




**IBERDROLA**  
**Investors'**  
**Day 2008**

Gleneagles, Scotland



**Financing & Treasury Management**

July 2<sup>nd</sup> 2008

## Index



### Financial model

Financial debt management

Foreign exchange risk management

Interest rate risk management

Liquidity management & analysis

Solvency risk

Conclusion

## Financial Model: Targets



**Optimize global financial & treasury position of Iberdrola's Group within specified risk limits approved by the Board**

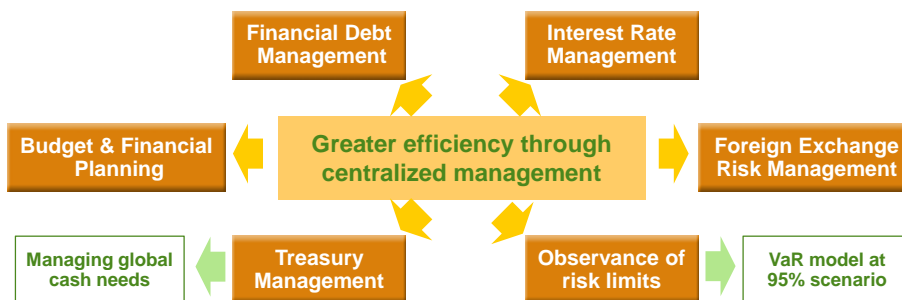
**Centralized financial management in a Group with more than 300 subsidiaries**

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## Financial Model: Application



**Centralized decision making, control and other main functions**



**Management of several functions is carried out at local treasury level**

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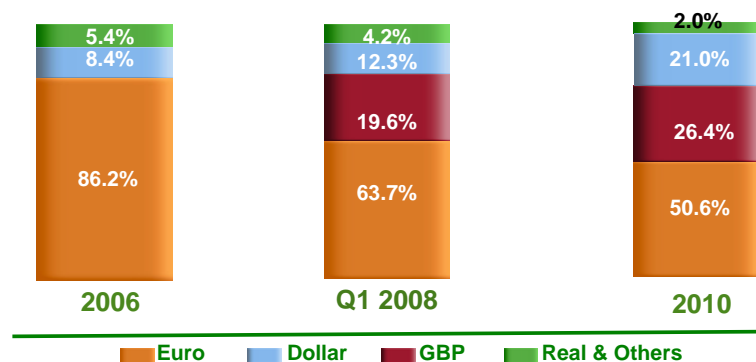
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## Financial Debt: currency structure



### Financing in local or functional currency



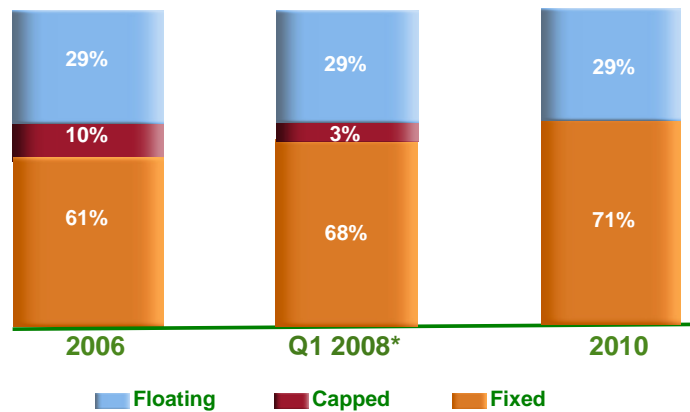
**Increasing the percentage in GBP and USD**

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## Financial Debt: interest rate structure



### Low risk profile in interest rate structure



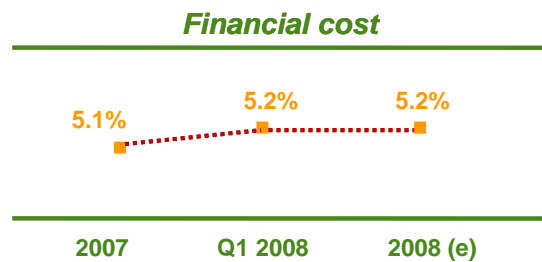
\* Deducting TEI and assuming €450 million from tariff insufficiency to be cashed on July, 1st

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## Financial Debt: interest rate cost



### Similar financial cost than in 2007 ...



...despite



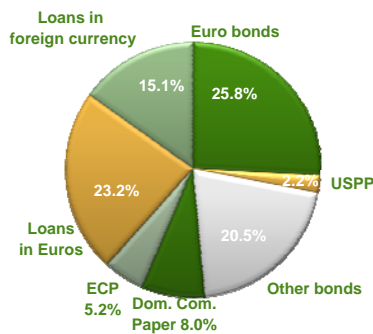
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## Financial Debt: type of debt



