



Corporate  
Responsibility Report  
2005

PREMIOS  
PRÍNCIPE FELIPE  
A LA  
EXCELENCIA  
EMPRESARIAL





Corporate  
Responsibility Report  
2005

Red Eléctrica de España



*This report has been reviewed by the Fundación del Español Urgente (Fundéu)*

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## corporate statement

*Corporate responsibility is a rather new concept that has come into the business world to stay. It is a conquest of citizens at large that not only demand businesses to be profitable but, also, accountable to society for their actions. This is why they must own up to their social responsibility carrying out environmental and social scope programmes that reach beyond what the law provides for. In short, businesses have to move even further in whatever is aimed to develop people and society at large.*



*For Red Eléctrica, that held its 20<sup>th</sup> anniversary in 2005, this concept is not so new. Our Utility was the first in the electricity industry that in 1992 enacted an Environmental Practices Code. For we keep going forward, since over and above any statements, we strive to get to the bottom of facts. Facts that we can measure and benchmark. Reason why this report, the fourth in a row that we publish, has been drafted and checked against the requirements stated in the 2002 Guide of the Global Reporting Initiative (GRI). In our view, it shows a balanced and reasonable description of the financial, social and environmental performance of our Utility. Moreover, the report has been checked for the second consecutive year against the AA1000 assurance standard. The consolidated stand achieved by this report implies that we have available a communication tool to inform about Red Electrica's commitments in the social responsibility area.*

*During 2005, the model for corporate responsibility, management, applied by Red Eléctrica, has been consolidated both in the Operating Working Party and the Executive Commission, which has led the Corporate Responsibility (CR) efforts in our Utility.*

*Efforts that enclose drawing up an Ethics Code, which we hope can be implemented in the Utility during 2006, for it has required hours of thoughtful consideration during 2005. This project is deemed of extreme significance for the corporate responsibility policy to be accomplished facts rather than statements in the Utility operations. In this connection, the corporate responsibility Rule-Book is a reality that is increasingly present throughout our actions.*

*As for Corporate Governance, transparency has been increased and the ways and means to engage in the General Meeting of Shareholders improved. For instance, the Directors individual*

remuneration is information now accessible. The more forward – looking recommendations and criteria stated in good governance codes are applied here. Concerning actions that allow for easier involvement of shareholders in corporate decision-making, the electronic balloting procedures used last year will be improved and available at the 2005 General Meeting of Shareholders.

As shown in the Financial Annual Report, the year's financial results have been significant and make us feel proud for achieving them. Sustainable value has been generated and a 19.6% profits growth scored, while, at the same time, we have increased two fold the investment rate of the last few years. For keeping up with our main commitment, which is meeting the electricity demand, 420 million euros have been invested this year to improve and enlarge the transmission grid. This ensures that during the next few years we will be able to meet the demand increase, which is rather larger than that in neighbouring countries. We will be able, as well, to meet the new transport infrastructure demands and, more specifically, that of the high-speed railway lines. Additionally transmission of the new generation sources output, basically, from wind farms and gas combined cycle plants will be feasible, too, and, finally, our international interconnections with Morocco, through a project to double the interconnection link, and that with Portugal and France will be enlarged.

As the mentioned projects are implemented, wealth is indirectly generated, too, and, at the same time, we cooperate to Spain's scientific and technical development. During 2005, euros 2.95 million have been invested in R+D+i or 30% over the of 2004 amount.

In the relations with our employees area, besides the mentioned Ethics Code, we provide stable quality jobs and, more to the point, 109 new employees have been hired by the parent company. Our 2.36% staff turnover rate is, also, one of the lowest shown by businesses within our context. The number of women hired is progressively growing and, in 2005, represents 22% of the payroll, almost one point over that of 2004, and quite above the electricity industry average. But, by now means, this is the end, for we are bent on improving continuously and cannot think that everything is just perfect.

As concerns relations with our stakeholders groups, the visits paid to our Main Office by the Industry Commissions members of the House of Representatives and the Senate as well as those of the Autonomous Parliaments of Asturias, Andalucía, Cantabria, País Vasco and

Valencia are worth a special mention. This programme will be continued with representatives from other Autonomous Communities and, in any event, it is intended to establish a fluent dialogue with members of legislative bodies for them to know first hand what Red Eléctrica is doing and its social significance for citizens who are increasingly electricity-dependent.

In the communications area, Red Eléctrica engagement in Internet, which is today at the leading edge continues to grow steadily. Our Utility's web has been improved and, besides other new developments, offers now a specific section on corporate responsibility where any information that might be of interest in this area will be reported.

The programmes aimed to achieve social consensus for our projects have been also strengthened. This is a tool that helps us to ensure that the territorial implementation of our works is more broadly accepted and, to such purpose, work groups, made up by members of the different public agencies affected as well as social groups and whoever is related somehow to our facilities, have been established. Programmes are drafted jointly with those groups that take into account the effects of the works, explain why the project is required and the steps to mitigate, correct offset the project's effects are proposed and carried out under the work group supervision.

This tool has been helpful for actually implementing, besides other, the so-called Remo Project for a second Spain-Morocco interconnection circuit (to reinforce electricity supply in the Western Mediterranean area). The project's positive Environmental Impact Statement was published in 2005, and enabled starting the works that enclosed laying one of the three conductors for the connection and implementing the offsetting steps defined during the project's drafting phase. Most likely, the interconnection will be commissioned before summer 2006.

As concerns the environment protection actions, it must be pointed out that, during 2005, our Utility has carried out an environmental review of all the new assets purchased and assigned to maintenance operations during this year. The mentioned assets total 4,412 km of lines and 344 busbar connections at substations. The actions that must be performed to retrofit those assets for achieving the maintenance and quality levels that we deem standard in Red Eléctrica and how they are integrated in the environmental management and safety on the job systems of the Utility has been defined, too.



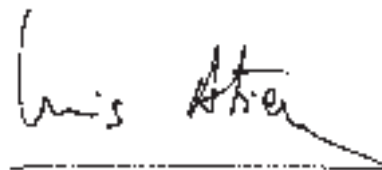
As pointed out first in this letter, the new corporate responsibility demands have found Red Eléctrica ready to meet them since a large share of the actions required are common practices in the Utility and have become almost its identity mark. In fact, the EFQM Excellence Level has been retained, again, this year, since over 500 points have been scored by the mentioned analysis.

Based on the described developments, Red Eléctrica has been ranked, too, in the Dow Jones STOXX Sustainability Indexes (DJSI), the European listing of businesses committed to sustainability. The Utility is, therefore, part of the 20% of electricity utilities best rated for their corporate responsibility record.

The continuous search for excellence in management and its constant striving for improvement have been, possibly, the reason why the Utility has earned the Príncipe Felipe Award to Excellence, in the Industrial Quality version, a reward that was handed over by Prince Felipe and makes us feel specially proud. Quite likely, this idea of excellence that our Utility displays and conveys to observers has somehow prompted the 14<sup>th</sup> December visit to Red Eléctrica by King Don Juan Carlos I on the occasion of its 20<sup>th</sup> Anniversary.

This is, therefore, but a brief description of a year that, from the Corporate Responsibility standpoint, can be termed as rather significant. There is no turning back in this road for the commitments of our Utility in this area, as it has been shown once and again, a trifling matter. We are seriously committed to Corporate Responsibility as something that is an integral part of our identity. I hope, sincerely, the following pages will show specific details of what we have done in this field, but and more specially it is proof of our decision to go forward, since, regardless of how well we have performed so far, we know we can still do better.

Luis Atienza Serna  
Red Eléctrica de España, President and CEO

A handwritten signature in black ink, reading "Luis Atienza". The signature is written in a cursive style and is positioned above a solid horizontal line.



# our company

*“The energy industry and, more specifically, the electricity sector, are increasingly relevant for the countries’ economic development and quality of life. It is within our reach to ensure that this development factor continues to multiply the people’s well-being through a sustainable development since, as time goes by, I am increasingly convinced that development has to be sustainable or it won’t deserve its name”.*

Luis Atienza Serna

# Red Eléctrica

## aims serving society as a whole

Red Eléctrica is a key requirement for our Country's economic development and social well-being. The Utility is aimed to ensure the overall operation of the Spanish Electricity System through two essential processes: the system operation and high voltage electricity transmission.

### Twenty years building the future

Red Eléctrica was established the 29<sup>th</sup> of January 1985, as provided for in Law 49/1984 of 26<sup>th</sup> December. This Law established the unified operation of the National Electricity System through Government-owned high voltage grids as a public service to be managed by a public company.

Law 54/1997 on the Electricity Industry, which encloses the legal provisions of the European Directive 96/92/CE, was a significant step forward to deregulate the electricity industry since it established a free competitive market. The role of Red Eléctrica, as a key component of the Spanish Electricity System operation, is confirmed by the Law, since the Utility is assigned the system operator, transmission grid manager and main carrier functions for the System.

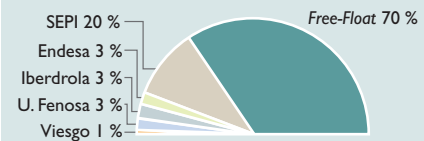
In 1999, the Utility was privatised and experienced a rather significant change in its shareholders makeup and company structure. Red Eléctrica is currently quoted in the four Spanish Stock Exchanges and its free-float share capital stands at 70%.

### An international reference model

Red Eléctrica was the first utility set-up worldwide to engage exclusively in electricity systems and transmission operation. Its excellence-based management model is aimed to meet the requirements and expectations of the different stakeholders groups, increase the rendered service quality and contribute value to the social context. For the mentioned reasons, Red Eléctrica is acknowledged today throughout the world as an efficient utility that renders safe and reliable services to both the electricity industry and society at large.

#### Shareholders structure

31<sup>st</sup> December 2005



### Group Data -2.8-

Main consolidated results (€ millions)	IFRS Data**				
	2001	2002*	2003*	2004	2005*
Turnover	381.0	459.9	686.7	738.8	860.2
Gross operating profit (EBITDA)	254.2	276.4	439.8	496.4	591.1
Profit after taxes	91.1	99.9	115.8	135.8	162.4
Cash-flow after taxes	195.0	224.7	320.9	350.7	429.6
Net financial debt	390.7	1,507.7	1,914.3	1,845.8	2,791.1
Company's own funds	776.1	809.3	849.1	876.2	962.9
Total assets	1,691.9	2,950.2	3,399.9	3,477.1	4,657.3
Investments	244.8	1,158.7	780.3	274.6	755.5
Number of employees	1,009	1,168	1,280	1,286	1,401

Long-term financial ratings	2001	2002	2003	2004	2005
Moody's	Aa3	A2	A2	A2	A2
Standard & Poors	AA-	AA-	AA-	AA-	AA-

Corporate responsibility Ratings	2004	2005
Dow Jones Stoxx Sustainability Indexes (global evaluation)	57	72

### Certificates -3.20-

Quality: ISO 9001	First utility in the energy sector to be awarded
Environment: ISO 14001	certificates that encompass all the Group's operations
Health and Safety on the job: OHSAS 18001	

### Data of the electricity business in Spain

Red Eléctrica de España***	2001	2002*	2003*	2004	2005*
Adjusted turnover (€ millions)	383.1	458.5	670.3	851.0	743.4
Investments (€ millions)	244.8	1,158.7	776.4	267.3	748.3
Electricity transmission lines (circuit in km)	19,240	27,001	27,550	27,836	33,096
Substations (busbar connections)	719	1,740	1,893	1,935	2,746
Transforming capacity (MVA)	20,276	27,516	32,166	36,153	55,222
Fibre optics network (cable in km)	8,500	10,000	13,000	13,400	14,300
Number of employees	918	936	1,031	1,145	1,255

### CR Certificates

SA 8000 certificate	First Spanish energy utility to be awarded this certificate
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### Subsidiaries Data

Red Eléctrica Internacional	2001	2002	2003	2004	2005
Payroll	9	10	12	20	20

TDE (Bolivia)	2001	2002	2003	2004	2005
Turnover (€ millions)	-	22.3	19.0	18.1	19.6
Investments (€ millions)	-	-	2.0	7.3	7.2
Electricity transmission lines (circuit in km)	-	1,946	1,946	1,946	1,962
Substations (busbar connections)	-	19	19	19	20
Number of employees	-	106	113	113	126

\* The effects of the transmission grid purchased from other utilities are displayed by the 2002, 2003 and 2005 data.  
 \*\* In 2004 and 2005, due to the International Financial Reporting Standards (IFRS) implementation, neither the payroll nor the investments in Red Eléctrica Telecomunicaciones (Albura) were enclosed, since it was deemed to be available for selling.  
 \*\*\* INALTA enclosed  
 (-) Data not available

Besides other, electricity is characterized by the fact that it cannot be stored. This is why, when someone needs to use electricity, a generation power plant has to output the energy required to meet that demand. This requires the continuous balancing of electricity generation and demand. Red Eléctrica was set-up to ensure such balance all the year round, 24 hours a day.

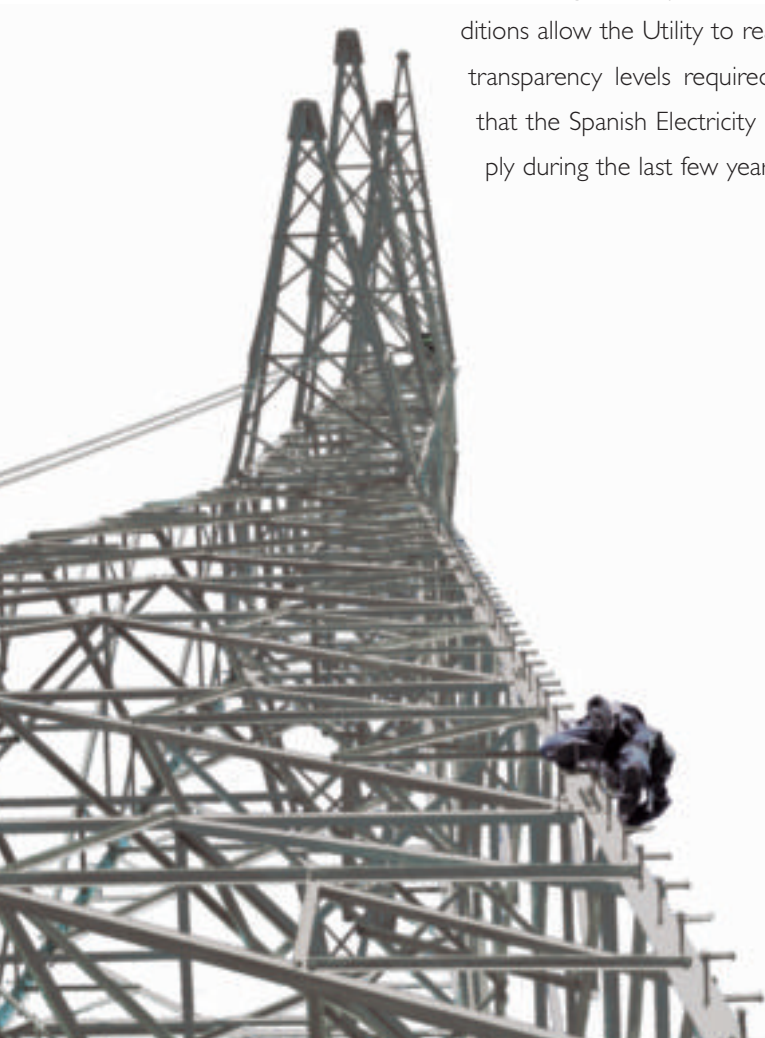
### A consolidated project

In February 2005, Red Eléctrica grid assets were increased through the agreement reached with CVC Capital Partners to purchase a 75% stake in Redalta. A stake that added to the Viesgo assets purchase (2005) and the purchases implemented in 2002 and 2003 have consolidated Red Eléctrica as the single transmission operator in the Spanish Electricity System for it owns 97% of all the Peninsula transmission grid assets.

### A sturdy, reliable and safe grid

Red Eléctrica ensures proper transmission of electricity from generation power plants to the distribution centres through a grid that exceeds 33.000 kilometres of electricity transmission lines laid throughout the Spanish territory and the interconnections to France, Portugal, Morocco and Andorra.

The Utility has available an adequate, reliable and safe transmission grid thanks to its management systems and highly qualified staff. These conditions allow the Utility to reach the responsibility, efficiency and transparency levels required to match the growing demands that the Spanish Electricity System has been expected to supply during the last few years.



## Commitment to sustainable development

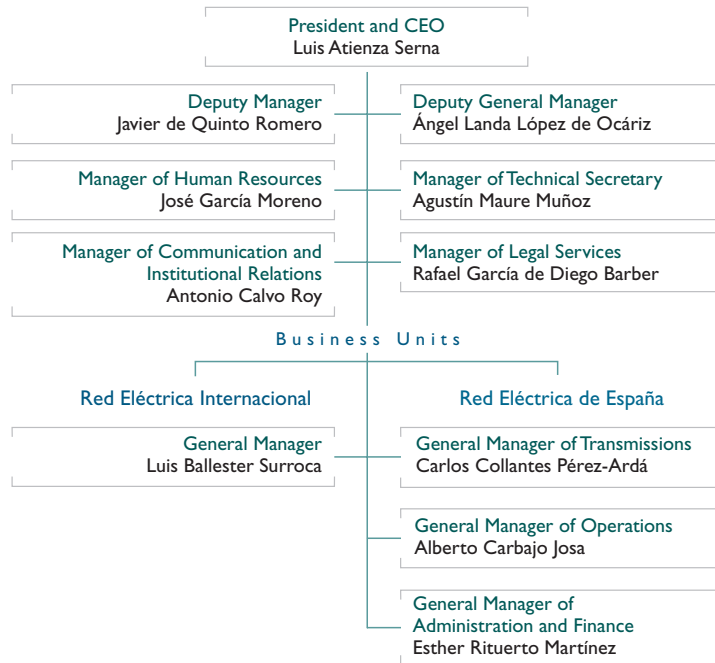
The contribution to sustainable development is one of Red Elctrica's daily operations guidelines. Since its inception twenty years ago, the Utility has clearly understood its responsibility to society, striving for excellence in its actions, generating wealth on a sustainable and environment-friendly way, while the health and safety on the job and professional development of its employees was assured.



Commitment that, in 2005, prompted the Utility inclusion in the *Dow Jones STOXX Sustainability Index* (DJSI). This distinction ranks Red Elctrica with the 9 best-rated European utilities from a corporate responsibility standpoint. -SO4-

In 2005, Red Elctrica was granted for all the operations and work centres of the parent company the SA8000 certificate. This acknowledgement, granted by the *Social Responsibility International*, ranks the Utility with the leading Spanish companies that have received this award and it is, also, the only one so rewarded in the energy sector worldwide. -3.20-

## Red Elctrica Organisation Chart (31.12.2005) -2.3-



# Red Eléctrica operations

## Main operations -2.1, 2.4, 2.5, 2.7, EC2-

### Operator of the Spanish Electricity System

Safety and continuity of the electricity supply and the permanent and instantaneous balance of energy generation and demand are ensured by Red Eléctrica. To such purpose, electricity consumption forecasts and the generation and electricity transmission facilities operation are supervised continuously on real time to ensure that power plants scheduled generation is constantly matched to the actual electricity demand from end users.

### Carrier and transmission grid manager

Red Eléctrica is charged with the high voltage electricity grid development and enlargement, as well as its maintenance and improvement according to homogeneous and coherent criteria. It has to operate, as well, electricity transmission between the Spanish electricity system and systems abroad. The Utility ensures, as well, third parties access to the grid by each industry sector agent and on an equal footing.

These operations are Red Eléctrica Group main business and, in 2005, reached 92% of the consolidated income.

### Other operations

Based on the experience built up on the national scope, the Utility started, in 1999, developing other business areas to take advantage of its technological know-how and financial resources and experience. In 2000, a subsidiary, Red Eléctrica Telecomunicaciones, was established to render telecommunication services and, in 2001, Red Eléctrica Internacional, a subsidiary was set-up to channel international investments in electricity transmission infrastructures. Consulting and technical assistance are rendered to foreign clients projects by this subsidiary.



*Red Eléctrica is committed to ensure Spain's electricity system overall operation through two essential actions that enclose: the electricity system operation and high voltage power transmission*



## International investment

International expansion is mainly focused in geographical areas where high growth rates electricity demand are expected during the next few years, such as Latin America, Eastern Europe and the Mediterranean Basin countries.

Investment in electricity transmission grids abroad started in 1999, when the utility, **Red Eléctrica del Sur, S.A.** (REDESUR) ([www.redesur.com.pe](http://www.redesur.com.pe)), where Red Eléctrica owns a 30% stake, was established in Peru. Circuits that total 530 km, at 220 kV, and four substations that show a 16% market share are operated currently by REDESUR.

The Bolivian utility, Transportadora de Electricidad, S.A., (TDE) ([www.tde.com.bo](http://www.tde.com.bo)) was purchased in 2002. TDE owns and operates the National Interconnected System (SIN) that supplies 85% of the Bolivian market needs. Transmission of energy from generation plants to distributors is implemented by the Utility that has been granted an indefinite term license and operates 2.000 km of high voltage lines, 20 substations and one electric power control centre.

**Consulting services** are aimed to render technical advice and highly specialised services in areas where the Red Eléctrica Group has a competitive advantage and references. Operations are carried out mainly in North Africa, Eastern Europe and South American countries.

## Telecommunications business divestiture

The Utility resolved to sell, in June 2005, the complete share capital of its subsidiary, Red Eléctrica Telecomunicaciones, once a decision was reached to change the strategy and target efforts on its main business as operator of the electricity transmission system. T-Online International for Euros 61.5 million. As part of the sale transaction, an agreement was signed by both Utilities, whereby Red Eléctrica assigns to the German Company, for an eleven-year term the partial use of its fiber optics infrastructure system. An annual rental of Euros five million, which will be updated according to the Consumer Prices Index, will be paid by German utility.



# entrepreneurial excellence

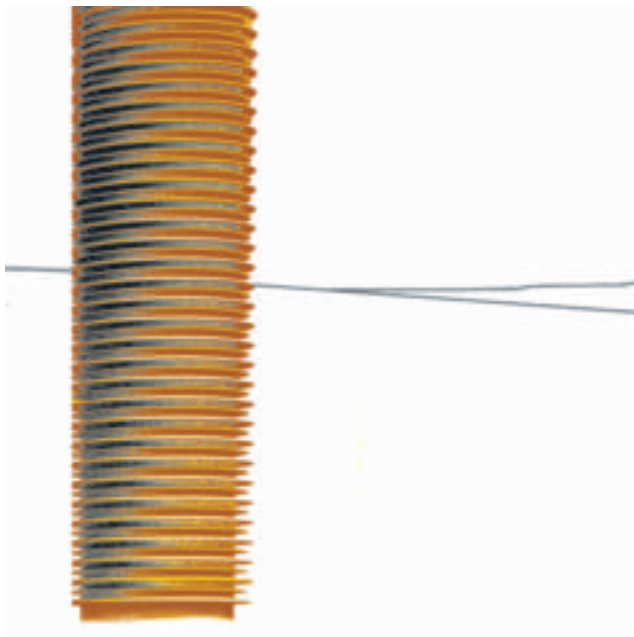
The Príncipe Felipe Award to Entrepreneurial Excellence, in its Industrial Quality version that Red Eléctrica received in 2005 is a fitting acknowledgement of the efforts for over five years to search for excellence in management. This is the most coveted award to entrepreneurial excellence granted in Spain and has completed already its 10<sup>th</sup> edition.

Red Eléctrica has again renewed this year the Excellence Level (+ 500 points) award that the Club de Excelencia en Gestión grants on behalf of the European Foundation for Quality Management (EFQM), as the latter representative in Spain. The Utility was granted for the first time, in 2003, this award that ranks highest in the European Excellence rewards range and was the only electric industry utility in Spain that received the award.

As established in its quality corporate policy, the quality management systems implemented by Red Eléctrica throughout its business units as well as by the processes, products and services are certified based on international standards. In 2005, the off-the-Peninsula electricity systems operations (Canary and Balearic Islands, Ceuta and Melilla) have been enclosed in the triple certificate for quality, environment and health and safety on the job. -SO4-



*The Príncipe Felipe Award to Excellence acknowledges five years of management focused on excellence*







# corporate governance

*“We aim to stay in the forefront by voluntarily implementing the best corporate governance practices in the listed utilities. Transparency has been increased and the processes for active engagement in the General Meeting of Shareholders improved”*

# the organisation governance structure -3.1-

From its start, the will to implement the best possible corporate governance practices has been a firm, determined and priority decision of Red Eléctrica, not only by literally meeting the more common national and international recommendations and legal provisions in this area, but, also, implementing voluntarily a number of steps and procedures aimed to the core of the more significant questions which are a rightful source of concern for any listed company shareholders.

Since 1999, when the Utility was first quoted in the Stock Exchanges, a number of steps related to Corporate Governance have been implemented to achieve increased effectiveness, transparency, independence, representation, safety and quality of the Utility's governing bodies operations. These efforts have propped Red Eléctrica in the leading edge of Corporate Governance practices.

*This chapter summarizes the Annual Corporate Governance Report drafted by the Utility that shows in full detail its ownership and management structure, duties to be discharged by the Board of Directors members and, generally speaking, any issues that shareholders, investors and the market at large may deem relevant to know better the Utility. All information related to this area is available in the Utility's web site ([www.ree.es](http://www.ree.es))*

## Governance regulations implemented by the utility

### By laws

Byelaws are continuously updated to match the best practices and, for such purpose, have been modified in 2003, 2004 and 2005 by the Annual General Meeting of Shareholders.

### Board of Director' regulations

Its main aim is to establish the basic organization and operation rules, its members practice regulations and the Board of Directors control and supervision system, to ensure its best possible professional and effective operation. The regulations have been notified to the Securities and Investments Commission (CNMV) and filed in the Trade and Companies Register.

### General Meeting of Shareholders regulations

The regulations passed by the General Meeting of Shareholders state the core principles of the shareholders byelaws that meet the companies best possible corporate governance practices. All new procedures for shareholders protection and active engagement are also enclosed. This is intended to best acknowledge their rights in the Utility and the search for the social vested interests protection as the ultimate reason for the social dynamics practice. The regulations have been notified to the Securities and Investments Board (CNMV) and filed in the Trade and Companies Register.

### Code of Conduct for Securities Markets

All questions related to relevant facts and the Utility insider information are regulated by this document. The requirements to be met by the Utility's management members are also shown. These regulations have been notified to the Securities and Investments Board (CNMV).

### Independent Directors By laws

The principles for the election of Independent Directors are established as well as the detailed rules and requirements to be met and incompatibilities, if any. These byelaws are aimed to strengthen the Director's role and protect minority stockholders. The byelaws were voluntarily drafted by the Utility and notified to the Securities and Investments Board (CNMV).

### General Meeting of Shareholders -3.8-

Each and every shareholder is represented by the General Meeting of Shareholders that has been duly called to order and lawfully established. The empowerments and functions of the Utility are enforced by the Board. The resolutions passed as provided for in the Board Regulations and the Corporate Byelaws are binding for all shareholders, notwithstanding the lawful right to exclusion. The General Meeting is empowered to resolve in its capacity as the Utility sovereign body.

The shareholders rights to information, engagement and attendance to meetings have been developed beyond all legal requirements by the Byelaws and the General Meeting of Shareholders Regulations. More specifically, the rights of shareholders to information and attendance to General Meetings have been enlarged to ensure information can be easily requested and secured. Shareholders are not required to own a minimum number of shares to attend Meetings.

The Utility web site contents have been also boosted as a tool for communication with shareholders and investors and to meet the requirements in the ECO/3772/2003 of 26<sup>th</sup> December Order and the 1/2004 Instructions issued by the National Securities and Investments Board (CNMV) on the 17<sup>th</sup> of March.

