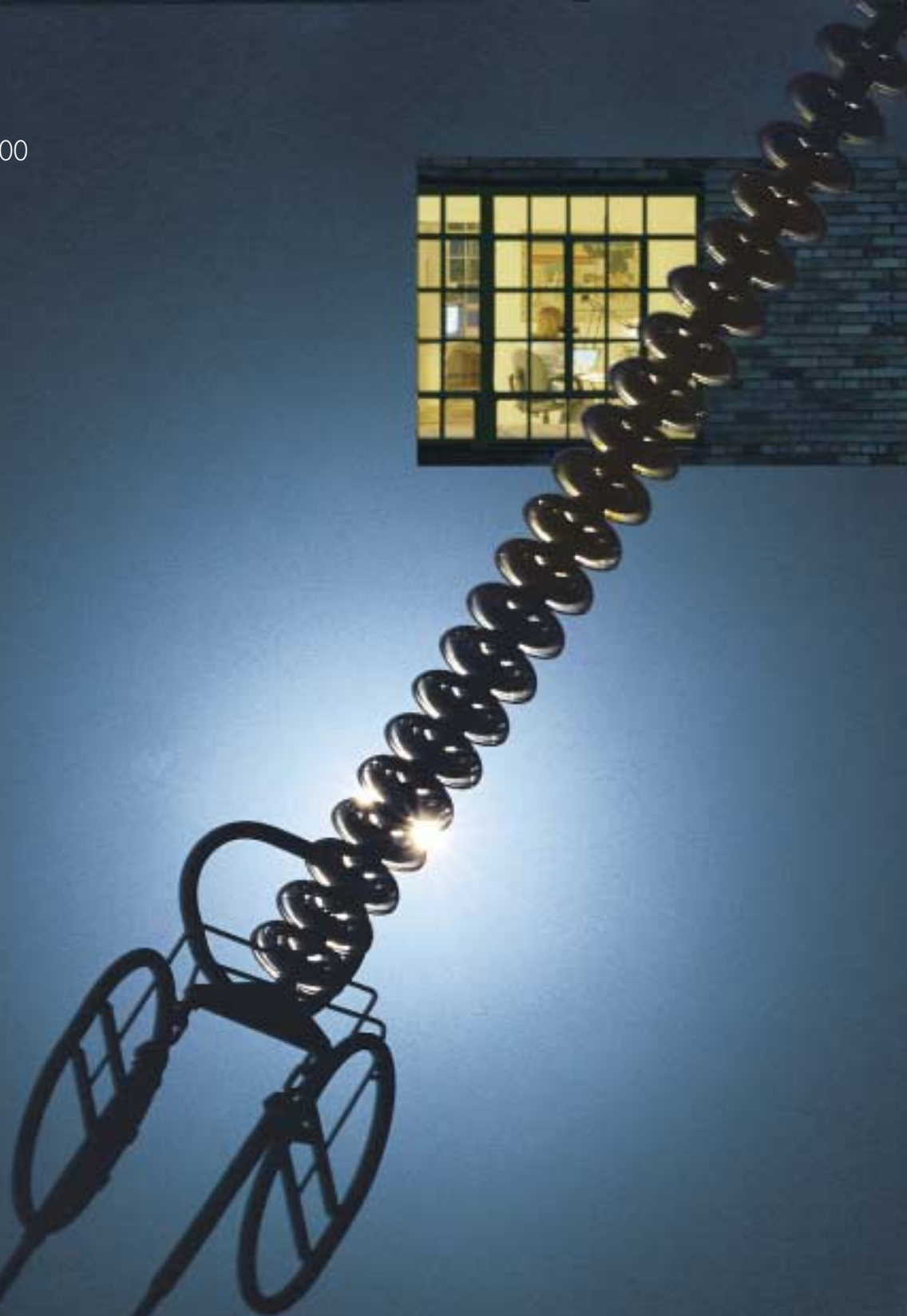




Annual Report 2000



RED ELÉCTRICA DE ESPAÑA



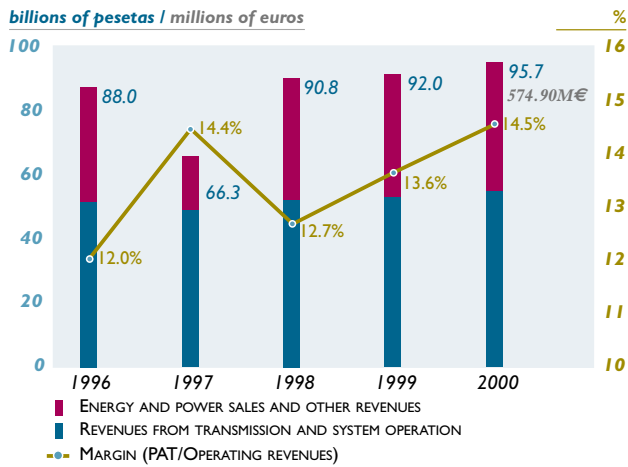
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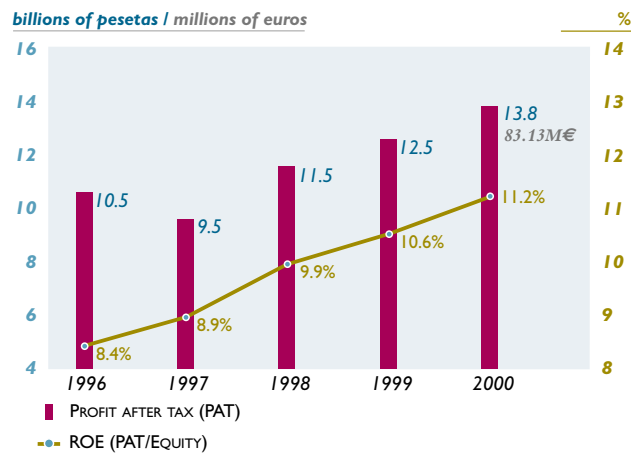
KEY INDICATORS



