



IBERDROLA

**Investor Day**

London. 24th February, 2010

*Financial Profile*

*José Sainz Armada*



## **Tariff Deficit**

2009 Financial Activity

2010 Financial Profile

Scrip Dividend

Conclusion

# Tariff deficit (I)



## Tariff deficit ready for securitisation in March - April

✓	April '09	Royal Decree set the framework to guarantee and securitise tariff deficit. Approved by the Parliament.
✓	August '09	Royal Decree for the creation of an Inter-ministerial Commission to coordinate the process
✓	October '09	Fund manager for securitization process designated (TDA)
	Feb- March '10	New Royal Decree will set the procedure for securitisation. To be approved by Cabinet.



# Tariff deficit (II)



**New draft Royal Decree provides clarity on tariff deficit securitisation in terms of fund assets ...**

**Face value of tariff deficit recognized**

**Past tariff deficit and current year tariff deficit eligible for securitisation**

**2010-2012 future deficits are recognized via deficit ex ante in the Tariffs Royal Decrees, and can be transferred to the Security Fund immediately**

*Tariff deficit to be securitised in 2010*

	<u>System (Eur MM)</u>	<u>Iberdrola (Eur MM)</u>
2006 -2008 -2009	9,719	3,618
2010	3,000	1,050

**Carry cost of tariff deficit 2006-2008: 3 months EURIBOR  
2009: 3 months EURIBOR + 0.2% spread**

# Tariff deficit (III)



**...and liabilities**

**Securitisation Fund bonds will be guaranteed by the Kingdom of Spain**

**Securitisation Fund is obliged to issue before 12 months**

**Confirmation of 0% BIS weighting of the bonds**



**Strong incentives  
for banks to invest**

# Agenda

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# 2009 Iberdrola financial activity highlights



2009 Iberdrola's actions prove the commitment to keep financial strength

40% reduction in gross investments

Issued Eur 5.3 Bn in capital markets\*

+

+

Cash raised  
Eur 3.4 Bn

Liquidity to  
cover more than 15  
months needs

Net debt reduction of over  
1.1 billion

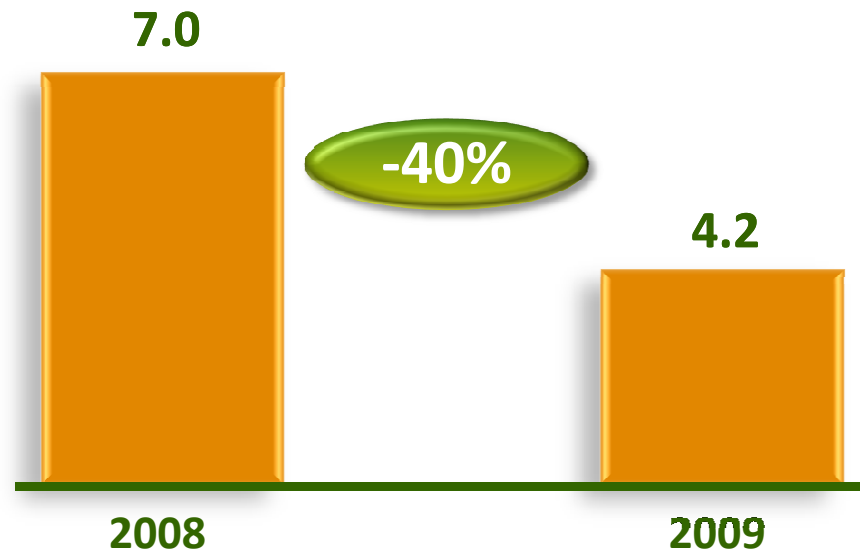
Average maturity of debt  
6.0 years



40% reduction in gross investments ...

*Eur Bn*

## Gross investments



... demonstrating the discipline and flexibility of the Group



# Balance sheet management



**Financial strengthening measures  
have delivered Eur 3,437 MM in 2009**

*Eur MM*

2009	
Capital increase	1,325
US grants	416
Treasury stock disposal	459
Divestments *	939
EDP disposal	298
<b>Total divestments</b>	<b>1,696</b>
<b>TOTAL 2009</b>	<b>3,437</b>

2010	
Renovables EBRD	125
US gas assets	45
Petroceltic	44
<b>Total Divestments</b>	<b>214</b>

**Divestments of around Eur 1,910 MM in 2009 & January 2010  
Including grants, 93% of the Eur 2,500 MM target achieved**

