration	1,807	1,499	20.5
Installed capacity (MW)	26,987	25,551	5.6
Gas combined cycle	5,714	4,800	19.0
Wind and Mini-hydroelectric	4,570	4,019	13.7
Hydroelectric	8,840	8,842	0.0
Nuclear	3,344	3,344	0.0
Fuel-oil	2,889	2,889	0.0
Coal	1,253	1,253	0.0
Cogeneration	377	404	-6.7
Distributed energy (GWh)	102,495	99,508	3.0
Regulated market	78,599	81,615	-3.7
Supply	23,879	17,893	33.5
Electricity users (supply points under management, in millions)	10.3	9.9	
Gas users (supply points under management, in millions)	0.2	0.2	

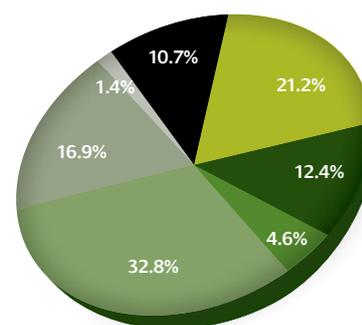
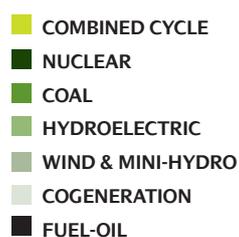
IBERDROLA GROSS OUTPUT IN SPAIN

(%)



IBERDROLA INSTALLED CAPACITY IN SPAIN

(%)



OPERATING DATA

UNITED KINGDOM (SCOTTISHPOWER)

	2007
Net Output (GWh)	18,279
Gas combined cycle	6,371
Wind	562
Hydroelectric	805
Coal	10,068
Cogeneration	473
Installed capacity (MW)	6,418
Gas combined cycle	1,915
Wind	382
Hydroelectric	563
Coal	3,456
Cogeneration	102
Distributed energy (GWh)	27,256
Gas storage (bcm)	0.1
Gas supply (GWh)	90,287
Users	21,489
Gas combined cycle	15,883
Electricity users (supply points under management, in millions)	3.3
Gas users (supply points under management, in millions)	1.9

UNITED STATES (IBERDROLA RENEWABLES)

	2007
Net output (GWh)	5,321
Cogeneration	1,195
Renewable energy	4,126
Installed capacity (MW)	2,951
Gas combined cycle	300
Cogeneration	506
Renewable energy	2,145
Gas storage (bcm)	1.4

LATIN AMERICA

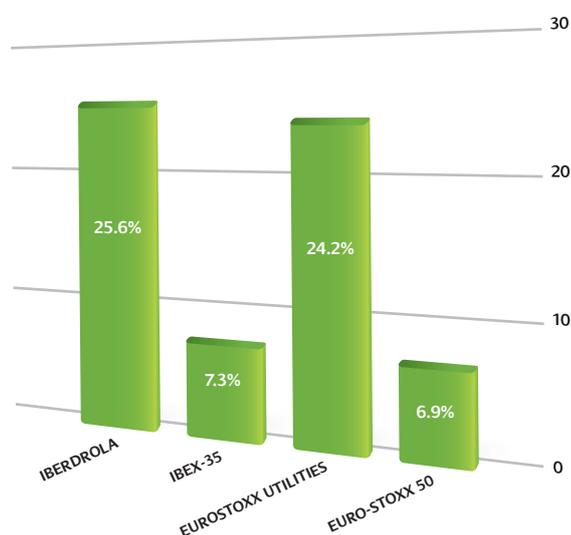
	2007	2006	% change 07/06
Net output (GWh)	32,956	23,643	39.4
Gas combined cycle	31,367	21,881	43.4
Hydroelectric	1,097	1,280	-14.3
Cogeneration	492	482	2.1
Installed capacity (MW)	5,553	4,418	25.7
Gas combined cycle	5,153	4,018	28.2
Hydroelectric	307	307	0.0
Cogeneration	93	93	0.0
Distributed energy under management (GWh)	29,363	27,662	6.1
Electricity users (supply points under management) (in millions)	9.3	8.5	9.4

REST OF THE WORLD

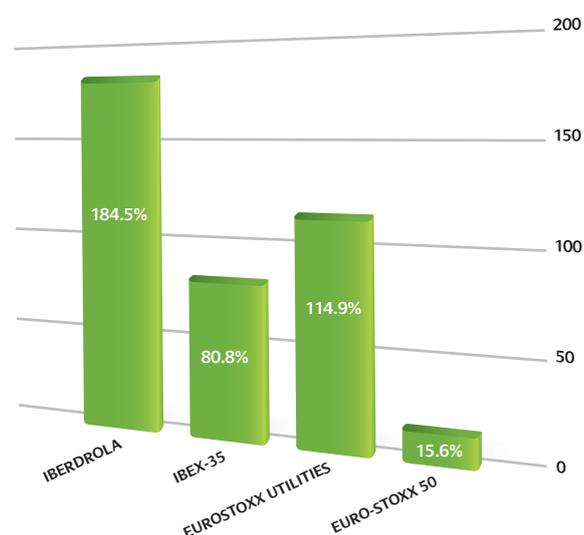
	2007	2006	% change 07/06
Net output (GWh)	1,011	706	43.2
Renewable energy	1,011	706	43.2
Installed capacity (MW)	607	415	46.3
Renewable energy	607	415	46.3

IBERDROLA COMPARED TO THE MAIN INDICES

FROM 12-31-2006 THROUGH 12-31-2007



FROM 12-31-2001 THROUGH 12-31-2007



STOCK MARKET DATA

	2007	2006
Market capitalization (12/31) (millions of euros)	51,934	29,859
Earnings per share (euros)	0.52	0.46
Net operating cash flow per share (euros) (1)	0.87	0.73
P.E.R. (times)	22.0	18.0
Price / Book Value (Market capitalization over net book value at period-end) (multiple)	1.9	2.8

(1) Calculated using the average number of shares outstanding during 2007 pursuant to standard accounting principles.

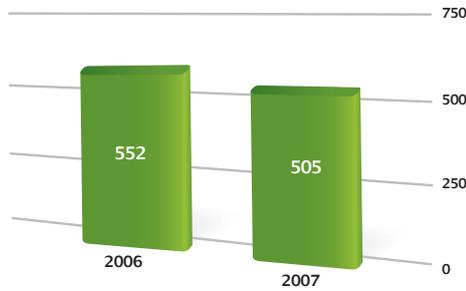
IBERDROLA SHARES

	2007	2006
Number of shares outstanding	4,993,742,040	3,606,196,724
Closing price for the period (euros)	10.40	8.28
Average price for the period (euros)	9.83	7.36
Average daily volume (shares)	43,361,701	30,627,693
Compensation per share (*)	0.2760	0.2658
Interim dividend (January)	0.1150	0.1125
Supplemental dividend (July)	0.1560	0.1483
Attendance fee	0.005	0.005
Dividend yield (%)	3.21	3.83

(*) Pending approval by the shareholders at the General Shareholders' Meeting pursuant to the Proposed Allocation of Profits/Losses.

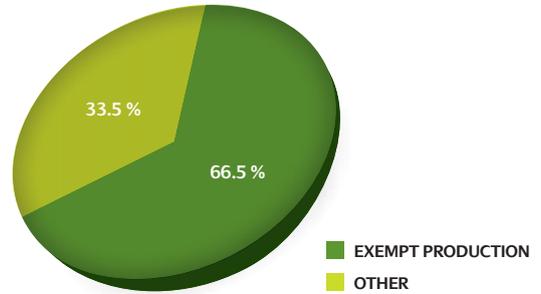
IBERDROLA'S ENVIRONMENTAL ASPECTS

CO₂ SPECIFIC EMISSIONS - THERMAL MIX
(grams/KWh)



(*) IBERDROLA Group's figures, including ScottishPower's figures in 2006.

GROSS EXEMPT PRODUCTION OF CO₂ IN SPAIN
(%)



EVALUATION OF IBERDROLA IN SUSTAINABILITY, REPUTATION AND CORPORATE GOVERNANCE

Sustainability Indexes

Points/Ranking

	Dow Jones Sustainability World Index 06	76 points Sustainability leaders group
	Dow Jones Sustainability Stoxx Index 06	76 points Sustainability leaders group.
	Climate Leadership Index	Best electricity company worldwide
	Storebrand Investments SRI	Second-best electricity company worldwide
	OEKOM	IBERDROLA, Best in class in the 2008 OEKOM ranking
	Global 100	IBERDROLA among the 100 most sustainable companies in the world for the third consecutive year.
	Global Roundtable on Climate Change	IBERDROLA among the sponsors.
	Business Week, Climate Group	Leaders' Group: Among the Top 3 in the ranking of the leading companies in greenhouse gas management and among the Top 10 companies that have contributed most to greenhouse gas reduction and have been leaders in environmental management in the last ten years.
	INNOVEST	IBERDROLA, the best electricity company in the world in the Climate Leadership Index because of its climate-change strategy.
	VIGEO	IBERDROLA improves its ranking and gets the highest rating among all utilities for environmental aspects.
	CR-Risk Premium Survey. U. of Hamburg & SRI Deutsche Bank	30.5 points. IBERDROLA included in the leading utilities group.

Corporate Reputation Indexes

Points/Ranking

	MERCO 2007	IBERDROLA ranks eighth out of 100 companies making up the general category and is once again the leader in the Energy, Gas and Water sector.
	Corporate Responsibility Index 2006	ScottishPower achieves Platinum Status (May 2007).

Corporate Governance Indexes

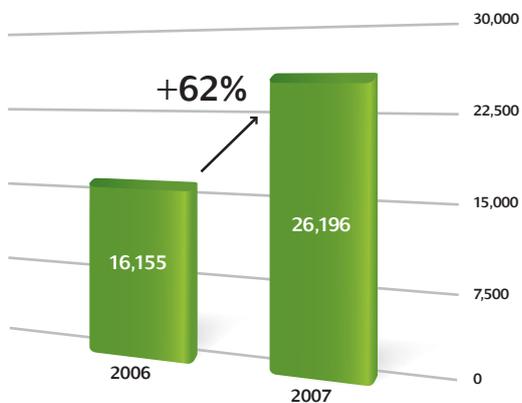
Points/Raking

	ISS	Index Ranking 76.4. Industry Ranking 71.4.
	2008 Sustainability Yearbook	IBERDROLA is one of the three companies in the industry that have achieved the Gold Class classification in the 2008 Sam and PricewaterhouseCoopers Yearbook, which recognizes the best sustainability and corporate responsibility behavior.

IBERDROLA'S SOCIAL ASPECTS

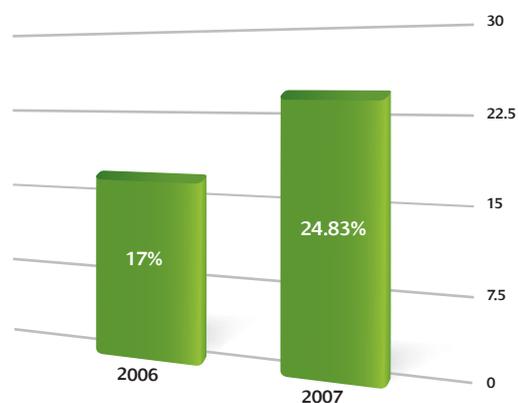
2007 INCREASE IN HEADCOUNT

(number of persons)



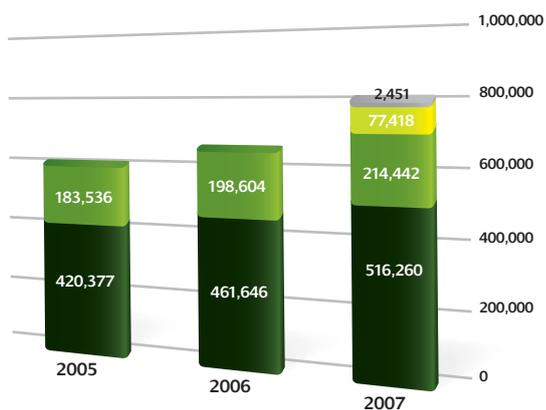
WOMEN IN THE CORPORATE GROUP

(%)



HOURS OF TRAINING

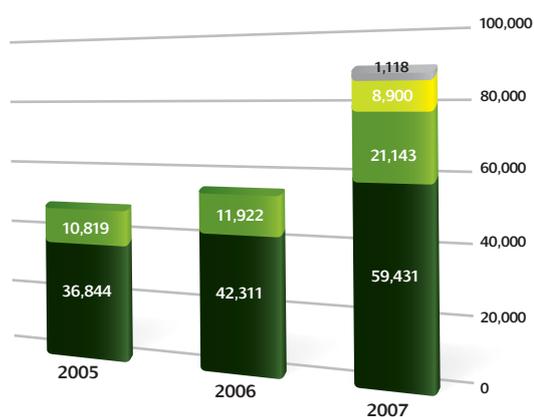
(number of hours)



■ SPAIN ■ UNITED KINGDOM
■ LATIN AMERICA ■ UNITED STATES

ATTENDANCE AT TRAINING COURSES

(number of attendees)



■ SPAIN ■ UNITED KINGDOM
■ LATIN AMERICA ■ UNITED STATES

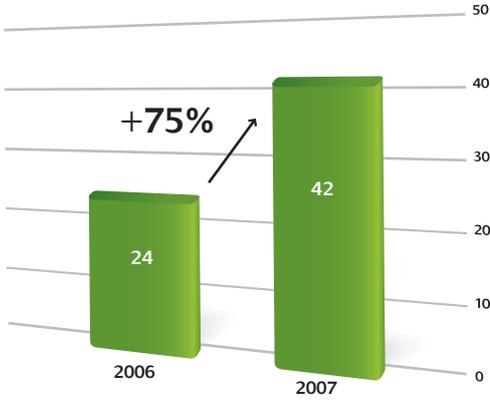
ACCIDENT FREQUENCY RATE AT IBERDROLA IN SPAIN



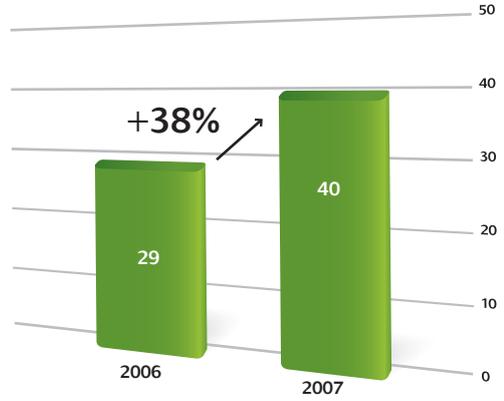
■ ANNUAL ■ TREND

IBERDROLA'S QUALITY AND R&D ASPECTS

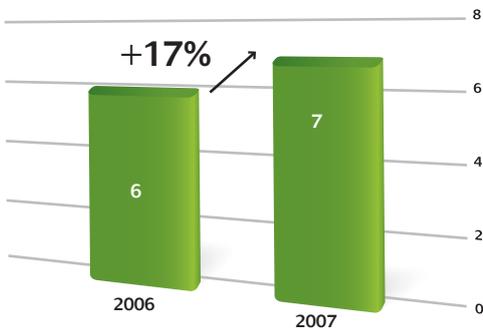
ISO 9001 CERTIFICATIONS
(Quality Management System)



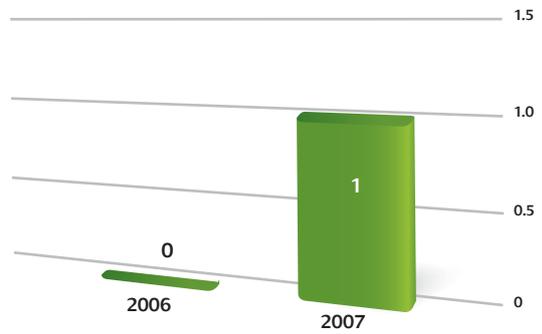
ISO 14001 AND EMAS CERTIFICATIONS
(Environmental Management System)



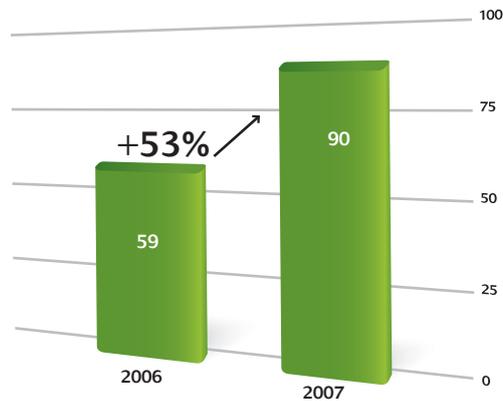
OHSAS 18001 CERTIFICATIONS
(Occupational Risk prevention system)



UNE 166.002 R&D CERTIFICATIONS
(R&D&i Management System)

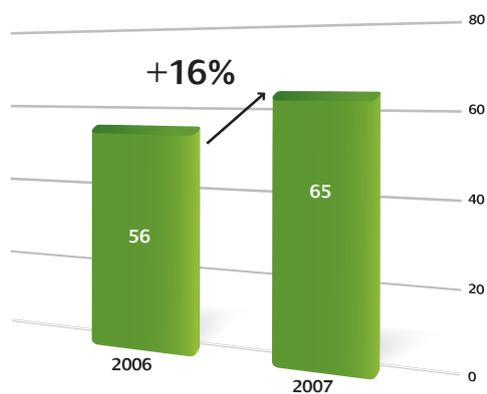


TOTAL CERTIFICATIONS



SPAIN

Supplied area – Spain	190,000 km ²
Population served	16.7 million people
No. of Autonomous Communities	14
No. of provinces	32
Users	10.3 million

R&D INVESTMENTS
(millions of euros)



TRANSPARENCY

02

We have focused on our **commitment to the best practices of corporate governance** and transparency as the basis upon which to build the confidence of our shareholders, customers, suppliers and employees, as well as the media and society in general.



The Commitment

Good Corporate Governance

IBERDROLA 's stakeholders, the media, and society in general increasingly demand the receipt of truthful, transparent and frequent information regarding the Company's performance and expectations, as well as a rigorous application of good governance codes. Due to our transparency, we have been able to surpass these expectations.

CORPORATE GOVERNANCE AND SUSTAINABILITY

The IBERDROLA Group's Corporate Governance model is described in detail in the 2007 Annual Corporate Governance Report, prepared in accordance with the provisions of Circular 4/2007, of December 27, of the National Securities Market Commission [Comisión Nacional del Mercado de Valores] (CNMV) and which is also available on the Company's website, www.iberdrola.com.

For purposes of this 2007 Sustainability Report, this chapter presents a description of those aspects of IBERDROLA's Corporate Governance model that contribute to better governance of the Company and, therefore, to the implementation of the Company's global strategy of sustainable development, especially taking into account the recommendations of the Global Reporting Initiative (GRI).

At the General Shareholders Meeting held on March 29, 2007, amendments were approved to the Corporate Bylaws and to the Regulations for the General Shareholders Meeting which, in turn, meant the entry into force of amendments to the Regulations of the Board of Directors and other internal regulations of the Company. The purpose was to adapt such rules and regulations to the Unified Good Governance Code [Código Unificado de Buen Gobierno] approved by the CNMV, and to include the best practices in this area, in line with the highest international standards.



+ ADDITIONAL INFORMATION CAN BE FOUND IN IBERDROLA'S 2007 ANNUAL CORPORATE GOVERNANCE REPORT AND ON THE WEBSITE: www.iberdrola.com

OWNERSHIP STRUCTURE

As of the date of publication of this Report, the share capital of IBERDROLA, S.A. comes to 3,745,306,530 euros. Such capital is divided into 4,993,742,040 shares.

As shares are represented by book entries and quoted on the Spanish Stock Exchanges, the interest held by each shareholder in the share capital cannot be precisely ascertained.

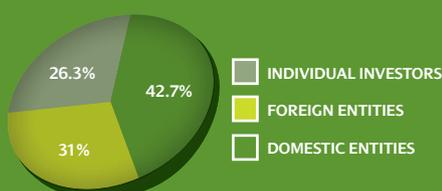
Below is a comparative breakdown of the percentage of shares held by the Company's significant shareholders as of December 31, 2007 and as of December 31, 2006:

Significant Shareholders	2007	2006
ACS, Actividades de Construcción y Servicios, S.A.	7.221%	10%
Bilbao Bizkaia Kutxa (BBK)	7.196%	9.966%
Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)	-	7.492%
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	6.033%	-

In addition to the significant shareholding of ACS in IBERDROLA, on January 15, 2008, this shareholder communicated to the CNMV that it appears as a contracting party to financial instruments linked to a total of 259,939,800 shares of IBERDROLA, which represent 5.205% of its capital.

The approximate distribution of the percentage shareholdings by type of shareholder, as of December 31, 2007, is indicated below:

Shareholdings by Type of Shareholder (%):



MANAGEMENT OF THE COMPANY

Pursuant to Article 32 of the By-Laws, "Management of the Company is vested in a Board of Directors, its Chairman, an Executive Committee, called the Executive Committee [Comisión Ejecutiva Delegada], and, if any and if agreed to by the Board of Directors, a Chief Executive Officer."

Board of Directors

As of December 31, 2007, the Board of Directors was composed of 15 Directors, fewer than the maximum of 21 established in Article 36 of the Corporate By-Laws.

BOARD OF DIRECTORS

Position	Director	Type
Chairman & CEO	Mr. José Ignacio Sánchez Galán	Executive
Vice-Chairman	Mr. Juan Luis Arregui Ciarolo	Independent
Vice-Chairman	Mr. Víctor de Urrutia Vallejo	Independent
Director	Mr. José Orbegozo Arroyo	Independent
Director	Mr. Lucas María de Oriol Mr. López-Montenegro	Independent
Director	Mr. Ricardo Álvarez Isasi	Independent
Director	Mr. José Ignacio Berroeta Echevarría	Independent
Director	Mr. Julio de Miguel Aynat	Independent
Director	Mr. Sebastián Battaner Arias	Independent
Director	Mr. Xabier de Irala Estévez	Proprietary (1)
Director	Mr. Íñigo Víctor de Oriol Ibarra	External
Director	Ms. Inés Macho Stadler	Independent
Director	Mr. Braulio Medel Cámara	Independent
Director	Mr. Nicolás Osuna García	Independent
Director	Mr. José Luis Olivas Martínez	Proprietary (2)
Secretary	Mr. Julián Martínez-Simancas Sánchez	
Legal Counsel	Mr. Federico San Sebastián Flechoso	

(1) Director Xabier de Irala Estévez was appointed by recommendation of Bilbao Bizkaia Kutxa (BBK).

(2) Director José Luis Olivas Martínez was appointed by recommendation of Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja (Bancaja).

Article 26 of the Regulations states that the Board of Directors shall meet as often as is considered appropriate, and at least once a month. During fiscal year 2007, it held a total of 13 meetings.

Furthermore, Section B.1.19. of the 2007 Annual Corporate Governance Report contains the procedures for appointment, re-election, evaluation and removal of Directors.

Profile of the Directors

Mr. JOSÉ IGNACIO SÁNCHEZ GALÁN (Salamanca, 1950)

Industrial Engineer from Escuela Superior Industrial ICAI of Universidad Pontificia de Comillas (Madrid). He holds a Degree in Business Administration and Foreign Trade from ICADE at Universidad Pontificia de Comillas (Madrid) and a Degree in Business Administration and Foreign Trade from the Escuela de Organización Industrial (EOI) of Madrid.

He has held several management positions at Sociedad Española del Acumulador Tudor, S.A. (now Grupo Exide). He has also been Director/General Manager of Industria de Turbo Propulsores, S.A. (ITP), Chairman of the German Eurojet Consortium, Chief Executive Officer of Airtel Móvil (now Vodafone España) and a member of the Supervisory Board of Nutreco Holding N.V.

At present, he is Chairman & Chief Executive Officer of IBERDROLA, S.A. and Chairman of Iberdrola Renewables, S.A. ScottishPower, Iberdrola Inmobiliaria, S.A. and El Desafío Español 2007, S.A., the company that manages the participation of the Spanish yacht in the America's Cup. He is a Director of Page Ibérica and of Bodegas Matarromera.

He is also a member of the Board of Trustees of the following institutions: Fundación Príncipe de Asturias, Fundación Cotec, Fundación Carolina, Fundación Museo Guggenheim de Bilbao, Fundación Universitaria Comillas-ICAI, Fundación Universidad Pontificia de Salamanca, Fundación General Universidad de Salamanca and Fundación Consejo España-Estados Unidos, and serves on the Advisory Committee for the Prince of Asturias Endowed Chair of Science and Information Technology of the University of New Mexico (United States of America). He is a member of the Círculo de Empresarios Vascos, Círculo de Empresarios (Madrid), Círculo de Economía, and the Asociación para el Progreso de la Dirección (APD), as well as of the American Management Association. In addition, he has been a professor at the School of Industrial Engineers at ICAI. He has a fluent command of English, French and Italian.

Mr. JUAN LUIS ARREGUI CIARSOLO (Mallavia, Biscay, 1943)

Technical Engineer, graduate of the Escuela de Bilbao. Holds a Degree in Numerical Control from Wandsdorf and a Masters' Degree in Micro-Mechanical Engineering from Besançon.

He is Chairman of Grupo Empresarial ENCE, S.A., Viña Izadi, S.A., Foresta Capital, S.A. and Retos Operativos XXI, S.L., and has participated in the founding of these last three companies. He is also a Director of Gamesa Corporación Tecnológica, S.A.

He has served as Chairman of Gamesa and of Corporación Eólica CESA, S.A., of which companies he was founder, and as Co-Chairman of the Grupo Guascor.

Mr. VÍCTOR DE URRUTIA VALLEJO (Madrid, 1942)

Doctorate in Economics from Universidad Complutense de Madrid and holder of a Law Degree.

He is Chairman of Compañía Castellana de Bebidas Gaseosas, S.A. (CASBEGA) and of Compañía Vinícola del Norte de España, S.A. (CVNE), Vice-Chairman of IBERDROLA, S.A., as well as a Director of Barclays Bank, S.A., Vocento, S.A., Norte de Castilla, S.A. and Viñedos del Contino, S.A.

COMMUNICATIONS WITH SHAREHOLDERS

The principal ordinary channel of communication between IBERDROLA's shareholders and the Board of Directors is the General Shareholders' Meeting. The shareholders' rights to information, attendance and representation at the General Shareholders Meeting, as well as the measures adopted by the Company to encourage their participation therein, are detailed in the 2007 Annual Corporate Governance Report, Sections E.3 and E.4.

The Office of the Shareholder [Oficina del Accionista] is also permanently available to attend to shareholder requirements via a personal service center at its company headquarters, a toll-free call center (+34 900 10 00 19), e-mail (accionistas@iberdrola.com) and the website www.iberdrola.es.

IBERDROLA's Board of Directors is composed of 15 directors, fewer than the maximum of 21 established in the By-Laws

FOUR TYPES OF DIRECTORS

Pursuant to the provisions of Article 37 of the By-Laws and Article 10 of the Regulations of the Board of Directors, Directors must fall within one of the following four categories:

a) Executive Directors: Directors who perform senior management duties or who are employees of the Company or of its Group.

b) External Proprietary Directors: Directors (i) possess shareholdings equal to or greater than 5% of the share capital, or who have been appointed due to their status as shareholders, even though their shareholdings do not reach such amount, or (ii) whose appointment has been proposed to the Company by shareholders included in the preceding item (i). Article 10.2 of the Regulations of the Board of Directors describes the circumstances under which it is deemed that a Director has been proposed to the Company by a shareholder.

c) External Independent Directors: Directors who are appointed based on their personal and professional expertise and who can carry out their duties without being conditioned by relationships with the Company, its significant shareholders or its managers. Article 10.2 of the Regulations of the Board of Directors sets forth the circumstances under which Directors may not be appointed as independent Directors.

d) Other External Directors: External Directors who do not merit the status of proprietary or independent directors.

In addition, the Bylaws provide that the Board of Directors shall be composed in such a way that the external or non-executive Directors, with the presence of the independent Directors, represent a majority over the executive Directors. This shall be obligatory for the Board of Directors itself, which must observe it in the exercise of its powers to propose appointments of Directors at the General Shareholders Meeting and to make interim appointments to fill vacancies, but merely constitutes guidance for the shareholders themselves.

Mr. JOSÉ ORBEGOZO ARROYO (Getxo, Vizcaya, 1939)

Doctorate in Industrial Engineering from the Escuela Técnica-Superior de Ingenieros Industriales de Madrid.

He is a Trustee of Fundación Iberdrola. He has held management positions in various companies and has been General Director of Worsa as well as Vice-Chairman & CEO of Vazman & Medex, S.A. In addition, he has been a member of the Boards of Directors of Naviera Galea, S.A., Indumetal, S.A., Corporación IBV, Servicios y Tecnologías, S.A.U. and other companies in the construction, metal, naval and food sectors.

Mr. LUCAS MARÍA DE ORIOL LÓPEZ-MONTENEGRO (Madrid, 1941)

Doctorate in Industrial Engineering from the Escuela Técnica-Superior de Ingenieros Industriales de Madrid and Graduate of the Executive Corporate Management Program at IESE.

He has been a Director at Valca, S.A., Vidrala, S.A. and Crisnova, S.A.

Mr. RICARDO ÁLVAREZ ISASI (Bilbao, 1940)

Doctorate in Industrial Engineering from Escuela Técnica-Superior de Ingenieros Industriales de Bilbao and Professor of Electrical Engineering with a broad academic and research background.

He is a member of the board of directors of a number of companies and a member of the Board of Trustees of various foundations, such as the Fundación Iberdrola, Fundación Escuela de Ingenieros de Bilbao and Fundación Víctor Tapia-Dolores Sáinz, of which he is the chief executive.

He has been Director of the Dyna technical magazine and has held numerous positions in academic and research institutions, such as Director of the Escuela de Ingenieros de Bilbao and a member of the Steering Committee and the Governing Board of the Universidad del País Vasco.

He has been a member of the board of directors of CADEM (a Basque Public-Sector Company), of Ente Vasco de la Energía (EVE) and of Iberduero, S.A., as well as executive General Secretary of LABEIN.

Mr. JOSÉ IGNACIO BERROETA ECHEVARRÍA (Bilbao, 1939)

Degree in Economic Science from the Universidad del País Vasco (Sarriko).

He is a member of the Círculo de Empresarios Vascos and of the Consejo de la Asociación para el Progreso de la Dirección (APD) Zona Norte.

He spent most of his professional career at General Eléctrica Española, S.A. and Fabrelec-Westinghouse. Subsequently, he joined Banco de Vizcaya, where he was Assistant General Manager, a position he also held at Banco Bilbao Vizcaya (BBV).

He has been Executive Chairman of Bilbao Bizkaia Kutxa (BBK), Vice-Chairman of Confederación Española de Cajas de Ahorro (CECA) and Director of Construcciones Auxiliares de Ferrocarriles (CAF), S.A. and other entities, as well as a member of the board of trustees of various Foundations, such as COTEC and Museo Guggenheim Bilbao.

Mr. JULIO DE MIGUEL AYNAT (Valencia, 1944)

Law degree from Universidad de Valencia.

He is a member of the Advisory Committee of Cierval, of the Instituto Español de Analistas Financieros and of the Board of Trustees of Feria Muestrario Internacional de Valencia, as well as of various foundations and institutions, such as Fundación Universidad Empresa (ADEIT)

He has been Chairman of Bancaja, Banco de Valencia and Banco de Murcia, Vice-Chairman of Federación Valenciana de Cajas de Ahorros and of Autopistas del Mare Nostrum, S.A. (AUMAR), as well as a Director of Confederación Española de Cajas de Ahorros (CECA), Abertis Infraestructuras, S.A., Enagas, S.A., Aurea Concesiones de Infraestructuras, S.A., Enagas, S.A., Metrovacesa, S.A., Área Concesiones de Infraestructuras, S.A., and Instituto Valenciano de Investigaciones Económicas (IVIE).

He has also been Chairman of Fundación Bancaja and a member of the Board of Trustees of Fundación Premios Rey Jaime I, as well as the Fundación de Estudios Financieros, among other entities.

Mr. SEBASTIÁN BATTANER ARIAS (Salamanca, 1941)

Degree in Economic Science from Universidad Comercial de Deusto and Law degree from Universidad de Valladolid.

He started his professional career at Aceros de Llodio, S.A. and Tubos Especiales Olarra, S.A. Subsequently, he held management positions at financial institutions such as Unicaja and Caja de Ahorros de Salamanca y Soria.

He has been Chairman of Caja Duero, Grupo de Negocios Duero, S.A., Leasing del Duero, S.A. and Unión del Duero de Seguros Generales y de Vida. He has been a Director of Sociedad Española de Banca, of Confederación Española de Cajas de Ahorro (CECA) and of Uralita, S.A., and a member of the Board of Trustees of various foundations and institutions, such as Universidad Pontificia de Salamanca.

He has been a professor at Universidad de Deusto and at the Centro Técnico de Nuevas Profesiones de Salamanca.

Mr. XABIER DE IRALA ESTÉVEZ (New York, 1946)

Industrial Engineering Degree and Master's Degree in Business Administration from De La Salle University (Philippines).

He is Chairman of Bilbao Bizkaia Kutxa (BBK), Norbolsa & Biharko, and Director of Euskaltel, S.A.

At the institutional level, he is Chairman of Fundación Cultural BBK, BBK Solidarioa and Gazte Lanbidean, as well as of the Cámara de Comercio Hispano-Filipina. He is Honorary Chairman/Founder of Exceltur, as well as a member of the Advisory Committee on International Competitiveness to the President of the Philippines, of the Executive Committee of Museo Guggenheim Bilbao, of the Board of Trustees of Fundación Museo Marítimo Ría de Bilbao, of the Executive Committee of COTEC, and of the Board of Governors of Asociación para el Progreso de la Dirección (APD).

External or non-executive Directors, with the presence of the independent Directors, must represent a majority over the executive Directors

MAIN POWERS OF THE BOARD OF DIRECTORS

Pursuant to Article 34 of the By-Laws and Article 7 of the Regulations of the Board:

1. The Board of Directors has the power to adopt resolutions regarding all matters not assigned by Law or these By-laws to the shareholders acting at a General Shareholders' Meeting.

2. As a general rule, the Board of Directors, which has the widest powers and authority to manage, direct, administer and represent the Company, shall entrust the day-to-day management of the Company to the representative decision-making bodies and shall focus its activity on the general duty of supervision and on consideration of those matters which are of particular importance to the Company.

Article 34 of the Bylaws then enumerates, by way of example and not of limitation, the powers that of the Board of Directors.

In order to exercise the powers of the Board, and particularly in connection with matters relating to the economic, environmental and social performance of the Company, each Director may request the hiring of external advisors, whose services shall be paid for by the Company, for the analysis of specific problems with a certain degree of complexity that may arise in the performance of his duties. Likewise, the Nominating and Compensation Committee and the Auditing and Compliance Committee may also hire external advisory services provided by outside professionals that will report directly to the Chairman of the corresponding Committee.

Article 35 of the Regulations of the Board governs conflicts of interest affecting Directors and persons related thereto, and provides that Directors must give notice of the conflict when it occurs and abstain from deliberations and voting on the matter in question. Section C.5 of the 2007 Annual Corporate Governance Report refers to conflicts of interest affecting Directors during fiscal year 2007.

He has been Chairman of Iberia, Líneas Aéreas Españolas, S.A., Executive Vice-Chairman and Chief Executive Officer of Grupo ABB (Madrid), Finance Vice-Chairman of General Electric CGR (París), Director of Financial Programs of General Electric International Operations (London), Chief Executive Officer of GE Portuguesa (Lisbon), Sole Director of CONELEC (Bilbao), and Chief Executive Officer and Finance Director of General Eléctrica Española. At the institutional level, he has been Chairman of the International Air Transport Association (IATA) and of the Feria Internacional de Turismo de Madrid (FITUR).

Mr. ÍÑIGO VÍCTOR DE ORIOL IBARRA (Madrid, 1962)

BA in International Business, graduate of the Executive Corporate Management Program at IESE and Financial Analyst (CEFA) from the Instituto de Analistas Financieros.

He is a member of the Board of Directors of Empresa de Alumbrado Eléctrico de Ceuta, S.A.

He has developed his professional career at the IBERDROLA Group, where he has served as Director of Management Control at Amara, S.A. and as financial analyst in the Financial Division of IBERDROLA, S.A. Recently, he became Director of Corporate Governance for the Americas, representing IBERDROLA, S.A. on various Boards of Directors of the Group's companies in Latin America.

Ms. INÉS MACHO STADLER (Bilbao, 1959)

Degree in Economic Sciences from the Universidad del País Vasco. Masters in Economics from l'École des Hautes Études en Sciences Sociales (París) and Ph.D. in Economics from the same institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE).

Author of many books, reports and articles in international scientific periodicals focusing on issues in industrial economics, contracts and regulation. Together with co-authors she has received the XI Premi Catalunya d'Economia (2007).

Currently, she is Professor of Economics in the Department of Economics and Economic History at the Universidad Autónoma de Barcelona. She is an elected member of the Council of the European Economic Association, honorary member of the European Economic Association and of the Asociación Española de Economía, and a member of the Consejo Asesor del Servicio de Estudios of "la Caixa".

She has been a professor and researcher at the Universidad del País Vasco (Bilbao) and the Universidad Autónoma de Barcelona, and has been a visiting professor in California, Copenhagen, Leuven, Montreal and Munich. She has been Chairperson of the Asociación Española de Economía, coordinator of the Agencia Nacional de Evaluación y Prospectiva and representative to the European Science Foundation.

Mr. BRAULIO MEDEL CÁMARA (Marchena, Sevilla, 1947)

Degree in Economic and Corporate Sciences from the Universidad Complutense de Madrid and Doctorate in Economic and Corporate Sciences from the Universidad de Málaga. Professor of Public Finance at the Universidad de Málaga.

He has been Chairman of Unicaja since its incorporation in 1991, as well as of some of the companies of Grupo Unicaja. He is also Chairman of Federación de Cajas de Ahorros de Andalucía y de Aquages Sur, S.A. and Vice-Chairman of the Confederación Española de Cajas de Ahorros (CECA), of which he was CEO until 1998. He is a Director of Abertis Infraestructuras, S.A., Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. and of the AZVI, S.L. Group of Companies.

He was Deputy Director for Economy and Finance of the Autonomous Community of Andalusia and has published over one hundred scientific works, including books and papers in specialized publications.

Mr. NICOLÁS OSUNA GARCÍA (Albolote, Granada, 1940)

He is Chairman of the Noga Group, which includes three sectors: real estate, through the Osuna Real Estate Group; the hotel sector, through Hoteles Center Sur, S.L.U; and the agriculture-forestry sector, through Haciendas del Sur, S.L. and Agrícolas del Genil, S.L. He is also a member of the Board of Directors of Banco Popular Español, S.A., and a member of the Governing Board of the Instituto de la Empresa Familiar and of the Advisory Boards of Telefónica and of IBERDROLA in Andalucía.

Mr. JOSÉ LUIS OLIVAS MARTÍNEZ (Motilla del Palancar, Cuenca, 1952)

Law degree from the Universidad Complutense de Madrid.

Since 2004, he has been Chairman of Bancaja and of Banco de Valencia. He is also Vice-Chairman of Enagás, S.A. and of the Confederación Española de Cajas de Ahorro (CECA), a Director of Abertis Infraestructuras S.A., and Chairman of the IBERDROLA's Advisory Board in the Autonomous Community of Valencia.

He has been an outstanding member of the local and autonomous government of the Autonomous Community of Valencia, in which he has served as Lieutenant Mayor and Finance Representative for the Municipality of Valencia, Representative in the Valencian Legislative Assemblies, Economic, Financial and Public Administration Counselor and First Vice-President culminating his governmental career as third President of the Valencian Government during the autonomous community stage. He has also been Chairman of the Instituto Valenciano de Finanzas, of the Instituto Valenciano de Estadística, of the Ciudad de las Artes y las Ciencias, S.A., of the Proyecto Cultural Castellón, S.A. and of Encovagás, S.A., as well as a member of the Regions Committee of the European Union.

Since his incorporation into the financial sector, he has been Chairman of the Federación Valenciana de Cajas de Ahorro y Consejero de Metrovacesa, S.A.

He has practiced law as member of the Valencia y Madrid Bar Associations.

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER REPRESENTS THE GROUP

The Chairman of the Company, of its Board of Directors and of its Executive Committee represents IBERDROLA with the broadest powers, including the power, in urgent cases, to adopt such measures as he deems advisable in the interests of the Company.

As Chief Executive Officer, he has received all the powers that may be delegated under the law and the Bylaws.

In addition, Article 19.3 of the Regulations of the Board of Directors provides that "in case the Chairman of the Board of Directors is also the Chief Executive Officer of the Company, the Board of Directors will give power to two Independent Vice-Chairmen so that, acting jointly, they can coordinate and be equally responsible for the concerns of the External Directors and request that the Chairman call a meeting of the Board of Directors when they deem it appropriate. Absent the appointment of one or both Independent Vice-Chairmen, they shall jointly exercise the duties referred to in the present paragraph: (i) in the first case, the Vice-Chairman and the Director designated by the Board of Directors, and (ii) in the second case, two Directors designated for that purpose by the Board of Directors, which in either case must be independent Directors."

The Board of Directors has the power to adopt resolutions regarding all matters not assigned by Law or these By-Laws to the shareholders

The Executive Committee has the powers inherent to the Board of Directors except for those which cannot be delegated, pursuant to legal or by-law restrictions

Committees of the Board of Directors

Pursuant to the provisions of Article 42.1 of the By-Laws, "The Board of Directors must create and maintain an Executive Committee, an Audit and Compliance Committee and a Nominating and Compensation Committee."

Thus, the Board of Directors of IBERDROLA has the following Committees:

- Executive Committee
- Audit and Compliance Committee
- Nominating and Compensation Committee

The duties and responsibilities of these Committees are described in detail in the 2007 Annual Corporate Governance Report.

Executive Committee

Pursuant to Article 43 of the By-Laws, the Executive Committee has all the powers inherent to the Board of Directors, except for those that cannot be delegated by law or by restrictions in the By-Laws, namely, the rendering of accounts, the submission of balance sheets to the shareholders at the General Shareholders' Meeting, and such powers as the shareholders may grant to the Board without the power of delegation.

In addition, this Committee devotes most of its time to making proposals or submitting reports to the Board on all strategic decisions, investments and divestitures that are significant to the Company or the Group, assessing the conformity thereof to the Budget and the Strategic Plan, and reviewing and monitoring the risks of the business, thus taking into consideration the environmental and social aspects thereof.



As provided by Sections 1 and 2 of Article 23 of the Regulations of the Board, this Committee shall be made up of the Directors that the Board designates with the affirmative vote of two-thirds of its members, with a minimum of five (5) Directors and a maximum of eight (8). As of December 31, 2007, the Committee was composed of six (6) Directors, of which the Chairman & Chief Executive Officer and the Vice-Chairmen are mandatory members.

EXECUTIVE COMMITTEE

Position	Director	Type
Chairman	Mr. José Ignacio Sánchez Galán	Executive
Member	Mr. Juan Luis Arregui Ciarsolo	Independent
Member	Mr. Víctor de Urrutia Vallejo	Independent
Member	Mr. José Ignacio Berroeta Echevarría	Independent
Member	Mr. Xabier de Irala Estévez	Proprietary
Member	Mr. José Luis Olivas Martínez	Proprietary

The position of Secretary of the Executive Committee is held by the Secretary of the Board of Directors of the Company, Mr. Julián Martínez-Simancas Sánchez.

According to Sections 4 and 6 of Article 23 of the Regulations of the Board, the Executive Committee must meet at least twice a month, and must report on any resolutions it adopts to the Board of Directors at its next meeting. During fiscal year 2007, the Executive Committee held 24 meetings.

Audit and Compliance Committee

At its June 25, 2003 meeting, the Board of Directors of IBERDROLA resolved to create, pursuant to the Financial System Reform Measures Law 44/2002, of November 22, and Audit and Compliance Committee of the IBERDROLA Group, which, as of December 31, 2007, had the following membership:

AUDIT AND COMPLIANCE COMMITTEE

Position	Director	Type
Chairman	Mr. Sebastián Battaner Arias	Independent
Secretary / Member	Mr. Ricardo Álvarez Isasi	Independent
Member	Mr. Julio de Miguel Aynat	Independent

The Audit and Compliance Committee is an internal informational and consulting body with no executive functions, but with information, advisory and proposal-making powers within its area of activity. Article 44 of the By-Laws and Article 3 of the Regulations of this Committee define the scope of the work of this Committee, which has held a total of 14 meetings during fiscal year 2007.

The Audit and Compliance Committee and the Nominating and Compensation Committee are internal informational and advisory bodies with no executive functions

MANAGEMENT COMMITTEES

IBERDROLA's Management has two main Committees:

- **An Operating Committee**, composed of:
 - Chairman & Chief Executive Officer
 - General Secretary and Secretary of the Board of Directors
 - Director of Operations
 - Director of Deregulated Business, Spain and Portugal
 - Director of Grid Business, Spain
 - Chief Financial Officer
 - Chief Corporate Resources Officer
 - Chief Executive Officer of ScottishPower

The Committee meets once a week, allowing for day-to-day monitoring of the company and its environment, and makes the decisions required to appropriately respond to changes in the markets and in the different variables affecting them.

- A Management Committee, made up of the Chairman & Chief Executive Officer, Corporate Directors and their Assistant Directors, Business Directors, the Director of Internal Audit, and other Directors of relevant Businesses/Divisions.

This Committee meets periodically and deals with the overall operation of the Company, formulating lines of action for the Business Divisions and the Corporation in order to comply with the Strategic Plan, according to the objectives that have been defined and the established budget, and implementing the measures required to achieve a convergence between the actual progress of the Company and the provisions of the strategic planning.

Nominating and Compensation Committee

This is an internal body of the Board of Directors, with an informational and consultative role, without executive functions, but with information, advisory and proposal-making powers within the scope of its operations. The operation thereof is governed by the provisions of Article 45 of the By-Laws and by the rules contained in the Regulations thereof.

As of December 31, 2007, the Nominating and Compensation Committee had the following membership:

NOMINATING AND COMPENSATION COMMITTEE

Position	Director	Type
Chairman	Mr. José Ignacio Berroeta Echevarría	Independent
Member	Mr. Juan Luis Arregui Ciarsolo	Independent
Member	Mr. Víctor de Urrutia Vallejo	Independent

The position of Secretary of this Committee is held by the Counsel to the Board of Directors, Mr. Federico San Sebastián Flechoso. Article 2 of the Regulations of the Nominating and Compensation Committee enumerates the powers thereof.

This Committee has held 10 meetings during fiscal year 2007. All of the proposals made at such meetings were subsequently approved by the Board of Directors. These proposals concerned the removal, appointment, qualification and evaluation of the Directors, and, when appropriate, of Senior Management. The Committee has proposed the amount and distribution of the by-law mandated allocation and the compensation for the management team.



IBERDROLA's headquarters in Madrid.

Sections B.1.11 and B.1.12 of the 2007 Annual Corporate Governance Report, as well as the Notes to the Financial Statements and Compensation Policy Report provide a detailed description of the compensation of the Board of Directors and of Senior Management.

In addition, the Directors' Compensation Policy approved by the Board of Directors includes a significant variable component that takes into account, among other things, objectives in the areas of environmental, social, and corporate social responsibility policy areas.

MANAGEMENT STRUCTURE AND COMPOSITION

MANAGEMENT COMPOSITION

Chairman & CEO	Mr. José Ignacio Sánchez Galán
Corporate Divisions	
Office of the General Secretary ⁽¹⁾	Mr. Julián Martínez-Simancas Sánchez
Economic/Financial ⁽¹⁾	Mr. José Sáinz Armada
Corporate Resources ⁽¹⁾	Mr. Fernando Becker Zuazua
Strategy and Development ⁽¹⁾	Mr. José Luis del Valle Doblado
Operations ⁽¹⁾	Mr. José Luis San Pedro Guerenabarrena
Business Divisions	
Networks Business, Spain	Mr. Javier Villalba Sánchez
Deregulated Business, Spain and Portugal	Mr. Francisco Martínez Córcoles
Latin America	Mr. Gonzalo Pérez Fernández
ScottishPower ⁽²⁾	Mr. José Luis del Valle Doblado
Governance Divisions	
Internal Audit	Mr. Luis Javier Aranaz Zuza

⁽¹⁾ Each Corporate Director has an Assistant Director on his team who, besides carrying out his own duties, will assume the duties of the Director in his absence, replacing him if necessary at meetings of the Operating Committee.

Corporate Divisions	Assistant Directors	Current Duties
Office of the Secretary General	Mr. Santiago Martínez Garrido	Director of Corporate Legal Services
Economic/Financial	Mr. Asís Canales Abaitua	Director of Purchasing and Insurance
Corporate Resources	Mr. Javier Morrás Zuazo	Systems Director
Strategy and Development	Mr. Pedro Azagra Blázquez	Development Director
Operations	Mr. Juan Carlos Rebollo Liceaga	Controller and Accounting Director

⁽²⁾ Temporarily.

With regard to the Company's economic, environmental and social performance, it may be noted that the compensation payable to the Management Team of the IBERDROLA Group includes, among other items, variable compensation linked to the objectives achieved, which includes financial as well as environmental and social aspects.

COMMITTEES DIRECTLY RELATED TO SUSTAINABILITY

- Since 2004, the **Corporate Reputation Committee** has coordinated the work needed to implement systems and develop actions which allow for the achievement and maintenance of a position of leadership in the corporate world. It is directly supervised by the Chief Corporate Resources Officer.

It meets periodically to manage aspects related to how IBERDROLA is perceived by its stakeholders, and identifies and puts into practice the appropriate actions for improvement of such perception.

In order to develop the aforementioned policies, various corporate and business division organizations—a total of 17 members—participate in this Committee.

- **The Environmental Committees** coordinate the environmental activities of the IBERDROLA Group. They meet on a regular basis and are an important mechanism for liaison, coordination, communication and exchange of experiences throughout the Group.

The chapter on Environmental Information provides a detailed description of the responsibilities of these committees within the Environmental Management system. The work of these committees is directly supervised by the Director of Environment and Quality Control, within the Strategy and Development Division.

- **Other Committees**

Various committees and bodies have been established within the operational areas of the various corporate and business organizations and which are responsible for activities connected to the relationship between IBERDROLA and its stakeholders. Such committees are specified and described in the relevant sections of this Report.

The General Risk Control Policy attempts to maximize the level of guarantees for shareholders and markets and increase the creation of value

RISK CONTROL AND MANAGEMENT

The General Policy on Risk Control and Management is to provide the maximum guarantees to the shareholders, other stakeholders, and to the markets in general, as well as to increase value by the appropriate management of the risk/opportunity ratio. In December 2007, the Board of Director approved the updating of policy in effect since 2004, as well as updated versions of detailed corporate and business risk policies that implement it:

- Investment policy
- Financing and financial risk policy
- Treasury stock policy
- Risk policy for shares of listed companies
- Insurance policy
- Framework policy for the mitigation of reputational risk
- Specific policies on the risks of the various businesses

The risk policy and its basic principles are specified in a Comprehensive Risk Control and Management System, which obtained the ISO 9001:2000 quality certification by AENOR in December 2005. This system is supported by a suitable definition and assignment of duties and responsibilities at the operational level. It also includes procedures, methodologies and support tools corresponding to the different stages and activities of the system.

Its scope extends to all of the Company's business processes and operations: it includes the participating companies over which there is effective control, and takes into consideration any types of risk present in regulated and unregulated activities, at both the domestic and international levels.

Set forth below is a description of the main risks and opportunities covered by this system, which may pose threats to the sustainable development strategy and objectives of the IBERDROLA Group.

Environmental aspects

IBERDROLA's decided focus on the development of new and more environmentally-efficient technologies (gas combined-cycle plants and renewable energy), together with existing generation facilities having a strong hydroelectric and nuclear power component, as well as the investments made to improve the power distribution grid, have all contributed to the Group being well-positioned to face the environmental challenges arising from sustainability, with innovation in this field and eco-efficiency having become the mainstays of its strategic development.

The Comprehensive Risk System takes into account that:

- The activities of the IBERDROLA Group are subject to numerous regulations and provisions that require environmental impact studies and the acquisition of licenses and permits with environmental conditions. The regulations also establish taxes and other market instruments of an environmental nature (trading in greenhouse gas emission rights).
- There are other environmental risks inherent in the Group's activities, such as those deriving from the management of emissions, waste, effluents or other

items or other effects on biodiversity, which may give rise to claims for damages, sanction proceedings and damage to the Group's image and reputation.

The Environmental Management Systems that have been implemented take into consideration the management of these risks and establish measures to minimize them at the Company's production and distribution facilities.

Social aspects

IBERDROLA also places particular emphasis on the social aspects of risk management. This includes, among other risks, those relating to safety, professional ethics, professional development and social responsibility.

IBERDROLA has a Code of Professional Conduct and other policies approved by the Board of Directors, including:

- Corporate social responsibility policy.
- Environmental policy.
- Biodiversity policy.
- Occupational hazard prevention policy.
- Innovation policy.

IBERDROLA also has tools, such as a Competency-based Professional Development Model, which are described throughout the present report.

The Comprehensive Risk System specifically contemplates the risks associated with the reputation of the Group and with the quality of electric supply, a basic aspect of the new strategic development.

Economic aspects

The Comprehensive Risk System is based on:

- A structure of policies and risk limits which ensures that the management thereof is handled by the businesses in a controlled manner.
- The monitoring and control of risks in the Profit and Loss Statements
- The analysis and control of the risks associated with new investments.

Through specific risk policies, investment limits and business activities, opportunities to mitigate associated risks are approached in a controlled way. The Comprehensive Risk System also contributes to continuous improvement and research and technological development of the systems necessary for greater efficiency in processes and technologies. In this way, costs are reduced to ensure the stability and competitiveness of the Group.

This Policy covers all of the businesses and processes of the Company and includes the subsidiaries over which it has effective control



IBERDROLA

IBERDROLA

THE POWER OF A GLOBAL GIANT

03

In 2007, **we consolidated the internationalization process** started in 2006, with the integration of ScottishPower and the agreement to acquire Energy East. In addition, the initial public offering of Iberdrola Renewables has allowed us to capture from the markets the resources necessary to continue to strengthen our **world leadership in wind power**. The success of this strategy is shown by the record results in this fiscal year. In addition, **we aim to double net profits by 2010**, to 3,500 million euros, in line with our 2008-2010 Strategic Plan.



Combined cycle plant at Arcos de la Frontera (Cádiz).

Our environment

The energy sector

New European Community and domestic legislation addresses the issues that increasingly concern society: the need for sustainable, safe and high quality energy within the context of a progressively deregulated market.

THE EUROPEAN COMMUNITY: A VERY IMPORTANT YEAR

As a result of the debate started in 2006, on January 10, 2007 the European Commission presented a proposal that contained various initiatives aimed at achieving a sustainable, safe and competitive European Community energy policy. It had one clear overriding objective: to achieve a 20% reduction in greenhouse gases by 2020 as compared to the figure for 1990.

That same day, the Commission also published two reports on the internal electricity and gas markets: an annual report on the operation thereof and a final report giving the conclusions of the investigation that had commenced in 2005. Both of these reports stressed that one of main problems for the correct functioning of these markets was the vertical integration of the transport activity with those that have been deregulated. The proposed solution was that ownership of these two activities be separated.

In March, the European Council approved in general terms the Commission's proposals, both as regards the operation of the market and sustainability targets. Since then, the Commission has presented two important packages of proposals to achieve the stated objectives. Thus, in September it adopted a package of measures to strengthen the creation of internal gas and electricity markets and, at the end of January 2008, another series of proposals aimed at fighting climate change and promoting renewable energy.

Moreover, attention must be drawn to the opening of an infringement proceeding against Spain for maintaining regulated tariffs below cost and recognizing the tariff deficit, which may amount to a violation of the state aid rules.

In addition, in 2007, the European Commission approved the National Allocation Plans (NAPs) for emission rights of all Member States for the 2008-2012 period corresponding to the Kyoto Protocol.

THE EUROPEAN UNION'S ENERGY PROPOSAL: "20-20-20 BY 2020"

To tackle climate change, the European Union has decided to act on three main fronts: reducing greenhouse gas emissions, promoting renewable energy and improving energy efficiency.

The targets set for 2020 are: a 20% reduction in greenhouse gas emissions compared to their 1990 level, (30% if an international agreement is reached), 20% of the final energy consumed in the EU as a whole to come from renewable sources, and improved energy efficiency in order to reduce consumption by 20% compared to the present situation.

To achieve these objectives, in January 2008 the Commission published its Proposal on Climate Change and Renewable Energy, which for Spain means renewable energy must rise from the current 8.5% to 20% by 2020. This would mean, according to the estimates made, that more than 40% of electricity consumed in Spain by this year must be based in renewable energy, well above the current 25% figure.

ABOLITION OF REGULATED ELECTRICITY AND GAS TARIFFS

The adjustment of Spanish electricity and hydrocarbon legislation to bring it into line with European Community law means that the current system of regulated tariffs will end on January 1, 2009 for electricity and on January 1, 2008 for natural gas. From these dates forward, the supply of electricity and gas will be based on free competition, with retail suppliers meeting requests from domestic consumers at a maximum price fixed by the government.

The alignment of Spanish legislation with EU directives means the supply of natural gas will now be based on free market principles from January 2008, and electricity will follow suit in January 2009

SPAIN

In July, legislative changes affecting the electricity and hydrocarbon sectors were approved in order to adapt them to European Community directives on the energy markets. This legislation brought to an end the regulated tariff system, and established the functional separation of regulated and deregulated activities, making grid management more genuinely independent and achieving effective and non-discriminatory access to the same.

Other legislative measures in addition to the above have been introduced:

- **In the electricity sector**, the regulation developing Royal Decree Law 3/2006 was approved. Thus, beginning in January, the price at which companies in the same group transfer energy to each other has been the market price. In addition, for 2006 a formula has been established to reduce compensation for production activities by an amount equal to the value of the freely allocated greenhouse gas emissions rights.

The tariffs for 2007 recognize the existence of the deficit in advance, in other words, the inadequacy of the tariff and the need to cover this financially through the financial markets, via auctions. In November, an auction of 1,500 million euros to cover the 2007 deficit was held, but a lack of supply caused by regulatory uncertainty meant that there were no bidders. As a result, this amount must be added to the auctions scheduled for 2008.

In addition, the first primary energy emissions auctions held jointly by IBERDROLA and Endesa have taken place, as well as the auctions to acquire part of the energy that the distributors require for supply at tariff. Both types of auctions were referred to in the previous years' legislation in order to encourage forward contracting.

In December, a Royal Decree Law was passed to subtract the higher income derived from the free allocation of emission rights for the 2008-2012 period from electricity production activities.



Hydroelectric plant at San Esteban (Ourense).

Finally, a plan has been approved to substitute meters for small consumers, in order to encourage remote management and measurement systems. This plan must be concluded before the end of 2018.

- **In the gas sector**, the orders on compensation, tariffs, usage charges and fees have been published for 2007. In addition, an auction mechanism has been defined for the acquisition of gas for operation by transporters, and obligatory minimum stocks have been adjusted to match actual storage capacity. Further, various regulations concerning the development of the Regulations for the Technical Management of the System [Normas de Gestión Técnica del Sistema] have been adopted.

- **In relation to the special regime, cogeneration and renewables**, in addition to the new regulation on the compensation for these installations, another regulation has been published aimed at encouraging high efficiency cogeneration and establishing the technical requirements allowing for the inclusion of unmanaged renewable energy without endangering the system's security.

TARIFFS AND PRICES: QUARTERLY REVIEWS

The regulation on the electricity tariff for 2007 has established for the first time that quarterly reviews be carried out, in place of the annual update which has historically been used.

Thus, in January there was an average increase in the comprehensive tariffs of 4.3%, while those of access to the transport and distribution networks were reduced by 10%. In July, a new average increase of 1.8% was approved for comprehensive tariffs, which did not affect domestic consumers, while the tariffs for network access stayed the same. Finally, in October 2007 the government decided to leave all tariffs unchanged.

This has led to a situation in which, although access tariffs have been reduced to promote deregulation among clients paying high-voltage tariffs, there are still significant segments of the market in which the tariffs obstruct supply activities.

As regards the natural gas sector, in July 2007 regulated tariffs for industrial consumers were abolished. Sales tariffs for domestic customers have been revised quarterly, with a total annual increase of 2.5%.

+ FOR ADDITIONAL INFORMATION ON THE COMMUNITY REGULATIONS, SEE THE FOLLOWING WEBSITE (EU LAW AND EUROPEAN COMMISSION -ENERGY):
<http://eur-lex.europa.eu/es/index.htm>; http://ec.europa.eu/energy/index_es.html

+ FOR ADDITIONAL INFORMATION ON THE DOMESTIC REGULATIONS AND CHANGES IN TARIFFS, SEE THE SPANISH NATIONAL ENERGY COMMISSION WEBSITE:
http://www.cne.es/cne/Legislacion?id_nodo=34&accion=0&id_materia=5&keyword=&auditoria=F

The increase in comprehensive tariffs was insufficient to cover supply costs and a tariff deficit therefore continues to exist

NEW RENEWABLE ENERGY REGULATION

In May, rules regulating the compensation payable for renewable electricity generation and high-efficiency cogeneration were approved.

These regulations continue with the basic regulatory principles that have made Spain the current world leader in the sector:

- Predictability, by guaranteeing compensation during the lifetime of the assets.
- Stability, by allowing periodic revisions to compensation, but which are not retroactive.
- Adequacy, by defining support levels that guarantee a reasonable return on investments.

The regulations improve compensation levels for all technologies and makes advances in the framework that causes them to be more sustainable over the long term. In particular, it defines a floor and ceiling pricing system for compensation payable to facilities that sell to the market and provides that the updating of all tariff items is inflation-indexed.

These improvements to the regulatory framework make it the benchmark both in the European Union and the rest of the world, and confirm Spain's commitment to renewable energy.



Our activity

Fiscal year 2007

IBERDROLA ended 2007 with a record net profit of 2,353.7 million euros, 41.8% more than in 2006. The share price also rose by 25.6% and total shareholder return increased to 28.8%.

VOLATILE MACROECONOMIC ENVIRONMENT

After years of economic bonanza, the second half of 2007 has seen a significant downward correction. The subprime mortgage crisis, which started in the United States during the summer, triggered this instability, which has gradually spread to all other markets. The high prices of raw materials (especially petroleum, at record levels) has not helped matters. The net result is that world economic growth fell from 5.1% in 2006 to 3.8% in 2007. Once again, China was the driving force, with a growth rate of over 11%, while the United States' growth dropped from 3.3% to 2.2%. The Eurozone's contribution was similar to the previous year (2.6% in 2007 compared to 2.7% in 2006). For its part, Spain continued to grow at more than 1% above the overall Eurozone rate, having increased by about 3.8% in 2007. The United Kingdom increased its growth rate from 2.6% in 2006 to 3.1% in 2007.

Given this significant correction, the US Federal Reserve decided to reduce the official interest rate, which it lowered from 5.25% at the beginning of the year to 4.25%, while the European Central Bank stopped its policy of increasing the key interest rate. However, by the end of 2007 the benchmark repo rate was up to 4%, 50 basis points above the level at the beginning of the year. As a result of the lower rate differential, the euro continued to rise against the dollar, ending 2007 with a price of 1.4721, compared to 1.3170 at the end of 2006.

Faced with the threat of inflation, the Bank of England decided to raise its key interest rate by 50 basis points during the year, which ended the year at 5.50%.

FINANCIAL MANAGEMENT IN TURBULENT TIMES

Given the new macroeconomic environment, IBERDROLA's financial management has focused on readjusting to meet the Group's new situation (the consolidation of ScottishPower, the agreement to acquire Energy East and the flotation of 20% of Renewables), while maintaining the solvency standards that have typified the Company, i.e., reducing volatility in financial expenditures, engaging in asset and liability management, increasing liquidity levels, and extending the average life of debt.

LATIN AMERICA GROWS DUE TO THE STRENGTH OF WORLD TRADE

Thanks to the dynamism of world trade and the demand for raw materials, which have kept emerging investors' optimism and confidence at high levels, growth in Latin America reached 4%. Both Brazil and Mexico continued to grow, by 5.2% and 3.2% respectively. Moreover, the Brazilian real and the Mexican peso were both very strong against the dollar, helped by substantial inward currency flows. The strong appreciation of the Brazilian currency is particularly worthy of mention.

CAPITAL INCREASES

During 2007, IBERDROLA carried out four capital increases. The first three, for an effective amount of 7,791 million euros, occurred on April 23, May 10 and June 26 in relation to the purchase of ScottishPower. The last, executed on June 26 for an effective amount of 3,375 million euros, is connected to the agreement to acquire Energy East.

In December Iberdrola Renewables floated 20% of its share capital, raising a total of 4,477 million euros

Thus, the IBERDROLA Group ended 2007 with 67% of its debt at a fixed interest rate, plus an additional 3% at a capped rate (debt with a maximum cost that enables the Company to take advantage of low interest rates). In addition, the average life of debt has risen to 5.4 years (up from 5 years in 2006). The cost of debt has jumped to around 5.1% (from 4.4% in 2006), largely due to the consolidation of ScottishPower's debt in pounds sterling.

In the banking market, of note is the restructuring of the 7,955 million pounds sterling bridging loan signed in November 2006 to finance the cash part of the ScottishPower purchase. Following this restructuring, the new overall balance was set at 7,000 million euros and the maturity date has been extended for a year, to November 2009.

In October, IBERDROLA entered into a multicurrency revolving credit agreement with a syndicate of national and foreign banks. The credit facility, worth 3,000 million euros, expires in October 2010.

Domestic and European commercial paper programs (ECP) enabled the company to secure flexible short-term financing at a cost in line with the interbank market. The overall volume issued last year was 3,550 million euros, leaving the outstanding balance at year-end at 2,261 million euros.

The highly volatile conditions in the bonds market explain IBERDROLA's limited activity in this market. In 2007, the Company only made a single private placement worth 150 million euros under the Euro Medium-Term Note ("EMTN") Program. At year end, the outstanding balance under this program amounted to 5,063 million euros. However, the program has been increased to up to 20,000 million euros, from the previous figure of 10,000 million euros, in order to give the Group higher financing capacity under the program.

Finally, of note is the stock market flotation of 20% of the share capital of Iberdrola Renewables carried out in December for 4,477 million euros, which took place after the reorganization of the Group's interests in Renewables' business area.



RESULTS: THE GROUP'S NET PROFITS GROW 41.8% TO 2,353.7 MILLION EUROS

IBERDROLA's strategy of international expansion, which started at the end of 2006, bore its fruit in 2007. The Company has become the fourth largest electricity company in the world, with a stock market capitalization of almost 52,000 million euros as of December 2007, and is now the benchmark company in the Atlantic Area. After closing the transaction with ScottishPower, with which it has published consolidated accounts since April 23, and making substantial investments (used for both organic growth and corporate transactions) of more than 25,000 million euros during 2007, the Company achieved record results, with net profits of 2,353.7 million euros, up 41.8% over 2006.

The IBERDROLA Group's main performance indicators also rose markedly, despite prices in the pool being low in Spain (-26%) and demand only rising slightly (+3%). Sales grew by 58.5% to 17,468 million euros; gross operating income (EBITDA) jumped by 42.2% to 5,538.2 million euros, and net operating income (EBIT) was up by 39.3% to 3,697.5 million euros.

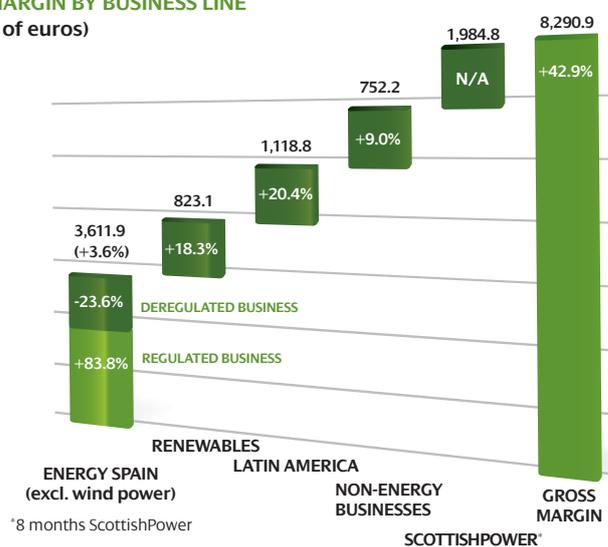
The comments below refer to the IBERDROLA Group's financial statements for the 2007 and 2006 fiscal years. The Exhibits contain information relating to the last five fiscal years. In addition, "2007 Legal Information" and the Company's website www.iberdrola.com can be consulted for more detailed information on the annual consolidated financial statements and the annual financial statements of IBERDROLA S.A.

Consolidated results

The most noteworthy aspects of the IBERDROLA Group's consolidated results for 2007 are as follows:

- The **gross margin** reached 8,290.9 million euros, up 42.9% compared to 2006. This was largely due to ScottishPower's contribution of 1,984.8 million euros, and the favorable trends in Latin America and Renewables businesses, which grew by 20.4% and 18.3% respectively.

GROSS MARGIN BY BUSINESS LINE (millions of euros)

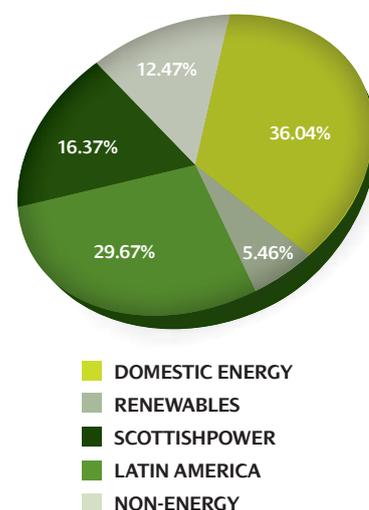


The international expansion strategy, which was launched in 2006, bore fruit in 2007

SALES RISE 58.5%, TO 17,468 MILLION EUROS

The IBERDROLA Group's income reached 17,468 million euros, an increase of 58.5% over 2006. This positive development is due to ScottishPower's contribution of over 5,183 million euros, plus the improved performances of the Latin America business, where sales were up 24.4%, and Engineering business (+33.1%). In addition, Renewables increased sales by 37% to 953 million euros, largely due to two factors: increased production in Spain (+6.3%) and the renewable energy activities of ScottishPower and PPM within the new scope of consolidation after the corporate restructuring on October 1, 2007.

SALES FIGURES (%)

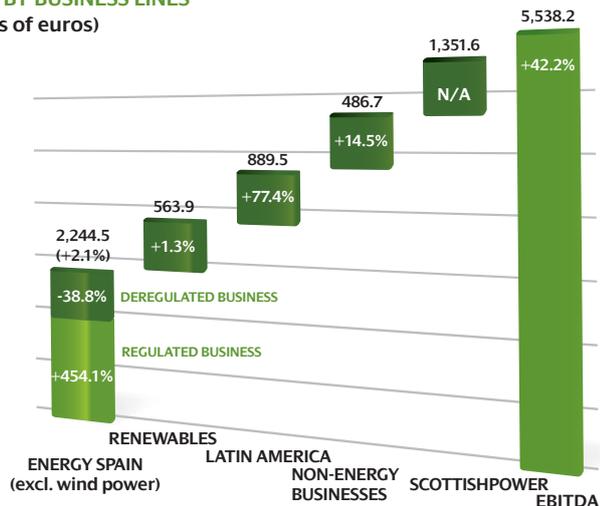


**RECORD NET PROFITS
OF 2,353.7 MILLION EUROS**

In 2007, the IBERDROLA Group obtained record net profits of 2,353.7 million euros, an increase of 41.8% compared to 2006. This was mainly due to ScottishPower's contribution of 698.4 million euros and the 27.6% increase in the Latin America business, which underscores the success of the Company's international expansion strategy.

- **Gross operating income (EBITDA)** increased by 42.2% to 5,538.2 million euros. The inclusion of ScottishPower contributed 1,351.6 million euros. The 35% increase in net operating expenses (almost 8 points lower than that of the gross margin) due to the 570.2 million euros contributed by ScottishPower and the increase recorded for Renewables (a 90.9% increase to 249 million euros) should be highlighted along with the change in gross margin explained above.

EBITDA BY BUSINESS LINES
(millions of euros)



- **Net operating income (EBIT)** reached 3,697.5 million euros, 39.3% more than the previous fiscal year, with ScottishPower contributing 873.9 million euros. The amount for amortization and provisions was up 49.0% to 1,840.7 million euros after the inclusion of ScottishPower, which added 477.7 million euros to this entry.

– Amortization and depreciation entry rose by 52.8%, reaching 1,579 million euros. Amortization resulting from the consolidation of ScottishPower came to 441 million euros. 209 million euros from the purchase price allocation are included in this figure. In addition, the useful lives of certain assets were standardized, in order to maintain the same accounting standards for the whole Group.

– Provisions grew by 29.2% to 262 million euros, the result of a change in provisions for the Spanish energy business. ScottishPower contributed expenses of 36 million euros to this entry.

- **Financial results** were -909.9 million euros, an increase of 73.6% with respect to 2006. This was fundamentally due to the 88% rise in financial expenses, fundamentally on account of the increase in the amount and average cost derived from pound sterling-denominated debt (with a contribution from ScottishPower of 391.4 million euros), as well as the impact of the rate shortfall (1,098 million euros).

- The entry for **results of companies consolidated by the equity method** fell by 41.5% to 40.4 million euros, most of which contributed by equity interests. Of note is the lower contribution from Gamesa, due to the sale of its services division in 2006.

The Company's EBITDA and EBIT rose 42.2% (to 5,538.2 million euros) and 39.3% (to 3,697.5 million euros), respectively

- **Recurring income on non-current assets** rose to 261.7 million euros, due to the sale of the equity interests in Red Eléctrica de España (130 million euros), the sale by Corporación IBV of various portions of its stake in Gamesa which raised 63 million euros, and the sale of real estate assets, a common Group practice.

- **Profit before taxes** rose 29.9%, reaching 3,098.8 million euros. This entry rose more slowly than the 39.3% increase for net operating income (EBIT) largely because the increase in net financial expenses was not offset by higher contributions from the results of non-current assets and companies consolidated by the equity method. The effective tax rate was 25.1%, lower than the 2006 figure of 32.6% caused by lower national taxes (down from 35% to 32.5%) and regional taxes (down from 32.6% to 28%) and a lesser impact of reduced rates on net tax assets. The rate in the United Kingdom was 30%.

Balance Sheet

As regards the IBERDROLA Group's balance sheet as of the end of fiscal year 2007, the following should be highlighted:

- IBERDROLA's **balance sheet** reflected assets of 68,284 million euros. Worth noting is its continued financial strength despite the corporate transactions carried out during the period.

- **Fixed assets:** investments during fiscal year 2007 totaled 4,711 million euros, of which 47.9% was in Spain.

IBERDROLA's investments for the fiscal year reached 4,711 million euros, 47.9% of which was in Spain

INVESTMENTS

(millions of euros)

	2007	%
Spain	2,256	47.9%
Generation	451	
Renewables	943	
Networks	769	
Other	93	
ScottishPower-PPM	1,173	24.9%
Generation & Commercial	332	
Networks	440	
PPM	381	
Other	20	
Mexico	65	1.4%
Generation	54	
Distribution	11	
South America	161	3.4%
Generation	85	
Distribution	76	
Other international (wind power)	1,056	22.4%
TOTAL	4,711	100%

DIVIDEND PAYMENTS

Two dividends were paid in 2007 with a charge to fiscal year 2006. The first, an interim dividend of 0.45 euro per share, was paid on January 2. The second, the main dividend of 0.593 euro per share, was paid on July 2.

IBERDROLA continues to be financially strong, despite the corporate transactions undertaken during the fiscal year

- **Share capital:** there were four capital increases in 2007, three relating to the purchase of ScottishPower (on April 23, May 9 and June 26), and the fourth relating to the Energy East transaction (on June 28). As a result, the average number of shares during the fiscal year rose to 4,497,676,456 shares.

- Adjusted net **financial debt** as of the end of the fiscal year amounted to 20,470 million euros. Financial leverage stood at 42.4%. Taking into account the financing of the tariff shortfall, which as of December 2007 amounted to 1,098 million euros for IBERDROLA, adjusted net financial debt would be 19,372 million euros, and adjusted leverage would be 41.0%.

Of particular importance is the change in the Company's financial cost, which at December 2007 stood at 5.1%, 70 basis points above the figure for December 2006. Financial cost was therefore largely contained, bearing in mind the interest rate increases that took place and the inclusion of debt in pounds sterling.

FINANCIAL LEVERAGE (millions of euros)

	2007	2006
Shareholders' Equity	27,832	10,567
Gross Debt	22,080	14,353
Cash	981	705
Capitalized derivatives	623	98
Temporary financial investments		132
CO ₂ Financing	6	299
Adjusted Net Debt	20,470	13,119
Leverage (*)	42.4%	55.4%

(*) Without the effect of the tariff shortfall, adjusted leverage stood at 41.0% as of December 2007, compared to 54.3% as of December 2006.

- **Net working capital** fell by 362 million euros, as a result of the change in the balances of accounts payable (increase in the dividends payable account) and receivables.

