

**RED**  
**ELÉCTRICA**  
DE ESPAÑA

# Financial results

## January - June 2007

Profits in the first half of the year amounted to €125.8 million, up 19.5% on the same period in 2006.

Investment in the mainland transmission grid rose by 47.5%, compared with the same period in 2006, and amounted to €14.8 million.

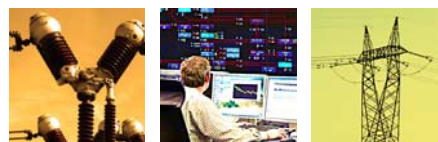
Red Eléctrica has confirmed its growth prospects for 2007.

July, 27th of 2007

### Index

1. Red Eléctrica: Financial highlights .....	2
2. Evolution of accumulated and quarterly results .....	3
3. Cash flow and balance sheet .....	4
4. International bussiness .....	5
5. Relevant events during the quarter .....	5
Consolidated Income Statement .....	7
Consolidated Balance Sheet ..	8
Consolidated Cash Flow Statement .....	9
Financial calendar .....	10

The financial information presented in this document has not been audited and is therefore subject to potential changes. This information has been prepared in accordance with International Financial Reporting Standards (IFRS).



## 1. Red Eléctrica: Financial Highlights

### Income Statement

(in thousands of Euros)	January - June			April - June		
	2007	2006	Δ %	2007	2006	Δ %
Net Sales	505,341	471,966	7.1	253,380	238,462	6.3
Gross operating profit (EBITDA)	362,536	330,445	9.7	172,767	165,167	4.6
Net operating profit (EBIT)	239,988	204,618	17.3	111,572	98,241	13.6
Profit before income tax on continuing activities	189,903	160,268	18.5	86,642	75,262	15.1
Profit attributed to the parent company	125,774	105,226	19.5	55,659	49,410	12.6

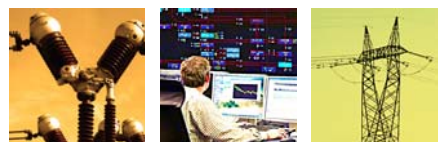
### Balance Sheet

(in thousands of Euros)	June 2007	December 2006	Δ %
Total non-current assets	4,659,746	4,501,399	3.5
Equity	1,108,216	1,022,031	8.4
Net financial debt*	2,621,787	2,644,381	-0.9

\* Includes exchange rate derivatives.

### Other financial figures

(in thousands of Euros)	January - June			April - June		
	2007	2006	Δ %	2007	2006	Δ %
Cash flow from operations	311,946	281,856	10.7	147,862	140,931	4.9
Capital expenditures	275,534	155,710	77.0	150,706	101,674	48.2
Dividends paid	43,428	36,588	18.7	43,428	36,588	18.7



## 2. Evolution of accumulated and quarterly results

Turnover grew by 7.1%, cumulative terms, mainly due to the increase in the asset base to be remunerated due to the facilities commissioned in 2006. The growth in turnover in the second half of 2007 compared with the same period in 2006 stood at 6.3%, largely as a result of lower work carried out for third parties.

**EBITDA** in the first half of 2007 grew by 9.7% in relation to the same period in 2006 driven by the growth of turnover and by:

- The decrease of 4.5% in **materials consumed and other operating expenses**, as a result of the fact that Red Eléctrica is assuming the operating and maintenance works that were done by the electricity companies in 2006. Nonetheless, with respect to the first quarter of the year, there has been an increase of renewal and improvement works, as expected, triggering a sharp rise in materials consumed.
- This decrease has been offset by the growth in 15.1% of **staff costs** as a result of the development of the headcount and the indemnities recorded during the period.

The **average headcount** of the Red Eléctrica Group at 30 June 2007 stands at 1,445 employees, up 2.1% on the same period in 2006. The **final headcount** stands at 1,450 employees, which is up 1.5% on 30 June 2006.

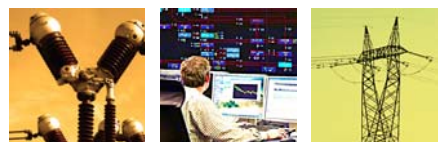
### Operating expenses

(in thousands of Euros)	January - June			April - June		
	2007	2006	Δ %	2007	2006	Δ %
Materials consumed and other operating expenses	99,702	104,377	(4.5)	60,294	54,533	10.6
Staff costs	45,590	39,607	15.1	21,657	20,402	6.2
<b>Operating expenses</b>	<b>145,292</b>	<b>143,984</b>	<b>0.9</b>	<b>81,951</b>	<b>74,935</b>	<b>9.4</b>

In the first half of 2007, the depreciation charge fell as compared with the same period in 2006 deriving from the regularization of the depreciation, in the previous year, of certain assets acquired from Iberdrola. Therefore, **EBIT** rose as compared with 2006, by 17.3% in cumulative terms and 13.6% in quarterly terms.

