

# Iberdrola's Presentation to Fixed Income Investors

February 2003



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### **BUSINESS ANALYSIS**

- **Overview of Iberdrola**
- **2002-2006 Strategic Plan**
- **Market Environment**
- **Accomplishment of Strategic Plan**

### **FINANCIAL ANALYSIS**

- **Jan-Sept. 2002 Results**
- **Debt and Liquidity analysis**
- **2002-2006 Projections**

### **IBERDROLA IN THE FINANCIAL MARKETS**

### **CONCLUSION**

## Main features



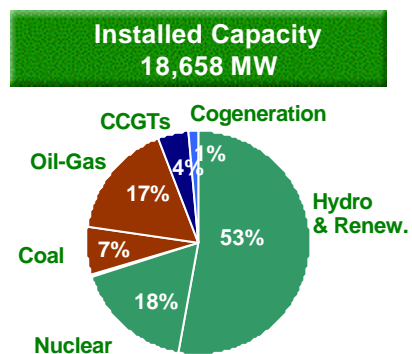
- 1st Spanish & 6th European electric utility by Market Cap (€12.3 bn as of 30th Jan 2002)
- DOMESTIC MARKET:
  - 28.3% share in Production (Dec-02) with 18,658 MW installed
  - 39.8% share in Distribution: 77,125 GWh (Dec-02)
  - Leader in liberalised Supply: 38.3% in electricity and 7.3% in Gas (4.5% of full market)
- Renewables: Leader in Europe
- Focus on domestic market: 94% of EBIT (Sep-2002)

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## Generation Spain (Sep-2002)



**30% share in the Generation market (by production)**



**73% of the assets are free of CO<sub>2</sub> emissions**

**Highest margin producer: Hydro and Nuclear**

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## Distribution-Supply Spain (2002)



### 9.2 million customers with top quality of service



#### Distribution: 9.2 million customers

- 77,125 GWh distributed (dec-02)
- Presence in highest growth areas
- 4.4% increase in energy distributed in 2002

#### Supply: 38.3% market share

- Leader in liberalised electricity
- Start up of gas supply activities:  
7.3% share of liberalised market and  
4.5% of full market as of Dec-2002

### Leader in liberalised market

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## Distribution



### Leader in quality of service

#### Top quality Regions\*

ICEIT 01 (\*\*): IBE 2.45

País Vasco	1,29
Navarra	1,35
La Rioja	1,50
Madrid	1,64

#### Lowest quality Regions\*

ICEIT 01: Spain ex IBE 4.30

Baleares	10,29
Galicia	5,45
Andalucía	4,76
Cataluña	4,64

Supplied by Iberdrola

Non Iberdrola area



Low risk of penalties: No extra investment required

Risk of penalties: Extra investment required

\* 2001 data; Source: CNE

\*\* ICEIT: System Average Interruption Index

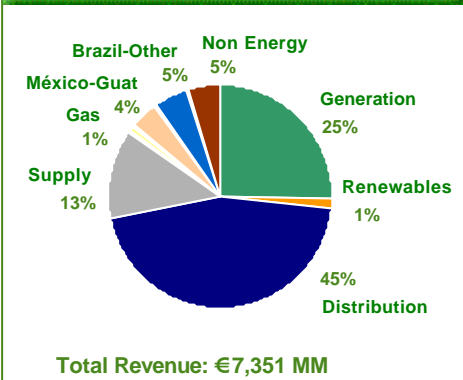
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## Main activities of Iberdrola

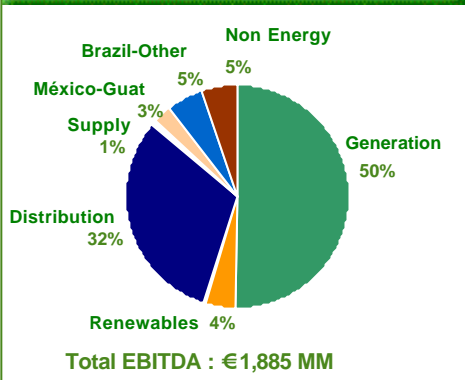


### Focus on electricity business in Spain

9M 2002 Breakdown of Revenue by Division



9M 2002 Breakdown of EBITDA by Division



87% of EBITDA

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## 2002-2006 Strategic Plan



Operational Targets		<b>x 2 +</b>	Double Results and Size		2000	2006
Installed Capacity	→	Multiply x 2	Total MW	→	16,062	30,800
Production	→	Multiply x 2	Total GWh	→	51,169	+120,000
Business Diversification	→	Larger Contribution from Generation	Generation EBIT	→	46%	63%
Generation Assets (Global)	→	A more balanced Mix				

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## 2002-2006 Strategic Plan



Financial Targets		<b>x 2 +</b>	Double Results and Size		2000	2006	
Profits	→	Multiply x 2	Net Sales	→	7,052	14,500	
			EBITDA	→	1,975	4,200	
			Net Profit	→	852	1,600	
Financial Structure	→	Maintain Financial Strength	Leverage	→	52%	< 50%	
Dividend Policy	→	At least, maintain current trend	Minimum dividend growth	→	+5%		
Required Return	→	WACC +2-3%					

