Results Presentation
Full Year 2011

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Agenda

Highlights of the period

Analysis of results

Financing

Regulation

Conclusion

Annex:

- P&L
- Iberdrola Renovables information

Highligts of the period: Results

EBITDA totals Eur 7,650 M, up 1.6%
Operating Cash Flow up 5.8% to Eur 6,047 M

Operating efficiency continues to improve
Net Operating Expenses over Gross Margin reduced by 1.7%

Significant financial strength
Leverage 46.4%[1]

Proposal to AGM to maintain
the shareholder remuneration at the same level as in 2011

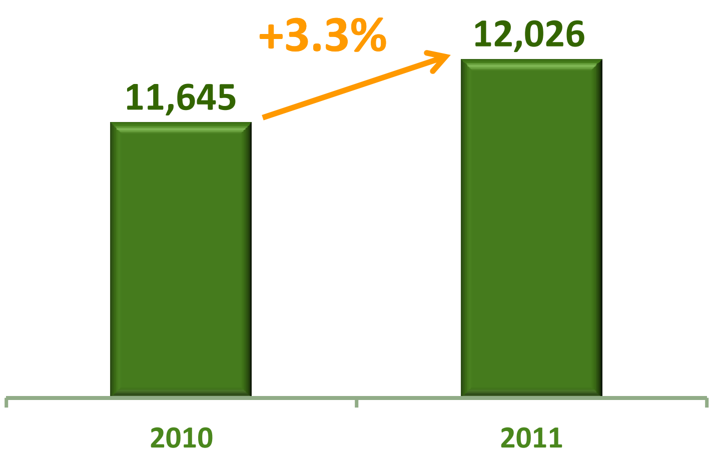
Even with impairments of Eur 402 M (pre-tax),
Net Profit amounts to Eur 2,805 M, Recurring Net Profit up 1.2%

(1) Excluding Tariff deficit

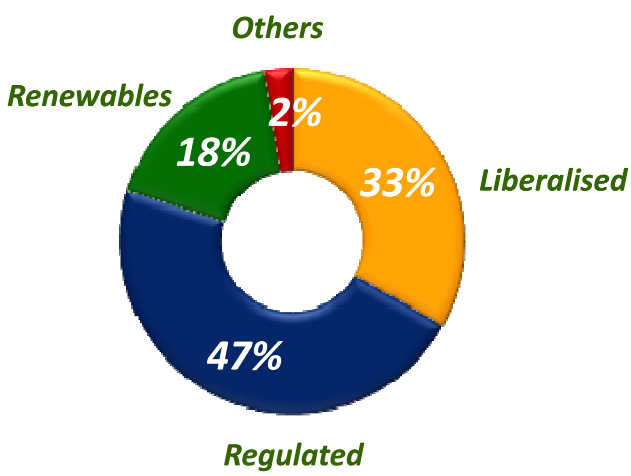
Gross Margin

Gross Margin up 3.3% to Eur 12,026 M

Gross Margin (Eur M)



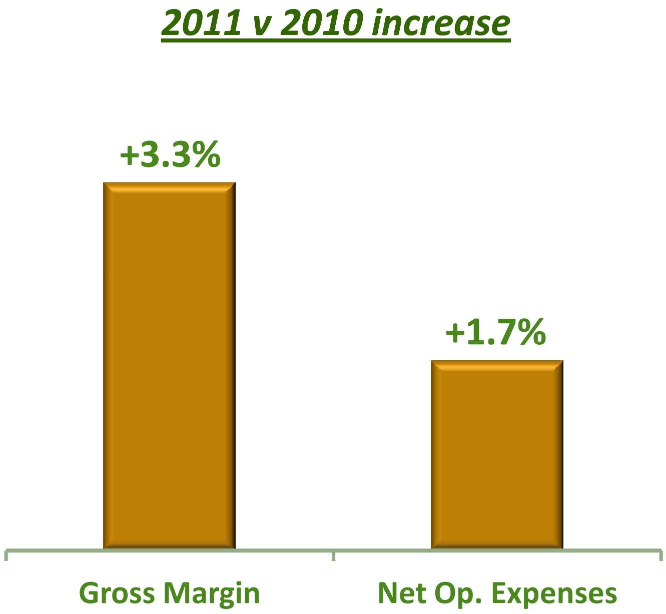
Gross Margin by business

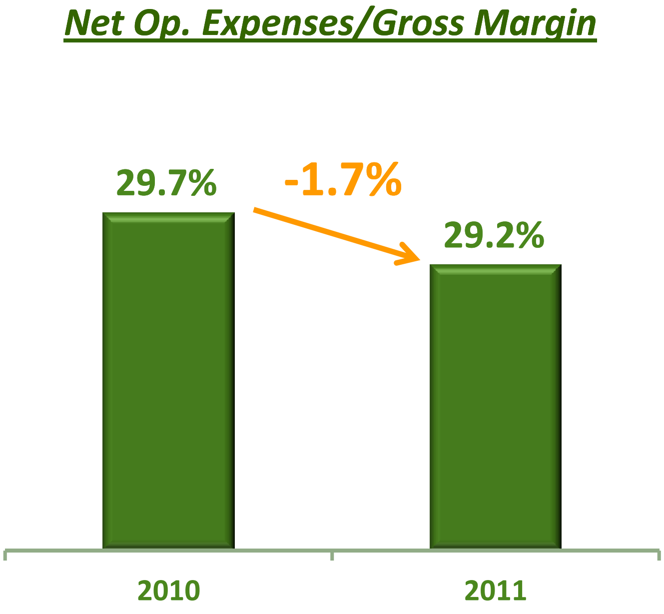


Contribution from Regulated and Renewable businesses
increased to 2/3 of the total

Efficiency

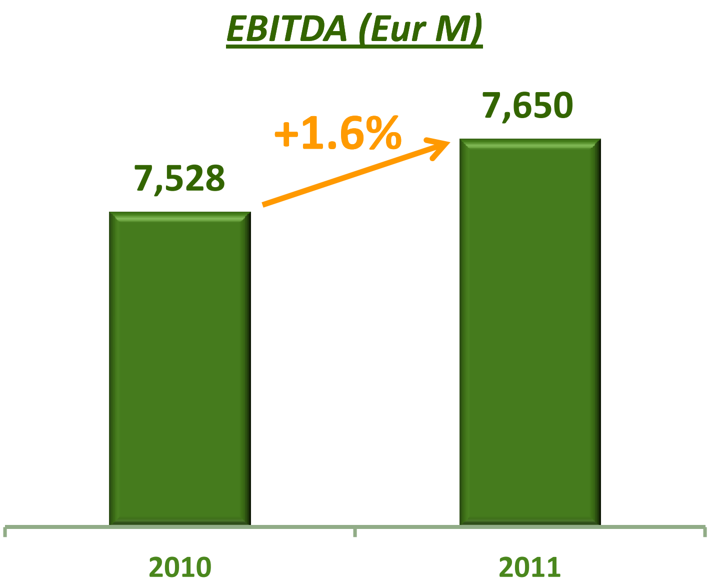
1.7% improvement in operating efficiency

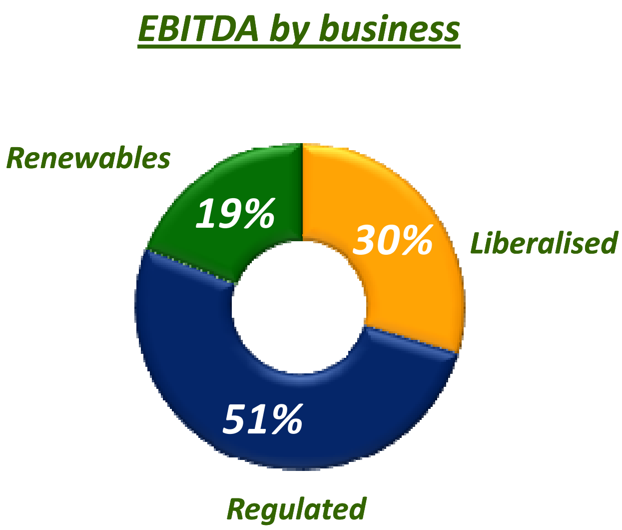




EBITDA

EBITDA up 1.6% to Eur 7,650 M,
with a higher contribution from Regulated and Renewable businesses (70%)





Liberalised business impacted by a 50% increase in Levies,
up to Eur 621 M (Eur 518 M in Spain)

Balance Sheet Management

Optimizing financial strength and liquidity
Consolidating "A" Rating

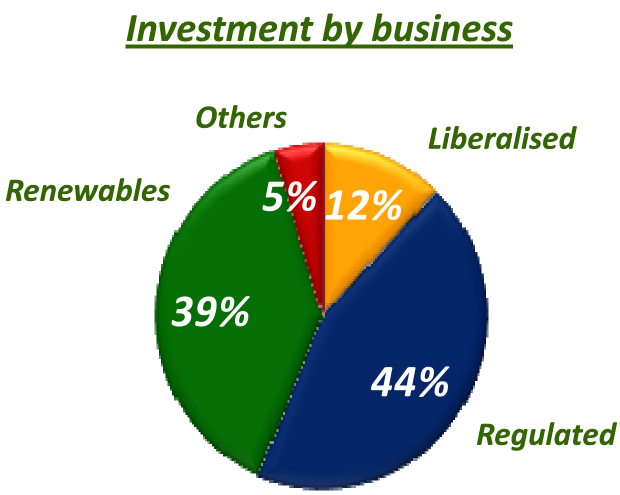
Eur 9,294 M liquidity,
covering 2 years of financing requirements

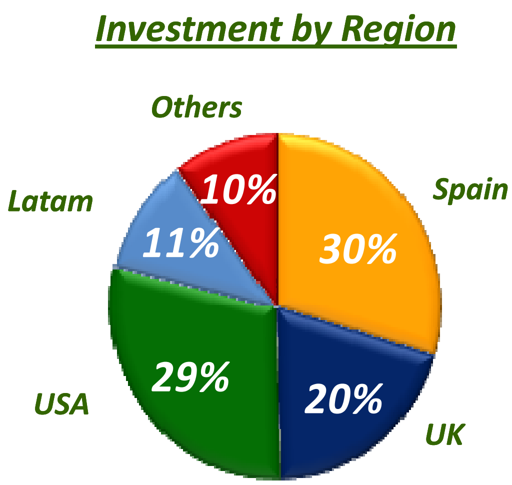
80% of the Debt maturing in 2012 has already been refinanced

