


IBERDROLA

INVESTOR DAY
Madrid / March 2nd / 2011



Latam and Regulation
Jose Luis San Pedro
Chief Group Operating Officer





Businesses

1. Organisation

2. Brazil

Regulation



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INVESTOR DAY  **Organisation** 

Last October, the Board approved an organisational and management model change, a step forward in the integration of companies within the Iberdrola Group

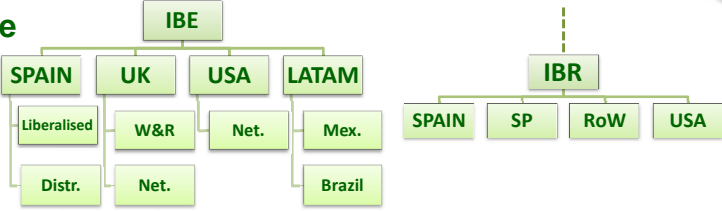
Integration process		Efficiency improvements (Eur MM)
1) Quick wins	Initial synergies	200
2) Management by country	Benchmark	380 / year
3) Corporate center	Process optimisation	120 / year
4) Management by business	Process optimisation	

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INVESTOR DAY  **Organisation** 

IBERDROLA: new management model

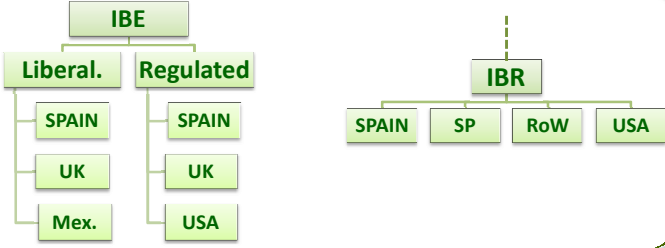
Before



```

graph TD
    IBE --> SPAIN
    IBE --> UK
    IBE --> USA
    IBE --> LATAM
    IBR --> SPAIN
    IBR --> SP
    IBR --> RoW
    IBR --> USA
    SPAIN --> Liberalised
    SPAIN --> W&R
    SPAIN --> Net.
    SPAIN --> Distr.
    LATAM --> Mex.
    LATAM --> Brazil
    
```

Now



```

graph TD
    IBE --> Liberal.
    IBE --> Regulated
    IBR --> SPAIN
    IBR --> SP
    IBR --> RoW
    IBR --> USA
    Liberal. --> SPAIN
    Liberal. --> UK
    Liberal. --> Mex.
    Regulated --> SPAIN
    Regulated --> UK
    Regulated --> USA
    
```

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INVESTOR DAY  **Organisation** 

What does this new management model means?

- One only organization by business
- One only planning by business
- One only budget by business
- One only investment plan by business

With the objective of sharing best practices under one only business director



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INVESTOR DAY  **Organisation** 

Next months

- 1) Define each business organisation
- 2) Elaborate five years business plan for each business
- 3) Display efficiency improvements designed

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INVESTOR DAY  



Businesses

1. Organisation

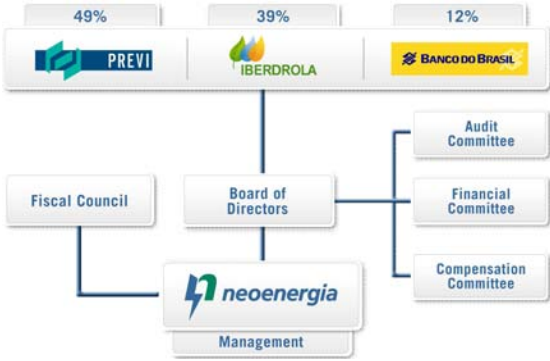
2. Brazil

Regulation

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INVESTOR DAY  **Iberdrola in Brazil** 

Largest Distribution company in Brazil by number of customers
Increasing Generation with clean technologies




Owner of COELBA, CELPE and COSERN DistCos.
8.1% demand increase in 2010

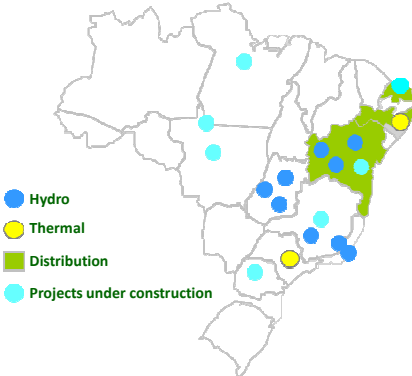
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INVESTOR DAY  **Iberdrola in Brazil** 

