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OUTLOOK 2012/14

24th OCTOBER LONDON

Generation & Supply Business

OUTLOOK 2012/14

Generation & Supply Agenda

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- Global Results
- Overview of the businesses
- Regulation
- Supply
- Investments
- Management and efficiency

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Generation & Supply
Key Figures

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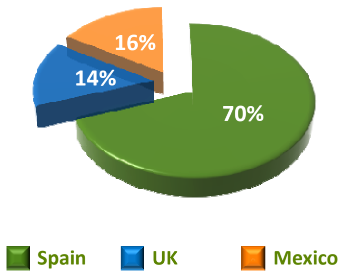
A cash flow generating business

2011 EBITDA:
~ Eur 2.3 bn



	2011
Installed capacity	31 GW
Output managed	121 TWh
Electricity sales	133 TWh
Gas sales	39 TWhg
Customers	19 M
Investments	Eur 500 M
Workforce	7,900

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Generation & Supply
Performance

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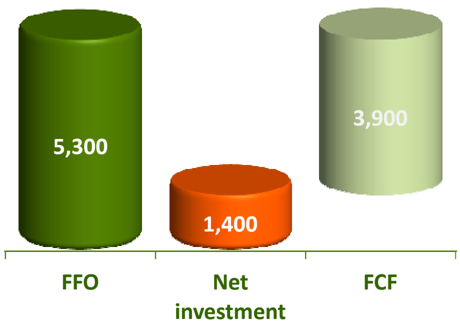
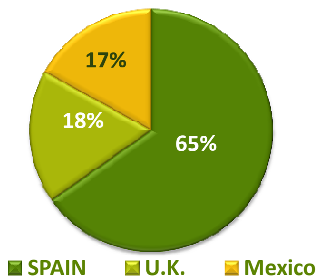
Revising investment levels to the challenging environment under which the business will operate in the coming years ...

Cash flow generation (Eur M)



EBITDA by geography (2014)



... will result in a strong cash flow generation for the Group

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Generation & Supply
Spain

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Business pressured by overcapacity of inefficient technologies (national coal, solar energies) and taxes

- Average hydro year
- Stopping renewable investments
- Thermal gap decreasing
- Increasing taxes
- Slow and gradual internalisation of higher costs
- Excess of offer
- Liberalisation by 2014

Iberdrola's response

- Closure of inefficient plants and revising CCGTs operation
- Global procurement management
- Hibernation analysis
- Lower investments
- Focus on loyalty

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Generation & Supply United Kingdom

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The "carbon tax" is going to impact the market equilibrium in the medium term

Iberdrola's answer

Increasing renewable output due to off-shore	Closure of inefficient plants
Reducing thermal gap	Longannet availability plan
"Carbon tax" from 2013	Optimising market operations
Capacity payment key for not closing coal	Analysis of new investments: Damhead Creek 2
Increasing non energy costs in customers' bills	Cultivating loyalty with rational growth

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Generation & Supply Mexico

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Stable business, maximising availability

Iberdrola's answer

Increasing electricity demand

Higher competitiveness of gas v other technologies

Competitive gas prices v CFE tariff

- Plans to maintain availability
- Efficient management of energy surplus
- Efficiency improvements
- Enertek expansion in 2014
- Analysis of investments: Cogen. Monterrey, new auctions

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Generation & Supply
Commodities evolution

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European commodity markets are not stable in the long term

	2011	2012	2013	2014
Oil - $/barrel	111.3	112.6	109.8	103.7
Coal - $/t	122.4	92.9	93.5	103.1
Henry Hub - $/MMBtu	4.0	2.8	4.0	4.2
NBP - $/MMBtu	9.4	9.2	10.4	10.7
CO2 - €/t	13.0	7.9	8.2	8.7
Electricity ESP - Eur/MWh	49.9	49.7	53.4	54.5
Electricity UK - Eur/MWh	55.0	54.9	62.2	66.3

Coal price continues rising, while the decoupling between US and European gas prices is maintained

European markets do not reflect environmental taxes on energy (Carbon Tax, CO2 auctions, taxes on fossil fuels)

