

Nine Months 2002 Results

x2+



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Jan-Sept 2002 Highlights

Strategic Highlights

- ➔ National Energy Plan confirms Iberdrola's Strategic Plan
- ➔ Leadership in CCGTs and Renewables
- ➔ Regulation: Towards a predictable and objective framework
 - Tariff to be increased
 - Tariff deficit to be recognised
- ➔ Divestments and other initiatives: €857 MM (€1.6 Bn by year end)
- ➔ Iberdrola, ready for full market liberalization:
 - Leader in electricity: 38.1% market share
 - 6.2% share in gas market
- ➔ Increasing generation capacity
 - 19,774 MW as of Sept. 2002; 13% increase over 2001
- ➔ New brand image: Leading brand awareness

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Jan-Sept 2002 Highlights

Financial Highlights

- ➔ Net Operating Expenses drop by 4.5% to €783.0 MM
 - -7.4% in homogeneous terms
- ➔ Double digit increases in EBITDA (€1,885.0 MM, +11.1%) and EBIT (€1,277.3MM, +16.2%)
- ➔ Ordinary Profit rises 3.2% to €806.9 MM
- ➔ Net Profit up 3.2% to €673.7 MM (95% from Spain)
- ➔ Total investments reach €1.9 Bn (1.8x vs 9M 2001)
- ➔ Leverage decreases to 58.6% in peak investment period

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9M Results: Basic Figures

	9M 2002	9M 2001	Change %
Net Sales	7,351.7	5,678.3	+29.5%
Gross Margin	2,779.5	2,610.3	+6.5%
Net Op. Exp	-782.9	-819.5	-4.5%
EBITDA	1,885.0	1,696.8	+11.1%
EBIT	1,277.3	1,099.4	+16.2%
Ordinary Profit	806.9	782.1	+3.2%
PBT	926.1	856.7	+8.1%
Net Profit	673.7	653.1	+3.2%

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9M Results: Basic Figures (homogeneous)

	9M 2002	9M 2001	Change %
Net Sales	7,351.7	5,972.4	+23.1%
Gross Margin	2,779.5	2,740.3	+1.4%
Net Op. Exp	-782.9	-845.7	-7.4%
EBITDA	1,885.0	1,800.1	+4.7%
EBIT	1,277.3	1,178.9	+8.3%
Ordinary Profit	806.9	791.2	+2.0%
PBT	926.1	870.4	+6.4%
Net Profit	673.7	653.1	+3.2%

*Includes full consolidation of Apex 2000 (Real Estate) and Renewables in 2001

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Results by Business

94 % of EBIT is Domestic

	Net Sales	EBIT	Net Profit	Assets
Domestic	90.7%	93.7%	95.0%	84.7%
Energy	85.9%	86.5%	95.9%	69.7%
Non Energy	4.8%	7.2%	6.9%	8.4%
Corp. Portfolio	---	---	-7.8%*	6.6%
Mexico-Guatemala	4.2%	3.1%	1.9%	7.5%
Brazil	4.9%	3.8%	0.1%	6.2%
Other S. America	0.2%	-0.6%	3.0%**	1.6%
TOTAL	100.0%	100.0%	100.0%	100.0%

* Includes Telefónica provision

** Includes capital gains from divestments in Gas Business

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9M Investments

Investing in Core Businesses

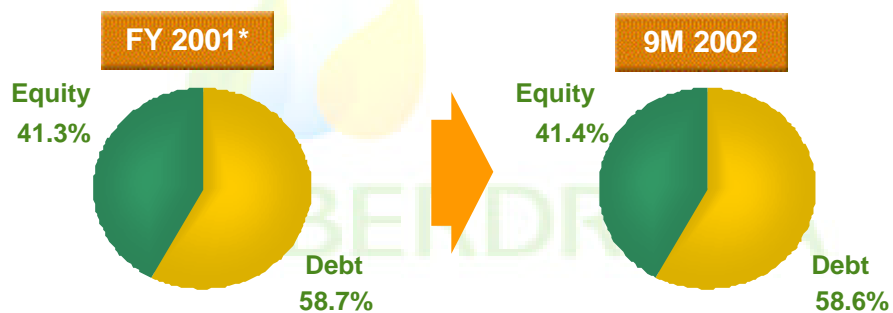
	Generation	Distribution	Others	Total
Spain	929	278	72	1,279
Mexico	281	8	159*	448
Brazil	124	50	-	174
Total	1,334	336	231	1,901

*Includes investment in Gas Natural Mexico

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Financial Structure

Maintaining Financial Strength



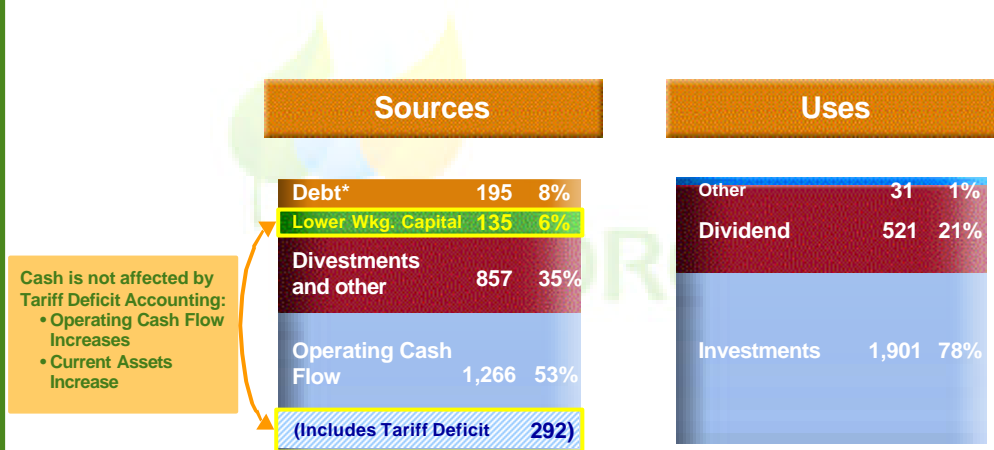
*Like for like terms

...and reducing FY 2002 leverage ratio target to 58%

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Cash Flow

...due to an effective cash flow generation capacity



*Like for like terms

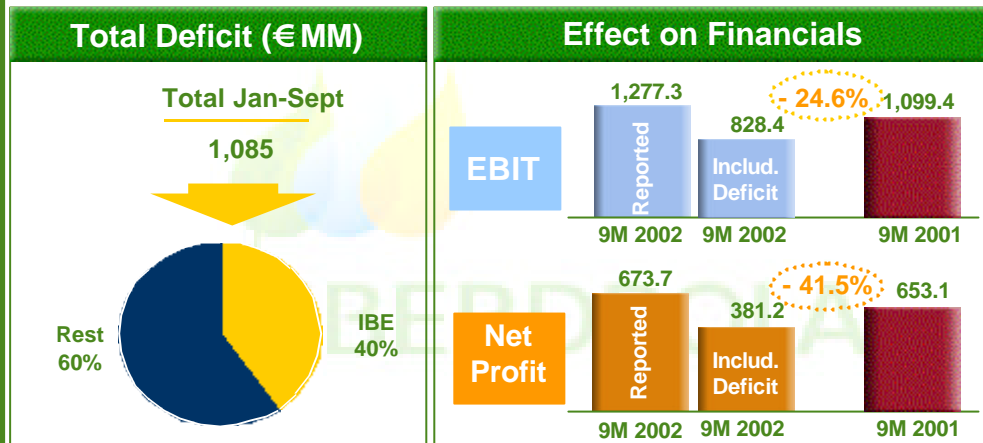
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Regulation

- ➔ National Energy Plan confirms Iberdrola's Strategic Plan: Promotion of CCGTs and Renewables
- ➔ Iberdrola maintains accounting criteria for Tariff Deficit, which as of September 30th amounts to €292 MM after taxes
- ➔ Spanish Government, committed to issue a new regulation:
 - ➔ Objective, transparent and predictable
 - ➔ To be applied before 2003
- ➔ New regulation to include:
 - ➔ Recognition of historic Deficits
 - ➔ Potential transfer of rights derived from Deficit to third parties
 - ➔ Different remuneration for new generation capacity
 - ➔ Incentivised remuneration for new investments in distribution
 - ➔ Premiums will be maintained to support investments in renewables
 - ➔ Revision formulas for deviations in tariff
 - ➔ An increasing path for next years tariffs