- **Funds from operations** as of December 2007 stood at 3,892.3 million euros, up 47% compared to December 2006.

CONSOLIDATED INCOME STATEMENT *

(millions of euros)

	2007	2006	% Change
NET SALES	17,468.0	11,017.4	58.5
Procurement	(9,079.1)	(4,966.4)	82.8
Emission allowances	(98.0)	(250.7)	48.8
GROSS MARGIN	8,290.9	5,800.3	42.9
EMISSION ALLOWANCES	85.0	30.6	-77.2
NET OPERATING EXPENSES	(2,436.9)	(1,804.9)	35.0
Net Personnel Expenses	(1,171.0)	(1,000.6)	17.0
Personnel	(1,455.1)	(1,173.7)	24.0
Work on fixed assets	284.1	173.1	64.1
Net External Services	(1,265.9)	(804.3)	57.4
External Services	(1,655.9)	(1,008.9)	64.1
Other operating revenue	390.0	204.6	90.6
TAXES	(400.8)	(136.3)	194.1
EBITDA	5,538.2	3,889.7	42.4
Amortization, depreciation and provisions	(1,840.7)	(1,235.2)	49.0
EBIT	3,697.5	2,654.5	39.3
TOTAL FINANCIAL REVENUES	770.3	368.3	109.2
Financial revenues	547.0	267.6	104.4
Negative exchange rate differences	114.7	15.0	664.7
Capitalized financial expenses	108.6	85.7	26.7
TOTAL FINANCIAL EXPENSES	(1,671.2)	(887.3)	88.3
Financial debt expense	(1,203.6)	(655.7)	83.6
Negative exchange rate differences	(23.0)	(24.1)	-4.6
Pension funds	(159.2)	(31.2)	410.3
Change in provisions for short-term financial investments	(2.8)	(2.7)	N/A
Other financial expenses	(282.6)	(173.6)	62.8
Results for companies consolidated by the equity method	40.7	69.1	-41.1
Results for non-current assets	261.5	181.6	44.0
PRE-TAX PROFIT	3,098.8	2,386.2	29.9
Corporate income tax	(702.8)	(695.3)	1.1
Minority interests	(42.3)	(30.6)	38.2
NET PROFIT	2,353.7	1,660.3	41.8

(*) Some items have been grouped to facilitate a summary of the information contained in these statements. In addition, the income statement is presented analytically. Detailed information is given in 2007 Legal Information, and Supplemental Information includes information on the last five fiscal years.

BALANCE SHEET *

(millions of euros)

	December 2007	December 2006	Change
FIXED ASSETS:	55,932	25,190	30,742
Tangible fixed assets	36,152	21,566	14,586
Intangible fixed assets	15,275	900	14,375
Long-term financial assets	4,505	2,724	1,781
DEFERRED TAXES	1,434	1,222	212
NON-CURRENT RECEIVABLES	504	833	(329)
CURRENT ASSETS	10,414	5,816	4,598
Nuclear Fuel	244	238	6
Inventories	1,827	1,193	634
Debtors and other accounts receivable	5,012	2,791	2,221
Short-term financial investments	2,351	890	1,461
Cash and cash equivalents	980	704	276
TOTAL ASSETS	68,284	33,061	35,223
SHAREHOLDERS' EQUITY	27,832	10,567	17,265
Capital stock	3,745	2,705	1,040
Reserves and other	22,461	6,508	15,953
Profit and loss	2,354	1,660	694
Interim dividend	(574)	(406)	(168)
Treasury stock	(1,336)	(3)	(1,333)
Translation differences	(1,112)	(46)	(1,066)
Minority shareholders	2,294	149	2,145
LONG-TERM PROVISIONS	2,066	1,718	348
DEFERRED INCOME	1,841	818	1,023
PREFERRED SECURITIES	681		
FINANCIAL DEBT	22,080	14,352	7,728
OTHER LONG-TERM DEBT	5,776	846	4,930
OTHER SHORT-TERM DEBT	7,369	4,542	2,827
RECEIVABLES FROM GROUP AND AFFILIATES	639	218	421
TOTAL LIABILITIES	68,284	33,061	35,223

(*) Some items have been grouped to facilitate a summary of the information contained in these statements. In addition, the income statement is presented analytically. Detailed information is given in 2007 Legal Information, and Supplemental Information includes information on the last five fiscal years.

2007 RESULTS BY BUSINESS LINE

(millions of euros)

	Domestic Energy	Renewables	ScottishPower	International Latin America	Non-Energy
Net Sales	6,294.9	953.0	5,183.5	2,859.0	2,177.6
Procurement	(2,604.6)	(130.2)	(3,178.7)	(1,740.1)	(1,425.4)
Emission allowances	(78.0)		(20.0)		
GROSS MARGIN	3,612.3	822.8	1,984.8	1,118.9	752.2
EMISSION ALLOWANCES	76.0		9.0		
NET OPERATING EXPENSES	(1,139.8)	(248.6)	(570.2)	(221.5)	(257.0)
Net Personnel Expenses	(595.7)	(83.0)	(283.4)	(80.5)	(128.4)
Personnel	(700.5)	(99.0)	(396.1)	(95.3)	(164.1)
Work on fixed assets	104.8	16.0	112.7	14.8	35.7
Net External Services	(544.1)	(165.6)	(286.8)	(141.0)	(128.6)
External Services	(703.5)	(181.0)	(436.1)	(182.8)	(152.3)
Other operating revenues	159.4	15.4	149.3	41.8	23.7
AXES	(302.2)	(10.3)	(72.0)	(7.8)	(8.3)
EBITDA	2,246.3	563.9	1,351.6	889.6	486.9
Amortization, depreciation and provisions	(804.8)	(215.1)	(477.7)	(204.0)	(139.0)
EBIT	1,441.5	348.8	873.9	685.6	347.9
Financial Result	(596.5)	(151.9)	(17.3)	(106.6)	(28.5)
Results from companies consolidated by the equity method	3.8		1.9	(12.3)	46.7
Results from non-current assets	192.7	0.9	(1.1)	(2.4)	71.5
PRE-TAX PROFIT	1,041.5	197.8	857.4	564.3	437.6
Corporate income tax and minority interests	(250.4)	(83.4)	(159.0)	(153.7)	(98.5)
NET PROFIT	791.1	114.4	698.4	410.6	339.1

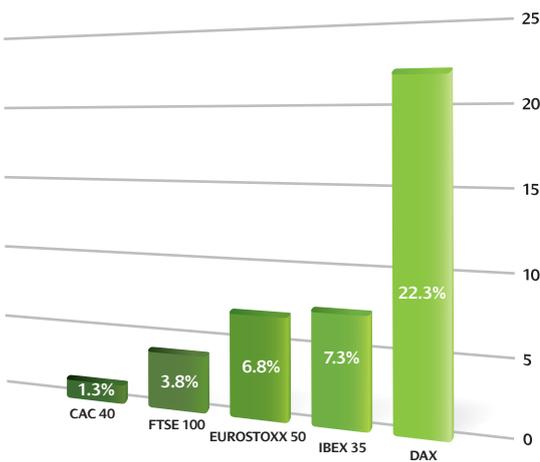
2006 RESULTS BY BUSINESS LINE

(millions of euros)

	Domestic Energy	Renewables	Scottish Power	International Latin America	Non-Energy
NET Sales	6,387.6	695.6		2,298.6	1,635.6
Procurement	(2,651.6)			(1,369.2)	(945.5)
Emission Allowances	(250.7)				
GROSS MARGIN	3,485.3	695.6	0.0	929.4	690.1
EMISSION ALLOWANCES	30.6				
NET OPERATING EXPENSE	(1,209.6)	(130.2)	0.0	(212.2)	(252.9)
Net Personnel Expense	(766.5)	(30.1)	0.0	(77.7)	(126.3)
Personnel	(867.8)	(38.2)		(93.9)	(173.7)
Work on fixed assets	101.3	8.1		16.2	47.4
Net External Services	(443.1)	(100.1)	0.0	(134.5)	(126.6)
External Services	(574.8)	(114.2)		(171.1)	(148.7)
Other operating income	131.7	14.1		36.6	22.1
TAXES	(108.0)	(8.8)		(7.5)	(12.0)
EBITDA	2,198.3	556.6	0.0	709.7	425.2
Amortization, depreciation and provisions	(830.8)	(180.4)		(149.0)	(74.9)
EBIT	1,367.5	376.2	0.0	560.7	350.3
Financial Result	(326.7)	(68.6)		(114.1)	(9.5)
Results from companies consolidated by the equity method	0.6			2.3	66.2
Results from non-current assets	103.2	0.9		(1.8)	79.3
PRE-TAX PROFIT	1,144.6	308.5	0.0	447.1	486.3
Corporate income tax and minority interests	(379.9)	(116.9)		(125.4)	(103.6)
NET PROFIT	764.7	191.6	0.0	321.7	382.7

IBERDROLA shares rose 25.6% in 2007, compared to a 7.3% rise in the Ibex-35, and total shareholder return (TSR) increased by 28.8%

PERFORMANCE OF THE IBEX-35 IN 2007 (in comparison with the main European stock market indices)



THE SECURITIES MARKET

A stock market moving upwards, though moderately

For the fifth consecutive year, the main international stock market indices exhibited an upward trend, though with more moderate rises than in 2006. Fiscal year 2007 was characterized by an environment in which commodities and oil went up, as did interest rates in the Eurozone. Added to this was the strength of the euro against the dollar and the outbreak in August of the subprime crisis in the United States, with its wake of decreased liquidity and the strengthening of greater market volatility. Moreover, investors have shown an interest in renewable energy, in which context the initial public offering of Iberdrola Renewables constitutes a historic milestone.

In this scenario, the Spanish Stock Exchange ended a good fiscal year, in which the market broke new records. The Ibex-35 rose 7.3% over the last twelve months, ranking as the second most profitable index among the main European indices, after the German Dax (see chart).

In this rise in the Ibex-35, the contribution of IBERDROLA shares was particularly noteworthy as one of the four securities with greater weight on the index, with such shares posting a 25.6% gain in 2007.

IBERDROLA, among the five leading utilities in the world

IBERDROLA shares rose 25.6% in 2007, compared to a 7.3% rise in the Ibex-35 and a 6.8% gain in the EuroStoxx 50. IBERDROLA has confirmed its position as one of the five leading utilities in the world, with its performance surpassing that of the EuroStoxx Utilities, which posted a 24.2% gain. Additionally, several significant milestones in the Company's history were achieved during this fiscal year: the completion of the purchase and subsequent integration with ScottishPower, the agreement for the acquisition of Energy East, the launching of a new Strategic Plan for the 2008-2010 period, and the public offering of shares of the subsidiary Iberdrola Renewables (see chart).

IBERDROLA COMPARADA CON LOS ÍNDICES IBEX-35, EUROSTOXX UTILITIES Y EURO-STOXX 50



In 2007, total shareholder return (TSR), which includes dividends paid, rose to 28.8%, around 21.5 percentage points above that of the Ibex-35. The Company reached a new all-time listing high in 2007, hitting 10.4 euros per share (+25.6%), and its stock market capitalization came to almost 52,000 million euros as of December 31. Average per-share change during the year was 9.83 euros.

As in prior fiscal years, IBERDROLA shares were among the most widely-traded issues on the Spanish market, with an average daily trading volume of 43.4 million shares, which entails an annual capital stock turnover of 220%.

During the fiscal year, there was an increase in the number of shares following the capital increases carried out, three of which were connected to the purchase of ScottishPower and the fourth to the proposal for the acquisition of Energy East. As a result, the final number of outstanding shares rose by 38% to 4,993,742,040. Furthermore, the Company's Board of Directors approved the split of the Company's shares at a 1:4 ratio, thus reducing the par value of each share from 3 to 0.75 euros.

As regards Iberdrola Renewables, it began trading on the Stock Exchange on December 13, 2007, at a price of 5.3 euros per share. At year-end, the shares had gained 6.6% and stood at 5.65 euros per share, reaching a stock market capitalization of 23,866 million euros.

SUCCESSFUL PUBLIC OFFERING OF IBERDROLA RENEWABLES

The subsidiary Iberdrola Renewables began trading on the Stock Exchange on December 13, 2007 at a price of 5.3 euros per share. At year-end, the shares had gained 6.6% to reach a price of 5.65 euros per share. Stock market capitalization came to 23,866 million euros.



Image of the advertising campaign for the Initial Public Offering of Iberdrola Renovables.

IBERDROLA STOCK MARKET DATA

	2.007	2.006	2.005	2.004	2.003
Shares admitted to listing (no. of shares)	4,993,742,040	3,606,196,724	3,606,196,724	3,606,196,724	3,606,196,724
Stock market capitalization (EUR millions)	51,935	29,859	20,817	16,859	14,127
Share price (euros)					
High	12.03	9.67	5.95	4.71	4.00
Low	7.90	5.59	4.57	3.79	3.22
Average	9.83	7.36	5.23	4.23	3.69
Year-end	10.40	8.28	5.77	4.68	3.92
Earnings per share (EUR / share)	0.52	0.46	0.38	0.34	0.29
Dividend yield (%)	3.21	3.83	4.11	4.29	4.57
Total shareholder return (%)	28.76	47.27	27.58	23.62	21.95
P/E ratio (multiple)	20.00	17.98	15.06	13.92	13.32
Total traded volume (shares)	10,970,510,434	7,779,434,028	6,992,448,608	6,394,546,108	6,635,390,892
Average daily volume (shares)	43,361,701	30,627,693	27,314,252	25,476,278	26,541,563
Total amount traded (EUR millions)	107,886.62	57,222.65	36,134.33	26,975.71	24,478.64
Average daily amount traded (EUR millions)	426.43	225.29	141.15	107.47	97.91
Capital stock turnover at year-end (%)	219.69	215.72	193.90	177.32	184.00

DIVIDEND REINVESTMENT PLAN (DRP)

In 2006, IBERDROLA launched a Dividend Reinvestment Plan, which continued in 2007. The Plan offers shareholders (except for residents in the United States) the possibility of reinvesting their dividends in shares of the Company, thus increasing their interest therein.

In July 2007, the third Dividend Reinvestment Plan proposed by the Company was put in place, on the occasion of the payment of the supplemental dividend for the fiscal year. A total of 21,807 shareholders adhered to the plan, and purchased each share at a price that, after the stock split carried out, was equal to 10.185 euros. As regards the Plan launched in the prior year, the number of shares delivered by the Company increased by 10.6%, while the amount reinvested by shareholders grew by 37.9%.

The purpose of this initiative of IBERDROLA was to offer its shareholders, once again, an attractive and simple alternative aimed at the increase of their shareholdings in the Company. The soundness of the Company's business and the high dividend yield turn this initiative into an interesting savings plan.

Increase in shareholder compensation

The profits achieved by IBERDROLA during fiscal year 2007 allowed the Board of Directors to propose to the shareholders at the General Shareholders' Meeting the distribution of a dividend in the gross amount of 0.271 euro per share (see table). On January 2, 2008, the Company made an interim payment on account of the 2007 gross dividend in the amount of 0.115 euro per share. Subsequently, the Board of Directors approved a supplemental payment of 0.156 euro per share, as well as an attendance bonus of 0.005 euro per share (see table). The pay-out ratio (the percentage of profits allocated to dividend payments) climbed to 57.5%, calculated on the earnings per share for fiscal year 2007 and taking into account the final number of outstanding shares.

It should be noted that, in line with the growth in net profits in 2007 (a 41.8% rise to 2,353.7 million euros), the Company increased by 44% the amount payable as total dividends on last year's profits, reaching the amount of 1,353 million euros. In addition, the Company's dividend yield was 3.21% over the listing price at year-end 2006. Moreover, average earnings per share grew by 14%.

At the end of the fiscal year, the P/E ratio, i.e., the ratio between market price and earnings, was 20.0, which reflects the upside potential of IBERDROLA's shares based on the performance of its business and its profits (see table).



Stock Exchange Building in Madrid.

GROSS AND NET DIVIDEND PERFORMANCE

	2007	2006	2005	2004	2003
Total dividend (EUR million)	1,353.30	940.32	797.87	692.39	605.75
Interim (January)	574.28	405.65	330.83	293.83	257.32
Supplemental (July)	779.02.84	534.67	467.04	398.56	348.43
Dividend per share	0.2760	0.2658	0.2213	0.1920	0.1680
Interim (January)	0.1150	0.1125	0.0918	0.0815	0.0715
Supplemental (July)	0.1560	0.1483	0.1295	0.1105	0.0965
Attendance bonus	0.005	0.005			
% over par	36.1	34.8	29.5	25.6	22.4
Pay-out (%)	57.5	56.6	57.7	57.9	57.1

* Dividend subject to approval by the shareholders at the General Shareholders' Meeting.



The hydroelectric plant at Villarino, in Salamanca, on the Tormes River.



Our horizon

2008-2010 Strategic Plan

The new 2008-2010 Strategic Plan reinforces the Company's international expansion in the Atlantic Area and confirms the focus on renewable energy and supply quality. Our objective is to increase net profits twofold, to 3,500 million euros in 2010.

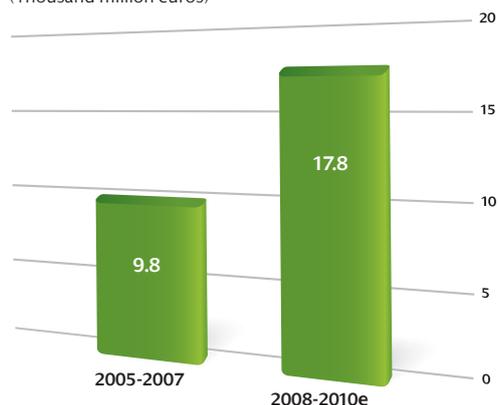
A STRATEGY THAT BENEFITS SOCIETY

IBERDROLA's Strategic Plan for the 2008-2010 period was approved by the Board of Directors on October 23, 2007. The new Plan confirms the Company's commitment to its investors, users and employees and to society at large, by presenting a model for growth based on the promotion of renewable energy (especially wind power) and maximizing supply quality.

IBERDROLA's strategy for the next fiscal years, which is in line with the strategy successfully formulated more than six years ago, contemplates an investment of 24,200 million euros and proposes keeping the focus on the core energy business, both in Spain and abroad. Of this amount, the Company will allocate 17,800 million euros to organic growth, almost double the amount of the investments made in the prior three-year period. In addition, another 6,400 million euros (3,300 million euros in cash and 3,100 million euros from borrowed funds) will be used during this period to close the agreement for the acquisition of Energy East. It should be borne in mind that in fiscal year 2007, non-organic investments included the investment relating to the integration with ScottishPower, in the total amount of 17,800 million euros.

ORGANIC INVESTMENTS

(Thousand million euros)

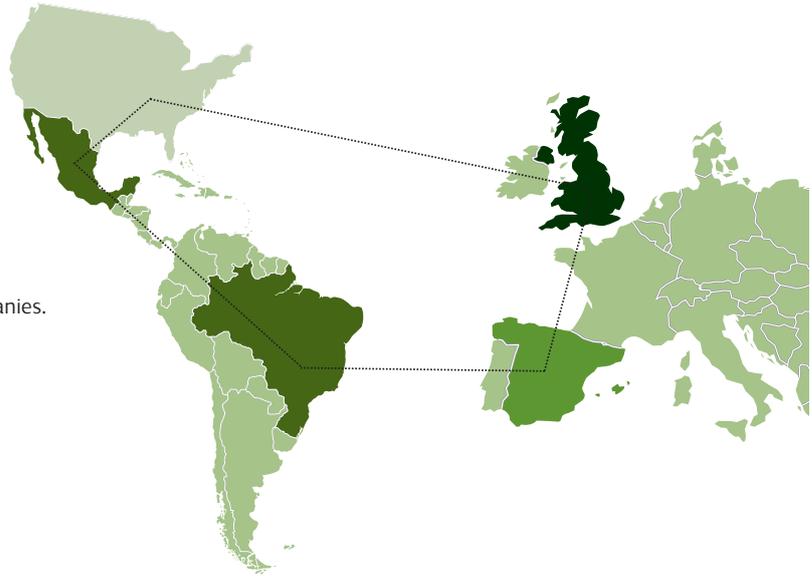


AN AMBITIOUS INVESTMENT PLAN

- The Company confirms its bid for growth in the area of **renewable energy** and plans to surpass the mark of 13,600 MW in 2010. For such purpose, it plans to invest more than 8,600 million euros, 48% of the total amount allocated to organic growth, in strengthening its current position as world leader in the industry. Of such sum, more than 4,600 million euros (54%) will go to the United States; more than 1,200 million euros (14%) will be allocated to Spain; 1,200 million euros will go to the United Kingdom, and 1,500 million to other countries.
- One-third (more precisely, 32%) of the investment effort to be deployed by IBERDROLA over the next three years will be allocated to regulated activities in order to **maximize service quality**. These 5,800 million euros will be distributed as follows: 36% to the United Kingdom, for electricity transmission and distribution; 35% to Spain, for electricity distribution; 24% to the United States for electricity and gas distribution, and 5% to Latin America.
- In the area of **traditional generation**, the IBERDROLA Group will allocate 2,500 million euros (15% of the total amount) to increasing the useful life and output of the equipment and to environmental investments. Of this amount, 52% would go to Spain, 35% to the United Kingdom, and 13% to Latin America.

FOUR PRINCIPAL STRATEGIC MARKETS IN THE ATLANTIC AREA

- NORTH AMERICA. 2nd Wind-power company. 3rd in gas storage.
- LATIN AMERICA. 1st Private generation company in Mexico. 1st Supplier in Brazil.
- UNITED KINGDOM. 3rd Electricity supplier. One of the 5 leading retail companies. 1st Wind-power company.
- SPAIN. The leading energy Company.



The 2008-2010 Strategic Plan contemplates an 11% annual increase in earnings per share, to 0.7 euros

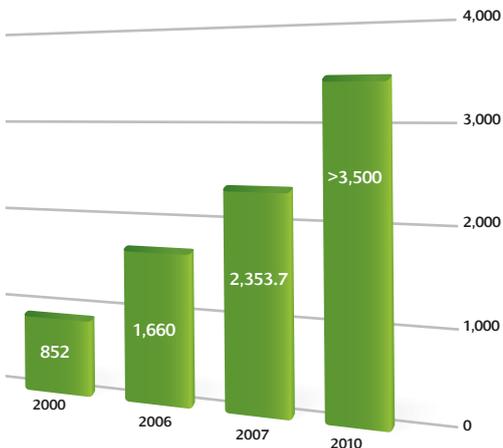
In this way, IBERDROLA enters a stage of consolidation of its international expansion, with the Atlantic Area as the principal reference area, after integration with ScottishPower and starting the process for the acquisition of Energy East. Accordingly, it plans to make 70% of its investments abroad, compared to 25% in the 2000-2006 period.

Economic and financial objectives

In tune with the transparency policy of recent years and in accordance with the Strategic Plan, the Company expects to attain the following objectives:

- To more than double the principal indicators in its income statement, como as a consequence of both the 24,200 million euros it plans to invest and the progressive increase in efficiency. The catalysts for such growth will be the Renewable Energy area and the consolidation of ScottishPower and Energy East.
- To reach 10% in such efficiency improvements during the period, as a consequence of an increase in operating expenses below the gross margin, such that the ratio between both indicators is brought down from 33% in 2007 (pro forma) to less than 30% at the end of the period. In this connection, a key factor will be the increase in the synergies deriving from the combination with ScottishPower.
- To have EBITDA reflect the process of internationalization that IBERDROLA has experienced over the last years (as shown by the charts on the right-hand page).
- To achieve net profits of more than 3,500 million euros in 2010, which entails multiplying by 2.1 the 1,660 million euros obtained in 2006.

NET PROFITS (millions of euros)



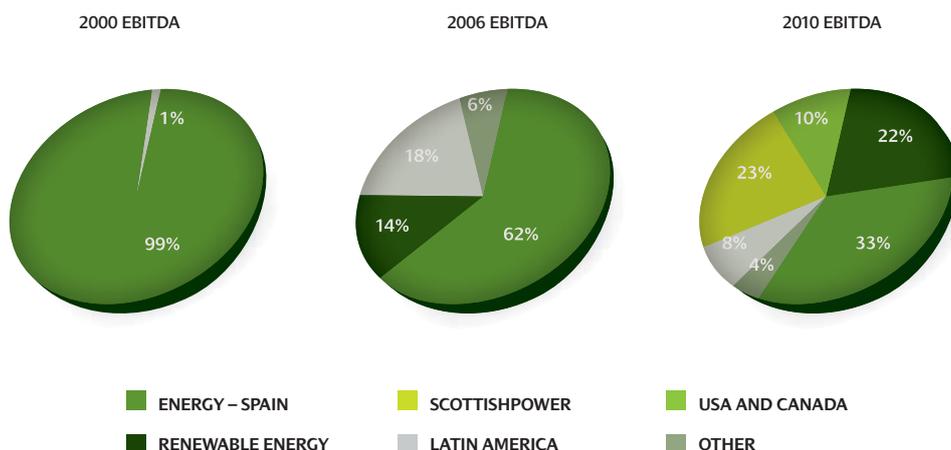
Investments by business line

Below is a description of the main actions planned for the 2008-2010 period, a stage during which energy will continue to go up in price due to the shortage of energy resources, the increased harshness of environmental requirements and the growing demand for service quality:

Renewable energy: an unprecedented investment effort

Between 2008 and 2010, IBERDROLA will make an investment effort without precedent in the world in order to grow in the Renewable Energy area. It

COMPOSITION OF IBERDROLA'S EBITDA



is anticipated that this business will draw 48% of all organic investments, approximately 8,600 million euros, in order to achieve an installed capacity of 13,600 MW at the end of the period, which would entail an increase of almost 77% over the volume planned for year-end 2007 (7,700 MW).

In order to achieve this objective, IBERDROLA currently has a project portfolio totaling more than 42,000 MW worldwide. It is expected that the United States will contribute 3,300 MW of the new wind-powered capacity; Spain, 900 MW; the United Kingdom, 800 MW; and another 800 MW would come from other countries. Other renewable energy would contribute a further 100 MW by the end of the period.

ScottishPower: environmental improvements and greater flexibility

IBERDROLA plans to invest more than 3,000 million euros in the United Kingdom through ScottishPower. Such amount will be primarily used to continue increasing service quality in distribution activities (2,100 million euros) as well as in generation (900 million euros), with the twofold aim of introducing environmental improvements in plants that are already in operation and enhancing their availability and flexibility.

One of the main goals of the Company for the coming years is to strengthen the operating efficiency of ScottishPower and to maximize its contribution to the Group. Thus, the capture of synergies will play a key role (with a 52% increase over the initial synergies by 2010, from 175 to 266 million euros), the implementation of operating and cost improvements, and the search for new alternatives for the generation projects portfolio.

In the retail area, the strategy is to boost efficiency in the United Kingdom, where the model currently in place will be further developed.

La United States and Canada: reinforcing positions

The combination with Energy East will greatly enhance the outstanding position that IBERDROLA has gained for itself in record time in the U.S. market. Once completed, towards the end of the first half of 2008, the Company expects to have 3,400 MW of capacity, 1.8 million electricity supply points, 0.9 million gas supply points and 3.6 bcm (billion cubic meters) of gas storage capacity in this area.



IBERDROLA will make a significant effort in the area of Renewable Energy during the 2008-2010 period: it will allocate 48% of organic investments to this area, approximately 8,600 million euros

A WORLD LEADER

As a result of the fulfillment of the 2001-2006 Strategic Plan, in accordance with the lines for growth and efficiency defined therein, as well as the combination with ScottishPower and the agreement for the acquisition of Energy East, the Company has managed to grow from a local energy leader into an international leader.

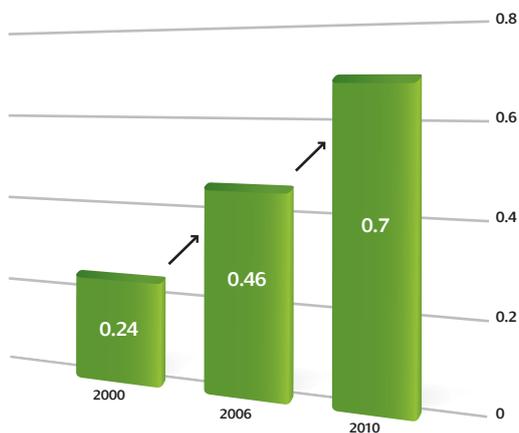
IBERDROLA has multiplied its size by 4.5 over the last seven years, after raising its stock market capitalization from 12,000 million euros to almost 52,000 million euros at year-end. It has thus positioned itself among the five leading electrical companies in the world: from the nineteenth position on the stock market capitalization ranking it has jumped to the fourth rung.

This significant growth of IBERDROLA, which is already the best-positioned Spanish company in its industry on a worldwide basis, translates into figures: it has 27 million users, a total installed capacity of almost 41,000 MW, approximately 30,000 employees, and a presence in more than 30 countries. Furthermore, it has become the world leader in wind power, with a capacity of more than 7,700 MW* and a project portfolio in excess of 42,000 MW.

(*) Includes 606 MW owned by a third party under a power purchase agreement.

DIVIDENDS: 11% ANNUAL GROWTH

(euro/share)



IBERDROLA has already obtained two approvals for the purchase of Energy East: the approval of the federal competition authorities (Hart-Scott Rodino Act) and the telecommunications approval granted by the Federal Communications Commission.

Gas: expanded presence

IBERDROLA, which entered the gas business in 2001, plans to solidify and expand its presence in this industry. Currently, it is present in the entire chain:

- **Upstream:** it has a diversified and flexible gas supply portfolio, with 18 bcm for Spain, the United Kingdom, Mexico and Brazil, and another 2 bcm per annum for the United Kingdom.
- **Midstream:** it has, as owner and under contract, a gas storage capacity of 3.6 bcm, regasification assets totaling 9.3 bcm per annum, and transmission assets with a capacity of 18 bcm per annum.
- **Downstream:** it has three million end users (0.2 million in Spain, 1.9 million in the United Kingdom and 0.9 million in the United States), and internal consumption comes to 15 bcm a year (19.6 bcm a year including Latin America).

Spain: investment of 3,700 million euros

- **Deregulated Business** (generation and sale of gas and electricity: IBERDROLA will invest approximately 1,700 million euros, in an environment in which the demand for electricity will post a moderate growth. Such investment will center on maintenance of the existing generation equipment, in order to increase its useful life and output, and on adjustment of such equipment to environmental requirements.

The Company also plans to invest, if regulatory conditions are appropriate, in new plants with the capacity to meet demand peaks: pumped storage hydroelectric plants (La Muela, 850 MW, and San Esteban, 176 MW) as well as gas combined cycle plants that will not come into operation during the term of this Strategic Plan.

The Company's sales strategy for the next years will focus on the achievement of profitability and user satisfaction, with a proactive attitude in Spain in the process of transition to a deregulated market.

- **Network Business** (electric power distribution, gas infrastructure and telecommunications network): one of the pillars of IBERDROLA's new strategy is



Regasification Plan in Sagunto (Valencia).

the improvement of supply quality and safety. The objectives that the Company has identified for the 2008-2010 period are to reduce the interrupt time by 20% vis-à-vis current levels and to renew the metering equipment (distribution), to develop 220 kV-facilities in urban areas (transmission), and to expand both the regasification capacity of the BBG (Bilbao) and Saggas (Sagunto) plants and the gas distribution network.

IBERDROLA Over the next three years, IBERDROLA plans to allocate 2,000 million euros (35% more than in the prior three-year period) to these businesses, provided that regulatory conditions are appropriate. Among many other actions, it has planned on the construction of more than 5,800 kilometers of low-, medium-, high- and very-high-voltage lines and the entry into operation or expansion of more than 70 substations.

Latin America: solidification of the business

With a presence in Latin American countries having well-defined and stable regulatory frameworks, IBERDROLA aims at strengthening its business in the region after the investment effort of the last few years, while keeping track of any opportunities that may arise—in particular, in Mexico and Brazil. With 600 million euros worth of investments, it plans to bring into operation 150 hydroelectric-powered MW in Brazil by 2010 and to continue improving supply quality in this country and promoting the plan Luz para todos ["Light for all"].

Non-energy and engineering businesses

Although the Strategic Plan hinges upon the energy business, the Company maintains investments in other profitable activities that are drivers for growth.

The responsibility for the evolution of the non-energy business area will be in the hands of Iberdrola Inmobiliaria and Gamesa. Iberdrola Inmobiliaria will enhance its presence in foreign markets and will boost the development of environmentally efficient products. In addition, it will opt for a low risk profile, by promoting only first home or retirement developments and optimizing lease assets turnover. The Company will keep its strategic focus on Gamesa, whose potential for growth continues to be high.

Iberdrola Ingeniería y Construcción, which already operates in more than 20 countries and holds a project portfolio valued at more than 2,500 million euros, will center its strategy on obtaining third-party contracts (sales to third parties will rise from 48% in 2006 to more than 76% in 2010) and on internationalization (it is anticipated that 70% of its sales will originate abroad).

Financial and balance-sheet soundness

IBERDROLA plans to maintain a leverage ratio below 50% in 2010, as compared to 54% at year-end 2006, and to increase assets to 88,000 million euros, 168% more than the 33,100 million euros reached last year. For such purpose, it will finance a part of the planned investment effort with the divestiture of non-strategic assets in Spain and abroad. The Company expects to obtain more than 3,000 million euros from various divestitures in non-core businesses.

Shareholder compensation

The Company proposes an attractive shareholder compensation policy for the next years, in line with the current policy, and has planned on a dividend per share of 0.7 euros for 2010 (as shown on the chart to the left).

COMMITMENT TO PEOPLE

The new reality of the IBERDROLA Group, which has significantly increased its size in only one year and has become a multinational company with a presence in various cultures, will entail a new approach to the human resources policy.

The essential requirements to achieve success in this field include:

- Identification and overall management of talent.
- Fostering international rotation and mobility.
- Focus on training and development (there are centers in Spain, Scotland and England).
- Performance-based compensation and promotion of employee stock ownership.
- Increased women's presence and balance between personal and professional life.

In addition, IBERDROLA seeks to align the current organization with its new status, establishing differentiated governance, control and management structures. Along these lines, it will reinforce corporate functions, and business units will be subject to decentralized management and to centralized governance and control.

The Group also desires to foster a new culture in order to consolidate an open, dynamic, communicative and participatory organization, with no rigid structures, where information flows and people's worth is viewed as an asset of substantial importance. In this way, it will encourage initiative, creativity, innovation, a forward-looking spirit and efficiency, without leaving aside its sound traditional values (ethics and responsibility, results, respect for the environment, trust and sense of ownership) or its professional principles: effort, competency, team spirit, honesty and loyalty.



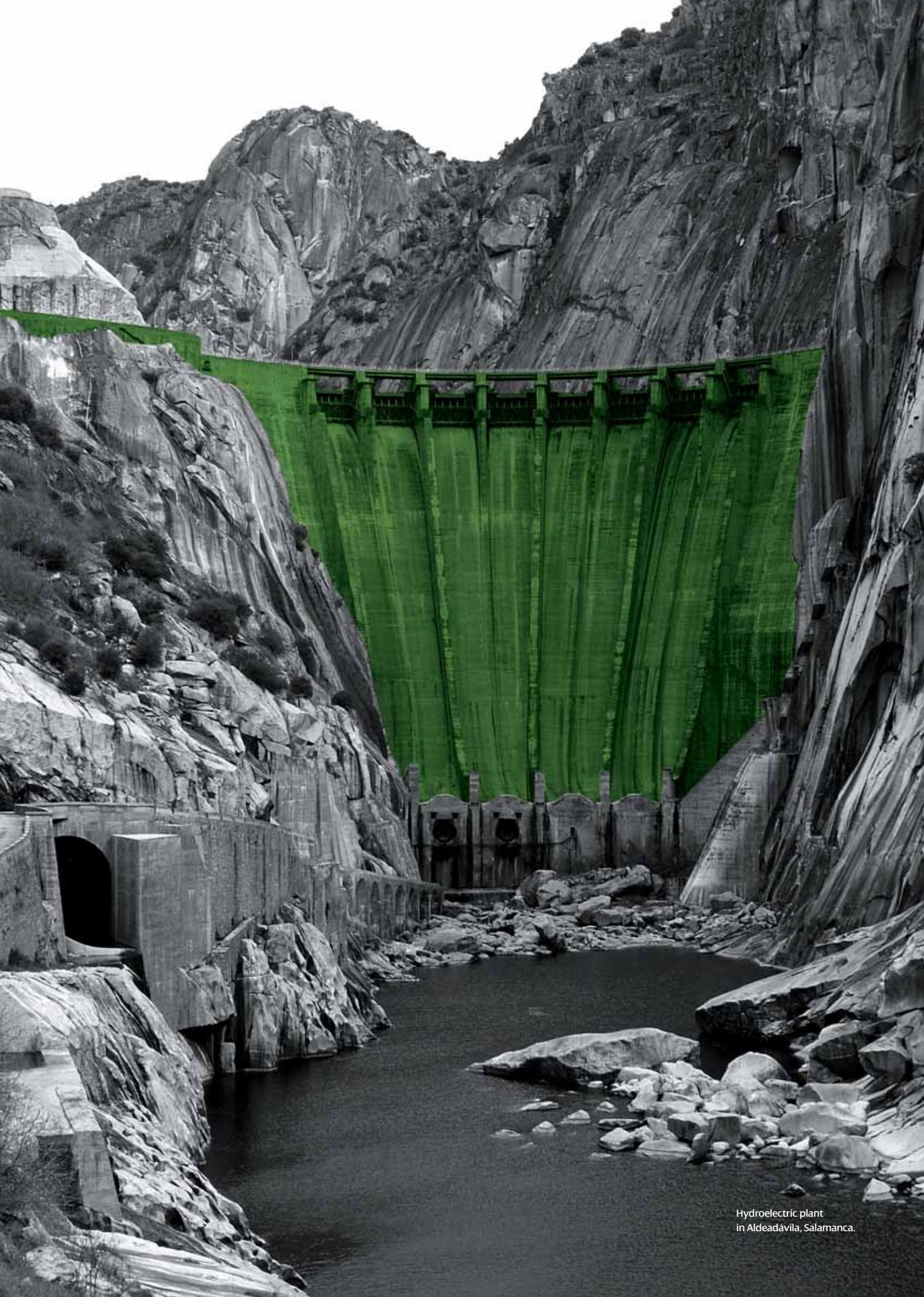
Inside of the Maranchón Wind Energy Complex, in Guadalajara.



THE SOUNDNESS OF A LARGE ENERGY GROUP

04

In 2007, our Company diversified and expanded its generation facilities throughout the world, which has enabled us to increase our installed capacity by almost 40%, up to a total of more than 42,000 MW. We are leaders in our focus on the most efficient and environmentally-friendly sources of electricity, in our commitment to service quality and in guaranteed supply. This leading position is now reinforced by the growth of our businesses in Latin America and the United Kingdom and the international expansion of our engineering and real estate activities.



Hydroelectric plant
in Aldeadávila, Salamanca.

Deregulated Business - Spain

Thanks to the investment effort of recent years, we are one of the fastest-growing companies in Spain. The continuous increase in installed capacity, our focus on an increasingly cleaner generation mix and ongoing innovation in products and services cemented our leadership in the Spanish deregulated market in 2007.

THE BASIS FOR GROWTH

The Spain Deregulated Business includes the generation and sale of electricity and gas in Spain and Portugal. During 2007, it posted gross operating profits (EBITDA) of 1,251 million euros, and its consolidated earnings after taxes came to 373 million euros, a 15.9% contribution to the Group's net profits. The value of total assets in this business is 9,876 million euros.

The Spain Deregulated Business contributed 15.9% to the results of the IBERDROLA Group

GENERATION: INCREASE IN INSTALLED CAPACITY

In 2007, IBERDROLA increased its installed capacity under the ordinary system to a total of 22,040 MW, which represents a 4% rise as compared to 2006.

IBERDROLA'S ENERGY BALANCE UNDER THE ORDINARY SYSTEM

(Million kWh)	2007	2006	2007/2006%	% of mainland System
Gross output	58,456	61,009	-4.2	26.1
Hydroelectric	14,092	11,971	17.7	53.4
Combined cycle plants	13,754	15,173	-9.4	20.1
Nuclear	23,229	26,353	-11.9	42.2
Fuel-oil/gas	318	2,082	-84.7	13.3
Coal-fired	7,063	5,430	30.1	9.8
Internal use	2,171	2,194	-1.0	25.1
Net output	56,285	58,815	-4.3	26.1
Power used in pumping	1,802	2,305	-21.8	40.8
Energy demand	54,483	56,510	-3.6	25.8

THE SPANISH WHOLESALE ELECTRICITY MARKET

During 2007, the Spanish wholesale electricity market was characterized by demand growth (up 2.7%), low rainfall in November and December (a 0.75 index) and practically nonexistent CO₂ prices, due to the expiration of the 2005-2007 allocation period. Furthermore, combined cycle plants continued to be brought into the market in 2007, to an installed total of 20,955 MW at the end of the fiscal year, which makes it the thermal technology with the largest amount of installed capacity in the electricity system.

Prices in the wholesale electricity market exhibited an upward trend in the last part of the year, in line with the high cost of fuel and record prices for a barrel of Brent crude oil. The average price in the daily market, 39.3 euros/MWh, was similar to that in other European countries, such as France (40.9 euros/MWh) and Germany (38 euros/MWh), which shows the global nature of energy markets.

In July 2007, the Iberian organized market for the short-term sale of energy, managed by OMEL (the operator of the Spanish side of the Iberian market), commenced operation in accordance with the international agreement entered into by Spain and Portugal. There was a notable difference in prices between Spain and Portugal, due to the electrical interconnection between both countries reaching a saturation level.

This increase was boosted by the entry into service of the Castellón 4 combined cycle plant, with 903 MW.

IBERDROLA's wager on clean energy is reflected in the Group's production mix. Thus, the Company's production structure in 2007 was as follows: 24% combined cycle plants; 24% hydroelectric plants; 40% nuclear plants, and 12% thermal coal-fired and fuel-oil/gas plants. Of note is the excellent performance turned in by hydroelectric facilities, in which IBERDROLA invested 62 million euros throughout the fiscal year. The high availability of hydroelectric generation units, which stood at 82%, increased output at these plants by 18%, to a total of 14,092 million kWh in 2007.

This figure is in stark contrast with the significant reduction in the output of thermal fuel-oil/gas plants, which decreased 85% (to 318 million kWh), in line with the trend of recent years.

Combined cycle plants generated 13,754 million kWh (-9%), while generation from thermal coal-fired plants came to 7,063 million kWh (30%).

During 2007, there were scheduled shutdowns for review and refueling at six of the Company's seven nuclear plants: Almaraz 2, Ascó 2, Cofrentes, Garoña, Trillo and Vandellós 2. These shutdowns caused a 12% decrease in the Company's nuclear output, which was 23,229 million kWh, and affected the overall production of the IBERDROLA Group, which totaled 58,456 million kWh (-4%) in 2007. With this figure, the Company secured a 26% share of all the electricity generated in the Spanish mainland system under the ordinary regime. In addition, the Group's production of nuclear-fueled electric power avoided releasing more than 12 million tons of carbon dioxide into the atmosphere* in 2007.



José María Oriol hydroelectric plant in Alcántara (Cáceres).

Moreover, in 2007 IBERDROLA confirmed its position as one of the leading cogeneration companies in Spain. At year-end, installed capacity at the 27 cogeneration plants in which the Company has an interest came to 496 MW, of which 378 MW correspond to IBERDROLA.

Electric power production at these plants was 3,659 million kWh, of which 2,769 correspond to IBERDROLA, up 7% from 2006.

In addition, construction of the second phase of the pumping plant at La Muela continues under way. During 2007, the access shaft was completed and excavation of the main cave commenced. The complete civil works have also been awarded, i.e., the turbine-alternator unit and construction of the pressure pipes. The investment in 2007 amounted to 17.79 million euros.

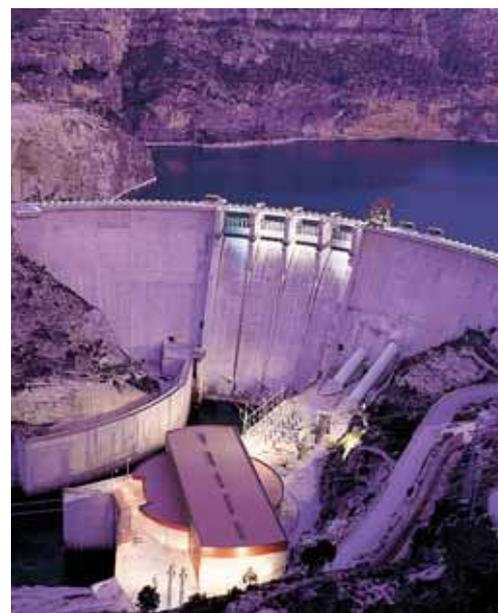
IBERDROLA's activity in the Spanish wholesale electricity market

The primary objective pursued by IBERDROLA in the Spanish wholesale electricity market is the creation of value, by maximizing the gross margin resulting from the Company's overall transactions for the purchase and sale of energy.

In this context, total production sold by the Company was 54,888 million kWh, in the amount of 2,731 million euros. IBERDROLA thus secured a 19% share of all energy sold and 22% of total revenues.

During the fiscal year, the energy sold by the Company to the markets managed by OMEL came to 54,548 million kWh (6%), which represents an 18% market share. Especially worthy of note is the share in the supplemental services market, which was 40% of total revenues, well above the Company's overall market share. This was the result of capitalizing on the characteristics of IBERDROLA's generation facilities, as well as on the opportunities offered by real-time markets. The final average market price was 49.8 euros/MWh.

In October, the compensation for guaranteed capacity was modified by ministerial order. From then on, compensation began to be made for availability and for incentives to make long-term investments in capacity. IBERDROLA collected 222 million euros in 2007, 28% of the total amount brought in by production plants in mainland Spain, which shows, yet another year, the significant contribution of the Company's hydroelectric and combined cycle plants to guaranteed supply.



Cortes II plant, Valencia.

In 2007, IBERDROLA generated 26% of all the electricity produced in the Spanish mainland system

(*) Calculation based on the assumption that 80% of generation from nuclear sources is replaced by combined cycle plants, with coal-fired plants covering the remaining 20%. Emissions: combined cycle plants, 425 kgCO₂/MWh; coal, 900 kg CO₂/MWh.

IBERDROLA IN THE SPANISH WHOLESALE ELECTRICITY MARKET IN 2007

	ENERGY	IB/SYSTEM	REVENUES	IB/SYSTEM
	Million KWh	%	EUR million	%
Markets + Bilateral	54,548	18.2	2,368	20.4
Supplemental Services	340	32.6	140	40.1
Guaranteed Capacity			222	28.3
Total Production Market	54,888	18.5	2,731	21.4

IBERDROLA AND THE CO₂ EMISSIONS MARKET

2005 saw the startup of the European trading in emission allowances, a flexible and efficient mechanism from the economic viewpoint that is intended to reduce greenhouse gas emissions.

IBERDROLA is one of the companies with the lowest CO₂ emission levels in the European electricity industry. However, low rainfall during fiscal year 2005 required the Company to resort to the emission rights markets in order to cover the existing deficit between emissions and allowances. For such purpose, transactions were conducted with European companies (through brokers) and organized markets such as Powernext Carbon (Paris). During the 2005-2007 period, the Company traded more than 5 million emission rights.

The Company also carries out various activities within the ambit of the flexibility mechanisms under the Kyoto Protocol. On the one hand, it signed agreements with the carbon fund Greenhouse Gas Credit Aggregation Pool (GG-CAP, managed by Natsource) and with the Fondo Español de Carbono (managed by the World Bank) in order to obtain approximately 3.5 million credits. The value of such credits will enable the Company to finance renewable energy projects in developing countries; this will in turn allow for a significant reduction in the greenhouse gases that cause global warming, which is the ultimate aim pursued by the Kyoto Protocol.

During the 2005-2007 period, the Company traded more than 5 million emission rights

With regard to wholesale market energy purchases for the Company's users, IBERDROLA bought 83,125 million kWh, of which 75,030 million kWh were allocated to users in the regulated market, 7,648 million kWh to eligible users, and 447 million kWh to exports.

Furthermore, in the production market, IBERDROLA sold 6,659 million kWh from plants under the special regime that the Company owns or represents.

IBERDROLA's energy trading in Europe

During 2007, Iberdrola Generación traded a total of 49,074 million kWh in Spain, Portugal, Italy, France, Germany, the Netherlands, Austria and Belgium. Such volume was traded under physical bilateral transactions, financial bilateral transactions, physical options, financial options, and spot and forward markets.

The significance of the Forward Iberian Market [Mercado Ibérico a Plazo] increased during the year as a mechanism for the development of a forward market in Spain and Portugal, through which 22.3 million kWh were traded. IBERDROLA purchased 6.4 million kWh in these auctions and sold 3.7 million kWh.

During 2007, the Company continued with its operations in the IPEX Italian market, where it sold 434 million kWh and also carried out transactions in financial products linked to the Italian National Unitary Price and participated in capacity auctions for the France-Italy and Austria-Italy interconnections.

IBERDROLA's presence in the French market has optimized the value of its generation assets in Spain. Thus, the Company acquired the right to provide 264 million kWh in the four capacity auctions organized by EDF in 2007. Additionally, it provided electric power options and products in the amount of 425 million kWh to GRD and RTE, the managers of the French distribution and transmission networks, respectively.

In addition, the Company traded 117 million kWh of energy in France associated with environmental products of the United Kingdom, or LEC certificates. It also continued with transactions on Powernext, the French organized electricity market, where 290 million kWh were traded on the futures market and 1,362 million kWh on the daily market.

Also significant were IBERDROLA's purchase and sale activities in Germany, where the Company was awarded several profiles to supply energy from losses to the German system operators and distributors. In addition, it participates in an innovative product, a Virtual Power Plant with a variable exercise price indexed to the price of coal and emissions, in which it has been awarded 15 MW for 2008 and 2009. It also carried out transactions in the spot market (EEX), in the amount of 270 million kWh, and in the forward market, where it traded 7,600 million kWh, five times more than in 2006.

SUPPLY: FOCUS ON PROFITABILITY AND SERVICE TO THE USER

The sale of electric power in Spain continued to be affected in 2007 by official regulated rates that do not reflect the actual cost of supply. In the case of industries and businesses, official regulated rates increased in line with the cost of supply, which has made it possible to sell electricity under market conditions. In contrast, residential rates did not go up, which has deepened the serious deficit in the industry.

The regulatory framework is quite different in the gas sector, where there have been no official regulated rates for industrial users since July 2007 and residential rates are revised every quarter using formulas that take supply costs into account.

In this context, IBERDROLA's commercial policy is oriented to profitability and service to the user, and therefore centers on the sale of electricity to industries and businesses and of gas to all types of users.

In the case of industries and businesses, IBERDROLA provides personalized service through a manager, who gives advice to users regarding the optimization of consumption and energy management in order to achieve greater efficiency. As regards residential users, the Company offers stores, managers, and telephone and Internet service, and supplements the energy offer package with other value-added services, such as maintenance of gas equipment or a 24-hour repair service.

This strategy to increase the advantages of using IBERDROLA's services led to a doubling in the number of products and services supplied by user, reaching 160,898 in 2007.

At year-end 2007, IBERDROLA had 419,195 electricity and gas users in the deregulated market, with electricity sales of 7,253 million kWh and gas sales of 17,155 million kWh.

Activities in the deregulated markets of Portugal and France

The process of deregulation of the Portuguese market is going through a very difficult phase, which greatly reduces business opportunities. This circumstance has led to the implementation of a commercial policy based on the profitability of the business and on maintaining user relationships and providing advice to users.

In 2007, IBERDROLA handled 180 contracts and sold 32 million kWh in Portugal, which represents a share of less than 1% of consumption in the deregulated market.

In addition, the Company continues with the activities commenced in 2005 in the wholesale and industrial gas market in France, which made it the first company to export gas from Spain through the gas interconnection pipeline. In 2007, it supplied a gas volume of 90 million kWh. In the electricity market, it supplied 13 million kWh to industrial users.

IBERDROLA STRENGTHENS ITS POSITION AS A GAS SUPPLIER

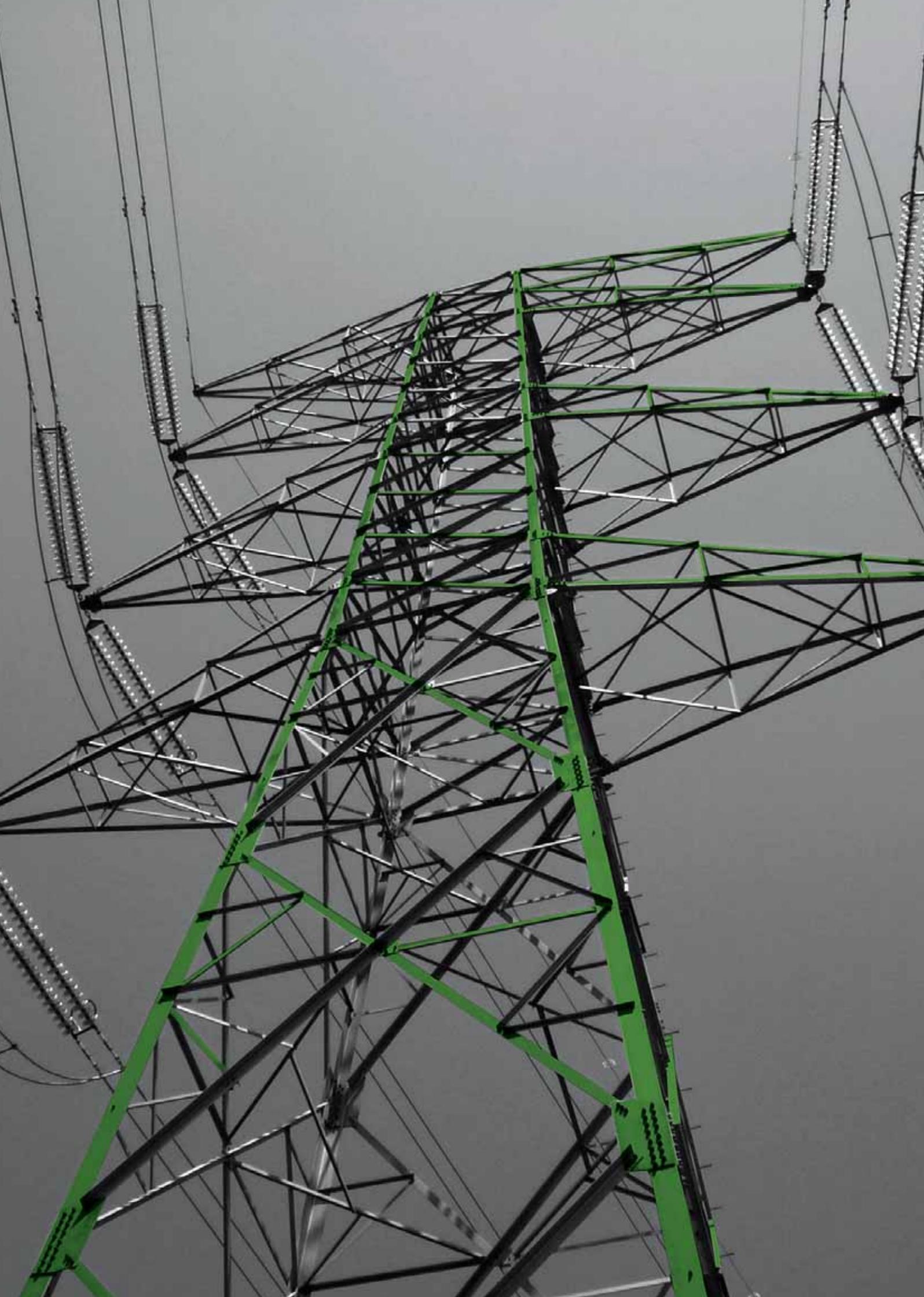
During 2007, the Company managed 5.8 bcm (billion cubic meters of gas), up 5.5% from 2006. Thanks to proper gas management, IBERDROLA met the supply needs of both its Spanish combined cycle plants and its industrial, business and residential users in mainland Spain. Moreover, the Company ended the year with an overall long-term supply contract portfolio of more than 18.5 bcm per annum, which cover its supply needs in Spain, the United Kingdom, Mexico and Brazil.

During the year, the Company handled 92 shipments of liquefied natural gas (LNG), transported in LNG tankers to regasification plants located in Bilbao, Barcelona, Huelva and Sagunto as well as other international plants. This gas was imported from seven countries on three continents, which represents a diversified, safe and flexible mix of sources: Nigeria, Algeria, Egypt, Qatar, Trinidad and Tobago, Libya and Norway.

Among the Company's activities abroad, of note is the commencement of gas operations in Germany, with the award of a lot at the auction organized by the company E.ON-Ruhrgas. It has also gained a foothold for its LNG portfolio in the British market, through the award of 2.75 bcm per annum of long-term capacity at the regasification plant located on the Isle of Grain (close to London), which it can use to cover the needs of its subsidiary ScottishPower.



IBERDROLA handled 92 shipments of gas in 2007.



Networks Business - Spain

One of our Company's primary goals is to continually improve the quality of service. This commitment is backed by 710 million euros invested in 2007, over 3,400 Km. of new lines, a reduction in the ICEIT and new gas infrastructures.

FIGURES FOR THE YEAR

In fiscal year 2007, IBERDROLA's Networks Business in Spain (electricity distribution, gas infrastructure and telecommunications network) posted a net profit of 506.3 million euros. The Spain Networks business contributed 21.5% to the net income of the IBERDROLA Group in 2007.

710 MILLION EURO INVESTMENT IN IMPROVING THE ELECTRICITY NETWORK

IBERDROLA's electricity distribution runs across 14 autonomous communities and 32 provinces, covering an area of 190,000 km². and serving a population of 16.7 million. This grid is equipped with more than 18,470 kilometers of high-voltage lines and 207,540 kilometers of medium and low-voltage lines. There are also 869 transformer substations and 81,605 transformer centers.

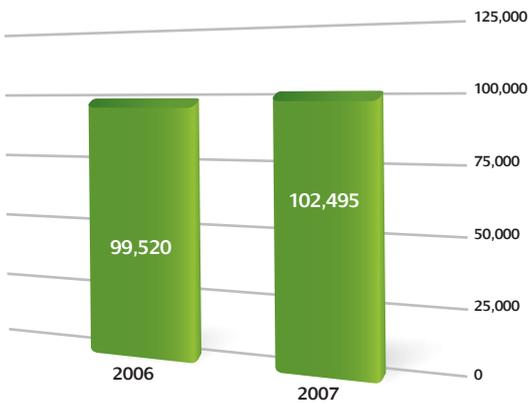


View of a substation and its communications infrastructure.

DISTRIBUTION FACILITIES PLACED INTO SERVICE IN 2007

Facilities	Total
High- and very-high-voltage lines (km)	238
Medium- and low-voltage lines (km)	3,211
Overhead medium-voltage	220
Underground medium-voltage	1,590
Overhead low-voltage	477
Underground low-voltage	924
Installed capacity at transformer substations (MVA)	2,080
Transformer centers (no.)	3,137
Installed capacity at transformer centers (MVA)	2,334
Installed reactive capacity (MVar)	125

DISTRIBUTED ENERGY IN SPAIN
(Mill. kWh)



In 2007, IBERDROLA's ICEIT indicator stood at 1.89 hours, confirming the improvement trend that began in 2001

IBERDROLA invested 710 million euros in the expansion and improvement of facilities during 2007, 29.5% more than in 2006. This entailed an increase in capacity at the various transformer levels, with the installation of almost 2,100 additional megavolt-amperes (MVA) at transformer substations. The Company also laid 3,211 kilometers of new lines and installed 3,137 new transformer centers.

LEADING DEVELOPER OF NEW GAS INFRASTRUCTURE

IBERDROLA has cemented its position as the leading developer of new gas infrastructure in Spain. The Company has stakes in the regasification plants of Bahía Bizkaia Gas (BBG) in Bilbao and of SAGGAS in Sagunto, with 25% and 30% of the share capital, respectively. In 2007, gas supply commenced in Segorbe (Castellón) and in the Madrid municipalities of Cubas de la Sagra and Serranillos del Valle, followed by network deployment in the Autonomous Community of Madrid, the Autonomous Community of Valencia and the Region of Murcia.

EXPANSION OF THE TELECOMMUNICATIONS NETWORK

The Company has an extensive and complex telecommunications network to provide the necessary services to the various businesses, both through its own resources and through subcontractors. The network consists of 12,913 kilometers of fiber optic cables, installed mainly over electricity lines, and 2,500 kilometers of high-capacity radio relays, all of which are proprietary, which support the various voice and data networks made up of 2,581 nodes with varying capacities.

IMPROVED QUALITY OF SERVICE

Improvement in the quality of supply is an essential element of electricity services and one of the basic goals of IBERDROLA's distribution business. In 2007, IBERDROLA's ICEIT (Installed Capacity Equivalent Interrupt Time) indicator stood at 1.89 hours, confirming the improvement trend that began in 2001. This indicator represents the mean annual time of interruption of supply to users. This figure is equivalent to 99.98% availability in electricity supply. Particularly noteworthy is the information for the Autonomous Community of Madrid, where a value of 1.09 hours (one hour and five minutes) was reached, beating the previous best record. The 2007-2011 Electricity Distribution Grid Development Plan, included in IBERDROLA's Strategic Plan, calls for investments of over 3,400 million euros in the continuous improvement of quality of service.

MORE THAN TEN MILLION POINTS OF SUPPLY

IBERDROLA ended 2007 with over 10.3 million users in Spain (+2.3%). Distributed energy totaled 102,495 million kWh, representing an increase of 2,975 million kWh (+2.99%) and a 39.8% share of the total in mainland Spain. Broken down by sectors, especially noteworthy are services, with a 4.1% increase. By Autonomous Communities, particularly worthy of mention are the Autonomous Communities of La Rioja and Navarra and the Region of Murcia, with increases of 5.7%, 4.5% and 4.4%, respectively.

ELECTRIC POWER DISTRIBUTED THROUGH IBERDROLA'S GRIDS, BY INDUSTRY

(Millions of kWh)

Sector		2007	2006	% Growth
Residential	Household use	27,107	26,324	2.97
	Total	27,107	26,324	2.97
Industry	Agric., livestock, forestry, hunting, fishing	3,007	3,183	-5.55
	Steel and foundry	8,291	8,121	2,10
	Cement, limestone and plaster and construction materials	4,971	4,901	1,44
	Chemical and petrochemical	2,370	2,398	-1,15
	Metal transf. and machinery	3,799	3,649	4,11
	Food, beverages and tobacco	4,315	4,179	3,26
	Pulp, paper, cardboard, paperwork	2,262	2,006	12,75
	Rubber industry, plastic and other unspecified materials	3,114	2,999	3,82
	Other industries	10,110	9,896	2,16
	Total	42,243	41,336	2.19
Services	Catering	4,510	4,382	2.92
	Trade and services	15,318	14,657	4.51
	Administration and other services	8,766	8,517	2.92
	Other services	3,619	3,365	7.55
	Total	32,214	30,922	4.18
Other	Unspecified	930	935	-0.57
	Total	930	935	-0.57
Total		102,495	99,520	2.99

(*) Including Eléctrica Conquense

ELECTRIC POWER DISTRIBUTED OVER IBERDROLA'S NETWORKS, BY AUTONOMOUS COMMUNITY

(Million kWh)

Autonomous Community	2007	2006	% Growth
Andalucía	0.074	0.084	-11.90
Aragón	1.7	1.6	5.39
Asturias	126	128	-1.65
Cantabria	155	148	4.75
Castilla-La Mancha	6,263	6,063	3.30
Castilla y León	11,100	10,712	3.62
Catalonia	270	295	-8.50
Community of Valencia	27,789	27,236	2.03
Extremadura	2,183	2,138	2.11
Galicia	2.3	1.9	20.50
Community of Madrid	20,230	19,574	3.35
Murcia	7,791	7,466	4.36
Navarra	4,938	4,727	4.46
Basque Country	19,842	19,322	2.69
La Rioja	1,804	1,707	5.65
Total	102,495	99,520	2.99

(*) Including Eléctrica Conquense



Iberdrola Renewables

With an installed capacity in excess of 7,700 MW, additional capacity of almost 1,400 MW under construction, and a project portfolio of more than 42,000 MW, Iberdrola Renewables has strengthened its position as the world leader in wind power, and its shares have started trading on the Spanish Stock Exchange.

THE IBERDROLA RENEWABLES BUSINESS

Gross operating profits (EBITDA) came to 564 million euros at year-end 2007, with profits amounting to 118 million euros after taxes and the allocation for minority interests, contributing 8.14% to the results of the IBERDROLA Group. Gross operating assets totaled 8,395 million euros, up 91.2% from the prior fiscal year.

The assets transferred from ScottishPower (United Kingdom and United States) after the reorganization completed at the end of the third quarter are included as from October 1, and therefore, their contribution is attributed to an entire three-month period.

THE WORLD LEADER IN WIND POWER

Iberdrola Renewables cemented its position as the world's leading wind operator during fiscal year 2007. It is present in 19 countries and in nine of the ten markets in the world showing the greatest potential for growth and development of the industry.

In 2007, Iberdrola Renewables made investments in the amount of 1,977 million euros, which enabled it to reach an installed capacity of 7,704* megawatts (MW) at year-end, a 74% increase over the 4,434 MW in place at year-end 2006. Of this capacity, 7,362* MW correspond to wind farms, and 342 MW to mini-hydroelectric plants. Its world leading position is based on a strong increase in installed capacity in all of the markets in which it has a presence.

In Spain, Iberdrola Renewables already has an installed capacity of 4,571 MW, up 14.4% from 2006, of which 4,229 MW are wind-powered. Production plants, located in 13 autonomous communities, expanded their capacity by a total of 577 MW in 2007. The distribution is as follows: 1,881 MW are located in the Autonomous Community of Castilla-La Mancha; 918 MW in Castilla y León; 593 MW in Galicia; 391 MW in Andalucía; 262 MW in Aragón; 248 MW in La Rioja; 82 MW in the Basque Country; 76 MW in the Region of Murcia; 56 MW in the

SUCCESSFUL LISTING

On December 13, the Initial Public Offering (IPO) for 20% of the capital of Iberdrola Renewables was successfully completed. Listing on the stock exchange is the culmination of a process that began in 2001 with our pioneering, unprecedented wager on renewable energy as the energy of the future.

Listing has not only served to crystallize the value of this kind of energy, but has also helped to raise the funds that will be used to finance the growth of Iberdrola Renewables while preserving the Group's financial strength. The placement on the stock exchange became the largest transaction of its kind ever carried out in Spain.

Corporate restructuring

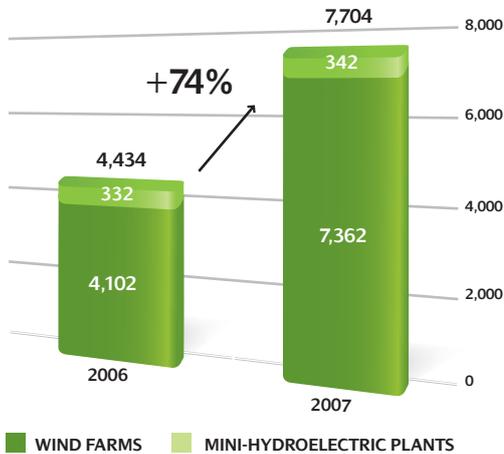
The restructuring of the Iberdrola Renewables Group was carried out between June and November of 2007. Through this process, those companies of the ScottishPower group (acquired in April 2007), primarily dedicated to electric power generation from renewable sources in the United Kingdom and the United States, were included within the company's scope of consolidation. In addition, as a consequence of the Group restructuring, the company commenced its thermal power generation, gas storage and energy purchase activities in the United States.

WORLD PRESENCE OF IBERDROLA RENEWABLES



■ Countries in which Iberdrola Renewables has a presence. Presence is defined in terms of MW that are in operation, in the company's portfolio or under implementation through offices.

INSTALLED CAPACITY BY MEANS OF RENEWABLE ENERGY BY TECHNOLOGY (MW)

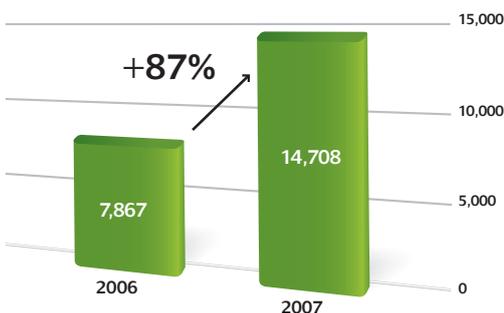


Autonomous Community of Valencia; 44 MW in Navarra; 14 MW in Cantabria; 5 MW in Extremadura and 1 MW in the Autonomous Community of Madrid.

The company has also increased installed capacity outside of Spain by sevenfold, from 440 MW in 2006 to 3,134* MW at the end of 2007. Of this capacity, 2,145* MW are located in the United States, mainly thanks to the contribution of the subsidiary PPM Energy, and 382 MW are located in the United Kingdom, provided by ScottishPower.

The remaining 607 MW, almost all of which are located in Europe, are distributed as follows: 218 MW of installed capacity in Greece; 126 MW in France; 105 MW in Poland; 60 MW in Germany; 50 MW in Portugal and 49 MW in Brazil. Additionally, Iberdrola Renewables had 1,373 MW under construction throughout the world at year-end.

OUTPUT OF IBERDROLA RENEWABLES (Million kWh)



The company's output came to 14,708**/** million kWh during 2007, which represents an 87% increase over the 7,867 million generated during the prior fiscal year and already accounts for 11.9% of all the electricity produced by the IBERDROLA Group. Of such total output, 9,748 million kWh are wind-powered, 542 million come from mini-hydroelectric plants, and 0.3 million are generated with other technologies, especially solar.

Moreover, the electric power generated by the Company's renewable energy facilities in 2007*** would avoid the release of more than four million tons of CO₂ into the atmosphere.

(*) Includes 606 MW owned by a third party under a power purchase agreement.
 (**) According to pro forma data, and includes 1,621 million kWh coming from PPAs with third parties.
 (***) The equivalence is established by taking into account domestic consumption in Spain, as well as the Spanish generation mix.

A PROJECT PORTFOLIO OF MORE THAN 42,000 MW

Iberdrola Renewables held a project portfolio of 42,053 MW in 2007, which represents an excellent platform for future growth.

More than one-half (52%) of the company's projects are located in the United States (21,991 MW). Spain has 17% of the total (7,206 MW), the United Kingdom has 13% (5,412 MW) and the rest of the world has 18% (7,444 MW).

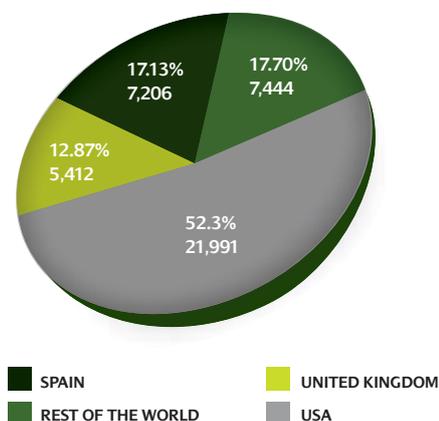
Among the corporate transactions carried out in 2007 with the aim of expanding the project portfolio and enhancing the presence in markets of interest, especially noteworthy are the acquisition of the American company CPV Wind Ventures LLC, with projects in the United States involving 3,500 MW in 15 different states, and the strategic alliance entered into with the Italian energy group API Holding for the construction and operation of 350 MW in wind-powered capacity in Sicily and Puglia (Italy).

A broad, diversified and high-quality project portfolio

Iberdrola Renewables has a portfolio of projects in various stages of development that will allow the company to grow, both in size and in composition, in markets viewed as having greater potential for growth.

By segmentation, the project portfolio consists of 3,103 MW (7%) that are almost certain, 12,324 MW (30%) that are probable and 26,626 MW (63%) that are potential. These projects will enable the company to reach an installed capacity of 13,600 MW in 2010.

PROJECT PORTFOLIO (MW)



SEGMENTATION OF THE PROJECT PORTFOLIO

In order to provide greater clarity and transparency to the project portfolio, Iberdrola Renewables has established a rigorous method of segmentation into different categories, in accordance with the degree of development and the chances of success of the projects. There are three different segments:

- **Almost certain.** Projects with more than a 95% chance of success and that have obtained key permits. They have an approved investment amount, and wind turbines are available for them. This group also includes facilities under construction.
- **Probable.** Projects with a 40-50% chance of success. They have a measuring tower, basic engineering, and preliminary administrative approvals.
- **Potential.** Projects with a 20% chance of success and for which there is a site. They must achieve one of the following milestones: a wind study with positive results; a basic engineering plan for the wind farm; contract-based title to the land or commitment signed by a wind-farm developer.

These definitions are intended to group together projects that are at a similar stage of development, although they may be located in different countries or be subject to different regulatory frameworks.

NEW PROJECTS WITH OTHER RENEWABLE ENERGY

In 2007, Iberdrola Renewables began construction of the first thermo-solar and biomass projects. Specifically, it commenced construction of the thermo-solar plant of Puertollano (Ciudad Real). This pioneering facility will have an installed capacity of 50 megawatts (MW) and will call for an investment of more than 200 million euros. Technologically, it can be viewed as a small power plant in which the boiler equipment is replaced by a solar array consisting of 352 cylindrical-parabolic collectors. The facility will have a solar capture area of approximately 290,000 square meters and will cover an area of 135 hectares. Construction work will include the installation of approximately 120,000 parabolic mirrors and 13,000 absorber tubes. The implementation of the design also minimizes radiation losses due to shadows.

2008-2010 STRATEGIC PLAN

The strategic plan of Iberdrola Renewables falls within the framework of IBERDROLA's 2008-2010 Strategic Plan, announced on October 24, 2007.

Iberdrola Renewables has become the most powerful growth driver within the IBERDROLA Group, as it accounts for one-half of the investment effort contemplated in the 2008-2010 Strategic Plan. With an investment of 8,600 million euros over the next three years, the company will further strengthen its position as the world leader in renewable energy.

This decisive focus on clean energy is supported by an outstanding project portfolio, which will enable compliance with the objectives set out in the company's development plan. Such plan provides for the placement online of 2,000 MW a year in order to achieve an installed renewable capacity of 13,600 MW in 2010.



Wind energy complex at El Marquesado (Granada).



Solar energy facility at Puertollano (Ciudad Real).

In addition, construction of a biomass plant in Corduente (Guadalajara) commenced in 2007. It is expected to use around 20,000 tons of forestry waste a year, obtained from the clearance and stumping of nearby hills. This plant will be the first of its kind for the company.

As regards mini-hydroelectric power, the placement into operation of the La Fuensanta (Albacete) plant, with 8,84 MW, was completed in the first quarter of 2007.

At the same time, the company has continued to develop the projects for R&D (Research & Development) in emerging renewable technologies in Spain and the United Kingdom. Especially worthy of note is the construction of the prototype for a wave-energy plant at Santoña (Cantabria).

ACTIVITIES IN OTHER BUSINESSES

As a consequence of the reorganization of the company following the purchase of ScottishPower, Iberdrola Renewables has started to operate in the gas, thermal generation and energy management businesses in the United States. These activities, additional to the renewable energy business, have contributed 44 million euros to the company's gross operating profits (EBITDA) (7.78%). Gross operating assets totaled 96.8 million euros in 2007.

At year-end 2007, Iberdrola Renewables had a storage capacity of 1.03 bcm (billion cubic meters) and a thermal generation capacity of 806 MW.

Thermal generation

Total installed capacity in the United States came to 806 MW in 2007, broken down as follows: 200 MW from West Valley (Utah), 100 MW from the Klamath (Oregon) gas plant, and 506 MW from the Klamath cogeneration plant.

The West Valley plant is currently under an operating lease by PacifiCorp until June 2008.

During 2007, the company, through its subsidiary in the United States, PPM Energy Inc., and the city of Klamath Falls, signed an agreement for the purchase of the cogeneration plant at Klamath, with a capacity of 506 MW. PPM already managed the commercial operation of the plant under contract since its start-up in 2001, and already purchased 237 MW of its capacity to supply large users in the north-west of the United States and the state of California.

Gas storage

Enstor, a subsidiary of PPM Energy, has a gas storage capacity of 1.03 bcm distributed among four plants in the states of New Mexico, Texas and Alabama. In addition, it continues to develop two new complexes in Texas: Enstor Waha Storage and Transportation, L.P., and Enstor Houston Hub and Storage and Transportation, L.P. Enstor also has a series of projects in the early stages of development and is considering the potential acquisition of projects under development and of operating facilities.

Iberdrola Renewables acquired the gas storage company Freebird in 2007, thus adding to its assets a plant in Lamar County, in the state of Alabama, with a capacity of 0.22 bcm.



Iberdrola Renewables develops R&D projects in emerging renewable technologies in Spain and the United Kingdom



In June, the combined cycle plant in Tamazunchale, Mexico came on line with installed capacity of 1,135 MW.

Business in Latin America

Latin America, as part of the Atlantic Area axis defined in the 2008-2010 Strategic Plan, is one of the key areas for the international expansion and growth of our Company: In 2007, it contributed 18% of the Group's net profits. Especially important is our presence in Mexico and Brazil.