Despite the negative performance of financial expenses owing to the rise in market rates, **profit before tax** jumped by 18.5% in the first half of the year and by 15.1% in the second quarter.

Lastly, **profit for the year** grew by 19.5% compared with the same period in 2006 and 12.6% compared with the second quarter of 2006. This growth is attributable to the fall in the effective tax rate, from 34.3% in 2006 to 33.8% in 2007, owing to the decrease in the tax rate, which has been partly offset by the record of tax provisions.



### 3. Cash flow and balance sheet

#### Cash flow

(in thousands of Euros)	January - June			April - June		
	2007	2006	Δ %	2007	2006	Δ %
Profit before tax	189,903	160,268	18.5	86,642	75,262	15.1
Income taxes paid	(26,583)	(22,426)	18.5	(26,549)	(22,426)	18.4
Amortization & depreciation of non-current assets	122,548	125,827	(2.6)	61,195	66,926	(8.6)
Other adjustments	(505)	(4,239)	(88.1)	25	(1,257)	(102.0)
<b>Cash flows from operations after tax</b>	<b>285,363</b>	<b>259,430</b>	<b>10.0</b>	<b>121,313</b>	<b>118,505</b>	<b>2.4</b>
Change in working capital and other long-term assets and liabilities	58,228	30,618	90.2	182,395	45,029	305.1
Capital expenditures	(275,534)	(155,710)	77.0	(150,706)	(54,626)	175.9
<b>Free cash flow</b>	<b>68,057</b>	<b>134,338</b>	<b>(49.3)</b>	<b>153,002</b>	<b>108,908</b>	<b>40.5</b>
Dividends paid	(43,428)	(36,588)	18.7	-	-	-
<b>Change in net financial debt*</b>	<b>(24,629)</b>	<b>(97,750)</b>	<b>(74.8)</b>	<b>(153,002)</b>	<b>(108,908)</b>	<b>40.5</b>

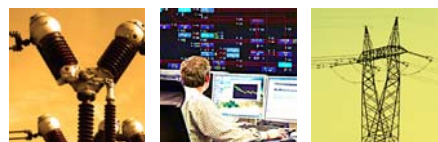
\*The difference with the change in Net Financial Debt from page 2 relates to non-cash captions.

**Cash flow from operations after tax** grew by 10% compared with the first quarter in 2006. This growth is driven by the results of the semester, commented previously.

**Capital expenditures** by the Group amounted to €275.5 million at 30 June 2007. This major investment effort focused on the following:

- **Investment in the development of the national transmission grid:** Investment in the national transmission grid amounted to €214.8 million compared with €145.6 million in the same period in 2006, which represents an increase of 47.5%. Investments include the acquisition of transmission facilities from Hidrocantábrico Energía, S.A. amounting to €16.8 million.
- **Financial investment:** During the first half of 2007, 5% of the Portuguese company Redes Energeticas Nacionais, SGPS, S.A. (REN) was acquired through a payment on account amounting to €53.4 million.
- **Other investment in property, plant and equipment and intangible assets:** Other national and international expenditure amounted to €7.3 million.

**Dividends paid** at 30 June 2007 amount to €43.4 million, equivalent to €0.325 per share, representing an increase of approximately 19% compared with the dividends paid in the same period in 2006. This amount relates to the payment of last year's interim dividend.



The Red Eléctrica Group's **Net Financial Debt** at 30 June 2007, including the effect of the exchange rate derivatives, amounts to €2,621.8 million, in line with that at the 2006 year end. During this period the debt structure has not shown any significant variations: long-term debt accounts for 94% of the total, compared with 96% at 31 December 2006.

### Net financial debt

(in thousands of Euros)	National currency	Foreign currency	Total
Cash and other liquid means	(72,915)	(11,331)	(84,246)
Long-term debenture loans	1,257,494	-	1,257,494
Long-term credits	1,288,466	64,529	1,352,995
Promissory notes and short-term credits	87,247	8,297	95,544
<b>Total net financial debt</b>	<b>2,560,292</b>	<b>61,495</b>	<b>2,621,787</b>

On the basis of the interest rate, 71% of Red Eléctrica's debt is at a fixed rate while the remaining 29% is at a variable rate.

Similarly, during the first half of 2007, the average cost of the Group's financial debt amounted to 4.15% while the average balance amounted to €2,765.2 million. In the first six months of 2006, the average cost of the debt amounted to 3.76% while the average balance amounted to €2,787.8 million.

Moreover, at 30 June 2007 the Red Eléctrica Group's equity amounted to €1,108.2 million, representing an increase of 8.4% in the year. This increase is due to the profit for the period, the dividend approved and the evolution of derivatives and treasury shares.