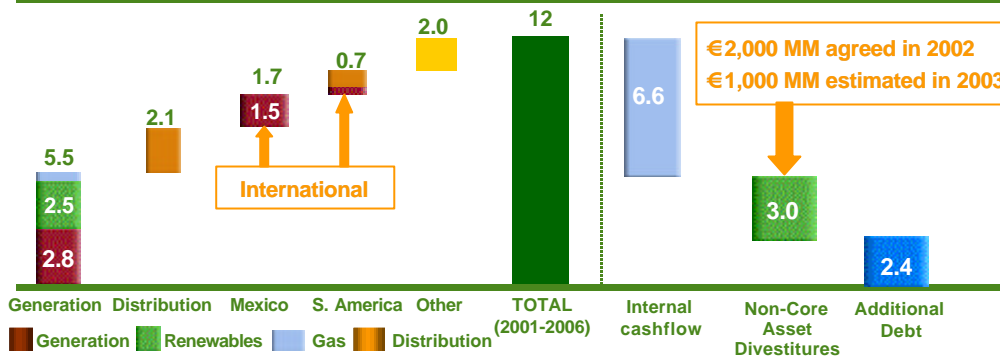
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## 2002-2006 Strategic Plan



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

### Investment Financing (€bn)



- Investment focus in the domestic market
- Reduction of the projected investments in Latam from €3.6 bn to €2.4 bn

2002 - 2006 Investment Plan will be completed with a decrease in leverage:  
 Debt ratio (\*): < 50% in 2006

(\*): Debt/ (Debt+Equity)

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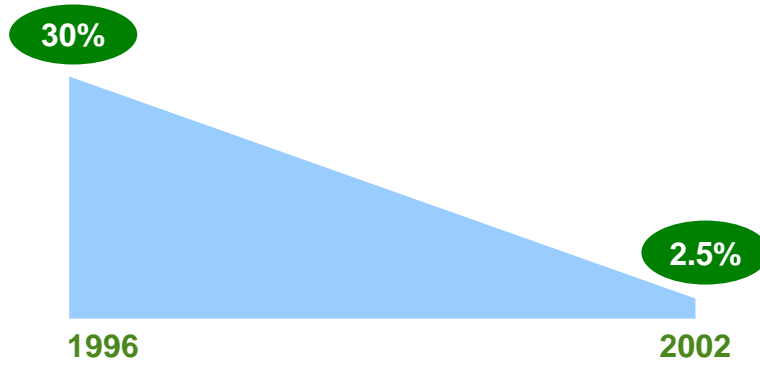
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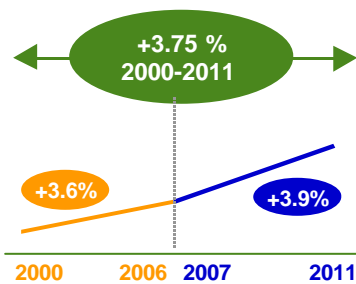
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### Drastic decrease in the reserve margin



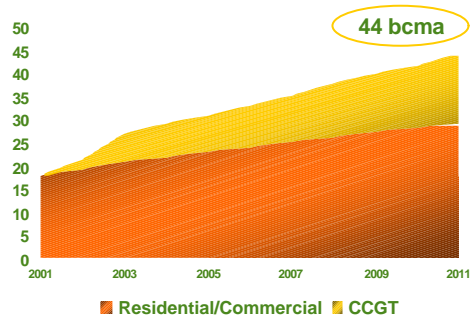
Spain needs to increase reserve margin levels to 10-15%

### Electricity demand estimates



1% increase in demand requires new 800 MW

### Gas-Estimated demand

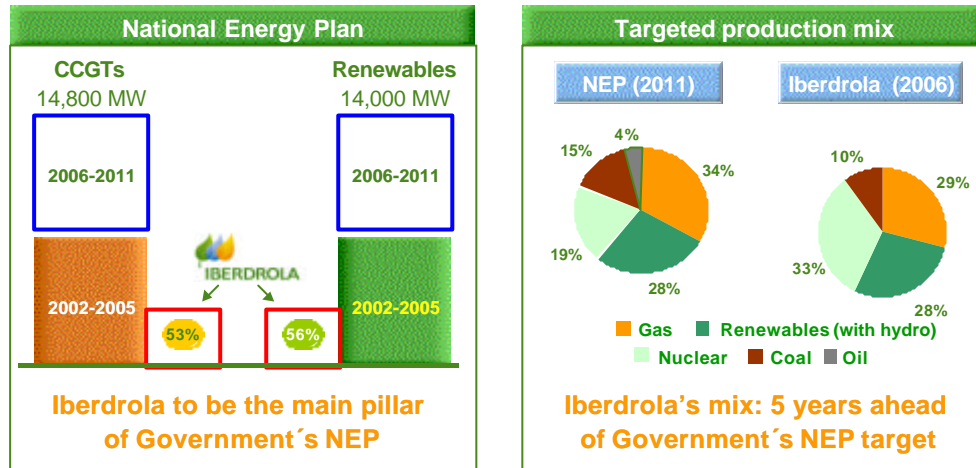


- ▶ Strong demand increase
  - ▶ 9.5% CAGR (2001 - 2011) (\*)
  - ▶ Since 2005, 25% to 35% of demand coming from CCGTs
- ▶ Stable growth of rest of demand

