

SCOTTISH POWER PLC
Form 425
February 26, 2007
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Filed by: Iberdrola, S.A.

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and deemed filed pursuant to

Rule 14d-2 of the Securities

Exchange Act of 1934

Subject Company: Scottish Power plc

Exchange Act File Number: 001-14676

Date: February 26, 2007

PRESS Release

26 February 2007

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

PART 4 OF THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to the Financial Services and Markets Act 2000 or, if you are in a territory outside the United Kingdom, is an appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your ScottishPower Shares and/or ScottishPower ADSs, please send this document and the accompanying documents at once to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or transferred part of your holding of ScottishPower Shares and/or ScottishPower ADSs, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

An application will be made by Iberdrola for the New Iberdrola Shares to be admitted to trading on the Bolsas de Valores. It is expected that admission of the New Iberdrola Shares to trading on the Bolsas de Valores will become effective and that dealings for normal settlement will commence by the second Business Day following the Effective Date. Iberdrola does not intend to apply for a listing of the New Iberdrola Shares on the London Stock Exchange or the New York Stock Exchange, and Iberdrola does not intend to apply for a listing of the Iberdrola ADSs on any stock exchange.

Recommended offer by
IBERDROLA, S.A.
for
SCOTTISH POWER PLC

to be effected by means of a

scheme of arrangement

under section 425 of the Companies Act 1985

Your attention is drawn to the letter from the chairman of ScottishPower in Part 1 of this document, which contains the unanimous recommendation of the ScottishPower Directors that you vote in favour of the Scheme at the Court Meeting and at the ScottishPower EGM. A letter from Morgan Stanley & Co. Limited explaining the Scheme appears in Part 4 of this document.

Notices of the Court Meeting and the ScottishPower EGM, which will be held at the Crowne Plaza, Congress Road, Glasgow G3 8QT on 30 March 2007, are set out at the end of this document. The Court Meeting will start at 11.00 a.m. (London time) and the ScottishPower EGM at 11.10 a.m. (London time) (or as soon thereafter as the Court Meeting shall have concluded or been adjourned).

For details of the action to be taken by ScottishPower Shareholders and ScottishPower ADS Holders and instructions on completing the accompanying documents, please refer to page 3 and Parts 3, 12 and 13 of this document.

Any decision in relation to the Offer should be made only on the basis of the information contained in this document.

Each of Morgan Stanley & Co. Limited and Morgan Stanley & Co. International Limited, which are authorised and regulated in the United Kingdom by the Financial Services Authority, are acting exclusively for ScottishPower and no one else in connection with the Offer and will not be responsible to anyone other than ScottishPower for providing the protections afforded to their clients nor for providing advice in relation to the Offer or the Scheme.

JPMorgan Cazenove Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for ScottishPower and no one else in connection with the Offer and will not be responsible to anyone other than ScottishPower for providing the protections afforded to its clients nor for providing advice in relation to the Offer or the Scheme.

Each of ABN AMRO Corporate Finance Limited and Hoare Govett Limited, which are authorised and regulated in the United Kingdom by the Financial Services Authority, are acting exclusively for Iberdrola and no one else in connection with the Offer and will not be responsible to anyone other than Iberdrola for providing the protections afforded to the clients of ABN AMRO Corporate Finance Limited or Hoare Govett Limited nor for providing advice in relation to the Offer or the Scheme.

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This document has been prepared for the purposes of complying with English law, Scots law, the Listing Rules, the rules of the London Stock Exchange and the City Code and the information disclosed herein may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of any other jurisdiction.

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Any person who attempts to own or control ten per cent. or more of the share capital or voting rights of Iberdrola or any other percentage which confers a significant influence over Iberdrola is required to obtain prior clearance from the CNE under Spanish law and may be subject to additional restrictions or obligations (including disclosure of interests) established by Spanish securities and tender offer regulations. In addition, any person acquiring a shareholding interest greater than, generally, five per cent. or any multiple of five per cent. of the share capital of Iberdrola is subject to disclosure obligations, as more fully described in Part 8 of this document. If you believe these Spanish provisions may be applicable to you, you are recommended to seek your own personal financial advice immediately from your stockbroker, solicitor, accountant or independent financial adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to the Financial Services and Market Act 2000 or from an appropriately authorised independent financial adviser if you are taking advice in a territory outside the United Kingdom. Further information on clearances and disclosure of interests required is set out in Part 8 of this document. Failure to obtain clearance from the CNE will render the acquisition null and void.

This document, insofar as it constitutes a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000, is directed exclusively at persons falling within Article 43 of the Financial Services and Markets Act (Financial Promotion Order 2005) (the **Order**) or other persons to whom it may lawfully be communicated in accordance with the Order or any other person to whom it may otherwise lawfully be made.

Statements made or referred to in this document which refer to Iberdrola's reasons for the Offer, to information concerning the business of the Iberdrola Group and to the intentions and expectations regarding the Enlarged Iberdrola Group, reflect the views of the Iberdrola Board. Statements made or referred to in this document which refer to the background to the recommendation of the ScottishPower Board and to information concerning the business of the ScottishPower Group reflect the views of the ScottishPower Board.

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TO VOTE ON THE SCHEME

Detailed instructions on the ACTION TO BE TAKEN are set out on pages 17, 18, 19 and 20 of this document and are summarised below:

The Scheme will require approval at a meeting of the ScottishPower Shareholders and ScottishPower ADS Holders convened by order of the Court to be held at the Crowne Plaza, Congress Road, Glasgow G3 8QT at 11.00 a.m. (London time) on 30 March 2007. Implementation of the Scheme will also require approval of the ScottishPower Shareholders and ScottishPower ADS Holders at the ScottishPower EGM to be held at the same place at 11.10 a.m. (London time) on 30 March 2007 (or as soon thereafter as the Court Meeting is concluded or adjourned).

Whether or not you plan to attend the Meetings:

If you are a ScottishPower Shareholder, please:

1. Complete and return the green Form of Proxy in respect of the Court Meeting, to be received by no later than 11.00 a.m. (London time) on 28 March 2007; and
2. Complete and return the purple Form of Proxy in respect of the ScottishPower EGM, to be received by no later than 11.10 a.m. (London time) on 28 March 2007.

Alternatively, green Forms of Proxy may be handed to representatives of Lloyds TSB Registrars on behalf of the chairman of the Court Meeting at the Court Meeting before the taking of the poll and will still be valid. However, to be valid, purple Forms of Proxy MUST be received by the time indicated above.

If you require assistance as a ScottishPower Shareholder, please telephone:

Lloyds TSB Registrars

on Freefone 0800 023 2559 (from within the UK)

or +44 1903 276326 (from outside the UK)

If you are a registered ScottishPower ADS Holder, please:

Complete and sign the enclosed ADS Voting Instruction Card in accordance with the instructions printed thereon and return it to JPMorgan Chase Bank, N.A. as soon as possible and, in any event, so as to be received no later than 3.00 p.m. (New York time) on 26 March 2007.

If you hold your ScottishPower ADSs indirectly:

You must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs if you wish to vote on the Scheme. Alternatively, if you wish to vote on the Scheme and/or attend the Meetings, you may present your ScottishPower ADSs to the ScottishPower Depository for cancellation and receive (upon compliance with the terms of the ScottishPower Deposit Agreement, including payment of the ScottishPower Depository's fees and any applicable taxes and governmental charges) delivery of their ScottishPower Shares so as to become registered holders of ScottishPower Shares prior to the Voting Record Time.

If you require assistance as a ScottishPower ADS Holder on your ScottishPower ADSs, the ADS Voting Instruction Card or the ADS Letter of Transmittal and Election Form, please telephone:

Georgeson Shareholder Communications

on +1 212 440 9800 (if you hold ScottishPower ADSs in your capacity as a custodian or nominee) between 9.00 a.m. and 5.00 p.m. (New York time) Monday to Friday

on +1 800 657 4988 (for all other ScottishPower ADS Holders, including retail ScottishPower ADS Holders) between 9.00 a.m. and 11.00 p.m. (New York time) Monday to Friday (toll free, if telephoning in the United States)

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IT IS IMPORTANT THAT, FOR THE COURT MEETING IN PARTICULAR, AS MANY VOTES AS POSSIBLE ARE CAST SO THAT THE COURT MAY BE SATISFIED THAT THERE IS A FAIR AND REASONABLE REPRESENTATION OF SCOTTISHPOWER SHAREHOLDER AND SCOTTISHPOWER ADS HOLDER OPINION. YOU ARE THEREFORE STRONGLY URGED TO SIGN AND RETURN YOUR FORMS OF PROXY (IN THE CASE OF SCOTTISHPOWER SHAREHOLDERS) OR ADS VOTING INSTRUCTION CARD (IN THE CASE OF REGISTERED SCOTTISHPOWER ADS HOLDERS) OR TO TAKE ADVANTAGE OF THE VOTING PROCEDURES OF YOUR NOMINEE (IN THE CASE OF INDIRECT SCOTTISHPOWER ADS HOLDERS) AS SOON AS POSSIBLE.

If you are a ScottishPower Shareholder, the completion and return of Forms of Proxy will not prevent you from attending and voting at the Court Meeting or the ScottishPower EGM, or any adjournment thereof, in person should you wish to do so. If you are a registered ScottishPower ADS Holder, the completion and return of the ADS Voting Instruction Card will not prevent you from attending and voting at the Court Meeting or the ScottishPower EGM, or any adjournment thereof, in person unless you appoint a person other than the nominee of the ScottishPower Depository as your proxy, as explained in greater detail in Part 4 of this document.

For a summary of the action you should take, please refer to the Question and Answer booklet which accompanies this document and Part 3 of this document.

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IMPORTANT NOTICE

The release, publication or distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable restrictions.

Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, Iberdrola and ScottishPower disclaim any responsibility or liability for the violation of such restrictions by any person.

The statements contained herein are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set forth herein since such date. Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of ScottishPower or Iberdrola except where otherwise stated.

In the event of any ambiguity or conflict between this document and the Iberdrola Shareholder Circular in respect of the terms and conditions of the Offer, this document shall prevail.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This document contains statements about Iberdrola and ScottishPower that are or may be forward looking statements, including for the purposes of the US Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this document may be forward looking statements. Without limitation, any statements preceded or followed by or that include the words targets, plans, believes, expects, aims, intends, will, should, may, anticipates, estimates, synergies, cost savings, projects, strategy, substance or the negative thereof, are forward looking statements. Forward looking statements include statements relating to the following: (i) the expected timetable for completing this transaction, future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects of Iberdrola, ScottishPower or the Enlarged Iberdrola Group; (ii) business and management strategies and the expansion and growth of Iberdrola's, ScottishPower's or the Enlarged Iberdrola Group's operations and potential synergies resulting from the Offer; and (iii) the effects of government regulation on Iberdrola's, ScottishPower's or the Enlarged Iberdrola Group's business.

These forward looking statements are not guarantees of future performance. They have not been reviewed by the auditors of Iberdrola or ScottishPower. These forward looking statements involve known and unknown risks, uncertainties and other factors which may cause them to differ from the actual results, performance or achievements expressed or implied by such forward looking statements. These forward looking statements are based on numerous assumptions regarding the present and future business strategies of such persons and the environment in which each will operate in the future. Investors are cautioned not to place undue reliance on the forward looking statements, which speak only as of the date they were made. All subsequent oral or written forward looking statements attributable to Iberdrola or ScottishPower or the Enlarged Iberdrola Group or any of their respective members, directors, officers or employees or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above. All forward looking statements included in this document are based on information available to Iberdrola and ScottishPower on the date hereof. Persons receiving this Offer should not place undue reliance on such forward looking statements, and neither Iberdrola nor ScottishPower undertake any obligation to publicly update or revise any forward looking statements.

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INFORMATION FOR UNITED STATES SECURITY HOLDERS

The New Iberdrola Shares to be issued to ScottishPower Shareholders and the Iberdrola ADSs to be issued to ScottishPower ADS Holders under the terms of the Scheme have not been, and will not be, registered under the US Securities Act, or under the securities laws of any state, district or other jurisdiction of the United States, or of Canada, Australia or Japan and no regulatory clearances in respect of the New Iberdrola Shares or the Iberdrola ADSs have been, or will be applied for in any jurisdiction. The New Iberdrola Shares and the Iberdrola ADSs will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof based on Court approval of the Scheme. For the purpose of qualifying for this exemption from the registration requirements of the US Securities Act, ScottishPower will advise the Court that its sanctioning of the Scheme will be relied upon by ScottishPower and Iberdrola as an approval of the Scheme, following a hearing on its fairness to ScottishPower Shareholders, at which hearing all such shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such shareholders.

Shareholders who may be deemed to be affiliates of ScottishPower for the purposes of the US Securities Act before implementation of the Scheme or of Iberdrola before or after implementation of the Scheme will be subject to restrictions on the sale of New Iberdrola Shares and the Iberdrola ADSs received in connection with the Scheme under Rule 145(d) of the US Securities Act. ScottishPower Shareholders who are affiliates may, in addition to re-selling their New Iberdrola Shares or their Iberdrola ADSs in the manner permitted by Rule 145(d) under the US Securities Act, also sell their New Iberdrola Shares under any other available exemption under the US Securities Act, including Regulation S.

Shareholders who may be deemed to be affiliates of ScottishPower or Iberdrola include individuals who, or entities that, control directly or indirectly, or are controlled by or are under common control with, ScottishPower or Iberdrola and would include certain officers and directors of ScottishPower and Iberdrola and may include certain significant shareholders.

If Iberdrola determines to implement the Offer by way of a Takeover Offer rather than the Scheme, Iberdrola will, to the extent that the New Iberdrola Shares or the Iberdrola ADSs issued in connection with the Offer are required to be registered in the United States, file a registration statement on Form F-4, which will include a prospectus, with the SEC and ScottishPower will file a Solicitation/Recommendation Statement on Schedule 14D-9. Investors are strongly advised to read the documents that will be made available to them, including the registration statement, prospectus and Solicitation/Recommendation Statement on Schedule 14D-9, if and when available, and any other relevant documents made available to them and/or the SEC or other applicable regulatory authorities, as well as any amendments or supplements to those documents, because they will contain important information regarding Iberdrola, ScottishPower and the Offer. If and when filed, investors may obtain free copies of the registration statement, the prospectus as well as other relevant documents filed with the SEC, at the SEC's website at www.sec.gov and will receive information at an appropriate time on how to obtain these transaction-related documents for free from the parties involved or a duly appointed agent.

The Loan Notes to be issued pursuant to the Loan Note Alternative have not been, and will not be, listed on any stock exchange and have not been, and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States.

No US federal or state Securities Commission has approved, disapproved, endorsed or recommended the offer of the New Iberdrola Shares or the Iberdrola ADSs, nor has it expressed a view on the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

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ScottishPower and Iberdrola are companies registered in Scotland and Spain respectively. Directors and officers of ScottishPower and Iberdrola may be located outside of the United States and, as a result, it may not be possible for ScottishPower Shareholders to effect service of process within the United States upon ScottishPower, Iberdrola, or their respective directors and officers. All or a substantial portion of the assets of ScottishPower, Iberdrola, or their respective directors and officers may be located outside of the United States and, as a result, it may not be possible to satisfy a

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judgment against ScottishPower, Iberdrola, or their respective directors and officers in the United States or to enforce a judgment obtained by United States courts against ScottishPower, Iberdrola, or their respective directors and officers outside the United States.

Iberdrola's financial statements are prepared in accordance with IFRS. Iberdrola has not at this time prepared US GAAP financial statements or a reconciliation of the differences between IFRS and US GAAP as applied to Iberdrola's financial statements. Investors should not assume that the historical IFRS financial statements in Part 7 of this document reflect what Iberdrola's financial position and results of operations would be if Iberdrola's financial statements were prepared in accordance with US GAAP.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under N.H. Rev. stat. ann. Chapter 421-B with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under N.H. Rev. stat. ann. Chapter 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or transaction means that the Secretary of State of New Hampshire has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer, or client any representation inconsistent with the provisions of this paragraph.

DEALING DISCLOSURE REQUIREMENTS

Under the provisions of Rule 8.3 of the City Code, if any person is, or becomes, interested (directly or indirectly) in one per cent. or more of any class of relevant securities of Iberdrola or of ScottishPower, all dealings by that person in any relevant securities of that company (including by means of an option in respect of, or a derivative referenced to, any such relevant securities) must be publicly disclosed by no later than 3.30 p.m. (London time) on the Business Day following the date of the relevant transaction. This requirement will continue until the date on which the Offer becomes effective, lapses or is otherwise withdrawn or on which the offer period otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an interest in relevant securities of Iberdrola or ScottishPower, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the City Code, all dealings in relevant securities of Iberdrola or of ScottishPower by Iberdrola or ScottishPower, or by any of their respective associates, must be disclosed by no later than 12.00 noon (London time) on the Business Day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose relevant securities dealings should be disclosed, and the number of such securities in issue, can be found on the Panel's website at www.thetakeoverpanel.org.uk.

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Interests in securities arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an interest by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the City Code, which can also be found on the Panel's website. If you are in any doubt as to whether or not you are required to disclose a dealing under Rule 8, you should consult the Panel's website at www.thetakeoverpanel.org.uk or contact the Panel on telephone number +44 20 7382 9026; fax +44 20 7236 7005.

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PART 1

LETTER FROM THE CHAIRMAN OF SCOTTISHPOWER

Registered office:

1 Atlantic Quay

Robertson Street

Glasgow, G2 8SP

(Registered in Scotland, No. SC193794)

Directors:

Charles Miller Smith, Chairman

Philip Bowman, Chief Executive

Simon Lowth, Finance Director

Euan Baird, Non-Executive Director

Donald Brydon, Non-Executive Director

Peter Hickson, Non-Executive Director

Nick Rose, Non-Executive Director

Nancy Wilgenbusch, Non-Executive Director

26 February 2007

To ScottishPower Shareholders and ScottishPower ADS Holders and, for information only, to Convertible Bondholders, holders of ScottishPower B Shares and ScottishPower Deferred Shares, and participants in the ScottishPower Share Schemes

Dear Shareholder,

RECOMMENDED OFFER BY IBERDROLA, S.A. FOR SCOTTISH POWER PLC

1 Introduction

On 28 November 2006, the boards of ScottishPower and Iberdrola announced the terms of a recommended Offer to be made by Iberdrola for the acquisition of ScottishPower.

The purpose of this document is to make sure that you are fully informed about the Offer and the reasons why your Board has decided that it represents a fair and reasonable price for ScottishPower and is unanimously recommending it to you after very careful and detailed consideration.

I draw your attention to the accompanying Question and Answer booklet, the letter from Morgan Stanley & Co. Limited set out in Part 4 of this document, which gives details about the Offer, to the additional information set out in Part 10 of this document and to the other information set out in this document.

In order to approve the terms of the Offer, ScottishPower Shareholders and ScottishPower ADS Holders will need to vote in favour of the resolutions to be proposed at the Court Meeting and the ScottishPower EGM, to be held on 30 March 2007. Details of the actions you should take, and the recommendation of the ScottishPower Directors, are set out in Part 3 of this document and paragraph 7 of this letter, respectively.

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2 The Offer

It is proposed that the Offer will be implemented by way of a Scheme, details of which are set out in Parts 4 and 14 of this document. If the Scheme becomes effective, the economic effect will be that ScottishPower Shareholders and ScottishPower ADS Holders will receive, subject to elections made by other ScottishPower Shareholders and ScottishPower ADS Holders under the Mix and Match Facility and the Loan Note Alternative:

for each ScottishPower Share	400 pence in cash; and 0.1646 of a New Iberdrola Share
for each ScottishPower ADS	1,600 pence in cash; and 0.6584 of an Iberdrola ADS

Subject to the approval of ScottishPower Shareholders, Court Sanction and receipt of approvals from Regulatory Authorities, the Scheme is expected to become effective on 23 April 2007.

