



# RED ELÉCTRICA DE ESPAÑA

27 February 2007

## CONSOLIDATED RESULTS FOR 2006

- In 2006 the profit attributed to the parent company has been 200.2 million euros compared to 162.4 million euros in 2005, which entails an increase of 23.2%.
- At 31 December 2006, the Group's investments reached a record figure of 529.6 million euros, of which 510.1 million euros relate to the development of the peninsular transmission network. This figure represents an increase of 21.4% with respect to 2005. The company has commissioned 407 Km. of lines and 174 positions.
- Gross operating profit (EBITDA) has totalled 651.7 million euros, increasing 10.2% with respect to the previous year. The EBITDA margin (EBITDA/turnover) is 68.7%, similar to that of the previous year.
- Cash flow from operating activities before tax has reached 559.8 million euros, which entails an increase of 11.8% compared to 500.7 million euros in 2005.

## MAIN FIGURES

Thousand euros	2006	2005	Δ (%)
Turnover	949,262	860,163	10.4
Gross operating profit (EBITDA)	651,689	591,129	10.2
Net operating profit (EBIT)	401,843	332,164	21.0
Profit before taxes from continued operations	280,857	262,044	7.2
Profit for the year from continued operations	200,158	176,704	13.3
Profit after taxes from interrupted activities	-	(14,271)	-
Profit attributed to the parent company	200,154	162,422	23.2
Profit per share	1.48	1.20	23.2



## CONSOLIDATED PROFIT FOR 2006

**Turnover** has increased to 949.3 million euros, which represents an increase of 10.4% with respect to 2005. This increase is driven by:

- the increase in remuneration from transmission associated to the bringing into service of facilities in 2005,
- the remuneration of transmission assets of Inalta, which includes an extra month and a half of income in relation to the previous year, and
- the increase in work carried out for third parties, mainly modifications in the network.

**Consolidated operating costs** have increased to 302.4 million euros, compared to 274.6 million euros in the previous year, which represents an increase of 10.1%. This increase is due to:

- maintenance costs relating to renewal and improvement programs to increase the quality of the assets acquired, in line with the annual scheduled program and
- increase in staff costs as a result of the 5.2% increase in the average workforce of the Group and the update of the provision for future commitments assumed by the parent company with its staff.

In 2006, the average workforce of the Group was 1,426 employees, the final workforce being 1,442 employees (1,401 employees at 31 December 2005). The incorporation of staff is related to the integration of the transmission assets acquired.

**Gross consolidated operating profit (EBITDA)** has increased to 651.7 million euros, which entails an increase of 10.2% in relation to 2005. The EBITDA margin (EBITDA/turnover) is 68.7%, similar to that of the previous year.

**Net consolidated operating profit (EBIT)** has totalled 401.8 million euros, increasing 21.0% with respect to 2005.

Consolidated profit from financial operations has increased to -99.3 million euros, compared to -104.1 million euros in 2005. In 2005, financial expenses included 6.9 million euros relating to the cancellation of the debt incurred by Inalta which was refinanced.

In 2006, the result of the net profit/(loss) from the decline in the value of assets has reached -31.2 million euros, which includes mainly the following items:

- the review carried out of the value of the international investments of the Group totalling -17,8 million euros , and
- the adjustment to the valuation of electricity assets whose construction is paralysed due to unforeseen circumstances totalling -11,8 million euros.



**Profit before taxes from continued operations** has amounted to 280.9 million euros, which entails an increase of 7.2% with respect to 2005.

**Profit after taxes from continued operations** has amounted to 200.2 million euros, which entails an increase of 13.3% with respect to 2005.

The effective tax rate has been 28.7% compared to 32.6% in the previous year. Law 35/2006, of 28 November 2006, which came into effect on 1 January 2007, alters the Corporate Income Tax Act reducing the standard rate of taxation of 35% gradually over two years, so that as from 2007 it is fixed at 32.5% and at 30% as from 2008. Therefore, in 2006, the balance of deferred tax assets and deferred tax liabilities has been adjusted, resulting in a positive effect on the Group of 15.6 million euros.

No **profit from interrupted activities** has been recorded with respect to -14.3 million euros in 2005 which resulted from the sale of the telecommunications subsidiary on 30 June 2005.

**Profit after taxes** amounts to 200.2 million euros, compared to 162.4 million euros in 2005, which represents an increase of 23.2%.

**Cash flow from operating activities before tax** has reached 559.8 million euros, which entails an increase of 11.8% compared to 500.7 million euros in 2005.

**Consolidated investments** carried out in 2006 have amounted to 529.6 million euros compared to 463.1 million euros of organic investment in 2005 (excluding the acquisition of 75% interest in Redalta and the acquisition of the Viesgo transmission network carried out in 2005).

