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IBERDROLA

The Company expects to increase operating profit by between 5-7% for the full year

IBERDROLA NET PROFIT TOPS €2 BILLION IN FIRST 9 MONTHS OF 2009

- Ebitda rose to €4,951.1 million, of which two-thirds came from international and new businesses

BUSINESS PERFORMANCE

- Operating profit rose in a difficult environment, characterised by weak demand, low raw materials prices and sterling exchange rate movements
- Output remained stable at 104,514 million kWh while distributed energy rose 16% and capacity by 2,000 MW
- Iberdrola improved operating cash flow and efficiency during the period, and built up liquidity
- Results confirm expectations while international business performance anticipates a 4th quarter acceleration

BALANCE SHEET STRENGTH

- Iberdrola consolidated its financial strength, with a reduction in debt, increased liquidity to around €11 billion and maintained its A ratings
- Gearing improved to 47.4% from 50.3% at the start of the year and own funds came to €29,189 million

IBERDROLA recorded a net profit of €2,029 million in the first nine months of the year, a fall of 18% against the same period last year, reflecting lower extraordinary gains, weak demand in all markets and falling prices for raw materials, sterling depreciation against the euro and seasonality in UK and U.S. demand.



Despite the adverse economic environment, the Company achieved a 0.6% rise in Ebitda to € 4,951.1 million and a 0.3% rise in operating cash flow to €3,457 million. This was due to agile management of business units, efficiency gains a solid balance sheet and the fruit of investments in recent years. New business and the international area now make up two-thirds of total operating profit.

Energy business in Spain contributed 37% of Ebitda, ScottishPower 22%, IBERDROLA RENOVABLES 17%, Energy East 7%, Latin America 13% and other businesses 4%. Renovables Ebitda rose 6% and regulated business in Spain by 17%. Revenues rose 11.1% to €19,785.7 million, gross margin by 7.5% to €7,942.4 million, while net operating profit (Ebit) declined 1.4% to €3,269.7 million.

These results were achieved in complex operational and financial conditions. In the energy sector, there was a 5% drop in demand, a decline in raw materials prices of around 20% as well as reduced hydroelectric and wind production. The situation was further affected by recession, difficult access to capital markets and sterling depreciation.

In the face of these adverse factors, IBERDROLA succeeded in maintaining overall production stable at 104,514 million kilowatt hours (kWh), a decline of just 1.8% that was well below the 5% drop in demand. Distributed energy showed a 16% increase to 150,650 million kWh, of which more than half was outside Spain.

The Company continued to diversify and expand its generation assets around the World, with a focus on low CO₂ emissions and flexible costs, bringing installed capacity to 44,242 megawatts (MW), up 4.8% over the same time last year.

In Spain, the positive impact of increased liberalisation permitted greater use of forward markets, where the Company has already sold 100% of its electricity and gas for 2009. It is also taking the final steps towards resolving the tariff deficit, which in IBERDROLA's case amounted to €3,310 million at the end of the period, and which it is confident of receiving in the coming months.

IBERDROLA is hopeful that the energy debate and planning due to take place in Spain shortly will produce a model that reduces external dependence, meets environmental commitments on emissions reduction and consolidates a more competitive generation mix. At the same time, it is essential to achieve further liberalisation so as to create a stable environment for investments and thereby enable the sector to continue to drive economic recovery.

In renewables, the Company has obtained \$546 million in U.S. Treasury grants for wind power development, nearly 60% of the total to date and a level it expects to maintain in coming years. In the UK, ScottishPower has reduced customer debts and increased retail sector cost savings, amidst an imminent regulatory review for networks.

Elsewhere, IBERDROLA plans new impetus to Energy East with the appointment of a new CEO, and awaits the results of a regulatory review in New York.

Balance sheet strengthened

A central objective during the nine months was to optimize the balance sheet. This was achieved by adapting investments to economic trends, achieving efficiency gains (operating costs fell 5.8% excluding Energy East) asset sales totalling €2.6 billion plus a capital increase, and a \$2 billion bond issue in the United States which, added to the €2.5 billion and £500 million in separate issues this year, lifted liquidity to more than €10.5 billion, and maintaining ratings.

As a result, IBERDROLA reduced gearing to 47.4% from 50.3% at the start of the year (excluding the impact of the tariff deficit), thereby meeting the target set for the end of the year. Net debt (excluding the tariff deficit) came to €26,342 million.

These results again underlined the importance of strategy implemented over the past few years, equipping the Company to meet the challenges of the economic downturn. In particular, they highlight the Group's potential with a highly competitive and diversified assets focused on the Atlantic Area (Europe-North America-Latin America).

During 2009, IBERDROLA has focused on consolidating its position in the U.S. and the UK, in line with its strategy of diversifying in more liberalised markets and countries best placed to achieve economic recovery.

2009 projections

These solid nine months results in a difficult environment have met projections and the positive international performance permit expectations of improved 4th quarter performance. The Company expects to post full year increases in recurring net profit and Ebitda of between 5-7%, as a result of rising demand and production due to seasonal factors and improved margins.

This projection is based on expected growth in the final months of the year across the businesses. In Spain, 100% of electricity and gas have already been sold, while in Renewables higher production and prices are expected and in the UK and the U.S. demand will increase for seasonal factors.

IBERDROLA has focused in 2009 on consolidating in the United States and the UK, and preparing the foundations for growth in the coming decade based on hydroelectric and nuclear generation, added to the good prospects for growth in wind power, particularly in the United States.

