

OUTLOOK 2012/14 **The Electricity Sector** **IBERDROLA**

However, the sector is being affected by regulatory uncertainty, particularly in the Euro zone

Lack of a clear energy policy
+
Unstable and unpredictable regulatory frameworks
+
Increasing taxation

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OUTLOOK 2012/14 **Regulatory Outlook** **IBERDROLA**

Regulation must pursue a transparent and objective model defined ex-ante

Energy Policy	<ul style="list-style-type: none"> Which energy sources do we want to use? How much are we willing to pay for it?
Networks	<ul style="list-style-type: none"> Approved investment plans Recognised expenses + efficiency sharing mechanism Objective, transparent and secure returns
Generation & Supply	<ul style="list-style-type: none"> Competitive market with no political intervention Elimination of externalities and discriminatory taxation Definition of remuneration for backup technologies (capacity payments)
Renewables	<ul style="list-style-type: none"> Reasonable and predictable returns Cost efficient technologies

- Rational planning
- Stable employment
- Efficiency improvements
- No legal actions
- Lower financial costs

Most countries follow these guidelines

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Regulatory Outlook - Spain

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Spain has traditionally had an ex-post model, requiring reactive decisions...

- Investments and costs are adjusted in response to changes in the framework
- Resulting in considerable litigation
- Negative impact on auxiliary industry (initiated and discontinuous procurements)
- Jeopardizing stable employment
- More difficult access to capital markets and higher financial costs

... but current Government plans to change it to an ex-ante model

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Regulatory Outlook - Spain

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Government intends to modify the Electricity Act to attain¹...

- An objective, transparent and stable regulatory framework
- Homogeneous treatment of all generation technologies
- Reasonable returns for renewable energies
- New remuneration scheme for regulated activities (distribution and transmission)
- Further liberalisation

... in order to eliminate the Tariff Deficit and to reach an economically and environmentally sustainable electricity system, with a balanced energy mix

1. Declarations by Minister of Industry, Energy and Tourism in Congress on September 26th, 2012

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2012-2014 Strategic Pillars


Iberdrola reaffirms its strategic pillars

Financial	Strategic
Debt reduction	Investments lower than cash flow generation
Strong liquidity position	Focus on core businesses
Solvency ratios improvement	Divest non strategic assets
Low exchange rate and interest rate risk	Continue improving efficiency

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2012-2014 Strategic Approach


Preparing the Company for the next phase of economic growth

Investment Criteria

Security Profitability
 \ /
 Execution period
 ↓

Focused on regulated business
Balance sheet strengthening

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Businesses

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All businesses must generate positive cash flows...

Networks	<ul style="list-style-type: none"> Investments allocated by country according to regulatory frameworks
Generation & Supply	<ul style="list-style-type: none"> Adjusting plant operations to the country's framework Preparing sites for future growth opportunities Optimising efficiency in O&M
Renewables	<ul style="list-style-type: none"> Concentrating presence in core countries Iberdrola's first offshore wind farm to start operation

... and maximise efficiency

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Countries

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Focus on the Atlantic Area, prioritising investments according to economic and regulatory conditions

UK Growth	<ul style="list-style-type: none"> Growth in transmission activities (RIIO-T1) up to 2021 Negotiating new distribution framework (RIIO-ED1) up to 2023 Optimising existing regulatory framework (DPCR5 and RIIO-T1) Preparing for future growth opportunities in generation and in on- and offshore wind projects
US Growth	<ul style="list-style-type: none"> Growth in medium-term transmission activities Optimising efficiency sharing mechanism up to 2014 Geographic concentration in renewables
Spain Re-alignment	<ul style="list-style-type: none"> Revising investments and costs according to the amended regulatory framework Optimising operation and maintenance of generation plants Maximising efficiency
Latin America Growth	<ul style="list-style-type: none"> Brazil: <ul style="list-style-type: none"> Growth in distribution, transmission and regulated generation (hydro and renewables) Mexico: medium term opportunities from further opening of sector