\* Excluding EDP

# EDP divestment



**2.7% of EDP already disposed of at €3 per share**

**Most of it through an equity swap  
made during 2009 and Q1 2010**

**Total proceeds of Eur 298 MM**

**Considered as lower net debt in 2009 Balance Sheet**

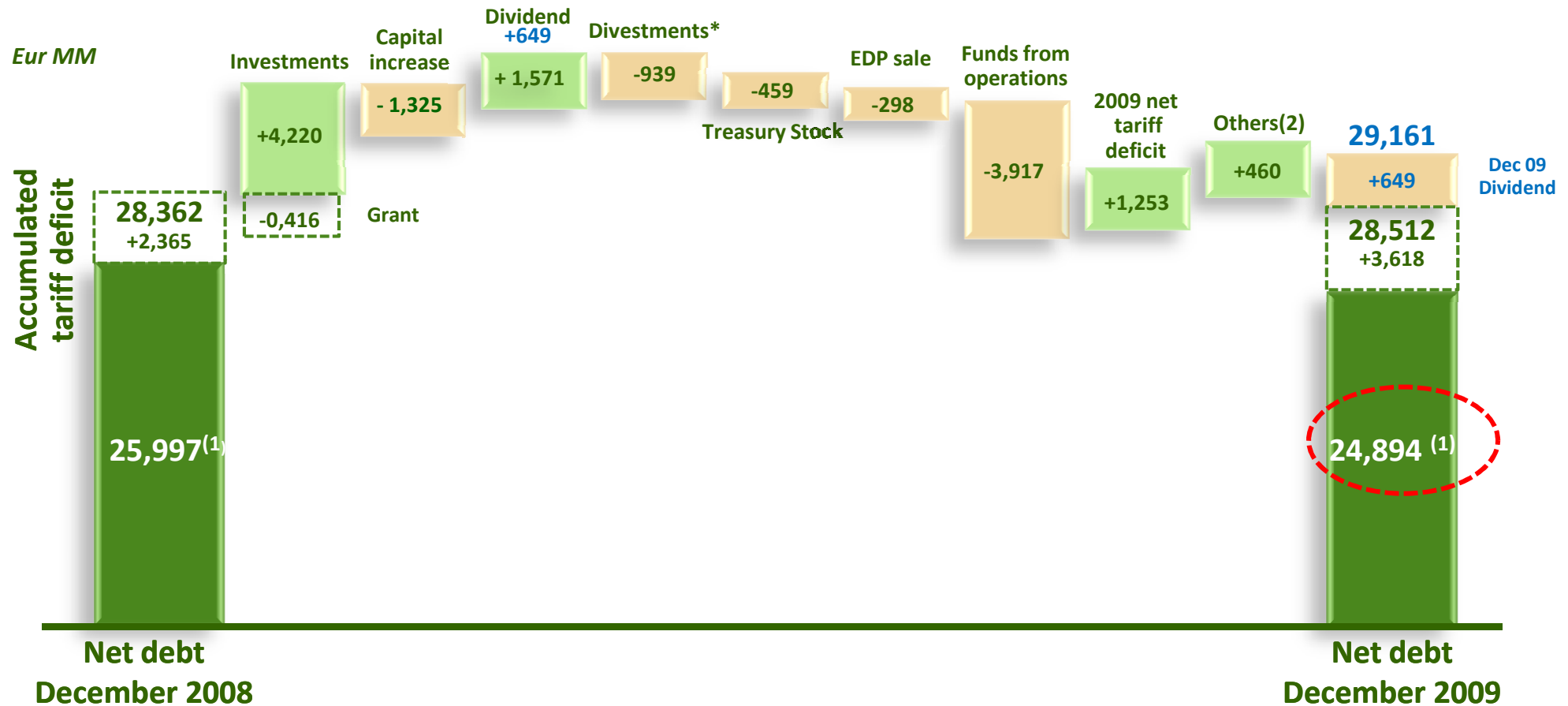
**Capital gains of Eur 68 MM in 2010**

**No further disposals in the short term**

# 2009 Net debt evolution



**Net debt reduction of over Eur 1.1 billion  
final figure under Eur 25 billion**



\* Not taking into account EDP

(1) Excluding TEI and Tariff deficit

(2) Including differences due to: forex translations (Eur 429 M) & others

# 2009 Financial ratios evolution



**As a result, all the 2009 financial ratios are ahead of the committed targets ...**

*Eur Bn*

	2009 (exclude '09 dividend)		2008		Committed targets
	Excluding tariff deficit	Including tariff deficit	Excluding tariff deficit	Including tariff deficit	
Leverage	46.2%	49.6%	50.3%	52.5%	<48.0%
FFO/Net debt	20.0%	17.4%	18.3%	16.7%	>19.0%
FFO/Interest	4.7x	4.6x	4.4x	4.2x	>4.5
RCF/Net debt	13.5%	11.8%	13.2%	12.1%	>12.5%

**... improving 2008 metrics and reaffirming current rating level**

Note: Debt figures and ratio calculations exclude the impact of TEI. 2008 ratios include FY contribution from Iberdrola USA.

