

Iberdrola

The Iberian Growth Story

x2+

**7 years Euro Bond Issue
October 2003**



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MARKET ENVIRONMENT

2002-2006 STRATEGIC PLAN

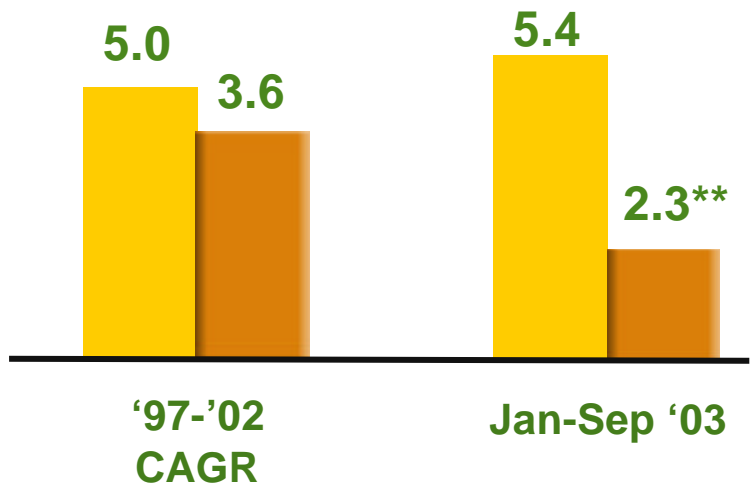
FINANCIAL ANALYSIS

CONCLUSIONS

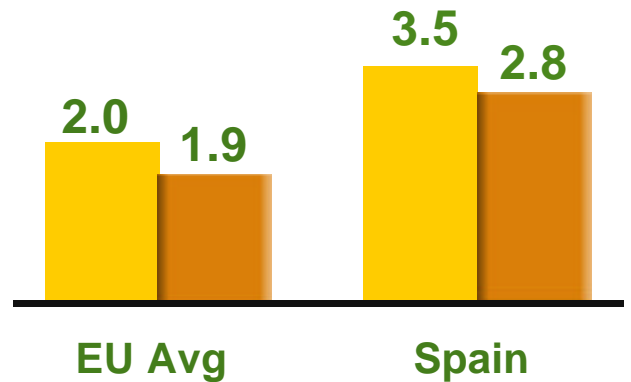


Growing above 5% since 1997...

Spain: Demand Growth and GDP '97- 9M'03*



Demand and GDP Estimated Growth '02-'05



Demand Growth
 GDP

* Mainland
** Q2 2003

Source: EIA, REE, OECD

... with 2% reserve margin vs E.U. average of 20%

Need to reduce emissions to comply with Kyoto commitments...

Directives

CO₂ Emission Reduction EU Objectives

- ➔ **Renewable Energies**
- ➔ **Reduction of Emissions**
 - ➔ **CO₂ Emissions**
 - ➔ **SO₂, NOx emissions**

	2010 Target	1990-2001	
Germany	-21.0%	-18.3%	✓
UK	-12.5%	-12.0%	✓
Sweden	4%	-3.3%	✓
Finland	4.7%	0%	✓
France	0.0%	0.4%	X
Belgium	-7.5%	6.3%	X
Netherlands	-6.0%	4.1%	X
Italy	-6.5%	7.1%	X
Ireland	13.0%	31.1%	X
Spain	15.0%	32.1%	X
Portugal	27.0%	36.4%	X
EU	-8.0%	-2.3%	X

Spanish Electricity Sector: Responses



Spain needs capacity

Security of Supply

- Demand growth
- Peak demand growth
- Low reserve margin

Spain has to reduce emissions

Environmental Protection

- To fulfil Kyoto commitment

**National Energy Planning
New Regulatory framework**

CCGTs

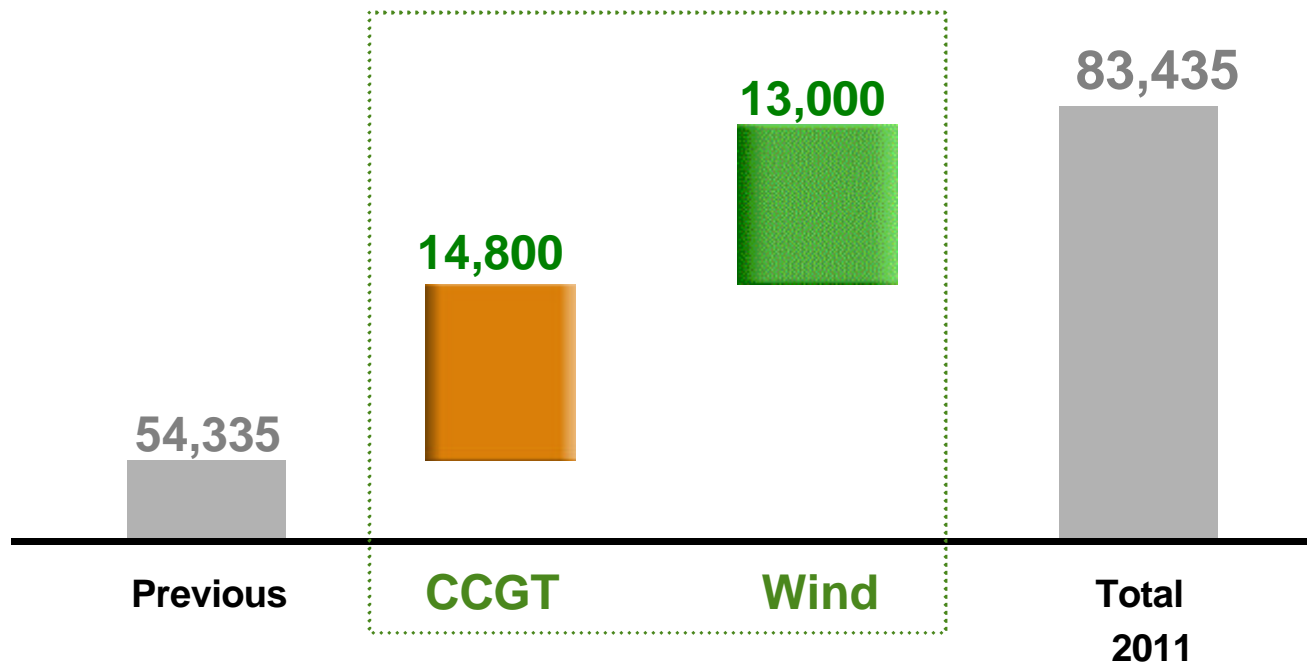
- Security of Supply (Peak)
- Base load Energy

Renewables

- Decrease energy dependence
- Reduce CO₂ emissions

NEP to solve Security and Environmental issues...

Capacity additions 2002-2011



Source: National Energy Planning Document

27,800 MW in CCGTs and Renewables up to 2011

A new and better Regulation



Tariff Methodology

- A predictable, objective & transparent framework
- 1.4%-2.0% increases per year
- Review according to gas prices, renewables, demand and interest rates

Recovery of Tariff Deficits

- Guaranteed recovery of '00-'02 deficits
- Securitisation allowed

Renewables

- A predictable Methodology to be set in 2003

Other

- GHG Emissions regulation
- Bilateral & forward market development

Setting a rising trend in tariffs up to 2010

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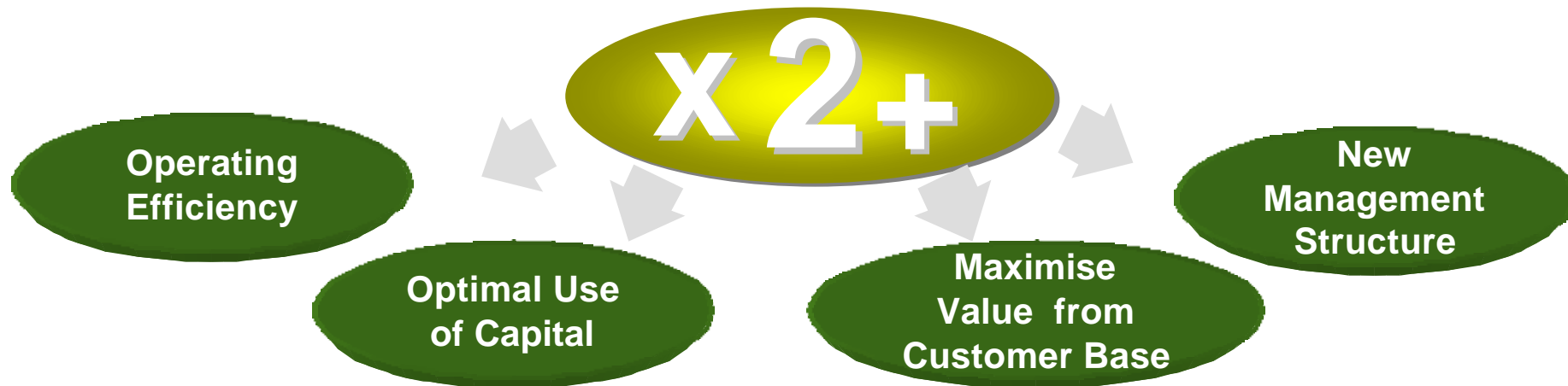
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Reaffirming targets: Doubling Size and Results



Total Investment	Eur 12 Bn
Net Profit '06	Eur 1.6 Bn
Leverage '06	Below 50%
Dividend Growth	Growth in line with Net Profit (minimum 5% DPS growth)

