

 **Financial Management** 

Agenda

- 2010 - 9M 2012 Financial Activity**
- Financial Strategy for 2012-2014 period**
- Risk Management**
- Conclusion**

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OUTLOOK 2012/14 **Financial Management** **IBERDROLA**
Financial activity

Iberdrola has been improving its financial position since the end of 2009...

FFO - Investments	Investments under control and strengthening FFO, that shows a CAGR of 6.1%
Liquidity	> Eur 11bn covering in excess of 3 years of financing needs, with counterparty credit line diversification resulting in small Spanish exposure
Maturities	Average maturity of debt raised and short term debt maturities reduced
Cost of debt	Stable Cost of debt despite wider spreads
Solvency ratios	Solvency ratios strengthened

... until September 2012

OUTLOOK 2012/14 **Financial Management** **IBERDROLA**
Ratios

With solvency ratios improving since end of 2009

FFO / Net Debt* (%)

Year	FFO/Net Debt (excl. deficit)	FFO/Net Debt (incl. deficit)
2009**	20.5	17.9
Sept. 2012	22.2	20.0

RCF / Net Debt * (%)

Year	RCF/Net Debt (excl. deficit)	RCF/Net Debt (incl. deficit)
2009**	14.1	12.3
Sept. 2012	18.7	16.8

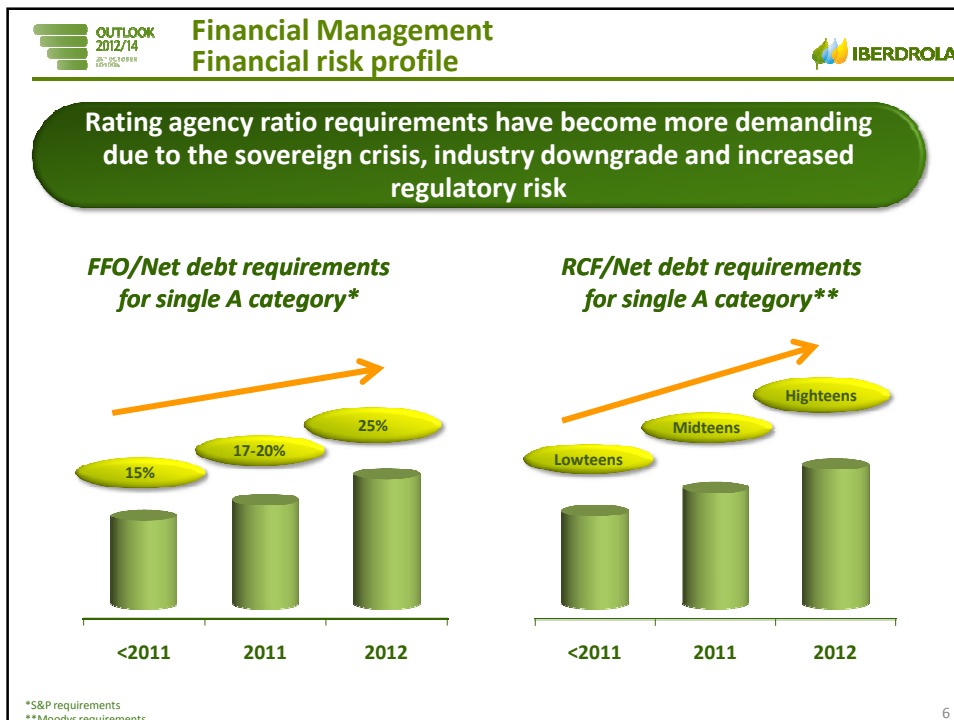
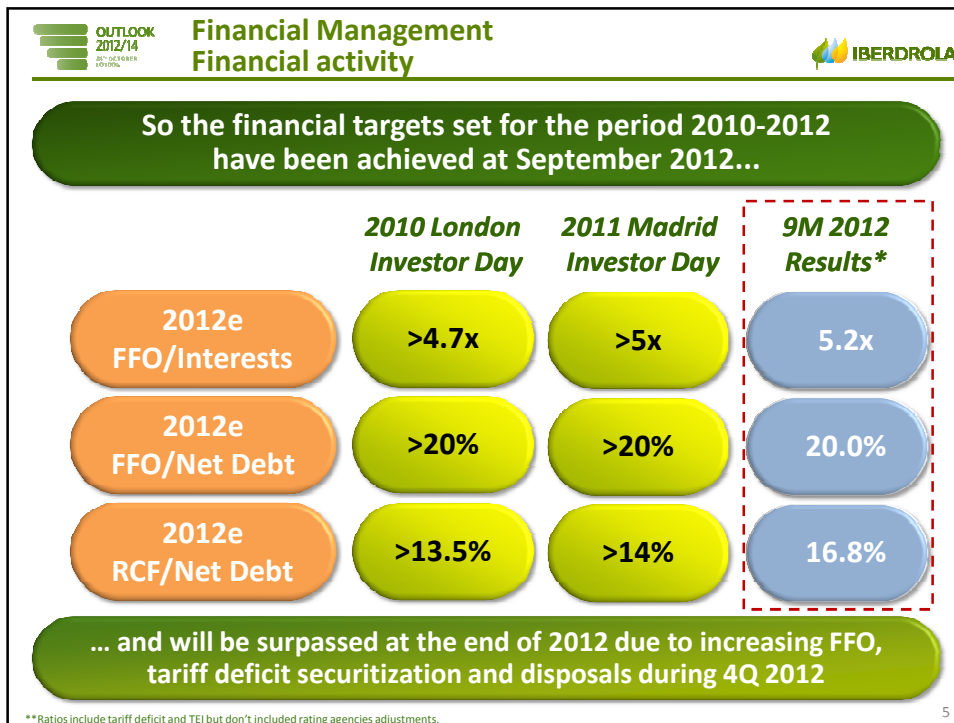
FFO / interest* (x)

