

CONFERENCE CALL WITH ANALYSTS

FIRST HALF 1999 RESULTS

GOOD AFTERNOON, LADIES AND GENTLEMEN, AND THANK YOU FOR ATTENDING THIS CONFERENCE CALL. I AM VICTORIANO REINOSO, VICE-CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF UNION FENOSA.

TODAY, AND FOR THE FIRST TIME EVER, WE ARE USING A *CONFERENCE CALL* AS THE WAY TO COMMUNICATE WITH YOU ALL. THE REASON FOR THIS IS THAT, TODAY'S ANNOUNCED OPERATING AND FINANCIAL RESULTS ARE VERY SIGNIFICANT AND REPRESENT AN IMPORTANT MILESTONE WITHIN THE HISTORY OF OUR GROUP. THEREFORE, WE HAVE THOUGHT THIS CONFERENCE CALL WOULD BE IDEAL TO SHARE THEM WITH YOU IN THE MOST INTERACTIVE AND COMPREHENSIVE WAY. AFTER ALL MY COMMENTS, I WOULD BE GLAD TO ANSWER ANY QUESTIONS YOU MAY WISH TO ASK.

DURING THIS CALL WE WILL GO THROUGH THE FOLLOWING POINTS:

- FIRST OF ALL, I WILL GIVE YOU A BRIEF EXPLANATION OF THE MAJOR TRANSACTIONS EXECUTED BY OUR GROUP, AS WELL AS THE USE OF THE CAPITAL GAINS RESULTING FROM THEM
- THESE STRATEGIC MOVES WILL ALLOW UNION FENOSA TO CREATE VALUE FOR OUR SHAREHOLDERS. HENCE, I WILL TRY TO EXPLAIN AND ELABORATE ON THE SPECIFIC USE OF THE GENERATED CAPITAL GAINS AND CASH-FLOWS TO FULFIL THAT PURPOSE,
- I WILL EXPLAIN THE RESULTS BY BUSINESS LINE, AND
- TO FINALISE, I WILL SHARE WITH YOU SOME OF OUR FORWARD-LOOKING PERSPECTIVES FOR THE GROUP.

OUR MAIN GOALS DURING THIS CALL WILL BE TWOFOLD:

- **FIRST**, TO CLEARLY STATE THAT THESE RESULTS WE ARE DISCLOSING TODAY ARE NOT ONLY A CONSEQUENCE OF CERTAIN MAJOR STRATEGIC MOVES, BUT THEY ALSO HEAVILY RELIES ON OUR ORDINARY BUSINESS, WHICH IS GROWING AT AN STABLE AND STRONG PACE.

- **SECOND**, TO HIGHLIGHT THAT THOSE MAJOR TRANSACTIONS SHOULD NOT BE CONSIDERED JUST CONTINGENCIES. THESE MOVES ARE THE RESULT OF A LONG-TERM STRATEGY DESIGNED AND IMPLEMENTED AT UNION FENOSA THROUGH AN INTENSE WORK DURING THESE LAST YEARS. THIS STRATEGY IS DELIVERING NOW AND CONVERTING INTO REALITY, PROGRESSIVELY, OUR PREVIOUS TARGETS AND EXPECTATIONS.

LET ME START, THEN, BY INDICATING THE RESULTS OF OUR GROUP FOR THE FIRST HALF OF 1999

THE GROUP'S CONSOLIDATED PRE-TAX PROFITS TOTALLED ONE HUNDRED FOURTEEN BILLION PESETAS; BEING FIVE TIMES HIGHER THAN LAST YEAR'S ONE, AND, OBVIOUSLY, REPRESENTING A GREAT STEP AHEAD IN OUR GROUP'S EVOLUTION AND DIMENSION.

OUR PRE-TAX RESULT MAY BE SPLIT BETWEEN RECURRING ACTIVITIES, TOTALLING TWENTY NINE BILLION PESETAS, AND EXTRAORDINARY_RESULTS, ORIGINATED MAINLY BY THE SALE OF THE STAKE IN AIRTEL AND THE ENTRY OF NATIONAL POWER IN THE OWNERSHIP OF THE GENERATION COMPANY, REPRESENTING EIGHTY FIVE BILLION PESETAS, AFTER HAVING DEDUCTED EXTRAORDINARY PROVISIONS AND OTHER ENDOWS.

LET ME EXPLAIN NOW THE MOST REMARKABLE ACTIONS THAT HAVE TAKEN PLACE DURING THIS FIRST HALF OF THE YEAR.