## National Energy Plan 2002-2011 (NEP)



### NEP supports gas and renewables: pillars of Iberdrola's Strategic Plan



Iberdrola, the only growth alternative in the Spanish electricity sector

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## A new regulation

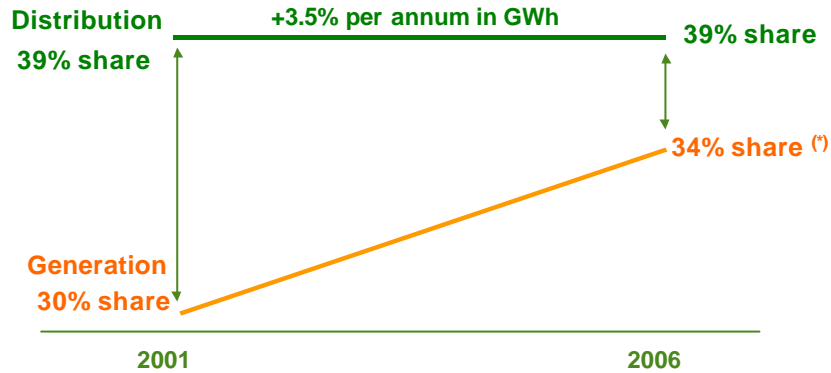


<b>Tariffs</b>	<ul style="list-style-type: none"> <li>▶ New methodology: Transparent, predictable and objective</li> <li>▶ 1.65% tariff increase in 2003; 1.4% base increase p.a. until 2010</li> <li>▶ Tariff increases up to 2% (except for extraordinary circumstances)</li> <li>▶ <u>Tariff review linked to cost of gas, interest rates, demand and renewables</u></li> <li>▶ 3.54% of tariff for Nuclear moratorium to leave additional revenues from 2007</li> </ul>
<b>Tariff Deficit</b>	<ul style="list-style-type: none"> <li>▶ <u>Recognition of historic Deficits</u>: Estimated at 1.5 Bn euros</li> <li>▶ Regulated cost to be recovered over the next 8 years on a linear basis</li> <li>▶ <u>Securitization allowed</u></li> </ul>
<b>CCGT's</b>	<ul style="list-style-type: none"> <li>▶ New methodology includes extra cost of CCGTs generation : 4.3 vs. 3.6 Euro cents/KWh.</li> <li>▶ Incentivising build up of new plants</li> </ul>
<b>Renewables</b>	<ul style="list-style-type: none"> <li>▶ 1% reduction in regulated tariff for wind energy in 2003</li> <li>▶ Tariff evolution above Strategic Plan assumptions</li> <li>▶ Upcoming methodology to support renewables investments in NEP</li> </ul>

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## Iberdrola's Market vs. Generation in Spain



(\*) Includes CCGTs and Renewables

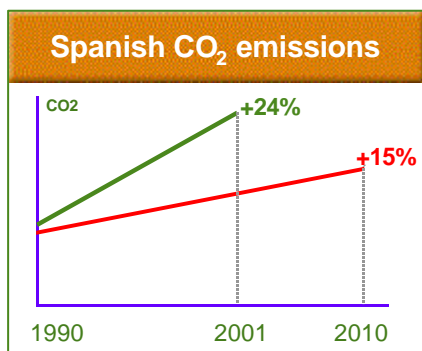
**Profitable growth with low risk**

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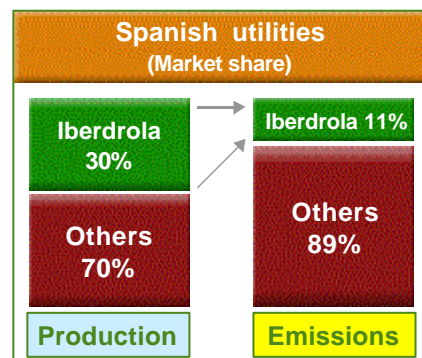
## Environment



### Strong Iberdrola 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

- **Winning position in EU's evolving framework and regulation**
  - **CO<sub>2</sub> certificates market, a business opportunity**

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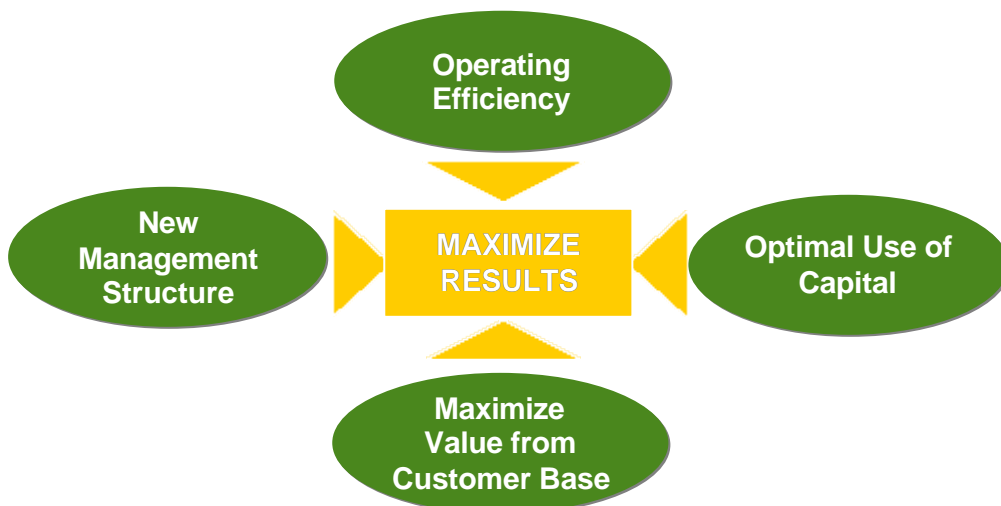
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# 2002-2006 Strategic Plan



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## 2002: Summary of Achievements (I)



### Acceleration of Strategic Plan in 2002

		Str. Plan 2002	2002e
Generation (Spain)	▶ One year acceleration of CCGT Plan (Arcos, 2005e)		
	▶ Construction Plans on track	1,200	1,200
	▶ Castellón 800 MW in operation and Castejón 400 MW in test		
	▶ Total installed capacity to reach 19,429 MW as of Dec-02		
Renewables	▶ Restructuring of stakes: Gamesa & EHN deal	1,437	1,920 (*)
	(*) Pending approval of Competition authorities		
Gas	▶ Secured and diversified sources	2.0%	7.3%
	▶ Liberalized market: 7.3% share (4.5% of total market) vs. 7% target for 2006		
Supply (Spain)	▶ Leading in liberalized market	37.9%	38.3%
	▶ Leading in brand recognition		
Mexico	▶ 1,157 MW in operation by December 2002	870	1,157

