

IBERDROLA
Investors'
Day 2008

Gleneagles, Scotland



SP Retail

July 2nd 2008

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Energy Retail Agenda



Current Retail and Market Overview

How we are structured to be successful in this market

Our achievements so far with customers central to everything we do

Industry challenges and how we are managing these through our strategic objectives

Embedding sustainable efficiencies and driving further value

Improved working capital and customer service

Future opportunities

Conclusion

Retail Competitor and Market Overview



Brand	Retail Position	Wholesale View	Marketing Spend	Growth Ambition
	Segmented pricing policy to maximise value, premium products for targeted sales/retention	Power customers balanced against generation, gas base 95% covered for 2008	€ 4m	Marginal growth with focus on value given rising wholesale, CERT, & transportation costs
	Brand leader, price leader online, service issues	Largest gas base & limited generation, most sensitive to wholesale gas volatility	€ 52m	Flat in 2007/08, largest field sales, lowest price online.
	'Responsible pricing policy' Strong in Service, now #2 for customer numbers	Pricing policy suggests substantial losses at current market prices	€ 6m	Investment in ATL, 700k growth in 2007/08
	Most expensive off-line, documented service issues, challenger to BG, national brand	Sell most of generation forward, significant upstream gas business	€ 17m	Recent recruitment drive, focus on volume over value, compete on-line with BG price
	Aspiring Green, In-pack pricing focus on value over volume	Significant scale in generation & growing international gas & trading businesses	€ 50m	Added 1k sales agents, focus on higher demographics
	Growing brand awareness with 'in the pack' standard price	Commitment to exit coal, focus on nuclear new-build, BE front runner	€ 12m	No clear growth ambition, pricing not competitive

UK Market Data

- 2007 Demand
 - Power 402,611GWh (-0.8%)
 - Gas 1,062,561GWh (+1.5%)
- Total Supply Points
 - 25.9m power
 - 21.6m gas
- Average off-line Direct Debit Dual Fuel bill £964 (€1,350); range £952 - £972

Energy Retail Dimensions

- 5.3m customers - 3.4m power, 1.9m gas
- Domestic sales 1m
- 750 FTE salesforce, 10 sales channels
- 6.8m calls received
- 14m bills issued
- 50m payments collected
- CERT €262m total 2008-11

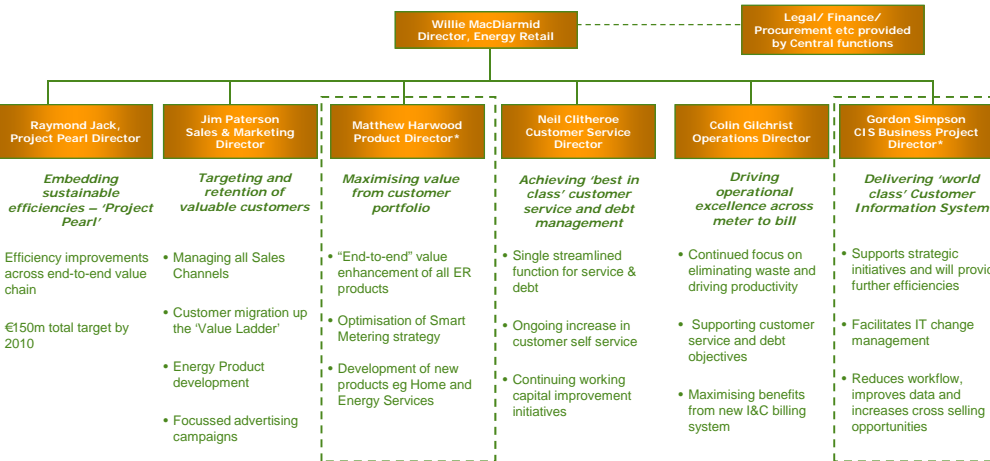
Despite rising input costs competition remains strong

*Source for Marketing Spend: AC Nielsen, spend across ATL, DM and Internet, Apr 07 – Mar 08

Energy Retail – What We Do



An agile, lean and efficient business to grow shareholder value



* Established as part of recent reorganisation aimed at shaping the business to meet future requirements and deliver improved customer value.