AS YOU KNOW, IN JUNE WE PROCEEDED TO LEGALLY SEGREGATE THE REGULATED AND UNREGULATED UNITS OF THE ELECTRICITY BUSINESS, CREATING UNIÓN FENOSA DISTRIBUTION, AND UNION FENOSA GENERATION. OUR GROUP HAS MOVED AHEAD OF THE NEW ELECTRICITY SECTOR LAW AND IT IS IN A POSITION TO CARRY OUT A SERIES OF NEW ACTIVITIES UNDER THIS NEW BUSINESS STRUCTURE.

THE CREATION OF UNION FENOSA GENERATION, HAS PERMITTED THE FINAL FORMALISATION OF THE STRATEGIC ALLIANCE WITH NATIONAL POWER, INCLUDING THEIR ENTRANCE INTO THE GENERATION COMPANY WITH A TWENTY FIVE PERCENT STAKE, AN AGREEMENT TO CARRY OUT JOINT INVESTMENTS BOTH IN THE NATIONAL AND INTERNATIONAL MARKETS. THE IMPLIED ASSET VALUE FOR OUR GENERATION BUSINESS, IN THE CONTEXT OF THIS STRATEGIC ALLIANCE, REACHED SEVEN HUNDRED BILLION PESETAS. THE AGREEMENT CONSTITUTES ONE OF THE MAIN FOUNDATIONS FOR THE GROWTH OF THE GENERATION BUSINESS OF UNIÓN FENOSA, BOTH NATIONALLY AND INTERNATIONALLY.

IN ADDITION TO THIS, AND FOLLOWING THE REGULATOR RECOMMENDATIONS, WE PROCEEDED TO SELL OUR EIGHT POINT FOURTEEN PERCENT STAKE IN AIRTEL. WE SOLD THIS STAKE FOR ONE HUNDRED FORTY EIGHT BILLION PESETAS.

AS A RESULT OF THE TWO EXTRAORDINARY OPERATIONS CARRIED OUT, WE HAVE REALIZED SIGNIFICANT CAPITAL GAINS. THE ENTRANCE OF NATIONAL POWER IN THE UNION FENOSA GENERATION CREATED NET CAPITAL GAINS OF SIXTY EIGHT POINT FIVE [BILLION PESETAS AND, THE SALE OF THE STAKE IN

SECOND: ADDITIONAL THIRTY SIX POINT SIX BILLION PESETAS WILL BE DEVOTED TO THE COST REDUCTION PROGRAM, THROUGH THE SO-CALLED S.L.E. PLAN WHICH STANDS FOR "SPECIAL WORK SITUATION", AND ALSO TO COVER OTHER STRUCTURE COSTS ARISING AS A CONSEQUENCE OF THE REGULATORY CHANGE AND THE TRANSITION TO COMPETITION. THIS DECISION IMPLIES AN ENLARGEMENT OF THE PREVIOUS LABOUR AND STRUCTURE COSTS REDUCTION PROGRAM , AMOUNTING 23 BILLIONS , WE HAVE CARRIED OUT SINCE 1997.

FROM THE BEGINNING OF THE LIBERALIZATION PROCESS UP TO THE YEAR 2003, THE SO-CALLED S.L.E. PLAN WILL ALLOW US TO REDUCE THE OPERATING WORKFORCE TWENTY FIVE PERCENT IN THE ELECTRICITY AREA IN SPAIN, AVOIDING OTHER DRAMATIC MEASURES .

THERE ARE TWO REASONS FOR THIS PLAN, VERSUS A PERSONNEL REGULATION: **FIRST**, IS THAT WE DEVELOP THE S.L.E. ON INDIVIDUAL BASIS OVER READY-TO-AMORTISE JOBS, AVOIDING THE POSSIBILITY TO INCREASE INDIRECT COSTS; **SECOND**, THAT IT IS SELECTIVE FROM THE COMPANY VIEWPOINT, SO THERE IS NO LOSS OF KNOWLEDGE AND THE COMPANY'S VALUE IS NOT AFFECTED.

OVERALL, SINCE THE BEGINNING OF THE LIBERALIZATION PROCESS, WE HAVE FINANCED A PROGRAM OF ALMOST SIXTY BILLION PESETAS, THAT WILL ALLOW US TO ADJUST FUTURE COSTS, MOSTLY IN THE LABOUR AREA WITH THE APPLICATION OF THE S.L.E. PLAN, AND ALSO SOME STRUCTURE COSTS OF THE COMPANY.