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## 2002: Summary of Achievements (II)



### Compliance with Strategic Plan despite market conditions

		Str. Plan 2002	2002e
Efficiency	<b>Increasing efficiency ahead of targets</b>		
	▶ Reduction in employees: 57% of St. Plan 2006 target*.....	1,121	635 (****)
	▶ Operating Expenses/Sales: 7% better than expectations....	14.1%	13.1%
	▶ Comparative efficiency leadership**:		
	▶ 211 employees/GW installed vs. European average of 264		
	▶ 12.2 GWh distributed/employees vs. European average of 8.0		
Divestitures and Others	▶ 106% achievement as of closing 2002	2,000***	2,116
	▶ On track to exceed 3.2 EUR bn target by 2006		

\* Agreement signed with Trade Unions in October 2002

\*\*Source: CSFB

\*\*\* It does not include Repsol convertible issued in 2001

\*\*\*\* For the period 2001-2002

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## Generation (Spain)



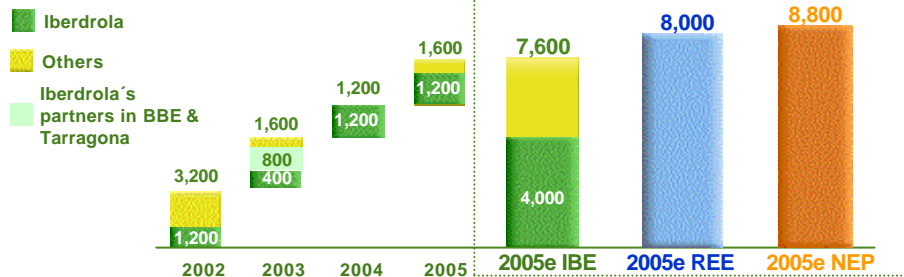
### The Arcos acquisition

- ▶ 800 MW by 2005
- ▶ Required investment of 335 EUR M in 2002

### 2002 confirms acceleration of CCGTs building plan

- ▶ 4,000 MW operating by 2005
- ▶ High leverage forcing competitors to reduce investments

### CCGTs under construction vs Capacity requirements



**No risk of overcapacity**

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## Renewables



### Restructuring of stakes: Gamesa & EHN agreements

#### Gamesa agreement

1,055 wind MW with best quality: load factor 21% above Spanish average (NEP)

##### Strategic features

- ▶ Scarcity of future assets with this quality levels
- ▶ It allows 2006 targets to be achieved in advance
- ▶ First mover advantage
- ▶ Critical mass achieved

##### Financial features

- ▶ Mostly non-recourse debt through project-finance
- ▶ Accretive from year 1
- ▶ IRR (project): 9%; IRR (Equity): 14%

#### EHN agreement

Full reorganization of stakes: Increasing control and visibility

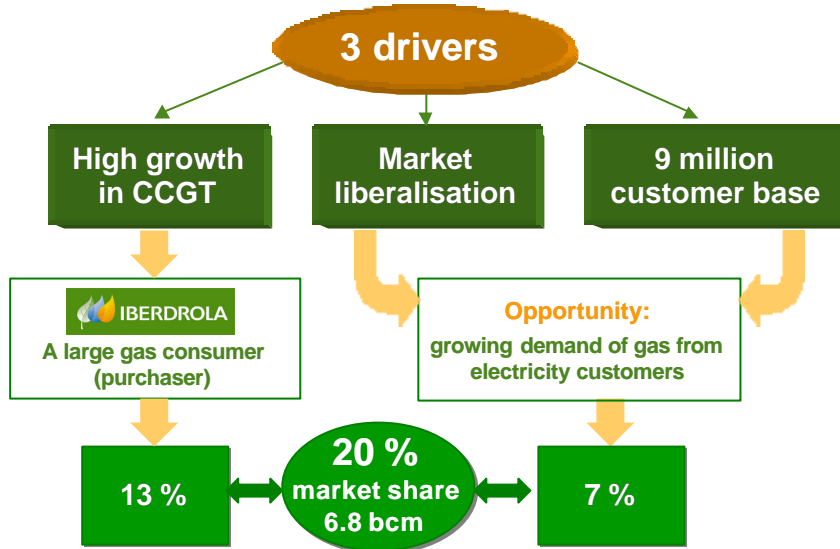
- ▶ Completion of EHN deal allows to control almost 100% of attributable capacity by 2002
- ▶ All stakes already under IBERENOVIA

**Leadership in wind park promotion in Spain**

**Growth opportunity: Kyoto protocol; social support**

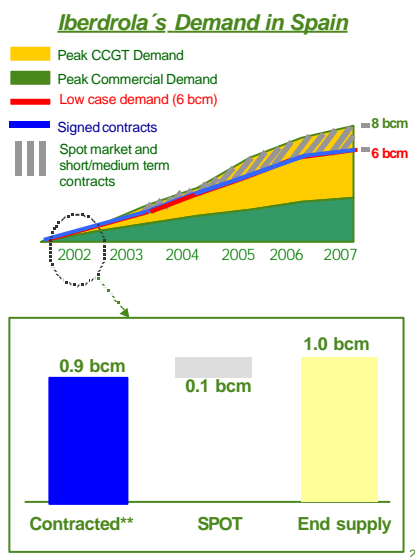
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### Target of Gas: 20% market share by 2006