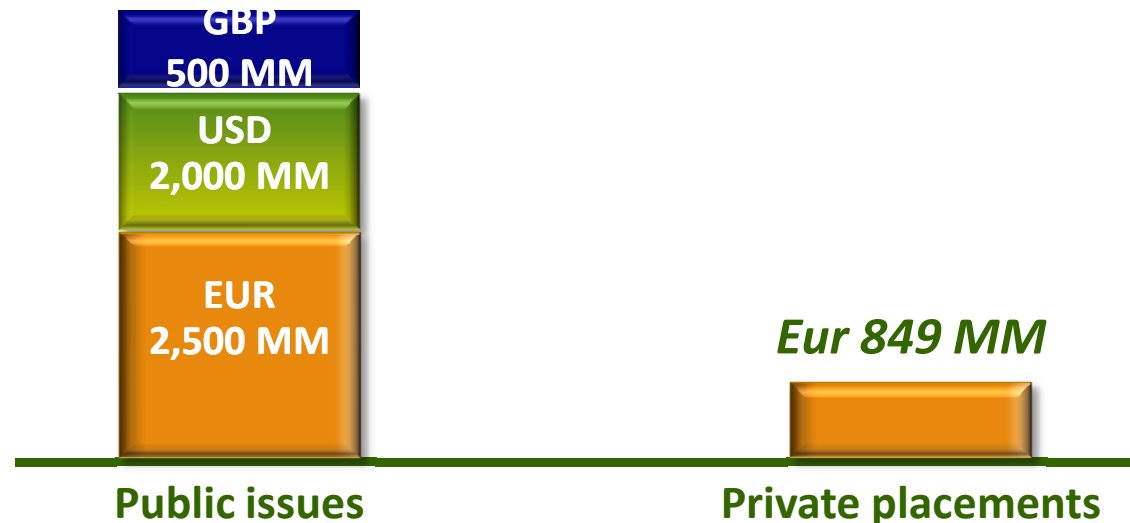
# 2009 Financial diversification



**Strong activity: raised Eur 5,301 MM in capital markets despite challenging conditions**

## *Capital market\* (Eur 5,301 MM)*

*Eur 4,452 MM*



**2010's low financing needs give us the capacity to replace current financial debt with cheaper funding**

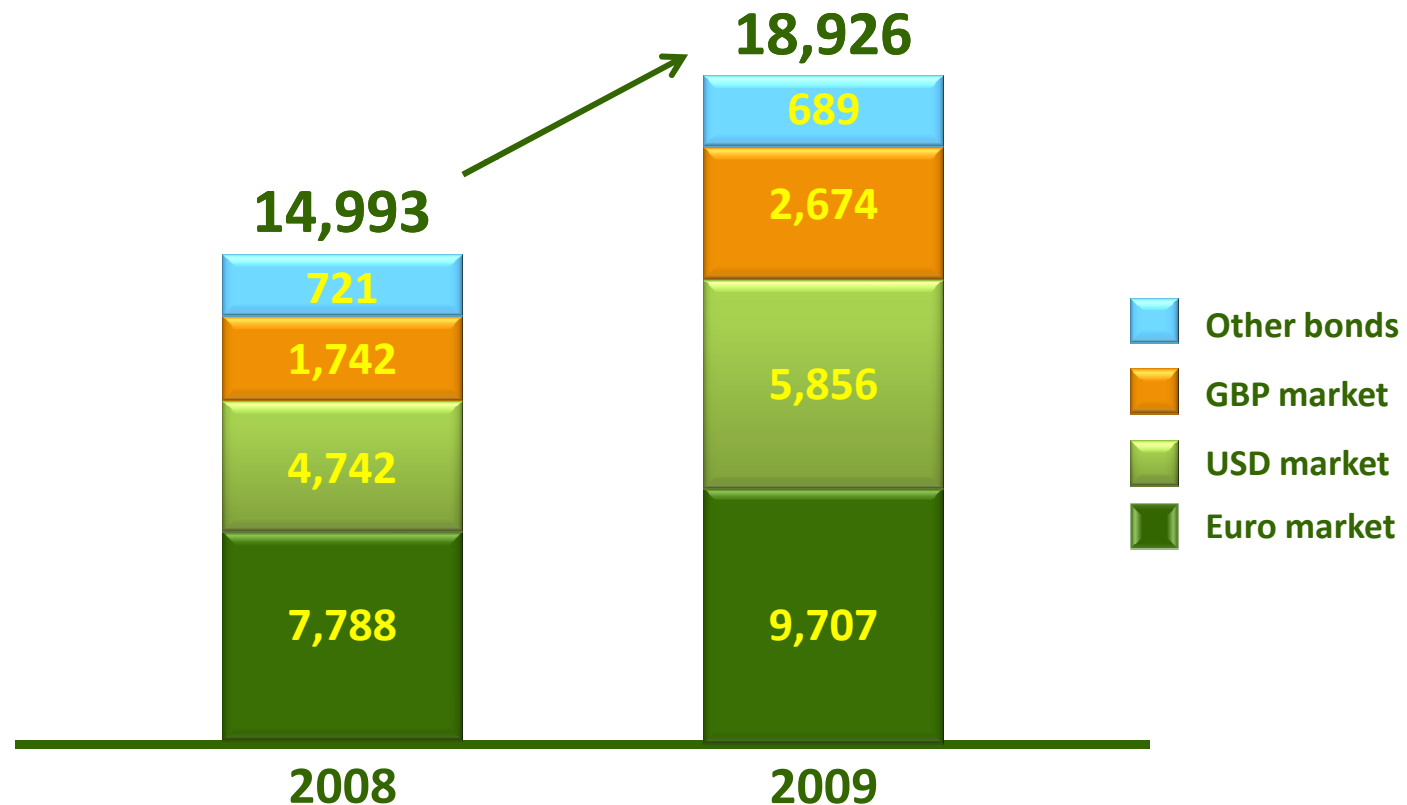
\*Core level financing

# Financial debt breakdown (I)



Increase in bond market financing with strong diversification  
(to continue in 2010)

## Bond market breakdown (Eur MM)

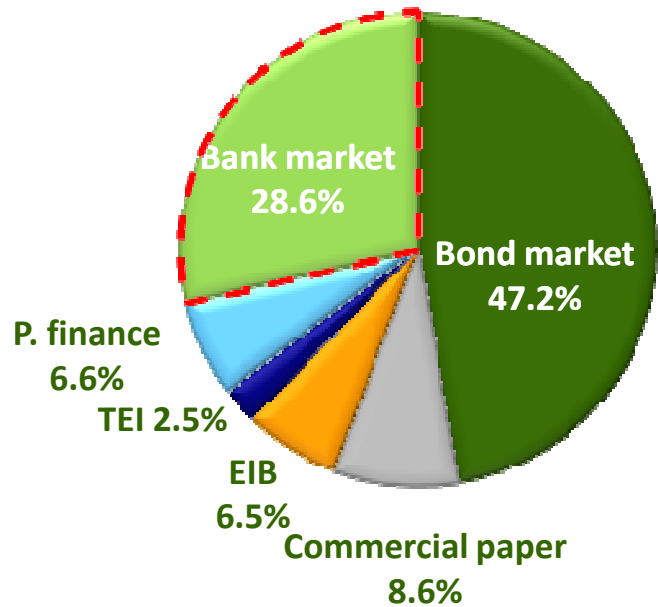


# Financial debt breakdown (II)

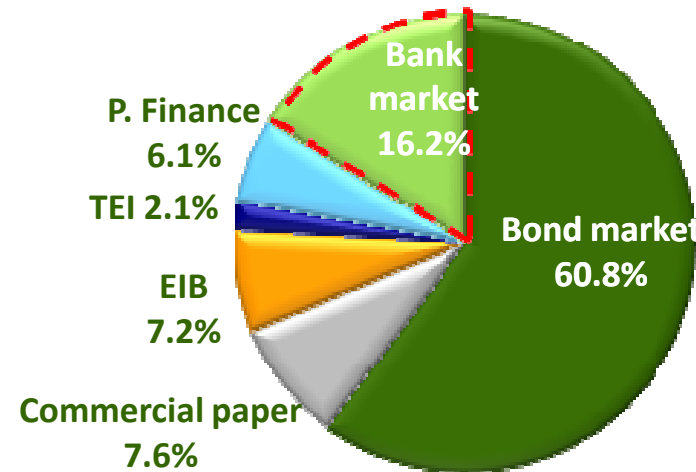


Consequently, the weight of bank financing is reduced ...