2002-2006 Strategic Plan

**Focus
on Spain**

Over 70%
of total investments



Capture growth in
domestic market

Reduce gap Generation-
Distribution

Improve Distribution
quality of service

Leading supplier

**International
Investments**

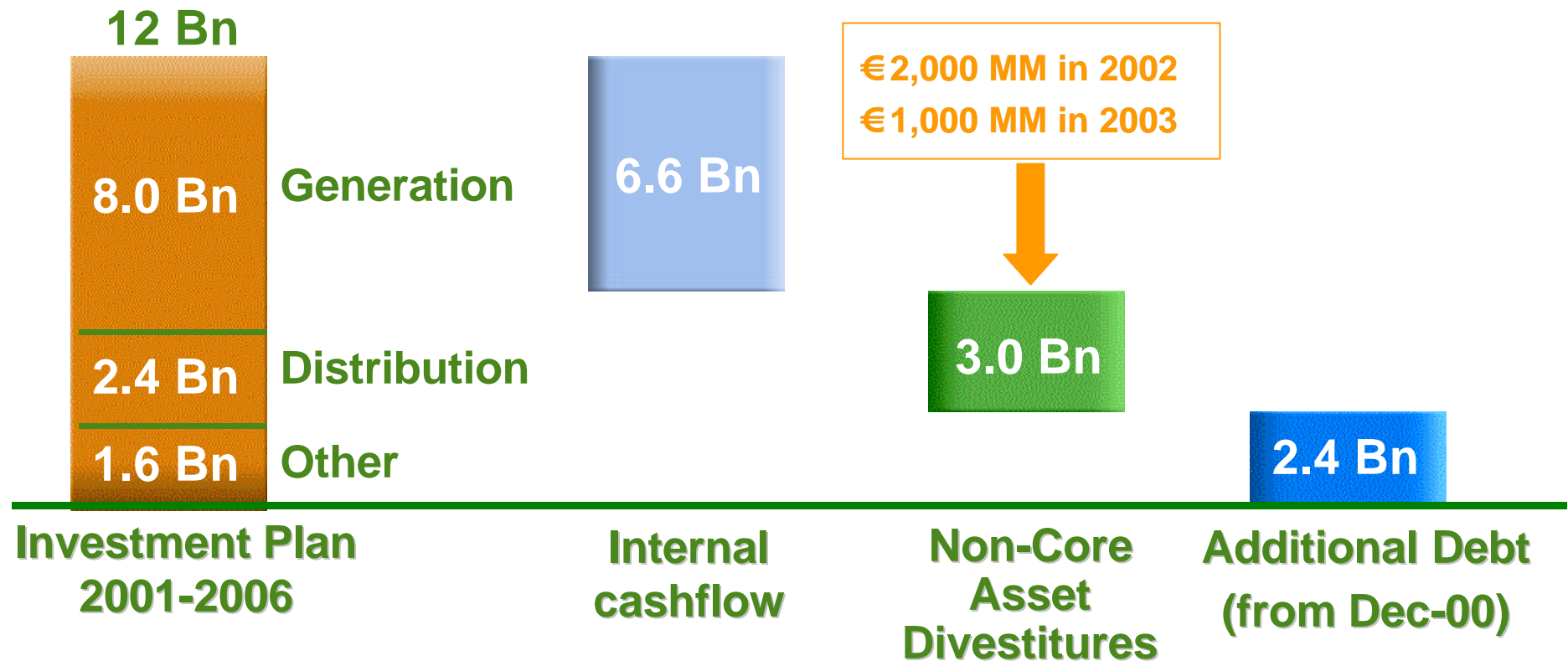
Presence in the 2 major
markets in Latam



Mexico
2.5 Bn Eur (20%)
Expand generation capacity

Brazil
1 Bn Eur (9%)
*Optimise position with
limited investment*

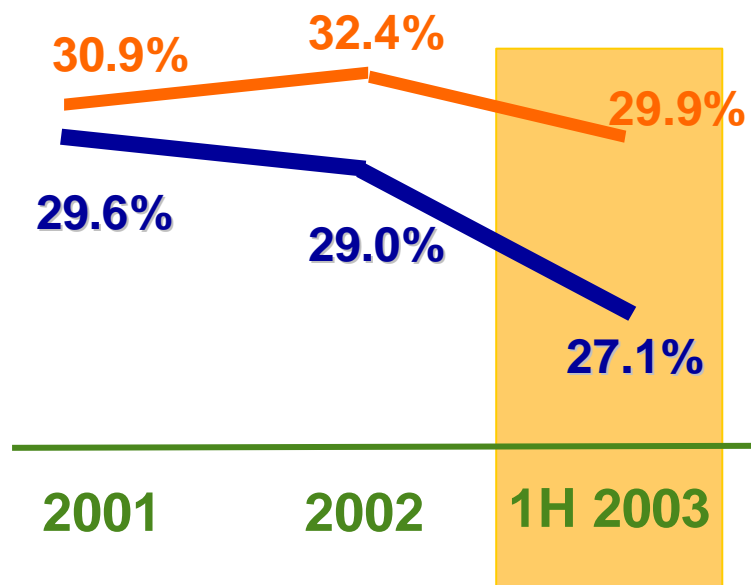
Investment focus in the domestic market...



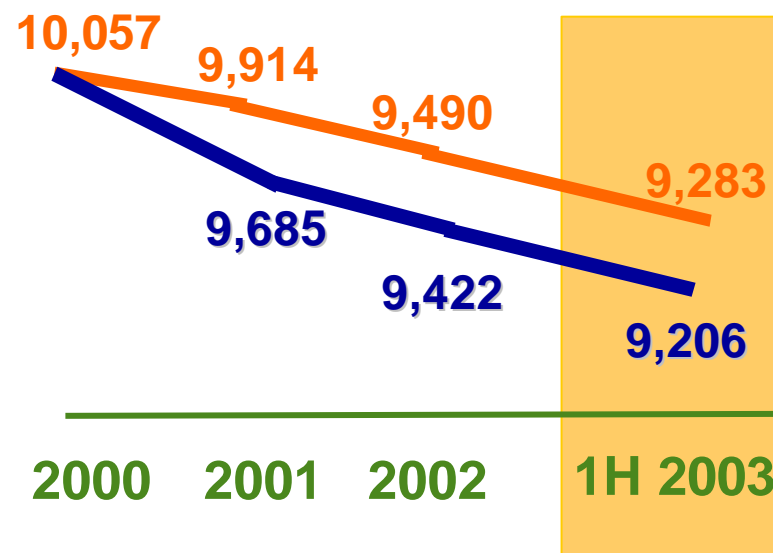
...reducing leverage below 50% by 2006

Operating Efficiency: Improving and beating goals

Net Op. Expenses/ Gross Margin



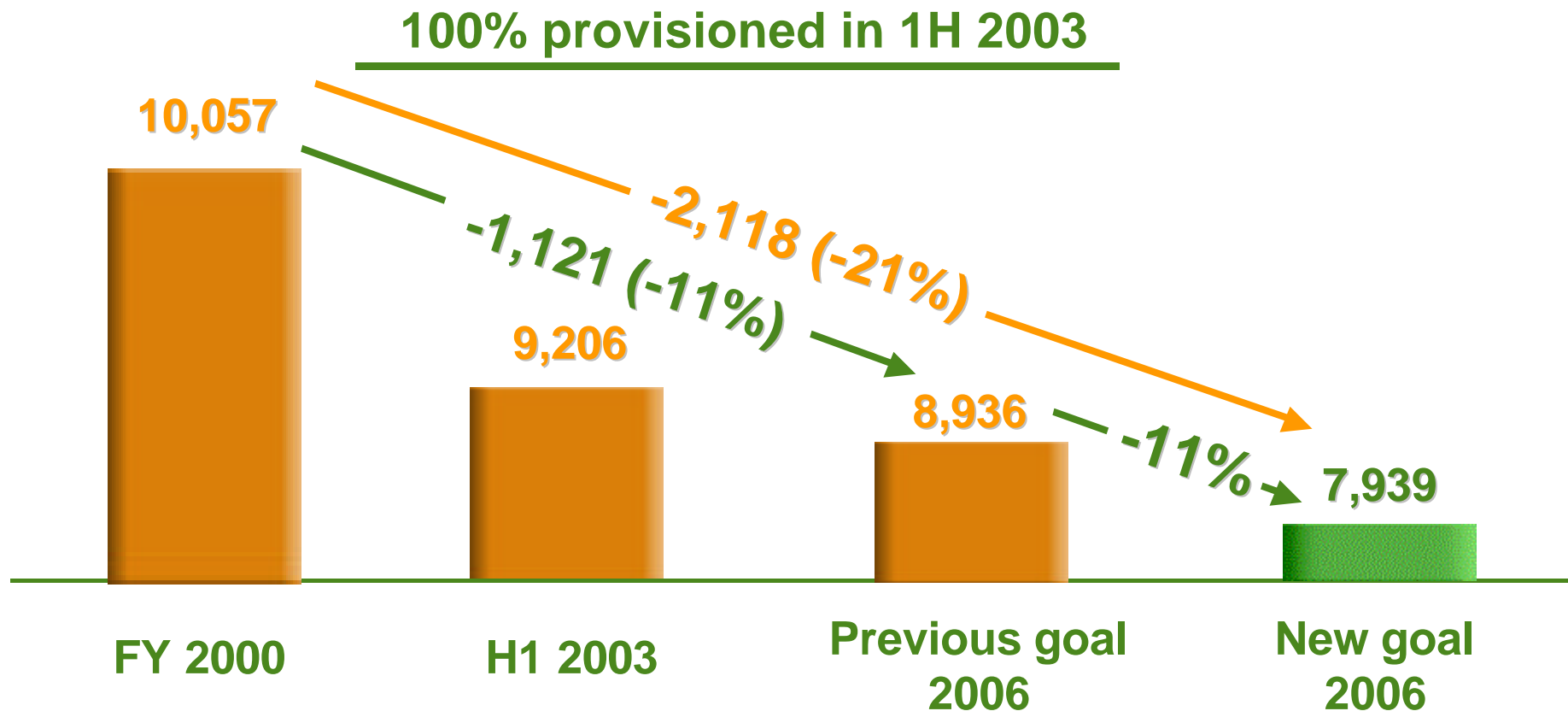
Workforce



Estimated

Actual

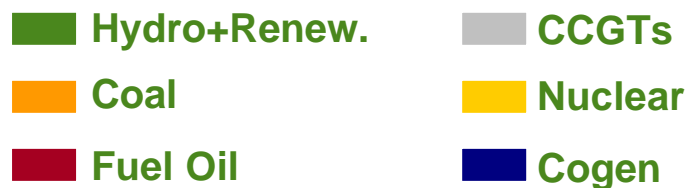
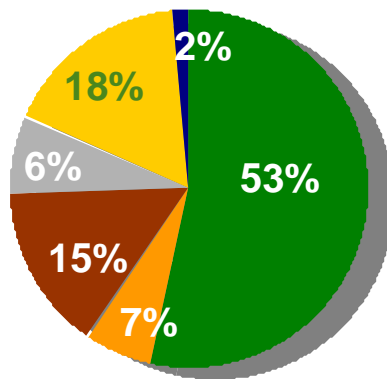
Early Retirement Plan '03-'06 improves efficiency...