THIRD: WE HAVE CREATED A PROVISION OF UP TO THIRTY FIVE BILLION PESETAS TO ELIMINATE THE NEGATIVE ACCOUNTING EFFECTS OF THE MATURE BUSINESSES, ESPECIALLY THOSE CORRESPONDING TO THE TELECOM SECTOR.

FINALLY: AFTER THE CREATION OF ALL THE FORMERLY MENTIONED PROVISIONS, A TOTAL OF EIGHTY SIX BILION PESETAS ARE LEFT, AND WE INTEND TO USE THAT AMOUNT, AFTER-TAX, TO STRENGTHEN OUR BALANCE SHEET, INCREASING THE LEVEL OF OUR RESERVES.

LET ME NOW EXPLAIN YOU THE RESULTS FROM OUR RECURRING BUSINESSES

PRE-TAX CONSOLIDATED RECURRING NET INCOME, THAT IS, EXCLUDING THE EFFECT OF BOTH NATIONAL POWER AND AIRTEL TRANSACTIONS, IS TWENTY NINE BILLION PESETAS; HAVING GROWN (46%) VERSUS THE FIRST SEMESTER OF THE PREVIOUS YEAR.

AFTER-TAX CONSOLIDATED RECURRING NET INCOME: IS SEVENTEEN POINT EIGHT BILLION PESETAS; HAVING GROWN THIRTEEN POINT SEVEN PERCENT . THIS RATE OF INCREASE IN THE AFTER-TAX PROFIT IS LOWER THAN THE PRE-TAX ONE, DUE TO THE INCREASE IN THE ACCOUNTING TAX RATE, NOW AROUND 35%, AND ALSO TO THE MINORITY INTERESTS. AS YOU MAY REMEMBER, THE INCREASE IN THE CORPORATE INCOME TAX STARTED IN 1998 WHEN WE FINISHED ALL THE TAX CREDITS PREVIOUSLY ACCUMULATED.

PROFIT GROWTH IS MAINLY DRIVEN BY A CONSISTENT INCREASE IN OPERATING REVENUES IN ALL OF OUR BUSINESS AREAS AND, BY THE REDUCTION OF INTEREST EXPENSES THAT REPRESENT A DECREASE OF SEVENTEEN PERCENT IN THIS PERIOD.

IN FACT, THE PROPORTION OF INTEREST EXPENSES OVER THE GROUP TOTAL CONSOLIDATED REVENUES, HAS BEEN REDUCED SUBSTANTIALLY IN RECENT YEARS, FROM A 21.9% IN 1994 TO 12.3% IN 1998; REPRESENTING AT THE END OF THIS SEMESTER, A [6,3]% OF THE GROUP'S REVENUES.

LET GIVE YOU NOW SOME DETAILS ABOUT OUR INTERNATIONAL AND NON-ELECTRICITY ACTIVITIES

ONE OF THE MAIN REASONS OF THE PROFIT GROWTH, IS THE INCREASE OF CONTRIBUTION TO THE GROUP'S NET INCOME BY NON-ELECTRIC ACTIVITIES AND INTERNATIONAL INVESTMENTS.

IN THIS PARTICULAR AREA THERE HAS CLEARLY BEEN A BOLD AND IMPORTANT STEP AHEAD IN TERMS OF CRITICAL MASS. A VERY VALUABLE STRATEGIC POSITIONING HAS BEEN ACHIEVED IN THE TELECOM SECTOR, WHICH, TOGETHER WITH INTERNATIONAL INVESTMENTS AND CONSULTING AND ENGINEERING SERVICES, HAS REACHED A VERY SIGNIFICANT FINANCIAL WEIGH WITHIN THE GROUP.

NET INCOME FOR THOSE ACTIVITIES, HAS DOUBLED DURING THE FIRST HALF OF 1999 VERSUS LAST YEAR, TOTALLING 4,2 BILLION PESETAS, AND REPRESENTING A 23.8% OF THE GROUP'S CONSOLIDATED NET INCOME. WE ESTIMATE THAT THEY COULD REACH A CONTRIBUTION LEVEL OF AROUND 25% AT THE END OF THE YEAR.

LET ME SAY A FEW COMMENTS ON THE FINANCING OF THE GROUP

AT THE END OF JUNE, GROUP'S FINANCIAL LEVERAGE WAS [416] BILLION PESETAS; HAVING BEEN REDUCED IN APPROXIMATELY 180 BILLIONS IN THE LAST FIVE YEARS. ONE YEAR AGO THE FINANCIAL LEVERAGE WAS [504] BILLION PESETAS. WE BELIEVE THAT CURRENT GEARING LEVELS ARE APPROPRIATE AND ARE NEEDED TO SUPPORT OUR FUTURE PLANS FOR THE GROUP. THEREFORE, CURRENT FINANCIAL CAPACITY WILL BE DEVOTED TO FINANCE OUR FUTURE GROWTH, INVESTING IN NEW PROJECTS AND ACTIVITIES, TO INCREASE OUR PROFITS AND ENHANCE OUR VALUE TO THE SHAREHOLDERS.