### Low risk strategy

- Securing gas needs for CCGTs and customers...**
- ▶ 5.7 bcma already contracted for Spain up to 2006
  - ▶ No risk of oversupply; demand growing at 9.5% CAGR\*
  - ▶ Gas procurement strategy ensures reliability
- ...with a well diversified risk**
- ▶ Currency diversification: EUR/US\$
  - ▶ Signed contracts: Nigeria, Repsol, Gas Natural, Eni, Sonatrach and Statoil
  - ▶ Oil and non-oil related Price Index Formulas: Electricity, Coal and Inflation
  - ▶ Electric Tariff to allow for gas cost recovery in Generation
- and a secure access to the Spanish infrastructure**
- ▶ Access secured through signed TPA contracts with Enagas and own infrastructure projects

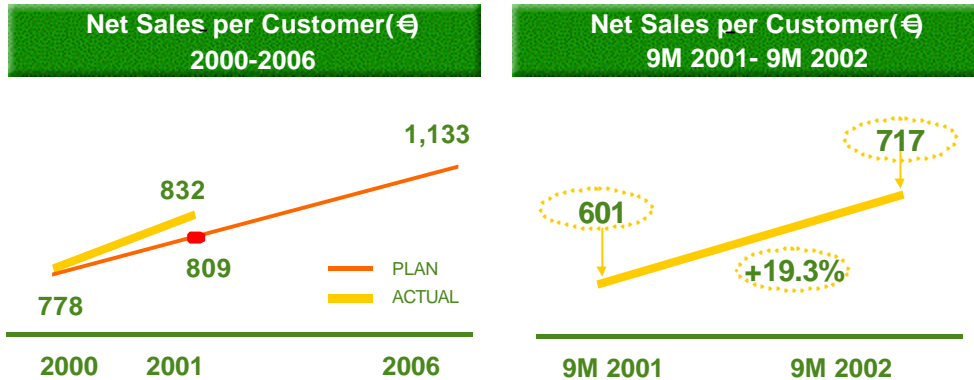


\*Source: Ministry of Economy, for the period 2001-2011  
 \*\* 0.5 bcm of Sagane, 0.3 bcm ENI and 0.1 bcm Sonatrach.

Supply (I)



**Increasing Net Sales per Customer in Spain ahead of Strategic Plan**

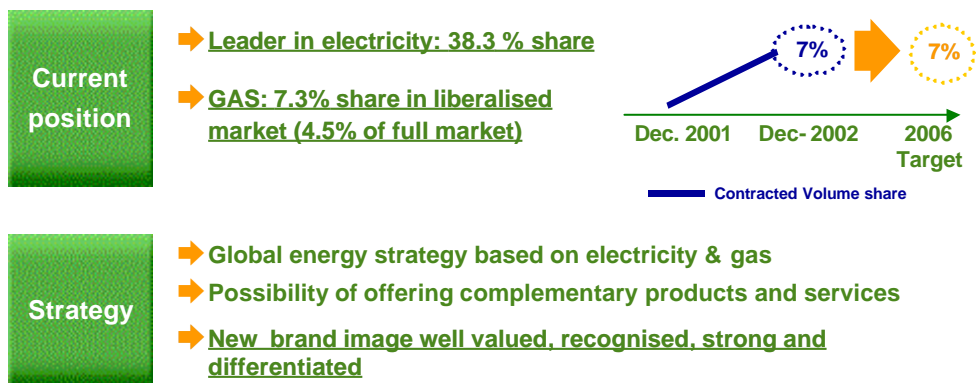


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Supply (II)



**7.3% of liberalised gas market (4.5% of full market)**



**Gas: Taking advantage of existing customers**  
**Electricity: Little room for customer shift**

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## Distribution



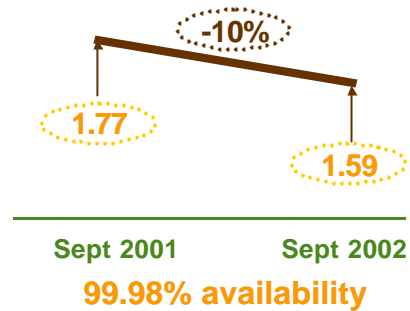
### Improving quality of service...

#### 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



...as a result of investments: €2.1 Bn 2001-2006

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## Mexico - Guatemala



### Growth at limited risk

#### Features of the Contracts

##### • No currency risk

Limited Commercial & Fuel Risk

- Top quality customers ( CFE & leading corporations)
- 25 year contracts
- Guaranteed gas supply
- Pass through of gas cost

Financial Strategy



Project Finance

#### Projects

- La Laguna bid (500 MW) awarded

	MW	Operating
Enertek	✓ 120 MW	2001
Monterrey	✓ 750 MW	1Q 2002
Monterrey	✓ 250 MW	4Q 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

#### Financials (9M 2002)

EBIT	Net Profit	Equity
3.1%	1.9%	7.6%

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## Slowdown of investments



GUARANIANA	- IBERDROLA:	39 %
	- PREVI:	49 %
	- Banco do Brasil:	12 %

### Investment policy

- ▶ Distribution: required maintenance CAPEX, no growth investments
- ▶ Selective investments in generation under VN program:
  - ▶ Delay of new plants due to administrative reasons
- ▶ Risk limited to equity invested

### Financial low risk profile

- ▶ Non-recourse debt
- ▶ Debt exposure in local currency (reais)
- ▶ Recurrent CAPEX financed by local cash-flow

