



RED ELÉCTRICA DE ESPAÑA

A New Red Eléctrica

February 2003



RED
ELÉCTRICA

Red Eléctrica at a Glance



RED
ELÉCTRICA

Core Business: Electricity Transmission in Spain

- Main owner of Spain's transmission grid
- Grid Manager and System Operator
- Manager of international electricity exchanges



Telecoms

- Provider of capacity services to carriers and telecommunication infrastructure services



RED ELÉCTRICA
internacional

Electricity Transmission Abroad

- Investments to-date: REDESUR-Peru and Transportadora de Electricidad (TDE)-Bolivia
- Specialised consulting services

TICKER: REE

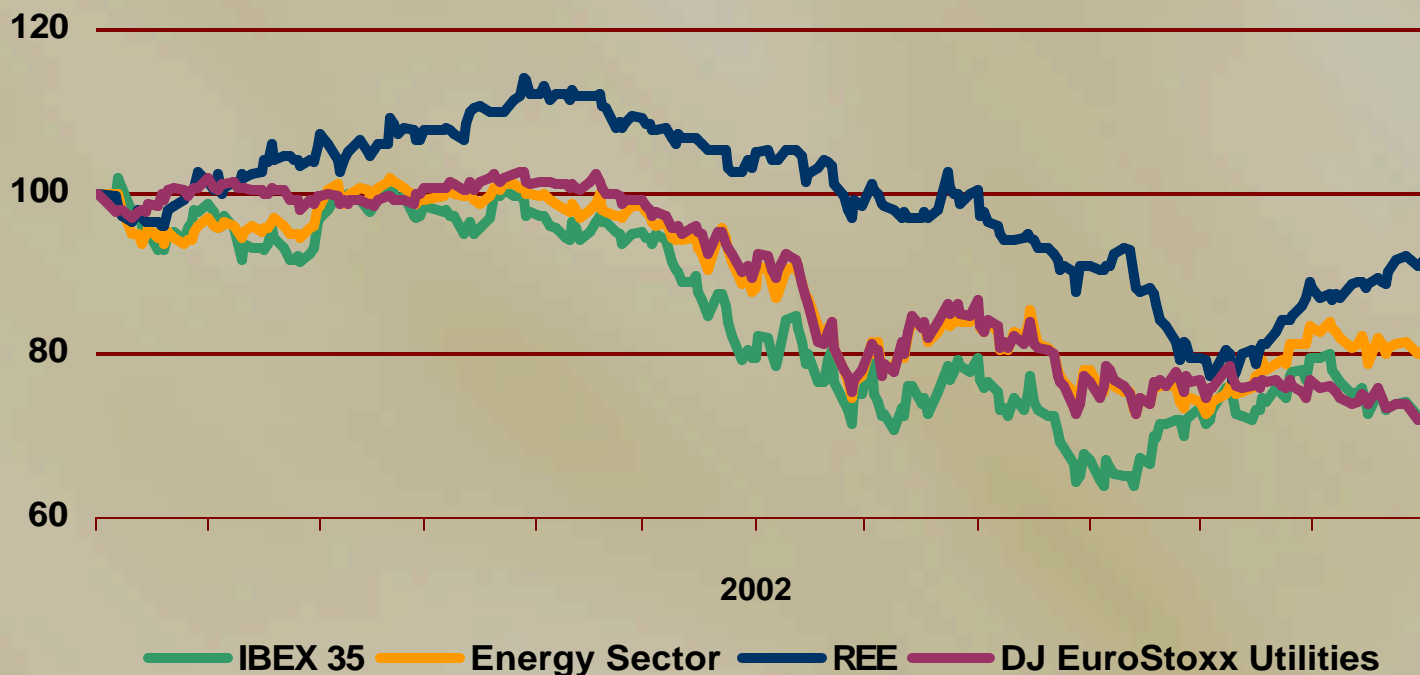
REE in the Stock Exchange

- Free-float: 31.5% or 42,610,050 shares
 - Market Capitalization: €1,304 mn (as of Dec. 31, 2002)
-

Highlights of 2002



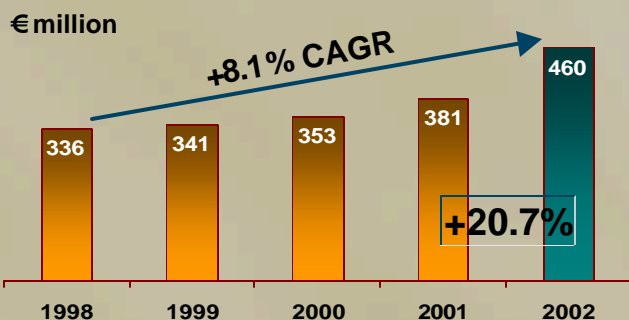
Outperformed its Spanish and European utilities peers by 13.8% and 26.5% respectively





