

# First Half 2003 Results

**x2+**

21<sup>st</sup> July 2003



## Agenda



### **1st Half 2003 Highlights**

**Consolidated Results**

**Results by Business**

**Year 2003 Outlook**

**Conclusions**

## H1 2003 Highlights



**Double-digit Increases in Operating Cash Flow and Net Profit...**

**...driven by Domestic Energy**

**Operating Efficiency: more ambitious goals**

**Extraordinary provisions for €337 MM**

**Debt reduction continues after €1 bn investments**

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## Operating Cash Flow



**Cash generation +15.3%**

**Operating Cash Flow (€ MM)\***



**...increasing weight of new businesses**

(\* Net Profit + Depreciation and Amortisation + Provisions - Equity Income - Extraordinary Income)

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## Operating Cash Flow



### Group's production increases by 24%...

	Installed Capacity		Production	
	MW	vs H1 '02	GWh	vs H1 '02
Spain	19,625	+13%	33,315	+19%
Latin America	1,464	+47%	3,720	+102%
<b>TOTAL</b>	<b>21,089</b>	<b>+15%</b>	<b>37,035</b>	<b>+24%</b>

...15% more MW in operation since June 2002

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## H1 2003 Highlights



### Results driven by Domestic Energy...

	Net Sales	Operating Profit	Net Profit	Assets
<b>Domestic</b>	<b>89.8%</b>	<b>93.1%</b>	<b>99.1%</b>	<b>86.3%</b>
Energy	85.7%	87.2%	74.2%(*)	74.8%
Non Energy	4.1%	5.9%	4.3%	7.5%
Corp. Portfolio	---%	---%	20.6%**	4.0%
Latin America	10.2%	7.0%	0.9%	13.7%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* Includes personnel provisions up to Eur 306 MM

\*\*Includes extraordinary results of €51 MM due to the divestment of a 7% of REE

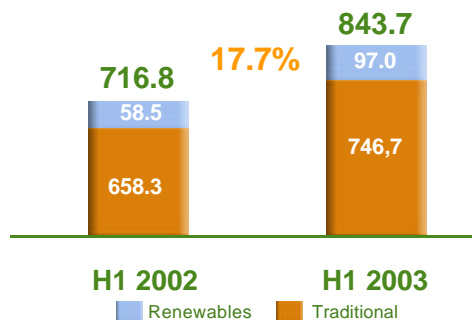
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## H1 2003 Highlights



**.. and boosted by growth in Spanish Generation**

### EBITDA (€ MM)



### Total hydro reserves

June 2003	June 2002
7,682 GWh	4,011 GWh

### Reservoir Level

June 2003	June 2002
72.6%	37.4%

**...Traditional + Renewables EBITDA: +17.7%**

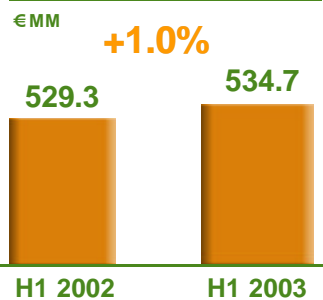
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## Operating Efficiency: Group

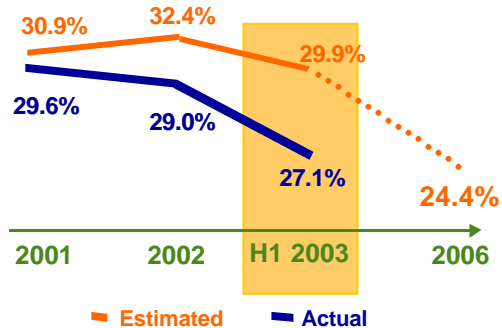


**Production increases by 23.8% ...**

### Net Operating Expenses



### Net Op. Expense / Gross Margin



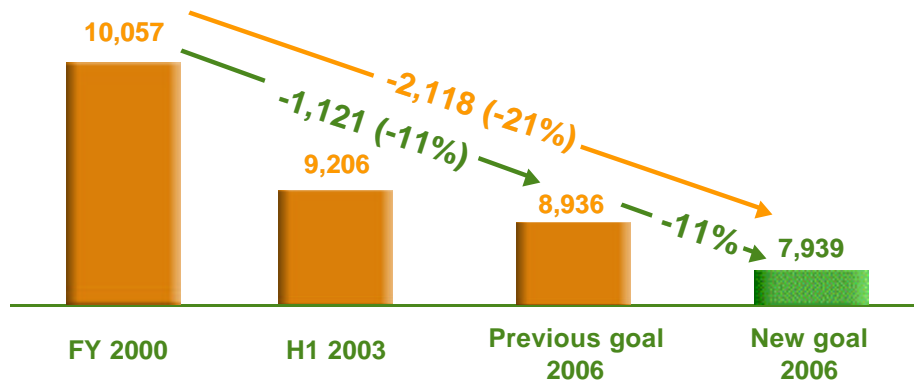
**...while Net Operating Expenses grows by only 1%**

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Operating Efficiency Spain: New Goals  
 Agreement with Unions approved by Government