PLATFORM FOR INTERNATIONAL EXPANSION

The Latin America business is one of the main pillars for the growth of the IBERDROLA Group. The Company has a presence primarily in Mexico and Brazil and does business in Guatemala, Bolivia and Chile. The value of shareholdings attributable to the Company reached 5,019 million euros in 2007, and sales reached 2,858 million euros, an increase of 24% over 2006.

This business segment has continued the upward trend of recent years during the past fiscal year as well. Gross operating profit (EBITDA) was 890 million euros, 24% more than in 2006. The contribution to the IBERDROLA Group was 16% of EBITDA and 18% of net profit.

Of note is the entry into commercial operation of the 1,135 MW Tamazunchale combined cycle plant, the largest combined cycle plant in Latin America. This new plant and the high availability of the remainder of the plants in the region mean that the combined production of companies in which IBERDROLA has a stake is 32.957 billion kWh, an increase of 40% in the power produced.

Power distributed has also increased to 30,930 million kWh, 5.1% more than in 2006. The number of users totaled 9.3 million, some 410,000 more than the previous year.

MEXICO: THE LEADING PRIVATE ELECTRICITY PRODUCER

The Company closed out fiscal year 2007 with a total of 5,000 MW in capacity already in operation in this country, which makes it the leading private power generator in Mexico and the second-largest generator in this country after the state-owned Comisión Federal de Electricidad (CFE).

Of these, nearly 4,300 MW is for contracts with CFE and approximately 700 MW is for the most important industrial customers in the country. In addition,

TAMAZUNCHALE, THE LARGEST COMBINED CYCLE PLANT

The Tamazunchale plant, which started commercial operation in June, is the largest combined cycle plant in Mexico with an installed capacity of 1,135 MW.

It was awarded to IBERDROLA after an international call for tenders by the Comisión Federal de Electricidad (CFE) in 2004. The Company has invested approximately 500 million dollars in the plant.

2,500 people have worked on the construction of the plant. Made with the most modern technologies to be extremely efficient and ecologically responsible, it is a sample of IBERDROLA's calling to participate in the sustainable economic development of the country.

IBERDROLA GENERATION PLANTS IN MEXICO

Name	Type	Capacity MW	% IBERDROLA'S	Users	Location	Status
Enertek	Cogeneration	120	100	Industrial	Tamaulipas	Operational
Monterrey	Combined cycle	1,000	100	CFE/Industrial	Nuevo León	Operational
Femsa Titan	Cogeneration	37	100	Femsa/Titán	Nuevo León	Operational
Altamira III and IV	Combined cycle	1,036	100	CFE	Tamaulipas	Operational
La Laguna	Combined cycle	500	100	CFE	Durango	Operational
Altamira V	Combined cycle	1,121	100	CFE	Tamaulipas	Operational
Tamazunchale	Combined cycle	1,135	100	CFE	San Luis Potosí	Operational

according to the contracts signed with CFE, the Company has an assurance that it will sell all the capacity and power that the combined cycle plants produce for 25 years.

IBERDROLA plants in Mexico have generated 29.813 billion kWh, 46% more than in the preceding fiscal year, and their production is 11% of the total electric power generated in the country. The gross operating profit (EBITDA) from business in Mexico attributable to IBERDROLA reached 288 million euros, an increase of 43% over 2006.

BRAZIL: THE LEADING ELECTRICITY SUPPLIER IN THE NORTHEASTS

Through its interests in Coelba (Companhia de Electricidade do Estado da Bahia), Celpe (Companhia Energética de Pernambuco) and Cosern (Companhia Energética do Rio Grande do Norte), IBERDROLA has a 39% stake in Neoenergia, the leading electricity supplier in northeastern Brazil.

IBERDROLA has a 39% stake in Neoenergia, an electricity supplier in northeastern Brazil, which represents 58% of the regional market and 7% of the national market



Combined cycle plant at Termopernambuco, Brazil.

These three distributors represent 58% of the regional market and 7% of the national market. Between them, they provided over eight million customers with 25.802 billion kWh in 2008, 6.4% more than in fiscal year 2006. Of note is the large increase in customers for Coelba, arising from its participation in the Brazilian Government program Luz para todos [Light for Everyone].

The gross operating profit (EBITDA) provided by Brazil that is attributable to IBERDROLA has grown to 524 million euros, 25% more than in 2006.

IBERDROLA closed the year with installed capacity of 479 MW attributable to it, similar to that for 2006. This capacity is from the 520 MW combined cycle plant at Termopernambuco, (203 MW attributable), the 450 MW hydroelectric plant in Itapebí (175 MW attributable), and to the 18 MW miniplants in Afluente (8 MW attributable). The Company in turn has 93 MW of operating capacity in cogeneration.

The total production attributable to the Company at these power plants grew by 4.1% in 2007 to 2.844 billion kWh, of which the majority, 1.554 billion kWh, is from combined cycle plants, 798 million kWh is from hydroelectric plants, and 492 million kWh is from cogeneration.

Neoenergia, within its new investment cycle in hydroelectric power generation initiated in 2005, is constructing power plants in Baguarí, Nova Aurora, Goiandira, Corumbá III, Pirapetinga, Pedra do Garrafão, Dardanelos and Sitio Grande. They total over 600 MW capacity. In 2007, they also acquired the majority of the two transmission lines, with a combined length of 619 km.

IBERDROLA'S PRESENCE IN LATIN AMERICA

Subsidiaries

Electricity generation

Mexico: Enertek
Monterrey
Femsa-Titán
Altamira III y IV
La Laguna
Altamira V
Tamazunchale

Brazil: Itapebí
Afluente
Termopernambuco
Energy Works
Ibener

Chile: Hidronorte

Electricity distribution

Brazil: Coelba
Cosern
Celpe

Bolivia: Electropaz
Elfeo

Guatemala: EEGSA

Water distribution

Chile: Essal



OTHER BUSINESS IN LATIN AMERICA

Guatemala:

IBERDROLA is the leading electricity supplier in this country through Empresa Eléctrica de Guatemala, S.A. (EEGSA), which has a 58% market share and 844,403 supply points (+4.5%), and the second largest transportation company, TRELEC, S.A., in which IBERDROLA has a 39% stake. In 2007, electric power supplied reached 3.694 billion kWh. It is also the largest seller of power through COMEGSA and the second largest transportation company through TRELEC.

In 2007, IBERDROLA commenced generation activities in Guatemala with the purchase of a majority interest in the hydroelectric power plant at Rio Bobos (10 MW) as the flagship for other projects in this country.

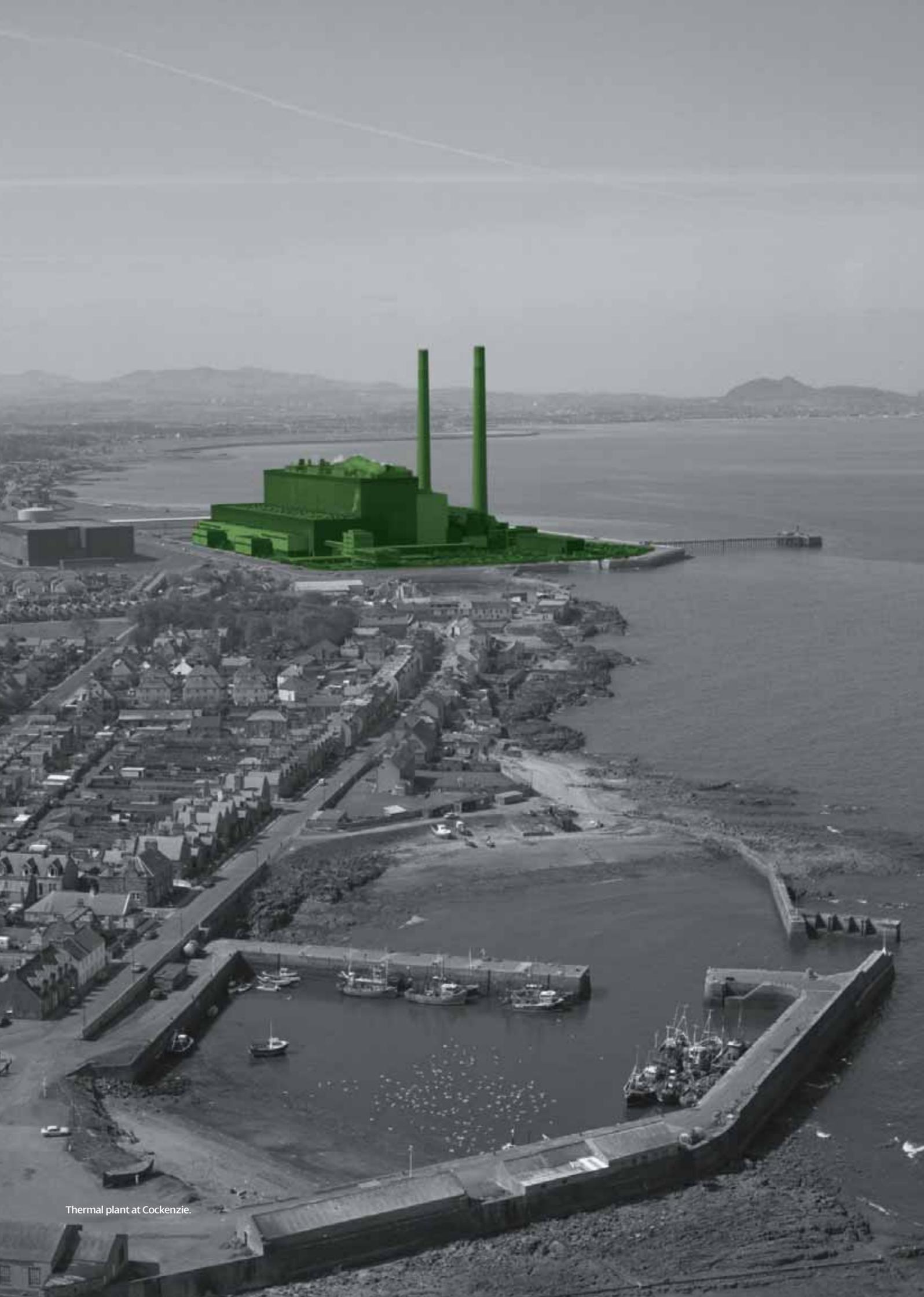
Bolivia:

The two supply companies belonging to the Group, Electropaz and Elfeo (in which IBERDROLA has stakes of 57% and 59% respectively) provided 449,035 users (up 4.5%) with 1.354 billion kWh (up 5.9%). This figure is 37% of all the power supplied in this Andean country.

Chile:

In 2007, the hydroelectric plants in Peuchén (75 MW) and Mampil (49 MW) belonging to IBERDROLA's subsidiary Iberoamericana de Energía (Ibener), in which IBERDROLA holds a 95% in-terest, generated 299 million kWh (down 41%).

In the water sector, the Empresa de Servicios Sanitarios de los Lagos (Essal), in which IBERDROLA has a 51% stake, reached 173,444 users (up 4%) and provided 31,507 cubic meters of drinking water (up 1%).



Thermal plant at Cockenzie.

ScottishPower

Following the integration with ScottishPower, IBERDROLA has strengthened its position as one of the five largest electric companies in the world and has expanded and diversified its generation facilities. This company manages 112,000 kilometers of lines, has a very flexible production mix and serves 3.3 million electric power users and 1.9 million gas users.

THE IBERDROLA-SCOTTISHPOWER COMBINATION

The integration between ScottishPower and IBERDROLA was completed on April 23, 2007. Before the Initial Public Offering (IPO) for Iberdrola Renewables' shares, ScottishPower's activities centered on four core businesses:

- Energy Networks.
- Energy Wholesale.
- Energy Retail.
- PPM Energy.

On October 1 (before the IPO), ScottishPower's renewable energy activities were transferred to Iberdrola Renovables. Thus, the four core businesses were structured as follows at year-end:

- Networks business.
- Wholesale energy sales business (includes some renewable hydroelectric energy facilities in the United Kingdom).
- Retail Supply business.
- Iberdrola Canada Energy Services (formerly, PPM Canada).

THE NETWORKS BUSINESS: 112,000 KILOMETERS OF LINES

The Networks business manages ScottishPower's transmission and distribution activities. This company owns an extensive network more than 112,000 kilometers long, with more than 65,000 kilometers of underground cables and 47,000 kilometers of aerial lines. This includes the network for supply to end users in its two authorized areas and, in Scotland, its high-voltage transmission system. In Great Britain, a single operator, National Grid, controls operations in the transmission system, including the balance between generation and demand in Scotland. However, ScottishPower owns the lines and has the responsibilities associated with ownership, such as the development of the network in the two aforementioned areas.

HIGHLIGHTS OF THE NETWORK BUSINESS

On December 31, 2007, the Networks business had 3,400,000 supply points in the United Kingdom. The volume of energy distributed during the 9-month period extending from April 1 to December 31 came to 27,256 million kWh, 2% less than the same period during the previous year. This drop is due to energy saving and the effects of milder weather during the year. Since April 1, interruptions in supply decreased by 13% vis-à-vis the same period during the previous year. This improvement is due to the implementation of new management practices and the program for installation of automated mechanisms on networks.

THE WHOLESALE BUSINESS: 6,036 MW OF CAPACITY

The wholesale energy business comprises the generation assets in the United Kingdom and manages activities in the wholesale gas and electricity market in the country.

After the transfer of some operations to Iberdrola Renewables, this business now controls 6,036 MW of capacity. It is a very flexible production mix that includes coal-fired, gas and hydroelectric plants.

Plant	Type	Installed capacity
Longannet	Thermal coal-fired	2,304
Cockenzie	Thermal coal-fired	1,152
Rye House	Thermal combined cycle	715
Damhead Creek	Thermal combined cycle	800
Brighton	Thermal combined cycle	400
Cruachan	Hydroelectric with pumping system	440
Galloway Scheme	Hydroelectric	106
Lanark Scheme	Hydroelectric	17
Other	Cogeneration	102
Total		6,036

The wholesale energy business generated 17,717 million kWh between April and December 2007

The project for renovation of the three of four units of the Longannet plant continued in 2007. Unit number one came back into service during the fourth quarter, in time to meet winter demand peaks. ScottishPower is also performing a feasibility study to analyze the conversion of the Longannet and Cockenzie plants to clean coal plants, which would reduce its emissions by approximately 20%. ScottishPower still has chances of becoming the awardee in a tender called by the government of the United Kingdom to construct and manage a CCS demonstration project at the commercial level. Additionally, progress continues to be made in the construction of a biomass plant with a capacity of 20-25 MW at the Longannet plant in Scotland.

The wholesale energy business also manages the gas storage facility with a capacity of 0.1 bcm in Hatfield Moors. This storage facility provides significant flexibility to meet demand peaks and makes it possible to take advantage of the volatility of gas prices in the short term, on the one hand, and of the higher prices in winter as compared to the summer, on the other.

From April 1, 2007 through December 31, 2007, the wholesale energy business generated 17,717 million kWh by means of conventional technologies. The market share of this business in the United Kingdom was 7.4%, as compared to 7.3% in 2006. By technology, the most salient data are the following:

- **Output at coal-fired plants** dropped by 11% to a total of 10,068 million kWh during the period, mainly due to the continuation of the FGD program at Longannet.

- **Output at gas plants** increased by 24%, from 5,156 to 6,371 million kWh, as a result of more favorable market conditions and recent investments aimed at enhancing the flexibility of such plants.
- **Output at hydroelectric plants** reached 805 million kWh, somewhat below the 849 million kWh during the previous period.
- **Output from cogeneration** totaled 473 million kWh, in line with the 494 million kWh of the previous period.

ENERGY SALE AND DISTRIBUTION

The energy retail business is responsible for the retail sale of gas and electricity to end users in Great Britain. It also deals with the billing and user service processes. From April 1 through December 31, 2007, sales of electricity totaled 17,525 million kWh, 5% less than in the same period the previous year. Consumption fell as a consequence of a particularly pleasant month of April and a reduction in sales to large users.

On December 31, the company had 3,300,000 electric power customers. There was an increase in the number of customers adhering to safer payment methods through the program for installation of more modern metering equipment: to date, more than 217,000 units have been installed. In conjunction with other initiatives, this has had a positive influence on working capital needs, with a 13% reduction in debt from the residential sector. Activities to improve user service have led to a 61% drop in the number of complaints received by Energywatch. Moreover, ScottishPower remains at the top of the ranking for online services according to a customer service survey conducted by U-switch. Owing to a reduction in prices in the wholesale electricity market, prices in the retail market decreased by more than 6% as from June 15, 2007.

Gas sales from April 1 through December 31 came to 21,489 million kWh, 2% less than the same period the previous year. This drop is due to a reduction in domestic consumption as a result of the mild April temperatures. At year-end 2007, the company had 1,900,000 users. Owing to a reduction in prices in the wholesale gas market, the price of gas in the retail market decreased by more than 16.5% as from June 15, 2007.

IBERDROLA CANADA ENERGY SERVICES

ScottishPower, through Iberdrola Canada Energy Services (formerly, PPM Canada) owns the Alberta Hub gas storage facility, with a capacity of 0.65 bcm. This facility is connected to important gas transmission networks and serves a diversified user base through short- and long-term contracts. It is now managed by Iberdrola Renewables, which enables ScottishPower to benefit from its experience in these activities.

ScottishPower holds first place in online customer service ranking



Combined cycle plant at Riga (Latvia), built by Iberdrola Ingeniería y Construcción

Engineering and non-energy businesses

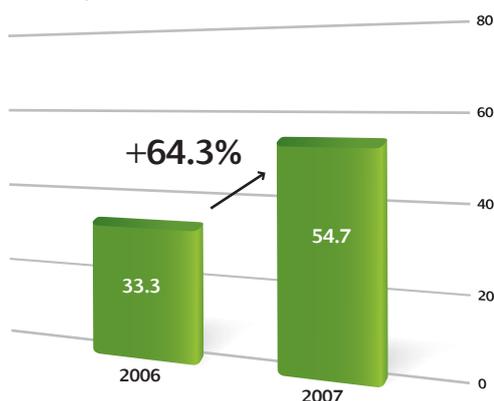
The year 2007 gave a push to the international expansion of two key subsidiaries of the Company: Iberdrola Ingeniería y Construcción and Iberdrola Inmobiliaria. Their expansion has yielded excellent results.

IBERDROLA INGENIERÍA Y CONSTRUCCIÓN CONSOLIDATES ITS INTERNATIONAL EXPANSION

The year 2007 was key to the international growth of Iberdrola Ingeniería y Construcción because of its consolidation as one of the largest companies in the industry in Europe and the drive towards contracts outside of the IBERDROLA Group. This is demonstrated by the fact that it was awarded major contracts in various countries, competing directly with the largest engineering consortia in the world, and by the significant increase in the company's sales.

This subsidiary of the IBERDROLA Group earned net profits of 54.7 million euros in 2007, 64.3% more than the previous fiscal year. Sales grew by 80.5% to 1,171 million euros. In addition, the total amount of contracts awarded in 2007 grew to 2,669 million euros, which is an increase of 200% over the previous year, in other words, tripling the 2006 figure. Of note is the number of third-party awards, 88%; contracts with the IBERDROLA Group came to represent only 12%, as opposed to 66% and 34%, respectively, during the previous year.

NET PROFITS OF IBERDROLA INGENIERÍA Y CONSTRUCCIÓN
(figures in millions of euros)



EXECUTION OF PROJECTS

- The Tamazunchale Combined Cycle Plant, which has the largest capacity in Mexico with 1,135 MW, has entered into commercial operation.
- In 2007, the La Venta II wind power plant (85 MW), which was built on a turnkey basis by Iberdrola Ingeniería y Consultoría México, S.A. de C.V., was officially inaugurated in the Mexican state of Oaxaca.
- The new control and SCADA [Supervisory, Control and Data Acquisition] system was put into service for Group 2 of the Gitaru Hydroelectric Power Plant, in Kenya.
- In the wind power division, work continued on the execution of wind farm projects in Kisielice, Malborg and Kalcino, in Poland.

Net profits for Iberdrola Ingeniería y Construcción have grown 64.3%, to 54.7 million euros

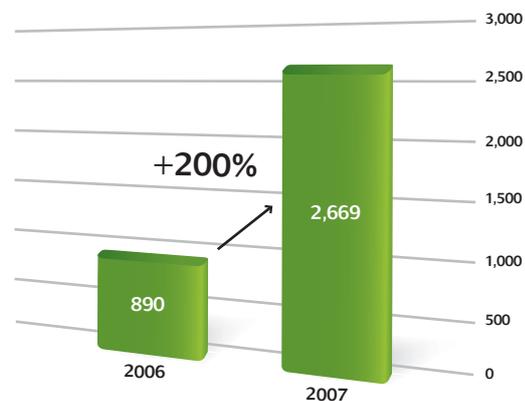
Awards increased by 200%, to 2,669 million euros

The significant advance in the Company's international activities has increased the project portfolio to 2,444 million euros as at December 31, 2007. Iberdrola Ingeniería y Construcción has projects in progress in over 25 countries, has subsidiaries in Mexico, Brazil, Venezuela, the United States, the United Kingdom, Germany, Poland, Russia, Bulgaria, Greece and India (being set up) and has opened agencies in Qatar, Kenya, the United Arab Emirates, Latvia, Slovakia, Tunisia and Bulgaria.

This expansion is also reflected in the payroll trend for Iberdrola Ingeniería y Construcción*, which has grown by 392 people. The total number of employees at the end of 2007 grew to 1,808 persons, 18% more than in 2006.

*Including international businesses.

AWARDS TO IBERDROLA INGENIERÍA Y CONSTRUCCIÓN (figures in millions of euros)



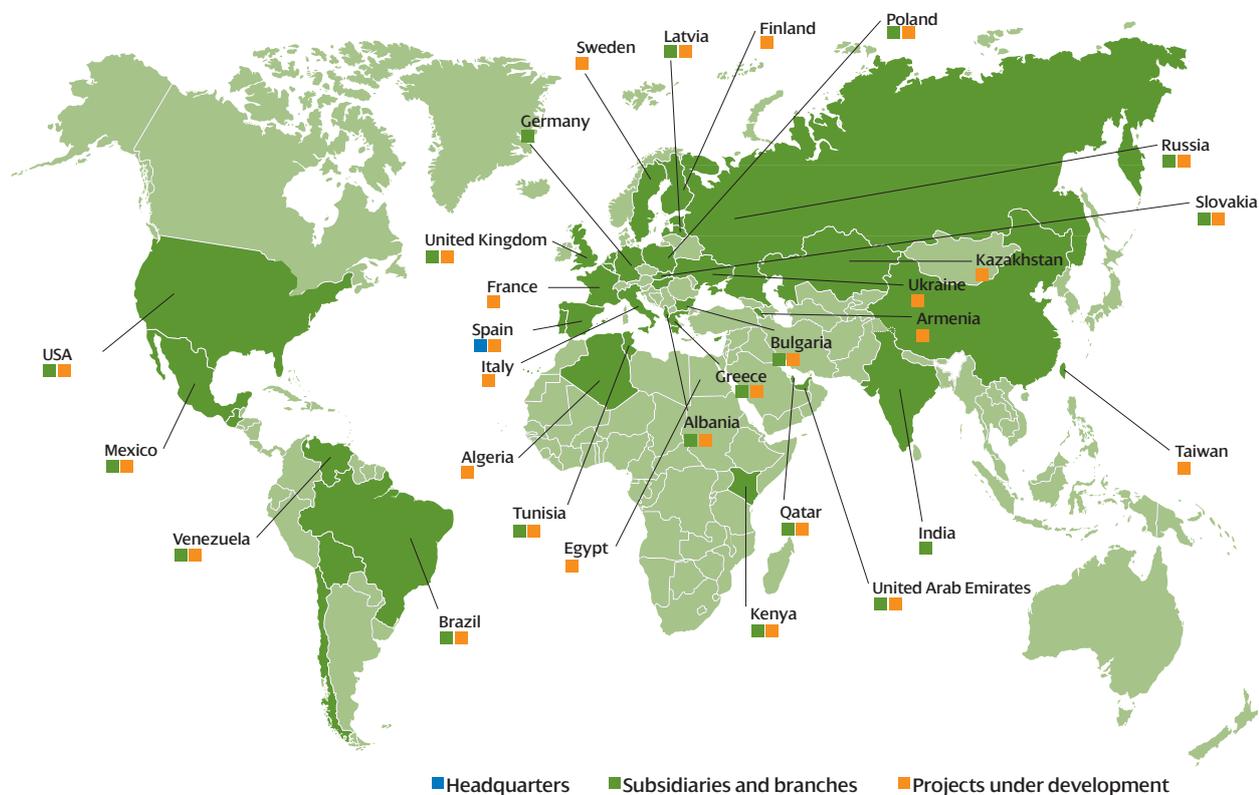
By business unit, 62% of the contracts signed with third parties in 2007 were for electric power generation, 21% for nuclear power generation, and the remaining 17% for Network projects.

Principal foreign markets

Third-party awards of projects abroad, in the amount of 2.100 million euros, were primarily carried out in the Middle East, with 1,122 million euros (53% of the total), Mexico, with 458 million euros (22% of the total) and Europe and Russia, with 340 million euros (16%). Specifically, the biggest contracts were awarded in Qatar, Mexico, Russia and Egypt.

- **In Qatar**, the Company was awarded a turnkey project to build a combined cycle plant with a capacity of 2,000 MW and a budget of 1,630 million dollars in Messaied, the largest contract obtained by a Spanish company in an Arab country.
- **In Mexico**, Iberdrola Ingeniería y Consultoría México, S.A. de C.V., in a consortium with Alstom Mexicana, was awarded a contract tendered by Mexico's public electricity utility, the Comisión Federal de Electricidad (CFE), for modernization of the Laguna Verde nuclear power plant in Mexico, in the amount of 605 million dollars, increasing its nominal capacity by 20%.

WORLDWIDE PRESENCE OF THE IBERDROLA INGENIERÍA Y CONSTRUCCIÓN GROUP



• **In Russia**, Iberdrola Inzhiniring i Stroitelstvo Limited Liability Company was awarded the turnkey construction of a combined cycle plant with an installed capacity of 403 megawatts (MW), for a 311 million euros. This is the first large contract obtained by the Company in this country, where it opened a commercial office in 2005. The new plant will be located in Sredneuralk, a city near Ekaterinburg, the capital of the Ural region.

• **In Egypt**, a 150 million euro contract was signed with the Egyptian New and Renewable Energy Authority (NREA) for the turnkey construction of a plant with a capacity of 150 megawatts (MW) in a consortium with Mitsui, a Japanese company. As in the case of Russia, this is the first large contract obtained by the Company in this country. The new thermosolar plant will be located in Kuraymat, a town about 95 kilometers south of Cairo.

Iberdrola Ingeniería y Construcción is developing projects in over 25 countries; in Qatar, it was awarded the largest contract obtained by a Spanish company

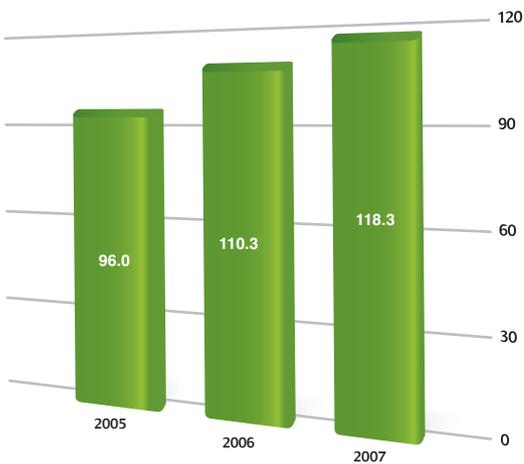
Projects in renewable energy and Spain

The field of renewable energy has also been very important for the Company. In this area, contracts in 2007 grew to 223 million euros, with major photovoltaic projects in Cáceres, Soria and Toledo.

In Spain, Iberdrola Ingeniería y Construcción placed into service new substations of its parent IBERDROLA. 1,065 megavolt amperes (MVA) were thus incorporated into the system and work was completed to put a total of 218 kilometers of distribution lines into service.

In 2007, Iberdrola Inmobiliaria increased sales by 19.8%, to 492 million euros

NET PROFITS OF IBERDROLA INMOBILIARIA



Betting on Innovation

Iberdrola Ingeniería y Construcción developed over 50 projects in R&D&i (Research, Development and innovation) in 2007 to improve its production processes and research new technologies in order to apply them to the infrastructure that it implements throughout the world.

Last year, these bets on innovation led to the firm winning the Inova prize, awarded by the Comisión Federal de Electricidad (CFE) in Mexico for technological innovation, for the multimanufacturer monitoring system under IEC standard 61850. In addition, it obtained a subsidy from the Centro para el Desarrollo Tecnológico Industrial (CDTI) for three projects involving accelerators and nuclear fusion technology.

IBERDROLA INMOBILIARIA COMMENCES ITS INTERNATIONAL EXPANSION

In 2007, Iberdrola Inmobiliaria reinforced its position as one of the largest real estate firms in Spain and also started to expand internationally, in line with the provisions of the 2007-2011 Strategic Plan for this subsidiary.

The company's progress is reflected in the results for 2007: Net profit grew by 7.3% to 118.3 million euros and sales surpassed 492 million euros, 19.8% more than in 2006. At the end of fiscal year 2007, it had assets valued at 2,601.6 million euros; shareholder's equity reached 813 million euros.

The real estate portfolio at the end of 2007 was up to 3,400,801 buildable square meters. The asset portfolio came to 345,527 square meters under development, which provided net rental income of 39.8 million euros.

Purchase of land in Mexico, Portugal and Bulgaria

Iberdrola Inmobiliaria has invested over 385 million euros in the purchase of real estate for development, of which more than 83 million euros was for the purchase of international real estate, specifically, 751,740 square meters of buildable surface area in Mexico, Portugal and Bulgaria.

- **In Mexico**, the company acquired 35% of the Laguna del Mar real estate project on the country's west coast, which plans to develop housing, hotels and a golf course.
- **In Portugal**, it has taken 25% of the Colombo office project located north of Lisbon, which includes the construction of two office towers.
- **In Bulgaria**, it has purchased real estate in the town of Tsarevo on the south coast of the Black Sea to develop housing.



Colombo office project in Lisbon.

Activity in the retirement and residential sector

Retirement housing activity was also consolidated in Spain in 2007 with the beginning of construction of Porta Firal, an office complex at the entrance to the new district of Fira in Barcelona with 91,000 square meters of buildable surface area, in which Iberdrola Inmobiliaria plans to invest over 250 million euros.

As concerns residential development, the company is betting on spaces that improve energy efficiency, comfort and respect for the environment in line with its philosophy of promoting sustainable buildings. In 2007, 833 housing units were delivered.

The real estate subsidiary is betting on spaces that improve energy efficiency, comfort and respect for the environment



IBERDROLA

COMMITMENT TO SUSTAINABLE DEVELOPMENT

05

IBERDROLA is strongly committed to **sustainable development and progress** in harmony with society as the means to provide the maximum possible value to the Company's stakeholders. This firm commitment to sustainability acts as an incentive to integrate **the best practices in corporate responsibility** in the management of our energy activities.



The stimulus

Vision and values

At IBERDROLA, we are committed to the provision of quality energy services with the minimum environmental impact possible, which contributes to improving the quality of people's lives. This is stimulated by the creation of value.

FOUNDATIONS FOR RESPONSIBLE BUSINESS ETHICS

IBERDROLA works to be an energy Company committed to ethics and respect for the environment as the foundation for a sense of belonging and for the trust of all persons and various stakeholders.

This ethical basis has strengthened over time and has been subject to a process of review and updating, which allows the Company and its employees to align their activities and behavior with the most advanced recommendations and practices.

IBERDROLA has formulated its Vision and Values, which may be viewed on the Company's web page: www.iberdrola.es/wcorp/corporativa/iberdrola, to strengthen the message relating to a business culture that is respectful of the natural and social environment.

This is reflected in IBERDROLA's Vision Statement:

"We want to be the Company of preference due to our commitment to the creation of value, the quality of people's lives and care for the environment".

This vision is based on five values:

- Corporate ethics and responsibility
- Economic results
- Respect for the environment
- Trust
- A sense of belonging

The Company's governing bodies have made their commitment to this business focus public by approving specific policies. In addition to maximizing the value of the Company on a sustained basis, these policies continue to protect the results and the reputation of the Group, to defend the interests of its interest groups, to establish a framework favorable for labor relationships, to take care of the environment or to favor the rules of the free market. Thus, a series of policies was approved in December 2007, of which the following are of note:

ETHICAL CODES AND CODES OF CONDUCT

The companies in the corporate group, which already had codes of conduct, codes of ethics or similar instruments, updated these codes in 2006 and 2007.

- In 2007, IBERDROLA updated its Code of Professional Conduct, which affects its workforce wherever they perform their activities, covering 100%-owned companies in Spain and its professionals in Mexico and other countries.
- COELBA, COELBA, COSERN and CELPE in Brazil adopted a new Code of Ethics in 2006 consistent with IBERDROLA's code and written for the companies in the Neoenergía Group, which includes are the companies in Brazil in which IBERDROLA has a stakes.
- ELECTROPAZ and ELFEO in Bolivia implemented a Code of Conduct in 2006, also based on the IBERDROLA code.
- EEGSA and TRELEC in Guatemala updated a new Code of Ethics in 2006.
- En Chile, IBERENER applies the Code of Professional Conduct of the IBERDROLA Group and ESSAL applies its Business Plan, which was updated in 2007.
- ScottishPower applies a Code of Conduct and Disciplinary Rules from 2002.

SUPPORT OF EXTERNAL INITIATIVES

IBERDROLA subscribes to or supports external initiatives consistent with sustainable development and encourages companies in which it has interests to adhere to such initiatives in order to strengthen its ethical values. The most noteworthy initiatives are:

- IBERDROLA has been a member of the Global Compact since 2002. Recently COELBA, COSERN and CELPE in Brazil, ELFEO and ELECTROPAZ in Bolivia and EEGSA in Guatemala joined as well.
- It also has a commitment to the Millennium Goals through its participation in the Corporate Reputation Forum (www.reputacioncorporativa.org). CELPE and COELBA in Brazil have also joined this initiative.
- IBERDROLA is a member of the Global Climate Change Action Group under the auspices of the Global Roundtable on Climate Change and of the 3C initiative, which promotes an urgent response from the world community to mitigate climate change.
- In the social and environmental areas, the IBERDROLA Group is providing resources to promote good business practices. Thus, it has adopted the 2002 EURELECTRIC Environmental Directives, it is rated by the indices that specifically evaluate sustainable actions such as the Dow Jones family of sustainability indices, and it is a member of institutions such as the Club de Excelencia en Sostenibilidad and the Asociación Española de Pacto Mundial.
- In ScottishPower's activities, its commitment to sustainable development is clear from on the signing of the Prince of Wales Business & the Environment Programme, its membership in Business in the Community and The Association for Energy Conservation and its adherence to the Bali Communiqué on Climate Change.
- Iberdrola Inmobiliaria, for its part, is adopting initiatives to develop bioclimatic homes and is becoming officially qualified to develop high energy efficiency and low energy consumption buildings.

- Corporate Governance Policy
- Risk Monitoring and Management
- Corporate Social Responsibility Policy
- Environmental Policy
- Biodiversity Policy

These may be viewed at www.iberdrola.com

IBERDROLA and the Global Compact

When it joined the Global Compact, IBERDROLA took on an obligation to assist, promote and spread its ten principles concerning human rights, labor practices, the environment and the fight against corruption.

Since 2004, IBERDROLA has belonged to the Asociación Española del Pacto Mundial (ASEPAM), as a founding member, and has been making progress reports on compliance with Compact principles, which may be viewed on ASEPAM's web site.

During these years, the Company has delved into development of the policies and practices proposed by the Compact and as made this development public through its annual report and its website, following the most well-known standards and facilitating independent external verification.

IBERDROLA and the Millennium Development Goals

IBERDROLA, along with other Spanish companies, launched the "2015: A Better World for Joana" initiative, intended to promote and spread the eight Millennium Development Goals set up by the United Nations.

The Millennium Goals came about in 2000, when the 190 member countries of the UN decided to work in search of a better world, setting their sights on 2015 to make significant progress on the eight goals (eradicating extreme poverty, achieving universal primary education, reducing infant mortality ...).

"2015: A Better World for Joana" is a large-scale campaign aimed at the stakeholders of the Corporate Reputation Forum companies (the promoters of the project). Throughout 2007, various activities and presentations of the project in the international arena were made, and some awards were also received, such as the one obtained in CSR Marketplace 2007 in the category of Leadership and Good Government. It is believed that the campaign will reach over 100 countries, over 830 million users and nearly 700,000 employees.

IBERDROLA and its stakeholders

The relationship between IBERDROLA and its stakeholders, understood to mean groups that affect or are affected by the activities implemented, has undergone a major evolution during these years: recommendations and good practices have been followed while the concept of Corporate Social Responsibility (CSR) has evolved.

The model that IBERDROLA has followed to manage this relationship is explained in detail in the "2006 Sustainability Report" (www.iberdrola.es/wcorp/gc/es/doc/InformeSostenibilidad2006.pdf).

In fiscal year 2007, notable advances were made in key elements of the relationship with these stakeholders for the purpose of strengthening the model applied within the parameters of the AA 1000 Assurance Standard. These advances are as follows:

- **Relevance of information.** The existence of diverse interest groups with different expectations and needs especially complicates the identification of what could be considered to be “relevant information”. To facilitate this task, IBERDROLA developed two tools in 2007 to help with this issue.

First of all, the Company's website implemented a “Contact us” section so that the various stakeholders could channel their opinions and suggestions in a more orderly fashion. The use of this tool over time will allow us to approach the needs of these stakeholders.

Secondly, a “Materiality Analysis” was set up with the assistance of an outside company, contrasting various outside sources that can gather the ways that these stakeholders think and feel in a reasonable form. In this manner, relevant information elements were identified and are treated specifically in this report.

In this context, IBERDROLA's senior management will continue to lead the Company's sustainable development and to make progress in providing information in regards to achievement of the goals established as part of its sustainability strategy and information about the new action plans directly tied to the Company's Strategic Plan.

- **Exhaustiveness of information coverage.** The goal is to provide the public with the most significant information related to material issues. In this way, the Company not only includes the information it wants in its report, it also presents information of interest to the stakeholders with which it is related. To do so, it has adopted the following measures:

— Define the scope of information contained in the “Sustainability Report” in order for the financial, environmental and social information to be considered “exhaustive” for the companies in the company's group, as a whole, of the IBERDROLA Group's performance. During fiscal year 2007, the scope of environmental and social information included relevant activities performed in the United Kingdom and in the United States by the ScottishPower group, which was acquired during the fiscal year.

— Adopt the GRI standard for the preparation of this report, considering that the procedure implemented to write this standard systematically incorporated the points of view of the various stakeholders associated with the companies' activities.

— Subject this report to outside verification by an independent entity to ensure that the measures have been adopted.

ASSOCIATIONS TO WHICH THE IBERDROLA GROUP BELONGS

International: Eurelectric, European Federation of Energy Traders, Electric Power Research Institute, European Wind Energy Association and the International Council on Large Electric Systems.

Spain: Confederación Española de Organizaciones Empresariales, Asociación Española de la Industria Eléctrica, Asociación Empresarial Eólica, Asociación Española del Gas, Foro de la Industria Nuclear Española, Círculo de Empresarios, Consejo Superior de Cámaras and Club Español de la Energía.

Bolivia: Cámara Boliviana de Electricidad, Cámara Española de Comercio, Cámara Americana de Comercio, Confederación de Empresarios Privados de Bolivia and Federación de Empresarios Privados de Oruro.

Brazil: Agência Nacional de Energia Elétrica, Associação Brasileira de Comunicação Empresarial, Associação Brasileira dos Contadores do Setor de Energia Elétrica, Associação Brasileira de Recursos Humanos, Câmara Americana de Comércio para o Brasil, Instituto AKATU pelo consumo consciente and Instituto ETHOS.

Chile: Asociación Nacional de Empresas de Servicios Sanitarios “Andess” and Cámara Oficial Española de Comercio de Chile.

Guatemala: Cámara de Industria de Guatemala, Cámara de Comercio de Guatemala, Cámara de Comercio Guatemalteco-Americana, Cámara Oficial Española de Comercio de Guatemala and CentraRSE.

Mexico: Asociación Mexicana de la Energía and Cámara de Comercio Española.

United Kingdom: Energy Retail Association, Energy Networks Association, Association of Electricity Producers, United Kingdom Business Council of Sustainable Development, British Wind Energy Association, Scottish Renewables Forum.

• **Capacity to respond to stakeholders.** IBERDROLA uses various tools available to it to provide the public with the relevant information about its financial, environmental and social activities. In this way, it distributes its medium and long-term plans, its programs and activities and provides information about what it has done and what it has accomplished. At the same time, it offers the various external groups the possibility of providing their opinions about the information received and to propose ways to improve it, such as:

- the “Contact us” section of the website (www.iberdrola.com) offers the capability of evaluating the Company’s public information and of proposing improvements in it.



- IBERDROLA, with the assistance of an outside entity, has submitted to the scrutiny of an Independent Expert Committee, which analyzed the most recent Sustainability Report of the Group and issued its opinion with respect thereto. The Company’s website (www.iberdrola.com) has the questions asked and IBERDROLA’s responses to them as part of the online version of the “2007 Sustainability Report.”

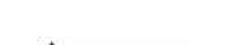
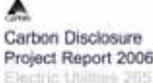
At ScottishPower, an Environmental Forum has been set up, made up of outside experts and persons with influence from fields such as environmental regulation (Policy Studies Institute), environmental-interest groups (WWF Scotland, Royal Society for the Protection of Birds (RSPB), Association for Conservation of Energy), the academic community (Edinburgh University), the consulting community (OXERA), the political world (Scottish Executive)... and representatives of ScottishPower, including the various business area heads, other environmental experts at the company and the Group’s Energy and Environment Director.

In its relationship with the company, IBERDROLA uses various tools and communications channels and receives external evaluations and recognition , providing an additional incentive to pursue this route.

The GRI Guide recommends that companies report about the associations and bodies most representative of those to which they belong, as well as about awards and recognition received. The table on the previous page provides detailed information about the bodies and associations to which the Company belongs. Awards and recognition received are on the following pages.

EVALUATION OF IBERDROLA IN INDICES AND RANKINGS FOR SUSTAINABILITY, REPUTATION AND CORPORATE GOVERNANCE

Sustainability Indices

	Rating/Rank
 Dow Jones Sustainability World Index 06	76 points Among the top in sustainability
 Dow Jones Sustainability Stoxx Index 06	76 points Among the top in sustainability
 Carbon Disclosure Project Report 2006 Electric Utilities 2005	Climate Leadership Index Best electric power company in the world
 BEST IN CLASS environmental and social performance STOREBRAND SRI	Storebrand Investments SRI Second-best electric power company in the world
 oeekom verlag	OEKOM IBERDROLA, among the best in class in OEKOM's 2008 ranking.
 Global 100 Most Sustainable Companies in the World	Global 100 IBERDROLA, among the 100 most sustainable businesses in the world for the third consecutive year.
 GLOBAL ROUNDTABLE ON CLIMATE CHANGE	Global Roundtable on Climate Change IBERDROLA among the participants.
 Business Week, Climate Group	Leadership group: Top 3 in the ranking of the most distinguished companies in managing greenhouse gases and the top 10 in businesses that have contributed most to the reduction in greenhouse gases, and that have led in environmental management over the past ten years.
 Innovest STRATEGIC VALUE ADVISORS	INNOVEST IBERDROLA, the best electric company in the world in the Climate Leadership Index for its strategy towards climate change.
 vigeo	VIGEO IBERDROLA improves its classification and obtains the best score in the environmental section among all utilities.
 U+H Universität Hamburg	CR-Risk Premium Survey. U. of Hamburg & SRI Deutsche Bank 30.5 points. IBERDROLA in the leadership group for the utilities sector

Corporate Reputation Indices

	Rating/Rank
 merco Monitor Español de Reputación Corporativa	MERCO 2007 IBERDROLA is in eighth place among the 100 companies making up the general classification, and again leads the Energy, Gas and Water sector.
 Business to Community CORPORATE RESPONSIBILITY INDEX 2006	Corporate Responsibility Index 2006 ScottishPower obtains Platinum Status (May 2007)

Corporate Government Indices

	Rating/Rank
 ISS INSTITUTIONAL SHAREHOLDERS SERVICES	ISS 76.4 Index Ranking. 71.4 Industry Ranking. IBERDROLA is one of three companies in the sector obtaining the Gold Class qualification in the 2008 Sustainability Yearbook of Sam and PricewaterhouseCoopers, which recognizes the best conduct in sustainability and corporate responsibility.
 sam	2008 Sustainability Yearbook

RECOGNITION GIVEN TO THE COMPANIES IN THE IBERDROLA GROUP OR TO THEIR EMPLOYEES

Awards	Given by
IBERINCO	
2006 Technology Transfer	<i>Electric Power Research Institute</i>
Invova	Comisión Federal de Electricidad de México
Innovation Management Award	IV For Annual Club Excelencia
IBERDROLA INMOBILIARIA	
Quatrium Award for Major Real Estate Project	Grupo Vía (Vía Quatro Comunicación, S.L)
IOMSA	
Family Responsible Company	Fundación + Familia
Occupational Risk Prevention Award	Consejería de Empleo de la Junta de Andalucía and the Consejo Andaluz de Prevención de Riesgos Laborales
IOMSA Employees awarded the EPRI Technology Transfer Award	<i>Electric Power Research Institute</i>
COELBA (Brazil)	
<i>Honorable Mention in the PSQT [Quality of Life Prize]</i>	<i>Serviço Social da Indústria (SESI)</i>
<i>SESI Quality of Work Award</i>	<i>Serviço Social da Indústria (SESI)</i>
<i>Rede Global Annual Award for Professionals – North/Northeast --</i>	<i>Rede Globo</i>
<i>2nd place Abradee Award in the Social Responsibility Category</i>	<i>Associação Brasileira de Distribuidores de Energia Elétrica (Abradee)</i>
<i>Certificate received by the Montreal Protocol in recognition of the Coelba Agent Project</i>	Montreal Protocol, PNUD Brasil
CELPE (Brazil)	
<i>Silver category in the Pernambuco Quality Award (PCQP)</i>	<i>Programa Pernambucano de Qualidade, Sistema JC and the State Government</i>
<i>Biggest Contributor to the State ICMS and re-award of the Abrinq Seal for the Rights of Children and Adolescents</i>	<i>Fundação Abrinq pelos Direitos da Criança e do Adolescente</i>
COSERN (Brazil)	
<i>2nd place with the Eloy Chaves Medal</i>	<i>Associação Brasileira de Concessionárias de Energia Elétrica (ABCE)</i>
<i>FGV Award for Business Excellence</i>	<i>Instituto Brasileiro de Economia da Fundação Getúlio Vargas (IBRE/FGV)</i>
<i>Citizen Business Award</i>	<i>Potiguar Notícias, a newspaper in the municipality of Parnamirim</i>
<i>IBASE 2007 seal</i>	<i>Instituto Brasileiro de Análises Sociais e Econômicas - IBASE</i>
<i>Award from Empresa Amiga da Leitura</i>	<i>IV Bienal Nacional do Livro de Natal and by the Câmara Brasileira do Livro</i>
<i>Best Company in the Northeast Region</i>	<i>Revista Eletricidade Moderna</i>
<i>National Conservation and Rational Use of Electric Power Award, Category - Electric Power Industry, Modality - Mid-range Distribution Companies</i>	<i>Ministry of Mines and Energy, through Eletrobrás</i>
Electropaz (Bolivia)	
Paul Harris Prize in the Public Services category	<i>Chuquiago Marka Rotary Club</i>
EEGSA (Guatemala)	
Company with the best service quality in 2007	<i>Comisión Nacional de Energía Eléctrica</i>
ScottishPower and subsidiaries	
Ten Business in the Community Awards for Excellence Awards in Scotland	<i>Business in the Community</i>
<i>Large company of the Year Award</i>	<i>Scottish Business in the Community</i>
<i>Energy Customer Satisfaction Award - Best online Service</i>	<i>Uswitch</i>
<i>Most Innovative Six Sigma Project Award for our Customer Service First Call Resolution Project</i>	<i>Six Sigma</i>
<i>International Safety Award in Recognition of The Power Wise Children's Safety Education Programme</i>	<i>Dupont</i>
<i>Zurich Municipal National Safety Award in Recognition of Outstanding Contribution to Public Sector Health and Safety for PowerWise</i>	<i>Institution of Occupational Safety and Health</i>
<i>National Green Champion 2007 for Scottish Businesses by the Green Apple Environmental Awards.</i>	<i>The Green Organisation</i>
<i>Scottish Green Energy Award in the Best Environmental Initiative Category for Black Law Habitat Management Extranet</i>	<i>The Scottish Renewables Forum</i>
<i>Staff Magazine of the Year Award for ScottishPower News</i>	<i>PPA Scotland</i>
<i>Gold Award</i>	<i>Scotland's Health at Work</i>
<i>Occupational Health and Safety Gold Award</i>	<i>RoSPA</i>
<i>The Queen's Awards for Enterprise: Sustainable Development 2006 (valid for five years)</i>	<i>The Queen's Awards for Enterprise</i>

RECOGNITION GIVEN TO THE CHAIRMAN & CEO

Award	Given by
Best executive in the European utilities sector	Institutional Investor Research Group for the <i>Institutional Investor Magazine</i>

RECOGNITION GIVEN TO IBERDROLA OR TO ITS EMPLOYEES

Award	Given by
Human Resources Innovation Award	Expansión newspaper
Best Electric Company in the world in the Climate Leadership Index	<i>Innovest–Carbon Disclosure Project</i>
<i>2007 Nuclear Innovation</i>	<i>General Electric</i>
Honorable mention in the 6th Award for the Spanish Company with the Best Financial Information on the Internet	Asociación Española de Contabilidad y Administración de Empresas (AECA)
Special Award on Business Progress and Contribution to the Basque Country	Caja Laboral and EITB
Environmental Management Award	Nueva Empresa, a magazine
Flexible and responsible management award	Alfa Romeo and IESE – Instituto de Estudios Superiores de la Empresa
Doñana Sustainable Company Award	Fundación Doñana 21 and Cajasol
Among the world pioneers in emission reduction (13th place)	CNBC, a magazine
Best Ideas for 2006	<i>Actualidad Económica</i>

Iberdrola's Activities and their Impact on Society

The Group performs its activities primarily in the energy field. For the purposes of this report, the activities of generation and distribution of electrical energy are considered to be those that have a direct or indirect impact on the communities in which the facilities are placed.

In their environmental aspect, all of the facilities put into service by the Group's companies have the studies required under the legislation of each country, such that the project that is ultimately implemented complies with established requirements. These requirements primarily affect the implementation and operating periods of the facilities. From the point of view of closing down facilities at the end of their useful life, significant impacts may occur upon the shutdown of power plants. During fiscal year 2007, no facilities of this type were closed, although there are plans to dismantle the Castellón Thermal Power Plant (Groups 1 and 2) in Spain in 2008. There is a corresponding activity plan for the management of this process.

In the social aspect, the legislation of the countries in which companies of the IBERDROLA Group operate do not provide for the performance of specific environmental impact assessments. In Spain, social and economic effects on the affected communities are analyzed as part of the environmental reports for new generation plants.

Direct and indirect impact

Until it reaches its end use, electric power goes through a number of stages, each involving activities with a potential impact on the environment.

SOCIAL IMPACT

From the social standpoint, expansion of electricity systems, like other economic activities, revitalizes the regional economy in the regions where implementation occurs, creating employment opportunities and contributing to their economic and social development. Specifically:

- Electric power production, transmission and distribution facilities are built in very diverse geographical locations, contributing to the generation of economic activity and employment in urban and rural areas.
- As a result thereof, the electricity business generates taxes and assessments at the local, regional and national levels, allowing the generation of income in economically disadvantaged areas.
- In the case of the IBERDROLA Group, its economic activities are supplemented by a number of series of activities described in the "Society" chapter, which have both direct and indirect beneficial impacts on the community.

A particular feature of electricity is that the end use of the electric power sold does not generate any type of waste. Its consumption is linked to progress and welfare and is vital for the development of society, so that all aspects related to the supply thereof are linchpins in achieving sustainable development.

In Spain, the Integrated Quality and Environmental Management System [Sistema de Gestión Integrado de Calidad y Medio Ambiente] put in place at IBERDROLA includes procedures necessary to obtain relevant information on the impacts that are produced. This system calls for internal and external audits to verify the effectiveness thereof and, on the basis of such reviews, actions for improvement are taken, as has been the case at many hydroelectric and thermal plants.

In the environmental aspect, throughout the entire life cycle, there are global impacts on biodiversity, climate change, the ozone layer and acid rain. and at the local level, on the consumption of natural resources, emissions, waste, noise, effluents, electromagnetic fields or visual impact. A detailed description of this type of impact can be viewed in the "Environment" section of IBERDROLA's website www.iberdrola.com and the effects of IBERDROLA's activities are quantified in the "Environmental Information" section of this report.

To supplement the treatment of environmental and social problems, IBERDROLA also cooperates with local authorities, with which it establishes agreements through which various kinds of public service activities are carried out. In fiscal year 2007, some of the companies in the IBERDROLA group worked with various public authorities in areas in which there are production facilities by contributing to improvements in electric power supply or road structures, or the cession of land and facilities for the use and enjoyment of various social organizations or by the citizenry.

Impacts on local communities

In performing its activities, IBERDROLA is conscious of the importance of keeping in mind the social environment and the expectations of communities near production facilities. For that reason, it has developed mechanisms for dialog and communication with the social surroundings that involves: opening channels and procedures for transmitting the Company's plans, listening to the positions and arguments of the citizens, and attending to their complaints and problems. These procedures are fully developed in Spain and the United Kingdom. They are also being increasingly developed in some companies in Latin America.

In addition, measures are being adopted to promote community development. Thus, local employment is being favored through policies of procurement from local suppliers described in the chapter on "Suppliers" in this report.

There is also increasing social sensitivity associated with the activities of companies like IBERDROLA in developing countries and their impact on indigenous communities.

The companies that are part of the group currently have no power plants that affect communities of this type. None of the companies is involved in legal or administrative proceedings resulting from complaints regarding this type of facility.

Some of the distribution companies in Latin America have members of ethnic groups among their customers. Programs are prepared for them that facilitate access to electric power and the efficient use thereof. In Brazil, there are liaison channels with FUNAI (Fundação Nacional do Índio) to benefit these communities. As one example, we note the activities in the municipality of Barizac, which have improved electric power facilities, both internal ones and ones for external power supply of housing and, have facilitated access to efficient equipment.





The protection of nature

Environmental information

Our commitment to the natural environment and the use of the cleanest technologies make the IBERDROLA Group a world benchmark in wind power and one of the companies with the fewest CO₂ emissions in the electric power industry

MANAGEMENT STRATEGY AND FOCUS

The following information is an excerpt from the document entitled "Management strategy and focus," which reflects IBERDROLA's position on the following aspects and others, such as energy efficiency, biodiversity, and infrastructure projects. This document is available on the Company's website.

Principal environmental challenges and opportunities

A sustainable energy model must satisfy various political objectives, such as the economic objective, which can be summarized as the need for stable, safe, and competitive supplies of energy (or safety and a guaranteed resource); the social objective, which is reflected in access to this essential service for all persons under economically feasible conditions (or competitiveness and the universality of service); and the environmental objective, which consists of fewer emissions and greater efficiency in the production and use of energy, as well as compliance with environmental regulations.

The challenge in terms of energy production is to have a balanced productive resource that can respond in scenarios involving increases in the price of fuels, achieve variety in renewable resources, internalize the cost of CO₂, and comply with local environmental regulations. Thus, the environmental challenges and opportunities in Spain and in the United Kingdom (i.e., in Europe) are related to these aspects:

- Goals and the compensation framework for renewable energy.
- The price of carbon dioxide, in accordance with the European Community system for the trading of emission rights.
- Review of the Integrated Pollution Prevention and Control Directive and the standards based on the Large Combustion Plants Directive, the National Emission Ceilings Directive, and on the Clean Air for Europe (CAFE) programme.

A sustainable energy model must, among other things, reduce emissions, increase efficiency in the production and use of energy, and comply with environmental regulations

THE EUROPEAN COMMISSION'S PROPOSALS ARE IN HARMONY WITH IBERDROLA'S STRATEGIC PLAN

The proposals recently presented by the European Commission give a substantial boost to two of the aspects referred to therein, which also constitute two of the basic pillars of the Strategic Plan:

- The proposed directive for the promotion of renewable energy, as presented by the European Commission in January of 2008.
- The proposed emissions trading directive.
- The notice of and proposed directive regarding the collection and storage of CO₂. IBERDROLA, through ScottishPower, is leading the first project to be developed in the United Kingdom to investigate a method for the underground storage of CO₂ from a coal-fired power plant.

The transposition of the European Water Framework Directive to the regulations applicable in Spain and the United Kingdom involves the implementation of very strict new environmental requirements.

The majority of IBERDROLA's investment of 8,600 million euros is intended for Renewables, with the goal of obtaining 13,600 MW of wind power in 2010

With regard to the first point, the national objectives and supporting frameworks for renewable energy in the countries in which IBERDROLA is present involve a boost for the Company's wind power development plan. Recent proposals by the European Commission further strengthen the existing objectives.

With regard to the second aspect, the operational projections for thermal power plants (both conventional and combined cycle plants) take into consideration the current system for trading in emission rights, the allocation contained in the national allocation plans, and the foreseeable trend in the price of emission rights.

Revisions to the Integrated Pollution Prevention and Control Directive based on the Large Combustion Plant Directive and other emissions standards entail the application of the strictest emission limits for certain atmospheric pollutants (SO₂, NO_x, and particulate matter) or restrictions on the operation of existing facilities. This regulation has already been incorporated into the investment plans and into the operational projections for the existing facilities, as described in greater detail below.

These three aspects have been addressed in the Strategic Plan, and the public presentation of the Plan mentions each of them.

With regard to the distribution of electricity, the challenge is to provide a reliable supply that complies with technical standards and environmental regulations. The efficiency of the network (loss reduction), in accordance with existing incentives, is an important aspect that is also addressed in the Strategic Plan.

With regard to the sale of energy, the challenge is to inform users and to train them in the efficient use of energy, and to provide them with products and services, helping them to reduce the environmental and economic impacts of energy. As explained below, IBERDROLA has implemented various initiatives in this area.

The protection of biodiversity and the new environmental responsibility program are other fundamental environmental challenges.

Furthermore, specifically for Latin America, an opportunity exists in terms of the development of renewable energy projects, as soon as regulatory frameworks are established that allow investments to be attracted.

The environment in the 2008-2010 Strategic Plan

The 2008-2010 Strategic Plan can be summarized as IBERDROLA's international expansion based on the development of renewable energy, without omitting the ongoing environmental improvement of all of its facilities and the operation thereof.

IBERDROLA is transforming into one of the world's energy leaders in the Atlantic Area (Spain, the United Kingdom, North America, Latin America), and differentiates itself by the environmental care with which it performs all of its operations.

With regard to the industrial environment, sustained growth in worldwide energy consumption is expected, which inevitably will also lead to increased CO₂ emissions at the global level. On the other hand, the scarcity of energy-related raw materials will entail high and volatile fuel prices, which will be accompanied by increases in CO₂ prices, in an attempt to reverse the trend toward growth in greenhouse gas emissions. In the current energy scenario, everything points to an increase in electricity prices due to the scarcity of fuels, the reduction in emissions, and stricter quality of service requirements.

As mentioned earlier, the majority of the investment (8,600 million euros) is intended for Renewable Energy, with the goal of increasing from the 7,700 MW of wind power currently installed to 13,600 MW by the year 2010. A 42,000 MW project portfolio has been created for this purpose. A total of 54% of the new capacity will be installed in the United States, and the remainder will be distributed among Spain, the United Kingdom, and other countries.

An estimated investment of 5,800 million euros will be made in regulated activities to maximize the quality of service of the electric power distribution networks, while simultaneously reducing energy losses. With regard to gas, investments are scheduled to be made in the distribution networks. The major investments will be for the United Kingdom (36%), Spain (35%), the United States and Canada (24%), and Latin America (5%).

Several investments totaling 2,500 million euros are under consideration for traditional electric power generation. Spain will receive 52% of the investment, which is intended to extend the useful life and power of the thermal equipment while also reducing its emissions. In order to serve the demand points, hydroelectric pumping plants will be placed in operation (La Muela II de Cortes, with 850 MW, and San Esteban, with 176 MW), and improvements will be made at the combined cycle plants to increase their flexibility. The United Kingdom will receive 35% of the investment, which is intended to implement environmental improvements and increase the operational availability and flexibility of the existing power plants. The generator plants will also be expanded, with new biomass plants and the 475 MW Damhead II combined cycle natural gas plant. Latin America will receive 13% of the investment, essentially for the construction of hydroelectric power plants in Brazil.

Climate change

The year 2007 was extremely important at the international level in terms of raising awareness of the problem of climate change. On the one hand, the Fourth Assessment Report by the Intergovernmental Panel on Climate Change (IPCC) was presented, and, on the other hand, in December the Bali summit was held, which established the "roadmap" for the signing of an international agreement that extends the Kyoto Protocol, which expires in the year 2012.

The 2007 presentation of the Fourth Assessment Report by the Intergovernmental Panel on Climate Change was a key factor in the heightening of awareness of climate change as a challenge facing all of humanity. The scientific community has supported the consensus regarding the idea that human activity has an irreversible effect on the environment, such that it drastically alters the patterns of weather systems.

The Fourth Assessment Report (AR4) and its Summary Report contained the principal recommendations of the reports of the three IPCC Working Groups, as approved during the course of the year in Paris, Brussels, and Bangkok

STRATEGIC ENVIRONMENTAL PILLARS

IBERDROLA's vision is based on the following strategic pillars of the 2008-2010 Plan:

- **Renewables**, through growth in wind energy, maintaining the worldwide leadership of Iberdrola Renovables.
- **Regulated activities**, with investments to improve the service and environmental quality of the networks.
- **Traditional power generation**, through renovation of the facilities and through the investments that are necessary to improve environmental performance.
- **Trading**, maximizing the value of our user base in order to achieve the best possible final use of the energy.
- **Efficiency**, through an ongoing search for improvement, through synergies and the transmission of best practices of the entire Group.

In accordance with these pillars, the investment of 17,800 million euros dedicated to organic growth has been broken down in the following way: 48% for the development of renewable energy; 32% for regulated activities; 15% for traditional power generation; and 5% for other business areas.

Internationalization is reflected in the fact that 70% of the investments are being made outside of Spain, with 35% of the investment earmarked for the United States and Canada, and 24% for the United Kingdom.

THE BALI CONFERENCE ON CLIMATE CHANGE

The 13th Council of the Parties to the Rio Convention (COP 13) and the 3rd Meeting of the Parties to the Kyoto Protocol (COP/MOP 3), known as the Bali Conference on climate change, was held in December of 2007. The principal result was the adoption of a "Bali Roadmap" that establishes a process for negotiations in the battle against climate change after 2012.

Accordingly, the existence of a shared but differentiated responsibility was reaffirmed, along with the scope of this differentiation between developed countries and developing countries, particularly with regard to mitigation. Developed countries must adopt commitments or appropriate actions that include quantified goals for limiting or reducing emissions, which commitments or actions must ensure the equality of efforts among the parties. Developing countries must take appropriate steps that are supported by technology, by sources of financing, and by the strengthening of capacities. Both the measures and the incentives must be measurable, communicable and verifiable.

IBERDROLA was selected as "Best in Class" in its industry, with the best possible international point score (100 points and an AAA rating), after participating in the evaluation process for the "Carbon Disclosure Project"

regarding the scientific basis of climate change. Thus, the AR4 document has become the roadmap for replacing the Kyoto Protocol in 2012. It entails an advance in scientific, technical and socioeconomic knowledge about climate change, and is playing an important role in governmental deliberations during the negotiation process for establishing the commitments of the parties to the post-2012 climate-change program.

In its document, the IPCC summarizes the work done over the last six years, after approval of the Third Assessment Report (TAR) in 2001, which improves the information available regarding the evaluation of the impacts of climate change and the adaptation measures. It confirms and supports the messages contained in the third report, offers numerous examples of the effects that are affecting many natural systems, and refines the earlier regional assessments of the impacts of climate change. For example, this is the first time it has been recognized that the thaw in Greenland is due to an increase in temperature, and that the result may be an increase in sea level.

The energy sector is being called upon to play a fundamental role in the battle against climate change, because the technologies that use fossil fuels account for a substantial proportion of greenhouse gas emissions. These emissions can be reduced through a reduction in energy consumption and through improved efficiency in the generation, transport, and final use of energy. Furthermore, the use of renewable energies and the replacement of fuels with others having a lower carbon dioxide content are two important implementation approaches.

Climate change entails a significant change in the management of electric power companies because, since the entry into effect of the European Emissions Trading Rights Directive, consideration must be given to the cost of the CO₂ emission rights as one of the costs of the generation of electricity.



The Las Vacas power plant in Guatemala: IBERDROLA's first project to be approved as a Clean Development Mechanism (CDM)

The principal financial consequence of this event is that at the end of each year, and within a multi-year period (2005–2007 and 2008–2012), the companies within the scope of applicability of this Directive must present emission rights in a number equal to the actual emissions.

Accordingly, for IBERDROLA's facilities in Spain, including the coal generation plants and excluding the interest in the Bahía de Bizkaia and Tarragona power plants, there was an emission-rights surplus of 819,645 tons in 2007. For the ScottishPower facilities, the emission-rights deficit in 2007 was 2,172,338 tons.

In short, the Company's overall position during this first operational phase of emission-rights trading (2005–2007) resulted in a deficit of 8,232,684 tons, which has been covered through ongoing purchases on the market that have made it possible to cover IBERDROLA's and ScottishPower's position and to comply with the established requirements.

IBERDROLA's strategy, based on the substantial development of renewable energy (primarily wind power) and on environmentally more efficient thermal production technology, along with combined cycle natural gas power plants, is placing the Company in a very advantageous position. The result is a very balanced production structure that allows IBERDROLA to take its place among the major European companies with fewer CO₂ emissions per GWh produced.

IBERDROLA has earned the maximum point score (90 points) in the electric power industry in the "Climate Strategy" section of the rating, as selected by the members of the Dow Jones Sustainability Index (DJSI). The DJSI analyst combined IBERDROLA's and ScottishPower's results into a single rating, and applied certain weighting coefficients to each of them. The combined rating for this section is 76 points.

The document entitled "Electricity generation and distribution: their effect on the environment," which is available on the website (www.iberdrola.com), reflects the most significant environmental effects of the production of electricity (including, among other things, its effects on climate change) and of the actions for controlling and correcting them, as well as the characteristics of the various production technologies.

IBERDROLA's activities and facilities produce five of the six greenhouse gases (GHGs) recognized by the Kyoto Protocol. Quantitatively, carbon dioxide (CO₂) is the most abundant one, and is produced by the burning of fossil fuels in the thermal generation systems. Information is not provided about the quantities attributable to other GHGs because their relative contribution is very small.

Detailed information about greenhouse gas emissions is provided below, in the section entitled "Environmental Indicators: GHG Emissions."

Policy, organization, and management systems

The environmental function is distributed throughout the organizational and hierarchical levels of the Company. A set of environmental domains is distributed among four different levels of activity, ranging from the Chairman to each person with local authority over his or her area. IBERDROLA's environmental organization is available in the "Environment" section of the www.iberdrola.com website.

RECOGNITION FOR IBERDROLA IN ITS BATTLE AGAINST CLIMATE CHANGE

For the third year in a row, IBERDROLA has been selected as "Best in Class" for its climate change strategy within the electric power industry, earning a place on the Climate Leadership Index (CLI). Its inclusion on the CLI, which lists only the 69 best companies in the world, is an incentive to continue improving in the same direction and contributing to the battle against climate change to the best of our ability. This year, the CLI was divided into two major categories: CO₂-intensive companies (petroleum, transportation, steel, etc.), consisting of 29 selected companies, among which IBERDROLA was chosen as the best in the utilities sector; and companies with low levels of emissions, such as banks and those involved in distribution, data processing, etc., among whom 40 companies were selected.

This initiative was driven by 315 international investors who manage assets estimated at US\$ 41 billion.

The survey focused on the following four areas:

- The strategy that was developed in view of the risks and opportunities presented by climate change.
- Accuracy in the measurement of the greenhouse gases (GHGs) emitted by the Company throughout its entire value chain.
- The management of these GHG emissions, and the efficacy of the corresponding reduction programs.
- Good governance, at the organizational level, of the tracking of climate change within the Company.

The Company received a positive rating for its transparency and its willingness to disclose its data and policies regarding emission reduction, as well as its internal organizational structure.

ENVIRONMENTAL POLICY

In 2007 IBERDROLA revised its Environmental Policy, which is available in the "Environment" section of the www.iberdrola.com website. As a supplement to this policy, which is applicable throughout the Group, ScottishPower has certain specific Environmental Principles that apply within that company. Furthermore, IBERDROLA's Corporate Social Responsibility Policy, which is also available on the website, includes among its principles the encouragement of a culture of respect for the natural environment, with a reduction in the environmental impact of its activities, the protection of biodiversity, and the encouragement of information and training in this culture.

The foregoing policies establish the principles that guide the Company's activities associated with the environment in general. Specific policies have also been approved that guide the Company's activities with regard to specific environmental issues. At the Group level, there is the Biodiversity Policy. The following additional policies exist within the scope of ScottishPower's activities:

- Biodiversity Policy
- Soil Contamination Policy
- Environmental Transportation Policy
- Internal Energy, Water, and Waste Policy
- Environmental Purchasing Policy
- Sustainable Development Policy for Wind Farms and Strategy for Biodiversity Conservation on Wind Farms

IBERDROLA has an Overall Environmental Management System that reduces risks, improves resource management, and optimizes investments

The Corporate Environmental and Quality Division, which is part of the Strategy and Development Division, is responsible for maintaining relations with the Company's principal environmental collectives; for monitoring its surrounding and determining their environmental implications (emerging issues, innovations, and good practices in other internal and external organizations, and analyzing their possible implementation within the Group); and for proposing the environmental policies and guidelines that characterize the environmental strategy of the business units and other corporate organizations, as well as for preparing the annual environmental report and encouraging environmental consciousness-raising and communication. It is linked to the Company's other environmental organizations through corporate environmental committees.

The business units involved in energy-related activities have their own environmental organization, which typically consists of a centralized organization that is part of the organization's technical departments and ultimately part of the business unit's management, which in turn is associated with the environmental managers at the facilities, the management of which is coordinated through the business units' environmental committees. In the generation business there are three centralized environmental coordinating organizations (one for each production technology).

These organizations coordinate the systems and procedures for the proper environmental management of all of the facilities and for the management of their environmental risks. They propose the environmental goals for the business unit, which must be consistent with the corporate environmental guidelines, and are responsible for guiding compliance with the requirements of the Overall Environmental Management System [Sistema de Gestión Ambiental Global] at the facilities. They are responsible for monitoring the management of the indicators, which are reported annually to the Corporate Environmental Division, except for data for the provisional calculation of emissions (which is reported quarterly), and incident-related data, which is reported immediately.

This organizational arrangement applies to the Company's energy-related activities in Spain. Energy Works has its own environmental coordinator, who is responsible for maintaining homogeneous environmental management at the cogeneration facilities.

Notable in the Distribution area is the organization that was approved in 2006, within the framework of the Overall Environmental Management System, with 29 environmental leaders, five regional environmental committees, and an environmental coordinating board, all of whose functions are defined.

In Latin America, there is an environmental manager for the production plants in Mexico, as well as an environmental information coordinator for all of the participating companies. There is also a Sustainability Committee, whose members include representatives from the Latin American companies in which IBERDROLA holds an interest. The Corporate Environmental Division maintains relations with these organizations in order to exchange good practices and to disseminate the Group's internal policies.

In the United Kingdom there is a Director of Energy and the Environment, as well as an Environmental Coordinating Committee, an Environmental Forum, and Environmental Working Groups (for specific topics, such as purchases and sales,

to draw up a general policy regarding the incorporation of environmental aspects into the purchasing decisions). The Director of Energy and the Environment coordinates environmental policy and management in the United Kingdom, and in turn coordinates activities with the Corporate Environmental Division.

The Non-Energy Business has a department specializing in eco-efficiency and sustainability in the real estate division, which works toward the creation of standards for sustainable buildings. Its work focuses on research into, and the development of, innovative proposals for achieving greater energy efficiency.

Risk management

IBERDROLA's environmental risks are operational, regulatory, and reputation related. From the operational point of view, environmental risk is managed by the business units. Through the reviews and audit programs of the Environmental Management System, periodic reports on compliance levels are submitted to upper management, to ensure a review at the executive level of incidents and activities that entail a potential threat to the Company, whether economic or reputation related.

As for regulation, the Company continuously monitors developments that might have an effect on the Company with regard to the above-mentioned elements. With regard to relations with regulators, further information is available in the "Regulatory Organizations and Public Administrations" section of this 2007 Sustainability Report.

- The Company's Overall Risk Management System, which is certified in accordance with the UNE-EN-ISO 9001:2000 standard, includes the principal environmental risks at the Group level. Section D of the Model Annual Corporate Governance Report for Listed Companies contains a detailed description of the Company's risk policy, the monitoring systems that have been established, the risks that have been detected, the committees and organizations that monitor and manage risk (including environmental risk), and a description of compliance procedures.
- The environmental risks of the facilities are also managed:
 - Through the preventive orientation of the Environmental Impact Assessments (EIAs) of the projects.
 - Through the development of environmental management systems.
 - Through a system for the reporting of incidents and anomalies, which is used as a decision-making factor for investments in preventive measures.

SCOPE OF IBERDROLA'S ENVIRONMENTAL RISK MANAGEMENT TOOLS

Risk-management tool

Scope of applicability at IBERDROLA

Comprehensive Risk System	All of the Company's activities and business divisions, including the subsidiary companies over which the Company has effective control
Environmental Impact Assessments*	IBERDROLA (Spain, the United Kingdom, and Mexico)
Environmental Management System	See the coverage at the end of this section
Incident and anomaly report	IBERDROLA (Spain, the United Kingdom, and Mexico) Termopernambuco

(*) The Environmental Impact Assessment has a preventive focus that serves as a basis for analyzing the environmental feasibility of any given project and, if necessary, for avoiding or minimizing the product's impact on the natural environment.

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THE ENVIRONMENTAL MANAGEMENT SYSTEM

IBERDROLA's Comprehensive Environmental Management System – which was implemented in compliance with the UNE-EN ISO 14001:2004 standard, and which was certified in 2006 by the Spanish Standardization and Certification Association [Asociación Española de Normalización y Certificación] (AENOR) – allows environmental risks to be reduced, thereby improving resource management and optimizing investments and costs.

This Overall System incorporates the existing partial certifications present in both the thermoelectric and hydroelectric power plants. Meanwhile, with the management of all of the facilities in the Network and Renewable Energy business areas, and the Company's more than 200 buildings and other structures, coverage is provided for all of the activities involving the generation, distribution, and sale of political power; the transport, distribution, and sale of gas; the operation and maintenance of combined cycle thermal electric power plants; and the sale of other products and services associated with the supply and consumption of energy in Spain.

ENVIRONMENTAL TRAINING FOR EMPLOYEES

Environmental considerations have taken on particular importance with regard to training. In 2007, a special environmental consciousness-raising program was launched for employees, with four ratings – “basic,” “solid,” “advanced,” and “expert” – which raised the number of training hours to approximately 25,000, representing a 56% increase from the previous fiscal year.

The hours of training provided to the workforce on environmental issues increased by 56% over 2006

THE MANAGEMENT SYSTEM FOR IBERDROLA COGENERATION

In 2007, Iberdrola Cogeneration implemented its Comprehensive Management System (for the environment and for quality) at one of its facilities as a pilot plant, which will be certified in 2008. In parallel, plans have been drawn up for the sequential implementation and certification of the rest of the cogeneration facilities. For this purpose, an organization has been set up that is divided into two levels: one at the corporate level, to provide service to all of the facilities from Iberdrola Cogeneration, and a purely functional local level operating from the facilities. These tools make it possible to minimize the environmental aspects of the cogeneration facilities, improve control of the plants, and create an environmental culture that facilitates work while still being respectful of the environment.

Also noteworthy is senior management's approval of the 2007 Environmental Guidelines, whose mission is to align the environmental management provided by the business areas with the Company's strategy. These guidelines have been disseminated throughout IBERDROLA in the form of environmental objectives and milestones, including the assignment of responsibilities, resources and performance deadlines. The following chart contains a non-exhaustive excerpt from the guidelines.