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Tariff Deficit



**Tariff Deficit maintains H1 trend (€1,085 MM up to Sept. 02)
Iberdrola finances approx 40% of the total**

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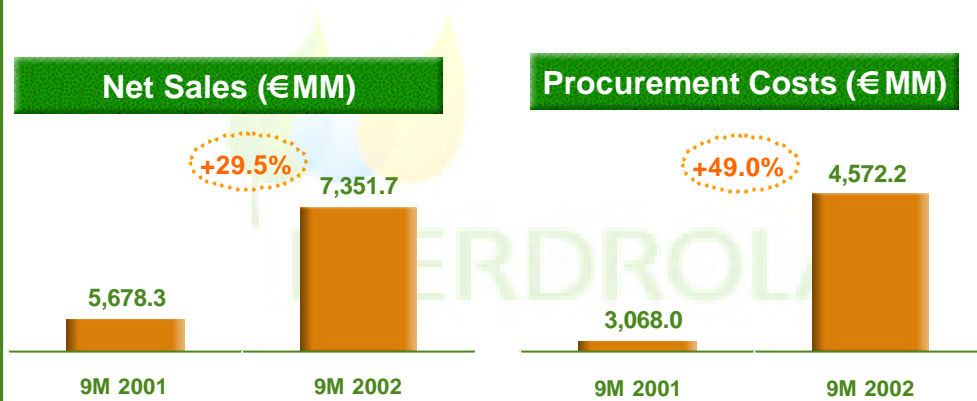
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Analysis of Consolidated Results

Net Sales offset higher fuel costs

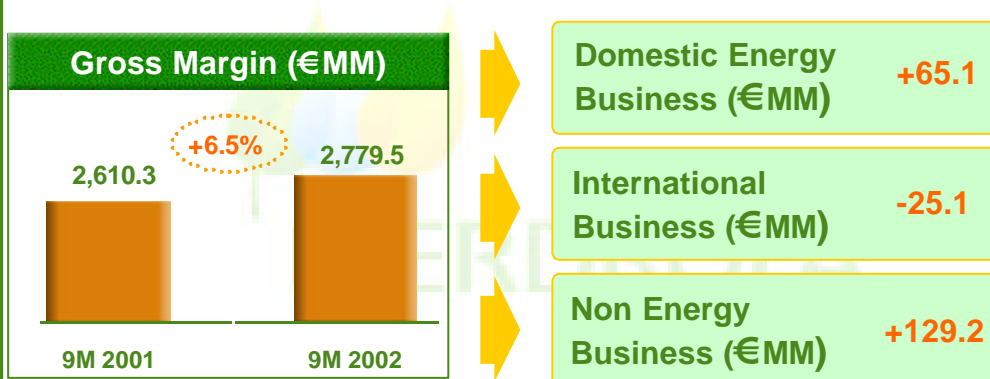


Resulting from higher thermal production

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Analysis of Consolidated Results

Gross Margin rose by 6.5%

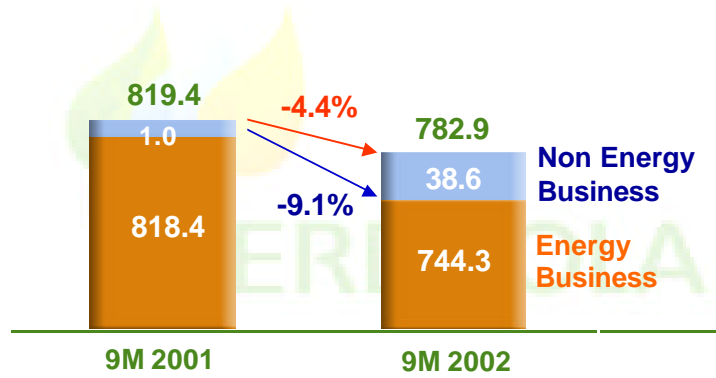


Despite effects of lower rainfall

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Analysis of Consolidated Results

4.5% drop in Net Operating Expenses



9.1% fall in Energy Business expenses

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Analysis of Consolidated Results

Energy business: Net Operating Expenses

	9M 2002	9M 2001	%
Domestic Energy - ex Renewables	610.3	659.2	-7.4%
Renewables	20.2	---	N/A
International	113.8	159.2	-28.5%

Efficiency gains: 7.4% lower expenses in domestic energy

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Analysis of Consolidated Results

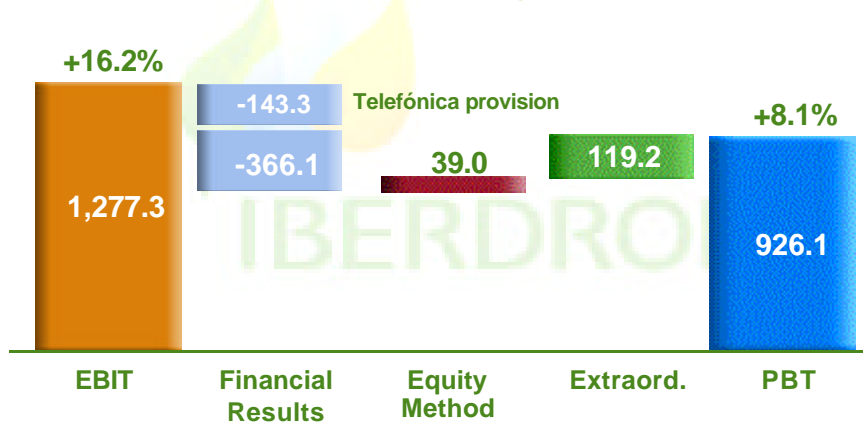
EBIT increases +16.2% up to €1,277 MM

	Reported	Homogen.
– Gross Margin	+6.5%	+1.4%
– Net Operating Expenses	-4.5%	-7.4%
– EBIT	+16.2%	+8.3%

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Analysis of Consolidated Results

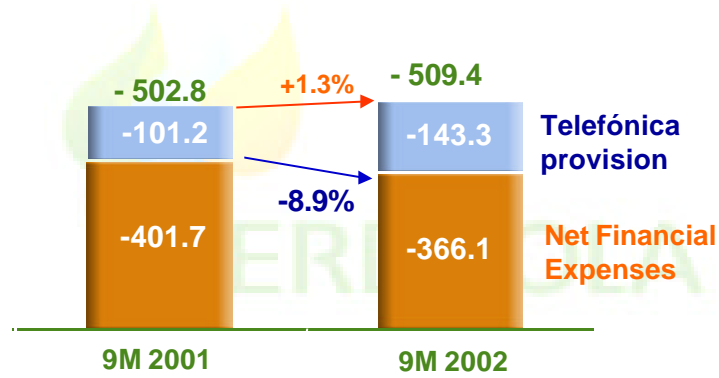
**Evolution of Profit Before Taxes :
Non-recurring items**



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Analysis of Consolidated Results

Financial Expenses

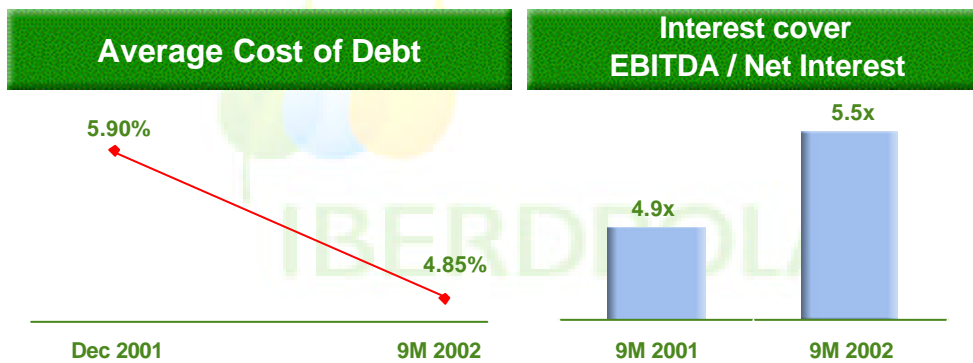


Net Financial Expenses decrease by 8.9% excluding TEF provision

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Analysis of Consolidated Results

Cost of Debt continues downward trend

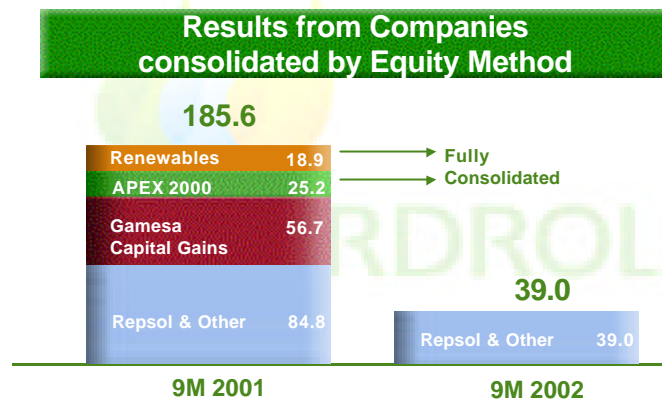


Improvement in interest cover ratios

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Analysis of Consolidated Results

Equity Consolidation: Influenced by non recurring items...