Neoenergia is one of the sector's largest companies with a strong expansion path

 **neoenergia 2010**



- GWh distributed** 30,563
- Customers** 9.1 Millions
- GWh generated** 7,742
- Hydro MW** 814
- Thermal MW** 691
- MW under construction(*)** 2,790
- TOTAL MW** 4,300




Business based on distribution (regulated) and long term PPAs

(*) Attributable: 2.646 hydro and 144 wind

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INVESTOR DAY  **Iberdrola in Brazil** 

2011-2015 Investments of Eur 6,320 MM (100% Neo)





Dardanelos 261 MW	2011
Baixo Iguaçu 350 MW	2013
Wind farms 144MW	2013
Teles Pires 912 MW	2015
Belo Monte 1,123 MW	2015 - 18

Dardanelos Hydro Plant (261 MW)



30 years contracts, with fixed charges and output secured

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INVESTOR DAY  **Iberdrola in Brazil 2010** 

2010 key year in Iberdrola's bet for Brazil

- Neoenergia awarded with 10% of Belo Monte plant (11,233 MW)
- Neoenergia signs an agreement with Iberdrola Renovables
The consortium is awarded with 258 MW of wind (20% of total)
- The consortium led by Neoenergia (50.1%)
is awarded with Teles Pires hydro plant (1,820 MW)

**In January 2011 Iberdrola agrees the acquisition
of 100% of Elektro DistCo. (USD 2.4 bn)**

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INVESTOR DAY  **Iberdrola in Brazil - Elektro** 

**Elektro is an outstanding opportunity
in the most developed area**

Operating data	Location
Distribution Network (Km)	105,792
Electricity supply points (Millions)	2.17
Energy distributed 2009 (GWh)	11,036

Mato Grosso

Andradina

Votuparanga

Rio Claro

Tatuí


Itanhaém

Sao Paulo

Limpeira

Atibaia

Guarujá



Elektro is the 9th DistCo. in Brazil and the 3rd in Sao Paulo state

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INVESTOR DAY  **Iberdrola in Brazil - Elektro** 

Elektro represents a very attractive opportunity



Investments 1,777 MM Eur

2009 EBITDA Eur 334 MM

9M 2010 EBITDA 287 MM Eur

Net Profit 216 MM Eur

2009 Debt 367 MM Eur

EV/EBITDA^(*) 5.8

Low risk regulated business in a high growth country

(*) EBITDA from 01/10/2009 to 30/09/2010
Exchange rate 2.2543 R\$/€



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INVESTOR DAY  **Iberdrola in Brazil - Elektro** 

Transaction meets all the established criteria ...

- Reinforces the position in Brazil
- Improves Group's risk mix; regulated business
- ... improving Iberdrola position

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INVESTOR DAY  

Businesses

- 1. Organisation
- 2. Brazil

Regulation

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INVESTOR DAY  

Spain Regulation



- New framework. Goals
- Tariff commitment
- Reduction in costs of supply
- December 2010 and April 2011 tariff review
- Reducing regulatory uncertainty

UK Regulation

USA Regulation



Brazil Regulation

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INVESTOR DAY  **Spain: New framework. Goals** 

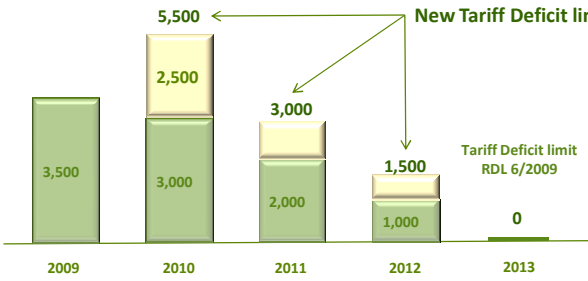
- Finish with regulatory uncertainty**
- Define public and private commitment to end up with tariff deficit by 2013**
- Tariff commitment**
- Reduction in costs of electricity supply**

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INVESTOR DAY  **Spain: Tariff Commitment** 