**Early Retirement Plan '03-'06 improves efficiency...**



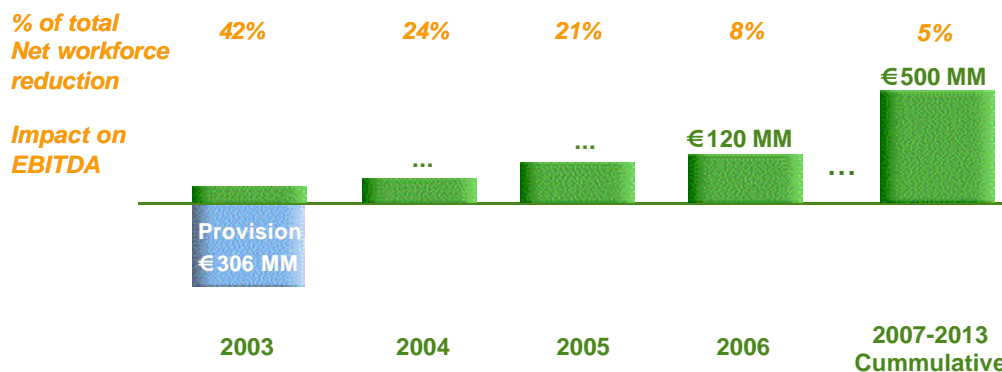
**11% lower workforce than planned by '06 (under 8,000)**

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Operating Efficiency Spain: New Goals  
 Agreement with Unions approved by Government



**2003-2006 Plan 100% provisioned in 1H 2003**



**€120 MM personnel cost pre-tax savings in '06**

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## Net Profit



**Despite €337 MM extraordinary provisions...**

**Ordinary Profit**  
 €782.4 MM  
 +43.8%

+

**Provisions**  
 €-337 MM

+

**Capital Gains**  
 €159 MM

**Profit Before Taxes**  
 €604.2 MM -5.2% + **Lower Taxation due to reinvestments**

**Net Profit grows 12.6% (€505 MM)**

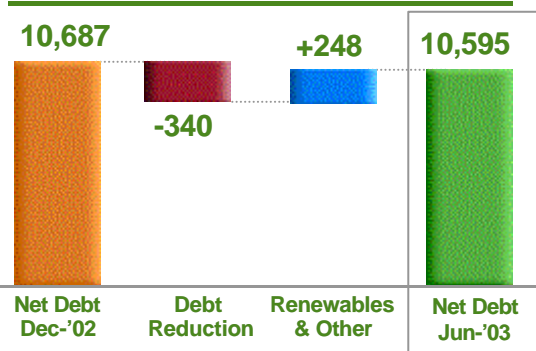
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## Financial Debt

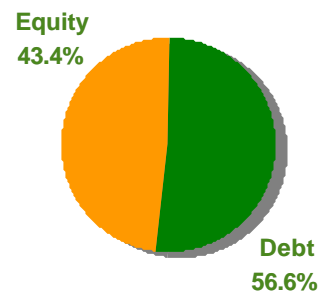


**Leverage improves from 57.1% to 56.6% since Jan '03**

*Net Debt Evolution (€ MM)*



*Financial Leverage*



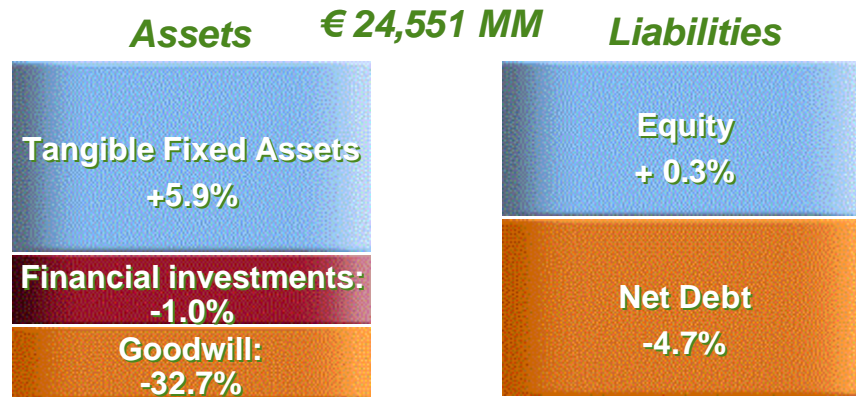
**... with Net Debt reduction**

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## H1 2003 Highlights



### ...maintaining Balance Sheet strength



(Change vs H1 2002)