Financials (9M 2002)		
EBIT	Net Profit	Equity
3.8%	0.1%	6.6%

Optimise existing assets

## Fulfilling Plan's targets



Divestments	Consideration	Cash collected Dec 02
Gas Brazil & Colombia	€156 MM	€156 MM
Real Estate	€233 MM	€233 MM
Water Businesses	€128 MM	€95 MM (*)
Retirement Homes (GERS)	€19 MM	€19 MM
Other non energy	€35 MM	€35 MM
High Voltage Transmission Grid	€806 MM	€400 MM
Stake in Telefónica	€193 MM	€170 MM
EHN deal	€121 MM	€0 MM
<b>Other initiatives</b>		
Back to Backs	€425 MM	€425 MM
<b>Total 2002</b>	<b>€2,116 MM</b>	<b>€1,533 MM</b>

Cash proceeds: €1,533 by end 2002 (72% of total)  
Rest in Q1 2003

(\*) Rest to be collected in 3 years



No M&A deals in 2002

No M&A plans except Naturcorp (regional gas distributor)

Focus on Investment Program defined in the Strategic Plan

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## 9M 2002 Results: Basic Figures (homogeneous)(\*)



EUR MM	9M 2002	9M 2001	Change %
Net Sales	7,351.7	5,972.4	+23.1%
Net Op. Exp	-782.9	-845.7	-7.4%
EBITDA	1,885.0	1,800.1	+4.7%
Net Profit	673.7	653.1	+3.2%

### Improving the Strategic Plan targets

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

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## Results by Business 9M 2002



### 94 % of EBIT is Domestic

	Net Sales	EBIT	Net Profit	Assets
<b>Domestic</b>	<b>90.7%</b>	<b>93.7%</b>	<b>95.0%</b>	<b>84.7%</b>
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%
<b>Mexico-Guatemala</b>	<b>4.2%</b>	<b>3.1%</b>	<b>1.9%</b>	<b>7.5%</b>
<b>Brazil</b>	<b>4.9%</b>	<b>3.8%</b>	<b>0.1%</b>	<b>6.2%</b>
<b>Other S. America</b>	<b>0.2%</b>	<b>-0.6%</b>	<b>3.0%</b>	<b>1.6%</b>
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* Includes Telefónica provision

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## Financial Structure 9M 2002



### A sound Balance Sheet

Assets	Liabilities
Fixed Assets 18,731	Equity 8,150
Working capital 2,086	Debt 11,552
Goodwill 731	Other L/T Liab 630
Other 175	Provisions 644
	Deferred Rev 387
	Others 360

EUR MM

### Strong and stable cash flow generation capacity (9M 2002)

Sources	Uses
Debt 195 8%	Other 31 1%
Lower Wkg. Capital 135 6%	Dividend 521 21 %
Divestments and other 857 35%	Investments 1,901
Operating Cash Flow 1,266 53%	
(Includes Tariff Deficit (292))	

Cash is not affected by Tariff Deficit Accounting:

- Operating Cash Flow Increases
- Current Assets Increase

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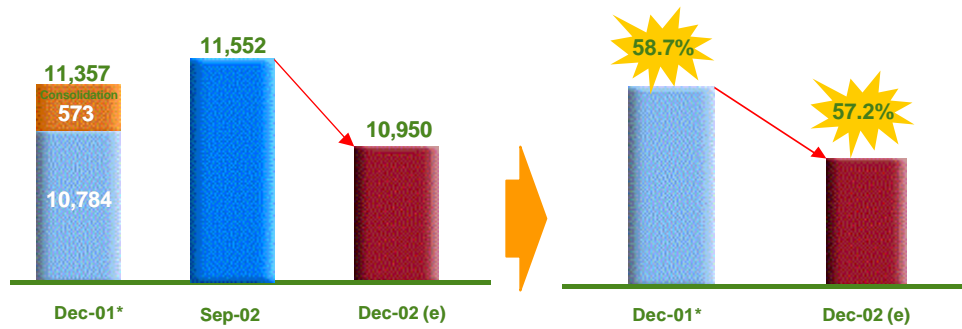
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## 2002 Debt & Leverage Ratio Review



### Decrease in debt levels & financial leverage despite...

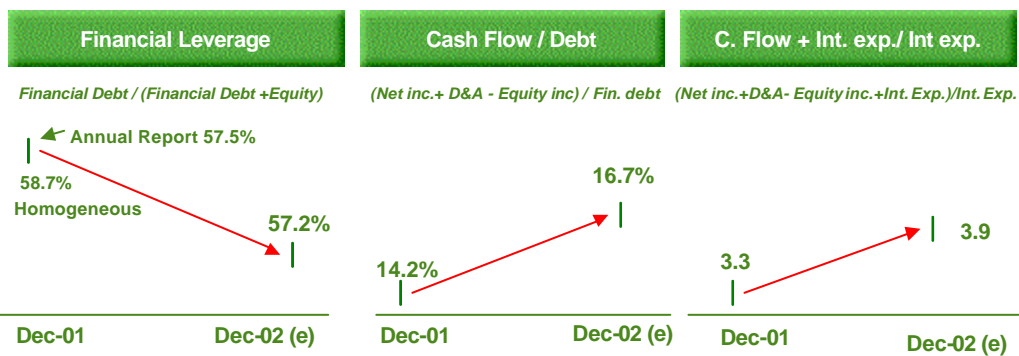
- Strong investments
- Tariff deficit
- Arcos' acquisition
- Divestments not collected in time



\*In homogeneous terms

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## 2002 Ratio analysis



- Substantial improvements of coverage ratios in 2002
- Strong generation of funds
- Lower cost of debt

