



# IBERDROLA Investors' Day 2008

Gleneagles, Scotland



## Liberalised Business Spain

July 2<sup>nd</sup> 2008

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## Agenda



**Introduction**

Organisation

Business management

Conclusions

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## Iberdrola Liberalised Business: Mission

<b>Assets</b>	Developing, operating and maintaining power plants
<b>Margin</b>	Global wholesale market operator with <u>trading capacity</u> , <u>fuel procurement</u> and <u>energy sales</u> to end customers
<b>Innovation</b>	Investing on <u>Research, Development and Innovation</u> to increase our <u>know-how</u> in order to be more competitive

## Iberdrola Liberalised Business: Facts

Assets	10 bn €
Employees	3 400
Investments	500 M€
Gas procurement	6 bcm (1 600 M€)
Coal procurement	3 Mt (200 M€)
Supply Customers	460 000
CO <sub>2</sub> Emissions/kWh	210 g
Hydro Producibility	13 TWh
Nuclear Producibility	28 TWh

### Iberdrola Liberalised Business: Energy

Installed Capacity	22 GW	
Power Generation	58 TWh	
Sales to End Consumers	Power	15 TWh
	Natural Gas	9 TWh
Natural Gas Trading Volume	25 TWh	
Electricity Trading Volume	57 TWh	

### Iberdrola Liberalised Business: Results

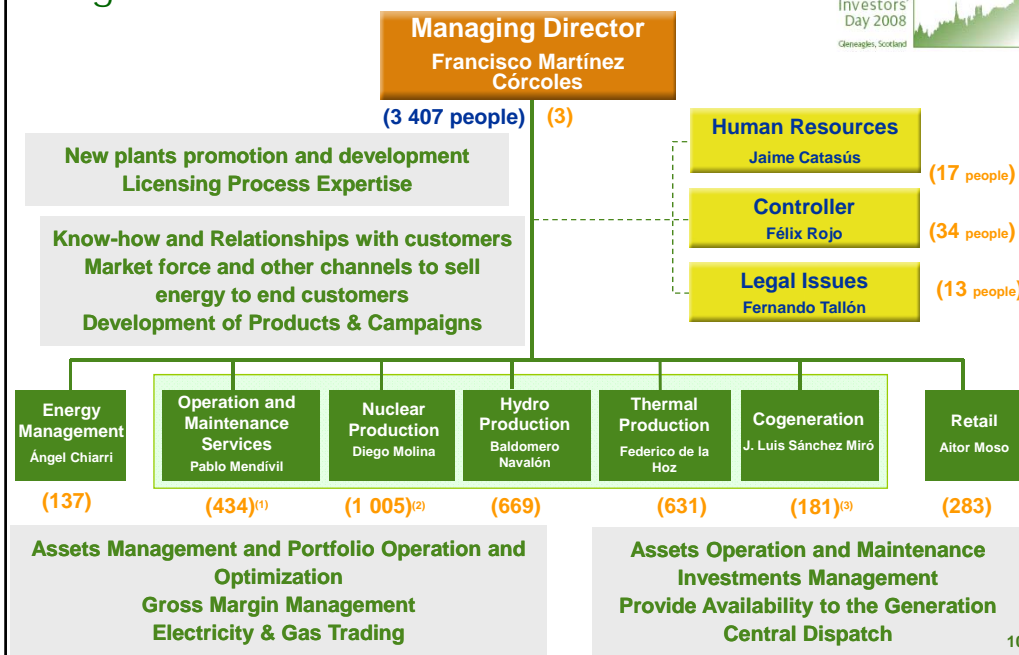
	2007	% of Iberdrola
EBITDA	1 250 M€	23%

# Agenda



- Introduction
- Organisation**
- Business management
- Conclusions

# Organisation



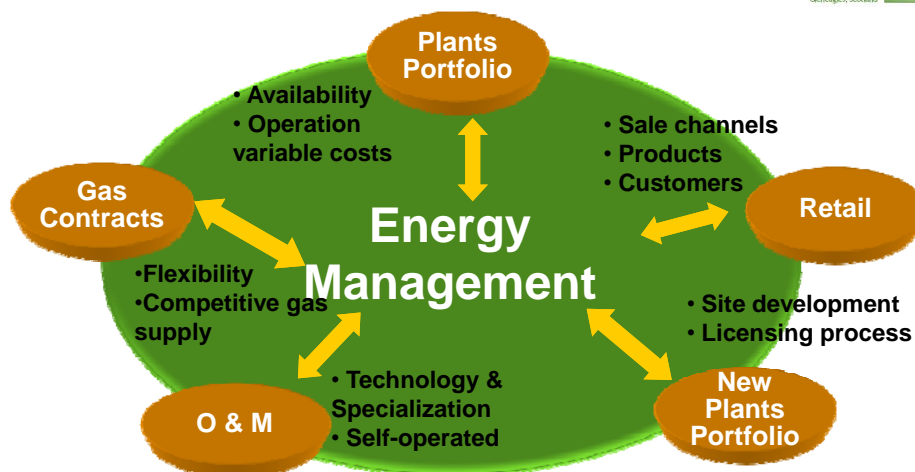
## Agenda



- Introduction
- Organisation
- Business management**
- Conclusions

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## Assets Management and Portfolio Operation and Optimization



**Energy Management Direction in charge of extracting the full value of assets and position, considering long and short term strategic options**