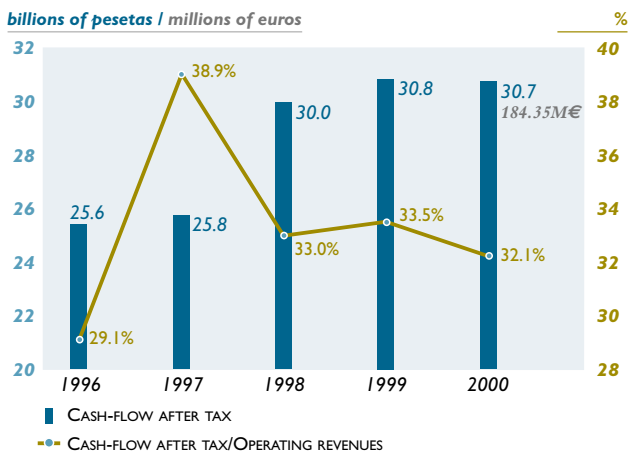
Operating Revenues



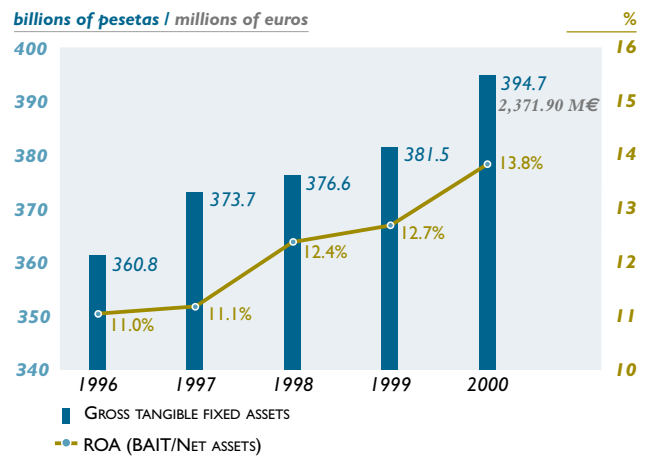
Profit after Tax



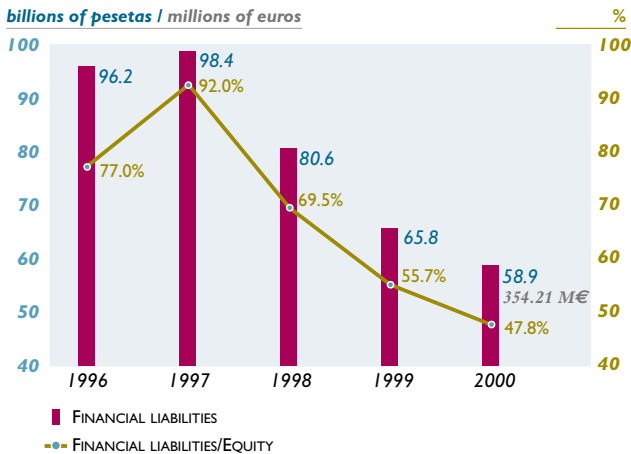
Cash-Flow after tax



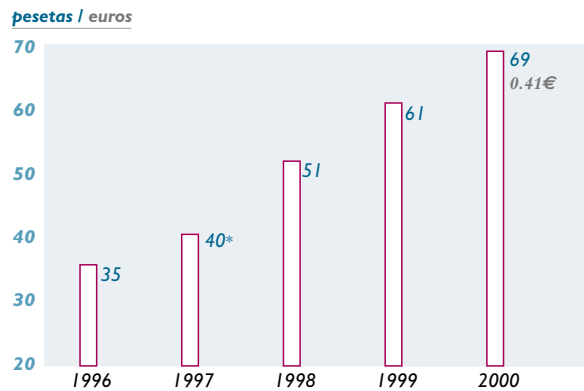
Tangible Fixed Assets



Financial liabilities



Dividend per share

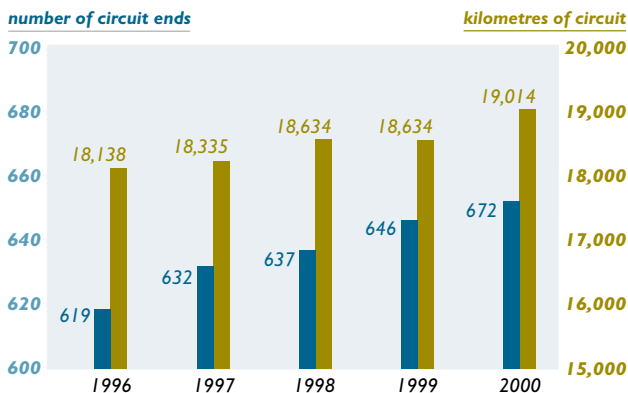


FIGURES ADJUSTED TO A 3 FOR 1 SPLIT

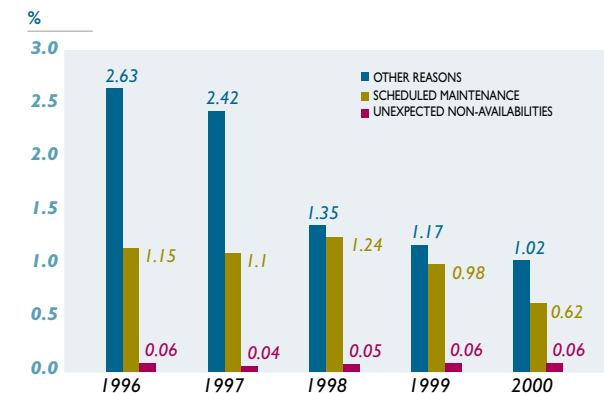
* Excluding extraordinary dividend of Pta 163 per share

Size of the Grid

Lines and Substations in service

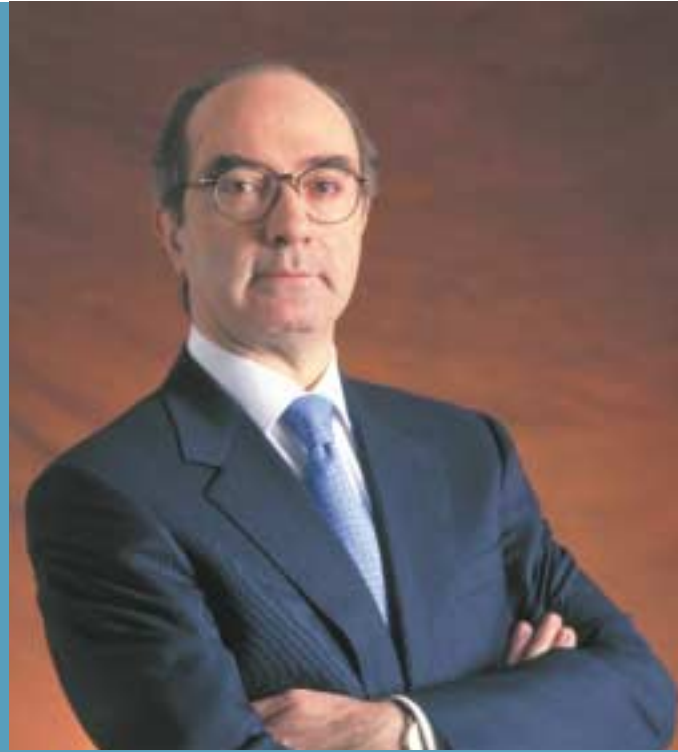


Trend of non-availability rate





THE **CHAIRMAN'S LETTER**



Pedro Mielgo Álvarez
Chairman of Red Eléctrica de España

TO THE SHAREHOLDERS,

The year 2000, a very important and decisive one for RED ELÉCTRICA, saw the launch of new activities. Together with the service rendered to the Spanish electric power system, these activities will contribute to the creation of value in this new stage in the life of the company, initiated three years ago with the enactment of the Spanish Electricity Industry Act.

The commitment to serve the Spanish electric power industry to the very highest quality standards - the company's original corporate purpose - and the creation of value for our stockholders by developing new business activities, are the two keys to RED ELÉCTRICA's strategy, which, in a nutshell, hinges on profitability, sound business practice and growth.

The first of these items translates into excellence in the exercise of regulated activities, in three areas: service quality, continuous improvements in internal efficiency and the incorporation of the most advanced technologies and practices as support for these objectives.

The second materialises in the development of new activities, capitalising on our company's assets and technical, professional and financial capacities, in two lines of business: on the one hand, the development of a telecommunications business strategy and on the other, foreign investment in electric power transmission grids and systems, selecting investment targets that combine suitable degrees of profitability and risk.

In the year recently ended, after tax profits amounted to 13,832 million pesetas, up 10.6% over the preceding year, essentially as a result of ongoing efforts to constrain costs which, as in previous years, have had visible effects. Return on equity came to 11.2%, in keeping with the pattern of continuous improvement in profitability established in recent years.

The company's cash flow amounted to 30,676 million pesetas, similar to the levels reached in the last few years, which enables us to secure financing for new investments under suitable terms and undertake new business initiatives with our own resources. The excellent credit grade obtained by RED ELÉCTRICA from the major rating agencies, in particular as compared to similar firms in other European countries, facilitates our access to capital markets, where the company's financial solvency has been duly acknowledged.

