

# MEMORANDUM SEPI GROUP 2000

## **1. GLOBAL OVERVIEW OF THE EXERCISE 2000**

During the exercise 2000, SEPI kept successfully developing the functions which it has received regarding the reorganization and the modernization of the State owned companies, regarding the financial reorganization and the application of Future Plans in the participated companies which need it, the consolidation of competitive management projects and the management of the privatization processes.

In the field of the financial reorganization, SEPI refunded in 2000 118,892,214 euros (19,782 billion pesetas) of debts of the old INI, so that during the period 1996-2000 a total of 2,860,324,786.94 euros (475,918 million pesetas) have been refunded of the 3,461,751,589.68 euros (575,987 million pesetas) of historic debt existing at December 31<sup>st</sup>, 1995.

Also in this section about the financial reorganization it is of the outmost importance to point out the advances made in the fulfillment of the labour commitments resulting from the reorganization plans through the application of the Contracting out Plan.

With regard to the strengthening and consolidation of competitive industrial projects, it is worthwhile to point out during the exercise the very positive evolution of the business of air transport, with regard to the Group IBERIA, and wood pulp, in the first case as a result of the actions included in the Master Plan of the Company, and in the second as a result both of the very positive behaviour of the international prices of the wood pulp and of the high degree of achievement of the objectives established for the exercise, and the strengthening of its forest and industrial dimensions. Later on, both companies were privatized in 2001.

On the other hand, to underscore the importance of the merger of the Group's commercial and military shipyards in a new company, IZAR, who is born with the goal of reaching profits as soon as possible, in an adverse industrial environment characterized by the unfair competition of the South Korean shipbuilders, the disappearance of State aid imposed by the European Commission, the excess of capacity and the decrease suffered by the budgets for defense experienced by most countries.

With regard to privatizations, during April 2000 the sale of INITEC was formalized to Técnicas Reunidas, to Westinghouse Electric Company and to Dragados Industrial, and in July, took place the effective integration of CASA, together with DASA and Aerospatale in the new company EADS, which materialized in its being listed in the stock exchange on July 10<sup>th</sup>. Also during the exercise 2000 were signed agreements with General Dynamics, for the privatization of Santa Bárbara, and with Babcock Borsig for that of BWE; both processes were finished during 2001.

For the Spanish economy, 2000 was a positive year from the perspective both of the activity and of employment. The PIB grew 4.1 per cent, exclusively propelled by the internal demand, which added 4.2 percentage points.

## **2. THE EXERCISE MOST RELEVANT FACTS FOR SECTORS**

### **Energy:**

#### **ENUSA.**

In ENUSA, the most relevant actions were the commercial actions made through GENUSA (49 per cent owned by ENUSA and 50 per cent by General Electric) for products BWR and through the European Fuel Group (EFG) consortium for products PWR. In the Spanish market, it must be singled out the signature of a contract with Unión Fenosa Generación for the supply to the nuclear power station of Zorita of all the recharges during the power station life cycle.

As a result of the above mentioned actions, ENUSAs' share in the European Union increased from 9 per cent in 1999 to 11 per cent a year later, improving the company's competitive position.

In diversification towards new business:

- Consolidation of the Express Truck for the transportation of the radioactive material and other toxic wastes.
- Beginning of activities of the security company ENUSEGUR.
- First results of the commercial activity of Ionmed Esterilización in medical products and the achievement of the quality certificate ISO 9002.
- Beginning of the activity of the industrial plant of SHS Cerámicas in Ciudad Rodrigo and commercial presentation of the first products.
- Beginning of service of the main units of Molypharma's radiopharmacy in Alcobendas and in Aldaya, the securing of the first contracts for the supply of radiopharmaceutic products in monodosis and advances in the building of the PET facilities in Barcelona, Seville and Madrid.
- Advances made in R & D and the environment programs.

### **Air transport.**

#### **IBERIA Group**

As the most important fact during the exercise, the approval and beginning of the application of the new Master Plan 2000-2003, mainly directed to the company's consolidation in the marketplace and the improvement of its

operating profitability and financial indexes, creating in this way value for the shareholder through the following:

- Profitable growth of the air transport business, strengthening its leading position in the main markets.
- Improvement of the product offered and strengthening of the business segment.
- Development of the VIVA TOURS as a tool for improving the occupancy rate.
- Development of alliances and taking advantage of the new technologies.
- Optimization of the productivity of the resources.