Prior to the Effective Date, ScottishPower will declare a Special Dividend of 12 pence for every ScottishPower Share (48 pence per ScottishPower ADS) payable to ScottishPower Shareholders on the Register of Members and ScottishPower ADS Holders on the register of ScottishPower ADS Holders maintained by the ScottishPower Depository at the Special Dividend Record Time.

ScottishPower Shareholders and ScottishPower ADS Holders (other than ScottishPower Shareholders and ScottishPower ADS Holders in certain overseas jurisdictions) are also being offered the opportunity, under the Mix and Match Facility, to elect to vary the proportions of cash and New Iberdrola Shares or Iberdrola ADSs, as applicable, they receive in consideration for their ScottishPower Shares or ScottishPower ADSs, as applicable, subject to equal and opposite elections being made by other ScottishPower Shareholders and ScottishPower ADS Holders. To the extent that elections for New Iberdrola Shares (including New Iberdrola Shares underlying Iberdrola ADSs) and/or cash consideration cannot be satisfied in full, they will be scaled down on a pro rata basis. Further information about the Mix and Match Facility is provided in paragraphs 2 and 4 of Part 4 of this document.

ScottishPower Shareholders (other than Excluded Overseas Persons and ScottishPower ADS Holders) may elect to receive Loan Notes in respect of all or part of the cash consideration to which they would otherwise be entitled under the Offer, including any additional cash consideration to which they become entitled as a result of an election under the Mix and Match Facility. Further details regarding the Loan Note Alternative are set out in paragraph 5 of Part 4 of this document.

Based on the Closing Price of an Iberdrola Share on 22 February 2007 (the last practicable date prior to the publication of this document) of £23.31 per Iberdrola Share (34.72, based on the exchange rate on 22 February 2007 of £0.67125: 1), the Offer values each ScottishPower Share (inclusive of the Special Dividend) at 795.6 pence.

The terms of the Offer represent a premium of approximately:

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2.0 per cent. to the Closing Price of 780 pence per ScottishPower Share on 22 February 2007 (the latest practicable date prior to the publication of this document);

6.7 per cent. to the Closing Price of 746 pence for each ScottishPower Share on 27 November 2006 (the last Business Day prior to the date of the Announcement);

18.5 per cent. to the Closing Price of 671.50 pence for each ScottishPower Share on 7 November 2006 (the last Business Day prior to the commencement of the Offer Period); and

24.4 per cent. to the average daily Closing Price of 639.65 pence per ScottishPower Share for the three months ended 7 November 2006 (the last Business Day prior to the commencement of the Offer Period).

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The holders of the ScottishPower B Shares and the ScottishPower Deferred Shares will not be able to participate in the Scheme and the rights attaching to the ScottishPower B Shares and the ScottishPower Deferred Shares will be unaffected by the Offer. Any dividend payable on the ScottishPower B Shares will continue to be payable annually in arrears on 28 May or such later date as the Directors of Iberdrola and/or ScottishPower may determine. The admission to listing on the Official List of the ScottishPower B Shares will be unaffected by the Offer and will continue after the Effective Date.

The Offer is subject to the Conditions set out in Part 5 of this document.

Iberdrola is offering a Dealing Facility to enable certain ScottishPower Shareholders who receive New Iberdrola Shares as a result of the Offer to sell their newly acquired shares. Further details regarding the Dealing Facility are set out in paragraph 23 of Part 4 of this document.

Options under the ScottishPower Share Option Schemes will become exercisable or will be exercised upon Court Sanction. Some options will be exercisable in full while others will only be exercisable on a pro-rated basis in accordance with the rules of the relevant schemes. Performance conditions, where applicable, will be treated as having been satisfied in full. Further information relating to the effect of the Scheme on participants in the ScottishPower Share Schemes is set out in paragraph 17 of Part 4 of this document.

The terms and conditions of the Convertible Bonds provide for enhanced Conversion Rights to be exercisable within the period of 60 days following the Effective Date or, if later, 60 days following the date on which notice of the Effective Date is given to Convertible Bondholders under the terms and conditions of the Convertible Bonds (the **Special Conversion Period**). Further details of the proposal and the effect of the Scheme on Convertible Bondholders are set out in paragraph 18 of Part 4 of this document.

3 Reasons for Recommendation of the Offer

Over the past 18 months, the newly restructured and refocused ScottishPower has demonstrated strong performance across all its businesses and has delivered significant improvements in profitability and cash flow. This has been achieved while continuing to invest heavily in the business. Over the same period, consolidation activity has resulted in significant changes in the European utilities landscape.

As a result, your Board believes that ScottishPower would benefit from widening its geographical presence, diversifying its operational risks, achieving greater economies of scale and developing the financial strength to invest in substantially larger infrastructure projects over the coming years. In the opinion of your Board, the Offer achieves these objectives and will enable ScottishPower to compete on a global scale in an increasingly competitive environment.

The Enlarged Iberdrola Group should be able to access significant economies of scale in commodity and capital goods procurement. It is also expected to benefit from broader complementary skills including power and gas distribution, coal-fired generation and nuclear technologies. Risk should be reduced by increased diversification in a number of areas, particularly business geography and regulation.

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The increased financial strength of the Enlarged Iberdrola Group will support the very significant levels of investment that are required in the large infrastructure projects that ScottishPower will have to undertake in the future. In addition, your Board believes that the Offer achieves the strategic objectives of both companies without the adverse social consequences for employees that could result in other merger situations.

The ScottishPower Board believes that the Offer represents an attractive blend of value for ScottishPower Shareholders and a clear future strategic rationale for the combined businesses which

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can be implemented with minimal regulatory risk. In the opinion of the ScottishPower Board, the Offer provides ScottishPower Shareholders with the ability to crystallise the value that has been achieved and the possibility of continuing to participate in the future success of the Enlarged Iberdrola Group.

4 Action to be Taken

Your attention is drawn to Part 3 of this document which details the actions required from ScottishPower Shareholders and ScottishPower ADS Holders. I also draw your attention to the Question and Answer Booklet which accompanies this document.

It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of the ScottishPower Shareholders and ScottishPower ADS Holders. You are therefore strongly urged to sign and return both your Forms of Proxy (in the case of ScottishPower Shareholders) or ADS Voting Instruction Card (in the case of registered ScottishPower ADS Holders) or to take advantage of the voting procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs (in the case of indirect ScottishPower ADS Holders) as soon as possible.

Whether or not you intend to attend the Court Meeting and/or the ScottishPower EGM, ScottishPower Shareholders are requested to complete and sign the enclosed Forms of Proxy in accordance with the instructions which accompany them and registered ScottishPower ADS Holders are requested to complete and sign the enclosed ADS Voting Instruction Card in accordance with the instructions printed thereon.

5 Further Information

If you are a ScottishPower Shareholder and you have questions relating to this document or the completion and return of the Forms of Proxy, Forms of Election or the Upfront Dealing Facility Instruction Form, please call Lloyds TSB Registrars on Freephone 0800 023 2559 (or, from outside the United Kingdom, +44 1903 276326) between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday.

If you are a ScottishPower ADS Holder and have questions relating to ScottishPower ADSs, or the ADS Voting Instruction Card or the ADS Letter of Transmittal and Election Form, please call Georgeson Shareholder Communications on +1 212 440 9800 (if you hold ScottishPower ADSs in your capacity as a custodian or nominee) between 9.00 a.m. and 5.00 p.m. (New York time) Monday to Friday or on +1 800 657 4988 (for all other ScottishPower ADS Holders, including retail ScottishPower ADS Holders) between 9.00 a.m. and 11.00 p.m. (New York time) Monday to Friday. The second number is toll free if called within the United States. Please note that calls to these numbers may be monitored and recorded, and no advice on the merits of the Scheme or the Offer nor any financial or tax advice can be given.

For further instructions on how to complete the Form of Election and the ADS Letter of Transmittal and Election Form, please see Parts 12 and 13 of this document.

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Your attention is drawn to the letter from Morgan Stanley & Co. Limited set out in Part 4 of this document (the explanatory statement pursuant to section 426 of the Companies Act), which gives further information on the Offer, the Scheme, ScottishPower, Iberdrola, the New Iberdrola Shares and the Iberdrola ADSs.

6 Undertakings to Vote in Favour of the Scheme

Iberdrola has received irrevocable undertakings to vote in favour of the Offer and the resolutions to be proposed at the Court Meeting and the ScottishPower EGM from the ScottishPower Directors in respect of their entire beneficial holdings of 142,196 ScottishPower Shares, representing approximately

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0.1 per cent. of the existing issued share capital of ScottishPower. These undertakings are in respect of the ScottishPower Directors' entire beneficial holdings of ScottishPower Shares. These undertakings will cease to have any effect if the Implementation Agreement is terminated in accordance with its terms. For further details of the Implementation Agreement, please see paragraph 10 of Part 10 of this document.

The ScottishPower Directors did not obtain any additional financial benefit for the purpose of securing their irrevocable undertakings.

7 Recommendation

The ScottishPower Board, which has been so advised by Morgan Stanley & Co. Limited, considers the terms of the Offer to be fair and reasonable. In providing advice to the ScottishPower Board, Morgan Stanley & Co. Limited has taken into account the commercial assessments of the ScottishPower Board.

Accordingly, the ScottishPower Board unanimously recommends that ScottishPower Shareholders and ScottishPower ADS Holders vote in favour of the Scheme at the Court Meeting and the ScottishPower EGM, as they have undertaken to do so in respect of their entire beneficial holdings of 142,196 ScottishPower Shares, representing approximately 0.1 per cent. of the existing ScottishPower Shares.

The ScottishPower Board unanimously recommends that all holders of Convertible Bonds exercise their Conversion Rights as soon as practicable after the Scheme becomes effective (but not before) in order to receive the Iberdrola Shares to which they are entitled on the Second Issue Date and in any event no later than before the end of the Special Conversion Period. The ScottishPower Board, which has been so advised by Morgan Stanley & Co. Limited, considers the proposals to Convertible Bondholders to be fair and reasonable.

Yours faithfully

Charles Miller Smith

Chairman

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ADS Record Time	4.00 p.m. (New York time) on 20 February 2007
Latest time for receipt by the ScottishPower Depository of ADS Voting Instruction Cards	3.00 p.m. (New York time) on 26 March 2007
Iberdrola Shareholders Meeting first call	11.00 a.m. (Madrid time) on 28 March 2007
Latest time for lodging green Forms of Proxy for use at the Court Meeting⁽²⁾	11.00 a.m. (London time) on 28 March 2007
Latest time for lodging purple Forms of Proxy for use at the ScottishPower EGM⁽²⁾	11.10 a.m. (London time) on 28 March 2007
Voting Record Time	6.00 p.m. (London time) on 28 March 2007
Iberdrola Shareholders Meeting second call	11.00 a.m. (Madrid time) on 29 March 2007
Court Meeting	11.00 a.m. (London time) on 30 March 2007
ScottishPower EGM	11.10 a.m. (London time) on 30 March 2007⁽³⁾

The following dates are subject to change:⁽⁵⁾

Latest time for receipt of ADS Letters of Transmittal and Election Form	3.00 p.m. (New York time) on 4 April 2007
Last day of dealings in, and for registration of transfers of, ScottishPower ADSs	4 April 2007 ⁽⁴⁾
Latest time for receipt of white Forms of Election and Electronic Elections to be settled	3.00 p.m. (London time) on 19 April 2007
Latest time for receipt of grey Upfront Dealing Facility Instruction Forms	3.00 p.m. (London time) on 19 April 2007
Sanction Court Hearing	19 April 2007
Last day for dealings in, and for registration of transfers of ScottishPower Shares	19 April 2007
Special Dividend Record Time	9.00 a.m. (London time) on 20 April 2007
Reorganisation Record Time	3.00 p.m. (London time) on 22 April 2007
Reduction Court Hearing	23 April 2007

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Effective Date of the Scheme

23 April 2007

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New Iberdrola Shares issued	23 April 2007
Cancellation of listing of ScottishPower Shares	24 April 2007
Admission to trading of the New Iberdrola Shares on the Bolsas de Valores expected to occur	effective 5.35 p.m. (Madrid time) on 24 April 2007
Commencement of dealings in New Iberdrola Shares on the Bolsas de Valores	25 April 2007
Settlement of New Iberdrola Shares to be issued through Iberclear (with settlement of New Iberdrola CDIs following shortly thereafter)	25 April 2007
Despatch of cheques in respect of cash consideration and settlement through CREST and statements of entitlements to New Iberdrola Shares	By 7 May 2007

Notes:

- (1) For the avoidance of doubt, unless otherwise stated, all references in this document to times are to London times.
- (2) A green Form of Proxy for the Court Meeting(s) not so lodged may be handed to representatives of Lloyds TSB Registrars on behalf of the chairman of the Court Meeting before the taking of the poll. However, the purple Form of Proxy for the ScottishPower EGM must be lodged before 11.10 a.m. (London time) on 28 March 2007 in order to be valid.
- (3) To commence at 11.10 a.m. (London time) or, if later, immediately after the conclusion or adjournment of the Court Meeting.
- (4) This date applies to ScottishPower ADS Holders who hold their ScottishPower ADSs through the Direct Registration System of DTC and make an election under the Mix and Match Facility. ScottishPower ADS Holders who do not hold their ScottishPower ADSs through the Direct Registration System of DTC but do make an election under the Mix and Match Facility will not be able to transfer their ScottishPower ADSs after they have returned their ADS Letters of Transmittal and Election Forms. ScottishPower ADS Holders who do not make an election under the Mix and Match Facility will be able to transfer their ScottishPower ADSs until the earlier of the date on which they return their ADS Letter of Transmittal and Election Form (or, if later, 4 April 2007 in the case of ScottishPower ADS Holders who hold their ScottishPower ADSs through the Direct Registration System of DTC) and 30 days after the termination of the ScottishPower Deposit Agreement.
- (5) These times and dates are indicative only and will depend, among other things, on the date on which the Conditions are either satisfied or waived; in particular, the timing of receipt of the approvals from the Regulatory Authorities is uncertain and outside the control of ScottishPower and Iberdrola. Furthermore, these times and dates may change depending on the dates on which the Court sanctions the Scheme and confirms the Capital Reduction associated with the Scheme and on which certified copies of the Court Orders and, in relation to the Reduction Order, a certified copy of the minute of such Capital Reduction attached thereto are delivered for registration to the Registrar of Companies and, in relation to the Capital Reduction, are so registered.

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PART 3

ACTION TO BE TAKEN

Voting at the Court Meeting and the ScottishPower EGM

The Scheme will require approval of ScottishPower Shareholders and ScottishPower ADS Holders at the Court Meeting to be held at the Crowne Plaza, Congress Road, Glasgow G3 8QT. The Court Meeting is to be held at 11.00 a.m. (London time) on 30 March 2007. Implementation of the Scheme will also require passing of a special resolution by ScottishPower Shareholders and ScottishPower ADS Holders at the ScottishPower EGM to be held at 11.10 a.m. (London time) on 30 March 2007 (or as soon thereafter as the Court Meeting has concluded or been adjourned).

It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of ScottishPower Shareholder and ScottishPower ADS Holder opinion.

ScottishPower Shareholders

ScottishPower Shareholders will find enclosed a green Form of Proxy for the Court Meeting and a purple Form of Proxy for the ScottishPower EGM.

You are strongly urged to sign and return your Forms of Proxy as soon as possible and in any event so as to be received by Lloyds TSB Registrars no later than:

11.00 a.m. (London time) on 28 March 2007 in respect of the green Forms of Proxy for the Court Meeting; and

11.10 a.m. (London time) on 28 March 2007 in respect of the purple Forms of Proxy for the ScottishPower EGM.

If the green Form of Proxy for use at the Court Meeting is not lodged by 11.00 a.m. (London time) on 28 March 2007, it may be handed to representatives of Lloyds TSB Registrars on behalf of the chairman at the Court Meeting (or, if the Court Meeting is adjourned, at the adjourned Court Meeting) before the taking of the poll. This is not the case, however, for the purple Form of Proxy for use at the ScottishPower EGM. In the case of the ScottishPower EGM, unless the purple Form of Proxy is returned by 11.10 a.m. (London time) on 28 March 2007, it will be invalid. The completion and return of a Form of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the ScottishPower EGM, or any adjournment thereof, if you are so entitled.

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CREST members who wish to appoint a proxy or proxies through the CREST Electronic Proxy Appointment Service may do so for the Meetings and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

ScottishPower Shareholders who hold their ScottishPower Shares in certificated or uncertificated form may also register proxy appointments and instructions electronically by logging on to the website of Lloyds TSB Registrars, www.sharevote.co.uk, where details of the procedure are set out, provided that they do so before 11.00 a.m. on 28 March 2007 or, if the Court Meeting is adjourned, 48 hours before the time set for the adjourned Court Meeting.

ScottishPower ADS Holders

If you are a registered ScottishPower ADS Holder, please complete and sign the enclosed ADS Voting Instruction Card in accordance with the instructions thereon and return it in the white postage-paid business reply envelope provided (for use in the US only) as soon as possible, but in any event so as to be received by JPMorgan Chase Bank, N.A., no later than 3.00 p.m. (New York time) on 26 March 2007. You may indicate on the ADS Voting Instruction Card whether you wish to attend and vote at the

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Meetings yourself or whether you wish to appoint the nominee of the ScottishPower Depository or another person as your proxy. If you wish to attend and vote at the Meetings yourself, you are requested to indicate this on the ADS Voting Instruction Card (you will be required to present a valid passport or other government-issued photo identification in order to be admitted to the Meetings). If you appoint the nominee of the ScottishPower Depository as your proxy, the nominee will vote in accordance with your instructions. If you appoint a person other than the nominee of the ScottishPower Depository, you should instruct your proxy how you wish your ScottishPower ADSs to be voted.

In lieu of completing and returning the ADS Voting Instruction Card, you may cast your vote by telephone, by calling +1-866-540-5760, or electronically by logging on to www.proxyvoting.com/spi, where details of the procedure to be followed are set out. Please refer to the ADS Voting Instruction Card for further information.

If you hold your ScottishPower ADSs indirectly, you must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs if you wish to vote on the Scheme. Indirect ScottishPower ADS Holders who wish to attend and vote at the Meetings may alternatively present their ScottishPower ADSs to the ScottishPower Depository for cancellation and receive (upon compliance with the terms of the ScottishPower Deposit Agreement, including payment of the ScottishPower Depository's fees and any applicable taxes and governmental charges) delivery of their ScottishPower Shares so as to become registered holders of ScottishPower Shares prior to the Voting Record Time.

Elections

Form of Election for ScottishPower Shareholders

ScottishPower Shareholders who hold their ScottishPower Shares in certificated form will find a white Form of Election enclosed with this document, which relates to the Mix and Match Facility and the Loan Note Alternative. There is an explanation of the Form of Election, the procedure to make an election under the Mix and Match Facility and the procedure to make an election under the Loan Note Alternative in Part 12 of this document.

Your completed Form of Election should be signed, witnessed and returned in accordance with the instructions printed thereon, by post or by hand (during normal business hours) to Lloyds TSB Registrars at 3rd Floor, Princess House, 1 Suffolk Lane, London EC4R 0AX as soon as possible, but in any event so as to be received by no later than 3.00 p.m. (London time) on 19 April 2007 or such later time (if any) until which the right to make the relevant election may be extended. A reply-paid envelope, for use in the UK only, is enclosed for your convenience.

If you hold your ScottishPower Shares in uncertificated form (i.e. in CREST), to make an election under the Mix and Match Facility and/or the Loan Note Alternative, you should comply with the procedure for election set out in Part 12 of this document and ensure that an Electronic Election is made which settles no later than 3.00 p.m. (London time) on 19 April 2007 or such later time (if any) that the right to make the relevant election may be extended.

ScottishPower Shareholders who do not wish to make an election for the Mix and Match Facility or the Loan Note Alternative are not required to return the white Form of Election or to make an Electronic Election.