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Agenda


Macro Environment and Strategic Pillars

2012-2014 Financial Projections

Conclusion

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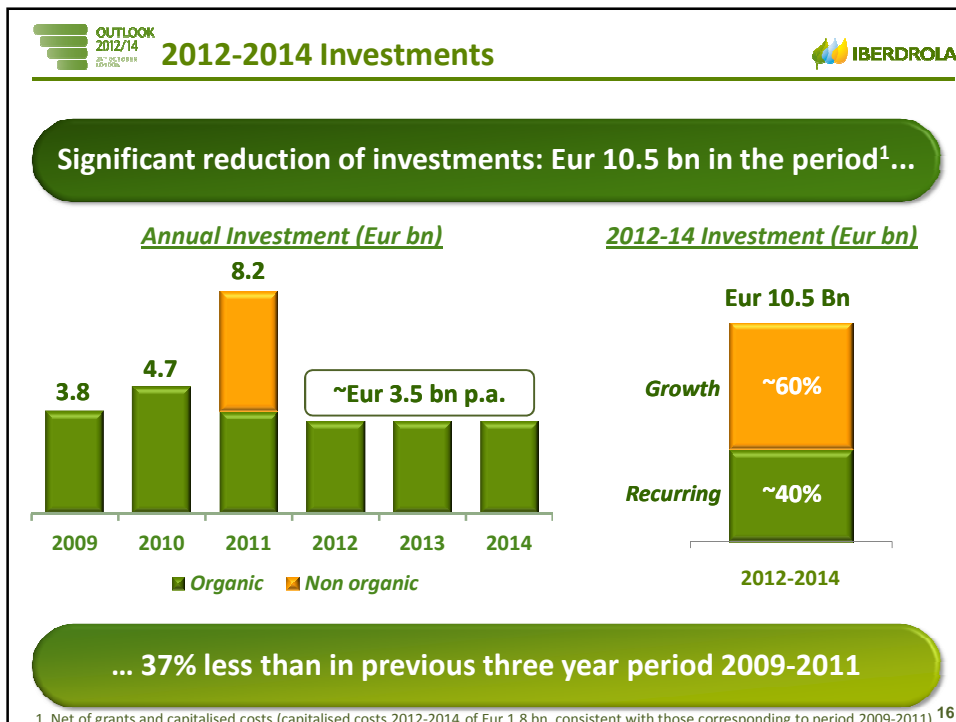
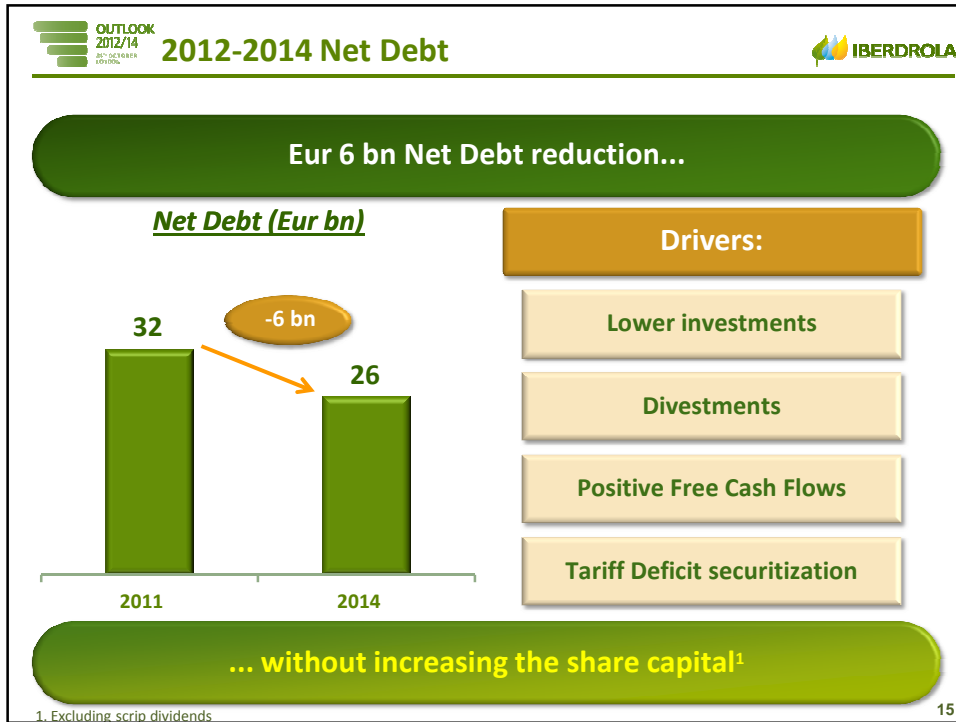