## 4. International business

During the first half of the year, the international operations carried out through the subsidiary Red Eléctrica Internacional (REI) generated revenues of €10.6 million, EBITDA of €6.3 million and EBIT of €3.9 million.

International investment in the transmission grid amounted to €3.6 million in the period while the net financial debt amounted to €60.2 million, most of which is made up of foreign currency debt, at an average rate of 4.79%.

## 5. Relevant events during the period

- **General Shareholders' Meeting:** The General Shareholders' Meeting was held on 31 May, during which the annual accounts of Red Eléctrica, were approved together with the distribution of the dividend and the management carried out by the Board of Directors. Similarly, changes were made to the Bylaws and the General Shareholders' Meetings' Regulations in order to include the recommendations of the Standardised Corporate Governance Code.
- **Dividend payment:** On 2 July €0.5734 was paid per share as a complementary dividend for 2006.



- **17/2007 Act of 4 July which amends 54/1997 Act of 27 November of the Electricity Sector in order to adapt it to what is laid down in Directive 2003/54/EC of 26 June 2003, issued by the European Parliament and Council and regarding Common Regulations for the Internal Electricity Market:** Among a series of measures which this Act contains and have a direct bearing on Red Eléctrica de España, it is important to point out:

#### **Consolidation of the TSO Model**

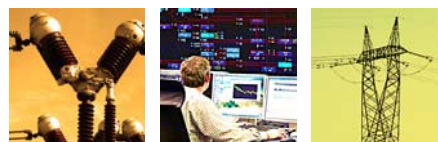
Red Eléctrica de España, S.A. will act as sole Transmission Company, performing its activity on an exclusive basis.

The law stipulates that companies currently owning transmission installations must transfer these to Red Eléctrica de España, S.A. within a maximum period of three years. This notwithstanding, the Ministry of Industry, Tourism and Trade may grant express, individual authorisation, after consulting the National Energy Commission and the Autonomous Government of the region in which the installation is located, for certain installations with a voltages of up to 220 kV to be owned by the area distributor on account of their characteristics and functions.

#### **Share Restrictions: Increase to 5%**

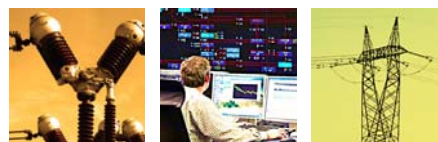
Any individual or body corporate may hold shares in Red Eléctrica de España, S.A., provided that direct or indirect participation in the company's capital does not exceed five per cent and that voting rights of more than three per cent are not exercised. The voting rights of those entities that perform activities in the electricity sector, or of those bodies corporate whose shares in these amount to more than five percent, shall be restricted to one per cent.

- **Approval of the "Penagos-Güeñes" line execution project:** On 5 June 2007 the Decision of the Directorate General for Energy and Mining Policy was published, setting out the Cabinet Decision of 25 May 2007, declaring the 400 kv, double circuit, "Penagos-Güeñes" line execution project, in the provinces of Cantabria and Vizcaya, of service to the public.



## Red Eléctrica Group Consolidated Income Statement

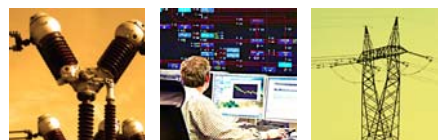
(in thousands of Euros)	30/06/2007	30/06/2006	2007/2006
Net sales	505,341	471,966	7.1%
Other operating income	2,487	2,463	1.0%
Materials consumed	(19,216)	(14,066)	36.6%
Staff costs	(45,590)	(39,607)	15.1%
Other operating expenses	(80,486)	(90,311)	(10.9%)
<b>Gross operating profit</b>	<b>362,536</b>	<b>330,445</b>	<b>9.7%</b>
Amortisation/depreciation of non-current assets	(122,548)	(125,827)	(2.6%)
<b>Net operating profit</b>	<b>239,988</b>	<b>204,618</b>	<b>17.3%</b>
Financial income	436	497	(12.3%)
Financial expense	(55,624)	(51,107)	8.8%
Exchange differences	287	157	82.8%
Net profit/(loss) on changes in fair value of financial instruments	(3)	2,731	(100.1%)
Net asset impairment loss	183	-	-
Share of profit of associates accounted for using the equity method	323	407	(20.6%)
Net proceeds from sale of non-current assets	746	149	400.7%
Other gains or losses	3,567	2,816	26.7%
<b>Profit before tax on continuing activities</b>	<b>189,903</b>	<b>160,268</b>	<b>18.5%</b>
Income tax expense	(64,127)	(55,039)	16.5%
<b>Profit for the year</b>	<b>125,776</b>	<b>105,229</b>	<b>19.5%</b>
Minority interests	(2)	(3)	(33.3%)
<b>Profit attributed to the parent company</b>	<b>125,774</b>	<b>105,226</b>	<b>19.5%</b>