### Diversifying the financing sources

#### Type of debt



#### 2008 Highlights

##### Euro Bond Market:

- Public Issue: Eur 1.7 Bn
- Private Placement: Eur 239 MM

##### New markets & instruments:

- New Vehicle in Ireland
- Mexican Program (€50 MM in MXN)

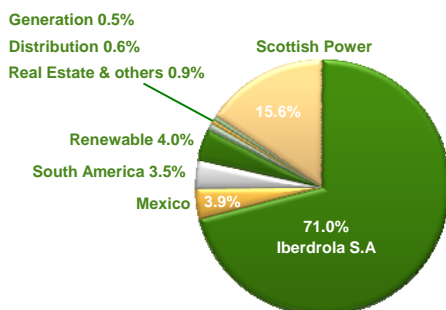
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## Financial Debt: structure



### Commitment to a structural subordination below 25% by 2010

#### Debt structure



**25% of the Structural Subordination affected to assets in South America and Mexico**

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## Foreign Exchange Risk Management



### Centralized management for Iberdrola Group

- **Managing FX risk in Balance Sheet and P&L**
- **Risk mitigation in origin**
- **Eliminating risk at operating companies through internal contracts or agreements**
- **Use of FX derivatives as a hedge with symmetrical risk to the underlying covered**
- **Balance Sheet risk management: objective is to maintain financial strength and solvency ratios, when B/S impact is acceptable**
- **Risk analysis in the tender phase**

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## Foreign Exchange Risk: P&L (I)



**Well below the limits**

	USD			GBP			BRL	
	Net Exposure	Risk		Net Exposure	Risk		Net Exposure	Risk
Commodities + other \$ expenses	-449	+42	Profits	+4	+1	Dividends	+98	-18
Profits from subsidiaries	186	-13				Profits	+89	-25
<b>TOTAL DIRECT EFFECT</b>	<b>-263</b>	<b>+29</b>	<b>TOTAL DIRECT EFFECT</b>	<b>+4</b>	<b>+1</b>	<b>TOTAL DIRECT EFFECT</b>	<b>+187</b>	<b>-43</b>
USD payments partially compensated by profits from subsidiaries			GBP profits hedged with FX options in 2008			BRL profits hedged with tunnels due to high cost		
<b>POOL INDIRECT EFFECT (in USD)</b>			<b>Net Exposure: 844</b>			<b>Risk: -83</b>		
<b>Un-hedged due to uncertainty</b>								

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## Foreign Exchange Risk: P&L (II)



**The risk in P&L is to an appreciation of the Euro against the rest of currencies**

	Net Exposure	Risk
<b>TOTAL DIRECT EFFECT</b>	<b>-72</b>	<b>-31</b>
<b>TOTAL (including Pool Indirect Effect)</b>	<b>772</b>	<b>-96</b>

**Very low risk without Pool indirect Effect**

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## Foreign Exchange Risk Balance Sheet



**Main target:  
avoid impact of FX risk on solvency ratios**

Eur MM

Currency	Assets less Goodwill	Total Hedged	Net Exposure	Risk
USD	2,802	2,796	6	-0.6
GBP	7,686	4,827	2,859	-229.6
BRL	929	-	929	-209.8
Others	198	-	198	-26.9
<b>Total</b>	<b>11,615</b>	<b>7,623</b>	<b>3,992</b>	<b>-467</b>
<b>Total risk with correlation</b>				<b>-360</b>
<b>Relative risk</b>				<b>2.85%</b>

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## Foreign Exchange Risk Balance Sheet



**Hedge policy: to protect solvency ratios**

Eur MM

Currency	Valuation
USD	+ 87
GBP	+ 860
Others	-
<b>Total</b>	<b>+ 947</b>

Improves:	
Leverage	FFO */ Net debt
1.7%	1.0%

\* FFO= Net Profit + Depreciation + Amortization – Equity Profit – Non-recurrent Profit

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## Interest rate risk management



**Efficient and active interest rate risk management to optimize the cost & risk within the authorized limits and considering solvency ratios**

Centralized management for the whole Group

Use of derivatives to optimize cost/risk of financial debt within the authorized limits (IRS, FRAs, zero cost collar, ...)