AS YOU PROBABLY KNOW, WE HAVE A NEW STRUCTURE IN THE GROUP. I WOULD LIKE TO ELABORATE AND EXPAND A LITTLE BIT ON THIS

THE PACE OF DEVELOPMENT OF OUR ACTIVITIES IN ALL THE FRONTS WHERE WE ARE EMBARKED HAS MOTIVATED AND ACCELERATED A REDESIGN AND IMPLEMENTATION OF A NEW STRUCTURE FOR THE GROUP, AIMING AT HELPING US TO MANAGE AND MOTIVATE THE SEARCH FOR GROWTH IN THE DIFFERENT AREAS OF THE ORGANIZATION, IN AN EFFICIENT WAY.

STRATEGIC MANAGEMENT WILL REMAIN A KEY RESPONSIBILITY OF THE UNION FENOSA HOLDING TOGETHER WITH CORPORATE SERVICES AND CORPORATE

BE INTEGRATED INTO SIX BUSINESS AREAS: ELECTRICITY GENERATION, ELECTRICITY TRANSMISSION AND DISTRIBUTION, PROFESSIONAL SERVICES, INTERNATIONAL INVESTMENTS, TELECOMMUNICATIONS AND THE LAST ONE, OTHER BUSINESSES, WHICH INCLUDES INDUSTRIAL HOLDING, MINING AND REAL ESTATE.

BOTH CASES, THIS WAS HIGHER THAN THE NATIONAL AVERAGE. AS A CONSEQUENCE, WE MAY SAY THAT WE ARE SELLING MORE, HAVING INCREASED THE OPERATING MARGIN .

WITH RESPECT TO THE SUPPLY ACTIVITY FOR ELIGIBLE CUSTOMERS UNIÓN FENOSA PARTICIPATES WITH A TWELVE POINT FIVE PERCENT .

AT THIS TIME, THE ISSUE OF THE APPROVAL OF THE CTC'S BY THE EUROPEAN UNION, CREATES UNCERTAINTIES THAT ARE DIFFICULT TO EVALUATE. I HOPE THAT IN ALL THIS PROCESS THERE IS RECOGNITION OF THE EFFORT MADE BY SPANISH ELECTRICITY COMPANIES TO MAKE SURE THAT SPAIN IS AT THE FOREFRONT OF THE LIBERALISATION AND IT IS AMONG THE MOST RAPIDLY AND PROFOUNDLY LIBERALISED COUNTRIES IN EUROPE. AS A CONSEQUENCE, WE FULLY AGREE WITH THE SPANISH ADMINISTRATION'S VISION, ACCORDING TO WHICH, THE CTC'S ARE CONSIDERED TO BE THE COMPENSATION FOR THE LOST OF A COMMITTED RIGHT FROM PREVIOUS REGULATION. THIS IS WHAT SEEMS MORE REASONABLE BECAUSE IS COMPENSATING THE EFFORT MADE TO ACCELERATE A LIBERALISATION PROCESS THAT HAS NOT BEEN CARRIED OUT BY ANY OTHER COUNTRY .

IN ANY CASE, IF THE EUROPEAN COMMISSION DECIDES TO ANALYSE THE ENTIRE AMOUNT OF THE CTC'S, AS LONG AS THE ESTABLISHED GUIDELINES ARE KNOWN , THESE CRITERIA WOULD BARELY AFFECT UNION FENOSA .

WITH RESPECT TO THE DISTRIBUTION ACTIVITY, AN IMPORTANT SEVEN POINT FIVE PERCENT INCREASE IN THE ENERGY BILLED HAS BEEN ACHIEVED IN THE UNIÓN FENOSA MARKET, HAVING UNDERGONE AN IMPORTANT INCREASE IN THE QUALITY OF SUPPLY, OF MORE THAN THIRTY ONE PERCENT, AS COMPARED TO THE FIRST HALF OF NINETEEN NINETY EIGHT.