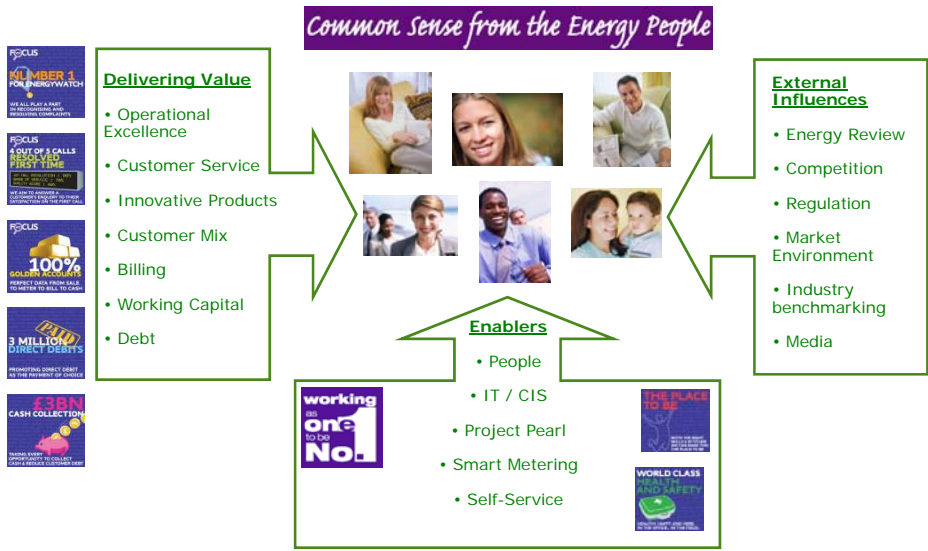
Energy Retail – Achievements



Project Pearl	Sales & Marketing	Customer Services	Operations
€87m savings in run rate by end of 2008	Agile sales force with track record of organic growth at the right time	Domestic customers on DD increased by 44% over 4 years to 3.1m	Reduced FTE by 17% since June 2007
European award winning Business Transformation team	Track record of product innovation – 1 st with capped price product	Customer service remains strong - EW complaints down 67%, FCR 81%	More accurate billing: overall up 21% since Sep 2004
€180m margin and cost benefits through Six Sigma since 2001	First in industry to deliver energy efficiency obligations	Debtor days down from 63 to 47 over last 3 years	Strong operations performance reducing contacts – 9% down 2008 ytd

Continuing to deliver efficiencies and strong business performance

Customer Central to Everything We Do



Current Industry Challenges



A competitive market with all competitors facing higher wholesale costs

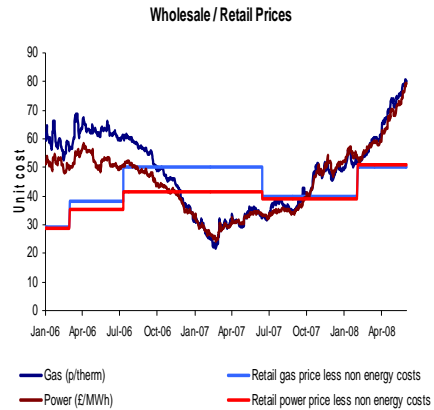
Strong retention and migration to high value customers through targeted marketing

Innovative products designed for current market – fixed term price with termination penalties

I&C and domestic fixed price contracts are hedged to lock in margin

Organic customer growth only when supported by market conditions

Unless tariffs increase to cover current wholesale costs then net margins will be impacted