2008



2009



... allowing us to cut bank services costs and fees and increase bank appetite to lend to Iberdrola

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# 2010 Financial targets



2010 financial management will be driven by solvency ratios ...



## 2010 Targets

FFO/Net debt	>19%
FFO/Interest	>4.5
RCF/Net debt	>13%



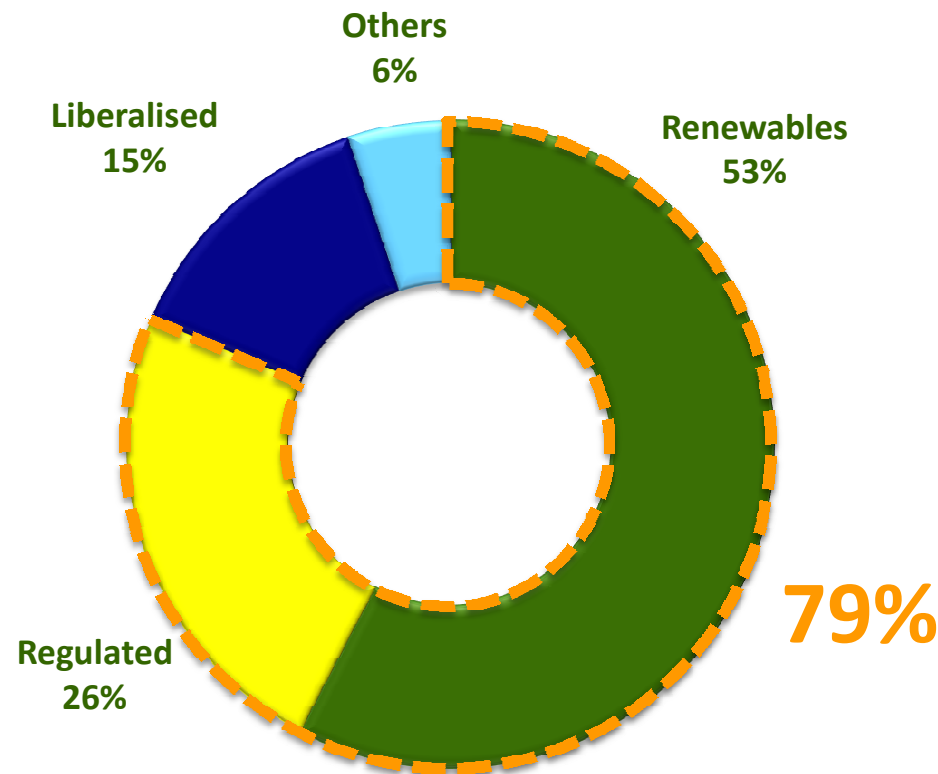
... to maintain or A3/A- rating

# 2010 Investments



Investments will be driven by cash flow generation of the Group in order to maintain the solvency ratios (FFO/Net Debt)

## Gross Investments



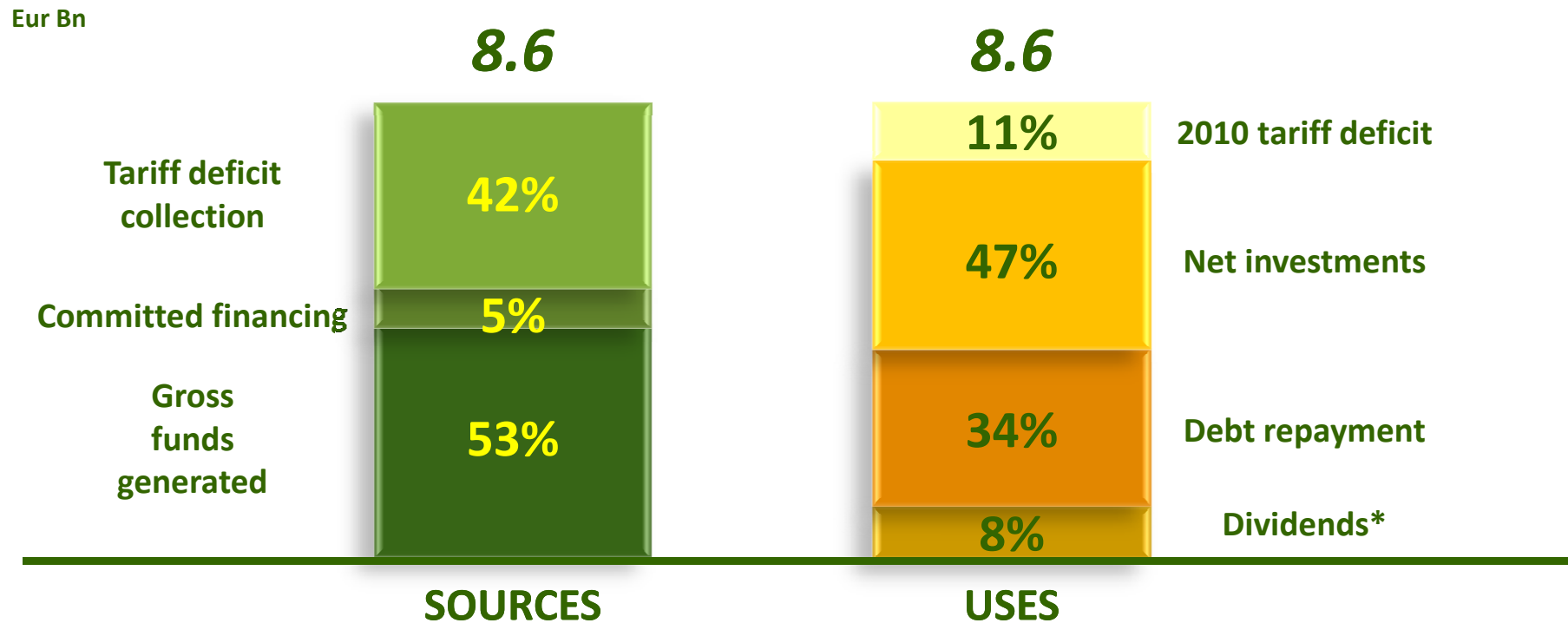
Almost 80% of gross investments in renewable and regulated activities

