



# RED ELÉCTRICA DE ESPAÑA

27 April 2007

## CONSOLIDATED RESULTS FOR THE FIRST QUARTER OF 2007

- During the first quarter of 2007 income attributed to the parent company totalled €70.1 million, 25.6% higher than the €55.8 million obtained in the first quarter of 2006.
- Group investments during the first quarter of 2007 total €124.8 million, of which €69.6 million relate to the development of the mainland transmission system and €53.4 million for interim payment for the acquisition of 5% of Redes Energéticas Nacionais, SGPS, S.A. (REN).
- Gross operating earnings (EBITDA) totalled €189.8 million, which is 14.8% higher than in the same period the previous year.
- Cash flow from operations (cash-flow before taxes) amounted to €164.1 million, which is 16.6% higher than the €140.7 million recorded during the first quarter of 2006.

## MAIN FIGURES

Thousand euro	1Q 2007	1Q 2006	Δ (%)
Revenues	251,961	233,504	7.9
EBITDA	189,769	165,278	14.8
EBIT	128,416	106,377	20.7
Profit before income tax	103,261	85,006	21.5
Income attributed to the parent company	70,116	55,816	25.6



## CONSOLIDATED RESULTS FOR THE FIRST QUARTER OF 2007

**Revenues** totalled €252.0 million in the first quarter of 2007, 7.9% more than in the same period in 2006, driven primarily by the increase in the earnings from transmission associated with the assets commissioned in 2006.

**Consolidated operating expenses** amounted to €63.3 million, compared with the €69.0 million recorded in the first quarter of 2006. The decrease in operating costs is mainly because in 2007 the company is assuming the operating and maintenance works that were done by the electricity companies. In addition, it is foreseen an increase of renewal and improvement works in the following quarters of 2007.

Personnel expenses increased 24.6% deriving from the 3.5% rise in the average number of employees at the Group and the severance payments made during the first quarter of 2007. Both the average and final number of employees at the Group was 1,445 (1,396 and 1,403 in the first quarter of 2006, respectively).

**Gross operating earnings (EBITDA)** during the first quarter of 2007 amounted to €189.8, which represents a 14.8% increase compared with the same period in 2006. EBITDA margin (EBITDA/ revenues) is 75.3%.

**Depreciation** reached €61.4 million compared with €58.9 million recorded during the first quarter of 2006. The increase is mainly due to the assets commissioned in 2006.

**Consolidated net operating profit (EBIT)** totalled €128.4 million, which is a 20.7% increase over the first quarter of 2006.

Consolidated profit from financial operations amounted to €27.2 million, compared with €25.2 million in the first quarter of 2006. The increase is basically due to the rise in interest rates of the financing referenced to variable rates. As a result, the average cost of debt was 4.1% compared with 3.7% in the same period 2006 and 4.0% in the last quarter of 2006.

**Profit before tax** during the first quarter of 2007 totalled €103.3 million, which is a 21.5% increase compared to the same period in 2006.

**Profit after taxes** amounted to €70.1 million, 25.6% higher than in the first quarter of 2006. The effective tax rate was 32.1% compared with 34.3% in the same period in 2006<sup>1</sup>.

**Cash flow before taxes from operations** (cash-flow before taxes) totalled €164.1 million compared with €140.7 million in the same period of 2006. This growth is due to the higher earnings recorded during this quarter.

**Consolidated investments in property, plant and equipment and intangible assets** totalled €71.4 million compared with €53.9 million in investments made during the first quarter of the preceding year. Almost all of the investments were applied to national transmission network projects.

**Financial investments** totalled €53.4 million during the first quarter of 2007 and relate to the interim payments made for the acquisition of 5% of Redes Energéticas Nacionais, SGPS, S.A. (REN).

<sup>1</sup> The reduction in the tax rate is due to Law 35/2006 (28 November), which amends the Corporate Income Tax Act, entering into force on 1 January 2007. This legislation gradually reduces the general 35% tax rate over two years. The rate is set at 32.5% in 2007 and will fall to 30% as from 2008.  
www.ree.es



**Net financial debt** at 31 March 2007 totals €2,736.6 million. The leverage ratio (borrowings divided by equity plus borrowings) totals 71.1% and borrowings are structured as follows:

<b>Thousand euros</b>	<b>National currency</b>	<b>Foreign currency</b>	<b>Total</b>
Cash and other liquid means	(2,528)	(7,425)	(9,953)
Long-term debenture loans	1,220,900	-	1,220,900
Long-term credits	1,292,587	56,655	1,349,242
Promissory notes and short-term credits	168,893	7,515	176,408
<b>Total net financial debt</b>	<b>2,679,852</b>	<b>56,745</b>	<b>2,736,597</b>



## **SIGNIFICANT EVENTS**

### **Strategic Alliance**

On 6 March 2007, Red Eléctrica de España, S.A. y Redes Energéticas Nacionais, SGPS, S.A. (REN) have formalised a strategic alliance to take advantage of the business synergies in all areas of activity. This alliance will materialise through the following actions:

- Development of interconnections between Spanish and Portuguese electric systems.
- Reinforcement of coordinating responsibilities as the operators of the Iberian Peninsula system.
- Spread of the best business practice
- Eventual joint participation in international projects.

