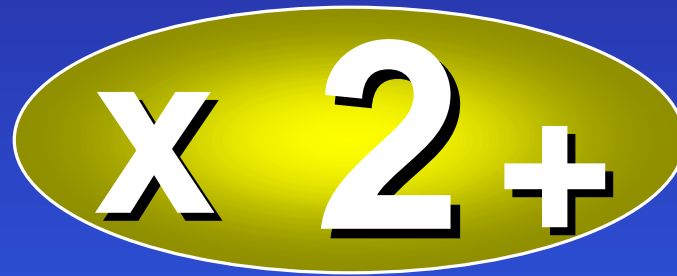


# IBERDROLA



## The New Iberdrola

2002 – 2006 Strategic Plan

Madrid, 1st October 2001

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IBERDROLA

## 1. Our Perspective

## 2. 2002-2006 Strategic Plan

- Strategic Vision for Iberdrola
- Targets

## 3. Conclusions

# Iberdrola Today



## *Key Strengths*

- Quality of generation mix
- Leadership in CCGTs *+5,000 MW in construction today*
- Gas supply guaranteed *+5 bcma contracted today*
- Leadership in renewables *+1,070 MW*
- Large customer base *+15 MM (+11.5 MM proportionate)*
- Strong financial position *52% debt / (debt + equity) in 2000*
- Strong cash flow generation *€ 2 Bn EBITDA in 2000*

A leading vertically-integrated utility with a strong asset base

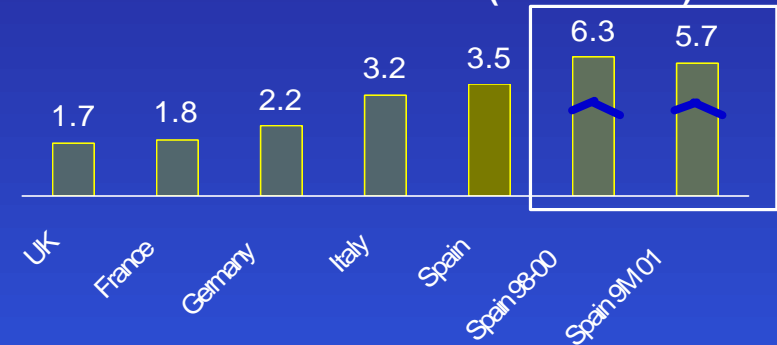
# Spanish Electricity Market



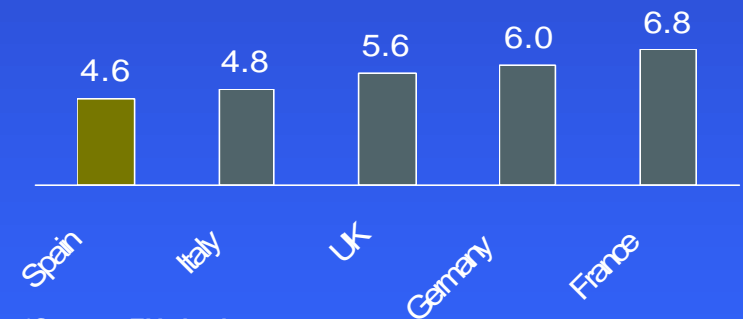
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- **Attractive market with growth potential**
  - Demand growth
  - Need for new capacity
- **Growth potential of green energies**
- **Liberalisation under way**
  - Electricity and gas supply
- **Increasing focus on customers**

Forecast Demand Growth (CAGR 00-05)\*



Electricity Consumption per Capita (99)\* (MWh/inhabitant)



\*Source: EIA, broker reports

More attractive than most European markets

# Global Electricity Market



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- Liberalization, deregulation, competition
- Specialization of players
- Attractive growth prospects in generation
- Opportunities from maximizing value from customer base
- Growth potential of green energies
- Consolidation



# Iberdrola Needs to Adapt

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- Improve efficiency
- Focus on core businesses
  - Exploit generation skills
  - Exit lower-return businesses
- Pursue available growth opportunities
  - Generation
  - Renewable energy
  - Customer base
- Take advantage from strong financial position