Dealing Facility

ScottishPower Shareholders will also find enclosed with this document a Dealing Facility Documentation Pack and a grey Upfront Dealing Facility Instruction Form, relating to election for the Dealing Facility. There is an explanation of the Upfront Dealing Facility Instruction Form and the procedure to make an election for the Dealing Facility in the Dealing Facility Documentation Pack.

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Your completed Upfront Dealing Facility Instruction Form should be signed and returned in accordance with the instructions thereon, by post or by hand (during normal business hours) to Lloyds TSB Registrars at 3rd Floor, Princess House, 1 Suffolk Lane, London EC4R 0AX, so as to be received by 3.00 p.m. (London time) 19 April 2007 or such later time (if any) to which the right to make the relevant election may be extended. A reply-paid envelope, for use in the UK only, is enclosed for your convenience.

SCOTTISHPOWER SHAREHOLDERS WHO HOLD THEIR SCOTTISHPOWER SHARES IN UNCERTIFICATED FORM (BUT WHO ARE OTHERWISE ELIGIBLE TO MAKE USE OF THE DEALING FACILITY) AND WHO WISH TO MAKE USE OF THE DEALING FACILITY (WHETHER IMMEDIATELY AFTER THE EFFECTIVE DATE OR AT SUCH OTHER DATE AS PERMITTED BY THE TERMS OF THE DEALING FACILITY) MUST CONVERT, AT THEIR OWN COST, THEIR HOLDINGS OF SCOTTISHPOWER SHARES INTO CERTIFICATED FORM PRIOR TO THE EFFECTIVE DATE IN ORDER TO PARTICIPATE IN THE DEALING FACILITY.

ScottishPower Shareholders who do not wish to participate in the Dealing Facility are not required to return the Upfront Dealing Facility Instruction Form.

If you wish to participate in the Dealing Facility after the Effective Date, you must complete an Ongoing Dealing Facility Instruction Form, which will be sent to you after the Effective Date with your Statement of Ownership.

ADS Letter of Transmittal and Election Form for ScottishPower ADS Holders

Registered ScottishPower ADS Holders will find an ADS Letter of Transmittal and Election Form enclosed with this document. All registered ScottishPower ADS Holders must complete and return the ADS Letter of Transmittal and Election Form, along with any ScottishPower ADSs they hold in certificated form, in the brown non-postage-paid envelope provided in order to receive any consideration for their ScottishPower ADSs. Notes on completing and returning the ADS Letter of Transmittal and Election Form are set out in Part 13 of this document. Completed ADS Letters of Transmittal and Election Forms, along with any ScottishPower ADSs held in certificated form, should be returned by post (properly insured) or by hand (during normal business hours) to JPMorgan Chase Bank, N.A., at the address set forth on the ADS Letter of Transmittal and Election Form.

If you wish to instruct the ScottishPower Depository to make an election in respect of your holding of ScottishPower ADSs for the Mix and Match Facility, you must complete and return the ADS Letter of Transmittal and Election Form (including Box C thereof), along with any ScottishPower ADSs you hold in certificated form, as soon as possible and in any event so as to be received not later than 3.00 p.m. (New York time) on 4 April 2007.

If you hold your ScottishPower ADSs indirectly, you must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs in order to receive any consideration for your ScottishPower ADSs or to make an election under the Mix and Match Facility.

Helplines

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If you are a ScottishPower Shareholder and have any questions relating to this document or the completion and return of the Forms of Proxy, the Form of Election or the Dealing Facility Instruction Forms, please call Lloyds TSB Registrars on Freefone 0800 023 2559 (or, from outside the United Kingdom, +44 1903 276326) between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday.

If you are a ScottishPower ADS Holder and have questions relating to ScottishPower ADSs, the ADS Voting Instruction Card or the ADS Letter of Transmittal and Election Form, please call Georgeson Shareholder Communications on +1 212 440 9800 (if you hold ScottishPower ADSs in

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your capacity as a custodian or nominee) between 9.00 a.m. and 5.00 p.m. (New York time) Monday to Friday or on +1 800 657 4988 (for all other ScottishPower ADS Holders, including retail ScottishPower ADS Holders) between 9.00 a.m. and 11.00 p.m. (New York time) Monday to Friday. The second number is toll free if called within the United States.

These helplines cannot provide advice on the merits of the Scheme or the Offer or give any financial or tax advice.

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PART 4

EXPLANATORY STATEMENT

(in compliance with section 426 of the Companies Act 1985)

Morgan Stanley & Co. Limited

25 Cabot Square

Canary Wharf

London E14 4QA

26 February 2007

To ScottishPower Shareholders and ScottishPower ADS Holders and, for information only, to Convertible Bondholders, holders of ScottishPower B Shares and ScottishPower Deferred Shares, and participants in the ScottishPower Share Schemes

Dear Sir or Madam,

RECOMMENDED OFFER BY IBERDROLA, S.A. FOR SCOTTISH POWER PLC

1 Introduction

On 28 November 2006, the Boards of ScottishPower and Iberdrola announced that they had reached agreement on the terms of a recommended offer by Iberdrola to acquire the entire issued and to be issued ordinary share capital of ScottishPower. The Offer is to be effected by means of a scheme of arrangement under section 425 of the Act, which requires the approval of ScottishPower Shareholders and the sanction of the Court.

Your attention is drawn to the letter from the chairman of ScottishPower, Charles Miller Smith, set out in Part 1 of this document, which forms part of this Explanatory Statement. That letter contains, among other things, information on the background to and reasons for the unanimous recommendation by the ScottishPower Directors to ScottishPower Shareholders and ScottishPower ADS Holders to vote in favour of the resolutions to approve and implement the Scheme to be proposed at the Court Meeting and the ScottishPower EGM.

The ScottishPower Board has been advised by Morgan Stanley & Co. Limited in connection with the Offer. Morgan Stanley & Co. Limited has been authorised by the ScottishPower Board to write to you to explain the terms of the Offer and the Scheme and to provide you with other relevant information.

The terms of the Scheme are set out in full in Part 14 of this document. Your attention is also drawn to the additional information set out in Part 10 of this document and the other information set out in this document.

2 Summary of the Offer

In accordance with the terms of the Scheme, the economic effect of the Offer will be that, subject to the elections made under the Mix and Match Facility and the Loan Note Alternative (which are described in paragraphs 4 and 5 respectively of this Part 4), ScottishPower Shareholders on the Register of Members and ScottishPower ADS Holders on the register of ScottishPower ADS Holders maintained by the ScottishPower Depository at the Reorganisation Record Time will receive:

for each ScottishPower Share	400 pence in cash; and 0.1646 of a New Iberdrola Share
for each ScottishPower ADS	1,600 pence in cash; and 0.6584 of an Iberdrola ADS

Registered in England and Wales, No. 2164628

Registered office: 25 Cabot Square, Canary Wharf, London E14 4QA

Authorised and Regulated by the Financial Services Authority.

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Prior to the Effective Date, ScottishPower will declare a Special Dividend of 12 pence for every ScottishPower Share (48 pence per ScottishPower ADS) payable to ScottishPower Shareholders on the Register of Members and ScottishPower ADS Holders on the register of ScottishPower ADS Holders maintained by the ScottishPower Depository at the Special Dividend Record Time.

The Offer values each ScottishPower Share at 795.6 pence and the entire issued ordinary share capital of ScottishPower at approximately £11.85 billion (inclusive of the Special Dividend) based on the Closing Price of an Iberdrola Share on 22 February 2007 (the last practicable date prior to the publication of this document) of £23.31 per Iberdrola Share (34.72, based on the exchange rate on 22 February 2007 of £0.67125: 1).

Under the Offer, 52.3 per cent. of the ScottishPower Shares (including ScottishPower Shares underlying ScottishPower ADSs) will be acquired by Iberdrola in consideration for cash (and/or Loan Notes). The remaining ScottishPower Shares will be acquired in consideration for New Iberdrola Shares (or, in the case of ScottishPower Shares underlying ScottishPower ADSs, for Iberdrola ADSs).

The consideration payable by Iberdrola represents a premium of approximately:

2.0 per cent. to the Closing Price of 780 pence per ScottishPower Share on 22 February 2007 (the last practicable date prior to the publication of this document);

6.7 per cent. to the Closing Price of 746 pence for each ScottishPower Share on 27 November 2006 (the last Business Day prior to the date of Announcement);

18.5 per cent. to the Closing Price of 671.50 pence for each ScottishPower Share on 7 November 2006 (the last Business Day prior to the commencement of the Offer Period); and

24.4 per cent. to the average daily Closing Price of 639.65 pence per ScottishPower Share for the three months ended 7 November 2006 (the last Business Day prior to the commencement of the Offer Period).

The Offer is subject to the Conditions set out in Part 5 of this document.

The holders of ScottishPower B Shares and the ScottishPower Deferred Shares will not be able to participate in the Scheme and the rights attaching to the ScottishPower B Shares and the ScottishPower Deferred Shares will be unaffected by the Offer. Any dividend payable on the ScottishPower B Shares will continue to be payable annually in arrears on 28 May or such later date as the Directors of Iberdrola and/or ScottishPower may determine. The admission to listing on the Official List of the ScottishPower B Shares will be unaffected by the Offer and will continue after the Effective Date.

The economic effect of the Offer for each ScottishPower ADS (which represents four ScottishPower Shares) will be as if each ScottishPower ADS Holder receives 1,600 pence and 0.6584 of an Iberdrola ADS. Each Iberdrola ADS will represent one New Iberdrola Share. The ScottishPower Depository will convert at the then prevailing exchange rate the cash consideration into US Dollars in accordance with the ScottishPower Deposit Agreement and distribute the cash proceeds to registered ScottishPower ADS Holders, together with any Iberdrola ADSs to which they become entitled, upon surrender of their ScottishPower ADSs. ScottishPower ADS Holders who hold their ScottishPower ADSs indirectly must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which they

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hold their ScottishPower ADSs in order to receive the consideration for their ScottishPower ADSs.

Iberdrola will establish the Iberdrola ADR Facility in connection with the acquisition of ScottishPower upon the Scheme becoming effective. Iberdrola currently intends to maintain the Iberdrola ADR Facility on an ongoing basis.

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Since the Iberdrola ADSs will not be listed or traded on any exchange in the United States, the Iberdrola ADSs will only be eligible for trading over-the-counter. ScottishPower ADS Holders are therefore cautioned that the Iberdrola ADSs may be illiquid. The lack of an active and liquid trading market in the Iberdrola ADSs could therefore make it more difficult to trade such Iberdrola ADSs. In the event that Iberdrola terminates the Iberdrola ADR Facility, former holders of Iberdrola ADSs who receive New Iberdrola Shares following such termination may face administrative burdens and costs in holding New Iberdrola Shares directly. As a result of the decision not to list the New Iberdrola Shares on the New York Stock Exchange or any other US exchange, US resident holders of New Iberdrola Shares, including New Iberdrola Shares received as a result of any termination of the Iberdrola ADR Facility, may be required to sell such underlying shares on the Bolsas de Valores, which could be more time consuming and costly for such holders than settling trades in Iberdrola ADSs.

ScottishPower Shareholders (other than ScottishPower Shareholders in certain overseas jurisdictions) are being offered the opportunity, under the Mix and Match Facility, to elect to vary the proportions in which they receive cash consideration and New Iberdrola Shares in respect of their holdings of ScottishPower Shares. ScottishPower ADS Holders (other than ScottishPower ADS Holders in certain overseas jurisdictions) are also being offered the opportunity, under the Mix and Match Facility, to elect to vary the proportions in which they receive cash consideration and Iberdrola ADSs in respect of their ScottishPower ADSs. Satisfaction of such elections will be subject to elections made by other ScottishPower Shareholders and other ScottishPower ADS Holders. To the extent that elections for cash and/or New Iberdrola Shares, including New Iberdrola Shares underlying Iberdrola ADSs, cannot be satisfied in full, they will be scaled down on a pro rata basis. Further information about the Mix and Match Facility is provided in paragraph 4 below.

A Loan Note Alternative is also being offered to ScottishPower Shareholders (other than Excluded Overseas Persons and ScottishPower ADS Holders) who may elect to receive Loan Notes instead of all or part of the cash consideration to which they would otherwise be entitled under the Offer, including any additional cash consideration to which they become entitled under the Mix and Match Facility. Further information about the Loan Note Alternative is provided in paragraph 5 below. The attention of ScottishPower Shareholders resident in, or who are citizens of, jurisdictions outside the United Kingdom is drawn to paragraph 27 below.

Iberdrola is offering a Dealing Facility to enable certain ScottishPower Shareholders who receive New Iberdrola Shares as a result of the Offer to sell their newly acquired shares.

For the six-month period from the Effective Date, Iberdrola is offering certain qualifying ScottishPower Shareholders use of the Ongoing Dealing Facility for free, without incurring any charges (including any dealing charges, settlement charges or foreign exchange commission). Further details are set out in paragraph 23 of this Part 4.

SCOTTISHPOWER SHAREHOLDERS WHO HOLD THEIR SCOTTISHPOWER SHARES IN UNCERTIFICATED FORM (BUT WHO ARE OTHERWISE ELIGIBLE TO MAKE USE OF THE DEALING FACILITY) AND WHO WISH TO MAKE USE OF THE DEALING FACILITY (WHETHER IMMEDIATELY AFTER THE EFFECTIVE DATE OR AT SUCH OTHER DATE AS PERMITTED BY THE TERMS OF THE DEALING FACILITY) MUST CONVERT, AT THEIR OWN COST, THEIR HOLDINGS OF SCOTTISHPOWER SHARES INTO CERTIFICATED FORM PRIOR TO THE EFFECTIVE DATE IN ORDER TO PARTICIPATE IN THE DEALING FACILITY.

ScottishPower ADS Holders will not be entitled to participate in the Dealing Facility with respect to the Iberdrola ADSs received in exchange for their ScottishPower ADSs.

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Eligible Holders wishing to make use of the Dealing Facility should note that Iberdrola anticipates announcing its 2007 first quarter results in the last week of April 2007, after the expected Effective Date of 23 April 2007.

Further details regarding the Dealing Facility can be found in paragraph 23 below.

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Fractions of New Iberdrola Shares will not be allotted, but will be aggregated and sold in the market after the Effective Date and the net proceeds of such sale will be paid in cash to the ScottishPower Shareholders entitled thereto in accordance with their fractional entitlements. No assurance can be given as to the price that will be received for such New Iberdrola Shares sold as described in this paragraph.

Fractions of Iberdrola ADSs will not be allotted, but will be aggregated and sold in the market after the Effective Date. The net proceeds of such sale shall be converted, if necessary, into US Dollars by the ScottishPower Depository and made available to ScottishPower ADS Holders entitled thereto in accordance with their fractional entitlements. No assurance can be given as to the price that will be received for such Iberdrola ADSs sold as described in this paragraph.

The New Iberdrola Shares will be issued credited as fully paid and free from all liens, charges, encumbrances, and, subject to the Iberdrola By-laws, rights of pre-emption and any other third party rights of any nature whatsoever (save that under the CREST Deed Poll, CREST has certain rights of sale and deduction for expenses and liabilities it may incur in relation to acting as depository in relation to the Iberdrola CDIs) and will rank *pari passu* in all respects with the existing Iberdrola Shares, including the right to receive all dividends, distributions and other entitlements declared, made or paid by Iberdrola on Iberdrola Shares after the Effective Date. Further details of the rights attaching to the New Iberdrola Shares are set out in Part 8 of this document. Immediately following completion of the Offer, but before any dealings take place under the Dealing Facility, former ScottishPower Shareholders and ScottishPower ADS Holders are expected to own approximately 21 per cent. of the issued share capital of Iberdrola.

An application will be made by Iberdrola for the New Iberdrola Shares to be admitted to trading on the Bolsas de Valores. It is expected that admission of the New Iberdrola Shares to trading on the Bolsas de Valores will become effective and that dealings for normal settlement will commence by the second Business Day following the Effective Date. Further details regarding the issue of the New Iberdrola Shares are set out in paragraph 20 below.

3 Financial Effects of the Offer

The following table sets out, for illustrative purposes only, and on the bases and assumptions set out in the notes below, the financial effects on the capital value and income for a holder of 100 ScottishPower Shares assuming the Scheme becomes effective. It compares the value of the number of New Iberdrola Shares and the amount of cash consideration to be issued or paid (respectively) under the Scheme in respect of 100 ScottishPower Shares with the value of 100 ScottishPower Shares on 7 November 2006 (the last Business Day prior to the commencement of the Offer Period). It assumes no election is made under the Mix and Match Facility or Loan Note Alternative and no use is made of the Dealing Facility. In assessing the financial effects of the Offer, no account has been taken of any potential liability to taxation of a ScottishPower Shareholder.

(a) Capital Value

	Note	Pounds
Value of 16 New Iberdrola Shares	(1)	372.89
Cash consideration (plus the Special Dividend and fractional entitlements)		422.72
Total value of consideration in respect of 100 ScottishPower Shares		795.61
Less: market value of 100 ScottishPower Shares on 7 November 2006	(2)	671.50
Increase in capital value		124.11
Percentage increase in capital value		18.48%

Table of Contents**(b) Income**

	Note	For the period of last 12 months dividend cycle (Pence)
Dividend income from 16 New Iberdrola Shares	(3)	886.56
Income from cash consideration (plus the Special Dividend and fractional entitlements)	(4)	2,181.24
Total income in respect of consideration for 100 ScottishPower Shares		3,067.80
Dividend income from 100 ScottishPower Shares	(5)	2,735.00
Increase in income		332.80
Percentage increase in income		12.17%

Notes:

- (1) Based on the value of an Iberdrola Share of 34.72 on 22 February 2007, being the last practicable date prior to publication of this document, and an exchange rate of £0.67125: 1.
- (2) Based on the Closing Price of £6.72 per ScottishPower Share on 7 November 2006, being the last Business Day before the commencement of the Offer Period.
- (3) The dividend income from one New Iberdrola Share is based on the aggregate dividends of 55.41 pence (0.8094) (net) per Iberdrola Share, being the total of the 30.57 pence (0.4404) (net) final dividend for the year ended 31 December 2005 and the 24.84 pence (0.3690) (net) interim dividend for the six months ended 30 June 2006, excluding any associated tax credit in respect of the final dividend and interim dividend at exchange rates of £0.6942: 1 and £0.6731: 1 respectively, the prevailing exchange rates at the dividend payment dates of 3 July 2006 and 2 January 2007 respectively.
- (4) The income from the cash consideration has been calculated on the assumption that the cash component (plus the Special Dividend and fractional entitlements) is reinvested for the period of 12 months to yield approximately 5.16 per cent. per annum, being the yield shown by the FTSE Actuaries Government Securities of up to five-year maturities, as published in the *Financial Times* on 22 February 2007 (the last practicable date before the publication of this document).
- (5) The dividend income from one ScottishPower Share is based on aggregate dividends of 27.35 pence (net) per ScottishPower Share, being the total of the 6.55 pence (net dividend for the third quarter of the financial year ending 31 March 2006 and adjusted for the 0.7937:1 share consolidation which took place on 15 May 2006) and the 9.40 pence (net interim dividend for the fourth quarter of the financial year ending 31 March 2006 and the 11.40 pence (net interim dividend for the six-month period ended 30 September 2006, excluding any associated tax credit in respect of the final dividend and interim dividend).