From the operational standpoint, investment in transmission grid facilities reached historic records and numerous stretches of line and substation busbar positions were commissioned; this will contribute to maintaining and improving grid capacity and quality, in keeping with the expected growth of the electric power system on the peninsula.

The need to shorten outage times has led to the development and use of cutting edge technologies, such as live wire works, which translate into better grid availability rates and entitlement to higher availability incentive earnings.

Likewise, system operation has been conducted to the usual high standards of quality with a low cost to the electric power system, thereby maintaining its place in the upper brackets in all international comparisons.

One very important aspect deriving from the ongoing improvement in working methods is the project for enhancing management information systems. In this regard, electric power system operation is being restructured at a pace significantly ahead of schedule. All of this will contribute to greater security and flexibility in this increasingly complex area, of key importance to the electric power system.

The company's concern for its employees has taken a number of directions: one prominent development is a skill-based management project, applied initially to executive levels and people with executive potential, that will subsequently be extended to the entire organisation. This three-year plan will make it possible to identify and develop executive and professional skills to raise the organisation's quality levels and foster personal development and employability.

Actions for internal improvement have been implemented on the grounds of surveys conducted to evaluate employee satisfaction with various aspects of working conditions, organisation and other issues.

The company's telecommunications business strategy is reflected in the business plan approved by the Board of Directors in May and presented to the markets shortly thereafter, with excellent results, mirrored in the price of its shares since that time.

Chartered in November, RED ELÉCTRICA TELECOMUNICACIONES, the subsidiary that will implement that business plan, is looking forward to magnificent business prospects. The strategy for this new activity focuses on the provision of carriers' carrier services for large companies as well as operators, in the areas of both signal transmission and Internet infrastructures and services; it will make a gradual and decisive contribution to the enhancement of the group's results in the years to come.

The company's investment in Peru, initiated in 1999, reached a landmark last year with the commissioning of the first facilities, which have been generating income since September. All the deadlines and other conditions set out in the contract with the Government of Peru have been met, much to the satisfaction and appreciation of the authorities in that country and above all, in confirmation of RED ELÉCTRICA's professional and technical capacity to rise to challenges of this nature.

To conduct foreign investment activities and comply with legal imperatives in connection with unbundling, the Board of Directors decided to create the subsidiary RED ELÉCTRICA INTERNACIONAL, a company which, once chartered in the first few weeks of the year, will strengthen the development of this line of business.

Share performance was very satisfactory in 2000, once the markets fully understood the company's potential for development, its solvency and profitability, particularly with respect to the telecommunications business. The rise in value

of the RED ELÉCTRICA security was the second highest recorded on the Spanish exchange and higher than rises for all other public utilities listed anywhere in Europe. Total returns for shareholders, including dividends and appreciation, amounted to 71%. A year and a half since flotation, RED ELÉCTRICA stock is highly esteemed by investors, the more so since its inclusion in the IBEX 35 last July.

Quality, innovation and care for the environment are essential commitments and objectives at RED ELÉCTRICA, consistent with the importance of the regulated tasks it performs.

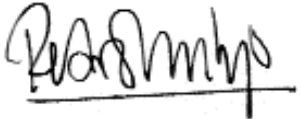
In addition to maintaining its quality certificates, the company evaluated external customer satisfaction with electric power system operation, which was found to be high. The information gathered will enable us to make further improvements in this regard.

Last year's formalisation of an R+D+I plan represents a decisive step forward in the incorporation of technology and innovation as a strategic factor for improvement and leadership. Projects are selected in the

pursuit of quantifiable results that are applicable to working systems and procedures and, in many cases, of commercial value as well. The number of patents or operational models registered stands as eloquent proof of the excellence achieved in this area.

As far as the environment is concerned, in addition to abiding by the requirements of the certified Environmental Management System in force, the company published its first Environmental Review.

In summary, in the year under review we not only achieved satisfactory results in every respect but opened a door to growth in new businesses, consolidating RED ELÉCTRICA's profile as a leader in its field, a dynamic company attractive to shareholders. We hope to be worthy of that esteem, with the backing of our Board of Directors and the day to day efforts of all our employees.





BOARD OF **DIRECTORS AND HIGHER MANAGEMENT**





RED ELÉCTRICA DE ESPAÑA, S.A.

Members of the Board of Directors at 31st December 2000

CHAIRMAN

Pedro Mielgo Álvarez

MEMBERS

Pedro Rivero Torre

Rafael Miranda Robredo

María Luisa Huidobro y Arriba

Victoriano Reinoso y Reino

Javier Herrero Sorriqueta

Juan Gurbindo Gutiérrez

Antonio Garamendi Lecanda

Manuel Alves Torres

Joaquim Clotet i Garriga

Pablo Isla Álvarez de Tejera

Germán González del Valle Chávarri

SECRETARY (NON-BOARD MEMBER)

Rafael García de Diego Barber

HIGHER MANAGEMENT

CHAIRMAN

Pedro Mielgo Álvarez

GENERAL MANAGERS

Victoriano Casajús Díaz

Ángel Landa López de Ocariz



HIGHLIGHTS OF THE
YEAR 2000





11 JANUARY

RED ELÉCTRICA sent emergency repair crews to France to help Electricité de France rebuild the high voltage line in Alsace in the wake of a gale that caused unprecedented damage in much of France's electricity transmission grid and distribution network.