2012-2014 Outlook


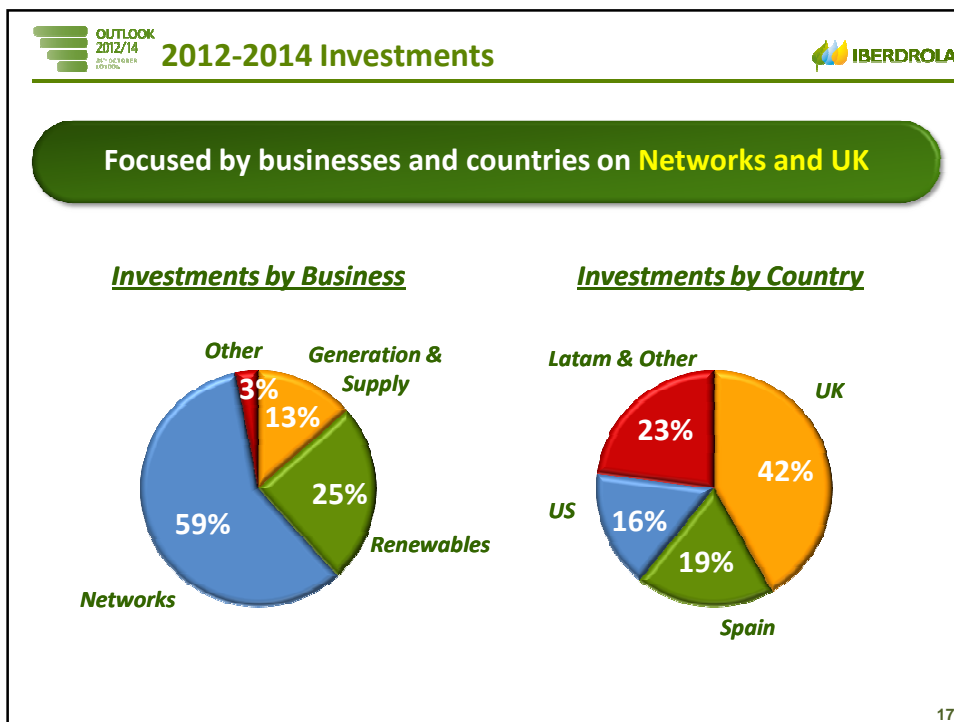
General hypotheses

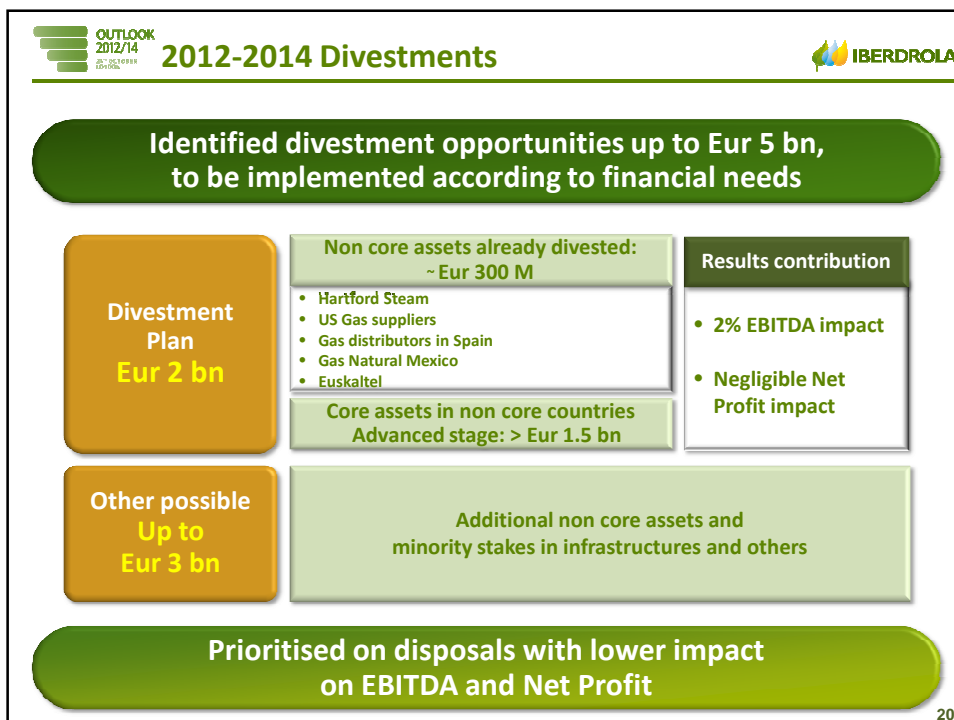
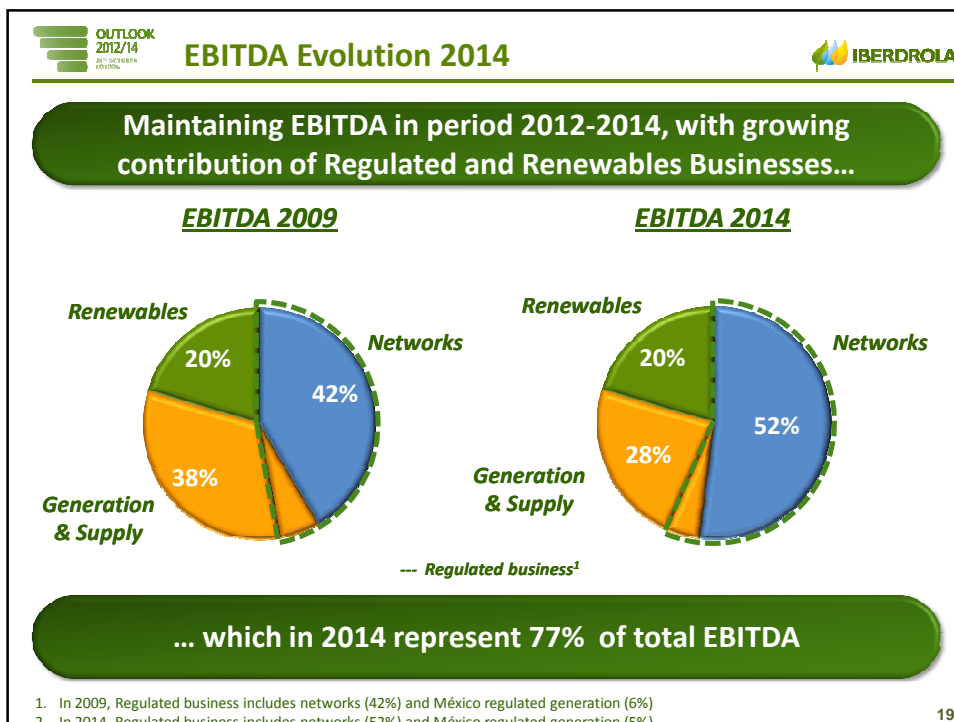
Energy prices	2013 and 2014 forward prices in European markets
Demand	Evolution in line with GDP by country
Commodities prices	Consistent with the International Energy Agency
Exchange rates Interest rates	In line with market consensus