Maximum limits for tariff deficit have been increased

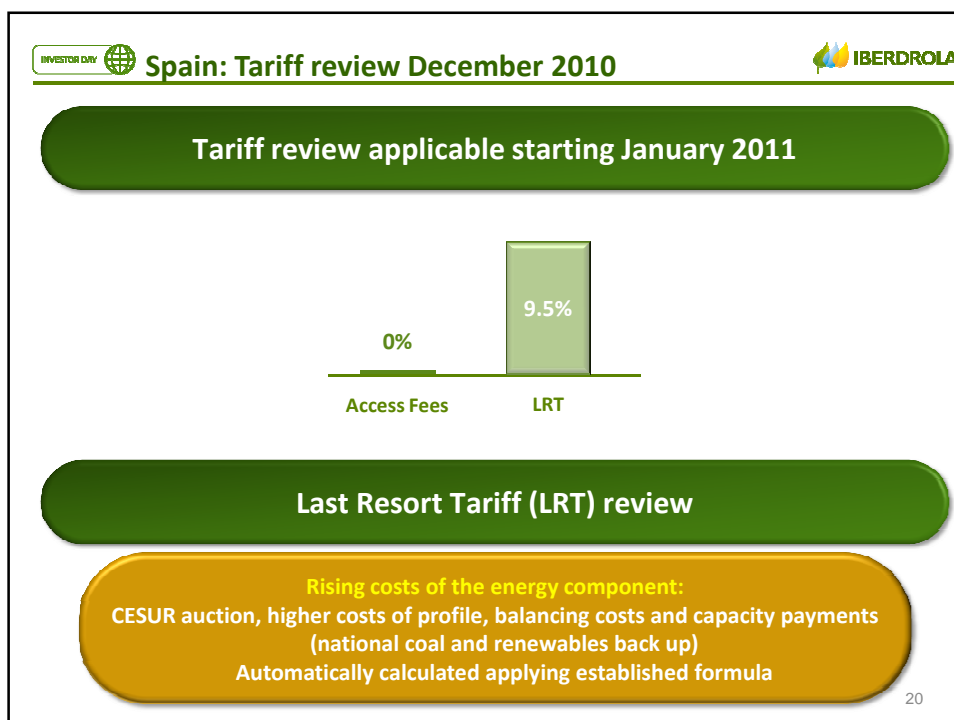
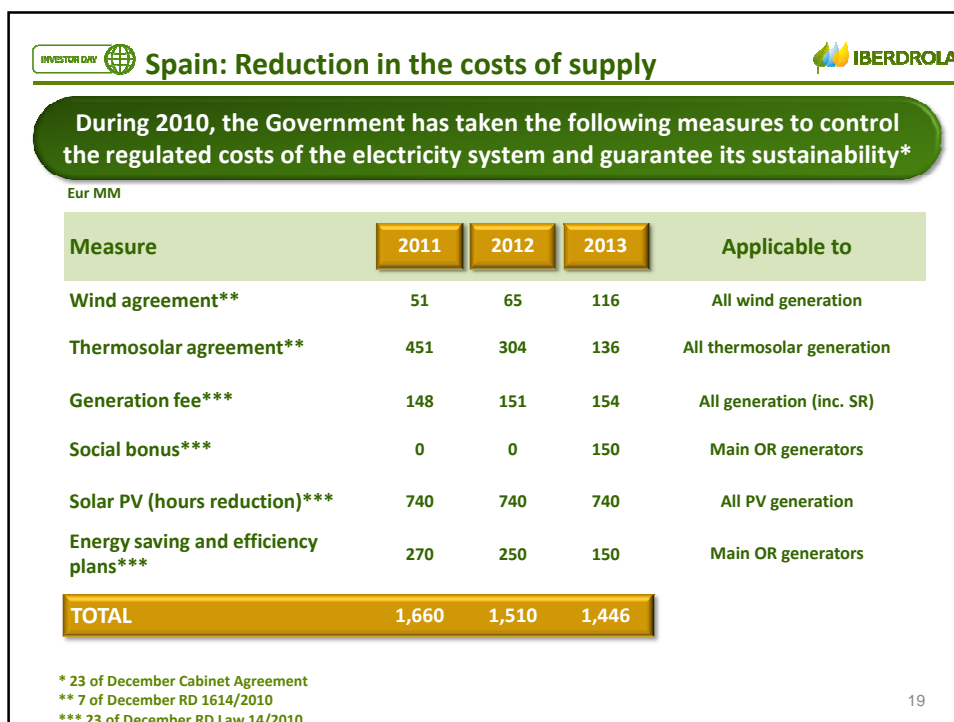
Eur MM