As concerns the procedures transparency for proxy voting in General Meetings, Article 2 of the General Meeting of Shareholders Regulations provides that in the Utility web site, besides other information, the following shall be mentioned: channels for communication between the utility and shareholders and the required explanations to



enforce the right to information, besides the mail and electronic addresses shareholders can contact as well as the means and procedures to grant a proxy to vote in General Meetings and for absentee remote-balloting using the approved printed forms.

In the 2005 Annual General Meeting of Shareholders it is planned to supply shareholders, as new possibilities, besides the electronic voting system implemented last year, an electronic procedure to grant a proxy for voting, and mail balloting, duplicates issuing and remote request for information.

## Board of Directors

During 2005, two new Independent Directors have been added to the Utility's Board of Directors, who replace the previous Institutional Directors that represented member utilities. This was due to ownership restrictions of the Utility's share capital issuing from the legal requirements. At year's end, the Board consisted of 11 members (7 independent outside Directors – or 63% of the total number; 3 institutional outside Directors, and 1 executive Director) -3.2-. The mentioned membership is properly matched to the present shareholders ownership of the Utility and the Corporate Governance recommendations.

The membership, organization and functions are developed in the Corporate Byelaws (Article 19<sup>th</sup> to 26<sup>th</sup>) and the Board of Directors Regulations dated the 18<sup>th</sup> of November 2003. Both documents are shown in the Utility's web site ([www.ree.es](http://www.ree.es)).

Board of Directors (1)

Name of Director	Position in the Board	Type of Director	Audit and Control Committee	Appointments and Remunerations Committee
Luis Atienza Serna	President and CEO	Executive	-	Member
Juan Gurbindo Gutiérrez (SEPI)	Member	Institutional Director (SEPI)	-	Member
Manuel Alves Torres (SEPI)	Member	Institutional Director (SEPI)	Member	-
Rafael Suñol Trepast (SEPI)	Member	Institutional Director (SEPI)	-	-
Pedro Rivero Torre	Member	Independent	Member	Member
Antonio Garamendi Lecanda	Member	Independent	-	Chair
José Riva Francos	Member	Independent	-	-
José Manuel Serra Peris	Member	Independent	-	-
María de los Ángeles Amador Millán (2)	Member	Independent	-	-
Martín Gallego Málaga (2)	Member	Independent	-	-
Francisco Javier Salas Collantes (2)	Member	Independent	Chair	-

(1) Board of Directors as of 31st December 2005. During this year, Joaquim Clotet i Garriga, Elías Velasco García and José Ignacio Sánchez Galán have resigned their positions as Directors.

(2) Joined the Board in 2005.

In line with the Aldama Report recommendations, both Independent Directors as well as the remaining Directors terms in office are set at four (4) years and can be indefinitely re-elected. The Board Regulations provide, as well, that the dismissal of Institutional outside Directors or Independent ones shall not be proposed before the regular term, for which they have been appointed, is ended, unless due cause is claimed and after the Appointments and Remunerations Committee report is heard. The maximum age for holding a Director position has been set at seventy (70) years.. -3.2-





### Audit Committee -3.6-

The Audit Committee is made up by three members and, throughout 2005, it consisted just of outside directors: one Institutional and two Independent, and one of them acted as Chair. The Committee has to meet at least once quarterly, or as called by the Chair, or requested by two members, and whenever the Board or the President and CEO demand that a report is issued. The Audit Committee has met eight times during 2005.

### Appointments and Remunerations Committee -3.6-

The Appointments and Remunerations Committee consists of four Directors: three outside Directors and an Executive one. Of the outside Directors, two are independent and one of them acted as the Committee Chair. The Committee is meeting as often as required for proper performance of their duties and, in any event, quarterly, when called by the Committee Chair, or if requested by two members, and whenever the Board of Directors or its President and CEO demand that a report is issued or proposals passed. During 2005, the Committee has met ten times.

### Directors' remuneration -3.5-

	By the Parent Utility			By the Group	
	Set amount	Variable	Per diems	Per diems	Total
D. Luis M <sup>a</sup> Atienza Serna	360	256 (4)	82	-	698
D. Pedro Rivero Torre	-	85	107	13	205
D. Juan Gurbindo Gutiérrez (1)	-	85	82	-	167
D. Antonio Garamendi Lecanda	-	85	82	13	180
D. Manuel Alves Torres (1)	-	85	82	-	167
D. José Riva Francos	-	85	57	-	142
D. José Manuel Serra Peris	-	85	57	-	142
D. Rafael Suñol Trepal	-	85	57	-	142
Dña. María de los Ángeles Amador Millán(2)	-	49	26	-	75
D. Francisco Javier Salas Collantes(2)	-	43	37	-	80
D. Martín Gallego Málaga(2)	-	43	26	-	69
D. Joaquim Clotet i Garriga(3)	-	25	25	8	58
D. Elías Velasco García(3)	-	42	30	-	72
D. José Ignacio Sánchez Galán(3)	-	42	30	-	72
<b>Total remuneration earned (€ thousand)</b>	<b>360</b>	<b>1,095</b>	<b>780</b>	<b>34</b>	<b>2,269</b>

(1) Amounts paid to the Sociedad Estatal de Participaciones Industriales (SEPI)

(2) Resigned their position as Directors during 2005

(3) Joined the Board of Directors of the Parent Utility in 2005

(4) The variable remuneration related to its Executive Director position is enclosed

As provided for by the Board regulations, any shares delivered or assigned, options on shares or systems referenced to the share value, if any, which are used to determine the Executive Directors remuneration, as well as the salaries paid in cash or in kind, bonus-

es, pension funds, provisions for compensation payments and other allowances that might be in effect shall be listed broken down and shown in the Report drafted by the Appointments and Remunerations Committee.

The explicit inclusion of the Board of Directors members remunerations, both individually and by items, in the Annual Report of the Utility's Corporate Governance for this year, is specially significant and a rather new approach that applies the most recent national and international recommendations in this area.



### Outside auditors -3.6-

As required by the best practices in this field, the Board Regulations provide that the Utility relations with outsourced auditors must be channelled through the Audit Committee. The Board of Directors shall refrain from hiring auditor firms when the planned fees, on all counts, are ten per cent larger than their total income during the previous year.

The remuneration paid, during 2005, outsourced outside auditors by the Utility and businesses in its Group does not amount to a significant percent of the auditors' firm total income. Additionally, the fees paid for professional services, other than audit ones, that have been paid to businesses directly or indirectly related to the auditors firm are not relevant and will not affect the strategy nor the overall planning of the Utility.



### Risks management -3.3, 3.4, 3.13, 3.16, 3.17-

The Group Risks Policy approved in 2004 is intended to set up the principles and guidelines that ensure any relevant risks that might affect Red Eléctrica Group's targets and operations are identified, analysed, evaluated, managed and controlled. Additionally the mentioned processes are systematically performed based on uniform criteria.

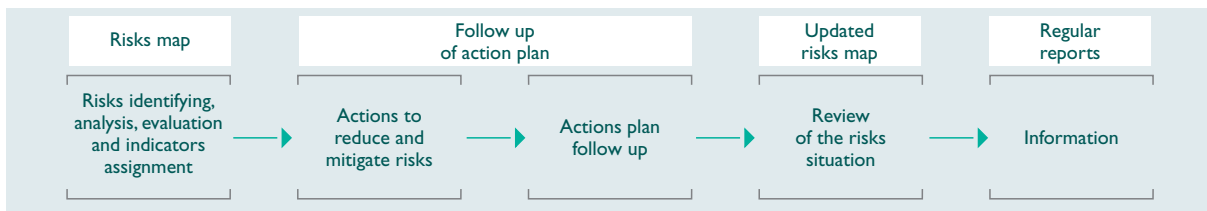
As concerns Red Eléctrica Group, relevant risks are those that can significantly affect the corporate purpose of sustained value generation, on a time basis, or those core functions entrusted to the Utility, whether in Spain or abroad, that will make available to society at large a key supply such as electricity.

The main risks the Group has to face, enclosed in the risks control system, are: a) regulatory risks, since the Group main corporate operations are regulated, b) oper-

ational risks, issuing basically from the operations assigned to the Group in the electricity system and the required care and protection of the natural environment, c) market risks, since most of the income as well as specific expenses can be affected by the trend of variables such as inflation or interest rates, d) business and credits (or counterpart) risks, although to a lesser extent, for the telecommunications subsidiary has been sold.

Both in-house and surrounding area risks, where operations are carried out, are covered by the Risks Control System that encloses all the Group's operations and is matched to its risk profile.

**Diagram of the risks integral management system**



The likelihood of an event happening is taken into account by the risks analysis (through the critical factors that affect whether the risk happens or not; how it is weighted; the Utility situation as regards each critical factor; and the assignment of an overall evaluation of the factors as a whole) and their impact if it comes to happen (based on its effects on the profit and loss account, the social impact or goodwill).

The risk appraisal/evaluation is found by combining the likelihood of it happening with the impact, in the event it happens.

In 2005, relevant risks were not recorded. The actions planned for reducing the risks value to an acceptable level are in progress as provided for in the Risks Control System. The more significant action of those completed was the sale of the telecommunications subsidiary.

Steps to enhance the mentioned system have been continued during 2005 and of them the following must be highlighted: effectiveness indicators have been fitted in to the controls that will mitigate critical processes. Also, a computer-based application that supports the system itself for easier systematic follow up and management has been commissioned.

In the Corporate Responsibility Balanced Scorecard, drafted in 2005, the following key indicators of integral risks management are enclosed:

Risks management indicators	2004	2005	2006 Tarjet
Integrated risks management handled compared to the total identified risks	38.89	57.14	≥ 75 %
Improvement of the weighted mean value of risks compared to 2004	n.a.	0.8343	≤ 1



# corporate responsibility

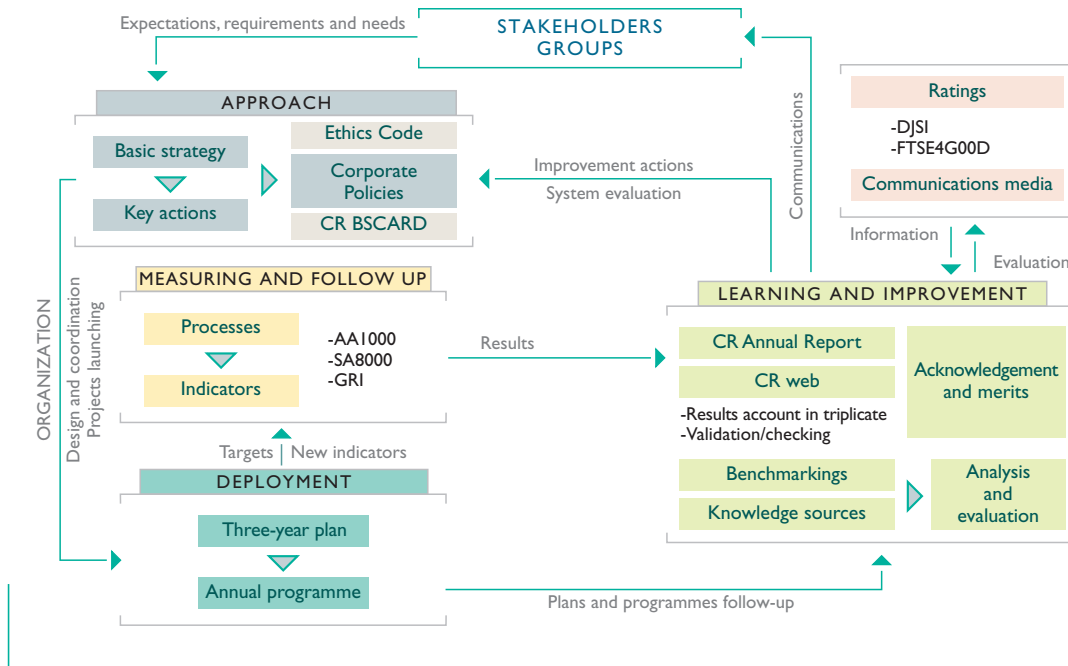
*In 2005, the management model for Corporate Responsibility has moved forward and completed three basic achievements: the Code of Ethics drafting, the Corporate Responsibility Scorecard design, and the extension of satisfaction surveys to enclose all the stakeholders groups.*

# corporate responsibility

The Corporate Responsibility management system has been consolidated in Red Eléctrica, during 2005, as two new management elements have been implemented:

The **Code of Ethics** and the **Corporate Responsibility Balanced Scorecard**, that will be helpful to achieve a more dynamic, improved and strengthened commitment of the Utility to its stakeholders groups and the context where it operates.

Diagram of the management system elements and how they are interrelated -3.19-



## BASIC STRATEGY -I.I-

Excellence in the management of its processes, operations, resources and facilities in line with an accountable management is a strategic element for development and consolidation of Red Eléctrica's corporate project. An accountable commitment in Corporate Government practices, an environment-friendly operation for both in-house and external social actions that ensure special support and respect are paid to human rights leading to a profitable and transparent financial management.

During the mentioned period, the Corporate Responsibility Policy has been reviewed by the Management Committee for inclusion in its principles those arising from Red Eléctrica Group commitment to the Global Compact's principles, the Universal Human Rights Statement, the OECD Guidelines for multinational companies, the Labour Rights Guidelines and conventions issued by the International Labour Organization (ILO) and the SA8000 Standard requirements.

## CORPORATE RESPONSIBILITY PRINCIPLES -I.1, HR1-2, HR4-7, HR10, HR12, SO1, SO2-

- ▶ Promotion of the best possible Corporate Governance practices for management that ensure legislation compliance, transparency, business ethics and proper risks management.
- ▶ Red Eléctrica Group actions are aimed to defend both its viable development and the short, medium and long-term value for all the stakeholders as well as to render services that ensure the Utility's goodwill and reputation.
- ▶ Provide an open communication channel with stakeholders to find what their requirements and expectations are as well as to improve their satisfaction. Implement a reliable reporting that ensures, at all times, maximum transparency and truthful information exchange.
- ▶ Support the development of society at large through the Utility involvement in social, educational, cultural, scientific and general concern projects, while special emphasis is made in those communities where the Group carries out its operations.
- ▶ Approach individual development and satisfaction as an essential element to achieve Red Eléctrica Group's targets. Special attention must be paid to views and practices, non-discriminating practices, the search for equitable conditions (remuneration, work hours, development and evaluation), professional development, safety and health on the job, the surrounding work context, job integration of people and actions that reconcile personal and professional life. Any disciplinary action has to be in line with the current legislation.
- ▶ Enforce basic human rights compliance, the freedom of association to trade unions and the right to collective bargaining; ensure that child labour, forced or compulsory work and any practice that implies an infringement of individual or collective dignity are strictly forbidden.
- ▶ Uphold a firm and preventive commitment to the environment preservation and rational use of resources.
- ▶ Strict compliance of current legislation in the operations areas and countries where Red Eléctrica Group is present, while avoiding any involvement in corrupt practices of any kind, and enclosed blackmailing, racketeering and bribery.

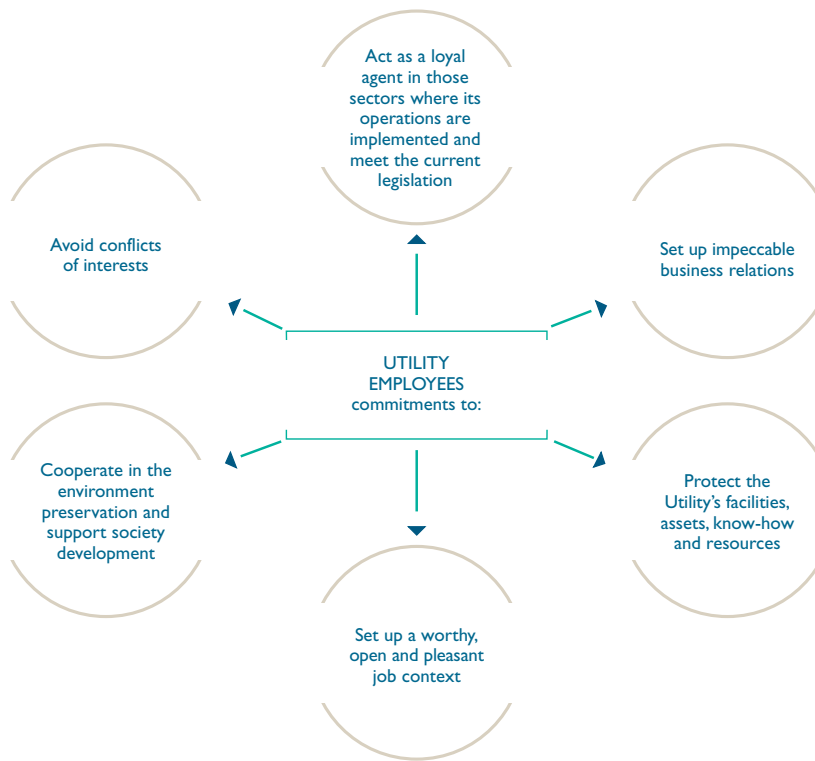
### Ethics Code and Corporate Practice -3.7,HR1, HR2-

This Code, drafted in 2005, shows the practice values, principles and recommendations that must be accepted and applied daily anywhere operations are carried out to ensure an ethical and accountable management of the Utility and its employees. It furthers the Corporate Governance rules and regulations applicable to executives and whoever holds specific positions in Red Eléctrica Group.

The Ethics Code is based in the corporate values, processes and jobs (functions and accountabilities) and shows the Utility's commitment to comply and support human and labour rights. The Practice Code and system for handling possible non-compliances and complaints will be in effect sometime during 2006-second quarter:



## Principles diagram



## The Corporate Responsibility Scorecard

A multidisciplinary work team has drafted the CR Balance Scorecard and pinpointed 22 indicators that allow for the key organisation achievements evaluation in each one of Red Eléctrica Group's Corporate Responsibility areas. Most indicators are shown in the different sections of this Report.

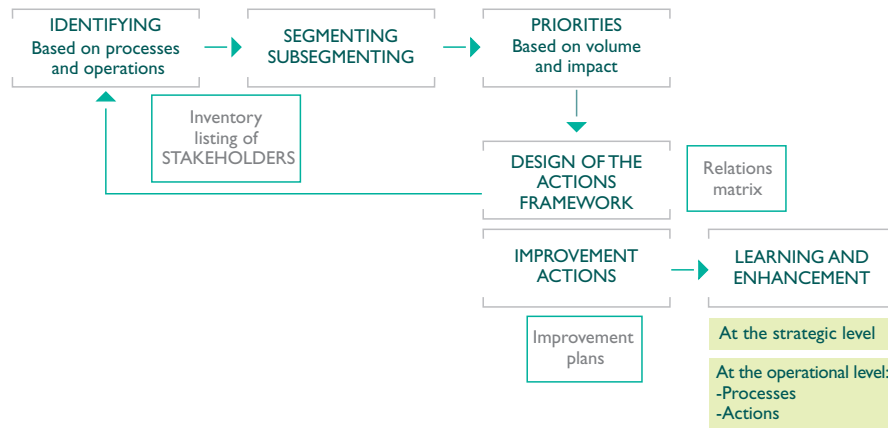
### Stakeholders -2.9-

As concerns Red Eléctrica, its stakeholders are those individuals, organizations, collective groups or institutions, which are deemed to be affected by the resolutions of the Group's companies since those stakeholders involvement is a core requirement for a corporate project success.





Diagram for RE Group management of stakeholders -3.9-



Once the stakeholders are identified, their priority will be established and the relationship framework for each collective group is designed. The mentioned framework encloses the actions, tools or relations channels, their regularity, processing and dissemination. -3.10-

Stakeholders groups/actions	General and current specific information	Information on results	Expectations and requirements detected	Satisfaction measured values	Alliances and covenants	Benchmarking/improved practices	Inquiries and requests	Claims management
Shareholders and investors	P	P	A	A	-	-	P	P
Clients; agents in the sector	P	P	B	B	A	A	P	P
Employees	P	P	A	A	T	-	P	P
Suppliers	P	P	B	B	B	-	P	P
Communications media	P	P	B	B	-	-	P	P
Partners	P	P	-	-	A	-	P	P
Social institutions*	P	P	B	B	A	-	P	P
Markets / Businesses	P	P	-	-	-	A	-	-

\* Municipal governments; agencies and business associations; educational and research centres; green groups; trade unions; property owners; financial analysts; NGO's foundations, and society at large.  
Legend: P: Permanent; A: Annual; B: Two-year; T: three-year

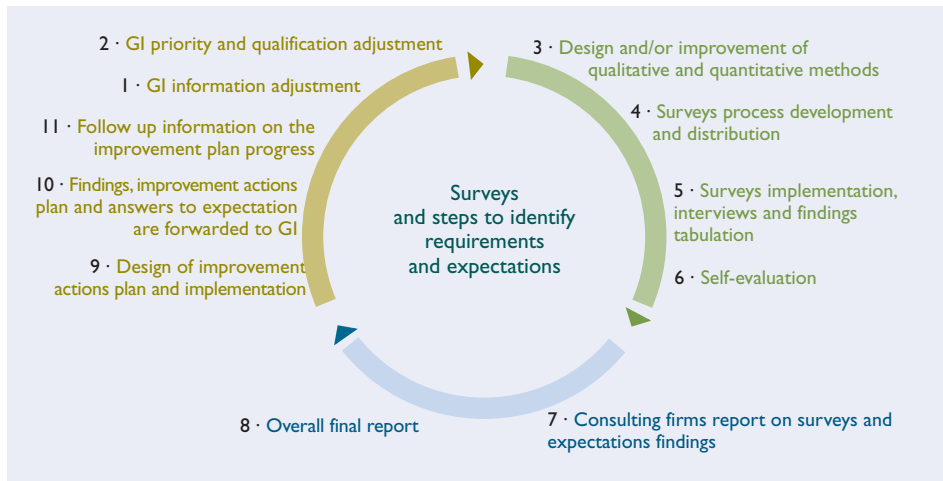


The requirements, expectations and the extent of the stakeholders satisfaction are an integral part of key information required by the utility decision making process.

Direct methods such as meetings, working parties, surveys and focused groups are used to identify those requirements. The information issuing from claims, inquiries, suggestions and requests gathered through different channels is also a core requirement.

Surveys, based on the SERVQUAL/SERPERF model, are implemented to measure the stakeholders' satisfaction. The satisfaction issuing from each of the ten elements that determine a services quality

and that of the products and/or services rendered is measured by the model. The process is shown below:



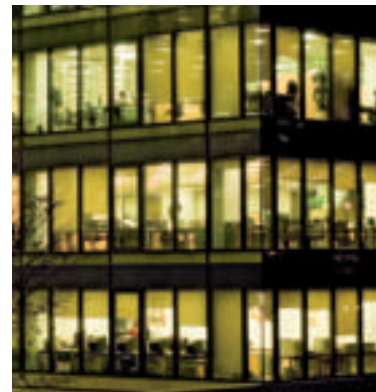
Both findings and the respective action plan are notified to the surveyed subjects, who evaluate the plan in the next analysis process. For more critical cases, the plan is validated by specific focused working parties of the collective in question.

Since 2000, this tool is applied by Red Eléctrica to the usual stakeholders: shareholders; market agents; regulatory agencies, and employees. The studies were extended, in 2005, to the remaining stakeholders: suppliers; universities; agencies and institutions that voice opinions; communications media; non-governmental organizations; trade unions; green groups; municipal governments, and citizens in the areas where the Utility operates.

#### Global findings from satisfaction surveys -PR8-

Satisfaction extent of stakeholders groups		Global value (0 to 10)
Global satisfaction		7.38
Quality elements	Tangible elements	7.77
	Reliability	7.92
	Reaction capability	7.60
	Professional approach	8.48
	Politeness	8.73
	Credibility	8.21
	Safety	7.95
	Accessibility	7.68
	Communication	7.78
	Stakeholders group understanding	

*Weighted mean of all the stakeholders groups evaluation based on a priority level (1 to 3)*



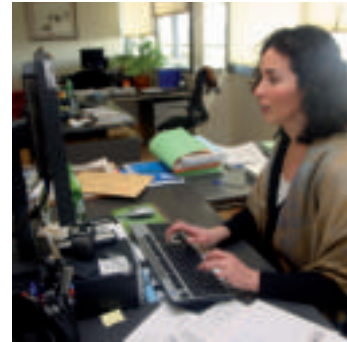
The utility positioning based on the goodwill and reputation appraisal was also measured. A 6.78 over 10 levels was found.

For each of the stakeholders, the global satisfaction level and actions to be implemented are shown in the next table. -3.11, 3.12-

Stakeholders		Satisfaction (0 to 10)	Improvement actions
Shareholders and investors		8.69	<p>Expand the web functions to answer enquiries related to the General Meeting of Shareholders.</p> <p>Improve the electronic voting system in the General Meeting of Shareholders.</p> <p>Transmission of the General Meeting of Shareholders through the web.</p> <p>Implement through internet notices to shareholders service.</p> <p>Add a shareholders dates schedule or agenda to the corporate web.</p>
Sector clients and agents		7.79	<p>Weak points identified in the planning and management of the transmission grid accesses and proposed improvement actions for efficiency enhancement.</p> <p>Rationalize information flows between units for faster processing and shortening the time required to answer agents' access requests.</p> <p>Show in the web the access capabilities available at nodes for easier decision-making by agents on access requests.</p> <p>Standardise and publish questionnaires in the web for processing accesses to the transmission grid, help inquiries and complete access requesting questionnaires.</p> <p>Notify agents about specific messages boxes where inquiries related to information on the electricity market can be forwarded.</p> <p>Review and improve the website content related to operations markets and international exchange programmes management.</p> <p>Notify agents about generation units scheduling based on technical restrictions, expand information about the zone where the restriction solution has been implemented and extend that information, as well, to the intradaily market safety analysis and the real time actions to solve restrictions.</p> <p>Replace the web server of the electricity metering system to improve the answering times and allow for users easier access.</p>
Suppliers		7.94	<p>Develop an action plan to increase the number of quality agreements.</p> <p>Establish formal contact arrangements between Red Eléctrica and critical suppliers groups to exchange information and share mutual requirements and expectations through meetings attended by both sides.</p> <p>Draw up a plan for suppliers' acknowledgement.</p>
Social	Municipal Gov. Governments	6.80	Increase the number of Municipal Governments where Red Eléctrica image is presented.
	Agencies and business associations	8.25	Intensify the actions to disseminate information about the Utility's operations in the CR sphere and enclose d that information required by international standards.
	Educational and research centres	8.25	<p>Implement an educational web channel.</p> <p>Increase the involvement in educational meetings.</p>
	Green groups	4.50	<p>Expand the information available in the corporate web related to environmental impact surveys, and allow for easier submission of inquiries to Red Eléctrica.</p> <p>Sponsor day meetings about actions to offset linear infrastructures effects.</p>
	Trade Unions	5.33	<p>The Utility must meet regularly with trade unions to notify directly management information items (strategy, targets and corporate goals).</p> <p>Study what resources the Utility makes available to trade unions (meeting rooms, equipment, etc.)</p>
	NGOs/Foundations	6.00	Implement a cooperation plan with NGOs on question related to REE policies and programmes.
	Social context of the operations	7.23	Carry out communication drives to inform about Red Eléctrica functions and its contribution to society at large.
Communications media		7.43	<p>Enclose, in the web, audiovisual messages of corporate events.</p> <p>Broadcast press conferences live through the web.</p> <p>Add new attention-calling contents to the web (single-themes, special development, etc.).</p>

## Management model -LA13-

At the organisation level, the CR Management Committee (made up by 45% of the Utility managers) operation, and the CR Operating Team (consisting of 10 technical experts, and of them three must be representatives of trade unions present in the Utility) have been effective for driving and coordinating the Utility's operations in this sphere. A total of 18 projects were listed in the 2005 schedule and an average 88% have been completed.