THE NEW MINISTERIAL ORDER THAT REGULATES THE REMUNERATION FROM DISTRIBUTION WILL IMPLY AN INCREASE OF MORE THAN TWO THOUSAND ONE

HUNDRED BILLION PESETAS FOR UNIÓN FENOSA IN RELATION WITH THE PREVIOUS YEAR, TAKING INTO ACCOUNT THE HIGHER COSTS INCURRED IN MARKET AREAS WITH A DISPERSED POPULATION, AS OCCURS IN A SOME PARTS OF THE UNIÓN FENOSA MARKET. THE CRITERIA TO SPLIT SUCH REMUNERATION WILL BE REVISED AFTER THE YEAR TWO THOUSAND AND WE HOPE TO IMPROVE OUR SHARE OF IT.

THE THIRD UNIT I WANT TO DESCRIBE IS PROFESSIONAL SERVICES:

THIS IS ONE OF THE HIGH GROWTH UNITS OF THE GROUP, ESPECIALLY DURING THE LAST YEARS.

THIS UNIT IS GROWING AT A RATE OF 35% IN TERMS OF REVENUES . TO THAT RESPECT, REVENUES DURING THE FIRST SEMESTER WERE TWENTY-TWO BILLION PESETAS ; 40% OF THEM, CAME FROM INTERNATIONAL PROJECTS. IN FACT, AND AS YOU PROBABLY KNOW, THE UNION FENOSA GROUP IS NOW WORKING IN MORE THAN 30 COUNTRIES.

WITH RESPECT TO INTERNATIONAL INVESTMENTS, UN ÓN FENOSA OPERATES AND OWNS 38% OF THE BOLIVIAN HIGH-VOLTAGE GRID, IS THE FIRST PRIVATE POWER PRODUCER IN KENYA AND MORE RECENTLY, HAS INITIATED THE CONSTRUCTION IN MEXICO OF A COMBINED-CYCLE POWER PLANT IN HERMOSILLO.

DURING 1999, WE HAVE INCREASED OUR STAKE IN MIERALCO, THE LARGEST PRIVATE DISTRIBUTOR IN THE PHILIPPINES SERVING MORE THAN THREE MILLION CUSTOMERS, TO NINE POINT ONE PERCENT. WE PARTICIPATE IN A JOINT VENTURE WITH LOCAL PARTNERS, WHICH CONTROLS TWENTY TWO POINT SEVEN PERCENT OF THE COMPANY, OBTAINING ACTIVE PARTICIPATION IN THE MANAGEMENT OF THE COMPANY.

WE HAVE ACQUIRED MAJORITY STAKES IN DISTRIBUTION COMPANIES IN PANAMA, GUATEMALA, AND THE DOMINICAN REPUBLIC, SERVING A TOTAL OF ONE POINT FOUR MILLION CUSTOMERS.

WITH THESE OPERATIONS, UNION FENOSA IS PRESENT IN COMPANIES DISTRIBUTING ELECTRICITY TO MORE THAN FOUR AND A HALF MILLION CUSTOMERS ABROAD.

FINALLY, AND WITH RESPECT TO OUR TELECOMMUNICATION UNIT:

THE UNIÓN FENOSA GROUP PARTICIPATES IN THE CONSORTIA CONTROLLING OF SISTELCOM, ENGAGED IN THE PAGING BUSINESS; OF NETCO, ENGAGED IN THE MANAGEMENT OF TELECOMMUNICATION NETWORKS; OF RETEVISION, ENGAGED IN BASIC TELEPHONE SERVICES; OF AMENA, ENGAGED IN MOBILE SERVICES; MADRITEL AND GRUPO R, ENGAGED IN THE DEVELOPMENT OF THE CABLE BUSINESS IN MADRID AND GALICIA, AND IN THE NEW DIGITAL TV PROJECT.

OUR EXISTING PORTFOLIO HAS EXPERIENCED A STRONG REVALUATION, AS IT BECAME CLEAR WITH THE CAPITAL GAINS RECEIVED FROM THE DISPOSAL OF OUR PARTICIPATION IN AIRTEL, AND WE HOPE THAT OVER THE NEXT FEW YEARS, OUR STAKES IN THIS SECTOR WILL CONTINUE EXPERIENCING AN IMPORTANT REVALUATION.

AND FINALLY, OUR "OTHER ACTIVITIES UNIT", WHICH AS YOU KNOW, IS PRESENT IN INDUSTRY, MINING AND REAL ESTATE BUSINESSES, WHICH THEY ALL PRESENT POSITIVE EXPECTATIONS.

