



# **THE SEPI GROUP IN 2001**

**Corporate Direction for the Follow-up of Plans  
of the Planning and Follow-up Direction**

## **GLOBAL OVERVIEW OF THE FISCAL YEAR 2001**

On 2001, SEPI's controlling portfolio increased its scope by virtue of Act 7/2001 of May 14<sup>th</sup>, 2001 on the Amendment of the State Patrimony Act, and by the agreement of the Council of Ministers of May 25<sup>th</sup>, 2001, with the inclusion of a number of shareholding participations which before had been in the hands of the Dirección General del Patrimonio, and of the Sociedad Estatal de Participaciones Patrimoniales (SEPPA), which later became part of SEPI. The participations which have been incorporated are; Agencia EFE (100%), ALICESA (91.96%), EMGRISA (100%), GRUPO ENA (100%), TRASMEDITERRANEA (95.24%), EXPASA (100%), MAYASA (100%), CETARSA (79.18%), ALTADIS (1.93%), ALDEASA (5.06%), AXIS (15%) and BEX CARTERA (13.89%). To that it is necessary to add the attachment of the State-Owned Radiotelevisión Española, which took place by Act 14/2000, of December 29<sup>th</sup>, 2000 on Measures about Tax, Administrative and Social Order Matters.

On the other hand, SEPI has continued deepening and achieving significant successes in the fulfillment of the tasks which were given to it since 1996, in the reorganization and the modernization of the State-Owned companies, that is to say, in the financial reorganization and the set-up of Plans for the Future in the participated companies which were in need of them, in the consolidation of competitive corporate projects and in the management of the privatization processes.

In what concerns reorganization, it is worthwhile to point out that it has continued with the payment of the labor commitments which resulted from the reorganization plans through the application of the externalization Plan, which in 2001 it has entailed the provision to the Group's companies of a total of up to 2,639 million euros. However, with regard to the amortization of the debt of the former INI which is still outstanding, SEPI has decided not to cancel in advance any amount during 2001, due to the difficulty of its reacquisition on the market at a reasonable price. The amount which is still outstanding as of December 31<sup>st</sup>, 2001 amounts to 35,425 million pesetas (212.9 million euros) on a total of 575,987 million pesetas (3,461.8 million euros) of existing debt as of December 31<sup>st</sup>, 1995.

With regard to the strengthening and consolidation of competitive corporate projects, it is worthwhile to single out during the fiscal year the very favorable evolution of the ENA Group, thanks to the application of the new system for the review of the charges of the state concessionaires and to the high traffic recorded on all the concessions; and, in TRASMEDITERRÁNEA, due to the recording of an important increase of the turnover, both in passengers and in cargo.

As for the merger of the civil and military shipyards (respectively, the former DCN and Bazán) into IZAR, which took place at middle of the previous year, 2001 has been the first complete fiscal year of the Company's existence, which was incorporated for facing an adverse industry environment, characterized by

the unfair competence of the Korean shipbuilders, the disappearance of the aids from the European Commission, to the overcapacity and to the decrease suffered by the defense budgets of most countries.

Also as a significant event, during the period took place the preparation and approval in CETARSA of the Medium-Term Plan, which seeks to eliminate the productive overcapacity and to adequate its structure to the market's expected evolution and to the normative and industry-wide changes which are foreseen from 2004 onwards, and in MAYASA, the preparation of a Business Plan as an alternative low demand recorded for mercury.

With regard to the privatizations, it must be pointed out that on April took place the formalization of the sale of the shares of CONVERSIÓN ALUMINIO to the company ALUCOIL, S.A. which belongs to the Alibérico Group, and whose corporative name was changed by the new shareholders to ALUCOAT CONVERSIÓN, to the sale through an IPO of 48.51% of IBERIA. On July was carried out the sale of the GRUPO SANTA BÁRBARA (from now on, Santa Bárbara Sistemas) to the American Group General Dynamics once that during 2000 an agreement with Krauss-Maffei Wegmann for the protection of the Leopard technology was reached, and the official authorizations for closing the transaction were achieved. Also on July the privatization of the ENCE Group was closed, which was carried out in two stages; in the first, 25% of the shares were sold to Corporación Financiera Galicia, to Banco Zaragozano and to Hispamarket, and for the second stage, an institutional IPO was launched over the 26.01% of the share capital which still remained in the hands of the Spanish State. On October three transactions were formalized: the sale of BABCOCK BORSIG ESPAÑA (spun off BWE) to the German Babcock Borsig AG, the sale to Air Comet of 99.2% of INTERINVESTs' shares, owner of 92.9% of Aerolíneas Argentinas and of 90% of Austral, and the award through a tender process of 7 land plots belonging to EXPASA.