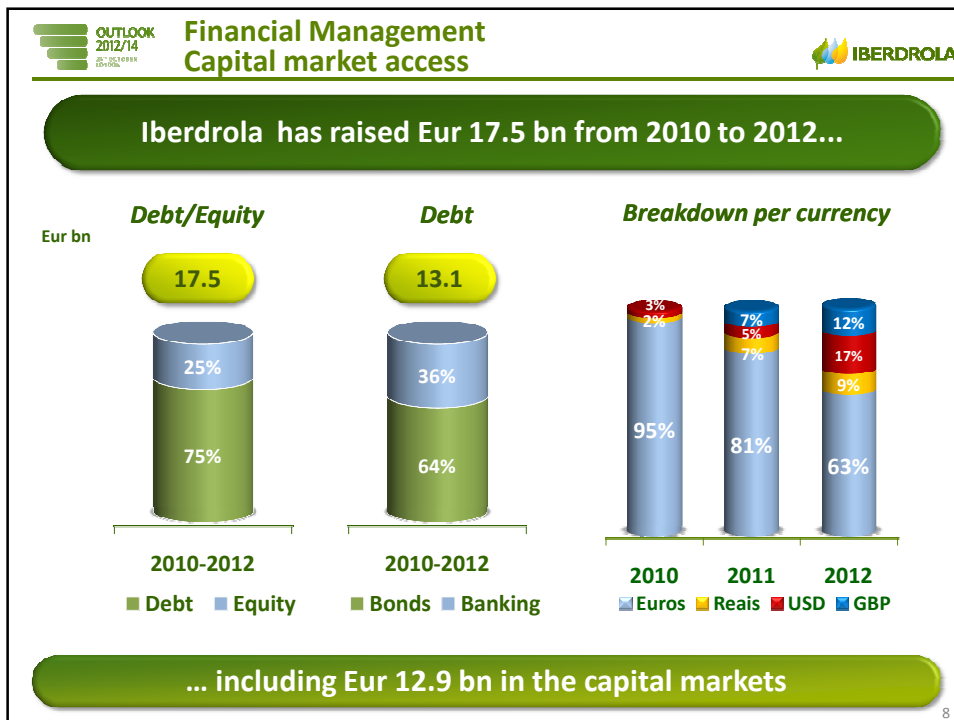
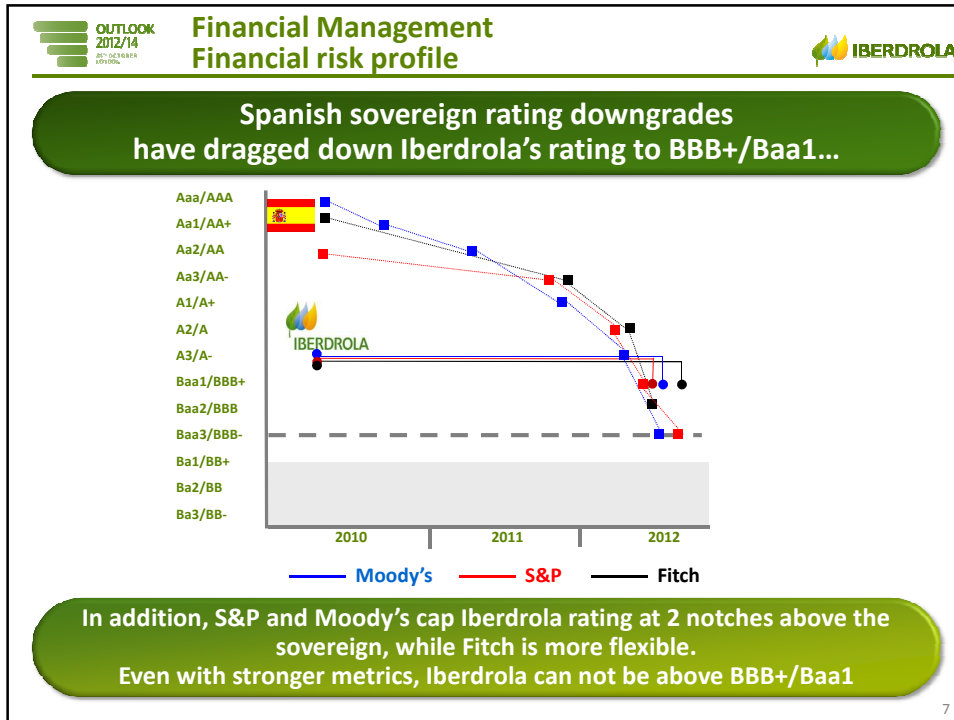
Year	FFO/interest (excl. deficit)	FFO/interest (incl. deficit)
2009**	4.7	4.6
Sept. 2012	5.3	5.2