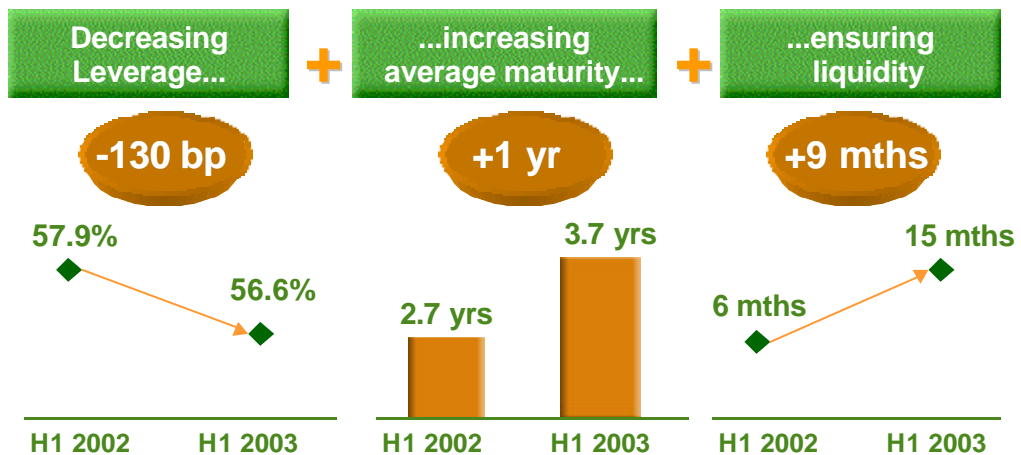
Goodwill: 2% of Assets

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## H1 2003 Highlights



### Optimising Financial Structure...



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## H1 2003 Highlights



**...despite investment effort: €1,037 MM**

	€MM			
	Generation	Distribution	Others	Total
Spain	707	155	31	893
Mexico	106	2	-	108
Brazil	14	22	-	36
Total	827	179	31	1,037

**...out of which 86% in Spain**

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## H1 2003 Highlights



**Financing investments and dividends...**

Sources		1,773.7	Uses		1,773.7	€MM
HV Grid Collection	448	25%	Lower Debt (like for like)	340	19%	
Divestments	323	18%	WC & Other	163	9%	
Op. Cash Flow after taxes	1,004	57%	Dividend	234	13%	
			Investments	1,037	58%	

**... with Operating Cash Flow and divestments**

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## Agenda



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### Conclusions

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## First Half 2003 Basic Figures



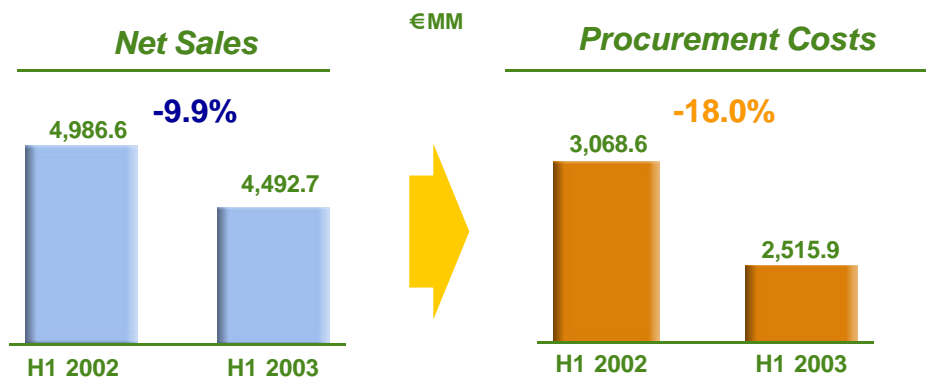
	H1 2003	H1 2002	Change %	€MM
Net Sales	4,492.7	4,986.6	-9.9	
Gross Margin	1,976.8	1,918.0	+3.1	
Net Operating Exp.	-534.7	-529.3	+1.0	
EBITDA	1,364.1	1,310.1	+4.1	
Operating Profit (EBIT)	934.8	896.9	+4.2	
Ordinary Profit	782.4	544.0	+43.8	
Net Profit	505.6	448.9	+12.6	
Net Debt	10,595	10,660	-0.6	
Operating Cash Flow	1,003.5	870.9	+15.3	

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## Gross Margin



**Gross Margin +3.1% up to €1,976.8 MM**



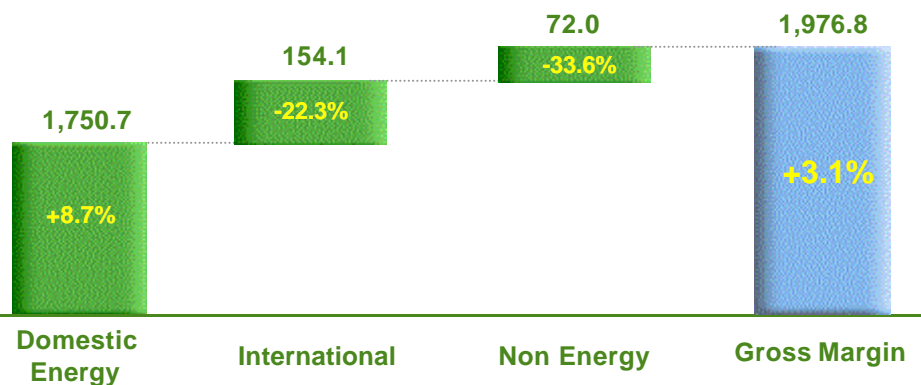
...lower procurement costs more than offset lower prices

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## Gross Margin



**Driven by Domestic Energy (+8.7%)...**



... with International still affected by currency depreciation

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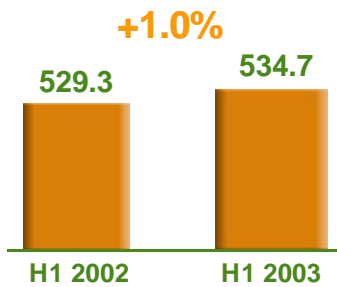
## Net Operating Expenses