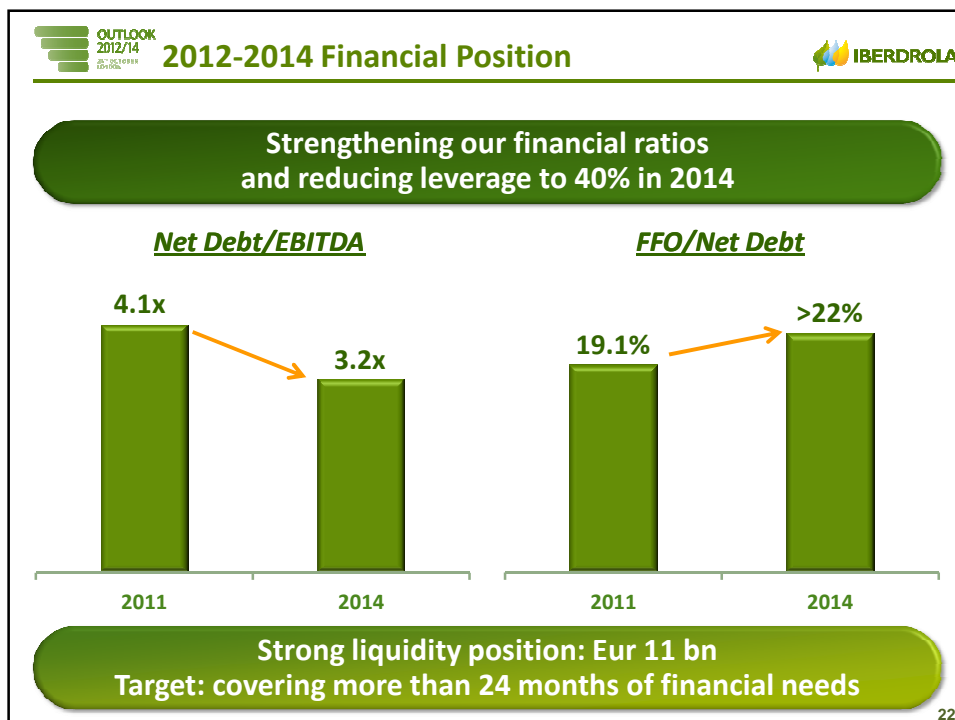
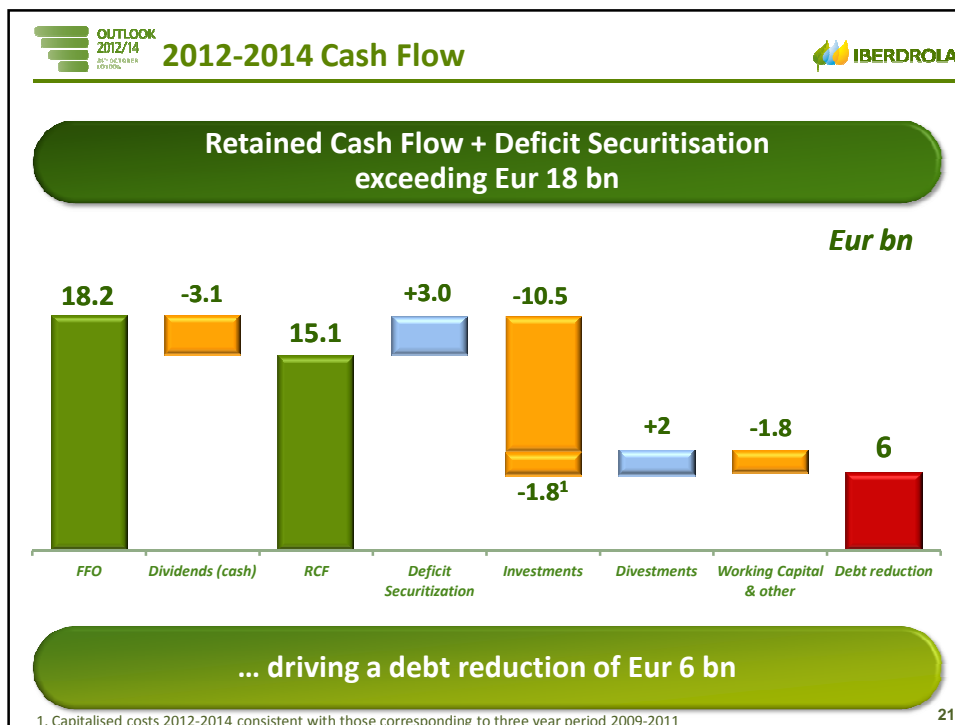
Conservative hypotheses based on market conditions