WITHIN THIS AREA, I JUST WOULD LIKE TO HIGHLIGHT OUR PARTICIPATION IN CEPESA THAT IS CURRENTLY ALLOWING US TO CARRY OUT JOINT

ENERGY PROJECTS, SUCH AS THE COMBINED CYCLE POWER PLANT IN ALGECIRAS. IT IS ALSO WORTH MENTIONING THE ATTRACTIVE PROFILE OF THIS STAKE FROM A FINANCIAL POINT OF VIEW.

NOW LET ME SAY A FEW WORDS ABOUT OUR EXPECTATIONS ABOUT THE FUTURE

I STRONGLY BELIEVE THAT UNION FENOSA HAS SET UP THE FOUNDATIONS FOR FUTURE GROWTH.

THE HIGHER PROFITABILITY OF THE OPERATING ACTIVITIES ALONG WITH THE REVALUATION EXPECTATIONS, THAT OFFER UNDERTAKEN INVESTMENTS, HAS MADE POSSIBLE THAT OUR COMPANY IS THE ONE WHICH HAS GENERATED MORE VALUE TO THE SHAREHOLDERS IN THE LAST FIVE YEARS, AND OUR OBJECTIVE IS TO BE ABLE OF MAINTAINING US IN THIS PATH OF CONSTANT VALUE CREATION.

I AM PERSONALLY FULLY CONVINCED, THAT OUR GROUP IS EXTREMELY WELL POSITIONED TO CREATE FURTHER AND HIGHER VALUE BASED ON THE FOLLOWING ELEMENTS:

WE WILL BENEFIT FROM THE CURRENT STRONG AND **SOLID FINANCIAL POSITION** AND, THEREFORE WE WILL BE ABLE TO UNDERTAKE MORE AMBITIOUS EXPANSION PROJECTS.

WE ARE GOING TO INCREASE OUR **POWER GENERATION CAPACITY** IN SPAIN AS LONG AS THE MARKET ADVISES US TO DO SO. THE ALLIANCE WITH **NATIONAL POWER** DOES STRENGTHEN OUR POSITION TO GROW IN GENERATION.

WE HAVE **EFFICIENT MANAGEMENT SKILLS**, AND A FLEXIBLE AND READY-TO-COMPETE ORGANISATION. IN ADDITION WE ARE SUCCESSFULLY CARRYING OUT A **COST-CUTTING PROGRAMME**.

OUR STRATEGIC POSITIONING IN HIGH GROWTH SECTORS, SUCH AS THE TELECOMS, THE INTERNATIONAL INVESTMENTS, AND THE INFORMATION TECHNOLOGY.

OUR STRATEGIC ALLIANCES THAT ALLOW US TO JOINTLY ACT WITH STRONG INTERNATIONAL PLAYERS, AND WE HAVE DEVELOPED A WIDE AND HIGHLY REGARDED INTERNATIONAL NETWORK.

AFTER ALL THESE COMMENTS, I WOULD BE GLAD TO ANSWER ANY QUESTIONS YOU MAY WISH TO ASK.

CONFERENCE CALL FOR UNION FENOSA

July 27, 1999

"UNION FENOSA FIRST HALF 1999 RESULTS"

Mr Victoriano Reinoso
Executive Vice-Chairman and Ceo



UNION FENOSA

1999 FIRST HALF RESULTS

Consolidated Pre-tax Net Income (5x higher than last year's)	114,381 M ptas.
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| ✓ Income from Recurring Activities | 29,349 M ptas. (+45,8%) |
| ✓ Income from Extraordinary Operations
(net of provisions) | 85,032 M ptas. |

A NEW DIMENSION FOR UNION FENOSA

- Recurring Activities Growing at a Stable and Strong Pace**
- Extraordinary Operations derived from a previously designed long-term strategy and from a rigorous work**



1999 FIRST HALF ACTIONS

Legal Segregation of Generation and Distribution activities

- ▲ First power company that carries out segregation
- ▲ Advantageous position to undertake developments under the new company's structure

Definitive formalization of the agreement with National Power

- ▲ Strengthens competitive capacity in liberalized markets
- ▲ Reinforces growth in generation activity

Sale of the stake in Airtel

- ▲ Financially Supports our position in the telecommunications sector
- ▲ Provides backing to face the maturing of these investments

Strong growth in production and billed energy

- ▲ Capacity of the generation team to assume challenges from competition
- ▲ Growing Market

Intense activity both in international and diversification areas

- ▲ They are an essential part of our business
- ▲ They provide profitability and value creation opportunities



CAPITAL GAINS GENERATED IN EXTRAORDINARY OPERATIONS

▶ Entry of National Power in the 25% of the generation company	68,500
▶ Sale of the 8.14% stake in Airtel	140,522

TOTAL CAPITAL GAINS

209,022



CAPITAL GAINS TREATMENT

MINIMIZE TAX IMPACT

◆ Total planned investments in the next four years > 300,000 M ptas.