From the supply side, IBERIA Group fostered its European and long-haul routes through the increase of their frequency to the main destinations (daily non-stop flight to the most important Latino American and European capitals), in order to cope with the increase of the number of passengers in the traffics with Europe, long-haul and in the domestic market, improving in this way its competitive position in Europe (share of 34.5 per cent) and keeping its leading position in the domestic market (share of 70.4 per cent) and in the intercontinental routes (share of 15.1 per cent in traffic Europe-Latin America, where it is the market leader and of 44.5 per cent in traffic between Spain and Latin America).

With regard to alliances, it kept developing the commercial agreements with British Airways (shared coded flights in up to 30 routes between Spain and the United Kingdom) and American Airlines, which allow Iberia to have a better access to the markets.

On the other hand, the Company continued with its fleet renovation and the withdrawing old planes, with the definition of a new management model by business units.

Equally, during the fiscal year the implantation of the electronic ticket experienced big advances, as well as the actions regarding the e-commerce.

Within the privatization process, during March 2000 took place the effective entry in Iberia's equity of the industrial partners, British Airways and American Airlines (9 and 1 per cent, respectively), as well as of the Spanish institutional investors (Caja Madrid with 10 per cent, BBVA with 7.5 per cent, Logista with 6.7 per cent, and El Corte Inglés and ACF with 3 per cent each). The remainder of the equity in the hands of SEPI was disposed of in April 2001 through an IPO, with the exception of 5.39 per cent (green-shoe) which still is in the hands of SEPI.

## **Wood pulp**

### **ENCE Group**

In the ENCE Group several actions were developed in order to reinforce its wood area, as well as for consolidating and expanding its wood pulp business and widening its wood transformation activities. It is worthwhile to single out the following activities:

On December came into stream the energy project CENER, for which were formalized the contracts for the sale of the electricity with Sevillana and the buy of gas. ENCE bought to the Grupo ENDESA 40 per cent of the shares which the latter had in CENER.

- With regard to the development and management of the new projects and companies, the following advances were recorded:
- Awarding of the works of the Logistic Terminal of Bopicuá (Uruguay).
- In eucalyptus in Pontevedra everything was in place for beginning the production of plywood tables on February 2001.
- On July, SEPI approved the project for adhesive in Navia.
- With regard to the corporate organization, Ibersilva Servicios and NORFOR Maderas were incorporated. Tecform and Iberflorestal became to be owned in their totality by Ibersilva and by NORFOR respectively, and took place the capital increase in Eurofores for the acquisition of ENCEs' share in Las Pléyades.
- With regard to the capital increase in Navia (CEASA) SEPI approved it in May, and it will entail an increment of 34 per cent of its capacity up to the level of production of 295 kt per year.

Regarding the commercial establishment, the commercial network of Ibersilva Servicios has been completed, Eurofores has achieved the letter of exporter and Mandayt (Las Pléyades) will commercialize the wood outside Uruguay. Besides, Tecform's delegation in Uruguay has been established.

The Company's privatization took place in 2001, with its listing in the stock exchange (institutional IPO) of a 26.01 per cent stake and the acquisition of another 12 per cent (less one share) by Corporación Caixa Galicia, Banco Zaragozano (6.5 per cent) and Hispamarket (6.5 per cent).

## **Capital goods**

### **BWE Group**

The BWE Group was during the last fiscal years in a weak position with regard to the key factors for competing in the sector; size, technology and financial capacity. To correct this situation, SEPI raised the possible

privatization of the company through its integration into an international group, which resulted in the signing of a private agreement of sale with Babcock Borsig. During that same year 2000 the Consultative Board for Privatizations gave the go ahead, and the privatization was completed in October 2001, after the deal was approved by the European Commission and the Spanish Cabinet.

During the fiscal year the commercial activity intensified. For reason of the volume of contracts it implies for BWE it must be pointed out the project of Bahía de Bizkaia achieved through a temporal union of companies in which BWE participates with 40 per cent for the building of power plant of combined cycle. In the international market it must be pointed out the single contract for the supply of electromechanical equipment for the hydroelectric power station Huanchor in Peru.

With regard to the Groups' shareholding reorganization, the most significant actions were the acquisition by BWE to EARSA of its stakes in ETM (50 per cent), BVP (47.4 per cent) and Isotrón (20 per cent) and the sale of the stake in Talleres del Zuya.