13 MARCH

RED ELÉCTRICA, Netco Redes and Retevisión signed an agreement to amend the contract governing the use of RED ELÉCTRICA's fibre optic network. The new agreement eliminates the exclusive use and non-competition clauses, enabling RED ELÉCTRICA to use its infrastructures to provide third party telecommunications services.

27 MARCH

RED ELÉCTRICA signed a consultant contract with the European Commission for the design of an international organisation that will assume the co-ordination of the future regional electric power market in South America.

26 MAY

The company held its first public General Shareholders' Meeting.

2 JUNE

The company's telecommunications business strategy was presented to analysts and the media. Under this business plan, RED ELÉCTRICA offered the marketplace a wide range of broadband solutions and Internet infrastructure services.

3 JULY

After approval by the General Shareholders' Meeting, dividends were distributed for a total of 0.365 euros per share, up 18.7% over the preceding year and representing a pay-out ratio of 65.7%.

3 JULY

RED ELÉCTRICA was included as one of the companies on the select IBEX 35 index.

20 JULY

The Telecommunications Market Commission (CMT) awarded RED ELÉCTRICA an individual CI type licence, which qualifies the company to establish and exploit a public telecommunications network.

25 JULY

The company published its financial results for the first half of 2000, announcing a 9.5% rise over the same period in the preceding year.

27 JULY

RED ELÉCTRICA signed an agreement with the Regional Government of Aragon to develop infrastructures for the delivery of electric power produced under special regime arrangements.

19 SEPTEMBER

RED ELÉCTRICA and the Office National de l'Electricité entered into an agreement to study the possibilities of reinforcing electric interconnections between Spain and Morocco.

29 SEPTEMBER

The Transmission Plan for Special Regime Power in Aragon, 2000-2002, formulated by the Regional Government of Aragon, RED ELÉCTRICA and ERZ, was presented to the general public. This plan provides for a 50% increase in the installed capacity in that autonomous region of Spain and entails an overall investment for the amount of 233 billion pesetas.

25 OCTOBER

The company's third quarter results were made public, with growth of 9.6% over the same period in the preceding year.

26 OCTOBER

RED ELÉCTRICA signed a strategic agreement with Nortel Networks for the supply of high technology telecommunications equipment, R&D activities, development of applications and services and training.

26 OCTOBER

REDESUR, a RED ELÉCTRICA investee, commissioned the first stretch of line, i.e., the second circuit on the Socabaya-Moquegua line, under its Franchise to Reinforce the Electric Power Systems in Southern Peru.



17 NOVEMBER

RED ELÉCTRICA TELECOMUNICACIONES was chartered with a capital stock of 60 million euros. This new company plans to invest a total of 700 million euros in the period 2000-2004 to develop this line of business.

22 NOVEMBER

RED ELÉCTRICA obtained an excellent credit grade from Moody's (Aa3) and Standard & Poor's (AA-/A-1+), two of the world's major rating services for this type of assessments. These grades are in both agencies' high range and compare very favourably with the ratings of other similar European companies.

30 NOVEMBER

RED ELÉCTRICA's published its first environmental review, addressing the activities undertaken until 1999.

4 DECEMBER

RED ELÉCTRICA announced the payment of an interim dividend for financial year 2000 of 0.17 euros per share. This dividend was 13.3% higher than the interim dividend paid in the preceding financial year.

26 DECEMBER

RED ELÉCTRICA was awarded consultancy contracts for operating electric power systems in Romania and Bosnia Herzegovina.

*17 november.
Signing the RED ELÉCTRICA
TELECOMUNICACIONES MEMORANDUM OF ASSOCIATION*



BUSINESS **ACTIVITIES**





DEVELOPMENT OF THE **TRANSMISSION GRID**



The efforts aimed to develop the transmission grid, besides the quality and efficiency improvements, have been for RED ELÉCTRICA an operational priority throughout the year 2000. The determination to meet the needs arising from the electricity demand growth and the construction of new generation units have combined to speed-up the rate of grid investments.

Investments by the Company have reached almost historical records as a sizeable number of facilities have started operations and, of them, the following can be highlighted:

- **Lines:** A second circuit has been laid on the Romica (Albacete) – Rocamora (Alicante) corridor and along that linking the D. Rodrigo, Pinar de Rey and Tajo de la Encantada substations, in Andalucía. The Cartelle (Orense) substation has been, also, connected to the grid.
- **Substations:** Those located in Magallón (Zaragoza), Pinilla (Albacete) and Cartelle (Orense), besides two auto-transformers: one of them at Fuencarral (Madrid) and the other at the Boimente (Lugo) substations.

