IBERDROLA

Investor Day

London. 24th February, 2010

# *Spanish Regulation & Latam*

*José Luis San Pedro*

# Regulation: Sector evolution during the last year



**Royal Decree Law 6/2009 deepens the liberalisation of the sector…**

- Removal of the electricity tariff in July 2008
- Commitment to eliminate the tariff deficit by December 2012
- Development of forward markets

**…and increases the legal security of the companies**

# Regulation: Deficit legislation details

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**Total elimination of the tariff deficit by December 2012 and full reimbursement of contributions made**

- Limited annual amount of the tariff deficit until 2012
- Until 2012 Companies will finance tariff deficit, being reimbursed within 12 months with applicable interests
- Securitisation Fund with State guarantee
- Placing of ex-ante deficits at market conditions
- Possible deviations in ex-ante tariff deficits will be incorporated in the tariff for the following year

# Regulation: Tariffs

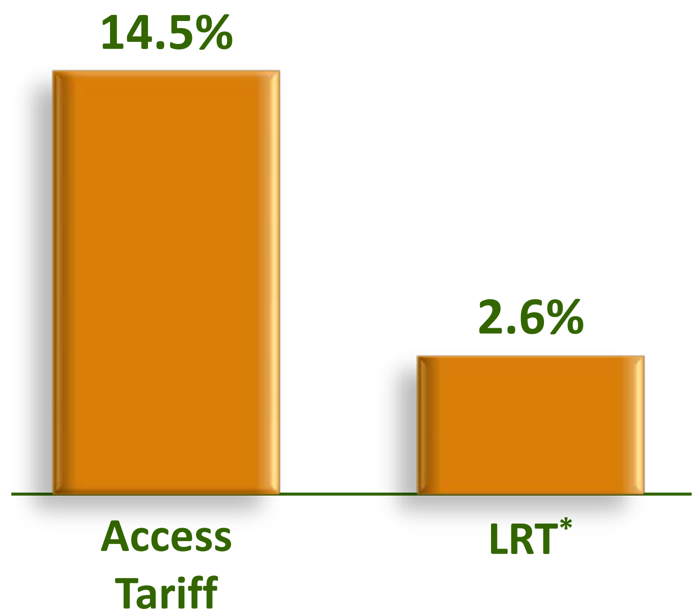
## Tariff review – January 2010

**Tariff deficit limit:** Eur 3,000 MM

**Regulated costs:** 10% increase

**Energy cost according to auctions of December 2009**

### *Tariff increases*




*Last Resort Tariff

# Regulation: Distribution remuneration



## Provisional remuneration for distribution activities

2009 → + 4 %

2010 → + 2 %

**Negotiations opened with the Administration in order to adapt remuneration to investments**

# Regulation: Combined-cycle plants

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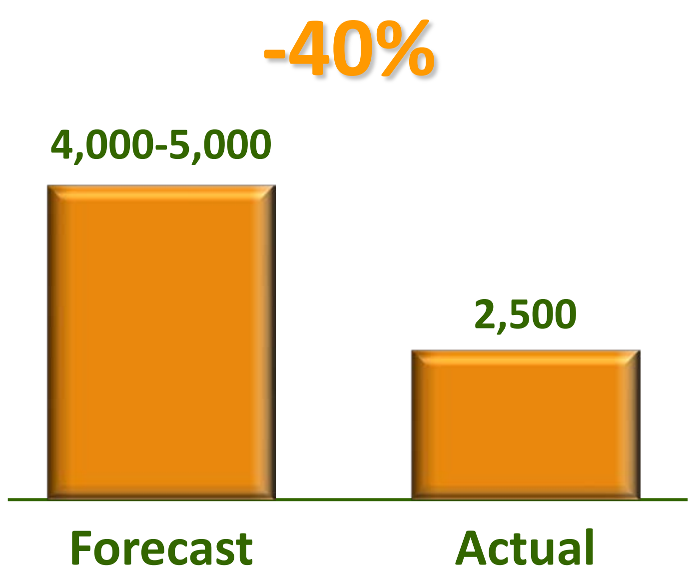
**The growth in renewable energy and the fall in demand reduce the thermal gap**

*Hours of use of CCGTs*




**The Administration recognises that the remuneration system needs to be adapted, since CCGTs are key for security of supply**