... if wholesale prices remain high then tariff increases are required

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Strategic Objectives



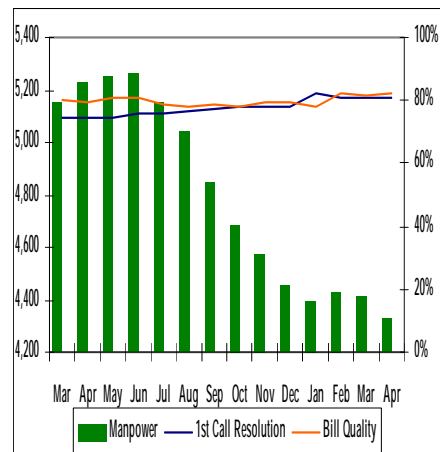
Deliver €150m challenge by streamlining processes and costs – Project Pearl

Grow value by product innovation and reshaping the customer base

Reduce customer contacts. Focus on First Call Resolution and self service

Lobbying for most appropriate outcome from The Energy Bill

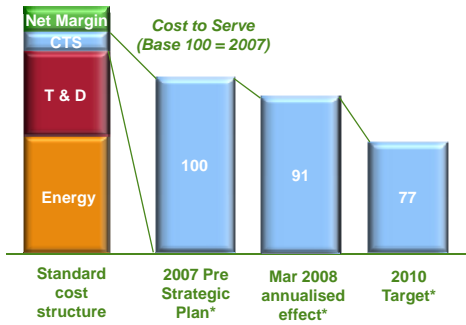
Optimise implementation of new Customer Information System and Smart Metering



... developing a lean operating model delivering quality service, value and product innovation

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Controllable costs decreasing which is delivering on profitability improvements...



Actions

52 ongoing (13 completed to date) projects to embed and sustain further cost reductions:

- Reduce customer contacts
- Migration of customers to reduce contact levels and bad debt risk
- Enhance end to end process efficiency

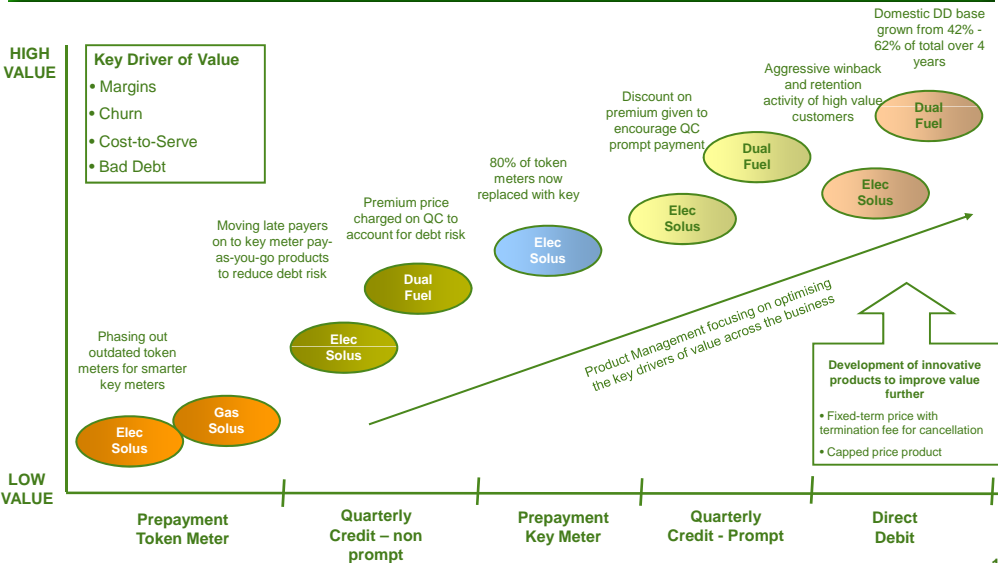
Annualised savings of €57 M already achieved**

€150 M savings by 2010**

... and the optimisation of the 5.3 million client base

*Excluding inflationary effect, EEC/CERT costs and capture costs
 **Annualised savings based on constant exchange rate, includes benefit from Cost to Serve reduction and other initiatives

Sales and marketing targeted at the most valuable customer groups



ER Working Capital Improvements



Higher cash collection and lower debtor days...