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## Assets: Power Plants



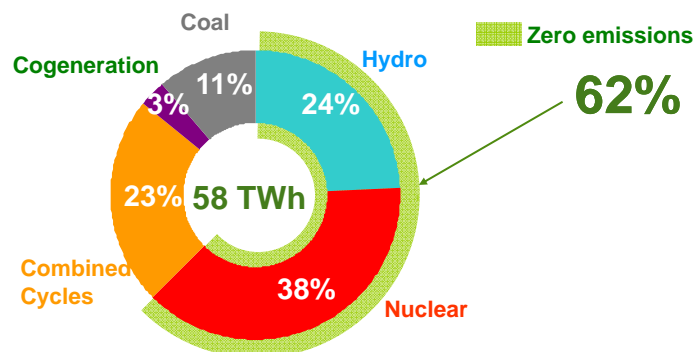
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## Assets: Portfolio's competitiveness



**In the current scenario, with high fossil fuel and CO<sub>2</sub> prices threatening coal plants' competitiveness...**

*Output by technology 2007*

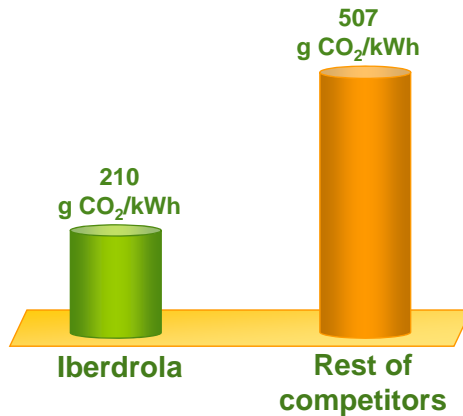


**Iberdrola has a privileged portfolio, due to its low-emitting mix**

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## Assets: environmental efficiency leadership

**Iberdrola is leader on environmental efficiency with more than half of its capacity emission-free**



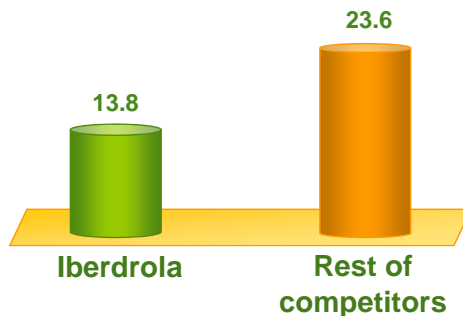
**With a portfolio specially well positioned to accomplish with Kyoto protocol ...**

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## Assets: variable cost leadership

### Variable fuel cost 2007

€/MWh



**And very competitive to produce bulk power output**

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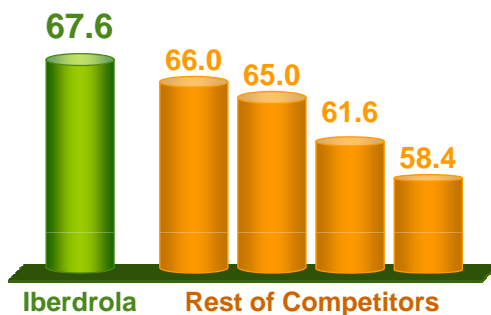


## Assets: energy management leadership



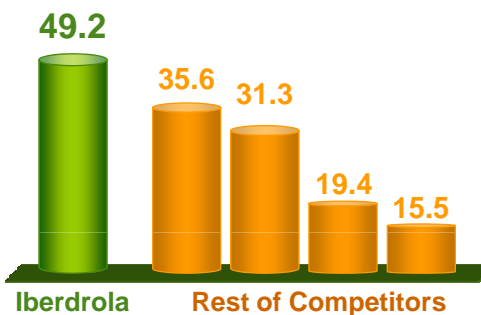
### Achieved Power Price 2008 Q1

€/MWh



### Margin Profit 2008 Q1

€/MWh



Iberdrola's achieved price is higher than the rest of competitors due to its portfolio optimization

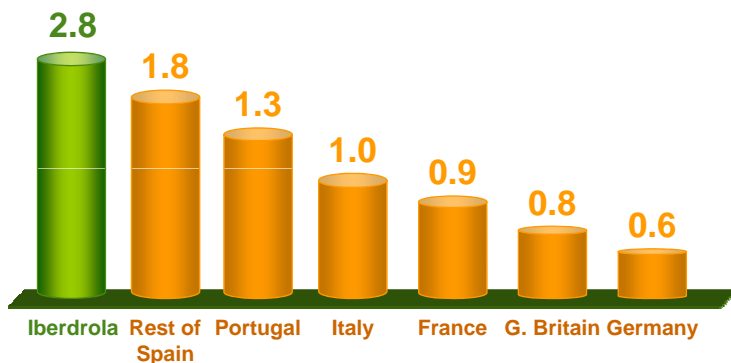
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## Assets: operational efficiency leadership



Iberdrola, a reference at the European level in generation

### MW/employee (Spanish Generation)



Source: Annual Reports and Analyst Reports

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## Core Margin Makers

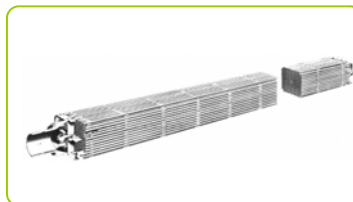
	Today	Future Evolution Drivers
Nuclear Capacity	3 344 MW	Load factor
Hydro Capacity	8 629 MW	Average income
Gas Contracts	6 bcm (1 600 M€)	Integration
Trading	45 M€/year	Sustained growth
Customers	7.2 TWh power 10 TWh gas	Growth

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## Assets: Nuclear

Iberdrola has a vast know-how in nuclear issues, going from fuel design to plant construction and maintenance