Sources: ICE, McCloskey, NYMEX, ECX, OMEL, ICAP, N2EX and Bloomberg

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Thermal gap Spain

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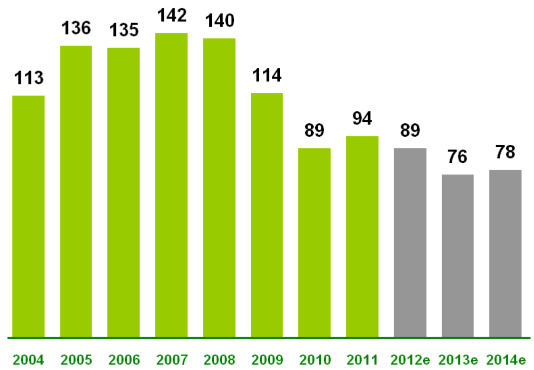
The need for thermal output is decreasing

TWh

Thermal Gap



Nevertheless, almost all thermal capacity currently installed is still required

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Thermal gap United Kingdom

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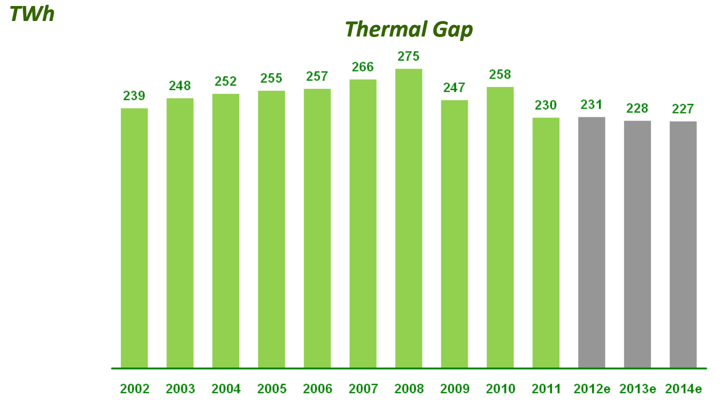
In the short term, the need for thermal capacity will be reduced



Nevertheless, a significant part of the installed capacity will disappear in the mid term due to obsolescence and new environmental regulation

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Generation & Supply
Impact of the "carbon tax" in the UK

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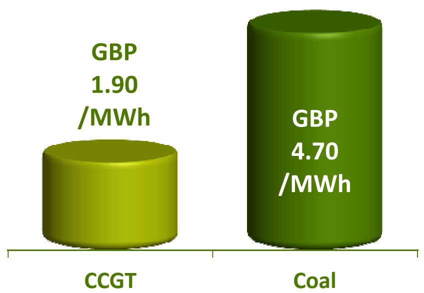
The implementation of the *carbon tax* affects market equilibrium

Impact of the new tax on electricity production costs



From April 2013, a GBP 4.94/MWh tax will be applied on CO2 emissions (carbon tax)

Market prices have internalised the higher costs of the marginal technology (CCGT)

Coal competitiveness deteriorates due to tax pressure on this technology

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Generation & Supply
Reserve margin in the UK

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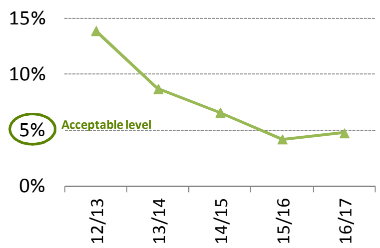
A gradual reduction of the reserve margin is forecasted until 2015/16 , but with no security of supply problems …

- Reserve margin reduction …
  - Closure of coal plants after 20,000 hours
  - Less efficient CCGTs withdrawing from the market

- … to tight levels, but acceptable from a security of supply standpoint until 2015/16

Reserve Margin

Firm capacity/Peak demand



Source: Ofgem

… which will imply a progressive improvement in margins (especially CCGTs) and will encourage capacity payments …