### Cost control

€MM

#### Net Operating Expenses



<b>Traditional businesses</b>	<ul style="list-style-type: none"> <li>• Generation</li> <li>• Distribution</li> <li>• S. America</li> <li>• Non Energy</li> </ul>	<b>-5.1%</b>
<b>New businesses</b>	<ul style="list-style-type: none"> <li>• Renewables</li> <li>• Gas</li> <li>• Supply</li> <li>• CCGTs</li> </ul>	<b>+79.2%</b>
<b>Total</b>		<b>+1.0%</b>

... increase due to new businesses  
offset by efficiency gains in traditional businesses

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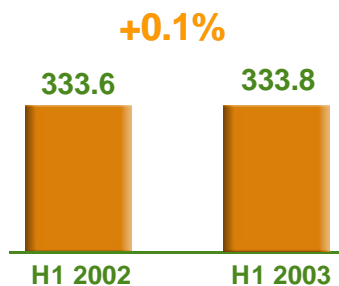
## Net Operating Expenses



### Personnel costs remain flat

€MM

#### Net Personnel Costs



<b>Traditional businesses</b>	<ul style="list-style-type: none"> <li>• Generation</li> <li>• Distribution</li> <li>• S. America</li> <li>• Non Energy</li> </ul>	<b>-5.3%</b>
<b>New businesses</b>	<ul style="list-style-type: none"> <li>• Renewables</li> <li>• Gas</li> <li>• Supply</li> <li>• CCGTs</li> </ul>	<b>+71.9%</b>
<b>Total</b>		<b>+0.1%</b>

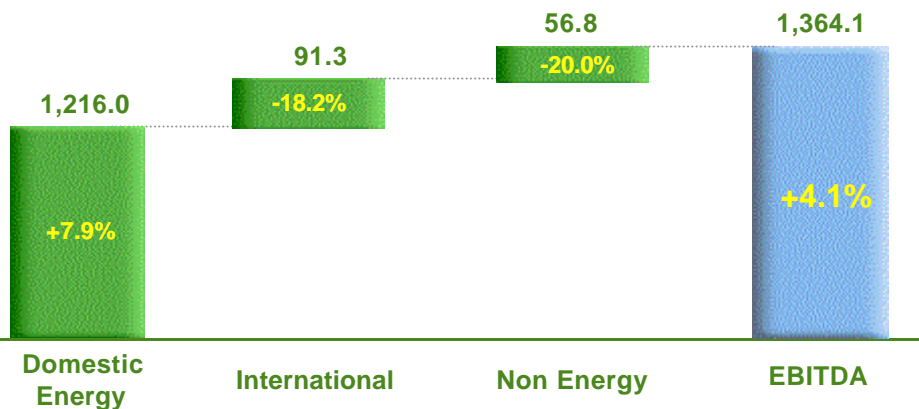
Optimisation of resources compensates  
high inflation and increase in activity

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## EBITDA



**4.1% increase driven by Domestic Energy...**



**...which contributes 89.1% of total**

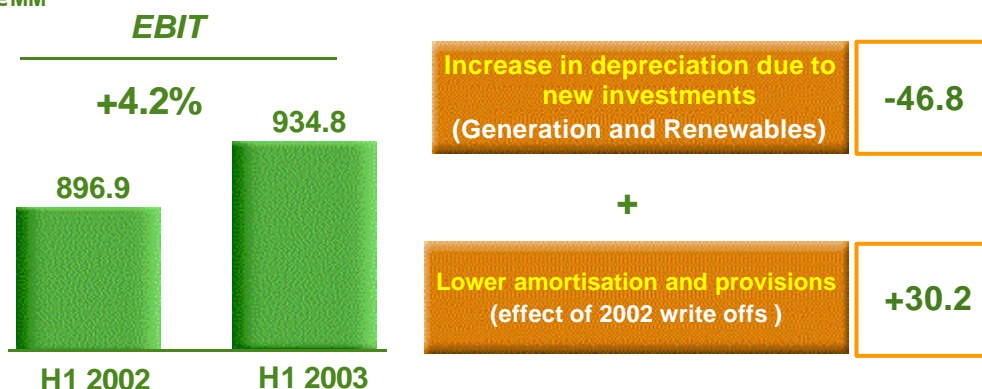
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## EBIT



**+ 4.2%: Rise in Operating Results...**

€MM



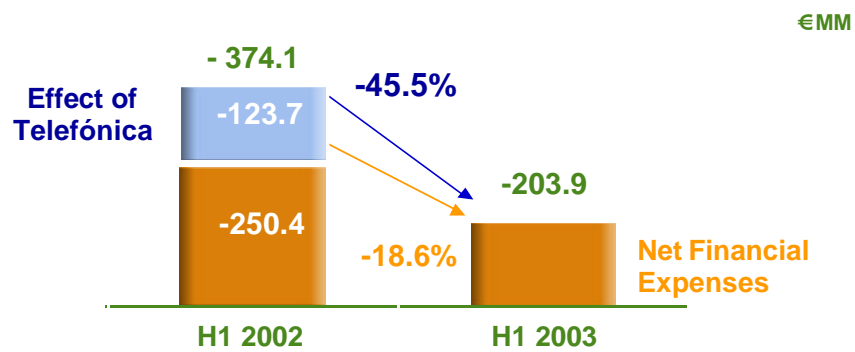
**... increase in activity and efficiency improvements**

