

National Power press release

Corporate Communications

28 October 1998

£410 million Spanish investment and strategic alliance

National Power has reached agreement to invest around £410 million (97 billion pesetas) in a new company that will own the generation assets of Unión Eléctrica Fenosa S.A. (UEF), Spain's third largest generator with a 13% market share.

National Power and UEF are also to form an international strategic alliance jointly to develop power projects in selected world markets.

Under the agreement announced today, National Power is to:

- take a 25% stake in Unión Fenosa Generación S.A. (UFG), which will own UEF's interests in around 8,200MW of capacity in Spain, with the remaining 75% equity held by UEF. National Power has an option to increase the stake by 5% on construction of new generation projects by UFG. National Power will be fully involved in the development and management of UFG's business, and the shareholder agreement provides full protection for its minority rights.

- establish with UEF an international committee to run the strategic alliance between the two companies, which will pursue international opportunities to acquire, construct or establish power projects in selected markets.

With a view to strengthening the alliance, facilitating co-ordination between National Power and UEF and promoting the search for new opportunities, both companies will investigate the possibility of acquiring up to 2% of the share capital in the other company. At the current market price, a 1% stake in UEF would cost around £27 million. Any such purchases would be made in the relevant markets.

On completion of the acquisition of a stake in UEF by National Power, Sir John Collins, Chairman of National Power will join the Board of UEF. The agreement also provides for Sr. José María Amusátegui, Chairman of UEF, to join the Board of National Power.



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The assets of UFG will comprise equity ownership of around 5,200MW, in the following capacity in Spain:

Type	Capacity(MW)	UFG's % share
Coal-fired		66.70
Anillares	350	100
La Robla I	270	100
La Robla II	350	100
Meirama	650	100
Narcea I	65	100
Narcea II	154	100
Narcea III	350	100
Hydro		
40 stations	1,681	100
Oil-fired		50
Acaca I	313.5	50
Acaca II	313.5	100
Sabon I	120	100
Sabon II	350	100
Nuclear		34.50
Trillo	1,086	11.30
Almaraz I	982	11.30
Almaraz II	982	100
José Cabrera	<u>160</u>	<u>64%</u>
Total	<u>8,057</u>	

UFG will also have equity interests in around 175MW of cogen and renewables plant, through its wholly owned subsidiary, Unión Fenosa Energías Especiales.

With regard to the nuclear interests, a 100% Government owned organisation is responsible for the decommissioning of all nuclear plants in Spain.

The net book value of the generation assets to be transferred to UFG is estimated to be £475 million. The replacement costs of the assets is estimated to be significantly higher. Although UFG has yet to be formed, on a pro forma basis, based on National Power's estimates, the assets are projected to record turnover of £640 million and profits before tax of £105 million for the 1998 year, based on generation of around 20 terawatt hours (TWh). This compares with National Power's UK output of around 60 TWh in 1997/98.

National Power's investment, which is subject to contract, will be paid in full on completion, and will be 100% funded by the Company. It is expected that the deal will be completed in the first six months of 1999. The transaction will bring its interests in overseas power plants to around 20,000MW of capacity, with total investments of some £2 billion. The Company owns around 16,000MW of capacity in the UK.

Spain has a growing electricity market, with currently one of the highest rates of GDP growth in Europe. The market is being liberalised well ahead of EU requirements, and a UK style pool trading system was introduced at the beginning of 1998. UFG will be well placed to compete successfully in that market, with National Power able to contribute its liberalised market, gas and power development skills.

The basis on which National Power and UEF will jointly pursue international power project opportunities are set out in the terms of the alliance. These include that National Power and UEF will:

- work exclusively together in Spain, Portugal and Morocco (subject to existing commitments). National Power will investigate the possibility of transferring its interests in the region to UFG. Any such transfer will be made at fair value
- pursue the Italian and French markets under a 50:50 joint venture
- develop projects together in Latin America, with the joint business development led by UEF
- work together in the rest of the world on a case-by-case agreed basis.

UEF has a market presence in 28 countries. It has wide international experience, particularly in countries with Spanish influence, which will enable it to make a major contribution to the alliance.

National Power expects its investment to be earnings enhancing from acquisition, and to contribute significant, early international earnings for the Group.

Keith Henry, National Power's Chief Executive said, "We are delighted to have been chosen to be UEF's partner in the Spanish generation market and to create this powerful, international strategic alliance."

"The transaction represents our largest single investment so far in the development of our international interests, and demonstrates our confidence in the future success of UFG. The Spanish market is one of the most attractive in Europe, and the transaction will give us a material stake in a key existing generator where we can add value through our liberalised market skills and experience in global power markets. The alliance will enable UEF and National Power to take advantage of common geographical areas of interest and our complimentary strengths. It will be a major force in the field of international power development in important markets, particularly Latin America and Southern Europe. We already have immediate opportunities to work together to win new projects."