Improvement in financial ratios

Investments

Eur 4,002 M in organic investments
(close to 85% in Regulated and Renewable businesses)…



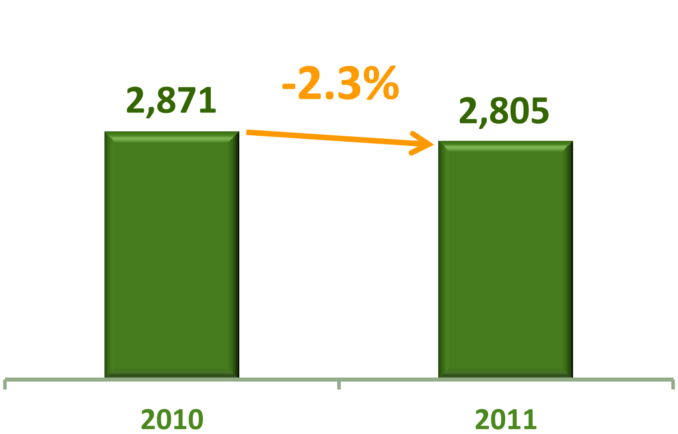


… and in addition the investments related to the acquisition of Elektro and the merger with Iberdrola Renovables

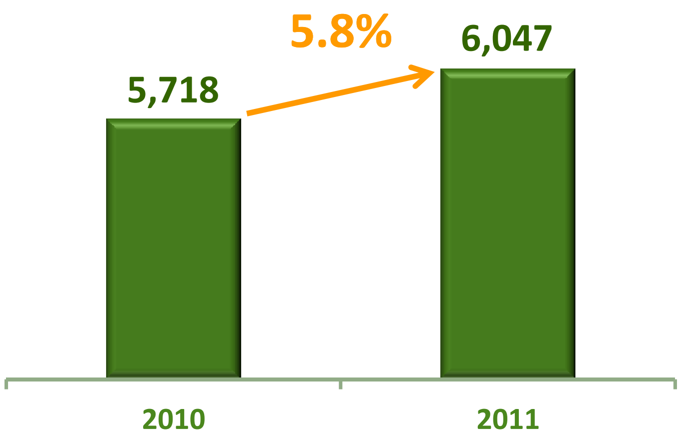
Net Profit and Operating Cash Flow

Operating Cash Flow totals Eur 6,047 M, a 5.8% increase

Net Profit (Eur M)



Operating Cash Flow (Eur M)



Net Profit amounts to Eur 2,805 M
including impairments amounting to Eur 402 M (pre-tax)

Shareholder Remuneration Proposal

Shareholder remuneration proposal to AGM
of at least Eur 0.326/share, in line with last year

Final remuneration of at least Eur 0.18/share…

…composed of Eur 0.03 in cash
and a minimum of Eur 0.15 through a *scrip dividend*…

…in addition to the dividend of Eur 0.146/share paid in January

**Proposal approved by the Board of Directors at its meeting on 20 February 2012*

Key Regulatory Issues United Kingdom

Stable regulation and reasonable returns in Networks

Transmission: defined framework for 2013-2021
GBP 2,600 M investments

Distribution: defined framework until 2015
GBP 2,000 M investments

Lack of regulatory definition in Generation Business (EMR)

Framework to update the traditional generation fleet

Framework for renewable capacity to be commissioned after 2017

Pending allocation of transmission charges among generation facilities

Key Regulatory Issues Spain – Current status

Lower demand

EU renewable energy targets for 2020 have been reached

The traditional generation mix has lower prices than European average

Lower remuneration of networks than European average

Renewables remuneration is higher than European average

Costs not related with supply that are included in the electricity bill
are higher than the European average

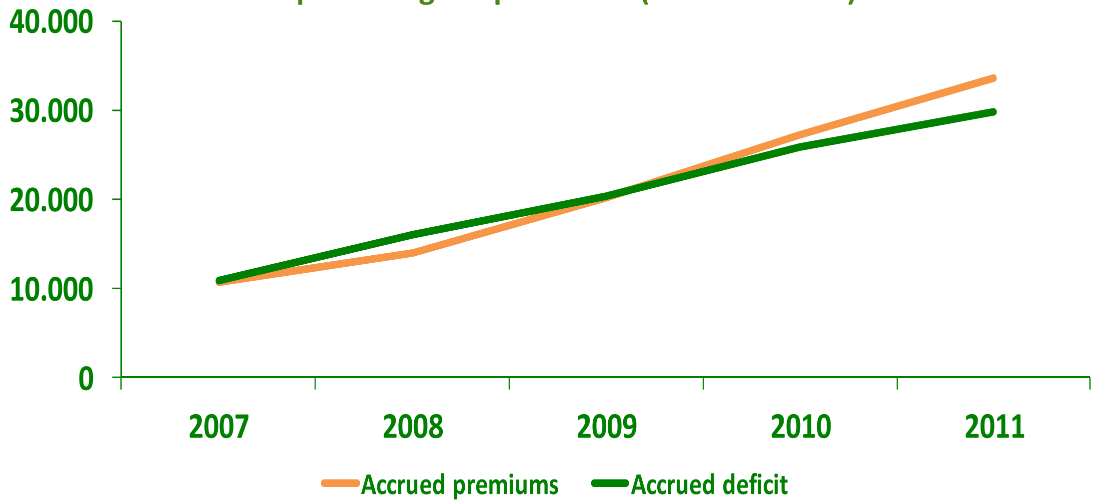
Final price for electricity supply in Spain is slightly higher than European average

Key Regulatory Issues Spain

IBERDROLA

The tariff deficit is directly linked to the increase in renewable energy premiums…

Tariff deficit evolution (total recognised) and Special Regime premiums (accrued Eur M)



… especially due to solar and hybrid gas-solar

Source: CNE and MiNETur

Key Regulatory Issues Spain

IBERDROLA

Recently adopted measures are a step in the right direction…

RD-L 1/2012 (Renewables moratorium)

Circa Eur 13.0 bn already securitized during 2011 and Q1 2012
Circa Eur 7.0 bn* still pending

… however they are insufficient to solve the tariff deficit

**At 23 February 2012. Includes legal limit increase recognised for 2010, ex-ante 2011 and ex-ante 2012*

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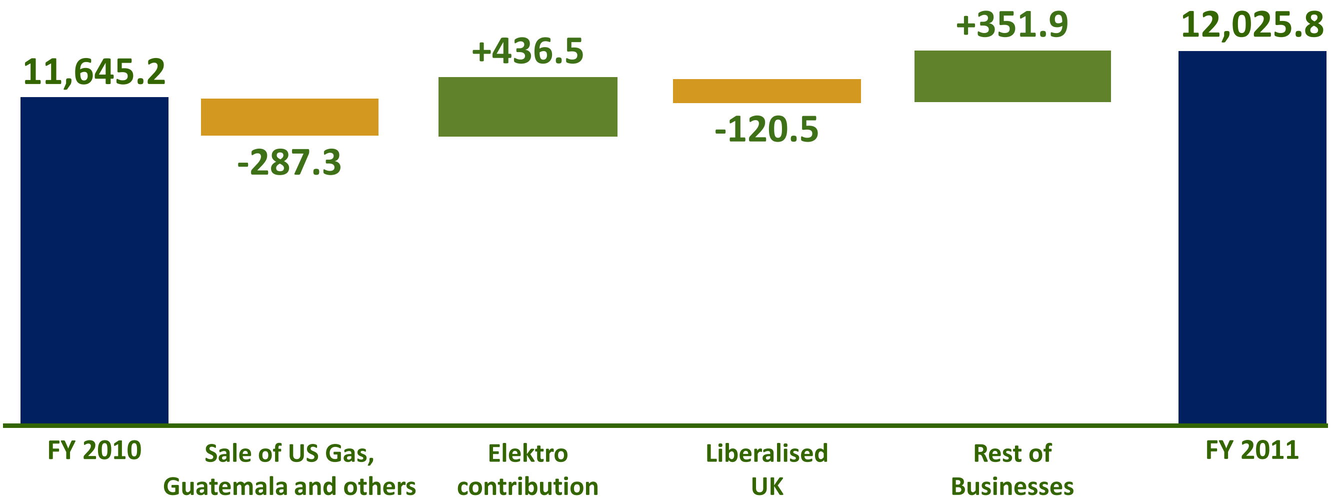
Gross Margin - Group

Gross Margin up 3.3% to Eur 12,025.8 M, as the diversified business portfolio of the Group more than offsets the weak performance of Liberalised UK, …



Elektro consolidation compensates for the lost contribution of assets sold in 2010

… and Basic Margin up 3.2% (Eur 12,274.7 M), in line with Gross Margin

Net Operating Expenses - Group

IBERDROLA

Net Operating Expenses* up 1.7% to Eur 3,517.2 M

Net Operating Expenses

Eur M

	FY 2011	% v FY 2010
Net Personnel Expenses	1,643.4	-3.6%
Net External Services	1,873.8	+7.0%
Total	3,517.2	+1.7%

Operating Highlights

Net Personnel Expenses down despite Elektro consolidation

Net External Services affected by change of consolidation scope and IBE USA storm costs

Levies up 21.9% to Eur 1,107.1 M due to the Liberalised Business

**Excludes Levies*

EBITDA - Group

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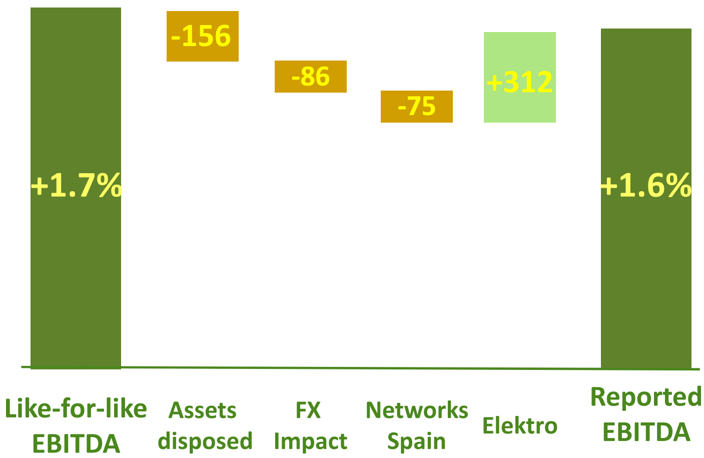
Like-for-like EBITDA up 1.7% and reported EBITDA up 1.6%