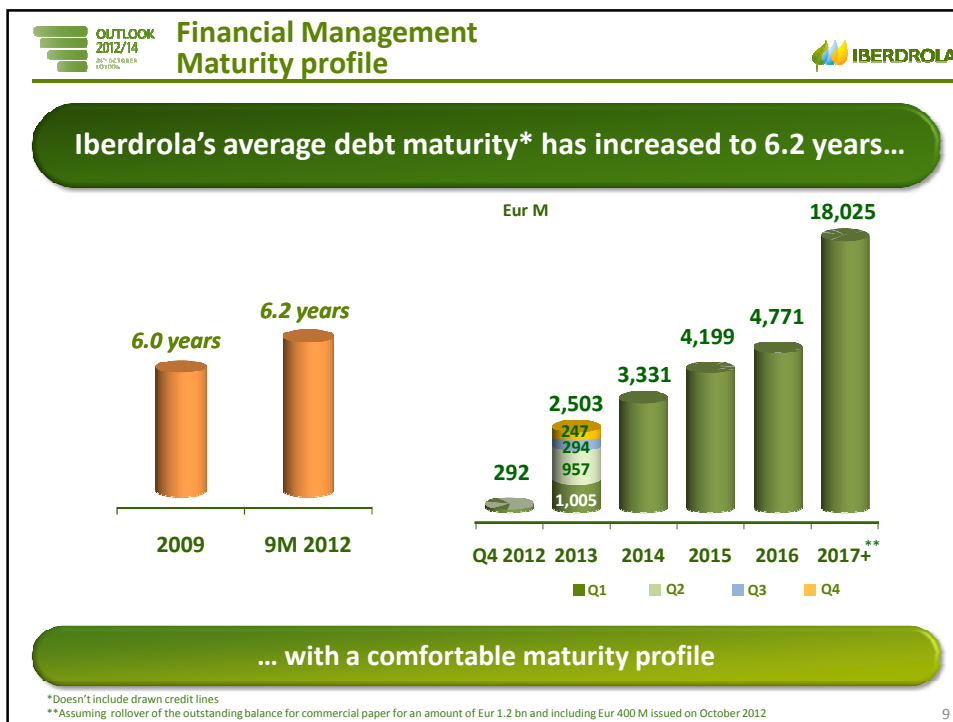
2009** **Sept. 2012**

◆ FFO/Net Debt (excl. deficit) ● RCF/Net Debt (excl. deficit) ▲ FFO/interests (excl. deficit)
 ■ FFO/Net Debt (incl. deficit) ■ RCF/Net Debt (incl. deficit) ■ FFO/interests (incl. deficit)

*Including TEI but excluding rating agencies adjustments.
 **2009 ratios restated for an homogeneous comparison.







Financial Management
Liquidity as of today

OUTLOOK 2012/14
30-SEPTEMBER 2012

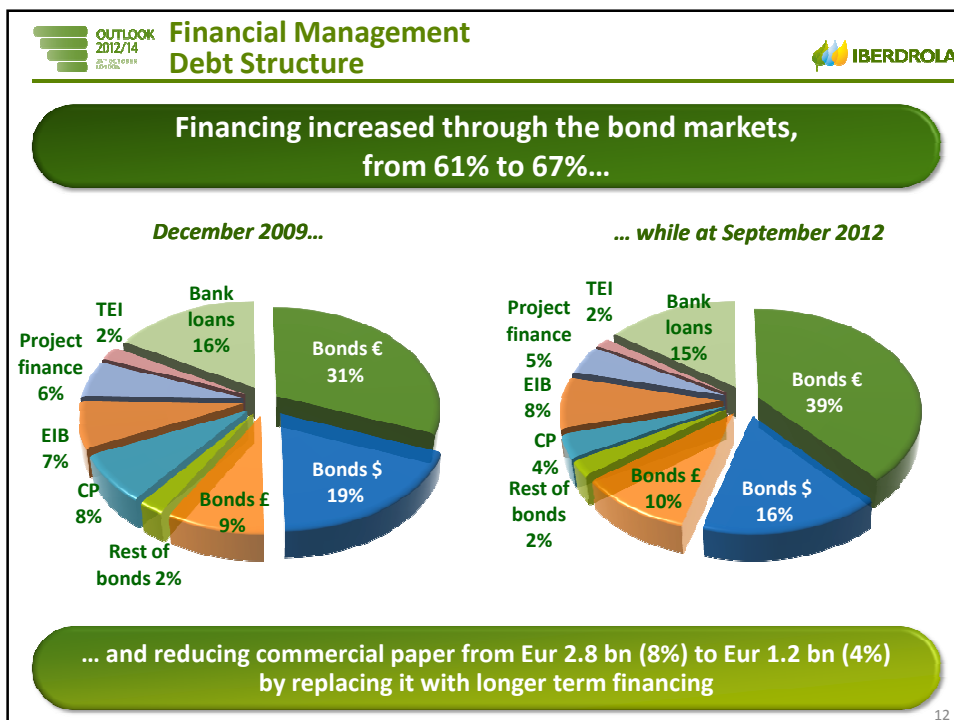
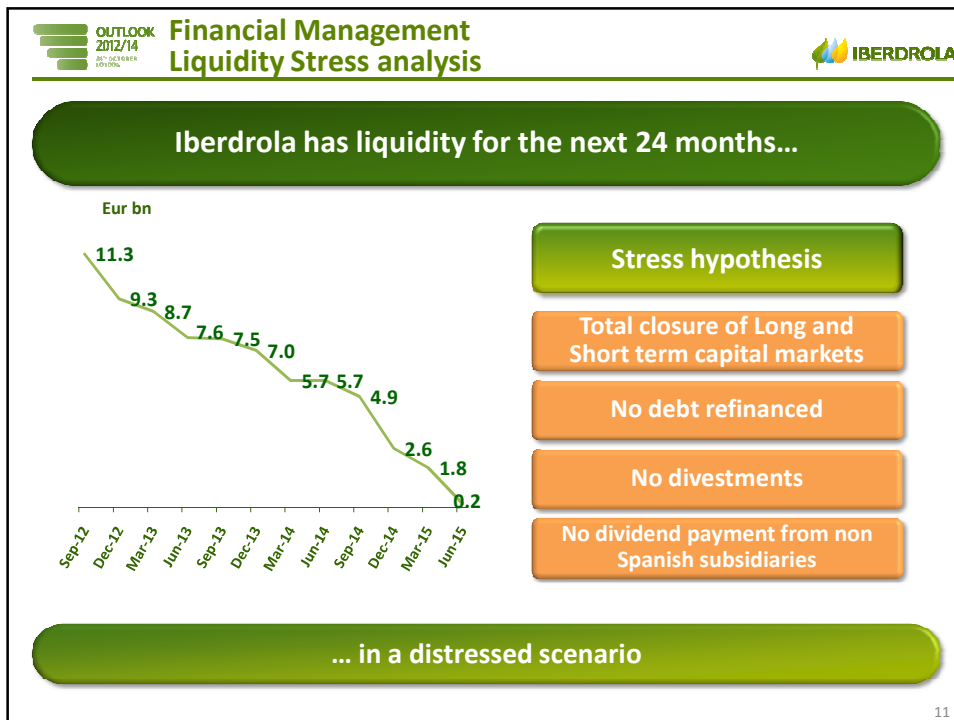
IBERDROLA