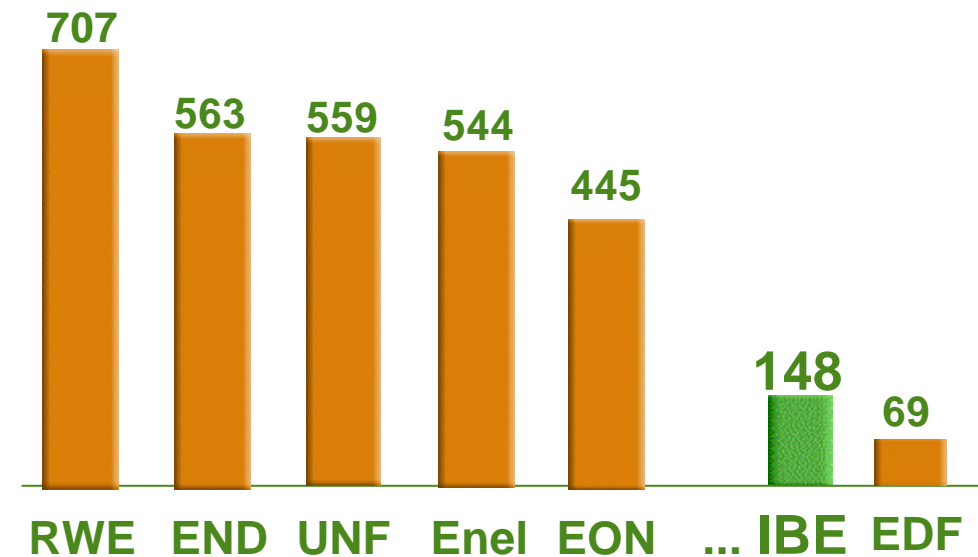
11% lower workforce than planned by '06 (under 8,000)

A flexible Generation Mix ...

Inst.Capacity H1 2003



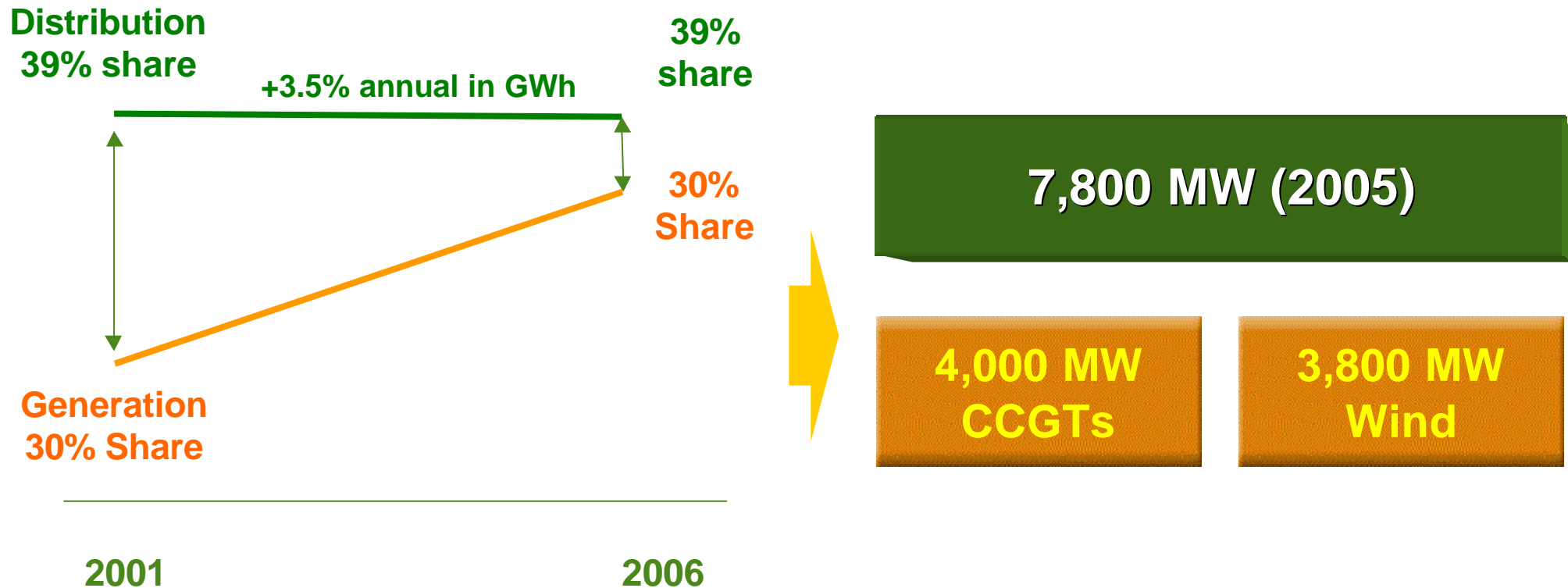
CO₂ Emissions per kWh



Source: PWC "Climate Change & the Power Industry" Oct 2002

... and second european lowest emission producer

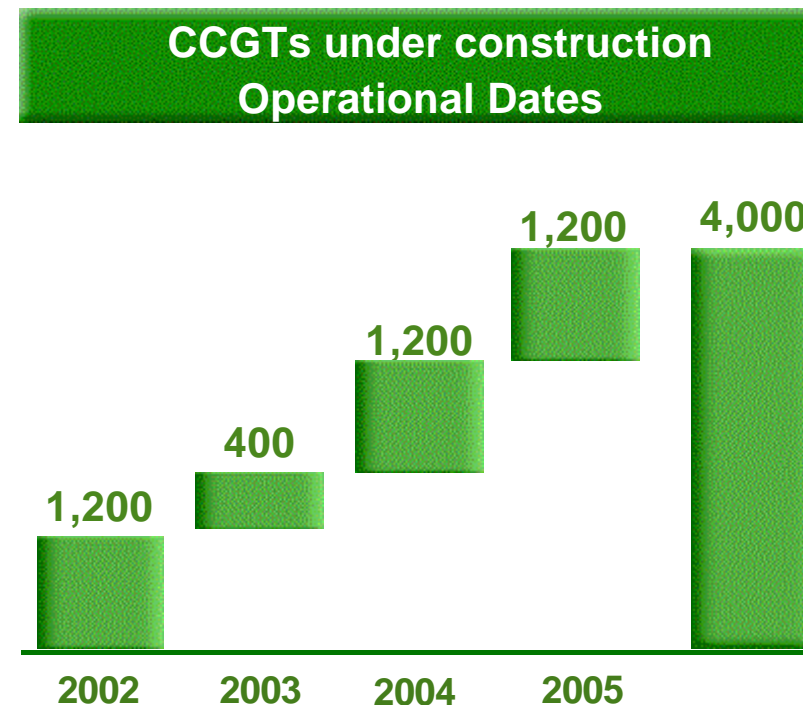
Reducing Iberdrola's Generation-Distribution Gap...