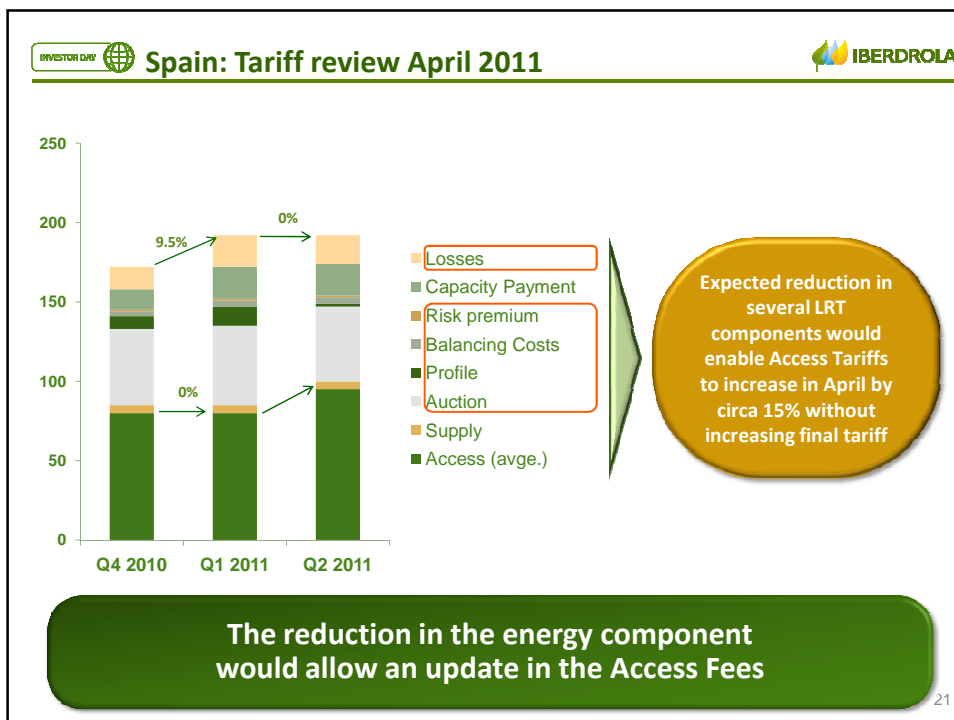


Year	2009	2010	2011	2012	2013
Actual Deficit	3,500	3,000	2,000	1,000	0
Limit (RDL 6/2009)	3,500	3,000	3,000	1,500	0
Limit (RDL 14/2010)	-	5,500	3,000	1,500	0



New tariff deficit path shows the firm commitment from the Regulator to reduce the costs of supply and to use the tariff to control the deficit

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- Spain: Reducing regulatory uncertainty**
- Consolidating 2009 and 2010 distribution remuneration and applying the new remuneration system
 - Priority to the national coal in the generation dispatch
 - Recognition of the back up service cost due to renewables generation
 - Extending nuclear plants life
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INVESTOR DAY  **Spain: Distribution remuneration** 

**Significant fact in December's tariff review:
Change in the remuneration model of Distribution**

- End of transitory period established in RD 222/2008
- Remuneration review according to investments
(Before, according to parametrical formula not reflecting real activity)
- Amounts calculated by CNE according to Network Reference Model (MRR)
and checked by the companies
- 2009 and 2010 final remunerations and 2011 provisional one
have been reviewed according to this procedure
- Impact in IBERDROLA:

IBERDROLA Distribution remuneration (Eur MM)	2009	2010	2011 (prov.)
Previous system	1,424	1,415	1,524
RD 222/2008 Model	1,499	1,593	1,668
Improvement	75	178	144

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INVESTOR DAY  **Spain: National coal priority** 

RD that forces to generate with national coal

- Tries to guarantee a minimum consumption of national coal
in the electricity system (aprox. 23 TWh_e/year) up to 2013
- After several delays due to legal issues,
its application starts this week
- The overcost will be added to the energy cost,
as the rest of ancillary services
- Annual approximate cost: Eur 450 MM



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INVESTOR DAY  **Spain: Capacity payments** 

Capacity payments

- Payment of back up service due to renewables production
- Availability payment to those plants that have lowered load factors due to the entrance of renewables and the reduction of the “thermal gap”
- Pending regulatory development

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INVESTOR DAY  **Spain: Extension of nuclear plants life** 



Sustainable Economy Law

Art. 79. Indicative Energy Planning

...