Deferred payment of the 100% Corporate Income Tax approximately in 20 years time

STRENGTHEN FUTURE RESULTS AND SHAREHOLDERS' EQUITY


◆ Retirement Allowance and reduce discounting rates to 4%	52,328 M ptas.
◆ Funding cost-cutting and transition-to-competition programmes	36,662 M ptas.
◆ Provision for negative accounting effects in maturing businesses (Telecommunications and International Investments)	35,000 M ptas.
◆ Increase level of Reserves; strengthening balance sheet	55,292 M ptas.
◆ Tax effect	29,740 M ptas.

TOTAL

209,022 M ptas.


COST REDUCTION PROGRAM

 Enlargement of the labour an structure costs reduction program

 S.L.E. Plan will reduce electric operation workforce 25% from the beginning of the liberalisation process up to year 2003

Characteristics:

- Ready - to - amortise jobs
- Selective from the company viewpoint

 Since the beginning of the liberalization process, we have financed a program of sixty billion pesetas, that will allow us to adjust future costs



RESULTS OF RECURRING ACTIVITIES

(Extraordinary operations not included)

99/98

✓ Pre Tax Income 29,349 M ptas. (+45.8 %)

✓ After Tax Income Controlling Company 17,823 M ptas. (+13.7%)

✓ Output Value 254,987 M ptas. (+23.6%)

✓ Interest Expenses 15,532 M ptas. (-17.0%)

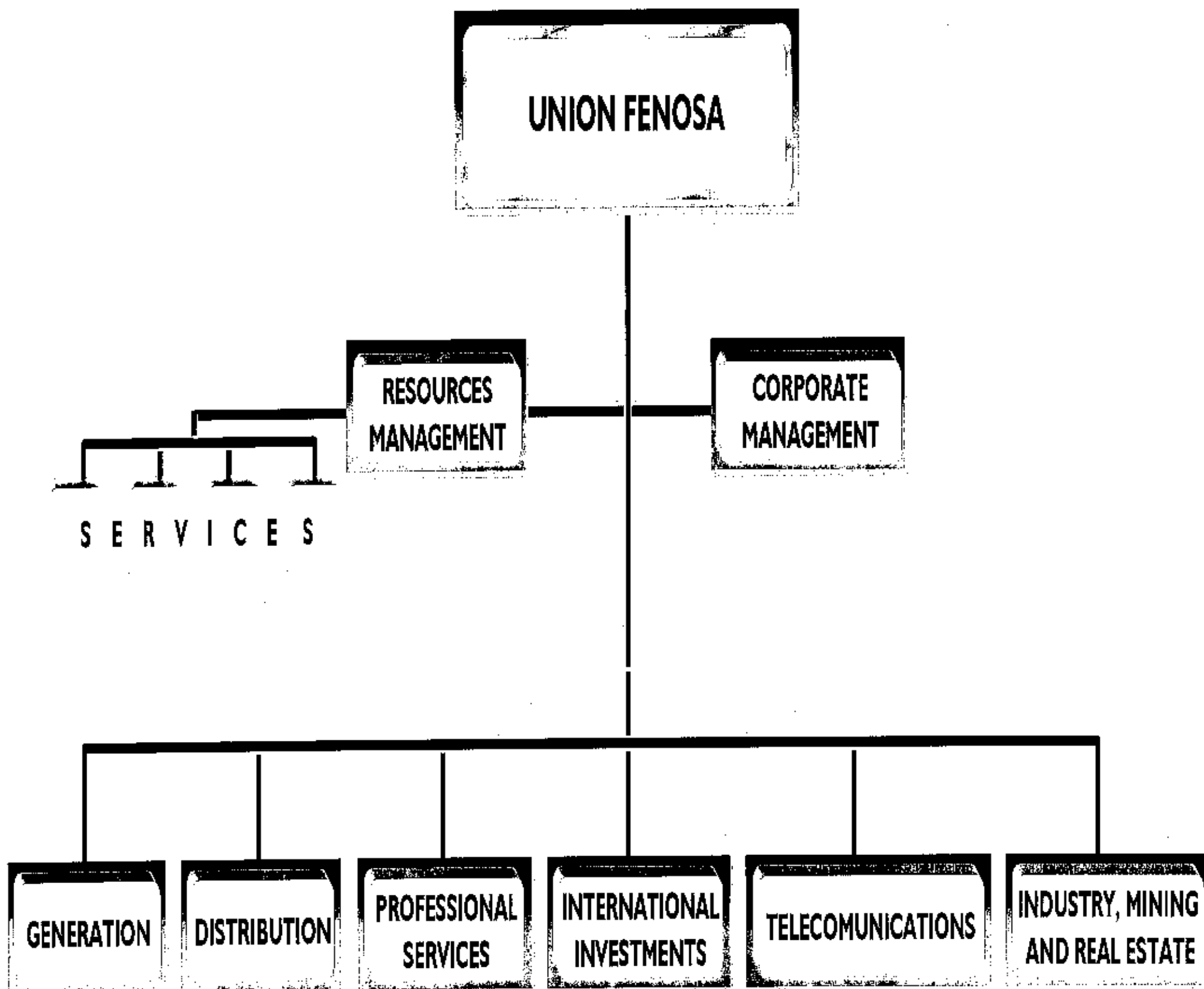
✓ Financial Leverage 416,600 M ptas. (-17.4%)