Eur M



	FY 2011	% v FY 2010
Basic Margin	12,274.7	+3.3%
Net. Op. Exp.	-3,517.2	+1.7%
Levies	-1,107.1	+21.9%
EBITDA	7,650.5	+1.6%

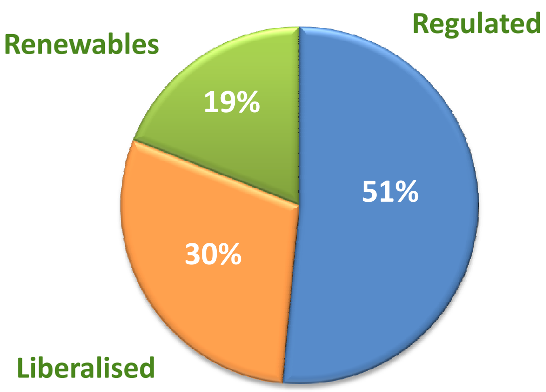
The incorporation of Elektro is compensated by the sale of Guatemala and Connecticut Gas, Networks Spain non recurring items and fx impact

EBITDA - Business

IBERDROLA

Group EBITDA up 1.6% due to Iberdrola's diversified business model …

EBITDA Breakdown



FY'11 EBITDA (Eur M)

Regulated*	3,825.4	+5.5%
Liberalised	2,255.1	-7.4%
Renewables	1,455.6	+0.0%

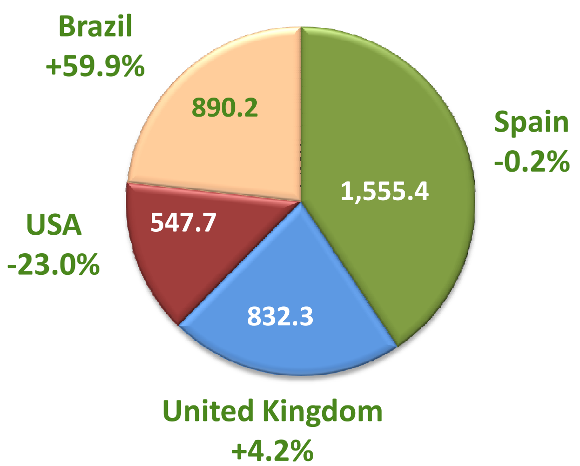
… where more stable businesses (Regulated) offset the more volatile businesses (Liberalised)

Results By Business Regulated

IBERDROLA

Regulated EBITDA up 5.5% to Eur 3,825.4 M, …

EBITDA Breakdown



Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Gross Margin	5,544.5	+4.5%
Net Op. Exp.	-1,324.5	+5.0%
EBITDA	3,825.4	+5.5%

… taking advantage of regulatory improvements, synergies and best practices

Results By Business
Regulated Spain

**EBITDA down 0.2% to Eur 1,555.4 M,
due to new regulatory framework applicable from Q4 2010**

Operating Highlights

- ↑ **Higher regulated revenues:** +6.1% v FY 2010
- ↑ **Lower Net Op. Expenses:** Due to efficiency gains
- ↓ **Positive settlements FY'10:** Eur 75 M (corresponding to 2009)

Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Gross Margin	2,022.3	-1.4%
Net Op. Exp.	-389.6	-6.4%
EBITDA	1,555.4	-0.2%

On a like-for-like basis, EBITDA up 4.8%

Results By Business
Regulated United Kingdom

EBITDA up 4.2% to Eur 832.3 M …

Highlights of the Period

Operating Highlights	↑ Higher revenues due to higher asset base	
	↑ Efficiency improvement: Gross Margin growth > Net Op. Exp. growth	
FX Impact	↓ GBP: -1.1%	

Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Gross Margin	1,008.0	+4.0%
Net Op. Exp.	-83.4	-1.7%
EBITDA	832.3	+4.2%

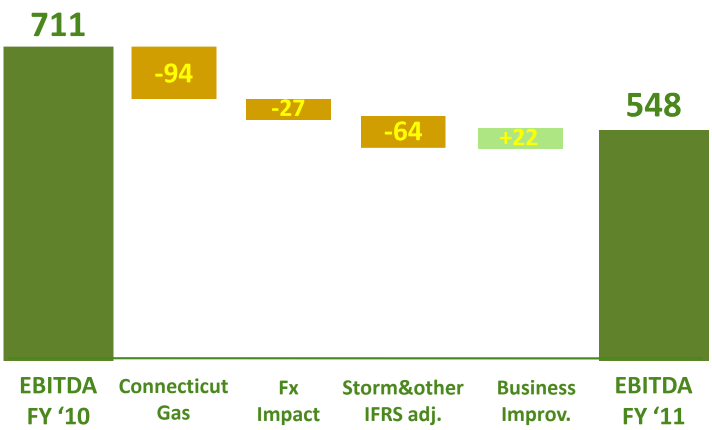
… due to increased investments and cost control

Results By Business
Regulated USA

EBITDA in Euros under IFRS down 23.0% to Eur 547.7 M, Like-for-like EBITDA up 3.9%, …

Eur M

EBITDA Impacts



Financial Highlights

	FY 2011	% v FY 2010
Gross Margin	1,293.4	-16.5%
Net Op. Exp.	-524.1	-10.3%
EBITDA	547.7	-23.0%

… as business improvements are more than offset by the sale of Connecticut Gas, exchange rate effect and storm costs

Results By Business
Brazil

Brazil EBITDA increases 59.9% to Eur 890.2 M, due to Elektro consolidation (Eur +312 M), Real revaluation (Eur +0.5 M) and operating improvements …

Highlights of the Period

Operating Highlights	Brazil Demand (+2.6%) and operating improvements
	Elektro consolidation
	New hydro capacity
FX Impact	Real: +0.1%

Financial Highlights (Eur M)

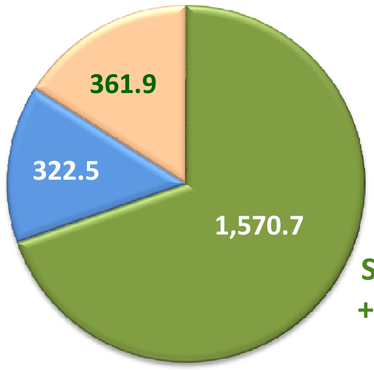
	FY 2011	% v FY 2010
Gross Margin	1,220.8	+66.1%
Net Op. Exp.	-327.5	+85.7%
EBITDA	890.2	+59.9%

… excluding Elektro, EBITDA up 3.8%

Results By Business
Liberalised Business

Liberalised Business EBITDA down 7.4% to Eur 2,255.1 M …

EBITDA Breakdown



Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Basic Margin	4,236.4	-0.2%
Net Op. Exp.	-1,360.1	-2.7%
Levies	-621.2	+50.1%
EBITDA	2,255.1	-7.4%

… due to lower output, weak performance of UK business, sale of Guatemala and higher Levies

Results by Business
Liberalised Business Spain

EBITDA up 5.9% to Eur 1,570.7 M …

Operating Highlights

-13% lower output due mainly to
-22% lower hydro and -7% lower nuclear production
Hydro reserves 51% (+0.7% > avge. historical level)

Margin improvement: Higher prices
(Achieved Price* Eur 61/MWh)
more than offset higher Procurement costs

2012: 56 TWh of production
already sold above Eur 60/MWh

Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Basic Margin	2,848.5	+6.4%
Net. Op. Exp.	-760.2	-4.6%
Levies	-517.6	+30.5%
EBITDA	1,570.7	+5.9%

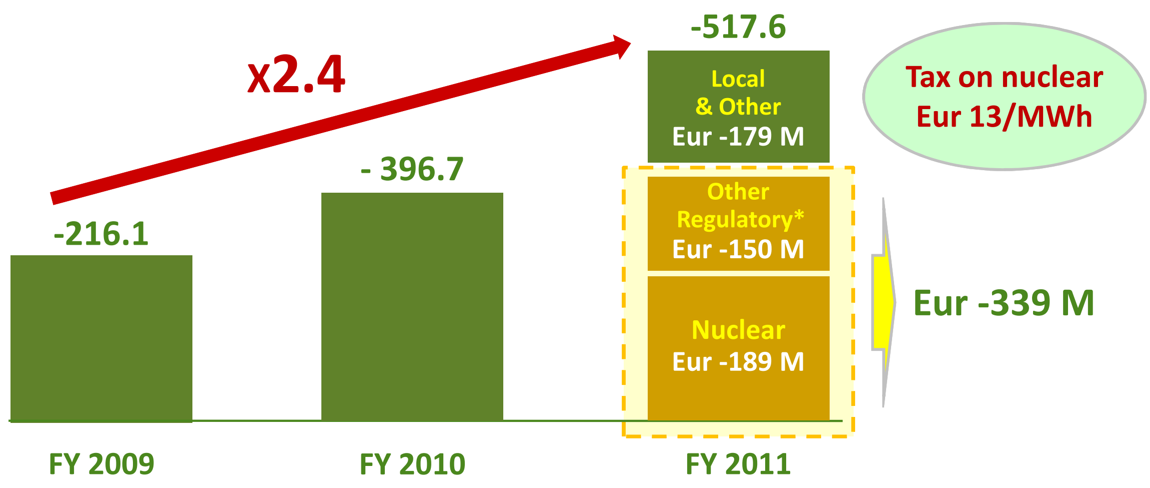
… due to improvement in margins despite 31% rise in Levies, that account for 33% of the EBITDA

**Iberdrola average power price for the Spanish system includes spot and forward sales and retail margin for FY 2011*

Liberalised Business Spain - Levies

Levies in Spanish Liberalised Business have multiplied by 2.4 in 2 years, reaching Eur 518 M, due to Social Bonus, nuclear taxes and energy saving and efficiency plan

Eur M



**Eur 300 M wiped out,
leading nuclear business ROCE below cost of capital**

**Includes Energy Efficiency and Social Bonus*

*** Includes direct Levies associated with nuclear production (CSN, Enresa, IBI, IAE,...) plus proportional part of other regulatory measures applicable to the generation business*

Results By Business
Liberalised Business United Kingdom

EBITDA is down 40.8% to Eur 322.5 M due to less production/sales in electricity and gas and lower electricity margins

Operating Highlights

- **Lower Retail sales v FY 2010:**
  Power -5%
  Gas -19%
- **Lower Retail Power margins**
  as higher commodity costs are not offset by prices