3. c) Determine the participation of the nuclear energy in the energy generation mix, according to the schedule of operation of the existing plants and the plans renewals that, requested by their owners, and to the regulatory framework, proceed, once heard Nuclear Security Council decisions on nuclear security requirements and radiological protection, the evolution of electricity demand, the development of new technologies, the security of electricity supply, the electricity generation costs and greenhouse gas emissions, and always subject to the European legal framework in place

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Spain Regulation

UK Regulation
 Regulatory review DPCR5 2010-2014/15
 Transmission regulatory reviews
 Energy policy

UK Regulation

Brazil Regulation

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INVESTOR DAY  **UK: Distribution. DPCR5 2010-2014/15 review** 

DCPR5: capital real remuneration after taxes

100 bps

4.00%

5.00%

Improvements underway

WACC Obtained in previous regulatory period 4.54%

DCPR5 real WACC after taxes Initial

DCPR5 real WACC after taxes Expected

DCPR5 allows to surpass previous period capital remuneration due to:
 - Costs + Incentives - Penalties

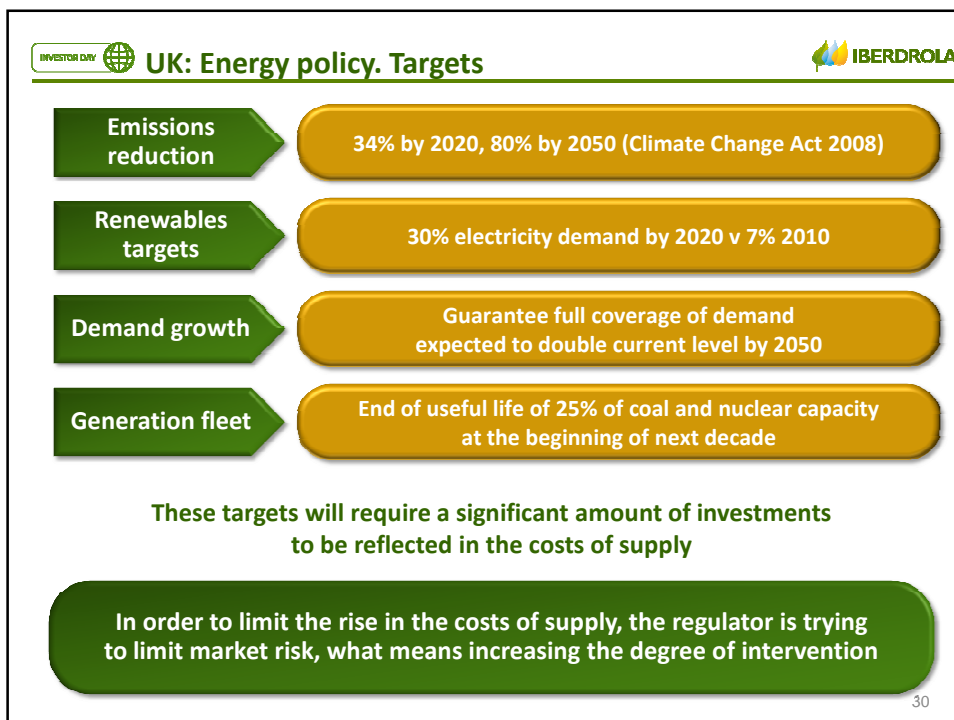
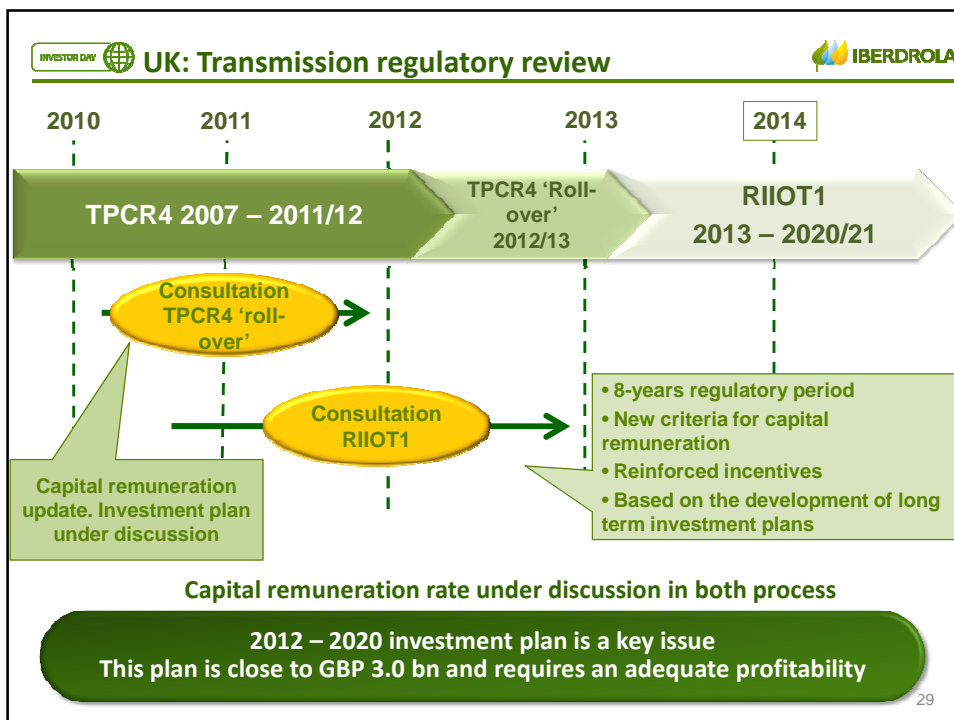
- Beat standards in operating cost and capex
- Improve quality and customer service
- Redefine technical losses targets
- Promote decarbonisation investments (distributed generation and innovation, etc.)