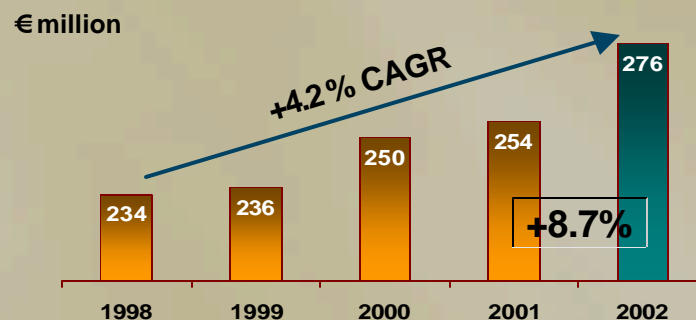
Continued to Deliver Strong Financial Results

Adjusted Turnover*

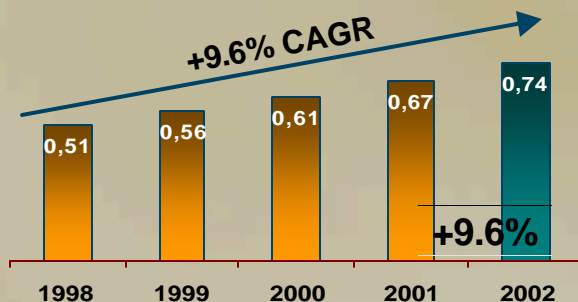


*Net of energy purchases

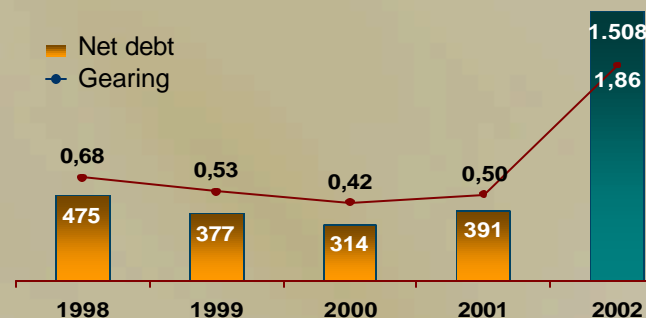
EBITDA



EPS



Debt / Gearing*



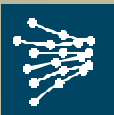
* Net debt / equity



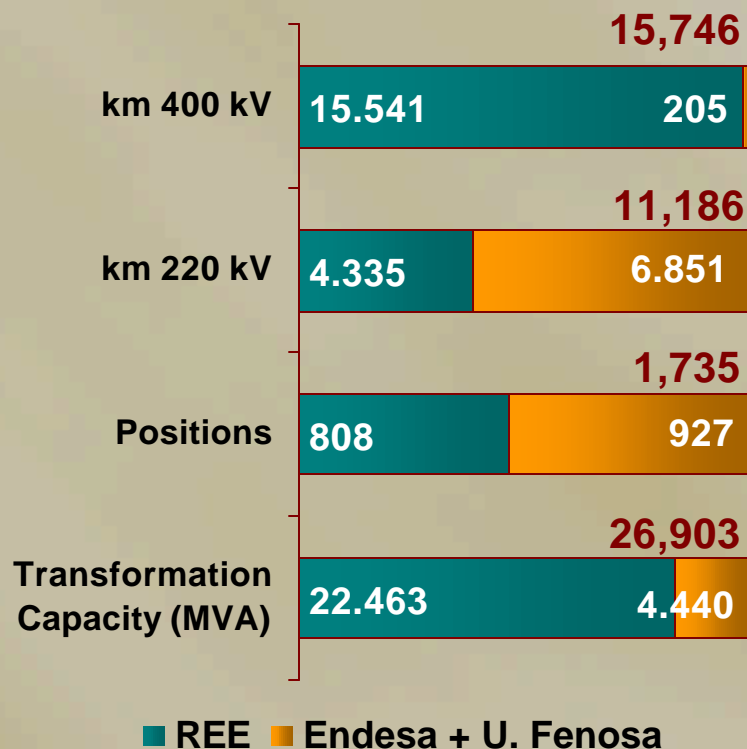
Reached an Investment Record

Assets Commissioned	2002	2001	Change
Lines	710 km	245 km	+ 465 km
Positions	88 units	48 units	+ 40 units
Transformation Capacity	2,250 MVA	600 MVA	+ 1,650 MVA