CERT/CESP reclasification as Levies from Operating Expenses
Net effect = 0 at Expenses and EBITDA level

Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Basic Margin	934.5	-11.0%
Net Op. Exp.	-509.4	+4.1%
Levies	-102.5	n/a
EBITDA	322.5	-40.8%

Results will improve in 2012 as margins recover

Results By Business
Liberalised Business Mexico

Mexico EBITDA is down 11.1% to Eur 361.9 M due to the sale of Guatemala assets in 2010 and exchange rate impact

Highlights of the Period

Operating Highlights	↓ Guatemala Asset Sales
	↑ Operating improvements
FX Impact	↓ USD: -5.0%

Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Gross Margin	453.5	-12.9%
Net Op. Exp.	-90.6	-19.4%
EBITDA	361.9	-11.1%

Underlying EBITDA improves by 1.5%

Results By Business
Renewables

EBITDA flat at Eur 1,455.6, and wind EBITDA* up 4.3%, …

Highlights of the Period

Operating capacity: +10% to 13,209 MW
Installed capacity: +9.2% to 13,690 MW

Average load factor: 25.7% v 25.8% in FY2010
Load factor in Q4'11 27.9% v 28.3% in Q4'10
due to low Spanish wind

Average price**: Eur 66.3/MWh v
Eur 69.3/MWh in FY 2010
Due to the increase weight of US v Spain

Financial Highlights (Eur M)

	FY 2011	% v FY 2010
Gross Margin	2,118.1	+4.6%
Net Op. Exp.	-591.6	+16.2%
EBITDA	1,455.6	0.0%

… due to higher expenses (related to break up of maintenance contracts and merger costs), lower average price and fx impact (Eur -26 M)

** Excludes sale of contracts in 2010. **Excludes PTCs*

EBIT - Group

Group EBIT down 6.7% to Eur 4,505.1 M …

Eur M

Provisions – Asset impairments

UK Thermal: CCS project cancelled, "carbon floor" reduces expected spreads and makes life extensions challenging **(Eur -286 M)**

Renewables: Development costs relating to cancelled projects **(Eur -46 M)**

	FY 2011	% v FY 2010
D&A	-2,617.4	+4.1%
Provisions	-528.0	+187%
Total	**-3,145.4**	**+16.6%**

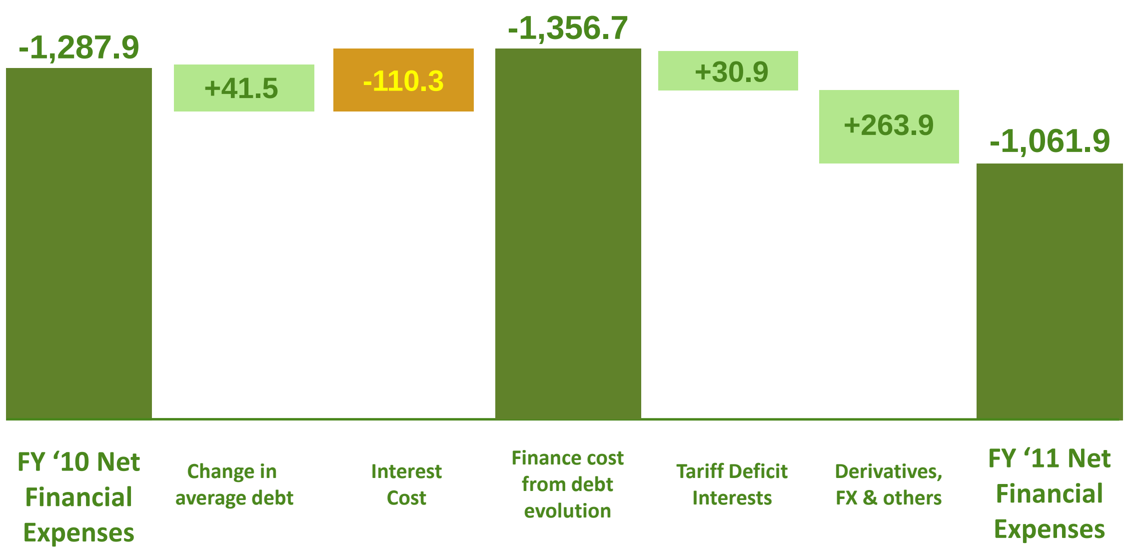
Renewables amortisation: Useful life increased from 20 to 25 years, in line with sector norm (Eur 66 M)

… due to non-cash impact of asset impairments at Provisions level of Eur 332M

Net Financial Expenses - Group

FX derivatives due to P&L hedging policy help improve financial expenses to Eur -1,061.9 M (-17.5%) …

Eur M



… while debt cost increases 40 bps to 4.6%, including Elektro's debt in Reais (+7 bps), partially offset by lower average net debt (-3.1%)

Net Profit - Group

Recurring Net Profit up 1.2% to Eur 2,613.9 M …

Asset impairments

UK Thermal: CCS project cancelled, "carbon floor" reduces expected spreads and makes life extensions challenging (Provision of Eur -286 M)

Renewables: Development costs relating to cancelled projects (Provision of Eur -46 M)

Gamesa: Maintaining the achievement of its Strategic Plan but delaying the timing of its fulfilment (Less Equity Eur -70 M)

TOTAL ASSET IMPAIRMENTS (Gross): Eur -402 M

Non Recurring (Eur M)

Lower Non Recurring Results v 2010: Eur -133 M (-74.1%)

Corporate Tax

Lower Corporate Tax Rate in the UK: -2 p.p. in 2011 v -1 p.p. in 2010 (Eur 83 M) for deferred taxes

Reversal of provisions in the US after settlement reached with the tax authorities (Eur 169 M)

2011 Effective Corporate Tax Rate: 15.7%

… but asset impairments and lower Non Recurring Results drive Reported Net Profit down 2.3%, to Eur 2,804.5 M, despite tax recoveries

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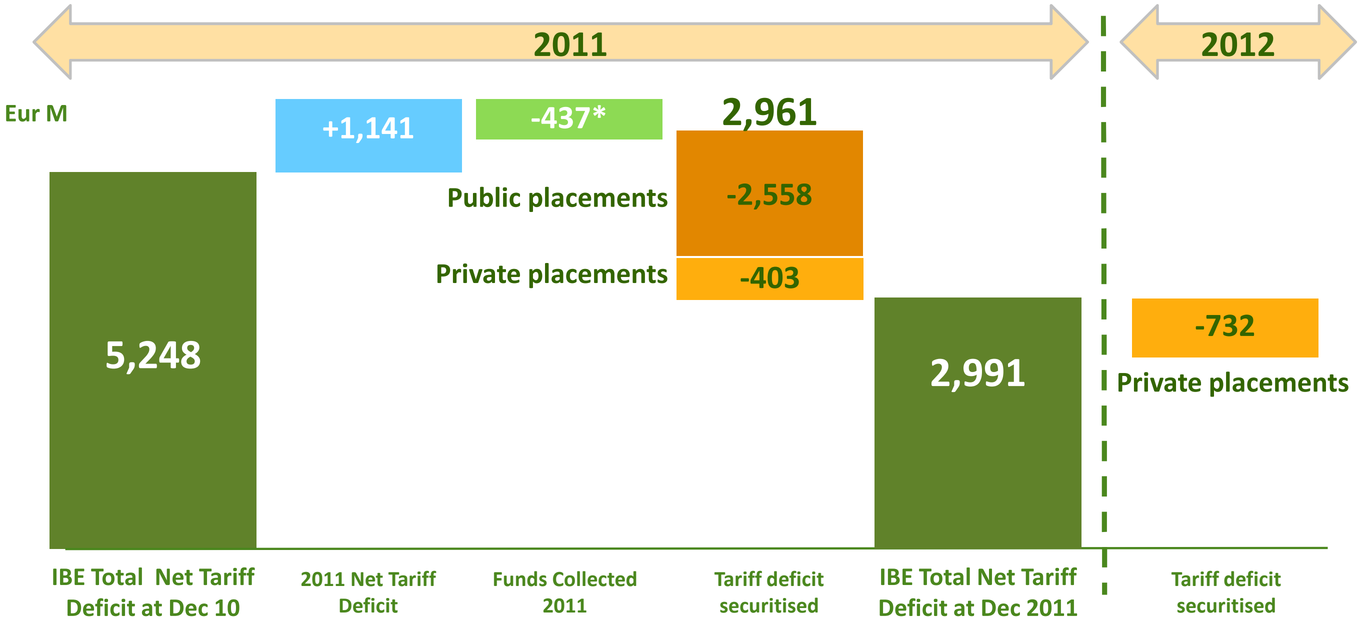
Tariff Deficit

Tariff Deficit falls to Eur 2,991 M at the end of 2011 …



… thanks to Eur 10 bn of tariff deficit already placed by FADE in 2011 (Eur 3 bn IBE) and Eur 2.4 bn in 2012 (Eur 732 M IBE), total securitisations now more than Eur 12 bn

**Includes interest of Eur 57 M relating to the 2006, 2008, 2009 & 2010 tariff deficits*

Financing – Adjusted Leverage

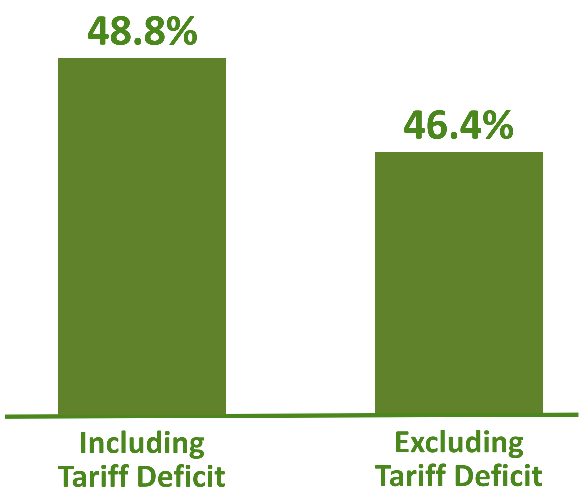
Leverage stands at 46.4% at FY2011 excluding tariff deficit and 48.8% including tariff deficit

FY 2011 Net Debt and Equity

Eur M

	FY ‘11	FY ‘10
Adjusted Net Debt	31,706	30,014
Tariff Deficit	2,991	5,248
Adjusted Net Debt Ex deficit	28,715	24,766
Equity	33,208	31,663