**New Strategic Vision for Iberdrola**

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IBERDROLA

## 1. Our Perspective

## 2. 2002-2006 Strategic Plan

- **Strategic Vision for Iberdrola**

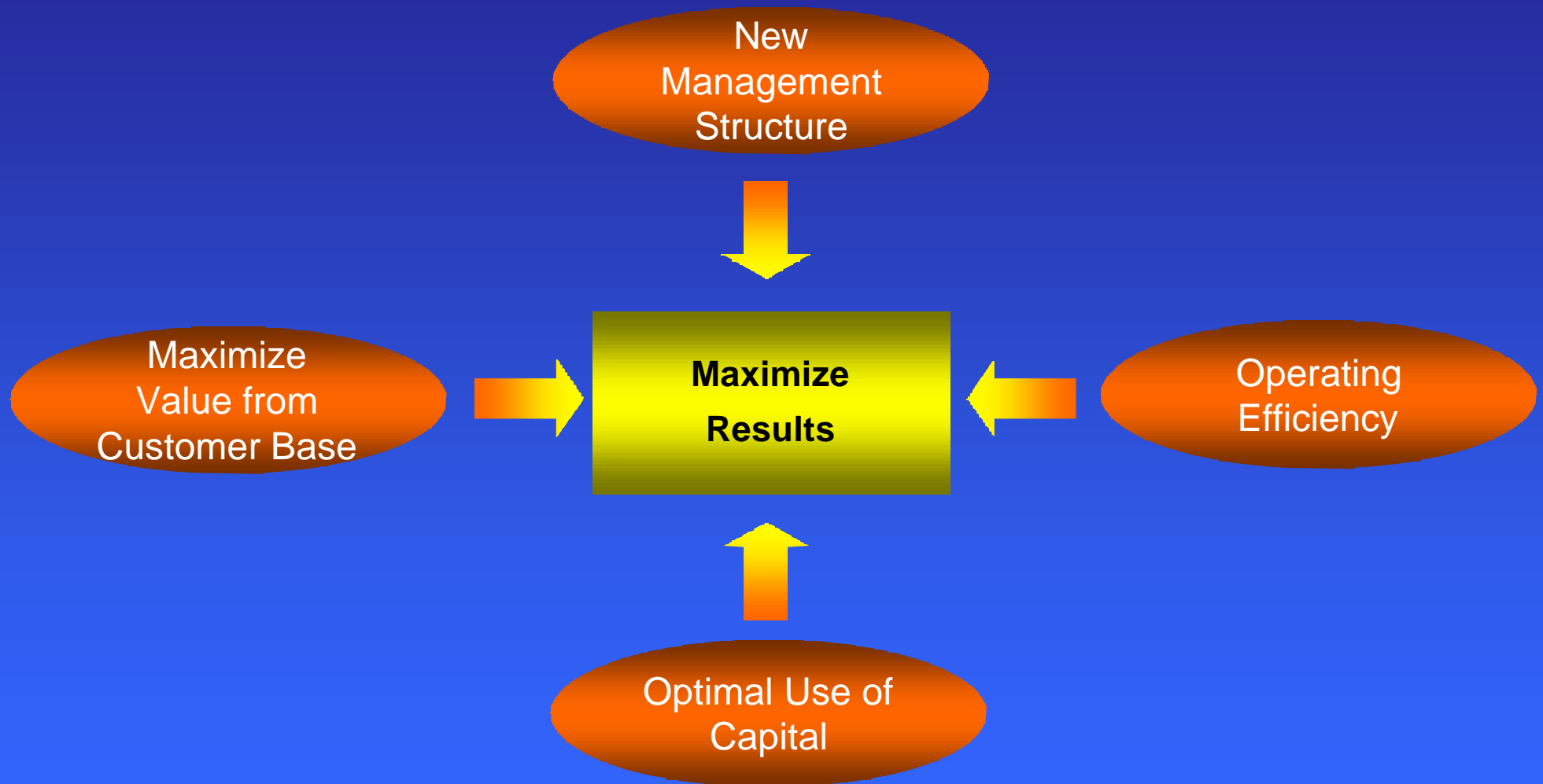
- Targets

## 3. Conclusions

# Our Vision for Iberdrola

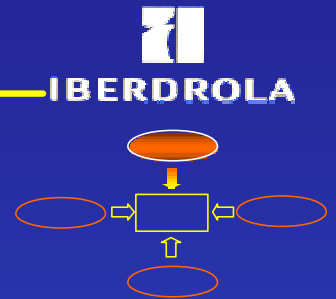


IBERDROLA



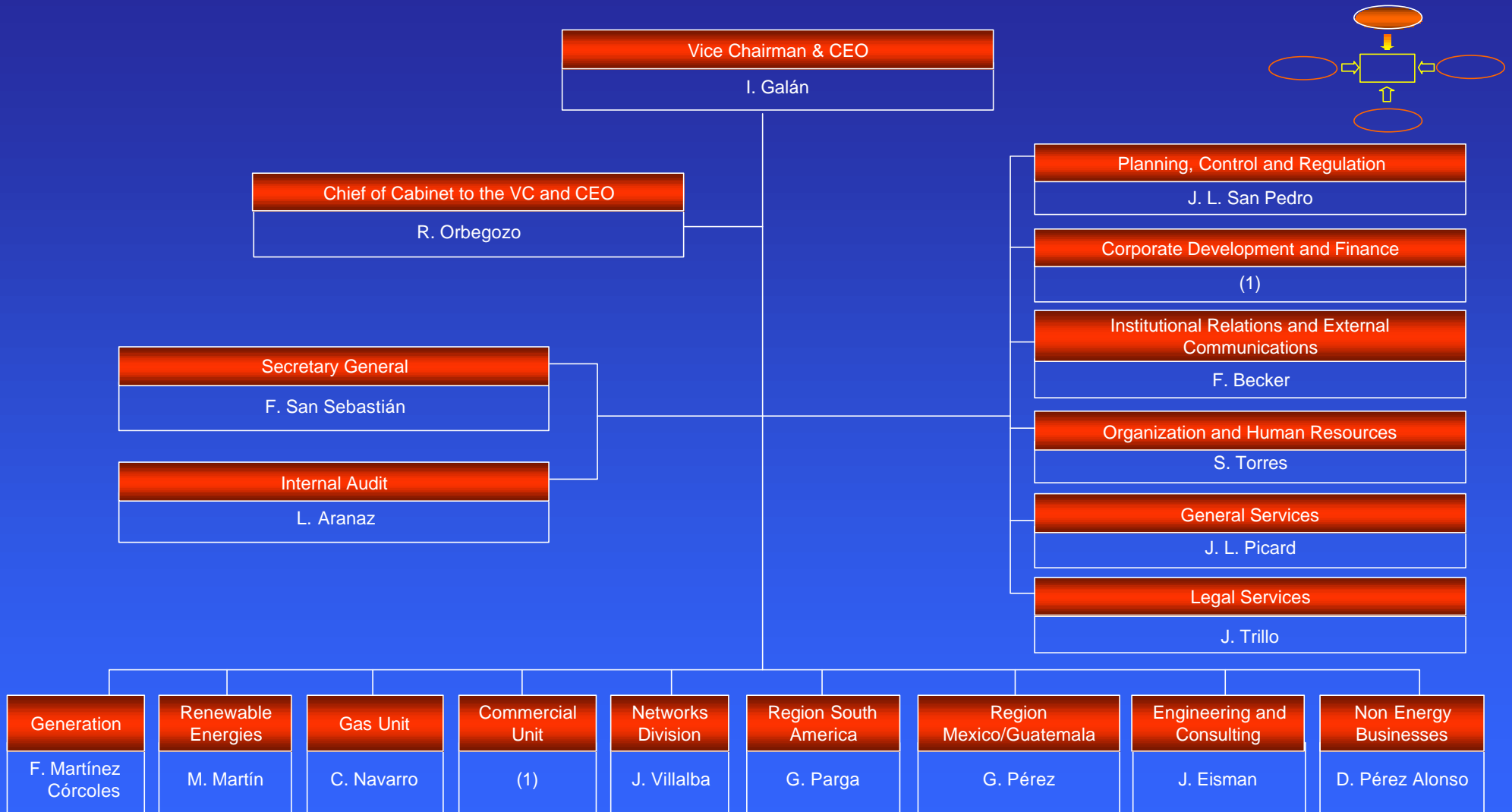


# Redefining Iberdrola's Corporate Culture



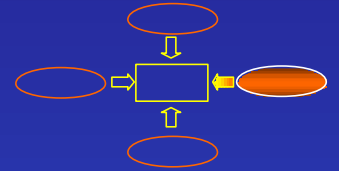
- Management
  - Younger, experienced and dynamic
  - More focused and decentralized
- New compensation system linked to performance
- Improvement of internal and external communication
- New organization:
  - 9 Business Units

# A New Management Team

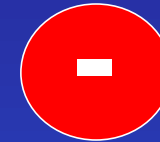


1. To be appointed. Provisionally, Fernando Becker will act as Director of Development and Finance and Javier Allende Director of the Commercial Unit

# Operating Efficiency - Spain



...with...



