

## RED ELÉCTRICA DE ESPAÑA, S.A.

### RESULTS FOR THE FIRST QUARTER OF 2001

#### 1. KEY FIGURES

	31.03.2001		31.03.2000		2001/00 (%)
	Thousands of Euros	Millions of Pesetas	Thousands of Euros	Millions of Pesetas	
<b>Adjusted turnover</b>	90,145	14,999	85,168	14,171	5.8
<b>Gross operating profit (EBITDA)</b>	65,560	10,908	62,575	10,412	4.8
<b>Net operating profit (EBIT)</b>	39,841	6,629	37,362	6,217	6.6
<b>Profit on ordinary activities</b>	35,533	5,912	32,799	5,458	8.3
<b>Net profit</b>	22,719	3,780	21,010	3,496	8.1

**Net profit** for the first quarter of 2001 amounts to Euros 22,719 thousand, 8.1% up on the Euros 21,010 thousand generated in the same period in the prior year, basically as a result of an 8.3% rise in **profit on ordinary activities** to Euros 35,533 thousand.

The increase in **profit on ordinary activities** compared to the same period in the prior year is mainly based on 5.8% growth in **adjusted turnover (net of energy purchases)** to Euros 90,145 thousand and **control over operating expenses** as a result of the ongoing improvement in internal efficiency in recent years.

#### 2. FINANCIAL PERFORMANCE

The **GROSS OPERATING PROFIT (EBITDA)** for the first quarter of 2001 totals Euros 65,560 thousand, which is 4.8% higher than in the first quarter of the prior year.

**Adjusted turnover** (net of energy purchases) amounts to Euros 90,145 thousand, representing growth of 5.8% compared to the prior year. This is mainly due to the rise in income generated on transmission activities.

**Operating expenses** (net of energy purchases) total Euros 25,839 thousand, up 4% compared to 2000. This figure includes intra group operating expenses.

Personnel expenses have remained stable compared to the first quarter of 2000 and the headcount of RED ELÉCTRICA is 969 at 31 March 2001. On a group level the workforce has been similar to that for 2000, as 48 employees have been recruited by RED ELÉCTRICA TELECOMUNICACIONES.

**NET OPERATING PROFIT (EBIT)** amounts to Euros 39,841 thousand, representing growth of 6.6% compared to the first quarter of 2000.

The **NET FINANCIAL EXPENSE** has been Euros 4,308 thousand, representing an improvement of 5.6% over the same period in the prior year.

The **PROFIT ON ORDINARY ACTIVITIES** totals Euros 35,533 thousand, 8.3% higher than in the first quarter of 2000.

The **NET EXTRAORDINARY EXPENSE** has been Euros 663 thousand and includes the provisions for impairment of investments due to the losses incurred by the subsidiaries during the start-up phase, which have been partly offset by deferred income.

Extraordinary expenses for the first quarter of 2000 mainly comprised the amount provided for the personnel restructuring project approved by the local authorities. Full provision was made in this respect during 2000.

**PROFIT AFTER TAX** for the first quarter of the year is Euros 22,719 thousand compared to Euros 21,010 thousand in the same period of the prior year, which represents an increase of 8.1%.

**CASH-FLOW BEFORE TAX** is Euros 61,566 thousand, up 3.1% on the first quarter of 2000. This amount represents 42.04% of total income and 62.8% of adjusted income (total income less energy purchases).

In the first quarter of 2001 **INVESTMENTS** total Euros 16,794 thousand, representing an increase of 108.84% compared to the same period in 2000. This caption includes a total of Euros 15,710 thousand invested in accordance with the RED ELÉCTRICA programme to extend and improve the transmission grid.

At 31 March 2001 **loans** amount to Euros 424,625 thousand. Details are as follows (expressed in the equivalent of thousands of Euros):

	Pesetas	Foreign currency	Total
Debenture loans	126,318	-	126,318
Long-term loans	135,269	7,580	142,849
Promissory notes and short-term loans	154,195	1,263	155,458
Total loans at 31.03.2001	415,782	8,843	424,625

### 3. SIGNIFICANT MATTERS

- **ELECTRICITY BUSINESS IN SPAIN**

#### **Remuneration for Transmission and System Operation in 2001**

The revenue that the regulatory authorities have assigned to RED ELÉCTRICA DE ESPAÑA for transmission operations carried out during 2001 amounts to Euros 347 million, which is 6.14% up on 2000.

This amount includes remuneration on the new investments that entered service in 2000, as well as incentives for availability of facilities.

Revenues of Euros 9 million have been recognised for operation of the system, Euros 3 million higher than in the prior year.