Investments focused on domestic Generation

Leading CCGT build up process up to 2005

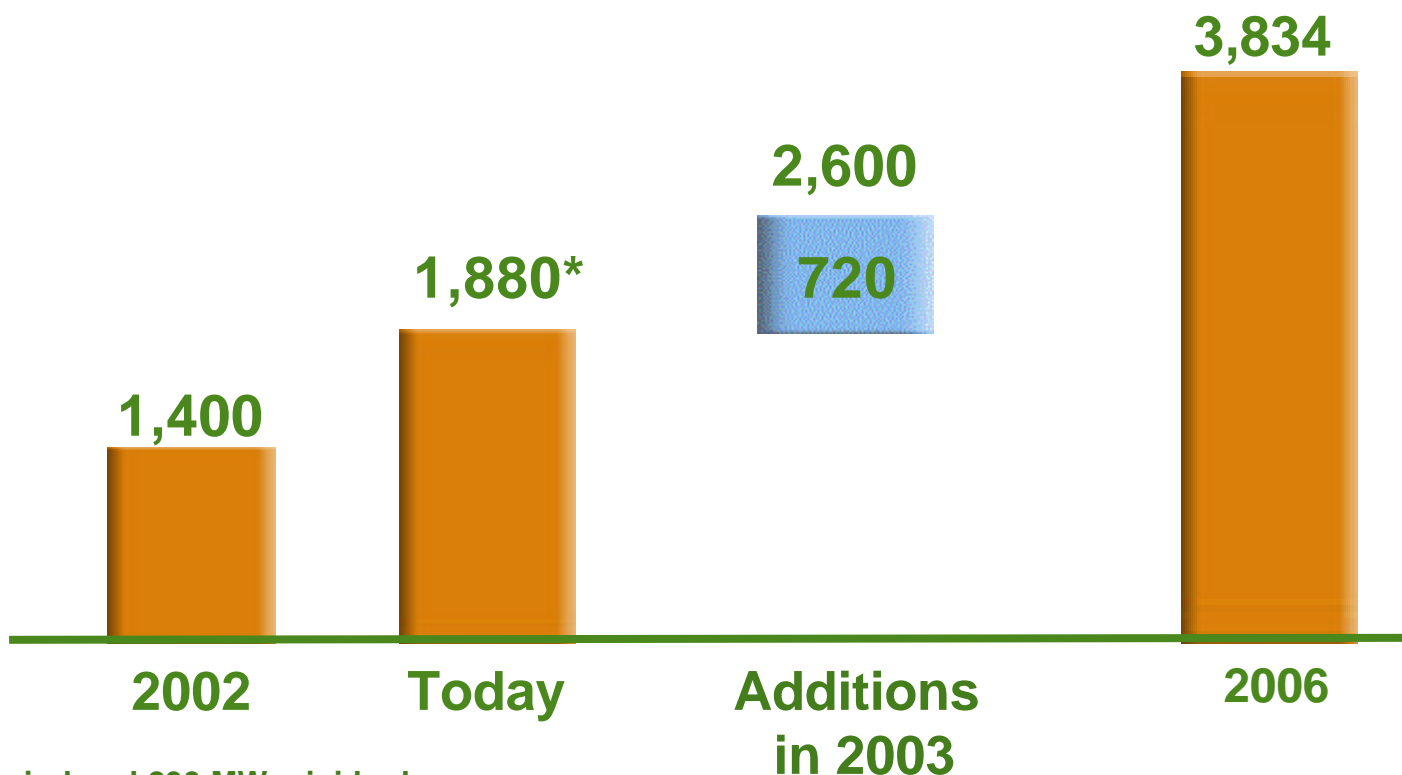
	Capacity	Operating
Castellón A	800 MW	2002
Castejón	400 MW	2002
BBE (25%)	200 MW	2003
Tarragona (50%)	200 MW	2003
Santurce	400 MW	2004
Arcos A	800 MW	2004
Aceca	400 MW	2005
Arcos B	800 MW	2005
Total Iberdrola	4,000 MW	2005