- ↑ Revenues
- ↑ Production
- ↑ Installed Capacity
- ↑ Customers

- ↓ External Services
- ↓ Personnel cost
- ↓ Purchases



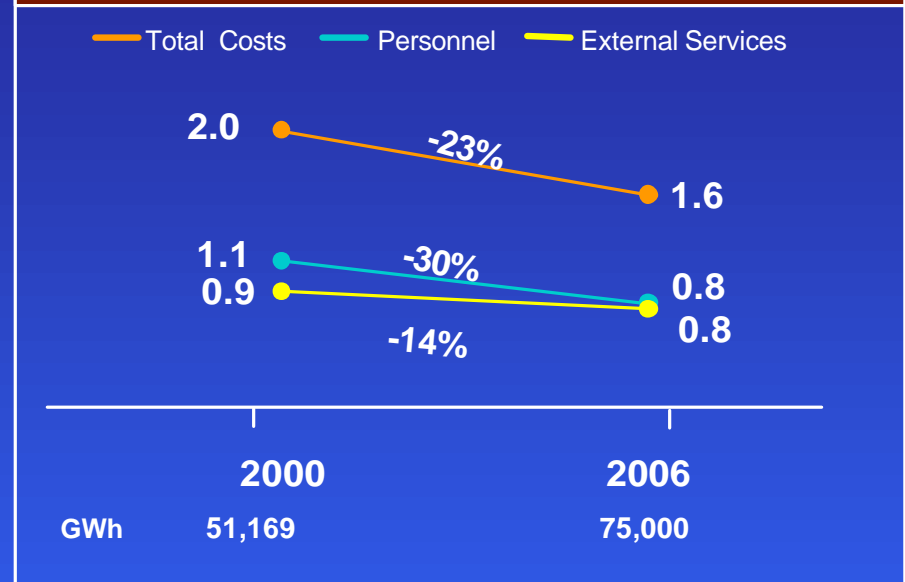
- Maximize results
- Minimize risks

# Operating Efficiency - Spain

## Costs(\*) as a % of Revenues



## Costs(\*) per KWh Produced (€cts)



- Centralize procurement
- Optimize personnel cost
- Centralize generation management
- Optimize internal resources and outsourcing

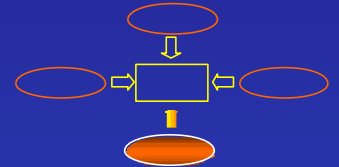
\* Costs and revenues related to generation, distribution, supply and corporate services in Spain (nominal terms)

# Optimal Use of Capital

## Divestment Program



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## Divestment of Financial and Non-Core Assets

€2,500 - 3,500 MM  
potential pre-tax  
proceeds\*

- Commitment to complete within the next 12 months subject to market conditions

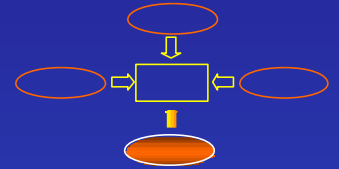
\* Estimated as of September 2001

# Optimal Use of Capital



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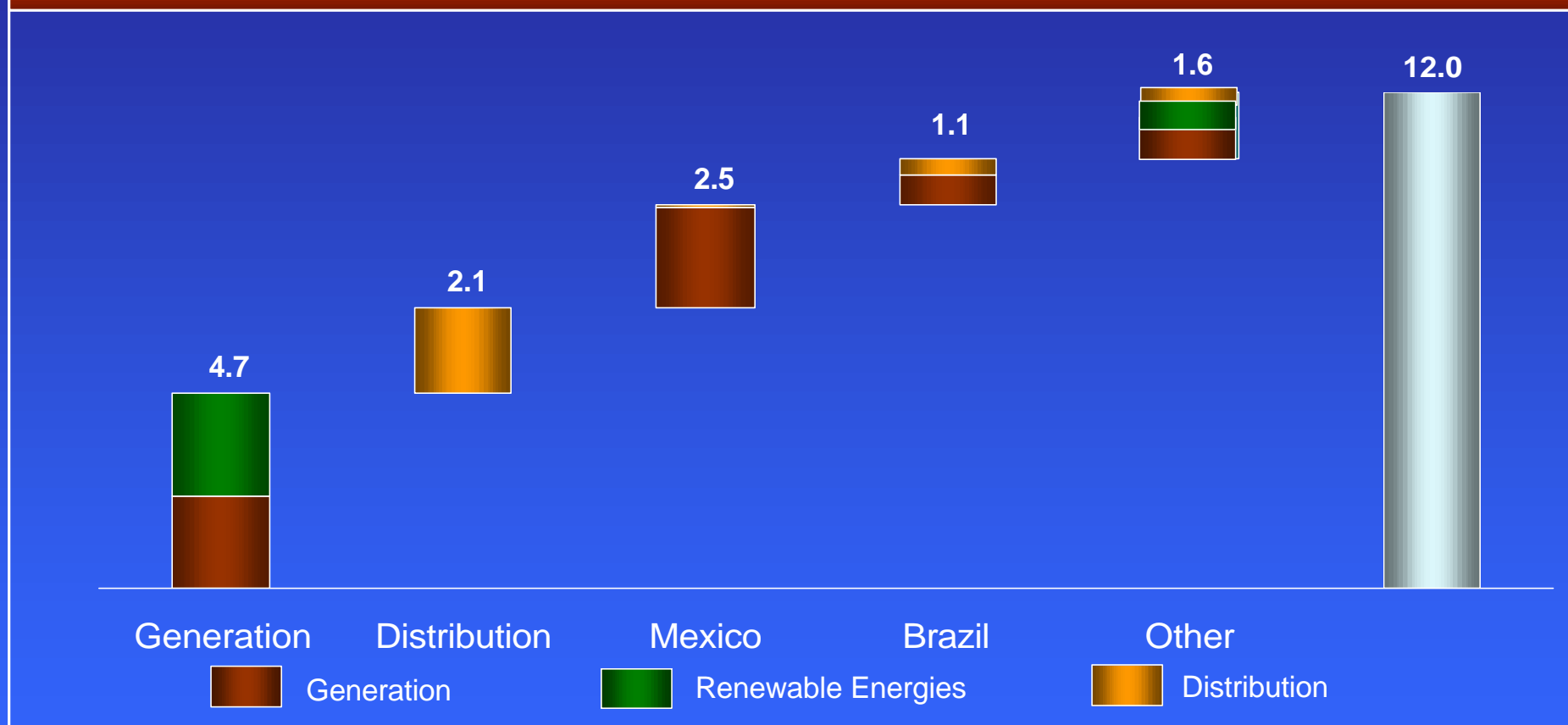
## *Investment Program*