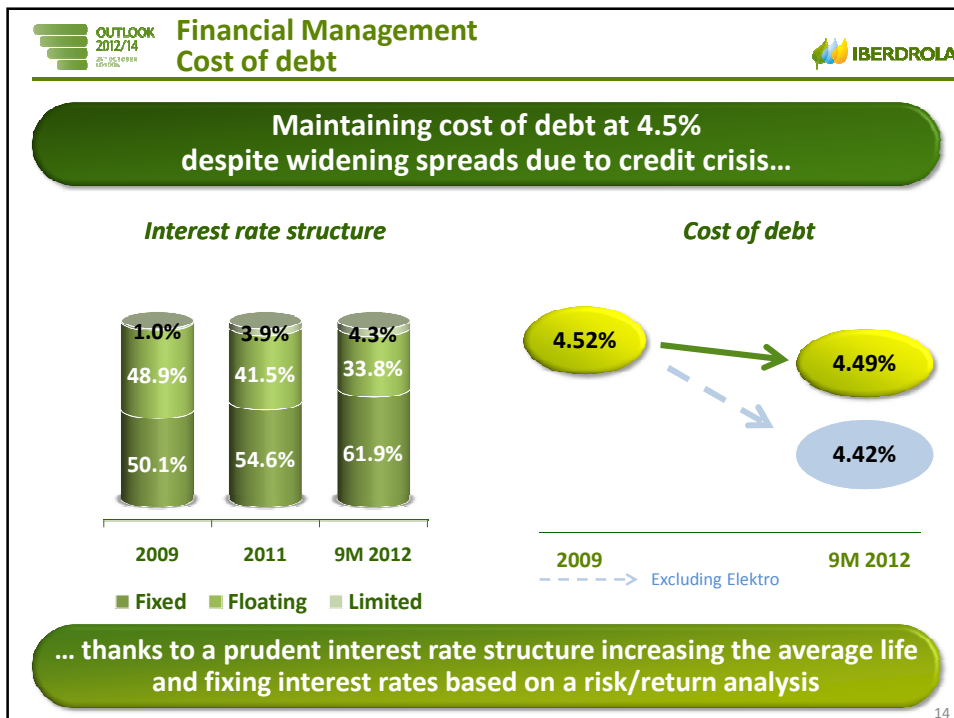
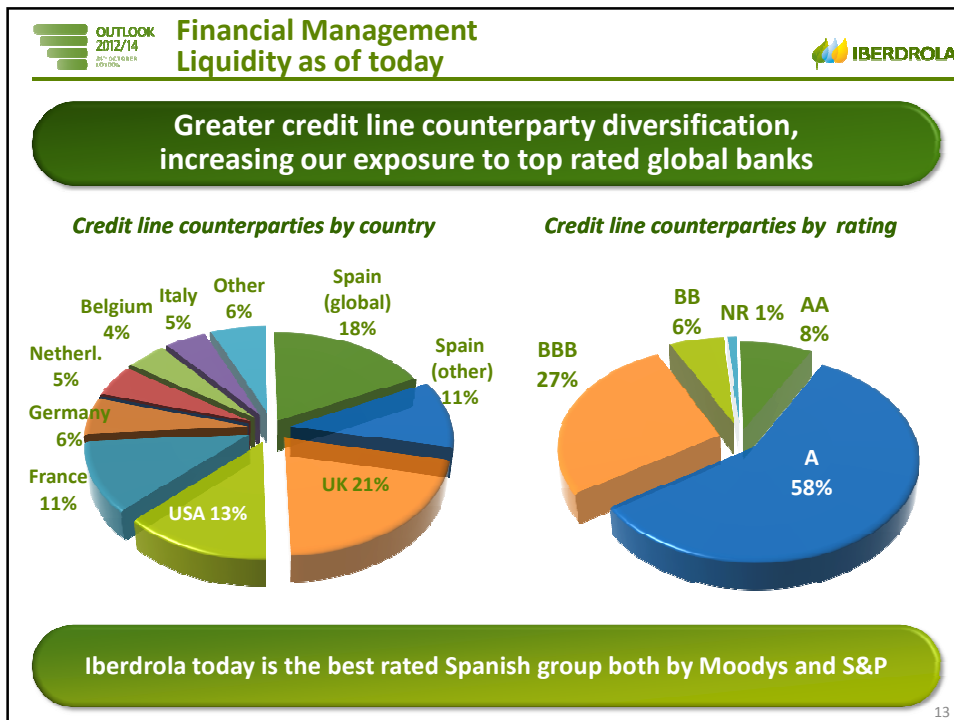
As of today, Iberdrola has a strong liquidity position of over Eur 11.3 bn...

