

RED ELÉCTRICA DE ESPAÑA, S.A.

RESULTS FOR THE SECOND HALF OF 2000

1. KEY FIGURES

	31.12.2000		31.12.1999		2000/99 (%)
	Millions of Pesetas	Millions of Euros	Millions of Pesetas	Millions of Euros	
Adjusted turnover	58,774	353.24	56,731	340.96	3.6
Gross operating profit (EBITDA)	41,545	249.69	39,314	236.28	5.7
Net operating profit (EBIT)	24,689	148.39	22,646	136.11	9.0
Profit on ordinary activities	21,995	132.19	19,413	116.67	13.3
Net profit	13,832	83.13	12,501	75.13	10.6

Net profit for 2000 amounts to Ptas. 13,832 million, 10.6% up on the Ptas. 12,501 million generated in the prior year, basically as a result of a 13.3% rise in **profit on ordinary activities** to Ptas. 21,995 million.

The increase in **profit on ordinary activities** is mainly due to 3.6% growth in **adjusted turnover**, control over **operating expenses** as a result of the cost cutting policies introduced in prior periods and the 16.7% improvement in the **net financial expense**.

2. FINANCIAL PERFORMANCE

The **GROSS OPERATING PROFIT (EBITDA)** for 2000 totals Ptas. 41,545 million, which is 5.7% higher than in the prior year.

Adjusted turnover (net of energy purchases) amounts to Ptas. 58.774 million, representing growth of 3.6% compared to the prior year. This is mainly due to the rise in income generated on transport and diversification activities.

Operating expenses (net of energy purchases) total Ptas. 18,870 million, in line with figures for 1999 (Ptas. 18,805 million). This represents a fall in real terms of 3.7%, as the Consumer Price Index for 2000 was 4%. This evolution reflects the effect of cost cutting policies introduced in prior years.

Personnel expenses have been reduced by 1.3% compared to same period in the prior year. In 2000 the average headcount has fallen by 4.5% to 1007, with a 5.5% drop in personnel involved in domestic electricity activities and a 9.2% increase in personnel involved in the expansion of new business lines. At 31 December 2000 the workforce comprises 981 employees.

NET OPERATING PROFIT (EBIT) amounts to Ptas. 24,689 million, representing growth of 9% compared to the prior year.

The **NET FINANCIAL EXPENSE** has been Ptas. 2,694 million, representing an improvement of 16.7% over the same period the prior year due to the reduction in financial charges as a result of lower borrowings.

The **NET OPERATING PROFIT** has increased by 13.3% to Ptas. 21,995 million compared to the prior year.

The **NET EXTRAORDINARY EXPENSE** of Ptas. 1,024 million is mainly due to full provision in 2000 for the personnel restructuring project approved by the local authorities.

PROFIT AFTER TAX for 2000 is Ptas. 13.832 million compared to Ptas. 12,501 million. in the prior year, which represents an increase of 10.6%.

CASH-FLOW BEFORE TAX is Ptas. 37,815 million, which is in line with figures for 1999. This amount represents 38.9% of total income which, if energy purchases were excluded, would be 61.7%.

In 2000 **INVESTMENTS** amount to Ptas. 18,004 million, representing an increase of 141.36% compared to 1999. Investments include those made in accordance with the investment plan to extend and improve the distribution network, Ptas. 13,028 million, a shareholding (net of uncalled share payment) in RED ELÉCTRICA TELECOMUNICACIONES, S.A. and a capital contribution to RED ELÉCTRICA INTERNACIONAL, S.A.

At 31 December 2000 **loans** amount to Ptas. 58,935 million. Details are as follows:

	Millions of Pesetas	Foreign currency (millions of Pesetas)	Total
Debenture loans	21,018	-	21,018
Long-term loans	23,435	1,406	24,841
Promissory notes and short-term loans	12,865	211	13,076
Total loans at 31.12.2000	57,318	1,617	58,935

3. SIGNIFICANT MATTERS

In 2000 the Company has commenced its transformation into a diversified business group, the aim of which is to boost the Group's growth and to maximise value for the shareholder. Red Eléctrica Telecomunicaciones, S.A. was incorporated in November 2000 and the incorporation process of Red Eléctrica Internacional, S.A. began in December 2000. Red Eléctrica has aligned its diversification strategy with plans for expansion and continuous improvement of the transport network for electrical energy in Spain.