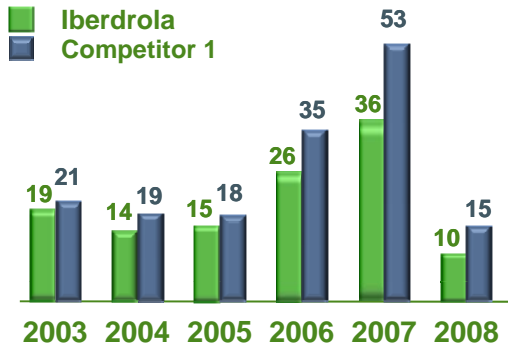
- ✓ the only Spanish company with in-house fuel design and licensing capability
- ✓ ranking as one of the most reliable European operators, achieving excellent levels in WANO and ROP indicators
- ✓ along with Iberdrola Engineering Subsidiary, is participating in different nuclear projects all over the world



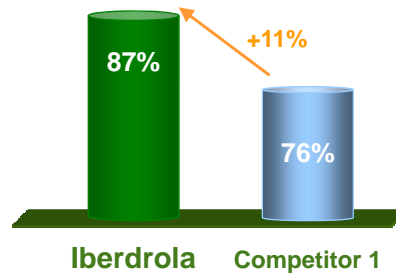
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## Assets: Nuclear

### Reportable Events



### 3 - Year WANO Capability Factor

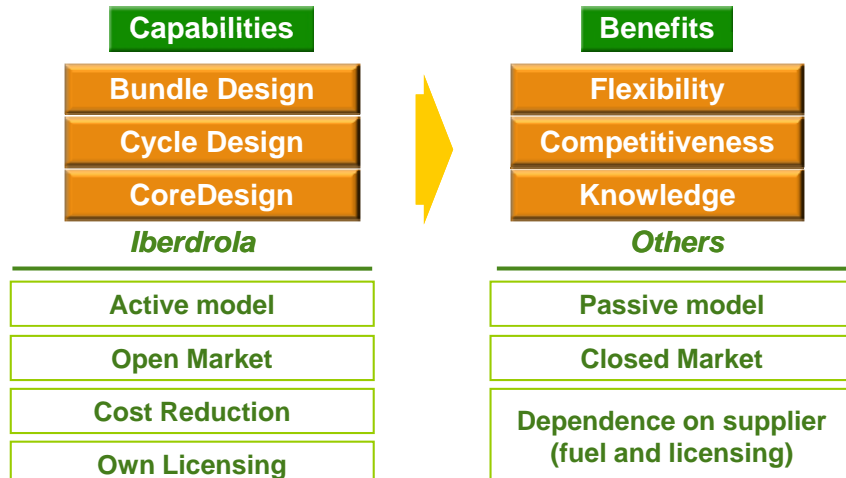


**Iberdrola is the most reliable Spanish nuclear operator, with more than 30 years of experience**

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## Assets: Nuclear Fuel

**Iberdrola is able to design and incorporate it's own nuclear fuel**



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## Assets: Nuclear Pipeline

**Iberdrola, along with IBD Engineering Subsidiary, is participating in different nuclear projects around the world...**

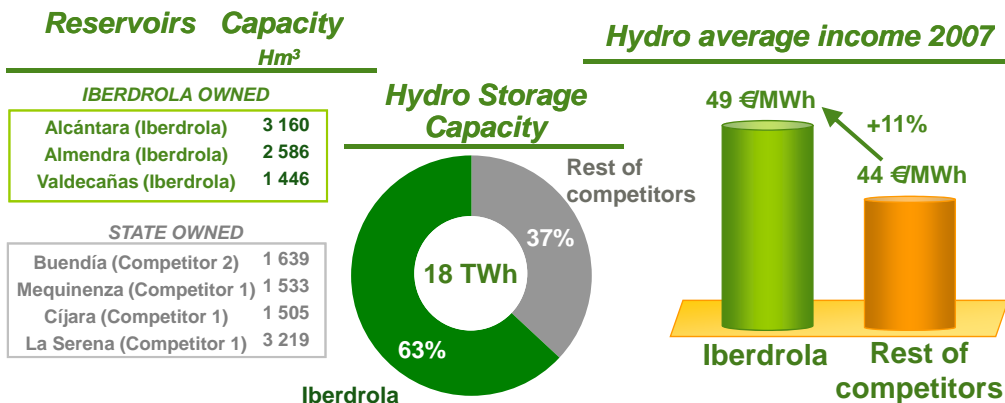


**...and is ready to assume a leading role in the upcoming nuclear outlook**

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## Assets: Hydro

**Iberdrola owns and operates some of the most important reservoirs...**

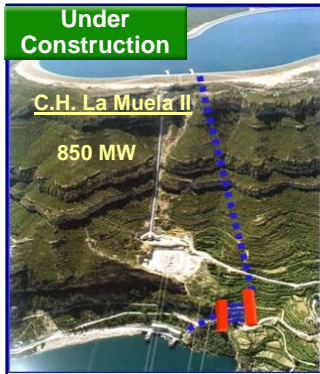


**...which gives extra-flexibility and permits to obtain more incomes than other agents**

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## Assets: New Plants Portfolio Hydro

Investments in pumped storage capacity gives the chance of a flexible operation offering ancillary services maximizing the price differentials