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## Financial Expenses



**Strong decrease despite investment effort**



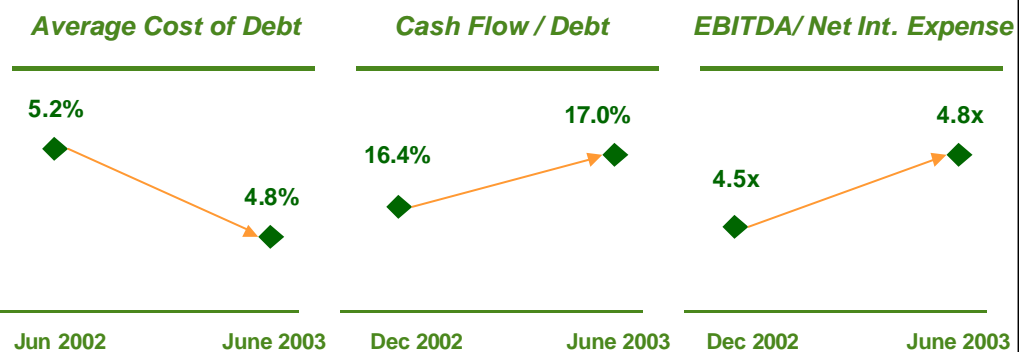
**Net Financial Expenses fall by 18.6%  
Excluding the effect of Telefónica**

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## Financial Debt



**Cost of Debt continues downward trend...**



**...improving coverage ratios**

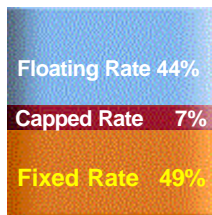
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## Financial Debt

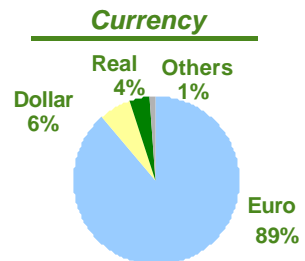
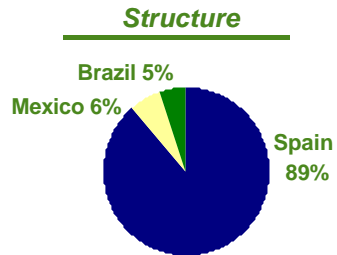
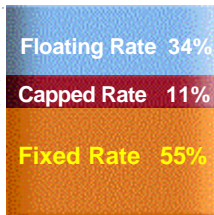


### Fixing debt at low interest rates...

December 2002



June 2003



... with limited F/X risk

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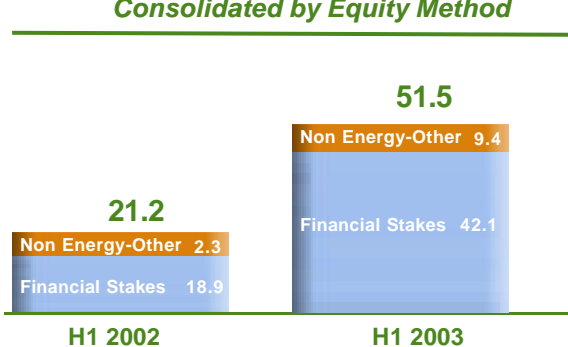
## Equity Consolidation