FY 2011 Leverage



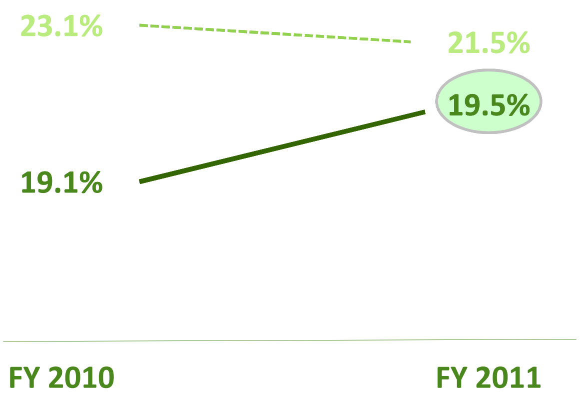
Debt increase in 2011 is related to the buy out of IBR minority shareholders and Elektro acquisition

Note all debt figures include TEI

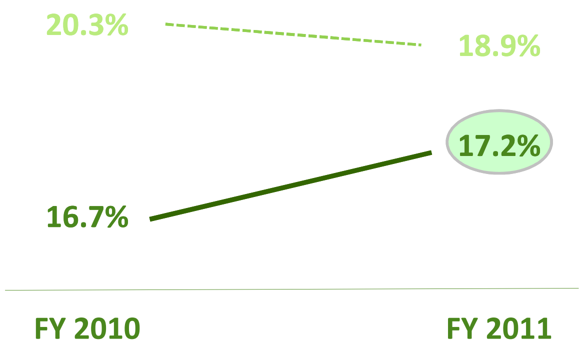
Financing – Financial Ratios
(Pro-forma, includes 1 year of Elektro and Renewables: Results and Debt)

Credit metrics solidly positioned within the A-/A3 rating bands…

FFO(1)/Net Debt(2) (%)



RCF(3)/Net Debt(2) (%)



Including tariff deficit   Excluding tariff deficit

… even including tariff deficit

(1) FFO = Net Profit + Minority Results + Amortiz.&Prov. – Equity Income – Net Non-Recurring Results + Fin. Prov.+ Goodwill deduction – Unwind of tax provision in Renewables USA
(2) Including TEI but excluding Rating Agencies Adjustments
(3) RCF = FFO – Dividends

Financing – Liquidity

Group's Liquidity up to 9.3 bn,
of which only Eur 2 bn of credit lines expire before 2014 …

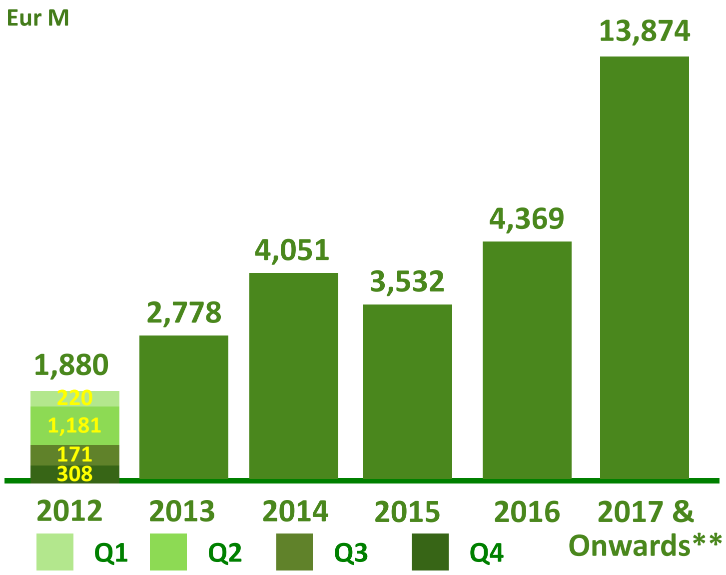
Eur M

Credit Line Maturities	Limit	Withdrawn	Available
2012	1,980	894	1,086
2013	1,104	304	800
2014+	6,889	1,572	5,317
Total Credit Lines	**9,973**	**2,770**	**7,203**
Cash & Short Term Fin. Invest.			2,091
Total Adjusted Liquidity			**9,294**

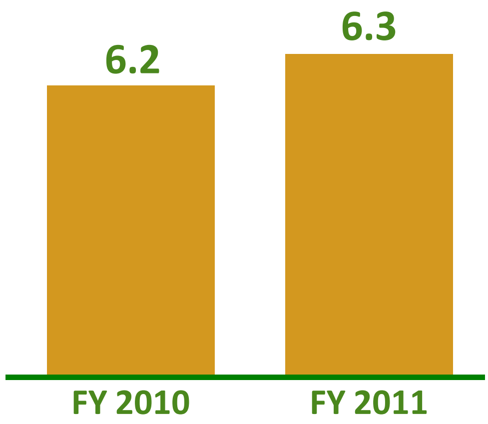
… covering up to 24 months of financing needs

Financial Profile

Iberdrola debt maturity profile*



Average debt maturity



Average maturity of 6.3 years

**Does not include drawn credit lines*
***Includes commercial paper outstanding balance*

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Tariff deficit

The tariff deficit is the difference between the real cost of regulated activities and what the customer pays for them

It has been historically financed by the 5 main utilities (RD 6/2010), excluding other companies with impact on regulated costs, with a non recognised financial cost of over Eur 1 bn

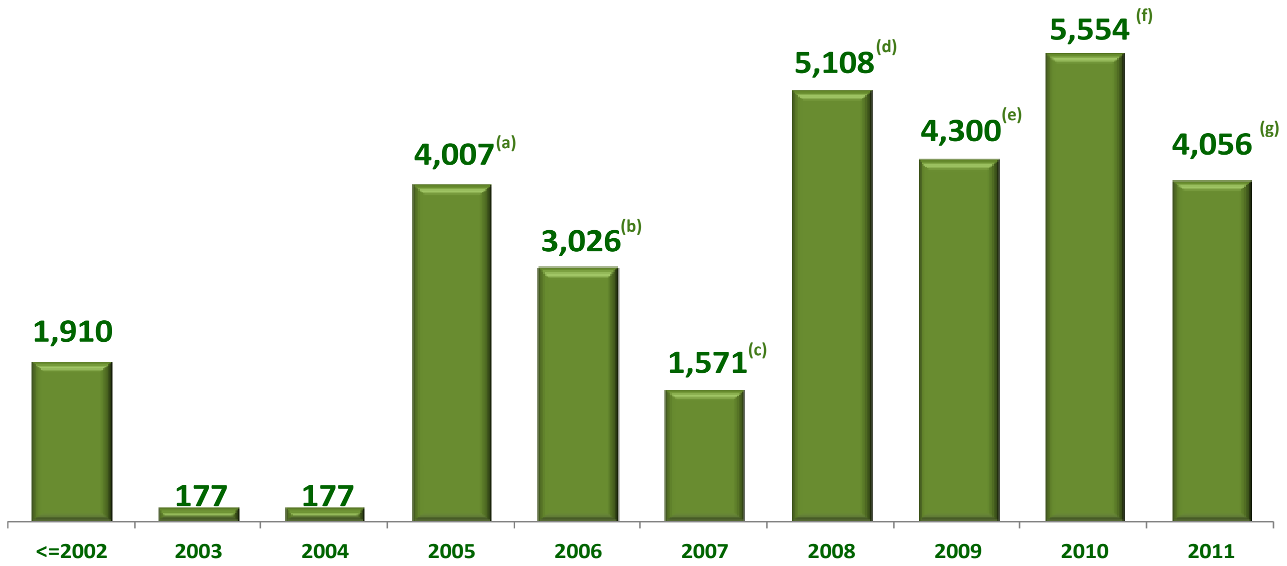
The problem has worsened since 2008, due to the massive commissioning of solar plants whose premiums are included in such regulated costs

Circa Eur 7.0 bn of total tariff deficit pending to be securitised*

**At 23 February 2012. Includes legal limit increase recognised for 2010, ex-ante 2011 and ex-ante 2012*

Tariff deficit evolution

In 2005 the deficit became a structural problem, with a significant increase from 2008

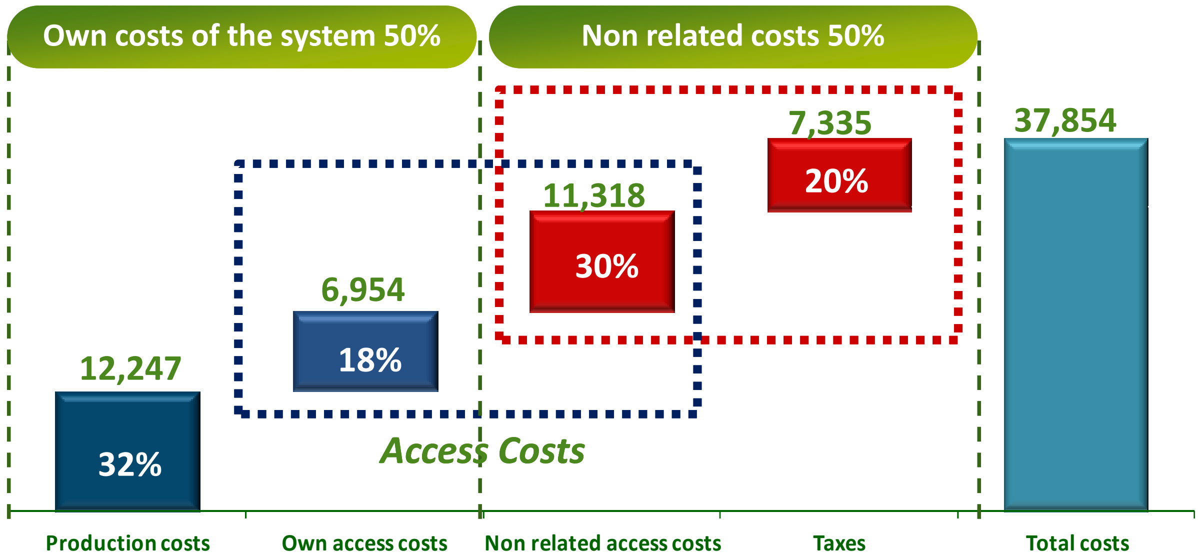


Source: MiNETur , CNE
- (a) *Includes island deficit distributed in the 2003-2005 period*
- (b) *Mainland deficit recognised RD 485/2009 (Eur 2,280 M). Island deficit recognised in RD 437/2010 (Eur 746 M)*
- (c) *Mainland deficit settlement 14/2007, CO2 revenues clawback applied Eur-43 M (Eur 1,181 M). Island deficit recognised in RD 437/2010 (Eur 347 M)*
- (d) *Mainland deficit settlement 14/2008, CO2 revenues clawback applied Eur -1.179 M (Eur 4,641 M). Island deficit recognised in RD 437/2010 (Eur 467 M)*
- (e) *Mainland deficit settlement 14/2009, CO2 revenues clawback applied H109 Eur -316 M*
- (f) *Mainland deficit settlement 14/2010*
- (g) *Internal forecast*