**Current Hydro Assets have an extra value in the market**



**Potential value will be extracted enlarging and building new plants**

**Investment in hydro and pumping is required in order to guarantee the security of the system**

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## Assets: Hydro Pipeline



### Portugal

Tenders organised by the Ministry of the Environment

### Central Europe

... and looking for other hydro opportunities in central Europe



### Spain

C.H. Covallos  
25 MW

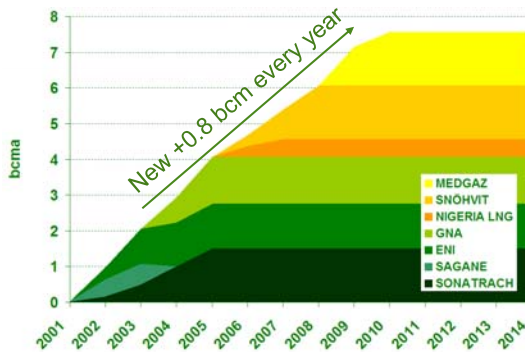
C.H. Pontenovo II  
130 MW

**Iberdrola looks for investment opportunities in clean technologies**

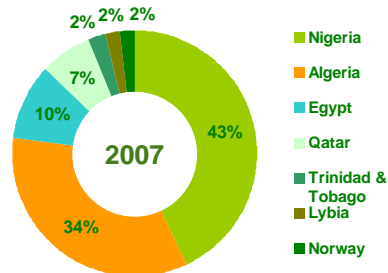
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## Natural gas Contracts

### Gas procurement



### Iberdrola's LNG supply origins



Iberdrola has a large and well diversified portfolio of long term gas contracts, balanced in LNG and pipeline gas

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## Access to gas market: regas terminals



### Bilbao Terminal (IBE 25%)

- Capacity: 6 bcma
- In operation: Nov 2003
- Expanding to: 9 bcma



### Sagunto Terminal (IBE 30%)

- Capacity: 6 bcma
- In operation: April 2006
- Expanding to: 9 bcma

Iberdrola has secured capacity rights to allocate its LNG into Spain, investing in new entry facilities

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## Access to UK gas market



**ISLE OF GRAIN regas terminal, expansion 3: 2.7 bcma, operational by 4Q 2010**

- Liquidity
- Transparency
- Optionality for LNG portfolio
- Security of supply for UK

**Iberdrola has an entry point into UK to link ScottishPower into its global gas optimization**

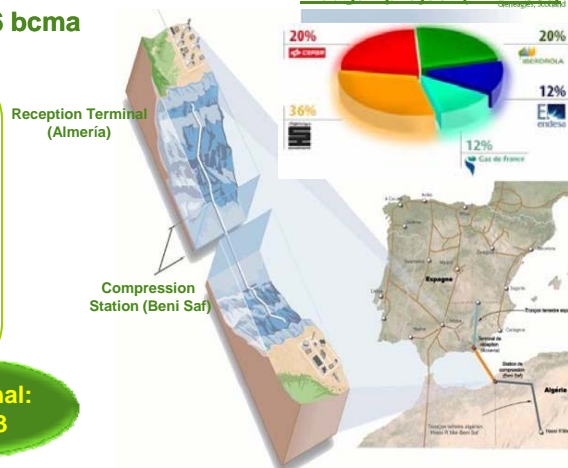
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## Natural gas Contracts

**Iberdrola: 1,6 bcma**

- CAPACITY: 8 bcma (to 16 bcma)
- MEDGAZ SUBSEA PIPELINE:
  - Ø Length: 200 km
  - Ø Max. Depth : 2,160 m
  - Ø Diameter: 24"
  - Ø Investment (Phase 1): 900 M€
- LAND PIPELINE:
  - Ø Algeria: 550 km (Sonatrach)
  - Ø Spain: 270 km (Enagas)

