

RED ELÉCTRICA

RESULTS FOR THE FIRST HALF OF 2001

In this six-month period RED ELÉCTRICA submits consolidated annual accounts for the first time, as until now shareholdings in group and associated companies have not been significant to the fair image of the Company.

The composition of the Group, including RED ELÉCTRICA DE ESPAÑA, S.A., is as follows:

- Subsidiaries (fully consolidated)
 - RED ELÉCTRICA TELECOMUNICACIONES, S.A., incorporated on 17 November 2000 with a share capital of Euros 60 million, fully subscribed by RED ELÉCTRICA DE ESPAÑA, S.A.
 - RED ELÉCTRICA INTERNACIONAL, S.A., incorporated on 23 February 2001 with a share capital of Euros 60 million, fully subscribed by RED ELÉCTRICA DE ESPAÑA, S.A. The share capital has been partially paid in through a non-monetary contribution from the associated company REDESUR.

- Associated companies (equity accounted)

RED ELÉCTRICA DEL SUR, S.A. (REDESUR), a Peruvian company in which the Group holds a 30% interest since its incorporation in 1999.

1. KEY FIGURES

Consolidated figures	30.06.2001		30.06.2000*		2001/2000
	(Thousands of Euros)	(Millions of Pesetas)	(Thousands of Euros)	(Millions of Pesetas)	(%)
Adjusted net sales	189,176	31,476	177,170	29,479	6.8
Gross operating profit (EBITDA)	129,533	21,552	124,514	20,717	4.0
Net operating profit (EBIT)	77,233	12,850	74,061	12,323	4.3
Profit on ordinary activities	69,130	11,502	65,433	10,887	5.7
Profit after tax	45,834	7,626	42,174	7,017	8.7

* Individual figures for Red Eléctrica de España, S.A. At 30 June 2000 the group companies Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A. had not been incorporated.

In the first half of 2001 the RED ELÉCTRICA GROUP has obtained **profit after tax** of Euros 45.8 million, compared with Euros 42.2 million for the same period in the prior year, representing an increase of 8.7%. This is due to the growth in profit on ordinary activities, which amounted to Euros 69.1 million.

The higher **profit on ordinary activities** compared to the same period in the prior year derives from growth of 6.8% in **adjusted sales (net of energy purchases)**, which amount to Euros 189.2 million, and from on-going improvements in applied internal efficiency in recent years, which has led to lower operating expenses and permitted the absorption of expenses incurred on the start-up of subsidiaries.

2. ECONOMIC-FINANCIAL PERFORMANCE

In the first half of 2001 **group gross operating profit (EBITDA)** amounts to Euros 129.5 million, representing a 4.0% rise on the same period of the prior year.

Adjusted sales (net of energy purchases) have been Euros 189.2 million, up 6.8% on the prior year. This is mainly reflects higher income from transport.

Operating expenses (net of energy purchases) have been Euros 62.2 million. This 7.9% increase compared to the same period in 2000 is due to higher operating expenses incurred on the start-up of group companies. Operating expenses related to the electricity business have remained stable, which illustrates the efforts made by the Company to control costs.

Personnel expenses have amounted to Euros 29.4 million. The average number of employees at a consolidated level is 1,010, compared to 1,026 in the prior year. At an individual company level, RED ELÉCTRICA DE ESPAÑA's average headcount is 963. At 30 June the number of group employees is 1,024.

Net operating profit (EBIT) for the Group is Euros 77.2 millions, up 4.3% compared to the same period in the prior year.

The financial loss incurred by the Group amounts to Euros 8.1 million, an improvement of 5.8% compared to the same period in the prior year.

Group profit on ordinary activities is Euros 69.1 million, up 5.7% from the prior year.

Extraordinary profit for the Group is Euros 2.3 million, which mainly reflects the recognition of deferred income.

In the first quarter of 2000 extraordinary expenses included a charge to the provision required to cover the redundancy plan approved by the labour authorities. In 2000 allowance for this provision was completed.

Group profit after tax is Euros 45.8 millions, compared to Euros 42.2 million for the same period in the prior year, an improvement of 8.7%.