- **ELECTRICITY BUSINESS IN SPAIN**

- New transport facilities enter service**

In line with the Red Eléctrica investment programme, in 2000 approximately 400 Km. of lines, 21 and 5 substation circuit bays for 400 kV and 200 kV, respectively, as well as transformer capacity for 1,700 MVA entered service, which will strengthen the transport network in Spain.

Facilities include those to transport wind energy from the new generation wind parks in Andalusia, Galicia, Aragón and Castilla-La Mancha, as well as other installations to improve the transport network infrastructure in the central and northeast of the country.

- **TELECOMMUNICATIONS BUSINESS**

Incorporation of Red Eléctrica Telecommunications, S.A.

Red Eléctrica Telecomunicaciones, S.A. was incorporated on 17 November 2000, with a share capital Euros 60 million, fully subscribed by Red Eléctrica, of which Euros 45 million are pending payment at the year end. This new company offers integral wide-band solutions with a high degree of reticulation for Internet access, as well as equipment installation, and hosting for telecommunications operators, Internet providers (ISP), applications providers (ASP) and corporate clients.

The company has an operating network of 8,500 km. of installed fibre optic and 110 network access points throughout Spain. It has been granted an individual C1 permit and has an ambitious programme for new investments in infrastructure and the latest generation optics technology for wide-band services and Internet solutions. The total volume of investments forecast to develop this business from 2000 to 2004 is Euros 700 million.

Also, Red Eléctrica Telecomunicaciones has been incorporated with firm orders of Euros 236 million.

Strategic agreement with Nortel Networks

On 24 October 2000 an agreement was signed with Nortel Networks for the supply of high-tech telecommunications equipment, and for the development of R&D, applications, services and training.

The first order of wavelength multiplication devices (DWDM) was for Ptas. 1,400 million. These devices provide wide-band transmission capabilities of up to 1120 Gbits per optic fibre, initially on a basic circuit and several main trunk lines providing extremely high communication quality.

- **INTERNATIONAL BUSINESS**

Capital contribution to incorporate RED ELÉCTRICA INTERNACIONAL, S.A.

Red Eléctrica has contributed capital of Euros 9 million to incorporate RED ELÉCTRICA INTERNACIONAL. All the necessary administrative procedures are underway and incorporation of the new company is scheduled for 2001.

Start-up of the Socabaya-Moquegua line (Perú)

As part of its international diversification strategy, the subsidiary Red Eléctrica del Sur, for which Red Eléctrica is the parent company, has continued work related to the administrative concession awarded in 1999 to reinforce the electrical systems in southern Peru. On 26 October 2000, in accordance with the deadlines and conditions established in the contract, the second circuit of the Socabaya-Moquegua line became operational, corresponding to the first section of the concession.

- **RED ELÉCTRICA ACHIEVES AN EXCELLENT CREDIT RATING**

Red Eléctrica has obtained an excellent credit rating from Moody's (Aa3) and Standard & Poor's (A-1+ for short-term bond issues and AA- for long-term bond issues). This classification places RED ELÉCTRICA at top rating levels compared to other similar companies in Europe.

Red Eléctrica's rating is based on the soundness and low risk of its principal business within the Spanish electrical system, as well as the existence of a stable regulatory framework and the positive and sustained evolution of the Company's profit and management. Diversification through new business ventures, based on criteria for optimum profitability and strict control over risk exposure, have also been deciding factors in awarding this excellent credit rating.