### Improvement in Results: Impact of 2002 measures...

€MM

Results from Companies  
Consolidated by Equity Method



#### Financial Stakes

- Improved results
- Lower goodwill amortisation due to Q4 2002 write-offs

#### Non-Energy Businesses

- Better results at IBV
- Lower goodwill amortisation due to Q4 2002 write-offs

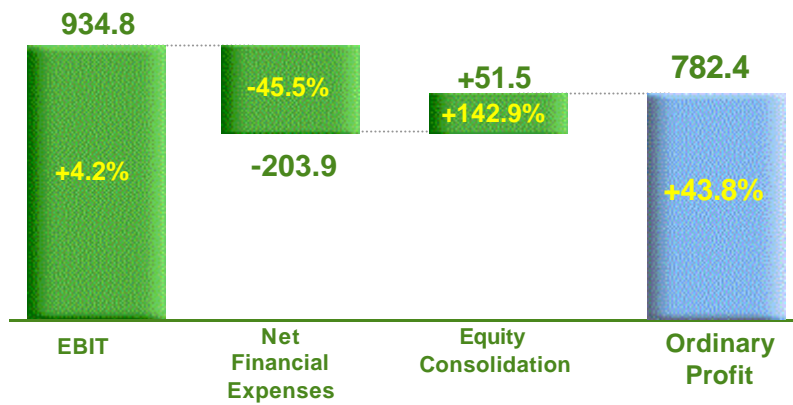
...and a better business evolution

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## Ordinary Profit



**Ordinary Profit jumps 44% ...**



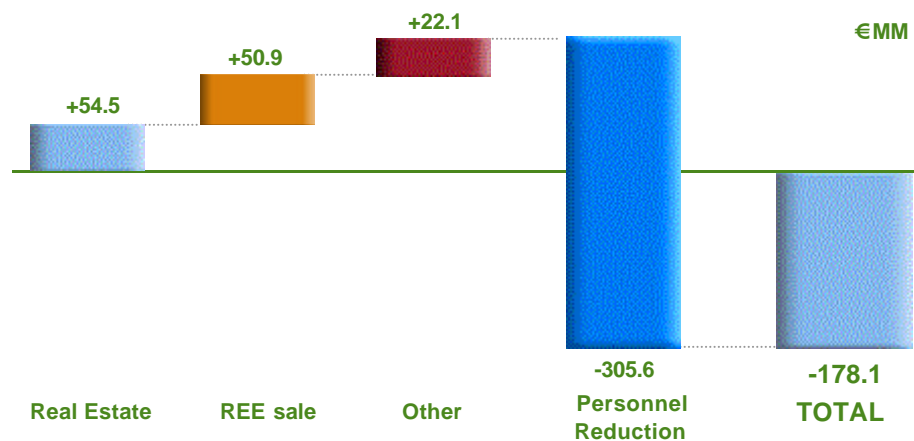
**...driven by Financial Expenses reduction**

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## Extraordinary Results



**Personnel reduction costs, fully provisioned...**



**...and divestment plan on track**

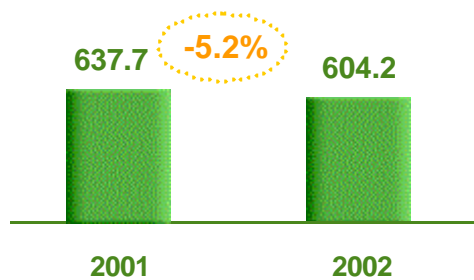
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## Analysis of Consolidated Results

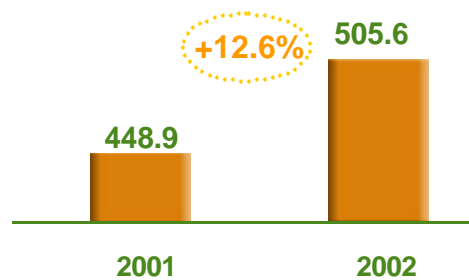


...resulting in 12.6% Net Profit growth...

### Profit Before Taxes (€ MM)



### Net Profit (€ MM)



Rising profitability: ROE 12.6% (vs 12.0% in H1 '02)

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## Agenda



1st Half 2003 Highlights

Consolidated Results

**Results by Business**

Year 2003 Outlook

Conclusions

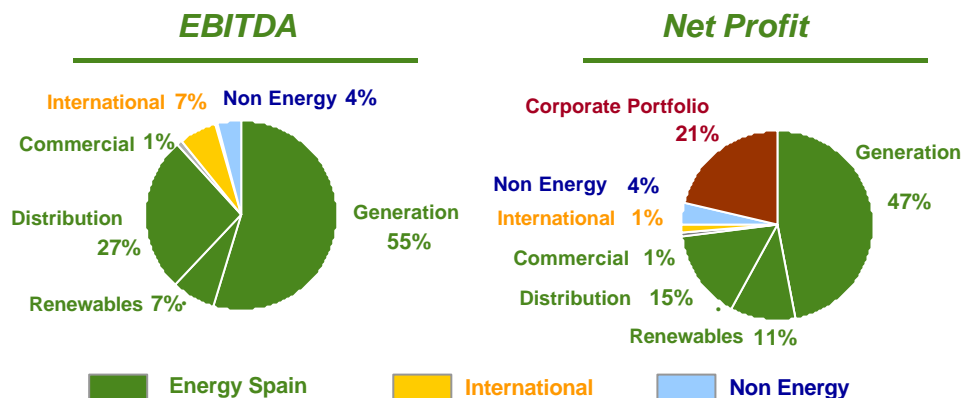
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## Results by Business



**Generation + Renewables contribute 62% to EBITDA**



**...growth drivers of Strategic Plan**

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## Generation & Renewables Spain



**Increasing production allows for growth...**

	Production (GWh)			Prices (€cts/KWh)		
	H1 2003	H1 2002	Chge %	H1 2003	H1 2002	Chge %
Ordinary Regime	30,478	26,666	+14.3%	3.5	4.5	-22.6%
Renewables	1,903	817	+132.9%	6.3	8.6	-27.4%
Cogeneration	934	578	+61.6%	5.1	5.2	-1.9%
<b>Total</b>	<b>33,315</b>	<b>28,061</b>	<b>+18.7%</b>	<b>3.7</b>	<b>4.6</b>	<b>-20.4%</b>

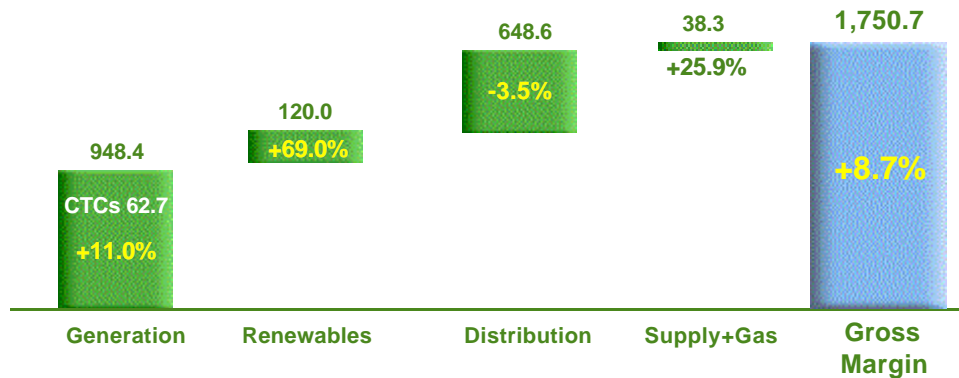
**...despite lower prices**

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## Domestic Energy - Gross Margin



