IBERDROLA

Investor Day

London. 24th February, 2010

Spanish Liberalised Business

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Agenda

Liberalization is a reality

Challenging times and opportunities

Drivers for the future

Conclusions

Liberalisation of the Spanish Market

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Tariff cap has been removed …

- From July 1st 2008: Industrial Tariffs abolished
- From July 1st 2009: Rest of the Regulated Tariffs abolished
- Small consumers (residential and small SMEs) can choose a "Last Resort Supply"

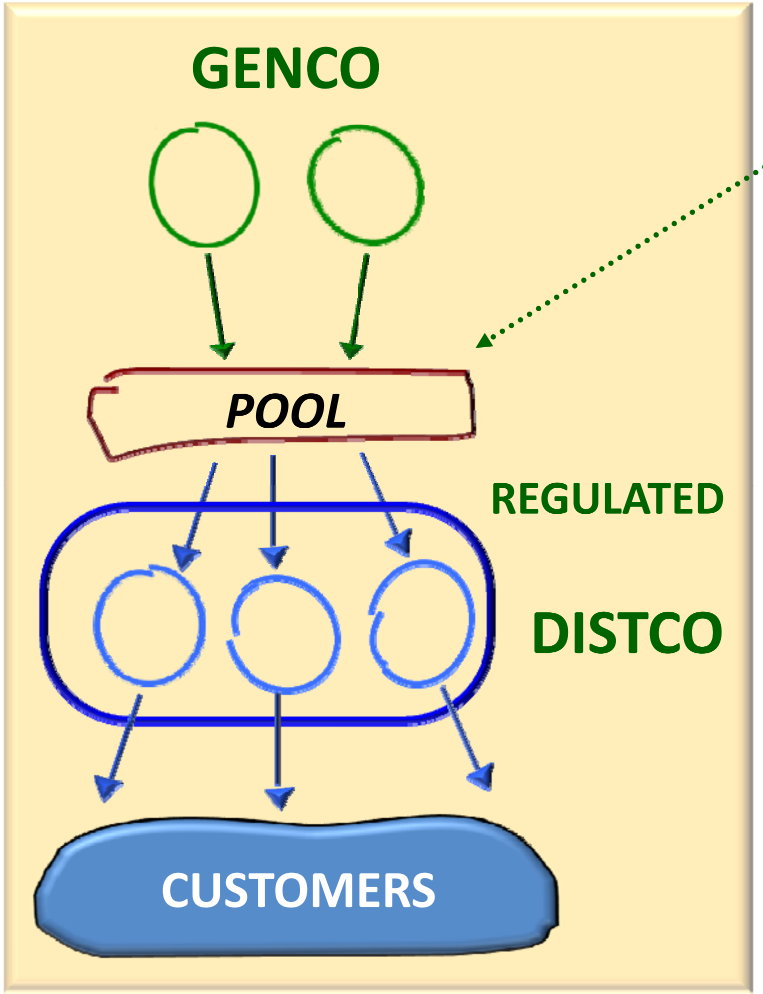
(MITYC 2010E)	Spain	
	Contracts	TWh
Industrial	100,000	120
SME	1.6 Mill.	56
Residential	26.9 Mill.	89
Total	28.6 Mill.	265

The Last Resort Tariff is based on forward market power prices

… free market can now compete with Last Resort Supply

Liberalisation of the Spanish Market

Situation in 1998



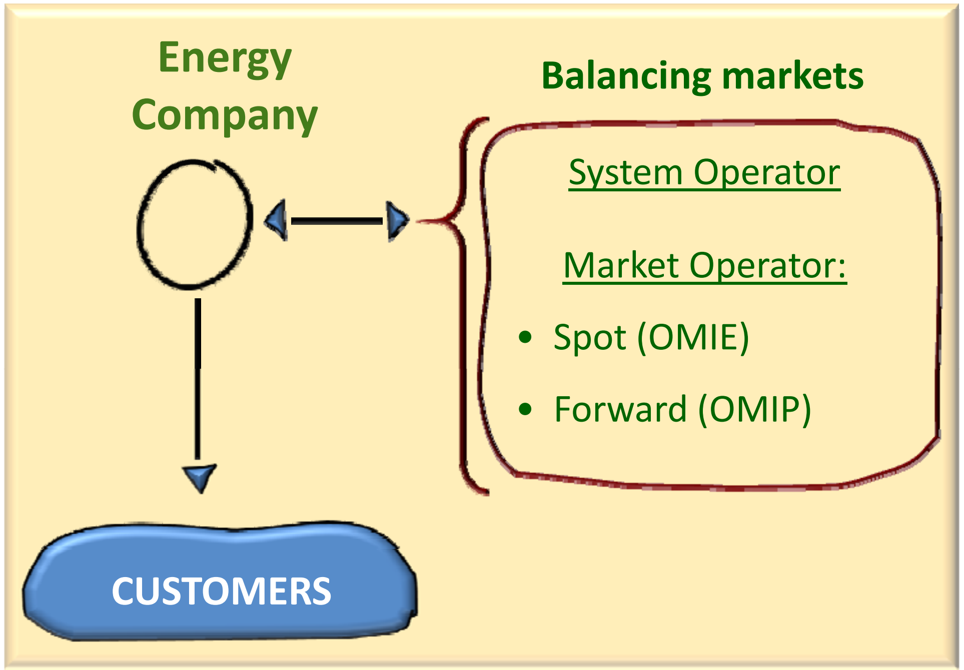
The day-ahead market was the only price setting mechanism

Balancing services used predominantly for load following (very small level of special regime)

- Single buyer mechanism
- Distribution company purchased and distributed energy as a regulated entity

Liberalisation of the Spanish Market

Situation in 2010



Energy companies with generation and supply

Spot markets are used to balance Companies positions

Day-Ahead market is one of the options for spot transactions

Increasing need of system services due to the rise of renewables

New sales scenario

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**As forward sales increase,
volumes sold in day-ahead market become marginal**