ENVIRONMENTAL GUIDELINE

Goals of the areas/business divisions for 2007

To improve the compatibility of IBERDROLA's infrastructures with their surroundings	<ul style="list-style-type: none"> • To reduce the risk of bird mortality • To improve the management of environmental emergencies caused by fire on the wind farms • To improve the management of biodiversity, minimizing the environmental risks posed by the hydroelectric production facilities
To improve the behavior of the global indicators for emissions and spills	<ul style="list-style-type: none"> • To minimize atmospheric emissions (coal-fired thermal plants) • To reduce the effective dose of liquid and gaseous effluents at the Cofrentes nuclear power plant • To improve the control of gas emissions due to losses in the gas transport and gas distribution networks • To minimize the risk of spills at substations • To reduce the atmospheric emissions of the vehicle fleet
To improve the control and management of wastes	<ul style="list-style-type: none"> • To reduce the risk of accidents in the handling of oils • To reduce waste production at the Cofrentes nuclear power plant • To reduce the number of incidents caused by oil leaks in wind turbines • To improve waste management among users • To reduce the generation of fungible wastes in office buildings
To increase energy efficiency and conservation	<ul style="list-style-type: none"> • To increase the energy efficiency of the distribution network • To encourage energy efficiency among end users, through alternatives for more responsible use and consumption of products and services
To reduce the consumption of natural resources and to maximize the use of the resources that are most respectful of the environment	<ul style="list-style-type: none"> • To reduce water and paper consumption in office buildings • To increase the recycling of paper (primarily surplus paper from commercial advertising campaigns) and packaging • To minimize the impact of the use of oils, greases and lubricants in mini-hydroelectric power plants • To increase the supply of photovoltaic solar-power facilities available to users
To enhance the dialogue with stakeholders, in keeping with the Company's vision	<ul style="list-style-type: none"> • To improve environmental communication with vendors and suppliers • To increase the number of suppliers who hold an ISO 14001 environmental certification or an equivalent certification • To expand and improve environmental training and consciousness-raising among employees

The Areas/Businesses establish specific goals and indicators for each of the specified objectives.

With regard to the purchasing function, the environmental requirements contemplated in the contractual terms and conditions for equipment, materials, work, and services have also been expanded. The importance of the environmental aspects of the purchasing function is also illustrated by the “Environmental Management” category in the IBERDROLA Prize for the Supplier of the Year.

Within the framework of the Overall Environmental Management System, the scope of its certification of Iberdrola Operations and Maintenance (a Group company whose function is to operate and maintain the combined cycle power plants) was expanded during 2007. This management system will be extended to new companies in the IBERDROLA Group over the coming fiscal years.

In the Deregulated Business, progress has been made with regard to the membership of new power plants in the European Eco-Management and Audit Scheme (EMAS), governed by Council of Europe Regulation No. 761/2001. Accordingly, the Santurce thermal power plant and combined cycle power plant have submitted their corresponding statements to the competent environmental agency, and the statement for the Aceca combined cycle power plant is currently pending submission. Meanwhile, the Lada and Pasajes thermal power plants, along with the Arcos combined cycle plant, are currently in the verification process prior to the preparation of their statements. In short, six new electrical power generation plants will enjoy this distinction.

As a summary of the foregoing information, current energy production under certified environmental management systems (EMSS) is as shown in the following table.

ENERGY PRODUCTION UNDER CERTIFIED EMSS (%)

IBERDROLA SPAIN*	95.77
Generating facilities	100
Cogeneration	--
IBERDROLA Latin America	86.26
IBERDROLA United Kingdom	92.16
IBERDROLA Group	77.55

* As explained at the beginning of this section, the Overall Environmental Management System covers 100% of the activities involving the generation, distribution, and sale of energy by the companies that are 100%-owned by IBERDROLA in Spain. It does not include the companies that are subsidiaries of Iberdrola Cogeneration in which the company holds a 99% interest.

The Environment and Innovation

Through its Environmental Policy, IBERDROLA is committed to “promoting research into, and the development of, new technologies that help to deal with key environmental challenges.”

Accordingly, the following notable environmental research projects, which involve a total investment in excess of 5 million euros, are currently underway in Spain:

- *Inquemados project*: To develop a system to reduce the generation of unburned materials in the boilers of co-fired thermal power plants

FACILITIES MANAGEMENT IN LATIN AMERICA

Environmental management at the Latin American facilities is notable in that five of the six power plants operating in Mexico (Monterrey, La Laguna, Altamira III, IV and V, and the Enertek cogeneration plant) hold environmental certifications that comply with the UNE-EN ISO 14001:2004 standard, and also have a committee that coordinates and periodically reviews completed and pending environmental activities. Meanwhile, the plants in Brazil (Termopernambuco and Itapebí) and Chile (Peuchén-Mampil) have renewed their respective environmental certifications.

Within the framework of the respective environmental management systems, goals have been established that focus on improving the management of wastes in order to increase paper recycling; good practices in the reduction and control of pollution; and the improvement of training and consciousness-raising.

FACILITIES MANAGEMENT IN THE UNITED KINGDOM

ScottishPower maintains environmental management systems, certified in accordance with the UNE-EN ISO 14001:2004 standard, at ten political power generation plants and also within its distribution network. Two of these plants also hold the EMAS distinction. Progress was made in 2007 in the form of the implementation of the environmental management system at Galloway Hydro Electric, which was certified in 2008. These systems have been designed in accordance with the perceived risks for the business in connection with the individual activities and operations. Quarterly performance follow-ups are conducted through the use of both active indicators (those that actively control emissions and the environmental impact as their primary activity) and passive indicators (those that monitor and limit emissions and the environmental impact as a secondary function). These indicators are communicated to ScottishPower’s Executive Team.

IBERDROLA promotes research and new technologies that contribute toward meeting environmental challenges

- *Ecocity project*: The goal of this European project is to establish a technological basis for and demonstrate advanced energy concepts by building eco-cities in three communities (located in Sweden/Denmark, Norway and Spain).
- *Hychain project*: Its goal is to demonstrate the feasibility of hydrogen economics, through the development of various fleets of vehicles with innovative fuel cells.
- *Biovel project*: Its goal is to design and develop a new biomass co combustion process using powdered charcoal.
- *Quemadores project*: This project centers around the design and development of new NO_x reduction systems for burners in conventional coal-fired power plants.
- *Oil-Free Turbines project*: For the elimination of lubricants in hydraulic turbines.
- *Oxygenation project*: The goal of the project is to develop an oxygenation treatment for water in the hydroelectric power plants, in order to improve the quality of the water in the reservoirs.
- *E-Giralda project*: For the development of a comprehensive system that determines the optimal fuel reload in a nuclear power plant.
- *Microrrad project*: For the development of a pilot facility for the bioremediation of radioactive water from nuclear power plants.
- *Pasodoble project*: Evaluation of ecological spaces for the installation of overhead power lines.
- *Reconta project*: To define and then validate an appropriate management methodology for the obsolete electricity meters that are being withdrawn from users.

In the United Kingdom, ScottishPower participated in the following activities in 2007:

- CO₂ collection and storage: demonstrations of the Oxicoal technology and the CO₂ separation technology that uses amines.
- The CO₂ network in Scotland: Preparation of roadmaps with numerous participants, with ScottishPower serving as the leader of a consortium to investigate the storage of CO₂ in deep aquifers in the Forth estuary.



The Castejón combined cycle power plant (Navarra) holds the EMAS distinction.

INDICATORS

Energy

Raw energy consumption

Fuel consumption is an important indicator of efficiency, in that the greater the fuel consumption, the less primary energy is consumed in order to produce a given unit of electrical power, with the consequent resource conservation and reduction in emissions. The following table shows the fuel consumption figures for 2007, expressed as tons equivalent petroleum (tep).

FUEL CONSUMPTION (tep)⁽¹⁾

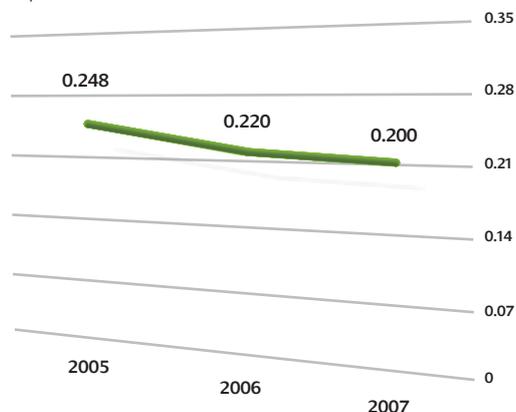
IBERDROLA Spain	5,833,910
Generating facilities	5,315,128
Cogeneration	518,783
IBERDROLA Latin America	5,170,316
Generating facilities	4,659,221
Cogeneration	511,095
IBERDROLA United Kingdom	3,595,012
Generating facilities	3,530,369
Cogeneration	64,643
IBERDROLA Affiliates	5,003,402
Generating facilities	4,600,195
Cogeneration	403,207
IBERDROLA Group	19,602,640
Generating facilities	18,104,912
Cogeneration	1,497,727

⁽¹⁾ The fuel consumption figure for the generating facilities represents consumption at the combined cycle plants, conventional thermal power plants and nuclear power plants.

The trend in fuel consumption in relation to production, as shown in the following chart, has decreased over the last three years, with a 19.3% reduction from the figure for the year 2005. This trend confirms the resource conservation and efficiency strategy introduced by the Company.

FUEL CONSUMPTION WITHIN THE IBERDROLA GROUP

(tep/MWh)



Electricity consumption at buildings

Buildings consume about 40% of all the world's energy. Therefore, measures for improving the energy efficiency of buildings have great development potential.

THERMAL EFFICIENCY AT PRODUCTION FACILITIES

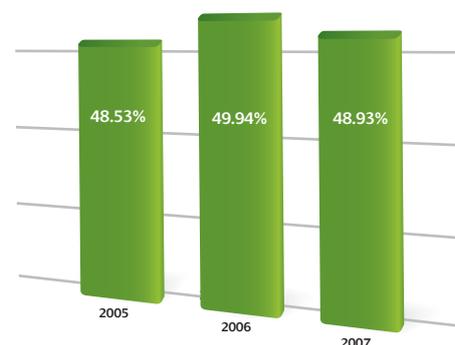
In addition to encouraging the development of generating facilities with a significant presence of energy sources based on renewables, IBERDROLA's Strategic Plan provides a significant role for technologies, particularly combined cycle plants, with greater energy efficiency.

AVERAGE THERMAL EFFICIENCY ⁽¹⁾ (%) 2007	
IBERDROLA SPAIN	48.38
Combined cycle plants	55.69
Conventional thermal power plants	33.55
Cogeneration	59.30
IBERDROLA Latin America	53.27
Combined cycle plants	52.92
Cogeneration	59.16
IBERDROLA United Kingdom	42.23
Combined cycle plants	52.52
Conventional thermal power plants	34.70
Cogeneration	60.80
IBERDROLA Affiliates	52.36
Combined cycle plants	52.69
Cogeneration	50.72
IBERDROLA Group	48.91
Combined cycle plants	53.38
Cogeneration	56.59
Conventional thermal power plants	34.30

⁽¹⁾ To calculate this figure, the production of each thermal power plant was multiplied by its efficiency value, and the sum of these partial values was divided by the total production of the thermal power plants.

The efficiency of the overall production of the IBERDROLA Group decreased slightly in 2007, due to greater participation in the production mix of less efficient conventional thermal power plants. This deviation should be corrected in the future, because of the expected increase in the number of operational hours of the combined cycle power plants (which are more efficient than the conventional thermal power plants).

THERMAL EFFICIENCY TREND



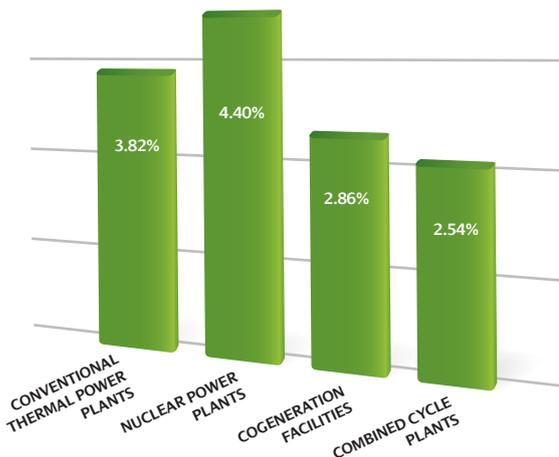
AUXILIARY ELECTRICITY CONSUMPTION

The amount of energy used in the generation processes is another indicator of the efficiency of the process. This parameter is known as "Auxiliary Consumption" or "Internal Use."

INTERNAL USE (GJ)	
IBERDROLA Spain	4,460,219
Generating facilities	4,211,040
Cogeneration	249,179
IBERDROLA Latin America	2,602,530
Generating facilities	2,484,854
Cogeneration	117,676
IBERDROLA United Kingdom	2,213,320
Generating facilities	2,192,665
Cogeneration	20,655
IBERDROLA Affiliates	3,115,156
Generating facilities	2,914,564
Cogeneration	200,592
IBERDROLA Group	12,391,225
Generating facilities	11,803,123
Cogeneration	588,102

The various thermal power generation technologies display different efficiency values in terms of internal use. Combined cycle power plants display the most favorable results when internal use is compared against production. The expected trend is toward a reduction in the internal use ratio, through the replacement of the less efficient technologies.

INTERNAL USE/PRODUCTION IBERDROLA GROUP (%)



With the inclusion of ScottishPower, the Company has increased the number of facilities included on the following chart, which shows the energy consumption in the buildings managed by IBERDROLA over the last three years.

Trend in electricity consumption at buildings (MWh)

	2007	2006	2005
IBERDROLA Spain ⁽³⁾	25,365	57,966	59,678
IBERDROLA Latin America ⁽⁴⁾	274	-	-
IBERDROLA Affiliates	15,425	16,739	17,206
IBERDROLA United Kingdom	22,364	-	-
IBERDROLA Group	63,428	74,705	76,884

⁽³⁾ Electrical energy consumption in Spain was reduced due to the closing of 5 buildings and the reassignment of workers. The figures for previous years were recalculated in order to provide consistency, because the report for this year did not include the distribution function in consumption at the buildings.

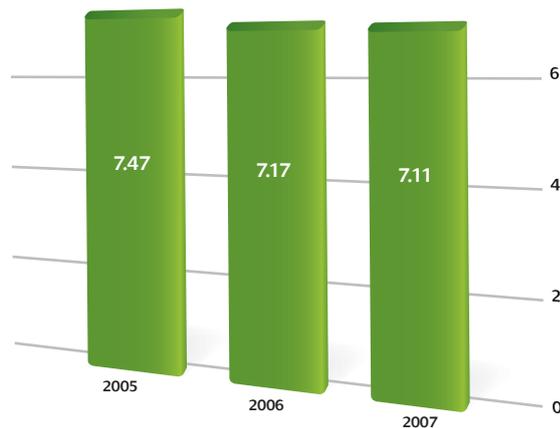
⁽⁴⁾ This is the first year in which the figures include data from the 100%-owned IBERDROLA companies in Latin America and from IBERDROLA United Kingdom.

Efficiency of the electrical power grid

Spain

The investment effort made over the last few years has led to a reduction in loss levels, which currently account for 7.11% of the energy circulating through the networks of Iberdrola Distribución Eléctrica (technical or non-technical losses). This achievement was accomplished during a period in which the amount of distributed energy rose from 79,531 GWh in 2001 to 102,495 GWh in 2007, which represents a 29% increase in five years and implies a higher level of difficulty, because the technical losses (based on the laws of physics) are proportional to the square of the current that passes through the lines. The reduction in network losses, achieved despite the increase in the amount of energy circulating through the network, was made possible by an ambitious loss-reduction project whose principal activities are described below.

LOSSES IN THE DISTRIBUTION NETWORK (%)



- Reduction in the length of the lines between the feeder point and the supply points, through the construction of new substations. Thirteen new substations were placed in service in 2007, and major power expansions were implemented at 32 other substations, such that the total installed capacity of the substations rose to 2,080 MVA. New lines, totaling 3,449 km, were also built.
- An increase in voltage levels. The existing 11 kV sections of the network, as well as other 13 kV sections, were boosted to 20 kV.
- Improvement in the power factor. To improve the voltage control capacity and reduce the flows of reactive energy, between 2002 and 2007 a total of 360

capacitor banks were installed in the networks, with a total capacity of 2,126 MVar. In 2007, the number of banks was increased by 22, for an additional 125 MVar of capacity.

- Administrative or non-technical losses. In order to reduce them, advances have been made with the implementation of remote management. The year 2000 ended with a total of 40,096 GWh included in the remote management systems, representing almost 40% of all of the energy supplied. This amount of energy was measured by high-precision recording meters installed at supply points equipped with communications that exchange information daily with the Secondary Concentrator at Iberdrola Distribución Eléctrica. The communication is established not only to capture the readings remotely, but also to perform any necessary remote management operations, such as changing rates or fees, loading a variable time-based schedule, etc. In addition to the foregoing change, 12,935 GWh (12.6% of the total) were recorded by recording meters whose time-based consumption information was collected locally and forwarded to the information systems electronically. Along with other domestic and European distribution companies, IBERDROLA is currently leading the efforts necessary to define, develop, and implement a new remote management system for supplying power to residential subscribers, based on low-cost, high capacity Power Line Carrier (PLC) solutions, with the goal of extending some of these remote management functions to the rest of the supply points in the electric power distribution network. Likewise, to reduce administrative or non-technical losses, the Inspection Unit performed 144,395 inspections. The outcome of these inspections was the billing of 204.3 GWh.

Latin America

All of the Latin American subsidiaries are taking specific steps to control the loss levels in their networks. These steps include the installation of capacitor banks, network reconfigurations, line changes, and load monitoring at the transformer stations and in the distribution networks.

The loss level for Cosern, Coelba, and Celpe is within the average for distribution companies in Brazil. In several cases, the loss level for these companies exceeds 20%. Non-technical losses account for a substantial portion of the loss values for these three companies, largely due to non-standard connections. Because the investments made to reduce technical losses have an unfavorable cost and benefit ratio, these steps have been oriented essentially toward a reduction in non-technical losses, such as the performance of inspections, the correction of non-standard connections, the replacement of lines, and the replacement of electromechanical meters with fully electronic meters.

Country:	Affiliate	Transport/ Distribution	Losses in 2007 (%)	Losses in 2006 (%)
Brazil	Coelba	Distribution	13.31	14.41
	Cosern	Distribution	11.26	11.96
	Celpe	Distribution	15.40	17.76
Guatemala	Trecec and EEGSA	Transport	2.40	5.92
		Distribution	7.54	10.01
Bolivia	Electropaz	Transport	0.43	0.55
		Distribution	11.70	11.20
	Elfeo	Transport	1.30	0.97
		Distribution	5.90	5.82

LOSS REDUCTION IN THE UNITED KINGDOM

The loss level in the Company's transport network⁽¹⁾ was 2.1%, and the loss level in the distribution networks⁽²⁾ was 5.8% for ScottishPower Distribution Ltd. and 5.5% for Manweb Ltd.

ScottishPower is analyzing ways to reduce losses during the transport and distribution of electrical power at reasonable costs for consumers. This effort includes reviewing design standards, the efficiency of the transformers, and the agreements regarding distributed generation.

⁽¹⁾ Since the implementation of the British Electricity Trading and Transmission Arrangements (BETTA), ScottishPower has not yet had access to the data necessary for a reliable calculation of these losses, which are handled by the System Operator.

⁽²⁾ The figures reflect the difference between purchases and sales at any given point. Sales require 24 months for complete reconciliation in the underlying process, and this fact may entail changes in the contemplated sales, with a resulting effect on loss levels. Accordingly, the figures shown here for 2006 are only estimates.

In 2007 IBERDROLA's atmospheric emissions remained among the lowest of domestic and international energy companies

GHG emissions⁽⁷⁾

Emissions from production facilities

The Company's carbon dioxide emissions for 2007 are reflected in the following chart:

CO ₂ EMISSIONS (t)	
IBERDROLA Spain	12,713,074
Generation facilities	11,443,161
Cogeneration	1,269,913
IBERDROLA Latin America	11,381,932
Generation facilities	10,297,707
Cogeneration	1,084,225
IBERDROLA United Kingdom	12,003,050
Generation facilities	11,827,354
Cogeneration	175,695
IBERDROLA Affiliates	1,671,004
Generation facilities	752,019
Cogeneration	918,985
IBERDROLA Group	37,769,059
Generation facilities	34,320,241
Cogeneration	3,448,819

In the year 2007, which was characterized by a rise in the prices for fossil fuels and by low prices for CO₂ rights, IBERDROLA's atmospheric emissions per GWh (global mix⁽⁸⁾) remained among the lowest among domestic and international energy companies. The result of the global mix for the Company's carbon dioxide emissions in 2007 was 207 t/GWh. As a point of reference, the same mix for European electric power companies was on the order of 350 t/GWh⁽⁹⁾ and for Spanish companies it was 429 t/GWh.⁽¹⁰⁾

The trend of the results of these emissions (absolute values and the global mix) is determined by the following factors:

- **The trend in energy production.** In a strong growth scenario like that of IBERDROLA, based on a continued increase in production, it is very difficult to maintain absolute emission values. These values can be maintained under this scenario only if the following factor is improved.
- **The thermal production emission factor.** The replacement of thermal technologies (natural gas combined cycle plants instead of conventional power plants) allows IBERDROLA to improve this factor.
- **The price of CO₂ rights,** which is a fundamental element of the cost of each kWh produced with each thermal technology, to such an extent that it determines the functional importance of each production technology, along with other elements, such as the price of fuel.
- **The contribution of CO₂-free energy to overall production,** the availability of renewable resources (for IBERDROLA, rainfall is particularly important), and the availability of nuclear power plants.

⁽⁷⁾ Greenhouse Gases. The Kyoto Protocol refers to the following six greenhouse gases: carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, perfluorocarbons, and halofluorocarbons.

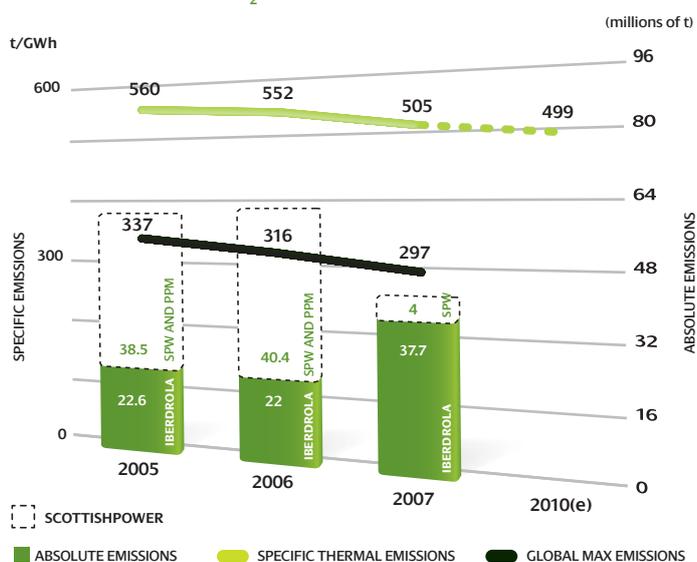
⁽⁸⁾ Obtained by dividing the emissions by total production.

⁽⁹⁾ Source: Environmental Statistics of the European Electricity Industry. Trends in Environmental Performance 2003–2004. Eurelectric. www.eurelectric.org

⁽¹⁰⁾ Source: UNESA, www.unesa.es, "Information on the environmental impact" (2006 provisional data).

To follow the trend of IBERDROLA's figures in recent years, consideration must be given to the figures from ScottishPower during those years. According to the results shown in the following chart, IBERDROLA's CO₂ emissions between 2005 and 2007(11) fell from 38,195 kt in 2005 to 37,679 kt(12) in 2007, while production rose from 113 TWh in 2005 to 127 TWh in 2007, for an increase of 12.4%. As explained below, these results are due to the low price of CO₂ rights and to low nuclear power production, due to the scheduled shutdowns for inspection and reloading of the Cofrentes, Trillo, Garoña, Vandellós II, Ascó II, and Almaraz II power plants.

IBERDROLA GROUP CO₂ EMISSIONS



It is hoped that over the next few years, a gradual increase in production with combined cycle plants instead of conventional thermal power plants in Spain and the United Kingdom, along with improvements in existing facilities, will lead to an improvement in the specific thermal emission indicator, which, according to estimates,⁽¹³⁾ may be on the order of 499 t/GWh of CO₂ in 2010. The trend in coal and gas prices, as well as in the price of emission rights, will be a determining factor in achieving this figure.



The Castellón combined cycle power plant.

⁽¹¹⁾Including, for comparative purposes, the SPW figures for the 2006 and 2005 fiscal years.

⁽¹²⁾This figure includes SPW emissions since the month of April, when the merger with IBERDROLA took place. Furthermore, between January and April (prior to this merger) SPW emitted 4,001 kt of CO₂.

⁽¹³⁾According to the production projections for the various technologies.

REDUCTION IN CO₂ EMISSIONS IN UNITED KINGDOM

The total volume of CO₂ emissions in the United Kingdom was 12,003 kt. In 2007 the amount of emissions per GWh (the specific global mix) was on the order of 628 t/GWh.

The goal for CO₂ emissions is to achieve a 25% reduction in the global mix ratio over the period from 1999 to 2010. In 1999 this indicator was 0.95 kg/GWh, such that this goal was handily met up through 2007.

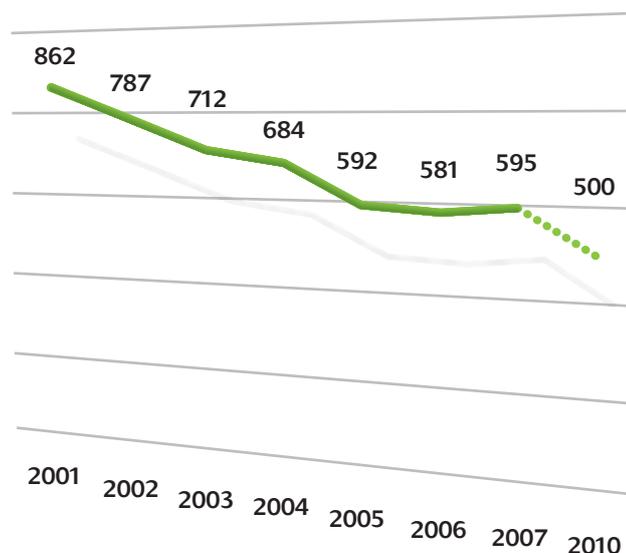
It is hoped that the downward trend in CO₂ emission indicators for the global mix and the thermal mix will be maintained over the next few years in the United Kingdom, thanks to the increase in renewable production and thanks to a projected increase in production of the combined cycle plants. Based on the production projections, it is hoped that a 34% reduction in the global mix indicator will be achieved by 2010, with a figure on the order of 0.61 kg/GWh.⁽¹⁵⁾

In Spain the total volume of CO₂ emissions in 2007 was similar to the volume in 2006 (12,713 kt versus 12,637 kt). The amount of CO₂ emissions per GWh (the specific global mix⁽¹⁴⁾) was on the order of 186 t/GWh in 2007, representing an improvement over the figure for the previous fiscal year of 211 t/GWh, due to the increase in production.

The specific CO₂ emission indicator for the thermal mix for IBERDROLA's generation plants in Spain (combined cycle plants and conventional thermal power plants) is on the order of 595 t/GWh, exceeding the previously projected figure (513 t/GWh). The reason for the increase in this figure is that in 2007 the price of CO₂ rights remained at very low levels (less than 1 euros/t CO₂), reflecting the excess assignment of CO₂ rights in Europe. Consequently, with no need for emission reductions in Europe, coal increased its production in the electrical market, while the natural gas combined cycle plants operated at a lower level than expected.

In any event, this figure (the specific CO₂ emission indicator for the thermal mix) has displayed a decreasing trend since 2001, which is expected to continue, based on the operating projections for the Company's various production technologies in Spain, with an increase in the proportion of combined cycle plants within IBERDROLA's thermal mix. This is due fundamentally to the fact that, starting in 2008, the environmental determining factors will become notably stricter, and the CO₂ price projections are estimated to be on the order of 20 euros/t CO₂. The effort to reduce European CO₂ emissions over the 2008–2012 period is much more demanding, which is reflected in the CO₂ price, which is much higher than the 2007 price. Furthermore, the power produced by a new 800 MW combined cycle plant (Castellón IV) will be added in 2008.

SPECIFIC CO₂ EMISSIONS (THERMAL MIX)^(*) IBERDROLA SPAIN (t/GWh)



⁽¹⁴⁾This figure reflects absolute emissions in Spain – 100% IBERDROLA generation facilities and the attributable percentage of the facilities in which an interest is held – for the entire production of generation facilities in Spain – 100% IBERDROLA facilities and the attributable percentage of the facilities in which an interest is held.

⁽¹⁵⁾Specific global mix for the generation and cogeneration plants, taking into consideration the projected production for all technologies.

^(*)Specific CO₂ emission factor in the thermal mix: obtained by dividing the absolute CO₂ emission figures by the thermal electrical production generated by the Company; i.e., the ratio of the absolute emissions (in tons) divided by the electricity produced (in GWh) by the combined cycle plants and in the conventional thermal power plants (coal and fuel). Reflects the generation facilities owned 100% by IBERDROLA in Spain.

In Latin America, the total volume of CO₂ emissions rose in comparison to 2006 (11,382 kt versus 7,920 kt), due to greater production. Accordingly, the amount of CO₂ emissions per GWh of thermal origin (the specific thermal mix) was 349 t/GWh versus 364 t/GWh in 2006. It is hoped that this figure will remain on a comparable order of magnitude in the future, because it reflects the best thermal technology available, namely, state-of-the-art combined cycle gas plants.

Emissions associated with imported electricity

IBERDROLA didn't make any imports to the Spanish electrical power system in 2007.

Emissions associated with the transportation of passengers and fuel

Greenhouse gas emissions not arising from the Company's normal activities in Spain, although indirectly caused by them, have been quantified since 2004. This category includes emissions associated with the movement of vehicles and other means of transportation for both employee travel and fuel transport. The figures for IBERDROLA United Kingdom are included in the figures for fiscal year 2007.

The method for calculating these emissions is based on the application of emission factors that are taken from internationally recognized publications (GHG Protocol) and that assign a numeric value to emissions on the basis of various input parameters, as shown in the following chart.

GHG EMISSIONS ASSOCIATED WITH EMPLOYEE TRAVEL. IBERDROLA SPAIN

		2007	2006	2005
Air	CO ₂ (t)	5,759	4,688	3,753
	km	38,330,000	33,804,903	27,064,341
Vehicle	CO ₂ (t)	12,157	14,693	12,579
	km	62,533,987	75,582,530	64,705,217
Railroad	CO ₂ (t)	469	250	139
	km	2,928,500	1,557,457	869,787

The figures for previous fiscal years were recalculated using factors comparable to the ones for 2007 (GHG Protocol).

The attributable emissions corresponding to the year 2007 are shown in the following chart⁽¹⁶⁾

GHG EMISSIONS ASSOCIATED WITH EMPLOYEE TRAVEL. IBERDROLA UNITED KINGDOM

		2007
Air	CO ₂ (t)	499
	km	3,252,909
Vehicle	CO ₂ (t)	4,231
	km	28,083,328
Railroad	CO ₂ (t)	86

Furthermore, IBERDROLA's fuel supply chain was analyzed and the emissions from this activity were calculated, based on the various means of transportation

In Latin America, it is expected that the total volume of CO₂ emissions will stay the same, thanks to the better thermal technology now available

¹⁶⁾ At IBERDROLA United Kingdom, a further 10,183 t of CO₂ must be included, which corresponds to transportation in vehicles belonging to the ScottishPower fleet, as calculated according to their fuel consumption.

employed, as show in the following chart. The emission figures for the fiscal year 2007 are consistent with those of earlier years.

CO₂ EMISSIONS ASSOCIATED WITH THE TRANSPORTATION OF FUEL FOR IBERDROLA SPAIN IN 2007

	CO ₂ emissions 2007 (t)	CO ₂ emissions 2006 (t)	CO ₂ emissions 2005 (t)
Train travel	295,982	232,824	296,779
Ship travel	247,738	180,933	240,001
Road travel	81,686	76,231	72,707
Total	625,406	489,988	609,487

The figures for previous fiscal years were recalculated using factors comparable to the ones for 2007 (GHG Protocol).

In 2007, the CO₂ emissions associated with the transportation of fuels by IBERDROLA United Kingdom consisted of 704,506 tons of CO₂ (attributable). This figure reflects the transportation of coal by boat, and is the most significant amount in comparison with other means of transportation.

Other atmospheric emissions

Sulfur dioxide, oxides of nitrogen, and particulate emissions

Atmospheric emissions of nitrogenated and sulfurated compounds created by the burning of fossil fuels causes environmental effects, which are described in the document entitled "Electricity generation and distribution: their effect on the environment" ["Efectos ambientales de la producción y distribución de energía eléctrica"] available on the www.iberdrola.com website. This document presents the activities for controlling and correcting these effects, along with the characteristics of the various production technologies

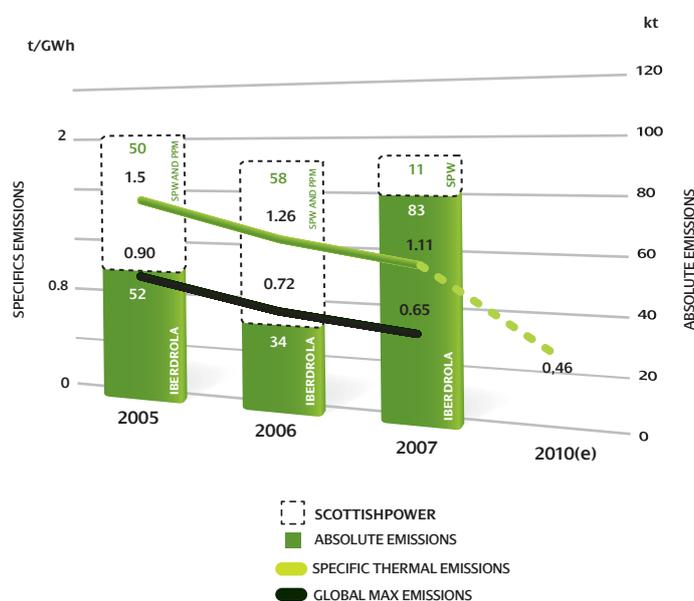
IBERDROLA's generation profile puts the Company in an excellent position in this regard. On the one hand, the large contribution of renewable energy tends to reduce overall emissions levels; and, on the other hand, modern emission control technologies incorporated into the combined cycle plants bring these values to low levels. The SO₂ emissions for the fiscal year are shown below.

SO ₂ EMISSIONS (T)	
IBERDROLA Spain	48,388
Generating facilities	47,737
Cogeneration	651
IBERDROLA Latin America	340
Generating facilities	311
Cogeneration	30
IBERDROLA United Kingdom	34,260
Generating facilities	34,260
Cogeneration	-
IBERDROLA Affiliates	23
Generating facilities	20
Cogeneration	3
IBERDROLA Group	83,011
Generating facilities	82,328
Cogeneration	684

The result of the global mix for sulfur dioxide emissions in 2007 was 0.65 t/GWh, taking into consideration the Group's overall production during the period. As a point of reference, the mean value of this indicator for European electrical power companies was on the order of 1.25 t/GWh⁽¹⁸⁾, which illustrates the Company's favorable position.

To follow the trend of IBERDROLA's figures in recent years, consideration must be given to the figures from ScottishPower over those years. Based on the results shown in the chart, IBERDROLA's SO₂ emissions over the period from 2005 to 2007⁽¹⁸⁾ fell from 102 kt in 2005 to 83 kt⁽¹⁹⁾ in 2007, despite a 12.4% increase in production over the same period.

IBERDROLA GROUP SO₂ EMISSIONS



It is hoped that over the next few years, the gradual increase in production with combined cycle plants instead of conventional thermal power plants in Spain and the United Kingdom, along with the investments in desulfurization plants in both countries, will lead to an improvement in the specific thermal emission indicator, which according to estimates may be on the order of 0.46 t/GWh of SO₂ in 2010.

On a regional basis, the combined cycle plants and the conventional thermal power plants in Spain and in the United Kingdom account for 99% of the IBERDROLA Group's emissions.

In Spain, the total volume of SO₂ emissions rose in 2007 in comparison with 2006 (48 kt versus 34 kt), due to an increase in the weight of carbon production, for reasons explained in the section entitled "GHG Emissions". The amount of SO₂ emissions per GWh (the specific global mix⁽²⁰⁾) was 0.70 t/GWh in 2007 (versus 0.69 t/GWh in 2006).



⁽¹⁷⁾ Source: Environmental Statistics of the European Electricity Industry. Trends in Environmental Performance 2003–2004. *Eurelectric*. www.eurelectric.org

⁽¹⁸⁾ Including, for comparative purposes, the ScottishPower figures for the 2006 and 2005 fiscal years.

⁽¹⁹⁾ This figure includes the ScottishPower emissions since the month of April, when the merger with IBERDROLA took place. Furthermore, between January and April (prior to this merger) ScottishPower emitted 11 kt of SO₂.

THE NATIONAL EMISSION REDUCTION PLAN

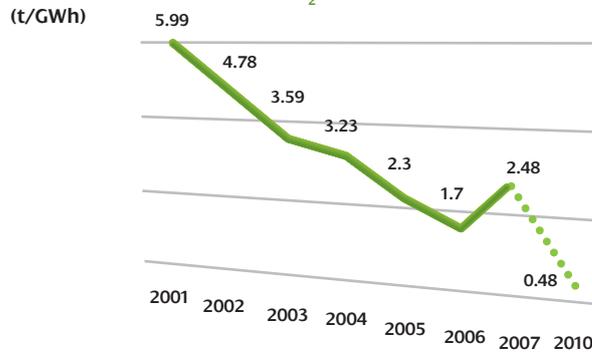
The indicator for SO₂ emissions in the specific thermal mix in Spain showed a decreasing trend in recent years, as can be seen in the right-hand chart, due to the replacement of the thermal technologies. This trend will continue over the next few years, in accordance with the objectives of the Strategic Plan and the planned new desulfurization facilities.

The Velilla thermal power plant is continuing the work on the implementation of the desulfurization plant, which is expected to become operational in 2008. Work has also begun on the desulfurization facility at the Lada IV thermal power plant. These desulfurization facilities, which use wet path technology, make it possible to reduce the emissions of oxides of sulfur by more than 90%. The Company's investment plan includes these and other additional facilities to improve the power plants' environmental figures (the ABACO system) and to comply with the National Emissions Reduction Plan, which will become effective in January 2008. This plan will allow Spain to comply with the requirements of Directive 2001/80/CE, which limits atmospheric emissions of SO₂, NO_x, and particles from major combustion facilities.

It is hoped that over the next few years, the gradual increase in production with combined cycle plants instead of conventional thermal power plants, along with the environmental improvement introduced by these desulfurization plants, will lead to an improvement in the specific thermal emission indicator in Spain, which, according to estimates, may be on the order of 0.48 t/GWh of SO₂ in 2010.

The following chart shows the emissions of the specific thermal mix for Spain.

FACTOR DE EMISIÓN DE SO₂ MIX TÉRMICO. IBERDROLA ESPAÑA



Obtained by dividing the absolute SO₂ emission values by the Company's thermal electrical power production.

Regarding SO₂ emissions, in recent years IBERDROLA's power plants in the United Kingdom have achieved a sizable reduction in the specific global mix. The principal reasons for this reduction are the use of coal with a lower sulfur content, obtained from different parts of the world., and the substantial investment in the gas desulfurization unit at Longannet, which will provide an even greater reduction in SO₂ emissions starting in 2008. According to the production projections for 2010, this indicator (1.79 t/GWh of SO₂ in 2007)⁽²⁰⁾ should be on the order of 0.92 t/GWh of SO₂ in 2010.

In Latin America, the total volume of SO₂ emissions increased in comparison with 2006 (340 t versus 237 t) due to higher production, which placed the figure for SO₂ emissions per thermal GWh (the specific thermal mix) at 0.01 t/GWh, which is the same figure as in 2006⁽²¹⁾. It is hoped that this value will be maintained on a comparable order of magnitude in the future, because it reflects the best thermal technology available, namely, state-of-the-art combined cycle gas plants.

The results for NO_x emissions during the fiscal year are shown below.

NO_x EMISSIONS (T)

IBERDROLA Spain

Generation facilities 30,771

Cogeneration 9,962

IBERDROLA Latin America

Generation facilities 1,054

Cogeneration 240

IBERDROLA United Kingdom

Generation facilities 30,038

Cogeneration 41

IBERDROLA Affiliates

Generation facilities 232

Cogeneration 1,550

IBERDROLA Group 73,887

Generation facilities 62,095

Cogeneration 11,792

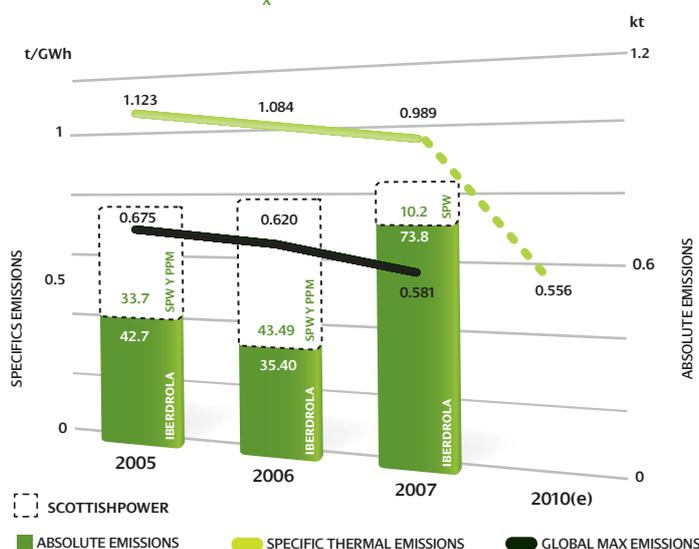
⁽²⁰⁾Specific global mix for the generation and cogeneration plants, taking into consideration the projected production for all technologies.

⁽²¹⁾Reflects the figure for the 100%-owned IBERDROLA power plants in Mexico.

The result of the global mix for emissions of oxides of nitrogen in 2007 was 0.581 t/GWh at the Group level. As a point of reference, the same mix for European electrical power companies was 0.60 t/GWh⁽²²⁾.

The trend of IBERDROLA's figures in recent years is shown below, in consideration of the prices of ScottishPower shares over those years. Based on the results shown in the chart, IBERDROLA's NO_x emissions between 2005 and 2007⁽²³⁾ fell from 76,452 t in 2005 to 73,887 t⁽²⁴⁾ in 2007. The increase in the Group's overall production during this period was 12.4%, which means that the emissions per kWh of generated power fell.

IBERDROLA GROUP NO_x EMISSIONS



Based on the positive experience at the Vellila thermal power plant, a combustion control system has been implemented at the Pasajes and Lada IV plants

According to the emissions table, the combined cycle plants and the conventional thermal power plants in Spain and in the United Kingdom account for 82% of the IBERDROLA Group's emissions. Absolute emissions for Spain have increased by 2% since 2005, with a 3% increase in production over the same period. The specific global mix in Spain fell from 0.7 t/GWh in 2005 to 0.6 t/GWh.



⁽²²⁾ Source: Environmental Statistics of the European Electricity Industry. Trends in Environmental Performance 2003–2004. Eurelectric. www.eurelectric.org

⁽²³⁾ Including, for comparative purposes, the SPW figures for the 2006 and 2005 fiscal years.

⁽²⁴⁾ This figure includes SPW emissions since the month of April, when the merger with IBERDROLA took place. Furthermore, between January and April (prior to this merger) SPW emitted 10,027 t of NO_x.

NO_x EMISSIONS IN THE UNITED KINGDOM AND IN LATIN AMERICA

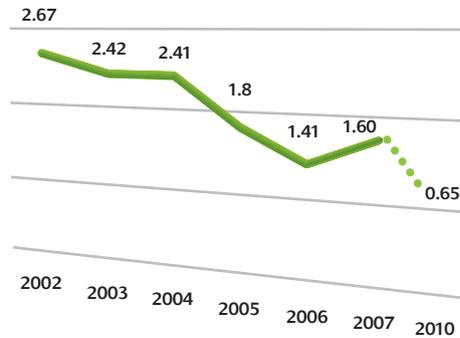
Absolute emissions in the United Kingdom were 30,080 kt in 2007. IBERDROLA's specific global mix in the United Kingdom in 2007 was 1.57 t/GWh.

To reduce these emissions, major investments are being made with the goal of achieving a 50% reduction by 2010 (over the 1990 levels). Investments are currently being made through the use of a complete combustion technology (Over-Fire Air), in Longannet and potentially in Cockerzie, to reduce NO_x levels to a point 20% below the current levels.

In Latin America, the total volume of NO_x emissions rose in comparison with 2006 (1 kt versus 0.8 kt), due to greater production, which in turn kept the figure for NO_x emissions per GWh of thermal origin (the specific thermal mix) at 0.04 t/GWh, according to the figure for the 100%-owned IBERDROLA power plants in Mexico. It is hoped that this figure will remain on a similar order of magnitude in the future, because it reflects the best thermal technology available, namely, state-of-the-art gas combined cycle gas plants.

The following chart shows the emissions of the specific thermal mix for Spain.

THE NO_x THERMAL MIX EMISSION FACTOR. IBERDROLA SPAIN (t/GWh)



The indicator for NO_x emissions in the specific thermal mix in Spain showed a decreasing trend in recent years, because (as explained earlier) the increase in thermal production with coal this year caused specific changes in the trend. Thanks to the replacement of the thermal technologies, this trend will continue over the next few years, in accordance with the goals of the strategic plan and the above-mentioned National Emissions Reduction Plan. The trend for the Spanish power plants for 2010 is 0.65 t/GWh.⁽²⁵⁾ Based on the positive experience at the Velilla thermal power plant, in 2007 a combustion control system was implemented at the Pasajes and Lada IV thermal power plants. This system has enabled a 15 to 20% reduction in the emissions of oxides of nitrogen.

The results for particulate emissions during the fiscal year are shown in the following chart. The primary source of the particles is the burning of solid fuels (coal). Because of the relatively low contribution of this technology to IBERDROLA's overall power generation, along with the incorporation of emissions control and minimization systems, these levels have remained at very low levels in recent years.

PARTICULATE EMISSIONS (T) 2007

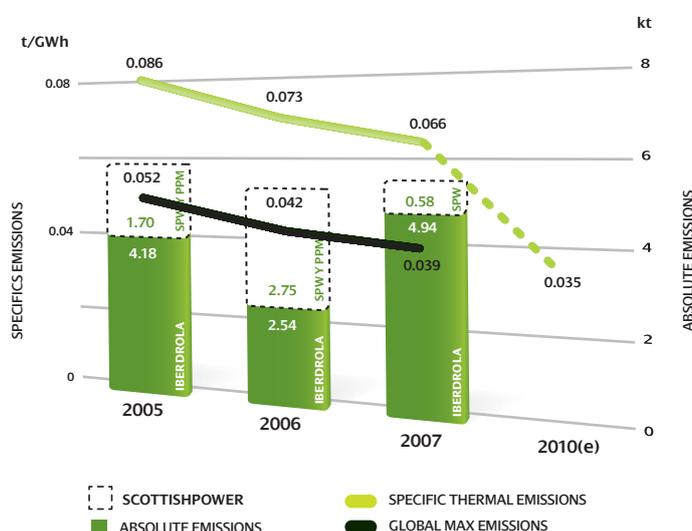
IBERDROLA Spain	2,529
Generation facilities	2,529
Cogeneration	-
IBERDROLA Latin America	656
Generation facilities	604
Cogeneration	52
IBERDROLA United Kingdom	1,742
Generation facilities	1,742
Cogeneration	-
IBERDROLA Affiliates	15
Generation facilities	5
Cogeneration	10
IBERDROLA Group	4,943
Generation facilities	4,881
Cogeneration	62

⁽²⁵⁾ According to the production projections for the various technologies.

The result of the global mix for sulfur dioxide emissions in 2007 was 0.039 t/GWh at the Group level. As a point of reference, the same mix for European electric power companies was on the order of 0.12 t/GWh.⁽²⁶⁾

The trend of IBERDROLA's particulate emissions figures in recent years is shown below, along with the figures for ScottishPower. Based on the results shown in the following chart, IBERDROLA's particulate emissions between 2005 and 2007⁽²⁷⁾ fell from 5,886 t to 4,943 t in 2007. This drop, taken together with the Group's overall production during the same period (i.e., 12.4%), reflects a significant reduction in particulate emissions for each kWh generated.

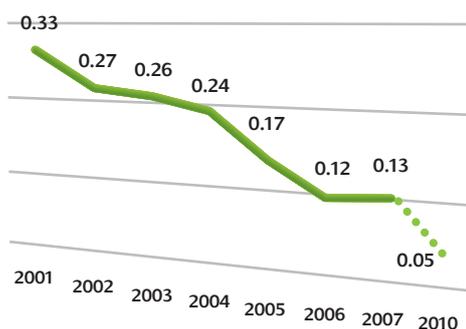
PARTICULATE EMISSIONS



The figure for absolute particulate emissions in Spain showed a significant reduction of 33%, despite the increase in production during the period

According to the emissions table, the combined cycle plants and the conventional thermal power plants in Spain and in the United Kingdom account for 88% of the IBERDROLA Group's emissions. The figure for absolute particulate emissions in Spain showed a significant reduction of 33%, despite the 3% increase in production during the period. The specific global mix in Spain fell from 0.06 t/GWh for IBERDROLA Spain in 2005 to 0.04 t/GWh in 2007. The following chart shows the emissions for the specific thermal mix in Spain.

PARTICULATE EMISSION FACTOR FOR THE THERMAL MIX. IBERDROLA SPAIN (t/GWh)



⁽²⁶⁾ Source: Environmental Statistics of the European Electricity Industry. Trends in Environmental Performance 2003 –2004. Eurelectric. www.eurelectric.org

⁽²⁷⁾ Including, for comparative purposes, the SPW figures for the 2006 and 2005 fiscal years.

⁽²⁸⁾ This figure includes the SPW emissions since the month of April, when the merger with IBERDROLA took place. Furthermore, between January and April (prior to this merger), SPW emitted 581 t of particles.

OZONE LAYER-REDUCING EMISSIONS

The chlorofluorocarbon (CFC) substances long used as refrigerants and propellants are a threat to the ozone layer if they are released into the atmosphere. At IBERDROLA's facilities, ozone layer-reducing substances are present primarily in fire suppression equipment and cooling systems, and the equipment is maintained in accordance with the provisions of applicable regulations.

At the end of 2007, 118 equivalent kg of CFCs were inventoried, of which 96 equivalent kg were from the cooling systems of the Pasajes thermal power plant and 22 equivalent kg were from the Santurce thermal power plant, which in 2006 had 78 equivalent kg of CFCs.

The halon cylinders removed from the Cofrentes nuclear power plant in 2007 accounted for 1,335 kg, out of a total of 1,986 kg that had been installed in the plant.

The cooling systems of the various power plants and cogeneration facilities in Mexico were found to contain 110.45 equivalent kg of CFC-11.

The only atmospheric emissions originating from these confined products would be those arising from possible losses, which are practically negligible.

IBERDROLA's office buildings in Spain were found to contain 1,452.50 kg of R-22 coolant in their air-conditioning equipment. As specified by the international conventions on the management of chemical products that are damaging to the ozone layer, their use will be restricted in most countries starting in 2010. Therefore, IBERDROLA's policy is based on gradually reducing their presence in its facilities, as evidenced by the fact that the remainder present in 2006 was reduced by 47.1% as of the end of 2007.

⁽²⁹⁾ Reflects the figure for the 100%-owned IBERDROLA power plants in Mexico.

The indicator for particulate emissions for the specific thermal mix in Spain showed a decreasing trend in recent years, as shown in the preceding chart, due to the replacement of thermal technologies. This trend will continue over the next few years, in accordance with the goals of the Strategic Plan and the above-mentioned National Emissions Reduction Plan, which will become effective in 2008.

In the United Kingdom, absolute particulate emissions (attributable) consisted of 1,742 t in 2007.

Regarding the specific global mix in the United Kingdom, the figure was 0.09 t/GWh in 2007.

In Latin America, the total volume of particulates rose in comparison with 2006, at 0.6 kt versus 0.2 kt, due to greater production and the inclusion in 2007 of the Altamira V figures, thereby reducing the figure for particulate emissions per thermal GWh (the specific thermal mix) from 0.08 t/GWh to 0.02 t/GWh.⁽²⁹⁾ It is hoped that this figure will remain on a comparable order of magnitude in the future, because it reflects the best thermal technology available, namely, state-of-the-art combined cycle gas plants.

Biodiversity

The Company's activities have effects on biodiversity, as described in the document entitled "Introduction to the concept of biodiversity management at the company" ["Introducción a la gestión de la biodiversidad en la empresa"] on the website.

The biodiversity management policy and the highest-priority actions are reflected in the section entitled "Management strategy and focus." The presence of the Company's various businesses in protected areas and the progress made in each of them in 2007 are described below.

Spain

Deregulated Business

- **Presence in protected areas.** According to available data, the presence of dams in biosphere reserves, national parks, *Ramsar* wetlands, and natural parks represents 1.17% of the protected areas in which they are located. Furthermore, the managed dams include 13,271 hectares located in Nature Network [Red Natura] areas (Special Bird Protection Areas (ZEPAs) and Common Interest Areas (LICs)).
- **Progress in 2007.** The year was highlighted by the publication of the Deregulated Business Biodiversity Plan [Plan de Biodiversidad de Negocio Liberalizado], which includes significant activities in terms of water resources, with a grant of 1,818,868 euros. Within the framework of the Plan, various adjustments have been made within the facilities (including water-oil separators, oil splash detectors, impounding basins and leak collection trays, improved residual water discharge installations, the installation of oximeters, etc.). The budget allocation has been increased, as has the quality of the barriers, controls, and other physical means of containing and absorbing accidental spills. Channels have been fenced in prevent animals from falling into them, and sediment-removal activities have been performed in the reservoirs, etc.

• The following actions are also noteworthy:

- Limnological follow-up studies of the Agavanzal, San Roman, Azutan, and Valdecañas dams.
- Water-quality control measures for the Tormes and Tera rivers.
- A study of the ecological condition of the regulated Tormes River.

- An environmental diagnostic study of the dams in the Tajo system associated with IBERDROLA's hydroelectric resources.
- Research studies of the environment and water quality in Extremadura, within the framework of the Cooperation Agreement signed with the University of Extremadura, with a grant of 50,000 euros.

Networks Business

- **Presence in protected areas.** IBERDROLA's very high voltage lines cover a length of 6,312 kilometers, 17% (1,069 km) of which is located in protected areas.⁽²⁶⁾ The medium and high voltage lines cover a length of 97,049 kilometers, 18.5% (17,956 km) of which is located in protected areas.
- **Progress in 2007.** Agreements were signed with government agencies and with NGOs basically intended to minimize the risk to avian fauna posed by existing facilities, with a total grant of 540,110 euros. Activities like the following ones were performed within the framework of these agreements:
 - A cooperation agreement with the Department of the Environment and Land Management [Departamento de Medio Ambiente y Ordenación del Territorio] of the Basque Government to improve the overhead electrical power lines located near the Urdaibai Biosphere Reserve (Vizcaya) and adapt them for cohabitation and protection of local avian fauna. The Company will take advantage of these new reforms to test the latest developments aimed at minimizing the environmental impact of the electrical installations, such as laminated wood crosspieces.
 - A cooperation agreement between the Government of Navarra and Iberdrola Distribución Eléctrica S.A.U., regarding the modification of 21 overhead electrical power lines in Navarra, in order to reduce the impacts on avian fauna in protected natural spaces.
 - The correction of electrical lines in the Valderejo Natural Park (Álava).
 - The 2007 Pilot Project for changing the habits of the white stork in Extremadura, in conjunction with the Spanish Ornithology Society.

Other activities were also performed:

- An Agreement with the management of the Albufera Natural Park (Valencia) to install avian fauna protective means in the most sensitive bird-entry and –exit areas in the park. This measure consists of the installation of anti-collision bird-protection beacons and the insulation of the lines in the electrical towers or pylons in the natural park.
- The Company successfully completed its project to modify a 20-kilometer electrical power line in the Guadamur area (Toledo) that was viewed as posing a particular risk to birds. The project consisted of performing various actions intended to increase the distance between the electrical pole and the voltage line, so as to prevent accidents to larger birds.
- IBERDROLA has signed an agreement with the Sustainable Development and Land Management Council [Consejería de Desarrollo Sostenible y Ordenación] of the Murcia Region, for an investment of almost one million euros to preserve species threatened by the hazardous electrical lines located in the Special Bird Protection Areas (ZEPAs) in Murcia. Specifically, corrective actions will be performed on the supporting elements that pose a risk of electrocution for the birds in five ZEPAs and within a 500-meter perimeter. This initiative is part of a European Union Life project for the correction of hazardous electrical lines in ZEPAs in the Murcia region.
- Throughout the fiscal year, work was performed to bury underground a section of medium voltage overhead line that passed through the Clot de Galvany natural area in Elche (Alicante). These efforts are minimizing the visual impact of

THE EXTREMADURA AVIAN FAUNA PLAN

The year 2007 saw the successful completion of the Extremadura Avian Fauna Plan for preventing birds from coming into contact with the electrical power lines in this autonomous community.

This plan (the result of an agreement signed by the Chairman of IBERDROLA, the Minister of the Environment, and the Director of Agriculture and the Environment of the Autonomous Government of Extremadura) calls for an investment of 800,000 euros.

The main activities include increasing the insulation distance between the conductor and the pole crosspiece, installing a layer of insulating material on lengths of cable in risk areas, and replacing rigid insulation on the electrical poles with suspended insulation. Various anti-perching and anti-collision devices were also installed on the electric power lines.

UNITED STATES

- **Presence in protected areas.** The Company has no installations in protected areas.
- **Progress in 2007.** An area of 80 acres became available for habitat management in the area around the Pebble Springs wind farm, and 69 acres adjacent to Klondike 3 and Grass Valley. A financial contribution was also made for a study of prairie chicken in Kansas, and for a study of bats that cover wind facilities such as Maple Ridge and Casselman. The administrative manager has been appointed as a member of the U.S. Fish & Wildlife Service Advisory Committee for the preparation of directives regarding wind farms in the United States.

⁽²⁶⁾ The most typical representative areas for these infrastructures are the Common Interest Areas (LICs) and the Special Bird Protection Areas (ZEPAs).

ACTIVITIES INVOLVING VEGETATION IN SPAIN

- Regional line-maintenance guides are being prepared. In 2007 a pilot plan was implemented in Castellón. Similar plans are envisioned in five other areas for 2008, with the subsequent implementation of preventive activities including pruning, herbicides, etc.
- Plans allowing the lines to coexist with vegetation. The Company plans to prepare a general guide for all of its electric power lines. A guide was developed in 2007 for certain regions (North and West), and its implementation for the other regions is expected over the next few years.

WEB PIONEER IN THE BLACK LAW WIND FARM

In the United Kingdom, a new way was pioneered for sharing the results of environmental studies at the Black Law wind farm in Lanarkshire, through an external website aimed at the principal stakeholders. The project was designed as a platform for sharing information, including advances in knowledge, about the ecological situation, etc. Some of the participants are members of the Royal Society for the Protection of Birds, Scottish Natural Heritage, Natural England, the Countryside Council for Wales, and the Forestry Commission. Other participants are students who are performing research projects on the environment. The value of these initiatives was recognized through the Green Energy Award for the Best Environmental Initiative, which was awarded in December 2007.

the electric facilities on the landscape, eliminating three supporting elements that held up the overhead line that was replaced.

The pilot project to change stork nesting habits and prevent the birds from nesting in the supporting elements of electric power lines, which began in the year 2000 in Camarzana (Zamora), was successfully completed in 2007. Outstanding results were obtained, as well as a significant reduction in the frequency of service interruptions. The initiative consisted of the installation of new supporting elements, so that the birds would nest there instead of on the towers. A total of 70 electrical power-line supporting elements were released, and the storks did not return to 68 of them in order to build their nests, which represents a great success.

- Progress was made in new designs and in the installation of components to reduce the risk that the installations pose for avian fauna. One notable activity is the procedure for testing the "percha volante" ["flying pole"] (Masverde A-005) to protect raptor birds, and new components, such as the laminated wood crosspiece.

- Also noteworthy is a study of the risk of electrocution of the eagle owl by distribution facilities. The purpose of this study is to analyze the influence of electrocution incidents on electric power lines: the type, configuration, and function of the line or installation; the characteristics of the supporting element, crosspieces, and insulation; the physiography of the surrounding area; land uses and population; the environmental characteristics of the space; the biological moment of the specimen; the time of day; the circadian rhythm; and the general climatology or lighting conditions (moon). Based on these variables, conclusions can be reached regarding the risk factors, and recommendations for their minimization can be drawn up.

- In addition, various investments have been made that allow the visual impact of certain substations to be reduced by means of the reduction in size and burying of their overhead power lines, for an amount on the order of 60 million euros.

- Last, activities to raise employee awareness have been undertaken in the distribution area.

Renewables

• **Presence in protected areas.** As shown in the table at the bottom of the page, the presence of installations in protected areas is very slight.

• **Progress in 2007.** The following cooperation agreements were signed with government agencies, institutions, and environmental NGOs:

- A specific action agreement signed by Iberdrola Renovables de Castilla León and the Natural Heritage Foundation of Castile and Leon [Fundación Patrimonio Natural de Castilla y León], to establish the terms and conditions for cooperation in the development and implementation of a joint program for the conservation and management of the natural heritage of Castile and Leon. It is part of the development of the Framework Cooperation Agreement [Convenio Marco de Colaboración] signed by the Government of Castile and Leon and Biovent Holding, S.A., which established the guidelines to be followed for the preparation of the joint action program for the 2006–2011 period.

- A specific agreement between Iberdrola Energías Renovables de Andalucía and Fundación Doñana 21 for participation in the Doñana Solar Park Project.

PRESENCE OF RENEWABLE ENERGY FACILITIES IN PROTECTED AREAS IN SPAIN

Total area (Autonomous Communities) (in hectares)		Common Interest Areas (LICs)	Special Bird Protection Areas (ZEPAs)		IBERDROLA wind farms		
Total area, LICs (hectares)	% Territory CC AA	% Territory CC AA	Total area ZEPAs (ha)	% Territory CC AA	Total area en Nature Network (ha)	% in ZEPAs	% in LICs
50,649,688	11,909,636	22.21	9,237,745	17.95	139.14	0.00000399	0.00000858

The principal activities that were performed consisted of:

- The development of compensatory measures to improve the Calar del Rio Mundo River habitat, which is part of the Nature Network 2000.
- The burying of a section of an electric power line leading from the Maranchón park, likewise as a compensatory measure.
- Seeding for a raptor prey species in the area around the Atalaya de la Solana wind farm (Albacete).
- The monitoring of avian fauna and bats on wind farms in Castile–La Mancha.
- Activities for the development of the Bonelli's Eagle Conservation Plan in Castile and Leon, within the framework of the Specific Agreement with the Fundación del Patrimonio Natural de Castilla y León.
- A project to define the route, signage, beacons, infrastructure allocation, landscape restoration, and improvement of the Gran Recorrido Sendero de Sanabria trail habitat.
- Thematic outfitting and landscaping for the fieldhouse in the Valle de Iruelas park in Ávila.
- The refurbishment of overlooks and footpaths in the Batuecas-Sierra de Francia Natural Park (Salamanca).
- A classroom environmental education program in Higuera, Sisante, and Villacañas.

Activities have also been undertaken to contain discharges at wind facilities, to install grilles and gratings, and to fence in canals leading to and from hydroelectric reservoirs, etc.

The foregoing activities, along with the environmental impact studies, the implementation of previous environmental studies of avian fauna, the environmental restoration projects for wind farms and their implementation, the preparation of environmental evacuation routes, the archaeological and supervisory work, as well as the environmental follow-ups during the operational phase, have entailed an investment of 3,162,227 euros and an expense of 2,328,957 euros.

United Kingdom

- **Presence in protected areas.** There are no production facilities in protected areas in the United Kingdom.
- **Progress in 2007.** Notable in the management of ScottishPower are its Biodiversity Policy and its Biodiversity Action Plans for its sites. All of the power generation facilities currently have Biodiversity Action Plans.

These plans include various activities with goals that include the following: providing natural and artificial refuges for various types of birds and bats, and encouraging the availability of food for them (by increasing the diversity of the flora, etc.); encouraging the conservation of habitats for the development of individual species of flora and fauna; improving the management of arboreal and forest species; developing aquatic habitats; controlling plagues and animal diseases; limiting the use of herbicides, and implementing good practices for their use; planning work activities so as to minimize the impact during the breeding season; raising employee awareness; and facilitating fish travel (by means of fish ladders, the installation of counters to track the specimens that use them, etc.).

In 2007 the Longannet thermal power plant neared completion of the construction of a dike to encourage bank-swallow nesting in the Longannet Lakes. The Shoreham

LATIN AMERICA

- There are no IBERDROLA facilities in protected areas in Mexico.
- Regarding the Latin American companies in which IBERDROLA holds an interest, their activities in 2007 focused on the establishment of devices for reducing the risk of oil discharges from oil-hydraulic power units (IBENER hydroelectric power plants) and from transformers (Electropaz). Other activities include the use of insulated cable to prevent damage due to contact with flora and fauna (Coelga and EEGSA), and the implementation of reforestation projects, in which a total of 10,000 trees were planted in order to offset the cutting done for the passage of the electric power lines.
- Notable at Celpe is the work being done to identify and address the various different ecological regions of the State in order to draw up specific plans for maintenance activities, as well as an inventory of line information that will make it possible to determine the physical characteristics of the environment with regard to the activities to be performed in connection with each line. Celpe has also participated in the National Conservation and Management Program for Sea Turtles, and is cooperating with the Brazilian Urban Arborization Society.

Coelba has signed the following agreements:

- An agreement with the Living Forest Institute [Instituto Floresta Viva] NGO, with the goal of maintaining, with the participation of the local community, the recovery of 5 hectares of mangrove trees in the municipality of Mucuri.
- An agreement with the Beautiful Nature Environmental Group [Grupo Ambiental Naturaleza Bella] NGO, for the creation of ecological mini-corridors in the basins of the Cariaba and Mucugê rivers and at their intersections. The goal of this agreement is to restore the Atlantic forest areas, thereby cooperating with a national goal of zero deforestation, and to contribute toward the protection of water resources in the southern Bahia region.
- An agreement with the Catholic University of Salvador for the development of the Environmental Education Program of the Coelba Ecological Pathway. The goal of this agreement is to raise the awareness of young people and adults in middle and elementary schools about the importance of the use and conservation of natural resources, which activities are essential to sustainable development.

OTHER CORPORATE ACTIVITIES

In 2007, a cooperation agreement was signed with Fundación Tormes-EB for the development of IBERDROLA's Biodiversity Classroom, in order to train future environmental technicians for work at the national level. The Classroom is a forum for debate and national consultation on the subject. During 2007, three courses were taught, on environmental communication, bird conservation, and rural development. A total of 75 students participated, and the level of satisfaction was outstanding.

A cooperative agreement was also signed with the Spanish Ornithology Society for the conservation of the Cantabrian capercaillie. The project was submitted earlier to the Biodiversity Foundation of the Ministry of the Environment, which issued its approval.

In conjunction with the Global Nature Foundation, a cooperation agreement was developed for route signage and the creation of informative and educational posters that illustrate the environmental values of the Monfragüe National Park.

An exhibition of nature photographs entitled "The Root of All Things" [La Raíz de todas las cosas] was presented in San Sebastian, in cooperation with the Naturgintza Foundation and the Cristina Enea Foundation.

Through Iberdrola Renewables and in conjunction with the Biodiversity Foundation, the Company presented a Spanish version of the BBC documentary Earth: The film about our planet, whose goal is to show a vision of the planet based on its path around the sun during a one-year cycle. It uses the polar bear, the elephant and the whale to emphasize the diversity of wildlife, the climate and the landscape.

combined cycle power plant is continuing its work on planting autochthonous vegetation around the facility (which is a unique habitat), and has achieved the nesting of two peregrine falcons.

The Company's network organization in the United Kingdom has a Biodiversity Procedure that affects major projects, including the construction of overhead lines and substations. The procedure includes projects ranging from the planning and consultation phase to the development of specific plans for protecting the biodiversity and the habitats during the construction phase. Employees and contractors receive training about the plans, which when necessary include species identification and the procedures that must be followed to minimize the impact on nature or on the habitats. Consequently, post-construction follow-up and monitoring are an important part of the procedure.

Most of the goals established to improve the biodiversity in Renewables are achieved through the habitat management plans. These plans currently cover 3,400 hectares in operating wind farms, and 2,500 hectares in farms that are under construction. Funds have been provided for the Action Plan for the Community of Argyll and Bute, which has financed various projects managed by the community within its surroundings. Habitat management plans are in place at the wind facilities in Beinn an Tuirc, Cruach Mhor, Black Law, Beinn Tharsuinn, and Wether Hill, as listed in the following table.

Wind farm	Conservation interest
Beinn an Tuirc	Golden eagle
Cruach Mhor	Pallid harrier
	Short-eared owl
Black Law	Wading-bird species
Beinn Tharsuinn	Pallid harrier
	Black grouse
Wether Hill	Black grouse

Part of these habitat management plans were agreed upon in 2007 but will be implemented in 2008 (after the completion of construction). This portion includes the Dun Law, Greenknowes, Hagshaw Hill, and Whitelee expansions (some preparatory work in the managed habitat area has already begun at the Whitelee site.)

Agreements have been signed with government agencies, NGOs and other groups, representing a sum of approximately 2 million pounds. Examples include: Beinn an Tuirc: an agreement with the Argyll and Bute Council; the Scottish government and Andrew George Gemmell, for restoration activities; the Dun Law Expansion: an agreement with the Scottish Borders Council; RES Development Limited, John Hunt, Messrs. J.J. Patterson, for restoration, etc.

The Company's communications and dialog channels with nearby communities include community liaison meetings.

Water

Consumption

The principal water consumption at IBERDROLA's facilities is due to evaporation during the cooling process at the thermal power plants. As shown in the following chart, the volume of continental water consumed in Spain to cool the electrical power generation power plants is 28,189,533 m³. The volume consumed for processing water and auxiliary services at those plants was 4,195,337 m³ of continental water.

WATER CONSUMPTION AT IBERDROLA PRODUCTION FACILITIES IN 2007

	Consumption			
	Collection (m ³)	Cooling (m ³)	Process and Services auxiliary (m ³)	Discharge (m ³)
IBERDROLA Spain				
Generating facilities	1,520,187,660	28,189,533	5,359,513	1,487,130,085
Cogeneration	2,448,507	699,043	1,164,176	637,951
IBERDROLA Latin America				
Generating facilities	57,012,640	14,978,534	1,082,847	40,951,260
Cogeneration (2)*	54,765,169	13,131,411	869,616	40,764,142
	2,247,471	1,847,123	213,231	187,117
IBERDROLA affiliates				
Generating facilities	1,097,307,177	29,798,154	1,142,636	1,066,436,369
Cogeneration	1,096,108,387	28,976,301	806,328	1,066,372,228
	1,198,790	821,852	336,308	64,141
IBERDROLA Group**				
Generating facilities	2,674,507,477	72,966,221	7,584,997	2,594,517,713
Cogeneration	2,668,612,709	69,598,203	5,871,281	2,593,628,504
	5,894,768	3,368,018	1,713,715	889,210

(*The chart does not include figures from the United Kingdom. Only the volume collected in the generation and cogeneration facilities is available, i.e., 1,480,406,057 m³.

(**)No figures are given for the Energyworks Brasil and Capuava Energy cogeneration plants, because the water and steam are provided by the industrial user. The steam is received from the user at high pressure and is returned to the user at low pressure. Water treatment does not take place within the facilities.

Data on the discharge volume is the cooling return water plus effluents from the treatment systems. These volumes of flow are combined in a single collector and are discharged into the receiver. Water that has evaporated during the process and been released to the exterior, or that is sold commercially as steam in the cogeneration plants, is deemed to be consumed during cooling. In Spain, 51% of cooling consumption corresponded to the Cofrentes nuclear power plant, whose water consumption was reduced by 7% due to lower energy production, and whose ratio of water consumption to electricity generated (m³/GWh) was also reduced.

With regard to the remaining plants, the consumption of the new combined cycle plants is more efficient than that of the conventional thermal power plants, as shown in the chart.



IBERDROLA minimizes the risk of bird electrocution.

The cooling-water consumption ratio for thermal power generation at IBERDROLA decreased between 2005 and 2007

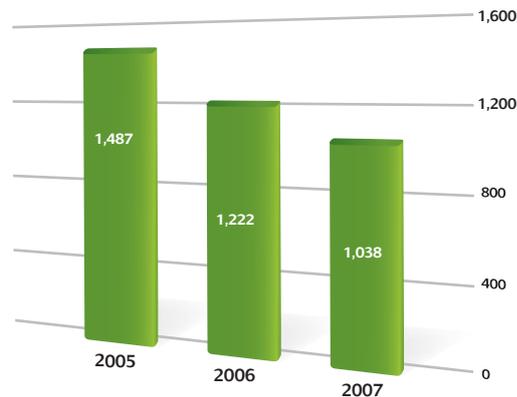
Therefore, the replacement of the conventional thermal power plants with the new combined cycle technologies has meant a decrease in consumption in relation to the electricity generated. This trend will continue in the next few years as a consequence of the gradual replacement of the technologies under the 2008–2010 Strategic Plan.

SPECIFIC CONSUMPTION OF COOLING WATER BY TECHNOLOGY

	2007
Combined cycle plants	912
Thermal power plants	1,605
Nuclear power plant (Cofrentes)	1,971

The chart reflects the reduction in the cooling-water ratio consumption for thermal power generation within the IBERDROLA Group from 2005 to 2007. The foreseeable trend, based on production projections for the combined cycle plants (growing) and the thermal power plants (decreasing) under the new Strategic Plan, is that the figure will continue to decrease between 2008 and 2010, due to the lower specific cooling consumption of the combined cycle plants.

SPECIFIC CONSUMPTION OF COOLING WATER (THERMAL MIX) (m³/GWh)



(*) To calculate the ratio of the specific consumption of cooling water (thermal mix) in the IBERDROLA Group, consideration was given only to the power plants with water consumption due to evaporation during cooling and their respective production. The figure for Spain includes the thermal power plants, combined cycle plants, cogeneration facilities, and the Cofrentes nuclear power plant. The figure for Latin America includes the combined cycle plants and the cogeneration facilities in Mexico. (**)The Latin American power plants were not included for 2005.

In Latin America the consumption of cooling water and the consumption of water for processing and auxiliary services increased in comparison with 2006, because the two new combined cycle plants (Altamira V and Tamazunchale) were operational during the year. In Latin America the ratio of the consumption of cooling water per GWh of thermal origin was 800 (m3/GWh), which reflects the Group's best figure.

Effluents

All of the power-generation plants in Spain have treatment systems that treat residual water prior to discharge into the natural receptor environment (sea, reservoir, or river). Water from the process undergoes a physicochemical treatment, which includes the separation of hydrocarbons. Wastewater is treated in compact treatment systems with biological aerobic processes. And coal plants have a treatment system for slag from the plant, which consists of a decantation–coagulation process that prevents the entry of particulate coal or coal in suspension into the receptor water.

In the thermal combustion plants, large volumes of water are collected for the cooling process. When this is in a closed system, part of the water, normally fresh water, evaporates and the remainder is returned to the environment with no significant alteration of its physicochemical characteristics. Most plants with an open cooling system collect water from the sea and return virtually all of it.

In both systems (closed and open), the cooling return water dilutes the previously treated process-water and wastewater effluents, ensuring that the contaminant load of the discharge is minimal. Furthermore, despite an increase in temperature, it does not negatively affect the natural receptor environment, because of its dilution effect. In some cases the discharge has a positive effect on the receptor environment. For example, the Altamira III and IV power plant discharges into the Garrapatas estuary, which had lost its brackish nature due to the blocking of the entry of seawater, with the consequent desalinization of the ecosystem. The discharge has increased the salinity and led to the recovery of its flora and fauna, as shown in the following chart.