## Certificates -3.20-

The Corporate Responsibility management system has secured for all work centres and operations implemented by Red Eléctrica the SA8000:2001 Certificate, which acknowledges the Utility's commitment and steps implemented in the labour rights area. Non-compliances were not found by the certificates compulsory reviews and audits implemented every half-year. The audit team found only eight possibilities for improvement and the respective specific actions have been defined already to such purpose.



This certificate is a complement to the triple certificate for quality, environment and labour risks prevention that has been awarded to Red Eléctrica Group since 2004.

## Follow up, learning and improvement

Based on the in-house and external reports and findings, the CR Management Committee studies the implementation extent and submits any required adjustments in the system, CR projects implemented during the year and the related processes or actions. The integral CR Balanced Scorecard, the Triple Bottom Line (TBL) and the projects follow up are the main tools applied for the analysis. -3.11, 3.12-

The proposals for updating or adjustment of strategic elements are submitted for approval to the Management Committee.

### Elements of the analysis

In-house

- Review of strategies, key actions, corporate policies and systems
- In-house audit results, technical evaluations and self-evaluation processes
- Internal clients evaluation
- Follow up of key indicators (CR Balanced Scorecard and TBL)
- Follow up of the processes: non-compliances

External

- Claims, enquiries and requests
- Satisfaction surveys and steps to identify requirements and expectations of stakeholders groups
- Audits and evaluations findings
- Corporate surveys findings (BK) and steps to identify best practices
- Legislation and regulations

- Business plan
- Key actions and policies
- Organization structure
- CR Balanced Scorecard
- Code of Ethics

Strategic level

Tactical/operating level

- Management system: elements
- Stakeholders groups management
- Three-year plans and annual schedules
- Processes, methodologies and indicators

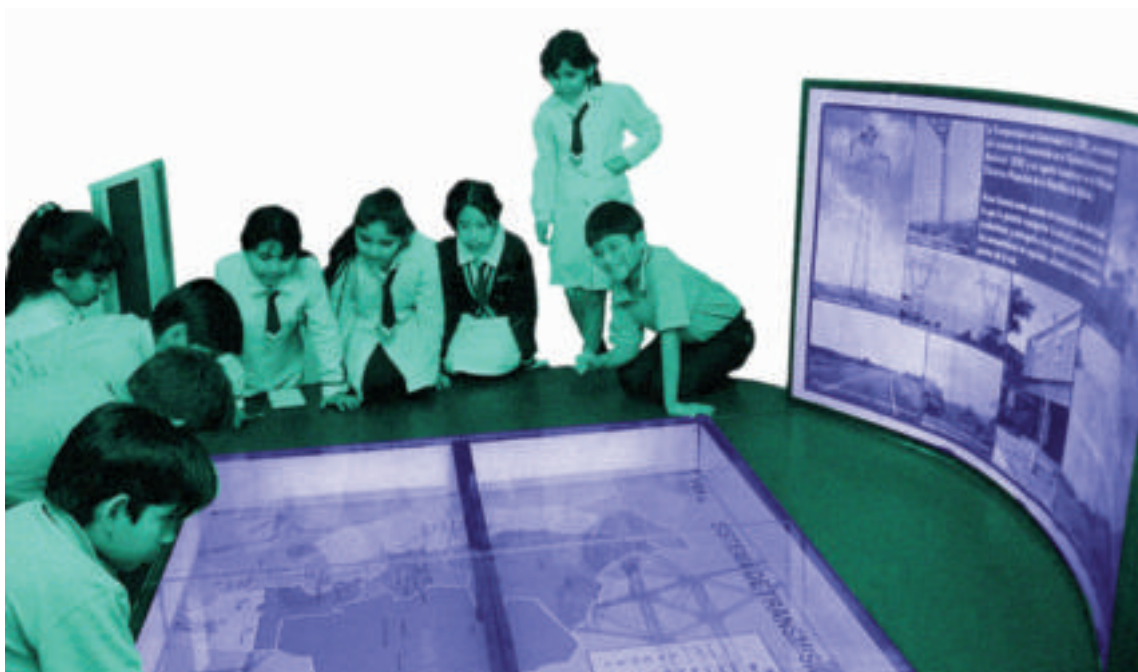
### Corporate responsibility schedule for 2005

Projects	Achieved products / targets	Compliance
<b>STRUCTURAL AREA</b>		
Training the operating team and Volunteer team members	In-house training on corporate responsibility (10 attended. Satisfaction level: 7.36) Training: (Master in Corporate Responsibility) attended by 4 members of the operating team	100 %
CR Rule-Book	22 key indicators designed by a multidisciplinary working team	100 %
Ethics Code	Code of Ethics design and guideline for its interpretation	100 %
Evaluation surveys of stakeholders groups satisfaction levels	The first cycle of satisfaction surveys and actions for identifying requirements and expectations of all stakeholders has been completed First Plan for Integral Improvement Action	100 %
For prompting the complete payroll awareness. -HRI I-	Course designed for on-line training: @prende responsabilidad corporativa	100 %
<b>TECHNICAL-FINANCIAL AREA</b>		
Extending CR to groups and services suppliers	Steps to identify and review the overall contract terms for inclusion of CR criteria applicable to suppliers' management	30 %
<b>CORPORATE GOVERNANCE AREA</b>		
Board of Directors adjustment.	Analysis of the best practices and experiences related to the Board of Directors makeup and operations Appointment of 2 new Independent Directors	100 %
Changes in the corporate byelaws	Changes approved by the General Meeting of Shareholders	100 %
In-house practice regulations for stock-exchange operations.	Document under review and pending approval	60 %
Improvement of channels for communication with shareholders	Actions to apply the electronic voting system at the General Meeting of Shareholders	100 %
<b>IN-HOUSE SOCIAL AREA</b>		
Certificate of the CR Management System (SA8000 Standard)	SA8000 Certificate Final audit reports that show zero non-conformities	100 %
Communication / integration with agencies prescribing regulations	Mutual information exchange, engaging with outsourced working teams and cooperation in meetings and sessions to inform about CR	100 %
<b>EXTERNAL SOCIAL AREA</b>		
Social actions programme	Educational material development (Control game and virtual visit to CECOEL) Engaging in different social-educational events	25 %
Actions to disseminate the language knowledge	Training course: Proper use of Spanish (82 attended) All the materials published reviewed and validated by the Fundación del Español Urgente (Fundéu)	100 %
Setting up a Corporate Responsibility section in the web.	Corporate responsibility section	100 %
Corporate volunteers	Training an 8 persons promoters team Drawing up a guide for REE corporate volunteers Survey and report on REE volunteers situation Christmas charity drive	100 %
<b>ENVIRONMENTAL AREA</b>		
Development of ecoefficiency concepts	In-house training applied to Red Eléctrica Pilot test of ecoefficiency criteria application	75 %
Drop in basic consumption values	Design a three-year plan for consumption values reduction	100 %
<b>Mean compliance level</b>		<b>88 %</b>

## Involvement in CR promoting agencies -3.14, 3.15-

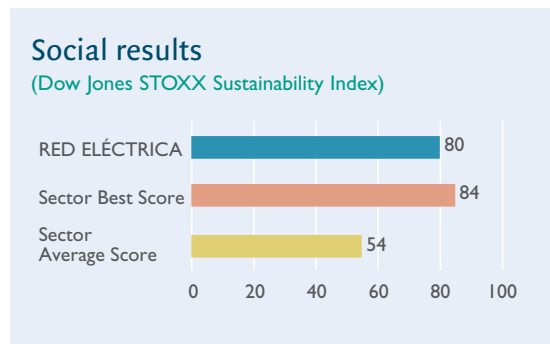
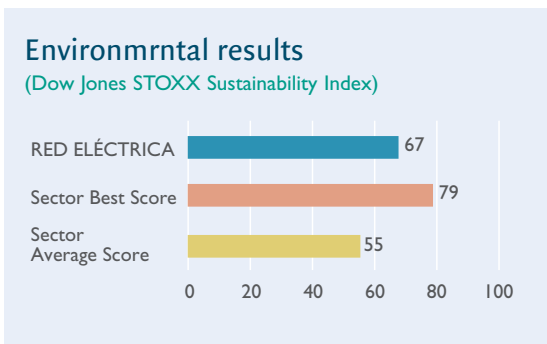
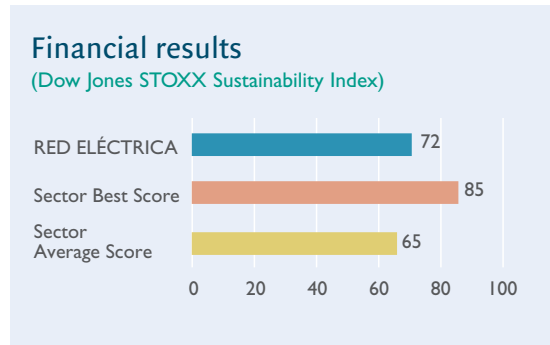
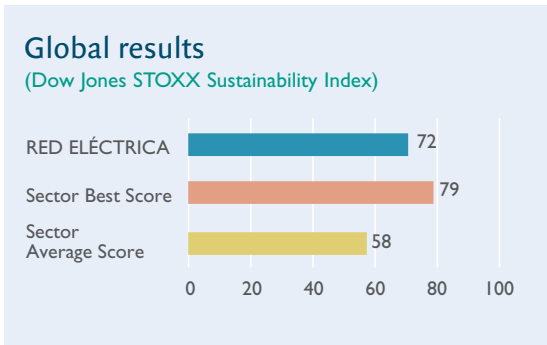
During 2005, work and relations with the more relevant agencies for CR promotion in the business world have been intensified. Many lectures on the CR management system applied by Red Eléctrica Group have been also organized in different agencies and institutions that requested such information.

	Organization	Group main action
CR related initiatives and institutions	Global Compact	Since 2002, all the principles have been accepted. Founder Member of the Spanish Association for the World Pact (ASEPAM).
	Global Reporting Initiative (GRI)	Corporate responsibility report drafted and validated based on GRI criteria.
	Spanish Accounting and Administration Association (AECA)	Protection Partner at D level. Active as directors in the Sustainable Management Committee.
	Spanish Standardizing Association (AENOR)	Engaged as observer in the Technical Standardizing Committee: AEN/CTN 165 "ETICA"
Group to share experiences exchange	Club for Excellence in Sustainability (Club de Excelencia en Sostenibilidad)	Partner in the institution and actively engaged in working teams, meetings to share experiences, training sessions and works publishing.
Agencies for knowledge dissemination	Ecology and Development Foundation (Fundación Ecología y Desarrollo)	Information about SGRC supplied to both EIRIS and SiRi Company Ltd.
	Doñana 21 Foundation (Fundación Doñana 21)	Active in meetings to share experiences Submission of the GRI Help Guide "In 5 steps" for drawing up CR Annual Reports in SMEs.
	Environment Foundation (Fundación Entorno)	Cooperating Utility
	Utility and Society at large Foundation (Fundación Empresa y Sociedad)	Cooperating Utility
	Company and Society Foundation (Centro de Investigación de Economía y Sociedad (CIES))	Sponsoring the CR Master through a cooperation agreement with the teaching Faculty
	Business Institute (Instituto de Empresa)	Cooperating with the teaching Faculty in the CR Managers Programme
	Agencies for knowledge dissemination, communications media and findings evaluation	Spanish Monitor of Corporate Reputation (Monitor Español de Reputación Corporativa (MERCOCO) CRS Observatory)
	I + Responsibility	Sponsor of a CR information channel in the web. Articles published on the management system and findings.
	Other CR published news (i.e.: Europa Press CR section)	Articles published on the management system and findings.



## Recognition and merits -SO4-

During 2005, Red Eléctrica has been listed in the **Dow Jones STOXX Sustainability Index**. This recognition backs up the Utility's commitment to sustainable development.



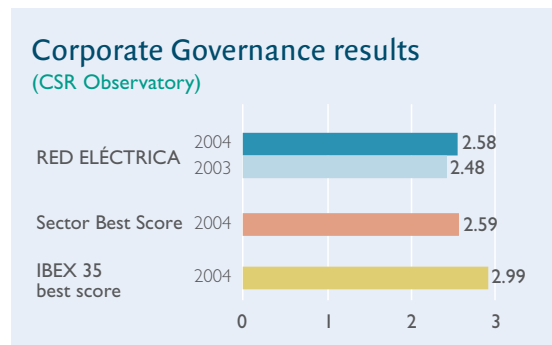
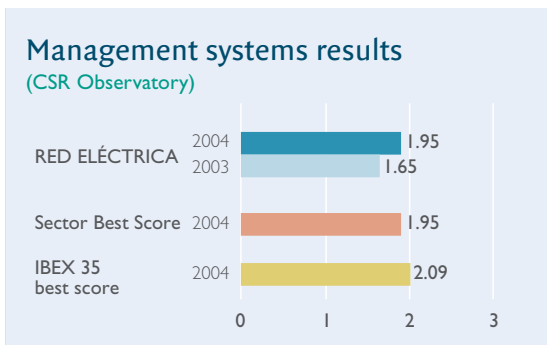
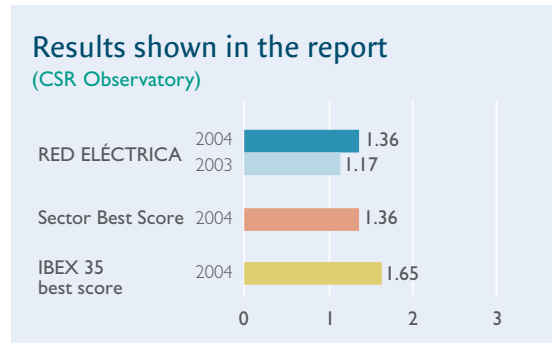
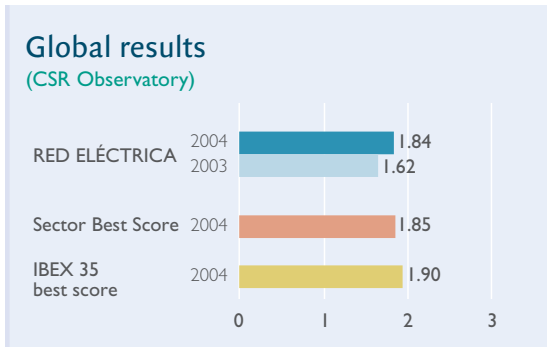
On the other hand, the 6<sup>th</sup> edition of the **Spanish Monitor of Corporate Reputation** has ranked Red Eléctrica for the first time in the 100 best reputation Spanish companies. The Utility is placed 81 in the global *ranking* and 6<sup>th</sup> in the energy, gas and water sector.

The 2004 Corporate Responsibility Report has been a runner up in the **4<sup>th</sup> Edition of the "Best Sustainability Annual Report"** awards, granted by the Chartered Accountants Institute of Spain and the Spanish Accounting and Business Administration Association (AECA).

The Corporate Responsibility Observatory evaluates CR reports submitted by companies quoted in the Stock Exchange and enclosed in the IBEX 35 shortlist. The 2004 report findings have ranked Red Electrica

amongst the top 5 companies for the second year in a row. It is also ranked 4<sup>th</sup> in the IBEX 35 and 2<sup>nd</sup> in the Energy sector:

The achieved results are shown below:



(CSR = Social Corporate Responsibility)





## Other acknowledgements received during the last few years -SO4-

### Structural area

- ▶ Príncipe Felipe Award to Entrepreneurial Excellence in the Industrial Quality version. 2005.
- ▶ Gold Seal to Entrepreneurial Excellence granted by the Excellence in Management Club in 2003, 2004 and 2005.
- ▶ Twelfth best company in the IBEX 35 according to the SCA ranking of the Actualidad Económica magazine, year 2004.
- ▶ Licensed to use the Madrid Excellent Brand. Years 2002, 2003 and 2004.
- ▶ Runner up in the 7th, 8th and 9th Edition of the Príncipe Felipe Award to Industrial Quality. 2002, 2003 and 2004.
- ▶ National 2002 Reward to the company that applies the best corporate strategy granted by the Business Leaders Group.
- ▶ Best Utility in 2002 according to El Nuevo Lunes newspaper rating.
- ▶ Acknowledgement granted by the Spanish Quality Association for the cooperation rendered to Working Teams in the Energy Industry section and lectures during the 9th and 10th Meetings held every two years, in 1999 and 2001.

### Technical-financial area

- ▶ Significant ratings granted by Standard & Poor's and Moody's from 1999 to 2005.
- ▶ Second more efficient operator on a worldwide level according to international agencies that rate electric industry utilities. Year 2002.
- ▶ Best "Gilt-edged Security" in the Stock Exchange during 2001. Year 2002.
- ▶ Prize to Technological Innovation in Electricity Transmission and Management areas. Iberdrola Technological Institute. Year 1999.

### Corporate Governance Area

- ▶ First Prize to the Spanish company that reports the best financial information in Internet. Awarded by the Spanish Accounting and Business Administration Association. (AECA). Year 2002.

### In-house social area

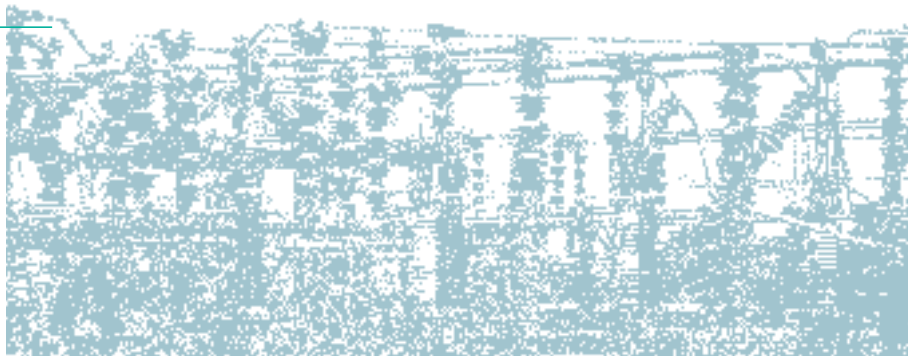
- ▶ Runner up to the Flexible Company Award in 2003 and 2004, 2nd and 3rd Edition "Drive to Achieve a Balanced Professional and Personal Life". Promoted by CVA, IESE and Gaceta de los Negocios Business Journal.

### External social area

- ▶ Tenth Best Annual Report of IBEX 35 listed companies, in 2002 and 2003, following a survey carried out by Actualidad Económica, business magazine.
- ▶ Second best website of the IBEX 35 listed companies in 2002, based on a survey sponsored by the Look&Enter magazine.

### Environmental area

- ▶ "Best Environmental Annual Report for 2003" Prize awarded by the Spanish Chartered Accountants Association (AECA) and the Spanish Accounting and Business Administration Association (AECA).
- ▶ Acknowledgement granted by the European Commission to the best Spanish company for environmental programmes and audits implementation.
- ▶ Environmental Management award winner during the 4th Environmental National Awards sponsored by the Expansion business newspaper and the Ministry of the Environment. Year 2001.





# economic responsibility

*The sustainable value generated by Red Eléctrica Group is shown again, one more year, by the consolidated net profits that increased 19.6% over the 2004 figure and reached Euros 162.4 million. On the other hand, cash flow after taxes amounted to Euros 429.6 million, or 22.5% over that of the previous year. This allowed funding a large share of the Utility's investments.*

# financial results

## Direct financial effects

Shareholders (REE) -EC6-	2001	2002	2003	2004	2005
Dividend per share (€)	0.4550	0.4800	0.5480	0.6138	0.7304
Dividend on net profit (pay-out) %	67.8	67.7	65.0	65.3	67.8

Clients -EC1-	2001	2002	2003	2004	2005
Turnover (€ millions)	381.0	459.9	686.7	738.8	860.2
Investments (€ millions)	244.8	1,158.7	780.3	274.6	755.5

Suppliers for the Main Business -EC3, EC4, EC11-	2001	2002	2003	2004	2005
REE purchases (Spain) (€ millions)	296	267	409	416	462
Percentage of contracts paid according to the agreed terms	In 2005, all bills were paid on the due date.				
Suppliers broken down by countries. REE (Spain)	A 97.9% is from Spain and 2.1% from the European area (based on the legal condition of the invoicing company. By country of manufacturing: 88.1% manufactured in Spain and 10.9% in the European Union)				

Employees -EC5-	2001	2002	2003	2004	2005
Total employee costs (€ millions) (2)	57.2	61.6	66.8	68.2	78.1
REE Electricity Business (Spain) (3)	53.4	53.4	57.1	67.3	75.1
REI (Spain)	-	-	-	-	1.4
TDE (Bolivia)	-	-	-	-	2.4

Capital Suppliers -EC6, EC7-	2001	2002	2003	2004	2005
Financial expenses (€ millions)	21.1	26.0	75.0	76.7	108.4
Reserves (€ millions)	437.4	466.2	499.4	605.6	692.2

Public agencies sector -EC8, EC9, EC10-	2001	2002	2003	2004	2005
Company tax (€ millions)	48.1	45.4	60.1	81.2	85.3
Spain (National Electricity Business)	48.1	60.4	71.9	80.3	84.8
Spain (REI subsidiary)	-	-	-	-	-1.1
Bolivia (TDE)	-	-	-	-	1.5
Subsidies (millones €)	-	-	-	-	9.0
Spain (National Electricity Business)	-	-	-	-	8.9
Spain (REI subsidiary)	-	-	-	-	0.1
Bolivia (TDE)	-	-	-	-	0.0
Grants to the community, citizens at large (€)	-	-	-	917,511	1,209,758
Agencies, institutions, associations	-	-	-	426,916	374,364
Meetings and congresses	-	-	-	31,776	33,987
Educational, environmental and social projects	-	-	-	458,819	801,407

## Indirect financial effects -EC13-

I+D+i	2001	2002	2003	2004	2005
Investment (€ millions)	1.6	1.5	2.0	2.4	3.0
Number of projects	30	32	37	36	45
Number of patents	1 (4)	0	0	0	(5)

(1) IFRS. International Financial Reporting Standards

(2) Wages and salaries; social security; pension funds contributions, and other items are enclosed

(3) INALTA is enclosed

(4) Utility model: Deterrent device to prevent nesting

(5) Patent applications for the Red Eléctrica New Substation (NSR) "and a new model of birds guards undergoing study".

(-) Data not available

In 2005, the value of Red Eléctrica shares increased 58.5%, quite above the 18.2% reached by Ibex 35

## Value for shareholders

Red Eléctrica is committed to maximise value for shareholders through, on the one hand, an attractive remuneration paid as dividends and, on the other, helping to increase the shares value through an efficient business management.

In 2005, the stock quoted value, backed up by the Utility growth prospects and paid dividends reached Euros 26.16 per share at year's end, that implies a 58.5% increase, which far exceeded that recorded by the Ibex 35 list (18.2%) and the energy sector in the Madrid Stock Exchange (19.8%).

The direct remuneration to shareholders through dividends amounted to euros 0.7304 per share, which implies a 19% increase over the previous year.

### Shareholders (REE) -EC6-

Financial indicators	2001	2002	2003	2004	2005
Dividend per share (€)	0.4550	0.4800	0.5480	0.6138	0.7304
Profit per share (€)*	0.67	0.74	0.86	1.01	1.20
Dividend over net profit (pay-out) %	67.8	67.7	65.0	65.3	67.8
Quoted value at year's end (€)	10.45	9.64	13.00	16.50	26.16

\*The 2004 and 2005 figures are IFRS dat

Structural data	2001	2002	2003	2004	2005
Number of shareholders	62.360	59.323	53.517	50.863	45.630
Shareholders ownership structure (% of share capital) -2.14-					
SEPI (1)	28.5	28.5	28.5	28.5	20.0
Electric utilities (2)	40.0	40.0	12.0	12.0	10.0
Free-float	31.5	31.5	59.5	59.5	70.0
Free-float ownership structures (%)					
Spanish Institutions	27	28	25	29	25
International Institutions	34	29	53	48	57
Minority shareholders	39	40	22	23	18

(1) Government-owned company holding stakes in industries (Sociedad Estatal de Participaciones Industriales)

(2) Endesa (3%), Iberdrola (3%), Unión Fenosa (3%), Viesgo (1%), Voting rights of 1%.



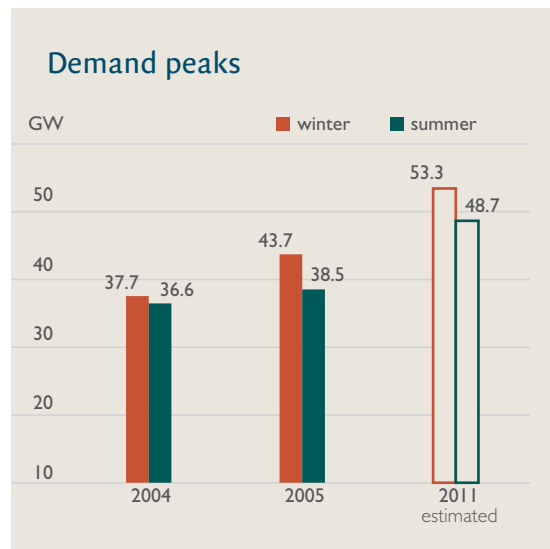
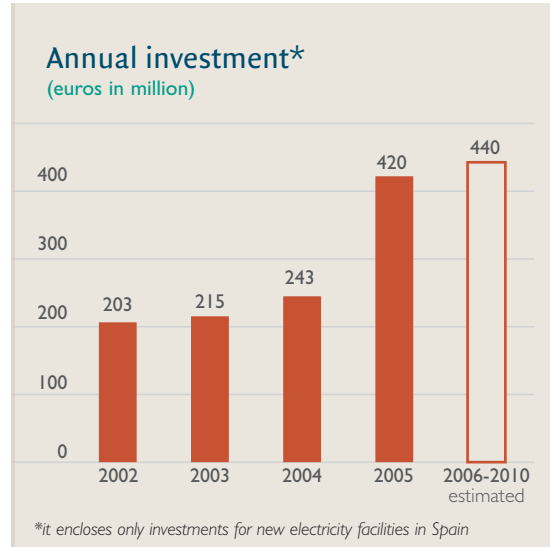
## Value for clients / Sector Agents -ECI-

The priority strategy of Red Eléctrica, as an essential player in the Spanish Electricity System, is the development of a sound and sustainable investments plan aimed to enlarge and improve the transmission grid, that effectively helps to meet the present energy demands as well as any future challenges and needs.

In 2005, a record investment was achieved that reached Euros 420 million for new facilities added to the transmission grid. An increase is also scheduled by the strategic plan for the next five years that will consolidate the following targets:

- ▶ Supply sufficient capacity and flexibility to the system as a whole to ensure electricity supply in a context of high growth of the demand peaks.
- ▶ Properly meet the electricity generating utilities demand for grid capacity required by the new combined cycle and wind farms generation sources output.
- ▶ Continue the grid development to meet demands arising from the high-speed railway lines operation.
- ▶ Increase the capacity of the international electricity exchange connections.

As for service quality indicators, the excellent performance of the equipment and systems that make up the transmission grid has to be emphasized again this year, for the availability level reached 98.28 % and just 506 MWh of energy that was not supplied. This data set in the leading edge of quality indexes achieved by the European utilities of reference.



*Generation centres are linked to the distribution systems by the transmission grid. Generally speaking, the grid is made up by facilities that carry 220 kV or higher voltages and the international interconnections. Service quality is evaluated based on power supply interruptions due to incidents arising in the grid itself and its facilities availability. The key indicators are: non-supplied energy (ENS); mean supply interruption time and availability index (ID)*

## Clients

	IFRS Data (1)				
	2001	2002	2003	2004	2005
Turnover (€ millions)	381.0	459.9	686.7	738.8	860.2
Investments (€ millions)	244.8	1.158.7	778.3	274.6	755.5

(1) IFRS: International Financial Reporting Standards.