Electricity sales

Day ahead price is no longer a reference as it was in the past

New sales scenario

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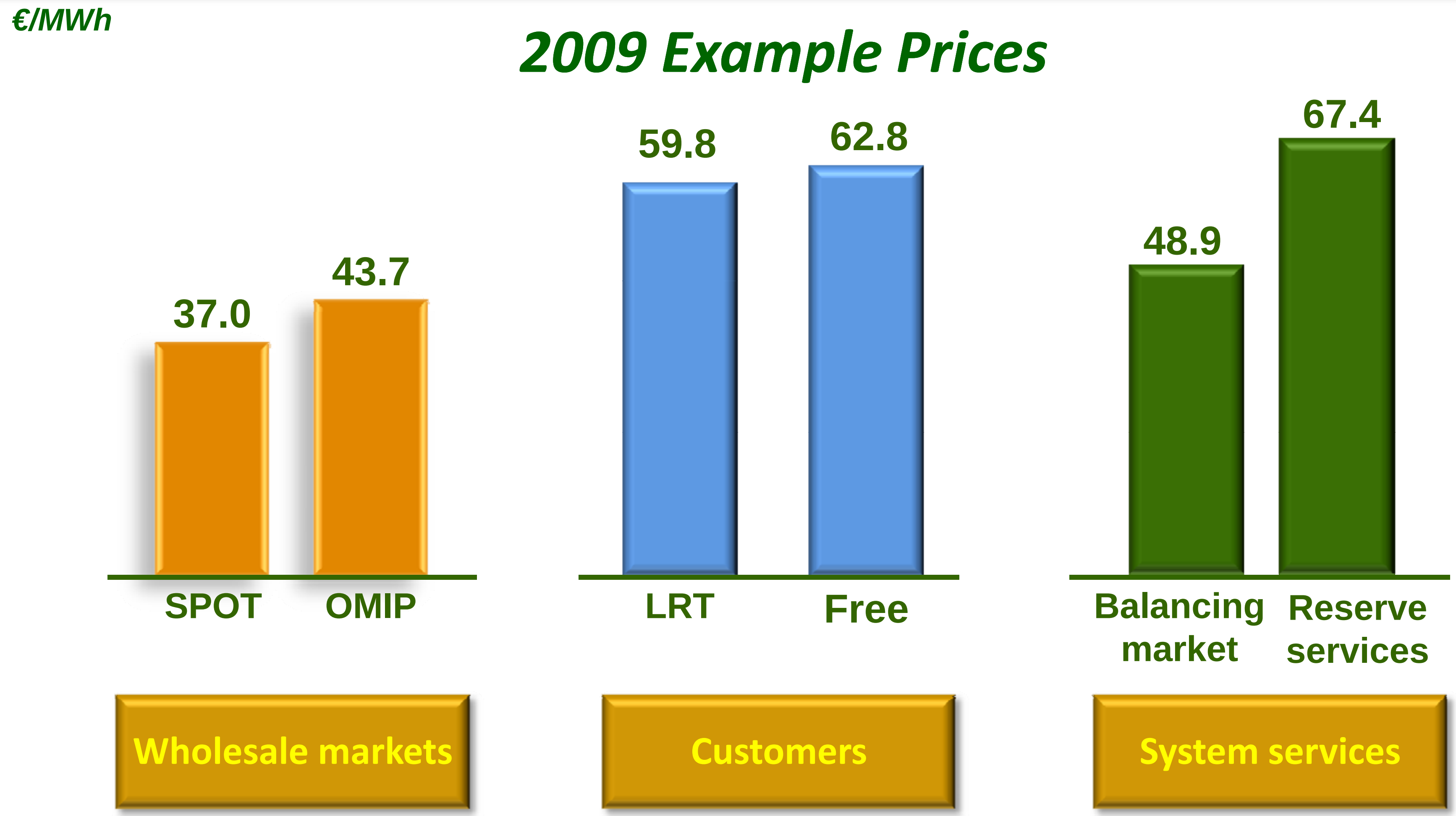
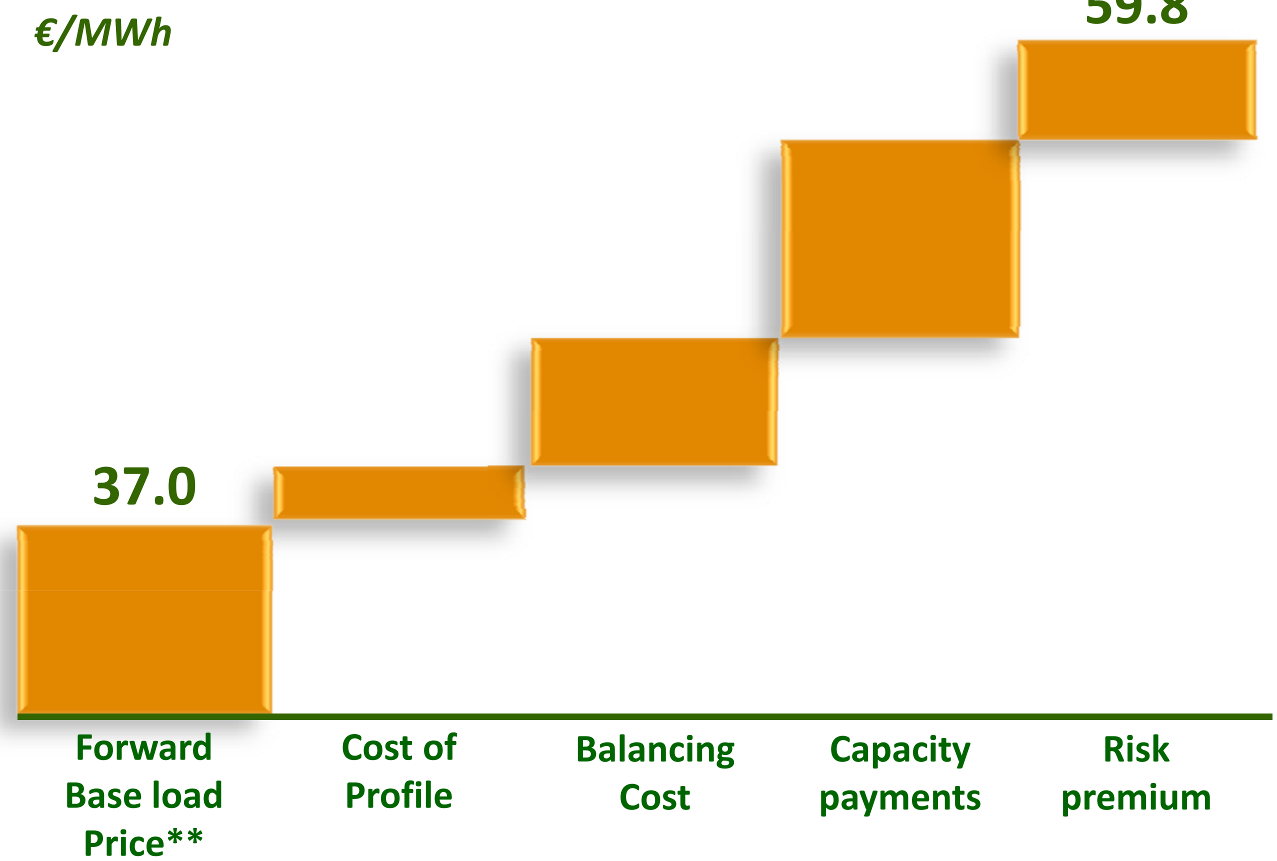
Prices of different segments are well above wholesale markets



New sales scenario

Price obtained by generation depends on the profile and on the additional services provided

Final Energy Price Components*



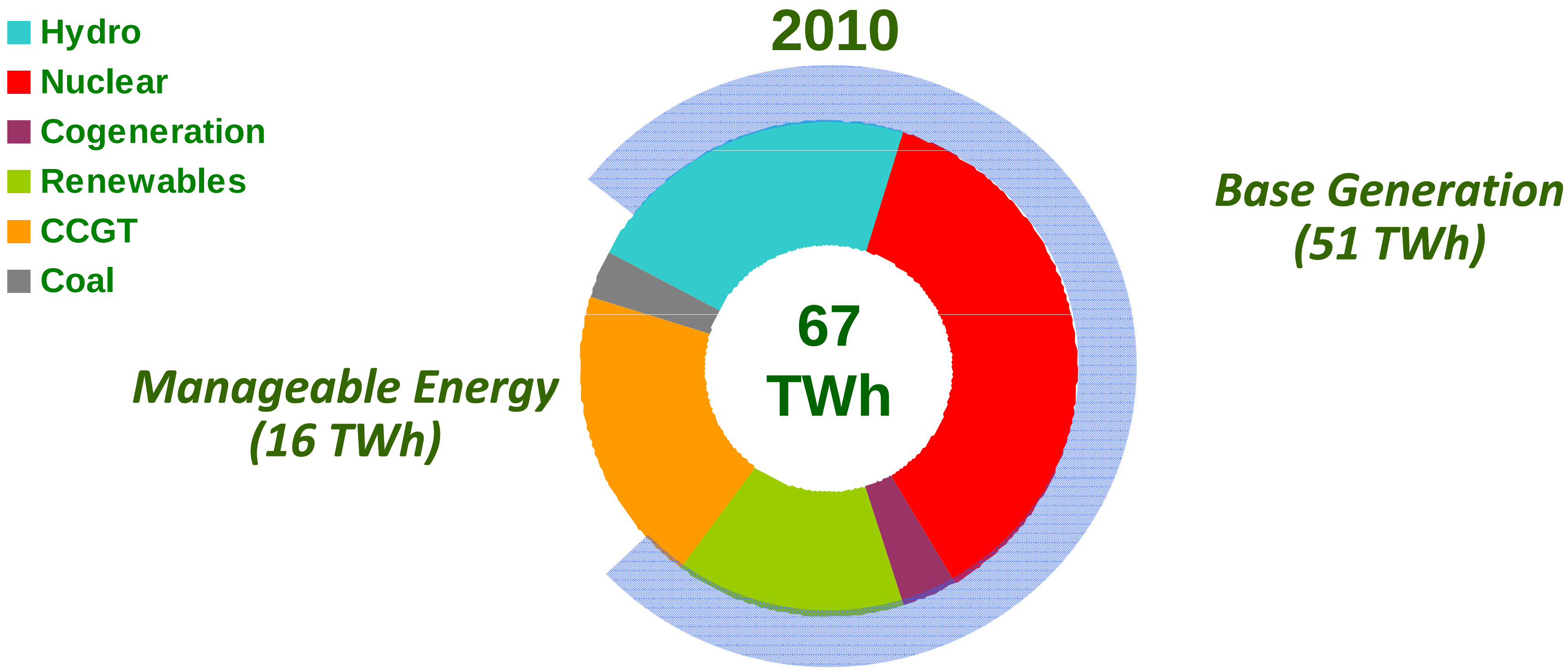
Customer and wholesale price differences reflect:

- A full requirement product which implies flexible generation
- Additional services
- Regulatory risk premiums assumed by utilities

** As recognized by the Government for the calculation of the Last resort tariff*
*** Average Day ahead prices, 2009*

Generation mix

The challenge is to find the right sales strategy that better matches our portfolio structure



Iberdrola relies on a very flexible, competitive and low-emissions generation mix

67 TWh of competitive generation to our customers

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Challenging times and opportunities

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The Economic Crisis impacts liberalised business in several ways…

Lower commodities demand

Lower energy demand

Excess of natural gas supply

Excess of electricity generation capacity

Increase of renewables contribution to electricity demand

Lower commodity prices

Lower natural gas prices

Less income for base load power

Competition for stable customers

Lower spreads

Challenging times and opportunities

The Economic Crisis impacts liberalised business in several ways…

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Hedging base load generation

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Forward and Spot sales in 2010

Production 2010

Forward and Spot Sales

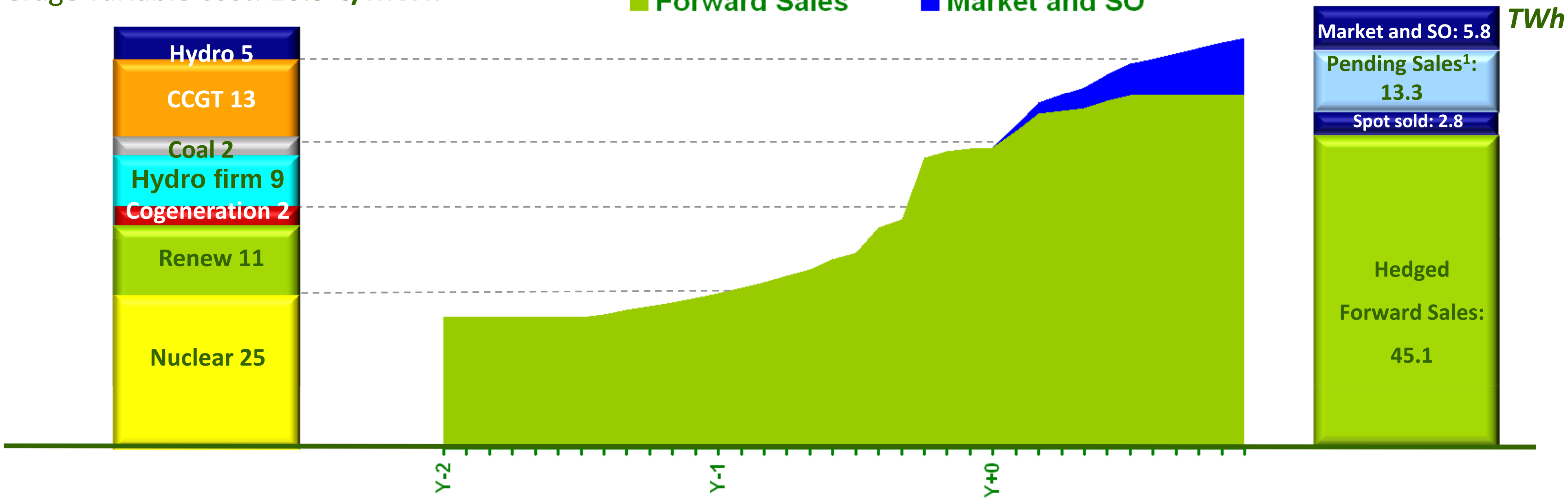
TWh

Production: **67 TWh**

Average variable cost: **20.9 €/MWh**

Achieved price:

51.0 €/MWh



Almost 50 TWh of base generation already sold at over 50 €/MWh thanks to a stable customer portfolio

[1] Mostly, contracts renewals during 2010

Managing less thermal share

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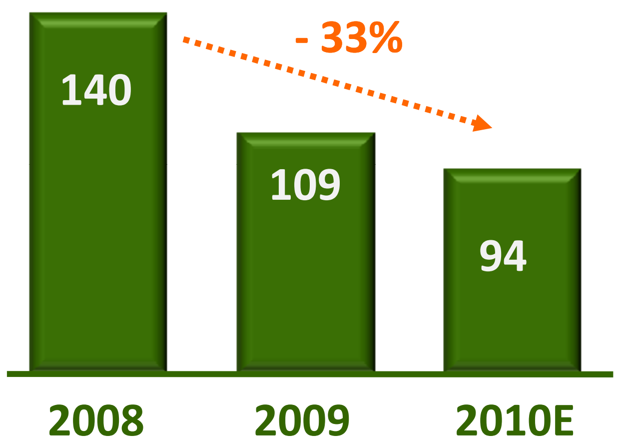
Demand and renewables are eating away thermal generation share