▼ Diversification activities' contribution to consolidated results 23.8%



UNION FENOSA


BUSINESS UNITS





GENERATION


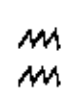
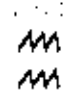
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 Production	10,262 (GWh)	(+12.6%)
Increase above national average	(5.9%)	(12.6%)
Accumulative market share in daily generation market		13.4%
Average sale price		4.5 ptas./kWh

Intense supply activity

Market share in Eligible Clients	12.5%
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DISTRIBUTION

 Important increase in billed energy (12,631 GWh)	+7.4%
 Increase in supply quality	+31%
 Improvement in 1999 Business Remuneration (new Ministerial Order)	+2,100 M ptas.

(Regulation that drives the distribution of revenues)



PROFESSIONAL SERVICES

(Engineering and Consulting activities)

- ↑ Increase in total turnover during half 1999 **+35%**
- ↑ Contribution from International Investments **40%**
- ↑ Presence in more than 30 countries

INTERNATIONAL INVESTMENTS

▶ **1999 New Investments:**

- Increase in the stake in MERALCO (Philippines) **to 9.1%**
- Acquisition of two distribution companies in Panama
- Awarded two distribution companies in the Dominican Republic
- Awarded two distribution companies in Guatemala

▶ **Total investments to date** **81,000 M ptas.**

▶ **Committed Investments (2nd Half 1999)** **38,000 M ptas.**

▶ **Supplying electricity to more than** **4,500,000 clients**



TELECOMMUNICATIONS

Stake in the controlling consortia of:

⇒ Sistelcom (37.6%)	Paging
⇒ NETCO (19.5%)	Network management
⇒ Retevisión (13.5%)	Fixed telephony
⇒ Amena (17%)	Mobile telephony
⇒ Madritel (24.3%)	Cable (Madrid)
⇒ R (37.5%)	Cable (Galicia)

Highly profitable investments

INDUSTRY, MINING AND REAL ESTATE

 Matured businesses: profitability and favourable expectations

 Financial revaluation of the stake in CEPSA

 Joint energy developments with CEPSA



FUTURE EXPECTATIONS

✓ Increase in generation capacity in Spain

➤ New combined cycle gas plants

❖ Campo de Gibraltar
(in collaboration with **CEPSA**)

❖ ACECA
(in collaboration with **IBERDROLA**)

❖ Other strategic locations

✓ Alliance with National Power,
strengthening the Group's position
to face future growth projects

✓ Cost cutting programme

➤ New programme till 2003: 60,000 M ptas

✓ Growth foundations

✓ Strong and Solid Financial position

✓ Efficient management skills, flexible organisation

✓ Strategic positioning in high-growth sectors

✓ Strategic Alliances with other international players

✓ Wide and highly regarded international network



UNION FENOSA

PROFIT AND LOSS ACCOUNT CONSOLIDATED

First Half 1999 (million pesetas)

	RECURRING ACTIVITY		EXTRAORDINARY	TOTAL
	Jun 99	99/98	RESULTS	
OUTPUT VALUE	254,987	23.6%		
GROSS OPERATING PROFIT	70,059	6.8%		
NET OPERATING PROFIT	42,399	9.1%		
ORDINARY INCOME	30,115	29.4%		
PRE-TAX PROFIT	29,349	45.8%	85,032	114,381
CONSOLIDATED INCOME	19,077	21.6%	55,292	74,369
MINORITY INTERESTS	(1,254)			(1,254)
INCOME ATTRIBUTED TO THE CONTROLLING COMPANY	17,823	13.7%		73,115