The **results by business** during the first half of 2001 have been as follows:

Thousands of Euros	Electricity business*	Telecommunications business	Red Eléctrica Group
Gross operating profit/(loss) (EBITDA)	131,845	(2,312)	129,533
Net operating profit/(loss) (EBIT)	80,472	(3,239)	77,233
Profit/(loss) on ordinary activities	72,196	(3,066)	69,130
Profit after tax	48,900	(3,066)	45,834

* Includes the results of the international electricity business.

Group cash-flow before tax amounts to Euros 119 million, representing 40% of total income and 60% of adjusted income (total income net of energy purchases).

Group investments made in the first half of 2001 amount to Euros 96.7 million, compared to Euros 22.1 million in the first half of 2000. Of these investments, 43% are to expand and improve the distribution network and 56% relate to the new telecommunications activity.

At 30 June 2001 **borrowings** amount to approximately Euros 411.6 million, as follows:

Thousands of Euros	Pesetas	Foreign currency	Total
Debt securities	126,318	-	126,318
Long-term loans	129,000	7,600	136,600
Promissory notes and short-term loans	147,425	1,267	148,692
Total borrowings at 30.06.2001	402,743	8,867	411,610

3. SIGNIFICANT EVENTS

- **ELECTRICITY BUSINESS**

Investment in the distribution network

Investments in the distribution network during the period have amounted to Euros 41.6 million, up 102% compared to investments in distribution installations during the same period in the prior year. Of special significance are two bays which have entered service in the Rocamora substation, thereby reinforcing the distribution network for the south-west of Spain, and investments made to strengthen transmissions between central and north-eastern Spain.

RED ELÉCTRICA advisory services to Tunisia and Libya

Red Eléctrica de España, in collaboration with TransEnergie Services (a subsidiary of Hydro Québec), has been awarded the public tender for a consulting contract to carry out the technical and economic studies required for interconnection of the Tunisian and Libyan electricity systems.

This contract has been signed with STEG (the Tunisian Company for Electricity and Gas) and the General Electric Company of Libya (GECOL) for Ptas. 95 million, and has a duration of six months.

Red Eléctrica will be responsible for the design of the technical and economic framework for the energy exchange and for coordinating the electricity systems of both countries.

- **TELECOMMUNICATIONS BUSINESS**

Key figures

The key economic figures at 30 June 2001 have been as follows:

	Thousands of Euros
Net sales	10,026
Gross operating loss (EBITDA)	(2,312)
Loss on ordinary activities	(3,066)
Loss after tax	(3,066)

These figures are in line with those forecast in the business plan.

Investments

Investments in the first half of the year total Euros 54 million. Details are as follows:

- Laying new fibres, adaptation of the existing infrastructure and acquisition of fibres for backhaul lines.

During the second quarter of 2001 a project carried out with Endesa, Unión Fenosa, Iberdrola and Hidroeléctrica del Cantábrico Groups has been completed, which permits RED ELÉCTRICA TELECOMUNICACIONES to bring its backbone network closer to customers.

- DWDM network: Of the four major rings that make up the structure of the national network, the north-western ring has entered into service and progress has been made on the north-eastern and outer-Madrid rings, both of which will be completed in July. The southern ring and the inner rings for Madrid and Barcelona are currently under construction. All work is progressing according to schedule and will be completed in October or November of 2001.

- POP (points of presence) network: The establishment of POPs requires the acquisition and refurbishment of premises and the laying of fibre-optic lines connected to our network.

- Data centres: Work has commenced on the data centres in Madrid and Valencia.

The investments made have been in line with the business plan forecasts for the year.

Strategic agreements

The most significant of the strategic agreements reached in the second quarter of 2001 is that with Cable & Wireless for the development of advanced telecommunications in Spain. This agreement is based on synergies in the companies' strategies, aimed at the development of Internet infrastructure solutions for companies using latest generation designs.

RED ELÉCTRICA TELECOMUNICACIONES has contributed to this project the telecommunications infrastructure in Spain for joint use by the five Internet data centres, the broadband optical circuits, space in its POPs and use of the IP/MPLS data transmission network.

Cable & Wireless contributes one of the highest quality and capacity Internet networks in the world. This company also offers a wide range of innovative services and has extensive experience in providing business solutions.

Significant events

ConeXalia, a new broadband telecommunications service for operators has also been developed in the second quarter. This service will enable operators to contract broadband capacity in a dynamic way, configuring the service on the basis of actual demand and paying only for capacity actually used.