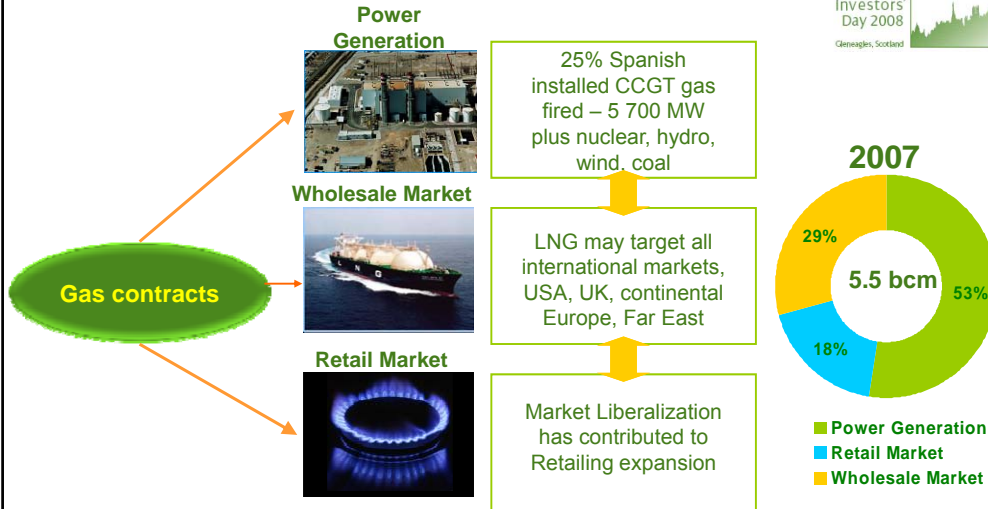
**Operational:  
2009 Q3**



**Medgaz widens security of supply and flexibility of Iberdrola and opens a new source of gas for Europe**

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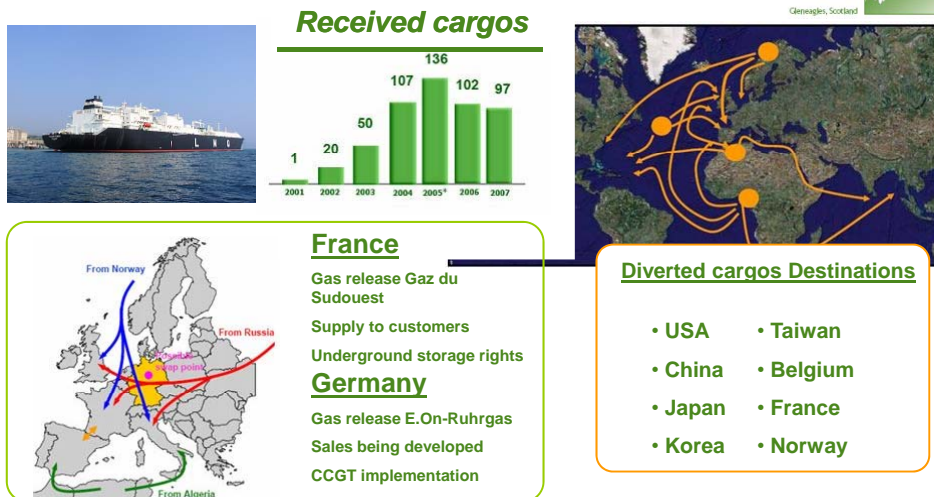
## Destinations of Natural Gas



Iberdrola maximizes margins by choosing the most profitable destinations of gas world wide

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## Natural Gas Wholesale Market



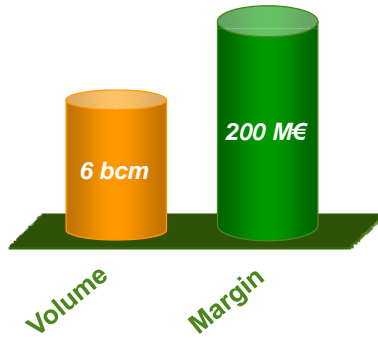
Iberdrola is one of the main LNG players in the Atlantic basin with access to customers as well in Far East

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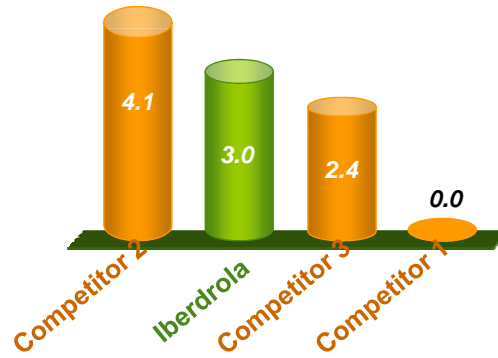


## Natural Gas Wholesale Market

### Key figures per year



### Margin – 1Q08 €/MWh

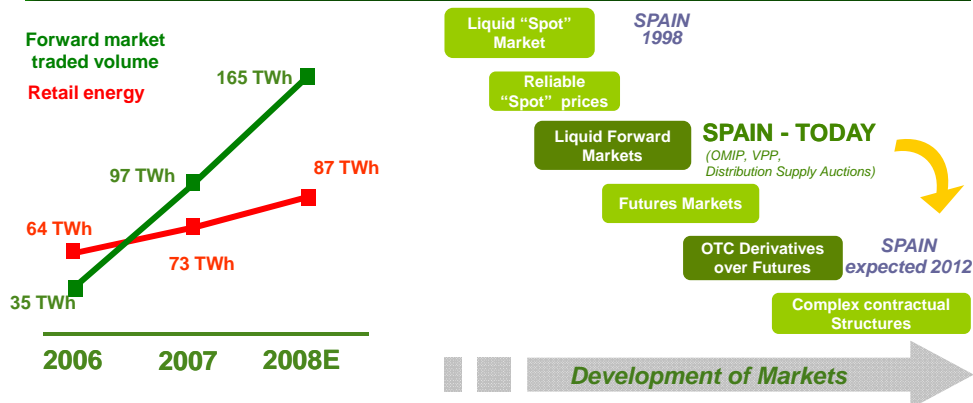


Flexible and secure gas contracts with competitive prices allow Iberdrola to obtain margins comparable to global market profits

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## Development of Forward Markets

Liberalisation of the markets has introduced a multiplying effect in the Spanish Forward Market which will reach record levels for traded volumes in 2008



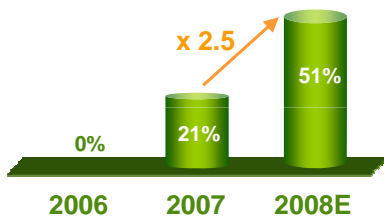
With regulation taking steps to promote liquidity: VPPs and Distribution Auctions

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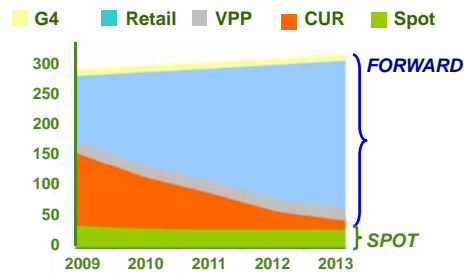
## Assets Production in Forward Markets