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Reserve margin in the UK

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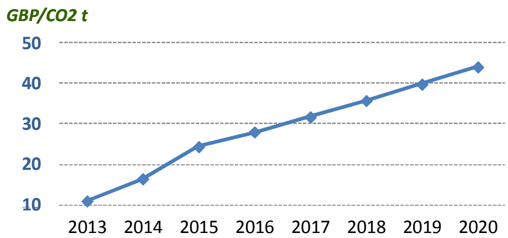
… nevertheless we consider that form 2016 onwards, electricity supply is not guaranteed

CO_2 emissions cost (includes carbon tax)



- *Carbon tax* rapidly reduces coal competitiveness

- Without an adequate capacity payment, there are 15,000 MW of coal “at risk”, with the only alternative to close during the 2016-2020 period, lowering the reserve margin to undesired levels

- Establishing capacity payments would solve the problem

According to the European Directives, the regulator should clarify this uncertainty before December 2013

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Generation and Supply Spreads in the UK

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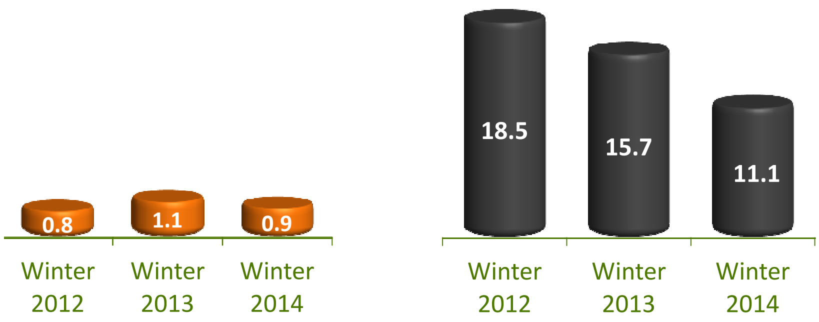
Current market prices show that, with the *carbon tax*, coal plants are becoming less competitive

CCGT plant margins (GBP/MWh)

Coal plant margins (GBP/MWh)



NOTE: Referred margins include the Cost of the Carbon Tax.

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Generation and Supply
Spanish Regulation

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Draft Bill on fiscal measures sets additional taxes, differing by generation technology

Nuclear	Eur 8.72/MWh
Hydro	Eur 13.32/MWh
Coal	Eur 9.90/MWh
CCGT	Eur 7.83/MWh
Wind	Eur 5.20/MWh
Cogeneration	Eur 10.6/MWh

The estimated gross impact for Iberdrola amounts to Eur 580 M per year, in addition to the current tax burden of Eur 330 M*

Includes energy efficiency, ENRESA, Ecotax, IBI, IAE and others

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Generation and Supply
Uncertainties of the Spanish regulation

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After the proposals for the new tax measures, still key uncertainties remain in the Spanish regulatory framework

Will electricity imports be subject to those new taxes?

Will the "Ecotasas" (regional taxes) be finally eliminated?

Will these tax measures be for a temporary period?

What will be the degree of internalisation of these new costs?

What are the pending aspects to consider of the regulatory reform?

- Capacity payments?
- New incentives for the Special Regime (renewables)?
- Future policy on national coal?
- Capacity threshold to be eligible for Last Resource Tariff?

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Generation and Supply
Supply business

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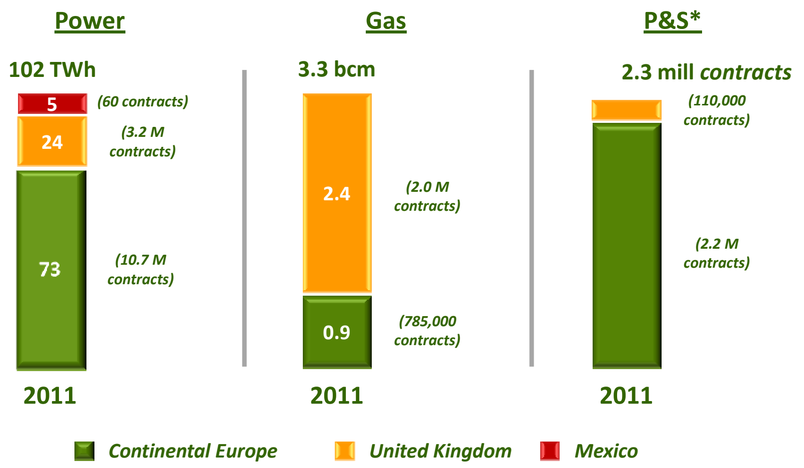
102 TWh$_{\text{Busbars}}$ of power supplied and 3.3 bcm of gas in 2011 (19 million contracts)