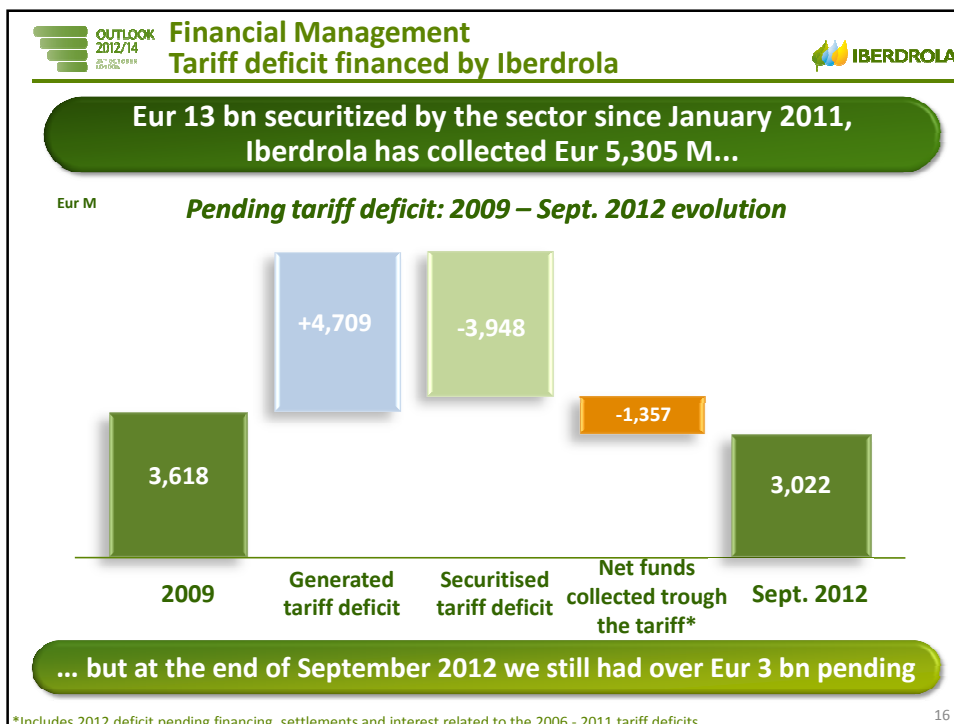
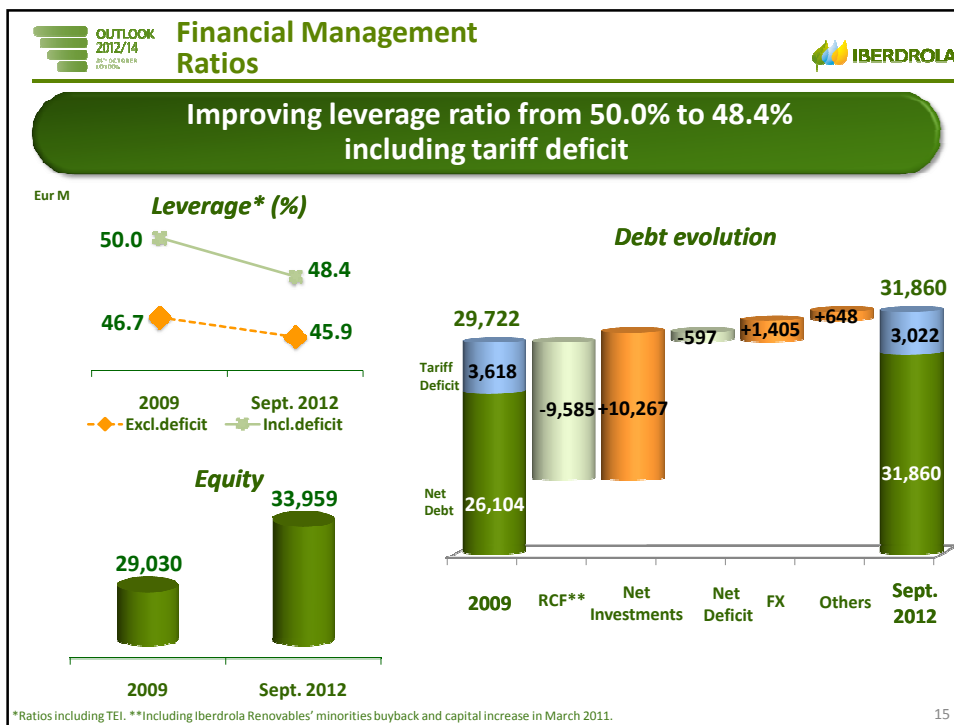
Eur M

Maturities	Limit	Withdrawn	Available'12	Available'09
2012	417	4	413	
2013	1,233	364	869	
2014+	7,748	596	7,152	
Total credit lines	9,398	964	8,434	7,892
Cash&Short term financial investments			2,477	1,091
October 10/2013 tap			400	
Total Adjusted liquidity			11,311	8,983

... increasing from Eur 9 bn in FY 2009, and providing liquidity for more than 3 years in our base case scenario







OUTLOOK 2012/14
3Q - OCTOBER 2012

**Financial Management
Tariff Deficit**

IBERDROLA

Electric companies have transferred to FADE additional Eur 7 bn receivables

Corresponding to 2010, 2011 and 2012 ex-ante deficits. 2012 ex-post deficit pending.

Prospectus approved by the Spanish SEC on 5 October 2012

RD 437/2010 establishes that the Fund is obliged to issue within 12 months, except in exceptional circumstances

Iberdrola's share amounts to Eur 2,450 M:
Eur 875 M were transferred in Dec 2011 and Eur 1,575 M in Feb 2012

FADE securitisation through public and private placements in progress

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OUTLOOK 2012/14
3Q - OCTOBER 2012