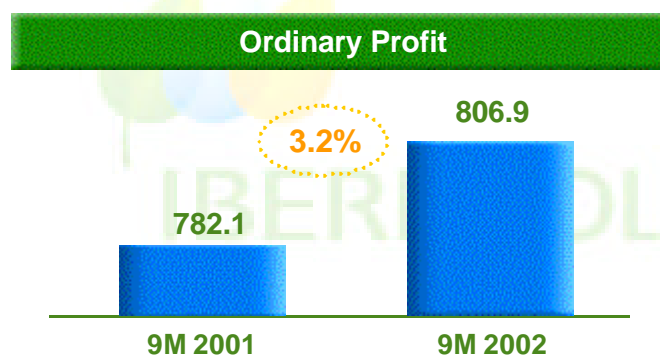


...and changes in consolidation

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Analysis of Consolidated Results

Ordinary Profit rises 3.2%



...despite negative impacts of TEF provision and non recurring items in Equity Consolidation

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Analysis of Consolidated Results

Extraordinary Results: Capital Gains from divestments...

Extraordinary Results (€MM)

Gas Brazil & Colombia	32.7
Real Estate	63.0
Water	8.1
Retirement Homes	9.5
Miscellaneous	5.9
Total	119.2

€44.6 MM increase over 9M 2001

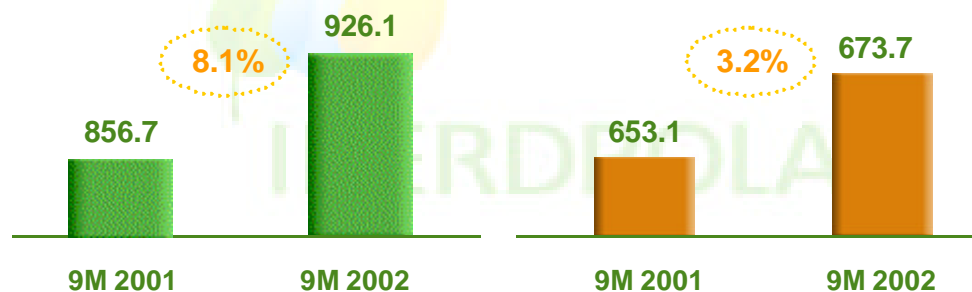
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Analysis of Consolidated Results

PBT growing 8.1% and Net Profit 3.2%

Profit Before Taxes (€MM)

Net Profit (€MM)

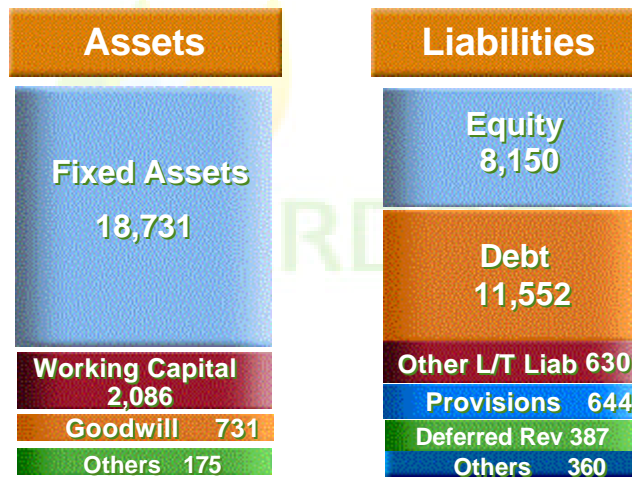


...due to tax effects

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Financial Structure

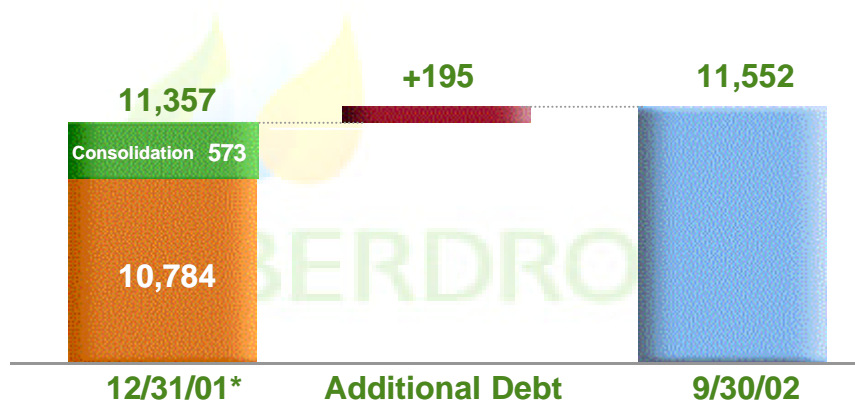
A strong Balance Sheet



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Financial Structure

Evolution of Debt



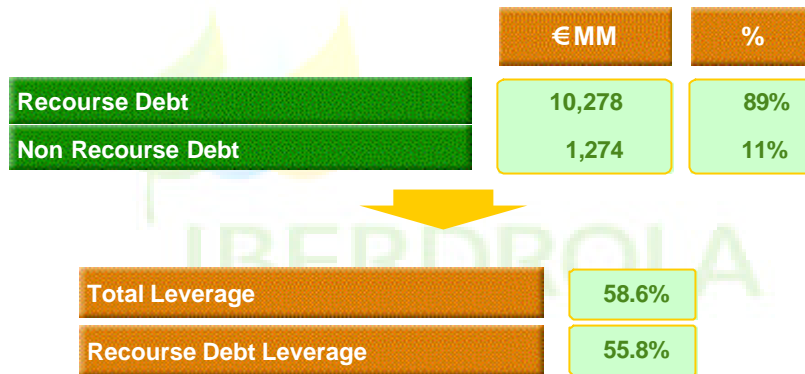
*Homogeneous basis

Minimum increase despite investments and tariff deficit

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Debt Structure

Using Non Recourse Debt...

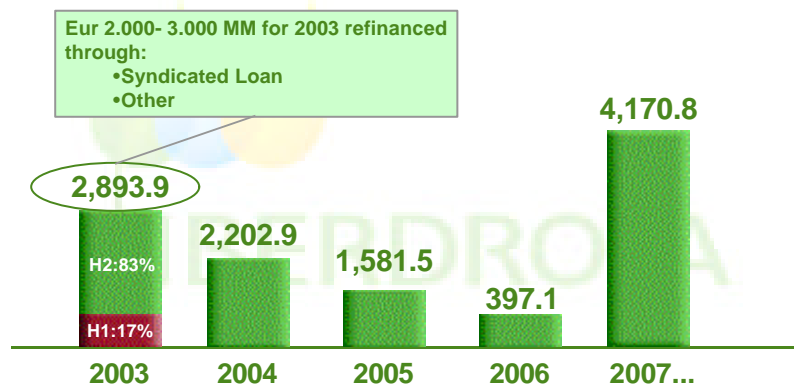


...in Renewables and Brazil

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Debt Structure

Profile of Maturities



Extended maturities and strengthening balance sheet

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Debt Structure

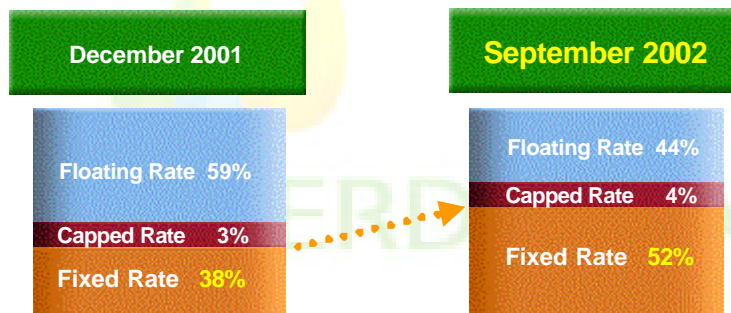
Syndicated Loan

Amount	→ Total Amount: €1.5 Bn extendable to 2.0 Bn → 50% Loan → 50% Credit
Maturity	→ 5 years for the Loan → 3 years for the Credit
Spread	→ 37 bp in the 5 year tranche → 30 bp in the 3 year tranche
Leading Banks	→ ABN AMRO , Banesto, BBVA, Crédit Agricole, DKW, JP Morgan

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Debt Structure

Benefiting from interest rates scenario...