International liquid markets send temporary oversupply signals

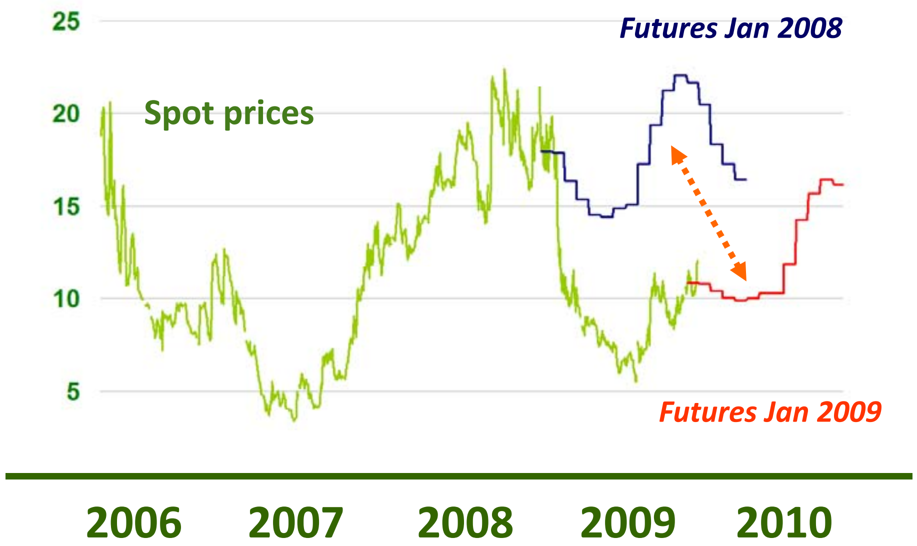
Thermal generation share

TWh



Natural gas prices

Eur/MWh



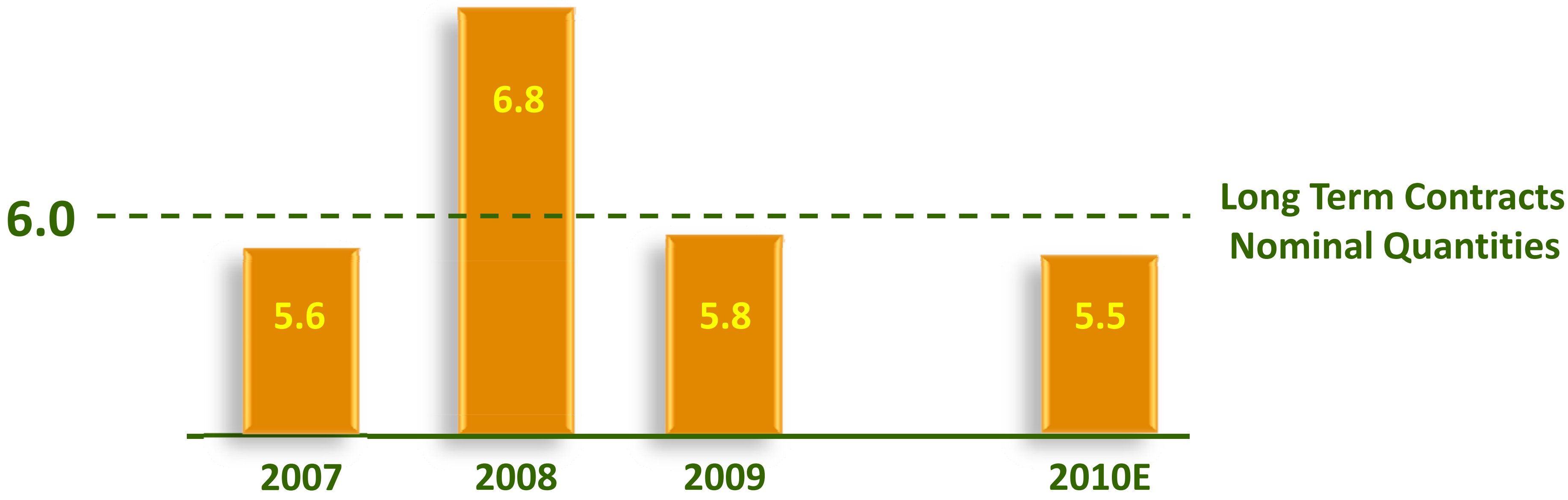
Managing excess of gas supply becomes critical

Managing gas supply excess

On the supply side …

Iberdrola has not entered into any Take-or-Pay obligation

Iberdrola's LNG supply (bcm)



…we have taken advantage of our contractual flexibility to reduce supplies to manageable quantity

Managing gas supply excess

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… Negotiating extra contractual flexibility

- **Three LT contracts under negotiation**
- On December 22nd, we **successfully closed the renegotiation of a contract for more than 1 bcm** allowing additional flexibility over the duration of the contract and a temporary reduction in volumes
- **Medgaz** supply (contract for 1.6 bcma **not yet signed**)

Anticipation is critical due to long negotiation processes

Market risk to be shared between sellers and buyers

Managing gas supply excess

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On the demand side …

Wholesale operations keep the results in a tight environment

Own-use has been one of many options

Iberdrola is balanced in gas for 2010, now working on 2011 onwards

Managing LNG Contracts

Exploring new markets
with direct access to the most liquid markets

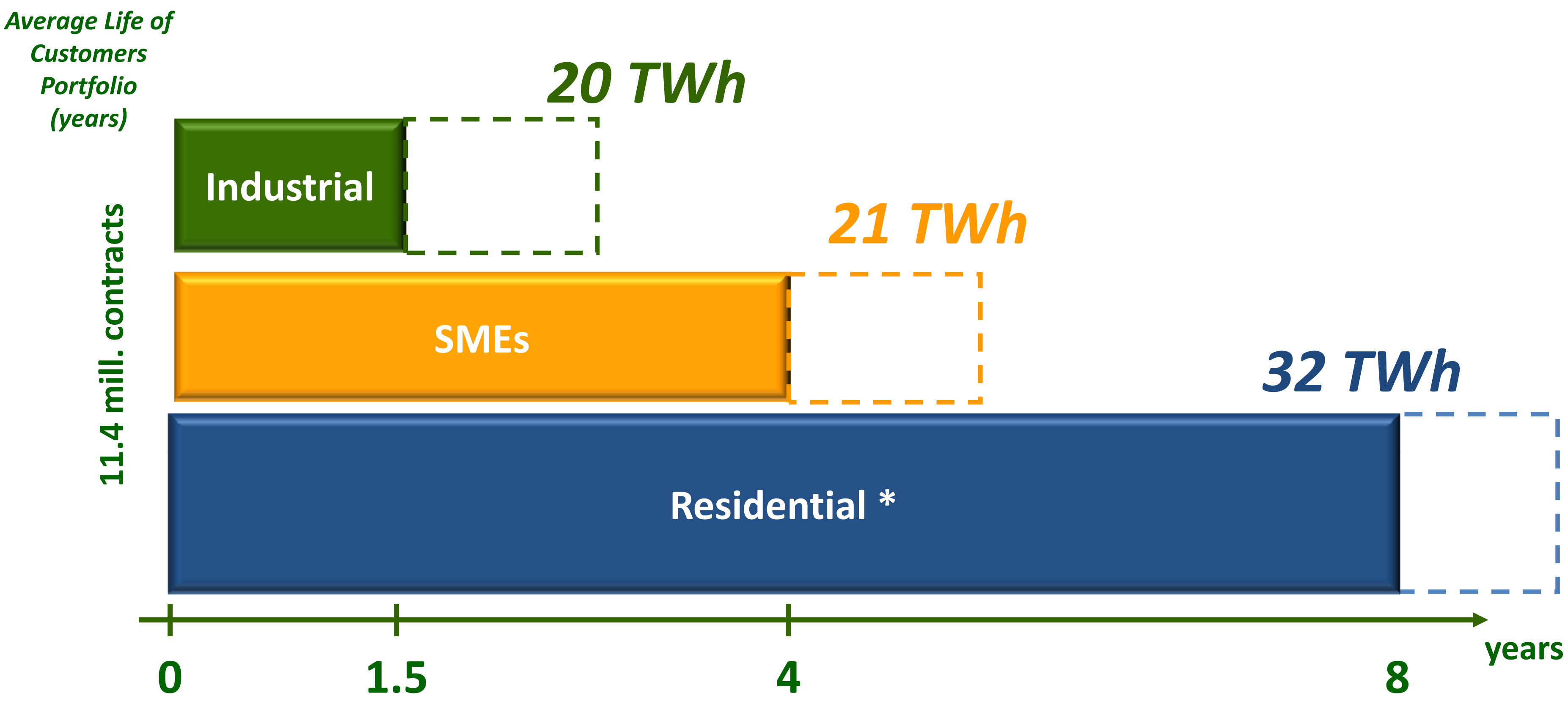
- **2.8 bcma** regas capacity secured in Isle of Grain 3rd phase for 19 years starting in Q4 2010
- **1.0 bcma** option to capture US prices in Sabine Pass regas terminal up to 2013
- **0.5 bcma** capacity secured in Open Season (Spain-France interconnection) from 2013