## Quality indicators

	2001	2002	2003	2004	2005
<b>Availability Index (IP) %</b>	<b>97.49</b>	<b>97.54</b>	<b>98.04</b>	<b>98.39</b>	<b>98.28</b>
Minimum reference value (IP)*	97	97	97	97	97
<b>Mean interruption time (TIM) in minutes</b>	<b>0.27</b>	<b>0</b>	<b>0.84</b>	<b>3.27</b>	<b>1.078</b>
Max. reference value (TIM)*	15	15	15	15	15
<b>Non-supplied energy (ENS) MWh</b>	<b>107</b>	<b>0</b>	<b>360</b>	<b>1.448</b>	<b>506</b>

\* Reference values according to Royal Decree 1955/2000

## Products and services rendered by Red Eléctrica -2.2, 2.8-

Planning and development of the transmission grid
Management of access to the transmission grid
Management of supply interruptions and live-wire work in facilities
Information for the electricity market
Technical feasibility of market-issuing programmes
System safety assurance during emergencies, alerts or resetting operations
Real time operation of the electricity system
Electricity metered values
Technical information about the operation
Financial information about the operation
Local operation and maintenance of the transmission grid facilities
Inspection service and checks of electricity metered values
Management of green certificates
Management of payments assigned to the System Operator



## Value for employees

Red Eléctrica Group policy on remunerations, besides wages and salaries, encloses a number of social benefits such as pension plans, private medical insurance policies, electric power supplied for lighting at special rates, and allowances for meals and transport.

## Red Eléctrica Group Data

	IFRS Data (1)				
Value created (€ thousand)	2001	2002	2003	2004	2005
Wages and salaries	42,069	47,201	50,785	46,324	51,155
Social Security	9,568	10,180	11,435	11,014	12,889
Contribution to pensions funds	845	813	895	862	942
Other items and social expenses	4,690	3,447	3,769	9,988	13,094
<b>Total</b>	<b>57,172</b>	<b>61,641</b>	<b>66,854</b>	<b>68,188</b>	<b>78,080</b>

(1) International Financial Reporting Standards.

## Value for suppliers

Services and goods purchased during the year amounted to Euros 462 million **-EC3-** and the respective bills were paid on the due date. **-EC4-**

Suppliers (REE) <b>-EC11-</b>	2001	2002	2003	2004	2005
Purchases (€ million)	296	267	409	416	462
Supply agreements and quality agreed beforehand	-	-	9	9	9
Percentage of contracts paid according to the specified terms (%)	In 2005, all bills were paid on the due date*				
Suppliers broken down by organisations and countries	ABB, SIEMENS, SEMI, COBRA, INABENSA, AREBA were the main suppliers during 2005. Purchases broken down by countries and the legal type of company that is invoicing are: 97.9% from Spain and 2.1% European countries. By country of manufacturing: 88.1% manufactured in Spain and 10.9% in the European Union				

Data for rating suppliers (REE)*	2001	2002	2003	2004	2005
Rated suppliers (total number)	298	348	400	412	432
Suppliers that need an environmental rating	-	-	204	206	196
Suppliers that need a health and safety on the job rating	-	-	161	163	168

\* This information is expanded in page 70.

(-) Data not available .

## Value for society at large **-EC8, EC9, EC10-**

Red Eléctrica effects on society as a whole are significant, since its operation is essential for the communities economic and social development. For this reason, the investments and service quality indicators developed in the previous sector of clients/agents section are also applicable here. This section shows only data related to taxes and amounts donated to the community. The last mentioned item increased, in 2005, 19% over the previous year amount.



Data value for society	2001	2002	2003	2004	2005
Company tax (€ million)	48.1	45.4	60.1	81.2	85.3
Subsidies	-	-	-	-	9.0
Donations to the community and citizens at large (€ million)	-	-	-	0.9	1.2

(-) Data not available .



# technological development

Research, technological development and innovation are an essential source of indirect value for a business. In 2005, Red Eléctrica has continued its progress and consolidated the R + D + i that can be summarized by the following key indicators and milestones. -EC13-

## R+D+i Indicators

	2001	2002	2003	2004	2005
Investment (€ million)	1,6	1,5	2,0	2,4	3,0
Number of projects	30	32	37	36	45
Percentage of regulated income (%)		0,4	0,3	0,3	0,4
Number of patents	1(1)	0	0	0	(2)

(1) Utility model: Deterrent device to prevent nesting.

(2) Patent applications for Red Eléctrica New Substation (NSR) "and a new model of birds guard undergoing study".



## Growth of investment

Growth and consolidation of expenditures in R + D + i projects, which have reached Euros 2.95 million are reported. A fact that implies a 0.41% investment rate increase over the regulated income.

## Renewable energies integration

Development of projects to integrate renewable energies, basically, the power output from wind farms and energy distribution through the transmission grid have been boosted. Work lines are focused in the improvement of wind forecasting and the analysis of stability phenomena and dynamic performance of the transmission grid, as well as the regulatory considerations.

## EU international projects

The extensive engagement of Red Eléctrica in research and development projects funded by European allocations under the 6<sup>th</sup> Framework Schedule must be highlighted. Throughout 2005, contracts for an Integrated Project (FENIX) and Coordination Action (RELIANCE) have been signed with the European Commission and the steps to sign a Project for Specific Research (WIND ON THE GRID) are quite advanced. The engagement in strategic projects within different areas such as VITA, ANEMOS, ENCOURAGED, IELAS and power flows guidance are also implemented.

## Environmental research projects

In environment-related projects, the continued efforts to design a new birds-guard device that keeps birds from crashing against overhead electricity transmission cables as well as software to compute currents induced in the human body when exposed to electromagnetic fields have to be emphasized. Additionally, the following projects have been started: Effects of electricity transmission lines on great bustards; lighting pollution issuing from Red Eléctrica facilities, and methods that use screens for soundproofing electricity substations.

## Outstanding projects for 2006

There are two projects for 2006 that can be highlighted due to their singular and transcendental nature. The first one is highly significant for the electricity system, since it is a pilot experience that uses high temperature and larger capacity conductors in electricity transmission lines. The second is aimed to study how solar energy can be integrated and used efficiently in the Utility's buildings.

# cooperation in agencies and key institutions operations

Involvement in agencies, institutions and associations is a source of indirect value for the Utility and its stakeholders group. Red Eléctrica is a member of 32 national and 15 international organizations and cooperates actively in their management boards, study and standardizing committees and working groups. Some 140 employees from all areas in the Utility engage in those operations and contribute some 10.000 hours annually to the mentioned efforts. -3.15-

### **CIGRE (International Congress of Large Electricity Grids)**

Agency that encloses utilities, capital goods manufacturers, engineering companies and research centres from all over the world, to share their technical expertise. Red Eléctrica is both Chairman and Secretary of the Spanish Committee.

### **EI (Edison Electric Institute)**

Association of US and international affiliated electrical utilities. Red Eléctrica attends as well financial meetings and delivers lectures to analysts and investors specialized in this industrial sector.





### **ETSO (Association of European Electricity Systems Operators)**

Association that encloses operators from the European Union countries (save for Latvia and Lithuania), Switzerland, Norway and Rumania. Red Eléctrica is a founding member actively engaged in the Association work and member of its Management Committee.

### **EURELECTRIC (Union of the Electric Industry)**

This Association born from the merger of UNIPEDE (founded in 1925) and EURELECTRIC (started in 1990) represents the common interests of the European Electricity Industry sector. The Association is intended to help the electric industry development, promote its competitive ability and the role electricity plays for social progress. As an institution that has an extensive strategic experience, the Association identifies and represents its members interests and helps them to define and implement strategic policy solutions shared by all its members.

### **IESOE (Electricity Interconnection in South-Western Europe)**

This organization consists of RTE (France), REN (Portugal), ONE (Morocco) and Red Eléctrica (Spain). It was established to analyse the electricity interconnecting grid performance in the mentioned countries as well as for drawing up initiatives leading to a more perfect operation. Red Eléctrica is both IESOE Chairman and Secretary.

### **OME (Mediterranean Observatory for Energy)**

The Observatory was set up in 1991 by some thirty utilities (electricity, gas and oil). It is aimed to promote cooperation between the main utilities in the energy sector that operate in the Southern area of the Mediterranean basin as well as to help establish a dialogue between governments, the European Commission and other international agencies related to energy questions in the Mediterranean zone.

### **UCTE (Union to Coordinate Electricity Transmission)**

This association coordinates the transmission systems operators in 23 countries of continental Europe. It is intended to ensure safety in the interconnected electricity system, a task it has performed for 15 years now. The UCTE grid supplies power to 450 million people (530 GW of installed power, 2,300 TWh of consumed energy and 210.000 km of transmission lines).

### **TSO – International Comparison**

An international association of the European, Asiatic, South-African and American electricity systems operators. It is intended to exchange information about the current and future systems' operating practices for comparison and reference purposes..



# social responsibility

*Red Eléctrica is a reference for stable employment and quality. The Group's mean payroll increased 10.8% and reached 1,355 employees at year's end. Most employees are hired under an indefinite contract and the unwanted turnover ratio is barely 1.14% in the main business.*

*In the external area, the efforts are aimed to continuously improve relations with our stakeholders groups and integrate our projects in the institutional, environmental and social context.*

# commitment to the employees

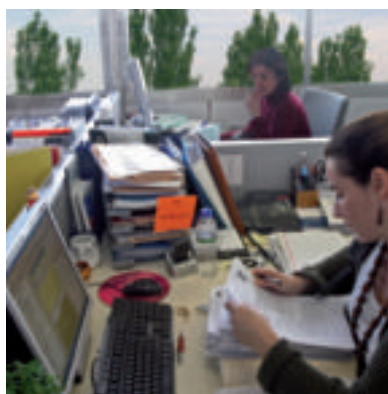
As provided by one of the principles in the Corporate Responsibility Policy of Red Eléctrica Group, the individual development and satisfaction is a key requirement for achieving the Group aims: "Special attention will be paid to opinions and practices, banning discrimination (whether for gender, race, nationality, sexual orientation, age, disability, language, religion or politics), the search for equity (remuneration, work hours, development and evaluation), professional development, safety and health on the job, working environment, individual integration and actions to reconcile family and professional life.

The above principles and guidelines added to the Human Resources Policy provisions, are based in the Universal Statement on Human Rights, the World Pact principles, and those of the International Labour Organisation, besides the OECD recommendations. . -HRI, HR4, HR5, HR6, HR7-

Red Eléctrica executives are required to be a practice and ethics example both in-house and externally. The model lists 42 requirements (delegate, communication, acknowledgement, individuals development, etc.) that managers have to display through their actions and employees management.

Since Red Eléctrica is operating in countries, which are members of the OECD, the Human Rights integrity and compliance are upheld by the Utility regardless of place and operations carried out.

*Both a fair and equitable approach coupled to the employees' motivation, development and integration are unquestionable principles for human relations management*



## Working in Red Eléctrica

The growth and outlook of Red Eléctrica Group businesses during this year has led to changes in its staff size and structure. As of the 31<sup>st</sup> of December, 2005, the Group employees numbered 1.401, broken down as follows: 89.5% employed by the main

business, in Spain, and the remaining 10.5% in the Subsidiary, Red Eléctrica International.

The new professionals hired by the parent company and assigned to the integration, operation and maintenance of new assets and the operation services that Red Eléctrica is now rendering, as required by the Spanish regulatory authorities are the more relevant events. In 2005, the complete share capital of the Subsidiary, Red Eléctrica Telecomunicaciones (Albura), has been sold and its employees have been, therefore, deleted from the Group's payroll.

#### GROUP'S Payroll -LAI-

Payroll structural data	2001	2002	2003	2004	2005
Number of employees (mean payroll)	-	-	-	1,344	1,355
Number of employees (final payroll)*	1,009	1,168	1,280	1,415	1,401
REE (electricity business in Spain)	918	936	1,031	1,145	1,254
RET (telecommunication business)	82	116	117	129	**
REI (international business)	9	10	12	20	20
TDE (Bolivia)	0	106	113	113	126

Broken down by sex 2005 (%)	Men	Women
REE (electricity business in Spain)	78 %	22 %
REI (international business)	75 %	25 %
TDE (Bolivia)	86 %	14 %

Personnel turnover 2005	Unwanted	Total
REE (electricity business in Spain)	1.14 %	2.36 %
REI (international business)	0.0 %	0.0 %
TDE (Bolivia)	1.69 %	2.54 %

\* In 2005, it encloses 1 REDALTA employee

\*\* In 2005, the telecommunication business is sold

(-) Data not available

## Jobs created

Red Eléctrica Group is a reference for stable and quality jobs. It shows, too, one of the lowest turnover ratios of utilities in this area. The Group's mean payroll increased 10.8% and reached, at year's end, 1,355 employees. The final payroll stood at 1,401 employees compared to the 1,286 recorded as of 31<sup>st</sup> December 2004 (Red Eléctrica Telecomunicaciones employees are deleted).

In the parent company, 136 persons were hired and 27 resigned. This implies 109 net jobs were created during this year. The turnover ratio was 2.36%, average seniority 10 years and 98% the indefinite contracts. The remaining 2% are trainees contracts, which are switched later on to indefinite. In 2005, employees hired through temporarily jobs agencies numbered 32.

TDE (Bolivia) payroll increased 11.5%, since 13 employees were hired. The turnover ratio reached 2.54%. Contracts arranged through temporarily jobs agencies covered, at year's end, 25 persons.

### Parent Utility Payroll (REE)

Payroll structural data	2001	2002	2003	2004	2005
Number of employees (total payroll)	918	936	1,031	1,145	1,254
Number of employees (mean payroll)	941	931	968	1,082	1,205

Break down by organisation units (%) (1)	2001	2002	2003	2004	2005
Staff areas	12	13	11	12	11
Transmission	21	79	81	50	51
System operation	59			28	31
Administration and finances	8	8	8	7	7

Break down by professional group (%)	2001	2002	2003	2004	2005
Management team	9	9	9	8	8
Higher technical graduates	21	22	25	25	26
Mid-level technical graduates	27	27	32	36	35
Specialists	29	28	20	19	19
Technical auxiliary personnel	14	14	14	12	12

Break down by age	2001	2002	2003	2004	2005
Under 25 years	30	23	60	99	73
26 to 35 years	180	189	230	278	387
36 to 45 years	417	421	428	422	409
46 to 55 years	252	271	269	274	288
Over 55 years	39	32	44	72	97

Key jobs indicators -LA3-	2001	2002	2003	2004	2005
Average age	42	42	41	40	40
Average seniority	12	12	12	12	10
Unwanted external turnover	1.94	0.22	0.32	1.36	1.14
Total turnover	11.83	3.38	3.10	3.01	2.36
Net jobs created	-63	18	95	114	109
Set-term contract employees	99	99	92	93	98
Contract employees under collective agreement	99.5	99.5	99.6	99.6	99.6

Utility to employees relation-type ind. -LA3, HR5-	2001	2002	2003	2004	2005
Employees represented by trade unions	100	100	100	100	100

Diversity and opportunity indicators -LA10-	2001	2002	2003	2004	2005
Women in payroll (%)	20.2	20.8	21.5	21.3	22.0
Women in management positions (% of total executive number)	8.2	9.2	9.3	10.9	11.2
Equal opportunities on hiring (2)	-	-	-	0.716	0.800
Equal opportunities for daily work (2)	-	-	-	0.966	0.950

Training and education indicators -LA17-	2001	2002	2003	2004(3)	2005
Training hours	34,400	44,184	56,124	90,947	82,506
Hours per employee (4)	37	48	58	84	68
Investment per employee (€)	-	-	3,014	3,651	3,470
Investment in training and employees costs (%)	3.3	3.4	5.1	5.9	5.5

Health and safety -LA7-	2001	2002	2003	2004	2005
Absenteeism rate	4.88	4.46	3.27	3.67	1.71
Occupational accidents frequency rate	6.88	6.95	3.64	5.25	4.01
Serious rate occupational accidents	0.18	0.17	0.07	0.12	0.11

(1) In 2002 and 2003, the General Director Offices for Operation and Transmission have been consolidated in a single General Director Office.  
(2) Target: rank (0.7-1.2). (3) The effects from graduation of a new Electricity System Operators class are shown by the 2004 data. (4) Over mean payroll (-) Data not available.



### Screening process -LA16, HR4-

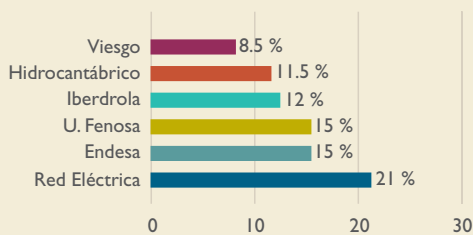
Employees screening and hiring is carried out based on transparency, fair and non-discriminating criteria established by the Red Eléctrica Group Policy for personnel hiring. The addition of highly qualified individuals that show potential is favoured. They are offered the opportunity for professional development and a salary scale fitted to each individual achievement.

Also, in-house recruiting that provides a way for internal promotion is also favoured. Job vacancies are notified to in-house employees through the different available tools.

In 2005, of the in-house published jobs, 41% were filled by Red Eléctrica employees.

As for equal opportunities, women amounted to 23% of the personnel hired in 2005 -LA10, HR4-. Red Eléctrica has the largest number of women employees compared to the electricity industry as a whole (women average in the industry is 14.3%, based on UNESA 2004 Annual Report data). In the "labour relations" area, this information is expanded in the "equal opportunities" section.

### Women employed in the electricity industry utilities



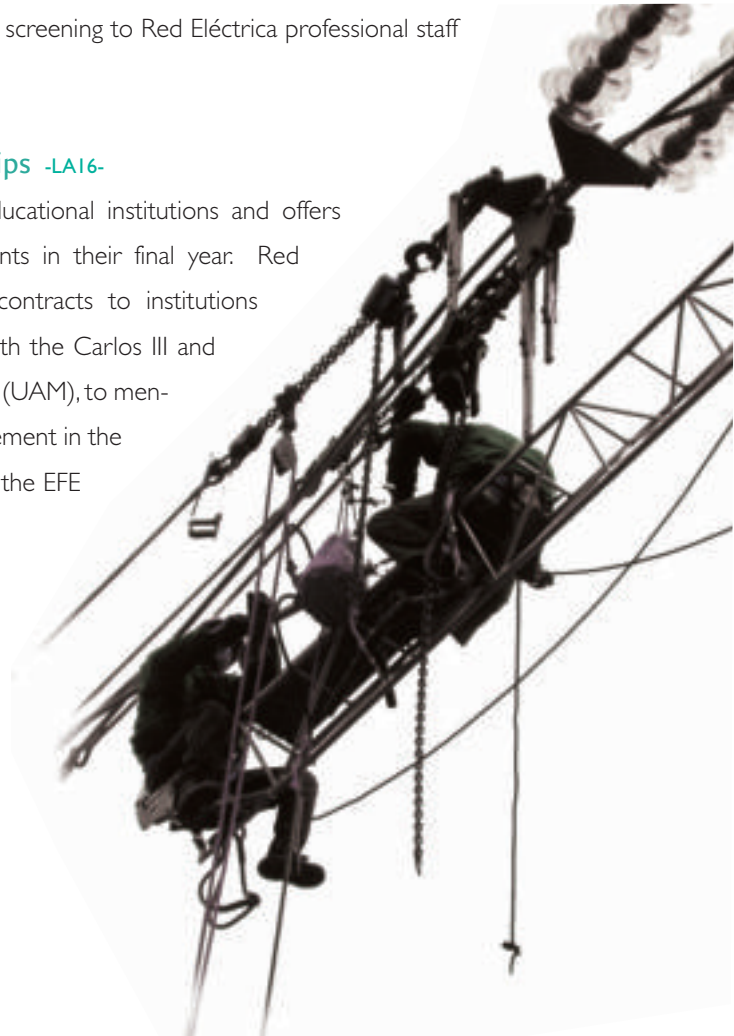
Source: UNESA 2004 Annual Report

### Jobs -LA17-

Jobs are designed in Red Eléctrica based on the management model broken down by qualifications that specifies the knowledge, approach and skills required for proper implementation of each position. All the actions are led by the mentioned qualifications that enclose from the individuals screening to Red Eléctrica professional staff evaluation and development.

### Trainee contracts and scholarships -LA16-

Red Eléctrica is cooperating with educational institutions and offers trainee contracts to university students in their final year. Red Eléctrica provides, also, scholarship contracts to institutions through agreements such as those with the Carlos III and the Universidad Autónoma de Madrid (UAM), to mention just a few. In 2005, a trainee agreement in the communications field was signed with the EFE Foundation.



## Remuneration model

As acknowledged the Human Resources Policy implemented by Red Eléctrica Group, employees must be dealt with in a fair and equitable manner -HR4-. In-house equity, transparency and merit recognition criteria are met by the remuneration model that establishes a set remuneration, within wide salary ranges, as well as extraordinary remunerations for outstanding contributions.

During this year, two indicators have been designed to measure equal opportunities for hiring and day-to-day work. The last one is measured based on different parameters such as training hours, improvement points, promotions and evaluation of how gratified women feel -LA10- (see equality indicators in page 54).

The lines defined in Red Eléctrica Policy for dealings with Executives are met by the management team operations. For leadership improvement and review, the extent of targets compliance are annually evaluated and the findings affect the annual variable remuneration. -3.5-

*Indicators have been designed by Red Eléctrica to check whether equity criteria are properly applied for its employees screening, hiring, training and remuneration*



## Social benefits -LA12-

The Collective Agreement in effect up to 2006 year's end establishes a number of social benefits for REE employees. TDE in Bolivia has also established its own social benefits. Both are detailed in the table below.

### Social benefits

#### REE (Spain)

- ▶ Pensions plan
- ▶ Private medical insurance for each employee and his/her dependents
- ▶ Life and occupational accidents collective policy insurance
- ▶ Income support up to 100% of the salary in the event of temporarily disabled for work.
- ▶ Special rate for electricity supply at the usual home address.
- ▶ Personal loans to meet special personal expenses.
- ▶ Meals voucher.

#### TDE (Bolivia)

- ▶ Occupational accidents insurance for death, temporary disability and medical expenses.
- ▶ Integral medical check up of the complete payroll.
- ▶ Advisory services for retirement proceedings.
- ▶ Personal loans to meet social needs (health, housing and university fees).
- ▶ Extraordinary advances on salary up to one month, to be repaid within a maximum of 6 months.

Since 2003, REE employees can choose a remuneration grant in kind through which they can handle their social benefits package. They are offered annually the choice of collecting the full amount in cash or allocate a proportional share to social benefits. During 2005, the mentioned social benefits that the Utility has paid amounted to Euros 3.5 million.

Besides the above benefits, assistance is available for sports playing in facilities near the work centres.

## Professional development -LA9, LA17-

The Red Eléctrica Group feels that its employees development and training are of critical significance to strive for excellence while performing their duties and a source of satisfaction for the individuals. With that in mind, development and training programmes are designed and implemented to meet the identified needs of each unit in the organisation.

Professional development programmes, which are aimed to further the professional improvement and promotion of employees, are also implemented. In 2005, 75% of the vacancies in Management positions were filled through in-house promotion.

The annual programmes are fitted to the different professional profiles and, in 2005, have covered 93% of the payroll. The training plan is notified in-house through the intranet and has been scheduled for delivery during work hours.

Investment in training amounted to 5.5% of this year's employees costs and scored 8.2 over 10 in the appraisal by those attending the courses.

### REE main training indicators

	2001	2002	2003	2004*	2005
Training hours	34,400	44,184	56,124	90,947	82,506
Hours per employee**	37	48	58	84	68
Employees in training (%)	93	71	94	96	93
Hours of training delivered using our own means	-	-	19,264	31,086	25,175
Number of courses being managed	-	225	438	685	715
Investment per employee (Euros)	-	-	3,014	3,651	3,470
Training investment / employees costs (%)	3.3	3.4	5.1	5.9	5.5
Training during work hours (%)	16.0	72.3	76.6	81.5	81.0

\*The effects of a new graduating class of electricity system operators are enclosed in the 2004 data

\*\*Over the mean payroll.

### TDE (Bolivia) main training indicators

	2001	2002	2003	2004	2005
Training hours	-	-	-	6,241	9,674
Hours per employee	-	-	-	57	84
Employees in training (%)	-	-	-	96	95
Training investment / employees costs (%)	-	-	-	2.39	3.33

(-) Data not available

## Integration programme

A welcome and integration programme has been established by the Red Eléctrica Group for new employees that provides general information about the Utility. The programme is broken down in four phases implemented during 36 months and consists of: fit in stage; integration; training, and consolidation.

The programme will be attended in 2005 by 214 employees hired by the Utility during the last three years. The hours devoted to this programme approach 7,500.

### Welcome and integration programme structure



## Development and training

### Development programmes

- ▶ Programme for management skills development aimed to members of the managerial team. Programme totalled 1,512 hours in 2005
- ▶ Integration programme that totalled 7,424 hours devoted to provide an introduction to the Utility, interpersonal communication skills improvement and electricity sector information
- ▶ Programme for technical employees professional development that has totalled 7,183 hours in 2005
- ▶ Programme for development of management supporting staff that has totalled 4,141 hours during the year

### Training programs

- ▶ The Operation School has organized 206 courses lasting 19,654 hours to ensure top qualified technical staff operates the electricity system
- ▶ Languages programme fitted to the professional career
- ▶ Programme for quality assurance training: Knowledge required to apply the procedures; criteria; regulations and related tools for quality management; training in Corporate Responsibility contents
- ▶ Programme for training in Occupational Risks Prevention: knowledge required about the risks associated to each job, based on the employee-working environment
- ▶ Programme for environmental training. Knowledge aimed to prevent and reduce environmental damages
- ▶ Corporate data processing systems: Knowledge of in-house computer-based data processing tools

### Virtual training

- ▶ Training systems are undergoing improvements through the use of virtual channels as a complement to classroom training attendance

### Training break down -LA9-

Development	hours	Persons attending	% of total hours
Management	1,512	143	1.8
Technical	7,183	440	8.7
Other professional groups	4,465	374	5.4
Welcome and integration	7,424	1,334	9.0
<b>Total development</b>	<b>20,585</b>	<b>2,291</b>	<b>24.9</b>

Horizontal training	hours	Persons attending	% of total hours
Languages	14,851	546	18.0
Management computer-based data processing and office automation	3,613	307	4.4
Prevention of occupational risks -LA16-	3,421	498	4.1
Environment	1,670	53	2.0
Other programs	706	76	0.9
<b>Total of horizontal training</b>	<b>24,260</b>	<b>1,480</b>	<b>29.4</b>

Technical training	hours	Persons attending	% of total hours
Technical-functional training	37,662	3,486	45.6
<b>Total technical training</b>	<b>37,662</b>	<b>3,486</b>	<b>45.6</b>

Different contents related to Human Rights are attached by Red Eléctrica to professional development programmes. Besides training in Corporate Responsibility offered to a small group of employees, in 2005, a virtual platform and contents to provide this training to all employees have been designed. -HR8, HR11-

For training programmes development, the equal opportunities principles are applied by Red Eléctrica and the access to development opportunities available to employees of both sexes in all the professional categories and different seniority levels is evaluated -LA10, HR4-. This information is expanded in the "Equal Opportunities" section under the "Personal Development" heading.

### The Electricity System Operation School -LA17, EC12-



Due to the large percentage of new professionals hired, the training programme is highly affected by the way knowledge about the electricity system is supplied. The Electricity System Operations School was set up, in 2004, to supply that knowledge and keep the more experienced employees continuously updated.