3,000 MW (75%) in highest growth areas

2,600 MW in operation by year end

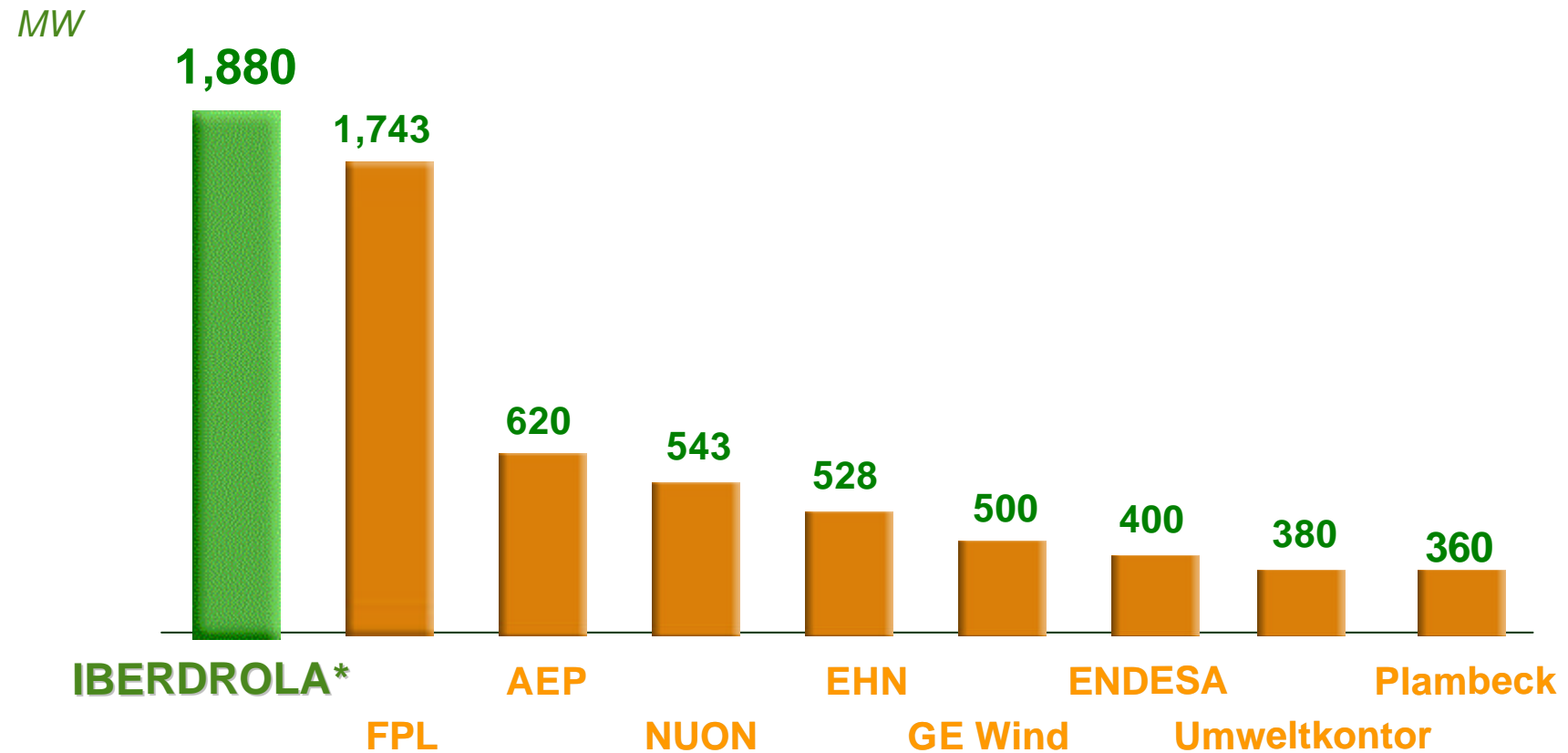
MW



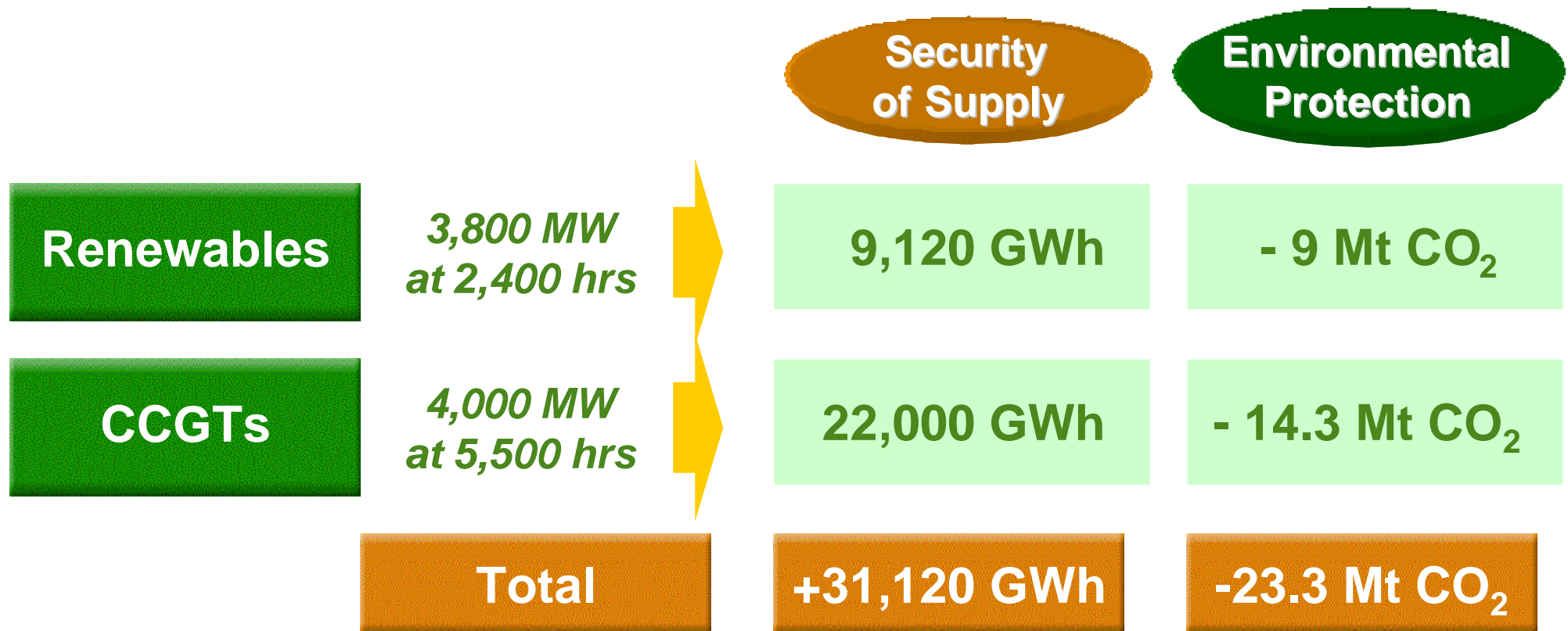
*1,650 MW wind and 230 MW mini-hydro

...beating Strategic Plan targets

Iberdrola, worldwide leader in wind energy



...while contributing to solve Spain's energy issues

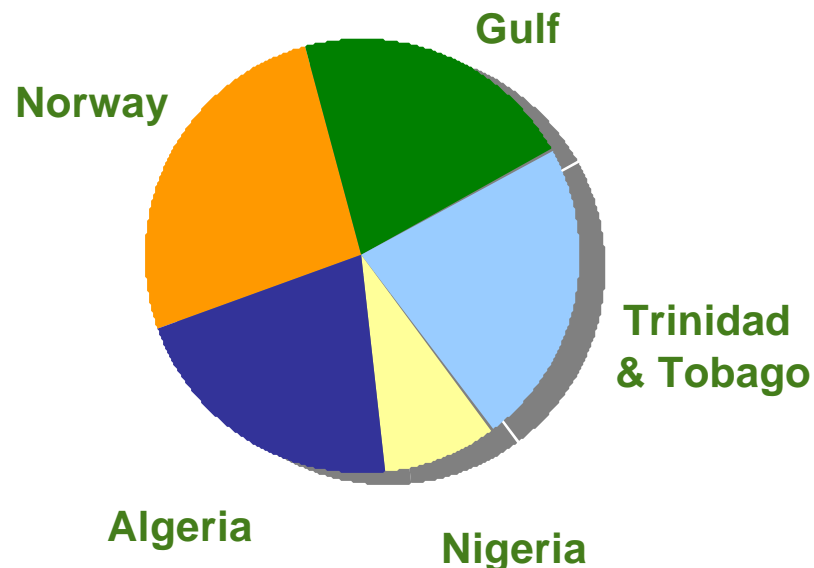


Increasing production and reducing emissions

Minimum expected demand covered

Procurement sources (Signed contracts)

6.000 Mill. m³

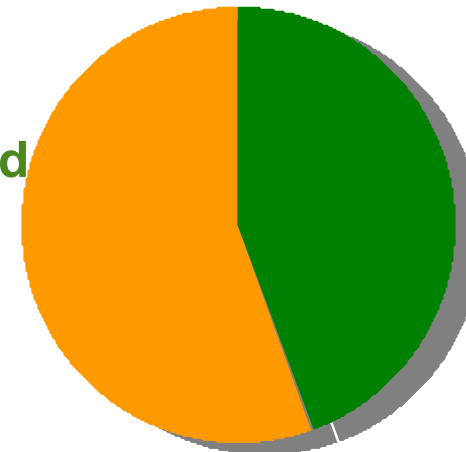


Flexibility

- Diversified origins
- 65-70% of forecasted demand covered by long-term contracts
- Periodical price reviews
- Indexation formulas

52%
Oil related products

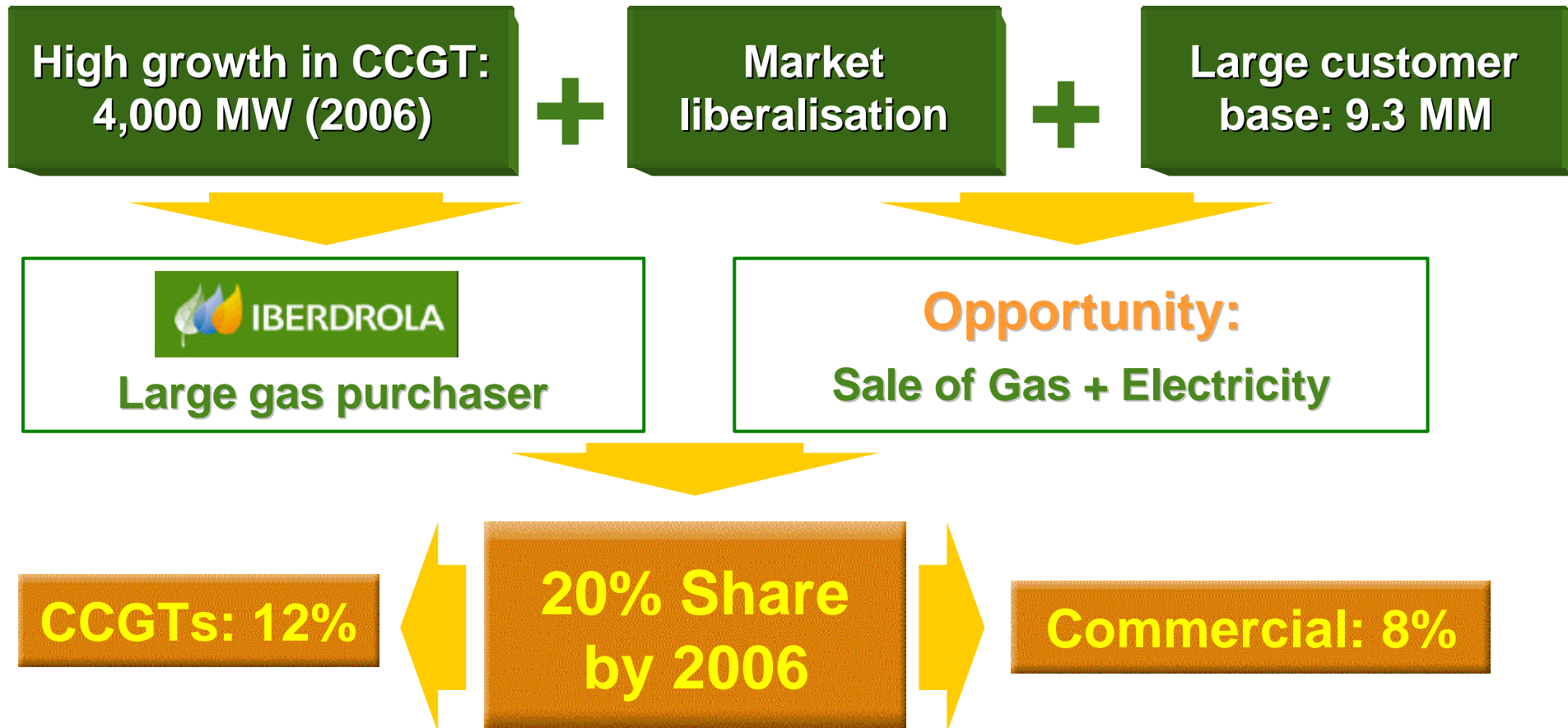
- Brent
- Gas Oil
- Fuel Oil



48%
Non Oil products

- Electricity
- Coal
- Inflation

Business opportunity: Reaffirming commercial targets...



9.3 million customers (41.7% of total)



Market dynamics

- Presence in highest growth areas
- 4% increase in energy distributed in 2002

2003 Evolution

- 6.8% increase in energy distributed

... with top quality of service

Leading foreign generation developer

Generation

- 2,193 MW operating in Mexico
- Projects up to 2,700 MW (2005)
- Gas provided by CFE

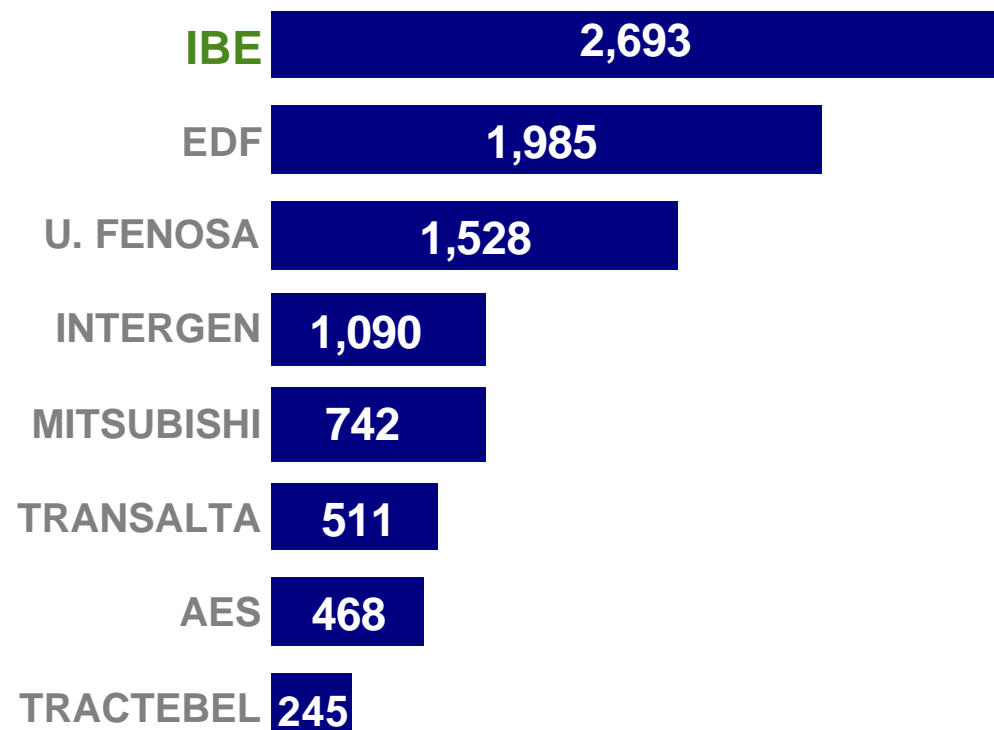
Distribution

- 700,000 customers under management in Guatemala

2002-2006 Strategic Plan

- Focus on generation: 5,000 MW (Mexico)
- Limited investment in Guatemala
- Total investment: Eur 2.5 Bn

IPP projects in Mexico (MW)



in top Latam economy

3 out of the 4 top distribution companies

39% stake in Guaraniãna
(Banco do Brasil 12% & Previ 49%)