Within this alliance, both companies have agreed to acquire significant crossed participations in their respective share capital, promoting reciprocal representation in their Governing Boards. As a result, Red Eléctrica de España and Energias de Portugal (EDP) have concluded an agreement under which Red Eléctrica de España will acquire 5% of Redes Energéticas Nacionais, SGPS, S.A. (REN). The price of the transaction is linked to REN's market value at a future public offering to be held in 2007.

In addition, the General Shareholders Meeting of REN, held on 28 March 2007, appointed to Mr. Luis Atienza Serna, the Chairman of Red Eléctrica de España, as Member of the Board.

### **Proposed Dividend**

At a meeting held on 22 March 2007, the Board of Directors of Red Eléctrica de España, S.A., agreed to propose to shareholders that dividend bearing shares be allocated the gross amount of €0.8984 per share. The payment of the dividend will take place on 2 July 2007 at the banks and financial institutions that will be announced later, discounting the €0.3250 interim dividend paid on 2 January 2007 in accordance with the Resolution adopted by the Board of Directors on 29 November 2006.

The proposed dividend represents a 23% increase over the dividend paid last year.

### **Executive share acquisition plan**

On 26 March 2007 another application of the executives share acquisition plan took place for members of the management of Red Electrica. The process involved 8,324 shares totaling €285 thousand.

## **INTERNATIONAL BUSINESS**

The development of the results obtained by TDE is positive although it has been affected by the evolution of the euro/dollar exchange rate. Revenues obtained by TDE totalled €4.9 million (€5.3 million in 2006), EBITDA amounted to €3.4 million (€3.7 million in 2006), EBIT totalled €2.2 million (€2.3 million in 2006) and earnings after taxes totalled €1.7 million (€1.8 million in 2006).



**RED ELÉCTRICA GROUP**  
**CONSOLIDATED INCOME STATEMENT**  
**(THOUSAND EURO)**  
**(TRANSLATION FROM THE ORIGINAL IN SPANISH)**

<b>INCOME STATEMENT</b>	<b>3/31/2007</b>	<b>3/31/2006</b>	<b>2007/2006</b>
Net sales	251,961	233,504	7.9%
Other operating income	1,149	823	39.6%
Materials consumed	(7,665)	(5,065)	51.3%
Staff costs	(23,934)	(19,205)	24.6%
Other operating expenses	(31,742)	(44,779)	(29.1%)
<b>Gross operating profit</b>	<b>189,769</b>	<b>165,278</b>	<b>14.8%</b>
Amortisation/depreciation of non-current assets	(61,353)	(58,901)	4.2%
<b>Net operating profit</b>	<b>128,416</b>	<b>106,377</b>	<b>20.7%</b>
Financial income	143	349	(59.0%)
Financial expense	(27,282)	(25,591)	6.6%
Exchange differences	(14)	58	-
Net profit/(loss) on changes in fair value of financial instruments	(3)	2,169	-
Net asset impairment loss	96	1	-
Share of profit of associates accounted for using the equity method	167	263	(36.5%)
Net proceeds from sale of non-current assets	-	5	(100.0%)
Other gains or losses	1,738	1,375	26.4%
<b>Profit before tax on continuing activities</b>	<b>103,261</b>	<b>85,006</b>	<b>21.5%</b>
Income tax expense	(33,144)	(29,188)	13.6%
<b>Profit for the year</b>	<b>70,117</b>	<b>55,818</b>	<b>25.6%</b>
Minority interests	(1)	(2)	(50.0%)
<b>Profit attributable to the equity holders</b>	<b>70,116</b>	<b>55,816</b>	<b>25.6%</b>



**RED ELÉCTRICA GROUP**  
**CONSOLIDATED BALANCE SHEET**  
**(THOUSAND EURO)**  
**(TRANSLATION FROM THE ORIGINAL IN SPANISH)**