The economic environment has been characterized during the year by the crisis which has affected the whole of the industrial countries and which basically stems from the price increase of the oil products, to the puncture of the new technologies bubble and the continued rise of the interest rates since the middle of 1999, effects which were aggravated by the commotion produced by the terrorist attacks of September 11<sup>th</sup>. At the end of the year, in the international scene persisted many uncertainties linked to the problems which are suffering economies like those of Japan or Argentine, or which result from the evolution of the oil market.

In the Spanish economy began the slowdown of the growth rate. The average GDP for the year was of 2.7%, 1.5 percentage points below the one registered the previous year, which basically was due to the fact that the internal demand continued losing strength in comparison with the rate recorded in 2000.

## **1. THE MOST SIGNIFICANT EVENTS BY COMPANIES**

### *AGENCIA EFE*

Notwithstanding the difficult moment which lived the market, the Agencia EFE, within the process of application of the Plan for the Future, has kept its competitive position, increasing its sales over the previous year, and has implanted a number of rationalization measures for consolidating its future financial and assets stability.

Within the process of commercial reorganization, the effect of the raise of charges in the services of text and graphic subscription, and the sale of television, as well as Internet, have lessened the decrease of the winning of new subscribers due to the weakness of the market. On the other hand, the launching of new products, such as the service in Portuguese, the Iberoamerican graphic alliance and the photo archives, among others, is at an advanced stage.

Equally, to point out that for increasing its multimedia capacity, the Company has continued with its investments in that area, and that the impact of the Internet products on the Agencia's turnover make it possible that in 2001 these already account for 13.7% of the sales to the market, with an increase of 19.5% over the previous year.

Regarding the application of the cost cutting measures, these have already had an impact on the Profit and Loss Account for 2001, being worthwhile to point out that the signing of the collective bargaining agreement, which includes measures for making more flexible the working conditions, took place.

### *ALICESA GROUP*

The ALICESA Group, made up of Alicesa as the parent company and of Coosur and Olcesa as affiliated companies in a 89.36% and 100%, respectively, became part of SEPI as a result of the decision taken by the Council of Ministers on May 25<sup>th</sup>, 2001, by which took place the reorganization of the shareholding portfolio of the Ministry of the Treasury, for latter disposing of those companies which no longer require the presence of a state-owned operator, due to the fact that they are active in open and competitive markets. In such a position were Coosur and Olcesa at the time of their transfer to SEPI; the first active in the refining, packing, storage and commercialization of oils and vegetable oils for human consumption, and the second active in the extraction and refining of sunflower oils and other oleaginous for bulk sale and packing, and for the manufacture of animal feeds.

In the fiscal year 2001, Coosur has presented an unfavorable evolution in its industrial activity, due to the fall of the oil prices and to the higher cost of the raw materials. However, the cogeneration plant recorded a significant improvement of its profits, as a result of the reduction of the main cost items (fuel, external and financial services) which has made up for the reduction of the

turnover. As for Olcesa, the results have improved, both in the industrial activity and in the cogeneration plant.

In keeping with the divestment plan above, on November SEPI began the privatization process of Coosur and Olcesa on the basis of guaranteeing the continuity of the corporate project and of the employment level, process which has culminated on July 2002 with the signature of the sales deed of both companies to the consortium led by Aceites del Sur.

## *CETARSA*

The evolution during the last few years of the tobacco industry in which CETARSA develops its activity, and very especially in 2001, has been affected by a number of uncertainties and of threats which affect its future evolution.

On May 2001 it was approved the Community Directive about the manufacture, presentation and sale of tobacco products, on which it is established the commercialization in the European Union of tobaccos with a chlorine leaf content of less of 2%, limitation which directly affects the Fermented Burley grown in Grenade, forcing to CETARSA (the only company which buys this tobacco) to commercialize in the North African market, at a much lower price, the tobacco which surpasses such a maximum limit. Already in the first months of 2002, the European Commission has passed the reduction of the guarantee thresholds and the production aids for the harvests of 2002, 2003 and of 2004, which affects CETARSA due to the fact that it raises the prices at which it buys, which it will have to pass on to the manufacturers up to the point which the high competitive pressure exercised by the other manufacturers, with lower costs.

To all of the above it is necessary to add the prospect of a higher competitive pressure from the multinational companies, the producers' associations, the non-European processing countries and the new producing countries, which accede to the European Union; the fall of the demand for dark tobacco because of the changes in the consumption habits and possible further reductions of the guarantee thresholds and for the production aids since 2004.