**Good performance of Generation and Renewables...**



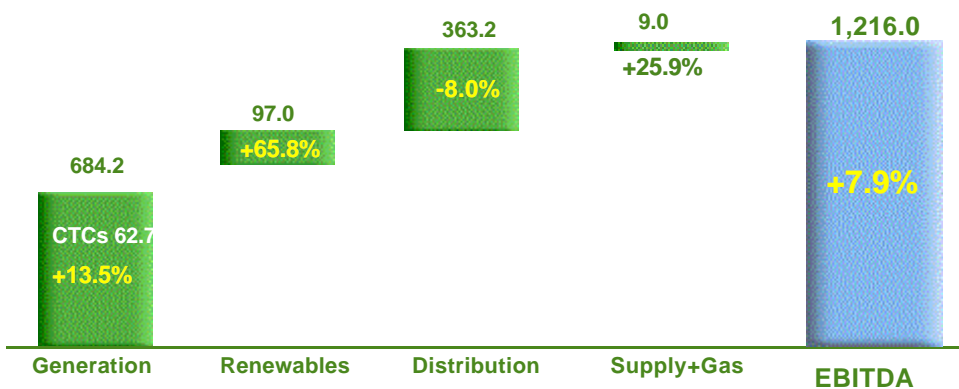
**...growth despite sale of HV Grid**

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## Domestic Energy - EBITDA



**7.9% increase: Generation contributes over 50%...**



**... Renewables growth compensates HV Grid effect**

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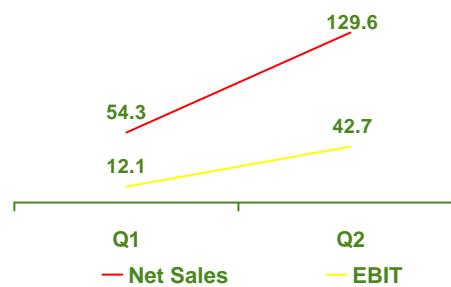
## Non-Energy Businesses



### Real Estate: Improving business evolution in Q2...

	H1 2003	vs. H1 2002
Gross Margin	72.0	-31.1%
EBITDA	56.8	-20.0%
Op. Profit	54.8	-17.2%

### Non Energy - Quarterly results



... and business activities accounted for as extraordinary (€19.1 MM)

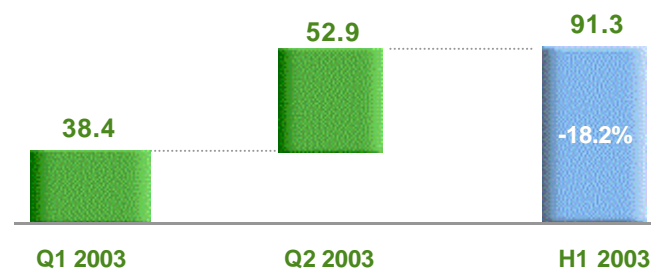
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## International Business



### Stabilising in Q2

### EBITDA International (€ MM)



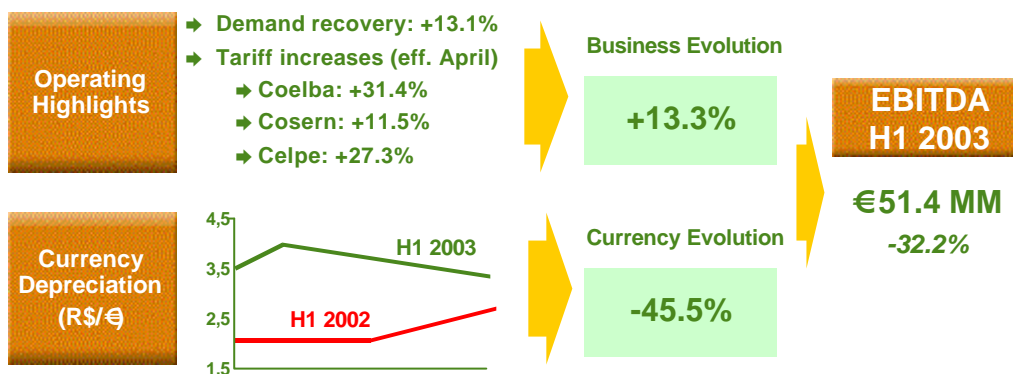
...still affected by currency evolution

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## International Business: Brazil