4. APPENDICES

STATEMENT OF PROFIT AND LOSS

	Millions of Pesetas		% Variation 2000/99	Millions of Euros	
	31.12.00	31.12.99		31.12.00	31.12.99
Net sales	93,531	90,368	3.5	562.13	543.12
Other income	1,640	1,388	18.2	9.86	8.34
<u>Change in stocks of finished goods and work in progress</u>					
Total value of production	95,172	91,756	3.7	571.99	551.46
Net purchases	-36,596	-35,496	3.1	-219.95	-213.34
Change in stocks of goods for resale, raw materials and other materials consumed	-100	-100	-0.1	-0.60	-0.60
<u>External operating expenses</u>	<u>-7,884</u>	<u>-7,682</u>	<u>2.6</u>	<u>-47.39</u>	<u>-46.17</u>
Adjusted value added	50,591	48,478	4.4	304.06	291.36
Other expenses and income					
Personnel expenses	-9,046	-9,164	-1.3	-54.37	-55.08
Gross operating profit	41,545	39,314	5.7	249.69	236.28
Amortisation and depreciation	-16,856	-16,668	1.1	-101.31	-100.18
Reversion fund					
<u>Change in trade provisions</u>					
Net operating profit	24,689	22,646	9.0	148.39	136.11
Financial income	171	263	-35.0	1.03	1.58
Financial expenses	-3,348	-3,760	-11.0	-20.12	-22.60
Interest and capitalised exchange differences	483	264	82.8	2.90	1.59
<u>Amortisation and financial provisions</u>					
Profit on ordinary activities	21,995	19,413	13.3	132.19	116.67
Profit on disposal of intangible assets, tangible assets and investments	-19	17		-0.11	0.10
Change in provisions for intangible assets, tangible assets and investments	-396	-193	105.4	-2.38	-1.16
Profit on operations with own shares and bonds	2				
Prior years' results	84	30	180.0	0.50	0.18
<u>Other extraordinary income</u>	<u>-695</u>	<u>-180</u>	<u>285.8</u>	<u>-4.17</u>	<u>-1.08</u>
Profit before tax	20,971	19,087	9.9	126.04	114.72
Income and other taxes	-7,139	-6,586	8.4	-42.91	-39.58
Profit for the period	13,832	12,501	10.6	83.13	75.13

The classification shown above is that used for the reports presented to the Spanish Stock Exchange Authorities and the Stock Exchanges

BALANCE SHEET

Assets	Millions of Pesetas		% Variation 2000/99	Millions of Euros	
	31.12.00	31.12.99		31.12.00	31.12.99
Uncalled share capital					
Start-up costs					
Intangible assets	1,198	1,590	-24.7	7.20	9.56
Rights over leased assets					
Other intangible assets	1,198	1,590	-24.7	7.20	9.56
Tangible assets	217,662	220,360	-1.2	1308.17	1324.39
Investments	15,246	3,800	301.2	91.63	22.84
Own shares, long-term	1,008	0	---	6.06	0.00
Trade debtors, long-term	968	968	-0.1	5.81	5.82
Total fixed assets	236,082	226,718	4.1	1418.88	1362.60
Deferred expenses	1,857	2,222	-16.4	11.16	13.35
Unpaid calls on share capital					
Stocks	413	568	-27.3	2.48	3.41
Debtors	17,787	17,508	1.6	106.90	105.23
Short-term investments	4,104	2,985	37.5	24.66	17.94
Own shares, short-term					
Cash in hand and at banks	127	87	45.9	0.76	0.52
Prepayments	312	152	105.0	1.87	0.91
Total current assets	22,743	21,300	6.8	136.69	128.02
Total assets	260,682	250,240	4.2	1566.73	1503.97
Shareholders' Equity and Liabilities					
Share capital	45,014	45,014	0.0	270.54	270.54
Reserves	68,160	63,980	6.5	409.65	384.53
Prior years' losses					
Profit for the period	13,832	12,501	10.6	83.13	75.13
Interim dividends	-3,806	-3,376			
Total shareholders' equity	123,200	118,119	4.3	740.44	709.91
Deferred income	30,602	31,622	-3.2	183.92	190.05
Provisions for liabilities and charges	3,630	4,041	-10.2	21.82	24.29
Bond issues and other marketable securities	21,018	21,018	0.0	126.32	126.32
Loans	24,842	36,617	-32.2	149.30	220.07
Group and associated companies					
Long-term trade creditors					
Other long-term creditors	15,263	7,624	100.2	91.73	45.82
Total long-term creditors	61,122	65,259	-6.3	367.35	392.21
Bond issues and other marketable securities	503	430	17.0	3.02	2.58
Loans	14,154	9,349	51.4	85.07	56.19
Group and associated companies					
Trade creditors	8,609	7,240	18.9	51.74	43.51
Other short-term creditors	12,494	7,558	65.3	75.09	45.42
Accruals	6,368	6,622	-3.8	38.27	39.80
Total current liabilities	42,128	31,199	35.0	253.20	187.51
Provision for current liabilities and charges					
Total shareholders' equity and liabilities	260,682	250,240	4.2	1566.73	1503.97

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