Investments in the transmission network reached €203 mn



Acquired transmission assets from Endesa and Unión Fenosa

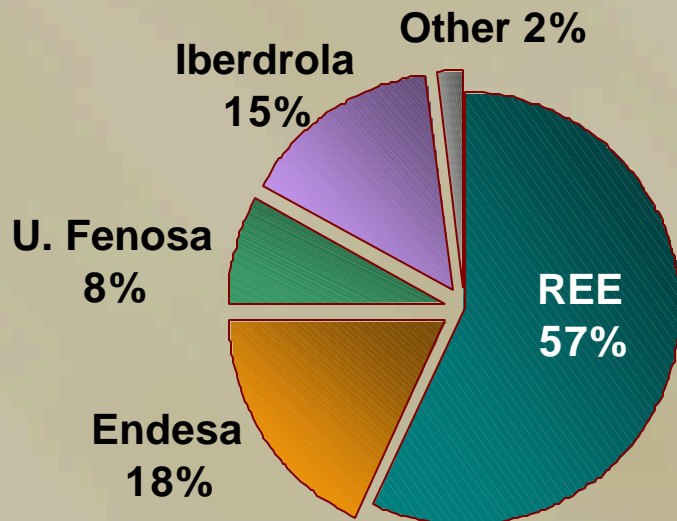


- Accretive from day 1
- Total Price: €1,345 mn
- 100% debt financing
- + €168 mn in transmission revenues
- + €123 mn in EBITDA
- + €70 mn in EBIT



Set the Basis to Become the Spanish TSO

Allocation of transmission Revenues in 2002



Agreement with CVC

- 25% stake in Redalta: €14.9 million
- Operation and maintenance services from the 4th year onwards can be provided by REE
- Call option to acquire Iberdrola's transmission assets in the medium term

At present, REE owns 84% of the transmission network



Optimised Capital Structure

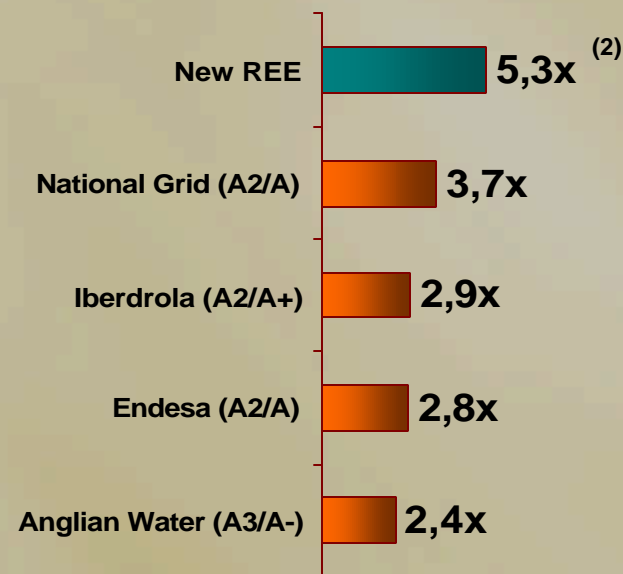
Capital Structure

	REE Pre-transaction ⁽¹⁾	New REE ⁽²⁾
Net debt	€11 mn	€2,066 mn
Net debt / (Net debt + Equity)	47%	71%

(1) Based on the results of the first 9 months of 2002

(2) 2003 Forecast

EBITDA / Interest



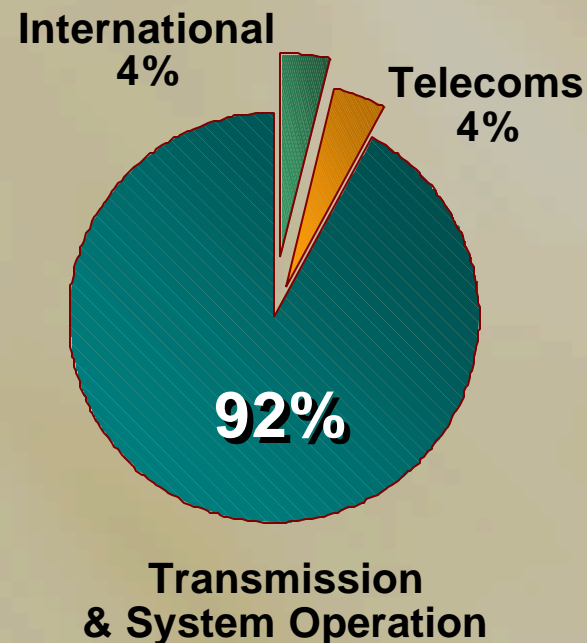
Reduced WACC due to higher gearing
Strong credit rating (Moody's: A2)