Distribution

- ➔ Stakes in 3 companies in the North East
- ➔ 6.3 MM customers and 18,400 GWh distributed (in 2002)

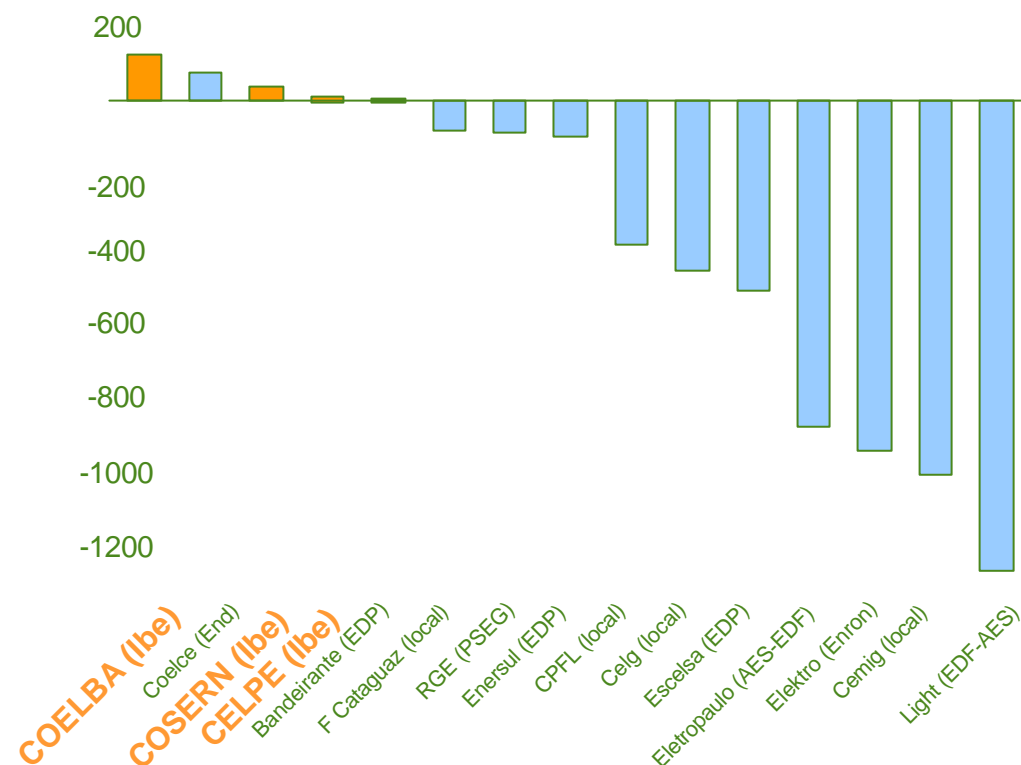
Generation

- ➔ Itapebi hydro plant (450 MW)
- ➔ TermoPe CCGT project (520 MW) operating in 2003

2002-2006 Strategic Plan

- ➔ Increase generation capacity
- ➔ Limited investment in distribution
- ➔ Total investment: Eur 1 Bn

2002 Net Profit (MM R\$)



Cash flow positive in 2002 despite Brazil crisis

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H1 2003 Highlights



Results driven by Domestic Energy...

	Net Sales	Operating Profit	Net Profit	Assets
Domestic	89.8%	93.1%	99.1%	86.3%
Energy	85.7%	87.2%	74.2%(*)	74.8%
Non Energy	4.1%	5.9%	4.3%	7.5%
Corp. Portfolio	---%	---%	20.6%**)	4.0%
Latin America	10.2%	7.0%	0.9%	13.7%
TOTAL	100.0%	100.0%	100.0%	100.0%

* Includes personnel provisions up to Eur 306 MM

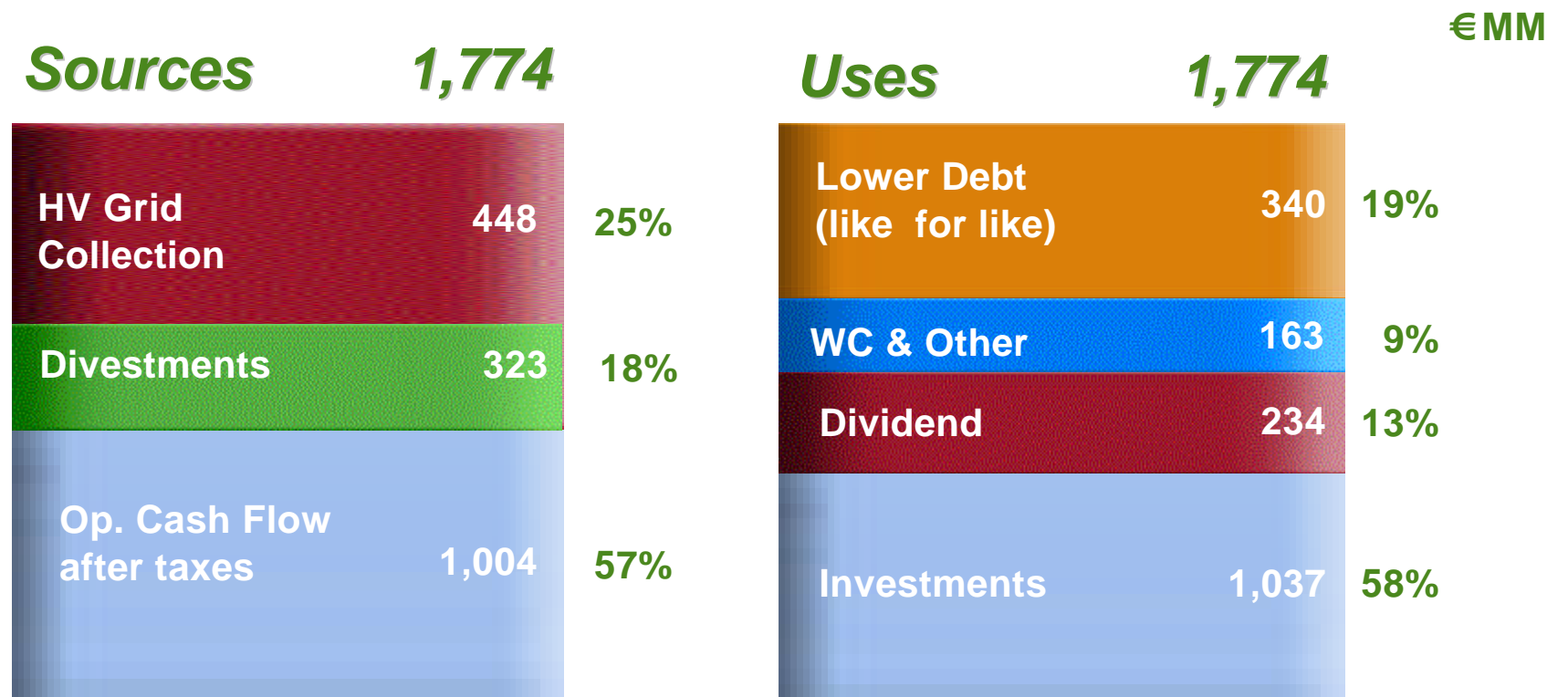
**Includes extraordinary results of €51 MM due to the divestment of a 7% of REE

H1 2003 Highlights

Sound Cash Generation



Financing investments and dividends...



... with Operating Cash Flow and divestments

2002 + H1 2003: Investments & Divestments



Investing €3.7 Bn in our core business...

€MM

	Generation	Distribution	Others	Total
Spain	1,913	667	238	2,818
Mexico	416	166	=	582
Brazil	153	134	=	287
Total	2,482	967	238	3,687

... and divesting non core assets worth €2.4 Bn

Maintaining Balance Sheet strength

Assets

€ 24,551 MM

Liabilities



(Change vs H1 2002)