## **ENSA Group**

In the ENSA Group, within the area of nuclear components it is necessary to point out the successful supply of six steam generators for Farley's nuclear power station, two for Arkansas number one (both in the US) and two generators for Qinshan (China), with a fabrication time which has set new world records for this kind of product and a high degree of quality recognized for the very demanding American market.

The participated ENWESA Operaciones kept its position in the fields of nuclear maintenance and conventional with the performance of works in the Spanish nuclear power stations of Ascó I, Trillo, Almaráz, Vandellós II, Cofrentes and José Cabrera, and grew, in answer to the market demands, in the field of electrical assembly and in that referred to the renewable energies. It is also worthwhile to point out to the continuity of the works abroad together with Westinghouse Technology Services.

During the year 2000 were passed the maintenance auditories ISO-9001 made by Lloyd's Register Quality Assurance.

## **IMENOSA**

During the year 2000, it was prepared a Plan for the future which consisted of the integration of some assets, portfolio and customers in IZAR Turbinas. In October, SEPI's Board of Directors approved this deal.

## **Shipbuilding**

### **IZAR**

In an environment characterized by the pressure exercised over the commercial market (dumping by South Korea and suppression of state aid imposed by the European Commission) and restrictions in the budgets for defense, SEPI took the decision of setting-up a big group for shipbuilding, whose main goal is to become profitable as soon as possible. With effects from July 1<sup>st</sup>, 2000, Bazán bought to SEPI and to AESA the shares they had in the shipyards which made up the DCN, and subsequently changed the corporate name of Bazán for that of IZAR Construcciones Navales, S.A. The operation was approved by the Cabinet on July 21<sup>st</sup>, and was registered on September 30<sup>th</sup>.

With the merger it is intended to achieve in the short-term operative synergies centered in the exploitation together of the technological capabilities, of the technical and human resources and to take advantage of the size of the new company. In the medium-term it is foreseen to achieve savings mainly as a result of the shipyards' specialization both in current products as in the new model of ships, of the possible reorganization of some services and facilities, and of the aspects of the technological innovation associated with a new commercial orientation.

The new contracts during the year amounted to 2,748,861.06 euros (457,372 million pesetas), of which 1,582,897.56 euros (263,372 million pesetas) correspond to military products and 1,165,963,482.50 euros (194,000 million pesetas) to commercial products. Within the first group it must be singled out the contract for the building of five frigates for Norway, the beginning of the program Mine-hunter II (two units), the fourth great maintenance works for the submarine S-63 and six units of the firing guidance system Skydor. In the second, to point out the award of seven ships (3 of type LNG for Repsol, 3 dredgers and a Ropax) and the transformation of an oil-tanker in Cádiz.

## **Defense**

### **GRUPO SANTA BÁRBARA**

For the Grupo ENSB the fiscal year 2001 entailed the achievement of the agreement with General Dynamics for its privatization, which includes Santa Bárbara itself and SBB, beginning also negotiations with Krauss-Maffei Wegmann for closing a protection agreement of the Leopard technology, agreement which was reached in March 2001.

ENSB's order book at December 31<sup>st</sup>, 2000 amounted to 352,734,004.06 euros (58,690 million pesetas), of which 288,206,603.92 euros (47,288 million pesetas) were orders to SBB for the programs Leopard and Pizarro.

The latter order book amounted to 1,829,402,714.17 euros (304,387 million pesetas), of which 1,646,094,022.33 euros (273,887 million pesetas) corresponded to the program Leopard and 148,462,010.02 euros (24,702 million pesetas) to the program Pizarro.

## **Mining**

### **HUNOSA**

In HUNOSA continued the execution of the Company Plan 1998-2001, with the fulfillment of the objectives of production and staff reduction.

As for the diversification, SADIM has participated in the incorporation of seven new companies during the year, which is anticipated will promote 187 jobs, once they are working at full capacity.

Other aspects during the fiscal year to be pointed out are the following:

- The inputs for the production of the underground mining have been contained.
- The renovation of the contracts for the sale of coal to the thermal power stations, which will be effective until the year 2003, and of the contract for the sale of energy, which will be effective until 2005.

## **Financial services and other business**

### **Grupo MUSINI**

MUSINI kept a solid position in the field of big risks and of life insurance for groups, increasing its global share of the market till reaching the 0.8 per cent (0.7 in 1999).