In the above scenario, CETARSA has kept a very strong competitive position thanks to its high contracting share and its high solvency and robust asset position. However, for eliminating its current overcapacity and matching its productive capacity to the market expected evolution and to the industry changes which are foreseen since 2004 onwards, it has prepared during 2001 a Medium-Term Plan, which is expected to be applied during the harvests of 2002 and 2004. the Plan's main actions consist in the closure of the factories located at Plasencia, Grenade, Jaraiz and Jarandilla, keeping the last two only as storage facilities, and concentrating the processing activity in Talayuela and in Navalморal, and that of fermentation in Coria, since they are the most efficient factories.

From the operative point of view, it is worthwhile to point out the exceptional turnover reached, which was over 22% to that obtained in 2000, thanks to the

commercialization of 4,000 more tons of tobacco and of 870 tons more of byproducts, due to the recovery of the delays of the sales during the last quarter of 2000 and to the anticipation of the tobacco exits of the 2001 harvest and which on principle were to be made in 2002, basically for Deltafina and for Dimon. This significant increase of the turnover has been reflected on CETARSA's improvement of the net profits after tax, which were 31% over those achieved in 2000.

### *EMGRISA*

Since its incorporation in 1990, EMGRISA has been developing its activity of industrial waste management reporting to the Ministry of the Environment, until on May 2001 it was transferred to SEPI's portfolio. As the most significant activities during the year are the following:

- The continuity in the collaboration with the Ministry of the Environment for the carrying out of studies and the development of norms about wastes and their application.
- The beginning of the provision of waste collection from ships (MARPOL) in the autonomous region of Cantabria, and the continuity of the provision of this service in Las Palmas de Gran Canaria.
- With regard to the management of car Oils and Wastes, the Company keeps its activity in Aragón, Alicante and Cantabria, while it has abandoned this activity in Navarre, Castile La Mancha, Madrid and Extremadura, and at the same time, it has brought to a halt the activity of wastewater management.
- In the area of Engineering and Consulting, which in 2001 has assumed a very special relevance, as EMGRISA was required to take part in a number of working groups created within the Ministry of the Environment for the preparation of country-wide plans for wastes, the work for the building and exploitation of an incinerator in Ceuta has begun, as well as the preliminary studies for the potential building of 5 bio-diesel factories.

### *ENA GROUP*

The sector of the highways concessionaires has featured during the last years the search of new growth formulas as a result of the maturity of the main concessions, resulting in movements within the sector, which have taken the form of mergers between the concessionaires, expansion deals abroad and the diversification of car parks, logistics and telecommunications.

With regard to the ENA Group in 2001, independently of its inclusion into the SEPI, which took place by the decision of the above mentioned Council of Ministers on May 25<sup>th</sup>, it is worthwhile to point out the application of the new charge review system for the State concessions, the good behavior of the traffics in all the concessions, and the delay in the building of the toll highways

from Madrid in which ENA participates. As the most relevant activities during the year, it is possible to point out the following:

- Progress in the building of the new stretches of the highways between Rebullón and the Portuguese Border, and of that between Fene and El Ferrol through land movements, excavations and the building of the highways' overpass structures and of part of the viaducts.
- Development in AUDASA of the dynamic toll project, with the development of the corresponding software which will allow to speed up the toll collection. The preliminary studies have been carried out, as well as the development of the infrastructures. Also the selection of the control equipments and the system management have been made, and the first trials have been carried out.
- The raising of new debt has been made through the issue of 10-year term notes with a special fiscal treatment, for an amount of 66.1 million euros, at an interest rate of 4.19%, for covering the investment requirements in the new stretches under construction.
- Participation into new projects through the holding companies which channel its financing, specifically in the highways from Madrid and in the Central Galician Highway.
- Negotiation of the new collective bargaining agreements for AUDASA, AUCALSA and AUDENASA and which expired at the end of 2000, closing the negotiations in 2002 with SEPI's authorization and that of the Financial Commission for State-Owned Companies.

In terms of results, the Group has achieved a profit after tax which is 10% above that for the year 2000, with better operating profits in practically all the companies. Also the economic and financial profitability improve, keeping the ENA Group a financial structure adequate for the industry.

### *ENSA GROUP*

In the ENSA Group, within the area of nuclear parts (a reduced market with overcapacity of supply and in which the competence in prices is more and more aggressive), an offer for the replacement of the 4 steam generators of the nuclear power station of Callaway was submitted. ENSA was declared as the preferential supplier, although at the end the offer was awarded to Framatome. Also within this area has finished the first stage for the PBMR reactor, and have started the work for the ISIS reactor.

In the storage, transport and wastes line, ENSA's position has been reinforced thanks to the obtaining of contracts for containers for the US and for China, to the agreement with Hitachi for the development of a metallic container and of an contract for the design and manufacture of

thick frames with its own design for Finland. As a differential characteristic in this business line it is worthwhile to point out its price level, well below that for the nuclear parts.

In conventional products, the first contracts and sales have been made, in spite of the delay in obtaining the homologations and quality seals.