# Regulation: Domestic Coal



**Royal Decree already approved will be applied after operational implementation by REE and Brussels' green light**

Requested by the "National Coal Plan" (ending 2012)

Domestic coal production replaces imported coal in the day-ahead dispatch

Procedure does not distort market price nor shrink load
to cover through thermal generation

Total cost = $(VC^{*}_{\text{Domestic Coal}} - VC_{\text{Imported Coal}}) \times \text{Production}_{\text{Domestic Coal}}$

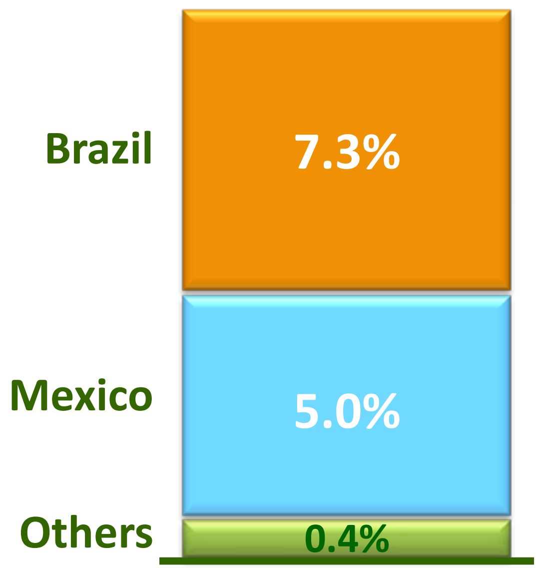
**Variable Cost*

# Iberdrola in Latam

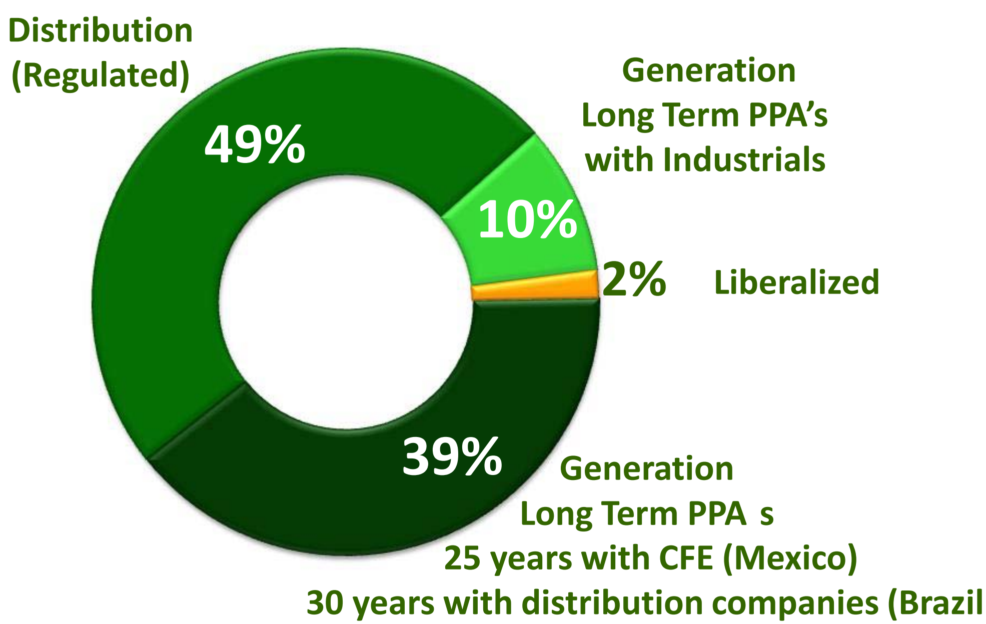


**Core Countries Brazil & Mexico account for 95% of Latam EBITDA (Eur 860 MM)**

## *12,7% of Group EBITDA '09*




## *EBITDA '09 Breakdown*




**Good Return Investments together with Low Risk Profile**

# Iberdrola in Latam: Mexico



**2009, total availability of 94.7% with 7,100 Operating Hours**
**Production 34,646 GWh**

5,000 MW of installed capacity, #1 private producer

90% under 25 years PPAs with CFE

Pass-through of gas price. No commodity risk

Potential upsides from Heat Rate & Availability enhancements vs Guaranteed values