During the fiscal year 2000 433 new customers signed up into the company, keeping practically all of those which made up the portfolio.

With regard to the updating of the offer to the customers, MUSINI kept developing products tailored to the customers' needs. During the fiscal year were launched the guarantee insurance with Pluralia and the insurance in case of luggage loss with Iberia, which reported important income for premiums.

### **Grupo INFOINVEST**

In the Grupo INFOINVEST continued the recovery and sale of the lands affected by the processes of industrial reorganization undergone by the state-owned companies, as well as the management and sale of excess assets belonging to the SEPI Group.

In May it was incorporated the company of Cantabria, in which besides INFOINVEST, which has a 48 per cent stake, also participate as shareholders the Diputación de Cantabria (48 per cent) and the city council of El Astillero (4 per cent).

## **INISAS**

In INISAS the income generated by premiums (once the transfers to the reinsurance have been deducted) entailed an increase of 5.7 per cent over the previous year.

## **SODIS**

The *Sociedades de Desarrollo Regional* (SODIS) (Companies for regional development) kept their participation in investment projects, as well as supplying support and management services to companies. In general, it was noticed some recovery of the investment initiatives due to the positive economic evolution.

SODICAMAN (the company for the development of Castilla La Mancha) concentrated its activity in the execution of the FEDER/FEOGA programs, securing a new global aid FEDER amounting to 15.5 million euros for the period 2000-2006 for financing projects in which FEDER supplies 70 per cent of the funds and SODICAMAN the remaining 30 per cent.

SODIEX (the company for the development of Extremadura) secured from the European Union a global aid of FEDER funds amounting to 16 million euros for the period 2000-2006 for financing projects in which FEDER supplies 75 per cent of the funds and SODIEX the remaining 25 per cent.

## **INIEXPORT**

INIEXPORT kept looking for new contracts and markets, as well as providing support to the activities of promotion abroad for large companies. It is worthwhile to point out the signing of the agreement with ENDESA Internacional for the participation of the latter in the privatization bid for the thermal power stations in Poland, and with Bazán for the supply, also to Poland, of material for defense, and equally the support activities and the contracts made with INDRA in the foreign markets.

## **ALUMINUM CONVERSION**

During the fiscal year continued the company's privatization process, with the goal of integrating it into an industrial group which provided to it value, which was achieved at the beginning of 2001, when the company was sold to Alucoil, a company belonging to the Grupo Alibérico.

### **3. Privatization program**

During the fiscal year 2000 SEPI kept the application of the privatization program began in 1996, which is applied to the companies whose financial situation has been restored and which have been consolidated, or in some cases, as a way to achieve their consolidation. During the fiscal year the following operations were closed:

- On July 10<sup>th</sup>, 2000 was carried out the IPO of the shares of EADS, The European Aerospace and Defense Company, whose incorporation agreement was signed in Madrid in December 1999 among DASA, Aerospatiale and CASA. After the agreement, 30.8 per cent of EADS' corporate equity is listed in the stock exchange, and SEPI has in the new company a stock interest of 5.54 per cent. With the listing in the stock exchange the effective creation of the company took place, which became the second in the world within the commercial aerospace sector (first in Europe) and the fifth in the defense sector.
- In April it was formalized the sale of the totality of INITEC to the companies Westinghouse Electric Company (WEC), Técnicas Reunidas, S.A. (TR) and to Dragados Industrial (DI). The operation had been structured as a bid, which initially was won by WEC and by TR, with DI coming into the deal later. The new shareholding structure is as follows;
  - 50 per cent Técnicas Reunidas, S.A.
  - 25 per cent Westinghouse Electric Company
  - 25 per cent Dragados Industrial

Also during the fiscal year 2000 important advances were registered in the following deals:

- In February it was signed the agreement for the sale of Babcock Wilcox to Babcock Borsig, achieving later the favorable opinion of the Consultative Board for Privatizations (CCP). After being approved by the European Commission and the Spanish Cabinet, already in 2001, the operation was formalized in October 24<sup>th</sup>, 2001.
- In April it was signed with the American company General Dynamics (GD) the agreement for the sale of Santa Bárbara. Later, in March 2001 the deal received the favorable opinion of the CCP (March 29<sup>th</sup>) and the approbation of the Cabinet to the sale (March 30<sup>th</sup>). Some days before (March 21<sup>st</sup>) an agreement had been reached with Krauss-Maffei Wegemann for the protection of the Leopard technology. The formalization of the sale finally took place in July 25<sup>th</sup>, 2001.