Strategic Repositioning: Improving Quality of Earnings

- Increase in 'Core Business'
 - Optimised leverage
 - Synergies on acquired assets
 - 2002-2006 Capex: up from €760 mn to €1,000 mn
- Reduction in Telecoms expectation
 - EBITDA > 0 in 2004-2005
 - Net income > 0 in 2006
 - 2002-2006 Capex: down from €400 mn to €150 mn
- International investments assumed EPS neutral in plans, therefore a source of further upside

2006 EPS Breakdown

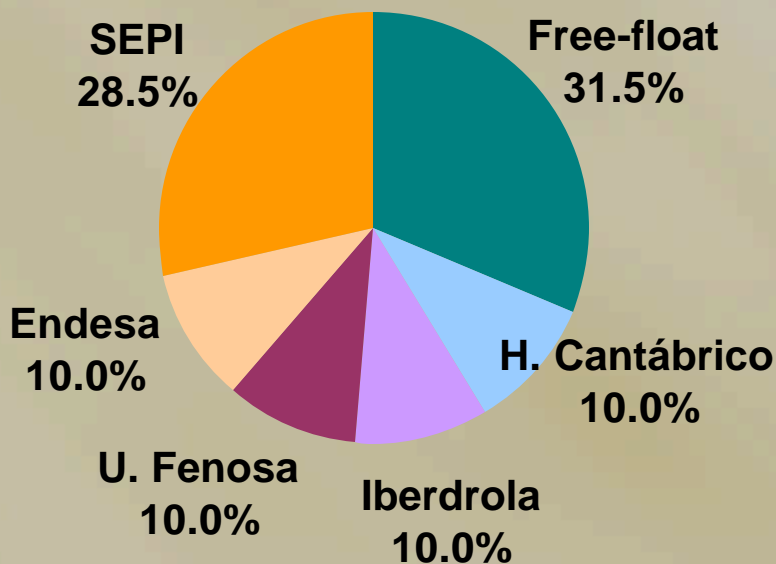


Positive Future Developments



Modification to Law 54/97: Shareholders' Structure

Current Capital Structure



Law 53/2002 (December 30)

- No shareholder, other than SEPI, can hold a stake or voting rights of more than 3% of REE
- Other than SEPI, voting rights in excess of 3% may not be exercised
- The reduction to 3% must be carried out during 2003
- SEPI is to hold at least 25% stake in REE until 31 Dec. 2003 and thereafter to hold, in any case, 10%

Capturing the Growth in Network Expansion

- The Spanish Energy Infrastructure Plan estimates investment requirements for the transmission sector of €2.7 billion (RAB) over 2002-2011
 - Electricity Demand: Growth Forecast for 2002-2011

Scenario	High	Base	Low
Growth (CAGR)	3.5%	3.3%	3.0%

- Investments needs in the Spanish transmission network
 - Strengthening of the transmission network
 - Connection of new wind generation and CCGT capacity
 - Supply to new high speed train connections
 - International interconnections

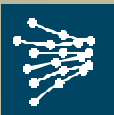
REE plans to invest €1.0 billion during 2002-2006



Synergies in Operations and Benefits of Scale

- **Efficiencies in procurement**
- **Minimum impact on overhead costs**
- **Ability to adopt O&M industry best practices**
- **Installations / equipment standardization**
- **Technological intensity**
- **Efficiencies in engineering and construction**

Potential increase of 2% in EBITDA margin in the short term; additional margin gains in the medium/long term