## Red Eléctrica Group Consolidated Balance Sheet

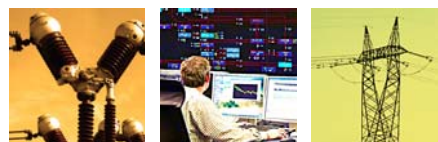
ASSETS (in thousands of Euros)	30/06/2007	31/12/2006
Property, plant and equipment	4,528,686	4,433,642
Investment property	2,744	2,734
Intangible assets	3,985	5,433
Non-current financial assets	76,939	13,029
Investments accounted for using the equity method	7,326	7,204
Deferred tax assets	39,493	38,921
Other non-current assets	573	436
<b>Total non-current assets</b>	<b>4,659,746</b>	<b>4,501,399</b>
Inventories	38,368	28,974
Trade and other receivables	303,550	264,853
Current financial assets	1,038	1,671
Current tax assets	6,313	7,813
Other current assets	274	316
Cash and cash equivalents	84,246	13,374
<b>Total current assets</b>	<b>433,789</b>	<b>317,001</b>
<b>Total assets</b>	<b>5,093,535</b>	<b>4,818,400</b>

LIABILITIES (in thousands of Euros)	30/06/2007	31/12/2006
Share capital	270,540	270,540
Other reserves	264,546	264,546
Retained earnings	579,027	574,064
Treasury shares (-)	(26,117)	(52,986)
Exchange differences	(5,700)	(2,976)
Other measurement adjustments	25,865	12,213
Interim dividend	-	(43,428)
Minority interests	55	58
<b>Equity</b>	<b>1,108,216</b>	<b>1,022,031</b>
Issues of bonds and other marketable securities	1,215,866	1,224,956
Bank borrowings	1,352,995	1,277,270
Other financial liabilities	21,270	20,627
Deferred tax liabilities	147,877	144,024
Provisions	22,442	19,166
Other non-current liabilities	386,668	366,207
<b>Total non-current liabilities</b>	<b>3,147,118</b>	<b>3,052,250</b>
Issues of bonds and other marketable securities	34,128	16,429
Bank borrowings	103,288	129,377
Trade and other payables	158,741	142,333
Provisions	1,192	1,477
Current tax liabilities	77,190	34,628
Other current liabilities	463,662	419,875
<b>Current liabilities</b>	<b>838,201</b>	<b>744,119</b>
<b>Total liabilities</b>	<b>5,093,535</b>	<b>4,818,400</b>



## Red Eléctrica Group Consolidated Cash Flow Statement

(in thousands of Euros)	30/06/2007	30/06/2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>249,865</b>	<b>324,835</b>
<b>Cash flows from operations</b>	<b>311,946</b>	<b>281,856</b>
Profit before tax on continuing activities	189,903	160,268
Amortisation and depreciation of non-current assets	122,548	125,827
Other results involving no movement of funds	6,412	3,640
Capital grants and other deferred income released to the income statement	(5,991)	(4,999)
Net proceeds from sale of non-current assets	(926)	(2,880)
<b>Income taxes paid</b>	<b>(26,583)</b>	<b>(22,426)</b>
<b>Changes in current working capital</b>	<b>(33,641)</b>	<b>81,292</b>
Changes in inventories, receivables, current advance payments and other current assets	(44,129)	44,528
Changes in trade payables, current advance collections and other liabilities	10,488	36,764
<b>Payment of provisions recognised for contingencies and expenses</b>	<b>(1,857)</b>	<b>(15,887)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(212,018)</b>	<b>(187,692)</b>
Acquisition and sale of PPE and intangible assets	(181,321)	(202,395)
Acquisition and sale of other assets	(53,393)	355
Acquisition and sale of subsidiaries and joint ventures	-	(700)
Capital grants and other advance collections	22,696	15,048
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>33,153</b>	<b>(127,618)</b>
Changes in equity	30,210	(2,805)
Utilisation of long-term financing	89,567	60,000
Repayment of long-term financing	(14,769)	(12,628)
Utilisation of short-term financing	394,662	828,229
Repayment of short-term financing	(423,089)	(963,826)
Dividends paid	(43,428)	(36,588)
<b>NET CASH FLOW</b>	<b>71,000</b>	<b>9,525</b>
Effect of foreign exchange fluctuations on cash and cash equivalents	(128)	(129)
<b>CHANGES IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>70,872</b>	<b>9,396</b>
Cash and cash equivalents at beginning of the year	13,374	18,768
Cash and cash equivalents at end of the year	84,246	28,164



## Financial calendar

### Upcoming events

#### Estimated dates

9M 2007 results	26 October	2007
Interim dividend payment	02 January	2008
Full year 2007 results	15 February	2008

For further information:

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Red Eléctrica has the following credit ratings: AA- from S&P and A2 from Moody's.



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