Spanish tariff structure

50% of the final electricity tariff corresponds to costs non related with the electricity costs of supply

2010 electricity system costs



Source: Internal information:
- ✓ *Production costs calculated as the result of the national demand according to REE (276 TWh) times final energy average price in 2010 + customers capacity payments*
- ✓ *Tax rate: Electricity tax (1.05113*4.864%) + 18% VAT, calculated under the assumption that the revenues collected from the customer equal the total access cost zero deficit)*
- ✓ *Own access costs of the system: cost of producing energy, transmission and distribution*
- ✓ *Associated access cost:s special regime premiums, annual recovery of tariff deficit , Islands, other associated costs (CNE, System Operator, nuclear moratorium,…) and taxes (electricity tax and VAT)*

Spanish tariff structure

Special Regime renewables premiums and annual recovery of the deficit are the costs that have increased significantly more

		2005	2010	*Increase*	*%Incr.*	*ΔD*ΔCPI*
OR market remuneration	(Eur M)	11,766	7,058	*-4,708*	*-40%*	*32%*
SR market remuneration	(Eur M)	3,040	3,072	*32*	*0%*	
Total energy cost	(Eur M)	**14,806**	**10,130**	***-4,676***	***-32%***	
Distribution remuneration*	(Eur M)	3,881	5,272	*1,391*	*36%*	
Transmission remuneration	(Eur M)	922	1,397	*475*	*52%*	
Special regime premiums	(Eur M)	1,246	7,134	*5,888*	*473%*	
Annual deficit recovery	(Eur M)	227	1,833	*1,606*	*707%*	
Main regulated costs	(Eur M)	**6,276**	**15,636**	***9,360***	***149%***	

Special regime premiums equal 70% of total energy cost

Source: CNE, REE and OMEL settlements
(*) Not including previous years adjustments

OR: Ordinary Regime
SR: Special Regime

Spain: Key regulatory issues

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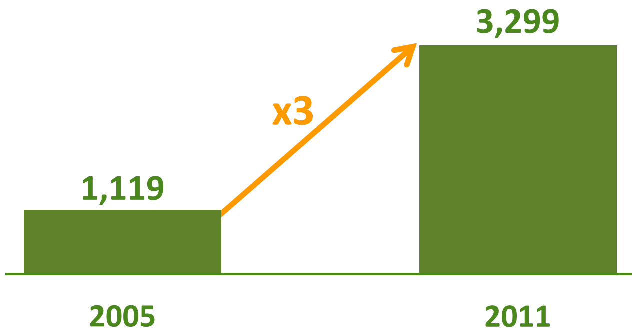
Costs non related to energy supply have multiplied by 3 in recent years

- Prior years' annual payments of tariff deficits
- Island subsidies
- Energy saving and efficiency plan
- Interruptibility service
- National coal subsidies
- …

Non related access costs (Eur M)

(excluding special regime subsidies)



Costs non related to energy supply are the ones that have caused the deficit

Source: CNE, MiNETur, and own estimates based on MiNETur data for the National Coal Decree

Energy price in Spain v Europe

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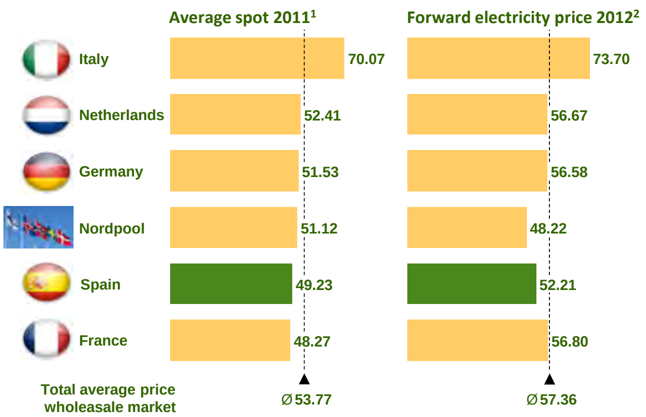
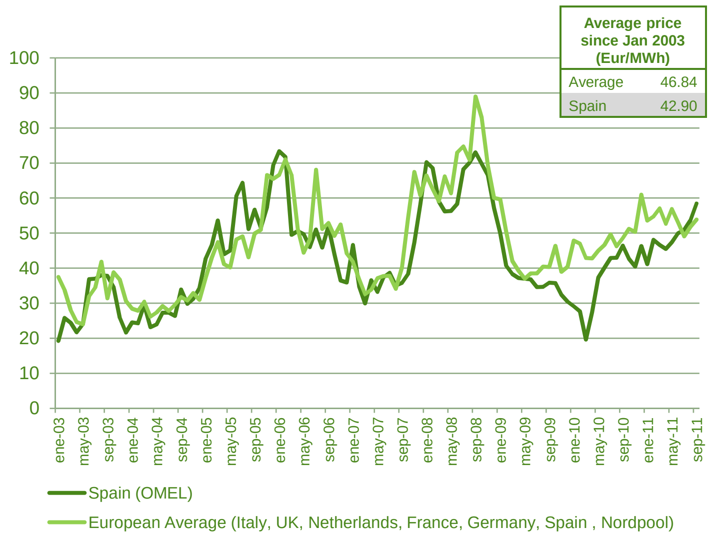
Spanish energy prices are 10% below the average of the main European countries

European wholesale prices (Eur/MWh)





1 Average spot price from 1 January until 30 September 2011
2 Average quotation of 2012 annual product from 1 January until 30 September 2011
Source: Bloomberg, NASDAQ, OMX, Commodities

The cost of the energy in the Ordinary Regime has not caused the deficit

Ordinary Regime generation

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The Ordinary Regime's generation fleet has not been fully depreciated

Eur M

	Gross assets (at 31.12.2009)	Net assets (at 31.12.2009)
Hydro	13,169	6,828
Nuclear	19,584	6,956
Combined Cycles	12,332	10,737
Coal	10,549	3,742

In the case of nuclear, close to Eur 500 M of annual recurrent investments are made, and increasing due to the new requirements imposed

Source: UNESA "The Economic Situation of the Electricity Activity . 1998-2009" (2011)

Distribution remuneration in Spain v Europe

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Distribution remuneration in Spain is 10% below the average of the main European countries

	Revenues Eur M	Eur M/MW	Eur/MWh	Eur/line km
United Kingdom	4,852.6	0.08	15	6,144
Sweden	2,600.0	0.10	18	4,833
Norway	2,200.0	0.09	17	7,074
Netherlands	2,517.1	0.17	23	8,476
Italy	5,700.0	0.10	18	4,730
France	11,375.0	0.12	22	8,750
Finland	1,087.0	0.07	12	2,859
Denmark	799.7	0.12	25	8,295
Belgium	1,929.2	0.14	25	11,822
Austria	1,600.0	0.16	25	7,769
Portugal	1,245.0	0.13	24	7,662
Ireland	615.4	0.12	23	3,895
Greece	863.4	0.09	18	3,886
Spain	4,656.0	0.11	17	5,089
		Ø 0.11	Ø 19	Ø 6,234

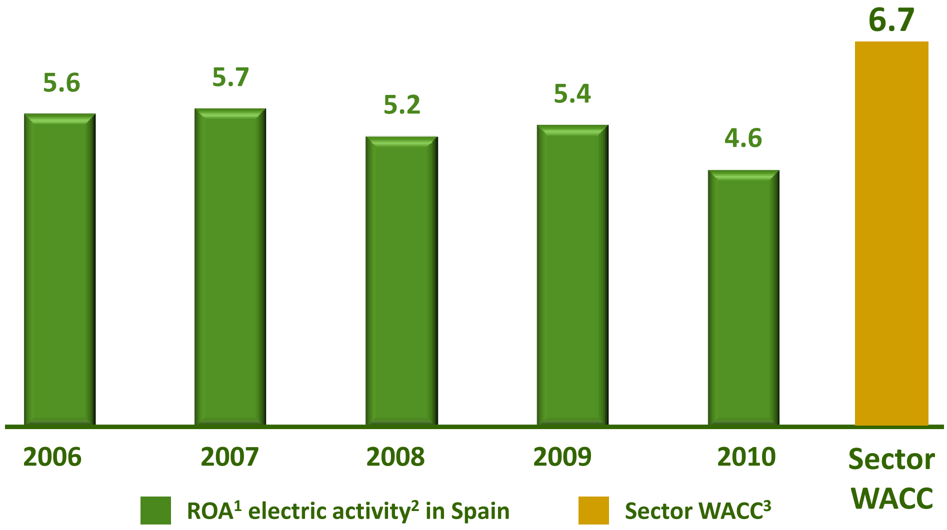
Note: The remuneration recognised in Spain corresponds to 2010 provisional one to be homogeneous with other countries (ITC 3519/2009 Order)

Networks costs have not caused the deficit

Source: KPMG report "Study on the remuneration model of the regulated activity of electricity distribution across Europe". January 2012