**Market development has promoted selling assets production in Forward Markets**

### Iberdrola's production sold in Forward Markets



### Spanish Market Evolution

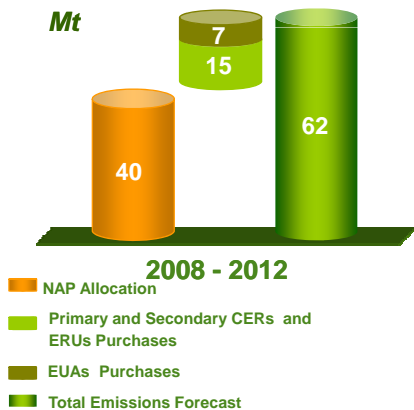


**Iberdrola sells more power in forward than in spot markets**

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## Iberdrola's Emissions Balance

**For phase II, 2008-2012, Iberdrola emissions forecast is around 60 Mt CO<sub>2</sub>**



IBERDROLA position will be hedged with:

- NAP Allocation
- Credits from CDM and JI projects.
- European Emissions Allowances (EUAs)

**In order to minimize compliance cost, the maximum limit of credits CERs and ERUs which add up to 15Mton will be used**

**Currently 26% of the limit already contracted, representing savings of 16 % of the costs**

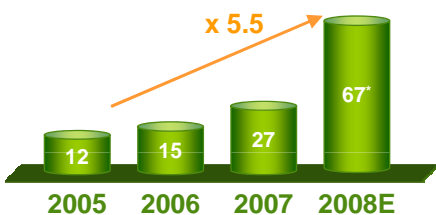
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## European Power Trading in Iberdrola

**Iberdrola proprietary trading has increased steadily in the last four years due to ...**

### Proprietary Traded Volume

TWh



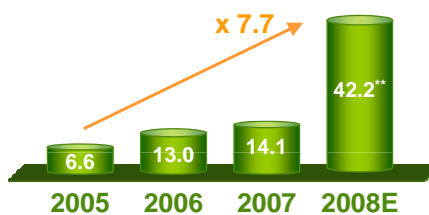
- Development of the Spanish Market
- Operations in new markets and products
- Increasing volumes in the most liquid wholesale markets (Germany)

\* Figure estimated from Q1-Q2'08 traded volumes

\*\* Settled position 18,3 MEUR; Forward Position Market Value 23,9 MEUR

### Proprietary Trading P&L

MEUR



- New opportunities detected (Spain, Portugal, Germany,...)
- Extracting value from high volatile markets

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## European Power Trading in Iberdrola

### Wholesale markets operations Iberdrola 2008



- Trades in 9 wholesale markets
- Operates daily in 7 spot markets and 3 Futures markets
- Trades in 12 interconnections, participating yearly in more than 5000 interconnection capacity auctions
- Awarded in the VPP auctions of 5 European countries
- Supplies energy losses to 4 TSOs and 2 DSOs
- Trades options, green certificates and a wide range of structured products
- 1<sup>st</sup> agent in traded volumes in OMIP, Spain
- 2<sup>nd</sup> agent in traded volumes in PWX intraday, France
- 1<sup>st</sup> Spanish utility trading in European wholesale markets
- 10 years of experience in European wholesale markets

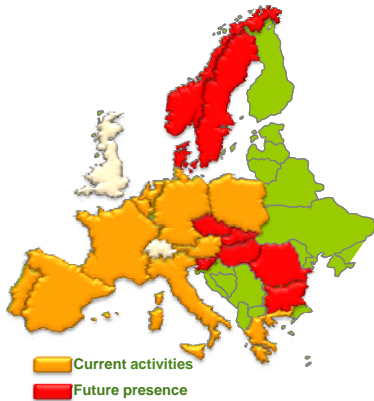
**Iberdrola is a key player in the European wholesale markets**

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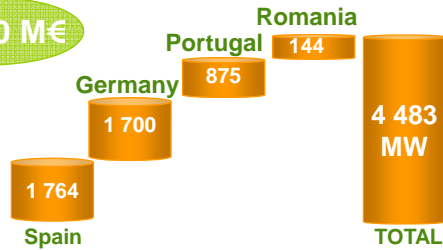
## Internalisation in Iberdrola

By expanding our trading activities

and backed by projects under development



+3 200 M€



Iberdrola will strengthen its presence throughout Europe

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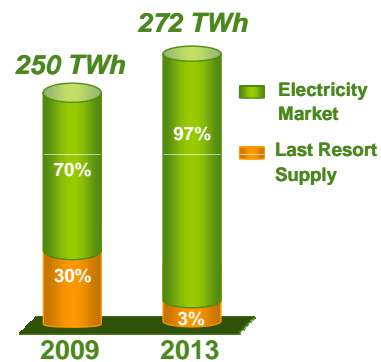
## Retail: Regulatory environment

- July 2008, High Voltage tariffs disappear
- From 1<sup>st</sup> January 2009 LV consumers will have the "Last Resort Supply"

(2007 Data)	Peninsular System	
	Contracts	TWh
G4	5	9.6
HT & MT Enterprises	94 500	116
SME (LV)	652 404	34
Residentia	23.7 Mill.	78
<b>Total</b>	<b>24.5 Mill.</b>	<b>238 TWh</b>

Allows to commercialize 170 TWh & 1.5 Mill contracts

Progressive trend to liberalization



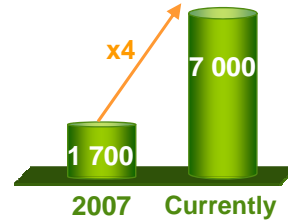
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## Retail: Today