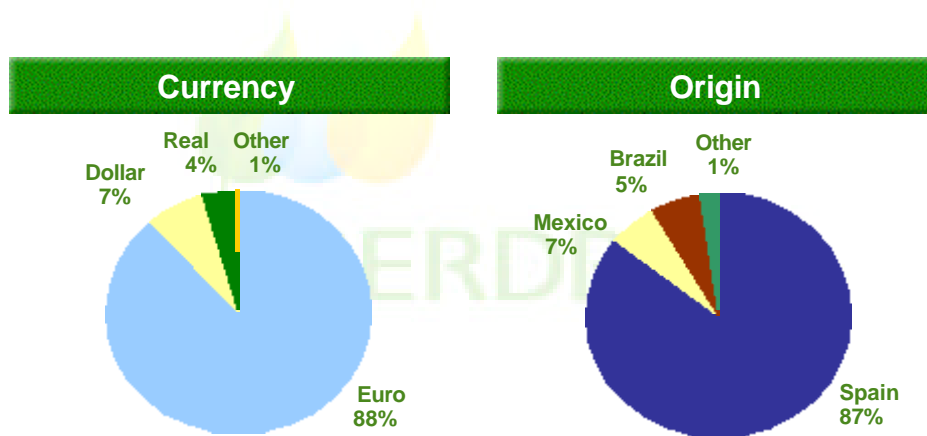


Higher Fixed Debt proportion reduces volatility at very attractive levels

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Debt Structure

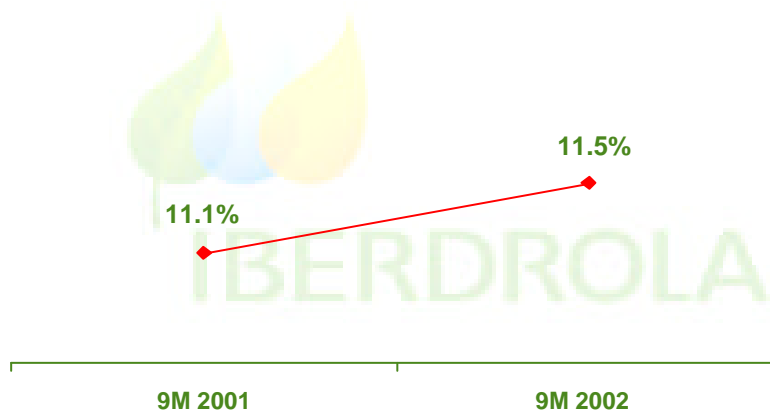
Balanced currency and origin mix



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ROE

Positive evolution



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Evolution of Businesses

	Domestic Energy		International Business		Non Energy		Corporate Portfolio	
	Total	Contrib %	Total	Contrib %	Total	Contrib %	Total	Contrib %
EBITDA	1,633	87%	153	8%	99	5%	--	--
EBITDA 9M 2001	1,550	91%	135	8%	12	1%	--	--
Net Profit	646	96%	34	5%	47	7%	-53	-8%
Net Profit 9M 2001	511	78%	29*	4%	103*	16%	10	2%

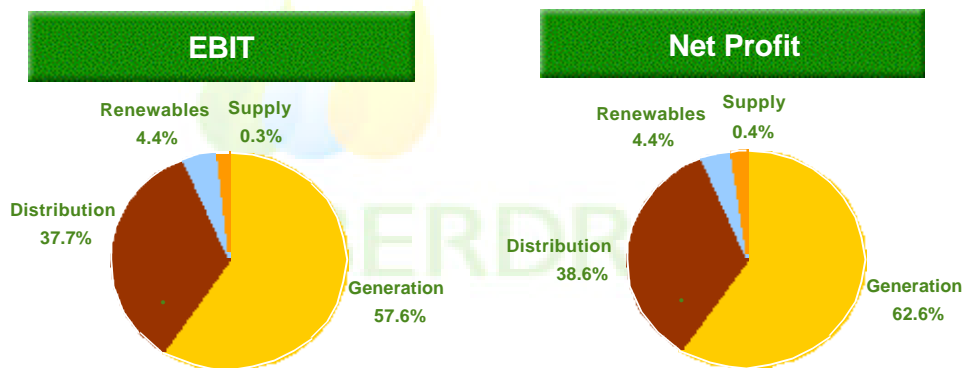
*Includes extraordinary

Domestic Energy increases contribution vs 2001

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Domestic Energy Business

Breakdown of Results

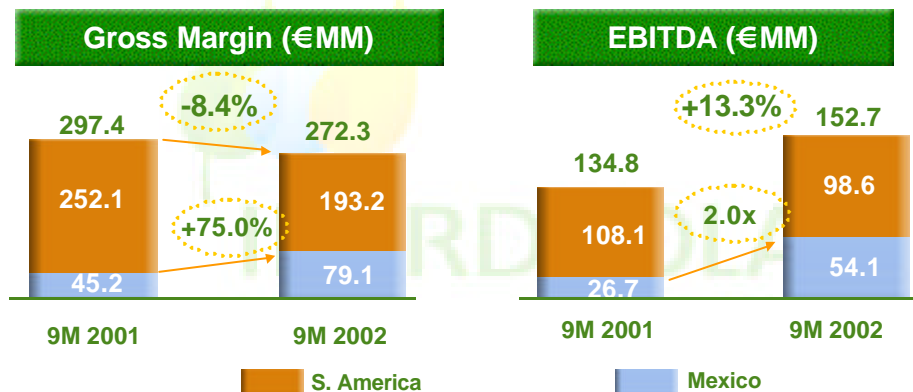


50% higher contribution vs 2001 from Renewables

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International Business

Affected by situation in Brazil

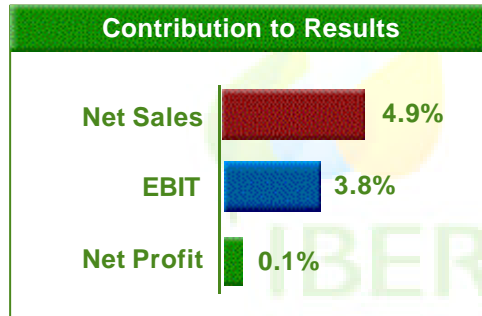


...but compensated by operations in Mexico

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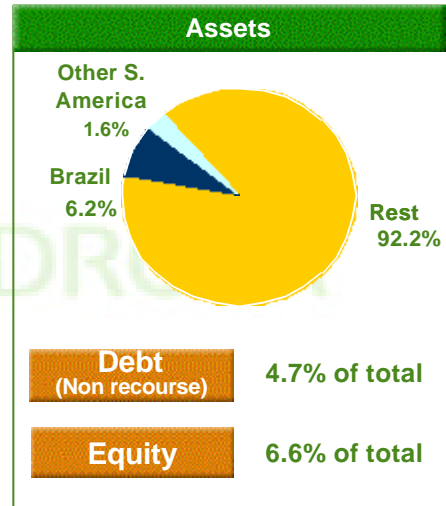
Brazil