4. APPENDICES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Thousands of Euros		%
	30.06.2001	30.06.2000*	2001/2000
Net sales	290,616	279,893	3.8
Other income	2,554	5,013	-49.1
Change in stocks of finished goods and work in progress			
Total value of production	293,170	284,906	2.9
Net purchases	-112,166	-114,019	-1.6
Change in stocks of goods for resale, raw materials and other materials consumed	3,505	2,914	20.3
External operating expenses	-25,546	-21,925	16.5
Adjusted added value	158,963	151,876	4.7
Other expenses and income			
Personnel expenses	-29,430	-27,362	7.6
Gross operating profit	129,533	124,514	4.0
Amortisation and depreciation	-52,300	-50,453	3.7
Reversion fund			
Change in trade provisions			
Net operating profit	77,233	74,061	4.3
Financial income	1,046	408	156.4
Financial expenses	-10,836	-10,182	6.4
Interest and exchange gains capitalised	1,849	1,146	61.3
Amortisation and financial provisions			
Conversion gains/ (losses)			
Share of results in equity accounted companies	-162		
Amortisation of goodwill on consolidation			
Reversal of negative consolidation differences			
Profit on ordinary activities	69,130	65,433	5.7
Profit/ (Loss) on tangible and intangible assets and treasury stock	12	-5	-340.0
Changes in provisions for tangible and intangible assets and treasury stock	-171	-894	-80.9
Return on own shares and bonds	45		
Prior years' results	261	148	76.4
Other extraordinary income	2,109	40	5172.5
Profit before tax	71,386	64,722	10.3
Income and other taxes	-25,552	-22,548	13.3
Profit for the period	45,834	42,174	8.7

*The profit and loss accounts of Red Eléctrica de España are presented for the purpose of comparison. The group companies Red Eléctrica Telecomunicaciones and Red Eléctrica Internacional had not been incorporated at that date. Items in this table are grouped in accordance with the reports presented to the Spanish Stock Exchange Authorities and the stock exchanges.

CONSOLIDATED BALANCE SHEETS

Assets	Thousands of Euros		%
	30.06.2001	31.12.2000*	2001/2000
Start-up costs	1,492	1,106	34.9
Intangible assets	5,974	7,200	-17.0
Rights over leased assets			
Other intangible assets	5,974	7,200	-17.0
Tangible assets	1,345,297	1,313,800	2.4
Investments	35,706	33,164	7.7
Own shares, long-term	5,909	6,058	-2.5
Trade debtors, long-term	5,815	5,818	0.0
Total fixed assets	1,400,193	1,367,146	2.4
Deferred expenses	23,953	11,161	114.6
Unpaid calls on share capital			
Stocks	6,003	2,482	141.8
Debtors	132,003	106,698	23.7
Short-term investments	51,715	24,665	109.7
Cash and banks	11,726	15,158	-22.6
Prepaid expenses	48,678	1,875	2495.9
Total current assets	250,125	150,878	65.8
Total assets	1,674,271	1,529,185	9.5
Shareholders' Equity and Liabilities			
Share Capital	270,540	270,540	0.0
Parent company reserves	437,158	409,650	6.7
Reserves in consolidated companies	472	715	-34.0
Profit attributable to the parent company	45,834	83,140	-44.9
Interim dividend for the period		-22,877	-100.0
Total shareholders' equity	754,004	741,168	1.7
Deferred income	190,680	183,921	3.7
Provisions for liabilities and charges	15,289	21,817	-29.9
Bond issues and other marketable securities	126,318	126,321	0.0
Loans	136,600	149,303	-8.5
Long-term trade creditors			
Other long-term creditors	45,928	46,729	-1.7
Total long-term creditors	308,846	322,353	-4.2
Bond issues and other marketable securities	6,569	3,023	117.3
Loans	159,677	85,067	87.7
Trade creditors	91,624	58,394	56.9
Other short-term creditors	121,868	75,169	62.1
Accruals	25,714	38,273	-32.8
Total current liabilities	405,452	259,926	56.0
Total shareholders' equity and liabilities	1,674,271	1,529,185	9.5

* Consolidated balance sheet included as an appendix to the annual accounts for 2000 for information purposes.