With respect to the affiliated company ENWESA OPERACIONES, its activity has been lower than expected, due to the delay in the building of the combined cycle power stations and because the carry forward to 2002 of part of ENDESA's turnover. However, it must be noted the works carried out abroad (Brazil, France and China), as well as through Westinghouse in France, Slovenia, Belgium, the US and Switzerland.

### *ENUSA*

As significant actions carried out in ENUSA, it must be noted the commercial activities made through the European Fuel Group for PWR products, through GENUSA, in which ENUSA has a 49% stake and General Electric the remaining 51%, for BWR products, winning through the latter 4 recharges for the power station located at Forsmark (Sweden). It is worthwhile to note too the renegotiation for the supply of new fuel to the German power station of Gundremmingen, and the signing of an agreement with Westinghouse for the manufacture of 1,800 gadolinio rods for the US power stations.

After all these deals, ENUSA's market share of the European Union remains at 4%.

Within the framework of the relations with the partners of the European Fuel Group, it must be highlighted the signing of a new agreement with Westinghouse for adapting the EFG to the new situation of the market, having submitted a Business Plan for the next few years. Also an agreement has been reached with General Electric for extending the license for a 5-year period.

As for the supply of uranium and the delivery of the fuel components, it must be noted the delivery of the first recharge with a new design, for the power station of the type VVER-440 of Loivisa (Finland) and the development of the standardization in the recharge supply for the national power reactors 17 x 17 PWR.

In the activities regarding the diversification towards new business, the following progresses have been reported:

- Consolidation of the freight company for special materials Express Truck, S.A. and of ENUSEGUR, S.A., both affiliated companies of ENUSA, which recorded a joint turnover which was 19% above that achieved the previous year.

- A commercial development in IONMED Esterilización, which was slower than previously thought, due to the high technical effort linked to the validation of each product.
- Start of the production of the boron nitride, with the development of new products and applications, and improvements in the production of the silicon nitride in SHS Cerámicas.
- In Molypharma, collaboration agreement with the pharmaceutical laboratories Schering and Juste, with the aim of developing radio-pharmaceutical products for image diagnostic, winning of a contract with the Generalitat Valenciana for the supply of radio-pharmaceutical products in mono-doses to the network, and the start of the commercial operations in the PET facilities of Barcelona, Seville and Madrid.
- In the environmental activity, the winning of 6 awards out of a total of 41 offers submitted for the Agency for Environmental Projects, and equally, the award of a number of restoration works to Teconma.

### *EXPASA*

After the incorporation of EXPASA to the SEPI Group by decision of the Council of Ministers on May 25<sup>th</sup>, 2001, the most relevant action during the fiscal year was the divesture of a total of 7 land plots in Seville, Córdoba and Cádiz, which has resulted in turnover of 31.6 million euros. EXPASA kept on its books as of December 31<sup>st</sup>, 2001 twelve farm land plots, of which it plans to divest many in 2002, for continuing in the future with the Yeguada, its linked lands and those currently subleased.

Also, it must be pointed out during the year the preparation of a Strategic Plan for the above Yeguada, in which it is expressed as the basic actions the set-up of the ideal number of horses for cost containment, the elimination of those animals which do not fulfill the standards established by the technical services, and the increase of income through the sale of horses, the coverage to third parties' horses and the promotion of the tourist activity.

### *HUNOSA*

During the fiscal year, HUNOSA has continued with the application of the Company Plan 1998-2001, which foresees the progressive reduction of coal and as a result, of the personnel, and whose most significant data are as follow:

- The staff reduction with respect to the previous year has been of 715 workers, which took place through 778 early retirements, 36 net withdraws and 99 net incorporations, in application of the Company Plan.

- The production of scrubbed coal reached 1,813 ktl (1,659 ktl from the underground production and 154 ktl from open-cast coal mining), below that recorded last year (1,942 ktl).
- The thermal power station recorded the production of 386 GWh, a 6.3% increase over the year 2000.
- As for the diversification, SADIM participates since its creation, three years ago, in projects which envisage, once they are fully operative, the generation of 334 new jobs.

On the other hand, on December began the bargaining of the new Company Plan 2002/2005, whose signing took place already in 2002.

### *INFOINVEST GROUP*

INFOINVEST continued with the recovery of the land plots affected by the industrial reorganization processes suffered by the state-owned companies, and their transformation into land apt for the installation on it of new industries and companies. More specifically, in the development of the industrial parks, the progress registered during the year was as follows:

- Once that the Ingruinsa park is almost finished, with the commercialization of the third stage of nest-facilities, with the exception of a facility destined to be occupied by offices and of a land plot affected by the project "City for the Theater".
- In the Park Principado de Asturias work has continued on the demolition, environment and urbanization, as well as in the building of nest-facilities, having been signed private sale contracts for 237,863 square meters. During February, the European Commission approved, within the framework of the FEDER funds, the Operating Program for Asturias for the period 2000-2006, in which it is included an aid of 27,320 thousand euros for this project's development.
- With regard to the Industrial Park of Abra, the land movement and the demolition works have continued, beginning on November the urbanization works.
- In the Parque de Cantabria have continued the technical works for the pre-charge of the land plots on several points, with the goal of securing the foundation before beginning the urbanization works.