2010 Net Investment will be around Eur 4.0 billion

# 2010 Sources and Uses of Funds



**No need to finance in 2010 except roll over of commercial paper**



**We might appeal to the markets to anticipate 2011 and 2012 financing needs and amortise expensive Debt**

\*Assuming 30% scrip dividend

# Financing – Liquidity (At 31 December 2009)



**In addition, strong liquidity with Eur 8,983 MM ...**

Eur MM	Limit	Withdrawn	Available
Cash & Short Term Fin. Invest.	1,091	-	1,091
2010	2,528	-	2,528
2011	968	10	958
2012 +	5,385	979	4,406
<b>Total</b>	<b>9,972</b>	<b>989</b>	<b>8,983</b>

**... that covers more than 15 months' needs**

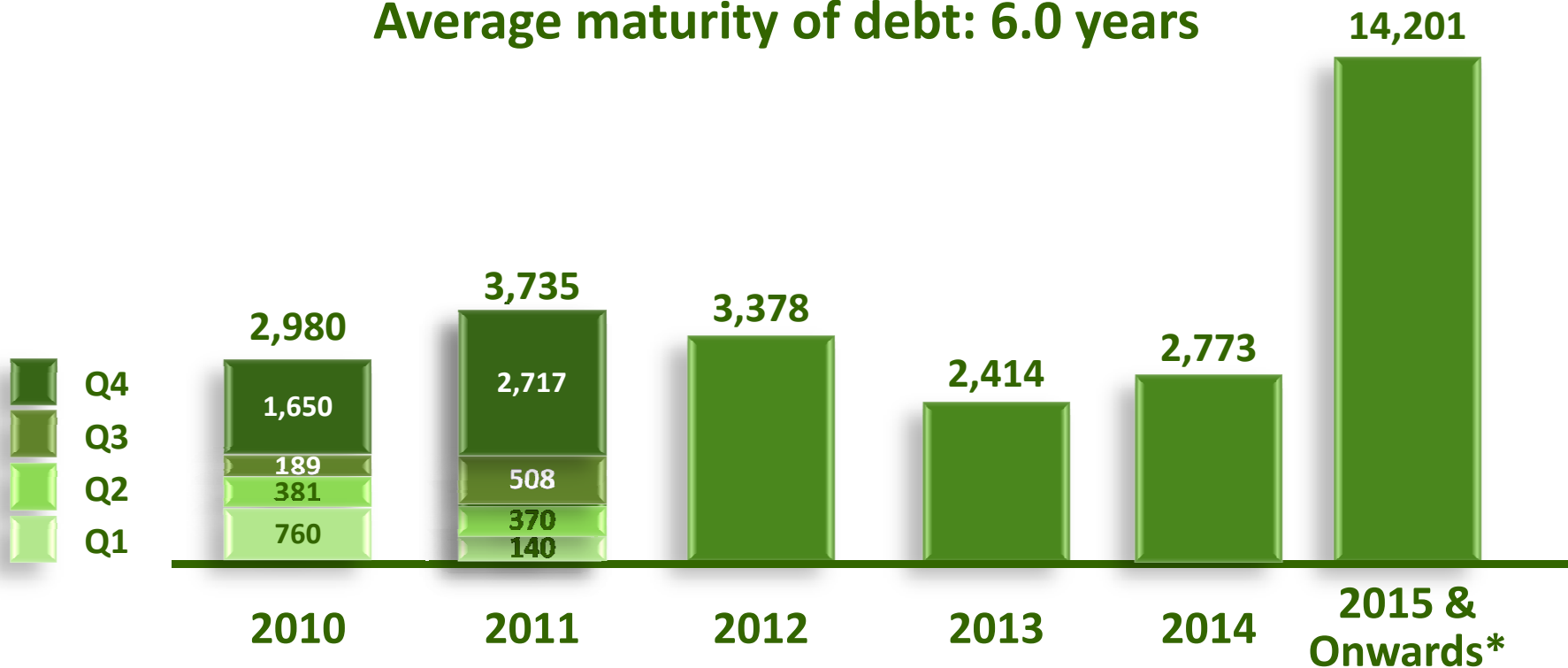
# Debt maturity profile



**Goal is to maintain average maturity around 6.0 years**

Eur MM

**Average maturity of debt: 6.0 years**



**Debt maturity in 2010 and 2011 concentrated in Q4**

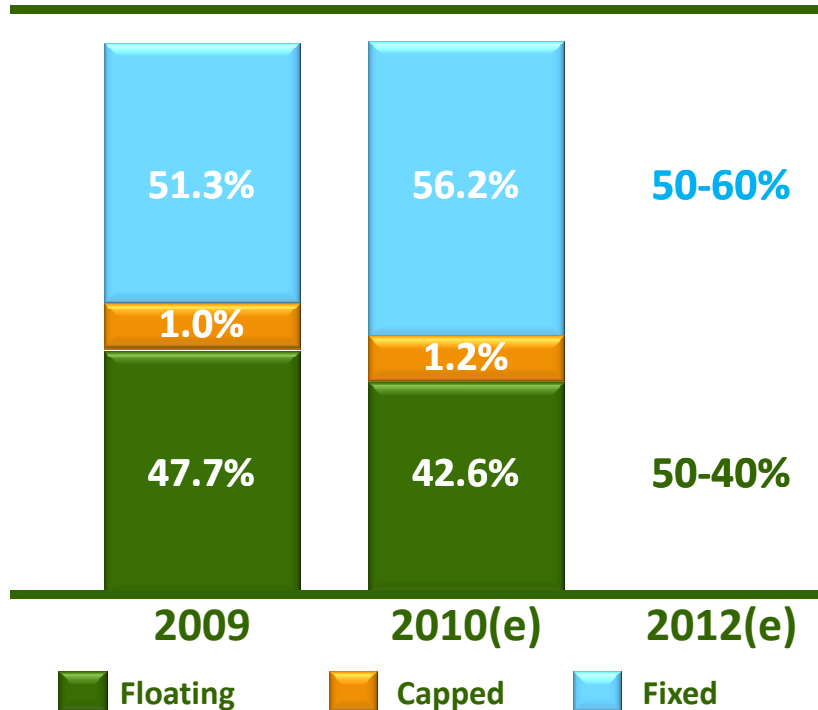
NOTE: Excludes credit lines drawn down  
\*Includes commercial paper outstanding balance

# Debt structure – By interest rate

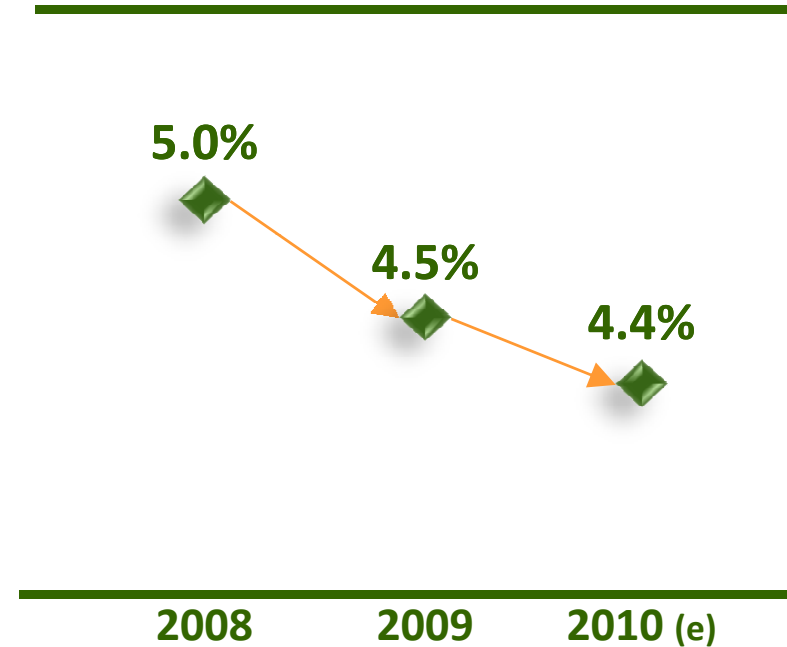