4 Mix and Match Facility

Under the terms of the Offer, ScottishPower Shareholders and ScottishPower ADS Holders (other than those in certain overseas jurisdictions) are entitled to elect to vary the proportion of cash consideration and New Iberdrola Shares or Iberdrola ADSs, as applicable, subject to elections made by other ScottishPower Shareholders and ScottishPower ADS Holders. The economic ratio in which ScottishPower Shareholders and ScottishPower ADS Holders may elect to receive New Iberdrola Shares or Iberdrola ADSs, as applicable, instead of cash or elect to receive cash instead of New Iberdrola Shares or Iberdrola ADSs, as applicable, under the Mix and Match Facility will be:

**for every 380 pence in cash
for every 1,520 pence in cash**

**0.1646 of a New Iberdrola Share
0.6584 of an Iberdrola ADS**

Elections made under the Mix and Match Facility may only be made in respect of whole numbers of ScottishPower Shares or ScottishPower ADSs. Irrespective of the number of ScottishPower Shareholders and ScottishPower ADS Holders who elect for cash consideration or New Iberdrola Shares or Iberdrola ADSs, as applicable, under the Mix and Match Facility, the total cash consideration to be paid by Iberdrola and the total number of New Iberdrola Shares (including New Iberdrola Shares underlying Iberdrola ADSs) to be issued pursuant to the Offer will not be varied as a result of elections made under the Mix and Match Facility. Accordingly, Iberdrola's ability to satisfy elections for New Iberdrola Shares or Iberdrola ADSs, as applicable, or cash consideration made by ScottishPower Shareholders and ScottishPower ADS Holders will depend on the elections of other ScottishPower Shareholders and ScottishPower ADS Holders. To the extent that elections for New Iberdrola Shares or Iberdrola ADSs, as applicable, and/or cash consideration cannot be satisfied in full, they will be scaled down on a pro rata basis. As a result, ScottishPower Shareholders and ScottishPower ADS Holders

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who elect to receive additional New Iberdrola Shares or Iberdrola ADSs, as applicable, or cash consideration under the Mix and Match Facility will not necessarily know the exact number of New Iberdrola Shares or Iberdrola ADSs, as applicable, or cash consideration they are entitled to receive until settlement of the consideration under the Offer.

An announcement will be made of the extent to which elections under the Mix and Match Facility have been satisfied before the Reduction Court Hearing.

Elections made under the Mix and Match Facility will not affect the entitlements of those ScottishPower Shareholders and ScottishPower ADS Holders who do not make an election under the Mix and Match Facility.

Elections by ScottishPower Shareholders

The Mix and Match Facility will remain open until 3.00 p.m. (London time) on 19 April 2007 or such later time (if any) until which the right to make the relevant election may be extended.

Details on how ScottishPower Shareholders can make an election under the Mix and Match Facility are set out in Part 12 of this document and, in the case of Certificated Holders, the white Form of Election. Overseas Shareholders should also read paragraph 27 of this Part 4 in relation to their ability to make an election under the Mix and Match Facility.

Elections by ScottishPower ADS Holders

Registered ScottishPower ADS Holders will find enclosed with this document an ADS Letter of Transmittal and Election Form which includes a section relating to elections for the Mix and Match Facility. All registered ScottishPower ADS Holders must complete and return the ADS Letter of Transmittal and Election Form, along with any ScottishPower ADSs they hold in certificated form, in the brown non-postage-paid envelope provided in order to receive any consideration for their ScottishPower ADSs. Notes on completing and returning the ADS Letter of Transmittal and Election Form are set out in Part 13 of this document. If you wish to instruct the ScottishPower Depository to make an election in respect of your holding of ScottishPower ADSs for the Mix and Match Facility, you must complete and return the ADS Letter of Transmittal and Election Form (including Box C thereof), along with any ScottishPower ADSs you hold in certificated form, as soon as possible and in any event so as to be received not later than 3.00 p.m. (New York time) on 4 April 2007.

If you hold your ScottishPower ADSs indirectly, you must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs in order to make an election under the Mix and Match Facility.

5 Loan Note Alternative

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As an alternative to some or all of the cash consideration which would otherwise be receivable under the Scheme, ScottishPower Shareholders (other than Excluded Overseas Persons and ScottishPower ADS Holders) may be able to elect to receive Loan Notes to be issued by Iberdrola on the following basis:

For every £1 of cash consideration

£1 nominal value of Loan Notes

Up to a maximum amount of £750 million of Loan Notes in aggregate nominal value will be available under the Loan Note Alternative. To the extent that ScottishPower Shareholders validly elect to receive

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Loan Notes pursuant to the Loan Note Alternative which in aggregate nominal value exceed £750 million, the entitlement of each ScottishPower Shareholder who so validly elects will be scaled down pro rata.

The Loan Notes will be issued by Iberdrola, credited as fully paid, in amounts and integral multiples of £1 and the balance of any entitlement that is not a whole multiple of £1 will not be issued but will instead be settled in cash. The Loan Notes will constitute direct, unsecured and unsubordinated obligations of Iberdrola. The Loan Notes will bear interest at a rate of 0.50 per cent. below six-month Sterling LIBOR to be determined on the first Business Day of each interest period. Interest will be payable by half-yearly instalments in arrears (less any tax) on 30 June and 30 December in each year. The first payment of interest will be made on 30 December 2007 (the **First Payment Date**). On the First Payment Date, interest will be paid in respect of the period from (and including) the date after that on which the relevant Loan Notes are issued, up to (but excluding) the First Payment Date and the interest for this period will be calculated by reference to the six-months Sterling LIBOR prevailing at the date of issue of the Loan Notes.

Unless Iberdrola decides otherwise, no Loan Notes will be issued by Iberdrola unless, on or before the Effective Date, the aggregate nominal value of all Loan Notes to be issued as a result of valid elections for the Loan Note Alternative exceeds £20 million. If such aggregate nominal value is less than £20 million, any such election shall, unless Iberdrola decides otherwise, be void and the relevant ScottishPower Shareholders will be deemed not to have made an election under the Loan Note Alternative.

Iberdrola may redeem all (but not some only) of the Loan Notes (so long as they have been in issue for at least six months) if the aggregate nominal value of the outstanding Loan Notes falls below £2 million. Iberdrola may purchase any Loan Notes which have been in issue for at least six months at a price by tender available to all holders of Loan Notes alike, or otherwise by agreement with any holders of Loan Notes. The Loan Notes may be redeemed at the option of a Loan Note Holder on not more than 60 days and not less than 14 days notice, in minimum denominations of £1,000, unless the holder of Loan Notes has a total holding of less than £1,000, in which case the total Loan Note holding, but not part thereof, may be redeemed. The Loan Notes are redeemable at the option of the holder for cash at par on any interest payment date between the First Payment Date and five years from the Effective Date (the **Final Redemption Date**) (both dates inclusive). Any Loan Notes outstanding on the Final Redemption Date will be redeemed at par together with any accrued interest (less any tax) due at that date.

The Loan Notes will not be transferable without the prior consent of Iberdrola, and no application will be made for them to be listed on, or dealt on, any stock exchange or other trading facility.

The Loan Notes to be issued pursuant to the Loan Note Alternative have not been, and will not be, listed on any stock exchange and have not been, and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States (or under the securities laws of any other jurisdiction which Iberdrola is advised to treat as a Loan Note Restricted Jurisdiction); the relevant clearances have not been, and will not be, obtained from the securities commission of any province, territory or jurisdiction of Canada; nor has any prospectus been lodged with, or registered by, the Australian Securities and Investments Commission, nor have any steps been taken, nor will any steps be taken, to enable the Loan Notes to be offered in compliance with the applicable securities laws of Japan. Accordingly, unless an exemption under relevant securities law is available, the Loan Notes may not be offered, sold, resold, delivered or transferred, directly or indirectly, in or into a Loan Note Restricted Jurisdiction in which an offer of Loan Notes would constitute a violation of the relevant laws of, or require registration of the Loan Notes in, such jurisdiction or to, or for the account or benefit of, a person located in a Loan Note Restricted Jurisdiction.

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Shareholders electing to receive Loan Notes will be required to certify that they are not US persons (as defined in Regulation S under the US Securities Act) and are not located in the United States.

Documents of title in respect of the Loan Notes will not be sent to addresses in the United States, Canada, Australia or Japan or any other Loan Note Restricted Jurisdictions.

The Loan Notes and the Loan Note Instrument will be governed by, and construed in accordance with, English law and will be unsecured obligations of Iberdrola. The issue of the Loan Notes, the ranking of the Loan Notes and the regulations governing the syndicate of the holders of the Loan Notes (*sindicato de obligacionistas*) will be governed by Spanish law.

The terms of the Loan Notes will be such that the Loan Notes should not constitute qualifying corporate bonds for individuals for the purposes of UK taxation.

An announcement will be made of the extent to which elections under the Loan Note Alternative have been satisfied before the Reduction Court Hearing.

Further details on the terms of the Loan Notes are set out in Part 9 of this document and details on how to make an election under the Loan Note Alternative are set out in Part 12 of this document and, in the case of Certificated Holders, the white Form of Election.

ABN AMRO has advised Iberdrola that, in its opinion, based on market conditions on 22 February 2007 (the last practicable date prior to the publication of this document), the value of the Loan Notes (had they been in issue on that day) would have been not less than 99 pence per £1 in nominal value.

6 Information on the ScottishPower Group

ScottishPower is an international energy company with businesses in the UK and US, and is listed on the London and New York Stock Exchanges. ScottishPower provides electricity transmission and distribution services in the UK, supplies electricity and gas services to homes and businesses across the UK and has electricity generation, gas storage facilities and associated energy management activities in the UK, Ireland and North America. ScottishPower was created upon privatisation in 1991, was incorporated as a public limited company in 1999 and has subsequently developed through organic growth and strategic acquisitions. In the financial year ended 31 March 2006, the ScottishPower Group reported total revenues of £5,446 million and an operating profit of £870 million from continuing operations. As at 31 March 2006, ScottishPower employed 9,793 people.

It has three divisions: Energy Networks, Energy Wholesale & Retail and PPM Energy.

(a) Energy Networks

The Energy Networks business owns and operates ScottishPower's electricity transmission and distribution network in the UK. It operates primarily in a regulated environment with targets set by the UK regulator, OFGEM, and has a regulated asset base of £2.9 billion with approximately 3.3 million customers (as at 31 March 2006). The network extends to almost 112,000 km, with some 65,000 km of underground cables and 47,000 km of overhead lines (as at 31 March 2006).

The management focus of the transmission and distribution business is to provide an efficient, safe and reliable network while outperforming allowed regulatory returns. Investment is planned to grow the regulated asset base, to improve the security of supply and network performance and facilitate connection of renewable generation.

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(b) Energy Retail & Wholesale

Energy Wholesale operates over 6,300 MW of generating capacity in the British Isles and manages ScottishPower's exposure to the UK wholesale electricity and gas markets. Energy Retail supplies gas and electricity to about 5.2 million customers across the UK (as at 31 March 2006). It manages pricing, selling, metering, billing, customer service and cash collection for gas and electricity supply to both business and domestic customers.

The Energy Retail & Wholesale management oversee activities across the energy value chain, maximising value from a diverse generation portfolio through to its national customer base, via an integrated commercial and energy management activity that balances and hedges energy needs. Energy Retail & Wholesale has a strong track record as the UK's leading developer of onshore wind energy. As at 30 September 2006, operational capacity was 344 MW with a further 464 MW under construction or with planning consents. This represents over 80 per cent. of ScottishPower's 2010 target of 1,000 MW.

(c) PPM Energy

In North America, ScottishPower owns PPM Energy, which is based in Portland, Oregon. PPM Energy is a growing energy provider operating in the areas of renewable energy, gas storage and hub services, gas-fired generation and energy management activities. PPM Energy's principal assets are renewable and thermal generation resources and natural gas storage facilities in 12 US states and in Canada (as at 31 March 2006). As at 30 September 2006, PPM Energy owned or controlled 1,620 MW of wind generation and 806 MW of thermal generation. PPM Energy is the second largest developer of wind energy in the US (as at 31 March 2006) and ranks as the third largest independent owner of gas storage (as at 31 March 2006).

PPM Energy is building on its leading positions in wind generation and independent gas storage, while expanding its energy management and origination activities. For example, PPM Energy is aiming to develop at least 3,500 MW of wind capacity by 2010 and the energy management and origination business continues to build a portfolio of rights and marketing alliances to complement its gas storage activities.

7 Current Trading and Prospects for ScottishPower

In the financial year ended 31 March 2006, the ScottishPower Group reported total revenues of £5,446 million and an operating profit of £870 million from continuing operations.

On 14 November 2006, ScottishPower announced its half-year results for the six months ended 30 September 2006. The half-year results demonstrated a strong performance with adjusted operating profit up by 59 per cent. to £517 million for the six-month period, adjusted profit before tax up by 77 per cent. to £483 million and adjusted profit from continuing operations up 39 per cent. to £330 million. On a reported basis, operating profit was £396 million, profit before tax was £271 million and profit from continuing operations was £181 million. Extracts from the half-year results statement are set out in section B of Part 6 of this document.

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Since the half-year results for the six months ended 30 September 2006, ScottishPower has continued to trade in line with expectations. During this period, UK wholesale commodity prices have declined, which has resulted in a redistribution of profits across the ScottishPower Group's integrated energy value chain, with reduced profits from the Energy Wholesale activities offset by improved profitability in the Energy Retail business. Potential domestic supply tariff reductions could impact the near-term performance of the Energy Retail business, given ScottishPower's hedge position.

8 Information on Iberdrola

Iberdrola was founded in 1901 and is listed on the Bolsas de Valores, through the Spanish Continuous Market (ticker: IBE.SM). Iberdrola's share performance is included in the computation of the Spanish

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IBEX 35 index and the Euro Stoxx 50, Dow Jones Sustainability World Index and DJSI Stoxx indexes. Iberdrola is a vertically integrated energy company with a solid position in the Spanish market and an international footprint focused in Mexico and Brazil. As at 31 December 2006, Iberdrola accounted for 30,384 MW and 18.4 million electricity points of supply worldwide. As at 31 December 2006, Iberdrola, the leading wind generator worldwide, had a wind generating capacity of 4,102 MW.

As at 31 December 2006, Iberdrola employed 16,155 people.

A general description of each of Iberdrola's major businesses is set out below:

(a) Traditional Generation (Spain)

In Spain, Iberdrola's generation capacity as at 31 December 2006 amounted to 21,532 MW, including 4,800 MW of CCGTs.

In Spain, for the full year ending 31 December 2006, Iberdrola produced 60.5 TWh with a diversified portfolio of power plants (nuclear, hydro, coal, CCGT and fuel-oil). In addition, Iberdrola also has a small presence in Portugal, France, Belgium, the Netherlands, Austria, Switzerland, Italy and Germany focused around electricity trading.

(b) Supply and Gas

Iberdrola sold 6,518 GWh in the liberalised electricity supply segment in Spain in 2006, a decline of 77 per cent. from 2005, as a consequence of the profit and loss optimisation policy.

Iberdrola has consolidated its position as the second largest gas player in the wholesale procurement and supply businesses in Spain. In the procurement business, in 2006 Iberdrola supplied 4.3 bcm of gas into the Spanish deregulated market, with a market share of 15 per cent.

Iberdrola has signed long-term supply contracts that amount to 16 bcm of gas annually (7 bcm in Spain and 9 bcm in Mexico and Brazil). These supply contracts have been entered into with a range of counterparties and each has different commercial terms. This contractual structure, in part, allows Iberdrola to reduce its exposure to currency risks and oil price fluctuations.

Pursuant to the agreements with Sonatrach, Nigeria LNG, GNA, ENI and Snohvit, supplies which originate in Algeria, Nigeria, the Persian Gulf and Trinidad and Tobago are to be delivered to the re-gasification plants of Bilbao, Huelva and Sagunto. Iberdrola also has a long-term supply contract via the direct gas pipeline between Algeria and Spain, MEDGAZ, for 1.6 bcm annually.

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In addition, Iberdrola has become a main developer of new gas infrastructure in Spain. As at 31 December 2006, Iberdrola owned 25 per cent. and 30 per cent. of the re-gasification plants of BBG (Bilbao) and SAGGAS (Sagunto), respectively. During January 2007, Iberdrola increased its stake in the MEDGAZ gas pipeline to 20 per cent.

(c) Renewables

At 31 December 2006, Iberdrola had renewable installed capacity of 4,434 MW (4,102 MW of wind energy and 332 MW of mini-hydroelectric energy), positioning Iberdrola as a world leader in renewables. At 31 December 2006, 440 MW of installed capacity related to countries outside Spain, including Portugal, France, Italy, the UK, Greece, Germany and Poland.

In 2006, 624 MW of capacity became operational (607 MW of wind energy and 17 MW of mini-hydroelectric). Of the total new capacity, 420 MW related to Spain and 204 MW to other countries. Installed capacity at 31 December 2006 was 16.4 per cent. higher than at 31 December 2005. Globally, Iberdrola has a portfolio of projects that is approaching 18,500 MW.

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Iberdrola's strong focus on renewable energy is part of its commitment to the environment, sustainable development and the objectives of the Kyoto Protocol. Iberdrola has become the only Spanish electricity company included in the Climate Leadership Index, international recognition that demonstrates its firm strategy to combat climate change.

(d) Distribution in Spain

In the distribution business in Spain, Iberdrola accounted for 9.9 million electricity points of supply as at 31 December 2006. In Spain, for the full year ending 31 December 2006, Iberdrola distributed 99.5 TWh of electricity.

(e) International

In Latin America, Iberdrola is present in the generation business in Mexico, Chile and Brazil and the distribution business in Brazil, Guatemala and Bolivia. As at 31 December 2006, Iberdrola accounted for 8.5 million connected customers and 4,418 MW of total installed generation capacity in Latin America. Iberdrola's main activities in Latin America are the generation business in Mexico (where Iberdrola accounts for approximately 3,815 MW of installed capacity) and the electricity distribution in Brazil (where Iberdrola controls 7.7 million connected customers).

(f) Non-Energy

Iberdrola Ingeniería, the engineering and construction company of the Iberdrola Group, has wide experience in electric power generation, distribution and control facilities services worldwide and employs more than 1,000 people. At present, Iberdrola Ingeniería has projects underway in more than 25 countries and has subsidiaries in Mexico, Brazil, Russia, Qatar, Greece, Poland, the UK, the US, Venezuela, Tunisia, Latvia, Germany, Bulgaria, India, Kenya and Slovakia. As at the date of this document, Iberdrola Ingeniería is Spain's leading electrical engineering company by sales.

Iberdrola Inmobiliaria is a nationally based company offering an extensive portfolio of products, including first homes, holiday homes, offices, industrial buildings and shopping centres. In 2006, Iberdrola Inmobiliaria generated a net profit of £74.3 million (€110.3 million), an increase of 15.4 per cent. on the previous year (based on the exchange rate of 1.4842: £1 as of 31 December 2006). Iberdrola Inmobiliaria had a portfolio of developable land of 2.2 million sqm (1.6 million sqm for residential use and 0.6 million sqm for commercial use).

On 4 October 2006, Iberdrola outlined a new Strategic Plan 2007-2009 (the **Strategic Plan 2007-2009**), setting a range of operational and financial targets for the Iberdrola Group as a whole and for its constituent business. The Strategic Plan 2007-2009 also includes certain projections up to 2011. The Strategic Plan 2007-2009 sets out, among other things, targets for compound annual growth in EBITDA between 2005 and 2009, and target net profit for 2009 for Iberdrola.

These long-term 2009 targets were not expressly made to place a floor under, or a ceiling on, the likely outcome for the relevant period, and so should not be interpreted as a profit forecast.

The stated targets form part of an established pattern of investor relations communication dating back to October 2001, when Iberdrola announced its Strategic Plan 2001-2006, that marked a new strategic direction for the Iberdrola Group (by focusing on the core energy business) and set five-year targets for a range of operational and financial metrics. This plan formed the basis for the market's assessment of the progress made by Iberdrola between 2000 (the reference year) and 2006.

Such long-term targets remain subject to a significant number of uncertainties and necessarily can only be based on information available to the management of Iberdrola at the time the targets were provided and do not take into account the proposed acquisition of ScottishPower. Management plans, by their nature, can change based on information that becomes available subsequently and in response to market and other external factors.