Iberdrola in Brazil



Effect of R\$ Depreciation

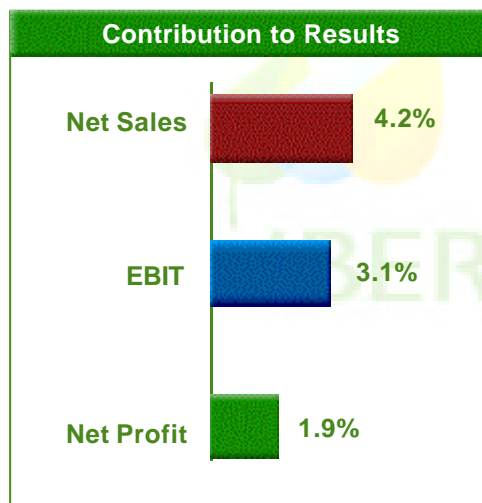
Equity	€-171 MM
Net Profit	---



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Mexico

Iberdrola in Mexico-Guatemala



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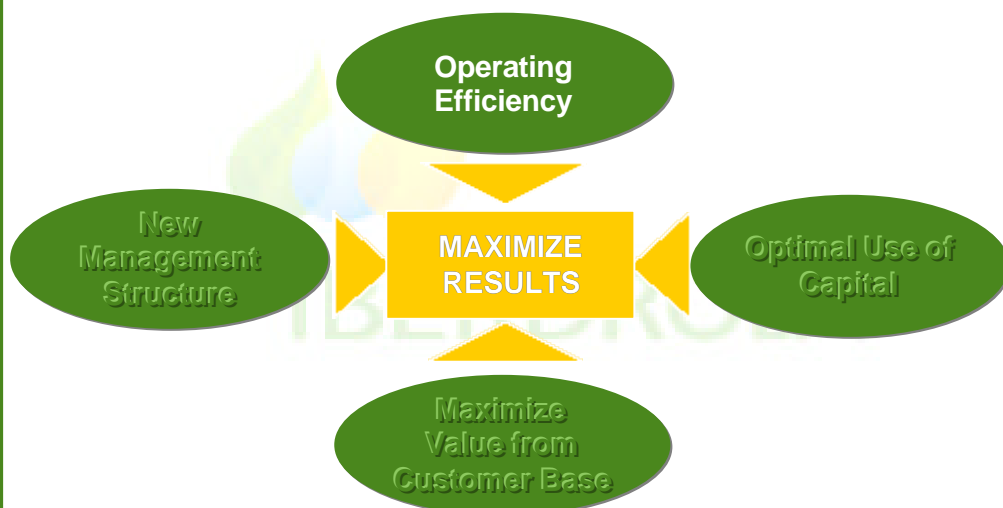
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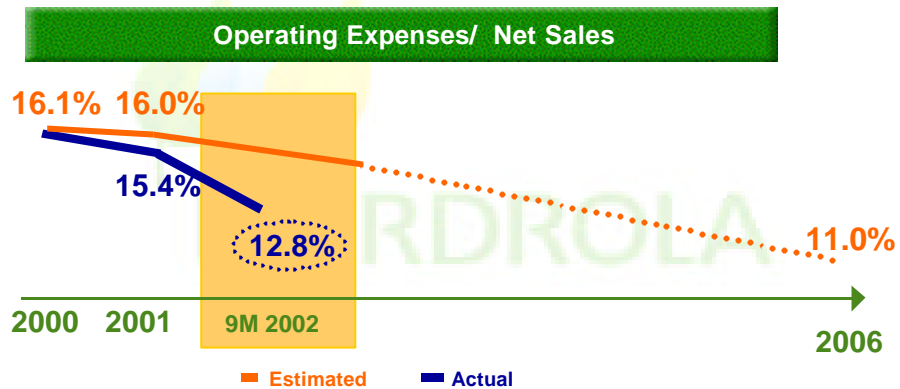
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Operating Efficiency - Iberdrola Group

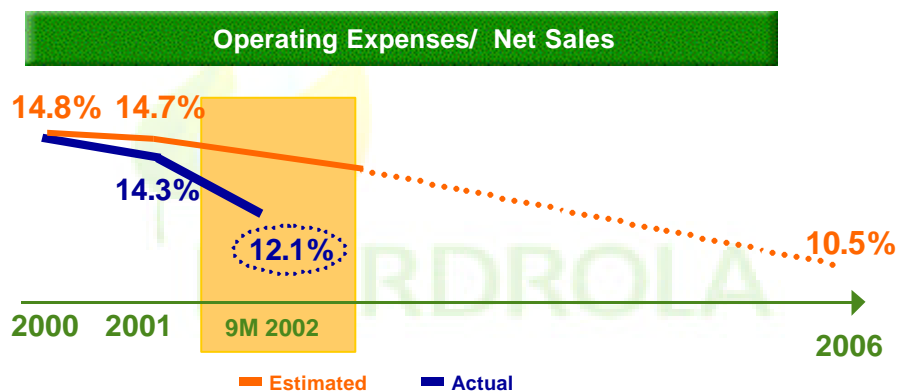
Operating Efficiency continues beating targets



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Operating Efficiency - Spain

Operating Efficiency continues beating targets



▶ A benchmark for the Industry*

▶ Generation: 211 employees/GW installed vs European average of 264

▶ Distribution: 12.2 GWh/employee vs European average of 8.0

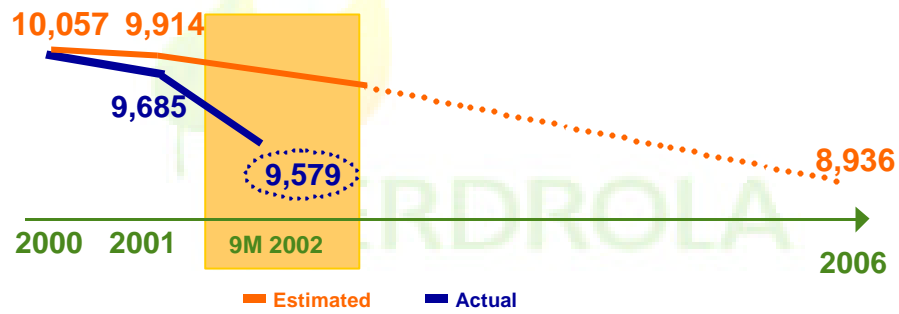
1,476 connections/employee vs European average of 738

* Source: Brokers research

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Domestic Energy Business

Workforce

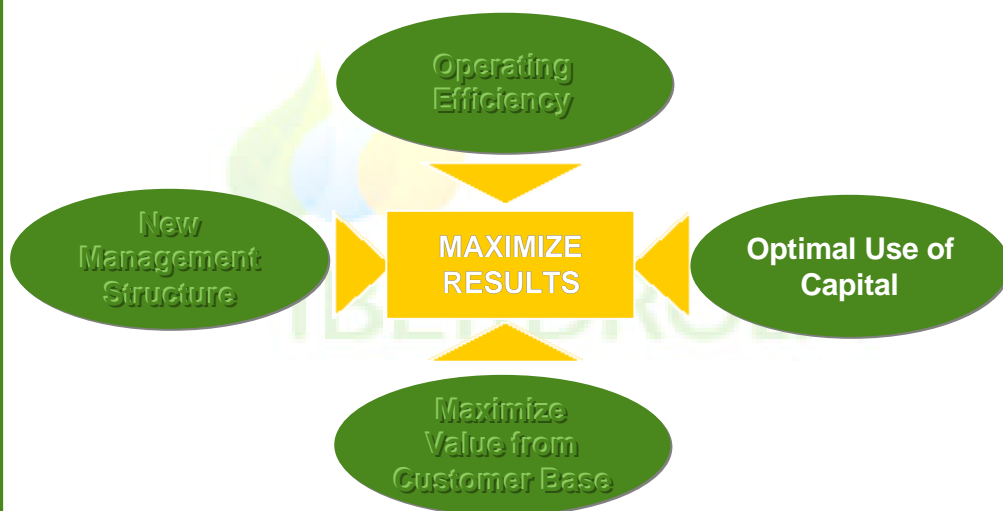


Labour agreement signed for achieving targets

53% of Plan achieved as of September 2002

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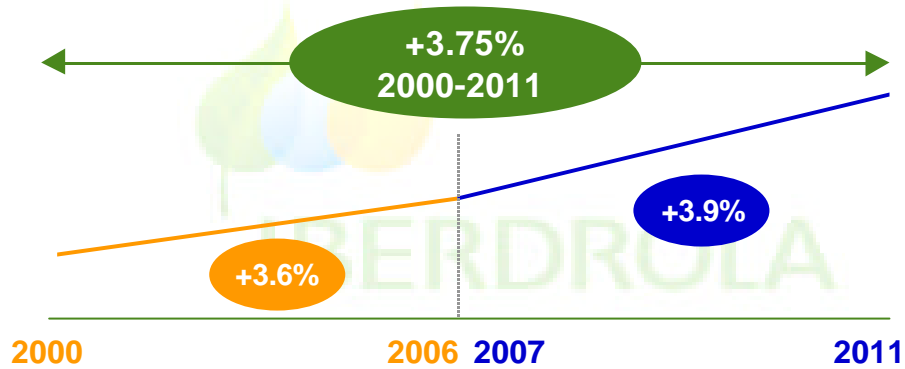
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National Energy Plan