- Grow generation in Spain
  - Leading position in CCGTs
  - Leading position in renewable energies
  - Production to converge with supply
- Grow generation internationally
  - Mexico, Brazil and others

# 2001 - 2006 Investment Plan

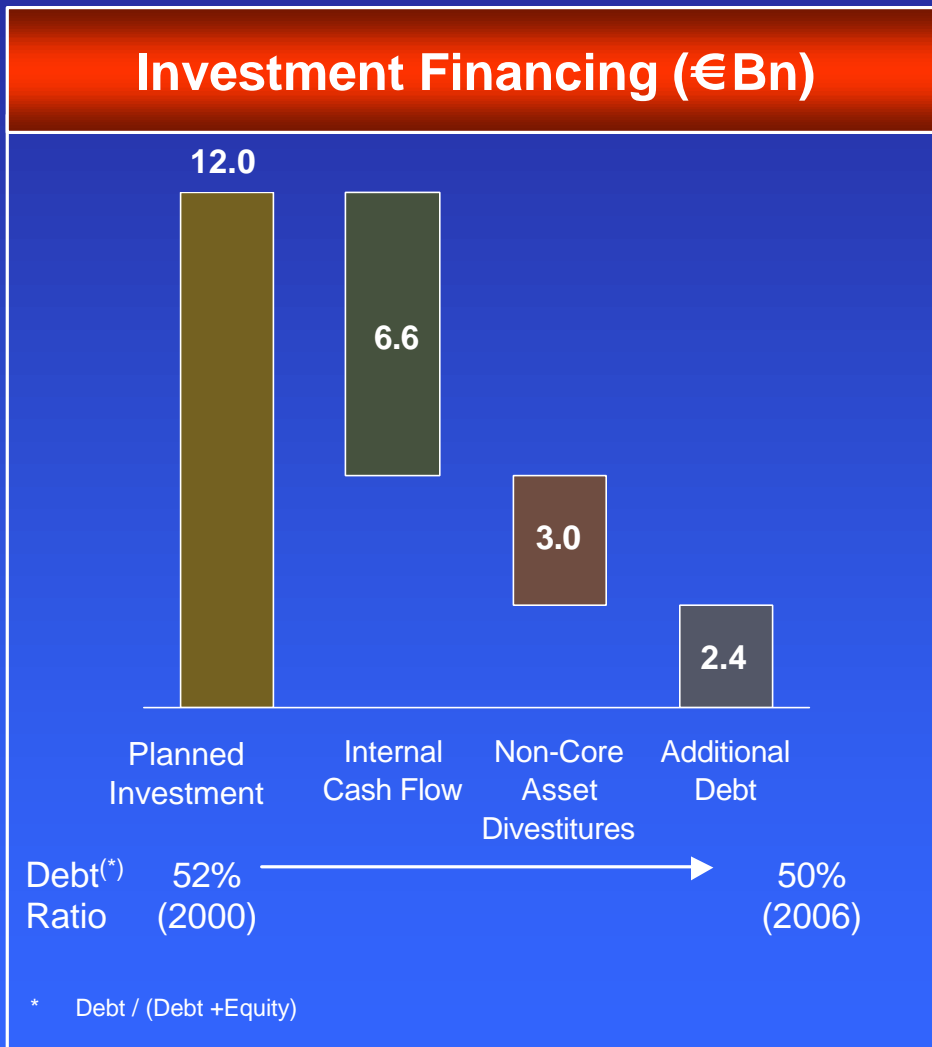
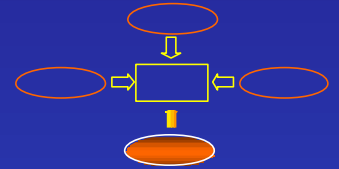
## Investment Breakdown by Activity / Region (€Bn)



# 2001 - 2006 Investment Plan



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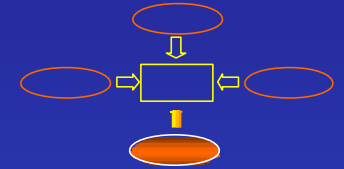
**2001 - 2006 Investment Plan  
can be completed with no  
increase in leverage**