Financial Management

IBERDROLA

Agenda

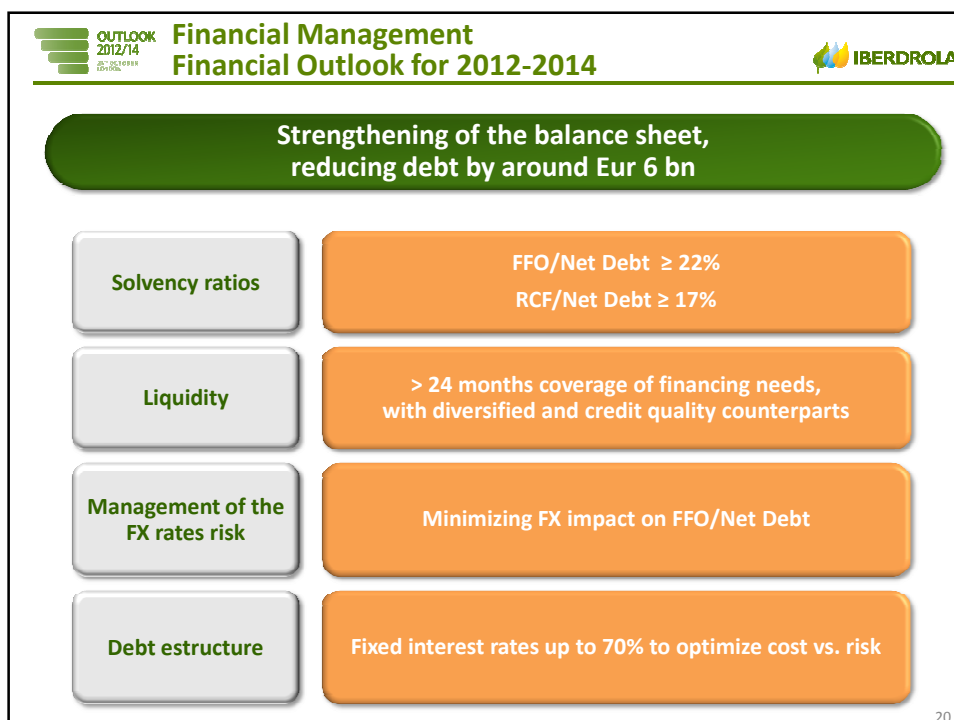
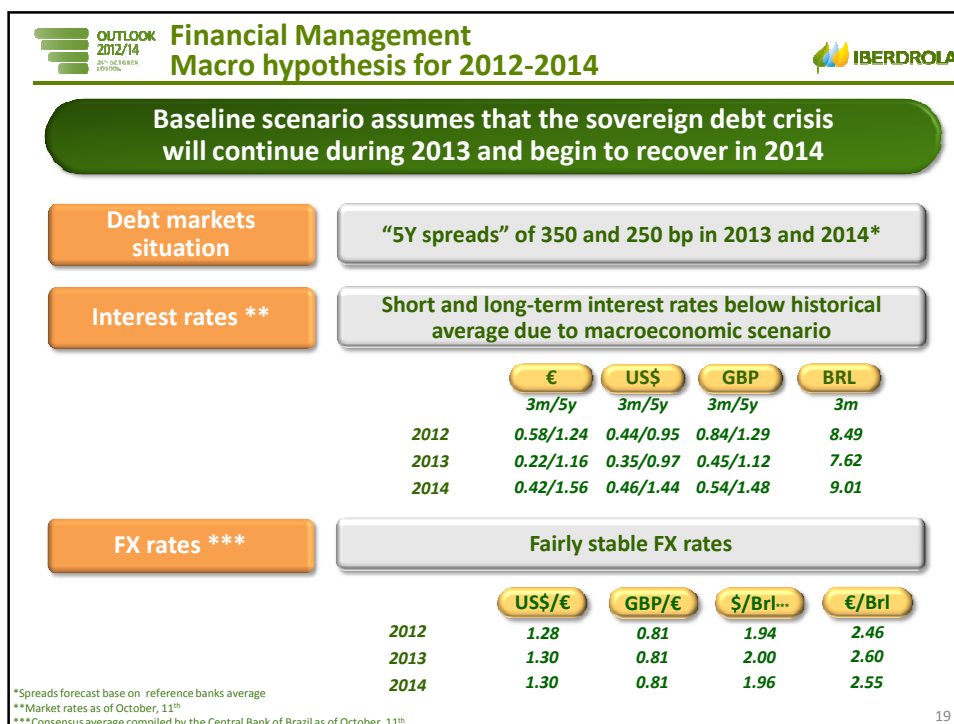
2010 - 9M 2012 Financial Activity

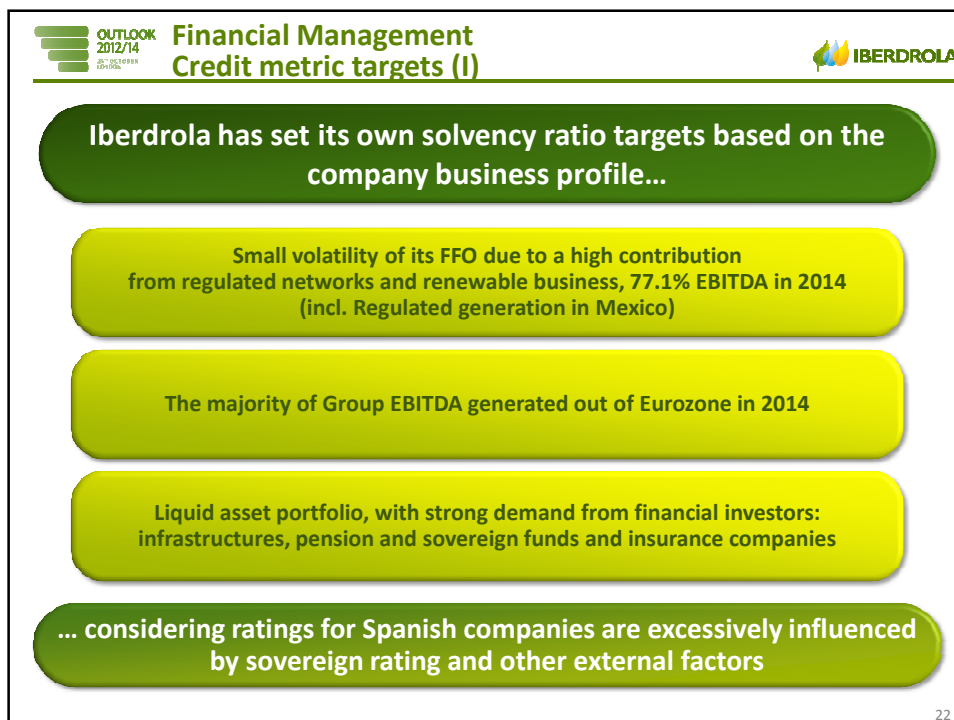
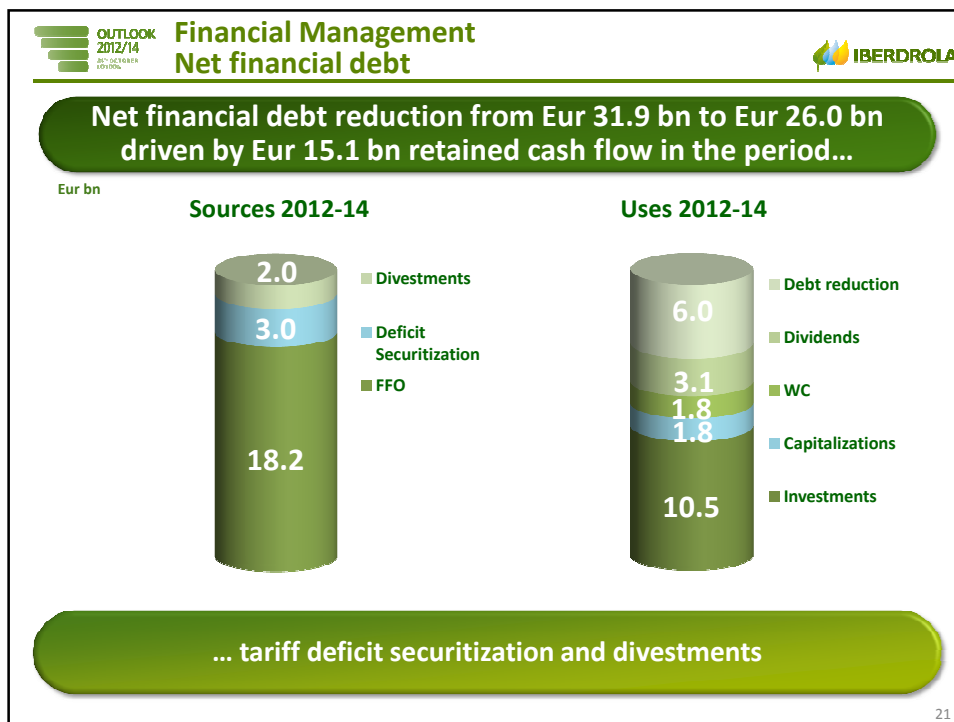
Financial Strategy for 2012-2014 period