Electricity Demand Estimates



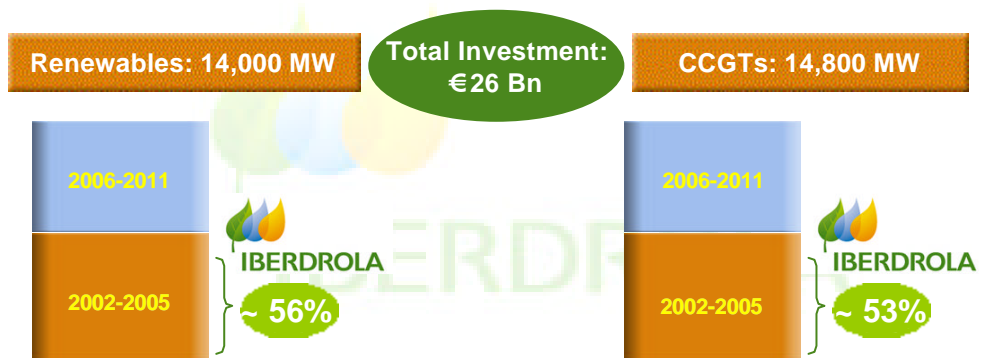
Source: National Energy Plan

...sustained 3.75% CAGR 2002-2011

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National Energy Plan

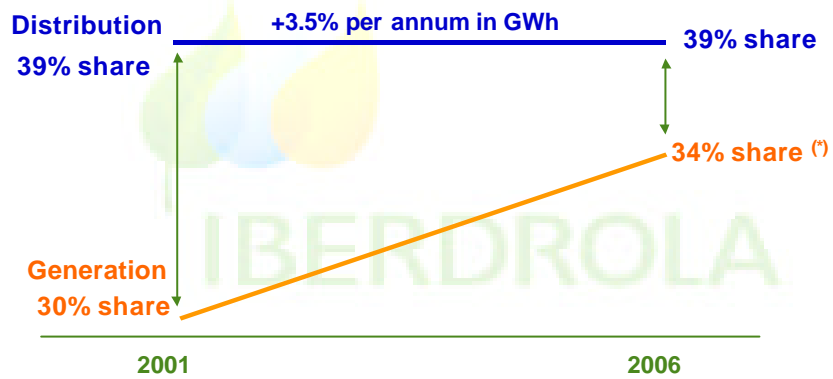
NEP confirms IBE's Strategic Plan



Iberdrola, the only growth alternative
in the Spanish electricity sector

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Iberdrola's Market vs Generation in Spain



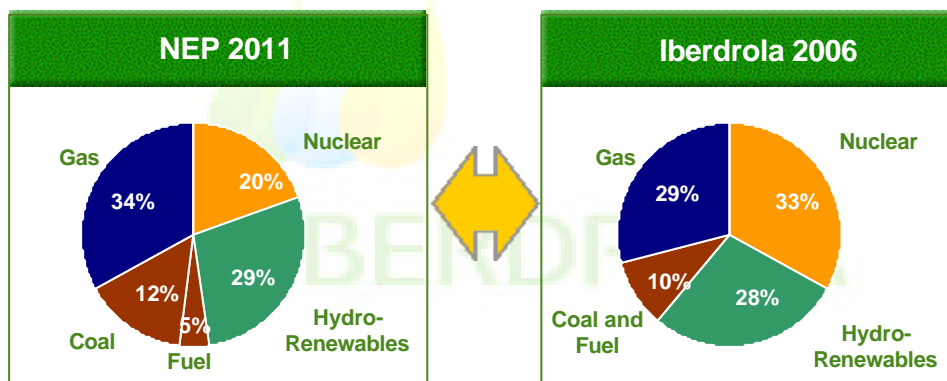
(*) Includes CCGTs and Renewables

Profitable growth with low risk

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National Energy Plan

NEP confirms IBE's Strategic Plan



Target Mix achieved 5 years ahead

Total Generation Capacity

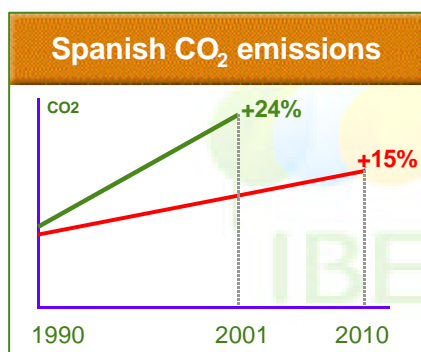
	12-31-01	9-30-02	Increase
Spain	17,304	18,658	+1,354
Conventional	16,088	16,088	--
CCGT	---	800	+800
Renewables	1,070	1,496	+426
Cogeneration	146	274	+128
Mexico	120	870	+750
S. America	124	246	+122
TOTAL	17,548	19,774	+2,226

13% increase in total capacity 2002 YTD

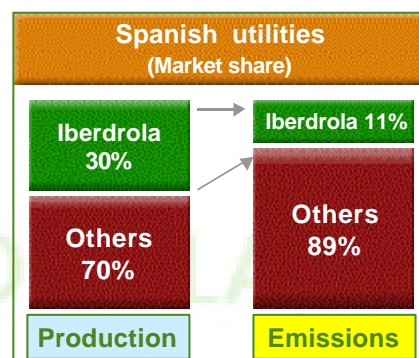
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Environment

Iberdrola's commitment to Environmental issues



Kyoto protocol forces a drastic reduction of emissions before 2010



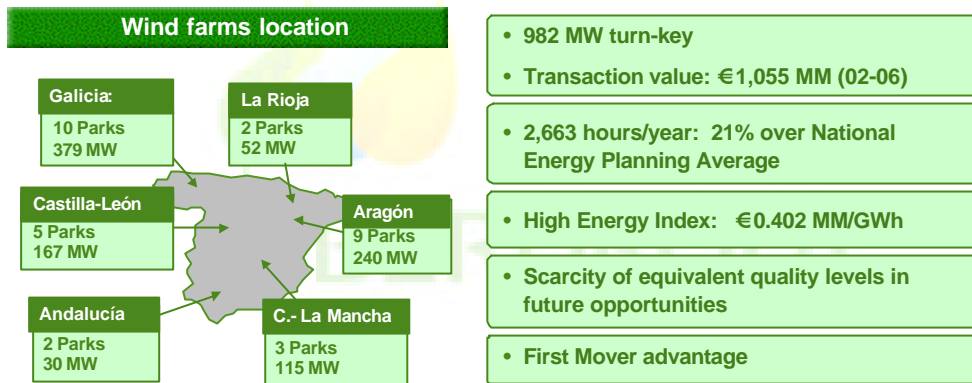
Iberdrola produces only 11% of total emissions in the electricity sector

Green certificates market, a business opportunity

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Renewables

Acquisition of Gamesa Wind Farms...



A unique opportunity

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Renewables

Payments made as capacity becomes operational

Financial Aspects

- IRR (Project)**
 - 9%*
- IRR (shareholders)**
 - 14%*
- EPS:**
 - Accretive from Year 1
- Goodwill :**
 - €233 MM (tax deductible)

Calendar of Payments

Amount (Eur MM)	2002	2003	2004-06	Total
Equity payment(*)	290	60	7	357
Debt assumption(*)	458			458
Capex	-	274	34	308
Eq. Purch. Agreement	(4)	(19)	(49)	(72)
International JV	4	-	-	4
Total	748	315	(8)	1,055

*Completion of 40%: End 2002/Early 2003

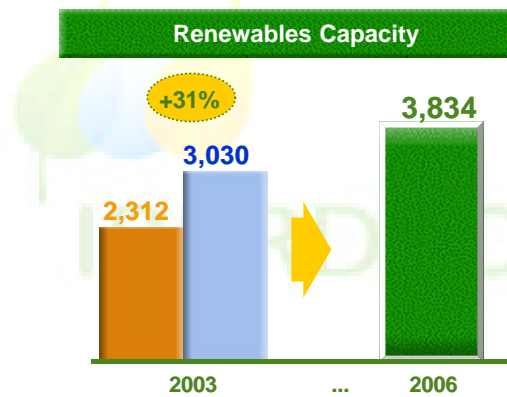
* According to Strategic Plan assumptions

... and Non Recourse Debt (project finance)