ORIGIN OF THE COLLECTED WATER AND DISCHARGE LOCATION OF EFFLUENTS FROM THE IBERDROLA GENERATION PLANTS IN SPAIN AND MEXICO (2007)

Spain	Origin of the cooling water	Origin of the process water and auxiliary services	Discharge point
Aceca combined cycle (*)	Tajo River	Tajo River	Tajo River
Arcos combined cycle (*)	Gudalcacín Reservoir	Gudalcacín Reservoir	Gudalcacín Reservoir
Castellón combined cycle (**)	Mediterranean Sea	Gumbao Well and the urban network	Mediterranean Sea
Castejón combined cycle (**)	Ebro River	Ebro River and wells	Ebro River
Santurce combined cycle (**)	Cantabrian Sea	Urban network	Cantabrian Sea
Cofrentes nuclear plant (*)	Júcar River	Júcar River	Júcar River
Aceca thermal power plant (*)	Tajo River	Tajo River	Tajo River
Castellón thermal power plant (**)	Mediterranean Sea	Underground collection	Mediterranean Sea
Escombreras thermal power plant (**)	Mediterranean Sea	Taibilla Canal, urban network	Mediterranean Sea
Santurce thermal power plant (**)	Cantabrian Sea	Urban network	Cantabrian Sea
Lada thermal power plant (*)	Nalón River	Nalón River	Nalón River
Pasajes thermal power plant (**)	Cantabrian Sea	Urban network	Cantabrian Sea
Velilla thermal power plant (*)	Carrión River	Carrión River	Carrión River
Mexico			
Dulces Nombres combined cycle (Monterrey) (*)	SADMON Treatment Plant	SADMON Treatment Plant	Public treatment system
Altamira III y IV combined cycle (*)	Sea, Gulf of Mexico	Sea, Gulf of Mexico	Garrapatas Estuary / Sea (Gulf of Mexico)
Altamira V combined cycle (*)	Sea, Gulf of Mexico	Sea, Gulf of Mexico	Sea, Gulf of Mexico
La Laguna combined cycle (*)	Black water, Municipality of Gómez Palacio	Black water, Municipality of Gómez Palacio	Public treatment system
Tamazunchale combined cycle (*)	Moctezuma River	Moctezuma River	Moctezuma River
Enertek cogeneration facility (*)	Tamesí River, supplied by the user	Tamesí River, supplied by the user	User's treatment system
Monterrey cogeneration facility (*)	Aquífer, supplied by the user	Aquífer, Jagüey and Cervecería well	Private treatment system

(*)The generation plants that are cooled with continental water also have their discharge point in continental waters, which does not significantly alter the physicochemical characteristics of the receptor body of water. The Enertek and Monterrey cogeneration facilities do not have a cooling circuit, because the steam is sold commercially.

(**)The generation plants with an open cooling circuit collect from, and discharge into, the sea.

An exhaustive inspection was performed of the water used in the direct production process was performed at the Cofrentes nuclear power plant. All of the effluents from the water-steam cycle, from the reactor coolants, and from the auxiliary systems are processed in the Liquid Radioactive Waste Treatment System and are returned to the cycle for reuse. On an exceptional basis, during maintenance shutdowns, liquid discharges are produced that are mixed with purified wastewater effluents and with the effluents from the collected-water treatment plant. It is stored in pools and is discharged periodically under the supervision of a representative of the Water Board.

IBERDROLA's power generation plants in Spain and in Latin America control the quality of the effluent through the use of devices that continuously measure its temperature, conductivity, and turbidity. Monthly or quarterly analyses are performed by an accredited organization and reported to the government. The total values of the most representative parameters are reflected in the following charts. At some facilities in Mexico, such as La Laguna and Dulces Nombres, the water that is collected for use in cooling is of very poor quality, and a purification treatment must be performed prior to its use. Consequently, the water that is discharged into the environment is of better quality than the water that is collected.

EFFLUENTS (PARAMETERS). IBERDROLA SPAIN*

Parameters Spain	pH	Solids in suspension (kg)	DBO5 (kg)	DQO (kg)	N-total (kg)	P-total (kg)
Generating facilities						
Installation discharge	7.93	83,573	37,100	219,813	36,767	2,019
Cogeneration**						
Installation discharge	8	16	24	1513	0	0

(*) The figures correspond to the effluents from the treatment systems for the combined cycle plants, the thermal power plants in Spain, the Cofrentes nuclear plant, and the EnergyWorks. Cogeneration facilities responsible for treating and purifying the water. Quantities are expressed in kg, taking into consideration the treated effluent (m³/year) and the concentration (kg/m³) of each parameter.

(**) Most of the cogeneration facilities in Spain are associated with an industrial process, and the party responsible for water management is specific to the process. Therefore, no information is provided about the quality of the water at these facilities.

COLLECTION AND EFFLUENT (PARAMETERS). IBERDROLA LATIN AMERICA*

Parameters Mexico	PH	Solids in suspension (kg)	DBO5 (kg)	DQO (kg)	N-total (kg)	P-total (kg)
Generating facilities						
Collection	7.9	2,281,415	141,090	502,901	199,593	62,376
Discharge	7.9	1,359,265	135,175	186,815	155,856	9,993
Discharge–collection	7.90	-922,149	-5,916	-316,087	-43,737	-52,383
Cogeneration						
Collection	7.9	1215.3	2184.0	8862.5	1981.0	1049.0
Discharge	7.5	1215.2	1675.1	7390.2	1489.6	191.1
Discharge–collection	7.71	0.0	-508.9	-1472.3	-491.4	-857.9

(*) The figures for Mexico are for the combined cycle plants and the cogeneration facilities. They are based on the water discharged into the receptor environment, which does not require prior purification treatment.

In 2007 the consumption of water by the offices of the IBERDROLA Group increased, with the inclusion of the data on consumable materials in the United Kingdom and for IBERDROLA Latin America.

WATER CONSUMPTION IN OFFICES AND FACILITIES (m³)

	2007	2006	2005
IBERDROLA Spain	241,959	201,690	219,885
IBERDROLA Latin America*	1,442	-	-
IBERDROLA United Kingdom*	62,813	-	-
IBERDROLA Affiliates	64,403	78,585	72,761
IBERDROLA Group	370,616	280,274	292,646

*This is the first year in which the figures include data from IBERDROLA Latin America 100% and IBERDROLA United Kingdom.

Other indicators

Accidental discharges

In 2007 there were no discharges with negative effects on the outside surroundings of the Company's facilities as a consequence of its activities.

ACCIDENTAL DISCHARGES (N°/YEAR)

	2007	2006	2005
IBERDROLA España	0	0	1
IBERDROLA Reino Unido	0	-	-
IBERDROLA Latinoamérica	0	0	0

During the course of the year, two incidents unrelated to the Company's activities occurred that had effects on the outside environment, which effects in any event were not persistent. Both of them occurred in connection with an attempted theft of equipment from the facilities, which caused the release of fluids into the environment. In the first instance, in October oil was discharged into the Serpis River. The events were reported to the competent authorities, and the Company took charge of managing the residues in a coordinated manner with the Júcar Hydrographic Association. The second event, which involved a discharge of fuel, occurred at the Maple Ridge wind farm. It was brought to the attention of the Environmental Control Department of the State of New York.

Plans to minimize the risk of spills at the generating facilities are being implemented. Within this framework improvements have been made in the thermal power plants, combined cycle plants, and hydroelectric plants. The distribution area also has a plan to minimize the risk of spills, such that in 2007 a total of 110 oil-collection sumps were built at substations, with an investment of 2,476,796 euros. Plans to minimize the risk of spills are also being implemented at Renewables.

Wastes

The most typical wastes produced by the generation process at thermal power plants consist of fly ash, slag, and nuclear waste. Of the former, 942,037 tons were produced in 2007, of which 94.3% was reused in cement production and as filler material in infrastructure projects. Similarly, 57,500 tons of boiler slag were produced, which were processed for disposal.

CONSUMPTION OF CHEMICAL PRODUCTS

The information provided in this section refers to the chemical products employed in the power generation processes – as derived essentially from the tasks consisting of the treatment of fumes and effluents, and from process conditioning activities – which are the most representative both quantitatively and qualitatively, because of their possible effect on the environment, as indicated in the following chart.

	2007
IBERDROLA Spain	
Sulfuric acid	3,545,676
Ammonia	26,336
Sodium hydroxide	1,620,745
Sodium hypochlorite	3,563,905
IBERDROLA Latin America	
Sulfuric acid	3,699,527
Ammonia	47,217
Sodium hydroxide	1,497,755
Sodium hypochlorite	1,514,361
IBERDROLA United Kingdom *	
Sulfuric acid	492,022
Ammonia	17,238
Sodium hydroxide	860,033
Sodium hypochlorite	7,034,207
IBERDROLA Affiliates	
Sulfuric acid	74,533
Ammonia	2,460
Sodium hydroxide	294,001
Sodium hypochlorite	253,114
IBERDROLA Group	
Sulfuric acid	7,811,758
Ammonia	93,250
Sodium hydroxide	4,272,534
Sodium hypochlorite	12,363,586

Figures for the use of chemical products at the Klamath plant (ppm) are not included.

ENVIRONMENTAL RADIOLOGICAL MONITORING PLAN

In Spain, the Nuclear Safety Council has an Environmental Radiological Monitoring Plan for the areas around your power plants. It consists of periodically taking samples, among other things, of air, water, soil, etc., to ensure that all of the parameters are within the established limits. Further information is available in the most recent report published by the Nuclear Forum, Energy 2006, available at www.foronuclear.org

The trend in the production and reuse of this ash (from the coal-fired plants) in Spain and in the United Kingdom is reflected below:

PRODUCTION/REUSE OF ASH FROM IBERDROLA THERMAL POWER PLANTS IN SPAIN AND THE UNITED KINGDOM

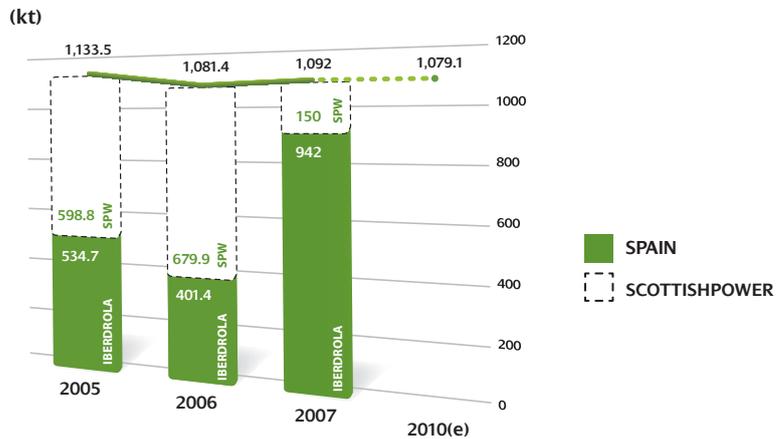
Year	Ash produced (t)	Ash reused (t)	% of the product reused
2007*	942,037	888,600	94.3
2006	401,490	370,170	92
2005	534,720	471,780	88

(* In 2007, with the acquisition of ScottishPower during the second quarter, a significant increase was observed in the total amount of ash produced. Accordingly, these figures include the ash (attributable) produced by the thermal power plants in the United Kingdom (450,117 tons of ash, of which 97% were reused).

As a point of reference, the European electric power industry produces an annual average of 42.7 million tons of fly ash, of which approximately 48% is reused in the construction sector (Source: ECOBA (European Coal Combustion Products Association), data for 2005, www.ecoba.org).

The following chart shows a decreasing trend in ash production for the period from 2000 to 2007, due to the reduction in coal production in favor of higher combined cycle production. This trend, which has been moderate until now due to fuel and CO₂ prices, will become more pronounced in the future due to the internalization of the higher cost of CO₂, and because of the entry and operation of the combined cycle plants called for in the new Strategic Plan, as illustrated by the projection (based on the expected production) for the period between now and the year 2010.

WASTES. ASH PRODUCTION TREND



The Cofrentes nuclear power plant (Valencia).

With regard to the nuclear power plants, they produce radioactive wastes which is treated, in Spain, in accordance with the General Plan for Radioactive Wastes, which the government approves, and which is implemented by the Radioactive Waste Management Company [Empresa Nacional de Residuos Radiactivos] (ENRESA), which was created in 1984. The management of this waste is regulated by a broad legal framework, which specifically considers all of the activities related to the processing and financing thereof. Of all of the radioactive waste produced by nuclear power plants, approximately 99% is intermediate low level (with negligible heat emission), and only 1% is high-level waste (with substantial heat emission).

Low- and intermediate-level waste is stored in a plant intended exclusively for this purpose in El Cabril (Córdoba), which is managed by ENRESA. Radioactive waste from hospitals, universities, and research centers is also stored at this facility. As for spent fuel, after it is removed from the reactor, it is considered a high-level waste and is temporarily deposited in the plant's own pool. Because the capacity of these pools is limited, the solution specified in the 5th General Plan for Radioactive Waste is to have an Interim Centralized Storage [Almacén Temporal Centralizado (ATC)] site for all of the Spanish power plants.

In 2007, the Cofrentes plant produced a total of 195.8 m³ of intermediate- and low-level radioactive waste, i.e., materials ready to be stored at the El Cabril site. This volume is within the goal (< 198 m³) set for the fiscal year by the plan for the minimization of the plant's intermediate- and low-level radioactive waste. The rest of the nuclear power plants in which IBERDROLA holds an interest produced 198.61 m³ of intermediate- and low-level radioactive waste (a figure corresponding to the percentage interest held by the Company).

Hazardous waste

The various areas of the Company carry out activities designed to minimize, and improve the management of, the hazardous waste that is produced. The facilities located in Spain have plans for waste minimization, and are continuing with the construction or renovation of oil-collection sumps to minimize the risk of spills at electrical transformer substations. Likewise ongoing is the ELIRE program for replacing transformers that use oil containing polychlorobiphenyls (PCBs) with dry transformers at the hydroelectric power plants. Furthermore, no facilities were dismantled in 2007, although major transformers were relocated in certain hydroelectric power plants, and a scheduled shutdown took place at one combined cycle power plant in order to replace the collected oil, with a resulting increase in the amount of used oils.

The Company's power plants in Latin America (Mexico) have the specific goal of reducing the quantity of oil-soiled rags generated by their maintenance activities. Also noteworthy is the pilot plan for the repair of burned-out transformers initiated at EEG-SA (the distribution company in Guatemala), with the goal of reducing the amount of scrap and recycling the materials. In the United Kingdom, ScottishPower has established goals regarding wastes, such as the conduct in 2007 of audits associated with the minimization of gas storage facilities, whose results will serve as the foundation for identifying the goals for reducing them and for improving their management at the installations. Likewise noteworthy is the fact that the desulfurization project that is underway at the Longannet power plant has led to an increase in the normal volume of its wastes, and, on the other hand, has produced a slight increase in the amount of ash produced and not reused in comparison with the previous year. The generation of hazardous waste is described in detail below.

GENERATION OF HAZARDOUS WASTE (t)*

	2007	2006	2005
IBERDROLA Spain	11,194	7,796	10,549
IBERDROLA United Kingdom**	94,506	-	-
IBERDROLA Latin America***	61,769	176	200
IBERDROLA Affiliates	813	8,653	11,024
IBERDROLA Group	168,282	8,653	11,024

*PCBs pending elimination are not included. **Attributable quantity.

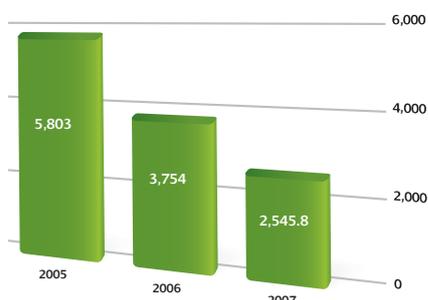
***The increase over previous years is largely due to entering the acid and alkaline solutions in EnergyWorks Brazil water demineralisation chains.

ELIMINATION OF PCBs

Polychlorobiphenyls (PCBs) are substances that are not produced by any of the Company's activities, but rather are sold by the manufacturers of electrical equipment and used essentially in transformers and capacitors, due to their excellent dielectric properties.

Because of their harmful effects, they must be eliminated by their owners by the dates specified in the applicable legislation (2007 in the Autonomous Community of Valencia and 2010 in the rest of the country). The Company's possession of PCBs is limited to Spain, primarily in the electric power distribution area, as shown in the chart.

PCBS PENDING ELIMINATION IN DISTRIBUTION (t)



EFFICIENCY ACTIVITIES IN LATIN AMERICA

Among the distribution companies in which IBERDROLA holds an interest in Latin America, the following notable activities are underway at Coelba:

- A project to raise awareness in communities in the interior of the state of Bahia. The goal is to train citizens in the efficient use of energy. The project, which is underway in the academic community, has consisted of a training course for teachers, and lectures for the parents of the participating students and for the community in general. It also includes the distribution of compact fluorescent light bulbs and a lottery drawing for efficient household appliances.
- A project for the donation of efficient equipment to low-income consumers in residential communities, with the goal of replacing 8,497 pieces of equipment with other, more efficient ones, along with the replacement of 65,663 incandescent light bulbs with compact fluorescent light bulbs (CFLs).
- Various efficiency projects for hospitals and companies, which include measures to improve lighting and replace equipment (efficient air-conditioning equipment, high-performance motors, etc.). Public lighting is also being improved, with the replacement of 600 incandescent light bulbs in the traffic-light signaling systems with high-efficiency lighting sets developed using light-emitting diode (LED) technology.

Various efficiency projects are also underway at Cosern and Celpe for hospitals, companies, universities, and public institutions, which projects include the replacement of light bulbs and also training and consciousness-raising programs.

⁽³⁶⁾ The section entitled "Balance of Electrical Energy" in the Electrical System report for the last fiscal year.

place, along with consciousness-raising campaigns that lead to the adoption of good environmental practices by employees. These activities are accompanied by the replacement of wastepaper bins in buildings with others that collect refuse selectively, as well as containers for the collection of batteries, telephones, etc.

Efficient products and services

The energy provided in 2007 to the Company's users in Spain comes from a wholesale electricity market, which includes energy from the Spanish peninsular electrical power system. The primary sources of energy for the peninsular electrical power system are shown at the website of the operator of the electrical power system, http://www.ree.es/sistema_electrico.⁽³⁶⁾

For the United Kingdom, this information is available at the ScottishPower website, http://www.scottishpower.co.uk/Hone_Energy/Customer_Services/Where_we_get_our_energy/.

In addition to electricity, IBERDROLA and its subsidiaries provide to their customers a wide range of products and services that promote energy efficiency and savings. They also help users reduce the environmental and economic impacts of energy use. The chart shows the products and services offered in Spain.

PRIMARY ENERGY SAVINGS BY PRODUCT/SERVICE (MWh/YEAR)

	2007	2006	2005
Solar photovoltaic energy	8,057	5,342	9,000
Lighting flow regulators	145	487	0
Energy Management System	0	1,666	4,000
Audits with the adoption of energy-saving measures	7,459	10,244	--
Other savings and efficiency measures	1,109		
Total savings (MWh/year)	16,770	17,739	13,000

In 2007, a total of 579,789 MWh of green energy were supplied in Spain. Audits and energy plans were also presented (although actions involving efficiency measures have not yet been implemented), with estimated savings of 12 MWh/year.

Other efficiency measures consisted of the installation of efficient air-conditioning and heat-pump equipment, and the implementation of conservation and efficiency campaigns.

In the United Kingdom, the following activities are notable:

- The second phase of the Energy Efficiency Commitment was successfully completed, and ScottishPower became the first company in the United Kingdom to reach the energy savings goals established by the government, with an investment of 150 million pounds in these activities. A saving of 14 terawatts was also achieved over the course of the three years of the program, and the goals were reached within the specified time period. The actions that were implemented include the following notable ones:
 - The lining of hot-water boilers.
 - Improved insulation.

- The commercial sale of more efficient boilers.
- The distribution of low-consumption light bulbs.
- Fuel replacement.
- More efficient household appliances.
- **The messages about energy efficiency** are being transmitted to a broad audience through various channels.
 - All of the invoices sent to users include the number of the toll-free telephone line for energy-efficiency advice and energy-saving recommendations. More than 14,000 calls have been handled.
 - A primary multimedia campaign is based on the dissemination of energy-efficiency messages.
 - The website has a section dedicated to energy efficiency and green energy, and has a carbon counter to help users calculate their carbon footprint.
- A **pilot program** has been launched to **reduce energy demand**. This program has been designed to observe the measures that may be implemented to reduce the amount of energy used by consumers and the manner in which they use it. The project was launched in April 2007 and will be concluded in February of 2010.
- The Green Energy Fund will be used and promoted. This fund has financed 92 small-scale renewable energy projects within the community. Between April and December of 2007 it financed another 16 projects, in the amount of 190,850 pounds.
- The school program is continuing, to encourage school-age children to learn about the importance of energy efficiency, with the participation of Friends of the Earth Scotland.
- Green Energy H2O is linked to our large-scale hydroelectric power plant, and the product of the Green Energy Fund is contributing 10.50 pounds sterling per user and per year to the Green Energy Fund.

Compliance

The information provided in this section relates to the legal proceedings initiated against companies that are managed correctly by IBERDROLA and in which the Company holds a 100% interest.

Thus, in 2007 three environmental legal actions were initiated in connection with the distribution activity in Spain, with a petition for the imposition of fines in the amount of 16,200 euros:

- A case brought by the Autonomous Community of Madrid due to a fire that occurred in the municipality of Valdemorillo, which is currently pending resolution.
- Two cases involving claims of noise pollution from two transformer stations: one in Madrid, which is currently in the argument phase, and the other in Zamora, which was resolved by mutual agreement.

With regard to earlier proceedings pending resolution, grouped by type, the following steps have been taken:

- The provisional filing of the claim regarding electromagnetic fields by the Gladiolo y Nogal residential complex in Madrid. The files regarding real property in Móstoles and Majadahonda (Madrid) are in the pretrial phase. Furthermore, an appeal is pending before the Supreme Court of Navarra in proceedings regarding real property located in Estella (Navarra). A claim regarding real property located in Murcia is also pending resolution, as is a claim in Burriana (Castellón) that was appealed on administrative grounds.
- The provisional filing of the claim in the preliminary proceedings regarding a fire.

BIOCLIMATIC ARCHITECTURE

Iberdrola Inmobiliaria's activities are highlighted by the promotion of developments designed using bioclimatic and ecological criteria, taking into consideration factors such as the orientation of the housing units, cross-ventilation, thermal inertia, the differentiation of recessed areas in facades, a collection elements in winter, natural lighting, low-consumption gardens, the reuse of gray water, etc., using ecological materials, landscaped terraces, efficient equipment, and renewable energy.

In 2007 construction was begun in Spain of a development consisting of 25 detached duplex housing units that have these characteristics. Also in progress are 239 detached duplex housing units, 1,032 block apartments, and four 21-story office towers, with a total of 91,000 m² above street level and 42,000 m² below street level. All of these projects entail an overall investment (implementation budget) of more than 144.5 million euros.



IBERDROLA's bioclimatic housing units.

that occurred in 2005 on property located in Torrelodones. Furthermore, the case involving a fire on property located in Salamanca was settled by mutual agreement. A preliminary appearance was also made in proceedings in Yeste (Albacete). The case involving a fire in a residence in León is awaiting a decision by the court, and preliminary proceedings are underway in the suit that was filed in connection with a fire caused by heavy winds in the municipalities of Eslida, Ahín, and Chóvar (Castellón).

- With regard to noise pollution, the claim regarding real property located in León was settled through a mutual agreement regarding acoustic insulation, and a motion for dismissal was filed in the case involving a claim regarding real property in Madrid.

Investments and expenses

In 2007, expenses in the amount of 66,505 thousand euros were incurred, which included those arising from direct and indirect activities with an environmental component. The expenses relating to ecological fees and taxes exceeded 17,900 thousand euros, and fines amounted to the sum of 448,000 euros. Direct investments during the 2007 fiscal year totaled 171,795 thousand euros. Notable among the major investments made by ScottishPower, totaling more than 130,000 thousand euros, is the investment in the desulfurization project at the Longanet thermal power plant.

As for the possible environmental contingencies that may arise, the Group believes that they are sufficiently covered by the civil liability insurance policies that it has obtained and by the reserves that it has created and maintains for such purposes. Specifically, 18,095 thousand euros have been allocated as environmental reserves.

ENVIRONMENTAL EXPENSES (Thousands of euros)

	2007	2006	2005	2004
IBERDROLA Spain	9,731	49,483	72,630	43,363
IBERDROLA Latin America	14,051	3,797	7,141	-
IBERDROLA United Kingdom*	42,723	-	-	-
IBERDROLA Group	66,505	53,280	79,771	43,363

*Inclusion of ScottishPower within the IBERDROLA Group in 2007

ENVIRONMENTAL INVESTMENTS (Thousands of euros)

	2007	2006	2005	2004
IBERDROLA Spain	29,401	94,216	59,057	63,836
IBERDROLA Latin America	10,929	-	-	-
IBERDROLA United Kingdom*	131,465	-	-	-
IBERDROLA Group	171,795	94,216	59,057	63,836

*Inclusion of ScottishPower in the IBERDROLA Group in 2007

Bases for preparation of the environmental information

The section entitled "Commitment to Sustainable Development" contains information about the coverage of the environmental information, the basis for its preparation, the organization's environmental interest groups, details about the subjects that are relevant to those groups, and the criteria for ultimately deter-



mining those that are considered essential. This section also contains specific information about the communications process with the major environmental groups with which the Company is associated.

The information contained in this section takes into consideration the expectations of the environmental groups with which the Company is associated and focuses on the major environmental issues that affect IBERDROLA's activities. It is divided into two well-differentiated parts. The first one describes the environmental management Strategy and focus, and the second one relates to the performance indicators. In both cases information is provided about the activities of the companies managed directly by IBERDROLA and by other companies within the Group (subsidiaries), with emphasis on the former.

The environmental mailbox, medioambiente@iberdrola.es, is available for any suggestions, questions, or clarifications regarding the environmental information contained in this report. The contact person for this information is Carlos Fernández Briones, the Corporate Environmental and Quality Director, who can be reached by telephone at 915 77 65 00.

The information about the performance indicators reflects the Company's environmental results in relation to the criterion consisting of the indicators for the production facilities:

- The information reflects the results of the 100%-owned IBERDROLA facilities in Spain. It reflects the results of Iberdrola Generación, Iberdrola Energía Renovables, and Iberdrola Cogeneración, and of IBERDROLA's subsidiaries.
- Separately, it reflects the same results of the 100%-owned IBERDROLA facilities in Latin America, which are the same as those of the Company's electrical power generation and cogeneration plants in Mexico and those of the cogeneration plants in Brazil.
- It also reflects separately the same results of the 100%-owned IBERDROLA facilities in the United Kingdom through ScottishPower and its 100%-owned subsidiaries (electrical power generation plants and cogeneration plants).*
- Last, the information indicates the overall results of the IBERDROLA Group, which consists of the 100%-owned IBERDROLA facilities in Spain, Latin America, and United Kingdom, as well as the results of the facilities in which the Company holds a percentage interest. These facilities are the subsidiary electrical power generation plants (the Bahía de Bizkaia Electricidad, Tarragona Power, and Termopernambuco combined cycle plants), the Itapebi and IBENER hydroelectric power plants (Peuchen and Mampil), the subsidiary nuclear power plants, the Iberdrola Cogeneration power plants in which the Company holds less than a 99% interest, and the subsidiary renewable facilities. This section also includes the figures for the PPM thermal and cogeneration power plants, taking into consideration the fact that the Company held a percentage interest in the principal (Klamath) facility during the majority of the year, and the fact that they have belonged to Iberdrola Renewables, S.A. since the end of November. The results for these facilities reflect the amounts that correspond to the percentage interest.
- In each instance the results of the electrical power generation plants are separate from those of the cogeneration plants, due to the substantial differences between these two types of production and due to the management capacity, which in the latter case is determined by the industrial facility.

OTHER PERFORMANCE INDICATORS

- The information reflects the results for the 100%-owned IBERDROLA companies in Spain.
- The results for the 100%-owned IBERDROLA companies in Latin America are shown separately.
- The results for the 100%-owned IBERDROLA facilities in the United Kingdom through ScottishPower and its 100%-owned subsidiaries are also shown separately.*
- Last, the results for the IBERDROLA Group include those of the 100%-owned IBERDROLA companies in Spain and Latin America with those of the companies in which IBERDROLA holds a percentage interest (Coelba, Cosern, Celpe, Electropaz, Elfeo, EEGSA, Trelec, and ESSAL, in addition to the ones mentioned earlier), and reflect the figures that correspond to the percentage interest.

This presentation of the results for the performance indicators entails the use of a data-consolidation method that is similar to the one that was used in the preceding fiscal year, with the addition of the information about ScottishPower as a new factor. Some of the charts break out the results for ScottishPower separately from those for the rest of the Company, so as to make it possible to follow the trend of the figures for recent fiscal years using the same information perimeter.

*In these cases the figures for the fiscal year are prorated, taking into consideration the inclusion within IBERDROLA in April 2007.



The value of people

Social Information

IBERDROLA is committed to using best practices in its relations with employees, shareholders, users, suppliers, regulatory authorities and the media. In addition, it is deeply involved in the societies in which it operates.

- HUMAN RESOURCES
- SHAREHOLDERS AND THE FINANCIAL COMMUNITY
- REGULATORY AUTHORITIES
- USERS
- SUPPLIERS
- THE MEDIA
- SOCIETY

HUMAN RESOURCES: PEOPLE ABOVE ALL

Labor practices and work ethics

The Code of Professional Conduct, approved on February 27, 2002 and amended on June 26, 2007, is the document that formalizes the principles, values and standards of conduct of the professionals of the IBERDROLA Group. It was conceived to support the Strategic Plan and as a reference guide for all players with whom the IBERDROLA Group interacts: shareholders, professionals, users, suppliers, competitors, the authorities and markets in general. It is available on the "Employee Portal" and on the Company's website: www.iberdrola.com.

To supplement the Code, in 2007, the Board of Directors of IBERDROLA approved the Corporate Social Responsibility Policy which, among other things, sets the following objectives:

- To respect all human rights and, in particular, those whose violation degrades workers as a group, rejecting child labor and forced or compulsory labor.
- To develop a favorable framework of labor relations based on equality of opportunity, non-discrimination and respect for diversity, promoting a safe and healthy environment and facilitating communication with the workforce.

The Code of Professional Conduct applies to all companies forming part of the Group, regardless of their geographical location. ScottishPower has its own code of conduct and disciplinary rules, which are also applied by PPM. This code acknowledges the commitment of workers to protect the best interests of the Company and lists the corrective actions to be applied in those situations that require it. It also states that, in case of doubt or in circumstances not specified in the code, employees are to seek guidance from their immediate supervisor or the Human Resources Division to resolve them.

Objectives and policy

In the second half of 2007 the IV Collective Bargaining Agreement of the IBERDROLA Group was signed, effective from January 1, 2007 through December 31, 2010. It applies to IBERDROLA S.A., Iberdrola Generación, Iberdrola Distribución, Iberdrola Operación y Mantenimiento and Iberdrola Renovables. It will

CODE OF CONDUCT

The general rules of professional conduct focus on the following aspects:

- Compliance with the law. Professionals shall comply strictly with the law applicable at the place where they carry out their activities.
- Commitment to human and labor rights recognized in domestic and international legislation and to the principles of the UN Global Compact, UN regulations on the responsibilities of transnational companies, OECD guidelines for multinational enterprises and the Tripartite Declaration of the International Labor Organization on Principles concerning Multinational Enterprises and their Social Policy. The IBERDROLA Group states its total rejection of child and forced or mandatory labor and pledges to respect freedom of association and collective bargaining, as well as the rights of ethnic minorities in the places where it does business.
- Observance of ethical professional conduct. The guiding principles to which the conduct of professionals shall conform shall be:
 - Professionalism based on diligent, responsible and efficient actions focusing on excellence, quality and innovation.
 - Integrity based on loyal and honest actions taken in good faith, objectively and in line with the best interests of the Group.

PRINCIPLES OF THE SCOTTISHPOWER COLLECTIVE BARGAINING AGREEMENT

- **Employment:** among other aspects, it governs the hiring of employees, payment of salaries, trial periods, restrictions on cooperation in activities that might entail competition for the company, confidentiality of information, termination of work, withdrawal, special payments, etc.
- **Labor unions:** it defines the objectives of labor union activities, the number of legal representatives, the information to be made available to the labor unions, the procedure for requesting information from labor unions, the time to be devoted to union activities, the dispute resolution procedure, etc.
- **Maternity:** it governs absences before the delivery, maternity leave, parental leave, leave in case of adoption, child-care leave, etc.

The IV Collective Bargaining Agreement of the IBERDROLA Group, effective through the end of 2010, was signed in 2007

also apply to all companies segregated from the above-mentioned companies in the future and which meet a number of conditions established in the Agreement itself, provided the Board of Directors so decides.

The IV Collective Bargaining Agreement will apply to all work centers and departments of the companies included within the scope of application thereof and located anywhere in Spain.

The agreement will also apply to all workers rendering services under an employment relationship with and for the account of such companies, regardless of the type of contract signed, the professional group to which they are assigned, their profession or their job. Expressly excluded from the foregoing are directors, department heads and specialized technicians on a level with department heads.

The agreement establishes the general principles governing the Company's activities and used as the framework to establish the Company's objectives. The following principles, objectives and commitments deserve particular mention:

Employment

- Maintenance of employment will be guaranteed through the use of reorganization or worker relocation policies. Should such policies not be sufficient, non-traumatic termination systems will be made possible that combine the interests of the companies with the interest of workers in maintaining employment and conditions of work. The objective is to ensure the viability of the companies and guarantee stable and high-quality jobs.
- The direct hiring of permanent employees of the Company will be guaranteed.
- The policy of carrying out core activities with the Company's own personnel will remain in place. Transitory labor requirements will be met in accordance with the law applicable at any time.
- The professional classification of IBERDROLA employees will be made by professional groups, according to the degree required, professional qualifications and occupational content. Professional groups will be used to adjust the positions to Social Security rates.
- The opportunity is offered to maintain employment policies that, without hindering the achievement of corporate strategies, reinforce and legally strengthen workers' guarantees of maintaining high-quality and stable jobs that guarantee the on-going enhancement of employability.
- The establishment of specific employee rotation measures to achieve organizational efficiency improvements.
- The Management of the IBERDROLA Group pledges, during the term of the current Agreement, to create a minimum of 500 new jobs at the companies that are within its functional scope.
- In line with the standards established in the companies' training plans, the number of persons hired for training may in no event exceed 4% of the headcount of the companies belonging to the IBERDROLA Group.

Most of the companies within the corporate group also include principles in their collective bargaining agreements governing employment, working hours, social security assistance, etc.

Relationship of the company with its employees

- The Management of the Company will establish the organization of work in accordance with applicable legislation and may make the required organizational adjustments in response to changes in the environment. The purpose is to improve competitiveness through the incorporation of new technology and to make it compatible with the maintenance of employment and the professional development of employees, while enabling access to employment for new employees.
- Employees shall normally work in the job to which they are assigned. However, if required and at the direction of the head of the department involved, they shall work in the department where their services are required, in each case observing legal provisions and the provisions of the IV Collective Bargaining Agreement.
- The conditions for hiring, promotion and filling of vacancies will be defined.
- Regulations will establish the work regimes, types of working hours, working hours, vacation, time off and leave.
- The salary structure, supplemental pay, other expenses and form of payment will be defined.
- The characteristics of the Social Security System supplemental to the General Social Security System will be established.
- The Benefits offered to employees will be specified, describing the conditions to be met to obtain them.
- Social and labor relations, the actions of labor union sections [secciones sindicales] and the duties of union representatives will be coordinated..
- If, as a result of the medical and professional report prepared by the Medical Services of the Company, the capacity of an employee to perform the his/her current duties is deemed to have been diminished and the employee does not obtain a declaration of permanent disability, such employee will be guaranteed that s/he will be appointed to fill the vacancy that is most suitable for his/her skills and professional knowledge. In each case, efforts will be made to do this within the employee's social environment and maintaining his/her original personal category or compensation level.
- Assurance will be given that if the Management of the Company cancels a position, the employee holding it will be assigned to another position commensurate with his/her skills and with the prior approval of the Company's Medical Services, complying with the requirements of applicable legal provisions.

Most of the companies within the corporate group also include principles in their collective bargaining agreements governing the company's relationship with its employees.



One of the objectives of the Collective Bargaining Agreement is to ensure stable and high-quality jobs.

ORGANIZATION OF WORK AT SCOTTISHPOWER

- There are regulations governing, among other matters, maximum hours of work, shifts, time off, night work, vacation, treatment of cases of death, suspension of vacation because of illness contracted during time off, leave, early retirement, withdrawal because of political activities, etc.
- The procedure for reimbursement of the expenses incurred by workers when traveling for service reasons is specified.
- The conditions to be applied in the event of a mandatory transfer of the employee are defined, both if it requires a change of residence and if it entails an increase in traveling time to the new place of work.
- A fraud control policy is established, describing the behavior constituting fraud, as well as the consequences for the employee of becoming involved in such conduct.
- A policy is defined for the use of electronic and communications equipment to ensure the efficient, legal and professional use of such resources.
- A security policy is established to maintain a secure work environment that safeguards the assets of the company, periodically reviews security levels and protects the use of information so as to reconcile the best interests of the company with legal and regulatory requirements.

A STRINGENT RISK PREVENTION PLAN

With a view to working towards zero accidents, a prevention priority, IBERDROLA has an occupational risk prevention plan based on:

- The integration of prevention standards at the organization, entailing the assignment to all senior managers and the assumption by them of the duty to include prevention in all activities performed or ordered and in all decisions made
- The promotion of training and social participation in order for each employee to receive sufficient and adequate training, both at the time of hiring and following changes in the employee's duties or the introduction of new technology or production equipment.
- Provision of appropriate facilities and human and material resources to carry out the necessary preventive activities.
- Enhanced preventive monitoring of outsourced work, as well as of the training of its employees in occupational risk prevention. The company shall coordinate the corporate occupational risk prevention activities of its contractors, subcontractors or the self-employed workers with whom it has contracts, in accordance with the provisions of applicable laws and regulations.



Occupational risk prevention and health protection

The importance attached to this issue, over and above compliance with current regulations, leads to the on-going monitoring of preventive activities to perfect the identification, assessment and control of those risks that cannot be avoided, enhancing existing protection levels.

As regards occupational health, the Company's in-house medical services are responsible for monitoring the health of employees through regular medical check-ups and health and vaccination campaigns to prevent specific diseases. They will also provide the required care if employees have any health problem during their work.

The IBERDROLA Group monitors the health of its employees for preventive purposes through training, support and risk control programs and, where a disease has already been contracted, individual programs to support treatment are carried out.

As regards serious diseases, the occupational health area performs specific tests on workers to prevent atherosclerosis, prostate cancer, hypertension and smoking. The incidence of HIV/AIDS is very low and is treated individually and confidentially.

ScottishPower has a number of policies and procedures in place that supplement the contents of its collective bargaining agreement as regards the prevention of occupational risks and health protection:

- An alcohol and drugs policy, as a measure to safeguard the health, safety and welfare of employees.
- Periodic monitoring of the health of its employees, particularly of those whose activities expose them to more risks. All employees will also be monitored in accordance with the company's health standards, established to ensure that a person is fit for his/her job. This section includes a specific chapter that spells out the stress management policy.
- A smoking policy to reaffirm the company's commitment to the protection of the environment for the benefit of its employees and visitors.

Diversity and equality of opportunity

Following its adherence to the Global Compact, the IBERDROLA Group intensified its activities in this area, and pledged that its actions and those of its professionals would be conducted on the basis of procedures that ensure the elimination of any discrimination for reasons of race, color, gender, language, religion, political opinion, national or social origin, social status, status as a member of an indigenous people, disability, health, marital status, pregnancy, sexual orientation or other personal condition that is unrelated to job-performance requirements.

The entry of women into the workplace has entailed changes in social, labor and family relationships. However, there are serious obstacles to the achievement of a balance in their social and labor participation, largely for cultural reasons relating to the practically exclusive assumption by them of domestic and family responsibilities. All of this has a negative impact on their possibilities of employment in terms of equality and professional development.

Following the principles set forth in the Law for the Equality of Women and Men [Ley de Igualdad de Mujeres y Hombres], the IBERDROLA Group, in its collective bargaining agreement, states its clear intention of promoting real equality between women and men, eliminating the social obstacles and stereotypes that prevent the achievement of such equality. Specifically, it acknowledges the right to the reconciliation of personal, family and working life and promotes greater responsibility among women and men in assuming family obligations.

Within this context, the Agreement specifically provides for the following:

- Paid vacation.
- Breast-feeding time.
- Shorter working hours for family reasons.
- Leave.
- Job change.
- Adjustment of the corporate organization to allow the exercise of the right to reconcile personal, family and professional life.

Employees exercising the rights that seek to reconcile working and family life may not be discriminated against in any way and shall retain all their employment rights as provided in the IV Collective Bargaining Agreement and applicable laws and regulations.

All employees of the companies forming part of the IBERDROLA Group may exercise such rights on equal terms, regardless of their type of contract of employment.

In addition, ScottishPower has the following policies and procedures in place supplementing the content of its collective bargaining agreement as regards equal opportunities for its employees:

- Equal opportunity policy. The company undertakes to offer equal opportunities to all persons, regardless of their age, color, disability, ethnic origin, marital status, nationality, race, religion, faith, gender, sexual orientation or other consideration not justified by law that is irrelevant for the performance of the work, guaranteeing the promotion of measures to foster such equality.
- Policy of non-discrimination for reasons of age. The company will ensure that access to employment and promotion will be based on the skill, qualifications and capacity of the candidates.
- Policy regarding persons with disabilities. The company will take measures to favor the recruitment and permanent hiring of persons with disabilities.
- Equal salary policy. Men and women doing the same work shall receive the same salary.
- Policy of flexibility at work. To help employees to reconcile work and personal commitments without prejudicing their professional career.

The Code of Conduct of the IBERDROLA Group states that it will observe and promote non-discrimination through the application of a universal recruitment policy based on the merits and qualifications of candidates. It also guarantees that objective evaluation systems based strictly on professional criteria will be applied.

Companies' compensation models establish fair rewards based on the level of responsibility of professionals, defined by categories, and the performance of employees, by recognizing effort and commitment, valuing experience, respon-

TRAINING PRINCIPLES, COMMITMENTS AND OBJECTIVES

The IBERDROLA Group attaches the utmost importance to training. Its objectives are:

- The Company will provide the required means of training and employees undertake to gain the necessary knowledge and skills to update their professional qualifications. Employees undertake to attend all events organized, both in their special field of expertise and in related fields.
- In-house training shall observe the equal opportunity principle.
- Training will promote:
 - Professional improvement for the performance of the job.
 - Adjustment of human resources to technological and organizational changes.
 - Adaptation of new employees to the Company.
 - Better professional development, creating expectations of promotion.
- Important training deficiencies shall be mandatorily corrected as soon as practicable.
- Employees may request courses to improve their professional development.
- The company will prepare an Annual Training Plan setting forth the training offering. This plan will be submitted to the Mixed Training Committee.

In their respective collective bargaining agreements, the companies state the importance of training as a key element for the development of persons, keeping their knowledge updated and allowing them to meet their current and future professional responsibilities.

ScottishPower has a specific training policy in place that supplements the contents of its collective bargaining agreement and emphasizes the development of persons for the benefit of both the company and the employee.

A LEADER IN THE RECONCILIATION OF FAMILY AND PROFESSIONAL LIFE

Aware of the problems faced by professionals in reconciling their work and the care of children, the IBERDROLA Group wants to help make both compatible with a successful professional career. Thus, in 2003 it implemented a maternity and family support policy which exceeds the rights afforded by current Spanish legislation, and which is based on two very specific measures:

- A 15-calendar day paid leave to be taken prior to the expected date of delivery. Since its introduction, 108 employees have taken advantage of such leave, 31 of them during 2007.
- A flexible five-hour working day starting on the expiration of the statutory maternity leave and during the period remaining until the first anniversary of the delivery date, with full salary. 198 persons have benefited from this measure, of whom 39 began such flexible working day during 2007.

These two measures are also applied by Iberdrola Ingeniería y Construcción.

ScottishPower, for its part, has the following measures in place to reconcile professional and family life.

- Early retirement.
- Maternity leave: 26 weeks, with full salary.
- Up to three years' leave for mothers of children under five, with the right to be reinstated in the same position they had at the time of requesting such leave.
- Paternity leave: paid paternity leave of varying duration is granted, depending on the length of service with the company.
- Time off with pay for fertility treatments.
- Time off with pay to comply with legal requirements, family emergencies or to perform a public duty.
- Flexible working hours if they have dependent children under five (18 if they are disabled).

sibility, the complexity of the work performed, versatility, flexibility and work abroad.

In addition, in order to give effect to the principle of non-discrimination, whenever there are employees with diminished ability to perform their duties for medical reasons who do not obtain the declaration of permanent disability, the companies shall assign them to the vacancy that is most suitable for their skills and knowledge, maintaining their original category.

IBERDROLA as a Family-Responsible Company

The certification of the companies making up the IBERDROLA Group in 2006 as a Family-Responsible Company publicly recognizes compliance with the commitment to seek to reconcile family and professional life. IBERDROLA was the first electricity company to receive such certificate and one of the first seven Spanish companies to do so. In order to receive this certificate, both an internal audit and an external audit are required to verify the information provided. The Company's responsible behavior was further strengthened during 2007 through actions for improvement that have strengthened its corporate reputation and boosted personnel attraction and retention, thus enhancing its competitiveness and allowing it to renew the certification.

Iberdrola Operación y Mantenimiento and Iberdrola Renovables both achieved certification during 2007, thus consolidating the process within the companies of the Group. The following challenges, set forth in the Action Plan to consolidate IBERDROLA's policy as a Family-Responsible Company, were also successfully met:

- Expand the scope of the Family-Responsible Company model to Iberdrola Operación y Mantenimiento and Iberdrola Renovables.
- Include references in the Code of Conduct to IBERDROLA's involvement in the reconciliation of professional and family life.
- Develop, manage and strengthen the Family-Responsible Company model with indicator analysis (Scorecard), and report to the Human Resources Committee and the Corporate Social Responsibility Committee.
- Issue the alternative measures certificate for the companies proposed for certification.
- Update existing procedures and establish new procedures
- Develop internal audit procedures.
- Train employees including such information in the reception and integration plans.
- Enhance the level of communication, with the presentation of periodic news and the inclusion of messages in road shows and the Sharing [Compare] programs.
- Develop surveys on family-responsible policies.
- Revise the Policy manual.

Responsibility of the organization

For all matters relating to personnel management of the IBERDROLA Group, the highest-ranking manager is the Director of Corporate Resources, whose responsibilities include the management of Human Resources. He is a senior manager and a member of the Operations Committee. There are three divisions reporting to him, whose powers and duties cover specific personnel management aspects: the Labor Relations and Organization Division, the Professional Development Division and the Corporate Duties and Compensation Division.

There are human resources divisions at Group companies that also report to the Director of Corporate Resources, established to manage human resources more closely and efficiently.

Owing to the importance attached to prevention by the IBERDROLA Group, responsibility for this matter lies directly with the senior managers of the various business divisions making up the Company.

Training and awareness-raising for the development of employees

In line with the basic pillars established in the IBERDROLA Group's Strategic Plan, the companies' training plans are designed to achieve the comprehensive development of persons by improving their skills, knowledge and abilities in order to bring them into line with the current and future demands of the organization and with their own individual professional development expectations. These training plans establish the conceptual framework for all training actions designed to facilitate the cultural change of the Company and contribute to the expansion of the corporate culture and the creation of value at the Company, besides furthering the sustained development of society while guaranteeing equal opportunities for all employees.

Training has a particular strategic importance for IBERDROLA because it is one of the essential instruments that allows the company to have qualified professionals, by giving them the skills required for the proper performance of their current duties and favoring their future professional development.



IBERDROLA employees at the Cuenca del Sil facilities, in Ourense.

PILLARS OF THE TRAINING PLAN

The main pillars of the IBERDROLA Group's Training Plan are:

- Universality by offering training opportunities for all employees.
- Strategic alignment by guaranteeing that training processes help to consolidate the strategy of the Company and of each of its business divisions.
- Commitment of management to persons by supporting and promoting the comprehensive development of all employees on an on-going basis.
- Effective leadership by favoring the development of leaders who know how to create competitive advantages for the Company and who act as agents for change.
- Multi-model approach by using the most appropriate training formulas in each case.
- Incorporation of new technology by using the educational potential associated with new information and communications technology.
- Focus on quality by gradually implementing an evaluation system for training actions that will make it possible to refocus them in an effort to achieve the on-going improvement of results.
- Focus on the user by keeping in mind that the drivers of the demands for training (corporation, business, individuals...) require solutions tailored to their needs.
- Innovation by maintaining a receptive attitude towards new approaches in training processes in the corporate sphere, and acting proactively to test and implement those considered interesting.

Within this general framework, special emphasis is laid on training relating to safety and the prevention of occupational accidents, as well as on environmental protection.

Training seeks to increase employee motivation by creating a climate of continuous learning

The principal strategic objectives of the training plan of the IBERDROLA Group and of Iberdrola Ingeniería y Construcción, which apply to all of the Group's companies, are:

- Increase employee motivation by promoting equality of opportunity.
- Create a climate of continuous learning, where the employee is responsible for his/her own development.
- Increase the employability of all workers.
- Improve the company's profitability and competitiveness, job stability and sustained social development, optimizing all available resources.
- Boost efficiency and reduce risk in the use of available equipment and enhance the quality and safety of supply, with particular respect for the environment.
- Attend to training in new fields of corporate activity relating to the introduction of new technology, new production systems, the use of alternative primary sources of energy, new business, etc.

The content of the training plans is linked to the development of different types of competencies:

- **General competencies**, aimed at improving the behavior and attitudes of all of the Company's professionals, regardless of their professional duties.
- **Technical competencies**, specific to each business unit and each job.

Training activities are developed and taught under the following formulas:

- Designed with company or third-party resources.
- Taught with the company's own resources or outsourced.
- Face-to-face, distance, mixed or on-line training.
- Group activities outside the classroom, etc.

The type of training is selected according to the specific competency sought to be improved or developed, the group to be trained (taking into account its professional level, physical location or degree of familiarity with new information/communication technology...) or other aspects which may be deemed relevant to make the training process more efficient.

Evaluation and monitoring of the degree of compliance with the commitments assumed by the company

The best verification of the degree of compliance with the commitments assumed by the IBERDROLA Group, both as regards human rights, workers' rights, respect for the environment and, generally, respect for society, is its compliance with the laws of the countries where it operates, which in most cases exceeds legal requirements. Furthermore, it has internal control instruments which facilitate the monitoring of the Company's activities.



Employees at the Arcos de la Frontera plant, in Cádiz.

To monitor compliance with the Code of Professional Conduct, the Internal Audit division has carried out a number of activities with the Human Resources division to verify the degree of compliance with the commitments assumed by the IBERDROLA Group during 2007. Particularly noteworthy are:

- Annual audit of compliance with the IBERDROLA Group's Code of Professional Conduct.
- Internal audit for the maintenance of the Family-Responsible Company Certificates of IBERDROLA, Iberdrola Distribución and Iberdrola Generación.
- Internal audit prior to obtaining the Family-Responsible Company Certificate for Iberdrola Renovables and Iberdrola Operación y Mantenimiento.
- Annual audit of the process for the establishment and evaluation of corporate and management objectives.

In addition, the Internal Audit Division participated in the working team established to prepare the new version of the IBERDROLA Group's Code of Professional Conduct, in response to the growing demand for Good Governance and Corporate Social Responsibility initiatives at listed companies.

As regards Family-Responsible Company certification, the status report was prepared and the following activities were certified as having been carried out in late 2007:

- Review of the findings of the audit for fiscal year 2006, followed by the necessary corrective actions in response to the proposals made, in order to continue to progress towards sustainability and enable the Company to comply with its commitments to society, persons and families.
- Updating the plans and policies in place.
- Monitoring established objectives.
- Review of the internal and independent auditor's report.
- Self-assessment of the process followed during the prior year.

As far as training is concerned, 2007 has seen the permanent implementation of a single training management model, which led to the Company obtaining the In-house Training Quality Management System certificate on October 19, following the customary AENOR audit. Such certificate applies to the following companies; IBERDROLA, Iberdrola Generación, Iberdrola Distribución Eléctrica, Iberdrola Operación y Mantenimiento, Iberdrola Renovables and Iberdrola Ingeniería y Construcción. This certificate attests to the quality of the training management processes at certified companies. The process will need to be reviewed every year by conducting the respective audit in order to renew such certification.

In addition, the IBERDROLA Group has pledged to adhere to the IV National On-going Training Agreement [IV Acuerdo Nacional de Formación Continua] published in the Spanish Official Gazette [B.O.E.] No. 73 on March 27, 2006, pursuant to Royal Decree 395/2007 of March 23 which governs the professional training for employment subsystem and TAS Order 2307/2007 of July 27, governing the financing of training actions. No inspection of the courses that are part of the Training Plan was conducted during 2007.

MORE GROUP COMPANIES ARE CERTIFIED AS FAMILY-RESPONSIBLE COMPANIES

In 2006, the IBERDROLA Group, comprised that year of IBERDROLA, Iberdrola Generación and Iberdrola Distribución, received the Family-Responsible Company Certificate, under Standard 1000-1, awarded by Fundación + Familia and endorsed by the Ministry of Labor and Social Affairs. During 2007, Iberdrola Renovables and Iberdrola Operación y Mantenimiento received the same certificate. Such certificate recognizes the companies that have made the greatest contribution to reconciling personal life with working life, by evaluating various factors such as job stability, flexible working hours or support for family integration and equal opportunities. It also recognizes the Company's efforts to promote gender equality through the gradual hiring of women for positions of responsibility. The certification is based on a review, by means of an external audit conducted by Lloyd's, of the processes and results of the family-responsible policies and measures developed at the Company.

The companies of the IBERDROLA Group that have received such certification stand out for their rigor in defining, applying and communicating to their employees the measures to reconcile working life with family life and to support the family, protected by the Collective Bargaining Agreement, which includes a chapter on reconciliation of working life with family life. Internal Audit prepares its verification reports to assess the degree to which the Family-Responsible Company model has been implemented and ensure compliance with the commitments assumed.

PREVENTION AUDITS

During 2007, the external auditing entity TÜV-Rheinland renewed the audit of management systems of IBERDROLA, Iberdrola Generación and Iberdrola Distribución Eléctrica in accordance with current statutory requirements (regulatory audit). In addition, TÜV-Rheinland conducted the first regulatory audit of Iberdrola Renovables.

TÜV-Rheinland also conducted the OHSAS follow-up audits at IBERDROLA, Iberdrola Generación, Iberdrola Distribución Eléctrica and Iberdrola Operación y Mantenimiento. Furthermore, TÜV-Rheinland renewed the OHSAS certification of Iberdrola Operación y Mantenimiento. In early 2008, such entity sent IBERDROLA the respective audit reports as well as the OHSAS certification of Iberdrola Operación y Mantenimiento.

The effectiveness of training actions is also evaluated at the IBERDROLA Group. This is done first, by having all participants complete satisfaction questionnaires upon conclusion of each training activity, and over the long-term, with the cooperation of the supervisors of the persons attending the training events consisting of reviewing the transfer of knowledge to the job.

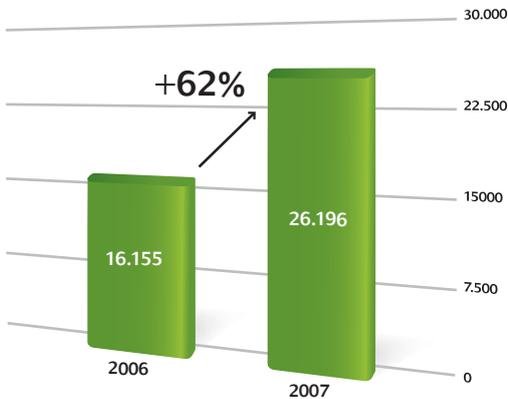
Finally, the IBERDROLA Group has regulations elaborating on the Collective Bargaining Agreement that describe more precisely the commitments of employees and the Company to appropriately manage each circumstance. The following monitoring committees have been set up to govern all labor aspects and ensure compliance with all commitments assumed: Training, Promotion, Job Evaluation, Social Affairs, Collective Bargaining and Occupational Health and Safety. All of them have been established under the Collective Bargaining Agreement and are made up of the same number of representatives of the Company and of the labor union sections.

Analysis of 2007 information

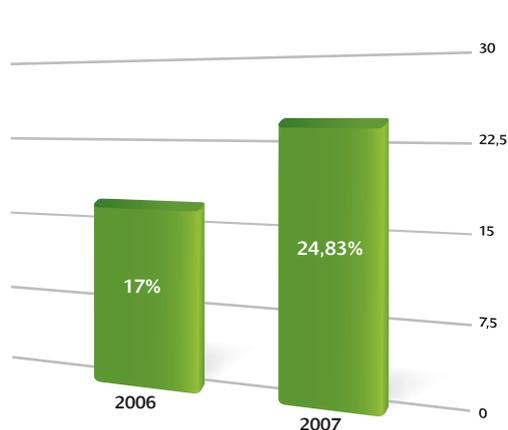
In order to provide for the easier understanding of the statistical tables and the grouping of data in this chapter, information has been aggregated following the conventions described below:

- **IBERDROLA Group:** comprises the companies covered by the IV Collective Bargaining Agreement, which are: IBERDROLA, Iberdrola Generación, Iberdrola Distribución Eléctrica, Iberdrola Renovables and Iberdrola Operación y Mantenimiento.
- **IBERDROLA:** includes IBERDROLA S.A., Iberdrola Generación and Iberdrola Distribución Eléctrica.
- **Affiliated companies in Spain:** includes Iberdrola Operación y Mantenimiento, Iberdrola Ingeniería y Construcción, Iberdrola Inmobiliaria, Iberdrola Cogeneración and Iberdrola Distribución de Gas.
- **Affiliated companies in Latin America:** includes COELBA, COSERN, CELPE, EEGSA, TRELEC, IBENER, ESSAL and Iberdrola México.
- **Activities in the United Kingdom:** includes the companies formerly belonging to ScottishPower established in the United Kingdom.
- **Renewable Energy Activities:** includes Iberdrola Renovables and PPM.

2007 INCREASE IN HEADCOUNT



WOMEN IN THE CORPORATE GROUP (%)



To consolidate all the qualitative information set forth in the social information chapter of this report, April 1, 2007 was taken as the date of integration of ScottishPower and PPM, since that was the first day of the month in which they were acquired by IBERDROLA S.A.

Employment: the workforce grows by 62%

As of the end of fiscal year 2007, the total headcount of the IBERDROLA Group was 26,196 persons. This represents a 62.15% increase in the number of employees from the prior year, as a result of the integration with ScottishPower and natural headcount growth in Spain and Latin America.

NUMBER OF EMPLOYEES

	2007	2006
IBERDROLA	8,006	8,130
Affiliated companies in Spain	1,994	1,669
Affiliated companies in Latin America	2,838	2,795
Activities in the United Kingdom	9,487	----
Renewable Energy Activities(*)	1,039	401
Other	2,832	3,160
TOTAL	26,196	16,155

(*) In 2006, Renewable Energy Activities included Iberdrola Renovables S.A.U. In 2007, PPM information is also included.

As mentioned in the section on the corporate group, detailed information is provided only on companies that are part of what will hereinafter be referred to as the corporate group. As of the end of 2007, such companies had a headcount of 23,364 employees, of which 24.83% were women. This shows a gradual increase in the percentage of women at the various companies of the Group. The trend is more pronounced in the more qualified groups.

WOMEN IN THE WORKFORCE (%)

	2007	2006	2005
Perímetro social	24,83%	17%	16,28%
Corporate group	24.83%	17%	16.28%
IBERDROLA	13.88%	13.39%	13.06%
Affiliated companies in Spain	27.18%	26.54%	26.69%
Affiliated companies in Latin Ame-	21.57%	21.53%	20.89%
Activities in the United Kingdom	34.50%	N/A	N/A
Renewable Energy Activities	25.22%	18.95%	14.24



The percentage of women in the workforce grows each year.

PERSONNEL TURNOVER

As mentioned in prior-year Sustainability Reports, in July, 2003, the Office for Employment and Social Issues [Dirección General de Trabajo y Asuntos Sociales] of the Spanish Government approved a Workforce Reduction Plan applicable to companies located in Spain which fell within the scope of the IBERDROLA Group's III Collective Bargaining Agreement, which expired in December 2006. On December 27, 2006, the Workforce Reduction Plan was extended until the end of 2007.

The adoption and implementation of this universal, voluntary and non-discriminatory measure was accomplished by means of on-going cooperation with the workers' representatives and the appropriate governmental authorities. During its entire effective period, i.e., from August 1, 2003 through December 31, 2007, 2,131 workers were affected. In all cases, notice was formally given to the interested parties and the specific circumstances of each professional were taken into account.

The Workforce Reduction Plan was designed to ensure the proper transfer of knowledge between persons and thereby avoid the loss of human capital. The extension thereof carried with it with an employment-creation plan that entailed the commitment to create 300 positions during the year. Finally, 406 professionals were hired during 2007.

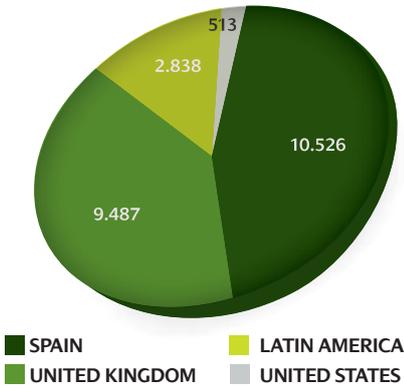
During the entire effective period of the Plan, 1,370 professionals were hired and became part of the workforce of the companies included in such plan.

In 2007, there were 1,763 new hirings at companies within the corporate group, of which 26.21% were women. 35.28% of the managers and senior technicians hired during the last fiscal year were women.

There were 2,165 employee terminations in 2007 as a result of retirements, resignations, dismissals, etc.

More detailed information on hirings and dismissals may be found in the "Supplemental Information" section.

DISTRIBUTION OF HEADCOUNT BY REGION



UNIVERSITY GRADUATES IN THE WORKFORCE

	2007	2006	2005
Corporate group	44.42%	48.20%	46.26%
IBERDROLA	35.11%	34.37%	34.05%
Affiliated companies in Spain	74.22%	72.62%	71.16%
Affiliated companies in Latin Ame-	69.96%	73.11%	70.13%
Activities in the United Kingdom	36.38%	N/A	N/A
Renewable energy activities	62.66%	53.37%	47.35%

BENEFITS ABOVE AND BEYOND THOSE REQUIRED BY LAW

Some companies within the corporate group offer their employees benefits that exceed those required to be provided under the laws of the countries in which such companies are based, such as life insurance, medical insurance, disability coverage, pension fund, seniority bonuses, special assistance to meet the needs of children and spouses, study aids for children of employees, assistance for death in occupational accident, special advances, apartments, Epiphany presents, company canteens, maternity/paternity leaves and reduced working hours.

There is no difference between the benefits offered to part-time employees and those offered to full time employees.

In this regard, it should be highlighted that the IBERDROLA Group also maintains all applicable benefits for its retirees.

Particularly worth noting because it was so well received by the entire workforce is the Shares for Everyone [Acciones para todos] Plan, introduced in 2005 for IBERDROLA Group employees. It allows all workers, if they wish, to replace their variable compensation, within the limits established by applicable regulations, with Company shares. In 2007, this offer was extended to the employees of most of the affiliated companies in Spain which were part of the corporate group.

There is a substantial change in the composition of the workforce by regions compared with prior years, owing to the inclusion of ScottishPower and PPM in the corporate group, as shown in the top left-hand chart.

There is a continued increase in the more qualified groups. By categories, 5.28% were managers, el 18.07% were advanced degree holders, 21.08% were basic degree holders and the rest were professionals. 94.85% were full-time employees and 93.74% were employed under permanent contracts.

The average age of employees of the corporate group was 41,26, younger than the prior year. The average length of service of employees was 14.08 years, with a decreasing trend in all groups owing to the younger average age.

As regards outsourcing, the IBERDROLA Group contracts for services on a turnkey basis, and, accordingly, does not keep a statistical record of employees of other companies working to fulfill its requirements. Workforce information on employees by geographical area, gender, category, age and length of service may be found in the "Supplemental Information" section.

Collective bargaining: commitment to social dialogue

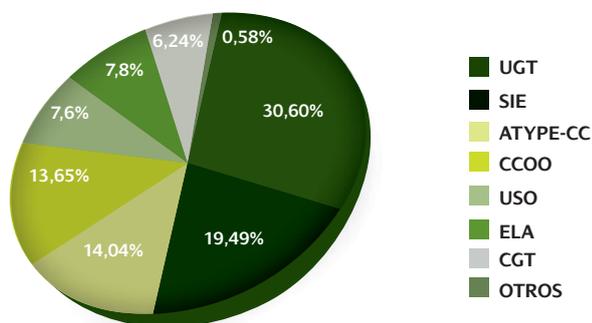
The companies that are part of the corporate group respect employees' rights to be represented by labor unions or any other lawful representatives and to participate through them in negotiations aimed at reaching collective bargaining and other agreements on their working conditions. In Spain, all employees except the management team are covered by collective bargaining agreements that are negotiated between the Company and the workers' representatives. Overall, 87.85% of the workforce is covered by collective bargaining agreements.

In line with the commitment to social dialogue assumed by both parties, labor unions represent employees at the IBERDROLA Group in various aspects relating to organization and management. The labor union sections [secciones sindicales] that meet the requirements established in collective bargaining agreements assume the representation of all employees.

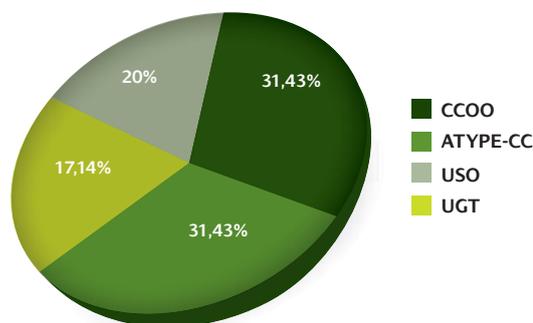
The charts on the following page show the degree of union representation following the last trade union elections at each company.

The following were the trade unions with a presence at ScottishPower as of the end of fiscal year 2007: GBM, PROSPECT, TRANSPORT & GENERAL WORKERS' UNION and UNISON.

TRADE UNION REPRESENTATION AT THE IBERDROLA GROUP



TRADE UNION REPRESENTATION AT IBERDROLA INGENIERÍA Y CONSTRUCCIÓN, S.A



Los sindicatos con presencia en ScottishPower al cierre del ejercicio 2007 eran los siguientes: GBM, PROSPECT, TRANSPORT & GENERAL WORKERS' UNION y UNISON.

Particularly worth emphasizing is the good understanding among companies, workers and trade union sections at all Group Companies, as a result of which there is a favorable social climate.

There is currently no minimum established period for formal notice of the organizational changes at the companies of the Group. Nevertheless, when any significant event occurs, it is customary to communicate it to the affected groups sufficiently in advance so as to allow them to act with the proper guarantees and thus comply, if appropriate, with statutory periods. This practice of transparency in information also extends to the trade union sections that meet the requirements set forth in the Collective Bargaining Agreement to represent all employees.

The breakdown by region of the employees covered by collective bargaining agreements may be found in the "Supplemental Information" section.

Wager on occupational health and safety

Responsibility for risk prevention lies with the senior managers of the various business units. The bodies charged with coordination and monitoring of the implementation of preventive standards and procedures are the Prevention Coordination Committees, which work closely with the IBERDROLA Group's Joint Prevention Service.

The IBERDROLA Group has 40 local health and safety committees (36 at IBERDROLA, three at Iberdrola Operación y Mantenimiento and one at Iberdrola Renovables) assigned to work centers and administrative units. There is also a Central Committee. All Committees have been set up pursuant to the Occupational Risk Prevention Law [Ley de Prevención de Riesgos Laborales]. These committees are set up on an equal-representation basis, with the same number of representatives of the Company and of the workers.

During 2007, the health and safety committees met on a quarterly basis and are the most important consultation, participation and control bodies of the IBERDROLA Group's Prevention Management System, as well as the forum where formal agreements on the matter are reached with the trade unions.

SUPPLEMENTAL BENEFIT PLANS

In Spain, IBERDROLA, Iberdrola Generación and Iberdrola Distribución Eléctrica are joint sponsors of a pension plan, which employees can join voluntarily, in which over 99% of the workforce participates. The periodic contributions to be made under such system and under the IBERDROLA Group's Collective Bargaining Agreement are calculated as a percentage of the annual pensionable salary of each worker. IBERDROLA has no outstanding financial commitment to such plan. Following the signing of the IV Collective Bargaining Agreement, the employees of IBERDROLA Renovables and Iberdrola Operación y Mantenimiento have joined the plan.

Affiliated companies in Brazil have pension plans for all their employees, with both the company and employees making contributions on the basis of previously-agreed percentages.

Affiliated companies in Guatemala have a defined-contribution pension plan which covers 100% of EEGSA and TRELEC employees.

ScottishPower has pension plans for its employees, which over 77% of the workforce has joined. It has three pension-plan schemes, depending on the company and the employee's length of service.

OCCUPATIONAL HEALTH EDUCATION AND PREVENTION

The Company's medical services are responsible for monitoring the health of employees by means of regular medical check-ups and preventive treatment of diseases. Most Group companies, as part of their preventive strategy to manage the health and safety of their workers, offer assistance programs both to their professionals and to the families of employees, laying stress on infectious or very serious illnesses. These programs focus on training, support and risk monitoring. Public medical assistance services are supplemented by the medical insurance offered by the companies as part of employee benefits, as mentioned above. In addition, the principal work centers have medical services, where employees receive medical care during working hours.

There are assistance and education programs in place at affiliated companies in Guatemala to prevent AIDS or other potentially dangerous diseases.

At IBERDROLA, education, training, risk monitoring and treatment programs have been carried out, as well as programs for the treatment of illnesses common in the country. 6,059 diabetes, 5,752 hypertension, 6,098 atherosclerosis, 2,276 prostate cancer and 1,571 smoking tests were carried out during 2007

The IV Collective Bargaining Agreement formally sets forth the general occupational risk policy, which includes the duties and responsibilities of the Prevention Service, Prevention Representatives and Mixed Health and Safety Committees. Most of the companies of the corporate group include specific sections in their collective bargaining agreements that describe the operation of their occupational risk prevention bodies.

As of the end of fiscal year 2007, one hundred percent of the workers of the IBERDROLA Group were represented by occupational health and safety committees. Affiliated companies in Spain also have health and safety committees covering 32.95% of their workforce. At affiliated companies in Latin America, existing occupational health and safety committees provide coverage to 56.95% of the workforce. In Renewable Energy Activities and in the United Kingdom, such coverage is of 100%. For companies of the corporate group overall, such percentage stands at 89.29%. The breakdown by region of employees represented by occupational health and safety committees can be found under "Supplemental Information."

IBERDROLA has an Occupational Accident, Illness and Incident Investigation and Recording Management Procedure that ensures strict compliance with the procedures related thereto. Occupational illnesses, accidents and incidents are reported to the Prevention Service, the appropriate labor authority and the workers' representatives. Safety and Health Committee meetings monitor accident rates and review accidents and their causes. The accident reporting process is described in the procedures of the Occupational Risk Prevention Management System, which is audited regularly.

PRINCIPAL HEALTH AND SAFETY INDICATORS

	IBERDROLA		
	2007	2006	2005
Accidents at work with lost time	61	87	88
Fatal accidents	0	2	0
Days lost due to accident	4,670	6,536	4,728
Frequency rate	4.83	6.76	6.58
Incidence rate	0.76	1.09	1.05
Severity rate	0.37	0.5	0.35
Absenteeism rate	2.75	2.84	2.68

ACCIDENT FREQUENCY RATE OF IBERDROLA IN SPAIN

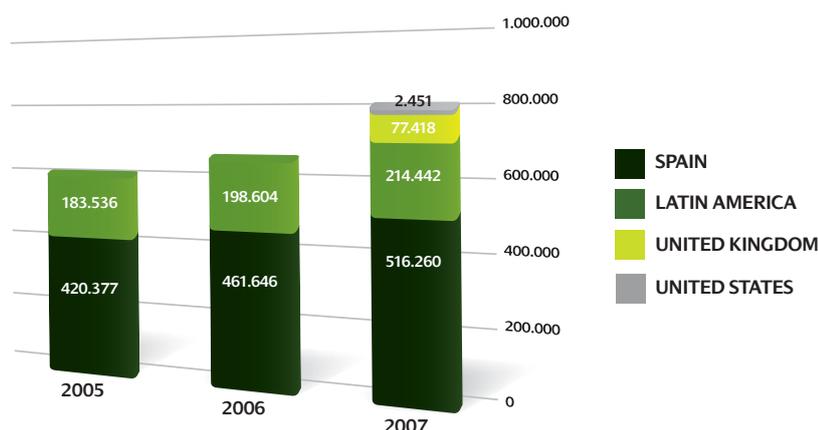


IBERDROLA monitors its own and outsourced work for preventive purposes. The contracting process followed by the companies of the Group requires that all companies contracting for work comply strictly with the *Basic conditions for contracting for works and services* available on IBERDROLA's website: www.iberdrola.com. The ratios, by region, associated with the monitoring of its own accident and absenteeism rates and those of the companies contracting for work appears under Supplemental Information.

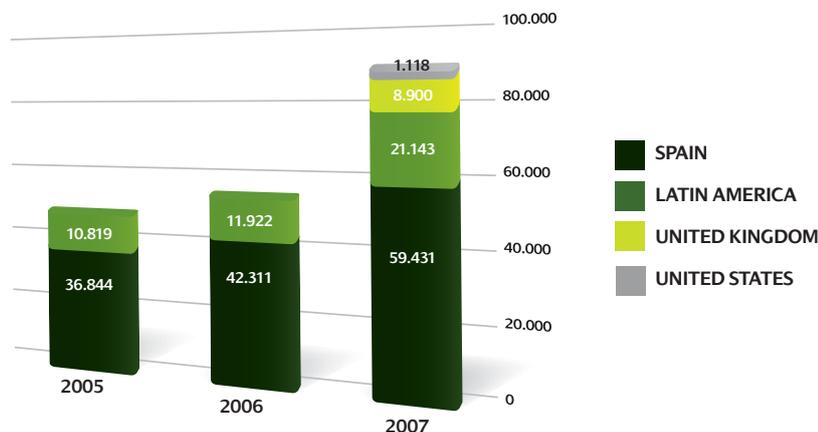
Training

IBERDROLA invests in the development and training of its professionals, both in Spain and in the companies in which it is present, through specific technical and management programs.

HOURS OF TRAINING



ATTENDEES AT TRAINING



WAGER ON COMPENSATION AND EQUALITY OF OPPORTUNITY

The companies of the corporate group seek to remunerate workers according to their level of responsibility and individual performance and to reward their effort, commitment, experience and responsibility. Compensation is set according to category-based standards and to the objectives and performance evaluation processes.

In 2007, 88.25% of the employees of the Corporate Group were given the possibility of participating in the variable compensation program through an individual performance-based evaluation process. At the parent company, 100% of the professionals were evaluated. The breakdown by region of the performance evaluations appears in the "Supplemental Information" section.

The composition of the Board of Directors of the IBERDROLA Group since 2005 is also described.

For all companies reviewed, the base salary of women, not taking into account the personnel not covered by the Collective Bargaining Agreement and without any distinction by category, is practically the same as the base salary of men. There are no differences between the base salaries of men and women at the parent company. Information on the salaries of men and women may be found under "Supplemental Information".

Although there is no explicit evidence, as set forth in United Nations regulations governing the responsibilities of transnational and other commercial enterprises, IBERDROLA has a commitment to its workers to compensate them fairly and reasonably. An analysis of the base salary offered by the companies of the corporate group shows that it exceeds the minimum statutory salary in each of the countries where such companies are established. In the United Kingdom, the base salary is equal to the minimum statutory salary. By contrast, at Latin American companies, the base salary is double the minimum statutory salary in the country where the respective company is located.

Further information on minimum salaries is provided in the "Supplemental Information" section.

DISABILITY POLICY

One of IBERDROLA's objectives is to comply with legislation, especially laws that are more social in nature. The Company pays particular attention to those aspects of the law that affect groups such as the disabled, that require more dedicated attention from the Company. As of the end of fiscal year 2007, the IBERDROLA Group, together with its affiliated companies in Spain, had 97 employees with a sufficient level of disability as to comply with Royal Decree 1451/1983 of May 11, governing selective employment and measures to foster the employment of disabled workers.

Pursuant to the provisions of Royal Decree 364/2005 of April 8 governing alternative compliance, by way of exception, of the quota reserved for workers with disabilities, and relying on the power granted in Section 1 of such Royal Decree, all the companies of the IBERDROLA Group, as well as Iberdrola Ingeniería y Construcción, have been granted the respective alternative measures certificate, on the basis of production, organizational and technical standards of the Company.

In addition, pursuant to the provisions of Section 2 of the above-mentioned Royal Decree, "Alternative Measures," the IBERDROLA Group has a number of agreements providing for gifts to entities or foundations whose purpose is the professional training and entry into the job market of, or the creation of employment for persons with disabilities and contracts with special employment centers.

Particularly worth mentioning in connection with Human Resources integration policies is the fact that the Collective Bargaining Agreement provides for the relocation of employees with a supervening disability or who have been certified as having disabilities of different degrees.

This means that IBERDROLA has employees with disabilities in its workforce and in addition, by means of agreements and contracts with specialized centers, it abides by its commitment to conform to the law in complying with its responsibilities not to discriminate against the disabled.

IBERDROLA held three Reception and Integration Programs (RIP) during 2007. Reception plans help newly-hired employees, through face-to-face meetings and visits to some of the main Company facilities, to acquire an overall picture and understand the activities of each business, strengthening their relationships with other persons within the company.

The scope of training at companies within the corporate group, measured as the percentage of the workforce that attended at least one training session, was 94.20% in 2007.

The total number of training hours received in 2007 was 810,571, equivalent to an average of 34.67 hours per employee, with no significant differences between men and women in dedication to training activities. Detailed information on training hours may be found under "Supplemental Information".