This programme amounts to 30% of the total time devoted to training in Red Eléctrica and 86% of the training is delivered by in-house coaches. A methodology of class work courses, laboratory practices, tours of the facilities, workshop jobs performance, training sessions in a simulator and virtual training are combined in the Operation School.

In 2005, the First Class of specialists graduated from the Electricity System Operation School. The course is delivered jointly with the Higher Technical School of Engineering (ICA) part of the Comillas Pontifical University and is the only one of its kind in our Country.

## Health and Safety on the Job -LA14-

### Preventive Actions Management

The health and safety on the job management system implemented by the Red Eléctrica Group throughout its businesses has been certified to meet the OHSAS 18001 International Standard. The Utility's own prevention service besides a safety and monitoring Committee are part of the Health and Safety on the Job Policy. The Committee is made up by six social representatives from all the work centres. The continuous recycling of information related to safety on the job is also delivered to those groups that are exposed to the largest occupational risks. The health and safety on the job basic principles applied by Red Eléctrica are:

- ▶ Strive to ensure the best possible occupational health for employees.
- ▶ Implement an integrated preventive management approach.
- ▶ Promote a culture aimed to health and safety on the job.
- ▶ Apply the same principles to all outsourced and cooperating companies.



One of the tools the organisation deems basic for risks prevention is training and recycling of knowledge related to employees safety on the job. For such purpose, a description of the risks implied by each job, that covers 100% of the employees, is supplied. In 2005, training in this field was delivered to all the newly hired technical specialists attended on a full time basis and totalled 3.421 hours.

#### Occupational accidents rate indicators -LA7-

Red Eléctrica (Parent Company)	2001	2002	2003	2004	2005
Sick leave due to occupational accidents	9	11	6	10	8
Fatal accidents	0	0	0	0	0
Lost days due to accidents	284	172	120	253	290
Accidents frequency rate*	6.88	6.95	3.64	5.25	4.01
Accidents seriousness rate**	0.18	0.17	0.07	0.12	0.11
Absenteeism rate	4.88	4.46	3.27	3.67	1.71

#### Red Eléctrica Outsourced Contractors

Sick leave due to occupational accidents	78	79	57	40	65
Fatal accidents	1	0	0	2	0
Lost days due to accidents	8,584	3,110	1,350	13,848	1,849
Accidents frequency rate*	66.33	44.10	34.08	21.76	24.48
Accidents seriousness rate**	6.78	1.63	0.81	7.53	0.69

\* Number of sick leaves due to accidents per million hours worked

\*\* Number of lost workdays due to occupational accidents + scale of fatal accidents and disabled employees for thousand hours worked.

#### TDE (Bolivia)

Sick leave due to occupational accidents	-	-	-	5	0
Accidents frequency rate*	-	-	-	17.73	0
Workdays lost due to accidents	-	-	-	223	0
Absenteeism (days)*	-	-	-	399	71

\* Sick leaves, work leaves and other.

(-) Data not available

Up to what point the annual Health and Safety on the Job programme has been complied with is evaluated quarterly throughout the year to try implementing the planned actions. In 2005, compliance reached 70%.

The system for occupational risks evaluation reaches even further than the employees own safety and extends to outsourced companies doing work for the Group's businesses. In 2005, occupational risks prevention in 186 companies that performed contracts for Red Eléctrica operations were certified.

For implementing work in Red Eléctrica facilities, strict working procedures are in effect that show the planning, preparatory work, implementation and control operations aimed to ensure not only the Utility but also, also, the contractor employees safety. This procedure is also applicable to those businesses that access our transmission grid or share its facilities. The possible risks that affect both parties as well as the preventive actions and information required for work performance with the maximum possible safety are shown in the proceedings of coordinated operations. -PRI, PR4-

In 2006, the inspections carried out by REE have shown a 2% of anomalies and lesser non-compliances all of them related to organization steps preliminary to the works implementation.

### Incidents notifying -LA5-

The steps to be implemented when an employee needs medical assistance are shown by the in-house procedures that list the Organisation and Industrial Relations Department responsibilities in this connection.

Information is available to all employees through the in-house web that includes annexes with documents to be filled in and handed over notify an incident to the proper authority.

### Occupational Health

A medical service is available in Red Eléctrica with proper staff and means that are aimed to monitor and prevent health risks. Different health efforts are carried out by this unit: vaccination against influenza; smoking habits and other diseases that have a significant impact on both the social and work context. -LA8-

Medical Service indicators	2001	2002	2003	2004	2005
Medical checkups	689	576	601	838	884
Medical examinations	1,163	1,330	1,432	1,300	1,039
Vaccinations	188	175	160	359	268
Temporary disability medical examinations (T)	205	156	183	216	137

The non-smoking programme started in 2004 that provides a support service to those willing to stop smoking was reviewed in 2005. A drive was started again at year's end to promote better eating habits awareness. -LA8-

## Industrial relations

### Relations with employees representatives -LA3, LA4, LA13-

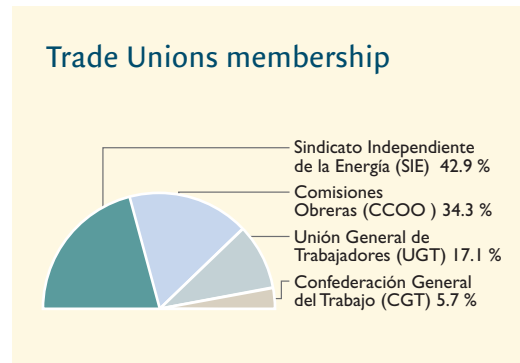
The 8<sup>th</sup> Collective Agreement in effect up to 2006 is the legal framework for Red Eléctrica applying the equal opportunities, diversity and non-discrimination principles in any operation related with personnel management. On December 2005, 99.6% of all non-management employees of Red Eléctrica were covered by that agreement.

The industrial relations model in the Red Eléctrica Group is based on the current legislation and social dialogue. The Human Rights stated at the international level are supported and met: Freedom of association; trade union membership and actual implementation of the collective bargaining right; eradication of all types of forced labour; child work and discrimination when employees are hired and jobs assigned.

In 2005, Red Eléctrica was authorized by the Ministry of Labour to implement a Workforce Layoff Process. The layoff terms were negotiated by the employees Trade Union Representatives and the Utility's management through the mentioned Process. According to this process, employees who were 58 years old at the time the Process was signed or while it remains in effect (2005-2007), can voluntarily apply for retirement if they meet the established requirements. The mentioned Layoff Process may include up to 103 employees.

Trade union operations are carried out through commissions and work groups that enclose members from all the unions active in the Utility. Employees are duly represented in each Red Eléctrica work centre through Shop Stewards and Works Councils. An Inter-Centres Committee is also active as provided for in the Collective Agreement. In this connection, the operations of Trade Union Shop Stewards in Red Eléctrica must be underlined. The following Commissions have been established: Job Evaluation Commission; Training Commission; Health and Safety on the Job Commission; Social Affairs Commission, and Employer-Employees Joint Board for Collective Agreement Monitoring and Interpretation.

Bulleting Boards and spaces in the in-house web are available to Trade Union Shop Stewards for addressing employees.







## Equal opportunities -LA10,HR4-

This principle has been part of all the collective agreements that have been in effect so far and is also shown in the Corporate Responsibility Policy. Red Eléctrica has pioneered, through a positive action programme, the access of women to professions usually performed by men.

A follow up is carried out by Red Eléctrica through its Personnel Management Department to ensure the equal opportunities principle is duly met. In 2005, indicators have been enclosed in the Corporate Responsibility Rule-Book for follow up of the following areas:

- ▶ Equal opportunities in hiring and screening for applicants appraisal, the selected ones and outcome of the screening, regardless of gender:
  - ▶ Equal opportunities in daily work performance, efforts recognition and remuneration.
- The number of women in training programmes, remuneration paid, promotion and individual performance evaluation are taken into account by this indicator:

Diversity and opportunity indicators -LA11-	2001	2002	2003	2004	2005
Women in the payroll(%)	20,2	20,8	21,5	21,3	22,0
Women in management positions ( % of total management positions)	8,2	9,4	9,3	10,9	11,2
Equal opportunities to be hired*	-	-	-	0,716	0,800
Equal opportunities in daily work performance*	-	-	-	0,966	0,950

Women per function group (%)	2001	2002	2003	2004	2005
Management team	8,2	9,4	9,3	10,9	11,2
Higher technical graduates	28,9	30,1	31,6	30,9	32,0
Medium technical graduates	12,5	13,2	12,4	13,5	14,0
Specialists	2,3	1,5	0,4	0,5	1,0
Technical assistants	64,6	65,4	61,0	62,3	62,0
<b>Total women in payroll</b>	<b>20,2</b>	<b>20,8</b>	<b>21,5</b>	<b>21,3</b>	<b>22,0</b>

\*Target: range (0.7-1.2) (-) Data not available

On July 4<sup>th</sup>, 2005, the Constitutional Court ruled that discrimination of a woman employee due to gender was banned. In this connection, the ruling of 31<sup>st</sup> October 2000 issued by the Number 33 Labour Court of Madrid is confirmed. The Higher Court of Madrid had revoked completely, on 23<sup>rd</sup> of April, 2001, that ruling issued by the mentioned Number 33 Labour Court, and the Supreme Court, on the 20<sup>th</sup> of March 2002, had dismissed the appeal filed by the mentioned employee and ratified the ruling of the Madrid Higher Court of Justice.

## Integration of the handicapped

Since 2005 and once Red Eléctrica exceptional record in hiring handicapped individuals was acknowledged, the Utility is cooperating with consulting companies to design and apply social programmes aimed to this group.

## In-house communication -LA17-

The need to apply an in-house communication policy has been addressed by Red Eléctrica in its employees policy as an essential element for their backing, involvement and integration in the Utility's purpose and strategies that publicise its cultural values.

The In-house Communication Plan is drafted annually based on the following points:

- ▶ Ensure strategic information is publicised and understood (Downwards communication).
- ▶ Promote initiatives and receive suggestions for improvement and professional development (upwards communication).
- ▶ Help relations between employees of different units to promote crosswise contact and teamwork.

The 2005 In-house Communication Plan was designed based on the needs found by the In-house Communication Survey drafted in 2004 that involved 47% of the company staff. For this plan development, a total of 15,743 hours have been required and the investment amounted to 1.34% of the employees costs.



*A significant effort for in-house communications was implemented by Red Eléctrica that devoted almost 16,000 hours to such purpose in 2005*

### Main lines for in-house communication

#### Downwards communication

**Utility Plan publicised:** Strategic communication has been structured through meetings and cascading lectures from the Chairman to the Executive Team and down to employees in each Director Office. A questionnaire was distributed to evaluate the impact of this action that relates the lecture content with the daily work of each one of the Utility's employees.



**Grid Breakfast:** A monthly programme of meetings with the Management Committee. The Committee members describe to small groups the main strategic lines of the Utility plan.

**Chairman meetings with the executive team:** This program is intended to implement a permanent exchange of views between the executive team members. At the same time, their comments and suggestions are recorded.

#### Upwards communication



**In-house communication observatories:** Regarded as work groups active in each of the organization units that make up the Utility. Through their representatives, information is gathered about the in-house communication effect in its near context and suggestions for improvement of strategic and organisation areas are recorded.

#### Horizontal crosswise communication

**Link up Project:** Actions that promote to share experiences or work processes between different units of the Utility.

**Other actions:** Involvement of the Utility's employees to mark its 20th Anniversary. Functions held to mark other significant dates that have been attended by the employees families, too.

### In-house communication channels

**Entrelíneas:** In-house journal that is forwarded to all Red Eléctrica employees and retired personnel.

**Red en Línea:** Electronic bulletin board that shows the more outstanding daily corporate news.

**Autoservicio del empleado:** This is a significant information channel that shows, besides other, work developments and remuneration information, employees time management performance and job vacancies.

**Dossier de Prensa (Intranet):** A daily selection of electricity industry news. Offers an Intranet: communication channel and is an indispensable work tool.

**Other channels:** Section that shows specific publications such as the Guide for Proper Environmental Practices, posters about environmental policies, and health and safety on the job notices.

The communication effort that has been carried out this year, during the Utility structuring process, must be highlighted. Those actions enclose the start of an authorized employees layoff process or a notice about the transfer of some employees to a new building -LA4-. In both situations, the help of the Commission responsible for the project was available to draw up the respective communication plan.

In-house communication is implemented at TDE Bolivia through different channels such as Intranet (in 2005, inquiries reached 10,630), magazines and other available means.

### Employees engagement

Employees engagement is understood by Red Eléctrica as a decisive element to promote commitment and integration in the corporate project. For such purpose, a social plan is promoted by the In-house Communication area that encloses events outside work hours, which are aimed to strengthen mutual relations between the employees and promote the idea of being part of the Utility family.

The mentioned actions enclose sports meetings in facilities near the work centre as well as organising championships. Events to mark significant dates jointly with the employees are also planned. Attendance of Red Eléctrica employees to events organized by the Utility amounted to 77% of the complete payroll.



## Employees development

Red Eléctrica aims to provide the best possible conditions for the employees integral development through policies that help creating an open context where employees growth efforts can fully develop.

### Actions to reconcile personal and work life

The balance between personal and work life is a strategic target of the Human Resources Policies in Red Eléctrica. It is a key element to boost employees performance and, therefore, for the organisation improvement.

The 8<sup>th</sup> Collective Agreement currently applied in Red Eléctrica provides the legal framework for the Utility's commitments to its employees. It allows for flexibility and other ways that reconcile working conditions and go well beyond what is common in our country. TDE (Bolivia) is striving also to implement these actions in its own context.

#### Actions to reconcile personal and work life -LA12-

##### Red Eléctrica (Spain)

A 1.700 hours annual work schedule.

Flexible work entry, exit and mealtime arrangements.

Balanced summer and winter work day that allows up to 3.5 months per year of continuous working day.

Work hours schedule fitted to each work centre.

Paid leaves extended beyond the legal requirements.

Maternity workday reduced to a 15% minimum and until the child is 8 years old.

5 days leave to travel on the death of a second cousin and 2 days for moving to a new home.

New provisions established on the 27th January 2005 that can be generally summarized as follows:

- ▶ Extension of maternity leave for employees beginning on the 38th pregnancy week and up to the birth date.
- ▶ The possibility is offered to add breast-feeding hours to the maternity leave or vacations.
- ▶ Financial assistance through a once-off Euros 1.500 payment for newly born, adopted or sheltered child, provided the Utility's employee category and remuneration is less or equivalent to an "8-A rank".
- ▶ Acknowledgment of working mothers right to vacations on a date different from the maternity leave.
- ▶ Right of working fathers to a paid leave equivalent to the complete maternity leave time, or the remaining part, if the mother dies during or after childbirth and regardless of whether she performed remunerated work or not.
- ▶ Reduced workday for legal custody, flexible work hours and choice to stop for mealtime or not, as preferred by the employee.

##### TDE (Bolivia)

Flexible entry and exit work hours.

Workday fitted to the work centres.

Leaves granted beyond the legal requirements as follows: childbirths; employee marriage; spouse, parents, children, brothers or sisters death; home disasters (fire, flooding or some other misfortune).

Vacations are possible at any time during the year; provided they are allowed by the work centre operations. Also, collective vacations are systematically arranged.

Additionally to the above benefits, the agreement reached between the Utility Management and trade union representatives can be highlighted, for it implies work hours, leaves and maternity assistance improvements.



The decision to set up a work group made up by trade union representatives and those from the Utility management is one of the steps issuing from that agreement that seems worth highlighting. The group is intended to improve the social legislation provisions applicable for reconciling work and personal life. The group meets regularly, at least every two months and, first of all, it has already studied the provisions currently effective in the Utility. Based on that study, it will take the steps required to emphasise even further the areas that can be improved.

On the other hand, in March 2005, an agreement was signed by Red Eléctrica with the trade union representatives for supplying integral support to employees affected by gender harassment or marital violence conditions.

Additional to the mentioned steps and to appraise their effectiveness, an indicator that shows how personal and work life are reconciled has been enclosed in 2005 in the CR Rule-Book. The indicator allows for comparison of the social benefits and flexible conditions that Red Eléctrica offers its employees with those granted by other utilities in this industry.

### Corporate Volunteers

During 2005, a Corporate Volunteers team has been set up by ten employees who carry out the following actions:

- ▶ Attendance to a training course on Corporate Responsibility promoted by the Utility.
- ▶ Design, drafting and publishing of the Corporate Volunteers Guide.
- ▶ Evaluation through an Intranet questionnaire of the awareness, knowledge and acceptance by employees of such initiatives. The findings allow for optimism about the future since 95% of those replying are eager to engage in this project.
- ▶ Design of an actions schedule for 2006 that takes into account suggestions about specific projects and ways to engage in them disclosed by the survey.
- ▶ The survey encourages choosing an aim for the Volunteers project and the winner was: [enREDando](#).

As for a specific project, a group of twenty volunteers have organised for this year's Christmas a party in a rest home for the aged located in San Sebastián de los Reyes. A magicians show and a coral group performed in the occasion.

On the other hand, since 1994, the contribution of volunteer blood donors is promoted by the medical service.

Through the Red Cross, two days were scheduled for blood donors. Each time the donors number reached 10% of the payroll working in the Main Offices.

# commitment to society at large

## Relations with the community -2.9, 2.22, 3.8, 3.10, 3.11, 3.12-

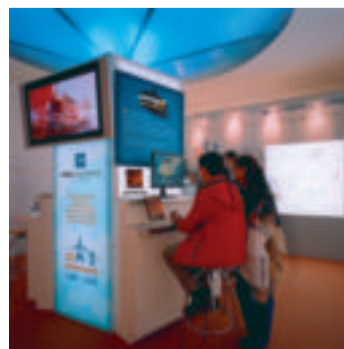
Red Eléctrica Group efforts in this field are aimed to steadily improve the communication channels and contents as well as to design and implement new processes that strengthen or help to further relations with stakeholders groups.

## Shareholders and investors

The mutual trust that Red Eléctrica aims to achieve in its relations with shareholders, investors and the financial world is based in the continuous search for a transparent, fluent and close dialogue that goes beyond meeting strictly the respective legal requirements.

For such purpose, two units are in place: Relations with Shareholders and Relations with Investors. The units identify and answer as required the concerns and demands for information of the different stakeholders through different means that allow for easier communication.

As in previous years, up to what point shareholders are satisfied of their relations with the Utility has been evaluated and shows a 8.69 global score.



*The efficient development of Red Eléctrica operations is directly linked to a satisfactory interaction with all its stakeholders groups.*

### Shareholders and investors

Communication indicators	2003*	2004	2005
Shareholders Services office (visits attended)	1,805	1,165	1,502
Shareholders telephone and e-mail (enquiries attended)	3,060	1,087	2,737
Documents forwarded	3,110	3,161	4,393
Shareholders identifying step (number of Ids recorded)	2,935	3,397	3,564
Shareholders and investors section in the web (number of inquiries)	45,406	44,333	73,114
Analysts and investors meetings	86	132	198
Road shows	9	14	14
Utility introduction meetings	8	7	11

\*The effect of an Extraordinary General Meeting of Shareholders can be seen in the 2003 data.

### Communication channels

Shareholders services office  
 Toll-free telephone 900 100 182  
 Shareholders electronic mail address: [accionistas@ree.es](mailto:accionistas@ree.es)  
 Investors electronic mail address: [relacioninversores@ree.es](mailto:relacioninversores@ree.es)  
 Corporate web: Shareholders and investors section  
 Shareholders quarterly bulletin.

## Clients, agents engaged in the sector and regulatory agencies

The efficient development of Red Eléctrica operations is directly linked to a satisfactory interaction with clients, market agents and regulatory agencies. For such purpose, all actions and communication systems are aimed to identify any possible anomalies, needs, requirements and expectations that help improve the processes efficiency and the rendered services quality.

Access and exchange of information by market agents regarding the different processes, whether technical or financial, are handled through specific computer-based systems (SIOS, SIMEL, etc.). These systems are designed to ensure safety and protection of the clients data and complaints about these systems have not been reported. The confidentiality criteria established by the legislation are also applied for the electricity system operation as established in PO9 Operation Procedure that is available in the Corporate web. [-PR3, PR I I-](#)

### Applications

#### SIOS

The System Operator Information System (SIOS) developed by Red Eléctrica, carries out the information and management tasks of processes related specifically to the electricity market. The system provides complete information accessible to the public in the SIOS server of Internet. In 2005, the new e-SIOS release has been commissioned.

#### SIMEL

Information system about electricity metered values (SIMEL) that has been developed by Red Eléctrica as the System Operator to handle information about the energy exchanged at border positions of the Spanish Electricity Market.

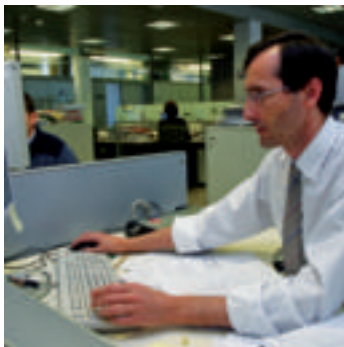
#### BDI

Facilities database. A system that provides structural information about the assets (facilities and equipment) that makes up the complete transmission grid of the Spanish Peninsula System. Each database holds technical, topological, topographic and cartographic information.

#### INES

Statistical information system intended to centralize and integrate all the electricity system statistical information. The system has been designed to exchange information between the system agents, to increase the electricity market transparency and meet throughout the confidentiality criteria specified in the different regulations that develop the legislation in effect.

On the other hand, a system is available in Red Eléctrica for handling the system's agents inquiries and claims. Through this system, 83% of the 182 claims filed during 2005 have been settled.



### Claims trend

Field of operation	Action	2004	2005
Transmission	Facilities development	0	8
	Facilities effects	7	52
	Environmental effects	21	12
Operation	Access to the grid	0	12
	Operation actions	33	49
	Values metering	2	2
Transmission + Operation	Quality of supply	35	26
	Other	2	21
<b>Total</b>		<b>100</b>	<b>182</b>

## Communication with suppliers

Red Eléctrica commitment to society as a whole applies throughout its operations along the chain of value. In order to improve its management, the satisfaction expressed by goods and services suppliers was surveyed and compared to how the Utility is viewed externally, for finding out any possible needs of the suppliers group, how their policies are aligned as regards excellence, environment, occupational risks prevention and corporate responsibility. According to the survey, the suppliers and purchases management process has been evaluated, within the consolidated service range, and shows an overall score of 7.94 over 10.

Suppliers area indicators in the we	2003	2004	2005
Number of visits	18,400	11,047	13,939
Inquiries per site	-	49,148	63,958

(-) Data not available

### Supply and preset quality agreements

The policy of signing supply and preset quality agreements has been continued by Red Eléctrica to consolidate its approach to transparent cooperation and stable supply. Currently, nine agreements are in effect with some of the main suppliers.

### Suppliers qualifying

In line with the cooperation started in 2003, Red Eléctrica continues to operate the REPRO suppliers rating system. Jointly with the other electric utilities, it has actively engaged in the "Audit Committee" work teams and carried out the review of products and services codes.

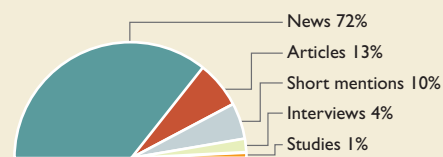
The production and financial capacity of suppliers is taken into account by the rating system, besides the quality, environment, health and safety on the job qualifying criteria -EN33-. Transparency and compliance of the Utility standards are ensured by the rating system. During 2005, 18 suppliers have been disqualified.

### Relations with the media

Red Eléctrica is both a credibility and information transparency reference for the communication media for its efforts to improve released information. In 2005, the satisfaction of information professionals issuing from their relations with the Utility was evaluated through personal interviews and an overall 7.43 over 10 score was achieved.

Written mentions of the Utility in the media, during 2005, have increased 52.8% over the previous

### Break down of 2005 published information





year and reached 9,574 published news broken down as follows: 3,159 in the national circulation newspapers and 6,415 in the regional. The news were related as follows: to the electricity area (63.9%); stock exchange quoted prices (13.9%) and questions about the organisation (11.4%).

The on-line Press Room as a tool for communicating with the media professionals has received 33,256 visits this year and inquiries were addressed to 125,974 sites, or 69% over 2004.

#### Indicators of relations with the media

News published about Red Eléctrica	2003	2004	2005
National circulation press	2,228	2,255	3,159
Regional newspapers	2,724	4,010	6,415
<b>Total</b>	<b>4,952</b>	<b>6,265</b>	<b>9,574</b>

Released information	2003	2004	2005
Press releases	51	50	63
Press conferences	13	14	21
Interviews and public statements	82	73	113

On-line press room	2003	2004	2005
Number of visits	20,281	20,380	33,256
Inquiries addressed to sites	35,400	74,400	125,974

#### Communication and training meetings



*Meetings with the regional media are continued to supply information about the electricity system*

During 2005, Red Eléctrica has continued organising training meetings addressed to regional newspapers journalists for explaining the Spanish Electricity System and the Utility operations in each Autonomous Community. Meetings with the media have been carried out in the Canary Islands (Tenerife and Las Palmas), Balearic Islands, Cantabria, Andalucía, Valencia and Galicia.

Meetings with journalists about the environmental, national and regional information have been also organized to explain different areas of Red Eléctrica operation. The actions carried out by the Utility to make electricity transmission compatible with birds wildlife, lines maintenance work using helicopters and the operations to lay down a second electricity interconnection Spain-Morocco (REMO Project) have been described.

## Media relations in Bolivia

During 2005, the relations with the media of our Bolivian subsidiary, TDE, reached 105 news released to the national press and of them 88 were favourable to the Corporate Image, while the remaining ones were of an unfavourable tenor, due mainly to contingencies external to the Utility. From the published press releases, the news related to the approval or commissioning of new electricity facilities projects must be highlighted.

## Corporate web

Red Eléctrica makes available to society at large its Corporate web in Internet (www.ree.es), which is intended to publish information that may be helpful to the different stakeholders groups.

The effort to keep shareholders promptly informed during 2005 about any relevant utility events, at the same time the information was released to the market, is worth mentioning. Relevant events are shown in the web site as soon as they are notified to the Securities and Investments Board (CNMV) and complement other information about the Utility Corporate Governance. The site supplies complete financial and economic news continuously updated to meet the shareholders and investors demand for information. An effort that far exceeds the legal requirements currently in effect.

Red Eléctrica web site has continued to supply information, on real time, about such items as electricity demand in the Peninsula and the shares stock exchange quoted price. Significant improvements have been also added. Of them, the following can be underlined:

- ▶ The electronic voting system available to shareholders.
- ▶ A section is added to the web site on corporate responsibility.
- ▶ The main site page has been redesigned to increase the content and offer other useful services such as “Red Eléctrica Up To Date”, and notices aimed to the different stakeholders groups.
- ▶ *On-line* surveys to appraise publications and measure up to what point our users are satisfied.



During 2005, almost 15 million sites were looked up during the 609,503 visits to the web coming from about one hundred countries. Figures that exceed the ten million sites and 433,916 visits of 2004. These figures back up the increasing significance of the web as a communication channel with the different stakeholders groups.

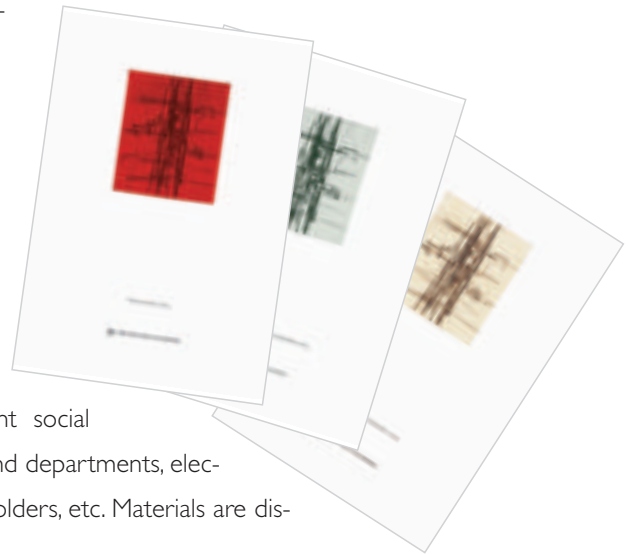
The Group's transparency policy is also shown by the TDE Bolivia website (www.tde.com.bo) that supplies extensive information on both the utility and the Bolivian electricity industry. External visits amounted to 8,708 during 2005.