As for the formalization of the new operations, it must be pointed out the incorporation of the Sociedad Parque Empresarial de Sagunto, in which INFOINVEST participates, together with SEPIVA, with a 50% stake, and whose objective is the corporate development of a 3 million square meters area.

## *INIEXPORT*

The fiscal year 2001 has not been a favorable year for the Spanish foreign trade sector, in which INIEXPORT develops its activity. That has been basically attributable to the instability of the international economy, the terrorist attacks on September 11<sup>th</sup>, to the strength of the US dollar, and to the uncertainty in the oil market. In Spain, exports grew in real terms by 2% over the previous year, and imports 4.1% (8% in 2000).

During the year, INIEXPORT has continued its search for new contracts and markets, although it has not won any significant deal, with the exception of the sale to Ukraine of radars made by INDRA, the supply of magnetite and of pig iron to Poland, and the import of terracotta products from China.

## *INISAS*

In INISAS, the turnover from policies (once the reinsurance cessions have been deducted) amounted to 9,355 thousand euros, which implies a 5.4% increase over the previous year.

During the year the promotion and publicity campaigns have continued on a number of mass media (radio, press, consumers' journals, and so on), as well as other direct marketing activities.

Also to point out that thanks to a Ministerial Order of last October, the formula of mixed reimbursement in the illness line has been authorized, whose commercialization is expected for 2002.

## *IZAR*

The fiscal year 2001 has been the first complete year for IZAR after the merger of the former Bazán with the factories which made up the former DCN.

It has been a especially difficult year for the civil shipping industry, since the overcapacity, began by Korea and continued by China, together with the fall in demand, has provoked a sharp fall of the prices. Besides, the terrorist attacks of September 11<sup>th</sup> have resulted in a fall of the demand of sea-transport and of passenger cruises, which in turn has provoked a strong fall of the demand of new ship-buildings during the last part of the year. It can be pointed out that the demand of new ships worldwide amounted to 25.1 million CGT, compared with the 29 million in 2000.

Equally, the Korean dumping and the uncertainty about the framework for aid for civil shipbuilding which compensate for the unfair competence from Korea have persisted.

With regard to the military market, the limitations in the defense budgets have continued, which makes necessary competitive financing ways, which make possible to increase the demand.

In such a scenario, IZAR has achieved contracts worth 1,446,822 thousand euros, of which exports represent 66% of the total. Within the area of shipbuilding, it is worthwhile to point out the contract for building a ship for carrying chemical products for Gijón, a FSU for Fene, two dredgers for Sestao, 2 LNG for Puerto Real, 2 motorboats LCMX for San Fernando, two ferries for Argelia, to be built in Seville, and the major repair of S-71. At year closing, a number of commercial export deals were subject to negotiations, with such countries as Chile (frigates), Portugal (submarines), Thailand and Malaysia (submarines), Turkey (LPD, coast guard ships), Belgium (LPD, dredger), amongst others.

At year end the collective bargaining agreement for all the civil sector shipyards and for the engines factory at Manises was signed, with effects for the years 2001 and 2002.

As for the preparation of joint control procedures for the management of the company resulting from the merger Bazán-DCN, during the year has been prepared a normative for joint cost allocation, and have been prepared homogenous fact books for information to the corporate central. Equally, the systems for obtaining the information designed have been prepared, so that its application will take place during 2002.

## MAYASA

During 2001, MAYASA has continued producing mercury and developing the different activities which, as a result of the decline of that market were created as an alternative during the last few years; drillings, geology, construction, mining for third parties and exploitation of the Dehesa de Castilseras for farming. However, the reduction in the demand for mercury, together with the unfavorable economic results of the new activities has forced the company to prepare during the year a Business Plan as an alternative for the future feasibility. This Plan, which was approved by SEPI last December, contains the following actions:

- Final abandonment of the extractive activity, after the sinking of the Almadén mine in June 2001, intensifying the efforts of mercury intermediation;
- Abandonment of the activities of mining for third parties, drilling, geology and construction, depending of their business prospects;
- Improvements and investments in the farming activity, which allow to increase the value of the Dehesa for its sale at later date, liquidating the fodder factory, which has stopped production on December 2001 and which will be leased;

- Adaptation of the staff to the evolution of the Company and to the development of the activities which replace the industrial reorganization process (land restoration, creation of a Foundation-Museum) which generate alternative activity and jobs; and
- Actions for the industrial reactivation of the Almadén area, in collaboration with SEPI, which make possible the creation of new jobs in this zone.