ROA electric activity in Spain v cost of capital

The returns of the electric activity in Spain are below cost of capital …

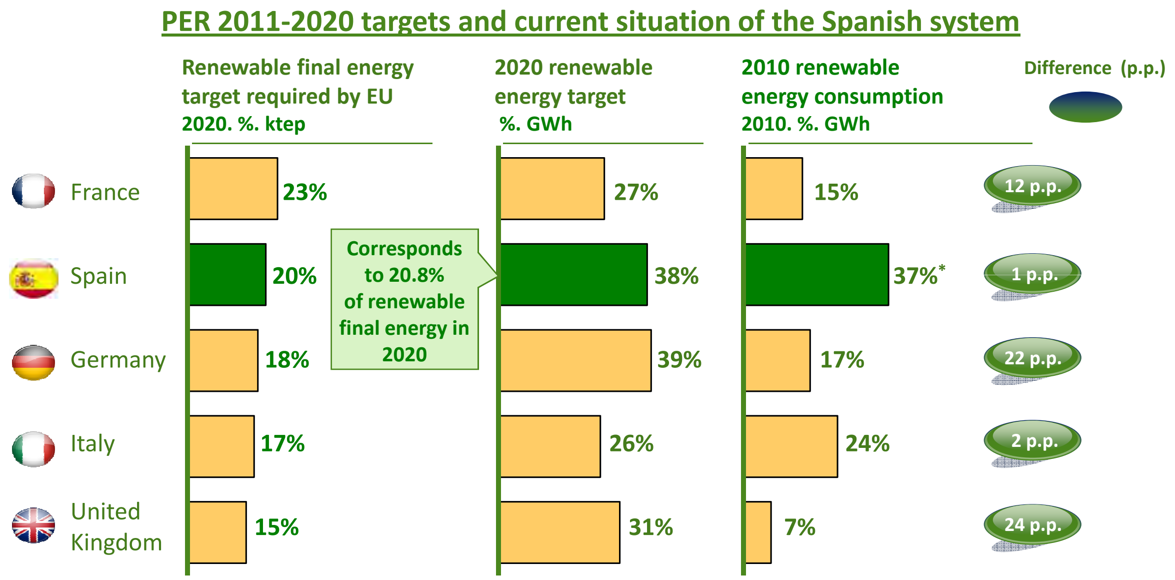


… which undermines the theory of trying to solve the tariff deficit through new "ad hoc" taxes

1 ROA = Return on assets, calculated as the quotient of the operating result net of taxes and the value of all the assets
2 Electricity Spain includes traditional electric activity in Spain (generation including renewables, distribution and supply);
3 Data of all UNESA companies

Regulation: Spain

The drive for renewable energy in Spain has gone beyond the 20% required by the EU



Source: EC; Entso; REE; CNE, Terna; GME; OMEL; APX; EPEX; RTE; BMWI; EEX; DUKES

The measures presented by the Government (RDL 1/2012) do not prevent this target from being fulfilled

Weight of electricity coming from renewable sources over demand in 2010

Regulation: Spain

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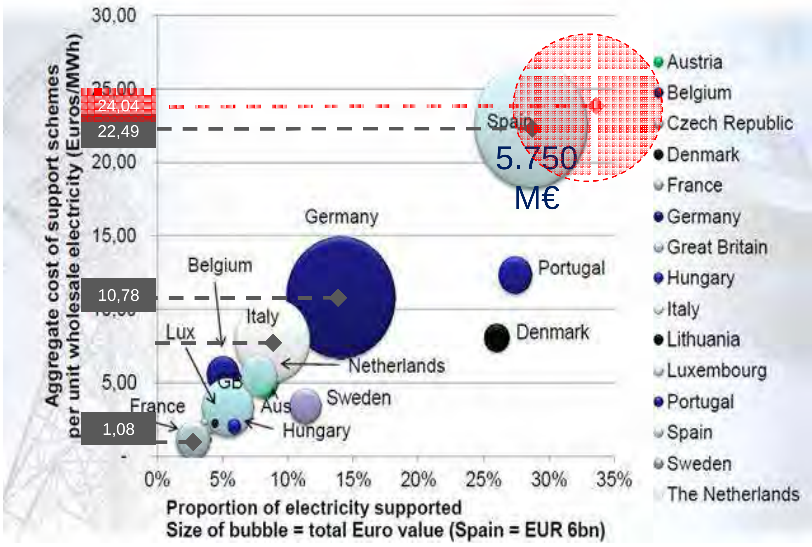
According to the European Energy Regulators Council, Spain is the country where the support to renewable energies represents a highest cost per MWh in Europe: Eur 22.5 Eur/MWh in 2009

Proportion of energy subject to subsidies v unitary cost of support per MWh (2009)



Higher cost in Spain due to:

- **Larger proportion of renewables in the total output**
- **Higher weight of the most expensive technologies in the renewables mix**

Source:CEER (European Energy Regulators Council) report on Renewable Energy Support in Europe. Ref: C10-SDE-19-04a. 4-May-2011

Source: Internal using CEER methodology

The costs of renewables, specially solar, have caused the deficit

Regulation: Spain

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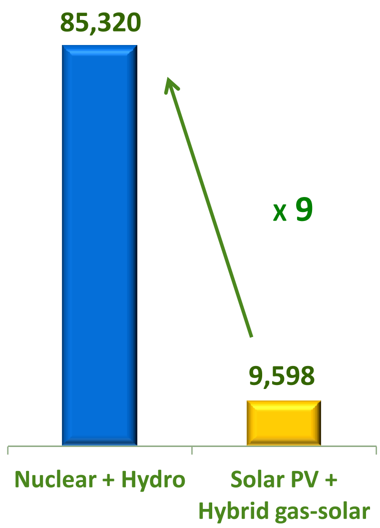
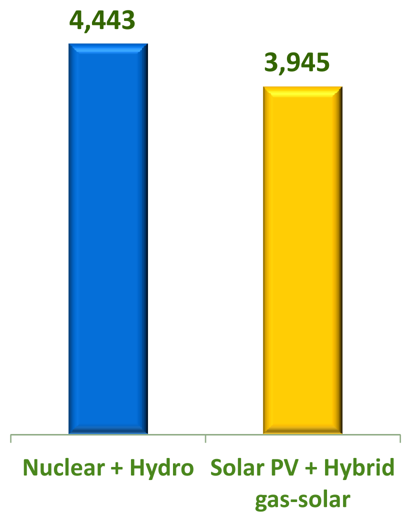
In 2011, nuclear and hydro output was 9 times that produced by solar and hybrid gas-solar …

Energy (GWh)



Cost (Eur M)



… while their costs were similar

Source: (1) 2011 Preliminary report (REE) . (2) Spain Special Regime energy monthly sales report (CNE, end October 2011). In the case of the Ordinary Regime, includes daily market, intra-day, ancillary services and capacity payments.

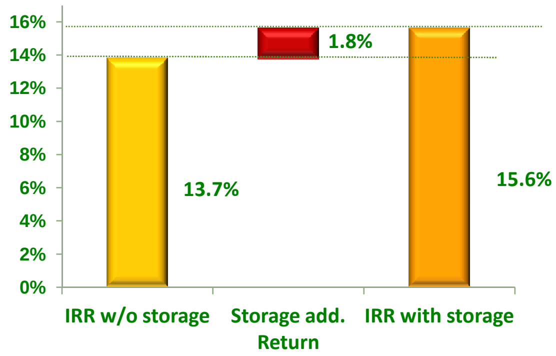
Regulation: Spain

The remuneration framework of the hybrid gas-solar results in double digit project returns

The reduction in construction costs, combined with a remuneration fixed in 2007 and the use of storage result, in very high returns

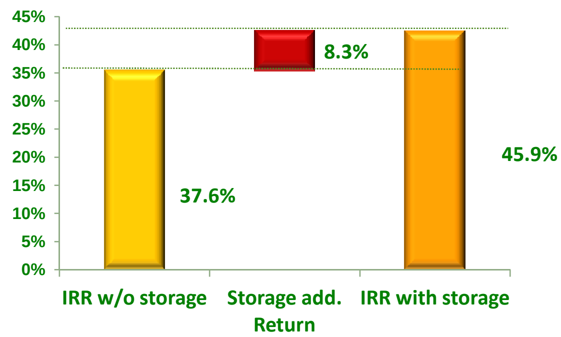
Project IRR hybrid gas-solar <u>in operation in 2013</u>

<u>Whithout storage</u> <u>With storage</u>



Equity return hybrid gas-solar <u>in operation in 2013</u> (80% leverage)

<u>Whithout storage</u> <u>With storage</u>



Considering that the 15% limit of alternative fuel is observed (typically natural gas)

13.7% Project IRR without storage (+2% with storage)
38% Project Equity return without storage (+8% with storage)

Source: Return simulation study, with confirmation based on market transactions

Regulation: Spain

Should the consumer pay up to five times more for the same product?

Solar represents 18% of the production cost and barely 4% of the energy produced*

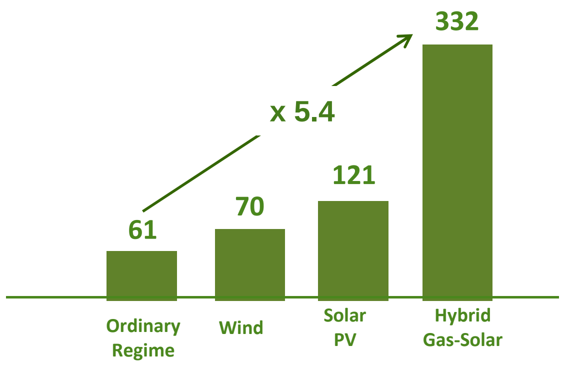
The cost of the Special Regime energies is 50% higher than the average*

Wind, with 15% of the output, contributes only moderately to the cost increase*

Conventional energies are the cheapest and the ones that contribute most to the system*

Ordinary regime and new renewables remuneration[(1)]

Eur/MWh



(1) *2012 Ordinary Regime remuneration (includes forward energy prices, Technical Restrictions, ancillary services and capacity payments). Special Regime remuneration based on remuneration forecasted for new facilities: wind (market price Eur 50/MWh + 2012 premium); Hybrid gas-solar (market price Eur 50/MWh + 2012 premium); Solar PV (tariff for type II facilities in first auction of 2012 according to RD 1578/2008).*

* *Company information for 2011.*

Regulation: Spain

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Economic and environmental comparison between the different technologies

	Years with right to receive premium	*Environmental impact*
Wind	20	• No CO_2 emission • No water consumption
Solar PV	25-30	• No CO_2 emission • Limited water consumption
Hybrid solar-gas	25 + 80% rest of life (updated CPI-0,5%)[1]	• Emission of 185 gr CO_2/kWh (half of a CCGT) • Consumption: 10 cubic meters /MWh (cooling, cleaning, water-steam cycle)

(1) From January 1 2013

Basic principles to resolve the tariff deficit

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Regardless of how the measures are finally implemented, a number of principles should prevail in order to resolve the deficit problem

Who	Decide who pays for the CO2 reduction energy policy - All the citizens - Energy consumers
How much	Does not make sense to install more capacity, with renewables producing close to the target set for 2020 and demand at levels of 2006
How	Following a criteria of similar and reasonable return for all activities with regulated remuneration (not subject to market forces)