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Renewables

80% of Plan's target achieved as of 2003 year end



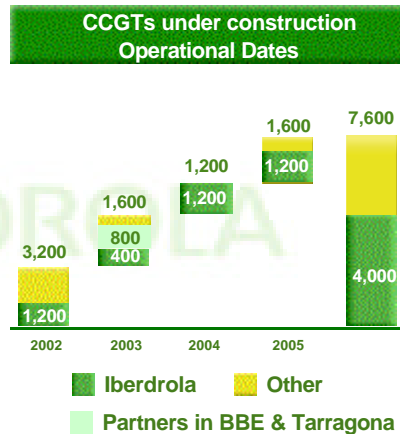
...Maintaining 2006 targets

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Generation

Leading CCGT build up process up to 2005

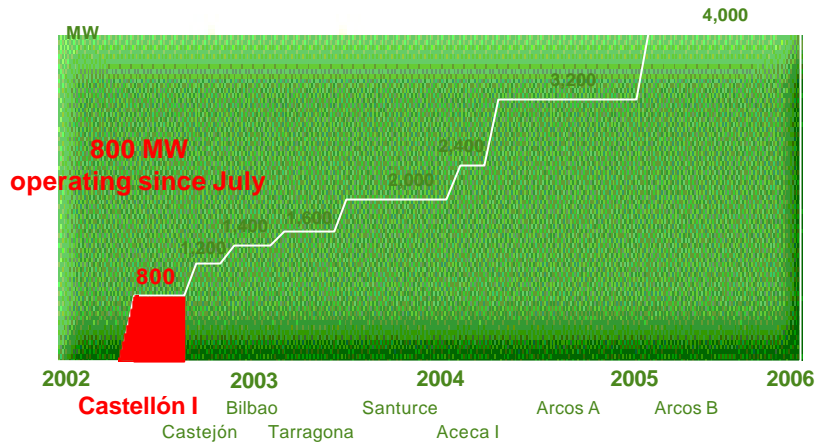
	Capacity	Operating
Castellón A	800 MW	2002
Castejón	400 MW	2002
BBE (25%)	200 MW	2003
Tarragona (50%)	200 MW	2003
Santurce	400 MW	2004
Arcos A	800 MW	2004
Aceca	400 MW	2005
Arcos B	800 MW	2005
Total Iberdrola	4,000 MW	2005
IBE partners	800 MW	
Other	2,800 MW	
SPAIN	7,600 MW	



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Generation

Reaching targets ...

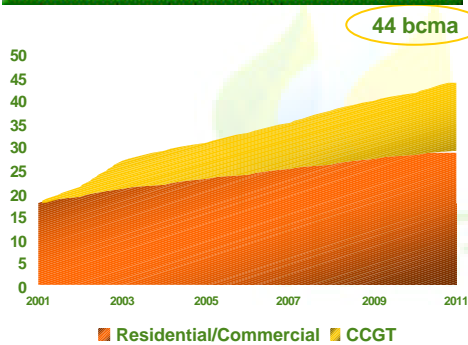


...1 year ahead

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Gas - Domestic Market

Estimated demand growth



Source: National Energy Plan

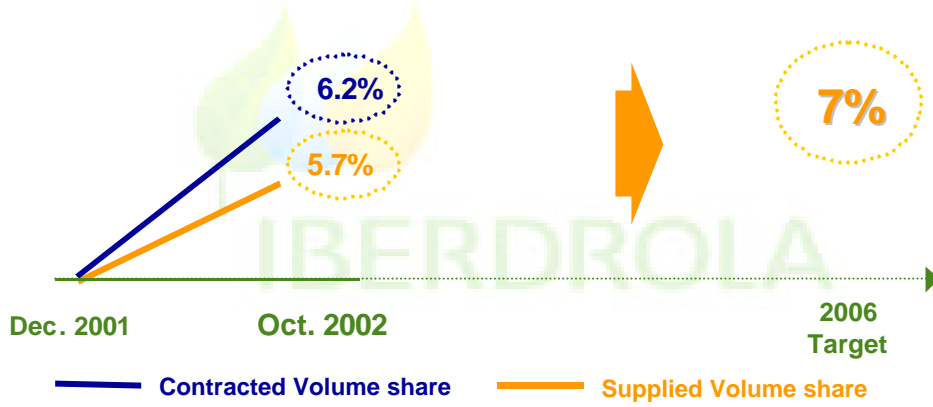
- Strong demand increase
 - 9.5% CAGR (2001 - 2011) estimated by Ministry of Economy
- Since 2005, 25% to 35% of demand coming from CCGTs
- Stable growth of rest of demand

Growing market boosted by CCGTs

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Gas - Supply

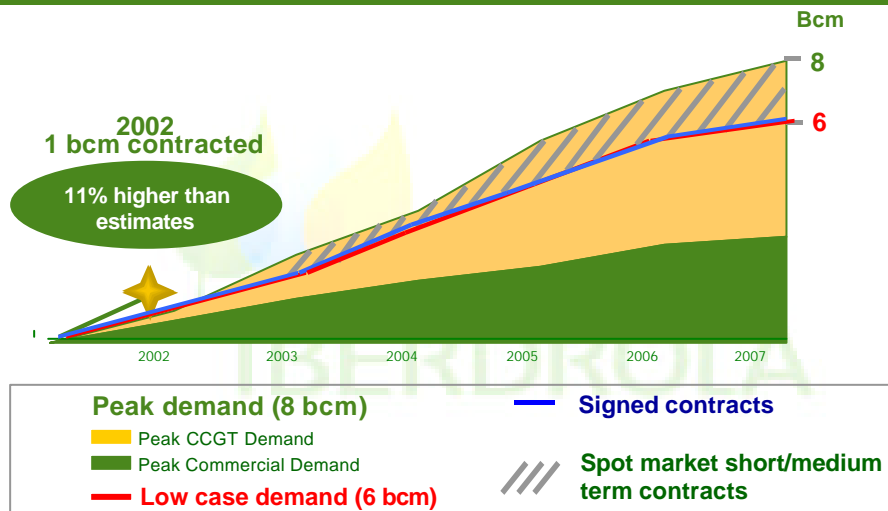
6.2% share in liberalised market
with contracts totalling 1 bcm



...with positive results

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Gas - Procurement

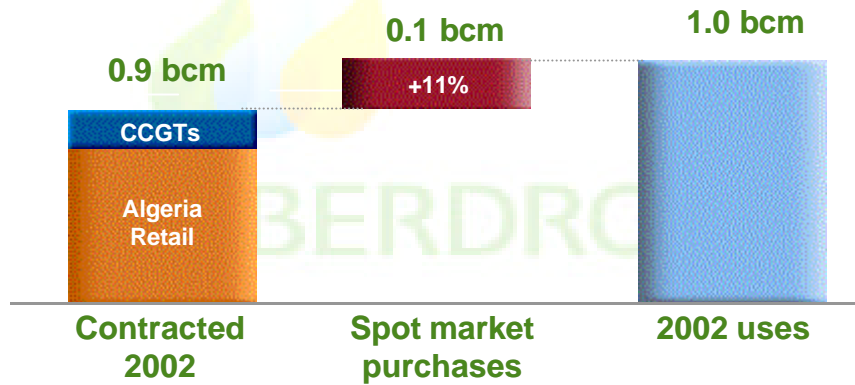


...low risk strategy

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Gas - Procurement

**2002 Gas needs above Iberdrola's estimates:
No long position**



...low risk strategy

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Gas

Minimising Risks...

Secured Supply	<ul style="list-style-type: none">- Geographical diversification of sources- Long and short term contracts
Minimized Economic Risk	<ul style="list-style-type: none">- Competitive pricing- Prices linked to non oil related products<ul style="list-style-type: none">- Electricity, Imported Coal, Inflation- Euro denominated contracts- Take or pay management:<ul style="list-style-type: none">- Adjusted to minimum case- Possibility of deferred consumption (make up clause)
Network Access	<ul style="list-style-type: none">- TPA contracts already signed- Limited investment in regasification plants to ensure capacity

...strong competitive position

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Distribution

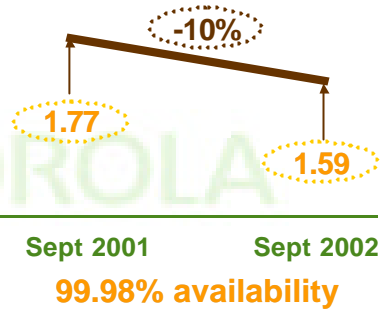
Quality of service improvements...

Investments in Distribution

	Sep. 2002	End 2002
Nr Substations (*)	24	39
MVA in Substations	3,184	4,544
Nr Transformers	2,525	3,530
MVA in Transf. Centers	1,318	2,100
HV Grid (km.)	160	302
MV Grid (km.)	737	969
LV Grid (km.)	1,566	2,104

(*) 44 under construction

ICEIT (h/y) Sept 2001- Sept 2002



...based on our investments

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Distribution

Quality of service improvements...