## Publications

A rather extensive publishing and distribution operation is carried out by Red Eléctrica as a key tool for communication with the different stakeholders groups. Close to 25 corporate, technical and general interest publications are distributed every year and some 100,000 copies were issued in 2005.

The published materials are targeted to an extensive range of different social groups: institutions, government agencies and departments, electric utilities, communications media, shareholders, etc. Materials are distributed to some 4,000 addressees.

The downloads of digital releases through the Corporate website must be added to the above figures. In 2005, over 250,000 copies were downloaded of publications in electronic format. This is 32% over the 2004 figure.



### Main publications in 2005

2004 Annual Report (Spanish and English)
2004 Corporate Responsibility Report (Spanish and English)**
2004 Corporate Governance Report (Spanish and English)**
2004 Environmental Annual Report (Spanish and English)**
Report on the Spanish Electricity System. 2005 advance publication (Spanish and English)**
2004 Report on the Spanish Electricity System
Monthly report. Electricity systems statistics.
Statistic Electricity Bulletin (monthly). Published jointly with the Ministry of Industry, Tourism and Trade.
2005 Map of the Iberian Electricity System.
Shareholders Bulletin (quarterly).
The 20 years book of Red Eléctrica. Published on the 20th Anniversary occasion.
Red Eléctrica and birds wildlife: 15 years of applied research.
Lesser kestrels in electrical substations (triptych).

\* All publications are available in an electronic format at [www.ree.es](http://www.ree.es)

\*\* English only available in electronic format

## Integration in the surrounding environment -SOI-

Red Eléctrica main operations are the management of the electricity system transmission and operation. As a public service necessary for society development, the Utility is committed to an accountable, transparent and quality management that not only meets the current social needs but ensures, as well, its own development requirements on a social accountable and environmental-friendly manner. In that connection, the knowledge and management of the environment to generate environmental and social value are deemed a core need by Red Eléctrica.

The study, research and environment-friendly approach for preservation, development and improvement of the natural and social environment and the promotion of culture and knowledge dissemination efforts are basic principles for Red Eléctrica social activities. During 2005, actions have been targeted on three basic directions:

1. Environment sustainability and improvement.
2. Publicise Red Eléctrica operations
3. Support, cooperation and sponsoring actions:
  - ▶ Support rendered to research, training and publicising.
  - ▶ Support to environmental development.
  - ▶ Support for social, economic and cultural development.

### Environment sustainability and improvement

The Programmes for Projects Social Acceptance (PAS) implemented by Red Eléctrica are an effective tool for the projects integration in the institutional, environmental and social context through a dialogue with stakeholders groups.

A sustainability projects development has been programmed in natural interest areas to promote an environment-friendly approach, social progress and well being through permanent value generation.

### Social Acceptance Programmes (PAS). Principles

- ▶ Spokesmen, their views and positions as concerns the Utility and the projects it develops are identified by the programme and their opinions evaluated.
- ▶ The best-fitted channels for a permanent and systematic direct or indirect dialogue with spokesmen who show interest for Red Eléctrica operations are determined.
- ▶ The programme attempts to reconcile the views of all social and institutional agents with the Utility new projects. Actions intended to help communication and the institutional, environmental and social areas involvement are defined and implemented.
- ▶ Agreements are established that state the Corporate Responsibility variables (social, technical-financial and environmental) aimed to meet the commitments for supporting society development and biodiversity preservation.



*The REMO Project displays to advantage how Red Eléctrica projects are integrated in the institutional, environmental and social surrounding context*



## PAS Projects in 2005

- ▶ International Interconnection Link to Morocco. REMO Project.
- ▶ Special Projects: Balearic Islands.
- ▶ Northwestern and Northeastern alignments projects.
- ▶ Asturias – Castile and León interconnection.
- ▶ Electricity installations intended for power supply to the high speed railway systems.
- ▶ Installations associated to new generation sources (combined cycles, wind farms, etc.) added to the system.

The Social Acceptance Programme for the Second Submarine Electric Power Interconnection Link to Morocco (REMO Project) was started in 2002. Its effectiveness as a tool for the project integration into the social, environmental and institutional context was clearly evidenced. This programme allows for all the agents involvement in the project decision-making and integration process that reached even to a democratic approach for defining the offsetting steps that were approved by the Ministry of the Environment through the Environmental Impact Statement. The role of the MIGRES Foundation has been highly significant as a go-between the Utility and the social and environmental stakeholders agents.

On the other hand, for reconciling the aims of the different stakeholders groups, agreements have been signed, in 2005, with the Tarifa Municipality and the Fishermen's Guild to

implement a number of associated steps that make up for any inconvenience issuing from the project's works in the Tarifa Municipality and its effects on the Fishing Industry. For further information about this project, look up in the Environmental Commitment heading.

## Sustainability Project

In 2005, Red Eléctrica agreed to implement a sustainability project in the Extremadura Autonomous Government territory, as this is a relevant zone for environmental development. After a number of zones were surveyed and studied, the Sierra de Gata mountains range was deemed a fitting location to carry out this project due to its outstanding ecological significance. For this reason, an agreement was signed on December 2005, with the Sierra de Gata Integral Development Association (ADISGATA), to carry out a project designed jointly by Red Eléctrica and the Extremadura Autonomous Government. The project is aimed to carry out an environmental education program

addressed to the youngest that will ensure new generations pay attention and care for their own environment natural values. Both theoretical and practical workshops are part of the programme dealing with the zone flora for gathering the findings of children's research on the material they have collected. Once the different workshops are completed, the results will be published in the book named *Sierra de Gata Flora for the Children*.

### Publicising Red Eléctrica operations

As part of Red Eléctrica Group transparency policy and to get the Utility and its operations closer to the different Autonomous Communities Parliaments, tours have been scheduled since 2005 to allow members of Industry and Energy Committees to visit the Electricity Control Centres that implement on real time the Electricity System Operation. The actual condition of the transmission grid and the development plans required to meet future demand and allow for ready access to the system of new generation sources output have been also explained.

The tours outcome has been rather positive and plans are afoot to continue them during the next few years. In this way, all the Industry and Environment Committees as well as those interested in Red Eléctrica operations and functions will be able to know first-hand the transmission grid and how the electricity system operation is managed and its development.

### Support, cooperation and sponsoring actions

The efforts to publicise the Spanish Electricity System Operation and the cooperation offered to educational centres that carry out research on high voltage electricity grids, added to the support rendered to sustainable development through cooperation in environmental, cultural and social projects are the basic pillars for Red Eléctrica social programmes implementation.

#### Support to education

For Red Eléctrica, education is a tool for integration, social development and innovation. Its actions in this field are mainly addressed to the academic sphere through master agreements for cooperation. Cooperation of two types is available: financial contributions and employees involvement and, at times, the Utility facilities are made available for joint projects.



*Throughout this year, our Utility has welcomed the visit of Members from different Parliaments who were able to watch first-hand both the Peninsula electricity system operation and transmission grid management*

### Cooperation rendered to research and educational centres

**Foundation for power regulation studies.** Research programme known as “Studies on hydroelectric power plants operating conditions in a competitive market”.

**Menéndez Pelayo International University** (Summer Courses). Organising and active involvement in the course “Energy Grids. Their operation and reliable power supply in Spain”.

**Complutense University.** Organizing and actively engaged in the Summer Course named: Energy Policy in Spain: the necessary change”.

**The Red Eléctrica Chair – Madrid Autonomous University.** Cooperation agreement to develop social research on energy and the environment. Carlos III University a teaching cooperation agreement to develop the Master Course on “Industrial Economics”, focussed on the energy sector. This is the Course 14th Edition.

**Navarre University (IESE).** Cooperation rendered as the Sponsoring Utility to develop entrepreneurial research programmes.

**Valladolid University.** Programme of associated Professors linked to businesses. Through this programme, Red Eléctrica technical staff has the opportunity to teach on subject related to the electricity area and allow its facilities to be used for a practical teaching approach.

**Barcelona University.** Cooperation rendered for a “Master on Corporate Social Responsibility. Social Accounting and Auditing” delivered at the Centre for Economic and Social Research (CIES).

### Other educational commitments

**6th Madrid Sciences Fair.**

Exhibit named “From Einstein to the Future”.

**2nd Euro Mediterranean Meeting on Energy.**

One day meeting on “of energy today and tomorrow”

3rd Symposium delivered by Electrotecnia Catalán.

**Business – Parliament Programme.** Coordinated by Círculo de Empresarios (Businessmen Society), this programme is aimed to the mutual knowledge improvement between businesses and Members of Parliament. During 2005, two Senators engaged in scheduled visits that explained the Utility different areas of operation.



### Support to the environment.

The natural environment preservation and improvement is a key guideline in Red Eléctrica day-to-day operations that complement active engagement in congresses and meetings. Red Eléctrica cooperates, too, with other institutions for development of environmental awareness and protection projects.



## Cooperation with environmental institutions

**Higher Council for Scientific Research (CSIC).** Doñana Biological Experimental Station. Cooperation in projects for:

- ▶ “Studying the effectiveness and useful life of birds guards that prevent collisions against electricity transmission lines”, started in 2004, it is planned to be completed in 2006.
- ▶ Processing the findings of a “Study about the way lesser kestrels use electricity transmission substations”.
- ▶ Analysis of transmission lines effects on birds wildlife in Andalucía grain- growing pseudosteppes and feasibility study of habitat management to reduce the impact.

**Aragón Autonomous Government,** cooperation to develop projects for electricity transmission lines that minimise the collision risks of threatened wildlife birds. Actions are planned to be completed 2007-year's end.

### **Agriculture, Hydraulic Resources and the Environment Department of the Murcia Autonomous Government.**

Cooperation rendered to protect and restore the *Hieraaetus fasciatus* population by fitting birds guards to transmission lines. This is part of the Life-Nature project named “*Hieraaetus fasciatus* preservation – Almenara - Murcia” and will be continued up to 2006.

**Agriculture and the Environment Department of the Extremadura Autonomous Government** a project aimed to study those stretches of transmission lines that could imply a hazard and actions for birds guards fitting to lines.

**Applied Magnetism Institute of Madrid Complutense University** – RENFE – CSIC and UNESA. Cooperation rendered to the project “Currents induced in the human body by electromagnetic fields of industrial frequency”. Course started at the end of 2003 and planned to end in 2006.

**Fundación Entorno (Environment Foundation).** Cooperation agreement to promote environmental improvement carrying out training, information and research actions through a cooperation arrangement with the business world.

**Spanish Society of Ornithology.** Framework agreement to cooperate in a study to determine how the construction, operation and maintenance of electricity transmission lines can coexist and concur with the natural environment preservation.

**Excellence Club for Sustainability and the Asturian Environmental Foundation.** Sponsoring the “Responsibility i +” website where new trends in Corporate Responsibility are publicised.



*Environmental research and awareness are one of Red Eléctrica's main action lines in the social commitment sphere*



**6<sup>th</sup> National Congress of Environmental Journalism** organised by the Journalists Association for Environmental Information. Financial cooperation and the Utility employees active engagement in different groups.

**Redlife Magazine.** Cooperation rendered to its awareness stimulation efforts through actions to sponsor great bustards preservation.

#### **Assistance for social and cultural development**

Cooperation in this area is aimed mainly to projects located in those zones where Red Eléctrica operations are carried out. In this connection, Red Eléctrica cooperates with many municipal governments to implement a rather sizable number of social and cultural actions aimed to improve the citizens well-being.

**Alcobendas Sports Foundation (FUNDAL).** This is aimed to sponsor both the local sports development and offer to the Utility employees easy access for sports practice. A share of the sponsoring is devoted to a number of social programmes promoted by philanthropic institutions. In 2005, it enclosed:

- ▶ FUNDAL – UNICEF Alliance.
- ▶ "Education through sports" programme.
- ▶ Integration through sports. Immigrants and handicapped persons.
- ▶ "Women also play" programme.

**Spanish Agency for International Cooperation.** Cooperation rendered to the "Let Solidarity Score" organized to assist the Asian South-East tsunami victims.

**Europe Forum for New Economy.** Co-sponsoring meetings organised by this



*Red Eléctrica cooperates with local governments to implement social and cultural activities addressed to improve the citizens well-being*

Institution where first rate speakers address society's main problems.

**Navarre University Clinic.** Cooperation agreement for medical research on diseases such as cancer and Alzheimer.

**Carlos III Foundation.** Cooperation agreement for development of social efforts carried out by this Institution.

**Road Assistance Association of the Basque Country (DYA).** Financial cooperation for the Institution assistance allowed to accidents victims and sick people.

**Madrid Autonomous University.** Cooperation agreement to sponsor the "32<sup>nd</sup> Cycle of Outstanding Music Composers and Players".

**Urgent Spanish Foundation.** Agreement to promote a proper use of Spanish.

## Red Eléctrica in Bolivia

TDE Corporate Responsibility Programmes are planned for an active involvement and development approach that is far from the usual assistance and short-term aid actions. Educational areas, relations at community levels for mutual benefit, awareness and dissemination of environmental culture, health and safety on the job, publicising the best business management practices and culture promotion are TDE's main concerns in this area.

### Education and training

TDE commitment to education is evidence by the different actions carried out in cooperation with elementary and high school education centres and the agreements with universities for mutual cooperation.

**TDE Electricity Interactive Centre at Cochabamba.** This project is intended to promote and strengthen the teaching of electricity in a didactic and interactive manner. Some 1.900 children and youngsters, 6 to 17 years old, study at eleven educational institutions active this year in the programme.

**Programme in rural areas.** The programme is intended to ensure children in rural areas are aware of how electricity should be used and the required caution. In 2005, through different actions, 7.153 children in 54 schools have engaged directly, while their parents and other people in these areas have indirectly received the delivered information.

**Cooperation with universities.** During 2005, TDE has enlarged the mutual cooperation agreement with four national recognised universities for the appointment of students in training and graduation projects completed in the Utility. During the year, 12 students have been able to benefit from this programme.

### Culture

Main actions in the cultural sphere are addressed to support the region cultural values and customs and help young artists development. In this connection, TDE has sponsored during the year a significant number of cultural activities (music, drama, painting). Besides other, the following can be highlighted:

**Cochabamba Symphony Orchestra:** TDE supplied its Auditorium for the Youth Orchestra of the Ameritas (YOA) trial performance during screening of the best possible representatives from each country for an international concerts tour.

**German Embassy and the Bolivian – German Cultural Institute:** Classic guitar concert by the well-known German player, Roger Zimmermann, held in TDE's Auditorium.

**Cochabamba Philharmonic Society:** Performance by Melo Tomsich contemporary dance workshop as well as a concert by the recognized international piano player Anthony Puebles and a concert by the well-known cello player (Nicholas Anderson) and piano player (Elizabeth Schummer).



*The electricity interactive centre of TDE has been toured by 1.900 children from eleven educational institutions*



**National Symphonic Orchestra:** Baroque music workshop in the Utility's Auditorium by a Spanish Quartet (Forma Antiqua) of specialists in this music who share with children and youngsters their experiences and knowledge.

**Bolivian American Centre:** Performance by the Chilean Guitar Quartet in TDE Auditorium.

**Libertalia Editores:** The poetry book "Abril Poesía" was introduced in the Utility Auditorium to a select group of young poets.

**Institute for Human Development:** Supported by several international agencies: on the "World Day Against AIDs" occasion the Gala Premier of the Bolivian movie "Patricia... once is enough" that dwells in this pressing problem was shown in the Utility Auditorium.

#### **Other actions**

As in previous years, TDE contributes to social institutions that support worst off children, old age and sick people, and renders continuous support to the Bolivian Rescue Volunteers Group "SAR" for their search and rescue, paramedics and firemen services. The SAR group on the other hand delivered practical courses on First Aid procedures to TDE employees.

Within the business sphere, TDE is actively cooperating to different events such as congresses, fairs, courses or

workshops aimed to increase knowledge about electricity systems and the social and environmental areas. In this connection, the following can be highlighted during 2005:

- ▶ 11<sup>th</sup> Bolivian Mathematics Congress "Mathematics and Progress".
- ▶ 8<sup>th</sup> Civil Engineering International Meetings.
- ▶ Workshop on "Investment, development and social partners agreement".
- ▶ 4<sup>th</sup> National Congress on Maintenance.
- ▶ 3<sup>rd</sup> National Environment Symposium on Integrated Management Systems.
- ▶ 30<sup>th</sup> International EXPOCRUZ FAIR..



# environmental responsibility

*Protection of the natural environment is deemed a priority commitment and as such is enclosed in our Environmental Policy Statement. In this way, the Group states “its commitment to the environment protection and to promote that each employee of the Group performs its duties reconciling the work demands with the maximum respect for the environment, through the continuous and improved compliance of its duties and functions”*

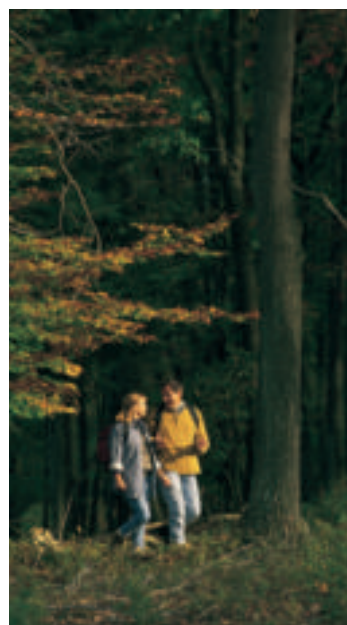
# environmental responsibility\*

Red Eléctrica Group operations are implemented to fully meet the demanding requirements of its environmental policy. For assured compliance, Red Eléctrica has established throughout all the Group businesses an environmental management system certified by ISO 14001 and, since October 2001, is registered in the Community Eco-management and Auditing System (EMAS). During 2005, that certificate was extended to all the operations in the Balearic and Canary Islands, since Red Eléctrica has taken over its systems operation since 2004.

The system follow up is implemented by the Environment Department that renders technical support to all the organisation units. Red Eléctrica commitment to the environment protection, an area where it holds a worldwide leadership position in the electricity industry, is clearly shown by the efforts to apply the more natural environment-friendly technical procedures, as well as the research, training and communication actions, cooperation with environmental agencies, etc.

The Group's activities are not the usual ones in a traditional production process. The possible environmental effects are induced by the existing facilities (electricity transmission lines and substations) as well as the construction and maintenance operations. The size and environmental diversity of the areas where the facilities are located as well as the significant growth experienced during the last few years due to the increased electricity demand and construction of new generation power plants can be underlined.

More detailed information on the Red Electrical environmental management and policy, as well as broader information on annual company activities in this sphere, can be viewed in the environment section of the corporate website: [www.ree.es](http://www.ree.es) and in the environmental report published annually by Red Eléctrica



## Main potential effects on the environment-EN 14-

- ▶ Effects on vegetation (ground clearing and maintenance of safety rights-of-way).
- ▶ Wildlife affected (birds wildlife affected mainly by collisions).
- ▶ Risk of pollutants spillage (oils).
- ▶ Visual impact of towers and facilities (lines and substations) as well as accesses.
- ▶ Land taken up and use restrictions.
- ▶ Electromagnetic fields.
- ▶ Noise issuing from facilities.
- ▶ Wastes produced.

**-EN14, EN7-** Through the preventive and corrective steps being applied (mainly, based on the selection of facilities location), environmental actions (which are described throughout this document) and proper follow up of the construction and maintenance operations, the potential impacts are mitigated and will be usually compatible or barely significant.

\* All the indicators in this chapter are just related to the electricity business in Spain.

### Facilities located in protected areas

Transmission lines going through Natura Network areas -EN6, EN29-	
Km. of line in SAC/km of total lines.	13.12 %
Lines surface in SAC/ total surface of SAC in Spain	0.097 %
Km. of line in SPA / km of total lines	9.10 %
Lines surface in SPA/ total SPA surface in Spain	0.096 %

Substations located in Red Natura -EN6, EN29-	
Number of substations in SAC/ total of substations.	8.37 %
Number of substations in SPA/ total of substations.	7.41 %

*The Red Natura 3000 is a network of natural areas promoted by the European Union for preservation of biodiversity (wildlife, flora and their natural habitats). To be enclosed in the Network, both SACs (Special Areas of Conservation) established according to the Habitats Directive) and SPAs (Special Protection Areas - For birds - , established according to the BIRDS Directive) are proposed by the Member states.*

*In Spain, quite a large number of preservation legal provisions are in effect and taken into account by Red Eléctrica for its operations performance. For indicators computation, the use of Natura Network as a reference was decided, since it supplies homogeneous and updated data from the Nature Databank in the Ministry of the Environment.*

## environmental preservation

### Actions in the project stage

Based on its environmental policy, Red Eléctrica Group performs environmental impact studies for every new facility planned, whether it is or not submitted to an Environmental Impact Assessment evaluation procedure as established by Law 6/2001 of May 8<sup>th</sup>.

Through the mentioned surveys, the lowest impact alternative for each project is determined in cooperation with the different Environmental Agencies of the affected zones.

Sometimes, facilities have to be built in protected areas although it is avoided whenever possible.

Lines built in Natura Network Areas -EN7, EN25*-		2005
Km of line built in SAC/km of built line		1.82 %
Km of line built in SPA/km of built line		1.82 %

Substations built in Natura Network Areas -EN7, EN25*-		2005
Substations built in SAC/Built substations		0
Substations built in SPA/Built substations		0

*\* Construction operations could impact the above area (as described in the previous page table). Preventive and corrective actions are implemented, which in these areas are rather more exhaustive, to ensure the impacts will be compatible or non-significant.*

*SAC = Special Area of Conservation.*

*SPA = Special Protection Areas - for birds -*

During the project stage, the proper preventive and corrective steps for each situation are determined and implemented later on, as fitting, while the construction and maintenance operations are performed. If protected areas are affected, the mentioned actions are strictly enforced and other offsetting actions are applied as well.

### Projects approved in 2005

Spain-Morocco, 2nd circuit	Muruarte substation - incoming/ outgoing connection - Cordobilla Line – Orcoyen
Abanto-Ziérbena line	
Abanto substation	New incoming/ outgoing connection in Galapagar substation
Galapagar junction – S.S. de los Reyes junction line	
Mesón Do Vento – Puentes de García Rodríguez line	Soto – Penagos line
	Penagos substation

### Actions during the construction stage

To find out how the different preventive and corrective steps are applied and their effectiveness, environmental supervision is implemented by Red Eléctrica during construction of new facilities (lines and electricity substations) as well as for enlargement, renewal and improvement of those already in service.

#### Environmental supervision carried out in 2005

	New facilities	Enlargement, renewal and improvement works
Lines	8	9
Substations	12	146

In addition to the specific actions follow up of the respective work, during environmental supervision, the we cooperate closely with our contractors to ensure the usual environmental requirements applicable during construction operations are duly met.

As an example of how the operations performed by our contractors are controlled, the efforts implemented during 2004 to keep a record of incidents issuing from such works can be underlined.



Construction incidents -EN 13-	2004	2005
Oil leaks and spillage due to faulty transformers refilling	1 (1)	0
Oils and hydrocarbon leaks and spillage due to small failures while construction machinery is used	2 (2)	15 (2)
<b>Total</b>	<b>3</b>	<b>15 (3)</b>

(1) Serious incident: 2000 litres of oil were spilled in adverse meteorological conditions.

(2) Barely serious incident.

(3) This is not an actual increase, since it results from a more strict recording of incidents.

Of the preventive or corrective steps implemented, the following are especially relevant -EN27-:



### Escombreras-El Palmar new transmission line

The new Escombreras-El Palmar transmission line goes across the Sierra de Carrascoy SAC. The protected species\* (Chamaerops humilis, Quercus coccifera, Pistacia lentiscus and Rhamnus lycioides) that could be affected by the works have been moved to a nursery for later replanting on the same location once the works are completed.

### Muruarte Substation

Select – felling to preserve a holm-oak woods area.

\*As provided by Order of 17th February 1989 on wild flora species protection within the Murcia Autonomous Community.

## Remo Project (2nd Cable of the Spain – Morocco Interconnection)

Runs across the Straight Natural Park at Tarifa (SAC and SPA)

### Outstanding environmental actions

- ▶ Survey to determine whether the interconnection cables have affected submarine phanerogams (*Cymodocea nodosa*) prairies condition.
- ▶ Biological stops
  - ▶ Concerning the spring and fall migration flights of birds across the Straight.
  - ▶ Concerning the bluefin tuna passage through the Tarifa Tunny Fishery
  - ▶ Concerning relevant birds found (R.D. 439/90) in Los Lances Beach (Caffer swift – *Apus caffer* – and plovers – *Charadrius alexandrinus*).
- ▶ Removal of protected plant species representative of the SAC (*Sarcoconia fruticosa* and *Spartina maritima*) to be replanted in areas which are not affected by works at Los Lances beach.
- ▶ Performance of a microbathymetric and biological survey of seabottom areas in the intertidal zone at Los Lances beach to determine what corrective steps must be applied.
- ▶ Edaphic horizons recovery and junction boxes and ditches restoration.
- ▶ Continuous follow up by archaeologists during ditches excavation.
- ▶ A stand-alone system based on renewable energies (solar photovoltaic and wind farms) will be used for power supply to the works in Los Lances beach.

### Offsetting actions implemented\*

An agreement has been signed with the Migres Foundation to coordinate the above actions.

- ▶ A survey on the *Aphanius baeticus* fish population was implemented for its medium and long-term management. This species, found in 2002, in the Jara River; was catalogued by the Andalucía Autonomous Government as an endemism from a worldwide viewpoint.
- ▶ An ornithologic observatory was established in the Palmones River.
- ▶ Actions were implemented to evaluate the effects of submarine operations under seabottom areas.
- ▶ Survey to determine the feasibility of using the Palomas Island in Tarifa for ecological and cultural purposes.

\*These actions are independent of the project and intended to offset the project's negative effects in a habitat.

The REMO Project, that the European Union regards significant for the EC must be highlighted due to its special characteristics.



Additionally, during this year, the following landscape restoration works have been carried out during construction of facilities and in some of the existing ones:

### Landscape restoration

#### Balboa – Portuguese Border Transmission Line -EN26-

During the construction phase, 23 oaks and 6 eucalyptus had to be felled. A 5 to 1 ratio was established by the Environmental Impact Statement as the offsetting action. A landscape restoration project has planted 900 oaks and 100 pinetrees. The base of one tower was restored through the addition of topsoil and seeds of plants native to the area

#### Level heightening of the Lomba-Trives Transmission Line

Of the accesses in service, four have been restored, loose materials removed from the slopes and ducts crossing under roads for water drainage have been fitted.

#### Cornatel Substation (1)

Located in an SAC and SPA catalogued area, the docking area near the substation has been cleared, restored and seed planted.

#### Ondinas Substation (1)

Located in a SAC, SPA and Protected Natural Area, land around the site to build a hut has been cleared, restored and seeds planted.

#### San Agustín Substation (1)

Located in a SAC, land around the site to build a hut has been cleared, restored and seeds planted.

#### Moncayo and Oncala Substations (1)

A stone veneer has been applied to the buildings for blending into the landscape.

#### Jordana Substation

An infographics simulation was carried out to determine the future visual impact of the substation and the possible corrective steps to be applied.