During the first months of 2001 took place the sale of CONVERSIÓN ALUMINIO to the company Alucoil, S.A. which belongs to the Grupo

Alibérico (agreement of SEPI's Board of Directors of February 16<sup>th</sup>). In March it was published the favorable opinion of the CCP, and on the 30<sup>th</sup> of that same month the authorization of the Cabinet. The sale was formalized through a deed before a public notary on April 2<sup>nd</sup>, 2001.

## **Investments**

The aggregated tangible and intangible investment of the Group companies for the fiscal year 2000 amounted to 915,497,698.12 euros (152,326 million pesetas). The distribution by business appears in the following table:

Data:

- Air transport; 720,974,120.42 euros (119,960 million pesetas)
- Shipbuilding; 82,176,385.03 euros (13,673 million pesetas)
- Wood pulp; 51,626,939.77 euros (8,590 million pesetas)
- Mining; 27,081,605.42 euros (3,647 million pesetas)
- Defense; 21,918,911.45 euros (3,647 million pesetas)
- Capital goods; 5,156,683.86 euros (858 million pesetas)

Preferentially, all this investment was destined to improving the companies' competitive position and to the renewal of the facilities and equipment.

The financial investment amounted to 519,623,045.21 euros (86,458 million pesetas).

## **5. Innovation and technology**

As in the last few years, SEPI continued applying a technological strategy based on innovation and development as the base for the corporate consolidation for each of its companies. The resources applied to R+D have contributed to strengthening the cost reduction policies and quality improvement, and have favored the development of new processes and products. Besides, SEPI continued to promote in the companies their environmental compliance.

As an indicator of the importance given by the SEPI Group to the technology it must be noted that the expenses in R+D in the fiscal year 2000 reached the amount of 119,042,467.52 euros (19,807 million pesetas), which represented 1.5 per cent of the Group's aggregated sales in Spain for this concept. The distribution by business appears in the following table:

- Shipbuilding; 94,040,363.97 euros (15,647 million pesetas)
- Defense; 18,012,323.77 euros (2,997 million pesetas)
- Wood pulp; 3,095,212.34 euros (515 million pesetas)
- Nuclear fuels; 3,023,090.89 euros (503 million pesetas)
- Capital goods; 871,467.55 euros (145 million pesetas)

- **Important events in the companies:**

- \* ENUSA continued working on several projects related with its dedication to design, making and inspection of fuel items for nuclear power stations.

- \* ENCE continued applying Improvement Plans for the Wood pulp and Forestry; both are part of its Technological Organization and have as their main objective to achieve the improvement of its productive process' costs, quality and environmental behavior.

- \* ENSA continued with the development of the project oriented to the automation of steam generators.

- \* Within the area of civil engineering, during the fiscal year 2000, IZAR oriented its research efforts towards the consolidation of those market areas which have a high technological content and a high added-value. That is why its projects were oriented towards raising the efficacy of all the areas directly involved in the development and building of ships, improving their competitive position so that it can get more and better contracting opportunities.

To that end, IZAR's military shipyards technology keeps being a competitive advantage and in that sense, it continued during the year increasing its already good technological position through joint programs with other international makers for the development of innovative products and for setting-up new productive systems (design stages, building and new materials).

- \* Last but not least, SANTA BÁRBARA (ENSB) oriented during the year its efforts towards those products in which the market is more promising and the innovation made offers the highest competitive advantages. The selectivity in the own developments and the collaboration with qualified foreign technologists are the two criteria which played the main role for determining its technological activities.

- **Main R+D projects in SEPI's companies during the fiscal year 2000**

ENUSA

- Extension of segmented rods.
- Fuels with a high burn.
- MARNA

ENCE Group

- Improvement plan for the wood pulp.
- Plan for forestry improvement.

## BWE Group

- Spanish program for fuel cells.
- Ceramic filters.

## ENSA Group

- AUS/LGE
- Brite-Euram III (fatigue)

## IZAR

- Standardization and modularization
- Improvement of the dimensional precision
- Cruisers
- Products with a high added-value
- Frigate F-100
- Submarine Scorpene
- Development of firing guided systems

## SANTA BÁRBARA Group

- Howitzer 155/52 for coast artillery
- Grenade launcher's modernization
- Reactive armor