Top quality Regions*

	ICEIT 01: Spain 3.61
País Vasco	1,29
Navarra	1,35
La Rioja	1,50
Madrid	1,64

Lowest quality Regions*

	ICEIT 01: Spain 3.61
Baleares	10,29
Galicia	5,45
Andalucía	4,76
Cataluña	4,64

Supplied by Iberdrola

No Iberdrola area

*Source: CNE

Low risk of penalties: No extra investment required

Risk of penalties: Extra investment required

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Mexico

Growth at low risk

Features of the Contracts

Limited Currency risk

- Tariffs and fuel costs are dollarized

Limited Commercial Risk

- Top quality customers (CFE and leading corporations)
- 25 year contracts

Limited Fuel Risk

- Guaranteed gas supply
- Pass through of gas cost

Projects

- La Laguna bid (500 MW) awarded

	MW	Operating
Enertek	✓ 120 MW	2001
Monterrey	✓ 750 MW	1T 2002
Monterrey	250 MW	4T 2002
Altamira	1,036 MW	2003
La Laguna	500 MW	2005

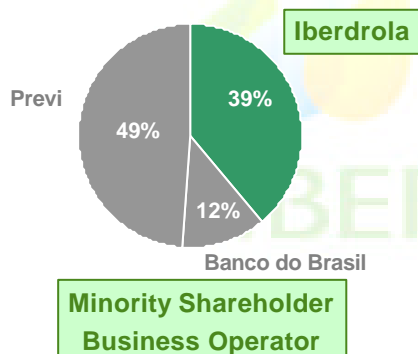
**2,700 MW by 2005 (vs 5,000 MW in 2006)
due to delays in the Plan**

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Brazil

Slowdown of investments

Iberdrola's position



Generation projects

	Capacity	% IBE
Itapebí	450 MW	183 MW
Termopernambuco	520 MW	200 MW
Total Operating Nov. 02	300 MW	122 MW*

- Projects financed locally
- Non recourse to Iberdrola

* Itapebí I and II

Generation projects with local financing

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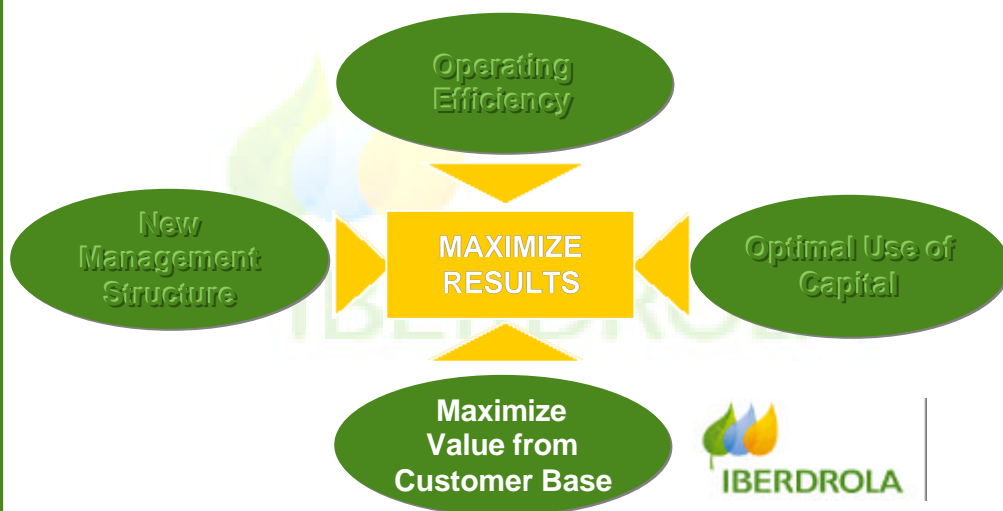
Divestments and Others

Fulfilling Plan's targets

Divestments	Gas Brazil & Colombia	€156 MM
	Real Estate	€126 MM
	Water Businesses	€95 MM
	Retirement Homes (GERS)	€19 MM
	Other non energy	€35 MM
Other initiatives	Back to Backs	€425 MM
TOTAL Generated 9M 2002		€857 MM
Pending Approval	HV Grid	€577 MM

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Maximize Value from Customer Base

New brand image: Results of the Campaign

- Watched by over 93% of target audience (16.3 times on average)
- Iberdrola's total awareness has increased by 15%
 - 5% spontaneous awareness
 - 25% suggested awareness
- Messages perceived fulfil targets established and reinforce the Company's positioning
 - Environmental care
 - Renovation / Innovation
 - Service
- Iberdrola, the energy company with best global image
 - Best electric utility in all attributes

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Maximize Value from Customer Base

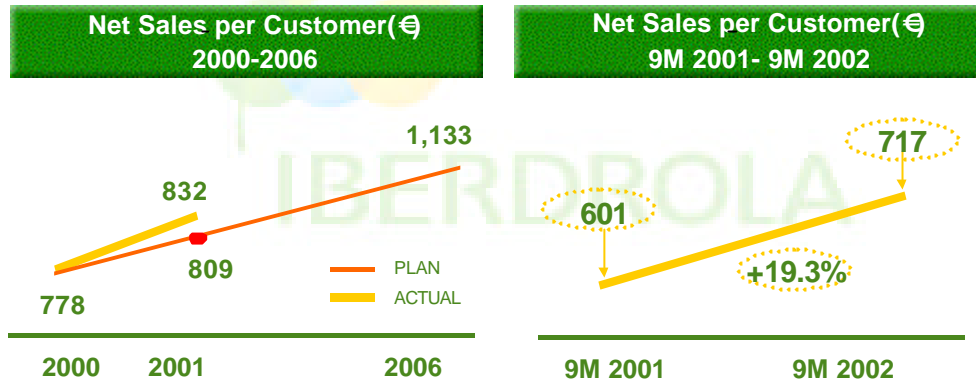
Iberdrola, ready for full liberalization



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Maximize Value from customer Base

Increasing Net Sales per Customer in Spain ahead of Strategic Plan



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Regulation

Tariffs

- ▶ Transparent, predictable and objective
- ▶ Envisaged tariff increases (1.65% in 2003); minimum 1.4% annual increase until 2010
- ▶ Tariff review linked to cost of gas, interest rates and demand
- ▶ Tariff limit to be reviewed in case of extraordinary circumstances
- ▶ 3.54% of tariff allocated for Nuclear moratorium will leave additional revenues from 2006

**Iberdrola's position, in line
with the expected revised model**

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Regulation

Tariff Deficit

- ▶ Recognition of historic Deficits: Estimated at 1.5 Bn euros
- ▶ Considered as regulated cost to be recovered through tariff
- ▶ To be recovered over the next 8 years on a linear basis
- ▶ Potential transfer of rights to third parties

CCGTs

- ▶ Higher revenues per KWh than current installed capacity
- ▶ Incentivising build up of new plants

**Iberdrola's position, in line
with the expected revised model**

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Regulation

Renewables

- ▶ Positive tariff evolution in 2002: Above Strategic Plan estimates
- ▶ Premiums will be maintained to support renewables investments included in NEP
- ▶ 2002 Ministerial Order strengthens retribution for renewables (ie: capacity payment)
- ▶ Green-certificates market opportunity for Iberdrola (Kyoto Protocol, NEP)

Distribution

- ▶ Incentivised remuneration for new investments
- ▶ Quality of service: Economic opportunity

**Iberdrola's position, in line
with the expected revised model**

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Conclusions

A focused Plan that anticipated industry trends...

- ▶ **Based on Low-emission Generation**
 - ▶ Spain as Core market
 - ▶ Investments in Energy business (Electricity and Gas)
 - ▶ Divestments in non-Core business
 - ▶ Reducing existing Generation vs Distribution gap
- ▶ **N.E.P. reaffirms Iberdrola's strategy**
- ▶ **Iberdrola's position, in line with the expected revised model**
- ▶ **Competitors following Iberdrola's strategy one year later**

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Conclusions

...delivering results ahead of estimates

- ▶ **Operational targets to be achieved at least 1 year in advance**
 - ▶ **Generation: More than 2.2 GW operating CCGTs and Renewables**
 - ▶ **Operating Efficiency:**
 - ▶ 12.8% Op. Expenses/Net Sales
 - ▶ 53% of Plan's workforce reduction already done
 - ▶ **Supply: 6.2% share in liberalised Gas market**
 - ▶ **Renewables: Agreement with Gamesa**

... while maintaining a strong balance sheet

- ▶ **Leverage ratio decreases to 58.6%**
- ▶ **Divestments agreed as of September 30th exceed €1.4 Bn**
- ▶ **Funds from Operations reach €1.266 MM**

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Conclusions

... a unique position for the future

- ▶ **Leader in CCGTs**
- ▶ **Leader in Renewables**
- ▶ **Leader in emission-free generation**
- ▶ **Leader in Distribution quality of service**
- ▶ **Leader in Liberalised Markets**
- ▶ **Leader in Efficiency: A benchmark for the Industry***

* Source: Brokers research

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Conclusions



Profitable growth with low risk

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IBERDROLA

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