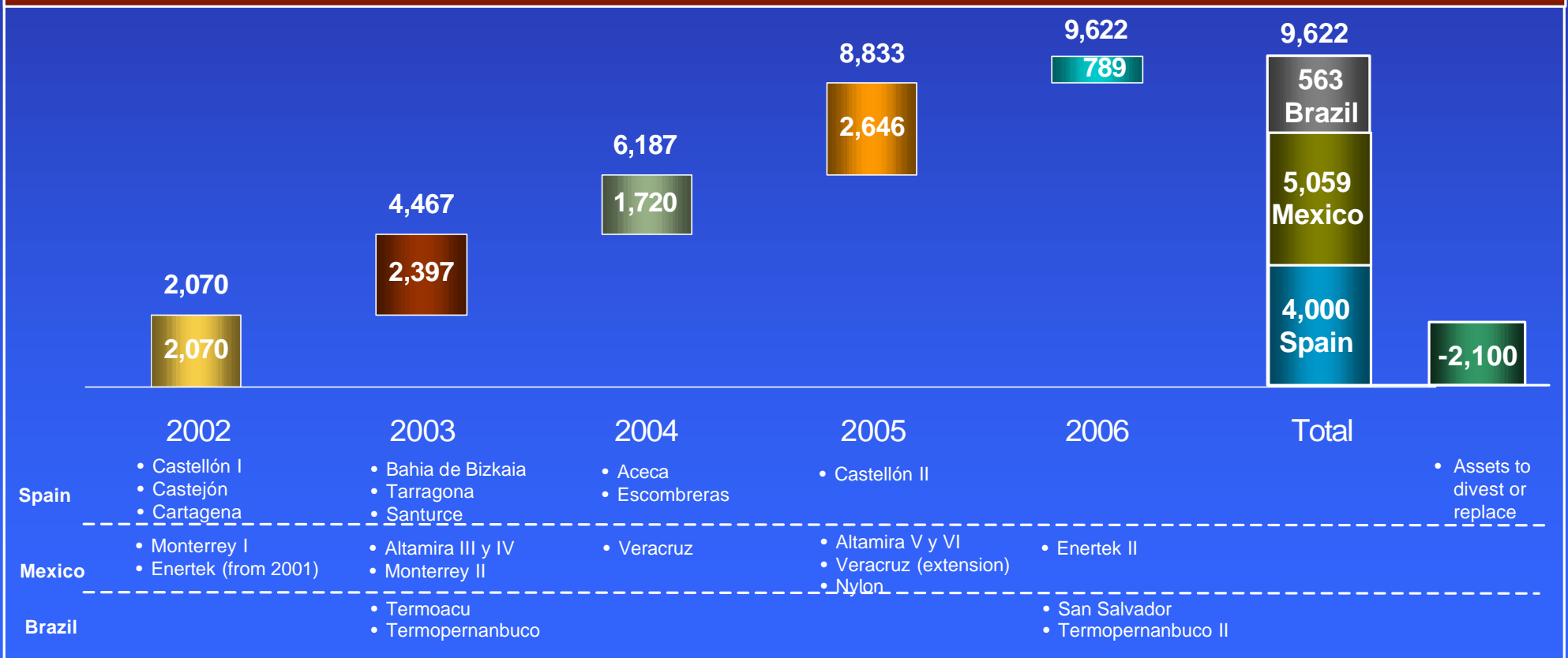
# Optimal Use of Capital



## Leading Position in CCGTs – Spain and International

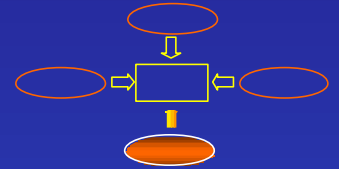


### CCGTs Installed Capacity (MW)



# Optimal Use of Capital

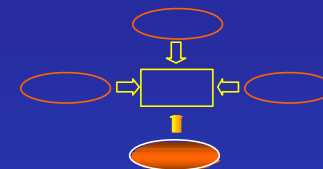
## Leading Position in CCGTs – Spain and International



	Investment 2001-2006 (€ M)		Expected IRR
Spain	1,900	▶	10%
Mexico	2,500	▶	11%
Brazil (39%)	700	▶	11%

# Optimal Use of Capital

## Gas Supply



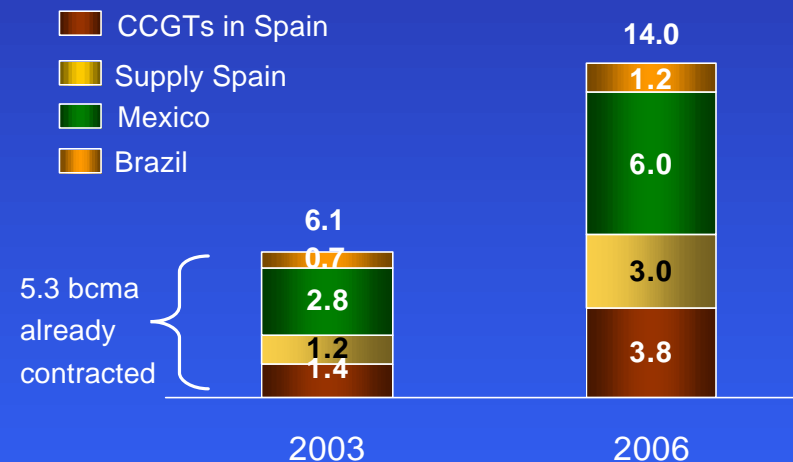
### Sources

- Spain
  - Gas Natural
  - Eni/Snam
  - Algeria
  - Nigeria
  - North Atlantic
  - Others
- Mexico
  - Pemex
- Brazil
  - Petrobras

### Indexed Pricing

- |              |            |
|--------------|------------|
| –Electricity | –Oil       |
| –Coal        | –Inflation |

### Uses (bcma)\*



### Regasification Plants

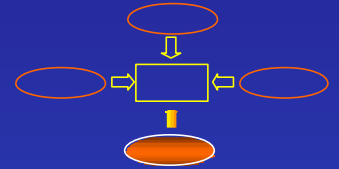
<b>2003</b>	<b>2006</b>
Bilbao**	Castellón
2,7 bcm	3-6 bcm

# Optimal Use of Capital



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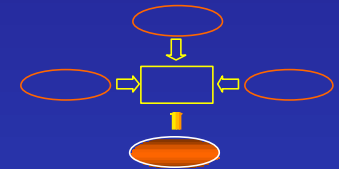
## *Gas Supply - Spain*



- Market to be fully open by 1st January 2003
- 70% limit of total imports for one sole player
- Total expected market in Spain: 34 bcm (2006)
- 50% of gas demand in Spain located in Iberdrola's electricity distribution area
- Iberdrola to trade 20% of total volume in 2006:
  - 11% for internal use
  - 9% for supply to final customers