Cautious and efficient utilization of derivatives (only for hedging purposes)

Pre-hedges closed to fix the interest cost of future funding (hedge accounting treatment according to IAS rules)

**Interest rate risk (12 months): €51 MM = 4% on expected financial cost (limit 8%). Equivalent to 0.20% increase in cost**

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## Interest Risk: P&L



**Interest risk management results in a limited effect at P&L**

Eur MM

Currency	Ave. Balance	Risk	
EUR	15,263	28	0.2%
USD	5,177	12	0.2%
GBP	4,526	10	0.2%
BRL	357	1	0.3%
Others	105	---	---
Def. Cost			
<b>Total</b>	<b>25,428</b>	<b>51</b>	<b>0.2%</b>

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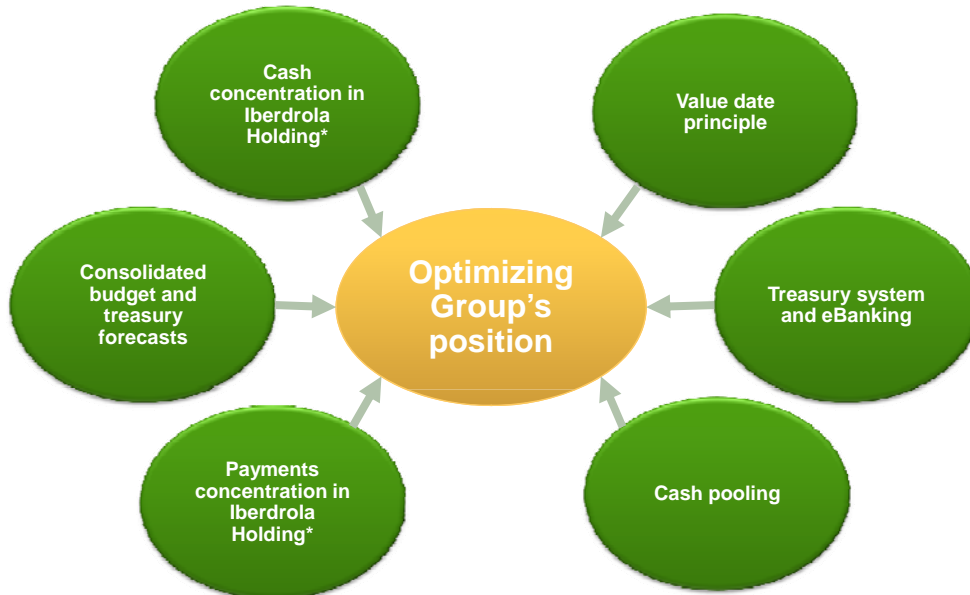
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## Liquidity Management



(\*) Exceptions due to not 100% control and by country

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## Liquidity Analysis: May '08



### Excellent liquidity position ...

Cash and Short-term Finan. Invest. *	Eur 390 MM	} Eur 11.330 MM liquidity at end May '08
Undrawn Credit Lines**	Eur 10.291 MM	
Undrawn Loans	Eur 649 MM	

... with a comfortable 2008e year-end position:  
 > Eur 4,000 MM in the worst case

\* Does not include short term financial investments that can not be drawn within days  
 \*\* Does not include credit lines with maturities shorter than one year

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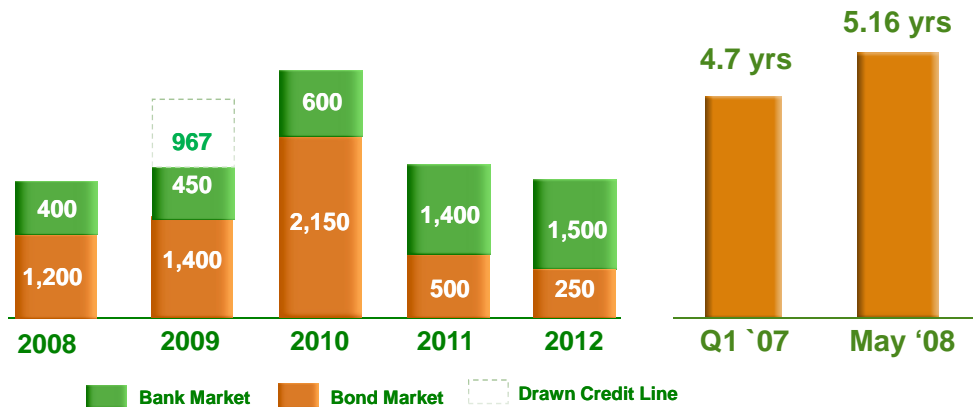
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## Liquidity Analysis: Debt Maturity Profile as of May '08