STUDIES FOR THE TRANSMISSION GRID DEVELOPMENT

TRANSMISSION GRID PLANNING

On-going studies are carried out by RED ELÉCTRICA for planning the electric system and transmission grid development. The basis for the future grid development can be laid down and planned in advance through such studies.

Of the studies performed during 2000, the following can be stressed:

- **The "2008 Horizon" planning.** Studies to strengthen the grid and reach the planned new generation capacity are enclosed.
- **Studies aimed to define the international exchange capacity based on an annual horizon.**

Studies have been carried out to such end in co-operation with neighbouring systems operators to develop new international interconnecting links.

A plan to study all the possible options for capacity improvement of the interconnection to France was started by RED ELÉCTRICA on its own initiative and carried out in close co-operation with RTE (the French operator). The mentioned study was submitted to the authorities in September and encloses a list of short and long-term actions. The first mentioned are yet in the planning or performance stage. The long-term actions are intended to develop new large capacity interconnection lines and, to that end, work is in progress to select new 400 kV corridors.

The development of a new interconnection link to Portugal, through the Alqueva-Balboa line, has been studied also by RED ELÉCTRICA. Additionally, an agreement has been formalised with the Moroccan Office National de l'Electricité, to study optional approaches for enlargement of the interconnection capacity.

- **Feasibility analysis to allow for connection to the grid of new generation units.** The Company has accepted 8 applications for setting up combined cycle natural gas units with a total 6,400 MW power output. Up to 31st December 2000, 33 applications have been processed which total a combined 22,830 MW output.



Feasibility studies have been also carried out for new wind farms generating units. The studies enclose both processing new applications for connection to the grid by private parties (which total 9,800 MW capacity) as well as work to implement and update development plans in Galicia, Aragon, Valencian Community, Castille and Leon, Castille-La Mancha and Catalonia (for an expected power increase of some 13,200 MW).

STUDIES ABOUT THE GRID

The following main studies have been carried out:

- **Analysis of possible disturbances in the future power supply line for the Madrid-Lérida highspeed railway.** The generation and propagation of unbalances and harmonics throughout the Transmission Grid arising from the future Madrid-Lérida high-speed railway have been analysed. In the study, comparison to reference values is taken into account and steps to mitigate the effects are submitted.

- **Analysis of interconnections development.** The studies provided for in the already mentioned co-operation agreement formalised with the Office National de l'Electricité of Morocco are enclosed.

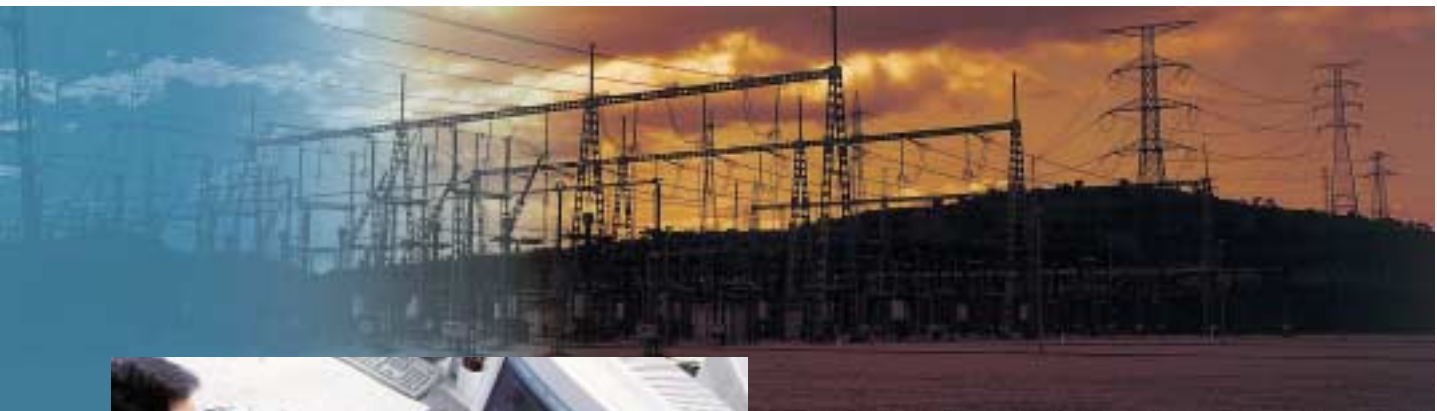
The connection options between the Balearic Islands and the Peninsula have been also studied.

FORECASTS

Under this caption, the following reports have to be highlighted:

- **Expected trends of the Peninsula electric system during 2000-2010.** The predicted demand, generation, extent and development of the peninsular electricity grid during the next few years are shown in this document. All the market agents and institutions and expected development of the electric system are clearly described in the study.
- **Expected Peninsula electricity demand in the 2000-2010 horizon.** The predicted electricity demand in a long-term horizon, both as regards energy and hourly power peaks, are shown in this report for the different possible scenarios which are related to different macroeconomic and weather conditions. During the first two years, the monthly demand is estimated based on its classic components: economic activity, temperature and labour performance and a prediction based on the demand broken down by Autonomous Communities is submitted.