### Clients Portfolio

Electricity		
	Contracts	TWh
HT & MT Enterprises	18 000	10
SME	42 000	1.9
Residential	270 000	1.1
<b>Total Electricity Contracts</b>	<b>330 000</b>	
<b>Total Gas Contracts</b>	<b>170 000</b>	

### New contracts per week



... In addition, 250 000 Products & Services: one every two contracts

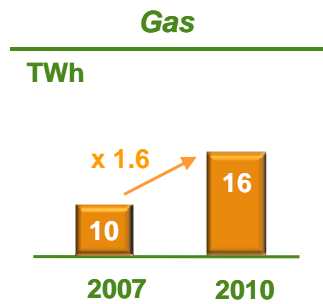
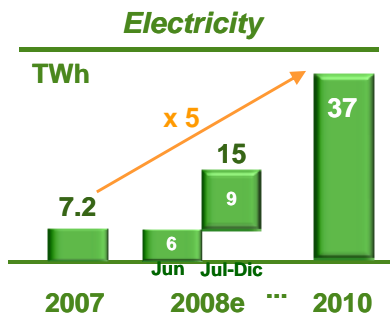
+ 4 000 associated products & Services/week

Always selling over the forward prices

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## Retail Plan: Future Perspectives

### 2010 Objectives



Portfolio of clients with low and medium consumption  
12 TWh (2.2 million contracts)

Excellent relationship and access to big clients  
25 TWh (25 000 contracts)

Note: In addition, starting January 1st 2009, 9 Mill. contracts and 40 TWh of Last Resort Supply to be included.

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## Retail Plan: Key Features

1. **Cost efficiency**, with processes and **administration** focused on our clients

Currently, 30 people manage  
500 000 contracts

In 2010, 60 people will manage  
2.5 million contracts

- Similar efficiency for the Last Resort Supply.
- **Integrated IT Systems**, flexible and reliable.

2. **Excellent Quality** in the Customer Relationship in order to maximize the resistance to change.

3. **Segmentation and channels**



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## Retail: Selling Channels

### Big clients, enterprises, public administration

- ✓ Customized management: 130 **in-house account managers**
- ✓ Management of client's energetic needs. **Energetic partner**
- ✓ Preferential attention allows higher prices than competitors

### SME & Residential

- ✓ Combining **internal** and **external** channels
- ✓ With products and services associated to electricity and gas
- ✓ Specific campaigns

### Currently 900 FTE selling for IBERDROLA

FTE

130

*In-house Account Managers*

30

*Specialized/Customized Telephone*

FTE

50

*Iberdrola Sales Force/Attention*

270

*Telephone*

270

*Sales Force*

90

*Iberdrola Attention Points*

60

*Collaborators Club*

Internal

Outsourced

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## Industrial market management is very segmented...



	Market	2008 Iberdrola Contracts
<b>Very big clients and interruptible</b> ✓ Tailored contracts, 1-5 years, indexations. ✓ High level interlocution.	28 TWh	10 000 clients 16 500 connections Electricity: 10.5 TWh Gas: 9 TWh
<b>High Tension</b> ✓ ≤ 2 year-term bids. ✓ Closed energy baskets.	66 TWh	
<b>Public Administration</b> ✓ Contracting through public tender.	8 TWh	
<b>HT Medium Enterprise</b> ✓ Standardization. ✓ Combination of selling channels: managers + telephone.	18 TWh	

... in order to take advantage of opportunities and maximize results

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## Segments, Portfolio and Strategic Plan: Products and Services



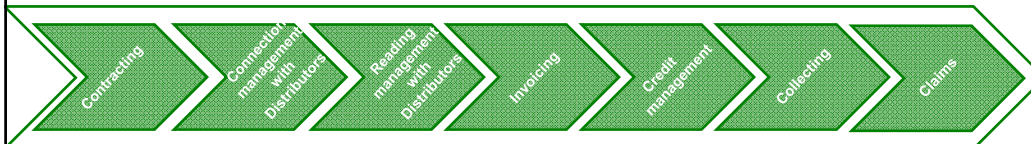
More than 50% of the electricity and gas contracts have associated P&S's ...

	Iberdrola's Portfolio	
	Contracts	Ratio
Insurance of Payment Protection	190 000	38%
Gas Maintenance	45 000	9%
SME Assistance	16 000	3%
Rest	12 000	3%

... which allow us selling more expensively the energy we produce

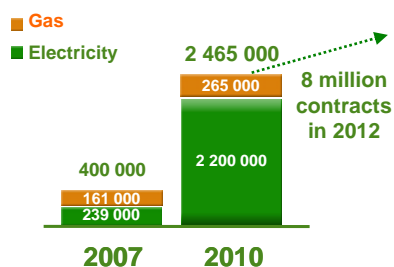
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## Retail: Simple and efficient retail process



### Integrated Retail Administration Process

#### Number of Managed contracts



30 people manage 500 000 contracts (and 250 000 P&S)

- With external support : 55 FTE (providing great flexibility)