Risk Management

Conclusion

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OUTLOOK 2012/14 **Financial Management**
Credit metric targets (II) **IBERDROLA**

Targets continue along the trend started in 2009: strengthening the financial profile of the Group

	Iberdrola today	Iberdrola targets*	CRA guidelines for Baa1/BBB+
FFO/Net debt	20%	≥ 22%	≥ 20%
FFO/Interest	5.2x	≥ 5x	≥ 5x
RCF/Net debt	16.8%	≥ 17%	“high teens”

Once taken into account Rating Agency adjustments, Iberdrola targets are fully consistent with their current guidelines

(*) Doesn't include rating agencies adjustments. Impact of tariff deficit securitization: FFO/Net debt by 2.2 pp and RCF/Net debt by 1.8 pp

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OUTLOOK 2012/14 **Financial Management**
Stressed scenarios **IBERDROLA**

Iberdrola has several alternatives in scenarios with greater stress in the capital markets

Strategies

Base Case: Normalization

Stressed markets

- Investment reduction
- Efficiency measures
- Non core disposals
- Sale of minority stakes
- Funding investments from countries of origin

The strong liquidity position allows for a gradual strategy implementation

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OUTLOOK 2012/14 **Financial Management**
Alternatives in stressed scenarios **IBERDROLA**

Non-eurozone subsidiaries have more than enough capacity to finance their own growth and need of investments...

Eur M			
2012-14e	UK	USA	Brazil
FFO	4,230	2,839	2,189
Investments	4,395	1,705	1,521
Dividends	815	413	862
Free Cash Flow	-980	721	-194
Additional financing capacity for BBB+/Baa1	>2,000	>2,000	>500

... allowing their own gearing to be compatible with Baa1/BBB+ ratings

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OUTLOOK 2012/14 **Financial Management**
Dividends **IBERDROLA**

Iberdrola dividend policy is aimed at maintaining an average dividend of around Eur 0.3 / share

Baseline Scenario

- + *FFO*
- + *Tariff deficit securitization*
- + *Investment reduction an Divestments*
- *Scrip dividend*
- + *Possible share buyback*

Mid term payout ratio to converge to levels of 60% area

... which must be compatible with achieving targeted solvency ratios and liquidity levels

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OUTLOOK 2012/14 **Financial Management** **IBERDROLA**