- **Possible trends of electric power generation: natural gas and renewable energies.** Predictions about the generating facilities to be set up in the Spanish Peninsula electricity system are shown by this study. The predictions are broken down by generating technologies and, specially, the combined cycle natural gas power plants and generating wind farms. An annex that shows the generation forecasts broken down by Autonomous Communities in the Peninsula is enclosed.
- **Meeting the Peninsula electricity demand in the 2000-2010 horizon.** To meet the electricity demand based on given growth assumptions and the generating facilities development, both under a common or special arrangement, are studied in the report. Three different scenarios for power transfer to the system, based on the number of operating hours required to achieve the financial return of the new equipment are established and the matching power ratios are computed based on the respective assumptions such as investment costs, fuel variable costs, equipment availability and hydraulicity.

- **Expected trend up to 2006 of the 400 kV grid and RED ELÉCTRICA's lower voltages nets.** The expected grid development up to 2006 is shown in this report, sorted out by type of facility and date the operation was started. The new lines, substations, 400/HV transformers and compensating elements are basically enclosed and the maps of the grid trends by zones are shown.

FACILITIES IN SERVICE

LINES (km)

400 kV	14,644
220 kV	4,280
110 kV AND LESS	75
400 kV UNDERWATER CABLE	13
400 kV UNDERGROUND CABLE	2
TOTAL	19,014

CIRCUIT ENDS

400 kV	484
220 kV	185
110 kV AND LESS	3
TOTAL	672

SUBSTATIONS

TOTAL	131
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TRANSFORMERS

NUMBER	39
TOTAL CAPACITY (MVA)	19,676

REACTANCE UNITS

NUMBER	28
TOTAL CAPACITY (MVA)	3,400



FACILITIES UNDER CONSTRUCTION

NORTH ZONE

Works for infrastructure improvements in Asturias, Cantabria, Basque Country and Navarre are continued. The transmission and capacity to transfer electric energy in this zone will be enlarged by the design and construction of the North line leg. An increase of generation in this zone is expected from combined cycle plants and windfarms.

Work is proceeding also on the projects to set up the Lada-Velilla and Soto-Penagos lines as well as the preliminary studies for the infrastructure reinforcement in the Basque Country. Construction of substations in Santurce (by remodelling the 400 kV compound), Zierbena and Abanto, the Santurce-Zierbena, Zierbena-Abanto, Penago-Güeñes, Güeñes-Itxaso and Vitoria-Muruarte lines, and the facilities that make up the Pamplona-Magallón line leg.

ARAGON AND CATALONIA

Engineering works to link the Peñalba-Graus to the Sallente-Sentmenat line and, then, to the La Secuita-L/Vandellós-Begués, Penedés-L/Vandellos-Begues and Sentmenat-Bescanó, and Sallente-L/Sentmenat-French border lines are continued. These facilities will improve the electricity supply in Aragon and Catalonia as well as they will provide for a new interconnection between Spain and France, which, in turn, will enlarge the capacity for electricity exchange with Europe.

GALICIA

The planned enlargement of the 220 kV compound in the Cartelles Substation for the new Velle, Castrolo, Acoplamiento and Frieira busbar connections has been started. This will allow the transfer of energy from self-generator, cogenerator and windfarms facilities in the southern zone of Galicia.

Civil works have been also started for the Boimente Substation which will be connected to the Aluminio-Puentes de García Rodríguez line and a second 400/132 kV and 450 MVA auto-transformer has been purchased to help transfer electric energy generated by the windfarms in the zone.

CENTRAL ZONE

Works for the 400 kV compound, in the Fuencarral Substation, have been started and completion of the incoming/outgoing Galapagar-San Sebastián de los Reyes line, at Fuencarral, is planned early in 2001. The supply of electric energy in the northern zone of Madrid will be improved by these facilities.

Works for the line supplying the Trillo NPP are also continued (Bolarque-Trillo 220 kV line and the associated end busbar connections).

EXTREMADURA

Once the enlargement of the Balboa Substation has been completed, the first fitness studies of the Balboa-Portuguese Border line were finished.

ANDALUCIA

The works to lay the Pinar-Estrecho second circuit and preliminary studies for the Don Rodrigo-Puerto de la Cruz line are in progress.

EASTERN (LEVANTE) ZONE

Completion of the Olmedilla-Rocamora second circuit, in the Olmedilla-Romica stretch, and the strengthened infrastructure in this line leg to meet the needs of the new requested generation capacity (combined cycle plants and windfarms) have to be highlighted.

Additionally, the preliminary studies for the new power supply line to Murcia and transfer of the scheduled generation capacity from the Albacete area are continuing.

Finally, the progress achieved in the preliminary engineering design and works for the Aragon Substation and the Trillo-Calatayud, Calatayud-Magallón as well as the Anchuelo incoming/outgoing lines have to be underlined. All the mentioned facilities are going to supply power to the future Madrid-Aragón leg and will service the high-speed Madrid-Barcelona railway. Works are also in progress and are expected to be completed during the next year in the Mudarra-La Olma line to boost the electric power supply to the Valladolid zone.