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ScottishPower Shareholders are further cautioned that the long-term targets provided in the Strategic Plan 2007-2009 were necessarily based upon a variety of assumptions relating to the business of Iberdrola including general business and economic conditions, all of which are subject to significant uncertainties and many of which are beyond Iberdrola's control. Given the nature of such long-term targets, there can be no assurance that any such long-term targets will be realised.

None of Iberdrola, ScottishPower, or their respective directors, officers, affiliates or any of such parties' respective financial advisers accepts any responsibility for such long-term targets, or the basis or assumptions on which they were prepared or the context in which they appear. The long-term targets prepared by Iberdrola's management were not intended to be a profit forecast as defined by the City Code and were not prepared to the standards that can be reported on in accordance with the requirements of the City Code. No reliance should be placed upon any such long-term targets in making any investment decisions in connection with ScottishPower or Iberdrola securities.

Further to the Announcement of the Offer on 28 November 2006, which referred to the agreement entered into between Iberdrola and Gas Natural SDG, S.A. ("**Gas Natural** ") whereby Iberdrola would acquire certain assets from the combined Company resulting from Gas Natural's proposed acquisition of the entire share capital of Endesa, S.A. ("**Endesa** "), which was filed on 5 September 2005 and approved by the CNMV on 27 February 2006, the board of directors of Gas Natural decided to withdraw its takeover bid for Endesa. The withdrawal was communicated to the CNMV and the Bolsas de Valores on 1 February 2007.

9 Iberdrola's Reasons for the Offer

Iberdrola believes that the Offer will accelerate the achievement of a number of Iberdrola's objectives, outlined in its 2007-2009 strategic plan. Iberdrola anticipates that the combination of Iberdrola and ScottishPower will create one of the leading European integrated utility companies and the leading wind generator. Based on pro forma enterprise value, the Enlarged Iberdrola Group will be valued at £43.9 billion (\$65.4 billion). As a result of the transaction, the Enlarged Iberdrola Group will also have:

a leading position in the rapidly growing UK and North America renewables markets;

a reinforced market presence in Europe and North America which will provide enhanced opportunities for gas trading and procurement in the increasingly global and LNG-driven gas marketplace;

an installed generation capacity base of 38,922 MW including 6,066 MW of wind generation capacity and 332 MW of small hydro generation capacity; and

a regulated networks business with approximately 21.7 million electricity points of supply.

The Offer affords Iberdrola an exceptional opportunity to acquire a vertically integrated utility company, with complementary skills in the attractive liberalised UK market with scope for significant ongoing investment in new generation capacity and networks. The Enlarged Iberdrola Group will be well diversified in terms of:

geographical spread (Spain, United Kingdom, Latin America and North America);

generation mix (nuclear, coal, wind, hydro and gas); and

business mix (regulated and non-regulated).

Iberdrola will be able to draw on ScottishPower's considerable experience in deregulated markets and its strong skill sets in retailing and trading. In return, Iberdrola believes that ScottishPower will also benefit from Iberdrola's best-in-class standards in generation and distribution activities.

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10 Iberdrola's Intentions for the ScottishPower Business

The combination of Iberdrola and ScottishPower will be driven by Iberdrola's strategy of enhancing growth, efficiency and internationalisation with the vision of being at the forefront of the utility industry in Europe, as well as globally. Iberdrola's current intentions are in line with ScottishPower's plans to maintain its asset base in the UK, to improve the performance of its energy networks business and to expand wind energy generation capacity in the UK and the US.

Iberdrola has no current intention to redeploy any material part of the fixed assets of ScottishPower as a consequence of the transaction.

The combination of both Iberdrola and ScottishPower is not only strategically complementary, but also establishes a firm foundation for continued growth in the future.

11 Financial Benefits of the Offer

The Iberdrola Directors believe that the Enlarged Iberdrola Group can achieve annual pre-tax operating cost savings of at least £88 million (130 million) based on the existing cost and operating structures and plans of Iberdrola and ScottishPower. The full annual run rate of these savings will be achieved by the end of the third year after the Effective Date. Annual capital expenditure savings are anticipated to average at least £30 million (44 million)^b over the first five years following completion of the Offer.

Annual operating and capital expenditure savings will result from:

reduction in corporate overheads;

optimisation of operations and maintenance;

transfer of best practice in the generation, supply and distribution businesses; and

scale efficiencies in the procurement of gas, and of renewable and other generation capital equipment.

The balance sheet, profitability and cash flow strength of the Enlarged Iberdrola Group is expected to enable it to capitalise upon and accelerate investment in a number of attractive growth opportunities in existing as well as new markets in both Europe and the Americas. This statement does not constitute a profit forecast and should not be interpreted to mean that profits for the year to 31 December 2007 or any subsequent financial period would necessarily be greater than those for any preceding financial year.

12 Current Trading and Prospects for Iberdrola

On 21 February 2007, Iberdrola announced total revenues of 11,017 million (£7,423 million) for the financial year ended 31 December 2006. Operating profit for the same period increased 17.3 per cent. to 2,654 million (£1,789 million) and EBITDA increased 15.2 per cent. to 3,890 million (£2,621 million). Net profit after minority interests for the financial year ended 31 December 2006 was 1,660 million (£1,119 million), 20.1 per cent. higher compared to 2005 and 3.8 per cent. higher than the 1,600 million (£1,078 million) net profit target contained in the Strategic Plan 2001-2006 (based on the exchange rate of 1.4842:£1 as of 31 December 2006).

Trading in 2007 has to date continued in line with Iberdrola's expectations.

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- (1) The expected cost savings have been calculated on the basis of the existing cost and operating structures of the current Iberdrola Group and ScottishPower Group. These statements of estimated cost savings relate to future actions and circumstances which by their nature involve risks, uncertainties, contingencies and other factors. As a result, the cost savings referred to may not be achieved, or those achieved may be materially different from those estimated. Please see the Cautionary Note regarding Forward-Looking Statements on page 5 of this document.

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13 Financing Arrangements

The consideration payable to ScottishPower Shareholders and ScottishPower ADS Holders under the terms of the Offer will be in cash (or, at the option of certain eligible individual ScottishPower Shareholders, Loan Notes) and New Iberdrola Shares (including Iberdrola ADSs) and will be provided through a combination of new committed credit facilities and the issue of New Iberdrola Shares.

Iberdrola has obtained committed debt financing arranged by ABN AMRO Bank N.V., Barclays Capital and The Royal Bank of Scotland plc in the sum of £7,955,000,000. To satisfy acceptances of the share element of the consideration, Iberdrola will also issue approximately 245 million New Iberdrola Shares to ScottishPower Shareholders (including Iberdrola ADSs issued to ScottishPower ADS Holders). As a result, on completion of the Offer and prior to any dealings made through the Dealing Facility, former ScottishPower Shareholders and ScottishPower ADS Holders will own approximately 21 per cent. of the issued share capital of Iberdrola as enlarged by the Offer.

Iberdrola will use the operating cash flows of the Enlarged Iberdrola Group to service the acquisition debt financing within the restrictions placed on the businesses by regulators.

ABN AMRO, the financial adviser to Iberdrola, is satisfied that Iberdrola has sufficient resources available to satisfy in full the cash consideration payable to ScottishPower Shareholders under the terms of the Scheme.

Further details of the financing arrangements are set out in paragraph 11(b) of Part 10 of this document.

14 Implementation Agreement and Inducement Fee

ScottishPower and Iberdrola have entered into the Implementation Agreement which provides, among other things, for the implementation of the Scheme and contains certain assurances and confirmations between the parties, including to implement the Scheme in accordance with an agreed timetable, regarding the satisfaction of certain conditions to the Offer and regarding the conduct of the respective businesses of both parties pending completion of the Offer. Under the terms of the Implementation Agreement, Iberdrola has retained the right, subject to ScottishPower's prior written consent, to effect the Offer by way of a Takeover Offer for ScottishPower.

In the Implementation Agreement, ScottishPower has agreed to pay an Inducement Fee of £50 million to Iberdrola if, among other things, after the date of the Announcement:

- (a) the ScottishPower Directors (or any committee of the ScottishPower Directors) fail unanimously to recommend the Offer or withdraw or adversely modify or qualify their unanimous recommendation of the Offer; or

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- (b) the ScottishPower Directors determine not to implement the Offer by refusing to put forward the Scheme; or
- (c) where the Offer is being made by way of a Scheme, it is not approved by the ScottishPower Shareholders at the Court Meeting or the ScottishPower EGM Resolution is not approved at the ScottishPower EGM; or
- (d) where the Offer is being made by way of a Scheme, following the resolutions proposed at the Court Meeting and the ScottishPower EGM having been passed by the requisite majorities, the ScottishPower Directors do not, in breach of the Implementation Agreement or because (acting in good faith) their fiduciary duties require it, seek the Court Orders at the Court Hearings; or
- (e) an Alternative Proposal is made and:
 - (i) such Alternative Proposal (whether or not recommended by the ScottishPower Directors) is declared unconditional in all respects, becomes effective or otherwise completes;

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- (ii) that Alternative Proposal is referred to the competition authorities, lapses, and the relevant third party makes another offer for ScottishPower which completes, or becomes effective or becomes or is declared unconditional in all respects; and
- (iii) for the avoidance of doubt, if an Alternative Proposal made before the Offer is withdrawn or lapses is declared unconditional in all respects, becomes effective or otherwise completes following the withdrawal or lapse of the Offer and Iberdrola is not in a material breach of any of its obligations under the Implementation Agreement, ScottishPower shall remain liable to pay Iberdrola the Inducement Fee; or
- (f) ScottishPower is in material breach of certain of its obligations under the Implementation Agreement (for further details see paragraph 10(a) of Part 10 of this document) and Iberdrola has exercised its right to terminate the Implementation Agreement as a consequence thereof,

provided that Iberdrola is not in material breach of its obligations under the Implementation Agreement.

ScottishPower has undertaken in the Implementation Agreement not to solicit, or otherwise seek to procure, any Alternative Proposal, save that ScottishPower shall not be prohibited from complying with its obligations under the provisions of the City Code or required by law or any applicable regulatory body nor shall ScottishPower's Directors be prohibited from fulfilling their fiduciary duties.

Iberdrola also agreed to pay ScottishPower an Inducement Fee of £50 million if, among other things:

- (a) the resolution in respect of the Offer is not passed by the requisite majority of Iberdrola shareholders at the Iberdrola Shareholders Meeting;
- (b) Iberdrola fails to convene or adjourns and fails to reconvene the Iberdrola Shareholders Meeting (other than with the prior written consent of ScottishPower); or
- (c) Iberdrola is in material breach of certain of its obligations under the Implementation Agreement (for further details see paragraph 10(a) of Part 10 of this document), provided ScottishPower is not in material breach of its obligations under the Implementation Agreement.

15 Management and Employees

Iberdrola attaches great value to the skills and experience of the business management and employees of ScottishPower. They will be critical to the success of the Enlarged Iberdrola Group and Iberdrola fully expects that they will continue to play a vital role in the business going forward.

Iberdrola has given assurances to ScottishPower that, on completion of the Offer, it will honour the contractual terms and conditions, benefits and existing severance policy of ScottishPower's employees (including pension rights) for at least two years.

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Iberdrola also intends to continue funding the current pension arrangements for all participants in such arrangements at the time of completion of the Offer in line with the principles in operation at the time of the transaction, including commissioning regular valuations and updating the principles accordingly, and in full compliance with all applicable legal requirements. If Iberdrola proposes to implement any new arrangements for new employees following completion of the Offer, these will be subject to the normal consultation and agreement arrangements currently in place with employee representatives.

Iberdrola currently has no plans to change the principal locations of Iberdrola's business after the completion of the Offer. Iberdrola will continue to be headquartered in Madrid, Spain and its corporate legal domicile will remain in Bilbao, Spain. While Iberdrola will continue to be headquartered in Spain, it has provided assurances to ScottishPower that ScottishPower will maintain its identity and a corporate headquarters in Glasgow and does not envisage changing the principal locations of ScottishPower's business in the UK and in the US.

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Iberdrola has also confirmed that it will honour the contractual terms and conditions, benefits and existing severance policy of Iberdrola's employees (including pension rights) for at least two years from the Effective Date.

16 The ScottishPower Directors, the Effect of the Scheme on their Interests and Irrevocable Undertakings

Details of the interests of the ScottishPower Directors in the share capital of ScottishPower and options over its share capital are set out in paragraph 4 of Part 10 of this document. ScottishPower Shares held by the ScottishPower Directors will be subject to the Offer.

In letters dated 28 November 2006, addressed to Philip Bowman and Simon Lowth as employees and/or ScottishPower Directors, Iberdrola has agreed, among other things:

- (a) to honour in full the terms of Philip Bowman's and Simon Lowth's respective service agreements;
- (b) to honour in full the bonus provisions set out in Philip Bowman's and Simon Lowth's respective service agreements and to procure the exercise of any and all discretions to the maximum amount permitted in accordance with the terms thereof; and
- (c) that, unless Philip Bowman and/or Simon Lowth provide prior notification to the contrary to Iberdrola, if the Scheme becomes effective, their respective employment and/or appointment as directors will terminate on the day on which the Scheme becomes effective and Iberdrola will procure the payments and the provision of the benefits and the exercise of any discretions as provided for in the letters.

Particulars of the service contracts (including termination provisions) and letters of appointment of the ScottishPower Directors are set out in paragraph 9 of Part 10 of this document.

Save as set out above, the total emoluments receivable by the ScottishPower Directors will not be varied as a consequence of the Scheme becoming effective.

The ScottishPower Directors have irrevocably undertaken to vote in favour of the Scheme in respect of their aggregate beneficial holdings of 142,196 ScottishPower Shares, representing approximately 0.1 per cent. of the existing issued share capital of ScottishPower. These undertakings will cease to have any effect if the Implementation Agreement is terminated in accordance with its terms.

The ScottishPower Directors did not obtain any additional financial benefit for the purpose of securing their irrevocable undertakings.

Save as set out in this paragraph 16, paragraph 15 above and paragraph 17 below, the effect of the Scheme on the interests of the ScottishPower Directors does not differ from its effect on the like interests of any other holder of ScottishPower Shares.

17 ScottishPower Share Schemes

(a) The ScottishPower Share Option Schemes

Options under the ScottishPower Share Option Schemes will become exercisable upon Court Sanction. Performance conditions, where applicable, will be treated as having been satisfied in full.

Options awarded in 2005 under the ScottishPower 2000 Long Term Incentive Plan and options awarded under the ScottishPower 2006 Long Term Incentive Plan will only be exercisable on a pro-rated basis, to reflect the early exercise. To the extent unexercisable, options will lapse on or shortly after the Effective Date as described below. As a result, Iberdrola has agreed to compensate those participants in these plans who are employed by the ScottishPower Group immediately prior to the Effective Date in respect of any part of their options that lapse as a result of the pro-rating referred to above and has agreed to pay to and award such participants, on the Effective Date, cash and New Iberdrola Shares equal to the consideration they would have received under the Offer in respect of the ScottishPower Shares which they would have obtained in respect of those lapsed options.

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Options under the ScottishPower Executive Share Option Plan 2001 will be exercisable in full. Options under the PacifiCorp Stock Incentive Plan are already exercisable in full.

Options under the ScottishPower Sharesave Scheme will only be exercisable to the extent of the savings and interest in the associated savings contract at the date of exercise. Iberdrola has agreed to pay to participants in the ScottishPower Sharesave Scheme an amount equal to the profit they would have made if they had been able to exercise those options in full (less the profit they make from actual exercise and on the assumption that they exercise at the latest permitted time) on a grossed up basis. The profit will be calculated by reference to 412 pence plus a cash amount equal to 0.1646 of an Iberdrola Share at the Effective Date per ScottishPower Share.

In order to encourage participants in the ScottishPower Share Schemes to remain within the Enlarged Iberdrola Group after the completion of the Offer, Iberdrola has agreed to compensate them for any additional income tax or social security contributions they have to pay as a consequence of any option being exercised or shares being released early due to the completion of the Offer.

The periods during which options can be exercised vary from scheme to scheme. The periods start on the date of the Court Sanction and end up to six months later. Options under the ScottishPower Executive Share Option Plan 2001 lapse on the date of the Court Sanction. Options under the ScottishPower 2006 Long Term Incentive Plan lapse on the day after the Court Sanction. Options under the ScottishPower 2000 Long Term Incentive Plan lapse one month after notification of the Court Sanction. Options under the ScottishPower Sharesave Scheme lapse six months after the Court Sanction. Participants will be given the opportunity to exercise their options conditionally upon the Court Sanction. Options under the PacifiCorp Stock Incentive Plan do not lapse as a result of the Scheme.

Where ScottishPower Shares are issued to participants under the ScottishPower Share Option Schemes after the Court Sanction but before the Reorganisation Record Time, they will be subject to the Scheme and participants will be able to participate in the Scheme on the same basis as other ScottishPower Shareholders. It is intended that any ScottishPower Shares which are issued to participants on exercise of options after the Effective Date will be transferred automatically to Iberdrola under the proposed changes to the ScottishPower Articles outlined in paragraph 4(C) of the ScottishPower EGM Resolution, in consideration of the payment of 400 pence in cash and the issue of 0.1646 of an Iberdrola Share for each such ScottishPower Share rounded down to the nearest whole number of an Iberdrola Share, save that in the event that the law or regulation of a country or territory or its internal states or other governmental sub- divisions outside the United Kingdom may preclude the allotment or issue to the holder of the ScottishPower Shares or Iberdrola Shares or may preclude the same except after compliance by ScottishPower or Iberdrola (as the case may be) with any governmental or other consent or any registration, filing or other formality with which ScottishPower or Iberdrola (as the case may be) is unable to comply or which Iberdrola regards as onerous or in the event that Iberdrola is unable to confirm the availability of an exemption from any such formalities or whether a consent or other relief may be required without undertaking further administrative or other steps or making a request for relief or otherwise, then Iberdrola may in its sole discretion elect to allot or sell such Iberdrola Shares to a third party and remit the proceeds (net of expenses) to the holder of such ScottishPower Shares in lieu of 0.1646 of an Iberdrola Share for each ScottishPower Share. No assurance can be given as to the price that will be received for such New Iberdrola Shares and Iberdrola ADSs sold, as described in this paragraph. Due to the impracticality of issuing shares under Spanish law, Iberdrola Shares issued on or after the Effective Date, as a consequence of the exercise of options (within the Special Conversion Period as further described in paragraph 18 of this Part 4), will be delivered on the Second Issue Date and the Third Issue Date (as applicable). Thereafter, participants will receive treasury shares held by Iberdrola as reasonably practicable. In addition, ScottishPower will make a payment to such holders of 12 pence for each ScottishPower Share so transferred under the ScottishPower Articles.

ScottishPower will not be able to issue any ScottishPower Shares in the period between the Reorganisation Record Time and the Effective Date, as transfers of and dealings in ScottishPower Shares will be suspended and the Register of Members will be closed. If any participants in the ScottishPower Share Schemes choose to exercise options during this period, ScottishPower will issue them with ScottishPower Shares after the Effective Date and such shares will be automatically acquired by Iberdrola in the manner described above.

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(b) ScottishPower Employee Trust 2001

ScottishPower Shares held in the ScottishPower Employee Trust 2001 will be available to satisfy the exercise of options under the ScottishPower Executive Share Option Plan 2001, the ScottishPower 2000 Long Term Incentive Plan and the ScottishPower 2006 Long Term Incentive Plan.

(c) The ScottishPower Employee Share Ownership Plan

The trustee of the ScottishPower Employee Share Ownership Plan already holds ScottishPower Shares for participants in that plan. Accordingly, participants in that plan (through the trustee) will participate in the Scheme in the same way as other ScottishPower Shareholders. Cash consideration for these ScottishPower Shares under the Offer will be paid directly to such participants. Any New Iberdrola Shares and/or Loan Notes received under the Offer will continue to be held by the trustee on the terms of the plan.

(d) The Annual Incentive Plan Deferred Share Programme

Participants in the Annual Incentive Plan Deferred Share Programme are ScottishPower Shareholders and will participate in the Scheme in the same way as other ScottishPower Shareholders.