In 2007 most IBERDROLA companies in Spain continued with the Programa Desarroll@, aimed at managers and technicians, to enhance their skills, stimulate their development and strengthen the values, attitudes and behavior that are part of the Group's culture.

Specific training campaigns were launched during the last two years for managers and young people with management potential, and the Executive MBA in Electric Utility Company Management remained in place.

All these programs are aimed at enhancing motivation, creating a climate of on-going learning, increasing the employability of all workers and improving the company's profitability and competitiveness, job stability and sustained social development

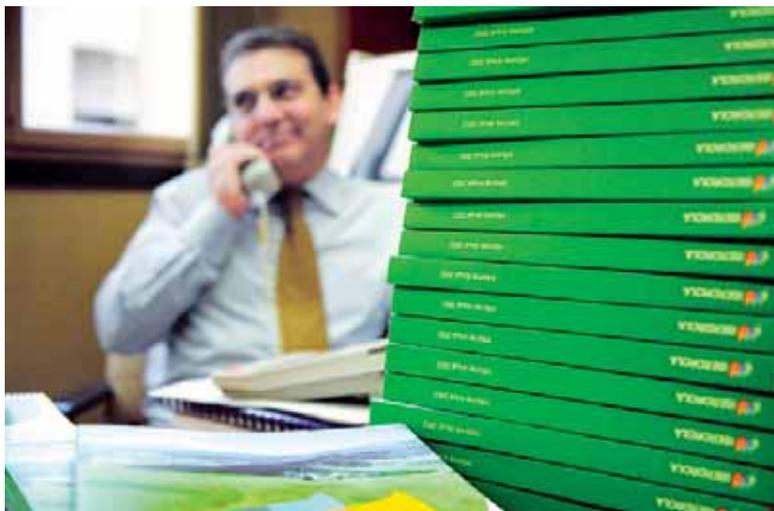
Within the corporate group, COELBA, one of its affiliated companies in Latin America, offered training programs for its employees to prepare for the transition to retirement.

Hiring and human rights

As regards hiring procedures, there is no difference between the policy applied by Group companies in Spain and the other affiliated companies, since the principles of non-discrimination and equal opportunity, freedom of association and collective bargaining, protection of ethnic minorities and rejection of child and forced or compulsory labor are observed and complied with. The Collective Bargaining Agreement of the IBERDROLA Group expressly provides that there shall be "no discrimination" for reasons of gender. In addition, the principles that make up the recruitment and screening policy, inspired in the Code of Professional Conduct, published on the company's website: www.iberdrola.com, provide for:

- Non-discrimination and equality of opportunity.
- Universal recruitment.
- Selection to be based on the merit and qualifications of candidates.

These principles ensure that the screening and recruitment process is rigorous and based solely on the academic, personal and professional merits of the candidates, since objective tests and methods based strictly on professional standards are used. Thus, nobody is excluded in external or internal



screening processes, or prevented from developing his/her professional career. In fact, there has been no claim in that regard, be it from persons unrelated to the company or from employees or trade union representatives.

As mentioned above, ScottishPower has a number of policies and procedures supplementing those set forth in its Collective Bargaining Agreement designed to ensure equality of opportunity for its workers.

There is no evidence of the existence of any incidents in connection with the freedom of collective association or relating to child exploitation, forced labor or violation of the rights of indigenous peoples.

At present, all managers of Group companies were born in the country where the company is established.

In recent fiscal years, some affiliated companies, both in Spain and in Latin America, have held courses on corruption-prevention procedures, which were attended by employees of all levels. In any event, the Code of Conduct clearly defines how the employees are to act so as not to violate any regulations.

At IBERDROLA, internal communications are paramount

Aware that the success of a company depends on the involvement of its employees in the project, in-house communication has become particularly important in the last fiscal year, during which, in addition to the ScottishPower transaction, particularly significant events occurred, such as the listing of Iberdrola Renovables on the Stock Exchange or the approval of a new Collective Bargaining Agreement, which embodies a new philosophy.

The dissemination of consistent, clear and effective messages is key for successfully achieving the integration of new teams and new work methods. Keeping employees informed of what happens at any time and of the implications thereof strengthens the confidence of all those involved, which is an essential requirement for employees to feel that they participate and are players in the future of the company. In-house communications at IBERDROLA are global and coordinated across the Organization, using all existing technologies, so as to guarantee that they reach the entire workforce of the Group. Of the existing tools in the institutional field, the following deserve particular mention.

INTERNAL COMMUNICATION ACTIONS

Internal communication is the best vehicle to incorporate new employees and extend the culture of the Company to the entire workforce. The following actions were carried out:

- **Merger with ScottishPower.** With the merger of ScottishPower, concurrent actions were carried out at IBERDROLA, ScottishPower and PPM to ensure that the employees of all the organizations received information on the process. Thus, a single home page was designed for all intranets providing access to specific information on this transaction, as well as facts about both companies and the new resulting group. In addition, employees were informed directly by the Chairman, through personal letters and a video message.
- **Listing of Iberdrola Renovables on the Stock Exchange.** A special section was created in the employee portal for this event, with all the information relating to the listing. In addition, a special section was established for the employees of that subsidiary. All employees of the Group were also able to view the stock exchange launching live on the intranet.
- **Meeting of the Chairman with employees.** In 2007, Ignacio Galán met with employees in Madrid. This meeting could be viewed live by 15,000 people worldwide through the Employee Portal. For the first time ever, employees who were not present at the meeting asked questions and made suggestions by e-mail.
- **Breakfasts of the Chairman** with professionals from different areas of the organization.
- **Video messages from the Chairman.** Whenever the occasion requires it, Ignacio Galán addresses employees through videos distributed by e-mail.
- **Conventions.** Various conventions are held by areas throughout the year, at which groups can directly hear about issues affecting their daily work.

INTERNAL COMMUNICATIONS AT SCOTTISH POWER

In-house communication at ScottishPower uses tools to promote the participation of employees in the plans of the organization through abundant and constant information.

Thus, the Scottish company has a monthly in-house magazine, ScottishPower News, available in both hard copy and in electronic format. ScottishPower News has been recognized in Scotland as the best employee publication by the Periodical Publishers Association. The company also has a corporate intranet which keeps its employees informed on an on-going basis, supplemented by other specific intranets for each business area. ScottishPower regularly uses other tools such as video messages from the Chairman, specific publications or videos to ensure that employees feel they are fully informed.

Such in-house communication acquired particular importance during the process of integration with IBERDROLA, both in its early stages and during the merger itself. Employees became the priority audience for the receipt of information on the process to prevent rumors or disinformation, increase their confidence in in-house communication processes and, ultimately, to show the opportunities that will be available for professionals with the creation of the new Group.

IBERDROLA has been distinguished with an award for the best Employee Portal

- **Internal Energy** [Energía Interna]. This is a key information channel. A bi-monthly in-house magazine, it supplements the other more immediate information channels. During 2007 it provided essential support in the dissemination of the milestones of the Company, highlighting the merger of ScottishPower, the Company's growth plans and the new Collective Bargaining Agreement.

- **Employee Portal** [Portal del empleado]. Because it is so user-friendly and because of its comprehensive scope, in 2007 it was recognized by the Instituto de Empresa y Capital Humano as the best employee portal at companies with more than 5,000 employees, the most prestigious award in this field in Spain. Accessible by all employees, it facilitates employees' work by making available to them all the tools, information and documentation they need.

- **Ibernoticias Digital**. This is one of the strongest communication tools at the Company. A continuously updated digital newspaper, it publishes news of interest to employees, which is selected following a standard of utmost transparency in information.

- **Ibernoticias Digital Latinoamérica**. A monthly digital newspaper available in Portuguese and Spanish, it publishes the most important information for employees in Mexico, Guatemala, Brazil, Bolivia and Chile and may be accessed directly from Ibernoticias Digital de España.

- **Electronic newsletters**. Newsletters on specific subjects to raise employee awareness of specific issues.

- **Communication for managers**. The management team is specifically informed of all issues that may be of significance for the Company. They receive a full dossier each day with general, economic and industry news published in the domestic and international press and two on-line summaries with the latest events that occurred during the day. In addition, whenever the occasion requires, SMS messages are sent to corporate mobile phones.

- **Employee Suggestion Box**. IBERDROLA is committed to two-way in-house communications. Accordingly, all employees can send in their comments, suggestions, requests or complaints, which are always taken into account.

- **Banners, posters, brochures, bulletin boards, etc.** Whenever necessary, brochures are prepared on specific subjects of which the Company wants to keep employees informed. Generally speaking, this type of support is used to emphasize and remind the workforce of specific messages.

- **Letters from the Chairman**. Personalized letters from Ignacio Galán are sent to employees on special occasions such as birthdays, marriages, new babies or adoption of children.

- **Christmas card competition**. A drawing competition is held each year for the children of employees, from among which the card that is used as the IBERDROLA Group's Christmas card is selected.

Internal communications in Latin America

México. Information is gathered on a monthly basis, primarily from Latin America, and published in the company's *Ibernoticias Digital*, similar to its counterpart at the Spanish company. In addition, employees are specifically informed of any personnel movements through the *IBERDROLA te informa* bulletin. Notices or urgent information are also distributed by e-mail. In addition, meetings are held periodically in Mexico on a cascading basis, in which its entire workforce participates. The objectives and new plans of the company and changes in the organization are disseminated at these meetings.

Latin America. There are many different communication tools at the Group's subsidiaries in Brazil to guarantee that its employees receive information. The following exist at COSERN: the *Energía COSERN* magazine, published monthly; *Neoenergía Total* publishes information on corporate social responsibility and environmental action programs on a bi-monthly basis; *Circuito Interno*, a printed bulletin posted on bulletin boards on a fortnightly basis; *Corrente Eléctrica*, a local corporate e-mail channel for holding and associated companies; *Energía Já*, a special newsletter for information requiring immediate dissemination, and *Clarao*, with information regarding the salary negotiation process. COSERN also has an intranet and organizes quarterly meetings with senior management.

COELBA also has a corporate intranet. It also publishes the monthly in-house *Energía Coelba* magazine and posts the *Circuito Interno* newsletter on the company's bulletin board on a fortnightly basis. It also has a daily electronic bulletin, *Coelba Informa*, distributed by e-mail, and *Click*, which provides information on collective bargaining.

CELPE has a monthly in-house magazine, *Energía Celpe*. It publishes information on the Company's day-to-day activities through *Celpe Informa*, sent by e-mail. It has an intranet, *Intracelpe*, by means of which it disseminates all kinds of news and services. It also posts newsletters on bulletin boards.

At IBENER and ESSAL, affiliated companies in Chile, in-house communication takes place by e-mail and through the intranet, which contains information on the management of the company in all areas of activity.

In Bolivia, Electropaz carries out its communications through bulletin boards, posters, e-mail and the *Ibernoticias* bulletin.

All Group companies in Latin America have in-house communication channels

GENERAL SHAREHOLDERS' MEETING

The Office of the Shareholder provides support on all issues relating to the organization of and attendance at the General Shareholders' Meeting, upholding the shareholders' right to information, provided for in Article 14 of the By-Laws.

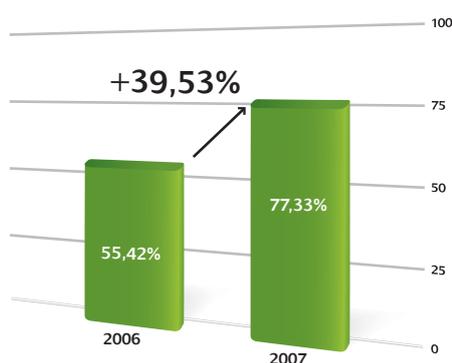
The notice of the General Shareholders' Meeting, the agenda and the matters to be dealt with at the meeting, as well as the related prior documentation, are available on the corporate website. In addition, on the days leading up to the Meeting, a complimentary document delivery service is made available to shareholders.

In 2007, an effort was made to promote and facilitate attendance at the General Shareholders' Meeting. The 2007 meeting was attended by 122,497 shareholders in person or by proxy, holding 697,179,554 shares representing 77.33% of the capital stock. Of the aforementioned shareholders present, 776 of them, holding 131,185,625 shares, or 14.55% of the capital stock, attended in person, and 121,721 shareholders, representing 565,993,929 shares, or 62.78% of the capital stock, attended by proxy.

The shareholder telephone line provided responses to nearly 8,500 calls concerning the General Meeting, which was 39% of those received in 2007.

During the General Shareholders' Meeting, the Office of the Shareholder gives shareholders the opportunity to ask questions of or make suggestions to the members of the Board of Directors, and shareholders who are unable to attend the Meeting and wish to ask a question may also send in their request.

PERCENTAGE OF SHARE CAPITAL REPRESENTED AT THE GENERAL SHAREHOLDERS' MEETING



SHAREHOLDERS AND FINANCIAL COMMUNITY: FOR A DIRECT, PERSONAL AND STABLE RELATIONSHIP

Policy, objectives and responsibilities

IBERDROLA's policy with respect to its shareholders and the financial community is intended to forge a direct, personal relationship with them that is stable over time and is based on the transparency, accuracy and reliability of the information supplied. Service to these interest groups is the responsibility of the Economic and Financial Division, of which the Investor Relations Division is a part, and has the permanent support of the Company's Chairman in what it does. The directors of the various business and corporate divisions also provide their support on those issues that require it.

The IBERDROLA Group provides service and an effective response to all those who have deposited their trust in its stock through:

- The Office of the Shareholder [Oficina del Accionista]
- The Investor Relations Office [Oficina de Relaciones con Inversores]

Office of the Shareholder

The Office of the Shareholder has effective communication channels with the close to 22,000 shareholders recorded in its *database*: quarterly, *the Shareholders' Information Bulletin* [Boletín de Información para Accionistas] and daily, through the *corporate website and the toll-free line* at 900 100 019.

Shareholders' Quarterly Information Bulletin

The Bulletin includes the financial, stock market and operating highlights of the quarter. This year, a special bulletin about the Company's Strategic Plan was sent out. In addition, the office of the shareholder periodically evaluates shareholder satisfaction levels through bi-annual surveys.

In late 2007, a satisfaction survey was taken, with suggestions and conclusions being taken from this survey to be followed up on during 2008.

- In general terms, the attention received is considered to be in good form and timely; 63% of the shareholders believe that the quality of the attention received is good or adequate and 77% consider wait time to be short.
- As concerns the information received, 91% consider the telephone information good or adequate and 93% consider the standard information in the quarterly bulletin to be good or adequate.

Various events took place during the fiscal year requiring more specific information, such as the attendance bonus at the General Shareholders' Meeting, the acquisition of ScottishPower, and the intent to purchase Energy East.

Corporate website

In 2007, IBERDROLA was distinguished by the Asociación Española de Contabilidad y Administración de Empresas (AECA) as the Spanish company on the Ibex-35 with the best financial information and for the transparency and reliability of the corporate information on its website.



2007 General Shareholders' Meeting held on March 29 in Bilbao.

On the web, shareholders have web pages available about: corporate governance, the annual report, investor presentations and agenda, financial and CNMV [National Securities Market Commission] information, share capital and fixed income securities, sustainability, analysts' opinions, dividend reinvestment, and the strategic plan. In 2007, separate sections were added regarding IBERDROLA's operation with ScottishPower and the Company's new Strategic Plan.

Telephone Support Service

The Office of the Shareholder has a toll-free line (900 10 00 19), which answered almost 22,000 inquiries in 2007, 53% of them relating to IBERDROLA's share price.

In addition, IBERDROLA has a *Procedure of the Office of the Shareholder for Answering Questions, Complaints and Claims*, pursuant to which it provides comprehensive service in all aspects of its relationship with shareholders.

Document delivery service

Shareholders as well as other persons and institutions that so request are sent the documentation they need in connection with the Company. If they want to receive regular information, they are included in a database for such purpose.

Investor Relations Office

The investor relations office deals with the daily inquiries from fixed income, equity and socially responsible investment analysts and investors on an individual basis. It provides information on an on-going basis, publishes it on the corporate website and regularly sends it to the investors and analysts recorded in its database.

The level of activity in the principal financial markets of the world remained high in 2007. Especially noteworthy in communications with investors and analysts is IBERDROLA's quarterly earnings release, which may be freely accessed through www.iberdrola.com and transmitted in the format of a real-time bilingual video conference, with the opportunity to ask questions live. These were held in Madrid and Valencia this year and were attended by nearly 300 analysts and investors.

RETAIL SHAREHOLDERS CLUB

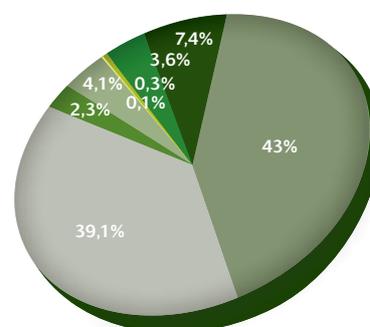
In order to expand relations with retail shareholders still further, a Shareholders' Club was set up in 2007, primarily to keep shareholders in contact with the Company.

Various activities have been carried out to spread information about the existence and the purpose of the Club, including mailings through collaborating banks about the creation, goals and possibility of joining the club; the placement of a stand during the General Shareholders' Meeting offering brochures about joining; and the creation of a special section on the web page: goals, how to join, how to withdraw...

As a result of these activities, there are currently over 22,000 shareholders belonging to the Club.

The activities performed during this year with the members of the Club are primarily to provide information about the Company (relevant facts, information bulletin), along with other activities of a cultural nature in which IBERDROLA was involved, such as sending discount coupons for the Guggenheim Museum in Bilbao.

BREAKDOWN OF CALLS TO IBERDROLA'S SHAREHOLDER ASSISTANCE LINE



- STOCK MARKET PERFORMANCE
- GENERAL SHAREHOLDERS' MEETING
- OTHERS
- DIVIDENDS
- RENEWABLES IPO
- SPLITS
- SCOTTISHPOWER
- EARNINGS AND SIGNIFICANT EVENTS

PERCEPTION ANALYSIS

IBERDROLA's Investor Relations Office performs continuous monitoring of the perception that the principal analysts have of IBERDROLA and its European competitors.

The perceptions of the main analysts as of December 2007 are summarized as follows:

IBERDROLA RECOMMENDATIONS	% of total
Buy/overweigh	34%
Hold/neutral	37%
Sell/underweigh	5%
Being reviewed	24%

This perception analysis is reflected in *several periodic reports* and other *specific perception reports* that enable the Company to take appropriate improvement actions.

Analysts and investors received 64 communicatoins about the Company in 2007, in addition to various quarterly documents with earnings information

In 2007, there were also various special presentations:

- A presentation in Valencia on the business of ScottishPower, attended by over 60 analysts and investors.
- A conference call presenting the agreement with Energy East.
- Presentation in Madrid of the 2008-2010 Strategic Plan, attended by over 100 people.
- Presentation of the IPO of Iberdrola Renewables, attended by over 120 investors and analysts.

In its communications with the financial community, the shareholders and investors section of IBERDROLA's website also plays an important role. In 2007, it received more than 72,276 visitors, who browsed through almost 393,737 pages and downloaded a total of 5,278 documents.

Communications abroad took the form of road shows and one-on-one meetings with more than 600 institutional investors in Europe and the United States.

IBERDROLA also organizes periodic meetings with analysts and investors at its offices in Madrid. Meetings with over 330 interested parties and a total of 26 conference calls were held in 2007.

In addition, visits to Company generation facilities and the America's Cup facilities were organized in 2007.

The intensive activities of the Investor Relations Division were accompanied this year by strong performance of the shares on the stock exchange. IBERDROLA closed out the year at 10.40 euros, with a yield of 25.60%.

Information provided to analysts and investors

The central axis of the documents provided to analysts and investors is the *Quarterly Earnings Release* and the *Quarterly Earnings Brochure*. Before each presentation, IBERDROLA sends out the *Analysts and Investors Quarterly Bulletin*, IBE-WATCH.

64 communications were also sent to analysts and investors in 2007 relating to significant information about IBERDROLA.

Regarding information provided to official entities, IBERDROLA reported a total of 120 significant events and other notices to the National Securities Market Commission (CNMV) during 2007.

Significant events and other notices to the CNMV

Most of the information provided to analysts and investors concerns financial aspects, although special attention is also paid to communicating the most significant strategic aspects, including sections on social and environmental issues.

EVENTS REPORTED	Nº
Strategic investment and disinvestment transactions	34
Earnings information	7
Resolutions of the Board of Directors, notice of calls to meetings, agreements. Meetings and information about corporate governance	13
Presentations about the Company	10
Other communications regarding significant relevant events	41
Meetings with analysts and investors	10
Increases or reductions in capital stock	5
TOTAL	120

Personalized attention

The Investor Relations Office provides personalized attention to equity, fixed-income and socially responsible investors and analysts.

• Equity investors and analysts

IBERDROLA has a database of over 300 equity analysts and close to 900 equity investors, which is updated on a daily basis.

In 2007, it held seven road shows, one after each quarterly presentation of earnings, presentations to present the Strategic Plan and the ScottishPower transaction, and one for the IPO of Iberdrola Renovables. The road shows were held in the United States, the United Kingdom, France, Germany, Italy, Switzerland, Sweden, the Netherlands, Denmark, Belgium, Canada and Spain.

IBERDROLA also was a speaker at various subsequent one on one international forums for the industry, such as the Edison Forum in Orlando, United States, and the Edison Forum in London. IBERDROLA has also spoken at eight other industry conferences set up by various investment banks in Madrid, Lisbon, London and Edinburgh.

• Fixed-income investors and analysts

IBERDROLA has a regularly-updated database with approximately 70 analysts and 250 fixed-income investors. Periodic meetings continued with the agencies that rate IBERDROLA: *Moody's*, *Standard & Poor's* and *Fitch*.

• Socially responsible analysts and investors (SRI)

IBERDROLA maintains on-going contact with the principal socially responsible investment analysis entities, and has about 70 contacts in its database.

In addition, IBERDROLA is in contact with and responds to requests from the socially responsible investing areas of leading investment banks.

As a result of this intensive work, IBERDROLA has continued to increase its weighting on the main indices, which can be viewed on the corporate website, in the section on *sustainability indexes*.

RECOGNITION

The Company's intensive work in its relations with analysts and investors has earned it the recognition of the financial community.

According to a survey conducted by the Institutional Investor Research Group (IIRG) for the *Institutional Investor* magazine, IBERDROLA's Chairman & CEO has been chosen, for the fifth straight year, as the best CEO among European utilities, and analysts have singled the Company out for its leadership in two other categories: best Financial Director (José Sainz Armada) and best Investor Relations Manager (Ignacio Cuenca Arambari).

In addition, according to an *IRM* magazine survey, IBERDROLA has been singled out as the best company in the country in its investor relations. This distinction provides recognition of the Company's efforts to provide the entire financial community with the information it needs when making its investment decisions, which shows its consistency and solidity.

IBERDROLA gives personalized attention to 300 equity analysts, 900 equity investors, 70 fixed-income analysts, 250 fixed-income investors and 70 SRI entities

CORPORATE POLICY

IBERDROLA's relationship with regulatory entities is established along two different tracks.

- Relationships geared to the enactment of efficient regulatory provisions allowing for the development of a competitive market. To that end, there is an on-going and constructive dialogue where information, knowledge and opinions are exchanged, which allows IBERDROLA to become acquainted with the concerns and proposals of regulatory entities and to put forward the Company's own opinions and points of view in the legitimate defense of its interests and those of its shareholders and users.

In accordance with the regulatory principles mentioned above, IBERDROLA defends, among other things, the adequacy of tariffs for regulated activities, the elimination of comprehensive tariffs, the assumption of all costs internally, including environmental costs, the intervention of the government only in cases of anticompetitive practices and the promotion of renewable energy and energy efficiency.

- Provision of all information required by regulatory entities, whether it be in connection with the normal conduct of its business or as a result of any transitory issue.

In addition to its direct relationships with regulatory entities, either directly or through its subsidiary ScottishPower, IBERDROLA also participates in the regulatory process through domestic company associations such as UNESA and AEP (electricity) and SEDIGAS (gas), or international associations such as EURELECTRIC, EFET, the Regional Energy Integration Commission [Comisión de Integración Energética Regional] (CIER) and the World Energy Council (WEC). In the field of renewable energy, participation in these processes takes place through Spanish and British associations as well as those of other countries, such as the European Wind Energy Association (EWEA) at the European level and the American Wind Energy Association (AWEA) in the United States. In addition, it is present in forums and organizations that discuss and investigate regulatory topics, such as the Florence School of Regulation and the Center for Energy and Environmental Policy Research (MIT).

RELATIONS WITH REGULATORY AUTHORITIES AND PUBLIC ADMINISTRATIONS

Objectives

Because they are services of general economic interest, the IBERDROLA Group's core activities are subject to widespread regulation. Hence, regulatory entities and public administrations are relevant stakeholders of the Company.

In its relationship with regulatory authorities, IBERDROLA follows the regulatory principles described below:

- **The Market.** A competitive market is the best way to maximize social well-being. Accordingly, energy regulation must promote deregulation and foster free competition among the various players wherever technically possible. This will allow end-users to choose the offer that best serves their interests in terms of price and service.
- **Sustainable development.** The ultimate purpose of energy regulation must be sustainable development based on a balance of economic, social and environmental aspects.
- **Transparency.** All regulations must be prepared and applied transparently with the participation of all players involved. To that end, administrations with jurisdiction in this matter as well as interested players must make their proposals and comments public.
- **Efficiency.** Efficiency is the optimal allocation of the scarce resources available, in accordance with objective conditions of demand, price and technology. In deregulated activities, the market is the vehicle that best provides efficiency. In regulated activities, regulation must allow for the recovery of prudently incurred costs, promote cost curtailment and quality enhancement and allow consumers to benefit from efficiency gains, either through better services and prices in competitive activities or through specific regulatory mechanisms allowing them to share cost reductions in regulated activities with companies.
- **Long-term vision.** The energy industry requires sizeable investments with long depreciation periods. For this reason, the regulatory framework should be stable, predictable and forward-looking, avoiding interventionist practices which seek to resolve transitory issues.

Regulatory aspects of interest

IBERDROLA declares itself to be a company that is respectful of applicable legislation and carries out all its activities in accordance therewith. Because of its firm belief in the need to move forward in the deregulation of the industry, it opposes any anticompetitive practice or any practice involving abuse of market power.

As a company engaging in an activity that is subject to the supervision and control of various regulatory entities, IBERDROLA may be subject to various proceedings commenced by the regulatory or competition authorities on their own initiative or as a result of reports from interested third parties. In all such proceedings, IBERDROLA follows a principle of full cooperation in providing the requested information, in the firm belief that our actions comply with the law at all times.

There were no regulatory situations of significant interest at the companies covered by this report in Latin America in 2007. The most significant issues relating to regulation in Spain during the fiscal year are discussed below:

- **Prices on the wholesale market.** In 2007, a ruling was made on case 601/05, which commenced during fiscal year 2005, concerning technical restrictions in the market. The ruling imposed a penalty on Iberdrola Generación for its activities in the Castellón and Escombreras 4 and Escombreras 5 power plants, but the penalty has been suspended by judicial order in the administrative law venue.

Case 624/07 is also in progress before the National Competition Commission. This case was initiated in fiscal year 2007 and, like the previous one, is related to an alleged abuse of IBERDROLA Generación's dominant position in the electricity supply market with technical restrictions, this time in the Levante area. IBERDROLA Generación has filed its conclusions brief and the case is awaiting a ruling.

- **Energy generation output.** Additional Provision Sixteen of Law 54/97 on the Electricity Industry authorizes the Government to establish market mechanisms to promote term contracts for electric power. In support of this Additional Provision, Additional Provision Twenty to Royal Decree 1634/2006 was issued, establishing the conditions under which the associated auctions are to be held. In turn, this decree was supplemented by the General Energy Secretariat's Resolution dated April 19, 2007.

To date, there have been three auctions (June, September and December 2007), in which IBERDROLA and Endesa have had to become involved as sellers in equal shares. In IBERDROLA's opinion, there has been excessive government involvement, and the government has not respected the reserve price set by the vendors in any of the three auctions. This has caused IBERDROLA to file corresponding appeals against the rulings issued against the rulings issued in each of the auctions.

- **Capacity payments.** Order ITC/2794/2007 dated September 27, revising electricity tariffs starting on October 1, 2007, has replaced what was formerly called capacity guarantee with a new system. The ITC order does not establish a set of transition rules to determine return for the generation facilities during the period included between the end of the capacity guarantee and the development of the new system of capacity payments. For this reason, keeping in mind the economic hardship produced by this situation, IBERDROLA has filed an administrative appeal, asking for protective measures.

- **Subtraction of CO₂ emissions.** In December 2007, IBERDROLA filed an appeal against ITC Order 3315/2007, ordering reduction in compensation for electric energy production activities, in an amount equivalent to the value of greenhouse gas emission rights allocated at no charge. In addition, it asked on January 3, 2008 that enforcement of the aforementioned ministerial order be suspended.

In addition, IBERDROLA Generación has been informed by the National Energy Commission that in application of ITC Order 3315/2007, it provisionally estimates the amount that IBERDROLA Generación must pay for return of rights allocated at no charge to be 318,558,593 euros. Iberdrola

ORGANIZATIONAL STRUCTURE

IBERDROLA has an organizational structure that allows it to carry out a permanent dialogue with the regulatory entities.

From a geographical standpoint, it is structured in such a way as to respond to requests from and maintain relations with the various existing regulatory authorities. Thus, it has a permanent office in Brussels responsible for relations with EC institutions, reporting to the Director of Operations, which is supplemented by Regulation Divisions in Spain and the United Kingdom for domestic issues. Relations with autonomous community and local entities take place through the institutions of IBERDROLA most directly related thereto.

IBERDROLA's relationships with the regulatory entities of the United States and the Latin American countries where it has a presence take place within those same countries, where there is greater in-depth knowledge of the regulations and reality of the country. There are many differences from one country to another, with the regulatory framework depending, for instance, on the degree of deregulation, the number of regulatory entities and the powers and duties of each of them, as well as on the activity (generation or distribution) in which IBERDROLA engages in each country. In general, there is usually a specialized unit responsible for regulation and relations with regulatory authorities.

From a functional point of view, it is structured on a matrix basis, with experts in regulatory matters at the corporate level who have a general vision of the Group and others specializing in the individual activities of each of its business divisions, who work in a coordinated manner.



UHE Itapebi Neonergia in Bahia (Brazil).

ANTI-CORRUPTION POLICY AND PRACTICES

In defense of an ethically responsible corporate action, IBERDROLA opposes corrupt practices in any of their forms.

From the external point of view, employees of the Group must comply with the Codes of Conduct and the approved business policies, which establish that these practices must not be used as a way to obtain personal benefits or advantageous treatment for the Company. In addition, IBERDROLA's risk management system considers bribery and corruption to be potential business risks.

In 2007, none of the Group's companies contributed to the financing of political parties or subordinate organizations. In the United Kingdom, ScottishPower spent some 10,000 euros on activities associated with party conferences. This is not assistance, but rather it allows the Company to express its views.

From the internal viewpoint, IBERDROLA has stringent procedures against corruption. In the General Administration, it has established procedures aimed at eradicating fraud, among other things. In the Procurement area, bidding and award procedures are designed to avoid irresponsible conduct. IBERDROLA Inmobiliaria has a specific risk regarding money laundering and the prevention and blockage of terrorism financing and has developed an internal set of procedures to monitor it and a control body to ensure that the procedures are followed.

At ScottishPower, over 3,500 employees have received training on this subject, and 20 employees of Iberdrola Inmobiliaria have received training on Prevention of Money Laundering.

In Brazil, four persons have been fired for incidents associated with corruption. Of these, three have appealed to the courts, which in the first instance ruled favorably for the Company. In Procurement, no contracts have been cancelled for actions of this nature.

Generación has filed claims against this initial estimate and is awaiting a final determination.

- **2008 + 2012 National Allocation Plan.** IBERDROLA has filed three administrative appeals against the various provisions governing individual assignment of emission rights for the period 2008-2012. These appeals are awaiting court dates before the corresponding suits are filed.

- **Appeals against electricity generation facilities.** The High Court of Appeals of Madrid has ruled that it will not accept the appeals filed by an ecology association against the licenses for IBERDROLA's combined-cycle plants at Arcos and Aceca.

There have been subsequent judicial rulings in various administrative proceedings in which the cancellation of various permits, licenses or authorizations for new generation facilities (mostly combined-cycle plants) was sought. These rulings recognize and reaffirm the Company's position, thus confirming that the aforementioned authorization proceedings are valid and that they are fully legal.

- **Penalties.** In fiscal year 2007, various types of complaints and infringement proceedings were brought against the Group's companies in connection with both the regulatory aspects described in previous sections and issues derived from selling products and services such as consumer information, health and safety, advertising and user privacy, which are detailed in the chapter on "Users" herein, in Spain, Brazil, Guatemala, Bolivia, Chile and Mexico. These proceedings have resulted in financial penalties which in fiscal year 2007 came to 621,464 euros for the entire Group. The majority is from Brazil, 524,656 euros; for Spain it came to 51,570 euros and the remainder, 45,237 euros, is for small penalties in Mexico, Bolivia, Guatemala and Chile.

During this fiscal year, penalties imposed in previous fiscal years totaling 156,397 euros were reduced or cancelled.

USERS: A MODEL OF COMPREHENSIVE RELATIONSHIPS

A value relationship with customers

One of IBERDROLA's objectives is the creation of value for its customers by means of excellent management of its processes and resources. This value creation model is based on a foundation of sustainable and profitable growth that integrates activities for fulfilling the expectations of our users with respect to the environment, responsible labor practices, and the alignment of business values with the values of the social environment.

IBERDROLA, through the companies within its group, serves more than 23 million points of electric power supply, over 2 million users of gas and slightly under 200,000 users of water.

In order to serve them, the IBERDROLA Group has a very decentralized structure, such that each company in the Group has its own supply management systems. In Spain, relations with users having regulated rate status are managed by the Spain Network Business Division, and relations with electricity and gas users in the unregulated market are managed by the Deregulated Business Division, which also manages the other products and solutions supplied in this market.

A lasting relationship with users is established by means of quality systems and processes that offer the greatest satisfaction possible. IBERDROLA applies high quality standards to its business policies and processes, which are described in the "Quality Information" section of this report.

Products and services of the IBERDROLA Group

Besides the offer shown on the right, the affiliated companies in Spain offer the following products and services:

- Engineering and construction of electric power generation, distribution and control facilities, both in Spain and in other countries.
- Operation and maintenance of electric power generation facilities.
- Management and promotion of land, sales and leasing of homes, offices and business premises.

Affiliated companies in other countries offer:

- Electric power in various stages of production, transmission and distribution in the United Kingdom, Mexico, Brazil, Bolivia, Guatemala and Chile.
- Distribution of gas in the United Kingdom.
- Distribution of potable water and collection and treatment of waste water in Chile.

Additionally, in order to facilitate access by low-income and low-consumption users, special rates are offered by some of the Latin American companies. In the United Kingdom, ScottishPower offers special rates for disadvantaged groups.

In Spain, IBERDROLA and the Spanish Federation of Large Families [Federación Española de Familias Numerosas] maintain an agreement in which all its members are offered financial advantages in contracting for some products and services, with IBERDROLA voluntarily assuming the expense of these discounts.

PRODUCTS, SERVICES AND SOLUTIONS OFFERED

The principal products that IBERDROLA makes available to its users are electricity and natural gas. In addition, the Company offers a broad range of other products, services and solutions, both residential and commercial.

The products and solutions for the home offered in Spain include:

- Maintenance services for gas lines and gas heaters.
- Payment protection service.
- Installation of solar photovoltaic, and thermo-electric power.
- House calls 24 hours a day: emergencies, repairs and renovations, legal assistance.
- Weatherization services.

Those directed at businesses include:

- Solutions promoting the preservation and care of the environment:
 - Energy efficiency (condenser sets, luminous flow regulators, energy managers and energy audits).
 - Installation of renewable energy sources (solar photovoltaic and solar thermal).
 - Waste treatment: PCB removal and Environmental Audits.
- Installation at users' facilities of equipment that notably improves the quality of their electrical supply, such as:
 - Uninterrupted power supply systems.
 - Systems for the elimination of brief electrical power disruptions.
 - Installation of harmonic elimination filters.
 - Monitoring of supply quality.
 - Automation of facilities.
- Construction and maintenance of high-voltage electric facilities.

24-hour assistance to small- and medium-size companies is also offered (emergencies, repairs and renovations, legal and technical assistance).

ADVERTISING AND MARKETING

One of IBERDROLA's goals is to give its users complete, truthful and accurate information about its products and services. Accordingly, it maintains commercial and advertising practices that are respectful of the legitimate interests and rights of its customers, providing the transparency required to allow them to choose freely.

Therefore, IBERDROLA is a member of the Association for Commercial Self-Regulation [Asociación para la Autorregulación Comercial] (Autocontrol), the Spanish Electronic Commerce and Relational Marketing Association [Asociación Española de Comercio Electrónico y Marketing Relacional] (AECEM), and the Spanish Advertisers' Association [Asociación Española de Anunciantes] (AEA), and has subscribed to their ethical codes. This entails the assumption of a commitment to offer to society responsible advertising that complies with the codes of conduct and accepts the decisions of the Advertising Panel [Jurado de la Publicidad] regarding complaints that may be filed by consumers or competitors with this entity.

IBERDROLA has also subscribed to the Ethical Code on Electronic Commerce and Internet Advertising [Código Ético de Comercio Electrónico y Publicidad en Internet], which is made known by means of the placement of the "Confianza Online" trustmark on its website. In the United Kingdom, the Green Supply Guidelines have been adopted, offering transparency and precision in the promotion of environmental products. In Brazil, affiliates follow the recommendations contained in the Regulations of the National Council on the Self-Regulation of Advertising [Estatuto del Conselho Nacional de Auto-Regulamentacao Publicitaria].

The products that IBERDROLA sells are basic to people's well-being and there are no restrictions on the sale thereof in any of the countries in which it operates.

IBERDROLA believes that the purchase of green energy by consumers entails a significant environmental commitment and an incentive for the development of renewable energy sources, which should be encouraged. Recently, in the United Kingdom, where environmental awareness, efficient energy usage, and the use of green energy among users are also being promoted, some consideration has been given to this issue which has not had an effect on the sale thereof.

The IBERDROLA Group has not received any complaints or sanctions for reasons relating to the marketing and advertising of its products.

Information on products and services

Useful information for the consumer

The Company's aim is to provide useful information to its customers on the features of its products and services.

The cornerstone of this policy is to provide information to the consumer in compliance with the applicable legislation, and to ensure similar compliance on the part of the Company's suppliers. The various companies of the Group have implemented initiatives to give customers better knowledge of the characteristics of the product they use. The following such initiatives in 2007 deserve mention:

- **In Brazil**, distributors provide users with information on the properties of products and services, as well as the correct use thereof. For that purpose, there have been several outreach campaigns in schools and communities, among which one of the most important has been the participation of the COELBA in the Crescendo project, with the aim of raising the awareness of 1.3 million students at 1,800 public schools; and the 30 Minutos de Segurança campaign. CELPE has also participated in the II Semana Nacional Segurança com Energia Elétrica.
- **In the United Kingdom**, campaigns are conducted to offer free safety inspections of domestic gas facilities.
- **In Spain**, of note are awareness activities directed towards energy efficiency, safety and health.

Various activities are carried out with respect to energy efficiency:

- Events planned around World Environment Day stress the importance of commitment to respect the environment and offer advice on the efficient use of energy through various media, such as the corporate website or the distribution of information cards on the street.
- The website offers tips and ideas that encourage a more efficient use of energy in the home.
- Additional information on energy saving tips and security is included in the monthly bills sent to customers.
- The Iberdrola Bus travels around the country providing advice on saving energy and caring for the environment.
- Participation in various forums and seminars related to the promotion of energy efficiency. Of note is participation in Energy Week in Barcelona, which aims to increase citizen awareness regarding improvement in energy management and responsible and efficient energy usage. In 2007, the slogan was "The issue is saving" ["La cuestión es ahorrar"]. Over 60 educational centers and 40 municipalities in Catalonia have participated with activities promoting energy saving and efficiency.
- The creation of monthly electronic bulletins for homes, businesses, and installers that provide usage tips for the saving and efficient use of energy. These

bulletins are sent to customers that request them and are available to the general public on the website.

In relation to this issue, IBERDROLA has received a light sanction in Spain for defects in the format of the supply contract for user at his home.

User health and safety

With a view to providing the greatest possible measure of safety for users, IBERDROLA promotes company-wide compliance with regulations relating to the development and sale of the products and services it offers. It has therefore adopted a series of measures that improve aspects relating to the safety of products and services for the end user, of which the following are noteworthy:

- Participation in the Renove [Renewal] plan for replacement of natural gas boilers more than ten years old with newer and safer ones, which the Autonomous Communities of the Basque Country, Catalonia and Castile & Leon are promoting.
- The commercialization of a 24-hour SME Service and Residential Service that provides access to a network of professionals who provide emergency services, repairs and building modifications, legal guidance and technical assistance.
- A requirement that providers and suppliers comply with health and safety regulations currently in force.
- Website tips on the use of electrical and gas equipment and facilities, and safety in the home.
- The sending of monthly electronic bulletins for homes, businesses, and installers communicating environmental, technological and safety aspects of interest to the user.
- Informational activities regarding the laws currently in force with respect to measures for the elimination and management of equipment that contains polychlorobiphenyls (PCBs) and the transport of hazardous materials, offering users assistance and advice on the identification and elimination of such substances, as well as the adaptation of their equipment and facilities in the safest and most efficient way.



The Iberdrola Bus conducts information campaigns about efficient consumption of energy.

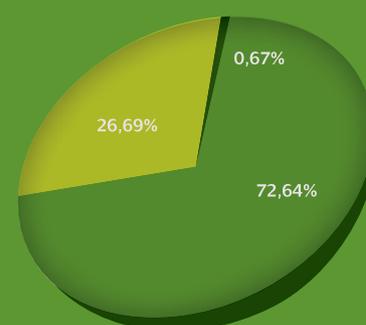
USER COMMUNICATION CHANNELS AT THE IBERDROLA GROUP

IBERDROLA offers various service and sales channels to effectively communicate with its users, including:

- Sales offices, stores, and service and sales points.
- Sales agents and mobile offices.
- Dedicated telephone numbers for users and businesses.
- Website, virtual office, electronic mail and electronic bulletins.

The chart below shows the degree of penetration of the various channels that IBERDROLA makes available to users in Spain based on the actions taken.

It is important to emphasize the obligation for ethical conduct by all intervening agents, requiring external collaborators to sign the Ethical Code of Conduct with respect to users.



RESOLUTION OF COMPLAINTS AND CLAIMS

The same companies that carry out user satisfaction studies have various procedures to handle complaints and claims.

Several of these procedures are regulated by the corresponding legislation. In general, the aim is to identify the most frequent types of complaints and claims and respond to them through established procedures in the shortest time possible.

Thus, there are procedures to handle complaints and claims in Spain as well as in the United Kingdom, Brazil, Chile, Bolivia and Guatemala.

Likewise, ScottishPower is a member of the *Energy Supply Ombudsman*, an independent entity whose purpose is to resolve disputes between users and their suppliers.

- The updating of the internal standard for low-voltage condenser sets (Standard NI 76.91.01), which protects the safety of users and those responsible for maintenance.

The companies that distribute electricity in Latin America also incorporate a concern for the health and safety of users in their processes. Among notable activities in 2007, EEGSA continues its risk prevention campaign for construction worker.

As regards incidents of non-compliance relating to health and product safety, it should be pointed out that in fiscal year 2007 only one minor incident occurred at Iberdrola Renewables, which was resolved with a sanction; five unresolved incidents at CELPE (Brazil); and three incidents in Chile were resolved with a warning at ESSAL.

User satisfaction

The degree of customer satisfaction with the products received and the quality thereof, and the service and quality that the companies offer in their supply processes, is an important variable in the management of the user portfolio.

IBERDROLA is aware of this fact, and the Group companies that sell electricity, gas or water, or provide engineering services, have various procedures for obtaining this level of satisfaction. The decentralized management of user relations according to different companies and countries leads to the utilization of diverse tools and processes.

- **In the United Kingdom**, ScottishPower conducts various user satisfaction surveys four times a year, which permits a quarterly quantitative evaluation. This evaluation is completed with qualitative studies conducted periodically.
- **In Brazil**, COELBA, COSERN and CELPE develop a great variety of surveys of various segments and participate in the consumer satisfaction surveys conducted by the Brazilian Association of Electrical Distributors [Asociación Brasileña de Distribuidoras Eléctricas].
- **Affiliated companies** in the rest of Latin America also conduct various surveys. In Guatemala, EEGSA conducts an annual survey in compliance with the Regulations of the General Electricity Law [Reglamento de la Ley General de Electricidad]. In Bolivia, ELECTROPAZ and ELFEO also hold annual surveys to measure user satisfaction. In Chile, ESSAL conducts satisfaction surveys at the end of its projects. In Mexico, it is typical to develop a survey of the satisfaction of shareholders and of the Federal Electricity Commission [Comisión Federal de Electricidad (CFE)] every six months.
- **In Spain**, besides the use of these kinds of tools in engineering and construction activities, IBERDROLA has carried out a study called "The Customer's Voice" [La Voz del Cliente] on an annual basis since 1993, aimed at identifying the areas that require priority action in order to improve user satisfaction.

Together with *La Voz del Cliente*, other surveys are also conducted to evaluate the automated customer service telephone line, demand management programs, the quality of residential sales, or the satisfaction with services offered by service providers.

Also notable are the meetings that IBERDROLA periodically holds with the main consumer associations to jointly analyze the principal issues of interest to consumers and to the organizations themselves.

All these analyses and studies in the different companies and countries contribute valuable information of help and support to decision-making regarding the various processes and procedures in practice to serve all the users of the Group.

User Data Protection

Customer privacy

IBERDROLA ensures the security and confidentiality of its users' data pursuant to its privacy policy, and complies with Organic Law 15/1999, of December 13, on Personal Data Protection. IBERDROLA has established the organizational procedures and information technology developments necessary to comply with the requirements relating to:

- Privacy policy, with special emphasis on the registration and permanent updating of the files registered with the Data Protection Agency.
- The duty of secrecy and confidentiality for employees and subcontracted personnel.
- Keeping the user informed during the process of gathering personal data.
- Unequivocal consent for the processing of such data.
- Attention to the rights of interested parties at the user service office.

Likewise, IBERDROLA has established procedures for the reporting and management of security incidents in connection with data confidentiality throughout the entire processing cycle for its user files, pursuant to the provisions of the Regulations on Security Measures applicable to computerized files [*Reglamento de medidas de seguridad para ficheros automatizados*] set forth in Royal Decree 994/1999.

The processing of personal data by third parties as a result of the provision of services is contractually regulated. The party in charge of handling the data is required to implement technical and organizational security measures.

In this regard, the personal data of users is stored exclusively in a centralized user management system, so that they are protected against incursions, theft or loss. No such incidences have been reported.

In fiscal year 2007, 15 verified claims have been received related to user data privacy. Of these, in the United Kingdom 11 have been received directly from customers and four through the Telephone Preference Service.

In Spain, the Spanish Data Protection Agency [*Agencia Española de Protección de Datos*] AEPD has requested information about a claim filed by a user with that entity and has also opened three sanction proceedings related to claims by users filed with the AEPD from previous years. Two of these have been resolved with minimal sanctions and the third has been concluded without any sanction.

IBERDROLA ensures the confidentiality and security of the data of its users through its privacy policy, and complies with the Data Protection Law

COMMITMENTS RELATED TO SUPPLIERS

- Know the expectations of the internal user as a basic condition for the satisfaction of their needs and the contribution of value.
- Encourage cooperation in achieving the best possible contractual terms for the supply of the required products or services.
- Reduce the overall cost of products and services to be contracted for, to allow achievement of the objectives set forth in the Strategic Plans.
- Promote strict compliance by suppliers with contractual terms and current laws and regulations, with particular emphasis on respect for the principles laid down in the United Nations Global Compact.
- Strengthen transparency and non-discrimination, establishing an honest and open professional framework, giving all companies the possibility of working with the Company and strictly applying the Group's Code of Professional Conduct.
- Foster environmental responsibility, encouraging the use and development of technological means that are respectful of the environment.
- Promote a policy of stable relationships based on the search for on-going improvement and mutual benefit, furthering innovation and development activities.
- Promote the motivation and active participation of employees through informational openness, and the training and professional development necessary for the performance of their duties.
- Establish information and management and internal communication tools so that all involved IBERDROLA divisions participate in the planning and implementation of activities in the purchasing and procurement process.

SUPPLIERS: TRANSPARENCY AND EQUALITY

Lines of action in the Procurement area

IBERDROLA recognizes as a strategic objective the importance of minimizing the overall cost, not only of buying equipment and materials but also of contracting for works and services. This ensures a strategic alignment of awards, as well as conformity between the processes and approved purchasing procedures and compliance with the requirements defined by the demands of the internal user.

This objective can be achieved in various ways; however, in the relationship with its suppliers, IBERDROLA has opted to:

- Utilize processes of selection and awards based on practices that seek transparency, equality of opportunities, and mutual interest.
- Promote principles among its suppliers that are similar to those that inspire the Company itself to behave responsibly toward the natural and social environments.

Along these lines, IBERDROLA's Purchasing Division assumes and promotes, in a spirit of creation of value for its various stakeholders, and especially for internal users, shareholders and suppliers, certain commitments in the hiring of and relationships with suppliers:

Size of the area: more than 136,000 suppliers

The total volume of acquisitions from the IBERDROLA Group's suppliers for fuel supplies, energy purchases, tolls and other supplies, external services for the acquisition of materials and services, and fixed asset investments, is reflected in the following table:

TOTAL SUPPLIER PURCHASING VOLUME

(thousands of euros)

	Procurement	External Service	Fixed Assets	TOTAL
Spain	4,128,609	988,583	2,865,706	
Latin America	1,740,083	185,872	345,031	
United Kingdom	3,082,855	417,407	1,293,708	
Other countries	225,567	64,129	805,132	
TOTAL 2007	9,177,114	1,655,992	5,309,576	16,142,683
TOTAL 2006	5,217,048	1,008,907	2,879,534	9,105,489

The IBERDROLA Group has registered over 136,000 suppliers to provide its supplies. Of these, over 86,000 are located in Spain, over 16,000 in Latin America and over 33,000 in the United Kingdom. In Spain, over 17,000 suppliers have received a purchase order during the year. The following table lists the most important ones:

PRINCIPAL SUPPLIERS OF GENERAL SUPPLIES IN 2007

Spain

Gamesa Eólica
General Electric
Ecotecnia
Asea Brown Boveri
FCC Construcción
Elecnor
Siemens
Areva T&D
Manufacturas Eléctricas
Duró Felguera

United Kingdom

Balfour Beatty
Siemens
Renewable Energy Systems
Mcalpine
Prysmian
NKT Cables
Thus Plc
Acciona
Morrison
Saic Ltd.

Classification of suppliers

IBERDROLA's supplier registration, selection and qualification process follows standards of objectivity, impartiality and equal opportunity and avoids any conflict of interest in the selection thereof. Publicity and competition are promoted in the processes of selection, within management efficiency standards.

In Spain, IBERDROLA uses a supplier classification system known as RePro for the preliminary classification of its suppliers. RePro is a database with updated information on companies that is used jointly by the leading entities within the energy industry. Access to RePro is open at all times to any interested supplier.

The Company periodically announces the use of this system in the Spanish Official Gazette [Boletín Oficial del Estado] and in the Official Journal of the European Union to enable any company wanting to offer its services to IBERDROLA to register. The company has been participating in RePro since 2002 and belongs to a monitoring committee that adapts the needs of the supply chain management to the requirements and information to be compiled about the suppliers. IBERDROLA chairs this committee during the 2007-2008 period.

As part of the Purchase policy, suppliers are evaluated by taking into account their technical and productive capacity, among other things, and their position in the following areas:

- Quality
- Safety and risk prevention
- Environment
- Social Responsibility
- Economic and financial situation

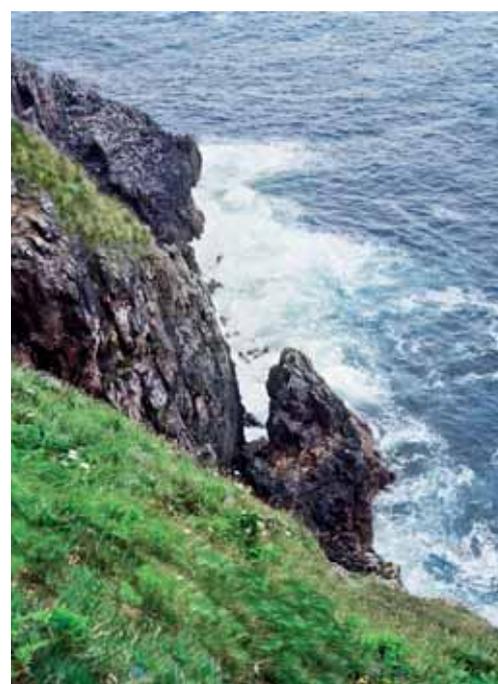
All IBERDROLA bids contain clauses that bind the parties to act within the strictest levels of security and environmental respect.

CLASSIFICATION OF PRINCIPAL SUPPLIERS IN 2007

Suppliers with Certified Quality Management System (*)	84%
Suppliers with Certified Environmental Management System (*)	43%
Suppliers with documented Risk Prevention System (*)	75,4%
Suppliers with Certified Risk Prevention System (*)	12%
Suppliers having signed the United Nations Global Compact	100

* Spain. Suppliers with awards > 1.000.000 euros and registered in RePro.

IBERDROLA encourages its suppliers to improve quality, respect the environmental and prevent occupational risks



SUPPLIER SURVEY

Given the importance that IBERDROLA places on the relationship with its suppliers, it is deemed appropriate and necessary to obtain their opinions and measure their level of satisfaction through an elaborate survey. This allows for identification of their requests and expectations, and also to detect areas that require improvement based on the results of the survey.

SUPPLIER SATISFACTION INDEX

	2007	2006
Global survey results	7,57	7,56

The results of this second supplier survey are again very satisfactory, most notably in the areas of purchasing, professional respect for the provider, and quality in commercial relationships. The aspects of possible improvement point to financial elements. The most valued attributes of the Company at the global level are reputation, trust, and financial results.

The Company aims to carry out this survey every two years.

During 2007, a campaign was conducted to motivate suppliers that did not use any of these certified management systems, encouraging them to implement those systems in their activities, with IBERDROLA offering its resources to collaborate with them.

The goal during 2007 was to increase suppliers' certifications by 6%, and the year ended with an increase of more than 8%.

During 2008, new specific actions to be taken with suppliers are planned in various areas: environment, risk prevention and corporate social responsibility.

The company has also made commitments which require that the sustainability of its business activity extend to suppliers, to ensure efficient service and quality and as a commitment of its inclusion within the United Nations Global Compact.

In general terms, no purchases are made from "at-risk" countries. In fact, the percentage of purchases made from Spain to these areas has not reached 0.1% of total purchasing volume (not including fuel).

At the Latin American subsidiaries, work has been done on the inclusion of clauses on the corporate and social responsibility of the supplier; thus, all orders placed with the affiliated companies in Brazil and Mexico include this type of clauses. During fiscal year 2007, IBERDROLA has not canceled any order for reasons related to human rights.

Relationship channels with suppliers

The various relationship channels with suppliers receive the comments, opinions, proposals, complaints and information provided by suppliers on those aspects that entail opportunities for the improvement of the relationship, and the information is channeled to ensure that it reaches the areas involved.

Supplier service center

The supplier service center in Spain is equipped with a telephone switchboard and electronic mail as an access point to resolve problems and questions that may arise from the commercial relationship with any supplier. This center channels suggestions, complaints and claims made by suppliers to the appropriate organizations in each case.

SUPPLIER CENTER STATISTICS

	2007	2006
Calls answered	34,015	25,752
Action arising from calls	19,161	16,240
Average resolution time	17.41	12.49
No. of inquiries resolved in less than 8 hours	>54%	>50%
Complaints responded to	35	14

Supplier register

Any company interested in becoming an IBERDROLA supplier has quick, safe and non-discriminatory access to the basic questionnaire that may be found in the supplier section of IBERDROLA's website.

Local suppliers

IBERDROLA is committed to encouraging the entrepreneurial, industrial and social development of those regions where it maintains a presence and carries out business activities. For that reason, it promotes the participation of and contracting with companies of the area where the tendered works are being carried out. In some cases it has encouraged groups of local companies to provide services at the national level. Throughout 2007, it has succeeded in increasing the number of IBERDROLA suppliers registered in all the autonomous communities.

At the subsidiaries, the practice is the same as in Spain. Although no formal written policy exists, efforts are made to increase the participation of local companies in tenders and to favor the contracting of goods and services from the companies of the region where activities are carried out or where the Company has a presence.

Purchases from local suppliers (suppliers in the same country as the company making the purchase) comprise 95% of the purchases made in Spain, 91% of those made in Latin America, and 99% of those made in the United Kingdom. These percentages are calculated based on the purchase of general supplies and do not include fuels.

Purchases from local suppliers represent 95% of those made in Spain, 91% in Latin America, and 99% in the United Kingdom



CONTRACTS WITH SPECIAL EMPLOYMENT CENTERS

The Company has been working quite actively in Spain since 2004 to increase the volume of contracts with Special Employment Centers, with the aim of helping and cooperating with disabled persons.

During 2007, there has been an increase in the types of materials and services contracted with these centers, which received awards in excess of 1,200,000 euros.

The following actions are worthy of note:

- Corporate services rendered by people with disabilities in cooperation with Fundación ONCE.
- The working group in the Purchasing Division with the specific task of promoting the hiring of special employment centers.

MORE PRESS RELEASES AND PRESS CONFERENCES

In 2007, IBERDROLA issued 351 press releases regarding the most noteworthy aspects of its evolution and results. Of these, 180 focused on the Company's activities in the autonomous communities in which the company maintains a presence.

The interest that IBERDROLA's activities awoken in the media was reflected in the 14,810 mentions registered in the press during the past fiscal year. Of this number, 8,173 references were published in nationally distributed newspapers and 6,637 in the regional media. The average number of mentions published in the national and regional newspapers combined increased to over 40 mentions per day.

The press conferences and press releases offered by the Chairman of IBERDROLA were mainly concerned with quarterly economic/financial results, the General Shareholders' Meeting, the presentation of the 2008-2010 Strategic Plan and the flotation of Iberdrola Renewables on the stock exchange, which were widely picked up by the print and audiovisual media.

The Company also made other presentations to the media in the autonomous area, on the occasion of the start-up of generation and distribution facilities, as well as IBERDROLA's participation in diverse activities included in its programs of community action and collaboration with the socioeconomic development of the surroundings in which it operates.

In 2007, IBERDROLA registered 14,810 press mentions, an average of 40 per day

THE MEDIA: MAXIMUM TRANSPARENCY, AVAILABILITY AND RIGOROUSNESS

IBERDROLA develops its relations with the media based on the principles of informational transparency, permanent availability to satisfy the demands of information professionals, as well as the rigorous management of all news related to the Company.

This approach helps the various stakeholders of the Company, as well as public opinion in general, to always have an accurate image of the policies of the Group and the results achieved by IBERDROLA in its areas of activity.

Responsibility for relations with the media lies with IBERDROLA's Communications Director, who reports directly to the Company's Director of Corporate Resources.

The singular importance of 2007 for IBERDROLA, given the significance of aspects such as the push towards international expansion, the initial public offering of Iberdrola Renewables, and the presentation of the 2008-2010 Strategic Plan, has been reflected in the high volume of information, articles and commentaries generated by the Company's activities in the Spanish and international media, both print and audiovisual.

In addition to the information about the operational evolution of IBERDROLA described below, it is important to emphasize the impact of the Desafío Español in the 32nd America's Cup, in which the Spanish vessel sponsored by IBERDROLA achieved unprecedented success when it reached the semifinals of this prestigious sailing competition.

Principal informational milestones for IBERDROLA in 2007

The news reports generated by the Company's activities which have garnered the most interest from the media in 2007 have been in the following areas:

- **Corporate.** The presentation of IBERDROLA's 2008-2010 Strategic Plan in an event held at the Madrid Stock Exchange on October 24 was one of the news milestones of the year. The main objectives and key performance indicators of the Company for the next three years, the consolidation of international growth, and the 24,200 million euro investment program during this period have topped the news on the Plan.

Also worth highlighting is the enormous interest awakened by the IBERDROLA Group's signing of the Fourth Collective Bargaining Agreement of Group IBERDROLA [IV Convenio Colectivo de IBERDROLA Grupo] which places the company in a vanguard position in the reconciliation of family life and work life. The introduction of the compressed work schedule [jornada intensiva], and the expansion of support measures for maternity and for gender equality, have been applauded by the media as an advanced model for the management of human resources and of commitment to the quality of life of its professionals.

- **Renewables:** The initial public offering of shares of Iberdrola Renewables, one of the largest operations of this type to be carried out in Spain, was one of the main events in the financial news of the last quarter of the year, sparking an interest which spread to the major European media. The press kept the public informed about each phase of the process as it developed, which culminated on December 13 with the flotation of the

shares of Renewables in a ceremony presided over by Ignacio Galán at the Madrid Stock Exchange.

- **International.** IBERDROLA's significant international growth following the integration of ScottishPower, and the reaching of a friendly agreement for the acquisition of the U.S. company Energy East has been widely reflected in the domestic and press. The media recognizes the significant leap that both operations have made to establish IBERDROLA among the largest energy companies in the world.

- **Spain deregulated business.** In relation to the area of Spain Generation, the most relevant aspects covered by the media have been the quarterly energy balance sheets, the increased production with clean energy sources, and the Biodiversity Management Plan of the Deregulated Business, in which IBERDROLA will invest 140 million euros between 2007 and 2009 in order to reduce the environmental risks for new generation projects.

- **Networks Business.** In the electrical and gas distribution areas, the media has been timely informed of investments made in improvements and expansion of the grid in the various autonomous communities, as well as the start-up of new substations and transformer centers in order to increase the quality of service to our users.

- **Subsidiaries.** Throughout the fiscal year, IBERDROLA has been reporting on the main projects of Iberdrola Ingeniería y Construcción, which have been focused principally on the important contracts obtained by the Company within its strategy of globalization, the goal of which is for foreign sales to increase to 70% of the total by 2010. Among the most important jobs awarded outside of Spain were the ones in the Middle East, Mexico and Europe. With respect to Iberdrola Inmobiliaria, the press has echoed the various developments delivered throughout the fiscal year, as well as the international projects undertaken by the Company.

- **Financial.** Among the financial news items that have stirred the greatest interest in 2007 is the 1-for-4 stock split of IBERDROLA's shares, an operation that consisted of reducing the par value of each share from 3 euros to 0.75 euro. The primary objectives of this split were to offer greater liquidity and trading of the security and to promote the implementation of investor loyalty programs.

Another significant financial news item, widely picked up by the media, was the increase in share capital to finance the acquisition of Energy East, which IBERDROLA accomplished in record time. The Company issued a total of 85 million new shares for an approximate total amount of 3,400 million euros, which entailed an increase in share capital of approximately 7%.

PRESS SECTION ON THE WEB, A BENCHMARK CHANNEL

IBERDROLA's Internet Press Room, a space on the Company's website dedicated to the information media, received 145,000 hits in 2007 and it has established itself as the customary channel for relations with information professionals. Over the year, new improvements have been added to this service, among the most noteworthy of which is the inclusion of regional press releases, organized by autonomous community. There were more than 267,000 visits to the pages of the media section 267,000 last year, with more than 240,000 downloads. The most widely-viewed section was Press Releases, with nearly 75,000 pages visited and 70,000 items downloaded.



The media values
the importance of
the ScottishPower
and Energy East
transactions

THE LBG MODEL



The LBG model is structured in four categories of voluntary contributions to the community:

- Special-purpose contributions. Support to different social causes as a response to the needs and requests of social interest organizations.
- Social Investment. A strategic long-term commitment to the community to support priority initiatives defined by the company.
- Initiatives aligned with the business. Initiatives of social interest directly related to the business of the company, which promotes the brand's image.
- Administration costs. The cost of part- or full-time personnel dedicated to social initiatives.

A complete description of the LBG model can be found at its website: www.lbg.es

IBERDROLA maintains a strategy of strong involvement in the communities in which it operates



The environment is one of IBERDROLA's areas of priority action.

SOCIETY: COMMITTED TO THE CREATION OF SOCIAL VALUE

Introduction

IBERDROLA maintains a strategy of strong involvement in the communities in which it operates. This commitment to the creation of social value is perfectly aligned with the corporate strategy defined in its business Plans. The majority of its social activities came into being through mechanisms of cooperation with relevant institutions of the government and of civil society.

IBERDROLA's fundamental contribution to society is based on the main impacts of its own business activities: the supply of an essential product like energy, significant investments in basic infrastructure, promotion of local supplier networks in the countries in which it operates, creation of qualified job positions, and contribution to public treasuries via taxes, etc., as is detailed in the corresponding Strategic Plans. Furthermore, the vocation of IBERDROLA is to be a long-term investor in the economies in which it maintains a presence, with the aim of generating sustainable economic and social value.

The activities carried out for the community are developed as follows:

- In Spain and the United Kingdom, through the companies of the IBERDROLA Group and the IBERDROLA Foundation.
- In Latin America, through the affiliated companies. In Brazil, IBERDROLA is a shareholder in the Neoenergy Group which consists of the three companies CELPE, COELBA and COSERN.

IBERDROLA has identified five priority areas for its social action, which have led to the following strategic Programs in support of the community:

- Community economic development.
- Art and culture.
- Education and training.
- Activities with underprivileged persons.
- Environment.

It periodically surveys preferences and opinions about these priority areas, held by its users and the relevant governments and organizations, with the aim of adding greater value to society.

It has also developed an internal standard for the selection and justification of sponsorships, in order to specify corporate standards, set priorities in lines of activity (with a time frame of five years), and systematize the procedures for carrying out sponsorship and patronage activities.

The companies of the United Kingdom and Latin America also have social action programs, specifically focused on the concrete necessities of their communities, which are included in summary form in this chapter on "Society." Their Annual Reports or corporate websites can be consulted to obtain more detailed information.

IBERDROLA believes that the fundamental benefits it obtains from its commitment to society are:

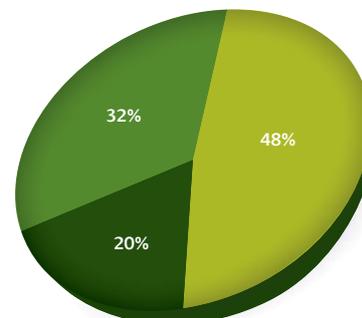
- To build, maintain and strengthen relationships of trust with communities, through support to social organizations and local governments.
- To obtain greater recognition of the brand and improvement in reputation, as a result of its commitment to the community.
- To increase the satisfaction of its employees, by participating in a valued and socially recognized Company, and through its programs of volunteerism and cooperation with the community.

In Spain, the responsibility of encouraging relationships with institutions and administering social action programs rests with the Director of Corporate Resources, to whom the Institutional Relations Division [Dirección de Relaciones Institucionales] is available for such purpose, with the cooperation of the rest of the organization, especially that of the Institutional Delegations in the Autonomous Communities. The companies of the United Kingdom and Latin America have their own structures for the management of community relations.

Dedicated Resources

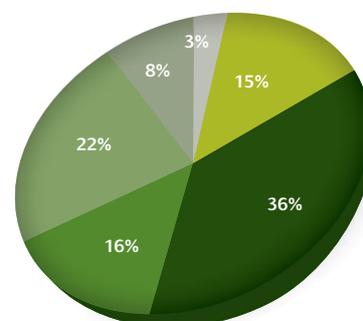
IBERDROLA has participated, along with another eight Spanish companies, in the establishment of the LBG-Spain Group, in 2007. The objective is to adapt to the Spanish context and apply the measurement and evaluation methodology to the companies' contributions to the community. It was initiated in 1994 by a group of British companies under the name London Benchmarking Group (LBG). This model is widely known at the international level and its application by IBERDROLA will help to improve the measurement of results and impacts of the social Programs, as much for the Company as for the community.

IBERDROLA'S CONTRIBUTION BY GEOGRAPHIC AREA



■ SPAIN ■ UNITED KINGDOM ■ LATIN AMERICA

IBERDROLA'S CONTRIBUTION BY PROGRAM



■ SOCIOECONOMIC DEVELOPMENT
 ■ ART AND CULTURE
 ■ EDUCATION AND TRAINING
 ■ ACTIVITIES WITH THE DISADVANTAGED
 ■ ENVIRONMENTAL SPONSORSHIPS
 ■ OTHER

Contribution to the community in 2007 (thousands)

By Categories

Special-purpose contributions	2,446
Social Investment	23,474
Socioeconomic development of the surrounding community	
Art and culture	
Education and training	
Special programs for underprivileged persons	
Environmental sponsorships	

Initiatives Aligned with the Business 206

Management costs	1,526
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By Type

Monetary contributions	25,093
Employee time	990
In-kind contributions	44
Management costs	1,526

Total Contributions 27,653

ELECTRIFICATION PROGRAMS IN BRAZIL

The Brazilian companies (COELBA, COSERN and CELPE) have continued with the development of the Rural Electrification Programs, undertaken jointly with government administrations. Their purpose is to provide electricity infrastructure to the entire population of the country, to facilitate economic and social development and minimize the differences among the various regions and between the urban and the rural areas.

These programs began in 1999 and are expected to conclude in 2008; they represent the largest rural electrification programs undertaken in Latin America, and some of the most important worldwide.

IMPLICA2 PROJECT

The objective of the Project, which is carried out by IBERDROLA and its Foundation in cooperation with the corresponding Autonomous Community entities, is to promote access by persons with disabilities to the workforce in a competitive way so that they can achieve full social integration. During fiscal year 2007, this project has progressed by means of various subprojects in various stages of implementation:

- Very advanced, to be concluded in 2008:
 - Castilla-La Mancha I-ASPRONA-Albacete
 - Vizcaya I-LANTEGI BATUAK

- In initial stages:
 - Madrid I-AFANIAS
 - Murcia- FEAPS
 - Castilla-La Mancha II-various organizations-Toledo.
 - Vizcaya II-LANTEGI BATUAK and Suppliers (the participation of a Technological Center of the Basque Country and several IBERDROLA suppliers is anticipated).

- Paralympics Committee. Adapted sailing. A collaboration agreement has been signed with the High Council on Sports [Consejo Superior de Deportes], the Office of the Secretary of State for Social Services [Secretaría de Estado de Servicios Sociales], Families and Disabilities [Familias y Discapacidad], and the Spanish Paralympics Committee [Comité Paralímpico Español], in order to support Paralympic sailing, and the training and employment of Paralympic athletes.

In 2007, the activities of Fundación IBERDROLA have focused on underprivileged persons and the promotion of culture

In addition, the combined funds allocated to Rural Electrification Programs in Brazil have reached a total of nearly 24 million euros for the Group.

Electrification Programs in 2007	(thousands)
COELBA, COSERN and CELPE	23,598

Adding together the contributions recorded in the LBG model and those of the Rural Electrification Programs, a total of 51 million euros dedicated to social development are obtained, which represent 1.65% of IBERDROLA's pre-tax profits.

Fundación IBERDROLA

Fundación IBERDROLA plays a key role in the social activities of the Group. Created in the 2002, its primary goal is to contribute to the general interest of society through the promotion, dissemination and support of social, cultural, and scientific/technological activities. Social actions are especially addressed to the integration of persons with disabilities into the workplace.

The activities of Fundación IBERDROLA in 2007 focused primarily on the following programs.

- Special programs for underprivileged persons.
- Cultural promotion

The main activities are summarized below:

Underprivileged Persons Program Activities

In 2005, the Foundation presented its Second Call to Support Social Projects [II Convocatoria de Ayudas a Proyectos Sociales]. Of the projects selected, five have continued their activities during 2007.

- **Parents Association for the Promotion of and Attention to the Intellectually Challenged Adult (APADEMA)**
 - Objective: To promote socioeconomic integration of emotionally disturbed people through gardening
 - Beneficiaries: 70 students



Fundación IBERDROLA promotes the integration of persons with labor disabilities.

- **Down Syndrome Foundation of Madrid**

- Objective: To help Down Syndrome children develop capabilities for using information and communication technologies.

- Beneficiaries: 12 students.

- **General Foundation of the Autonomous University of Madrid**

- Objective: To develop a school for social entrepreneurs.

- Beneficiaries: 30 students.

- **FEAPS Association for the employment of people with intellectual disabilities (AFEM)**

- Objective: To promote a model common to both education and workforce integration activities for people with intellectual disabilities.

- Beneficiaries: 32,000 people.

- **Association of Families of Alzheimer (AFAL).**

- Objective: To promote the qualification of immigrants for jobs assisting dependent people.

- Beneficiaries: 38 people, and indirectly the Alzheimer patients and their families.

Cultural Promotion Program

Fundación Iberdrola has continued with its important work of recent years in support of the preservation of the Spanish Historical Heritage. In 2007, the most noteworthy was the finalization of the restoration and illumination project for the paintings of the Basilica of El Escorial, which will culminate in 2008.

Community socioeconomic development

IBERDROLA's purpose with this Program is to improve the competitiveness of the communities it serves, providing added value as one of the largest energy companies in the world. In Spain alone, IBERDROLA carried out more than 200 activities in this field. The most noteworthy programs and projects were the following:

Support for development entities and initiatives

IBERDROLA participates actively in a series of regional development entities in cooperation with institutions in the majority of regions in which it operates. Additionally, it participates in various Technological Centers in Castilla-La Mancha, Castilla and León, the Region of Valencia, Murcia, Navarra and the Basque Country. Iberdrola Renewables participates as a Sponsor in the Renewable Energy Advanced Technological Center Foundation [Fundación Centro Tecnológico Avanzado de Energías Renovables], headquartered in Andalusia.

Dissemination of Corporate Social Responsibility

IBERDROLA has collaborated in 14 promotion days for Corporate Social Responsibility [Responsabilidad Social Empresarial] (RSE) presenting the IBERDROLA model in business and academic settings. It is also participating in a project of the Chamber of Commerce of Valencia, the goal of which is to design a management system for the application of the RSE at small- and medium-size companies. The project includes a pilot implementation and initial monitoring at three small- to medium-size companies in the Region of Valencia.

United Kingdom

Among ScottishPower's activities in this area, the sponsorship of The Prince of Wales Business Summit on Climate Change, held in Edinburgh, stands out. The event forms part of the entrepreneurial May Day Network, the purpose of which is to progress toward a low-carbon economy in the United Kingdom.

IBERDROLA intends to improve the competitiveness of the societies in which it is present

CREATION OF REGIONAL ADVISORY BOARDS

IBERDROLA has created Advisory Boards in Castilla and León, Andalusia and Valencia, consisting of the highest representatives from the major industrial and financial groups in these Autonomous Communities.

The primary goals of the Advisory Boards are to share business projects, exchange management and innovation experiences, and channel new initiatives that contribute to the development of the respective regions.

ScottishPower's Advisory Board was created in 2007, and is made up of important dignitaries within the economic, financial and social circles of Scotland; it will be the advisory body to the IBERDROLA Group's company in the United Kingdom. It is headed by the former chairman of ScottishPower, Charles Miller Smith, and it has six Scottish members and two Spanish members. The first meeting of the Scottish Advisory Board was honored by the visit of the Prime Minister of Scotland, Alex Salmond.



Advisory Council of ScottishPower.

MAIN CULTURAL PROJECTS IN BRAZIL

- **COELBA**
 - Locos por la música
 - Espectáculo Don Quijote
 - Todo el mundo va al circo
- **CELPE**
 - Libro Fernando de Noronha: un siglo de historia
 - Gallo de madrugada
 - Festival de Teatro para la Infancia
- **COSERN**
 - Circo de la Luz
 - OPERART
 - Casa da Ribeira

MAIN EDUCATIONAL PROJECTS SUPPORTED IN BRAZIL

- **COELBA**
 - Joven Ciudadano
 - Faz Universitario
 - Energia Amiga
- **CELPE**
 - Junior Achievement
 - Instituto Calidad en la Enseñanza (IQE)
 - Atención a Comunidades Especiales
- **COSERN**
 - Fundación estatal para la Infancia y Adolescencia (FUNDAC)
 - Proyecto Energia Social
 - Proyecto ArteAcao

IBERDROLA promotes artistic and cultural development in cooperation with the governments and institutions

Latin America

Affiliated companies in Latin America carry out and support various socioeconomic development projects. The following are worth mentioning in 2007:

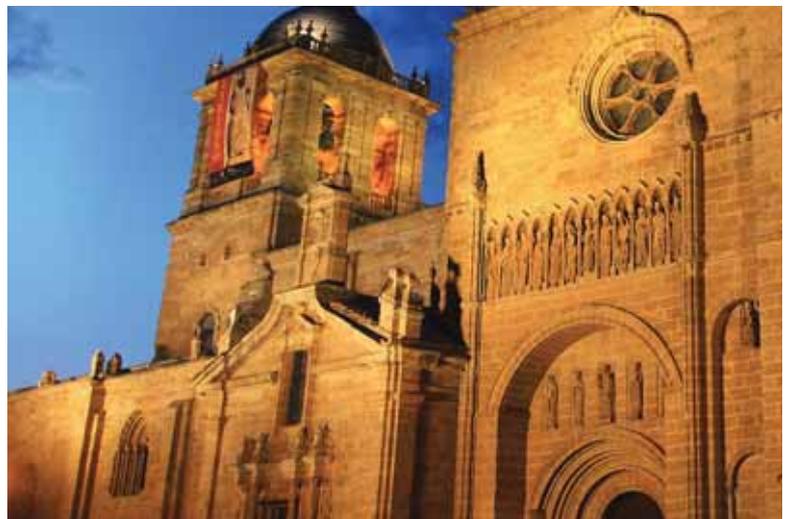
- **Brazil.** The three companies (COELBA, CELPE and COSERN) cooperate with the Ethos Institute of Businesses and Social Responsibility [Instituto Ethos de Empresas y Responsabilidad Social], with which more than 1,200 companies are affiliated. COELBA develops the ELOS Project [Energia Local Organizada e Sustentável] in cooperation with private and public institutions such as Banco de Brasil, Servicio Brasileño de Apoyo a Micro y Pequeñas Empresas (SEBRAE), Eletrobras and NGOs. Its objective is to generate sustainable development in the communities of the state of Bahia benefited by the Rural Electrification Program “Luz para Todos” [Light for Everyone]. CELPE and COSERN support the Fundación Abrinq, which protects the essential rights of childhood and adolescence.
- **Guatemala.** EEGSA is an active member of the Action Center for Corporate Social Responsibility in Guatemala [Centro para la Acción de la Responsabilidad Social Empresarial en Guatemala] (CentraRSE) since 2006. It obtained first place in Corporate Social Responsibility Indicators among 55 businesses evaluated in CentraRSE’s last annual study.