Isle of Grain Regas Terminal

Cargoes Destinations

Customer portfolio

Stable and long-term client portfolio: focused on Residential and SMEs



70% of the committed electricity in 2010 is already committed for 2011

** 27 TWh under Last Resort Tariff*

Customer portfolio

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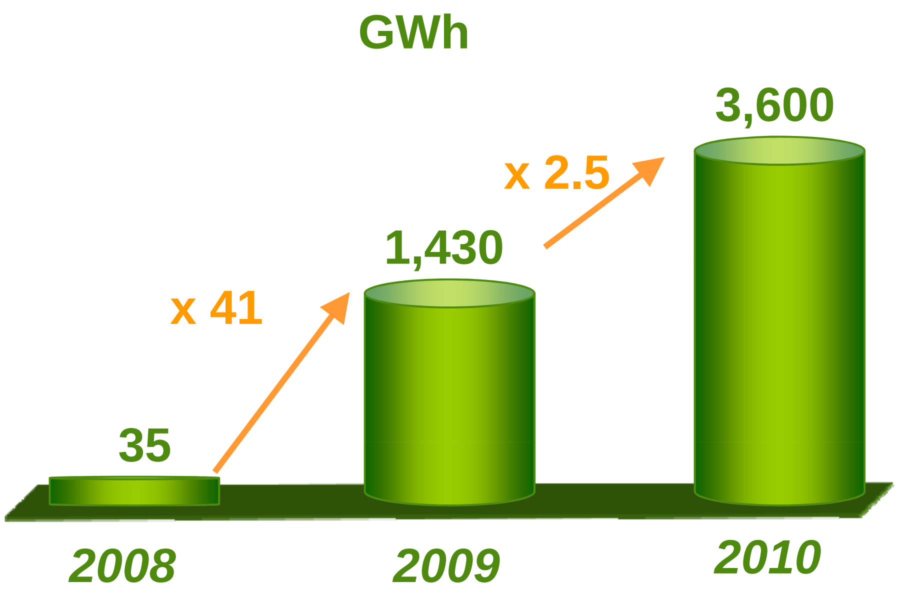
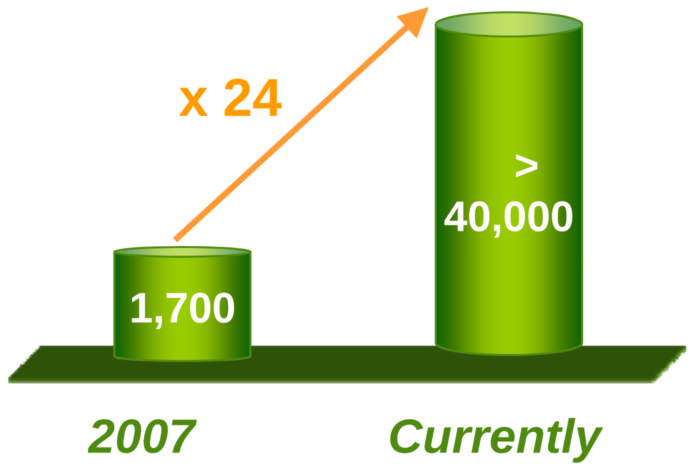
25% of electricity supplied in 2nd tier areas

2nd retailer in Portugal



20% of the liberalized market

New contracts per week

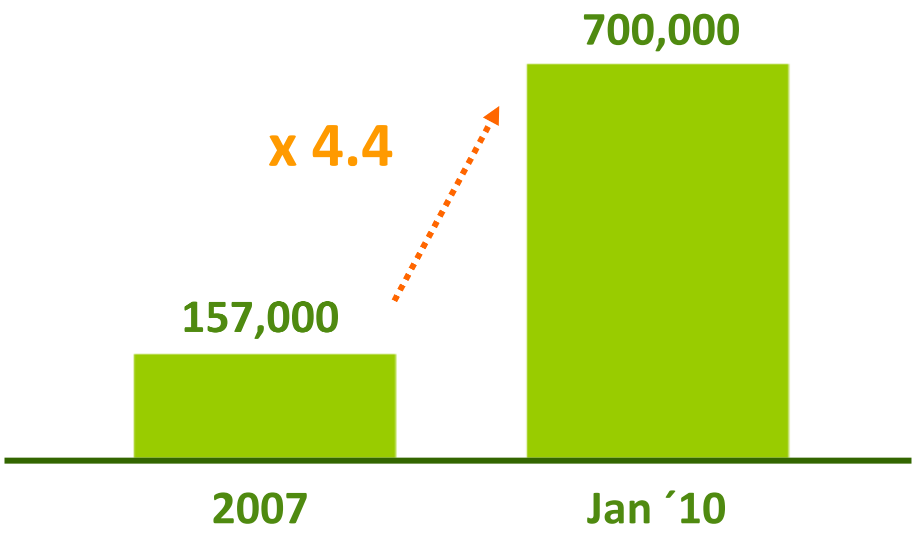


Electricity, Gas and Energy Efficiency Services

Customer Portfolio

The additional services provided to our customers increase their satisfaction and loyalty

Additional Products & Services Contracts



Without additional retailing costs

41% of the energy contracts have an additional Service

Consistent growth in efficiency services is planned for the upcoming years

Customer Portfolio

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3,500 FTE at our customer's request

Industrial and Public Administrations	SMEs and Residential
Managed by our own staff	**More than 3,000 FTE outsourced under our control**

Industrial and Public Administrations — Managed by our own staff
- ✓ Personal Account Managers
- ✓ Specialized/Customized Telephone

SMEs and Residential — More than 3,000 FTE outsourced under our control
- ✓ Sales Force & Collaborators
- ✓ Telephone & Web
- ✓ Outsourced Iberdrola Attention Points

Service based on a simple and efficient process

Contracting → Connection Management with Distributors → Reading Management with Distributors → Invoicing → Credit Management → Collection → Claims

Customer Portfolio

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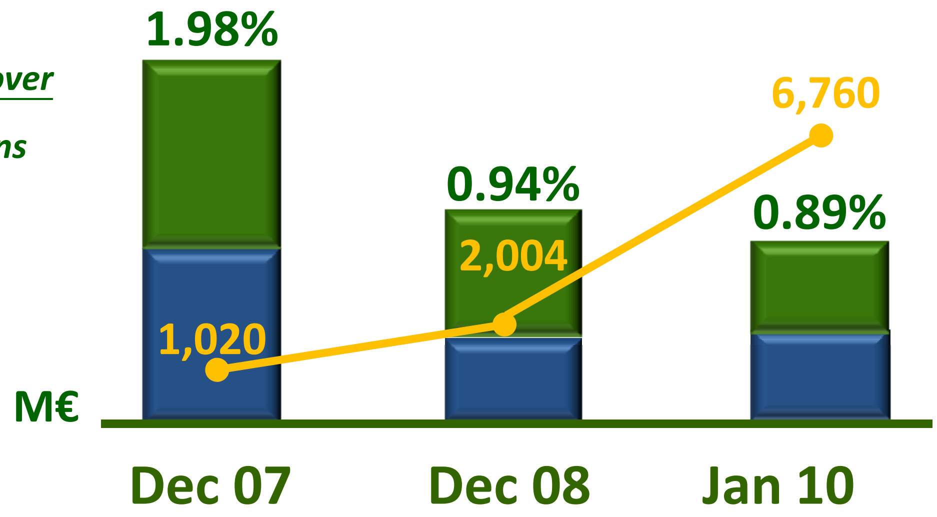
Debt control strategy:
Strict admission process and closed ex-post monitoring

Debt > 90 days/Annual Turnover

Public Administrations

Rest

Annual Turnover



49% of debt comes from Public Administrations

With the State guaranty

Average Collection Period (ACP)