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Key Regulatory Issues Spain

The tariff deficit can be solved:

- Stop the construction of the most expensive renewables
- Remunerate all regulated activities with non-discriminatory profitability criteria
- Remove from tariffs concepts that should not be borne by the consumer (efficiency, social bonus, islands, national coal…)
- Share the cost of renewables among all energy sectors
- Allocate the revenues from CO2 auctions to the financing of renewables

Key Regulatory Issues Spain

Unify the current regional "pseudo-environmental" charges in one single environmental tax system

Moderate increase in access fees without significantly impacting final prices

Undertake economic measures that were already in place in the past to incentivize energy efficiency and that now have disappeared

Increase market liberalization (reduce the threshold for integral regulated tariffs)

Share the financing of the future deficit among all the sector participants

Accelerate the securitization of the current deficit

Conclusion – Results 2011

In a difficult year, Iberdrola consolidates its results

A balanced and diversified business portfolio →	Increasing Gross Margin, EBITDA and Recurrent Net Profit
Management model →	Improving efficiency Increasing internationalisation Increasing financial strength

Net profit Eur 2,805 M
Operating Cash Flow Eur 6,047 M

Proposal to maintain the same shareholder remuneration as in 2011

2010-2012 Plan

Against the current adverse external conditions, Iberdrola focuses on improving efficiency and operational management

External Factors	-	Lower demand and prices
		Low hydro output in Q1 2012 and lower wind margins over the period 2010-2012
		Regulatory changes impacting Renewables in some of our most important markets
		Very significant increase in Levies
		Negative exchange rate impact of USD and GBP v Eur
Internal Management	+	Increasing share of Regulated business and new capacity in Brazil
		Improving efficiency and cost control
		Improving financial management
		Modulating investment levels to generated cash flow

2010-2012 Plan

If current circumstances persist ...

	CAGR 2010-2012e
EBITDA	Growth at the bottom end of the expected range (≃5%)
Recurring Net Profit	Growth below the expected range (<5%)

Allowing us to maintain shareholder remuneration similar to current level

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Income Statement – Group

EBITDA up 1.6% to Eur 7,650.5 M
Net Profit down 2.3% to Eur 2,804.5 M

Eur M	FY 2011	FY 2010	Var. %
Revenues	31,648.0	30,431.0	+4.0
Gross Margin	12,025.8	11,645.2	+3.3
Net Op. Expenses*	-3,517.2	-3,456.8	+1.7
Levies	1,107.1	908,4	+21.9
EBITDA	7,650.5	7,528.0	+1.6
Operating Profit (EBIT)	4,505.1	4,829.7	-6.7
Net Financial Expenses	-1,061.9	-1,287.9	-13.2
Recurring Net Profit	2,613.9	2,581.9	+1.2
Reported Net Profit	2,804.5	2,870.9	-2.3
Operating Cash Flow	6,047.3	5,718.2	+5.8

**Excludes Levies*

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Highlights of the period

Installed capacity reaches 13,690 MW

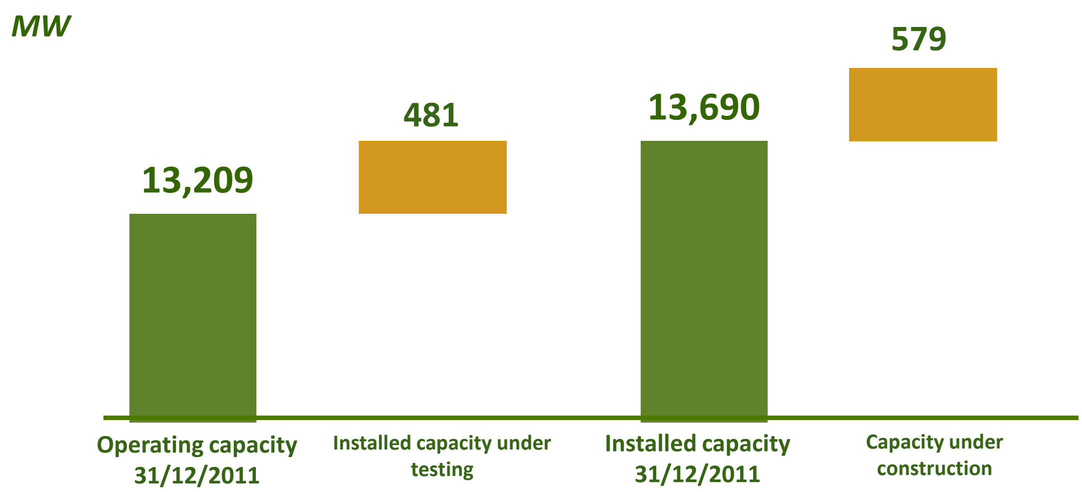
Operating capacity increases 10% and output by 13.1% to 28,721 GWh

Improvement in OPEX efficiency of 1.3%

Consolidated EBITDA stable at Eur 1,455.6 M, but it would grow 2.6% excluding results from selling contracts in 2010

Installed Capacity

Installed capacity up 9.2% to 13,690 MW…

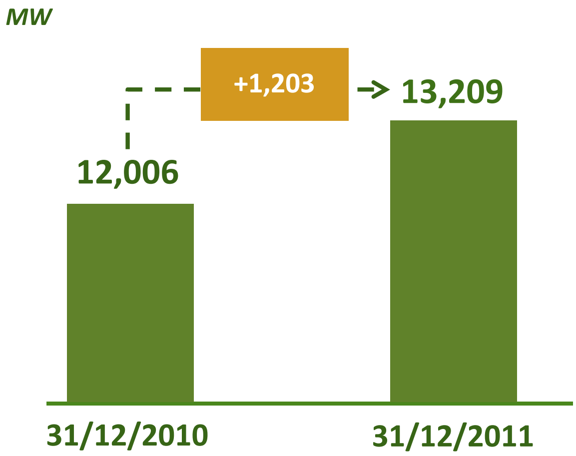


… with 579 MW under construction

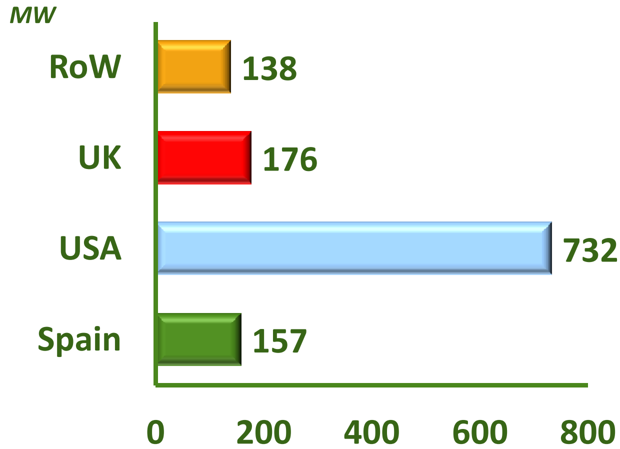
Operating Capacity

Operating capacity up 10% to 13,209 MW …

YoY operating capacity increase



Operating capacity breakdown

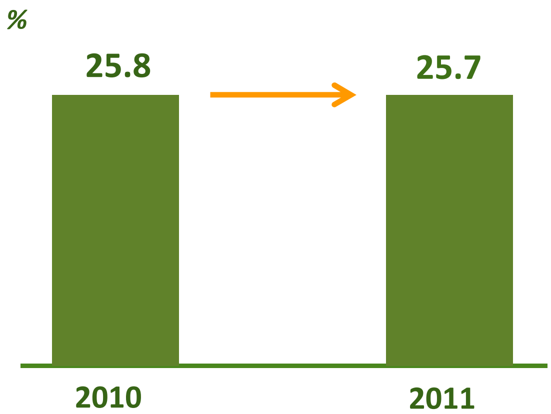


… with 39% of the increase in US

Load factors of the period

Average load factor of 25.7% …

Wind resource



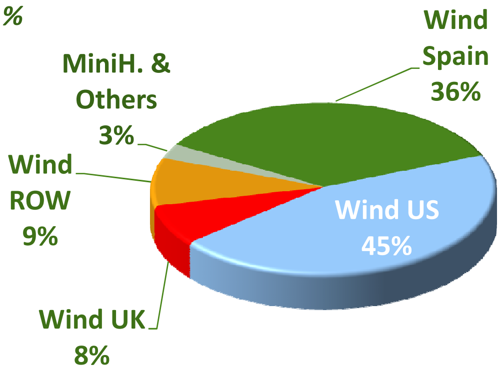
	Loadfactor 2011	Loadfactor 2010
Wind US	31.1%	30.2%
Wind Spain	21.5%	23.9%
Wind UK	25.8%	20.4%
Wind ROW	23.8%	23.4%
Minih. & Others	23.6%	25.5%

… showing improving loadfactors in US and UK, though not enough to offset the Spanish 2011 wind resource

Renewable output

Output reaches 28,721 GWh (+13.1%) …

Breakdown by geography



2011 Renewable output

GWh	2011	% v 2010
Wind US	12,945	+26.8%
Wind Spain	10,211	-4.5%
Wind UK	2,155	+49.8%
Wind ROW	2,604	+19.3%
Minih. & Others	806	-9.0%
TOTAL	28,721	+13.1%

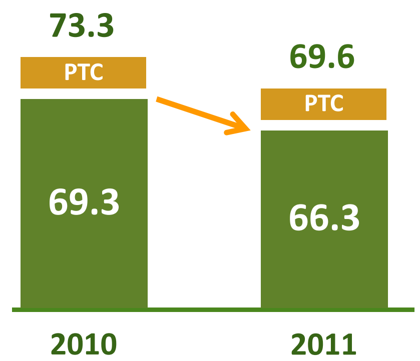
… showing significant growth in US (+26.8%) y UK (+49.8%)

Renewable output prices

Larger contribution from the US business reduces the average price …

Renewable average price

€/MWh



Prices in local currency

	Var %	Var. v 2010	Selling modaliity
USA*	-4.5%	$-2.4/MWh	Long term PPA
UK	-3.3%	£-3.3/MWh	Medium term PPA
RoW	+6.9%	Eur+6.3/MWh	Mainly feed-in tariffs
Spain	-1.0%	Eur-0.8/MWh	Regulatory Floor

… effect increased by collection of grants and fx

** Average selling price excluding PTC and effect of contracts sale*