Art and Culture

IBERDROLA’s goal with this Program is to foster the artistic and cultural development of the communities it serves in cooperation with the corresponding administrations and institutions. In Spain alone, IBERDROLA has performed more than 100 activities in this area. The most outstanding programs and projects have been:

Monument restoration and illumination

The Monument Restoration and Illumination Program is one of the best-known initiatives of IBERDROLA in the cultural world. In 2007, the most noteworthy are the inaugurations of the comprehensive restoration and illumination of the Cartuja de Miraflores church (Burgos), and of the interior illumination of the Sanctuary of the Church of Santiago El Mayor, in Toledo. This program has also committed to and commenced work on the exterior illumination of several Spanish cultural heritage buildings, which has already begun.



The Cathedral of Santa Maria de Ciudad Rodrigo, in Salamanca, illuminated by IBERDROLA.

Support to organizations and cultural initiatives

IBERDROLA continues to maintain support for over 20 foundations and cultural organizations with which it collaborates regularly. It also continues its policy of sponsorship of cultural events and initiatives in the fields of music, painting, theater and publications.

United Kingdom

ScottishPower has collaborated with five cultural organizations in the fields of music, theater, and other artistic expressions. Especially noteworthy is its support for the ScottishPower Bagpipe Band, which started in 1989.

Latin America

The affiliated companies of Latin America have important activities of patronage in the artistic-cultural sphere. In 2007 the following initiatives were notable:

- **Brazil.** COELBA, CELPE and COSERN are committing an important amount of resources to this Program, which represents their main social focus. A significant number of projects are aimed at providing cultural knowledge and experiences to young audiences, especially to the underprivileged ones, with the clear purpose of social inclusion. There are also initiatives in collaboration with public institutions. The fields of action are quite varied: music, theater, dance, film, publications, etc.
- **Guatemala.** EEGSA has sponsored the cultural project Ritos y Creencias de Guatemala, whose purpose is to contribute to the knowledge and appreciation of Guatemalan culture.
- **Chile.** ESSAL has collaborated with the International Theater Festival of Puerto Montt [Festival Internacional de Teatro de Puerto Montt].

Education and Training

IBERDROLA's objective in this Program is to improve the training and specialization of different groups, especially those aimed at young college students. It also seeks to educate the general public about electricity risks and safety and about the efficient use of energy.

In Spain alone, IBERDROLA has carried out over 80 activities in this area. The most important programs and projects have been:

Support for the universities and other institutions

IBERDROLA continues to promote various activities (masters programs, seminars and courses, etc.) in cooperation with approximately 30 academic entities (universities and associated foundations). It also closely cooperates with other institutions, such as the Fundación San Benito de Alcántara, Fundación COTEC, Fundación de Estudios Financieros (FEF), and others.

Iberdrola Renewables has undertaken various projects in the area of training, notably its Environmental Education Program, based on the "Energy Classrooms" [Aulas de Energía] and on visits to educational centers.

VITORIA-GASTEIZ JAZZ FESTIVAL

IBERDROLA was the preferred Sponsor of the 31st annual Vitoria-Gasteiz Jazz Festival (it has been collaborating with the Festival since 2004). Held from the 15th to the 21st of July, 2007, this Festival is one of the biggest events of the Spanish music scene, and is included in the International Jazz Festival Organization (IJFO), an entity which organizes the most important jazz festivals in Europe and North America. The 2007 Festival has had the following media coverage: 74 internet sites, 25 magazines and 52 newspapers.

An analysis has been done on the socioeconomic impact that the 2005 festival had for its community and for its sponsors through different studies and surveys of attendees. The conclusion is the broad cultural repercussions and economic impact of the festival, as well as the profitability of the collaboration for the sponsors.

Some significant statistics are the following:

- 78,000 participants (concert attendees and satellite activities).
- Global satisfaction index of participants: greater than 7.
- The Festival is Vitoria's best known cultural event at the national level and it is the one which is considered to bring the greatest external (domestic and international) recognition to the city.
- The Festival's website: more than 7.8 million hits in one year.
- Economic impact: 5.8 million euros (including direct and indirect impacts).

With respect to the sponsors:

- 144 million readers and 12 million spectators were exposed to sponsorship impacts (impact of 760,000 euros in news and television).
- More than 10,000 attendees remember IBERDROLA as a sponsoring company or festival collaborator.

IBERDROLA ELECTRICITY MUSEUM

In 2003, IBERDROLA created an Electricity Museum at its Madrid facilities of San Agustín de Guadalix. Its purpose is to organize an educational exhibit to demonstrate the process of generation, transportation, distribution, and use of electric energy to groups outside the Company. The visits that it receives come mainly from high schools, colleges, universities, other educational centers, businesses and other institutions.

On the museum tour, there is an explanation of current technologies of electrical generation (especially renewable energy) as well as experimental technologies (hydrogen batteries, etc.), transportation lines and distribution facilities. Also included are visits to the Solar Photovoltaic Plant, which is located at the "Technology Demonstration Center" of San Agustín. In the museum gardens, one can observe machines from other epochs that now represent unique pieces. The museum has received 6,319 visitors from outside IBERDROLA in 2007, which makes a total of more than 28,000 since 2003 (more than 31,000 including visitors from IBERDROLA itself).



IBERDROLA's Electricity Museum, in Madrid.

Training in electrical safety and efficient use of energy

IBERDROLA has been developing training campaigns in the prevention of electrical risks, giving courses and training to various professional groups (electrical installers, firefighters, construction companies) from various autonomous communities.

Also, as part of the Agreement with the Community of Madrid to promote the saving of electricity and energy efficiency, two new "Guidelines for Energy Saving" [Guías de Ahorro Energético] have been published (one for power supply companies and the other for restoration companies). As regards information campaigns for consumers, the IBERDROLA Bus [Autobús IBERDROLA] initiative stands out for having made educational travels through 30 Spanish cities in 2007 (119 since 2005).

United Kingdom

ScottishPower participates in a wide variety of initiatives in the educational field. A large part of these are aimed at young people (16–25 years old) in disadvantaged surroundings, in order to increase their knowledge and capabilities and offer them a better chance for employment and greater social expectations. It has also collaborated with the University of Edinburgh and other institutions to provide their students with positive experiences in music, literature, theater and other areas.

Latin America

The affiliated companies in Latin America cooperate with training activities in their communities. Among the most notable are:

- **Mexico.** IBERDROLA Mexico has improved the infrastructures of several elementary schools. It has also granted several university scholarships.
- **Brazil.** The most important activities of the Brazilian companies (COELBA, CELPE and COSERN) are aimed at improving the professional qualifications of young persons with the specific goal of increasing their possibilities of entering the workforce. Other activities are aimed at improving training and information about the safe and efficient use of electrical energy among its users.
- **Guatemala.** EEGSA participates as a founding member in the Research Center of the Universidad del Istmo. It has also conducted a advertising campaign on energy efficiency and safety.
- **Chile.** IBENER supports a comprehensive community development program dedicated to training the population in civic and environmental education, etc.

Activities with underprivileged persons

IBERDROLA's objective in this Program is to contribute to improving the quality of life of the most underprivileged groups in society. In Spain alone, IBERDROLA has conducted over 120 activities in this area. The most notable programs and projects are the following:

Corporate Volunteer Program

The mission of the Volunteer Program is to channel the community service spirit of IBERDROLA's employees, providing social strategies and projects in keeping with the Company's values, which promote the voluntary participation of its workers.



IBERDROLA volunteers participating in the electrification of rural communities in Peru.

The following was noteworthy in 2007:

- Six Volunteer Days have been held (Madrid, Castilla–La Mancha, Valencia, Murcia, Basque Country and Extremadura). The objective of these Volunteer Days is to offer sports and recreational activities dedicated to persons with disabilities. Nearly 300 IBERDROLA volunteers and over 1,000 people with disabilities have participated.
- IBERDROLA has participated, through various teams of volunteers, in the “1 Día Solidario de las Empresas” (Madrid), a festive event designed to connect businesses with nonprofit organizations that help the neediest.
- A group of volunteers from IBERDROLA installed electricity in the rural communities of Bellavista and Orconmarca (nearly 700 people), in the district of Talavera (Perú).

Support for social organizations and activities

IBERDROLA regularly cooperates with various foundations and entities. In Spain, the following deserve mention: Fundación Empresa y Sociedad, Fundación + Familia, Fundación Energía sin Fronteras, and the Red Cross.

It also continues to increase its aid to regional associations providing assistance to persons with disabilities, among which the large number of initiatives supported in Castilla–La Mancha is particularly noteworthy. It also cooperates with many initiatives that provide aid to the underprivileged, promoted by social organizations.

Iberdrola Ingeniería has collaborated with Fundación CINDE and with Fundación Desarrollo Sostenido (FUNDESO), to contribute to comprehensive and sustainable development in developing countries.

United Kingdom

The most notable activity of ScottishPower in the area of humanitarian assistance is the creation of the organization The ScottishPower Energy People Trust in November 2005 (see the adjacent case study). Another organization has also been formed, Windfarm Development Trust Funds, by the Scottish windfarm plants of the company in order to support projects of the local communities in the areas of assistance to the underprivileged, education, etc. ScottishPower also cooperates with other charitable institutions in Great Britain.

MAIN SOCIAL INITIATIVES SUPPORTED IN BRAZIL

- **COELBA**
 - Obras Sociales Irma Dulce
 - Proyecto Axé
 - Instituto de Ciegos de Bahía
- **CELPE**
 - Campaña Clarear
 - Lar do Nenen
- **COSERN**
 - Casa del Menor Trabajador
 - Liga de Río Grande del Norte contra el Cáncer
 - Programa Caminos de Justicia

The IBERDROLA Volunteer Program channels the spirit of solidarity of its employees

IBERDROLA works to extend its sustainability focus and practices to other entities and businesses

THE SCOTTISHPOWER ENERGY PEOPLE TRUST

In the United Kingdom, the term “fuel poverty” designates homes that require the expenditure of more than 10% of the income of their occupants in order to obtain adequate heating levels and meet their other energy needs. Three key factors are considered to contribute to this “poverty”: low income of the occupants of the home; poor energy efficiency of the heating systems and other fuel uses; and the price of energy.

The British governments have committed themselves to eradicate “fuel poverty” by the years 2016-18, and have set intermediate objectives through such date. It is estimated that there are currently more than two million homes with this type of poverty.

In 2005, ScottishPower created “The ScottishPower Energy People Trust” charitable organization in order to help end fuel poverty in Great Britain (England, Scotland and Wales). The Trust, although administered by ScottishPower, makes its decisions independently, and there are representatives of other organizations on its Board. The Trust contributes funds to nonprofit organizations that work in projects related to fuel poverty.

Up to now, ScottishPower has donated four million pounds to the Trust.

During the period covered by this Report, the Trust has financed 27 projects and has helped more than 130,000 people (more than 40,000 homes). Since its creation, it has collaborated in 82 projects to help more than 200,000 people (more than 85,000 homes), throughout Great Britain.

Latin America

The Latin American affiliates of IBERDROLA have been carrying out extensive social activities in their respective communities. The following were the most noteworthy activities in 2007:

- **Mexico.** In the state of Tabasco, the overflow of seven rivers left 80% of the region under water. IBERDROLA Mexico sent more than 60 tons of humanitarian aid (food, water, and hygiene products) to help the victims of the flooding.
- **Brazil.** COELBA, CELPE and COSERN support recognized charitable institutions and social initiatives working to improve the quality of life of the most underprivileged sectors of the population.
- **Bolivia.** Pursuant to an agreement signed with the government, ELECTROPAZ and ELFEO implemented the “Dignity Rate” [Tarifa Dignidad], which entails a 25% reduction for household users using less than a specified amount.
- **Chile.** ESSAL has cooperated with the firefighters Cuerpo de Bomberos de Puerto Montt, donating various professional equipment and computer materials. IBENER has participated in the campaign Un techo para Chile, the purpose of which is to provide basic housing to the underprivileged.

Environmental sponsorships

IBERDROLA’s goal in this Program is to extend its sustainability focus and practices to the organizations and businesses in its community, cooperating with initiatives of interest.

In Spain alone, IBERDROLA performed more than 40 activities in this field. The following were the most significant programs and projects:

Actions against climatic change

IBERDROLA is one of the companies promoting the Climate Action Network, sponsored by the Global Roundtable on Climate Change (GROCC), and presented in New York in February 2007; nearly 100 multinationals from various economic sectors have joined this initiative.

Support for environmental entities and initiatives

IBERDROLA has promoted and participated in numerous community activities for the protection of the environment. Especially notable are:

- The Rey Jaime I Awards, created at initiative of Fundación Valenciana de Estudios Avanzados, to recognize the scientific merit of Spanish persons or research groups. IBERDROLA has sponsored the Environmental Award [Premio de Medio Ambiente] since 1995.
- Participation as a founding member of the Excellence in Sustainability Club [Club de Excelencia en Sostenibilidad], as well as in other organizations (Foro Doñana para la Empresa Sostenible, Fundación Naturgintza, Fundación Tormes).
- Has promoted and participated in various training and information initiatives: creation (together with Fundación de Estudios de Economía Aplicada) of the Energy and Climate Change professorship, and other actions together with university entities and autonomous community governments.

Iberdrola Renewables and Fundación Biodiversidad (of the Ministry of the Environment) have sponsored the documentary Tierra—La película de nuestro planeta, produced by the BBC.

It has also signed a cooperation agreement with Fundación Doñana 21, for in the Doñana Solar Forest Project [Proyecto del Bosque Solar de Doñana].

IBERDROLA Inmobiliaria has collaborated in various projects:

- *The Sustainable Construction Working Group* [Grupo de Trabajo Construcción Sostenible], created by Fundación Entorno, Empresa y Desarrollo Sostenible.
- *The Iberdrola Inmobiliaria Bioclimatic Projects* [Proyectos Bioclimáticos] Contest, called by the Escuela Técnica Superior de Arquitectura de Madrid.
- *The Sustainable Homes. Challenges for the 21st Century* [Viviendas Sostenibles. Desafíos para el siglo XXI] Contest, called by the Universidad Europea de Madrid.
- *The Sustainability and Technological Innovation* [Sostenibilidad e Innovación Tecnológica] Symposium, organized by the Escuela Técnica Superior de Arquitectura de la Universidad de Granada.

United Kingdom

The most significant activities of ScottishPower in the environmental area is the creation of the Green Energy Trust organization, founded in 1998 for the purpose of supporting the development of renewable energy in the United Kingdom. During the period covered by this Report, this organization has financed 10 projects (92 since its creation). ScottishPower has also sponsored various initiatives of interest, in cooperation with other entities.

Latin America

Affiliated companies in Latin America carry out a number of activities sponsoring activities in the environmental area. In 2007, the most significant of these were the following:

- **Brazil.** The three companies (COELBA, CELPE and COSERN) cooperate with environmental initiatives of various kinds: support to entities, conferences, exhibits, etc.
- **Guatemala.** During the last five years, EEGSA has been conducting reforestation activities in urban and rural areas. In the 2007 Jornada de Reforestación, 10,000 trees were planted. It has also sponsored various publications, among which the most noteworthy are the book *Guatemala, Patrimonio Protegido*, which describes the rich archeological and natural inheritance of the country.
- **Bolivia.** Since 2006, ELECTROPAZ has cooperated with the City Council of El Alto in the project of tree planting in this city.



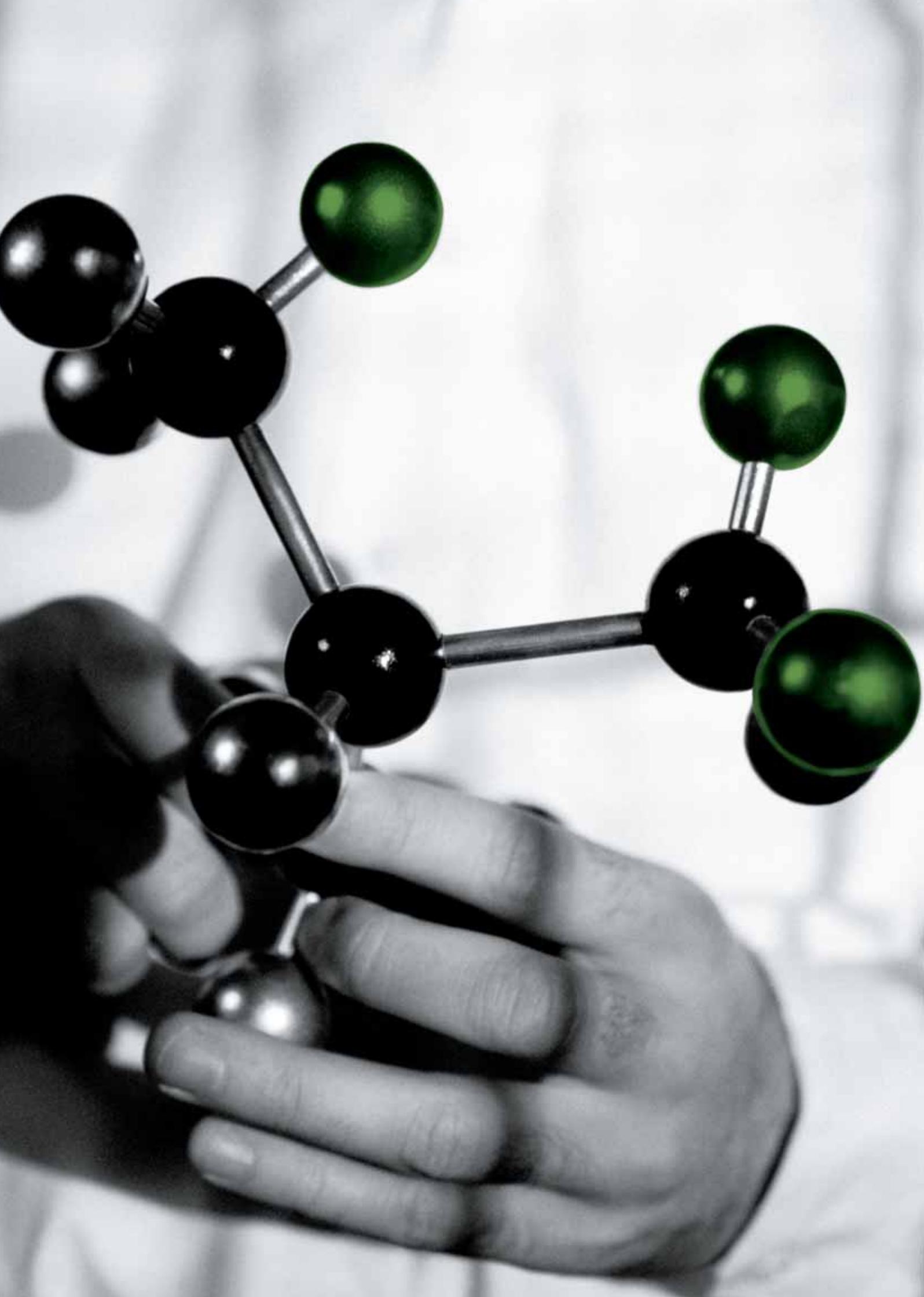
RECOVERY OF CFC-R12 GAS IN A COELBA PROGRAM

In the framework of the program of donation of efficient refrigerators to low-income people, COELBA launched the CFC-R12 gas recovery project to recover those gases from replaced refrigerators, to protect the ozone layer. Up to now (2006 and 2007), COELBA has recovered 400 kg. of R12 gas from 13,000 replaced refrigerators.

Neoenergia has received the recognition of "exemplary project" for COELBA's program, given under the Montreal Protocol and confirmed by the Ozone Secretariat of the United Nations Environment Programme (UNEP).

CELPE is implementing a similar project, formalized through an agreement with the Ministry of the Environment and the United Nations Development Program (UNDP).

The Company is one of the promoters of the Climate Change Action Network



Commitment to innovation

R&D Information

Our Company R&D focus on an increasingly efficient management of knowledge and technological resources in order to benefit our shareholders, users, and employees.

MANAGEMENT STRATEGY AND MODEL

IBERDROLA'S 2008-2010 R&D Strategic Plan was designed at the end of 2007, consolidating the strategic plans established for the various business divisions for the next three years. This Plan, which is aligned with the Group's strategy, has a budget of 225 million euros and reinforces the commitment to sustainable development, the promotion of renewable energy, and emerging technologies.

To ensure the proper application of these funds, IBERDROLA implemented an R&D Management System this year, pursuant to UNE Standard 166002:2006 and certified by AENOR, which allows for systematizing and homogenizing standards in the Company's R&D activities on a global and efficient basis. Noteworthy aspects of this system include:

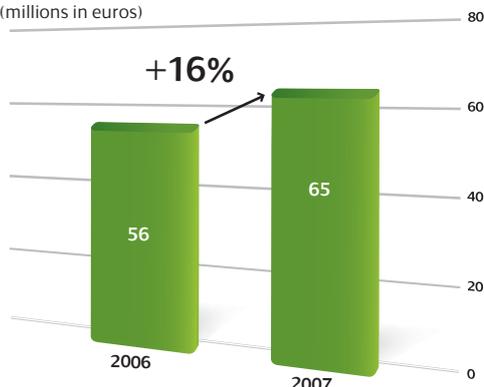
- **IBERDROLA's Office of Technological Monitoring and Intelligence** [Oficina de Vigilancia e Inteligencia Tecnológica]. Provides intelligent alerts and significant information updating technological knowledge and supplying ideas that generate R&D projects.
- **A benchmarking study carried out with our competitors** (leaders in investment, R&D presence and tradition), which analyzes the R&D processes, the promotion and management of the project portfolio, and the organization thereof.
- **Start-up of the IBERDROLA Innovation Network** [Red de Innovación IBERDROLA]. A forum in which to share and promote ideas with the Company's technological collaborators: manufacturers, universities, technology centers, etc. In 2007, the first nodes were launched: Electrical protections and Materials for electric generation plants.
- **Idea Management Platform** [Plataforma de Gestión de Ideas], a tool that provides a channel for the Company's employees to formulate their improvement ideas.
- **The Supplier-of-the-Year** [Suministrador del Año] Awards. IBERDROLA uses these awards to recognize and motivate its suppliers' work on innovation. In 2007, Inerco was the winner and the Inasmet-Tecnalia technology center was a finalist in the R&D category.
- **The application of Ibermática's Capital Innovation Code** [Código Capital Innovación]. Evaluates the capacity for improvements in R&D under the new market environment.

INNOVATION POLICY

IBERDROLA's Innovation Policy is based on the following values:

- **PRACTICE** an "innovative culture" that will spread throughout the organization and develop work environments that are motivational and encourage the creation of ideas.
- **INTEGRATE** innovation into all training materials of the Group's Companies.
- **IMPLEMENT** an innovation management system that includes annual goals and objectives.
- **PROMOTE** a monitoring and technology prospecting system that for the identification of opportunities and challenges for the Group's businesses.
- **ENCOURAGE** cooperation and alliances in order to multiply our innovation capacity.
- **DISCLOSE** internally the knowledge generated and applicable best practices.
- **PROTECT** the results of the innovation process by managing intellectual property.
- **DISSEMINATE** innovation activities to return to society a portion of the acquired knowledge.
- **PROMOTE** innovations that bring added value to users and increase the satisfaction of the shareholders, users and employees.

INVESTMENTS OF THE GROUP IN R&D (millions in euros)



R&D IN OTHER AREAS:

- **Iberdrola Inmobiliaria** works on solutions that will favor the sustainability of buildings, and innovates in cost-competitive developments, such as the SOLIED project. Also, it promotes keeping customers informed and aware of the role of innovation in reducing the impact of human activity in the environment.
- To improve **worker safety, efficiency and quality of the business**, numerous internal projects have been carried out, based on mobile platform technology. One of the most noteworthy projects is IBERDROLA's selection of PDA-supported personnel to access test results, which is integrated with the rest of human resources management system. It won an award in the fifth annual ceremony of the "Expansion and Employment of Innovation in Human Resources" Prizes [Premios Expansión y Empleo a la Innovación en Recursos Humanos].
- **The Technological Innovation Center of Aldeatejada (Salamanca)** is a joint project of IBERDROLA and IBM, awarded a prize by the weekly journal Computing España, which commence activities by working on a project for the development and maintenance of the Company's applications.
- Given the need to further study the alignment between information technology (IT) and business, a new **Service-Oriented Architecture (SOA)** paradigm has arisen. The primary goal of this project is to define the strategies and processes necessary for the implementation at IBERDROLA of a service-oriented IT model. It has been favorably evaluated by the Center for Industrial Technology Development [Centro para el Desarrollo Tecnológico Industrial] (CDTI).
- For the **engineering activity**, 3D design technologies have been developed for application in the planning of works, whether in combined-cycle plants, substations or auxiliary services.

ATTENTION TO THE ENVIRONMENT AND SAFETY

IBERDROLA's R&D projects are aimed at a more efficient management of available resources, and also at the well-paced introduction of more appropriate technologies, with special attention to the environment and safety.

140 R&D projects were developed in 2007, 35 of which were new initiatives. Total investment in the Company's R&D activities was 65 million euros, which represents a 16% increase over 2006.

Furthermore, the number of R&D projects certified by the Ministry of Industry increased to a total of 35, with an investment of over 21 million euros.

During this fiscal year, the Company has represented Spain in four of the Study Committees of the International Council on Large Electric Systems [Conseil International des Grands Réseaux Électriques] (CIGRE) and has participated in seven Working Groups on Protection, Transformers and Overhead Lines. IBERDROLA has held the six-year chairmanship of the B5 Protection and Automation Study Committee since August 2007.

As an international member of the Electric Power Research (EPRI) for over 30 years, the Company has also participated very actively in some of its programs, such as coal-generated electricity for the future, the capture and storage of CO₂, and energy efficiency and demand management.

In addition, IBERDROLA established a business development company, Inversiones Financieras Perseo, funded annually with six million euros, which identifies opportunities for investment in technology companies in the renewable energy and environmental sector. Thus, the Company's areas of activity are completed with a clear commitment to future technologies in electric power generation.

R&D in the power generation area to improve operating conditions

IBERDROLA's efforts in R&D power generation area are directed toward improving operating conditions and reducing environmental impact. Among them the following are outstanding:

- **In hydroelectric energy**, two projects have commenced. The first, under the Environmental Risk Minimization Plan, eliminates lubricants in hydroelectric turbines. The second oxygenates water to improve its quality in reservoirs.
- **In nuclear energy**, work has continued to develop projects for the management of the useful life of power stations, management and analysis of fuels, third-generation power plants, dismantling of power plants, and minimization of environmental impact. The development of technology for the engineering of large accelerators and nuclear fusion has also continued.
- **In combined cycles**, work is being done to improve operation and maintenance. Research continues on the behavior of materials in order to predict their useful life, and on the repair of recovery boiler tubes, robotic inspection systems for the detection of boiler leaks, and the development of a system that evaluates the condition of electrical machines.

In line with IBERDROLA's commitment to sustainable development and the care of the environment, two R&D projects have been successfully completed that position the Velilla thermal power plant as a benchmark in this area. They are the Bio-vel project, which has developed a new process of co-combustion of biomass with pulverized carbon, and the Inquemados project, which has developed a solution to reduce the unburned residues of thermal power plants. Also, a design and system development project has been initiated to reduce NO_x for burners at conventional coal-burning plants.

The eMaintenance project was initiated at the end of 2007, with new technologies applied to the safe operation of the production systems.

IBERDROLA is also developing projects in technologies for clean coal power generation, such as the basic design manual of a supercritical coal-fired power plant. In the area of CO₂ capture and storage, and roadmaps for the CO₂ Grid in Scotland, ScottishPower leads a consortium for research into the storage of CO₂ in deep aquifers in the Firth of Forth. The utilization of long term storage of CO₂ in the North Sea is also being investigated.

R&D in the distribution area to improve service

IBERDROLA's grid initiatives are intended to improve the quality of service to customers, through specific programs and measures to intensify efficiency and preserve the environment. IBERDROLA is a leader in the following areas:

- **The Active Demand Management** [Gestión Activa de la Demanda] (GAD) project, to optimize the consumption of electricity by low- and medium-voltage users. The project is included in the Ingenuity 2010-CENIT Program, which puts the company at the top level of global innovation for Domestic Demand Management. The program launched in 2007 and will be carried out through 2010, with the cooperation of 15 domestic companies and 14 research centers.
- **The CRISALIDA project** (Convergence of Smart and Safe Grids in Electric Applications Innovating in Environmental Design), also within CENIT, is carrying out strategic research into the secondary distribution of electric power: a new medium-voltage grid concept for 2015.
- **The European OPERA II project**, of the 6th Framework Programme, the goal of which is to create a Power Line Communications (PLC) technology standard for broadband communications through the electric grids, which will improve its telecommunications and intelligent electric grid services.
- **The ADDRESS project** proposes to develop new architectures for active distribution grids with complete integration of demand and distributed energy sources. It has obtained the highest marks for projects presented in the area of smart grids in the EU's 7th Framework Programme.
- **The FENIX project**, of the 6th Framework Programme, designs an architecture for managing the electrical grids of the future that will integrate renewable energy sources and distributed generation.

Furthermore, projects to develop an iSAS engineering tool and implement a comprehensive system of protection and control at electrical substations were successfully concluded in 2007. For that reason, through Iberdrola Ingeniería México, a 2007 Technology Innovation prize was received from the Mexican Federal Electricity Commission [Comisión Federal de Electricidad]. IBERDROLA also actively participates as the only Spanish utility on the advisory board of the European SMARTGRIDS platform, the goal of which is to determine how future grids will be designed.

R&D IN RENEWABLES

- **The European Technological Platform for Wind Energy (TP-Wind)** commenced operations in 2007. Iberdrola Renewables is a founding member, holds one of five positions on the Executive Committee, and chairs the Wind Market and Economics Working Group.
- **R&D has been fostered by the integration of renewable energy** with various projects, including WindGrid and IS-Power, within the EU's 6th Framework Programme. The regulation of reactive energy from wind farms has also been optimized by compensation at electrical substations, and an active energy regulation system controlled remotely by the Renewable Energy Operations Center [Centro de Operaciones de Energías Renovables] (CORE) has been implemented.
- **In the solar thermoelectric sector**, various high-value technology projects are being carried out. Projects are being carried out at the 50 MW thermosolar plant at Puertollano (Ciudad Real) to reduce costs in the manufacture and installation of support structures. At the Almería Solar Platform, a Direct Steam Generation project, in which the heat-transfer liquid is water and not oil, has been launched for a 3 MW pilot plant.
- **As for energy derived from biomass**, construction began in 2007 on a 2 MW biomass combustion plant in Corduente (Guadalajara), which uses forest residues.
- IBERDROLA is committed to **marine energy**, as is shown by the continuing construction project for a wave-powered plant in Santoña (Cantabria), and the start of a development plan for this type of energy in Scotland in which the use of PELAMIS technology is worthy of mention.
- **In the improvement of facility operations**, there has been a continuation of the DOMINA asset management and maintenance project and a Wireless Mobility [Movilidad Inalámbrica] (MODO) supplement has been started which will permit rapid access to the asset data.
- **Other engineering activities** initiated in 2007 are the standardization of the communication elements of wind farms pursuant to Standard 61400-25 and the modeling of a photovoltaic control center.



Excellence in management

Quality Information

IBERDROLA strives to instill a culture of continuous improvement in the management of all processes and activities of the Company, through the highest quality standards. The goal is to increase our competitiveness and the creation of value.

QUALITY POLICY

The Board of Directors of IBERDROLA, S.A. (the "Company"), a market leader in the generation, distribution and sale of energy, understands that the creation of value for shareholders, users, employees and society in general must be achieved by means of the excellent management of all processes and resources.

This proposition is based on the principles included in the Quality Policy, which was approved by the Board of Directors at the end of 2007.

This model of value creation is supported by growth that is sustainable, profitable, and respectful of the environment, characterized by strict compliance with applicable legislation, as well as by the other commitments and requirements for which the Company has voluntarily taken responsibility.

EXCELLENCE IN MANAGEMENT

During 2007, continuing the process of excellence in management in which the IBERDROLA Group is engaged, the Iberdrola Ingeniería y Construcción and Comegsa businesses and the Systems Division have carried out the self-evaluation and start-up of improvement projects according to the Excellence Model of the European Foundation for Quality Management (EFQM).

In so doing, an important step has been taken in the process of strengthening Leadership, Processes and Results, for Users and Persons as well as the various Stakeholders in society at large with whom the various companies of the IBERDROLA Group relate.

On the other hand, as is traditional at the IBERDROLA Group, given its significant social commitment to the industrial and institutional infrastructure of the areas in which it is present, Quality Management has contributed to strengthening the existing Quality Foundations in the different regions where it maintains a presence.

PRINCIPLES OF THE QUALITY POLICY

This Quality Policy is based on the following principles:

- Know the expectations of our users, both internal and external, and of our stakeholders, in order to deliver products and services to their complete satisfaction.
- Encourage activities of innovation and development in order to meet or even exceed the expectations of our users, employees and other stakeholders.
- Strengthen a culture of continuous improvement in products and process management.
- Encourage the involvement of the Company's employees by means of a fluid flow of information, internal communication, training, recognition of achievements, and continuous advancement.
- Foster teamwork as a model of behavior at all organizational levels.
- Publicize the Company's culture with respect to the environment, prevention of occupational hazards, and commitment to society, internally and among our fellow collaborators, such that the Company becomes the recognized leader in sustainable development.
- Monitor the indicators for growth, profitability, leadership, social responsibility, environmental impact, safety, and costs, to ensure the continued success of the Company.

ENVIRONMENTAL CERTIFICATIONS

During 2007, three new environmental certifications have been obtained in Latin America, at the La Laguna and Altamira V power plants and at the Monterrey (Mexico) co-generation plant.

This year, ten ISO 14001 certifications and two EMAS registrations have been included, all of them obtained by ScottishPower within the scope of *Energy Wholesale*.

PREVENTION CERTIFICATIONS

Also, among the certifications of our occupational risk prevention systems, in Latin America the Dulces Nombres Plant (Mexico) has obtained certification pursuant to the OSHAS 18001 standard for the process of electric power generation from natural gas.



In Mexico, the La Laguna and Altamira V power plants have obtained the 2007 environmental certification.

It also contributes to the annual conference of the Spanish Club Excelencia en Gestión [Excellence in Management Club], both through sponsorship and through active participation in its working groups.

QUALITY MANAGEMENT

IBERDROLA is aware that improved management quality translates into improved competitiveness. During 2007, standards for quality, environmental issues, prevention and innovation were implemented and certified for new processes, and the scope of other, previously-certified processes was expanded, for a current total of 90 certifications. The full list appears on IBERDROLA's website: www.iberdrola.com

The Company's principal quality management activities in 2007 are described below.

Quality management activities

Notable among the quality certifications is the quality management system certification pursuant to the ISO 9001 standard for the **training process**. This key process for IBERDROLA is in keeping with the definition of the new 2008-2010 Strategic Plan, in which the new reality of the Group involves a new focus on its human resources policy, with an emphasis on the focus on training and personnel development, among other lines of activity.

Additionally, with the goal of optimizing comprehensive legal advice for the Company, the **Legal Affairs Division** has certified its quality management system for the processes of contract management, legislative and regulatory analysis, resolution of consultations, tax and regulatory litigation, civil litigation for damages at facilities and supply quality, judicial small-claims procedure for debt collection, and corporate management.

Notable in Latin America is the certification under ISO 9001-2000 of the Ener-tec co-generation plant in **Mexico**, both for the generation and supply of electric energy and for the generation of thermal energy from natural gas.

This year the ISO 9001 certificates held by ScottishPower (a total of 16) have been included within the certifications distributed among the three business areas of the Company.

It is important to highlight the certification under the UNE 166002-2006 standard that Iberdrola Ingeniería y Construcción obtained for its process of research, development and innovation in energy-sector projects.

Other areas have also extended the scope of the certified quality management systems. Iberdrola Operación y Mantenimiento has done so for its activities at the combined-cycle plant at Escombreras (Murcia).

This year, the thermal plant at Lada (Asturias) has also extended the scope of its certification for thermal production under the ISO 9001:2000 standard.

Furthermore, the certification for the provision of gas purchase and supply services is now included in the purchase of energy and derivative products from wholesale markets.

Parallel to the new processes and expansions of scope, the various areas with certified processes have accomplished a significant task of continuous improvement in their quality management systems, by carrying out the corresponding monitoring audits and certification renewals.

Improvement projects

IBERDROLA has carried out other projects to improve management in 2007. Notable in the **Networks Area** is the introduction of new functionality within the Supplier Portal, with the goal of providing contractors with receipt of, viewing, changes to, and approvals of prevention, environmental and quality documents meeting the requirements of IBERDROLA applicable to their work. Also noteworthy in this business is the launch of the Active Demand Management [Gestión Activa de la Demanda] (GAD) project, which seeks to optimize the electricity consumption of low-and medium-voltage users, with information about prices, source of energy, environmental impact, etc., allowing them to make contracting decisions that best fit their needs.

In the **Deregulated Business**, the 5S methodology has been implemented at Iberdrola Operación y Mantenimiento for the mechanical workshop and tool room. In addition, a Shadow System has been developed in the Energy Management area and will become operational in the first quarter of 2008. The goal of the system is to create a replica of the remote control system in another location in order to ensure the safety of the operation in case of emergency.

Iberdrola Renewables has obtained, for 17 of its stations, certification of its response to voltage sags and/or interruptions. The combined total capacity of these stations is 572 MW. It thus contributes to the stability of the power grid and to an increased contribution of wind power to total energy production.

Also noteworthy is the project implemented by the **Systems Division**, which consists of adapting the service management processes to the best practices of the Information Technology Infrastructure Library (ITIL) model, with the goal of improving the management of services provided to internal users.

At **ScottishPower**, a project of strategic redefinition of the Operations and Maintenance guidelines has commenced based on the critical nature of the equipment at all thermal plants (Longannet, Cockenzie, Rye House, Damhead Creek and Shoreham). The project includes the deployment of associated IT solutions and the training of personnel for their implementation. This project will transform the current practice of operation until failure with a proactive and comprehensive system of operations and maintenance directed at improving the return on the investment in the plant.

QUALITY IN SUPPLIES

IBERDROLA has advanced yet another year toward a comprehensive quality management model providing the Company with new certifications and recognition for its businesses and processes. To motivate and acknowledge the work of the Company's suppliers, IBERDROLA issued its sixth annual Supplier of the Year Award in 2007, which included Scottish providers after the integration of ScottishPower. This award is intended to encourage observance of the highest standards in terms of quality, the environment, sustainable development, innovation, and occupational safety, which are key aspects of company's corporate social responsibility.

In the Non-Energy Services category, the winners were Sertel, in the large company class, and Autocares Mapex and Autobuses Chambitos were co-winners in the small- and medium-size company class. In the Manufacturers category, Gamesa Eólica and Grupo General Cable Sistemas were co-winners in the large company class, and Clydeslady Ltd. and Wigeva in the small- and medium-size company class. In the Suppliers category, Kaefer Aislamientos received the large company class award and Milsa Trillo Galicia won in the small- and medium-size company class.

In specific categories, Tecnatom won for Quality; Inerco was the prizewinner for Innovation; in the Environmental category, Instalaciones Inabensa; in Social Responsibility, Gamesa Corporación Tecnológica; and in the Occupational Risk Prevention category, Inerco also won the award.



Winners of the sixth annual Supplier of the Year Award presented by IBERDROLA.



IBERDROLA

IBERDROLA

EXHIBITS

06



Exhibits

KEY FEATURES OF THE SUSTAINABILITY REPORT

The IBERDROLA Group owns or holds an interest in a group of companies that operate in a variety of activities and geographical areas. The itemized information on the companies within the Group appears in the "Supplemental Information" exhibit.

In preparing its public information, IBERDROLA adhered to the standards described below, which were taken into consideration along with the recommendations published by the *Global Reporting Initiative* in the January 2005 "GRI Boundary Protocol."

- The principles and policies adopted and made public by the IBERDROLA Group, as well as the business strategies designed to move toward sustainable development, apply to all of the companies in the Group over which IBERDROLA has control or exercises significant influence.

- In terms of financial performance, the information available corresponds to one hundred percent of the companies in the Group, and was processed in compliance with the legislation currently in force. The results appear in the document entitled "2007 Legal Information." The financial information appearing in the "2007 Sustainability Report" is derived from the above-mentioned document

- In terms of environmental and social performance, the IBERDROLA Group's data-processing systems do not currently record quantitative data for all of the Group's subsidiaries and affiliates. However, the information offered herein corresponds to those companies that have a notable environmental or social impact, such that the information appearing in the "2007 Sustainability Report" reflects, in a reasonable and balanced manner, the environmental and social performance of the IBERDROLA Group. In the future, other affiliates may be included in the information, provided that this information is considered relevant in terms of understanding the activities of the IBERDROLA Group.

The table on this page lists the companies within the Group that make up the three types of information (economic, environmental, and social). More detailed information appears at the end of this exhibit

SUSTAINABILITY INFORMATION

ECONOMIC GROUP (all companies of the IBERDROLA group)

ENVIRONMENTAL GROUP

- Affiliate nuclear power plants (Asco, Vandellós, Trillo, Almaraz, Nuclenor)
- Tarragona Power, S.L., Bahía de Bizkaia Electricidad, S.L. and the subsidiaries of IBERDROLA Cogeneración, S.L.
- Termopernambuco and Itapebí plants in Brazil
- Energyworks Brasil, Ltda. and Capuava Energy, Ltda.
- PPM Energy Inc.

CORPORATE GROUP

- IBERDROLA, S.A.
- IBERDROLA Generación, S.A.
- IBERDROLA Distribución Eléctrica, S.A.
- IBERDROLA Cogeneración, S.L.
- IBERDROLA Ingeniería y Construcción, S.A.
- IBERDROLA Renovables, S.A. (activities in Spain and human resources of PPM Energy Inc.)
- IBERDROLA Operación y Mantenimiento, S.A.
- IBERDROLA Inmobiliaria, S.A.
- ScottishPower Ltd.
- IBERDROLA México
- Companhia de Electricidade do Estado da Bahia, S.A. Brasil (COELBA)
- Companhia Energética Do Rio Grande Do Norte, S.A. Brasil (COSERN)
- Companhia de Electricidade do Pernambuco, S.A. Brasil (CELPE)
- Empresa Eléctrica de Guatemala, S.A. (EEGSA)
- Transportista Eléctrica Centroamericana, S.A. Guatemala (TRELCE)
- Electricidad de la Paz, S.A. Bolivia (ELECTROPAZ)
- Empresa de Luz y Fuerza Eléctrica de Oruro, S.A. Bolivia (ELFEO)
- Iberoamericana de Energía, S.A. Chile (IBENER)
- Empresa de Servicios Sanitarios de Los Lagos, S.A. Chile (ESSAL)

- The Group's other companies

The environmental and social information was consolidated by applying to the figures for each company the direct or indirect percentage interest held by IBERDROLA in that company, as shown in the list of the IBERDROLA Group's subsidiaries and affiliates in the "Supplemental Information" exhibit.

For the Latin American companies listed below, the information about human resources and about environmental and social matters has been consolidated in accordance with the figures indicated in the table.

EQUITY INTERESTS AND PERCENTAGE INCLUSION OF LATIN AMERICAN COMPANIES IN THE CORPORATE GROUP

	Total equity interests held by IBERDROLA	Consolidation method (%)	Inclusion in information under the "Human Resources" heading (%)	Inclusion in other environmental and social information (%)
IBERDROLA-Mexico	100.00	G	100.00	100.00
COELBA	42.76	P	44.19	44.19
COSERN	39.95	P	43.28	43.28
CELPE	34.96	P	39.00	39.00
IBENER	94.74	G	100.00	100.00
ESSAL	50.90	E	0.00	50.90
ELECTROPAZ	56.77	E	0.00	56.77
ELFEO	58.85	E	0.00	58.85
EEGSA	39.63	P	49.00	49.00
TRELEC	39.63	P	49.00	49.00

Consolidation method:

G: Overall share

P: Proportional share

E: Equivalent.

IBERDROLA applies the standards of transparency, clarity and relevance to the development of its activities and to the public information thereon

The difference between the total equity interests and the percentage included represents the extent of the minority shareholders' equity interests in the companies consolidated by the IBERDROLA Group.

In addition, in order to consolidate the environmental performance data for the affiliated nuclear power plants, IBERDROLA's production percentage was used for each of them: Vandellós (28%); Garoña (50%); Almaraz (52.69%); Trillo (49%), and Ascó (15%). Likewise, the cogeneration companies that are subsidiaries of Iberdrola Cogeneración S.L., in which a 99% interest is held, consolidated their environmental information by applying a percentage of 100%.

To consolidate financial data in the economic- and social-information area, the exchange rates shown in the table on the next page were applied, using the average exchange rate for activities conducted throughout the year and the year-end exchange rate for the parameters evaluated at the end of the fiscal year.

EXCHANGE RATES USED IN THE 2007 SUSTAINABILITY REPORT

Exchange rate at fiscal year-end	US dollar	Brazilian real	Bolivian	Chilean peso	Quetzal	Mexican peso	Pound sterling
2005 1 euro =	1.1797	2.761325	9.437613	604.9607	8.971667	12.58986	n.a.
2006 1 euro =	1.317	2.814697	10.60185	694.927	10.10139	14.29604	n.a.
2007 1 euro =	1.4721	2.6100	11.2500	733.2500	11.2500	16.0700	0.7334

Average annual exchange rate	US dollar	Brazilian real	Bolivian	Chilean peso	Quetzal	Mexican peso	Pound sterling
2005 1 euro =	1.244205	3.028917	10.02858	695.8942	9.507963	13.55252	n.a.
2006 1 euro =	1.256386	2.733495	10.04802	666.4915	9.554384	13.70011	n.a.
2007 1 euro =	1.3705	2.6700	10.7600	715.6300	10.5200	14.9800	0.6846

With respect to the information disclosed by IBERDROLA in its “2006 Sustainability Report,” the integration of the ScottishPower Group into the IBERDROLA Group occurred during fiscal year 2007, which entails a significant change in the Company’s historical information as regards economic aspects as well as with respect to environmental and social aspects. Thus, the effects of this event on the comparability of the information for the various fiscal years should be taken into account. Specifically, the ScottishPower Group has been completely integrated within the economic aspect. ScottishPower Ltd. has been included in the corporate group and such company and PPM Energy have been included in the environmental group and in the Human Resources statistical information. Information corresponding to the April-December 2007 period, the period during which such integration took effect, has been taken into account for the integration of this Group.

Neither have there been any changes in the standards and/or definitions used in accounting for economic, environmental, and social costs and benefits, or in the calculation methods applied to the key information under any of the three aspects mentioned above; thus, the course of the reported aspects can be compared over time, with the exception set forth in the preceding paragraph.

Due to the continuous improvements that IBERDROLA is making in its environmental and social information systems, there may be some discrepancies in comparison with the information published in previous fiscal years, over which the information included in this Report prevails.

Transparency, clarity, and relevance are attributes that the IBERDROLA Group applies to its activities and to the public disclosure of their outcomes.

IBERDROLA’s quality policy has confirmed the foregoing statement, and the “Quality Information” heading contains a detailed description of the advances made in terms of the expanding certification of many of the Company’s procedures

IBERDROLA also obtains independent external verification of its annual information. The consolidated annual financial statements for fiscal year 2007, as well as the 2007 Sustainability Report, were verified by an independent external auditor. For this verification, IBERDROLA retained the services of two different audit firms, which allows for greater independence between the two activities.

Most of the data disclosed in the Report about relevant or “material” aspects of IBERDROLA’s performance refer to the last three fiscal years.

CALCULATION OF CO₂ EMISSIONS

Specifically with respect to emissions, the calculation of CO₂ emissions in **Spain** is based on a monthly analysis of a representative sample by an accredited laboratory, and of the fuel consumption recorded in the data-processing application of the Generation Business (HISVAR), applying a humidity percentage and an oxidation factor. This calculation is formalized and approved by the Ministry of the Environment, and the CO₂ emissions are verified by AENOR. For CO₂ transportation emissions, the internationally accepted conversion factors are taken into account, depending on the various means of transportation: rail, air, and road.

In the **United Kingdom**, EU ETS Monitoring, Reporting and Verification Guidelines are applied for direct emissions and the UK Greenhouse Gas Reporting Guidelines (DEFRA) are applied to indirect emissions.

In the **United States**, direct emissions are measured in a continuum according to the US Environmental Protection Agency, and indirect emissions are measured according to the California Greenhouse Gas Registry Guidelines.

An opacimeter is used to measure particle emissions and SO₂ and NO_x emissions are measured with an on-line analyzer, taking daily concentration values.

SUPPLEMENTAL INFORMATION

Income statements, comparative balance sheets and ratios

The income statement has been prepared following the analytical income statement model established in the general chart of accounts (plan general de contabilidad) as optional additional information. The figures relating to prior fiscal years are included in the income statement of IBERDROLA and its subsidiaries (consolidated), which form a part of the annual financial statements for those fiscal years.

INCOME STATEMENT (*) Percentage of sales and services

Item	2007	% of Sales	2006	% of Sales	2005	% of Sales	2004	% of Sales
(+) Net sales and services	18,227	100.00%	11,426	100.00%	12,235	100.00%	9,067	100.00%
= PRODUCTION VALUE	18,227	100.00%	11,426	100.00%	12,235	100.00%	9,067	100.00%
(-) Consumption	(9,177)	-50.35%	(5,217)	-45.66%	(6,792)	-55.51%	(4,252)	-46.90%
(-) External and operating expenses	(2,057)	-11.29%	(1,145)	-10.02%	(1,086)	-8.88%	(943)	-10.40%
= VALUE ADDED OF THE COMPANY	6,993	38.37%	5,064	44.32%	4,357	35.61%	3,872	42.70%
(-) Personnel expenses	(1,455)	-7.98%	(1,174)	-10.27%	(980)	-8.01%	(960)	-10.59%
= GROSS OPERATING INCOME	5,538	30.38%	3,890	34.05%	3,377	27.60%	2,912	32.12%
(-) Depreciation and amortization expenses	(1,841)	-10.10%	(1,235)	-10.81%	(1,115)	-9.11%	(923)	-10.18%
= NET OPERATING INCOME	3,697	20.28%	2,655	23.24%	2,262	18.49%	1,989	21.94%
(+) Financial revenues	770	4.22%	368	3.22%	267	2.18%	260	2.87%
(-) Financial expenses	(1,671)	-9.17%	(887)	-7.76%	(722)	-5.90%	(655)	-7.22%
(+/-)Results from companies consolidated by the equity method	40	0.22%	69	0.60%	34	0.28%	43	0.47%
(-) Financial depreciation and amortization expenses	0	0.00%	0	0.00%	0	0.00%	0	0.00%
= INCOME FROM ORDINARY ACTIVITIES	2,836	15.56%	2,205	19.30%	1,841	15.05%	1,637	18.05%
(+) Gain on disposal of non-current assets	289	1.59%	193	1.69%	158	1.29%	117	1.29%
(-) Losses on disposal of non-current assets	(27)	-0.15%	(12)	-0.11%	(41)	-0.34%	(28)	-0.31%
(-) Variation in allowances for intangible assets, tangible fixed assets and long-term investments	0	0.00%	0	0.00%	0	0.00%	0	0.00%
= PROFIT BEFORE TAXES	3,098	17.00%	2,386	20.88%	1,958	16.00%	1,728	19.06%
(-) Corporate income tax	(703)	-3.86%	(695)	-6.08%	(553)	-4.52%	(521)	-5.75%
PRE-TAX PROFITS (GAIN OR LOSS)	2,395	13.14%	1,691	14.80%	1,405	11.48%	1,208	13.32%
(-) Minority interests	(42)	-0.23%	(31)	-0.27%	(23)	-0.19%	(12)	-0.13%
= PROFIT ATTRIBUTED TO THE COMPANY	2,353	12.91%	1,660	14.53%	1,382	11.30%	1,196	13.19%

IBERDROLA GROUP. BALANCE SHEET (*)
 (millions of euros)

	December 2007	December 2006	December 2005
Assets			
NON-CURRENT ASSETS			
Intangible assets	15,237.9	900.1	848.6
Goodwill	8,063.5	55.6	50.0
Other intangible assets	7,174.4	844.5	798.6
Investment property	446.8	498.5	550.5
Tangible fixed assets	34,990.4	21,067.4	19,942.2
Property, plant and equipment in operation	29,973.9	19,362.3	17,664.2
Property, plant and equipment under construction	5,016.5	1,705.1	2,278.0
Financial assets	4,620.1	2,723.9	1,630.4
Equity interests consolidated by the equity method	801.3	761.4	475.8
Non-current equity instruments	2,249.8	1,603.4	914.0
Other non-current financial investments	691.4	279.2	165.5
Derivative financial instruments	877.6	79.9	75.1
Non-current trade and other receivables	389.1	832.8	1,468.5
Deferred tax assets	1,433.7	1,221.9	1,356.5
	57,118.0	27,244.6	25,796.7
CURRENT ASSETS			
Nuclear fuel	243.6	237.9	211.7
Inventories	1,827.4	1,192.7	848.3
Trade receivables and other current accounts receivable	5,012.0	2,790.5	2,324.3
Financial assets	1,460.5	288.9	669.2
Current equity investments	15.6	147.2	3.5
Other current financial investments	242.4	123.3	650.9
Derivative financial instruments	1,202.5	18.4	14.8
Deposits with public authorities	819.6	601.6	419.9
Cash and other cash equivalents	1,051.1	704.6	208.4
	10,414.2	5,816.2	4,681.8
TOTAL ASSETS	67,532.2	33,060.8	30,478.7

IBERDROLA GROUP. BALANCE SHEET (*)
 (millions of euros)

	December 2007	December 2006	December 2005
Shareholders' equity and liabilities			
SHAREHOLDERS' EQUITY			
Of the parent company	25,537.2	10,418.2	9,267.7
Capital stock	3,745.3	2,704.6	2,704.6
Reserve for unrealized assets and liabilities	1,544.4	739.1	153.5
Other reserves	20,341.4	5,361.8	4,876.8
Treasury stock	-1,335.9	-3.2	-2.4
Translation difference	-1,111.7	-44.3	153.2
Net results for the period	2,353.7	1,660.2	1,382.0
Of minority shareholders	2,294.5	148.8	147.0
	27,831.7	10,567.0	9,414.7
PREFERRED SECURITIES	680.5	-	-
NON-CURRENT LIABILITIES			
Deferred revenues	1,150.1	817.6	675.6
Allowances	2,066.1	1,717.8	1,379.2
Allowances for pensions and similar obligations	753.1	825.9	732.5
Other allowances	1,313.0	891.9	646.7
Financial debt	17,746.7	12,618.1	11,555.6
Financial debt	17,174.9	12,575.1	11,390.2
Derivative financial instruments	571.8	43.0	165.4
Other non-current accounts payable	425.4	278.3	238.3
Deferred tax liabilities	5,019.0	605.3	719.7
	26,407.3	16,037.1	14,568.4
CURRENT LIABILITIES			
Allowances	825.7	466.0	416.8
Allowances for pensions and similar obligations	4.6	118.5	182.9
Other allowances	821.1	347.5	233.9
Financial debt	4,926.2	1,734.1	1,555.4
Financial debt	4,449.5	1,665.4	1,544.8
Derivative financial instruments	476.7	68.7	10.6
Trade and other payables	6,860.8	4,256.6	4,523.4
Trade payables	3,525.5	2,687.8	2,919.6
Current tax liabilities and other payables to public authorities	1,252.0	635.0	575.8
Other current liabilities	2,083.3	933.8	1,028.0
	12,612.7	6,456.7	6,495.6
TOTAL LIABILITIES	67,532.2	33,060.8	30,478.7

IBERDROLA GROUP. MAIN ECONOMIC/FINANCIAL FIGURES
 (millions of euros)

	2007	2006	2005	2004	2003 (*)
Capital stock	3,745	2,705	2,705	2,705	2,705
Equity in the parent company	25,537	10,418	9,268	8,427	8,225
Financial debt	22,673	14,352	13,111	11,105	10,728
Gross fixed assets in use	57,926	36,094	33,448	29,578	28,296
Accumulated deprec. and amort.	(20,208)	(15,266)	(14,363)	(13,383)	(12,938)
Annual deprec. and amort.	1,628	1,057	984	896	789
Net sales	17,468	11,017	11,738	8,725	9,452
Net income	2,354	1,660	1,382	1,196	1,060

IBERDROLA GROUP. CHANGES IN THE BALANCE SHEET
 (millions of euros)

	2007	2006	2005	2004	2003 (*)
Shareholders' equity	27,831.7	10,567.0	9,414.7	8,519.9	8,225.4
In the parent company	25,537.2	10,418.2	9,267.7	8,426.5	8,225.4
Of minority shareholders	2,294.5	148.8	147.0	93.4	80.9
Interest-bearing financial debt	22,673	14,352	13,111	11,105	10,728
Financial debt – non-current	17,174.9	12,575.2	11,390.2	8,365.3	8,746.0
Derivative financial instruments – non-current	571.8	43.0	165.4	222.0	
Financial debt - current	4,449.5	1,665.4	1,544.8	2,476.8	1,982.4
Derivative financial instruments - current	476.7	68.6	10.6	40.7	
Permanent financial structure					
Shareholders' equity	55.11%	42.41%	41.41%	43.14%	43.40%
Interest-	44.89%	57.59%	58.20%	56.59%	56.60%
Return on equity	10.15%	18.95%	17.53%	16.54%	14.79%

IBERDROLA GROUP. CHANGES IN THE INCOME STATEMENTS
 (millions of euros)

	2007	2006	2005	2004	2003 (*)
Net sales (millions of euros)	17,468	11,017	11,738	8,725	9,452
Net profit (millions of euros)	2,354	1,660	1,382	1,196	1,060
Net financial expenses (millions of euros)	(901)	(519)	(456)	(395)	(449)
Gross operating income (millions of euros)	5,538	3,890	3,378	2,913	2,627
Net profits / net sales	13.48%	15.07%	11.77%	13.71%	11.21%
Net financial expenses / gross operating income	16.27%	13.34%	13.49%	13.55%	17.10%

IBERDROLA GROUP. CHANGES IN INCOME, DIVIDENDS AND CASH FLOW
 (millions of euros)

	2007	2006	2005	2004	2003 (*)
Pre-tax profit (millions of euros)	3,099	2,386	1,958	1,728	1,275
Gross dividend	1,331	940	798	692	606
Cash flow (net profit + depreciation, amortization and allowances)	4,194	2,896	2,497	2,118	1,864

IBERDROLA GROUP. FINANCIAL RATIOS

(millions of euros)

	2007	2006	2005	2004	2003 (*)
Financial solvency (multiple)					
Cash-flow + net financial income / net financial income	5.65	6.58	6.50	6.40	5.10
Gross operating income /net financial expenses (multiple)	6.15	7.50	7.40	7.40	5.80
Interest-bearing debt / cash flow (multiple)	5.41	4.96	5.25	5.24	5.76

IBERDROLA GROUP. CHANGES IN GROSS VALUE ADDED AND DISTRIBUTIONS

(millions of euros)

	2007	2006	2005
G.A.V. from recurring operations	7,384	5,200	4,580
Financial income	770	368	267
Extraordinary income	262	182	117
G.A.V generated	8,416	5,750	4,964
Applications of funds			
Salary and benefits	1,455	1,174	980
Debt	1,671	887	722
Public sector	1,104	832	776
Shareholders	1,331	940	798
Company yield	2,855	1,917	1,688
TOTAL	8,416	5,750	4,964
Applications of funds			
Salary and benefits	17.3%	20.4%	19.7%
Debt	19.9%	15.4%	14.6%
Public sector	13.1%	14.5%	15.6%
Shareholders	15.8%	16.3%	16.1%
Company yield	33.9%	33.3%	34.0%
TOTAL	100.0%	100.0%	100.0%
G.A.V./Used	0.363	0.339	0.291

INFORMATION BY COUNTRY

The Global Reporting Initiative (GRI) recommends that certain economic information be provided according to the geographical area in which the Company's activities are carried out. In order for this information to be meaningful, IBERDROLA takes into account the following regions: Spain, the United Kingdom, Rest of Europe, USA, Mexico/Guatemala, South America and Others. To avoid an excessively detailed Report, the comparable historical information for these areas is only available for fiscal years 2006 and 2007.

For a detailed analysis of the consolidated financial statements of IBERDROLA, the audited information appears in the document entitled "2007 Legal Information".

ECONOMIC VALUE GENERATED, DISTRIBUTED AND WITHHELD (millions of euros)

2007	Spain	UK	Rest of Europe	US	Mexico /Guatemala	South America	TOTAL
Income	9,660	5,401	13	612	1,833	1,200	18,719
Operating costs	4,837	417	22	42	1,092	463	6,874
Compensation to employees	810	332	14	100	20	62	1,336
Payments to providers of capital	2,360	346	-87	91	94	136	2,941
Payments to public authorities	795	202	32	42	65	85	1,222
Donations and other community investments	0	0	0	0	0	0	0
Withheld economic value	858	4,103	31	337	562	454	6,346

ECONOMIC VALUE GENERATED, DISTRIBUTED AND WITHHELD (millions of euros)

2006	Spain	UK	Rest of Europe	USA	Mexico /Guatemala	South America	TOTAL
Income	9,096	0	78	1	1,408	1,038	11,621
Operating costs	4,661	0	15	2	1,070	407	6,154
Compensation to employees	950	0	10	3	18	62	1,043
Payments to providers of capital	1,534	0	4	0	94	128	1,760
Payments to public authorities	824	0	11	-1	47	81	961
Donations and other community investments	8	0	0	0	1	64	73
Withheld economic value	1,119	0	38	-3	178	297	1,629

PRINCIPAL FACILITIES OF THE IBERDROLA GROUP

PRINCIPAL HYDROELECTRIC POWER PLANTS IN SPAIN

Plant	River	No. of units	Installed capacity (MW)
Aldeadávila I	Duero	6	810
Aldeadávila II	Duero	2	433
Azután	Tajo	3	200
Castro II	Duero	1	113
Cedillo	Tajo	4	500
Cofrentes	Júcar	3	122
Conso	Camba	3	270
Cortes II	Júcar	2	282
Gabriel y Galán	Alagón	1	111
José M ^a Oriol	Tajo	4	957
La Muela de Cortes	Júcar	3	635
Puente Bibey	Bibey	5	315
Ricobayo I	Esla	4	175
Ricobayo II	Esla	1	154
San Esteban	Sil	6	263
Saucelle I	Duero	4	251
Saucelle II	Duero	2	269
Soutelo	Cenza	2	215
Torrejón	Tajo	4	132
Valdecañas	Tajo	3	249
Villalcampo II	Duero	1	119
Villarino	Tormes	6	857
Other	-	307	1,410
TOTAL		377	8,840

COMBINED-CYCLE POWER PLANTS

Plant	IBERDROLA capital (%)	No. of units	Installed capacity (MW)	IBERDROLA capacity (MW)
Arcos de la Frontera	100	3	1,613	1,613
Aceca	100	1	391	391
BBE	25	1	795	199
Castellón 3	100	1	793	793
Castellón 4 (*)	100	1	903	903
Castejón	100	1	386	386
Escombreras	100	1	814	814
Santurce	100	1	403	403
Tarragona Power	50	1	424	212
TOTAL		13	6,522	5,714

(*) Placed into service in 2007

RENEWABLE ENERGY FACILITIES IN SPAIN

Wind farm / complex	Number wind farms /power stations	IBERDROLA capital (%)	Percentage consolidation (%)	Installed capacity	Consolidated capacity
Maranchón complex	7	100%	100%	208.0	208.0
Sisante complex	4	100%	100%	198.0	198.0
Marquesado complex	4	100%	100%	198.0	198.0
Higuera complex	5	100%	100%	161.0	161.0
Muela Cubillo	1	100%	100%	50.0	50.0
Capiruzo I	1	100%	100%	50.0	50.0
Morón de Almazán	1	100%	100%	50.0	50.0
Urbel del Castillo	1	85%	100%	50.0	50.0
Badaia	1	50%	50%	50.0	25.0
Cabimenteros	1	41%	64%	49.5	31.5
Escurrello	1	41%	64%	49.5	31.5
Callejas	1	100%	100%	49.5	49.5
Maza	1	100%	100%	49.5	49.5
Molar del Molinar	1	100%	100%	49.5	49.5
Gatún	1	25%	25%	49.5	12.4
Masgalán	1	100%	100%	49.5	49.5
Ameixeiras	1	100%	100%	49.5	49.5
Tardienta I	1	100%	100%	49.5	49.5
Campalbo	1	100%	100%	49.3	49.3
Serra de Meira	1	100%	100%	49.3	49.3
Carrasquillo	1	100%	100%	49.3	49.3
Sil	1	100%	100%	49.2	49.2
Muras	1	100%	100%	48.8	48.8
Isabela	1	100%	100%	48.0	48.0
Fuendetodos II	1	100%	100%	47.6	47.6
Sierra de la Oliva	1	100%	100%	46.9	46.9
Fuendetodos I	1	100%	100%	46.0	46.0
La Muela	1	100%	100%	45.5	45.5
Alcarama II	1	64%	64%	45.1	28.6
El Portachuelo	1	25%	25%	45.1	11.3
Pedregal	1	100%	100%	44.6	44.6
Bordecorex Norte	1	85%	100%	44.4	44.4
Tardienta II	1	60%	100%	44.2	44.2
El Teruelo	1	100%	100%	43.4	43.4
Cerro Blanco	1	100%	100%	42.0	42.0
Capiruzo II	1	100%	100%	42.0	42.0
La Cabaña	1	25%	25%	41.7	10.4
Goia-Peñote	1	100%	100%	40.0	40.0
Sierra Menera	1	100%	100%	40.0	40.0
Other wind farms	92			2,258	1,995
Photovoltaic power plant	1	100%	100%	0.09	0.09
Mini-hydroelectric power plants	135	100%	100%	342	342
Total	283			5,013	4,570

RENEWABLE ENERGY FACILITIES IN THE UNITED KINGDOM

Wind farm / complex	Number of wind farms / power stations	IBERDROLA capital (%)	Percentage consolidation (%)	Installed capacity	Consolidated capacity
Black Law	2	100%	100%	124.2	124.2
P&L	1	50%	50%	30.9	15.5
Beinn an Tuirc	1	100%	100%	30.4	30.4
Cruach Mhor	1	100%	100%	29.8	29.8
Beinn Tharsuinn	1	100%	100%	29.8	29.8
Other wind farms	13			153	153
Total	19			398	382

RENEWABLE ENERGY FACILITIES IN THE USA

Wind farm / complex	Number of wind farms / power stations	IBERDROLA capital (%)	Percentage consolidation (%)	Installed capacity	Consolidated capacity
Maple Ridge I y II	2	50%	50%	322	161
Klondike III	1	100%	100%	221	221
Big Horn	1	100%	100%	200	200
Colorado Green (JV)	1	50%	50%	162	81
Elk River	1	100%	100%	150	150
Shiloh	1	100%	100%	150	150
Trimont	1	100%	100%	101	101
Top of Iowa	1	100%	100%	80	80
Klondike II	1	100%	100%	75	75
Twin Buttes	1	100%	100%	75	75
Other wind farms	8			246	246
Total*	19			1,781	1,539

*Additionally, 606 MW owned by a third party under a power purchase agreement.