Setting debt structure based on cash flow in different currencies and sensitivity to inflation

*Interest Rate Structure*



*Cost of debt (%)*



Reducing cost of debt in 2010

# FX Risk management – P&L



Manage risk to minimize effects of FX volatility on P&L ...

Main exposure  
in P&L

Expected results in foreign currency

Term

12 months ahead

Instruments

A combination of:

- Financing in local currencies
- FX forward
- FX collars

... at Net Profit level

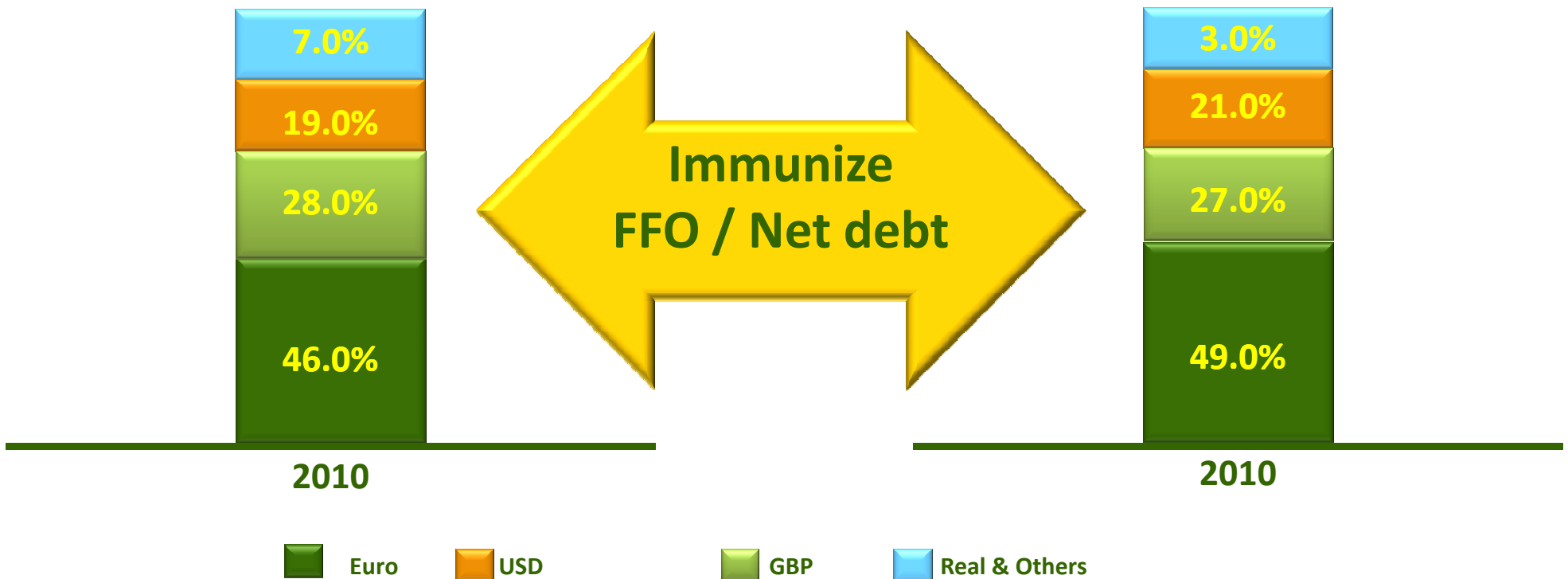
# 2010 Debt structure – By currency



...reducing P&L risk and the volatility in solvency ratios

*FFO by currency (%)*

*Debt breakdown by currency\* (%)*



\* Includes hedging through derivatives





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# Scrip dividend proposal



Shareholders to receive at least same remuneration (0.332 €/s)\*  
while maintaining the financial strength of the Company

A new Shareholder Remuneration proposal\*\*, with the option of  
receiving 2009 final dividend as a scrip dividend

Executed through a capital increase ...