(1) Facilities purchased recently from other utilities.

## Actions during the maintenance phase

### Birds wildlife protection -EN27-

Birds collisions are the only hazard that electricity transmission (220 and 400 kV) lines can imply. During the project stage, those areas, where birds wildlife could be affected,

are avoided whenever possible and

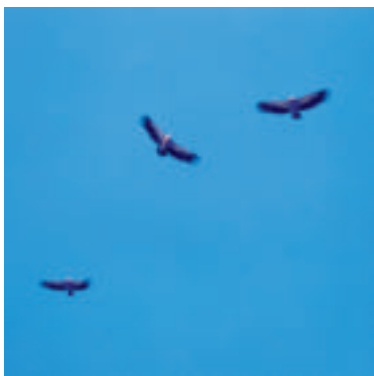
the required preventive and corrective steps always implemented.

For already built lines that might induce some of the mentioned effects, Red Eléctrica is carrying out a rather significant effort to follow up and refit facilities. In 2005, the following actions have been implemented:



### Bird flight diverters

Bird flight diverters have been fitted to transmission lines in Aragón (32 kilometres) and Extremadura (23 kilometres) Autonomous Communities through agreements signed with the mentioned authorities aimed to correct electricity transmission lines alignments.



### Lines follow up

Follow up of 10 kilometres of transmission lines fitted with bird flight diverters that run across a special zone for birds protection (SPA) in "Sierra de Almenara, las Moreras and Cabo COPE", Murcia, has been started. Birds collisions have not been recorded during the follow up operation.

### Experimental bird flight diverters fitted to lines

The experimental fitting of a new bird flight diverters model to the Palos-Guillena transmission line has been followed up. Conclusive findings are not available so far. (R+D Project).

Transmission lines fitted with bird flight diverters -EN27-	2005
Total Km of fitted lines*	631
Fitted lines in Km/Total km.*	2.84 %
Km. of lines fitted that run through SPA areas/km. of lines that go across SPA*	10.20 %

\* km of alignment



Additionally, other actions related to birds wildlife have been carried out and of them the following can be highlighted:

### Storks nesting

Nesting as well as the effectiveness of nesting deterrent devices to keep the white stork (*Ciconia ciconia*) from nesting in transmission lines that run through Extremadura, Castile-La Mancha, Castile and León, and Madrid Autonomous Communities have been followed up. Based on the follow up findings, it can be stated that the fitted deterrent devices have been effective in 50% of the cases.

### Peregrine Falcon follow up

Support has been rendered to technical staff of the Wildlife Section in the Environment Department Territorial Service of the Castile and León Autonomous Government to fit man-made nests in towers and implement a follow up and population count of *Falco peregrinus* individuals.

Trend of Peregrine Falcon population in Valladolid -EN 27-	2003	2004	2005
Total number of inventory recorded nests	29	33	40
Number of nests in electricity transmission lines	18	21	28

### Great bustards in electricity transmission lines

A research project has been implemented jointly with the Doñana Biological Station and the Natural Sciences Museum of Madrid (both are part of the Higher Council for Scientific Research – CSIC) to study how our electricity transmission lines affect Andalusian steppe birds, mainly, great bustard population, and possible actions on its habitat to reduce the risk of collision against electricity transmission lines (R + D Project).

### Lighting pollution

A methodology and computer-based tool have been developed to study the possible lighting pollution induced by electricity substations. The mentioned methodology has been tested in two operating substations.

During 2006, the use of that methodology as a preventive tool (for projects) and to draw up an actions catalogue to reduce lighting pollution issuing from existing substations will be implemented (R+D Project).



### Protection against incidents

Oil spillage in substations is one of the main possible causes of environmental incidents arising from Red Eléctrica operations. Spillages are rare and usually not serious since the respective preventive steps are applied (proper maintenance of the equipment and availability of pits/dykes located below the equipment/storage of any possible pollutant substances). Red Eléctrica is working as well to increase preventive steps and reduce the possible impacts from such incidents. For such purpose, the following actions have been implemented during 2005:

- ▶ Expansion tanks of power equipment have been reviewed and preventive steps proposed for 2006.
- ▶ Review of auxiliary transformers and preventive steps proposed to be implemented during 2006.



- ▶ Improved means supplied to remove spillages (specific absorbent materials to soak up and clean hydrocarbons spillages).

To prevent fires due to lines faults, the selective trees felling and pruning operations carried out by REE for maintenance of safe rights-off-way have to be highlighted.

Incidents issuing from maintenance operations	Number of incidents		
	2003	2004	2005
Fires (due to lines faults)	3	2	0
Leaks and spillages -ENI3-	2	3	6
Explosions in current and capacitor transformers	1	0	1(1)
Oils and hydrocarbons leaks and spillages during substations equipment operation and maintenance	1	2	1(2)
Leaks and spillages of stored substances/equipment	0	1	4(3)
Floods	0	0	1
<b>Total</b>	<b>5</b>	<b>5</b>	<b>7</b>

(1) Explosion in a current transformer. Spillage of some 100 litres of oil.

(2) The failure of one of the hoses used for filtering a power transformer polluted 100 m<sup>2</sup> of land. Spillage of some 1000 litres.

(3) **a-** the failure of two instrument transformers during handling. Spillage of some 300 litres of oil. **b-** circuit breaker failure that polluted 6 m<sup>2</sup> of gravel. **c-** failure of a capacitor transformer. Spillage of some 100 litres of oil.

### New assets review

In 2005, an environmental review of virtually all the substations purchased from Endesa and Unión Fenosa (156 substations) was completed. The works were intended to find out the present environmental condition of the purchased facilities and applied for planning a number of actions (both preventive and corrective steps) for the facilities refitting.

A social-environmental inventory of the lines purchased from the mentioned utilities (375 transmission lines) has been also carried out. It encloses all the lines going across areas under Natura Network protection as well as locations near population centres. In this event, a number of preventive actions have been defined already based on the findings.

During 2006, the review of the new assets purchased from INALTA and Electra de Viesgo will be continued and the required actions to reduce any possible environmental risks will be implemented.



# environmental monitoring and supervision

## Electromagnetic fields and noises follow up

During 2005, the planned measurement of electric fields, magnetic fields and noises, that was initiated in 2004 has been continued and will be implemented for several years to come.

The mentioned values were measured during the first year in lines and substations located near buildings or leisure areas to evaluate the exposure of the public at large to electric and magnetic fields issuing from Red Eléctrica facilities. Full compliance of the respective European Recommendation (1999/519/EC) was disclosed when the completed measurement values were appraised.

The fields issuing from seven transmission lines have been measured this year due to some inquiries and claims. The values stated in the European Union Recommendations for electric and magnetic fields have never been exceeded.

As for noises, the work performed to draw up a methodology to identify and characterize the noise sources in substations should be underlined. The methodology is aimed to draw up noise maps of in-service and future facilities. In the existing substations, it will be possible to evaluate the substation contribution to the environmental noise in its surrounding area (noise from elements in the substation will be discriminated from that arising from other sources, such as traffic, etc). Whether the noise legislation is met or not and the effectiveness of any possible corrective steps will be determined by the mentioned methodology. Through this tool, it will be possible also to determine as well and accurately the acoustic effects issuing from a substation before construction is started (R + D Project).

Additionally, during 2005, measurements have been carried out in 37 substations (selection based on number of employees and their work hours) to evaluate the exposure of workmen to electromagnetic fields and noises. The electric and magnetic field levels measured have been compared with the values shown in the European Directive on Occupational Exposure to Electromagnetic Fields (2004/40/EC), which is not binding until it is transferred to the National Legislation (the Directive won't be in effect until 2008). The Directive reference (500  $\mu$ T) was duly met since the magnetic field values measured are below that reference. Also, 92% of the electric field values measured are below the reference (10 kV/m). As regards audible noises, the limit established by the



National Legislation – RD 1316/1989 – have never been exceeded and actions are therefore not required.

In 2006, the Values Measurement Plan will be continued. The population exposure to fields and noises will be evaluated and efforts targeted on facilities purchased recently from other utilities.

## Discharges control

Sulphur hexafluoride (SF<sub>6</sub>), a gas that has been identified as one of those contributing to the greenhouse effect, is used as an insulation element in electric facilities and equipment. Any gas discharges are due to accidental leaks during the installation and maintenance of the equipment. Discharges are computed by the Ministry of the Environment assuming they amount to 2% of the total installed volume. Red Eléctrica is committed to reduce to the maximum extent possible discharges and to such purpose adequate preventive maintenance is implemented (this allows to find an eventual leak) and strict procedures have been developed for handling the gas and avoid virtually any release during equipment filling and emptying operations. On the other hand, procedures for recycling the gas have been established and 389.43 kg. have been used again in 2005.

In this connection, REE has been involved in drawing up (jointly with other electricity utilities) a management guide to handle SF<sub>6</sub> in Spain's Electricity Industry.

SF <sub>6</sub> discharges to atmosphere in 2005 (kg)	1,371.88
SF <sub>6</sub> discharges in 2005 (Equivalent CO <sub>2</sub> tonnes) (1) -EN8-	30,455.78

(1) Based on Earth warm up during 100 years. Source: IPCC (Intergovernmental panel on Climate Change).

Discharges that may damage the ozone layer are not induced by REE operations. For minimizing gas discharges from air conditioning units (R22), regular checks and adequate equipment maintenance are carried out. Additionally, the replacement of that equipment by R410 units (that do not impair the ozone layer and their greenhouse effect is low) has been also started. -EN9-

Discharges related to road trips by employees (fleet vehicles) -EN8- and indirect discharges issuing from electricity consumed -EN30- are shown below:



Fleet vehicles discharges during trips (equivalent CO <sub>2</sub> tonnes) (2)	1,321.90
Discharges in 2005 due to electricity consumed (Equivalent CO <sub>2</sub> tonnes) (3)	4,659.98

(2) Source applied for computing: GHG Protocol Initiative.  
(3) Source applied for computing: International Energy Agency 2004.

An estimate of discharges due to employees, cooperating personnel and visitors road trips in private vehicles who travel to a work centre in the Main Offices have been also estimated. **-EN30-**

Equivalent CO <sub>2</sub> tonnes due to private vehicles used for travelling to a work center (4)	1,152.96
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(4) Data estimated for the Main Offices Building. Discharge factor according to the GHG Protocol Initiative

## Disciplinary proceedings **-EN16-**

During 2005, five disciplinary proceedings have been started. One has been shelved and four are still pending a decision. Also, this year, two disciplinary proceedings pending since 2003 and two started in 2004 have been shelved. One of the last mentioned proceedings was penalised with a fine.

The table below shows the disciplinary proceedings started during the last three years:



Year it was started	Present condition			
	Shelved	Shelved with a fine <b>-EN 16-</b>	Total amount of fines (€) <b>-EN 16-</b>	Pending a decision
2003	2	3	1,311.05	-
2004	3	1	374.70	5
2005	1	-	-	4

Amount of fine per type of breach		
2003	Construction of non-authorized hutn	280 €
	Non-authorized trees felling and pruning	1.001 €
	Fire	30.05 €
2004	Brook flow stopped up and diverted	374.70 €



# wastes management



A number of different wastes result from Red Eléctrica operations and are managed depending on whether the wastes arise from maintenance or construction works.

## Maintenance operations

All wastes issuing from facilities maintenance are properly segregated, stored and handled by Red Eléctrica. The wastes nature and amounts to be disposed of each year are rather variable due to the different operations (repairs, oil refills, equipment replacement when their working life is ended, failures, incidents, plants pruning, office work, etc.).

### Wastes from maintenance operations

Non-hazardous wastes -EN11-	2003	2004	2005
Sewage sludge from septic tanks	37*	37*	67*
Metallic scrap	1,859,244	1,054,951	691,856
Inert materials <sup>(1)</sup>	407,932	100,920	928,629
Paper and cardboard	87,609	75,155	72,024
Toner	466	530	1,253
Wood	73,385	46,010	64,850
Vegetable wastes	611,780	349,540	(2)
Cooking vegetable oils	320	320	320
Electric and electronic non-hazardous wastes	-	-	65
<b>Total of non-hazardous wastes (3)</b>	<b>3,084,396</b>	<b>1,671,086</b>	<b>1,838,057</b>
Hazardous wastes -EN11, EN31-			
Used oil	51,925	61,042	72,650
Oil and water mixtures	178	58,760	0
PCB in transformers	0	0	459 <sup>(4)</sup>
Oils holding PCBs	3,238	0	180
Lead batteries	3,436	3,750	1,102
Nickel – Cadmium storage batteries	13,323	16,084	2,327
Small batteries	120	141	227
Fluorescent tubes	258	356	428
Hydrocarbons soaked soils	10,495	4,762	26,940 <sup>(5)</sup>
Containers that have held hazardous materials	1,134	164	673
Silicagel	113	328	0
Non-halogenated solvents	0	0	29
Halogenated solvents	0	0	500
Hazardous electric and electronic waste	0	0	35
Water – based cleaning fluids	0	0	200
Paints residues	0	0	2
Absorbent and filtering materials, cleaning rags and protection clothing polluted by hazardous substances	1,909	1,139	663
<b>Total of hazardous wastes</b>	<b>86,129</b>	<b>146,526</b>	<b>106,415</b>

\*Amounts in m<sup>3</sup>

(1) Data related to inert materials from scrap and isolator wastes.

(2) Data not available. They have been used to advantage, mainly, by the owners or added to the ground itself.

(3) Solid urban wastes or plastic residues are not enclosed.

(4) A plan for disposal/decontamination of transformers polluted by PCBs has been drafted by REE. At this time, there are only 10 polluted equipment units recorded in the inventory (> 50 ppm and < 500).

(5) It means soils polluted by accidental spills and sand, which is used, sometimes, for holding back and soaking up spillages.

In view of the mentioned conditions, it is hard to set targets to minimise wastes generated, but the following actions can be pointed out:

- ▶ Oil recycling at substations for later use: during 2005, 112 oil tonnes have been recycled. This implies 82.6% of the total oil used in maintenance operations. -EN 2-
- ▶ Fitting air-cooled dry auxiliary transformers, instead of oil-cooled ones (this will be approached in depth during the works to develop the ecoefficiency concept)..

The main actions in the wastes area are aimed specially to improve the in-house handling (during next year, the selective urban solid wastes collection, at all the centres where it is feasible, will be implemented) The best possible way to handle actions to recycle/regenerate/ recover and use to advantage wastes, whenever possible will be investigated.

A survey of the procedures applied by our suppliers to implement the final handling of our wastes will be implemented to define exactly the percentage of wastes that have been managed according to each option and identify any possible improvements.

#### Management broken down by types during 2005

Non-hazardous wastes	
Sewage sludge from septic tanks	Treatment/ Disposal
Metallic scrap	Recycling
Inert materials	Disposal
Paper and cardboard	Recycling
Toner	Recycling
Wood	Upgrading/ Disposal
Vegetable wastes	Plough in soil/ Upgrading/ Disposal
Cooking vegetable oils	Upgrading
Electric and electronic non-hazardous wastes	Recycling
Hazardous wastes	
Used oil	Reclaiming/ Disposal
PCB's from transformers	Upgrading/ Disposal
Oils holding PCBs	Disposal
Lead batteries	Lead recovery/ Disposal
Nickel – Cadmium storage batteries	Recovery/ Disposal
Small-sized batteries	Recycling/ Disposal
Fluorescent tubes	Recycling
Hydrocarbons-soaked soils	Disposal
Containers that held hazardous materials	Recycling/ Disposal
Absorbent and filtering materials, cleaning rags and protection clothing polluted by hazardous substances	Upgrading/ Disposal
Halogenated solvents	Disposal
Non-halogenated solvents	Reclaiming
Water – based cleaning fluids	Disposal
Paints residues	Upgrading
Electric and electronic wastes that hold hazardous components	Recycling

## Construction works



Wastes issuing from construction works are handled by the contractors. Red Eléctrica supervises to ensure they are handled according to the legal provisions and criteria to avoid pollution. In this connection, before the works start, the respective environmental specifications (which are enclosed as a contract requirement) are delivered to contractors. The specification shows the required procedures to store and handle wastes from the works to be carried out.

The works are also followed up to check whether the specifications are duly met and this encloses reviewing the respective wastes handling records.

### Wastes that are most often generated by construction works

#### Non hazardous

Digged soil leftovers, rubble, forestry residues, paper and cardboard, plastics, wood, metallic scraps and urban solid wastes.

#### Hazardous

Paint residues, absorbing materials and rags polluted by hazardous substances, hydrocarbons soaked soils and containers that have held hazardous substances



# consumption management

Red Eléctrica operations are not organized as a conventional production process. Therefore, the total raw materials consumption is not computed. As an indication, the amount of oil used in maintenance operations has been computed, since it is the main environmentally relevant auxiliary material.

Oil consumption (year 2005)	23,472 kg -ENI-
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The Group is highly concerned, besides, to reduce basic materials consumption. This is shown by the different awareness drives and other actions implemented during the last few years. Through them, the employees involvement has significantly improved and, in many instances, amounts consumed of some items, such as water and paper, have been reduced.

In 2005, an overall review of basic consumed items management was implemented as follows:

- ▶ Consumption indicators have been defined again to show better the actual conditions and allow for easier comparison with other organizations.
- ▶ Some small improvements have been found that will be approached gradually in data collection about consumed products.
- ▶ Indicators of consumed materials that were not computed previously have been added now. Fuel used by the cars fleet and consumables such as toner or computer supplies (CDs and DVDs) are enclosed.
- ▶ A plan to reduce consumed materials, to be started in 2006 and lasting several years, has been drafted.



The trend of basic materials consumed during the last three years is shown next besides the reduction targets set for next year:

Consumed materials indicators	2003	2004	2005	Target 2006
Water in m <sup>3</sup> /used -EN5-	13.14	11.23	8.39	<7.55
Electricity in kWh/used (1) -EN3-	6,830	6,697	7,165 (2)	<6,807
Paper in kg/used	49.7	47.0	34.8	<31.3
CDs and DVDs units/used			3.07	<3.04
Toner units/used			0.66	<0.59
Fuel for cars fleet (litres)) (3) -EN3-			491,325	

(1) kWh = 36.10 Jules. (2) Control of consumed materials in two new centres has been started. (3) Reduction targets are not enclosed since the proposed actions will be carried out in the later stages of the plan for consumed materials reduction.

An estimate of energy consumed by employees travelling to work centres in the Main Offices has been also implemented.

Fuel consumed (year 2005)	542,572 litres* -EN19-
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\* Consumed fuel has been estimated to average 0.08 litres/km. for a mean distance run per vehicle of 50 km.



## Special steps

### Water saving

The use to advantage of rainwater in some facilities is worth highlighting [EN22](#):

- ▶ Rainwater falling on the roof of the Bilbao Branch Office building is piped to a tank in the basement and used for water spraying.
- ▶ Since 2004, if conditions allow, in new substations, work for rainwater collection and piping from the Control Building roof to a tank are in progress. This water will be used for sanitary purposes (save for human supply) in La Lora, La Espluga, Puerto de la Cruz, Medinaceli, Anchuelo, Fuentes de la Alcarria, Terrer, Palos, Fuendetodos, Olmedo, Segovia, Guillena, Montecillo, Arroyo Valle and Venta Inés.

Red Eléctrica is betting on the “Join the water challenge” effort aimed to ensure a more responsible use of water. The support of this initiative by the Madrid Isabel II Waterworks of and the Madrid Autonomous Government implies supplying information about proper water use practices both by employees and citizens at large. For reaching as many people as possible, a lapel button that advertises the effort has been enclosed in the main page of the environment section in our web site

### Solar energy in buildings

During 2006 and as part of the energy planning, a project for integration of solar energy in the Main Offices building will be carried out (SOLIDI Project [-EN17-](#)

## ecoeficiency

A study to integrate the ecoeficiency concept in Red Eléctrica has been implemented this year. A session for training a work group was the first step and the possible applicable options were studied. Finally, two cases were selected for the concept development:

- ▶ Installation of air-cooled dry auxiliary transformers instead of oil-cooled transformers.
- ▶ Use of USB memories instead of CD/DVD.

Once the findings are evaluated, the way to apply the methodology to other utility processes will be discussed.

## suppliers

Red Eléctrica is fully aware of the relevant role played by suppliers. For this reason, we are striving to extend our environmental commitment to the suppliers operations.

### Suppliers practices in the environment area during 2005 -EN33-

Suppliers with EMS certified/qualified suppliers totals	22.28 %
Suppliers that implement EMS/qualified suppliers totas	26.28 %

*EMS = Environmental Mangement System*

A system for suppliers environmental rating is available also in REE. It is applied when the suppliers operations may have relevant environmental consequences. A total of 213 suppliers have been rated in 2005. Of that number, 68 have implemented environmental management systems and 56 are certified.



# communication

## External communication

Red Eléctrica is aware that the environmental effects from its operation are watched by people at large. The Utility is committed to report and engage in an open, fluid and permanent dialogue with all stakeholder groups.

With that in mind, different environmental communication channels are made available to society at large such as the published annual environmental report and the web site ([www.ree.es](http://www.ree.es)) that encloses a specific section on the different environmental areas related to the Utility. This section received 54.486 visits this year, compared to 38.406 last year, which implies a 42% increase.

An integrated system is also available to receive and properly solve inquiries and claims from different stakeholders.

Inquiries trend				Claims trend*			
Field	2003	2004	2005	Field	2003	2004	2005
Birds wildlife	13	1	7	Electromagnetic fields	0	0	7*
Electromagnetic fields	8	5	1	Landscape impact	0	1	0
Green certificates	4	1	0	Facilities	1	1	0
Environmental costs	0	1	0	Administrative requirements	0	3	0
Installations	4	4	1	Fire risk	1	0	0
General environmental information	8	4	2	Noise	3	0	0
Publications	11	13	13	Vegetation	0	0	2
Noises	0	1	0	<b>Total</b>	<b>5</b>	<b>5</b>	<b>9</b>
<b>Total</b>	<b>48</b>	<b>30</b>	<b>24</b>				

\* Disciplinary proceedings are not enclosed in this table

Red Eléctrica is cooperating actively with work groups, congresses and discussion meetings to share experiences and know-how that leverage the Utility communication process with its stakeholders groups.

Work groups	Organizer
Environmental costs evaluation	AENOR
Subcommittee on "environmental management systems"	AENOR
Study committee	
"Environmental practices in electricity systems"	CIGRÉ
Sustainable development performance indicators	CIGRÉ
Utilities practices in sustainable developmen	CIGRÉ
Regional plan for electricity infrastructures	Madrid Autonomous Government
Environment and society at large	EURELECTRIC
Regulations for the Law on Noises	Ministry of the Environment
Work group on electromagnetic fields	UNESA
Work group on the environment	UNESA

Congresses and discussion meetings	Organiser
International Meeting on Electricity Transmission Lines and Birds Wildlife	Energías de Portugal Utility
Meeting on Electromagnetic Fields and Health	School of Physics of the Complutense University of Madrid
Discussion dealing with renewable energies	European Venue for Energy
Master Course in Environment Management and Administration	Biodiversity Foundation
20th Session of the Discussion Club "Green Purchasing and extension of the environmental responsibility"	Environment Foundation
12th Master Course on Polluting Processes and the Natural Environment Protection I	Presidents Office Building of the Madrid Polytechnic University I
Protection against non-ionising radiations: Myth and reality	Spanish Society for Radiological Protection and the Ramón y Cajal Hospita
Technical Meetings on spatial data infrastructures	Madrid Polytechnic University
Meeting to share experiences	Réseau de Transport d'Electricité (RTE)/Red Eléctrica (REE)
Meetings to share experiences	Japanese Foundation The Institute for Future Technology

Red Eléctrica publishes and distributes, as well, a large number of environmental journals sent to many addressees. In 2005, nine thousand copies of four works were published and 11,552 units of the main publications were downloaded through the web.

The publications are detailed in the chapter "Social Responsibility" and information is shown on the agencies that cooperate to promote environmental development.



## In-house communication

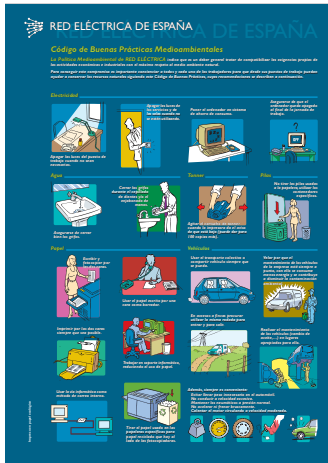
A significant effort to prompt awareness and supply information about environmental questions is implemented by Red Eléctrica through different in-house communication channels:

- ▶ **In-house web site.** The different environmental actions carried out by the Utility are shown. As a novelty, in 2005, a Good Environmental Practice notice has been published every month to make employees aware about the possible application to every day situations at the office and home.
- ▶ **Code of good environmental practices.** Published in the web site, posters, etc.
- ▶ **Quarterly novelties bulletin** about 50/60 Hz electric and magnetic fields..
- ▶ **Entre Líneas.** A magazine that shows the Utility's news, operations and events worth highlighting and enclosed environmental items.
- ▶ **Red en Línea. (Grid on Line).** Daily on line publication that shows environmental type news.
- ▶ **Buzón verde (Green messages-box).** The Green messages-box is intended to receive proposals from all the employees that will protect and improve the working site environment. It will be started beginning 2006.



# environmental type training

During 2005, specialized environmental training has been delivered to 5.3% of REE employees. A total of 3.382 hours have been devoted to questions related with the following:



## Environmental training areas

- Environmental management and sustainable development.
- Corporate social responsibility
- Iberian Peninsula Flora and Wildlife.
- Restoration of degraded areas.
- Use and measurement of environmental indicators
- Red Eléctrica management of hazardous wastes.
- Environmental management systems.
- Environmental awareness in the electricity industry
- Ecoefficiency criteria in the utility processes.
- Vegetable species appraisal and evaluation engineering
- Tours to visit hydraulic power plants and wind farms

# environmental costs

During 2005, environmental investments by Red Eléctrica in new facilities have reached Euros 2,074,968,98, or 0.57% of the total investment in the transmission grid. Those investments are broken down as follows: environmental impact studies implemented for every project; preventive and corrective steps applied; environmental supervision of electricity facilities under construction.

Also, during 2005, expenditures for environment protection and improvement amounted to Euros 5.879.16,37, which implies a 2.18% of the total operating expenses.



### Environmental costs -EN35-

	2005	2004	2003
<b>Investments (€)</b>	<b>2,074,968.98</b>	<b>1,704,464.50</b>	<b>1,575,382.23</b>
Engineering and construction of new facilities	2,074,968.98	1,704,464.50	1,575,382.23
<b>Expenditures (€)</b>	<b>5,879,716.37</b>	<b>4,893,172.86</b>	<b>3,956,309.87</b>
Environmental management systeml	19,811.05	24,639.79	13,681.54
Preventive and corrective steps applied to in-service facilities	4,387,809.48	3,527,413.47	2,863,660.74
Pollution prevention	290,939.67	121,833.00	-
Birds wildlife protection	228,796.37	131,555.61	114,770.26
Vegetation protection	3,498,942.00	2,952,405.00	2,485,163.30
Soil protection	223,385.00	121,268.00	122,087.00
Electromagnetic fields and noises management	45,348.06	100,047.10	-
Environmental improvements in facilities	42,254.00	44,743.00	65,986.38
Wastes management	58,144.38	55,561.76	54,451.78
Research and development	217,744.19	225,315.58	127,701.05
Training and communication	266,392.94	210,386.42	138,887.75
Environmental training and awareness promptinl	17,500.00	4,606.00	15,355.93
Communication	248,892.94	205,780.42	123,531.82
Environmental rates and royalties	21,660.37	2,815.90	13,205.59
General expenses of the Environment			
Department employees	966,298.34	902,601.70	799,173.20

### Environment investments and expenditures in percentages

	2005	2004	2003
Investment in the environment			
Total investment in the transmission grid	0.57	0.70	0.73
Environmental expenses/total operating expenses	2.18	1.80	1.63



# environmental program targets and aims

The improved overall compliance of the 2005 Environmental Program, which has reached 84.55%, compared to 73.4% in 2004, is worth highlighting. The attached table shows different actions that have been planned for 2005. The table shows actions that could not be implemented so far, but will be completed, therefore, in 2006.