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2012-2014

2012-2014 Efficiency

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Iberdrola, already a benchmark in efficiency

Benchmark¹

<i>Net Op. Expenses/Gross Margin</i>	#1
<i>Workforce /Installed MW</i>	#1
<i>Workforce /Users</i>	#1
<i>Net Op. Expenses/Workforce</i>	#2

Personnel: headcount reduction

- *-1,200 employees*
- *Salaries linked to results*

External services: costs reduction

- *Synergies from integration of global businesses – Procurement, IT, Marketing, ...*
- *One Corporate Centre*

These measures allow the Company to absorb effect of inflation and increased activity, maintaining costs flat in 2012-2014

1. Source: Ernst & Young and own estimates from public information. Including Iberdrola, EDF, GDF-Suez, E.ON, RWE and Enel

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Macro Environment and Strategic Pillars

2012-2014 Financial Projections

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Conclusions

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Iberdrola has alternatives/options of financial management to face unexpected scenarios...

through

- A wide range of possible disposals ready to be executed totally or partially, as required
- Subsidiaries outside the Euro zone with debt capacity and easy access to capital markets
- Scrip dividend adding flexibility

... whilst maintaining the debt reduction target

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Conclusions

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Despite negative external factors ...

- Demand
- Regulation (Networks)
- Energy taxation
- Sovereign debt rating downgrade



... thanks to the measures to be implemented ...

- External services expenditure freezing
- Headcount reduction
- Optimisation of generation and supply
- Investment reduction
- Divestments
- Financing improvements
- Tariff Deficit securitisation

... by 2014, Iberdrola can reach its goals ...

- Reduce net debt by Eur 6 bn and improve financial ratios
- Maintain EBITDA and Net Profit (v 2011)

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Conclusions


Continuing with our strong commitment to both retail & institutional shareholders...

... which must be consistent with maintaining solvency ratios and the target liquidity position

2012-2014 policy	Annual average ~0.3 Eur/share maintaining scrip dividend scheme
Mid-term policy	Pay-out in the 60% area


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Conclusions


... and to all our stakeholders


Corporate Governance	Best corporate governance in Spain, 2012 World Finance Magazine Award
Environment	CO2 emissions/KWh 30% lower than European electricity sector average Utilities sector world leader, 2012 DJ Sustainability Index Best company in environmental care in Spain, IPSOS Key Audience R.
Employees	Amongst best companies to work for, Merco in Spain and Você in Brazil Leader in work-life balance, Family-Responsible Certificate
Innovation	Most innovative utility in Spain & among top 5 in Europe, 2011 R&D Scoreboard

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