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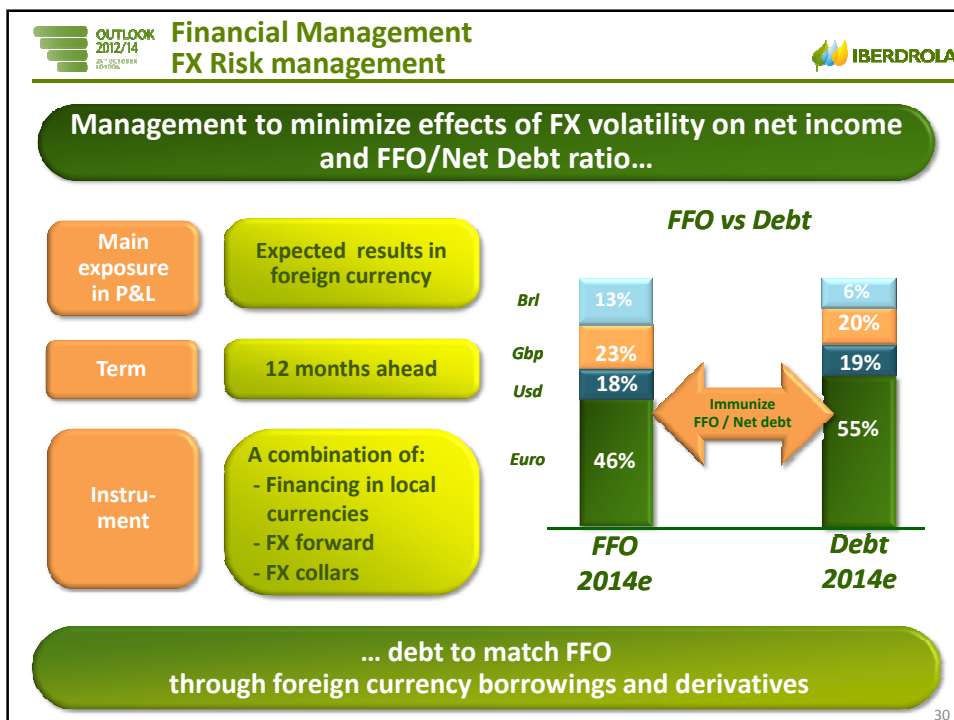
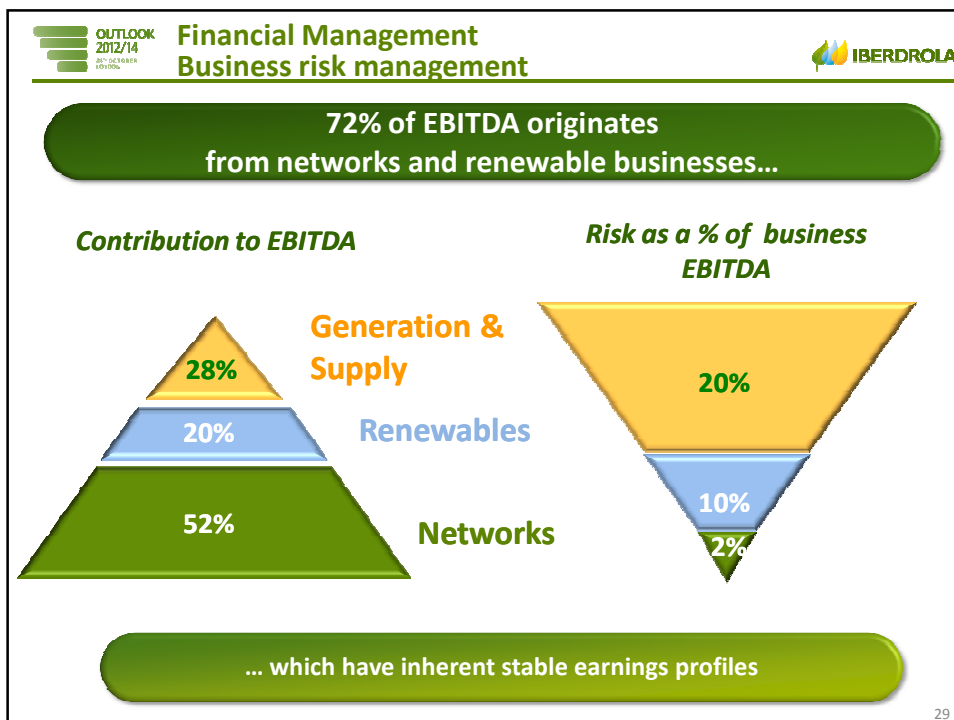
OUTLOOK 2012/14 **Financial Management** **IBERDROLA**

Risk Sources

The main sources of business risk are regulation, weather, prices, interest and exchange rates and demand

**	Regulation	Involves Generation, Networks and Renewables Not expected major changes	<ul style="list-style-type: none"> ▪ Stable in UK, US, Mexico regulated ▪ Stable in Renewables out of Spain ▪ Adjustments in Brazil but under a known framework ▪ Pending approval for measures in Spain. Impact known
**	Weather	Hydro in Spain, and wind resources variations introduce volatility in the production figures	<ul style="list-style-type: none"> ▪ Non controllable, hedged through diversification in wind ▪ Neutral in company valuation using the Average year
**	Prices, Spreads, Margins	Changes in wholesale and retail market affect margins	<ul style="list-style-type: none"> ▪ Inversely correlated to weather ▪ Partially managed, in the UK through procurement strategy ▪ >1 year hedged through forward sales in Spain
*	FX	>55% of EBITDA* out of Eurozone	▪ Managed, through debt structure and hedging
*	Interest rates	70% of debt in fixed rates*	▪ Managed, through debt structure and hedging
-	Structural Demand	No strong correlation between demand and spreads	▪ Non controllable, but small impact in the short term

*2014e 28



OUTLOOK 2012/14 **Financial Management** **Interest rate risk management** **IBERDROLA**

The forward curve is at historically low levels, providing an opportunity to fix interest rates for a greater proportion of debt than under normal circumstances...

Interest rates curve*

	3 months	5 years	Difference
Euro	0.20%	1.04%	0.84%
USD	0.40%	0.89%	0.49%
GBP	0.53%	1.09%	0.56%

Sensitivity analysis

Taking into account the present fixed/floating structure, a variation of ± 100 BP is estimated to have an impact on financial costs of around Eur 53 M in year 2014, equivalent to 20 bp of cost of debt in 2014.

Setting debt rates reduces the risk of possible rise in rates to a reasonable financial costs are obtained

... estimating a flat evolution of cost of debt for the period 2013-14

(*) A s at 20/10/22012

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OUTLOOK 2012/14 **Financial Management** **IBERDROLA**

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**OUTLOOK
2012/14**
30-11-2012

Financial Management Conclusions




**Iberdrola's financial strategy for 2012-2014
focuses on further strengthening the financial profile...**

through

- Strong liquidity position
- Solvency ratio improvement
- Diversification of currencies, interest rates and instruments
- Management of interest rate and FX risks
- Maintaining a sustainable dividend policy


... with available alternatives in a highly stressed scenario

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**OUTLOOK
2012/14**
30-11-2012

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