**Ratios will continue to improve in 2003 onwards**

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## Debt analysis



### Minimum financial risk in debt

#### Centralised risk management

- ▶ Model of valuation & optimization to measure financial cost risks and market value (VaR)
- ▶ Minimum foreign exchange risk in debt: in local or in functional currencies

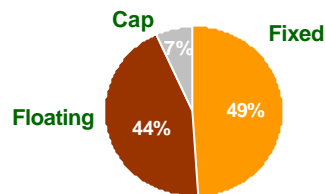
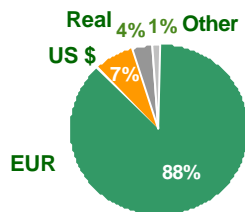
#### ▶ FOREIGN EXCHANGE RISK:

In the 95% scenario in 12 months: <3% over expected financial cost

#### ▶ INTEREST RATE RISK:

In the 95% scenario in 12 months: <6% over expected financial cost

Total Debt (Dec 02e): €10,950 MM



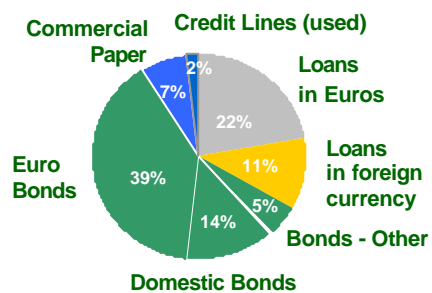
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## Type of Debt



### Full access to financing markets

Debt Dec 02: €10,950 M (e)



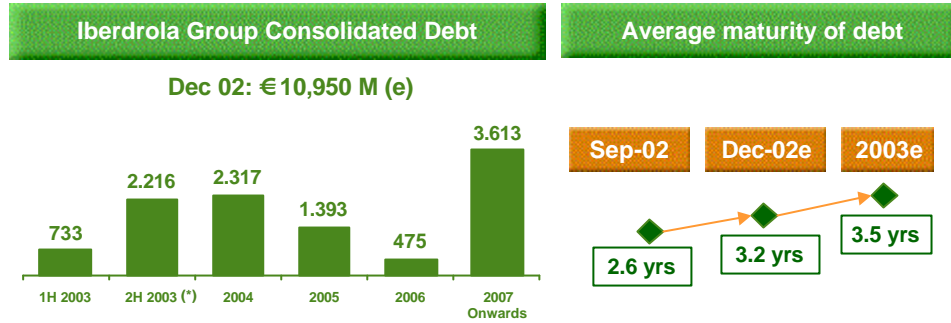
- ▶ Financing through the Euro bond market in the last years
- ▶ Low banking risk: 23% Iberdrola S.A debt as of Dec-02

New syndicated facility at very attractive conditions

**Strong credit capacity & financial flexibility**

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## Debt by maturity



- ▶ 80% of 2003 expected needs covered in advance
- ▶ 70% of 2004 maturities in 2nd half

## Policy of increasing the average maturity of debt

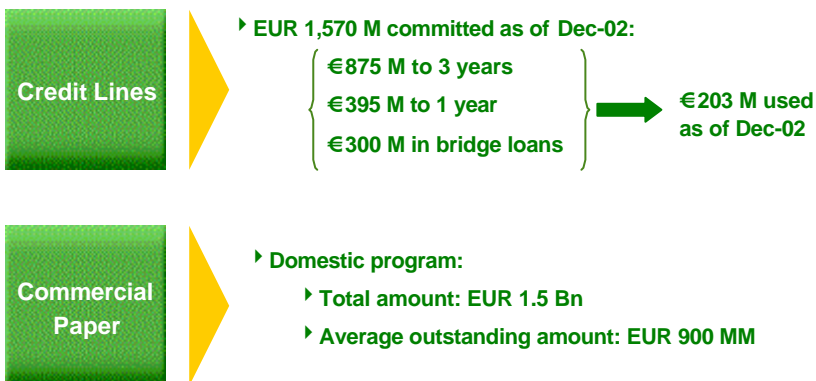
(\*) €203 M of used credit lines not included

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## Liquidity



### Liquidity needs covered for 11 months



## A conservative approach in liquidity management

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## Structure of Debt (Dec-02 e)



- ➔ **83% of debt in Iberdrola Holding**
  - **7% in México**
  - **5% in Brazil & other Latam**
  - **5% in Renewables & Apex**
  
- ➔ **Only 3% of debt not shown in Balance Sheet of which 1.5% with Iberdrola guarantee**

**Maximum transparency**

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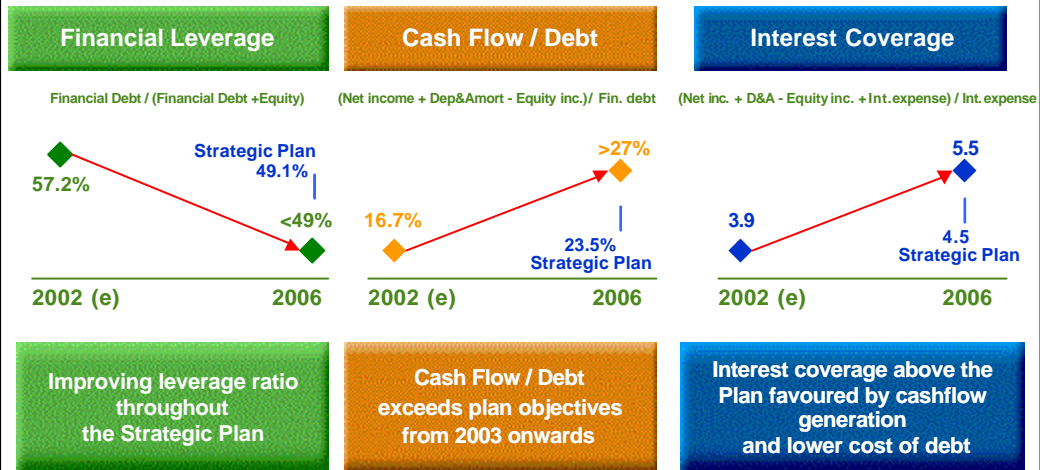
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## 2002-2006: Projected Ratios