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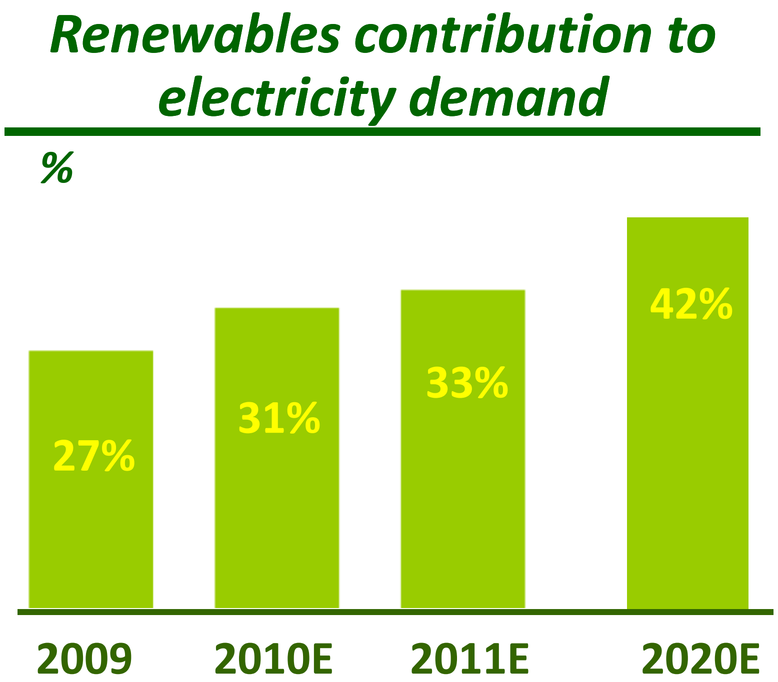
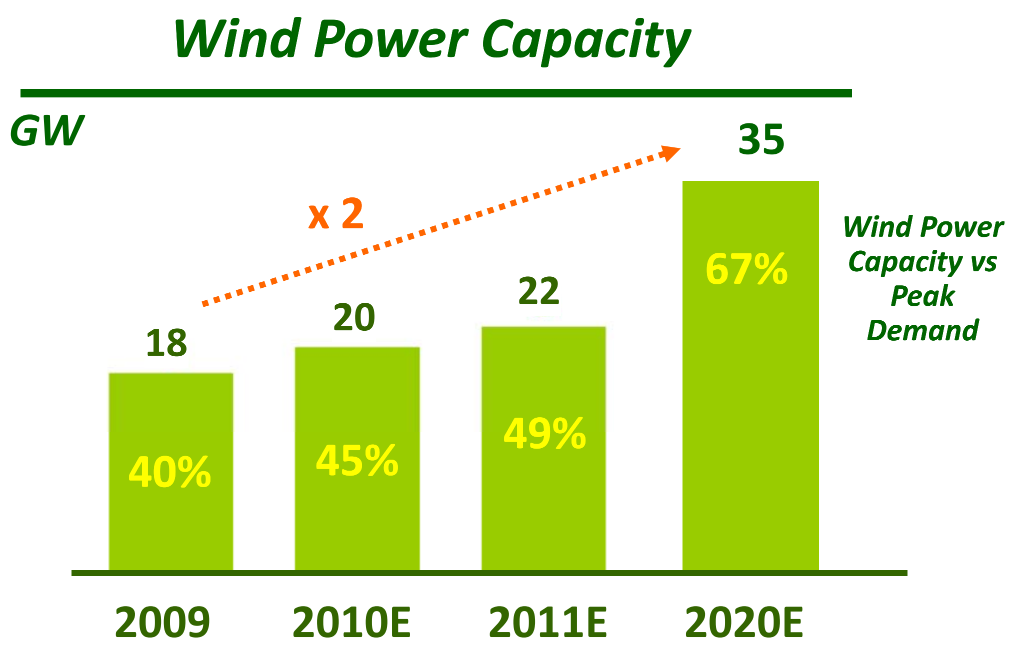
Demand and renewables

After financial crisis, electricity demand recovery is gradually expected

Additionally, a great incentive to renewable energy is exceeding expectations





Consequences of wind volatility

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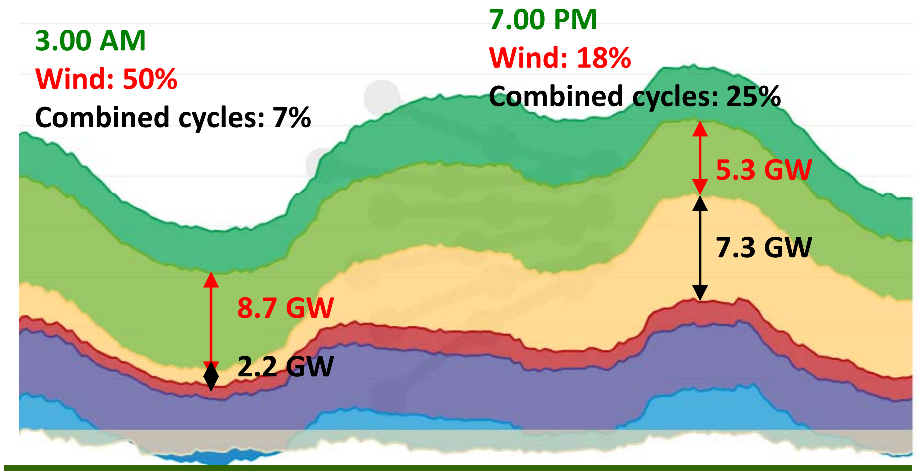
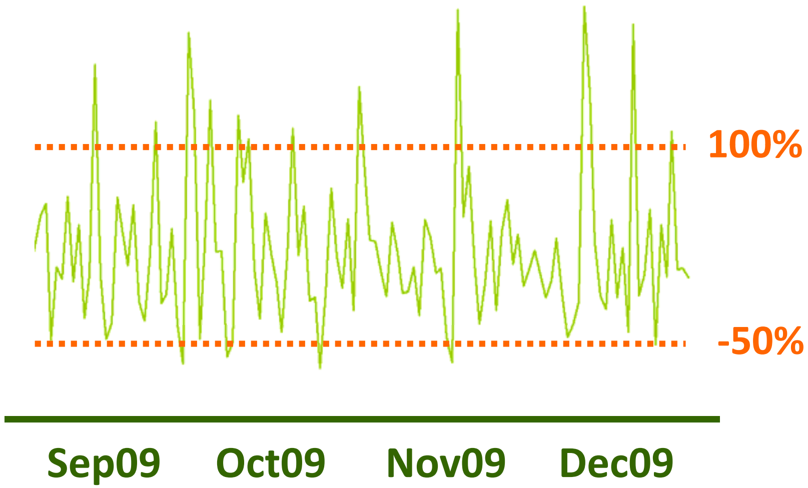
Investing in flexible technologies, needed even sooner than expected

November 29th, 2009
Gas fired power after the main backup for wind



Source: REE

Daily change in wind production (%)