(e) Future Share Schemes

Going forward, Iberdrola has agreed to explore alternatives that will provide ScottishPower employees with benefits which are broadly comparable to the benefits provided under the ScottishPower Share Schemes in the two years before the Effective Date. Iberdrola will decide on and procure the implementation of one of those alternatives which will take into account the economic consequences for employees resulting from the implementation date being different from the date of termination of the ScottishPower Share Schemes.

(f) Dealing Facility

The Dealing Facility will be made available to participants in the other ScottishPower Share Schemes in relation to the New Iberdrola Shares they receive or have received under those schemes (on the same terms as set out in paragraph 23 of this Part 4).

(g) Communications

ScottishPower is writing separately to participants in the ScottishPower Share Schemes outlining the choices open to them and, where appropriate, providing forms to enable them to make their choices.

(h) Directors Arrangements

Directors will participate in the arrangements set out above on the same terms as other participants in the ScottishPower Share Schemes.

18 ScottishPower Convertible Bonds

(a) Conversion Rights

Convertible Bondholders currently have the right to convert the Convertible Bonds into fully paid four per cent. exchangeable redeemable preference shares in Scottish Power Finance (Jersey) Limited (**Conversion Rights**). Upon conversion, the preference shares will be immediately exchanged for ScottishPower Shares at the applicable exchange price under the terms and conditions of the Convertible Bonds.

Convertible Bondholders may elect to exercise Conversion Rights either before or after the Scheme becomes effective. Note that the applicable exchange price will vary depending on when Conversion Rights are exercised.

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(i) Conversion before the Reorganisation Record Time

Where ScottishPower Shares are issued to Convertible Bondholders upon exercise of Conversion Rights before the Reorganisation Record Time, they will be subject to the Scheme and the relevant Convertible Bondholders will be able (provided they exercise their Conversion Rights sufficiently in advance of the relevant deadline for receipt of Forms of Election and in any event submit the completed Forms of Election by 19 April 2007) to take advantage of the Mix and Match Facility and the Loan Note Alternative on the same basis as other ScottishPower Shareholders.

Convertible Bondholders should note that any such conversion outside the Special Conversion Period would not be at the enhanced exchange price.

(ii) Conversion after the Reorganisation Record Time but before the start of the Special Conversion Period

Convertible Bondholders who exercise their Conversion Rights in the period between the Reorganisation Record Time and the Effective Date will receive those ScottishPower Shares to which they are entitled on the Second Issue Date, provided the Scheme becomes effective (as transfers and dealings of ScottishPower Shares are suspended and the Register of Members is closed during this period). They will therefore be treated as if they had exercised their Conversion Rights during the Special Conversion Period, provided the Scheme becomes effective.

(iii) Conversion during the Special Conversion Period

The terms and conditions of the Convertible Bonds contain provisions whereby the exchange price may be adjusted downwards in certain circumstances, including: (a) upon payment of a special dividend by Scottish Power; (b) upon payment of an ordinary dividend to shareholders in excess of certain specified levels in respect of a financial year; and (c) for a limited period only, following a change of control event. Scottish Power Finance (Jersey) Limited is obliged to give Convertible Bondholders written notice of the commencement of the Special Conversion Period in accordance with the terms and conditions of the Convertible Bonds.

Convertible Bondholders who exercise their Conversion Rights such that the conversion date falls within the Special Conversion Period will receive an enhanced number of ScottishPower Shares reflecting: (i) an adjustment to the exchange price made in respect of the payment of the Special Dividend; (ii) an adjustment to the exchange price made in respect of the payment of the total dividend declared for the financial year ending 31 March 2006 (**2005 Dividend**) (such adjustment in itself was less than one per cent. of the exchange price in effect at the time of payment of the 2005 Dividend and therefore was not previously effective under the terms and conditions of the Convertible Bonds, but was carried forward to be taken into account in any subsequent adjustment on a cumulative basis); and (iii) an adjustment to the exchange price made in respect of the change of control upon the Scheme becoming effective.

The quantum of the adjustment in respect of the Special Dividend will depend upon the average of the bid and offer quotations for a ScottishPower Share as derived from the Daily Official List of the London Stock Exchange in the five consecutive dealing days ending on the second dealing day prior to the first date on which the ScottishPower Shares are traded ex-the Special Dividend.

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Convertible Bondholders will be notified of the applicable exchange price in accordance with the terms and conditions of the Convertible Bonds.

(iv) Conversion after the Special Conversion Period

Convertible Bondholders who exercise Conversion Rights such that the conversion date falls after the Special Conversion Period will receive an enhanced number of ScottishPower Shares reflecting an adjustment to the exchange price made in respect of the payment of the 2005 Dividend and the Special Dividend only. No adjustment will be made in respect of the change of control upon the Scheme becoming effective.

Convertible Bondholders will be notified of the applicable exchange price in accordance with the terms and conditions of the Convertible Bonds.

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(b) Receipt of Iberdrola Shares

From an economic point of view, it is intended that any ScottishPower Shares which are issued to Convertible Bondholders upon exercise of Conversion Rights after the Effective Date (the **Bondholder Shares**) will be transferred automatically to Iberdrola under the proposed changes to the ScottishPower Articles outlined in paragraph 4(E) of the ScottishPower EGM Resolution, in consideration of the payment by Iberdrola to the holder of such Bondholder Shares of 400 pence in cash and the issue of 0.1646 of an Iberdrola Share save that in the event that the law or regulation of a country or territory or its internal states or other governmental subdivisions outside the United Kingdom may preclude the allotment or issue to the holder of the Bondholder Shares of ScottishPower Shares or Iberdrola Shares or may preclude the same except after compliance by ScottishPower or Iberdrola (as the case may be) with any governmental or other consent or any registration, filing or other formality with which ScottishPower or Iberdrola (as the case may be) is unable to comply or which Iberdrola regards as onerous or, in the event that Iberdrola is unable to confirm the availability of an exemption from such formalities or whether a consent or other relief may be required without undertaking further administrative or other steps or making a request for relief or otherwise, then Iberdrola may in its sole discretion elect to allot or sell such Iberdrola Shares to a third party and remit the proceeds (net of expenses) to the holder of such Bondholder Shares in lieu of 0.1646 of an Iberdrola Share for each such Bondholder Share. No assurance can be given as to the price that will be received for such New Iberdrola Shares and Iberdrola ADSs sold as described in this paragraph.

Fractions of Iberdrola Shares will not be allotted and the number of Iberdrola Shares to be allotted to each Convertible Bondholder who exercises Conversion Rights will be rounded down to the nearest whole number. Fractions of Iberdrola Shares not allotted to Convertible Bondholders will, wherever practicable, be aggregated and sold in the market and the net proceeds of such sale shall be paid in cash to Convertible Bondholders entitled thereto in accordance with their fractional entitlements. No assurance can be given as to the price that will be received for such Iberdrola Shares as described in this paragraph.

Due to the impracticality of regularly issuing shares under Spanish law, the Iberdrola Shares issued in exchange for the ScottishPower Shares will only be issued: (i) on the twelfth Business Day following the Effective Date, in respect of conversion notices received from Convertible Bondholders at any time before 6.00 p.m. (London time) on the eighth Business Day following the Effective Date (the **Second Issue Date**); (ii) thereafter, in respect of conversion notices received from Convertible Bondholders at any time before the end of the Special Conversion Period, on the fourth Business Day following the expiry of the Special Conversion Period (the **Third Issue Date**).

Convertible Bondholders exercising their Conversion Rights thereafter will (subject to the aforementioned restrictions) receive Iberdrola Shares held as treasury stock by Iberdrola as soon as reasonably practicable after conversion.

(c) Eligibility to exercise Conversion Rights and receive Iberdrola Shares

The Iberdrola Shares to be issued to Convertible Bondholders upon exercise of Conversion Rights have not been, and will not be, registered under the US Securities Act, or under the securities laws of any state, district or other jurisdiction of the United States. Accordingly, the Iberdrola Shares issuable upon exercise of Conversion Rights are not being, and will not be, offered or sold in the United States except in reliance on an exemption from the registration requirements of the US Securities Act. Convertible Bondholders will therefore be required to make certain representations in the Conversion Notice pursuant to the Paying, Transfer, Conversion and Exchange Agency Agreement in order to be able to exercise Conversion Rights.

The Iberdrola Shares issuable upon exercise of Conversion Rights may not be reoffered or sold without registration under the US Securities Act except pursuant to an exemption therefrom. In addition, such Iberdrola Shares issuable upon exercise of Conversion Rights may not for so long

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as and in the event that they are restricted securities within the meaning of Rule 144(a)(3) of the US Securities Act be deposited into any unrestricted depositary facility, including the Iberdrola ADR Facility.

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(d) Interest and dividends

The next interest payment on the Convertible Bonds is due to be made on 10 July 2007. This payment will be made on all Convertible Bonds not converted into ScottishPower Shares on or before that date. No part of the interest payable for the period from 10 January 2007 to the date of voluntary conversion will be paid on Convertible Bonds converted on or before 9 July 2007.

A final dividend for the year 2006 is expected to be distributed to Iberdrola Shareholders in July 2007. Although the record date (which is currently expected to be, subject to shareholder approval, 29 June 2007) for this dividend has not yet been fixed, Convertible Bondholders who exercise their Conversion Rights and are registered holders of New Iberdrola Shares by the record date will be eligible to receive this dividend on the Iberdrola Shares they receive.

(e) Redemption

If Convertible Bondholders holding more than 85 per cent. of the principal amount of the Convertible Bonds exercise their Conversion Rights, the ScottishPower Board proposes to procure that Scottish Power Finance (Jersey) Limited takes advantage of its right to redeem the remaining ScottishPower Convertible Bonds at their principal amount (together with interest accrued to the relevant redemption date) by giving not less than 30 but not more than 90 days' notice in accordance with the conditions of the Convertible Bonds. In the event that Scottish Power Finance (Jersey) Limited exercises its rights to redeem the remaining ScottishPower Convertible Bonds, Convertible Bondholders may exercise their Conversion Rights until the seventh calendar day prior to the date fixed for the redemption of the Convertible Bonds (**Redemption Date**).

Under the proposed changes to the ScottishPower Articles outlined in paragraph 4(E) of the ScottishPower EGM Resolution, ScottishPower Shares issued upon conversion shall be issued on economic terms that they shall (on the Effective Date or, if later, on issue) be immediately transferred to Iberdrola or its nominee(s) in consideration (subject as hereinafter provided) of and conditional on the payment by Iberdrola to the holder of such ScottishPower Shares of 400 pence in cash and the issue of 0.1646 of an Iberdrola Share for each such ScottishPower Share (or in the event that Iberdrola undertakes any subdivision, alteration or consolidation of its share capital, such number of shares as adjusted to reflect such subdivision, alteration or consolidation) rounded down to the nearest whole number of an Iberdrola Share (or such other proportion of cash and Iberdrola Shares, the economic effect of which is equivalent to the payment of 400 pence in cash and the issue of 0.1646 of an Iberdrola Share) save that Iberdrola may in its sole discretion elect to allot or sell such Iberdrola Shares to a third party and remit the proceeds (net of expenses) to the holder of such ScottishPower Shares in lieu of 0.1646 of an Iberdrola Share for each such ScottishPower Share. No assurance can be given as to the price that will be received for such new Iberdrola Shares and Iberdrola ADSs sold as described in this paragraph.

Subject to compliance with the applicable Spanish law requirements, the Iberdrola Shares to be issued upon conversion by the Convertible Bondholders as set out above shall be issued on the Third Issue Date, unless (i) the Redemption Date occurs prior to the end of the Special Conversion Period, in which case the Iberdrola Shares shall be issued on or before the fourth Business Day after the Redemption Date or (ii) the Redemption Date occurs after the end of the Special Conversion Period, in which case Convertible Bondholders will receive Iberdrola Shares from treasury as soon as practicable thereafter.

(f) Recommendation and Action to be Taken

The ScottishPower Board unanimously recommends that all holders of Convertible Bonds exercise their Conversion Rights as soon as practicable after the Scheme becomes effective (but not before) in order to receive the Iberdrola Shares to which they are entitled on the Second Issue Date and in any event no later than before the end of the Special Conversion Period. For this purpose, a form of conversion notice will be available from the offices of the Exchange, Transfer, Conversion and Paying Agent, Citigroup Agency and Trust, Citibank, N.A., London Branch, for the Convertible Bonds from time to time. The ScottishPower Board, which has been so advised by Morgan Stanley & Co. Limited, considers this proposal to Convertible Bondholders to be fair and reasonable.

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19 Structure of the Offer

(a) Introduction

The Offer is to be effected by way of a scheme of arrangement of ScottishPower under section 425 of the Act, the provisions of which are set out in full in Part 14 of this document.

The purpose of the Scheme is to provide for Iberdrola to become the owner of the whole of the issued ordinary share capital of ScottishPower, which is to be achieved by the reorganisation of the share capital of ScottishPower (as set out in paragraph 19(c) below) and the subsequent cancellation of the shares resulting from such reorganisation. ScottishPower Shareholders on the Register of Members at the Reorganisation Record Time will then receive New Iberdrola Shares, cash and/or Loan Notes on the basis set out in paragraph 2 of this Part 4 and ScottishPower ADS Holders on the register of ScottishPower ADS Holders maintained by the ScottishPower Depositary at the Reorganisation Record Time will receive Iberdrola ADSs and cash on the basis set out in paragraph 2 of this Part 4.

(b) The Meetings

The Scheme involves an application by ScottishPower to the Court to sanction the Scheme. Before the Court's approval can be sought, the Scheme will require approval at the Court Meeting and the passing of a special resolution at the ScottishPower EGM.

Notices of the Court Meeting and the ScottishPower EGM are set out in Parts 16 and 17 of this document, respectively. All ScottishPower Shareholders (excluding members of the Iberdrola Group) whose names appear on the Register of Members at 6.00 p.m. (London time) on 28 March 2007 or, if either of the Meetings is adjourned, on the Register of Members at 6.00 p.m. on the second day before the day set for such adjourned Meeting, shall be entitled to attend and vote at the relevant Meeting in respect of the number of ScottishPower Shares registered in their name at the relevant time.

Each registered ScottishPower ADS Holder may choose either to attend the Meetings and vote in person on the Scheme or else to appoint the nominee of the ScottishPower Depositary or another person as their proxy to vote on the Scheme. If a ScottishPower ADS Holder appoints the nominee of the ScottishPower Depositary as proxy, the nominee will vote in accordance with their instructions.

ScottishPower ADS Holders who hold their ScottishPower ADSs indirectly must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which they hold their ScottishPower ADSs if they wish to vote on the Scheme. Indirect ScottishPower ADS Holders who wish to attend and vote at the Meetings may alternatively present their ScottishPower ADSs to the ScottishPower Depositary for cancellation and receive (upon compliance with the terms of the ScottishPower Deposit Agreement, including payment of the ScottishPower Depositary's fees and any applicable taxes and governmental charges) delivery of their ScottishPower Shares so as to become registered holders of ScottishPower Shares prior to the Voting Record Time.

It is important that for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of the ScottishPower Shareholders and ScottishPower ADS Holders. You are therefore strongly urged to sign and return both your Forms of Proxy (in the case of ScottishPower Shareholders) or ADS Voting Instruction Card (in the case of registered ScottishPower ADS Holders) or to take advantage of the voting procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs (in the case of indirect ScottishPower ADS Holders) as soon as possible.

Whether or not you vote in favour of the Scheme at the Court Meeting and/or the ScottishPower EGM if the Scheme becomes effective, your ScottishPower Shares and ScottishPower ADSs will be cancelled, and, unless you have made an election under the Mix and Match Facility and/or the Loan Note

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Alternative, you will receive, in economic terms, 400 pence in cash and 0.1646 of a New Iberdrola Share for each ScottishPower Share that you hold (or 1,600 pence and 0.6584 of an Iberdrola ADS for each ScottishPower ADS that you hold) immediately prior to the Reorganisation Record Time (save that fractions of New Iberdrola Shares or Iberdrola ADSs will not be allotted, but will be aggregated and sold in the market after the Effective Date and the net proceeds of such sale will be paid in cash to ScottishPower Shareholders and ScottishPower ADS Holders entitled thereto in accordance with their fractional entitlements.) No assurance can be given as to the price that will be received for fractional New Iberdrola Shares and Iberdrola ADSs sold. Prior to the Effective Date, ScottishPower will declare the Special Dividend of 12 pence for every ScottishPower Share (which will amount to 48 pence per ScottishPower ADS) payable to ScottishPower Shareholders on the Register of Members and ScottishPower ADS Holders on the register of ScottishPower ADS Holders maintained by the ScottishPower Depository at the Special Dividend Record Time.

If you are a ScottishPower Shareholder, you are encouraged to complete and return the white Form of Election (or make an Electronic Election, if you hold your ScottishPower Shares in uncertificated form) if you wish to elect to vary the proportions in which you will receive cash and/or New Iberdrola Shares in respect of your ScottishPower Shares under the Scheme if the Scheme becomes effective or wish to elect for the Loan Note Alternative. If you are a registered ScottishPower ADS Holder, you must complete and return the ADS Letter of Transmittal and Election Form, along with any ScottishPower ADSs you hold in certificated form, and if you wish to elect to vary the proportions in which you will receive cash and/or Iberdrola ADSs in respect of your ScottishPower ADSs under the Scheme if the Scheme becomes effective, your ADS Letter of Transmittal and Election Form must be received by 3.00 p.m. (New York time) on 4 April 2007. If you hold your ScottishPower ADSs indirectly, you must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs if you wish to vary the proportions in which you receive cash and/or Iberdrola ADSs.

The Court Meeting

The Court Meeting, which has been convened for 11.00 a.m. (London time) on 30 March 2007, is being held at the direction of the Court to seek the approval of ScottishPower Shareholders and ScottishPower ADS Holders for the Scheme. At the Court Meeting, voting will be by way of poll and each member present and able to vote, either in person or by proxy, will be entitled to one vote for each ScottishPower Share held. The approval required at the Court Meeting (or any adjournment thereof) is a majority in number representing three-fourths in value of the holders of ScottishPower Shares present and voting, either in person or by proxy. In other words, the Scheme will only be approved at the Court Meeting if (a) a majority in number of the ScottishPower Shareholders present and voting at the Court Meeting (in person or by proxy) vote in favour and (b) such majority holds 75 per cent. or more in value of the ScottishPower Shares present and voting at the Court Meeting (in person or by proxy).

In determining (a), all ScottishPower Shareholders count equally, regardless of how many shares they hold. Therefore, as the ScottishPower Depository is the registered holder of all ScottishPower Shares which underlie the ScottishPower ADSs, votes cast in favour of the Scheme by the ScottishPower Depository (or by any ScottishPower ADS Holder or other person acting as the proxy of the ScottishPower Depository) will represent one vote in number, and votes cast against the Scheme by the ScottishPower Depository (or by any ScottishPower ADS Holder or other person acting as the proxy of the ScottishPower Depository) will represent one vote in number. The number of ScottishPower ADS Holders who vote does not count in determining (a). In determining (b), however, every vote cast by the ScottishPower Depository (or by any ScottishPower ADS Holder or other person acting as the proxy of the ScottishPower Depository) in respect of a ScottishPower Share will count in value.

The ScottishPower EGM

In addition to the Court Meeting, the ScottishPower EGM has been convened for 11.10 a.m. (London time) on 30 March 2007, or as soon thereafter as the Court Meeting has concluded or been adjourned, to consider and, if thought fit, pass a special resolution (which requires votes

in favour representing at least 75 per cent. of the votes cast) to approve:

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- (i) the reorganisation of the Company's share capital referred to in paragraph 19(c) below;
- (ii) the Capital Reduction and the issue of New ScottishPower Shares to Iberdrola provided for in the Scheme; and
- (iii) amendments to the ScottishPower Articles in accordance with the Scheme and in the manner described in paragraph 19(h) below.