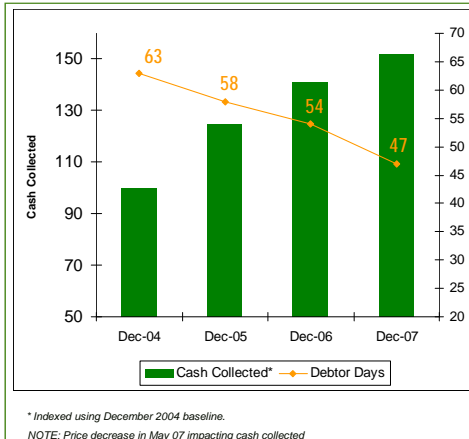
Successful delivery of ongoing working capital initiatives across the business

Debt write off <2% with task to further reduce

Debtor days reduced by 25% over last 3 years

483k key meters fitted to our PP customer base – 20% meter installations remain

Contact centres making significant contribution to cash collected



... continuing to make solid progress

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Customer Service



Significant changes with Project Pearl and Customer Service improves further

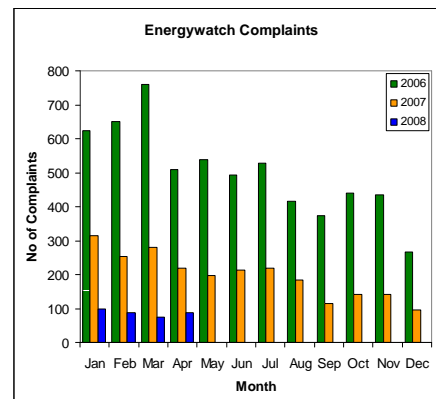
Energywatch complaints down 67%

#1 supplier for metering and on-line services (Uswitch)

9% year on year reduction in customer contact

81% of customer contacts resolved first time

Customer self service increased from 4% to 11% of all contacts



... getting it right first time, more of the time

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Smart Metering / Energy Services

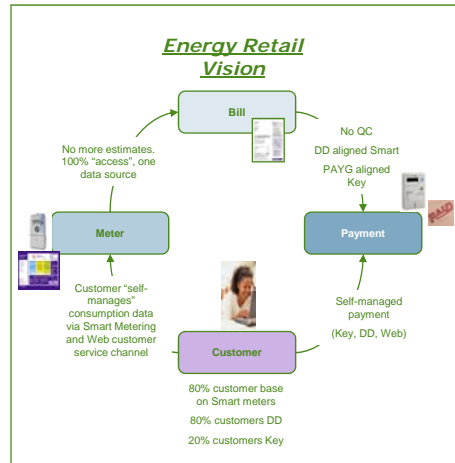


Significant change in the interface between customer and supplier

ER can redefine service proposition, manage cts and gain a competitive edge

Provides an excellent opportunity to gain a number of benefits:

- Electronic communication to support innovative products based on customer lifestyle
- Improved customer service – 100% accurate bills, simpler contact resolution, fewer contacts
- Enhance working capital position and drive down debt write-off
- Cross-sell new Energy and Home Services products – for example, micro-generation



Smart metering technology provides the opportunity to revolutionise our business and redefine the customer interface

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Energy Retail Conclusion



UK market

- Strong competition with high switching
- Increasing commodity prices
- Tariff increase expected
- Strong focus on external debt environment
- Consumers facing inflationary pressures

External challenges are being managed by:

ScottishPower

- Migration to high value and DD / Key products
- Product innovation e.g. fixed price with premium and locked in margin
- Retention through significantly improved customer service
- Successful ongoing working capital initiatives
- Planned commercial opportunities from Smart Metering and emerging Home and Energy services markets

Energy Retail is well positioned to grow the value of the business

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