Items in this table are grouped in accordance with the reports presented to the Spanish Stock Exchange Authorities and the stock exchanges.

INDIVIDUAL PROFIT AND LOSS ACCOUNTS OF RED ELÉCTRICA DE ESPAÑA, S.A

	Thousands of Euros		%
	30.06.2001	30.06.2000	2001/2000
Net sales	298,036	279,893	6.5
Other income	2,752	5,013	-45.1
Change in stocks of finished goods and work in progress			
Total value of production	300,788	284,906	5.6
Net purchases	-112,133	-114,019	-1.7
Change in stocks of goods for resale, raw materials and other materials consumed	3,505	2,914	20.3
External operating expenses	-32,365	-21,925	47.6
Adjusted added value	159,795	151,876	5.2
Other expenses and income			
Personnel expenses	-27,793	-27,362	1.6
Gross Operating Income	132,002	124,514	6.0
Amortisation and depreciation	-51,336	-50,453	1.8
Reversion fund			
Change in trade provisions			
Net operating profit	80,666	74,061	8.9
Financial income	675	408	65.4
Financial expenses	-10,834	-10,182	6.4
Interest and exchange gains capitalised	1,849	1,146	61.3
Amortisation and financial provisions			
Conversion gains/ (losses)			
Share of results in equity accounted companies			
Amortisation of goodwill on consolidation			
Reversal of negative consolidation differences			
Profit on ordinary activities	72,356	65,433	10.6
Profit/ (Loss) on tangible and intangible assets and treasury stock	12	-5	-340.0
Changes in provisions for tangible and intangible assets and treasury stock	-3,239	-894	262.3
Return on own shares and bonds	45		
Prior years' results	261	148	76.4
Other extraordinary income	2,109	40	5172.5
Profit before tax	71,544	64,722	10.5
Income and other taxes	-25,552	-22,548	13.3
Profit for the period	45,992	42,174	9.1

Items in this table are grouped in accordance with the reports presented to the Spanish Stock Exchange Authorities and the stock exchanges.

INDIVIDUAL BALANCE SHEET OF RED ELÉCTRICA DE ESPAÑA, S.A.

Assets	Miles de euros		%
	30.06.2001	31.12.2000	2001/2000
Uncalled share capital			
Start-up costs			
Intangible assets	5,946	7,198	-17.4
Rights over leased assets			
Other intangible assets	5,946	7,198	-17.4
Tangible assets	1,308,562	1,308,175	0.0
Investments	133,898	91,631	46.1
Own shares, long-term	5,909	6,058	-2.5
Trade debtors, long-term	114,475	5,815	1868.6
Total fixed assets	1,568,790	1,418,877	10.6
Deferred expenses	10,071	11,162	-9.8
Unpaid calls on share capital			
Stocks	6,003	2,482	141.8
Debtors	151,378	106,900	41.6
Short-term investments	51,715	24,665	109.7
Own shares, short-term			
Cash and banks	489	769	-36.4
Prepaid expenses	48,678	1,873	2498.9
Total current assets	258,263	136,689	88.9
Total assets	1,837,124	1,566,728	17.3
Shareholders' Equity and Liabilities			
Share capital	270,540	270,540	0.0
Reserves	436,443	409,646	6.5
Profit for the period	45,992	83,130	-44.7
Interim dividends		-22,875	-100.0
Total shareholders' equity	752,975	740,441	1.7
Deferred income	303,472	183,921	65.0
Provisions for liabilities and charges	15,289	21,818	-29.9
Bond issues and other marketable securities	126,318	126,318	0.0
Loans	136,600	149,303	-8.5
Long-term trade creditors			
Other long-term creditors	90,928	91,730	-0.9
Total long-term creditors	353,846	367,351	-3.7
Bond issues and other marketable securities	6,569	3,023	117.3
Loans	159,677	85,068	87.7
Group and associated companies	10,390		
Trade creditors	50,955	51,743	-1.5
Other short-term creditors	158,815	75,090	111.5
Accruals	25,136	38,273	-34.3
Total current liabilities	411,542	253,197	62.5
Provision for current liabilities and charges			
Total shareholders' equity and liabilities	1,837,124	1,566,728	17.3

Items in this table are grouped in accordance with the reports presented to the Spanish Stock Exchange Authorities and the stock exchanges.