- **TELECOMMUNICATIONS BUSINESS**

### Key figures

Following incorporation of Red Eléctrica Telecomunicaciones, S.A. on 17 November 2000, the first quarter of 2001 has been marked by the launch of this company's activity. At 31 March 2001 this company has 48 employees, who cover key positions in the organisational structure as Red Eléctrica Telecomunicaciones has recruited all the members of the steering committee and the majority of the management team. The necessary personnel have also been contracted to operate the network and plan its development, and the commercial organisation has been set up.

The key figures of this business for the first quarter of 2001 are as follows:

	Thousands of Euros	Millions of Pesetas
<b>Total income</b>	3,212	534
<b>Gross operating loss (EBITDA)</b>	(1,054)	(175)
<b>Net operating loss (EBIT)</b>	(1,127)	(188)
<b>Net loss after tax</b>	(994)	(166)

Since incorporation investment of Euros 19,716 thousand has been made, mainly in the illumination of existing fibre optics (DWDM), strengthening the physical presence in business areas, acquiring points of presence and new fibre optic cable installations, including those resulting from strategic cession agreements made with Unión Fenosa and Endesa.

The DWDM network has been configured with the objective of marketing high-capacity transport to all the main business centres in Spain. To this effect the network has been designed with four rings linking the points of presence in the target locations. The ring joining Madrid and all the cities in the north-west of the Iberian Peninsula, with two links to Portugal, was the first to enter service. This was followed by rings connecting Madrid with the cities in the north-eastern region and with the south of Spain, while the fourth ring has been set up around Madrid. All these rings have been designed to guarantee the security and quality of the service provided.

### Strategic agreements

In the first quarter of 2001 strategic agreements have been entered into with Unión Fenosa Redes de Telecomunicaciones (UFINET) and Endesa Servicios for the cession of fibre optics to connect the trunk network of Red Eléctrica Telecomunicaciones with key areas close to clients.

## Orders

Co-operation agreements have been made with various domestic and international operators to render long-distance transmission services in order to complete the network in the Iberian Peninsula and provide international connections.

In the first quarter of 2001 deliveries have been made to various clients of the north-eastern circuit and extension into Portugal.

- **INTERNATIONAL BUSINESS**

### **Incorporation of RED ELÉCTRICA INTERNACIONAL, S.A.**

RED ELÉCTRICA incorporated RED ELÉCTRICA INTERNACIONAL on 23 February 2001 with a share capital of Euros 60 million. Euros 15 million of this capital have been paid in, of which Euros 5.5 million consisted of the contribution of Redesur. In December 2000 RED ELÉCTRICA deposited Euros 9 million as part of this capital contribution.

The legal segregation between regulated activities and those related to other business required by the Electricity Act (Law 54 of 1997) concluded with the incorporation of RED ELÉCTRICA INTERNACIONAL. The main activity of this company will be to carry out electricity activities outside the Spanish power system, render consultancy, engineering and construction services, as well as hold and administer international shareholdings.

### **Start-up of the second phase to improve the transmission system in southern Peru**

On 21 March 2001 the second phase to improve the transmission system in southern Peru entered service, thereby completing the facilities subject to the concession. These installations comprise 530 km of 220 kV circuits and four substations in Socabaya, Moquegua, Tacna and Puno. As part of the second phase, this company has installed 192 km of 220kV power lines between Puno and Moquegua, and 125km between Moquegua and Tacna, while the Puno, Moquegua and Tacna substations have been constructed.

In March 1999 the Peruvian Government awarded the REDESUR consortium a 32 year concession for the electricity transmission system in southern Peru under a BOOT contract (build, operate, own and transfer), with an investment of US Dollars 75 million. The objective of the concession is to improve the electricity transmission capacity and make substantial improvements in the safety of the supply in southern Peru through the construction and subsequent operation and maintenance of three high voltage power lines and four substations.

- **SUPPLEMENTARY DIVIDEND**

At their annual general meeting held on 27 April 2001 the shareholders approved the distribution of the profit for 2000. As a result, shareholders with profit sharing rights will receive a gross amount of Euros 0.415 per share. Payment of this supplementary dividend, net of the interim dividend of a gross amount of Euros 0.17 per share settled on 2 January 2001, will be made as of 3 July 2001.

- **ADAPTATION TO THE EURO**

Red Eléctrica converted its information management system to Euros at the end of March, with effect as of 1 January 2001. As of this date the Company has opted to express the periodic public information in thousands of Euros.

As agreed at the board of directors meeting held on 14 December 2000, the Company's bookkeeping has been prepared in Euros since 1 January 2001.

At the annual general meeting held on 17 May 1999, the shareholders had previously agreed to convert the share capital to Euros.