# Iberdrola in Latam: Mexico

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## 2009

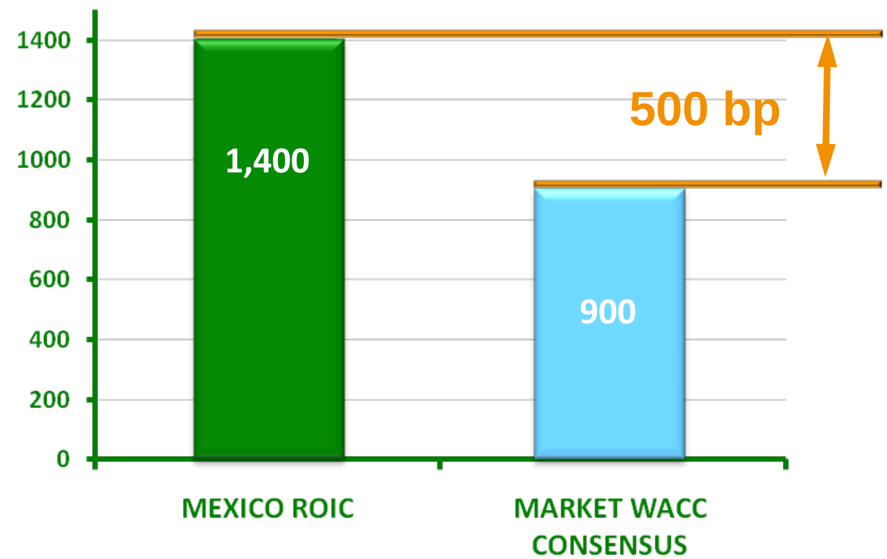
**EBITDA:** Eur 330 MM

**EBIT:** Eur 280 MM

**Gross Assets/kW:** 386 Eur
(Market value 1,000 Eur)

**Net Assets/EBITDA:** 4

## Return On Invested Capital (ROIC)



# Iberdrola in Latam: Brazil

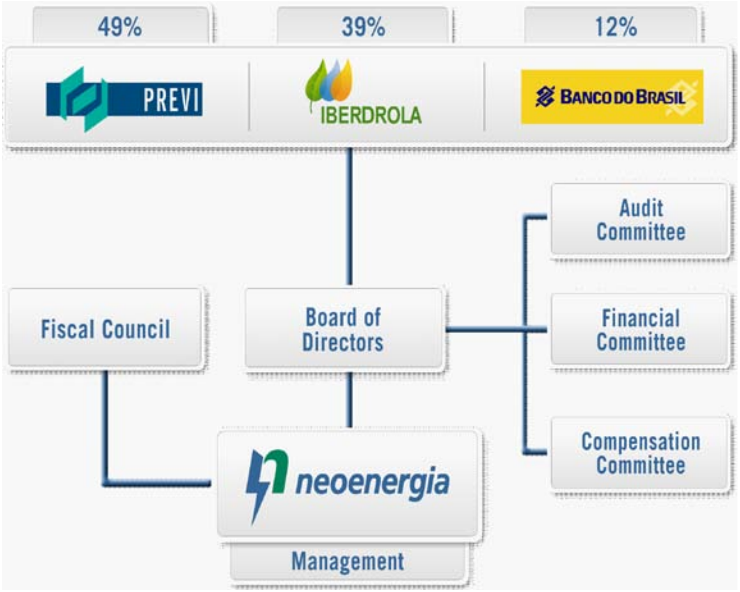


**Largest Distribution Company by number of customers**
**Increasing generation capacity based on clean energies**

Owner of distribution companies
COELBA, CELPE and COSERN

2009 Distributed Energy 28,281 GWh
8.8 MM Points of Supply

1,340 MW operating (599 MW thermal),
712 MW hydro under construction, with 30 year PPAs



# Iberdrola in Latam: Brazil



## Regulated Business or with Long Term PPAs (30 years) …

### *2009*

**EBITDA: Eur 496 MM**

**EBIT: Eur 407 MM**

**Net Assets/EBITDA: 3.5**

## … with Good Return and Low Risk

# Iberdrola in Latam: Prospects



**Mexico**

Moderate investments in the short term

**Brazil**

One of the fastest growing economies in the world

Ambitious electric infrastructure plan

The actual business plan only considers recurring investments.
Iberdrola will analyse each new future investment in both countries

**Good Return vs Very Low Risk Profile in countries with high growth and economic stability**