2005 Environmental Program	
ACTION AREAS	TARGETS/AIMS
Improvement of the environmental management system	The complete management of environmental area documents will be refitted and enclosed in the Documents Management System. Improvement of the Environmental Management System in the Balearic and Canary Islands facilities. Survey to determine whether the ecoefficiency principles are applicable to Red Eléctrica operations, processes and facilities (1)
Birds wildlife preservation	Agreement with the Aragón Autonomous Government: bird flight diverters fitted as planned for 2005 (2)
Pollution prevention	Environmental inventory and proposal of preventive and corrective steps applied to the new assets facilities to be remote controlled directly by Red Eléctrica and assigned to the maintenance area before the 30.11.05.
Risk of accidental spillages reduction	Fitting up three pits in a substation. Inventory of 100% of equipment expansion tanks and proposed preventive steps in the event. Implement a system for containment of auxiliary transformers leaks in a substation (1). Complete the auxiliary transformers inventory and preventive steps proposed. Ensure specific materials are on hand for soaking up hydrocarbons in all substations that use power transformers and/or reactances. Compliance of the analysis plan and removal of PCBs polluted equipment.
Discharges control improvement	Plan to measure electromagnetic fields and noises. Measurements carried out inside 30 substations. Analysis, selection and purchase of specific software to compute and draw up noise maps. Actions to fit the software to Red Eléctrica facilities characteristics. Establish the methodology to perform acoustic studies in substations (1). Proposal for implementing noise preventive and corrective steps in substations. Drawing up a methodology to evaluate and reduce lighting pollution issuing from substations.
Wastes management	Implement 12 improvement actions that have been proposed following the management review carried out in 2004 (1). Review the procedure for wastes management produced by facilities in order to meet the proposed improvement actions.
Consumed items reduction	Define new measuring indicators of basic consumed items (unit/number of people). Feasibility of an action plan to reduce basic consumed items.
Suppliers rated from an environmental viewpoint	Define and establish a hierarchic and stepped series of rating levels. Evaluate the current levels of Red Eléctrica suppliers based on the mentioned series.
Training	Deliver the courses scheduled in the 2005 Training Plan.
Communication	Cooperation agreement signed with the Environmental Information Journalists Association (APIA). Define and set up a "Mailbox for environmental improvement proposals" that Red Eléctrica employees may use. Publishing "Red Eléctrica and Birds Wildlife: 15 years of applied research". Brochure published about the use by lesser kestrels (Falco Naumanni) of Red Eléctrica substations in Navarre and Aragón: its significance for the species preservation.
Cooperation by stakeholder	Agreement signed with the Spanish Society of Ornithology (SEO/Birdlife). Start the preventive, corrective and offsetting steps for the REMO Project (Electricity Reinforcement in the Western Mediterranean Area).

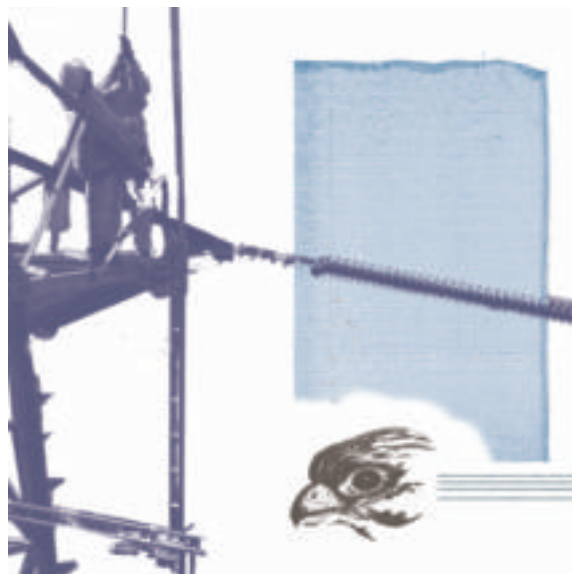
(1) To be completed in 2006

(2) Of the planned 34.1 km, 33.4 km have been fitted with birds guards.

(3) Completed after deadline

The 2006 Environmental Programme targets are listed below:

OPERATION AREAS		2006 Environmental Program TARGETS
Improvement of the environmental management system		Review of environmental policy.
Birds wildlife preservation		Analysis of the results achieved by the R + D + i "bird flight diverters" project. Completion and conclusions.
Vegetation preservation		Digitised guide about trees and bushes compatible with electricity transmission lines
Pollution prevention	New assets inclusion in SIGMA	Environmental inventory and proposed preventive and corrective steps applicable to the new assets received from INALTA.
	Accidental spillages risk reduction	Construction of 10 pits and an oil collection channel in 9 substations received from INALTA. Apply the respective preventive steps to expansion tanks of power machinery in 10 substations. Apply the respective preventive steps to auxiliary transformers in 7 substations. Set up oil collection pits in one substation. Draw up a project to build an oil collection pit in one substation.
	Discharges control improvement	Proposal for noise preventive and corrective steps in substations. Checking the methodology to evaluate lighting pollution issuing from substations. Feasibility study to reduce lighting level at in-service substations.
	Wastes management	Review final disposal of wastes issuing from maintenance works and improvement proposals.
Consumed items reduction		Reduce 5% total electricity consumed. Reduce 10% total water consumed. Reduce 10% total paper consumed. Reduce 10% total toner consumed.
Suppliers rated from an environmental viewpoint		Add the works environmental certificate to the in-house regulations. Increase 10% the number of suppliers that have Certified Environmental Management Systems.
Training		Increase 8% the number of employees that attend environmental training.
Communication		Increase 30% the number of visits to the Environment Section in the Corporate website. Cooperation agreement with the Valladolid Territorial Service part of the Environment Department in the Castile and León Autonomous Government.



annexes

## 2006 projects -3.19-

### Structural area

Distribute throughout Red Eléctrica the Corporate Responsibility Strategic Elements and Principles.	Issuing a new Corporate Responsibility Policy and in-house distribution (web section, triptychs, posters, etc.)
Transmission of Corporate Responsibility to subsidiaries	Evaluation of Corporate Responsibility principles compliance in subsidiaries and proposal for a three-year plan to fit them in.
Implementing the ethics code management system	Ethics Code approval. Design and implementing its management system.
Improve the Corporate Responsibility report	The report must be fitted to the requirements in the new GRI3 Guide issue and the stakeholders groups demands
Preventive actions to consolidate the DJSI ratios (Improvements detection)	Identified improvement actions. Share in the evaluation process (April-June).
Evaluate the decision for setting up a Red Eléctrica Foundation	Analysis and evaluation of benefits and disadvantages that setting up a Red Eléctrica Foundation may imply.
Identify the best Corporate Responsibility practices	Identify and study the best practices in all areas and propose improvements applicable to Red Eléctrica.
Reputation and goodwill management	Identify, set priorities and quantify variables that affect the Utility reputation and goodwill Proposal of a plan to manage intangibles linked to goodwill and reputation.

### Corporate Governance area

Evaluation of social risks	Identify and evaluate social risks and their inclusion in the Corporate Management System.
Increased transparency	Improvements in the 2005 Corporate Governance Report

### Technical-economic area

Transmission of Corporate Responsibility principles to suppliers (2nd Phase)	Inclusion of specific Corporate Responsibility requirements in contracts terms. Random supervision of Corporate Responsibility compliance.
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### In-house social area

Actions to reconcile professional and personal life	Working party on the development of new actions to "reconcile professional and personal life".
Development of new in-house communication channels	Spokesmen to provide advisory services to employees New employees' portal in web Information through display screens
Corporate Responsibility in-house circulation and awareness and publicising efforts	Inclusion of a social line in the different in-house communication operations (Desayunos de Red, Grid Breakfasts), in-house magazines texts and lectures cycles.
Prevention drives for health enhancement	Drive for awareness and prevention (overweight; smoking, and cardiovascular problems).
Training through: Corporate Responsibility e-learning	Course delivered to the complete payroll.

External social area	
Actions review in the social sphere	Drawing up a proposal for a social action strategic plan.
Publishing a large circulation magazine	Communication vehicle to inform the different stakeholders groups about the utility strategic guidelines in different spheres.
Design of new information supports and communication with stakeholders groups	New issue of Red Eléctrica prestige brochure that encloses corporate responsibility texts, a corporate responsibility triptych, etc.
Educational channels design and development	Educational web channel (CONTROLA game; CECOEL virtual visit...) Design of teaching materials (game in DVD and support guide). Attendance to fairs, educational meetings and museums.
Sustainable project in an area significant for its natural conditions where a Red Eléctrica facility is located.	Contribute to the sustainable development of a natural area in Sierra de Gata (Cáceres) mountains range to find out and publicise the natural environment values, make society aware of the area natural resources and promote sustainable views and practices.
Web accessibility	Evaluate the progressive web refitting actions based on the Web Accessibility Initiative (WAI) for easier access by the handicapped.
Promote proper use of the Spanish language	Publishing Red Eléctrica Style Manual to promote proper use of Spanish within the Utility.
Corporate volunteers	Implementing a volunteer program for different projects such as the solidarity sport week; reforestation; books donors, and Christmas drives
Environmental area	
Consumed materials reduction	Implementing annual actions enclosed in the 2006-2008 three-year plan.
Enhancement of discharges control	Check the method for evaluating substations lighting pollution and draw up a preventive and corrective actions catalogue. Reduce transformers noises further than required by law.
Wastes management	Review of final disposal of wastes from maintenance operations and improvement proposals.
Ecoefficiency	How the ecoefficiency concept is applied to a pilot project.



## scope of the report

This is the fourth year in a row that Red Eléctrica has published a Corporate Responsibility Report drafted and validated as stated in the “Guidelines for drawing up the 2002 Sustainability Annual Report” that the Global Reporting Initiative (GRI) has published. The Report has been also checked according to the “responsibility 1000” Standard (AA1000). Compliance of the Standard ensures the reported data transparency and reliability. The validation and checking process has been implemented by an independent institution and its report is attached at this document’s end.

The references shown between dashes (- -) which are enclosed in this paragraph and throughout this Annual Report match the GRI indicators codes shown at the end of this document. Both this indicators and its metric values have not experienced any changes from those submitted in previous Annual Reports, save for some financial data for the years 2004 and 2005, which were drafted based on the International Financial Reporting Standards (IFRS). When this Standards are applied, the evaluation and disclosure criteria of the consolidated financial statements show changes compared to those drafted according to the previously applied principles. For this reason, the amounts for 2004 could be somewhat different from those published the previous year and not homogeneous with those of the proceeding years. -2.16, 2.19-

The main actions and results reported by Red Eléctrica for 2005 are shown by this Report from the viewpoint of Corporate Responsibility -2.1, 2.11, 2.12, 2.13-. The data are related mostly to its main operation: the electricity business in Spain of the parent company: Red Eléctrica de España, S.A. (REE), since the present systems do not allow for a homogeneous information about the subsidiary, Red Eléctrica International (REI), business. In spite of the above and as far as possible, some aggregate indicators for the Group and, also, the private indicators of REI and TDE of Bolivia where REI holds a stake have been attached, to expand and improve this information in future releases drafted according to the procedure that is now being designed. -2.6, 2.15-



As for significant changes in the ownership and size of the Utility, it has to be emphasized that, during 2005, the 3% stake in Hidroeléctrica del Cantábrico as well as the 8.5% held in Sociedad Estatal de Participaciones Industriales (SEPI) have been sold. Also, during the same year, all the shares (100%) the Utility owned in the subsidiary, Red Eléctrica Telecomunicaciones (Albura), have been sold. -2.14-

As for the financial and environmental data shown in this Report, it must be pointed out that an outsourced audit was implemented and the Utility's Annual Report as well as the Corporate Governance Report and the Environmental Annual Report for 2004 show the mentioned data in a more detailed fashion. -2.18-

Some actions and results are published in this Report that evidence the Utility's commitment to compliance and support of human and labour rights. In line with the above, a list of the Ten Principles stated by the United Nations World Act as well as the associated GRI indicators and their location in this document have been duly applied.

For additional information and to clear any doubt about this Corporate Responsibility Report or relate to the validation and checking report please contact the addresses shown at the end of this document, which are supplied for public use. -2.20, 2.21-

This report is enclosed in the three volumes that Red Eléctrica Group has published and distributes in a box that holds also information for the year 2005 (Annual Report – Corporate Governance Report and Corporate Responsibility Report).

# index of GRI indicators -2.17-

For the third year-in-a-row Red Eléctrica has drafted a Corporate Responsibility Report based on the principles and specific contents of the "Guidelines for drafting annual sustainability reports" of the Global Reporting Initiative (GRI). The indicators recommended by the mentioned guide and the page of the document where each one is stated is shown in the following table.

	Page No.
<b>Vision and strategy</b>	
1.1 Red Electrica's vision and strategy concerning sustainable development	4, 28, 29
1.2 Chairman and CEO Statement	4
<b>Organisation Profile</b>	
2.1 Name of reporting organization	14, 110
2.2 Main products and/or services	45
2.3 Organisation operating structure	13
2.4 Main departments, operating companies, subsidiaries and joint ventures	14
2.5 Countries where the organisation is operating	14
2.6 Type of ownership, legal set-up	10
2.7 Markets it serves	14
2.8 Size of reporting organization	11, 45
2.9 Main stakeholders groups and relation with Red Eléctrica	30, 68
2.10 Liaison employees for questions related to the annual report	118
2.11 Period covered by the annual report	110
2.12 Date of the former most recent annual report	110
2.13 Annual report scope	110
2.14 Significant changes in size	15, 43, 111
2.15 Core requirements for drawing up annual reports of joint ventures and partly-owned subsidiaries	110
2.16 Description of the nature and effect of any content restatement	110
2.17 Decisions for not applying GRI principles to draw up an annual report	112 – 116
2.18 Criteria and/or definitions used or accounting financial, environmental and social costs and benefits	111
2.19 Significant changes over previous years in methods applied to compute key information, whether financial, environmental and social	110
2.20 In-house policies and actions to ensure accurate, exhaustive and true information is shown in the sustainability annual report	111
2.21 Current policies and actions designed to supply independent procedures to check the report as a whole	111
2.22 Means available to users to look for information on financial, environmental and social areas of the organisation operations	68
<b>Governance structure and management systems</b>	
3.1 Organisation governance structure	20
3.2 Percentage of independent Members of the Board of Directors who do not hold executive positions	22
3.3 Process to determine the need for guidance of the organisation's strategies on areas such as environmental and social opportunities and risks	24
3.4 Executive processes to identify and handle financial, environmental and social opportunities and risks in the organization	24
3.5 How the Directors remuneration is related to achieving the financial and non-financial targets of the organisation	23, 56

3.6	Organisational structure and key members responsible for supervision, implementation and auditing financial, environmental and social policies	23, 24
3.7	Definition of mission and values, in-house principles or codes of practice and policies related to financial, environmental and social performance	29
3.8	Procedures that allow shareholders to notify their recommendations to the Board	21, 68
3.9	Bases used to identify and select the main stakeholders parties	31
3.10	Methods for stakeholders inquiries parties stated in terms of query frequency according to the stakeholders type and group	31, 68
3.11	Type of information issuing from stakeholders inquiries	21, 32-34, 68
3.12	How the information gathered is used due to commitments with stakeholders parties	32-34, 68
3.13	Applying the caution principle	24
3.14	Commitments, principles or any other initiatives willingly subscribed by Red Eléctrica	36
3.15	Membership in business and industrial associations and/or national and international advisory or consulting organisations	36, 48
3.16	Policies and/or systems for handling impacts caused by processes that happened before and after those of Red Eléctrica	24
3.17	Organisation's approach for handling indirect financial, environmental and social impacts issuing from its operations	24
3.18	Main decisions made while the annual report is drafted related to the operations location or changes	15
3.19	Procedures and schedules related to financial, environmental and social performance	28, 35, 108
3.20	Current condition of financial, environmental and social management systems	11, 13, 34

## Practice indicators

### Financial indicators

EC1	Turnover	42, 44
EC2	Markets geographic distribution	14
EC3	Goods and services purchase cost	42, 46
EC4	Percentage of contracts paid according to agreed upon terms	42, 46
EC5	Total funds employees costs	42, 45
EC6	Payments to funds suppliers	42, 43
EC7	Reserves increase/decrease at period's end	42
EC8	Taxes paid	42, 46
EC9	Subsidies, per country	42, 46
EC10	Funds donated broken down by community, society, etc.,	42, 46
EC11	Suppliers broken down by country (those supplying over 5% of all purchases)	42, 46
EC12	Infrastructure expenditures not related to the Utility's operations	59
EC13	Indirect financial impacts generated by the Utility	42, 47

### Environmental indicators

EN1	Total of raw materials consumed, save for water	98
EN2	Percentage of raw materials disposed of as waste	96
EN3	Direct energy consumed	98
EN4	Indirect energy consumed	(1)
EN5	Water consumed	98
EN6	Land area, owned or leased, located in biodiversity-rich habitats	85
EN7	Impacts on biodiversity of products and services	84, 85
EN8	Greenhouse gas discharges	93
EN9	Discharges that affect the ozone layer	93
EN10	Discharges of NOx, SOx and other polluting gases	(2)
EN11	Total wastes generated	95
EN12	Significant water spills, by type	(3)
EN13	Spills of chemical substances, oils and fuels	86, 91

EN14	Environmental impact of products and services	84
EN15	Percentage of the weight of all the products sold that can be recycled	(4)
EN16	Incidents and fines for failure to comply with environmental standards	94
EN17	Initiatives to use renewable energies and increase energy yield	99
EN18	Energy consumed by main products	(5)
EN19	Other indirect energy uses	99
EN20	Water sources used and ecosystems affected by consumed water	(6)
EN21	Underground and surface waters usage as a percentage of the annual renewable amount of water from the supplying source	(7)
EN22	Water recycled and used again	99
EN23	Land area, owned or leased, for production or extraction purposes	(8)
EN24	Impervious soil area, owned or leased	(9)
EN25	Impacts of activities on protected areas	85
EN26	Changes induced in natural habitats due to operations and percentage of the habitat protected or restored	88
EN27	Objectives and programmes to protect and restore ecosystems and native species in degraded areas	86, 88, 89, 90
EN28	Species in danger of extinction due to habitats in areas affected by operations	(10)
EN29	Business units with operations in progress or in project phase in protected areas or their surroundings	85
EN30	Relevant indirect discharges of greenhouse gases	93, 94
EN31	Production, transport, import of hazardous wastes according to the Basle Convention	95
EN32	Water sources and related ecosystems affected by wastewaters effluents	(11)
EN33	Suppliers performance in environmental matters	70, 100
EN34	Significant environmental impacts due to transmission actions	(12)
EN35	Environmental expenses and investment	104

(1) Transmission losses (published in the external web as part of the daily electricity balance)

(2) Not applicable. Direct discharges are not induced by Red Electrica operations. Those issuing from consumables and trips have been computed in CO2 equivalent tonnes.

(3) Not applicable. Effluents are not discharged to water flows.

(4) Not applicable. Products are not sold.

(5) Not applicable. There are no products.

(6) Not applicable. Ecosystems are not directly affected due to water consumed.

(7) Not applicable. At times, water drawn from wells is used what the percentage is cannot be determined.

(8) Not applicable. Operations of this type are not implemented.

(9) Not applicable. An impervious soil condition is not implied by the facilities.

(10) Not applicable. Species in IUCN red listing are not affected.

(11) Not applicable. Wastewaters are not discharged outside.

(12) Not applicable (no impacts beyond those listed in EN3 and EN4 are not taken into account).

#### Labour practices and work conditions indicators

LA1	Payroll break down	53
LA2	Net jobs created and mean payroll turnover	53
LA3	Employees percentage represented by trade unions and covered by collective agreements	54, 62
LA4	Information, inquiry and negotiation policies and procedures made available to employees	62, 64
LA5	Occupational accidents and illnesses recording and notifying	61
LA6	Health and safety on the job committees made up by management and employees representatives	60, 62
LA7	Absenteeism and occupational accident rates	54, 60
LA8	HIV (AIDS) policies or programmes	61, 62
LA9	Average number of training hours per year and employee according to category	57, 59
LA10	Equal opportunity policies and programmes	54, 55, 56, 59, 63
LA11	Higher Management gender-based makeup	63
LA12	Employees benefits beyond those established by law	56, 66
LA13	Workers representatives on management bodies	34, 62
LA14	Evidence of meeting ILO requirements for safety and health on the job	60
LA15	Agreements with trade unions regarding health and safety	60
LA16	Permanent training programs	55, 59, 62
LA17	Policies focused on knowledge management or permanent training	54, 55, 57, 59, 64

**Human rights**

HR1	Human rights policies	29, 52
HR2	Impact on human rights of supplier selection studied	29
HR3	Policies and procedures to evaluate human rights compliance in the supply chain	108
HR4	Policies and programmes to prevent work discrimination	29, 52, 55, 56, 59, 63
HR5	Policy on freedom of association and application extent	29, 52, 54, 62
HR6	Policy to reject child labour	29, 52, 62
HR7	Policy to reject forced and compulsory labour	29, 52, 62
HR8	Employees training on human rights	59
HR9	Appeal procedures related to human rights claims	62
HR10	Policies of reprisals free and effective and confidential employees complaints system	29, 62
HR11	Training security personnel in human rights	35, 59
HR12	Policies to approach native peoples needs	29
HR13	Community claims proceedings managed jointly by the organisation and authorities	(nd)
HR14	Percentage of income redistributed to local communities	(nd)

(nd) Data not available

**Society**

SO1	Management policy of impacts on communities	29, 74
SO2	Policies to deal with graft bribery	29
SO3	Policies and procedures to control contributions to political parties	(1)
SO4	Awards received for the Utility's social environmental and ethical practices	13, 16, 37-39
SO5	Moneys contributed to political parties funding	(1)
SO6	Resolutions of judicial courts for anti-trust regulations breaches.	(2)
SO7	Policies and procedures to prevent anti-competition practices	(2)

(1) Neutral policy principle taken up by the in-house institutional relations policy

(2) Not applicable. Red Electrica operations are enclosed in the so-called natural monopolies

**Product responsibility**

PR1	Client health and safety policies	61
PR2	Product labelling and information policies and procedures	(1)
PR3	Policies for protection of client's privacy	69
PR4	Failure to comply regulations for clients health and safety	61
PR5	Complaints from regulatory bodies due to products and services health and safety	(1)
PR6	Products labelling and compliance of non-compulsory codes	(1)
PR7	Failure to comply products labelling regulations	(1)
PR8	Managing for clients satisfaction	32
PR9	Policies, procedures and systems to meet voluntary advertising codes	(2)
PR10	Infringement of products advertising and marketing requirements	(2)
PR11	Claims for violation of client's privacy	69

(1) Red Electrica products are labelling-exempted

(2) Advertising efforts are not carried out by Red Electrica

# the united nations global compact

The United Nations Global Compact initiative is designed as an ethical commitment of companies worldwide to meet the ten principles for practice and actions in human, labour and environmental rights and fight against bribery, as an integral part of their strategy and operations. Its purpose is to promote the creation of a global corporate citizenry that reconciles the business interests and processes with the values and demands of society at large, as well as with UN, international sectorial organizations, trade unions and NGOs projects.

As a member of the Global Compact, Red Eléctrica is implementing the ten principles as an essential part of its strategies and policies, processes, products and services operations and, specially, in its interactions with the different stakeholders groups.

Principles of the global compact	GRI Indicators	Page No.
1. Companies must support and protect within their sphere of influence the fundamental and internationally recognized human rights.	HR1, HR2, HR3, HR4	29, 52-59, 63, 108
2. Companies must ensure that members of their group do not participate nor condone human rights abuses.	HR2, HR3	29, 108
3. Companies must support the freedom of association and recognize the right to collective bargaining	HR5, LA3, LA4	29, 52-54, 62-64
4. Companies must support the abolition of all forms of forced or compulsory labour.	HR7	29, 52, 62
5. Companies must support the abolition of child labour	HR6	29, 52, 62
6. Companies must support efforts to prevent discrimination practices in employment and work performance.	HR4, LA10, LA11	29, 52-63
7. Companies must apply preventive approach that favours the natural environment.	3.13	24
8. Companies must promote initiatives aimed to achieve a greater environmental responsibility.	1.1, EN1-EN35	4, 28, 29, 84-106
9. Companies must favour the development and spreading of environmentally friendly technologies.	EN17	99
10. Companies must work to counter graft of any kind and included blackmailing and bribery.	SO2	29



## VERIFICATION REPORT

### SCOPE

SGS ICS Ibérica (ahead SGS) has carried out, commissioned by RED ELÉCTRICA DE ESPAÑA, S.A. (ahead REE), an independent verification of the document INFORME DE RESPONSABILIDAD CORPORATIVA 2005.

The scope of the verification includes the text and data contained in the reference document; not including the information and/or data referenced and not introduced in the document.

### INDEPENDENCE

The information contained in the verified document and its elaboration is the sole responsibility of REE.

SGS has not participated nor advised in the elaboration of the verified document, only participating as independent verifier, checking the adequacy of the document contents.

The content of this Report of Verification and the opinions contained in it is the sole responsibility of SGS.

### VERIFICATION

#### Methodology and verifier team

The methodology used was the one developed by SGS for the Verification of Sustainability Reports, this consists on audit procedures according to ISO 19011 and verification mechanisms according GRI Guidelines (2002) and AA1000 Assurance Standard (2003), these include:

- Interviews with the personnel responsible for data obtaining and preparation.
- Documents and records review (internal and public ones)
- Verification of data and its validation with the sources.

Particularly, for this verification the data of the economic area were assessed against the certification of the annual accounting audit carried out by KPMG Auditores and the notification of the economic results of 2005 to the CNMV relevant fact dated 13.02.2006.

The verification team was formed by SGS personnel (Alvaro Rodríguez de Roa y Belén de Rábago) and it was assembled based on their knowledge, experience and qualifications for the accomplishment of this task.

### CONCLUSIONS

Based on the verification carried out, the SGS verification team considers the following:

- INFORME DE RESPONSABILIDAD CORPORATIVA 2005 – REE, contains reliable information and data, these are a coherent representation of the activities and its results for the period reflected in the document, which has been elaborated according to the requirements of Sustainability Reporting Guidelines 2002 from Global Reporting Initiative (GRI).
- REE has implemented management systems to identify and respond to social, economic and environmental impacts of its activities, including identification and answer to stakeholder views.

Madrid, April 07<sup>th</sup> 2006

Signed: J. Moya (SGS ICS Ibérica, S.A.)

## contacts -2.10-

For inquiries, opinions or suggestions related to this report, please, contact:

Red Eléctrica de España, S.A.  
Institutional Relations and Communications Office  
Paseo del Conde de los Gaitanes, 177  
28109 Alcobendas . Madrid  
Telephone: 91 650 85 00 / 20 12  
Fax: 91 650 45 42 / 76 77  
[responsabilidadcorporativa@ree.es](mailto:responsabilidadcorporativa@ree.es)

This document is available in electronic format on the corporate website at:  
Red Eléctrica [www.ree.es](http://www.ree.es)





**CO-ORDINATION:**

Department of Communications and Institutional Relations of Red Eléctrica.

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**RED ELÉCTRICA**  
DE ESPAÑA

P.º del Conde de los Gaitanes, 177

28109 · Alcobendas · Madrid

[www.ree.es](http://www.ree.es)