# Optimal Use of Capital

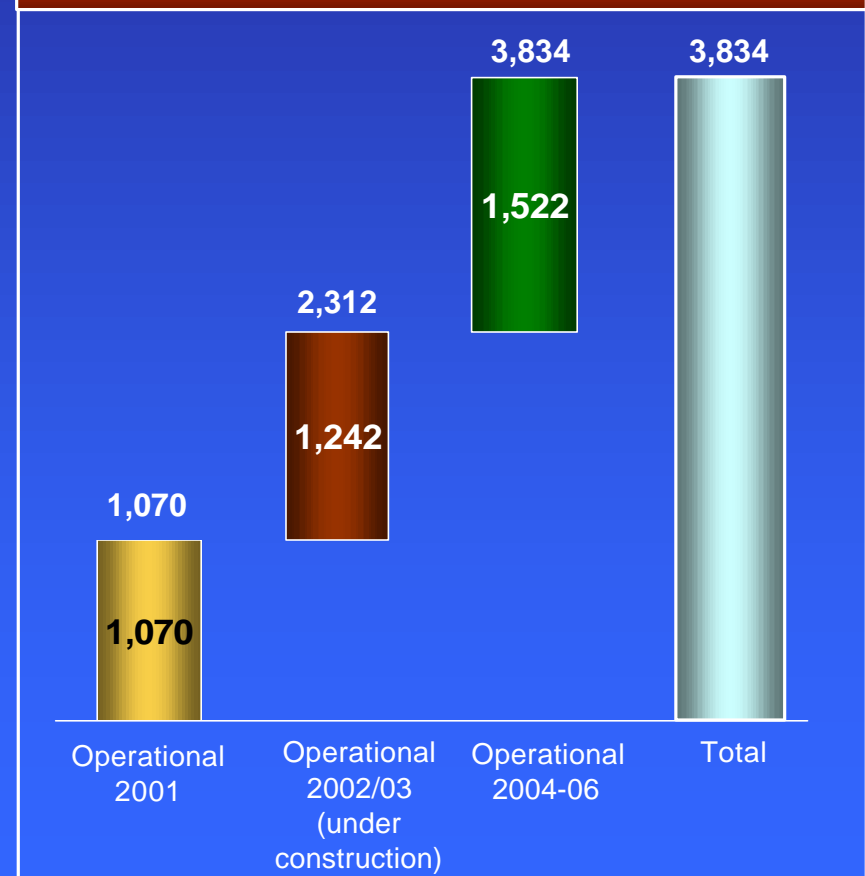
## Leadership in Renewable Energies - Spain



- Significant growth opportunity
  - European Directive, Spanish legislation
  - Kyoto protocol and social concern
- Iberdrola's competitive advantage
  - Leadership in "wind" park promotion in Spain
  - Energy and commercialization management skills

**Re-organization into one single business unit**

Renewables Installed Capacity Spain (MWs)

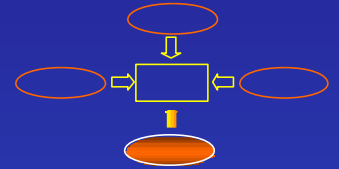


# Optimal Use of Capital



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## Leadership in Renewable Energies - Spain



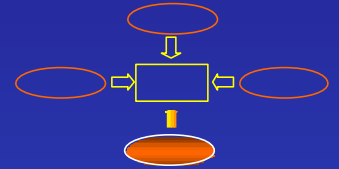
	Investment 2001-2006 (€ M)	Expected IRR
Spain	2,500	12%

# Optimal Use of Capital



IBERDROLA

## *Mexico*



- Limited currency risk
  - Fuel and tariffs are dollarized
- Limited commercial risk
  - Top quality customers: CFE and leading corporations
  - Long term sale contracts
- Limited fuel risk
  - Guaranteed gas supply
  - Pass through of gas cost

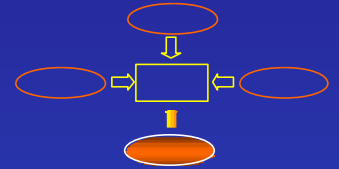
**Attractive growth with projects of limited risk**

# Optimal Use of Capital



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## *Brazil*



- **Distribution**
  - Investment limited to capex on existing assets
  - Leading position in North-eastern Brazil (+6.5 million customers)
  - Solid Brazilian partners (Banco do Brasil and Previ)
  - Limited shortage risk in existing contracts with generators due to Brazil's "Annex 5"
- **Generation**
  - Build new generation to converge with supply
  - Guaranteed fuel supply
  - Target new investments in local currency
  - Non-recourse financing
  - Leading customers

**Optimize existing assets**

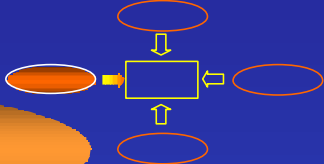


# Maximize Value from Client Base

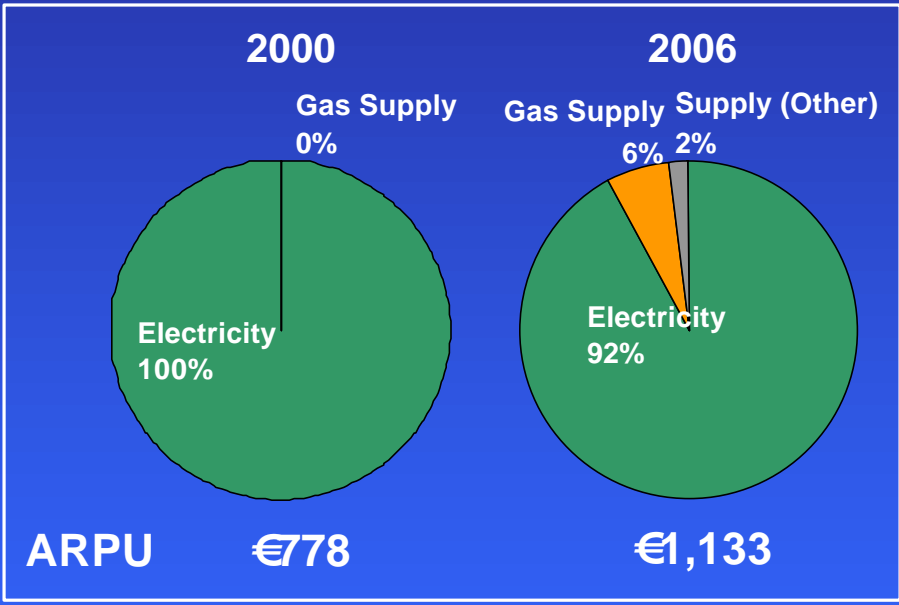
*Spain*

Targets 2006

ARPU



- Guarantee customer loyalty
- Add new products and services lines
  - Gas
  - Industrial Products and Services
  - Air Conditioning
  - Multi-Services
- Customer base segmentation