Voting by ScottishPower Shareholders

The green Form of Proxy for use at the Court Meeting should be lodged with Lloyds TSB Registrars at The Causeway, Worthing, West Sussex, BN99 6AZ as soon as possible and, in any event, so as to be received by no later than 11.00 a.m. (London time) on 28 March 2007. The purple Form of Proxy for use at the ScottishPower EGM should be lodged with Lloyds TSB Registrars at The Causeway, Worthing, West Sussex, BN99 6AX as soon as possible and, in any event, so as to be received by no later than 11.10 a.m. (London time) on 28 March 2007. If the green Form of Proxy for use at the Court Meeting is not returned by the above time, it may be handed to representatives of Lloyds TSB Registrars on behalf of the chairman of the Court Meeting (or, if the Court Meeting is adjourned, at the adjourned Court Meeting) before the taking of the poll. However, in the case of the ScottishPower EGM, unless the purple Form of Proxy is lodged by the above time, it will be invalid. The completion and return of a Form of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the ScottishPower EGM, or at any adjournment thereof, if you so wish and are so entitled.

CREST members who wish to appoint a proxy or proxies through the CREST Electronic Proxy Appointment Service may do so for the Meetings and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

ScottishPower Shareholders who hold their ScottishPower Shares in certificated or uncertificated form may also register proxy appointments and instructions electronically by logging on to the website of Lloyds TSB Registrars, www.sharevote.co.uk, where details of the procedure are set out, provided that they do so before 11.00 a.m. on 28 March 2007 or, if the Court Meeting is adjourned, 48 hours before the time set for the adjourned Court Meeting.

Voting by ScottishPower ADS Holders

If you are a registered holder of ScottishPower ADSs, please complete and sign the enclosed ADS Voting Instruction Card in accordance with the instructions printed thereon and return it in the white postage-paid envelope provided (for use in the US only) to JPMorgan Chase Bank, N.A., at the appropriate address set forth on the ADS Voting Instruction Card as soon as possible and, in any event, so as to be received no later than 3.00 p.m. (New York time) on 26 March 2007. You may indicate on the ADS Voting Instruction Card whether you wish to attend and vote at the Meetings yourself or whether you wish to appoint the nominee of the ScottishPower Depositary or another person as your proxy. If you wish to attend and vote at the Meetings yourself, you are requested to indicate this on the ADS Voting Instruction Card (you will be required to present a valid passport or other government-issued photo identification in order to be admitted to the Meetings). If you appoint the nominee of the ScottishPower Depositary as your proxy, the nominee will vote in accordance with your instructions. If you appoint a person other than the nominee of the ScottishPower Depositary, you should instruct your proxy how you wish your ScottishPower ADSs to be voted.

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In lieu of completing and returning the ADS Voting Instruction Card, you may cast your vote by telephone, by calling +1-866-540-5760, or electronically by logging on to www.proxyvoting.com/spi, where details of the procedure to be followed are set out. Please refer to the ADS Voting Instruction Card for further information.

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If you hold your ScottishPower ADSs indirectly, you must rely on the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which you hold your ScottishPower ADSs if you wish to vote on the Scheme. Indirect ScottishPower ADS Holders who wish to attend and vote at the Meetings may alternatively present their ScottishPower ADSs to the ScottishPower Depository for cancellation and receive (upon compliance with the terms of the ScottishPower Deposit Agreement, including payment of the ScottishPower Depository's fees and any applicable taxes and governmental charges) delivery of their ScottishPower Shares so as to become registered holders of ScottishPower Shares prior to the Voting Record Time.

Members of the Iberdrola Group will not be entitled to attend and vote at meetings in respect of any ScottishPower Shares held by them. As at the date of this document, no member of the Iberdrola Group holds any ScottishPower Shares.

(c) Share Capital Reorganisation

In order to allow the most favourable treatment of the Capital Reduction for UK tax purposes, the Scheme will include a reorganisation of the share capital of ScottishPower whereby the Scheme Shares will, in accordance with the terms of the Scheme, be subdivided and reclassified into A1 Shares, A2 Shares and A3 Shares. The share capital reorganisation will take effect at the Reorganisation Record Time, at which point the A1 Shares will carry the right to receive the cash consideration, the A2 Shares will carry the right to receive New Iberdrola Shares and the A3 Shares will carry the right to receive Loan Notes upon the Scheme becoming effective in each case. To the extent that Scheme Shareholders validly elect for Loan Notes under the Loan Note Alternative, the number of A1 Shares to which they would otherwise be entitled will be reduced and they will instead become entitled to an equivalent number of A3 Shares. Once the Capital Reduction that forms part of the Scheme becomes effective, the A1 Shares, A2 Shares and A3 Shares will be cancelled and Scheme Shareholders will be paid cash, issued with New Iberdrola Shares and issued with Loan Notes in proportion to their holdings of A1 Shares, A2 Shares and A3 Shares, respectively.

No temporary documents of title will be issued to Scheme Shareholders in respect of the A1 Shares, A2 Shares or A3 Shares. If for any reason the Capital Reduction comprised in the Scheme does not become effective within five Business Days of the Reorganisation Record Time, or such later date as Iberdrola and ScottishPower may agree and the Court may allow, the share capital reorganisation described above will be reversed and Scheme Shareholders will hold such number of Scheme Shares as they held immediately prior to the Reorganisation Record Time.

The terms of the reorganisation of the share capital of ScottishPower are set out in paragraph 1 of the Scheme contained in Part 14 of this document and the special resolution set out in Part 17 of this document.

(d) Subscription Agreement

Conditional on the Scheme becoming effective, the ScottishPower Board will appoint a person to execute the Subscription Agreement for the New Iberdrola Shares on behalf of the holders of the A2 Shares immediately and the person so authorised by the ScottishPower Board will execute the Subscription Agreement after the Scheme becomes effective. The Subscription Agreement, which will be in English and governed by Spanish law but subject to the jurisdiction of the English courts, will be in the form set out in Appendix A to this Part 4 (subject to any modifications agreed between the parties thereto before the Sanction Court Hearing) and will provide that: (i) Euroclear Nominees will subscribe for the New Iberdrola Shares on behalf of the holders of the A2 Shares; and (ii) the holders of the A2 Shares, Euroclear Nominees and Iberdrola agree that the cancellation of the A2 Shares, on terms that the reserve arising on the cancellation of such shares is applied in paying up the New ScottishPower Shares to be issued to Iberdrola, will satisfy the consideration for the New Iberdrola Shares. The Subscription Agreement will also provide that Iberdrola will issue New Iberdrola Shares as soon as legally and practically possible after signing the Subscription Agreement.

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(e) Conditions to the Offer

The Conditions to the Offer are set out in full in Part 5 of this document. In summary, the implementation of the Scheme is conditional upon:

- (i) approval of the Scheme by a majority in number representing three-fourths in value of the holders of ScottishPower Shares who are present and voting, either in person or by proxy, at the Court Meeting (or any adjournment thereof);
- (ii) the special resolution to approve and implement the Scheme and related matters being duly passed by the requisite majority at the ScottishPower EGM (or any adjournment thereof);
- (iii) the passing at the Iberdrola Shareholders Meeting (or any adjournment of such meeting) of such resolutions as may be necessary to implement the Offer (including resolutions to increase the share capital of Iberdrola);
- (iv) the negotiation and filing with the CNMV of the applicable documentation in relation to the issue of the New Iberdrola Shares;
- (v) the sanction of the Scheme and confirmation of the Capital Reduction by the Court and the delivery of certified copies of the Court Orders and a certified copy of the minute of such Capital Reduction in relation thereto for registration to the Registrar of Companies and in relation to the Capital Reduction, the registration of the minute of the Capital Reduction by the Registrar of Companies;
- (vi) receipt of the regulatory approvals; and
- (vii) the other Conditions (set out in paragraph 2 of Part 5 of this document), which are not otherwise summarised above, being satisfied or waived.

(f) Sanction of the Scheme by the Court

Under the Act, the Scheme also requires the sanction of the Court. The Sanction Court Hearing and the Reduction Court Hearing are expected to be held on 19 April 2007 and 23 April 2007, respectively. The time between the two Court Hearings is required in order to permit ScottishPower Shares released, transferred or issued under the terms of the ScottishPower Share Schemes to be registered prior to the Capital Reduction being confirmed by the Court and for the share capital reorganisation described in paragraph (c) above to take place.

Iberdrola has confirmed that it will be represented by counsel at the Court Hearings so as to consent to the Scheme and to undertake to the Court to be bound thereby.

The Scheme will become effective in accordance with its terms on delivery of certified copies of the Court Orders and the minute of the Capital Reduction attached thereto for registration to the Registrar of Companies and, in relation to the Capital Reduction the registration by the Registrar of Companies of the minute of the Capital Reduction.

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If the Scheme becomes effective, it will be binding on all ScottishPower Shareholders and ScottishPower ADS Holders irrespective of whether or not, being entitled to do so, they attended or voted in favour of the Scheme at the Court Meeting or in favour of the special resolution at the ScottishPower EGM. If the Scheme does not become effective by 31 July 2007 (or such later date (if any) as ScottishPower and Iberdrola may agree and the Court may allow), the Scheme will not become effective, the Capital Reduction will not occur and the Offer will not proceed and will lapse.

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(g) Objections

Any ScottishPower Shareholder, ScottishPower ADS Holder or other person who considers that he or she has an interest in the Scheme (each an **Interested Party**) and who is concerned that the Scheme may adversely affect them is entitled to be heard by the Court, as explained below.

If an Interested Party wishes to raise concerns in relation to the Scheme with the Court or appear at the Sanction Court Hearing, he or she should seek independent legal advice and lodge written answers to the petition with the Court at Parliament House, Parliament Square, Edinburgh EH1 1RQ within 14 days of the publication of the advertisement of the petition (which is currently expected to be 3 April 2007) and pay the required fee. Written answers are a formal court document which must comply with the rules of the Court and are normally prepared by Scottish counsel or a Scottish solicitor.

The Court may consider written objections which are not in the form of written answers and/or allow an Interested Party who has not lodged written answers to appear at the Sanction Court Hearing, but each Interested Party should note that the decision to do so is entirely at the discretion of the Court, and that the Court may require an Interested Party to lodge written answers in order to raise objections to the Scheme and/or appear at the Sanction Court Hearing.

(h) Articles of Association

The resolution to be proposed at the ScottishPower EGM will contain provisions to amend the ScottishPower Articles to ensure that any ScottishPower Shares issued between the adoption of the ScottishPower EGM Resolution and on or before the Reorganisation Record Time will be subject to the Scheme and that any ScottishPower Shares issued after the Reorganisation Record Time will (subject to the Scheme becoming effective) automatically be acquired by Iberdrola for the consideration, the economic effect of which shall be 400 pence and 0.1646 of a New Iberdrola Share per ScottishPower Share.

The resolution to be proposed at the ScottishPower EGM will also contain provisions pursuant to which ScottishPower will pay 12 pence per ScottishPower Share to each ScottishPower Shareholder for each ScottishPower Share issued after the Effective Date and subsequently transferred to Iberdrola, other than those who receive such ScottishPower Shares following conversion of Convertible Bonds. In the latter case, the conversion ratio, and therefore the number of ScottishPower Shares received on conversion of the Convertible Bonds, will be adjusted to take into account the payment of the Special Dividend.

ScottishPower will not be able to issue any ScottishPower Shares in the period between the Reorganisation Record Time and the Effective Date, as transfers of and dealings in ScottishPower Shares will be suspended and the Register of Members will be closed. If any participants in the ScottishPower Share Schemes choose to exercise options during this period, ScottishPower will issue them with ScottishPower Shares immediately after the Effective Date and such shares will be automatically acquired by Iberdrola in the manner described above.

These provisions will avoid any person being left with ScottishPower Shares after dealings in such shares have ceased on the London Stock Exchange.

(i) Alternative means of implementing the Offer

Iberdrola has reserved the right to implement the Offer, with the written consent of ScottishPower, by way of a Takeover Offer, in which case additional documents will be despatched to ScottishPower Shareholders. In such event, such a Takeover Offer will (unless otherwise agreed) be implemented on the same terms (subject to appropriate amendments) as those which would apply to the Scheme.

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20 Listing, Settlement and Dealings

(a) Delisting of ScottishPower Shares and ScottishPower ADSs; Deregistration of the ScottishPower Shares and ADSs under the Exchange Act

- (i) The last day for dealings in, and for registration of, transfers of ScottishPower Shares will be 19 April 2007. The last day of dealings in, and for registration of transfers of, ScottishPower ADSs by ScottishPower ADS Holders who make an election under the Mix and Match Facility will be 4 April 2007 (please note that any ScottishPower ADS Holder who does not hold his or her ScottishPower ADSs through the Direct Registration System of DTC will not be allowed to transfer such ScottishPower ADSs after completing and returning the ADS Letter of Transmittal and Election Form, even if prior to 4 April 2007. In the case of any ScottishPower ADS Holder who does not make an election under the Mix and Match Facility, the last day of dealings in, and for registration of transfers of, ScottishPower ADSs will be the earlier of the date on which the ScottishPower ADS Holder returns his or her ADS Letter of Transmittal and Election Form (or, if later, 4 April 2007 in the case of ScottishPower ADS Holders who hold their ScottishPower ADSs through the Direct Registration System of DTC) and 30 days after the termination of the ScottishPower Deposit Agreement. No transfers of ScottishPower Shares will be received after 19 April 2007 and no transfers of ScottishPower ADSs will be received after the date which is 30 days after the termination of the ScottishPower Deposit Agreement. Following 19 April 2007, ScottishPower will be temporarily suspended from the Official List and from trading on the London Stock Exchange's market for listed securities.
- (ii) Prior to the Scheme becoming effective, applications will be made to the FSA for the listing of the ScottishPower Shares on the Official List to be cancelled and to the London Stock Exchange for such shares to cease to be admitted to trading on its market for listed securities. It is expected that the cancellation of the listing and the cancellation of the admittance to trading will both take place on the Effective Date.
- (iii) Promptly upon the Scheme becoming effective, the ScottishPower ADSs will be delisted.
- (iv) Iberdrola intends to terminate the ScottishPower Deposit Agreement and de-register the ScottishPower Shares and ScottishPower ADSs under the Exchange Act at the earliest practicable date following the Effective Date.
- (v) The admission to listing on the Official List of the ScottishPower B Shares will be unaffected by the Offer and will continue after the Effective Date.

(b) Listing of New Iberdrola Shares

- (i) An application will be made by Iberdrola for the New Iberdrola Shares to be admitted to trading on the Bolsas de Valores. Admission of the New Iberdrola Shares to trading on the Bolsas de Valores is expected to occur at 5.35 p.m. (Madrid time) on 24 April 2007 and that dealings for normal settlement will commence on 25 April 2007. During the period from the Effective Date until the date on which dealings in the New Iberdrola Shares on the Bolsas de Valores commence, the New Iberdrola Shares will not be listed, nor can they be traded on any stock exchange.
- (ii) Iberdrola does not intend to apply for a listing of the New Iberdrola Shares on the London Stock Exchange or the New York Stock Exchange and does not intend to apply for a listing of the Iberdrola ADSs on any stock exchange.

(c) Registration of Iberdrola Shares and Iberdrola ADSs under the Exchange Act

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In accordance with the successor registration provisions of Rule 12g-3 of the Exchange Act, on the Effective Date, the Iberdrola Shares and Iberdrola ADSs will be deemed to be registered with the SEC under the Exchange Act. Accordingly, Iberdrola will succeed to ScottishPower's status as a registrant under the Exchange Act and will therefore become subject to the ongoing reporting obligations of the Exchange Act for so long as Iberdrola remains a registrant. Such reporting obligations include the

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requirement to file with the SEC annual reports on Form 20-F and to submit to the SEC periodic and other reports on Form 6-K. Iberdrola intends to seek to de-register the Iberdrola Shares and Iberdrola ADSs under the Exchange Act at the earliest practicable date following the Effective Date.

(d) Issue of Iberdrola CDIs representing entitlements to New Iberdrola Shares

- (i) Iberdrola Shares are traded, cleared and settled through Iberclear and, unlike ScottishPower Shares, are not capable of being admitted and settled directly in the usual UK settlement systems. In addition, Iberdrola Shares may only be held in uncertificated form with the ownership rights of shareholders being represented by book entries rather than share certificates. As a result, holding and trading the New Iberdrola Shares directly may therefore involve a number of unfamiliar formalities for certain UK and other investors.
- (ii) In order to facilitate trading of the New Iberdrola Shares in the UK, Iberdrola intends that the New Iberdrola Shares will initially be delivered, held and settled in CREST by means of the CREST International Settlement Links Services, and in particular through CREST's link with Euroclear and Euroclear's link with Iberclear through an account with Santander. Iberclear is the Spanish clearance and settlement system, which is in charge of the clearing and settlement of all trades from the Bolsas de Valores. CREST's link operates via the services of Euroclear, which, in turn, operates via the services of Santander, which acts as a participant in Iberclear. By virtue of these links CREST may issue CREST Depository Interests representing New Iberdrola Shares to investors (as explained in more detail below).
- (iii) Under the CREST International Settlement Links Services, CREST Depository Limited, a subsidiary of CRESTCo, issues dematerialised depository interests representing entitlements to non-UK securities (in this case the New Iberdrola Shares) known as CREST Depository Interests or CDIs. CDIs may be held, transferred and settled solely within CREST. However, CDI holders, provided they cancel their CDIs, are able to deliver their underlying shares to a participant in the relevant settlement system (e.g. Iberclear). Upon receipt of Iberdrola CDIs, ScottishPower Shareholders will therefore not be the registered holders of the New Iberdrola Shares to which they are entitled as a result of the implementation of the Scheme. The registered holder of such shares will be Euroclear Nominees, who will hold them on trust (as bare trustee under English law) for Euroclear as operator of the Euroclear system, which shall credit that interest for the account of CREST Depository Limited's nominee, CREST Nominees, in Euroclear, pursuant to which CREST Depository Limited will issue the Iberdrola CDIs. However, ownership of Iberdrola CDIs will represent each ScottishPower Shareholder's entitlement to such New Iberdrola Shares.
- (iv) Following issue of the Iberdrola CDIs, holders of the Iberdrola CDIs will, at their option, be able to effect the cancellation of their Iberdrola CDIs in CREST in order to hold their underlying New Iberdrola Shares by sending an instruction to CREST to that effect (via the Corporate Nominee in the case of holders of Iberdrola CDIs holding through the Corporate Nominee Facility described in paragraph 20(e) below) and will be entitled to arrange for the transfer of their New Iberdrola Shares (as represented by their holding of Iberdrola CDIs) into a shareholding account with a depository financial institution which is a participant in Iberclear. Certain transfer fees will be payable by a holder of Iberdrola CDIs (including those holding through the Corporate Nominee Facility (described in paragraph 20(e) below) who makes such a transfer. However, any former Certificated Holder who is issued with Iberdrola CDIs pursuant to the Scheme will not be charged any such transfer fees for the first such transfer, provided such transfer is effected within six weeks of the Effective Date. The terms and conditions upon which CDIs are issued and held in CREST are set out in the CREST Deed Poll and other related documents in the CREST Manual including, in particular, in the CREST International Manual.
- (v) Iberdrola will arrange for the Corporate Nominee to hold Iberdrola CDIs in CREST on behalf of all Certificated Holders. The terms and conditions of these arrangements will be sent to all Certificated Holders together with a letter setting out their entitlement shortly after the Effective Date.