... with tax benefits for shareholders  
who choose to receive the newly issued shares

No withholding tax: gross dividend = net dividend

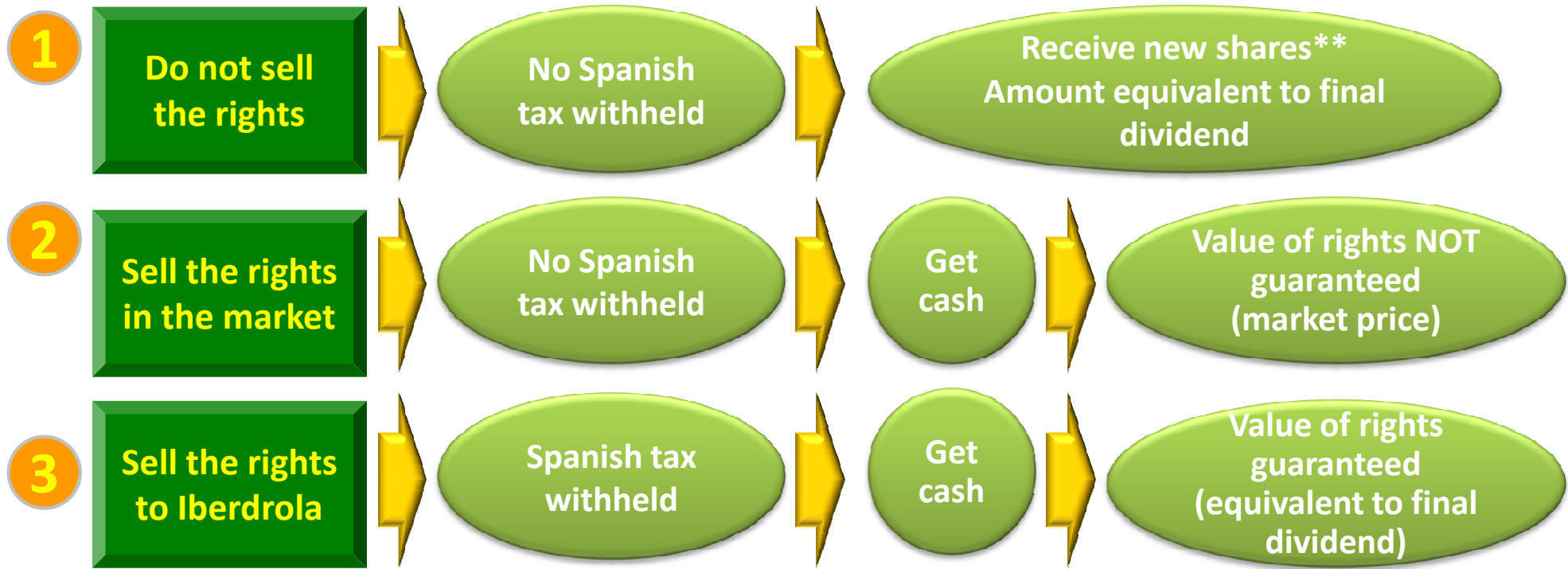
\* Including attendance premium of 0.05€/share

\*\*Pending shareholders' approval at AGM

# Scrip dividend options



## Scrip issue\* with 3 different options for shareholders:



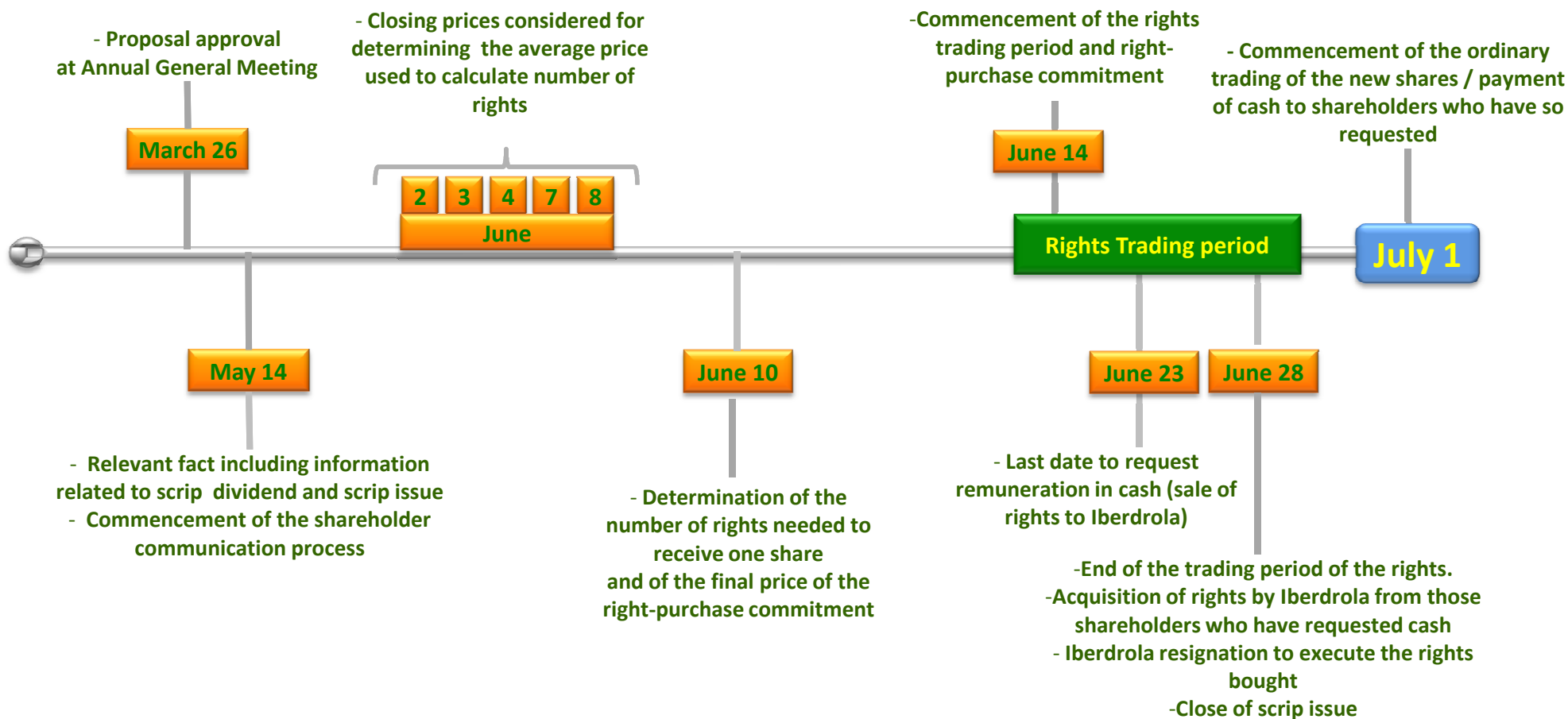
**Investors wanting cash dividends should apply for them through their depositary bank**