### Improvement signals at operating level...

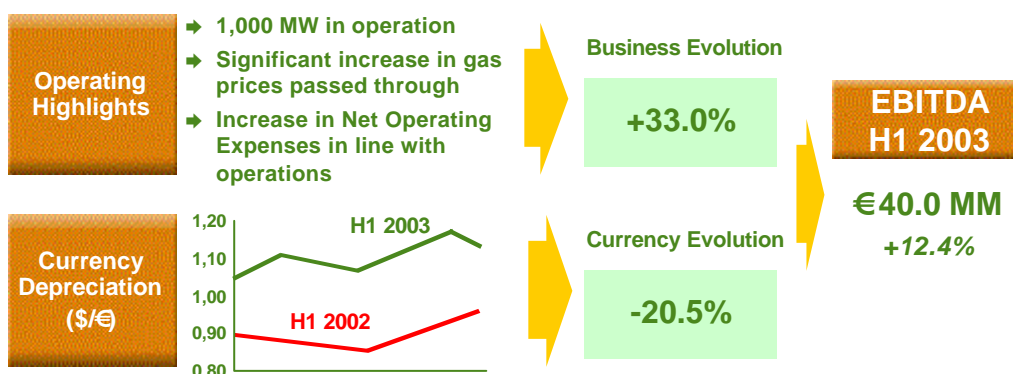


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## International Business: Mexico



### Increasing results in line with operations



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## Agenda



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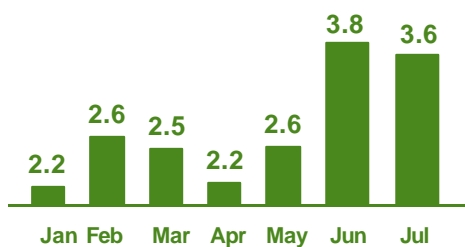
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## Year 2003 Outlook: Spain



### Domestic Energy: More capacity coming on stream...

#### Monthly Avg Pool Price '03 (€c)



➔ More Capacity in Operation in H2 '03

Renewables & CCGTs +920 MW

➔ Higher prices for Traditional Generation and Renewables:

- Optimisation of hydro reserves (7,398 GWh as of July)

➔ Improvement of Efficiency

- Effect of workforce reduction

**...increasing prices and higher efficiency**

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## Demand and currency stabilising in Brazil...

### Real/Euro Exchange rate



### Brazil

- ➔ Stabilisation of currency
- ➔ 13% demand growth
- ➔ tariff increases
- ➔ More power generation (Itapebi)

### Mexico

- ➔ Altamira 1,036 MW plant to be commissioned in H2

...and new capacity on stream in Mexico

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## Optimising cost vs risk in current scenario

56.6% Leverage to be reduced by year end

Fixing interest rates at all-time lowest cost

Increasing liquidity and average maturity

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## Agenda



**1st Half 2003 Highlights**

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## Conclusions



### Ahead of the Strategic Plan targets...

Operating  
Efficiency

**Op. Expenses to Gross Margin**  
**Beating target: 27%vs 29%**

Optimal Use  
of Capital

**15% more capacity in one year (2,728 MW)**

**Worldwide leader in Renewables (1,880 MW operating)**

**Leverage reduced by 130 bp to 56.2%**

Maximise  
Value from  
Customer

**Leadership in liberalised electricity market: 39%**

**Gas: Ahead of commercial targets**  
**5.9% share of contracts; 5.5% of supply**

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## Conclusions



**...Already delivering growth**

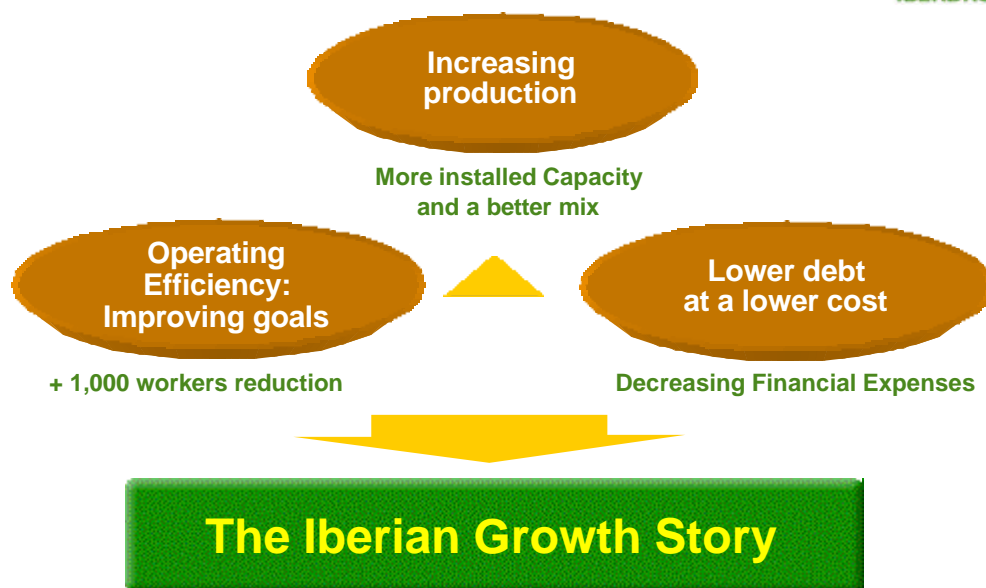
	H1 2001	H1 2002	H1 2003	CAGR
Net Profit	421	449	506	+9.6%
Cash Flow*	777	871	1,004	+13.7%

*Homogeneous terms*

(\*) Net Profit + Depreciation and Amortisation + Provisions - Equity Income - Extraordinary Income

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## Conclusions



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## Disclaimer



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