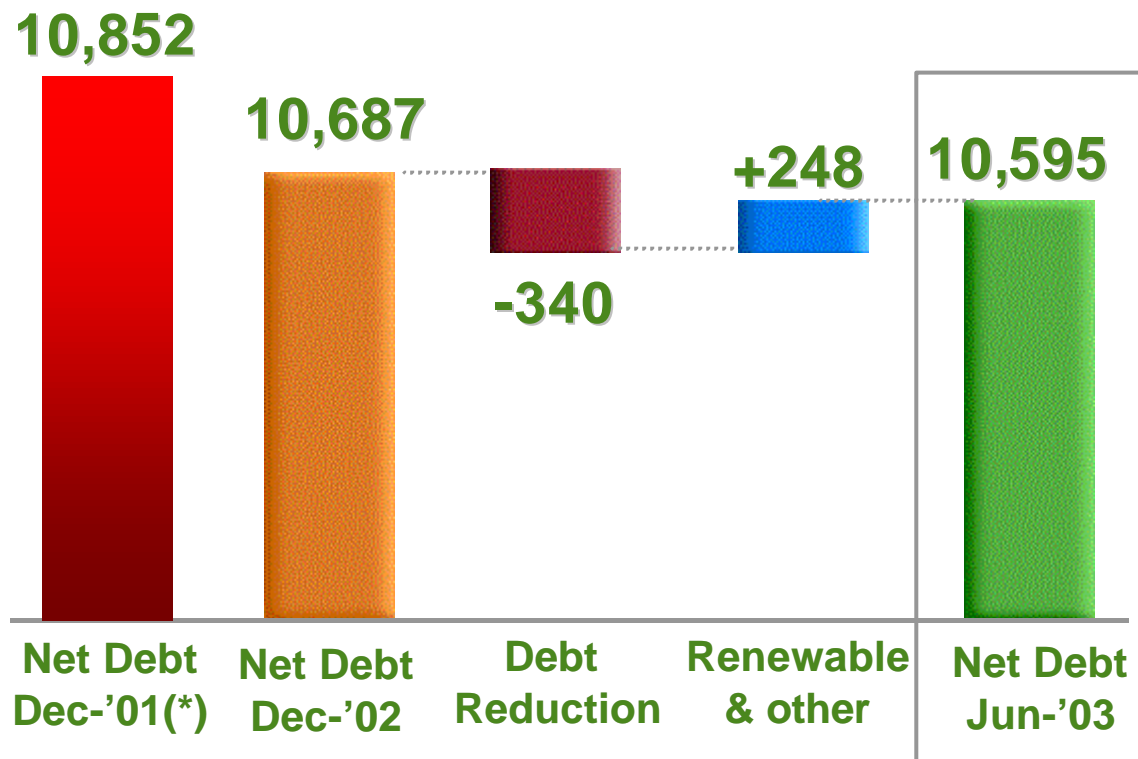
Goodwill: 2% of Assets

H1 2003: Debt & Leverage Ratio Review

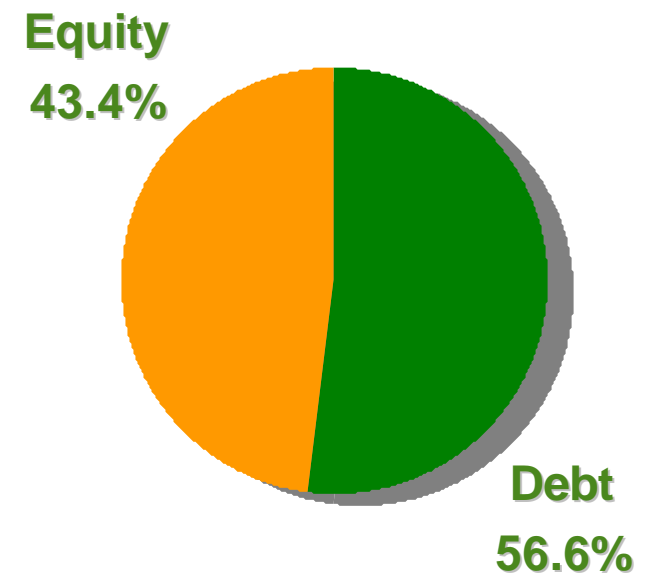


Leverage improves from 57.1% to 56.6% since Jan '03

Net Debt Evolution (€ MM)



Financial Leverage

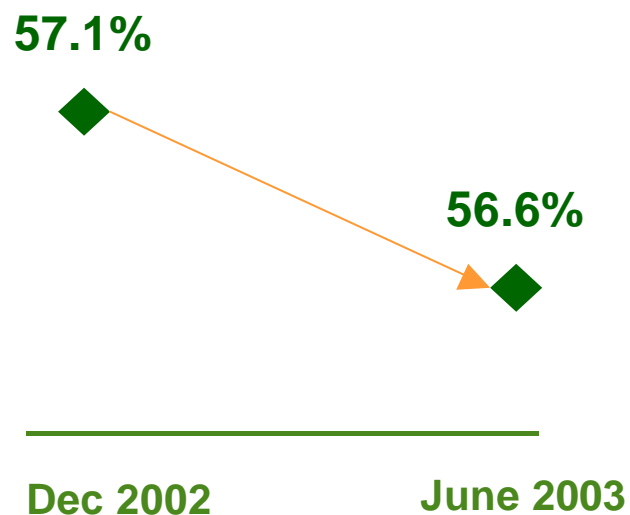


... with Net Debt reduction

Financial Leverage continues downward trend...

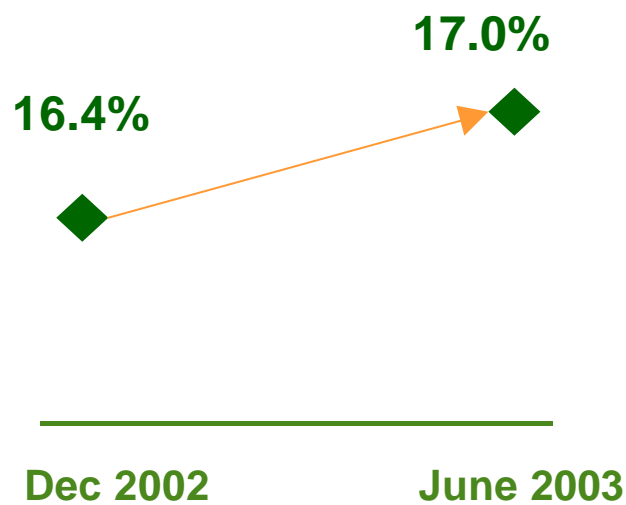
Financial Leverage

$\text{Net Fin. Debt} / (\text{Net Fin. Debt} + \text{Equity})$



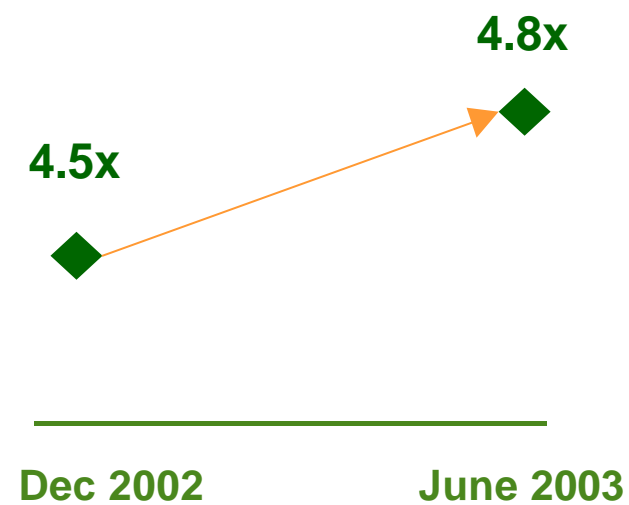
Cash Flow / Debt

$(\text{Net inc.} + \text{D\&A} - \text{Equity inc}) / \text{Net Fin. debt}$



EBITDA/ Net Int. Expense

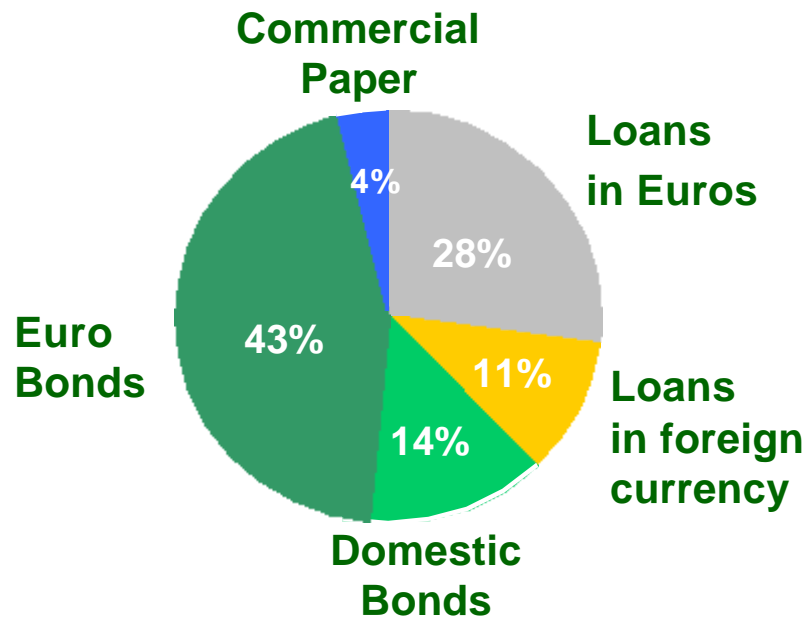
$\text{EBITDA} / \text{Net Int. Expense}$



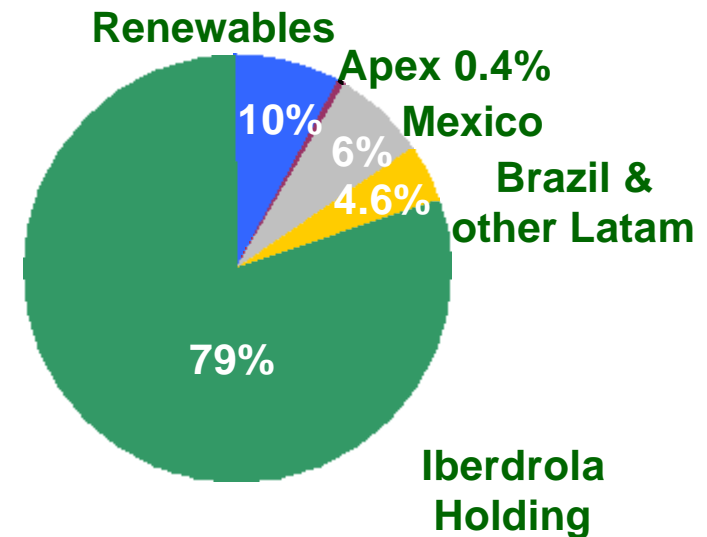
...improving coverage ratios

Maximum transparency

Type of Debt

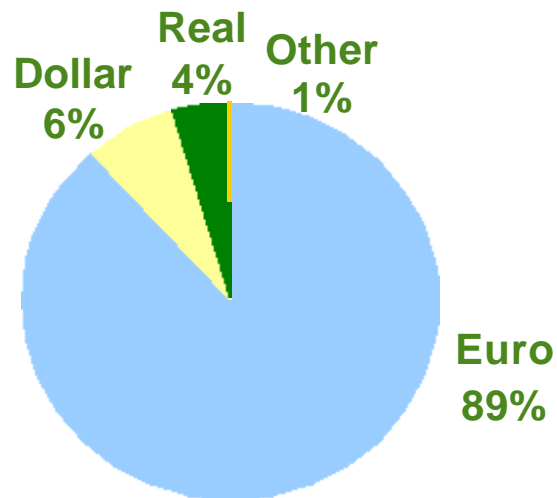


Structure of Debt



**Less than 3% of debt not in Balance Sheet
(1.5% with Iberdrola guarantee)**

Financing in local or in functional currencies



Centralised
risk management

Model of valuation & optimization to
measure financial cost risks and
market value (VaR)