2010 performance shows that beating returns according to expectations is achievable (100 bps = GBP 120 MM)

5.0% WACC equivalent to a regulatory ROE of 11.9%*

*Considers 2.5% inflation and 65% gearing

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INVESTOR DAY  **Energy policy. Main points under discussion** 

Energy Market Reform

- Regulated prices for emission-free technologies
- Capacity payments for flexible energy
- CO₂ Price floor
- More demanding emissions standard for new coal plants
- Protection for existing or under construction renewables facilities
- Consulting period February-March 2011; "White Book", April 2011; Parliament discussion, 2011-12; application 2013-17

"We have a once-in a generation chance to rebuild our electricity market, investor confidence and our power plants. This will be seismic shift, securing investment in cleaner, greener power and ensuring low-carbon, affordable power for decades to come". Chris Huhne.

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- Spain Regulation
- UK Regulation
- USA Regulation**
 - NY gas – electricity tariff review
 - Maine Power Reliability Project
- Brazil Regulation

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INVESTOR DAY **USA: Gas – electricity review** **IBERDROLA**

Significant improvement in NY tariff framework

	Previous framework	2010 Tariffs
Regulatory period	Not defined	3 years & 4 months (2013)
Tariff increases	Electricity, frozen since 1993; gas, since 2000	3 – 8%, depending on companies and periods
ROE / Leverage	2009: 6.3% / 47.1%	10.0% / 48%
Earning sharing mechanisms	Defined only for one part of the companies	10.5 – 10.9% ; 100% company 10.5 - 11.70%; 50% company > 11.1 – 11.7; 15% company
Costs/Revenues compensations	Partial	41% O&M Expenses + Demand fluctuations
Regulatory Assets	USD 300 MM pending	USD 50 MM pending

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INVESTOR DAY **USA: Maine Power Reliability Project** **IBERDROLA**



Maine Power Reliability Program

- Authorisation for the construction of Maine Transmission line (MPRP)**
- Authorisation: July 2010
- USD 1.4 bn investment in a 800 km line, expected fully in place by 2015
- Federal regulatory support (FERC): ROE 12.89% / 50% Leverage
- Facilitates renewables evacuation, increases system efficiency and reduces network constrains
- Potential return on capital close to 13% in a regulated business**

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Spain Regulation

UK Regulation

USA Regulation

Brazil Regulation

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INVESTOR DAY  **Brazil: Regulation** 

New tariff methodology, under final discussions with the regulator, ...

Assets remuneration based amounts already recognised plus investments made

WACC 7.5-8%, real and after taxes
Reduction due to lower interest rates

Operational costs according to benchmarking, opportunities for more efficient companies

Tariffs adjustments during the period according to reasonable criteria

... maintains a reasonable remuneration for distribution in a solid and attractive country

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INVESTOR DAY  **Brazil: Regulation** 

Tariff reviews calendar

ELEKTRO	2011
COELBA	2013
COSERN	2013
CELPE	2013

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