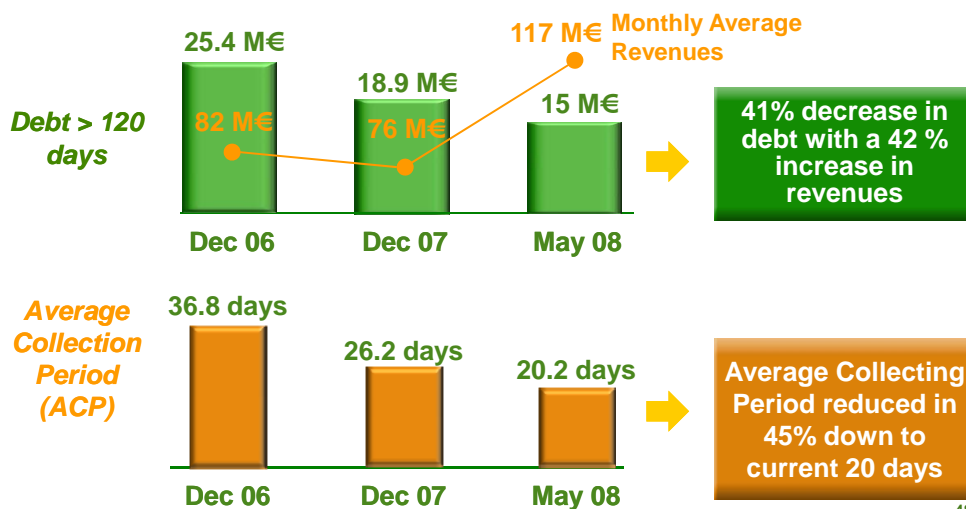
In 2010, 50 people to manage 2.5 million contracts

- With 100 outsourced FTE

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## Retail: Debt Evolution

### Optimizing with ex-ante and ex-post management



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**Increasing volume in forward markets have changed our business and new risks have appeared ...**

**Forward trading risk**

**Proprietary trading risk**

**To control and manage these new risks a new policy was approved in December 2007 by the Board of Directors**

*Risks are reported:*

- Quarterly to the Operating Committee*
- Monthly to Corporate Risks*
- Weekly to Corporate Control*
- Daily to Energy Management*

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**Including risk analysis inside the business contributes to a better knowledge of the market ...**

**... but supervised continuously by Corporate Control**

**Risks evaluation is independent from front offices**

**Market knowledge is needed to evaluate risks properly**

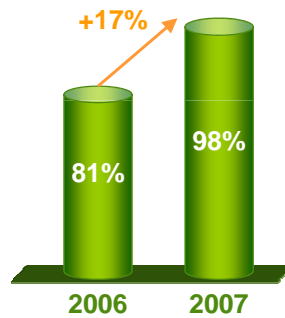
**Due to the increasing volume in trading, we are investing on a new ETRM system to be able to afford the expected amount of operations**

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### Industry benchmarking recognizes our efforts

#### *Dow Jones Sustainability Index on Price Risk Management*

*Performance relative to best in class*



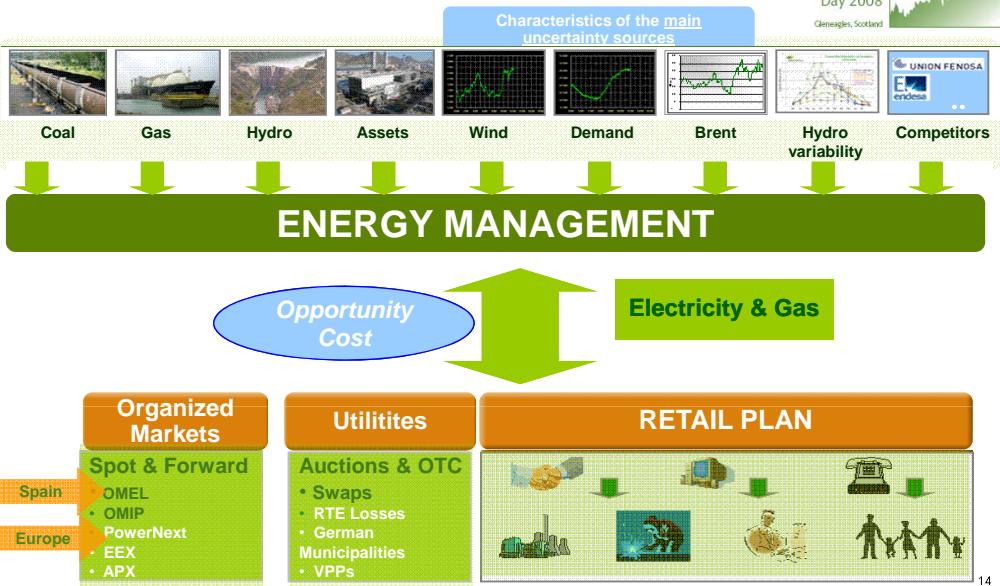
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## Agenda

- Introduction
- Organisation
- Business management
- Conclusions**

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# Energy Management



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# Core Margin Makers

		<i>Future Evolution Drivers</i>
<b>Nuclear Capacity</b>	<b>3 344 MW (+ pipeline)</b>	<b>Load factor</b> 11% over competitor
<b>Hydro Capacity</b>	<b>8 629 MW (+ pipeline)</b>	<b>Average income</b> 11% over competitors
<b>Gas Contracts</b>	<b>6 bcm (1 600 M€) (+ 1.6 bcm)</b>	<b>Integration</b> Margin 200 M€/year
<b>Trading</b>	<b>45 M€/year</b>	<b>Sustained growth</b> Business development in Continental Europe
<b>Customers</b>	<b>7.2 TWh power 10 TWh gas</b>	<b>Growth (by 2010)</b> x5 power X1.6 gas

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## Conclusions



- ✓ **First-class assets, prepared for the challenges of coming years**
- ✓ **Nuclear & Hydro pipeline that guarantee future margins increase**
- ✓ **Proved expertise in trading**
- ✓ **Current retail experience with high service standards that guarantee Iberdrola's success after regulated tariff abolition**

***Prepared for the Future***

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