\* Issuance of new shares booked against Reserves. Need to be approved in Annual General Meeting  
\*\*Default

# Scrip dividend calendar\*



**Shares or cash will be delivered on the same date as the final dividend: 1 July**



\* Subject to modification

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# Conclusion (I)



**As a consequence of measures taken in 2009**

**No new funding  
will be needed in 2010**

**2010 goals**

**Complete tariff deficit securitisation**

**Maintain solvency ratios for a A-/A3 rating**

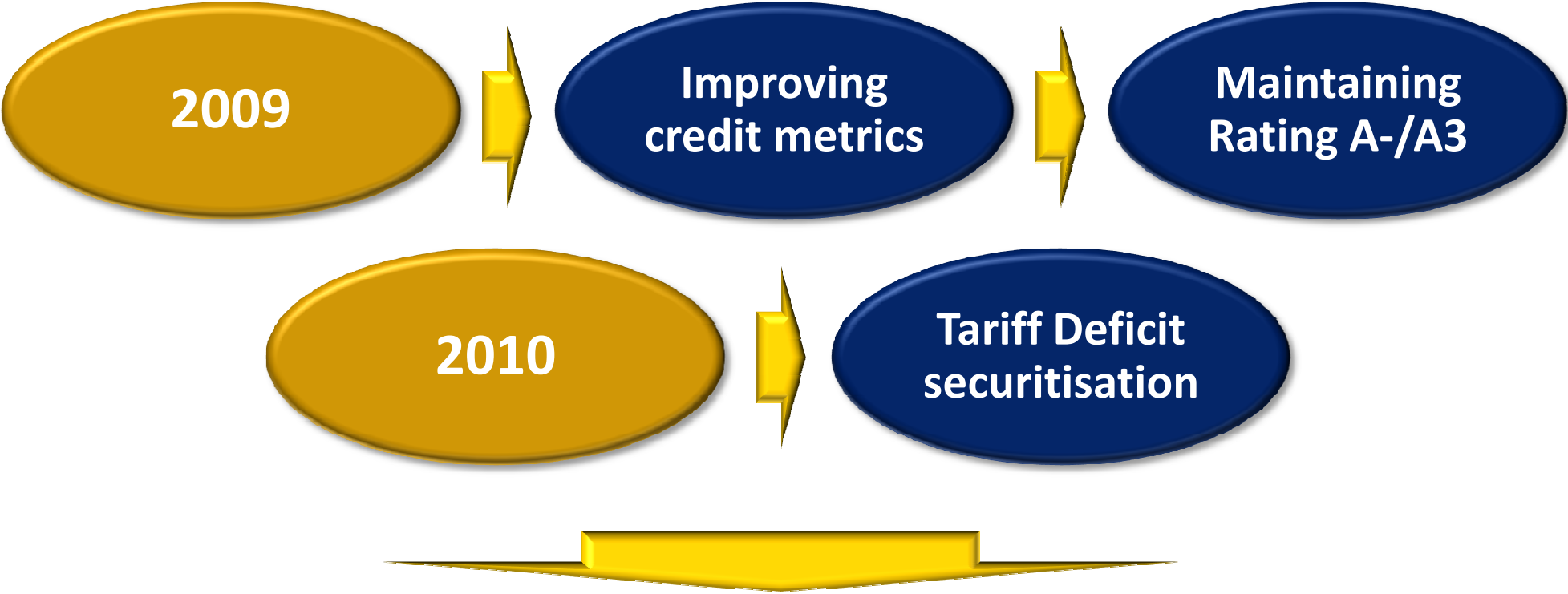
**Anticipate 2011 & 2012 funding needs  
and reduce expensive debt**

**Reduce risk in P&L  
and volatility in solvency ratios**

# Conclusion (II)



## Strengthening our financial profile



A solid financial profile will continue to be a key priority for the next 3 years

# Conclusion (III)



... Eur 13.5 bn Net Investments  
after Divestments and Grants ...

... to be financed by Cash Flows

Stable Debt levels by 2012

Improving solvency ratios

FFO/Int.Exp. > 4.7x    FFO/Net Debt > 20%    RCF/Net Debt > 13.5%