#### 4. APPENDICES

##### STATEMENT OF PROFIT AND LOSS

	Thousands of Euros		%
	31.03.2001	31.03.2000	
Net sales	138,525	137,192	1.0
Other income	1,254	2,257	-44.4
Change in stocks of finished goods and work in progress			
<b>Total value of production</b>	<b>139,779</b>	<b>139,449</b>	<b>0.2</b>
Net purchases	-54,209	-55,048	-1.5
Change in stocks of goods for resale, raw materials and other materials consumed	4,636	1,097	322.8
External operating expenses	-10,970	-9,235	18.8
<b>Adjusted value added</b>	<b>79,236</b>	<b>76,263</b>	<b>3.9</b>
Other expenses and income			
Personnel expenses	-13,676	-13,688	-0.1
<b>Gross operating profit</b>	<b>65,560</b>	<b>62,575</b>	<b>4.8</b>
Amortisation and depreciation	-25,719	-25,213	2.0
Reversion fund			
Change in trade provisions			
<b>Net operating profit</b>	<b>39,841</b>	<b>37,362</b>	<b>6.6</b>
Financial income	338	234	44.4
Financial expenses	-5,528	-5,327	3.8
Interest and capitalised exchange differences	882	530	66.4
Amortisation and financial provisions			
Share in results of equity accounted companies			
<b>Profit on ordinary activities</b>	<b>35,533</b>	<b>32,799</b>	<b>8.3</b>
Profit on disposal of intangible assets, tangible assets and investments	11	-2	-650.0
Change in provisions for intangible assets, tangible assets and investments	-1,852	-579	219.9
Profit on operations with own shares and bonds	74		
Prior years' results	262	-45	-682.2
Other extraordinary income	842	49	1618.4
<b>Profit before tax</b>	<b>34,870</b>	<b>32,222</b>	<b>8.2</b>
Income and other taxes	-12,151	-11,212	8.4
<b>Profit for the period</b>	<b>22,719</b>	<b>21,010</b>	<b>8.1</b>

The classification shown above is that used for the reports presented to the National Securities Market Commission and the Stock Exchanges.

Consolidated annual accounts are not prepared as the interests currently held in group and associated companies do not have a significant impact on the true and fair view required in the annual accounts.

**BALANCE SHEET**

<b>Assets</b>	Thousands of Euros		%
	31.03.2001	31.03.2000	2001/2000
<b>Uncalled share capital</b>			
Start-up costs			
Intangible assets	6,487	8,915	-27.2
Rights over leased assets			
Other intangible assets	6,487	8,915	-27.2
Tangible assets	1,299,177	1,307,542	-0.6
Investments	136,202	22,480	505.9
Own shares, long-term	6,460		
Trade debtors, long-term	5,815	5,815	0.0
<b>Total fixed assets</b>	<b>1,454,141</b>	<b>1,344,752</b>	<b>8.1</b>
<b>Deferred expenses</b>	<b>10,618</b>	<b>12,808</b>	<b>-17.1</b>
Unpaid calls on share capital			
Stocks	5,275	4,510	17.0
Debtors	116,358	109,437	6.3
Short-term investments	9,103	2,662	242.0
Own shares, short-term			
Cash in hand and at banks	1,180	584	102.1
Prepayments	73,401	69,878	5.0
<b>Total current assets</b>	<b>205,317</b>	<b>187,071</b>	<b>9.8</b>
<b>Total assets</b>	<b>1,670,076</b>	<b>1,544,631</b>	<b>8.1</b>
<b>Shareholders' Equity and Liabilities</b>			
Share capital	270,540	270,540	0.0
Reserves	409,490	384,367	6.5
Prior years' losses	83,130	75,131	10.6
Profit for the period	22,719	21,010	8.1
Interim dividends	-22,877	-20,291	
<b>Total shareholders' equity</b>	<b>763,002</b>	<b>730,757</b>	<b>4.4</b>
<b>Deferred income</b>	<b>181,398</b>	<b>188,531</b>	<b>-3.8</b>
<b>Provisions for liabilities and charges</b>	<b>21,642</b>	<b>25,993</b>	<b>-16.7</b>
Bond issues and other marketable securities	126,318	126,318	0.0
Loans	142,848	215,402	-33.7
Group and associated companies			
Long-term trade creditors			
Other long-term creditors	136,239	45,881	196.9
<b>Total long-term creditors</b>	<b>405,405</b>	<b>387,601</b>	<b>4.6</b>
Bond issues and other marketable securities	4,787	4,119	16.2
Loans	162,346	73,945	119.5
Group and associated companies	2,836	3,779	-25.0
Trade creditors	35,824	37,962	-5.6
Other short-term creditors	61,193	54,005	13.3
Accruals	31,643	37,939	-16.6
<b>Total current liabilities</b>	<b>298,629</b>	<b>211,749</b>	<b>41.0</b>
Provision for current liabilities and charges			
<b>Total shareholders' equity and liabilities</b>	<b>1,670,076</b>	<b>1,544,631</b>	<b>8.1</b>

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