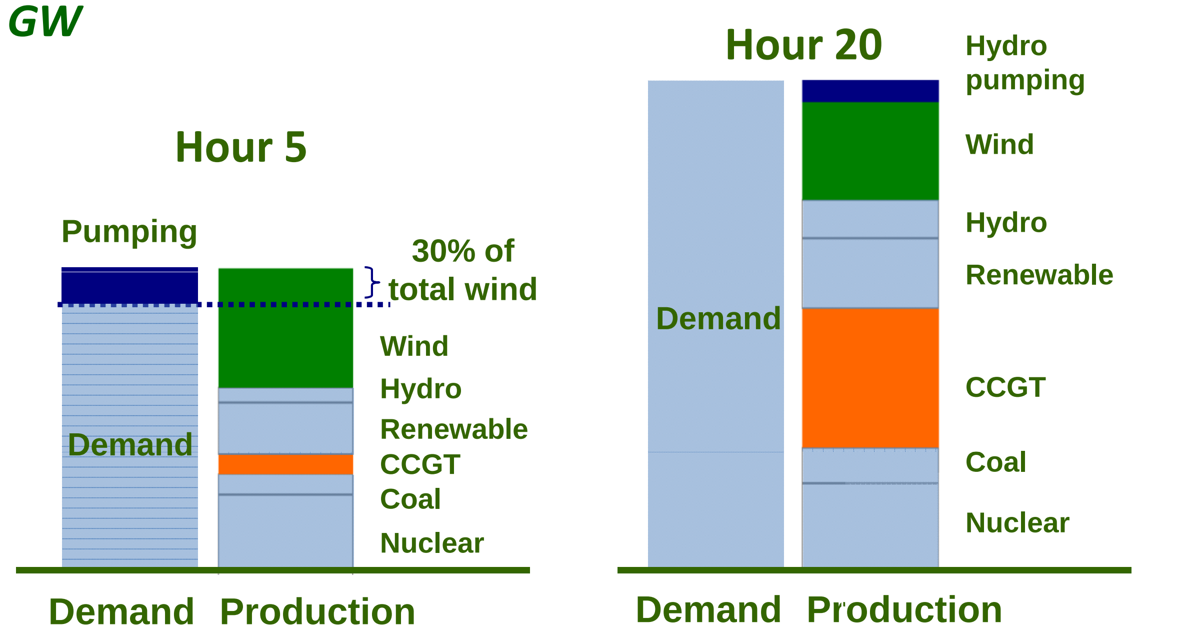


Consequences of wind volatility

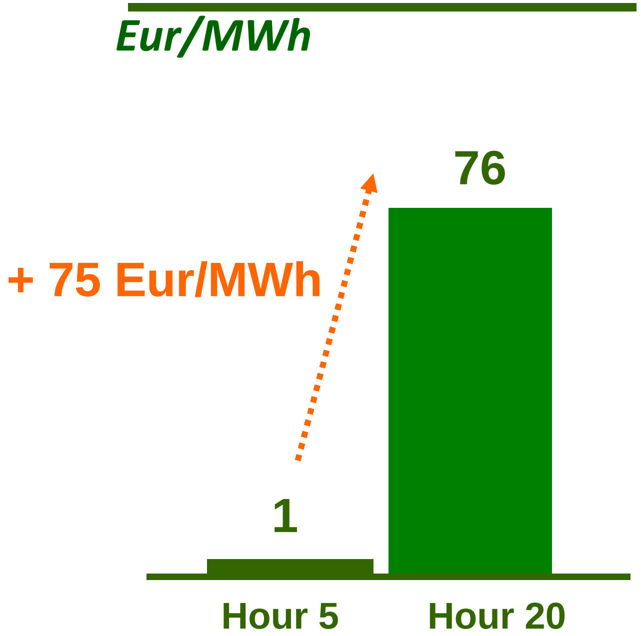
Pumping and flexible CCGT complement perfectly with wind volatility

November 9th, 2009

Demand coverage



Spot prices



In off-peak, pumping increases demand taking advantage of low prices due to high wind production

Hydro pumping shows profitability in peak hours

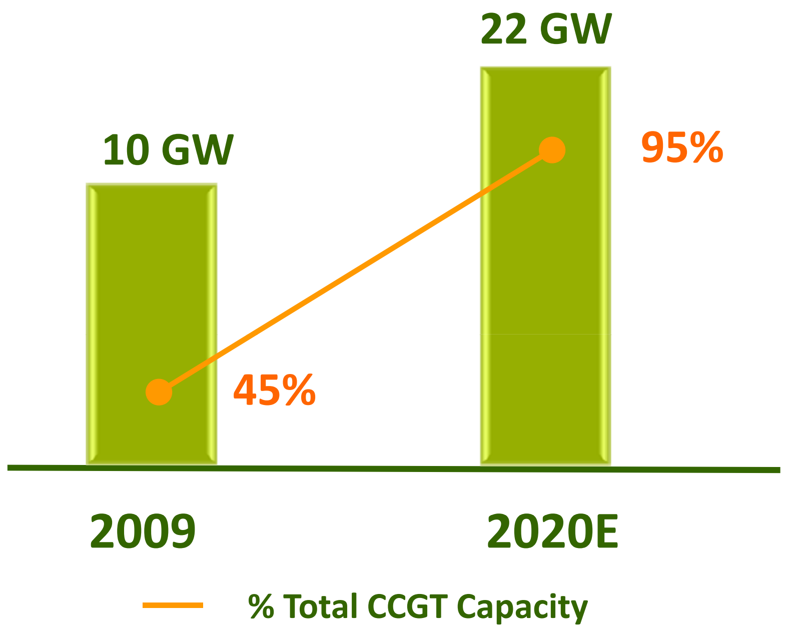
Nowadays, combined cycle's flexibility is required hourly

Combined Cycles

New investments in CCGT in Spain are no longer necessary…

Flexibility required by the system

PCT 99% of daily differences between CCGT capacity dispatched in peak and off-peak hours



The market value of flexibility will increase as CCGT plants play the role of backup power

- **2x1 combined cycle configuration will capture extra value**
- **Investment will reduce technical minimum load and allow quick start and stop sequences**
- **A new economical framework including fixed capacity payment need to be defined to adapt to this new use of CCGT plants**

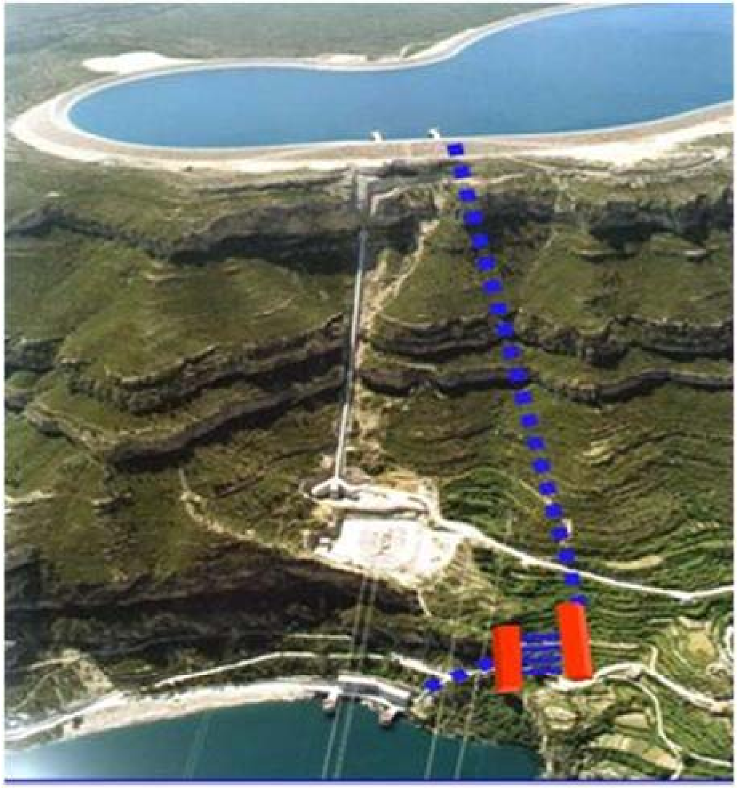
… but market does require more flexibility as a consequence of Europe's commitment on renewables and efficiency

Hydro & pump storage projects

La Muela II is the biggest project of this technology in Spain

CH La Muela: 1,540 MW (+850 MW)