<b>ASSETS</b>	<b>3/31/2007</b>	<b>12/31/2006</b>	<b>2007/2006</b>
Property, plant and equipment	4,439,923	4,433,642	0.1%
Investment property	2,730	2,734	(0.1%)
Intangible assets	4,718	5,433	(13.2%)
Non-current financial assets	67,971	13,029	421.7%
Investments accounted for using the equity method	7,266	7,204	0.9%
Deferred tax assets	38,614	38,921	(0.8%)
Other non-current assets	583	436	33.7%
<b>Total non-current assets</b>	<b>4,561,805</b>	<b>4,501,399</b>	<b>1.3%</b>
Inventories	30,404	28,974	4.9%
Trade and other receivables	348,857	264,853	31.7%
Current financial assets	2,386	1,671	42.8%
Current tax assets	6,722	7,813	(14.0%)
Other current assets	193	316	(38.9%)
Cash and cash equivalents	9,953	13,374	(25.6%)
<b>Total current assets</b>	<b>398,515</b>	<b>317,001</b>	<b>25.7%</b>
<b>Total assets</b>	<b>4,960,320</b>	<b>4,818,400</b>	<b>2.9%</b>
<b>LIABILITIES</b>			
	<b>3/31/2007</b>	<b>12/31/2006</b>	<b>2007/2006</b>
Share capital	270,540	270,540	-
Other reserves	264,546	264,546	-
Retained earnings	642,943	574,064	12.0%
Treasury shares (-)	(32,765)	(52,986)	(38.2%)
Exchange differences	(4,921)	(2,976)	65.4%
Other measurement adjustments	16,909	12,213	38.5%
Interim dividend	(43,428)	(43,428)	-
Minority interests	57	58	(1.7%)
<b>Equity</b>	<b>1,113,881</b>	<b>1,022,031</b>	<b>9.0%</b>
Issues of bonds and other marketable securities	1,220,900	1,224,956	(0.3%)
Bank borrowings	1,349,241	1,277,270	5.6%
Other financial liabilities	19,712	20,627	(4.4%)
Deferred tax liabilities	144,631	144,024	0.4%
Provisions	19,405	19,166	1.2%
Other non-current liabilities	376,556	366,207	2.8%
<b>Total non-current liabilities</b>	<b>3,130,445</b>	<b>3,052,250</b>	<b>2.6%</b>
Issues of bonds and other marketable securities	29,108	16,429	77.2%
Bank borrowings	183,284	129,377	41.7%
Trade and other payables	117,023	142,333	(17.8%)
Provisions	1,643	1,477	11.2%
Current tax liabilities	77,344	34,628	123.4%
Other current liabilities	307,592	419,875	(26.7%)
<b>Current liabilities</b>	<b>715,994</b>	<b>744,119</b>	<b>(3.8%)</b>
<b>Total liabilities</b>	<b>4,960,320</b>	<b>4,818,400</b>	<b>2.9%</b>



**RED ELÉCTRICA GROUP**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**(THOUSAND EURO)**  
**(TRANSLATION FROM THE ORIGINAL IN SPANISH)**

<b>CASH FLOW STATEMENT</b>	<b>3/31/2007</b>	<b>3/31/2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>60,647</b>	<b>112,888</b>
<b>Cash flows from operations</b>	<b>164,085</b>	<b>140,688</b>
Profit before tax on continuing activities	103,261	85,006
Amortisation and depreciation of non-current assets	61,353	58,901
Other results involving no movement of funds	2,514	(824)
Capital grants and other deferred income released to the income statement	(2,950)	(2,390)
Net proceeds from sale of non-current assets	(93)	(5)
<b>Income taxes paid</b>	<b>(34)</b>	<b>-</b>
<b>Changes in current working capital</b>	<b>(102,784)</b>	<b>(16,517)</b>
Changes in inventories, receivables, current advance payments and other current assets	(81,454)	2,661
Changes in trade payables, current advance collections and other liabilities	(21,330)	(19,178)
<b>Payment of provisions recognised for contingencies and expenses</b>	<b>(620)</b>	<b>(11,283)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(167,009)</b>	<b>(81,324)</b>
Acquisition and sale of PPE and intangible assets	(122,870)	(83,875)
Acquisition and sale of other assets	(53,482)	176
Acquisition and sale of subsidiaries and joint ventures	-	(700)
Capital grants and other advance collections	9,343	3,075
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>102,969</b>	<b>(34,909)</b>
Changes in equity	21,418	(6,134)
Utilisation of long-term financing	80,014	-
Repayment of long-term financing	(10,507)	(8,363)
Utilisation of short-term financing	314,271	107,708
Repayment of short-term financing	(258,799)	(91,532)
Dividends paid	(43,428)	(36,588)
<b>NET CASH FLOW</b>	<b>(3,393)</b>	<b>(3,345)</b>
Effect of foreign exchange fluctuations on cash and cash equivalents	(28)	(145)
<b>CHANGES IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>(3,421)</b>	<b>(3,490)</b>
Cash and cash equivalents at beginning of the year	13,374	18,768
Cash and cash equivalents at end of the year	9,953	15,278