### Better ratios than in the Strategic Plan



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### IBERDROLA IN THE FINANCIAL MARKETS

### CONCLUSION

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### Syndicated Loan (signed Dec-02)

Amount&Term

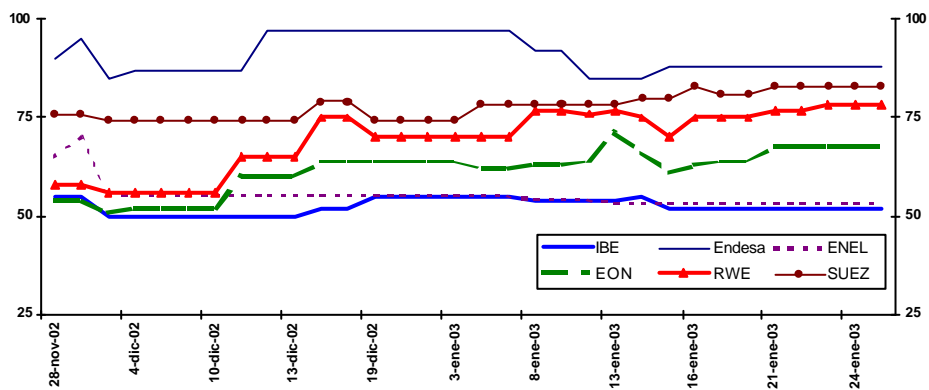
- ▶ 1,750 MM Euros
- ▶ 50% a 5 years Loan
- ▶ 50% a 3 years Revolving credit line

Spread

- ▶ Loan: 37.5 bp
- ▶ Credit Line: 30 bp

Spread proves favourable Banks perception...

### Credit Default Swap (\*)



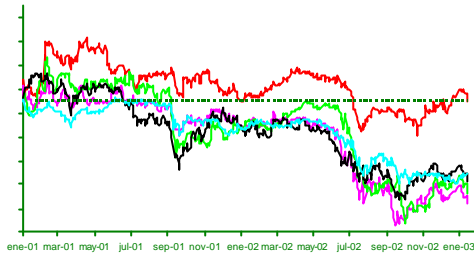
...reinforced by the CDS levels during the last 2 months, where Iberdrola has traded slightly above 50 bps

(\*) Evolution in the last 2 months (Source: Bloomberg; Pages: DRC5 Index)

## Market recognises Iberdrola's Strategic Plan



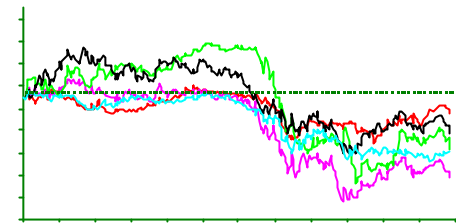
Stock market evolution  
Jan 2001- Jan 2003



ene-01 mar-01 may-01 jul-01 sep-01 nov-01 ene-02 mar-02 may-02 jul-02 sep-02 nov-02 ene-03

— IBE +0,4%	— Endesa -42,7%
— Fenosa -38,5%	— Ibex35 -33,7%
— DJ UTIL. -36,2%	

Stock market evolution  
since announcement of Strategic Plan



sep-01 nov-01 dic-01 ene-02 mar-02 abr-02 may-02 jul-02 ago-02 sep-02 nov-02 dic-02 ene-03

— IBE -8,7%	— Endesa -37,2%
— Fenosa -25,7%	— Ibex35 -17,7%
— DJ UTIL. -30,3%	

**Second consecutive year of leading share price performance**

\*Source: Bloomberg (as of Jan,27th 2003)

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## INDEX



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- Accomplishment of Strategic Plan

### FINANCIAL ANALYSIS

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- 2002-2006 Projections

### IBERDROLA IN THE FINANCIAL MARKETS

### CONCLUSION

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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 revised regulatory model**
- ➔ **Competitors following Iberdrola's strategy one year later**

...delivering results ahead of estimates

- ➔ **Operational targets to be achieved at least 1 year in advance**
  - **Generation: More than 2.2 GW operating CCGTs&Renewables**
  - **Supply: 7.3% share in liberalised Gas market**
  - **Renewables: Worldwide leader**
  - **Operating Efficiency:**
    - 12.8% Op. Expenses / Net Sales. 2/3 of target achieved (Sep-02)
    - 57% of Plan's workforce reduction already done as of Dec-02

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## Conclusions



Improving balance sheet & credit strength...

- ➔ **Full commitment of the management to the Strategic Plan**
- ➔ **Financial leverage: below 50% by 2006**
- ➔ **Debt reduction: one of the four key company targets for 2003**
- ➔ **Divestments in non-core business: €3 Bn by 2003**
- ➔ **Stable growth of cashflow generation: Cashflow/debt > 27% by 2006**

... with a conservative financing policy

- ➔ **80% of Investment Plan financed through internal generated cashflow + divestments**
- ➔ **Policy of anticipating financing needs**
- ➔ **Target 12 months of committed liquidity**

Clear commitment with the markets

- ➔ **To build a long-term relationship**
- ➔ **Increasing transparency and being proactive**

**Maximizing value for both bondholders and shareholders**

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## Contact details



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