* Products and Services

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Generation and Supply
Supply business

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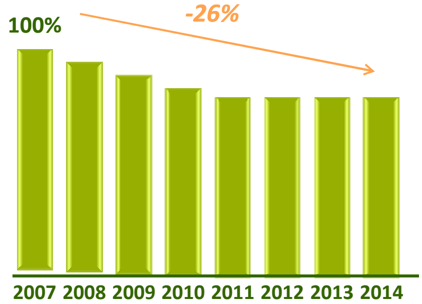
High degree of efficiency in Spain
Synergies in UK due to IT developments and outsourcing

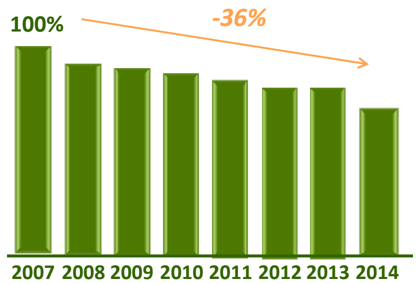
Iberia

"Cost to Serve" per contract



UK

"Cost to Serve" per contract



After a redesign of commercial processes and IT investments

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Generation and Supply
Total investments

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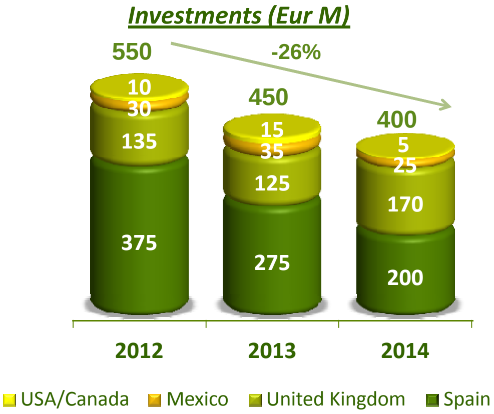
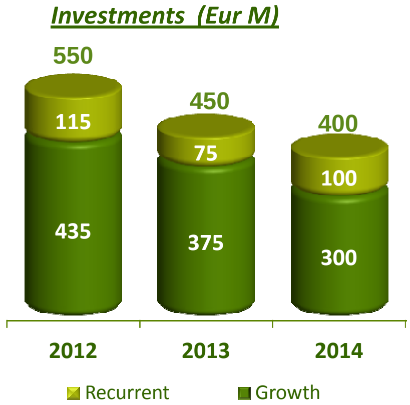
Recurring investments with a global criteria, new investments in environments with regulatory certainty …





… growth investments only to finish work in progress

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Generation and Supply
Total investments

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Growth investments linked to regulatory predictability

La Muela	2013
San Esteban	2014
Extension of Enertek	2014
Extension of Cogen. Monterrey	2015
CCGT Damhead Creek 2*	2017
New tender**	2017
CH Tamega	Pending Administrative Process
NuGen	Pending Decision

* Portfolio to build a second CCGT from 2019
** Pending of finally organized tenders by the Government

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Generation and Supply
Business integration 2011

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A huge effort by the team that has provided substantial results ...

1	Analysis and revision of common procedures	100 procedures
2	Action plans design	74 plans (600 tasks)
3	First identification of synergies	EUR 556 M in 2011-2015

... having already captured a total of Eur 121 M in 2011, equivalent to 22% of the identified synergies

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Generation and Supply Management and Efficiency

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Working to achieve the remaining Eur 435 M synergies from 2012, through …

Optimization of trading in energy markets

Centralised fuel procurement

Closure of facilities with environmental restrictions and reorganisation by geographic regions criteria

Reductions in headcount, external providers and thermal investments

Commercial systems improvements and outsourcing of low added value activities

Improvement of products and customer portfolio

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