Investments since 2000 have risen to more than €63.7 billion, generating wealth and more than 35,000 indirect jobs. Purchases have totalled more than €24 billion, assets nearly €88 billion and equity funds rose to €28,212 million.

In 2010 the Company expects to strengthen results as a result of the expected recovery next year, with demand stabilising and increased capacity combined with improvements in operating and financial costs. IBERDROLA is prepared for the economic slowdown thanks to a generation mix mostly independent of price trends for raw materials, as well as its geographical and business diversification.

Key operating aspects in the 9-month period

1) SPAIN: FALLING PRICES AND DEMAND

IBERDROLA was affected in Spain by adverse operating conditions, specifically a fall in market prices of 38.3% and in demand (-5%) which was nonetheless an improvement on previous quarters. This led to a 14% drop in liberalised business Ebitda to €1,005.8 million, partially offset by a 17% rise in regulated business to €841.8 million.

IBERDROLA production in the nine months was down 6.4% at 41,500 million kWh, a smaller drop than the 12.8% registered for the energy sector as a whole under Spain's Ordinary Regime. Installed capacity was 0.9% higher at 26,552 MW.

As a result of clean energy's contribution, 65.5% of production in the period was emission free, and CO₂ emissions per kWh were reduced from 169 to 164 grammes.

2) PRODUCTION MAINTAINED, HIGHER CAPACITY AND DISTRIBUTION

The international expansion in recent years, notably the integration of ScottishPower and Energy East, has enabled IBERDROLA to compensate for production declines in some of its markets due to seasonal demand and planned stoppages at certain plants. As a result, production was maintained at 104,514 million kilowatt hours in the nine months, a decline of 1.8% that was well below the average 5% drop in demand in its markets, largely due to performance in renewable energy and hydro.

Power stations outside Spain provided 54% of energy produced in the period (56,183 million kWh). This included 28,055 million from Latin America, a fall of 1.6%, 18,789 million from the UK (-5-7%), 8,126 million from the United States (+27.4%) and 1,213 million from the rest of the world (+35-7%).

With continuing diversification and expansion of generating assets during the period, installed capacity came to 44,242 MW, a rise of 4.8% on last year. Combined cycles accounted for 30.7% of total capacity, hydro plants for 23%, renewables for 20%, thermal for 11.2%, nuclear for 8%, fuel oil for 4.3% and co-generation for 2.8%

3) IBERDROLA RENEWABLES: INTERNATIONAL GROWTH

The Company consolidated its leadership of the world wind power sector* between January and September, registering Ebitda of €813.7 million, a rise of 6% and net profit of €167.6 million (-27%), reflecting low wholesale prices in Spain and low productivity in the period.

IBERDROLA RENEWABLES increased installed capacity by 23.4% to 10,477 MW while production was up 24.4% to 15,052 million kWh. At the close of the third quarter, Group capacity outside Spain was 50.3% of the total, exceeding that in Spain for the first time.

The subsidiary expects to achieve 10,750 MW in installed capacity by the close of 2009 and 12,500 MW at the end of 2010. At September 30, it had 807 MW under construction with 368 MW (45.6%) was in the U.S.

This was made possible by a project pipeline of 57,400 MW**, the largest worldwide, after an increase of 2,800 MW over the previous 12 months. The diversified nature of this pipeline (42% in the U.S., 25% in Spain, 9% in the UK and 24% in the rest of the world) and also of operating assets puts the company in good position to take advantage of regulatory incentives in its strategic markets.

In the next few years the bulk of growth will be in the United States, where the company has announced investments totalling \$6 billion up till the end of 2012. The Company has received \$546 million in grants from the U.S. Treasury in the framework of stimulus legislation.

4) UNITED KINGDOM: AFFECTED BY EXTERNAL FACTORS

ScottishPower Ebitda came to €1,097.2 million in the first nine months, accounting for 22% of Group total, despite feeling the effects of sterling depreciation and the seasonality of electricity demand during the period.

Installed capacity rose during the nine months by 2.8% to 6,838 MW, thanks to 185 MW in new renewables capacity. Electricity production came to 18,789 million kWh, with a 68% rise from renewable energy to 1,272 million kWh.

5) UNITED STATES: ENERGY EAST INCREASES ITS CONTRIBUTION

Energy East results were consolidated for a full nine months for the first time, contributing €338.1 million in Ebitda equivalent to 7% of the total. IBERDROLA's presence in the United States has been strengthened in the past year, not only from the acquisition of Energy East but also as a result of the strong expansion of its renewables unit. The Group now has installed capacity in the country totalling 4,393 MW, a rise of 1,469 MW from a year before, of which 3,459 MW is wind power.

Thanks to this increase, IBERDROLA production in the United States rose 27.4% to 8,126 million kWh. Distributed energy in the country came to 26,546 million kWh, 17.6% of the Group total.

6) LATIN AMERICA, STABLE CONTRIBUTION

Gross operating profit in Latin America declined 4.1% to €645 million, accounting for 13% of Group Ebitda in the period. With installed capacity of 5,445 MW, the Company generated 28,055 million kWh in the period, a decline of 1.6% and 26.8% of total Group output. Distributed energy rose 1% to 23,135 million kWh, accounting for 15.3% of the total.

* Source: New Energy Finance

** Includes 10,000 MW of estimated contribution of Gamesa Energía resulting from the strategic agreement between Iberdrola Renovables y Gamesa Energía

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