**Take advantage of existing customers and benefit from upcoming liberalization**

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# 2006 Operating Targets



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		2000	2006	00-06
<b>Spain</b>	Installed Capacity (MW)	16,062	22,000	x1.4
	Production (GWh)	51,169	75,000	x1.5
	Distributed Energy (GWh)	69,912	86,000	x1.2
<b>Platform Brazil (39%)</b>	Installed Capacity (MW)	-	800	-
	Production (GWh)	-	5,000	-
	Distributed Energy (GWh)	8,339	10,600	x1.3
<b>Platform Mexico</b>	Installed Capacity (MW)	-	5,000	-
	Production (GWh)	-	40,000	-
<b>Other</b>	Installed Capacity (MW)	-	3,000	-
<b>TOTAL</b>	<b>Installed Capacity (MW)</b>	16,062	30,800	<b>x1.9</b>
	<b>Production (GWh)</b>	51,169	+120,000	<b>x2.4</b>

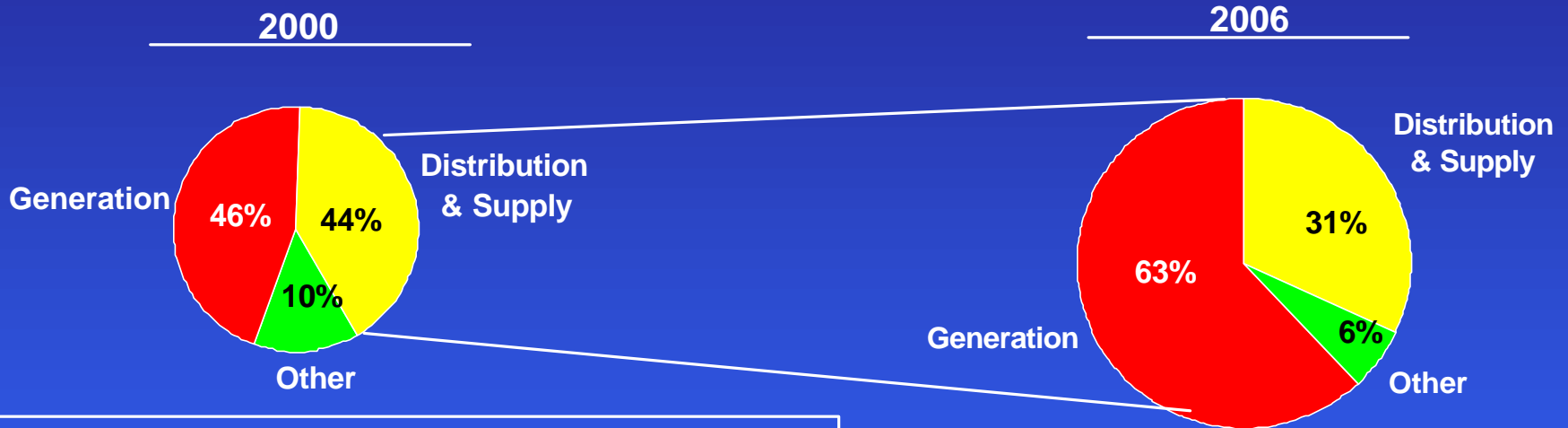
# 2006 Operating Targets



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## Contribution to EBIT\*

*Higher Focus on Generation*



*More Balanced Geographic Exposure*

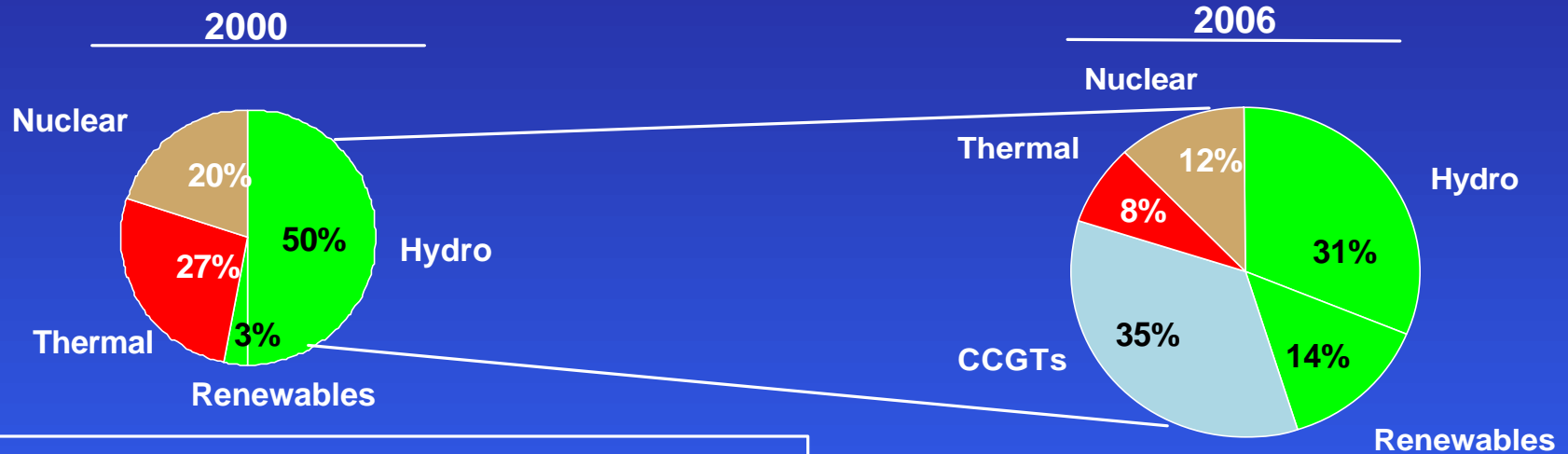


\* Includes income from associates

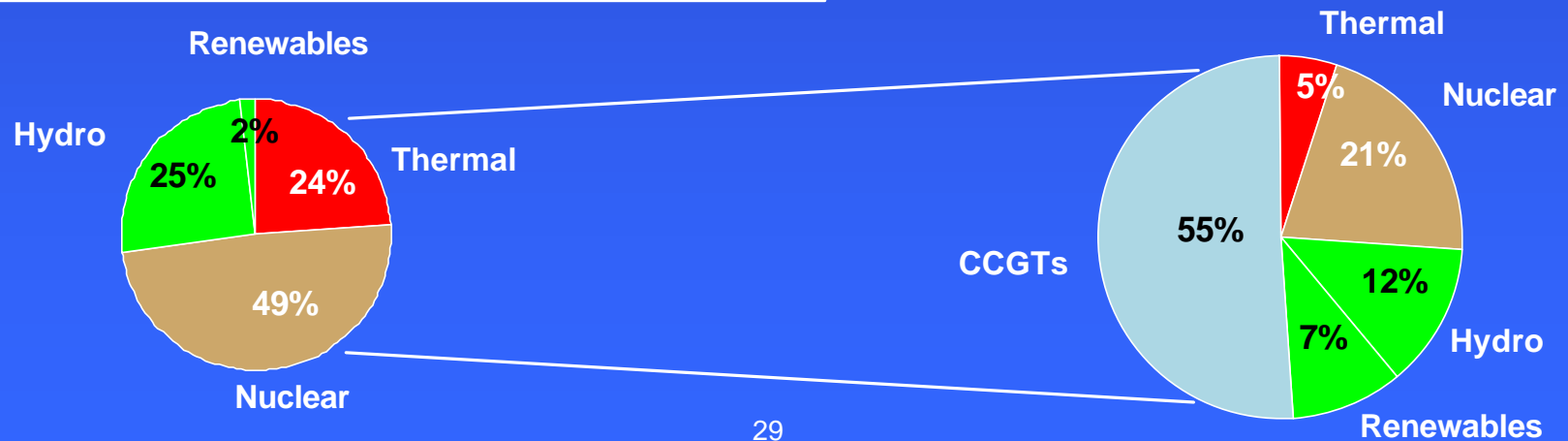