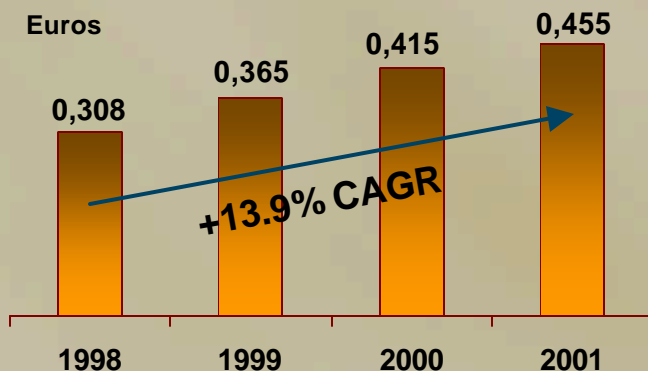


Attractive Earnings Growth and Dividend Pay-out Policy

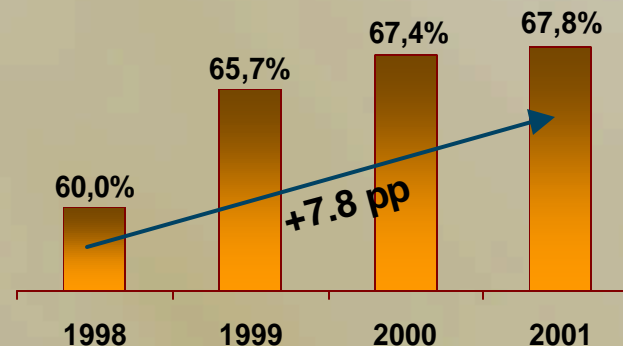
Target EPS for 2002-2006: 13-15% (CAGR)

Target dividend pay-out ratio: 65%-70%

Dividend per Share



Pay-out



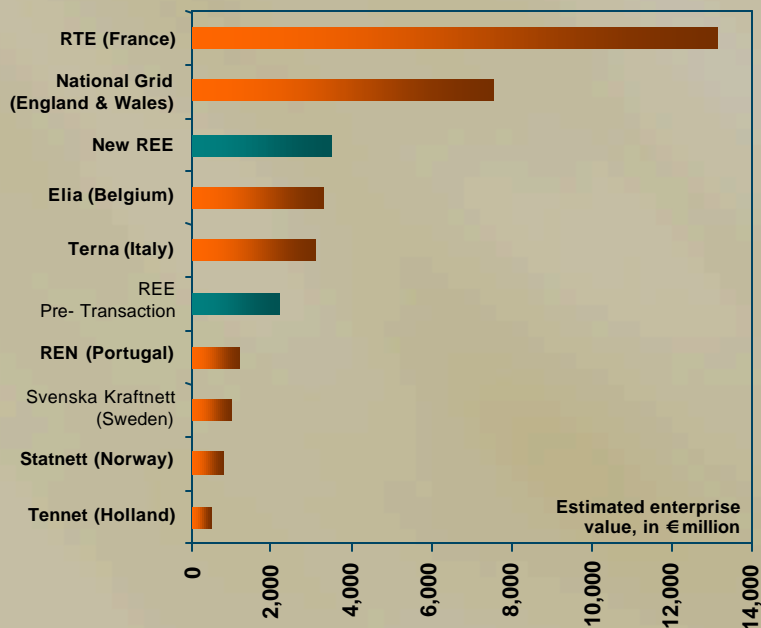
REE is a premier yield stock in the European utilities sector: 2002E dividend yield = 4.9%*

* Based on First Call Consensus and REE stock price as of December, 31 2002

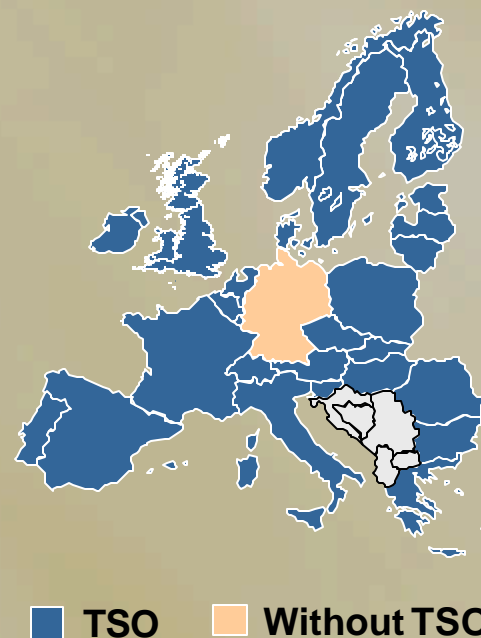


Large Scale in an Evolving Market

Comparable Networks



Medium/long term Perspective



Potential to be an European leader as TSO becomes the dominant model in Europe



A New Red Eléctrica

- **Strategic repositioning**
 - Positioned as pure TSO
 - Limited exposure to non-core assets
 - Positioned to be European leader

- **Financially attractive**
 - Optimised capital structure
 - Improved quality of earnings
 - Synergies and domestic CAPEX enhance EPS growth
 - Attractive dividend growth



**Creation of
shareholder
value**



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