RENEWABLE ENERGY FACILITIES IN THE REST OF THE WORLD

Wind farm / complex	Country	Number of wind farms / power stations	IBERDROLA capital (%)	Percentage consolidation (%)	Installed capacity	Consolidated capacity
Rokas Group (Interconnected system)	Greece	9	53%	100%	170	170
Rio do Fogo	Brazil	1	100%	100%	49	49
Kisielice	Poland	1	100%	100%	41	41
Alto Moncao	Portugal	1	100%	100%	32	32
Rokas Group (Island system)	Greece	6	53%	100%	30	30
Malbork	Poland	1	100%	100%	18	18
Catefica	Portugal	1	100%	100%	18	18
Alogorachis	Greece	1	100%	100%	17	17
Rampont	France	1	100%	100%	12	12
La Butte de Fraus	France	1	100%	100%	12	12
Holdenstedt - Bornstedt	Germany	1	100%	100%	12	12
Rastenberg	Germany	2	100%	100%	12	12
Fitou	France	1	100%	100%	12	12
Courcelles	France	1	100%	100%	12	12
Other facilities		17			166	161
Total		45			613	607

COGENERATION POWER PLANTS IN SPAIN

Group	Power plant	Autonomous community	Province	Municipality	REPE capacity (Kw)	%	lb
Cobane A.I.E.	Cobane A.i.E.	Cataluña	Tarragona	Tarragona	13,667	55	7,517
Cofrusa Cogeneración, S.A.	Cofrusa Cogeneración	Murcia	Murcia	Mula	6,660	50	3,330
Cogeneración Gequisa, S.A.	Gequisa	País Vasco	Álava	Lantarón	10,980	50	5,490
Cogeneración Tierra Atomizada, S.A.	Cotasa	C. Valenciana	Castellón	Alcora	14,071	50	7,036
Enercrisa, S.A.	Enercrisa	Castilla y León	Burgos	Cerezo del Río Tírón	16,900	50	8,450
Energía Portátil	Energía Portátil Cogeneración	País Vasco	Guipúzcoa	Oñati	5,015	50	2,006
Cogeneración, S.A.	Energía Portátil Cogeneración	País Vasco	Guipúzcoa	Oñati	5,015	50	2,006
Energyworks Cartagena, S.L.	Ge Plastics España	Murcia	Murcia	Cartagena	95,400	99	94,446
Energyworks Aranda, S.L.	Michelín Aranda	Castilla y León	Burgos	Aranda de Duero	28,300	99	28,017
Energyworks Carballo, S.L.	Energyworks Carballo	Galicia	La Coruña	Carballo	13,180	99	13,048
Energyworks Milagros, S.L.	Granja de Milagros	Castilla y León	Burgos	Milagros	7,400	72.80	5,387
Energyworks San Millán, S.L.	Sajusa	Castilla y León	León	San Millán de los Caballeros	7,400	90	6,660
Energyworks	Fudepor, S.L.	Murcia	Murcia	Alhama de Murcia	15,000	50	7,500
Villarrobledo, S.L.	Cogeneración Energyworks	Castilla-La Mancha	Albacete	Villarrobledo	30,000	99	29,700
Fudepor, S.L.	Fudepor, S.L.	Murcia	Murcia	Alhama de Murcia	15,000	50	7,500
Hispagen, S.A.	Hispagen	Castilla y León	Burgos	Villalonquéjar	4,121	50	2,061
Intermalta Energía, S.A.	Intermalta	Navarra	Navarra	San Adrián	10,150	50	5,075
Italcogeneración, S.A.	Italcogeneración	C. Valenciana	Castellón	Villarreal	4,801	50	2,401
Navidul Cogeneración, S.A.	Olías del Rey	Castilla-La Mancha	Toledo	Olías del Rey	5,049	55	2,777
Navidul Cogeneración, S.A.	Torrijos	Castilla-La Mancha	Toledo	Torrijos	5,049	55	2,777
Peninsular Cogeneración, S.A.	Peninsular Cogeneración, S.A.	C. de Madrid	Madrid	Fuenlabrada	41,500	50	20,750
Seda Cogeneración, S.A.	La Seda	Castilla y León	Palencia	Palencia	5,160	50	2,580
Zirconio Cogeneración, S.A.	Zirconio Cogeneración	C. Valenciana	Castellón	Villareal	3,780	50	1,890
Energyworks Fonz, S.L.	Trat. y Reduc. Purines en Fonz	Aragón	Huesca	Fonz	7,400	77.18	5,711
Energyworks Monzón, S.L.	Cogen. de Purines en Monzón	Aragón	Huesca	Monzón	14,800	80.68	11,941
Intermalta Energía, S.A.	Maltamanca	Castilla-La Mancha	Albacete	Albacete	3,330	50	1,665
Tirme	Son Mos	C. Balear	Baleares	Palma de Mallorca	33,600	20	6,720
Energyworks Vit-vall, S.L.	Michelín Vitoria	País Vasco	Álava	Vitoria	47,000	99	46,530
Energyworks Vit-vall, S.L.	Michelín Valladolid	Castilla y León	Valladolid	Valladolid	46,000	99	45,540
Total					495,713		377,004

NUCLEAR POWER PLANTS IN SPAIN

Plant	IBERDROLA ownership (%)	No. of units	Installed capacity (MW)	IBERDROLA capacity (MW)
Almaraz	52.69	2	1,969	1,037
Ascó II	15	1	1,027	154
Cofrentes	100	1	1,092	1,092
Garaña	50	1	466	233
Trillo I	49	1	1,067	523
Vandellós II	28	1	1,087	304
TOTAL		7	6,709	3,344

FUEL AND GAS THERMAL POWER PLANTS IN SPAIN

Plant	IBERDROLA ownership (%)	No. of units	Installed capacity (MW)	IBERDROLA capacity (MW)
Castellón	100	2	1,085	1,085
Santurce	100	3	935	936
Escombreras	100	2	553	553
Aceca	50	2	627	314
TOTAL		9	3,201	2,889

COAL-FIRED POWER PLANTS IN SPAIN

Plant	IBERDROLA ownership (%)	No. of units	Installed capacity (MW)
Lada	100	2	515
Guardo	100	2	515
Pasajes	100	1	223
TOTAL		5	1,253

PRINCIPAL FACILITIES IN LATIN AMERICA

IBERDROLA FACILITIES IN MEXICO

Plant	Type of facility	IBERDROLA ownership (%)	Installed capacity (MW)	Capacity attributable to IBERDROLA (MW)
Enertek	Cogeneration	100	120	907
Monterrey	Combined cycle	100	1,000	7,452
Femsa Titan	Cogeneration	100	37	37
Altamira III y IV	Combined cycle	100	1,036	1,036
La Laguna	Combined cycle	100	500	500
Altamira V	Combined cycle	100	1,121	1,121
Tamazunchale	Combined cycle	100	1,135	1,135
TOTAL			4,949	4,949

FACILITIES IN BRAZIL

Plant	Type of facility	IBERDROLA ownership (%)	Installed capacity (MW)	Capacity attributable to IBERDROLA (MW)
Termopernambuco	Combined cycle	39	520	203
Itapebí	Hydroelectric	39	450	175
Afluyente	Mini-hydroelectric	44,2	18	8
Energy Works Y TOTAL	Cogeneration	100	93	93
TOTAL			1,081	479

FACILITIES IN CHILE

Plant	Type of facility	IBERDROLA ownership (%)	Installed capacity (MW)	Capacity attributable to IBERDROLA (MW)
Ibener	Hydroelectric	100	124	124
TOTAL			124	124

PRINCIPAL TRANSMISSION, TRANSFORMER AND DISTRIBUTION FACILITIES IN SPAIN

VERY HIGH-VOLTAGE AND HIGH-VOLTAGE LINES

Type of line	Length (Km.)
Very high voltage (132 kV)	6,312
High voltage (66 and 45 kV)	12,159
Total	18,471

TRANSFORMER FACILITIES

Substations	Number of facilities	Installed capacity(MVA)
In-plants (STs)	286	46,280
Receivers (STRs)	583	9,871
Total	869	56,151

MEDIUM- AND LOW-VOLTAGE NETWORKS

Facilities

Médium- and low-voltage lines (Km)	207,540
Overhead medium-voltage lines	63,997
Underground medium-voltage lines	20,893
Overhead low-voltage lines	85,699
Underground low-voltage lines	36,951
Transformer centers in service (number)	81,605
Installed capacity at transformer centers (MVA)	35,247

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct + indirect equity interest at		Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
Iberdrola Internacional, B.V.	Amsterdam	Finance	100.00%	100.00%	388	13,704	14,092	2,208	5,000		G	
Iberdrola Portugal Electricidade e Gas, S.A.	Portugal	Holding	100.00%	100.00%	200	854,164	854,364	36,399			G	
Iberdrola Participacoes SGPS, S.A.	Portugal	Holding	100.00%	100.00%	50	853,329	853,379	38,013			G	
Energias de Portugal, S.A. (EDP)	Portugal	Energy	9.50%	9.50%		2,687,462	6,344,000	907,000				
Iberdrola Finanzas, S.A.	Vizcaya	Finance	100.00%	100.00%	61	325	386	569			G	
Iberdrola Reinsurance, S.A.	Luxemburgo	Insurance	100.00%	100.00%	1,225		1,225	-			G	
Korinthos Power, S.A.	Greece	Services	70.00%	70.00%	700	-503	197					
Cartera Park, S.A.	Valencia	Energy	100.00%	100.00%	125	1	126	-11				
Ciudad Real Aeropuertos, S.L.	Ciudad Real	Services	9.22%	9.22%			0					
Desafio Español 2007, S.A.	Madrid	Services	26.00%	26.00%	60	1,575	1,635	3,656				
Galp	Portugal	Energy	4.00%	4.00%	829,251	452,749	1,282,000	755,000	15,126			
Corporación Empresarial Extremadura	Badajoz	Promotion of business activities	25.58%	25.58%	17,640	-4,061	13,579	-816				
ScottishPower subgroup	Scotland	Energy	100.00%	0.00%	986,224	2,966,717	3,952,941	949,548			G	
Inversiones Financieras Perseo, S.A.	Vizcaya	Holding	86.00%	100.00%	171	82	253	-543			G	A/S
Inversiones Financieras Perseo, S.A.	Vizcaya	Holding	86.00%	100.00%	171	82	253	-543			G	A/S

Company	Domicile	Activity	% direct + indirect equity interest at		Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								

Deregulated Gas Business

Gas Nostrum, S.A.U.	Madrid	Gas	100.00%	100.00%	60	0	60	2				
Medgaz, S.A.	Madrid	Gas	20.00%	20.00%	28,500	-1,042	27,458	-518			E	

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct + indirect equity interest at		Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								
Deregulated Business												
Iberdrola Generación, S.A.U.	Vizcaya	Energy	100.00%	100.00%	1,333,407	2,384,691	3,718,098	269,294	823,958		G	A/S
Fuerzas Eléctricas de Navarra, S.A.	Navarra	Energy	100.00%	100.00%	60	59,556	59,616	-2,265			G	
Hidroeléctrica Ibérica, S.L.U.	Vizcaya	Energy	100.00%	100.00%	15	60,721	60,736	-1,065			G	
Iberduero, S.L.U.	Vizcaya	Energy	100.00%	100.00%	12	4,180	4,192	-12			G	
Nuclenor, S.A.	Cantabria	Energy	50.00%	50.00%	102,000	33,616	135,616	5,688	3,616		P	A
Central Nuclear Trillo-Almaraz, A.I.E.	Madrid	Energy	51.41%	51.41%	-	-	-	-			P	A
Tarragona Power, S.L.	Tarragona	Energy	50.00%	50.00%	790	21,631	22,421	-31,552			P	A
Energyworks Venezuela, S.A.	Venezuela	Energy	100.00%	100.00%	1,304	1,485	2,789	358			E	
Iberdrola Cogeneración, S.L.U.	Madrid	Energy	100.00%	100.00%	6	38,768	38,774	9,614			G	A/S
Navidul Cogeneración, S.A.	Madrid	Energy	55.00%	55.00%	2,116	-555	1,561	-1,356			P	A
Energyworks Cartagena, S.L.	Murcia	Energy	99.00%	99.00%	4	24,543	24,547	16,901			G	A
Energyworks Villarrobledo, S.L.	Albacete	Energy	99.00%	99.00%	4	4,630	4,634	172			G	A
Energyworks Aranda, S.L.	Valladolid	Energy	99.00%	99.00%	4	949	953	1,486			G	A
Energyworks Carballo, S.L.	La Coruña	Energy	99.00%	99.00%	4	1,236	1,240	-240			G	A
Energyworks San Millán, S.L.	León	Energy	90.00%	90.00%	1,373	946	2,319	-137			G	A
Energyworks Milagros, S.L.	Burgos	Energy	72.81%	72.81%	1,400	1,122	2,522	-319			G	A
Energyworks Fonz, S.L.	Huesca	Energy	71.18%	71.18%	1,751	-81	1,670	-355			G	
Energyworks Monzon, S.L.	Huesca	Energy	80.68%	80.68%	3,381	-192	3,189	367			G	
Energyworks Vit-Vall, S.L.	Alava	Energy	99.00%	99.00%	4	-7,103	-7,099	-3,550			G	A
Fudepor, S.L.	Murcia	Energy	50.00%	50.00%	4,420	-1,181	3,239	-597			P	A
Cofrusa Cogeneración, S.A.	Murcia	Energy	50.0%	50.00%	1,200	-367	833	-461			P	A
Cogeneración Gequisa, S.A.	Alava	Energy	50.00%	50.00%	1,803	2,036	3,839	593			P	A
Cogeneración Tierra Atomizada, S.A.	Castellón	Energy	50.00%	50.00%	721	1,352	2,073	1,065			P	A
Enercrisa, S.A.	Madrid	Energy	50.00%	50.00%	3,005	184	3,189	1,014			P	A
Energía Portátil de Cogeneración, S.A.	Alava	Energy	50.00%	50.00%	902	881	1,783	-45			P	A
Hispagen Cogeneración, S.A.	Burgos	Energy	50.00%	50.00%	902	351	1,253	-111			P	A
IESA Inter Malta Energía, S.A.	Navarra	Energy	50.00%	50.00%	1,503	519	2,022	326			P	A
Italcogeneración, S.A.	Castellón	Energy	50.00%	50.00%	751	444	1,195	134			P	A
Peninsular de Cogeneración, S.A.	Madrid	Energy	50.00%	50.00%	9,000	5,817	14,817	1,159			P	A
S.E.D.A. Cogeneración, S.A.	Palencia	Energy	50.00%	50.00%	240	203	443	219			P	A
Zirconio Cogeneración, S.A.	Castellón	Energy	50.00%	50.00%	61	448	509	-65			P	A
Tirme, S.A.	Palma de Mallorca	Services	20.00%	20.00%	7,663	16,602	24,265	4,580			P	
Iberdrola Operación y Mantenimiento, S.A.	Castellón	Services	100.00%	100.00%	3,000	6,161	9,161	2,361			G	A/S
Asociación Nuclear Ascó-Vandellós II, A.I.E.	Tarragona	Services	14.59%	14.59%	19,232		19,232	-			P	A
Bahía de Bizkaia Electricidad, S.L.	Vizcaya	Energy	25.00%	25.00%	3,606	151,995	155,601	47,248			P	A

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct	+indirect	Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								
Elcogas, S.A.	Madrid	Energy	11.96%	11.96%	38,162	-665	37,497	-11,949				
Tecnatom	Madrid	Energy	30.00%	30.00%	4,026	18,123	22,149	2,247				
Desarrollo Tecnológico Nuclear, S.L. (DTN)	Madrid	Services	43.45%	43.45%	4	16	20	22				
Productos y Servicios Confort, S.A.	Madrid	Marketing	100.00%	100.00%	300	10	310	163			G	
Iberdrola II Comercialización de Energía, S.A.	Portugal	Consulting	100.00%	100.00%	500	201	701	-419			G	
Vector M, S.A.U.	Barcelona	Marketing	100.00%	100.00%	4,410	-664	3,746	-263			E	

Company	Domicile	Activity	% direct	+indirect	Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								

Network Business - Spain

Iberdrola Distribución Eléctrica, S.A.	Vizcaya	Energy	100.00%	100.00%	645,210		1,733,472	496,627	49,690		G	A/S
OCOVAL - Oficina de Coordinación de Obras de Valencia, A.I.E.	Valencia	Services	16.66%	14.28%	250	108	358	13				
INKOLAN - Información y Coordinación de Obras, A.I.E.	Vizcaya	Services	20.00%	14.28%	60	54	114	-				
Hidroeléctrica San Cipriano de Rueda, S.L.	Valladolid	Energy	100.00%	100.00%	708	245	953	120	254		E	
Herederos de María Alonso Calzada, S.L.	Valladolid	Energy	100.00%	100.00%	56	93	149	41	32		E	
Subgrupo Anselmo León	Valladolid	Energy	100.00%	100.00%	1,082	5,859	6,941	581	1,982		E	
Subgrupo Eléctrica Conquense, S.A.	Cuenca	Energy	53.59%	53.59%	3,087	2,103	5,190	839	154		G	
Distribuidora Eléctrica Elorrio, S.A.	Vizcaya	Energy	96.86%	96.86%	65	205	270	63	32		E	
Distribuidora Energía Eléctrica Enrique García Serrano, S.L.	Cáceres	Energy	100.00%	0.00%	253	188	441	69			E	
Iberdrola Distribución de Gas, S.A.U.	Valencia	Gas	100.00%	100.00%	2,000	-483	1,517	-653			G	5
Iberdrola Infraestructuras Gasistas, S.L.	Madrid	Gas	100.00%	100.00%	5,000	132	5,132	98			G	
Infraestructuras Gasistas de Navarra, S.L.	Navarra	Gas	50.00%	50.00%	1,003	4,366	5,369	1,228			P	
Iniciativas del Gas, S.A.	Madrid	Gas	60.00%	60.00%	1,300	-3,822	-2,522	4,158	2,106		P	
Planta de Regasificación de Sagunto	Madrid	Gas	30.00%	30.00%	1,500	300	1,800	12,676			P	
Empresa Eléctrica del Cabriel, S.L.	Albacete	Energy	100.00%	100.00%	294	-1	293	39			E	
Bahía Bizkaia Gas, S.L.	Vizcaya	Gas	25.00%	25.00%	6,000	60,262	66,262	20,630	5,350		P	

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct +indirect equity interest at		Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								
Non-Energy Businesses												
Subgrupo Amara, S.A.	Madrid	Services	100.00%	100.00%	3,606	21,423	25,029	3,625			E	A/S
Subgrupo Iberdrola Inmobiliaria, S.A.	Madrid	Real estate	100.00%	100.00%	221,002	470,051	691,053	116,820			G	
Investigación y Desarrollo de Equipos Avanzados, S.A. (IDEA)	Madrid	Telemarketing	100.00%	100.00%	2,726	2,656	5,382	203			E	
Gamesa	Álava	Holding	23.88%	24.39%	41,361	997,305	1,038,666	220,050	8,562		E	
Subgrupo Corporación IBV Participaciones Empresariales	Vizcaya	Holding	50.00%	50.00%	228,445	511,482	739,927	407,696	200,000		P	
Neo-Sky 2002, S.A.	Madrid	Telecommunications	98.93%	94.29%	65,674	-21,473	44,201	-3,070		100.00%	G	
HidroI, S.L.U.	Vizcaya	Energy	100.00%	100.00%	5	-3	2	-1				
Hidroeléctrica Española, S.L.U.	Madrid	Energy	100.00%	100.00%	5	-2	3	-1				
Iberdrola Inversiones 2010, S.A.	Vizcaya	Real Estate	100.00%	100.00%	75,000	11,052	86,052	197			G	
Torre Iberdrola, AIE	Vizcaya	Real estate	50.00%	50.00%	150,000	570	150,570	1,782			P	
Euskaltel, S.A.	Vizcaya	Telecommunications	11.14%	11.14%	325,200	41,400	366,600	33,000			E	
Veo Televisión	Madrid	Telecommunications	20.00%	20.00%	27,329	-9,733	17,596	-6,813			E	
Refinería Balboa, S.A.	Badajoz	Energy	10.00%	10.00%	50,000	-66	49,934	-56				
Engineering and construction												
Iberdrola Ingeniería y Construcción, S.A.U.	Vizcaya	Engineering	100.00%	100.00%	661	106,145	106,806	53,054	29,281		G	A/S
Iberdrola Ingeniería y Consultoría Servicios, S.A.U.	Madrid	Engineering	100.00%	100.00%	195	50	245	307			G	A
Iberdrola Consultoria e Servicos do Brasil, Ltda.	Brazil	Engineering	100.00%	100.00%	528	359	887	9			G	
Iberdrola Ingeniería y Consultoría México, S.A. de C.V.	Mexico	Engineering	100.00%	100.00%	1,361	14,319	15,680	-781			G	
Sublin 2, S.A. de C.V.	Mexico	Engineering	100.00%	100.00%	4	31	35	-29			G	
Enermón, S.A. de C.V.	Mexico	Engineering	100.00%	100.00%	4	123	127	213			G	
Iberdrola Engineering and Construction Poland sp	Poland	Engineering	100.00%	100.00%	13	269	282	1,904			G	
Iberdrola Engineering and Construction UK Ltd.	United Kingdom	Engineering	100.00%	100.00%		35	35	135			G	
Iberdrola Inzhiniring I Stroitelstvo Limited Liability Company	Russia	Engineering	100.00%	100.00%		2	2	22			G	
Iberdrola Ingeniería y Construcción Venezuela, S.A.	Venezuela	Engineering	99.81%	99.81%	1	0	1	22			G	
Iberinco Hellas Techniki Kai Kataskevastiki EPE	Greece	Engineering	100.00%	100.00%	18	3	21	104			G	
Iberdrola Engineering and Construction, US, Inc	United States	Engineering	100.00%	100.00%	-	7	7	-170			G	
Iberdrola Engineering and Construction Kenya International	Kenya	Engineering	100.00%	100.00%	-	-	-	-			G	
Iberdrola Engineering and Construction Germany GmbH	Germany	Engineering	100.00%	100.00%	24	-	24	-			G	
Iberdrola Engineering and Construction Bulgaria	Bulgaria	Engineering	100.00%	100.00%	-	-	-	-			G	
GHESA, Ingeniería y Tecnología, S.A. y sociedades dependientes	Madrid	Engineering	41.18%	41.18%	4,087	15,969	20,056	3,621	3,998		E	
Keytech Sistemas Integrales	Madrid	Safety Systems	37.00%	37.00%	601	-18	583	-			E	
Empresarios Agrupados Internacional, S.A.	Madrid	Engineering	25.46%	25.46%	1,202	2,695	3,897	327			E	
Empresarios Agrupados Internacional, A.I.E.	Madrid	Engineering	25.46%	25.46%	162	588	750	-			E	
Iberdrola Construcao e Servicos Ltda.	Brazil	Engineering	100.00%	100.00%	-	-	-	-			G	
Itaituba Engenharia e Construcao, Ltda.	Brazil	Engineering	100.00%	100.00%	-	-	-	-				

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct +indirect equity interest at		Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								
International												
Iberdrola Energía, S.A.	Madrid	Holding	100.00%	100.00%	1,477,831	278,919	1,756,750	320,224			G	
Iberdrola México S.A. de C.V.	Mexico	Holding	100.00%	100.00%	614,582	-149,852	464,730	-10,690			G	A/S
Servicios de Operación Altamira, S.A. de C.V.	Mexico	Services	100.00%	100.00%	5	511	516	-67			G	
Electricidad de Veracruz II, S.A. de C.V.	Mexico	Energy	99.99%	99.99%	12	-11	1	0			G	
Electricidad de Veracruz, S.A. de C.V.	Mexico	Energy	99.99%	99.99%	5,320	-1,840	3,480	61			G	
Iberdrola Energía Altamira de Servicios, S.A. de C.V.	Mexico	Services	100.00%	100.00%	2,185	-977	1,208	1,483		100.00%	G	S
Iberdrola Energía Altamira, S.A. de C.V.	Mexico	Energy	100.00%	100.00%	178,934	-20,479	158,455	21,044			G	A/S
Iberdrola Energía La Laguna, S.A. de C.V.	Mexico	Energy	100.00%	100.00%	90,809	11,490	102,299	25,312			G	A/S
Iberdrola Energía Monterrey, S.A. de C.V.	Mexico	Energy	99.99%	99.99%	159,507	-46,668	112,839	9,422		100.00%	G	A/S
Iberdrola Servicios Monterrey, S.A. de C.V.	Mexico	Services	100.00%	100.00%	5	583	588	-149			G	
Cinergy, S. de R.L. de C.V.	Mexico	Energy	100.00%	100.00%	160	-24	136	9			G	
Enertek, S.A. de C.V.	Mexico	Energy	99.99%	99.99%	41,063	29,138	70,201	10,793			G	
Servicios Industriales y Administrativos del Noreste, S. de R.L. de C.V.	Mexico	Services	51.12%	51.12%	3,893	-1,572	2,321	34		100.00%	G	
Iberdrola Energía del Golfo, S.A. de C.V.	Mexico	Energy	100.00%	100.00%	117,584	-17,063	100,521	43,750			G	A/S
Servicios de Operación La Laguna, S.A. de C.V.	Mexico	Services	100.00%	100.00%	3	70	73	-14		100.00%	G	
Iberdrola Energía Tamazunchale, S.A. de C.V.	Mexico	Energy	100.00%	100.00%	93,919	-13,561	80,358	13,597			G	S
Iberdrola Servicios de Capacitación, S.A. de C.V.	Mexico	Services	100.00%	100.00%	4	26	30	6			G	
Servicios Administrativos Tamazunchale, S.A. de C.V.	Mexico	Services	100.00%	0.00%	3	-24	-21	16			G	
Generadores Hidricos, S.A. (Genhidro)	Guatemala	Services	51.00%	0.00%	6,108	14,136	20,244	-59		100.00%	G	
Hidronorte, S.A.	Guatemala	Services	51.00%	0.00%	8,886	-2,392	6,493	762		100.00%	G	
Controladora LNG Manzanillo, S.A. de C.V.	Mexico	Holding	99.99%	0.00%	-	-	-	-			G	
Sistemas de Administración y Servicios, S.A. de C.V. (SAS)	Mexico	Services	13.00%	13.00%	1	28	29	-2			E	
Subgrupo Gas Natural México, S.A. de C.V.	Mexico	Gas	13.25%	13.25%	825,412	-490,301	335,111	11,572			E	
Distribuidora Eléctrica Centroamericana Dos, S.A. (DECA II)	Guatemala	Holding	49.00%	49.00%	197,768	-68,844	128,924	44,923	20,012		P	
Subgrupo Navega.com	Guatemala	Telecommunications	26.95%	26.95%	3,356	7,650	11,006	10,743		49.00%	P	
Empresa Eléctrica de Guatemala, S.A. EEGSA	Guatemala	Energy	39.63%	39.63%	108,671	-28,866	79,805	27,966		49.00%	P	A/S
Inmobiliaria y Desarrolladora Empresarial de América, SA (IDEAMSA)	Guatemala	Real Estate	39.63%	39.63%	2,173	-708	1,465	1,970		49.00%	P	
Inversiones Eléctricas Centroamericanas, S.A. (INVELCA)	Guatemala	Holding	39.63%	39.63%	54,314	-15,249	39,065	18,876		49.00%	P	
Credieegsa	Guatemala	Energy	39.63%	39.63%	138	513	651	226			E	
Energica, S.A.	Guatemala	Energy	39.63%	39.63%	840	2,834	3,674	1,453			E	
Comercializadora Eléctrica de Guatemala, S.A. (CO-MEEGSA)	Guatemala	Energy	39.63%	39.63%	5,040	8,629	13,669	6,749		49.00%	P	
Transportista Eléctrica Centroamericana, S.A. (TRELEC)	Guatemala	Energy	39.63%	39.63%	25,874	-4,657	21,217	9,350		49.00%	P	A/S
Almacenaje y Manejo de Materiales Eléctricos, S.A. (AMESA)	Guatemala	Energy	48.97%	48.97%	124	831	955	805			P	

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

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			12-31-07	12-31-06								
Gestión de Empresas Eléctricas, S.A.	Guatemala	Services	99.99%	99.99%	0	3,998	3,998	4,404			G	
Iberdrola Energia do Brasil, S.L.	Brazil	Holding	99.99%	99.99%	30,013	-28,054	1,959	-49			G	
Energyworks do Brasil, Ltda.	Brazil	Energy	99.99%	99.99%	40,711	10,397	51,108	5,050	794		G	A
Capuava Energy, Ltda.	Brazil	Energy	99.99%	99.99%	5,774	-1,752	4,022	2,179			G	A
Iberdrola Energia Chile, Ltda.	Chile	Holding	99.90%	99.90%	75,704	-12,485	63,219	1,697		100.00%	G	
Iberaguas, Ltda.	Chile	Holding	99.80%	99.80%	87,455	-10,593	76,862	2,184		100.00%	G	
Empresa de Servicios Sanitarios de Los Lagos, S.A. (ESSAL)	Chile	Water	50.90%	50.90%	73,304	-375	72,929	11,002			E	A/S
Iberoamericana de Energía Ibener, S.A. (IBENER)	Chile	Energy	94.74%	94.74%	168,654	-63,395	105,259	8,897		100.00%	G	A/S
Iberdrola de Inversiones, S.A.	Bolivia	Holding	99.99%	99.99%	56,713	-26,147	30,566	-34	6,529		G	
Iberbolivia de Inversiones, S.A.	Bolivia	Holding	63.39%	63.39%	87,620	-40,613	47,007	-1,422			E	
Compañía Administradora de Empresas – Bolivia, S.A. (CADEB)	Bolivia	Services	59.26%	59.26%	467	830	1,297	1,117			E	
Empresa de Luz y Fuerza Eléctrica de Oruro, S.A. (ELFEO)	Bolivia	Energy	58.85%	58.85%	3,421	-59	3,362	273			E	A/S
Electricidad de La Paz, S.A. (ELECTROPAZ)	Bolivia	Energy	56.77%	56.77%	28,667	3,396	32,063	4,019			E	A/S
Empresa de Servicios, S.A. (EDESER)	Bolivia	Energy	55.73%	55.73%	281	497	778	338			E	
Iberdrola Investimentos, SUL	Portugal	Holding	100.00%	100.00%	263,240	-224,038	39,202	-1,224			G	
Neoenergia, S.A.	Brazil	Holding-Energy	39.00%	39.00%	2,911,771	-685,126	2,226,645	502,123	55,220		P	
Goiás Sul Geracao de Energia Elétrica S.A	Brazil	Energy	39.00%	39.00%	13,315	255	13,570	-			P	
Geracao CIII, S.A.	Brazil	Energy	39.04%	39.04%	26,704	255	26,959	-			P	
RIO PCH I, S.A.	Brazil	Energy	29.25%	0.00%	0	0	0	-		39.00%	P	
Companhia Energetica Do Rio Grande Do Norte, S.A. (COSERN)	Brazil	Energy	39.95%	39.95%	129,791	1,748	131,539	63,368	4,300	43.28%	P	A/S
Afluente Geracao e Transmicao de Energia Elétrica, S.A.	Brazil	Energy	42.76%	42.76%	68,458	-42,941	25,517	11,791	1,453	44.19%	P	
Itapebi Geracao de Energia, S.A.	Brazil	Energy	38.98%	38.98%	59,339	-14,039	45,300	31,430	3,309		P	A
Termopernambuco, S.A.	Brazil	Energy	39.00%	39.00%	141,366	-9,285	132,081	29,290			P	A
Termoacu, S.A.	Brazil	Energy	10.88%	14.65%	220,251	23,748	243,999	-			E	
Subgrupo Nc Energia	Brazil	Energy	39.00%	39.00%	4,973	-3,164	1,809	4,452			E	
Companhia de Electricidade do Estado da Bahia, S.A. (COELBA)	Brazil	Energy	42.76%	42.76%	394,188	-68,317	325,871	242,590	18,874	44.19%	P	A/S
Garter Properties, Inc	BVI	Finance	39.00%	42.76%	28,656	-28,628	28	-2		44.19%	P	
Baguari Geracao De Energia Elétrica S.A	Brazil	Energy	39.00%	39.00%	28,430	729	29,159	-			P	
Energetica Aguas da Pedra, S.A.	Brazil	Energy	19.89%	0.00%	0	0	0	-		39.00%	P	
Neoenergia Investimentos, S.A.	Brazil	Services	39.00%	0.00%	0	0	0	-			P	
Bahia Pch I, S.A.	Brazil	Energy	39.00%	0.00%	62		62	-			P	
Companhia Energética de Pernambuco (Celpe)	Brazil	Energy	34.96%	34.96%	337,192	-2,947	334,245	116,730		39.00%	P	A/S

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct +indirect equity interest at 12-31-07	12-31-06	Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
Renewable Energy Business												
Iberdrola Renovables, S.A.	Madrid	Energy	80.00%	100.00%	2,112,032	8,190,603	10,302,635	86,165	97,148		G	A/S
Iberdrola Energía Renovable Promociones S.A.U.	Madrid	Energy	80.00%	100.00%	28,414	11,604	40,018	4,934	16,370		G	A
Global Solar Energy, S.A.	Murcia	Energy	72.00%	90.00%	1,500	-9	1,491	43		100.00%	G	
Sistemas Energéticos Moncayo, S.A.	Valladolid	Energy	60.00%	75.00%	1,958	2,029	3,987	2,222		100.00%	G	
Ciener, S.A.	Vizcaya	Energy	80.00%	100.00%	6,545	10,410	16,955	9,011	3,350		G	A
Minicentrales del Tajo, S.A.	Madrid	Energy	53.26%	66.58%	362	525	887	68		100.00%	G	
Salto de Belmontejo, S.L.	Cuenca	Energy	19.87%	24.84%	500	0	500	-6			P	
Iberdrola Energías Renovables Castilla-La Mancha, S.A.	Toledo	Energy	80.00%	100.00%	7,603	72,373	79,976	80,847	41,830		G	A
Energías Eólicas de Cuenca, S.A.	Cuenca	Energy	50.00%	62.50%	11,250	-49	11,201	-2,091		100.00%	G	
Eólica de Campollano, S.A.	Madrid	Energy	20.00%	25.00%	6,560	4,038	10,598	3,009			P	
Iberdrola Energía Solar Puertollano, S.A.	Toledo	Energy	72.00%	0.00%	2,600	-20	2,580	8		100.00%	G	
Electricas de la Alcarria, S.L.	Madrid	Energy	32.00%	0.00%	943		943	-3			P	
Iberdrola Energías Renovables de Galicia, S.A.	Orense	Energy	80.00%	100.00%	47,828	9,102	56,930	43,834	32,355		G	A
Sistemas Energéticos Chandrea, S.A.	Orense	Energy	76.85%	96.07%	1,415	639	2,054	551		100.00%	G	
Somozas Energía y Recursos Medioambientales, S.A.	La Coruña	Energy	72.00%	90.00%	1,410	-60	1,350	-79		100.00%	G	
Sotavento Galicia, S.A.	La Coruña	Energy	6.40%	8.00%	601	1,191	1,792	5			E	
S.E. Ferrol-Naron, S.A.	La Coruña	Energy	80.00%	0.00%	61		61	-16			G	
Energía I Vent, S.A.	Barcelona	Energy	72.00%	90.00%	2,100	-271	1,829	-1,003		100.00%	G	
Biovent Energía, S.A.	Valladolid	Energy	68.00%	85.00%	112,000	25,851	37,851	7,817		100.00%	G	
Iberdrola Renovables de Castilla y León, S.A.	Valladolid	Energy	76.00%	85.00%	32,079	-149	31,930	-1,896		100.00%	G	
Productora de Energía Eólica, S.A.	Valladolid	Energy	45.59%	50.92%	6,174	-14	6,160	-25		59.90%	P	
Generación de Energía Eólica, S.A.	Valladolid	Energy	45.60%	51.00%	100	-13	87	-13		60.00%	P	
Aero-Castilla, S.A.	Valladolid	Energy	45.60%	51.00%	4,163	-12	4,151	-26		60.00%	P	
Villardefrades Eólicas, S.L.	Valladolid	Energy	76.00%	68.00%	6,588	-23	6,565	-115			P	
P.E. Cruz del Carrutero, S.L.	Valladolid	Energy	60.80%	54.40%	2,610	-10	2,600	-5		100.00%	G	
Eólicas Fuente Isabel, S.A.	Valladolid	Energy	45.60%	51.00%	61	-14	47	-12		60.00%	P	
Vientos de Castilla y León, S.A.	Valladolid	Energy	45.60%	51.00%	61	-14	47	-12		60.00%	P	
Energía Castilla y León, S.A. (Encalsa)	Valladolid	Energy	68.40%	76.50%	1,900	137	2,037	384		90.00%	P	
Producciones Energéticas de Castilla-León	Valladolid	Energy	68.40%	76.50%	14,200	-67	14,133	-113			P	
Ecobarcial, S.A.	Zamora	Energy	35.03%	39.02%	27,210	-206	27,004	-17			P	
Energía Global Castellana, S.A.	Valladolid	Energy	76.00%	60.00%	19,561	-390	19,171	-1,321			G	
Peache Energía Renovables, S.A.	Valladolid	Energy	45.60%	51.00%	2,561	-8	2,553	-97		60.00%	P	
Electra de Layna, S.A.	Valladolid	Energy	38.00%	42.50%	4,278	-9	4,269	57		50.00%	P	
Bionor Eólica	Valladolid	Energy	45.60%	0.00%	61		61	-1			P	
Iberdrola Energías Renovables de la Rioja, S.A.	La Rioja	Energy	50.84%	63.55%	6,015	70,899	76,914	20,976	11,160		P	
Molinos del Cidacos	La Rioja	Energy	25.42%	31.78%	10,250	8,400	18,650	10,123			P	
Desarrollo de Energías Renovables de la Rioja	La Rioja	Energy	32.41%	40.51%	16,500	3,609	20,109	6,442		63.55%	P	
Molinos de la Rioja, S.A.	La Rioja	Energy	33.89%	42.37%	3,000	2,381	5,381	2,549		63.55%	P	
Energías Renovables de la Región de Murcia, S.A.	Murcia	Energy	40.00%	50.00%	51,230	2,559	53,789	3,144			P	
Iberdrola Energías Renovables de Andalucía, S.A.	Sevilla	Energy	80.00%	100.00%	60	1,718	1,778	-2,259			G	A
Sociedad Gestora para parques Eólicos del Campo de Gibraltar (Sogecam)	Málaga	Energy	44.00%	55.00%	61		61	-17		100.00%	G	

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			12-31-07	12-31-06								
Sociedad Gestora de Parques Eólicos de Andalucía (Geansa)	Málaga	Energy	44.00%	55.00%	2,497	-326	2,171	-359		100.00%	G	
EME Dólar Uno, S.L.	Sevilla	Energy	80.00%	100.00%	3	-1	2	16			G	A
EME Hueneja Tres, S.L.	Sevilla	Energy	80.00%	100.00%	3	134	137	-174			G	A
EME Dólar Tres, S.L.	Sevilla	Energy	80.00%	100.00%	3	188	191	-252			G	A
EME Ferreira Dos, S.L.	Sevilla	Energy	80.00%	100.00%	3	233	236	-320			G	A
Sistema Eléctrico de Conexión Hueneja, S.A.	Sevilla	Energy	37.89%	41.60%	30,719	-177	30,542	90			P	
Sierra de Baños, S.L.	Navarra	Energy	24.00%	0.00%	1,500	0	1,500	-16			P	
Parques Eólicos Puerto de Málaga, S.L.	Sevilla	Energy	44.00%	0.00%	1,000	0	1,000	-7		100.00%	G	
Sistemas Energéticos Tacica de Plata, S.A.	Sevilla	Energy	80.00%	0.00%	61		61	-156			G	
Sistemas Energéticos Nacimiento, S.A.	Sevilla	Energy	80.00%	0.00%	61		61	-82			G	
Iberdrola Energías Renovables de Aragón, S.A.	Zaragoza	Energy	80.00%	100.00%	29,102	2,969	32,071	23,018	14,175		G	A
Sistemas Energéticos La Muela, S.A.	Zaragoza	Energy	40.00%	50.00%	3,065	1,739	4,804	2,715		100.00%	G	
Sistemas Energéticos Torralba, S.A.	Zaragoza	Energy	48.00%	60.00%	3,081	647	3,728	4,730		100.00%	G	
Sistemas Energéticos Mas-Garullo, S.A.	Zaragoza	Energy	40.80%	51.00%	1,503	747	2,250	2,208		100.00%	G	
Eólicas de Euskadi, S.A.	Vizcaya	Energy	40.00%	50.00%	22,066	5,629	27,695	8,561	5,674		P	
Electra Sierra de San Pedro, S.A.	Cáceres	Energy	64.00%	80.00%	500	-8	492	-28		100.00%	G	
Electra de Montánchez, S.A.	Cáceres	Energy	32.00%	40.00%	800	-22	778	-53			P	
Electra de Malvana, S.A.	Cáceres	Energy	38.40%	48.00%	500	-8	492	-32			P	
Iberdrola Energía Marinas de Cantabria, S.A.	Cantabria	Energy	48.00%	60.00%	2,600	-20	2,580	8		100.00%	G	
Iberdrola Energías Renovables de Canarias, S.A.	Tenerife	Energy	80.00%	0.00%	60		60	-12			G	
Energías Ecológicas de La Palma, S.A.	Tenerife	Energy	40.00%	0.00%	60		60	-3			G	
Energías Ecológicas de Fuerteventura, S.A.	Tenerife	Energy	40.00%	0.00%	7		7	-1			G	
Energías Ecológicas de La Gomera S.A.	Tenerife	Energy	40.00%	0.00%	8		8	-			G	
Energías Ecológicas de Lanzarote, S.A.	Tenerife	Energy	40.00%	0.00%	7		7	-1			G	
Energías Ecológicas de Tenerife, S.A.	Tenerife	Energy	40.00%	0.00%	798	-31	767	-15			G	
Energías Eólicas Fuenca-liente, S.A.	Tenerife	Energy	40.00%	0.00%	7		7	-			G	
Rioglass Photovoltaica, S.A.	La Rioja	Energy	19.60%	0.00%			0					
Energías Renováveis do Brasil, Ltda.	Brazil	Energy	80.00%	100.00%	43,524	-5,026	38,498	-653	299	-3.00%	G	
Iberdrola Energías Renováveis do Brasil, S.A.	Brazil	Energy	80.00%	0.00%	299	-3	296	-			G	
Das Yenilenebilir Enerjiler	Turkey	Energy	80.00%	0.00%	-	-	-	-			G	
Iberdrola Energia ot Vazobnoviaemi iztochnici	Bulgaria	Energy	80.00%	0.00%	-	-	-	-			G	
Aeolia Producao de Energia, S.A.	Portugal	Energy	62.40%	78.00%	150	14	164	-324		100.00%	G	
Iberdrola Energie Rinnovabili, SPA	Italy	Energy	80.00%	100.00%	120	16,278	16,398	-761			G	
Societa Energie Rinnovabili, SRL	Italy	Energy	39.92%	0.00%	120	3,352	3,472	-370			G	
Societa Energie Rinnovabili, SRL	Italy	Energy	39.92%	0.00%	120	3,908	4,028	-149			G	A
Iberdrola Renewable Energies of UK Limited	UK	Energy	80.00%	100.00%	7	-2,562	-2,555	-3,414			G	

COMPANIES IN WHICH THE IBERDROLA GROUP HOLDS AN EQUITY INTEREST

Company	Domicile	Activity	% direct	+indirect equity interest at	Capital	Reserves	Total	Income FY 2007	Dividends FY 2007	% consolidated 2007	Consolidation method	Environ./social report
			12-31-07	12-31-06								
Iberdrola Energies Renouvelables, SAS	France	Energy	80.00%	100.00%	37	-2,957	-2,920	-6,338			G	
Subgrupo Perfect Wind	France	Energy	80.00%	100.00%	2,104	253	2,357	-3,158			G	
Eolienne de la Grande Place, SAS	France	Energy	80.00%	0.00%	37		37	-39			G	
Eolienne de Mauron, SAS	France	Energy	80.00%	0.00%	37		37	-79			G	
S.E. Hamel Au Brun, SAS	France	Energy	80.00%	0.00%	37	-9	28	-67			G	
P.E. Talizat, SAS	France	Energy	80.00%	0.00%	37	-10	27	-72			G	
Societe de Mulsonnier, SAS	France	Energy	80.00%	0.00%	37	-14	23	-41			G	
Sefeosc, SAS	France	Energy	39.20%	0.00%	37		37	-22			G	
Cepe de Nurlu, SAS	France	Energy	80.00%	0.00%	37	6	43	-78			G	
Iberdrola Regenerative Energien, GMBH	Germany	Energy	80.00%	100.00%	25	30,037	30,062	-3,152			G	
Windpark Jülicher Land	Germany	Energy	80.00%	100.00%	25	-3	22	142			G	
Iberdrola Energias Renovaveis, S.A.	Portugal	Energy	80.00%	100.00%	50	679	729	1,097	811		G	
Eonergi Energia Eolica, S.A.	Portugal	Energy	80.00%	0.00%	50	-95	-45	2,229			G	
Iberdrola Energia Odnawialna Spo3ka Z Ograniczon	Poland	Energy	80.00%	100.00%	2,799	-1,581	1,218	-1,378			G	
Energia Wiatrowa Karscino S.P. ZOO EWK	Poland	Energy	80.00%	100.00%	13	-8	5	-209			G	
ElektrownieWiatrowe Podkarpacia, SP ZOO	Poland	Energy	80.00%	0.00%	1,348	67	1,415	-7			G	
Ousaühing Raisner	Estonia	Energy	64.00%	80.00%	943	935	1,878	-651		100.00%	G	
Iberdrola Magyarország Megújuló Energia Korlátolt Felősségű Társaság	Hungary	Energy	80.00%	100.00%	11	-61	-50	-115			G	
Energiaki Alogorochis, S.A.	Greece	Energy	80.00%	100.00%	60	45	105	380			G	
Parqués Ecológicos de México, S.A. de C.V.	Mexico	Energy	80.00%	0.00%	362	-200	162	-			G	
Magellan Investment Vagyonkezele, KFT	Hungary	Energy	80.00%	0.00%	12	-7	5	-15			G	
Kaptar Sxeleromu, Kkf	Hungary		80.00%	0.00%	12	-1	11	-18			G	
Amitaius Vagyonkezele, Kft	Hungary		80.00%	0.00%	11		11	-5			G	
Vento Energetika Villamosenergia-Termelo, Kft	Hungary		80.00%	0.00%	23	1	24	-23			G	
Amithaba Vagyonkezele, Kft	Hungary	Energy	80.00%	0.00%	11		11	-5			G	
Mistral Energetika Villamosenergia-Termelo, Kft	Hungary		80.00%	0.00%	23	1	24	-43			G	
Subgrupo Metal Industry of Arcadia C. Rokas, S.A.	Greece	Energy	42.16%	49.90%	11,887	72,688	84,575	10,593	2,224	100.00%	G	
ScottishPower Renewable Energy Holdings Limited	R.Unido	Holding	80.00%	0.00%	1,290,471	-63,670	1,226,801	-404			G	A
Subgrupo ScottishPower Renewable Energy Limited (SPREL)	United Kingdom	Holding	80.00%	0.00%	39,489	11,933	51,422	13,359			G	A
Subgrupo ScottishPower Holdings, Inc.	United States	Holding	80.00%	0.00%	1,688,178	-1,203,965	484,213	°			G	A

BREAKDOWN OF WORKFORCE

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable Activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Total headcount	8,006	8,130	8,252	1,994	1,669	1,394	2,838	2,795	2,753	9,487	N/A	N/A	1,039	401	302	23,364	12,995	12,701
By gender																		
Men	6,895	7,041	7,174	1,452	1,226	1,022	2,226	2,193	2,178	6,214	N/A	N/A	777	325	259	17,564	10,785	10,633
Women	1,111	1,089	1,078	542	443	372	612	602	575	3,273	N/A	N/A	262	76	43	5,800	2,210	2,068
By category																		
Men																		
Managers	310	316	337	79	63	44	203	203	209	320	N/A	N/A	121	36	23	1,033	618	613
Advanced degree	657	653	651	664	553	449	420	409	376	1,002	N/A	N/A	167	90	60	2,910	1,705	1,536
Basic degree holders	1,297	1,319	1,337	343	286	240	930	971	914	1,205	N/A	N/A	171	30	30	3,946	2,606	2,521
Professionals	4,631	4,753	4,849	366	324	289	673	610	678	3,687	N/A	N/A	318	169	146	9,675	5,856	5,962
Women																		
Managers	34	32	34	7	5	4	46	44	43	97	N/A	N/A	17	4	3	201	85	84
Advanced degree	326	289	270	305	244	208	231	225	197	353	N/A	N/A	96	49	22	1,311	807	697
Basic degree holders	188	185	181	82	61	47	156	191	191	474	N/A	N/A	79	5	5	978	442	424
Professionals	563	583	593	148	133	113	180	141	144	2,349	N/A	N/A	70	18	13	3,311	875	863
By type of emplo-																		
Full-time	8,006	8,130	8,252	1,940	1,618	1,359	2,838	2,795	2,753	8,342	N/A	N/A	1,034	401	302	22,160	12,944	12,666
Part-time	0	0	0	54	51	35	0	0	0	1,145	N/A	N/A	5	0	0	1,204	51	35
By type of contract																		
Temporary contract	41	78	138	1,208	927	200	28	84	70	143	N/A	N/A	36	28	33	1,456	1,117	441
Permanent contract	7,965	8,052	8,114	782	737	1,189	2,810	2,729	2,691	9,344	N/A	N/A	490	373	269	21,391	11,891	12,263
By age range																		
Up to 30	1,025	825	758	755	684	597	666	629	539	2,285	N/A	N/A	340	190	134	5,071	2,328	2,028
Between 30 and 50	4,082	4,292	4,465	1,109	882	714	1,694	1,770	1,879	5,400	N/A	N/A	584	181	142	12,869	7,125	7,200
Over 50	2,899	3,013	3,029	130	103	83	478	396	335	1,802	N/A	N/A	115	30	26	5,424	3,542	3,473
Average age	44.77	45.33	45.37	35.01	34.72	34.56	40.36	40.15	40.28	39.89	N/A	N/A	36.43	34.12	31.58	41.26	42.62	42.86
By gender																		
Men	45.09	45.73	45.82	35.60	35.21	34.98	40.91	40.68	40.74	41.54	N/A	N/A	36.80	34.74	31.48	42.31	43.28	43.50
Women	42.73	42.71	42.31	33.38	33.37	33.38	38.37	38.17	38.54	36.83	N/A	N/A	35.30	31.30	32.19	37.90	39.32	39.50
By category																		
Managers	47.43	47.53	47.32	33.40	45.66	46.12	43.17	42.76	43.11	42.80	N/A	N/A	46.08	45.81	47.30	43.95	45.60	45.68
Advanced degree	39.44	39.68	39.66	35.18	34.66	34.95	38.27	38.07	37.87	41.78	N/A	N/A	33.01	33.29	30.60	38.48	37.42	37.51
Basic degree holders	44.72	44.83	44.72	33.74	34.87	34.53	38.99	39.11	38.74	41.19	N/A	N/A	36.96	30.84	37.75	41.00	41.44	41.47
Professionals	45.63	46.33	46.39	34.46	33.13	32.49	42.90	42.55	43.13	38.92	N/A	N/A	35.22	32.74	28.05	41.94	44.70	44.88
Average length of	19.11	19.73	19.79	5.55	5.79	5.95	14.65	14.70	14.90	11.71	N/A	N/A	3.33	1.63	1.20	14.08	16.46	16.90
By gender																		
Men	19.47	20.14	20.24	5.75	5.95	6.08	15.08	15.16	15.29	13.27	N/A	N/A	3.60	1.71	1.14	15.20	17.11	17.54
Women	16.87	17.01	16.70	5.01	5.34	5.58	13.10	13.02	13.39	8.81	N/A	N/A	2.52	1.28	1.56	10.47	13.19	13.54
By category																		
Managers	17.88	18.11	18.02	8.46	10.35	9.76	14.43	14.56	14.91	14.45	N/A	N/A	6.02	1.99	1.42	14.25	15.39	15.80
Advanced degree	11.22	11.49	11.48	5.29	5.79	6.32	11.22	11.53	11.71	15.09	N/A	N/A	2.06	1.15	1.05	10.31	9.25	9.69
Basic degree holders	18.90	19.08	18.97	4.89	5.33	5.33	13.87	14.20	13.94	15.66	N/A	N/A	3.29	1.97	1.18	14.83	15.57	15.62
Professionals	20.76	21.47	21.55	5.82	5.46	5.30	18.39	18.00	18.35	9.67	N/A	N/A	3.39	1.84	1.25	14.97	19.54	19.88

*In FY 2005 and 2006, "Renewable activities" included Iberdrola Renovables S.A.U. In FY 2007, Renovables S.A. is included as well as information from PPM.

HIRINGS

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
By gender																		
Men	341	229	265	342	276	174	161	153	167	251	N/A	N/A	206	79	66	1,301	737	672
Women	65	40	54	148	104	80	65	70	53	106	N/A	N/A	78	37	11	462	251	198
By category																		
Managers	8	7	8	7	17	1	9	7	11	9	N/A	N/A	13	11	7	46	42	27
Advanced degree holders	91	56	57	274	214	127	65	83	71	13	N/A	N/A	86	71	24	529	424	279
Basic degree holders	52	32	44	107	76	46	90	86	100	19	N/A	N/A	64	3	9	332	197	199
Professionals	255	174	210	102	73	80	61	47	39	316	N/A	N/A	121	31	37	855	325	366

SEPARATIONS - BREAKDOWN

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Affiliates in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Total headcount	8,006	8,130	8,252	1,994	1,669	1,394	2,838	2,795	2,753	9,487	N/A	N/A	1,039	401	302	23,364	12,995	12,701
Job openings by gender																		
Men	486	362	579	116	72	77	126	137	125	720	N/A	N/A	48	13	12	1,496	584	793
Women	44	29	34	49	33	37	47	44	36	516	N/A	N/A	13	4	2	669	110	109
Job openings by gender %																		
Men	7.05%	5.14%	8.07%	7.99%	5.87%	7.53%	5.68%	6.26%	5.75%	11.59%	N/A	N/A	6.18%	4.00%	4.63%	8.52%	5.42%	7.46%
Women	3.96%	2.66%	3.15%	9.04%	7.45%	9.95%	7.63%	7.24%	6.30%	15.77%	N/A	N/A	4.96%	5.26%	4.65%	11.53%	4.96%	5.28%
By age range																		
Up to 30	13	6	8	84	56	65	63	48	56	628	N/A	N/A	16	6	4	804	116	133
Between 31 and 50	39	43	38	73	44	44	76	82	77	448	N/A	N/A	38	6	2	674	175	161
Over 50	478	342	567	8	5	5	34	50	29	160	N/A	N/A	7	5	8	687	402	609
By age range %																		
Up to 30	1.27%	0.73%	1.06%	11.13%	8.19%	10.89%	9.46%	7.69%	10.39%	27.48%	N/A	N/A	4.71%	3.16%	2.99%	15.85%	5.00%	6.56%
Between 31 and 50	0.96%	1.00%	0.85%	6.58%	4.99%	6.16%	4.49%	4.65%	4.08%	8.30%	N/A	N/A	6.51%	3.31%	1.41%	5.24%	2.46%	2.23%
Over 50	16.49%	11.35%	18.72%	6.15%	4.85%	6.02%	7.13%	12.66%	8.59%	8.88%	N/A	N/A	6.09%	16.67%	30.77%	12.67%	11.35%	17.53%

EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Affiliates in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Total headcount	8,006	8,130	8,252	1,994	1,669	1,394	2,838	2,795	2,753	9,487	N/A	N/A	1,039	401	302	23,364	12,995	12,701
Individuals covered by an agreement	7,662	7,782	7,881	1,850	1,505	1,316	2,572	2,490	2,492	7,914	N/A	N/A	526	348	276	20,524	12,125	11,965
Percentage	95.70%	95.72%	95.50%	92.78%	90.17%	94.40%	90.65%	89.11%	90.55%	83.42%	N/A	N/A	50.63%	86.78%	91.39%	87.85%	93.31%	94.21%

* In FY 2005 and 2006, "Renewable activities" included Iberdrola Renovables S.A.U. In FY 2007, Renovables S.A. is included, as well as information from PPM.

EMPLOYEES REPRESENTED ON SAFETY AND HEALTH COMMITTEES

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Total headcount	8,006	8,130	8,252	1,994	1,669	1,394	2,838	2,795	2,753	9,487	N/A	N/A	1,039	401	302	23,364	12,995	12,701
Represented on safety and health committees	8,006	8,130	8,252	1,394	1,112	888	935	904	860	9,487	N/A	N/A	1,039	401	0	20,861	10,547	10,000
Percentage	100.00%	100.00%	100.00%	69.91%	66.63%	63.70%	32.95%	32.34%	31.25%	100.00%	N/A	N/A	100.00%	100.00%	0.00%	89.29%	81.16%	78.74%

ACCIDENT RATE

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Number of accidents	156	171	204	28	31	32	45	53	56	213	N/A	N/A	10	11	4	452	266	296
Fatal	0	2	0	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	2	0
With lost time	61	87	88	13	13	16	26	34	35	22	N/A	N/A	4	4	1	126	138	140
Without lost time	95	82	116	15	18	16	19	19	21	191	N/A	N/A	6	7	3	326	126	156
Number of deaths																		
Company	0	2	0	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	2	0
Contracts	2	8	6	0	1	0	4	5	4	0	N/A	N/A	1	0	0	7	14	10
No. of days lost	4,670	6,536	4,728	641	569	195	1,900	4,570	4,457	377	N/A	N/A	28	28	20	7,616	11,703	9,400
Absenteeism	1,767	1,753	2,141	2,093	1,583	1,264	696	886	731	4,810	N/A	N/A	17	0	0	9,383	4,222	4,136
(no. of sick leaves per year)	1,767	1,753	2,141	2,093	1,583	1,264	696	886	731	4,810	N/A	N/A	17	0	0	9,383	4,222	4,136
Lost work days	80,610	84,323	85,709	8,783	8,956	7,912	8,722	5,993	5,002	87,966	N/A	N/A	457	0	0	186,538	99,272	98,623
Person-equivalents	220.85	231.02	234.82	23.45	24.54	21.68	21.56	14.79	12.72	241.00	N/A	N/A	0.22	0.00	0.00	507.09	270.35	269.21
Injury ratio (IR)	0.97	1.32	1.32	0.80	0.94	1.33	0.95	1.27	1.37	0.25	N/A	N/A	0.49	1.41	0.38	0.63	1.26	1.31
Occupational disease ratio (ODR)	0.00	0.01	0.07	0.00	0.00	0.00	2.38	3.25	1.95	0.07	N/A	N/A	0.00	0.00	0.00	0.35	0.79	0.52
Lost days ratio (LDR)	74.02	97.15	70.65	39.60	41.24	16.16	70.42	170.60	170.57	4.37	N/A	N/A	3.45	9.90	7.53	37.94	105.73	87.22
Absenteeism ratio (AR)	10,221.83	10,026.72	10,246.21	4,328.93	5,181.99	5,246.44	2,896.87	2,010.27	1,536.50	8,149.30	N/A	N/A	446.44	0.00	0.00	7,538.56	7,348.29	7,322.78

*In FY 2005 and 2006, "Renewable activities" included Iberdrola Renovables S.A.U. In FY 2007, Renovables S.A. is included, as well as information from PPM.

The formulas used to calculate these ratios are the following:

$$\text{Injury ratio (IR): } \frac{\text{Number of injured people}}{\text{Number of hours worked}} * 200,000$$

$$\text{Occupational disease ratio (ODR): } \frac{\text{Number of diagnosed occupational diseases}}{\text{Number of hours worked}} * 200,000$$

$$\text{Lost days ratio (LDR): } \frac{\text{Number of days lost}}{\text{Number of hours worked}} * 200,000$$

$$\text{Absenteeism rate (AR): } \frac{\text{Number of days absent}}{\text{Number of hours worked}} * 200,000$$

TRAINING

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
No. of attendees	40,354	33,735	29,228	17,697	7,906	7,135	21,143	11,922	10,849	8,900	N/A	N/A	2,498	670	481	90,592	54,233	47,693
By gender																		
Men	36,979	31,696	25,583	13,627	6,530	5,712	18,581	9,767	8,970	5,830	N/A	N/A	2,093	552	413	77,110	48,545	40,678
Women	3,375	2,039	3,645	4,070	1,376	1,423	2,562	2,156	1,879	3,070	N/A	N/A	405	118	68	13,482	5,689	7,015
By category																		
Managers	418	475	919	326	123	87	1,316	1,179	1,041	391	N/A	N/A	91	60	0	2,542	1,837	2,047
Advanced degree holders	3,921	3,486	2,284	8,112	376	225	9,298	3,192	2,600	1,271	N/A	N/A	710	236	0	23,312	7,290	5,109
Basic degree holders	7,488	6,222	5,677	2,140	2,238	1,766	7,612	4,197	4,297	1,574	N/A	N/A	166	0	0	18,980	12,657	11,740
Professionals	28,527	23,552	20,348	7,119	5,169	5,057	2,917	3,354	2,911	5,664	N/A	N/A	1,531	374	481	45,758	32,449	28,797
Number of hours	362,356	329,704	324,416	127,479	114,660	81,880	214,442	198,604	183,536	77,418	N/A	N/A	28,875	17,282	14,081	810,571	660,250	603,912
By gender																		
Men	316,887	289,832	279,533	99,243	95,899	67,448	181,462	167,475	155,500	50,713	N/A	N/A	22,278	12,900	12,110	670,582	566,106	514,591
Women	45,469	39,872	44,883	28,237	18,760	14,431	32,981	31,130	28,036	26,705	N/A	N/A	6,597	4,382	1,971	139,988	94,144	89,321
By category																		
Managers	9,942	8,342	20,462	4,833	1,166	857	15,785	10,095	17,369	3,399	N/A	N/A	1,125	1,077	0	35,084	20,680	38,688
Advanced degree holders	69,851	72,052	50,796	53,056	4,287	3,656	54,166	39,999	31,943	11,056	N/A	N/A	14,098	7,893	0	202,227	124,230	86,395
Basic degree holders	77,728	79,648	55,215	11,907	22,987	18,349	86,196	74,654	58,935	13,701	N/A	N/A	430	0	0	189,962	177,289	132,499
Professionals	204,834	169,662	197,943	57,683	86,220	59,018	58,296	73,857	75,288	49,262	N/A	N/A	13,222	8,312	14,081	383,298	338,051	346,331
Average training hours																		
By gender	45.26	40.55	39.31	63.93	68.70	58.74	75.57	71.07	66.68	8.16	N/A	N/A	27.34	43.10	46.63	34.67	50.81	47.55
Men	45.96	41.16	38.96	68.35	78.22	66.00	81.53	76.37	71.40	8.16	N/A	N/A	28.24	39.69	46.76	38.15	52.49	48.40
Women	40.93	36.61	41.64	52.10	42.35	38.79	53.87	51.74	48.76	8.16	N/A	N/A	24.71	57.66	45.84	24.11	42.61	43.19
By category																		
Managers	28.90	23.97	55.15	56.20	17.15	17.85	63.33	40.92	68.81	8.15	N/A	N/A	8.15	26.93	0.00	28.43	29.43	55.47
Advanced degree holders	71.06	76.49	55.15	54.75	5.38	5.56	83.21	63.02	55.73	8.16	N/A	N/A	53.40	56.78	0.00	47.90	49.44	38.69
Basic degree holders	52.38	52.96	36.37	28.02	66.25	63.93	79.44	64.26	53.33	8.16	N/A	N/A	1.67	0.00	0.00	38.53	58.17	44.99
Professionals	39.43	31.80	36.37	112.22	188.66	146.81	68.38	98.29	91.58	8.16	N/A	N/A	33.31	44.45	88.56	29.50	50.22	50.74

TRAINING FOR THE IMPROVEMENT OF MANAGERIAL ABILITIES

No. of attendees

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Internal courses	0	0	0	0	0	0	1,452	1,285	702	N/D	N/A	N/A	194	17	6	1,646	1,302	721
Outside training	1,690	1,408	2,314	863	792	366	1,096	860	603	N/D	N/A	N/A	89	60	69	3,738	3,120	3,352
Sabbatical periods	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0

N/A: Not available

*In FY 2005 and 2006, "Renewable activities" included Iberdrola Renovables S.A.U. In FY 2007, Renovables S.A. is included, as well as information from PPM.

MAJOR HEALTH AND SAFETY INDICATORS

	IBERDROLA		
	2007	2006	2005
Accidents at work with lost time	61	87	88
Fatal accidents	0	2	0
Days lost due to accidents	4,670	6,536	4,728
Frequency rate	4.83	6.76	6.58
Incidence rate	0.76	1.09	1.05
Severity rate	0.37	0.50	0.35
Absenteeism rate	2.75	2.84	2.68

NUMBER OF PERFORMANCE EVALUATIONS

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
No. of employees	8,006	8,130	8,252	1,994	1,669	1,394	2,838	2,795	2,753	9,487	N/A	N/A	1,056	401	302	23,364	12,995	12,701
No. of employees receiving performance reviews	8,006	8,130	8,252	1,380	1,030	799	1,127	1,067	255	9,487	N/A	N/A	632	245	125	20,632	10,472	9,431
% of employees receiving performance reviews	100.00%	100.00%	100.00%	69.21%	61.71%	57.32%	39.73%	38.20%	9.28%	100.00%	N/A	N/A	59.85%	61.10%	41.39%	88.25%	80.59%	74.26%

COMPOSITION OF THE BOARD OF DIRECTORS

Corporate group

	2007	2006	2005
Governance bodies	15	15	19
By gender			
Men	14	14	19
Women	1	1	0
By age range (in years)			
Up to 30	0	0	0
Between 31 and 50	2	2	0
Over 50	13	13	19

PAY RATIO FOR MALE AND FEMALE EMPLOYEES

	IBERDROLA			Affiliates in Spain			Affiliates in Latin America			Activities in the United Kingdom			Renewable activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Managers	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Advanced degree holders	100%	100%	100%	81.02%	84.97%	83.86%	82.89%	82.83%	80.40%	88.03%	N/A	N/A	75.48%	100.00%	100.00%	81.59%	89.00%	88.77%
Basic degree holders	100%	100%	100%	89.70%	87.51%	93.25%	81.98%	84.91%	85.75%	96.47%	N/A	N/A	85.78%	100.00%	100.00%	116.37%	90.60%	89.98%
Professionals	100%	100%	100%	87.87%	87.15%	96.75%	96.85%	82.75%	98.00%	91.52%	N/A	N/A	127.70%	100.00%	100.00%	113.92%	96.87%	98.20%

*Ratio between basic wages female/male.

BASIC WAGES OVER THE LEGAL MINIMUM

	IBERDROLA			Affiliates in España			Affiliates in Latin America			Activities in the United Kingdom			Renewable Activities*			Corporate group		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
Total headcount	8,006	8,130	8,252	1,994	1,669	1,394	2,838	2,795	2,753	9,487	N/A	N/A	1,056	401	302	23,381	12,995	12,701
Minimum entry level wage % over the national minimum wage	188.18%	169.47%	178.69%	197.75%	238.66%	239.31%	210.70%	209.89%	232.32%	100.00%	N/A	N/A	136.41%	164.33%	154.81%	105.78%	181.80%	188.49%

*In FY 2005 and 2006, "Renewable activities" included Iberdrola Renovables S.A.U. In FY 2007, Renovables S.A. was included, as well as information from PPM.



By preparing this report in accordance with the AA1000 Standard, IBERDROLA has sought to ensure the quality and reliability of the information presented

THE SUSTAINABILITY REPORT ACCORDING TO THE AA1000 STANDARD AND THE GRI GUIDE

The primary reason for publishing IBERDROLA's 2007 Sustainability Report is to disclose to all of the Company's stakeholders the results for fiscal year 2007 in terms of the economic, environmental, and social aspects of the Group's activities. IBERDROLA based this report on a variety of recommendations, guidelines, and standards, in such a way that the final results reflect, to the extent possible, what various interested organizations expect from this type of information. The sources considered to be the most significant are the AA1000 Assurance Standard and the Reporting Framework Sustainability Reporting Guidelines published in the 2006 edition of the Global Reporting Initiative (GRI).

The 2007 Sustainability Report and the AA1000 Standard

By preparing this report in accordance with the principles of the AA1000 Standard, IBERDROLA has sought to ensure the quality and reliability of the information presented. The methods used by the Company to implement these principles are described in the chapter titled "Vision and values" in the section "IBERDROLA and stakeholders to which it is related".

Table of Contents According to the Global Reporting Initiative (GRI)

IBERDROLA's 2007 Sustainability Report was prepared with the application of the standards contained in the "2006 Reporting Framework Sustainability Reporting Guidelines, Version 3.0," contained in the Global Reporting Initiative (GRI).

Among the different levels defined by the GRI, IBERDROLA considers this report to have reached the "A+ application level", which corresponds to an expert organization whose report also includes independent external verification.

GRI APPLICATION LEVEL

	C	C+	B	B+	A	A+
Self declared						✓
Third-party checked						✓
GRI confirmed						



The above-mentioned GRI Guidelines recommend the inclusion of an index for quick determination of the status of the various GRI indicators in the documents making up the Report. The recommended table of contents appears on the following pages, with the GRI indicators listed by sections, along with the place where IBERDROLA reports on them. If in any case the information does not completely reflect what was required, this is not because of a lack of transparency on the Company's part, but rather because the information in question was not available when this report was prepared.

The information for fiscal year 2007 follows the models used by IBERDROLA in previous years, so as to offer full and accurate information about the economic, environmental and social aspects of the Company's activities.

For the economic and social performance indicators recommended by GRI that require the use of a calculation formula, the ones contained in the corresponding Technical Protocols were used. The energy indicators follow the GRI's Energy Protocol as a reference. The water indicators were prepared in accordance with an internal guide developed from the GRI's Water Protocol. And internal guidelines were established for the biodiversity indicators, based on the protected areas defined by the WCU.

The notes referred to in the Table of Contents are:

Nota (1)

(millions of euros)

	Net sales		Total cost	
	2007	2006	2007	2006
Spain	9,072	8,665	8,802	7,977
United Kingdom	4,880	0	1,297	0
Rest of Europe	67	48	-18	40
United States	576	0	275	4
Central America and South America	1,771	1,345	1,271	1,231
South America	1,101	960	745	740
TOTAL	17,467	11,018	12,372	9,992

CAPITAL SUBSIDIES

(millions of euros)

	2007	2006
TOTAL	337.3	130.9

Nota (2)

At the consolidated level, the subsidies received by the IBERDROLA Group are reflected in the following table:

These subsidies basically reflect the amounts received pursuant to agreements with the public authorities for electrification plans, improvements in the quality of service, and the financing of fixed assets, by both public authorities and third parties.

No separate information is available pursuant to the requirements of the EC4 indicator in the GRI Guidelines. Additional information is available in the document entitled "2006 Legal Information", in notes 4q and 20 regarding "Deferred income".

Nota (3)

The interest groups included are: human resources, shareholders and financial community, regulatory authorities, customers, suppliers, the media and society. Duly identified relevant information about each of these items is included in the social information chapter of this report.

Nota (4)

Aunque se dispone de información cuantitativa al respecto, procede de diversas fuentes y metodologías, por lo que no tiene coherencia suficiente para incluirla en el cuerpo del informe.

IBERDROLA offers full and accurate information about the economic, environmental and social aspects of the Company's activities in 2007

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Verification Report

(Free translation from the original in Spanish.
In case of discrepancy, the Spanish language version prevails.)

To the readers of this report

Introduction

We have been engaged by IBERDROLA to review the information included in its 2007 Sustainability Report (hereinafter the Report). Preparation of the Report, including identification of material issues, is the responsibility of IBERDROLA management.

Scope

The Report describes IBERDROLA's efforts and progress towards achieving more sustainable development. Our responsibility has been to review the Report, verify appropriate application of the AA1000 Assurance Standard (AA1000 AS) and the Global Reporting Initiative version 3 (GRI G3) Guidelines based on the Company's level of self-declaration and provide readers with limited assurance, as established by the ISAE (International Standard for Assurance Engagements other than Audits) 3000 standard, that:

- The Report contents and data have been obtained reliably.
- The information on these issues is adequately supported by internal or third party documents.
- AA1000 AS and GRI G3 Guideline criteria have been applied based on the company's self-declaration (A+ level of application).

Review criteria

Our work has been carried out in accordance with the ISAE 3000 standard: *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board (IAASB). The standard requires, inter-alia, that:

- The engagement team should possess specific knowledge, skills and professional competencies necessary to understand and review the information included in the Report, and its members meet the requirements established in the IFAC Code of Ethics for Professional Accountants to ensure their independence.
- The conclusion should reflect a different level of assurance when the information used has been partially verified and the level falls below what may be considered reasonable assurance.

The information verification criteria and principles of the AA1000 Assurance Standard (AA1000 AS) and Global Reporting Initiative G3 Guidelines have been used in our review, as it is these which IBERDROLA has applied in the preparation of its Report and whose understanding and application are described in the appendix "The Sustainability Report according to the AA1000 Standard and the GRI Guide".

Work carried out

a) Review of the quantitative and qualitative criteria contained in the report

We have reviewed the quantitative and qualitative information, including the responses given by IBERDROLA to the questions posed by the Committee of Independent Experts, in accordance with the scope described, basing our review on the following activities:

- Interviews with personnel responsible for supplying the information included in the Report.
- Review of the systems used to generate, aggregate and provide this information.
- Analysis of the suitability of the scope and presentation of the information provided.
- Review by sampling of the calculations carried out.
- Verification that the qualitative information is adequately supported by internal or third party documents.

b) Limited review of the alignment of criteria and principles for defining the contents of the Report and its scope based on the AA 1000 AS and the GRI G3 Guidelines

Documentation of the criteria and procedures used to define the contents of the Report has been reviewed.

The criteria for presentation of the aforementioned information in terms of scope, including possible scope limitations, significance and data integration and aggregation methods based on IBERDROLA's interests in the different Group companies are described in general in the Appendix "Key Features of the Sustainability Report" and specifically in the different sections on the presentation of social, environmental, innovation and quality-related information.

Conclusions

Based on the work described above, we have not observed that the information in the Report is not fairly stated or any other circumstances indicating that the data included has not been obtained by reliable means. We have also not identified any significant omissions or differences in the information reviewed.



Julián Martín Blasco

14 March 2008

Committee of independent experts

Report of conclusions

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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Transparency International Spain
and Professor at the Autonomous University of Madrid

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Fundación Economistas Sin Fronteras

Eva Ramos Pérez-Torreblanca

Fundación Ecología y Desarrollo

KPMG, as independent verifier, has requested us to prepare a conclusions report on the appropriateness of the information contained in IBERDROLA's sustainability report in connection with the matters which, in the opinion of the Committee members, constitute the main issues which this company should address in the public information it provides on its commitment to sustainable development and responsible performance.

For this purpose, we have prepared the following questions for Company management, in an independent manner and based on our judgment:

Questions posed by the Committee to IBERDROLA management

1. *Although renewable energy sources have less impact than conventional energy sources, they also affect the environment. What measures are IBERDROLA taking to minimize their impact, particularly with regard to installation of wind turbines? Were any complaints received in 2006 due to the environmental impacts of your wind farms? If so, where and why?*
2. *The sustainability report does not specify IBERDROLA's stance on carbon capture and storage. What is the company's opinion about carbon capture and storage? Are you thinking of opting for this technology in your coal-fuelled power plants?*
3. *Bearing in mind the company claims to back clean energy and has made it the centre piece of its public image, the report does not specify the company's plans for its most pollutant systems. What are IBERDROLA's plans for its coal-fuelled power plants in Spain and those it has in the United Kingdom as a result of its acquisition of Scottish Power? Is there any plan to reduce emissions of CO₂ and pollutant compound gases (SO₂, NO_x, particle matter, etc.)?*
4. *Why does it seem that IBERDROLA has not pushed the development of renewable energy in Mexico given its significant presence in the energy generation market in this country?*
5. *Why has the company presented an incomplete picture of the results of the valuation performed by socially responsible analysts and investors, not to mention the fact that it does not meet the criteria for inclusion in the FTSE4GOOD index because it generates nuclear energy?*
6. *Although IBERDROLA is present in the renewable energy sector worldwide, the sustainability report does not reflect the substantial implication that the transfer of this type of technology would have on developing countries. Does the company plan to make investments in this regard that are included in its Strategic Plan?*
7. *Page 97 of the sustainability report indicates IBERDROLA's adherence to the UN Global Compact in 2002. Several other pages of the aforementioned report (98, 100, 139, 140, 163, 164 y 165) make reference to this compact. However, exact information is missing in terms of how each of the 10 principles forming the Global Compact are complied with (or at least some of them). Could you provide specific and more precise information regarding the way IBERDROLA complies with these principles?*
8. *With regard the parameters offered by IBERDROLA to reflect on its contribution to the communities in which it operates, it mentions tax contribution but, as an indicator, only furnishes figure data for taxes in Spain. What is the figure and what are the trends for tax contribution and payment in each of the countries/regions in which IBERDROLA operates? How is this tax contribution disclosed, that is, by taxes by operating activity, tax withholdings, social security contributions, etc?*
9. *In the section impacts on local communities, reference is made to specific complaints made by an indigenous community affected by the construction of a power plant in Mexico. The section indicates that the complaints are channelled through the local or state authorities. However, no further information is provided regarding to*

- whom these complaints are channelled and their possible registration. Are these complaints channelled through senior corporate bodies? Who accepts maximum responsibility for them at corporate level? Are subsequent evaluations carried out on corrective or mitigating plans/measures concerning social objections?*
10. *In the 2006 sustainability report, IBERDROLA indicates that only 2/3 of the company's personnel are affected by the collective bargaining agreement. Is there any particular reason why one third is excluded from this agreement? Does the company have any plans or initiatives that confirm or correct that position or tendency?*
 11. *Given the importance of end-consumer services in the framework of IBERDROLA's operations, compliance with consumer protection legislation is particularly relevant. Page 158 of the company's report provides the total volume of fines resulting from non-compliance of legislation related to the supply and use of company products. However, further information (which this committee recommends) is lacking regarding the most common reasons and causes for these fines, which aims to determine the company's main customer-related risks. Could you provide this information?*
 12. *What number or proportion of indicators proposed by the GRI Guide to prepare sustainability reports does IBERDROLA develop and have information available for and what was the proportion finally published in this company's sustainability report?*
 13. *With regard to IBERDROLA's management of human rights, page 105 of the sustainability report provides details of certain cases showing the company's interaction with local and indigenous communities in terms of social impact. Is this an exhaustive summary of every impact of the company's areas/subsidiaries in Latin America or does it only deal with the most relevant cases? Are social complaints followed up in other countries in which the company operates, apart from Latin America and Spain?*
 14. *How much social information is prepared and published concerning employees that have worked for a significant part of 2007 in IBERDROLA facilities or offices despite not forming part of IBERDROLA's own workforce?*
 15. *What measures has IBERDROLA adopted to not only guarantee sufficient knowledge transfer and avoid loss of human capital, but to be able to mitigate as far as possible, the impact of the staff restructuring plan on the individuals affected?*

After having considered IBERDROLA's replies to our questions and having studied the content of the company's public information, below is our opinion on the manner in which the issues referred to above in the form of questions have been addressed. Under no circumstances does this opinion form part of the external verification process of the report carried out by the independent external verifier.

Conclusions

The purpose of this Committee is to evaluate the different social, ethical, environmental and labour aspects of this entity that are most relevant for its stakeholders and other social players, and their treatment in the sustainability report, in order to disclose both the positive aspects and the drawbacks, insufficiencies or matters susceptible to improvement with regard to this company's situation and activities within the aforementioned framework. On this basis, this Committee states as follows:

The replies and information contents analysed in connection with the fifteen questions raised by us and set forth above can be divided into two groups or levels of appropriate responsiveness to the questions posed by this Committee:

Firstly, twelve questions (nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12 and 14) were replied to in an appropriate and coherent manner, providing high quality responses with information related to the question and also supplementary information. Despite this level of quality and appropriateness of the response information to the questions, the Committee members consider that certain specific comments must be made in connection with three of them:

With respect to question no. 1, we recommend that for renewable energy, further information is provided on wind farms, referring to sites in which substantial changes have occurred due to the evidence presented. We also recommend that data is provided regarding the number of wind farm projects that have not been carried out due to the impact on the environment and landscape and that at least legislation applicable to wind farms in the areas Iberdrola operates is identified.

Regarding question no. 4, we recommend more detailed information is included in the sustainability report regarding Iberdrola's current situation and the related conditions and expectations of possible investment in renewable energy in Mexico.

With regard to question no. 6, in subsequent years, we recommend that the company includes the detailed and useful information it provided in the answer to this Committee on its plans to expand CDM projects in developing countries and the possible contribution of these plans in compliance with the Kyoto Protocol objectives.

There is a second group of questions (nos. 11, 13 and 15), which in our opinion, have not been adequately responded to or information provided is insufficient. We make certain recommendations in this connection.

With respect to question no. 11, given the importance placed on service quality and customer service by the consumer, we recommend further information is provided on these matters in markets other than the Spanish one, particularly in Latin America, offering an explanation of the service rendered and the performance outlook.

Regarding question no. 13, we recommend that IBERDROLA introduce specific analytical procedures to identify possible conflicts with local and indigenous communities, which can be implemented in all Group companies, not only the social aspect. This recommendation is particularly relevant as it is a sector of activity with a broad environmental impact (it must be taken into consideration that generation of emissions, direct and wide-scale use of natural resources, transport and energy supply, etc., are examples of environmental impacts with a social component as they directly affect local communities).

As for question no. 15, we recommend permanent monitoring of the plan's possible adverse impacts on staff restructuring and that potential additional measures are stated in detail in order to mitigate them. We also recommend that in subsequent years, IBERDROLA includes the detailed and useful information (or at least a substantial part of it) it provided regarding human capital trends and the aforementioned staff restructuring plan directly in the sustainability report.

Apart from the above-mentioned opinions, insufficiencies and recommendations, this Committee welcomes the fact that such a company has been willing to subject itself to a thorough and critical examination, with questions that were often demanding, by a Committee of independent experts such as this one, comprised of members of not-for-profit, academic or supranational entities, who represent to a certain extent civil society as a whole, which acts increasingly as an instrument that oversees and ensures corporate compliance with ethical, social and environmental standards. We also consider that this transparency displayed by certain companies may serve as an example for other companies, with a view to achieving the greatest social and economic transparency which a modern society such as ours demands.

Signed by the chairman on 17 March 2008



Jesús Lizcano Alvarez

IDENTIFICATION

IBERDROLA, S.A. was incorporated for an indefinite period of time via a public instrument executed on July 19, 1901 before the Bilbao Notary Public Mr. Isidro de Erquiaga y Barberías and registered in book 17 of the Companies Section, folio 114, sheet 901, entry no.1 in the Biscay Commercial Registry. The Company's Tax Identification Number is A-48010615.

The Company's By-Laws were adapted to the Consolidated Text of the Spanish Companies Law by virtue of the resolution adopted by the shareholders at the General Shareholders' Meeting held on June 16, 1990 and formalized in a public instrument executed on July 6, 1990 before the Bilbao Notary Public Mr. José María Arriola Arana under number 2080 of his notarial register and recorded with the Biscay Commercial Registry in volume 2110, folio 56, sheet BI-167-A, entry no. 700.

Its present name was adopted by the shareholders at the General Shareholders' Meeting held on November 1, 1992 and formalized in an instrument executed on December 12, 1992 before the Bilbao Notary Public Mr. José María Arriola Arana under number 4150 of his notarial register and recorded with the Biscay Commercial Registry in volume BI-223 of the General Companies Section, folio 156, sheet BI-167-A, entry no. 923.

By means of a resolution adopted by the shareholders at the General Shareholders' Meeting held on April 1, 2000, the Company's corporate purpose was adapted to meet the provisions of Spanish Electricity Industry Law 54/1997, of November 27, which provided for the separation of regulated and deregulated activities.

By means of a resolution adopted by the shareholders at the General Shareholders' Meeting held on April March 29, 2007, the current By-Laws have been adapted to Corporate Governance best practices, which resolution was converted into a public instrument on such date before the Bilbao Notary Public Mr. José Antonio Isusi Ezcurdia, recorded in his notarial register under number 1225, and recorded with the Biscay Commercial Registry in volume 4757, folio 11, page number BI-167-A, entry no. 1755.

The Company's registered offices are in Bilbao, at calle Cardenal Gardoqui, 8, where documentation relating to the information contained in this Annual Report, together with all other public information on the Company, is available to the shareholders.

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GIVE US YOUR OPINION

This 2007 Sustainability Report is available in electronic format on IBERDROLA's website at www.iberdrola.com

In order for us to know your opinion, you can send us your comments and suggestions through the above-mentioned website by clicking on the Contact Us section of the Home page and pressing the button titled "Your opinion matters".

Thank you. We very much value your opinion.



www.iberdrola.com



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RESERVATION OF RIGHTS

This document provides a general, but not exhaustive, view of the principal activities carried out by IBERDROLA during 2007 in three dimensions of sustainable development: economic, environmental, and social.

Given the geographic dispersion in which these activities take place and the diversity thereof, completely involuntary errors or omissions may have occurred in this Report, which will be rectified as soon as they become known. Any modifications to the text of this document will be included in the version hereof available in electronic format on the Internet at: www.iberdrola.com



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IBERDROLA