# 2006 Operating Targets

## A More Balanced Mix

### Installed Capacity (MWs)



### Production (GWh)



# 2000 - 2006 Financial Targets



**Growth**

**Required Return**

**Leverage**

<i>(Euro MM)</i>	<b>2000</b>	<b>2006</b>	
• Revenues	7,052	14,500	x 2.1
• EBITDA	1,975	4,200	x 2.1
• Net Income	852	1,600	x 1.9
– EPS (€)	0.95	1.80	x 1.9
• Dividends	482	650	x 1.3
– DPS (€)	0.54	0.72	x 1.3
• Payout	57%	40%	

- IRR: WACC + 2-3%

- Leverage is reduced to 50% in 2006

- Room for additional leverage

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IBERDROLA

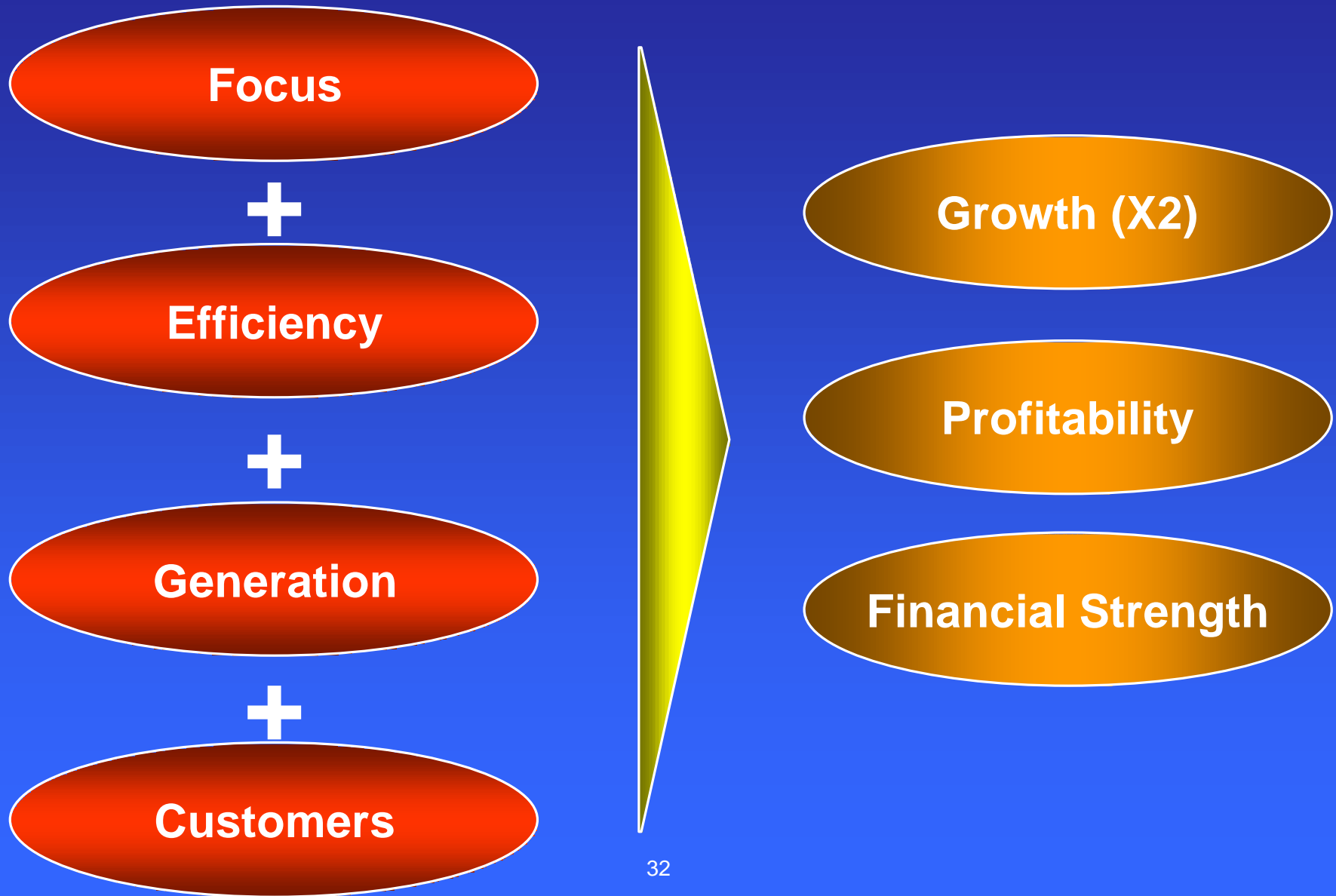
## 1. Our Perspective

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# Conclusions





# Conclusions

Additional opportunities in areas of priority to be continuously monitored...

- Generation and supply
- Europe and US

If...

...Meet appropriate return criteria

...Add new skills and synergies to current businesses

- Leverage ratios resulting from the Plan allow for additional debt financing
- Willingness to dispose electricity domestic assets if required

# IBERDROLA

X 2 +



**The New Iberdrola**

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