In 2006, investments in the transmission network amount to 510.1 million euros and 407 Km. of lines and 174 positions have been brought into operation.

The main projects carried out in the national transmission network during 2006 have been as follows:

- increase in the transmission capacity of the interconnection with Morocco, project concluded in June 2006,
- the development of the Levante axis, and
- the reinforcement of the transmisión grid in Andalucía and Murcia.

Projected investments in the national transmission network in the near future are as follows:

- development of infrastructures to feed the development of the high-speed train,
- strengthening the transmission network in the central and southern zones of the Peninsula and providing support to evacuate new generation,
- increase in the transmission capacity of the interconnection with France through the Pyrenees, and
- development of the interconnection between the Peninsula and Balearic Islands by a submarine cable.



The **net financial debt** stands at 2,612.2 million euros at 31 December 2006 with an average cost of 3.8%. The leverage ratio (net financial debt/ equity plus net financial debt) is of 71.9%. The structure of the net financial debt is as follows:

<b>Thousand euros</b>	<b>National currency</b>	<b>Foreign currency</b>	<b>Total</b>
Cash and other liquid means	(8,063)	(5,311)	(13,374)
Long-term debenture loans	1,224,956	-	1,224,956
Long-term credits	1,219,174	58,096	1,277,270
Promissory notes and short-term credits	115,731	7,587	123,318
<b>Total net financial debt</b>	<b>2,551,798</b>	<b>60,372</b>	<b>2,612,170</b>

## **SIGNIFICANT EVENTS**

### **Interim dividend payment**

On 2 January 2007, an interim dividend of 0.325 euros per share was paid for 2006. The dividend paid represents an increase of 20.0% with respect to the interim dividend paid in 2005.

### **Executive share acquisition plan**

On 12 December 2006 the second application of the executives share acquisition plan took place for members of the management of Red Eléctrica. The process involved 2,286 shares totalling 80,695.80 euros. The share price was established at 35.30 euros per share, coinciding with the market close on 12 December.

## **INTERNATIONAL BUSINESS**

The analysis of value of investments in Latin America advised the accelerated amortisation of the goodwill. Therefore, in 2006, the international business has incurred losses after tax.

The contribution of TDE and Redesur to the profit/(loss) of the international business has been positive. The turnover of TDE has amounted to 20.5 million euros, EBITDA 13.9 million euros, EBIT 8.8 million euros and profit after tax 6.8 million euros.

Additionally, in 2006 Red Eléctrica Internacional has signed contracts for advisory services in Ecuador, Chile, Albania, Cyprus and Algeria.



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

<b>INCOME STATEMENT</b>	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>2006/2005</b>
Net sales	949,262	860,163	10.4%
Other operating income	4,788	5,520	(13.3%)
Materials consumed	(36,390)	(26,432)	37.7%
Staff costs	(84,902)	(78,080)	8.7%
Other operating expenses	(181,069)	(170,042)	6.5%
<b>Gross operating profit</b>	<b>651,689</b>	<b>591,129</b>	<b>10.2%</b>
Amortisation/depreciation of non-current assets	(249,846)	(258,965)	(3.5%)
<b>Net operating profit</b>	<b>401,843</b>	<b>332,164</b>	<b>21.0%</b>
Financial income	2,549	4,604	(44.6%)
Financial expense	(102,130)	(108,437)	(5.8%)
Exchange differences	237	(243)	-
Net profit/(loss) on changes in fair value of financial instruments	2,677	4,753	-
Net asset impairment loss	(31,193)	(312)	-
Share of profit of associates accounted for using the equity method	847	556	52.3%
Net proceeds from sale of non-current assets	114	23,510	(99.5%)
Other gains or losses	5,913	5,449	8.5%
<b>Profit before tax on continuing activities</b>	<b>280,857</b>	<b>262,044</b>	<b>7.2%</b>
Income tax expense	(80,699)	(85,340)	(5.4%)
<b>Profit for the year on continuing activities</b>	<b>200,158</b>	<b>176,704</b>	<b>13.3%</b>
Loss after tax from discontinued activities	-	(14,271)	-
<b>Profit for the year</b>	<b>200,158</b>	<b>162,433</b>	<b>23.2%</b>
Minority interests	(4)	(11)	(63.6%)
<b>Profit attributable to the equity holders</b>	<b>200,154</b>	<b>162,422</b>	<b>23.2%</b>
<b>Profit per share</b>	<b>1.48</b>	<b>1.20</b>	<b>23.2%</b>