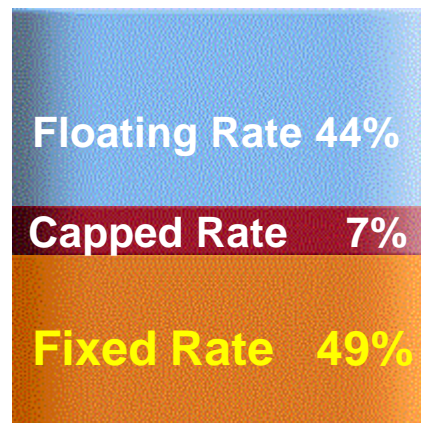


FOREIGN EXCHANGE RISK:
in the 95% scenario in 12 months:
<3% over expected interest expenses

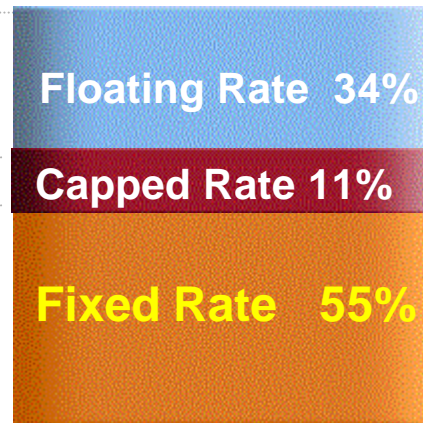
Minimum foreign exchange risk in debt

Fixing debt at low interest rates...

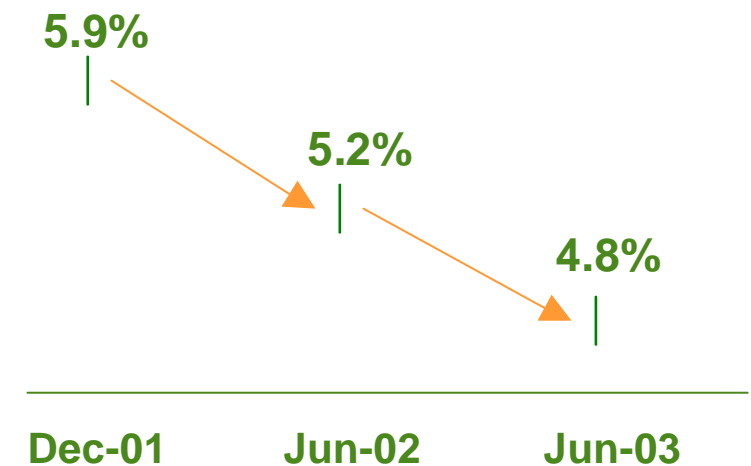
December 2002



June 2003



Cost of Debt



INTEREST RATE RISK:

In the 95% scenario in 12 months:
<6% over expected interest expenses

...and reducing the cost of debt

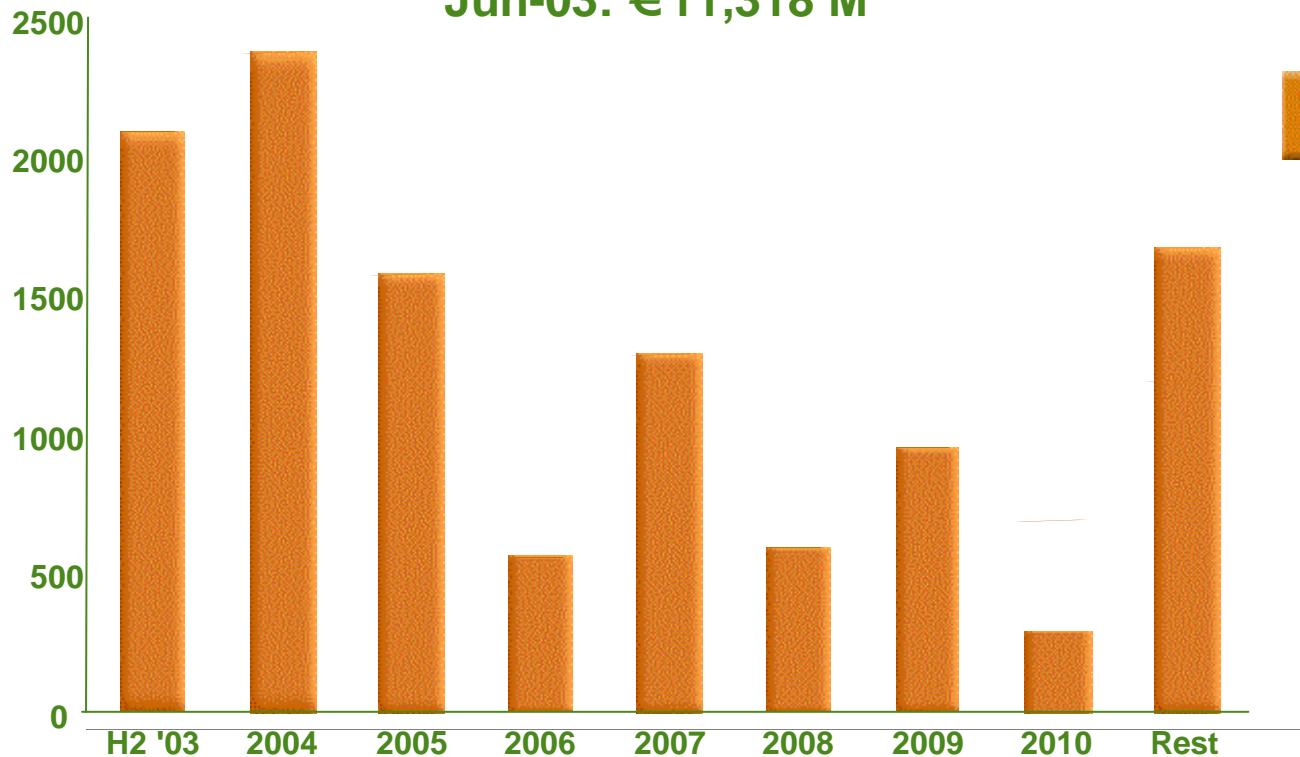
H1 2003: Debt by maturity



Iberdrola Group Consolidated Gross Debt

Average maturity of debt

Jun-03: €11,318 M



Jun-02

Jun-03

2.7 yrs

3.7 yrs

- ▶ 70% of 2004 maturities in 2nd half
- ▶ 100% of 2003 expected needs covered in advance

Increasing the average maturity of debt

A conservative approach: needs fully covered for 12 months

Treasury	▶ 723 MM €
Credit Lines	▶ 1,440 MM as of Jun-03 undrawn: 935 MM €3 years Revolving Credit Line 505 MM €1 year Revolving Credit Line
Loans	▶ 670 MM € as of Jun-03 undrawn: 425 MM €5 years 245 MM €Project Finance
Commercial Paper	▶ Domestic Programme: 1.5 Bn € ▶ ECP Programme: 1.0 Bn ▶ Target: Average outstanding amount of 900 MM €
Euro Bonds	▶ EMTN: 450 MM € undrawn

Full Access to Credit markets



BANK MARKET

- **Low risk: below 25% of Iberdrola Holding Debt**

BOND MARKET

- **Principal financing source in the last years**
- **6,000 EMTN Programme**

Domestic Commercial Paper

- **1.5 Bn Programme (487 MM used)**

Euro Commercial Paper (Apr-03)

- **1.0 Bn Programme (160 MM used)**

Contingent Requirements on Debt



Covenants

- ▶ Iberdrola SA debt:
 - 17% affected
 - Most common: Total Debt / Shareholders' funds > 2.25x-2.50x (vs. 1.25x Q1 2003)
- ▶ Rest of Group
 - 30% affected
 - Different ratios

Rating Triggers

- ▶ Only with effect on spreads, not on debt repayment

Cross Defaults

- ▶ Iberdrola SA debt:
 - 22% affected (under most strict interpretation)

Light contingent requirements

No nuclear or pension liabilities

Nuclear Provisions



- Back-end nuclear costs fully externalized through ENRESA
- Funded by the tariff

Pension Provisions



- Pensions fully externalized
- Defined contribution model

Reinforced by a stable Rating



	<u>Long Term</u>		<u>Short Term</u>	
	<u>Previous</u>	<u>Current</u>	<u>Previous</u>	<u>Current</u>
STANDARD & POOR'S	AA- (1993)	A+ (Nov-01)	A1+ (1994)	A1 (Nov-01)
MOODY'S	A1 (1992)	A2 (Dec-02)	P1 (1988)	P1
FITCH	AA- (1996)	A+ (Feb-03)	F1+ (1996)	F1 (Feb-03)

Commitment to a solid credit profile

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Iberdrola: The Iberian Growth Story

Leading CCGTs
and Renewables
build up

- Only technologies that meet Spain's needs
 - More production and availability
 - Low emissions

Reaffirming the
Strategic Plan...

- Profitable & low risk organic growth
- Focused on core business in Spain

...Beating targets

- New efficiency goals
- Reducing debt & leverage

Maximizing value for both bondholders and shareholders

Disclaimer



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