### *MUSINI*

MUSINI has retained a solid position in the segment of Industrial Risks, improving significantly in the Life branch, as a result of the externalization transactions of pension commitments, since it reached the highest figure for issue in the history of the Company (609,187 thousand euros).

During the year, a total of 565 new customers entered to form part of the Company, and at the same time, it kept practically all which made up the portfolio.

With regard to the updating of the offer, MUSINI has continued developing custom-made products, adapted to the customers needs. During the year it must be noted the operations for warranties insurance for manufacturers, the insurance in case of lost baggage, and the contingency insurance, and especially, the issue of a insurance policy in case of lost baggage for Air Europa. Less important from the standpoint of the policies issued, the Company developed products specific for cogeneration plants and for ten-year guarantee for building.

### *PRESUR*

PRESUR has continued with its progressive reduction of industrial activity, focusing its management in the improvement of its sales margins and in the reduction of its production costs. That has led to the abandonment of the production lines of copper concentrate and of thick mediums for cement factories, due to the low price at the moment for these products.

The most important event during the year has been the agreement reached between Atlantic Cooper, the Spanish State and the mining company Río Narcea Gold Mines (RNGM), by which the former two, which make up the Mining Consortium in which PRESUR acts as the State representative, transfer their exploration and exploitation rights to RNGM, which will manage the Aguablanca's nickel mine, committing itself to relocate 50 workers from PRESUR once the commercial exploitation, planned for June 2003, begins.

## SODIS

The Sociedades de Desarrollo Regional (SODIS) (*Companies for Regional Development*) have continued with their participation in investment projects and giving support and managerial services for companies, in an environment characterized by the economic slowdown, which has resulted, in general, in a decrease of the investment activity.

For SODICAMAN, the most important event during the year was the passing in March of the Joint Operating Program of Castilla-La Mancha for the period 2000-2006, which includes a subvention of 15,497 thousand euros for project financing in the proportion of 70% FEDER and 30% SODICAMAN.

In SODIEX, on October was signed the Agreement which regulates the Global Subvention Program of FEDER funds, which, for an amount of 16 million euros for the period 2000-2006, was awarded in 2000 by the European Union. The program stipulates the project financing in the proportion of 75% FEDER and 25% SODIEX.

## TRASMEDITERRÁNEA

TRASMEDITERRÁNEA, which operates in the segment of coastal trade, has continued during 2001 with the Fleet Renovation Plan, which it began in 1998 and which has resulted so far in the beginning of operation of 9 new ships. The Plan will finish in 2002, with the beginning of operation of the ship Murillo.

The most noteworthy aspects of the year are the following:

- The growth of the total income, which increased 17.7% over that of 2000, until reaching the amount of 328,947 thousand euros. Equally, the income resulting from the services given directly by the Company increased in 47.1 million euros. That was the result both of the better prices reached during the year and, especially, to the significant increase of the activity in all the business lines.
- In the passenger traffic line, the number of passengers transported was of 3,526,856 persons, 8.4% above the figure recorded the previous year. The average prices increased 11.1%.
- With regard to the transport of vehicles as luggage, both the increase of the activity and of the average income per vehicle is of 6.7% higher over the figures of the previous year.
- Regarding the cargo, the lineal meters charged during the year are 11.5% over those recorded in 2000, and the average prices for each meter increased by 3.5%.

It must be noted the improvement in the year's results with respect to the previous year (67%) on the basis of an increase in the activity and the price for the services, which more than make up for the increase of the operating costs due to the increase of the activity and of the financial costs linked to the financing of the new fleet.

## **2. PRIVATIZATION PROGRAM**

During the year 2001, SEPI has continued executing the privatization program began in 1996, which it applies, in general, to reorganized and consolidated companies, or in some cases, as a mean for achieving their consolidation. During the year the following transactions were closed:

- Sale of CONVERSIÓN ALUMINIO's shares to the company Alucoil, S.A., which belongs to the Grupo Alibérico, formalized through a public deed on April 2<sup>nd</sup>. Two months later, on June 1<sup>st</sup>, the new shareholders changed the company name of Conversión Aluminio to that of Alucoat Conversión, as well as the corporate logo, and established the new social domicile in the factory at Linares (Jaén).
- IPO for 48.51% of IBERIA, at a price of 1.19 euros per share, keeping SEPI 5.39% of this company's equity.
- Formalization on July of the sale of GRUPO SANTA BÁRBARA (hereinafter, Santa Bárbara Sistemas) to the American company General Dynamics (GD), after having secured during the year 2000 an agreement with Krauss-Maffei Wegmann for the protection of the Leopard's technology (March 21<sup>st</sup>), the favorable report by the Consultative Board of Privatizations (CCP) (on March 29<sup>th</sup>), and the transaction approval by the Council of Ministers (March 30<sup>th</sup>). The industrial plan submitted by GD for the Grupo Santa Bárbara foresees to turn the Company into a significant competitor for defense products in the European and the global markets, increasing the turnover for the current products and supplying new processes, technologies and products, which improve in a radical way its market position. The buyer has committed itself, among other things, to keeping the staff level and its working conditions during a 5-year period.
- Also on July the total privatization of the GRUPO ENCE was carried out, in two stages: in the first, 25% of the shares (less one) were sold to the companies Corporación Financiera Galicia, Banco Zaragozano and Hispamarket, whose binding offer submitted to SEPI is based upon an Industrial Plan which guarantees the Company's future operations, keeping its high level of profitability and growth recorded during the last years for guaranteeing the maintenance of the staff. The second stage took the form of an IPO directed to institutions on the 26.01% of the equity which still remained in the hands of the State.

- On October (24<sup>th</sup>) formalization of the sale of BABCOCK BORSIG ESPAÑA (BBE) to the German Babcock Borsig AG. The company sold, BBE, had been incorporated some time before through the spin off Babcock Wilcox Española, S.A. BWE transferred to it part of its assets, 647 workers, most of the contracts in force, besides the working capital related to them, and the subgroup made up by Babcock Montajes and Isotrón.
- The sale of 99.2% of INTERINVEST shares (which in turn, owns 92.1% of the capital of Aerolíneas Argentinas and 90% of that of Austral) to Air Comet (formalized on October 15<sup>th</sup>). The bidding offer submitted by Air Comet, which was the basis for the above sale, includes an industrial plan oriented towards the joint management of ARSA and Austral, with a special emphasis on the improvement of the turnover and cost-cutting, with the aim of reaching the profitability in three years.
- Also on October (11<sup>th</sup>), award through tender of 7 land plots belonging to EXPASA AGRICULTURA Y GANADERÍA, with a total surface of 1,788 hectares, located on the provinces of Seville (4 land plots), Córdoba (2 land plots) and Cádiz (1 land plot).

Already in 2002, and as the result of the negotiations and efforts made during 2001, three new transactions have resulted: the sale of COOSUR and of OLCESA, which belonged to the Grupo Alicesa, to the consortium headed by Aceites del Sur; the sale of SEPIs' stake in QUÍMICA DEL ESTRONCIO (51%) to the Grupo Fertiberia, in two phases: initially, the ownership of 2% of the shares is transferred (Fertiberia already had 49%), and once three months have elapsed since the approval of QUÍMICA DEL ESTRONCIO's accounts for the year 2003, transfer of the remaining 49%; and finally, the award of the TRANSMEDITERRÁNEA to the consortium made up by the construction company Acciona, the shipping company Matutes, Armas and Aznar, and the savings bank Caja de Ahorros del Mediterráneo.

#### **4. INVESTMENTS**

During the year 2001, the aggregate tangible and intangible investment of the Group's companies amounted to 459,977 thousand euros. In absolute terms, it is worthwhile to point out the amounts invested by the following companies:

<b>COMPANY</b>	<b>Tangible and intangible investment (thousand euros)</b>
TRASMEDITERRÁNEA	239,798
IZAR	85,185
GRUPO ENA	51,814
GRUPO INFOINVEST	39,680
HUNOSA	28,563
ENSA	3,032
EXPASA	2,484
AGENCIA EFE	2,344
ENUSA	1,882
GRUPO BWE	1,009

In most of the cases, this investment was applied to improving the companies competitive position, as well as to the replacement of the facilities and tools.

As for the financial investment, it amounted to 1,496,125 thousand euros.

## **5. INNOVATION AND TECHNOLOGY**

As its technological strategy, SEPI has continued applying the guideline of the last few years, in which innovation and development constitute the basis for the consolidating its companies. With it, has contributed to reinforce the cost reduction, to improve the quality, and to develop new processes and products.

Besides, in the Group has continued the effort for the environmental adaptation, putting into effect the commitment of making compatible the industrial development with the environmental protection. That is why it is sought that the technology fulfills two objectives; to contribute to the improvement of the manufacturing processes, reducing their pollutant content, and to obtain products and services for the environmental market.

As an indicator of the importance given to technology by SEPI, it must be pointed out that the effort carried out in R&D during 2001 has amounted to 66,860 thousand euros, whose breakdown is 62,816 thousand euros to IZAR, 2,778 thousand euros to ENUSA, 987 thousand euros to ENSA and 279 thousand euros to HUNOSA. That amounts to 2.1% on the Group's yearly sales, and 2.0% of the total national expense on R&D.