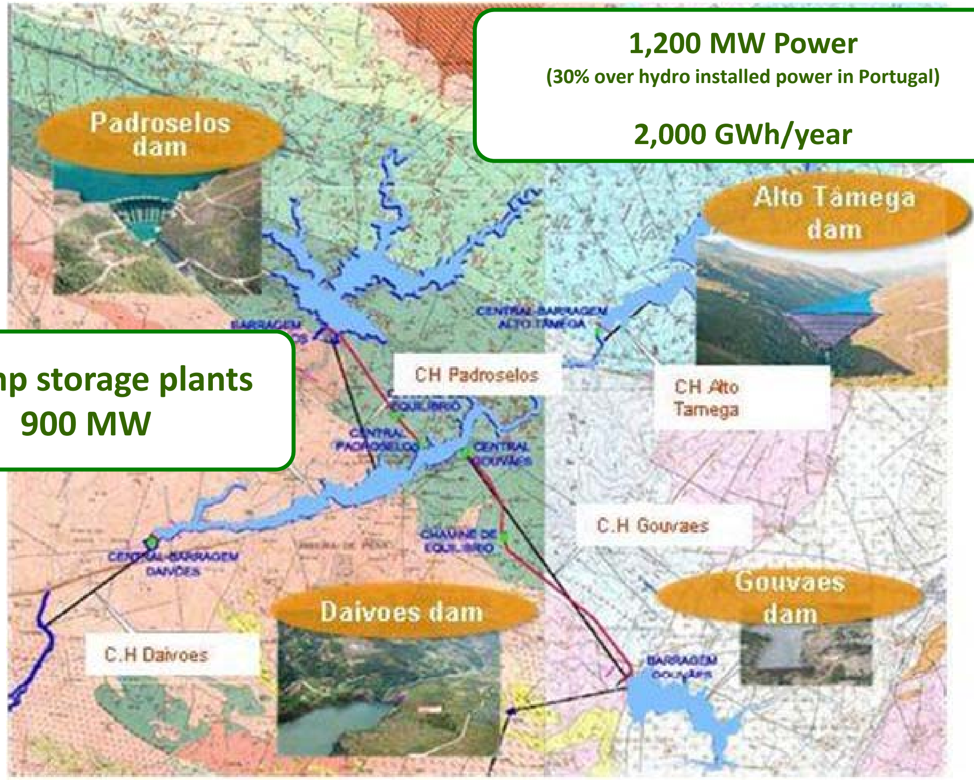
In commercial operation in 2012



The Alto Tâmega System, in Portugal, one of the most ambitious hydro projects in the last 25 years

Alto Tâmega System 1,200 MW

In commercial operation in 2018



1,200 MW Power
(30% over hydro installed power in Portugal)

2,000 GWh/year

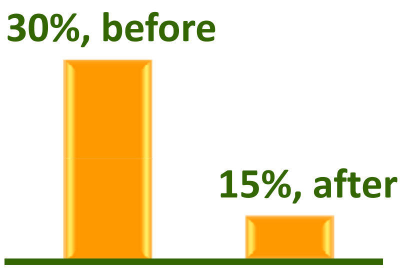
2 pump storage plants 900 MW

Hydro & pump storage projects

The technical and economical interest of new hydro projects has increased due to present and expected market results

CH San Esteban II, 175 MW
Operating in 2012

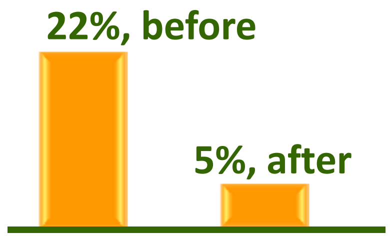
% of generation on off-peak hours



Hydro system flexibility increases because the new power plants reduce the spillage during wet periods and concentrate production in peak hours

CH San Pedro II, 24 MW
Operating in 2012

% Spillage/total inflows



Nuclear projects

Future Electricity Scenario

Europe's commitment on carbon free economy means opportunities for investment in nuclear technology

Iberdrola Generación is the only Spanish utility qualified as credible nuclear operator in UK

The joint venture with GDF-Suez and Scottish & Southern could build nuclear in UK if recovery of investment is sufficiently guaranteed

Sellafield Site has been already acquired

Power plant could be operating by early 20s

In this case, Iberdrola Generación energy share would be commercialised by Scottish Power

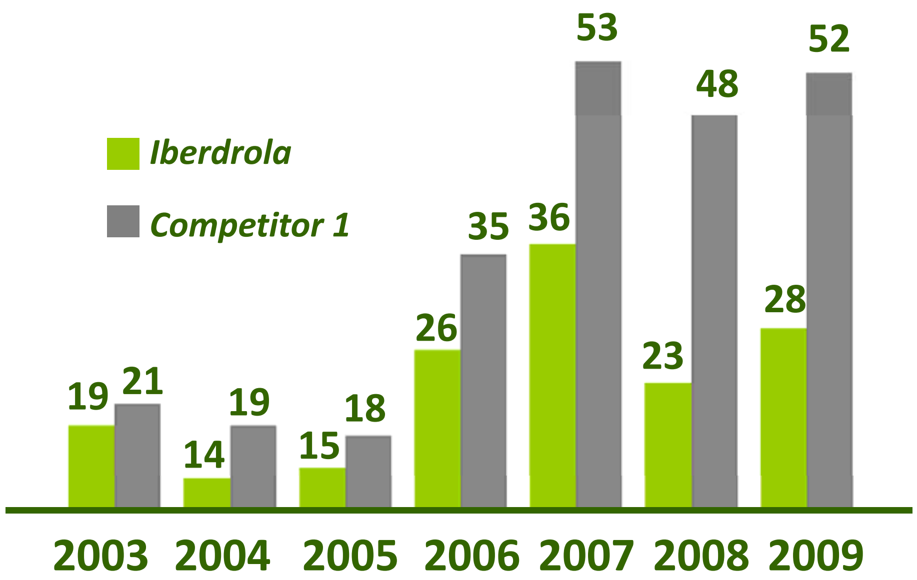
The nuclear development in UK will become real when current uncertainties are removed

Nuclear projects

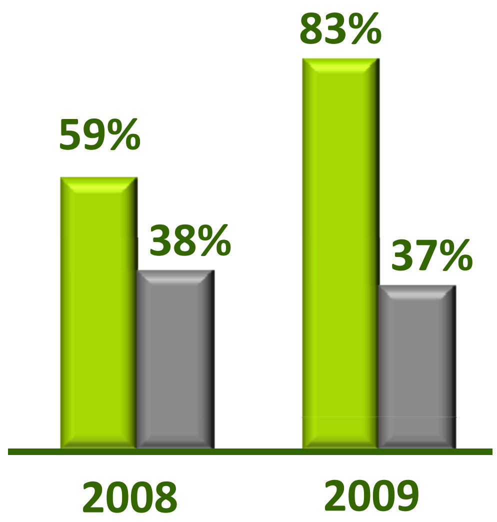
Iberdrola Generación owns a large know-how in nuclear technology, ranging from fuel design to plant operation and maintenance

- The only Spanish company with in-house fuel design and licensing capabilities
- Ranking as one of the most credible European operators, achieving excellent levels in ROP and Licensee response

Reportable Events



*Licensee Response**



* Published in *Reactor Oversight Process* by *Consejo de Seguridad Nuclear*

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Our flexibility has been challenged by the economic downturn

On the gas supply, negotiations are already yielding the flexibility that we need

We have achieved a stable portfolio of customers which fits with our competitive production mix

All of our projects in progress provide the flexibility that the system needs and are aligned with the energy policy for coming years

Iberdrola investment strategy is once again ahead of the competition