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

<b>ASSETS</b>	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>2006/2005</b>
Property, plant and equipment	4,433,642	4,174,430	6.2%
Investment property	2,734	3,666	(25.4%)
Goodwill	-	15,056	(100.0%)
Intangible assets	5,433	8,686	(37.5%)
Non-current financial assets	13,029	4,355	199.2%
Investments accounted for using the equity method	7,204	7,142	0.9%
Deferred tax assets	38,921	33,973	14.6%
Other non-current assets	436	688	(36.6%)
<b>Total non-current assets</b>	<b>4,501,399</b>	<b>4,247,996</b>	<b>6.0%</b>
Inventories	28,974	35,640	(18.7%)
Trade and other receivables	264,853	347,642	(23.8%)
Current financial assets	1,671	31	-
Current tax assets	7,813	1,481	427.5%
Other current assets	316	5,791	(94.5%)
Cash and cash equivalents	13,374	18,768	(28.7%)
Held-for-sale assets	-	-	-
<b>Total current assets</b>	<b>317,001</b>	<b>409,353</b>	<b>(22.6%)</b>
<b>Total assets</b>	<b>4,818,400</b>	<b>4,657,349</b>	<b>3.5%</b>
<b>LIABILITIES</b>			
	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>2006/2005</b>
Share capital	270,540	270,540	-
Other reserves	264,546	264,546	-
Retained earnings	574,064	464,907	23.5%
Treasury shares (-)	(52,986)	(3,823)	-
Exchange differences	(2,976)	2,635	(212.9%)
Other measurement adjustments	12,213	562	-
Interim dividend	(43,428)	(36,588)	18.7%
Minority interests	58	74	(21.6%)
<b>Equity</b>	<b>1,022,031</b>	<b>962,853</b>	<b>6.1%</b>
Issues of bonds and other marketable securities	1,224,956	1,252,696	(2.2%)
Bank borrowings	1,277,270	1,284,828	(0.6%)
Other financial liabilities	20,627	-	-
Deferred tax liabilities	144,024	156,776	(8.1%)
Provisions	19,166	34,618	(44.6%)
Other non-current liabilities	366,207	311,669	17.5%
<b>Total non-current liabilities</b>	<b>3,052,250</b>	<b>3,040,587</b>	<b>0.4%</b>
Issues of bonds and other marketable securities	16,429	16,894	(2.8%)
Bank borrowings	129,377	282,974	(54.3%)
Trade and other payables	142,333	117,177	21.5%
Other current financial liabilities	-	2,854	-
Provisions	1,477	1,505	(1.9%)
Current tax liabilities	34,628	31,026	11.6%
Other current liabilities	419,875	201,479	108.4%
Liabilities related to held-for-sale assets	-	-	-
<b>Current liabilities</b>	<b>744,119</b>	<b>653,909</b>	<b>13.8%</b>
<b>Total liabilities</b>	<b>4,818,400</b>	<b>4,657,349</b>	<b>3.5%</b>



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

<b>CASH FLOW STATEMENT</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>601,091</b>	<b>289,032</b>
<b>Cash flows from operations</b>	<b>559,762</b>	<b>500,658</b>
Profit before tax on continuing activities	280,857	262,044
Amortisation and depreciation of non-current assets	249,846	258,965
Other results involving no movement of funds	11,167	12,337
Capital grants and other deferred income released to the income statement	(10,510)	(9,178)
Net proceeds from sale of non-current assets	28,402	(23,510)
<b>Income taxes paid</b>	<b>(94,115)</b>	<b>(71,017)</b>
<b>Changes in current working capital</b>	<b>151,792</b>	<b>(140,609)</b>
Changes in inventories, receivables, current advance payments and other current assets	79,798	(152,699)
Changes in trade payables, current advance collections and other liabilities	71,994	12,090
<b>Payment of provisions recognised for contingencies and expenses</b>	<b>(16,348)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(308,764)</b>	<b>(502,422)</b>
Acquisition and sale of PPE and intangible assets	(365,546)	(293,949)
Acquisition and sale of other assets	360	6,672
Acquisition and sale of subsidiaries and joint ventures	(618)	(243,815)
Capital grants and other advance collections	57,040	28,670
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(297,421)</b>	<b>217,797</b>
Changes in equity	(47,554)	1,284
Utilisation of long-term financing	111,687	1,422,078
Repayment of long-term financing	(106,927)	(564,473)
Utilisation of short-term financing	1,065,795	1,276,630
Repayment of short-term financing	(1,221,791)	(1,834,791)
Dividends paid	(98,631)	(82,931)
<b>NET CASH FLOW</b>	<b>(5,094)</b>	<b>4,407</b>
Effect of foreign exchange fluctuations on cash and cash equivalents	(300)	1,403
<b>CHANGES IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>(5,394)</b>	<b>5,810</b>
Cash and cash equivalents at beginning of the year	18,768	12,958
Cash and cash equivalents at end of the year	13,374	18,768