The aspects to be pointed out during the year are the following:

In IZAR, within the constructions for the civil market, the technological activity has been oriented to consolidating the Company's position in those market areas with a high technological content and added value. The R&D projects have been directed to increasing the efficacy in the areas directly related to ship development and construction, with the goal of increasing its competitive level so that, in the end, it wins more and better contract opportunities.

It is worthwhile to mention in this regard a number of technological projects of process aimed at improving the shipyards capacity, both in the automation area and in that of mechanization, and to promote the use of industrial robots. In technical computerization, several projects for the implantation of work systems in a distributed design office have been promoted, projects which make use of the technologies I+C (information plus communications) and for the preparation of the integration and automation processes systems of processes and the information flows already set-up, and has started the development of the so-called "Blue Portal", a corporative portal which aims to spread and strengthen IZAR's identity as a company.

As for the development of its own products, it must be highlighted several projects for off-shore units for the design and building of industrial facilities located on the platforms, for processing both oil and gas. For easing the building of suction dredgers, several projects which include new technologies have been started, both in the field of naval architecture and of the dredging process, and the technical and economic feasibility study of a high-speed cargo-ship for the transport of lorries which might compete with the transport by road, has begun.

Within the area of the military shipyards, technology has continued being one of the fundamental pillars for the industrial development, continuing with the joint programs with international makers for the development of innovative products and for the implementation of new production systems. As an example, it must be pointed out the finalization, together with the French DCN, of the development of the Scorpone project, which provides IZAR with the capacity of designing a high performance submarine.

On the other hand, IZAR has continued providing to the Spanish Navy with the frigates type F-100, which have been completely designed at its shipyard in El Ferrol, and which besides their been considered as the most advanced European frigate and that with more operating capacity, their design and building entails a significant qualitative leap for the Company's engineering capacity. In this same line of action, IZAR already works on the contract for the building of 5 frigates for the Norwegian navy.

On the feasibility stage has began the development of a new amphibious assault ship with a flight flush-deck, which might operate as a hybrid amongst the current amphibious assault ships and a aircraft carrier equipped for vertical take-off aircrafts. Equally, it is worthwhile the project for an Aegis corvette, for the development of the pre-feasibility, feasibility and definition of a last generation combat ship, small sized (1,500-3,000 tons), high performance, highly automated and a low cost.

To that end, IZAR has signed an exclusivity collaboration agreement with the companies Bath Iron Works (BIW) and Lockheed Martin (Consortium AFCON), in which it will lead and coordinate the project, carrying out together with IBW the platform's design and the integration of the combat system.

In the field of the manufacture of nuclear fuels, ENUSA has continued in 2001 with a number of projects related to its activity in the design, manufacture and inspection of fuel elements for nuclear power stations. Amongst them it is worthwhile to single out the continuation of the International Program for Segmented Rods, for getting to know the behavior of different of sheath materials and types of chips of nuclear fuel during their irradiation at high burn. In this same line it has continued the project High Burn Fuel, together with Kansai, Mitsubishi and ENDESA.

In the environmental area, it has continued with the project MARNA for the preparation of Spain's natural radiation and dosimetric map.

ENSA has continued in 2001 with the development of the AUS/LGE project, which aims to achieve the automation of the manufacturing process of steam generators, finalizing its development already in 2002; the project Brite-Euram-III, aimed at the advanced design of parts subjected to a wear-out regime with a low number of cycles, and to the project IRIS, in which ENSA develops the vessel and the internal elements of a new fourth-generation modular reactor, which is leaded by Westinghouse within the framework of the nuclear projects

promoted by the Department of Energy of the United States of America. In the later also takes part an important group of international nuclear companies.

The main projects developed in 2001 by the SEPI companies to which reference has been made above appears summarized in the following table:

PROJECTS	
IZAR	<ul style="list-style-type: none"> <li>• Automation and robotizing</li> <li>• R&amp;D for I+C tools and technologies</li> <li>• New tools for aid in technical software</li> <li>• E-business</li> <li>• Topsides and processing facilities</li> <li>• Offshore gas</li> <li>• High-speed cargo ship</li> <li>• Submarine Scorpone</li> <li>• Frigate F-100</li> <li>• Corvette Aegis</li> <li>• Development of the basic project LHD</li> </ul>
ENSA	<ul style="list-style-type: none"> <li>• AUS/LGE</li> <li>• Brite-Euram III</li> <li>• IRIS</li> </ul>
ENUSA	<ul style="list-style-type: none"> <li>• Extension segmented rods</li> <li>• High burn fuel</li> <li>• MARNA</li> </ul>