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- (vi) A custody fee, as determined by CREST from time to time is charged at user level for the use of Iberdrola CDIs. Iberdrola will procure that this fee will not be charged to Certificated Holders, whose Iberdrola CDIs are held on their behalf through the Corporate Nominee Facility.
- (vii) Normal CREST procedures (including timings) apply in relation to any ScottishPower Shares that are, or are to be, converted from uncertificated to certificated form, or from certificated to uncertificated form, prior to the Effective Date (whether any such conversion arises as a result of a transfer of ScottishPower Shares or otherwise). ScottishPower Shareholders who are proposing to convert any such ScottishPower Shares are recommended to ensure that such conversions have been completed prior to the Reorganisation Record Time.
- (viii) For the avoidance of doubt, the provisions of this paragraph (d) do not apply to the Iberdrola ADSs. Euroclear Nominees shall, at the direction of the ScottishPower Depository, direct Santander that the Iberdrola Depository be registered with Santander as the holder of the number of New Iberdrola Shares to which the ScottishPower Depository is entitled under the Scheme in order for the Iberdrola Depository to issue such number of Iberdrola ADSs to which holders of ScottishPower ADSs are entitled. The Iberdrola Depository will not receive Iberdrola CDIs.

(e) Settlement

As soon as reasonably practicable after the Effective Date, Iberdrola shall deliver such New Iberdrola Shares, cash and Loan Notes as are required to be delivered to give effect to the Scheme, such consideration to be settled as set out below:

(i) Settlement of the New Iberdrola Shares

Iberdrola shall instruct Iberclear to credit the New Iberdrola Shares to which the relevant ScottishPower Shareholders are entitled to the securities deposit account of Euroclear Nominees. Iberdrola shall procure that Euroclear Nominees through its link with Santander, as participating entity in Iberclear, shall hold such shares on trust (as bare trustee under English law) for Euroclear and that Euroclear shall in turn credit such New Iberdrola Shares to an account in the name of CREST Nominees. The interest in such New Iberdrola Shares shall be held by CREST Nominees as nominee for CREST Depository Limited. Shortly following the aforementioned steps having been taken, CREST Depository Limited shall:

- (a) in the case of Certificated Holders, issue Iberdrola CDIs to the Corporate Nominee, Lloyds TSB Registrars Corporate Nominee Limited, and the Corporate Nominee shall thereupon deliver a Statement of Ownership detailing the relevant Certificated Holders' entitlement to Iberdrola CDIs; and
- (b) in the case of Uncertificated Holders, issue Iberdrola CDIs, in CREST, to the Receiving Agent and Iberdrola shall procure that the Receiving Agent shall thereupon deliver, through CREST to the stock account in CREST in which each such Uncertificated Holder held ScottishPower Shares, such Uncertificated Holders' entitlement to Iberdrola CDIs as soon as reasonably practicable after the Effective Date, and in any event within 14 days of the Effective Date.

(ii) Settlement of the cash consideration

- (a)

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Settlement of any cash consideration to which any Certificated Holder is entitled, including any cash to which they become entitled as a result of the sale of their fractional entitlements to New Iberdrola Shares, shall be settled by cheque drawn on a branch of a clearing bank in the United Kingdom and Iberdrola shall deliver or procure delivery to persons entitled thereto in accordance with the provisions of this paragraph 20(e)(ii)(a). Cheques shall be despatched as soon as reasonably practicable after the Effective Date and in any event within 14 days of the Effective Date; and

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- (b) Settlement of any cash consideration to which any Uncertificated Holder is entitled, including any cash to which they become entitled as a result of the sale of their fractional entitlements to New Iberdrola Shares, shall be paid by means of CREST by Iberdrola procuring a CREST payment obligation in favour of such Uncertificated Holder's payment bank in respect of the cash consideration due as soon as reasonably practicable after the Effective Date and in any event within 14 days of the Effective Date, in accordance with the CREST payment arrangements. Iberdrola reserves the right to settle all or any part of the cash consideration in the manner referred to in paragraph 20(e)(ii)(a) above if, for reasons outside its reasonable control, it is not able to effect settlement through CREST in accordance with this paragraph (20)(e)(ii)(b).

- (iii) Settlement of any Loan Note Consideration

Loan Notes will be issued by Iberdrola, credited as fully paid, in amounts and integral multiples of £1 and the balance of any entitlement that is not a whole multiple of £1 will be disregarded and not issued and will instead be settled in cash. Loan Note certificates shall be despatched by first class post (or by such other method as may be approved by the Panel) addressed to the person entitled thereto to the address appearing on the Register of Members or, in the case of joint holders, to the address of the holder whose name stands first in such register in respect of the joint holding concerned at such time. Loan Note certificates shall be despatched as soon as reasonably practicable after the Effective Date and in any event within 14 days of the Effective Date.

- (iv) Settlement of ADSs

On the Effective Date, the ScottishPower Shares held by the ScottishPower Depository in respect of the ScottishPower ADSs will be cancelled and the cash consideration for, and the Iberdrola ADSs to be issued in respect of, such ScottishPower Shares will be delivered to the ScottishPower Depository, as a ScottishPower Shareholder, within 14 days of the Effective Date. The ScottishPower Depository will then promptly convert the cash consideration into US Dollars in accordance with the ScottishPower Deposit Agreement and distribute the cash proceeds to each registered holder of ScottishPower ADSs, together with any Iberdrola ADSs to which such holder becomes entitled, upon receipt of the holder's completed ADS Letter of Transmittal and Election Form along with any ScottishPower ADSs held in certificated form.

Please also refer to paragraph 22 of this Part 4 below and to Part 13 of this document for further information.

- (v) General

All documents and remittances sent by or to holders of ScottishPower Shares or ScottishPower ADSs will be sent at their own risk.

New Iberdrola Shares, including such shares underlying Iberdrola ADSs, to be issued as consideration under the Scheme will be issued credited as fully paid and free from all liens, charges, encumbrances, and, subject to the Iberdrola By-laws, rights of pre-emption and any other third party rights of any nature whatsoever (save that under the CREST Deed Poll, CREST has certain rights of sale and deduction for expenses and liabilities it may incur in relation to acting as depository in relation to the Iberdrola CDIs) and will rank *pari passu* in all respects with the existing Iberdrola Shares, including the right to receive all dividends, distributions and other entitlements declared, made or paid by Iberdrola on Iberdrola Shares after the Effective Date. Further details of the rights attaching to the New Iberdrola Shares are set out in Part 8 of this document. Immediately following the Offer becoming effective, but before any dealings take place under the Dealing Facility, former ScottishPower Shareholders and ScottishPower ADS Holders are expected to own approximately 21 per cent. of the issued share capital of Iberdrola.

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(f) Rights Attaching to Iberdrola CDIs

The holders of Iberdrola CDIs will have an entitlement to the New Iberdrola Shares to which they are entitled under the Scheme but will not be the registered holders thereof. Accordingly, the holders of Iberdrola CDIs will only be able to enforce and exercise the rights relating to the New Iberdrola Shares described in Part 8 of this document in accordance with the arrangements described below.

- (i) In order to allow the holders of Iberdrola CDIs to exercise rights relating to the New Iberdrola Shares, Iberdrola will, prior to the Effective Date, enter into arrangements pursuant to which it will procure that, with effect from the Effective Date, all holders of Iberdrola CDIs (including all former Certificated Holders whose Iberdrola CDIs are held through the Corporate Nominee Facility described in paragraph 20(e) above):
- (a) will receive notices, in English, of all general shareholders meetings of Iberdrola;
 - (b) will be able to give directions as to voting at all general shareholders meetings of Iberdrola;
 - (c) will have made available to them and will be sent, at their request, copies of the annual report and accounts of Iberdrola and all of the documents issued by Iberdrola to Iberdrola shareholders (in each case, in English); and
 - (d) will be treated in the same manner as registered Iberdrola shareholders in respect of all other rights attaching to New Iberdrola Shares,

in each case, insofar as reasonably practicable and possible in accordance with applicable CREST Regulations and CREST Requirements, and applicable law, and subject to the provisions of paragraphs 2(c) to 2(f) of Part 8 of this document.

- (ii) Holders of Iberdrola CDIs (including former Certificated Holders whose Iberdrola CDIs are held through the Corporate Nominee Facility described in paragraph 20(e) above) are not entitled to attend and vote at general shareholders meetings of Iberdrola. In order to do so, whether in person or through the appointment of a proxy (who must also be an Iberdrola Shareholder), they must first effect the cancellation of their Iberdrola CDIs for their underlying Iberdrola Shares which must then be held with a depository financial institution which is a participant in Iberclear at least five days before the relevant general shareholders meeting. On so doing, they will, subject to and in accordance with Iberdrola's By-laws, be able to attend and vote in person at the relevant general shareholders meeting of Iberdrola. Details of how such cancellation can be effected are set out in paragraph 20(d)(iv) above. As mentioned in paragraph 20(d)(iv) above, the first transfer will, for former Certificated Holders, be free of transfer fees provided it is effected within six weeks of the Effective Date.
- (iii) Under the Iberdrola By-laws, the chairman of Iberdrola has the right to invite any person to be present at a general shareholders meeting of Iberdrola, subject to the right of Iberdrola shareholders to revoke such authorisation. The chairman may, at his discretion, extend such invitation to holders of Iberdrola CDIs (including former Certificated Holders whose Iberdrola CDIs are held through the Corporate Nominee Facility described in paragraph 20(e) above) who wish to be present at a general shareholders meeting of Iberdrola without effecting the cancellation of their Iberdrola CDIs for their underlying New Iberdrola Shares. It should be noted that any person present at a general shareholders meeting of Iberdrola by invitation of the chairman is not entitled to speak, vote or exercise other shareholder rights in person at such meeting. Such holders of Iberdrola CDIs will, however, be entitled to give directions for voting their underlying New Iberdrola Shares pursuant to the arrangements which Iberdrola has put in place as referred to above.

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- (iv) In addition, the arrangements referred to in paragraph 20(f)(i) above will also include provisions dealing with the payment of amounts in respect of dividends (including a provision to the effect that the Corporate Nominee referred to in paragraph 20(e) will, for so long as CREST continues to provide such service, elect to receive any amounts in respect of dividends paid on the New Iberdrola Shares represented by the Iberdrola CDIs held through the Corporate Nominee Facility, in Sterling) and facilitating, so far as practicable and to the extent permitted by applicable law, the participation of Iberdrola CDI holders in capital events in the same manner as Iberdrola shareholders.

Holders of Iberdrola CDIs will not be able to participate in the Dividend Reinvestment Plan (**DRiP**), which Iberdrola offers to its shareholders. Holders of Iberdrola CDIs who wish to participate in the DRiP must first effect the cancellation of their Iberdrola CDIs for their underlying New Iberdrola Shares which must then be held with a depository financial institution which is a participant in Iberclear. Details of how such cancellation can be effected are set out in paragraph 20(d)(iv) above.

Iberdrola will investigate the possibility of Iberdrola CDI holders whose Iberdrola CDIs are held through the Corporate Nominee Facility described in paragraph 20(e) above participating in the DRiP in respect of future dividends. Further details of the DRiP are set out in paragraph 1(b) of Part 8 of this document.

- (v) Iberdrola will procure that the provider of the Corporate Nominee Facility described in paragraph 20(e) above will send to former Certificated Holders on whose behalf the Corporate Nominee holds Iberdrola CDIs pursuant to the arrangement described in paragraph 20(e) above a statement of their holdings in Iberdrola CDIs on joining the Corporate Nominee Facility and at least once a year afterwards, for so long as such holder retains some Iberdrola CDIs in the account of the Corporate Nominee.
- (vi) All former Certificated Holders will be sent, together with their initial Statement of Ownership detailing the number of Iberdrola CDIs held on their behalf in the Corporate Nominee Facility, a booklet containing the terms and conditions of the Corporate Nominee arrangements which will include a description of the procedure to be followed for cancelling Iberdrola CDIs and effecting the transfer of the underlying New Iberdrola Shares and provisions relating to exclusion of liability on the part of the relevant Corporate Nominee from Iberdrola CDI holders.
- (vii) Former Certificated Holders who wish to hold their New Iberdrola Shares through an intermediary of their own choice which is a participating entity in Iberclear will be able to instruct the Corporate Nominee to transfer the New Iberdrola Shares accordingly. Details of the manner in which instructions may be given to the Corporate Nominee will be sent to ScottishPower Shareholders following the Meetings.

(g) Transfers of New Iberdrola Shares Underlying Iberdrola CDIs

- (i) A description of the procedure to be followed by a former Certificated Holder who wishes to cancel the Iberdrola CDIs held on his behalf pursuant to the Corporate Nominee Facility described in paragraph 20(e) above and effect the transfer of his underlying New Iberdrola Shares will be set out in the booklet to be sent to all former Certificated Holders together with their initial Statement of Ownership as referred to in paragraph 20(e) above. Former Uncertificated Holders will be able to cancel their Iberdrola CDIs and effect the transfer of their underlying New Iberdrola Shares in accordance with the relevant rules and practices of CREST (subject to any legal restrictions on transfer in any jurisdiction).
- (ii) Any cancellation of Iberdrola CDIs will involve the disposal of the underlying interest in the New Iberdrola Shares. If former ScottishPower Shareholders dispose of their underlying New Iberdrola Shares by way of sale, gift or on death, then Spanish tax requirements, which are described in paragraph 26 of this Part 4, apply. For UK tax residents, these requirements are described in paragraph 26 of this Part 4 of this document. For US tax residents, there are additional requirements which are described in paragraph 26 of this Part 4. Former ScottishPower Shareholders who are in any doubt, and in particular those who are tax resident other than in the UK or US, should take appropriate professional advice.

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21 Holding of New Iberdrola Shares

The New Iberdrola Shares to be issued and delivered as consideration under the Offer will be fully paid, will rank *pari passu* for any dividend declared or paid by Iberdrola by reference to a record date on or after the Effective Date and will otherwise rank *pari passu* in all respects with Iberdrola Shares in issue at the time the New Iberdrola Shares are delivered under the Offer. The New Iberdrola Shares will be issued free from all liens, charges, equitable interests, encumbrances and other third party rights and interests of any nature whatsoever and, subject to the Iberdrola By-laws, rights of pre-emption and any other third party rights of any nature whatsoever (save that, under the CREST Deed Poll, CREST has certain rights of sale and deduction for expenses and liabilities it may incur in relation to acting as Depository in relation to the Iberdrola CDIs).

Applications will be made for the New Iberdrola Shares to be listed on the Bolsas de Valores, quoted through the Automated Quotation System of the Bolsas de Valores and cleared and settled through Iberclear, the Spanish clearing and settlement system. Iberclear and its member entities maintain a book-entry system on which details of shareholders' holdings of, and trades in, Iberdrola Shares will be recorded. The New Iberdrola Shares, like all shares in Spanish public companies, will be dematerialised and will not be capable of being represented by share certificates. In the event that the registered holder of a New Iberdrola Share desires a document evidencing his or her title to such share, a Statement of Ownership (*certificado de inmovilización*) can be requested from the Iberclear member through which the share is held. A statement of ownership of the New Iberdrola Shares will not be issued by the Iberclear member unless one is requested by the Iberdrola shareholder, in which case, according to Spanish law, the securities in respect of which the statement of ownership has been issued will be, and remain, blocked (and, therefore, among other things, cannot be traded) other than in relation to enforcement procedures until such statement of ownership is returned. Such statement of ownership is not a definitive certificate of title.

However, please note that without prejudice to the option of requesting a statement of ownership to the Iberclear member, the registered holder of New Iberdrola Shares will also be entitled to request from the Iberclear member, where the registered holder has deposited the New Iberdrola Shares, an informative excerpt (*extracto*) detailing, in accordance with the Iberclear member records, the number of New Iberdrola Shares owned by such registered holder. Such informative excerpt is not a definitive certificate of title. It is expected that admission of the New Iberdrola Shares to trading on the Bolsas de Valores will become effective and that dealings for normal settlement will commence on 25 April 2007. During the period from the Effective Date until the date on which dealings in the New Iberdrola Shares on the Bolsas de Valores commence, the New Iberdrola Shares will not be listed, nor can they be traded on any stock exchange.

Further information about the manner of holding and trading New Iberdrola Shares is set out in paragraph 1(f) of Part 8 of this document.

22 ScottishPower ADSs

Each outstanding ScottishPower ADS represents four ScottishPower Shares deposited pursuant to the ScottishPower Deposit Agreement. Each registered ScottishPower ADS Holder as at the ADS Record Time is entitled, under the terms of the ScottishPower Deposit Agreement, to attend and vote at the Meetings or to appoint a proxy to do so. Indirect holders of ScottishPower ADSs should consult the procedures of the bank, broker, financial institution, share plan administrator or other nominee through which they hold their ScottishPower ADSs in order to vote their ScottishPower ADSs. Indirect ScottishPower ADS Holders who wish to attend and vote at the Meetings may alternatively present their ScottishPower ADSs to the ScottishPower Depository for cancellation and receive (upon compliance with the terms of the ScottishPower Deposit Agreement, including payment of the ScottishPower Depository's fees and any applicable taxes and governmental charges) delivery of their ScottishPower Shares so as to become registered holders of ScottishPower Shares prior to the Voting Record Time.

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If you are a registered ScottishPower ADS Holder, please complete and sign the enclosed ADS Voting Instruction Card in accordance with the instructions printed thereon and return it in the white postage-paid business reply envelope provided (for use in the US only) to JPMorgan Chase Bank, N.A., at the address set forth on the ADS Voting Instruction Card, as soon as possible and, in any event, so as to be received no later than 3.00 p.m. (New York time) on 26 March 2007. You may indicate on the ADS Voting Instruction Card whether you wish to attend and vote at the Meetings yourself or whether you wish to appoint the nominee of the ScottishPower Depositary or another person as your proxy. If you wish to attend and vote at the Meetings yourself, you are requested to indicate this on the ADS Voting Instruction Card. If you appoint the nominee of the ScottishPower Depositary as your proxy, the nominee will vote in accordance with your instructions on the ADS Voting Instruction Card. If you appoint a person other than the nominee of the ScottishPower Depositary, you should instruct your proxy how you wish your ScottishPower ADSs to be voted.

Please note that if you appoint the nominee of the ScottishPower Depositary as your proxy (but not if you appoint another person as your proxy), you may nonetheless attend the Meetings, in which case the proxy you granted will be revoked, and you will be asked to vote in person. You will also be allowed to attend and vote in person if you have not returned your ADS Voting Instruction Card.

If you wish to attend the Meetings in person, you will be required to present a valid passport or other government-issued photo identification in order to gain admittance.

In lieu of completing and returning the ADS Voting Instruction Card, you may cast your vote by telephone, by calling +1-866-540-5760, or electronically by logging on to www.proxyvoting.com/spi, where details of the procedure are set out. Please refer to the ADS Voting Instruction Card for further information.

In the case of joint registered holders of ScottishPower ADSs, the ScottishPower Depositary has indicated that it will recognise as valid an ADS Voting Instruction Card signed by less than all of the joint holders (but the legal right of individual holders of jointly-held ScottishPower ADSs to appoint and instruct a proxy may depend on applicable US or state laws).

As soon as reasonably practicable after the Effective Date but in any event within 14 days of the Effective Date, and subject to any election made under the Mix and Match Facility, the ScottishPower Depositary will receive the economic equivalent of 1,600 pence and 0.6584 of an Iberdrola ADS for every ScottishPower ADS.

Upon the exchange of their ScottishPower ADSs, after receipt of the above by the ScottishPower Depositary and conversion of the cash portion thereof into US Dollars at the then prevailing exchange rate, each holder of such ScottishPower ADSs will be entitled to receive:

- (i) a cheque in US Dollars from the ScottishPower Depositary for the amount obtained by the ScottishPower Depositary with respect to such ScottishPower ADS Holder's ScottishPower ADSs upon conversion of the cash consideration received by it pursuant to the Scheme into US Dollars in accordance with the ScottishPower Deposit Agreement (and upon the sale of that ScottishPower ADS Holder's fractional entitlements to Iberdrola ADSs (if any) as described below); and
- (ii) any Iberdrola ADSs to which they become entitled.

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There will be no cancellation or issuance charges in connection with the surrender of any ScottishPower ADS in exchange for Iberdrola ADSs pursuant to the Scheme.