Iberdrola debt maturity profile

Average maturity of debt



Comfortable maturity profile during the coming years

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## Solvency risk: Description and Management



- |                   |  |
|-------------------|--|
| <b>Definition</b> | • Risk of Credit rating lower than the Company's target  |
| <b>Objective</b>  | • Keep the ratios within the range that allows maintaining the rating target   |
| <b>Management</b> | <ul style="list-style-type: none"> <li>• Analyze the indicators in relation to those corresponding with objective level approved by the Board</li> <li>• Manage the financial debt and the assets taking into consideration the impact on solvency ratios</li> <li>• Propose measures to maintain the rating target</li> <li>• Inform investors and rating agencies about the evolution of financial figures and their deviation (if any)</li> </ul> |

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## Solvency risk - Ratings



**Rating agencies have confirmed the rating target: ...**

	<i>Long Term</i>		<i>Short Term</i>	
	<i>Previous</i>	<i>Current</i>	<i>Previous</i>	<i>Current</i>
	<b>STANDARD &amp; POOR'S</b>	A (Dec-06) Negative	A- (Nov-07) Stable	A1 (Nov-01)
<b>MOODY'S</b>	A2 (Dec-02) Negative	A3 (Dec-07) Stable	P1 (1988)	P2 (Dec-07)
<b>FITCH</b>	AA- (1996)	A+ (Apr-07) Negative	F1+ (1996)	F1 (Feb-03)

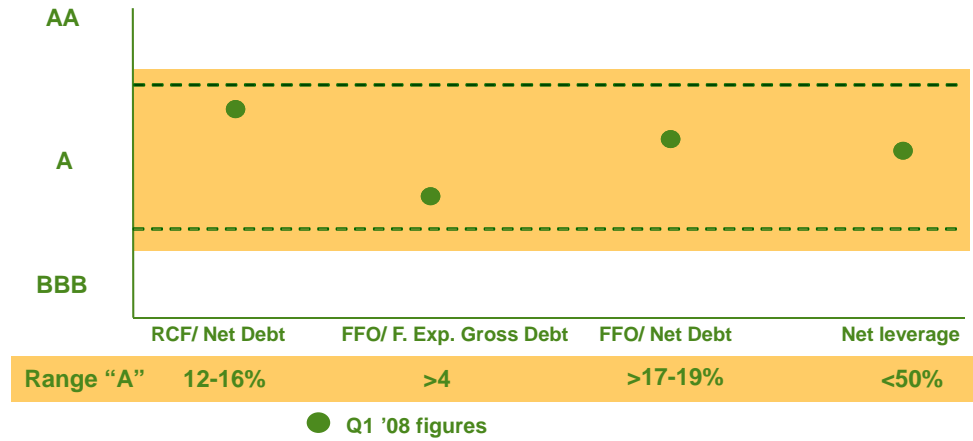
**... to maintain the single A category**

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## Solvency risk: Rating Agencies



### Current ratios within "A" rating range ...

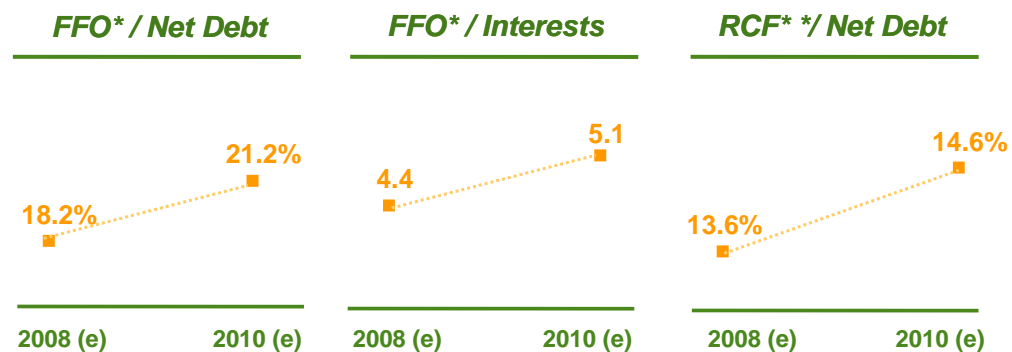


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## Solvency risk: financial ratios



### ... and improving throughout the Strategic Plan



\* FFO = Net Profit + Amortizations – Equity Income  
 \*\* RCF = FFO – Dividends  
 Adjusted for the Tax Equity Investors

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## Conclusion



**Centralized financial management ...**

**.... generates synergies and creates value ...**

**.... with a greater control on financial risks ...**



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