NEWLY COMMISSIONED FACILITIES

SUBSTATIONS

- **Magallón 400 kV:** This is a one and a half switch type substation. A bay for the outgoing line to Peñaflores and a single-phase, 400/220 kV and 600 MVA auto-transformers battery; a 200 MVA unit kept on standby, and 3 bays, each of two cells, where the outgoing built-in connections for La Serna, Rueda de Jalón and Terrer lines have been completed.
- **Pinilla 400 kV:** This is currently a single busbar substation, with an outgoing line to Romica II and a 400/132 kV transformer, which allows transfer of the electricity generated by windfarms operating in the Albacete zone.



- **Cartelle 220 kV:** A new twin busbars compound fitted with two outgoing lines (Castrelo and Pazos) and a transformer unit.

FACILITIES FITTED TO SUBSTATIONS

- **Cartelle:** This ring-type substation has been converted to a one and a half switch with an outgoing line, one 400/220 kV auto-transformer, and two new central bays, which will allow boosting electricity supply throughout the south of Galicia.
- **Romica:** The ring-type substation has been converted to one and a half switch. It has been enlarged through the addition of five new 400 kV circuit breakers, which provide two new outgoing lines (Pinilla II and Olmedilla II), besides two auto-transformers and two central bays.
- **Don Rodrigo:** Two new circuit breakers have been fitted with a new outgoing line to Puerto de la Cruz and a central bay, to strengthen further the grid supply in the Andalucia zone.
- **Balboa:** The 220 kV compound is enlarged through the addition of two new circuit breakers which will increase the electric power supply reliability in the southern Badajoz zone.
- **Boimente:** The auto-transformers battery consisting of one 400/132 kV and 450 MVA three-phase unit, is now available.

- **Fuencarral:** One 400/132 kV and 450 MVA three-phase auto-transformer is available.

LINES

- The incoming/outgoing twin circuit Romica-Rocamora line, in the Pinilla 400 kV substation, has allowed setting up the Romica-Pinilla I and II, and the Pinilla-Rocamora I and II lines, which are 36 and 92 Km long, respectively.
- The incoming/outgoing single circuit Castrelo-Pazos line, owned by Union Fenosa, in the 220 kV Cartelle Substation, has allowed to establish the Castrelo-Cartelle and Cartelle-Pazos lines, each 7 Km long.

FACILITIES FITTED IN THE LINES

- The second circuit, in the 400 kV Pinar del Rey-Tajo de la Encantada and Don Rodrigo-Pinar del Rey lines, has been laid out.
- The transmission capacity of the Galapagar-Tordesillas and Galapagar-Lastras lines has been enlarged.

COMMUNICATIONS SYSTEMS

During 2000, the following works have been carried out:

- **Communications circuits:** Commissioning of 75 new circuits designed for different capacities has been completed on the telecommunications network to provide the usual telephone services as well as remote protection, control and management of the equipment and the basic infrastructure for interconnection to the operations dispatchers.
- **Mobile radio systems:** In the mobile radio network, three repeaters have been retrofitted as required by the National Scheme for Frequencies Assignment (CNAF). In addition, two repeaters have been certified by the Central Government. At years' end, a total of 108 repeaters were in service.



- **Fibre optic systems:** An 8.5 Km long OPGW 24 optic fibres cable has been laid out to link the Cartelle-Entronque line to the Castrelo-Pazos one. The required link-up to the SDH equipment has been also completed.
- **Wave carriers and remote protection systems:** A total of 16 wave carriers and 16 low-frequency remote protection units have been commissioned, while 8 high frequency remote protection units were disconnected. In this way, 558 wave carriers and 791 remote protection units are currently available.
- **Switching systems:** A new switching centre has been fitted to the network while one of the telephone concentrators purchased for the Y2K transition has been assigned again to service.
- **Fibre optic networks:** Multimode fibre optic cables and optic distributing frames have been fitted in 9 substations. This brings to 71 the total of substations fitted with fibre optic networks.

RENEWAL AND IMPROVEMENT OF COMMISSIONED FACILITIES

The following actions have been performed under this caption:

SUBSTATIONS

A number of high voltage equipment have been replaced in 25 substations. The works performed in Guillena, Itxaso, Montearenas and San Sebastian de los Reyes are worth highlighting.

On the other hand and due to their significant numbers, the replacement of voltage transformers, capacitive transformers and lightning arresters, based on the specific planning for renewal of such equipment, have to be underlined.

The equipment of the auxiliary services were also retrofitted and renewed in 13 facilities and both protections and/or remote protections have been fitted and improved in 15 facilities. The works carried out in Guillena, Itxaso and Escatrón have to be highlighted.



LINES

From the different types of work performed, the replacement of glass insulators by other made of composite materials, renewal of damaged conductors and earth-wires, attachment of warning markers and shifting from one tower to a different one have to be underlined.

The main actions are listed below:

- Insulators improvement in the Benezama-Catadau, Catadau-Eliana, Catadau-Olmedilla, Cofrentes-Eliana and Eliana-La Plana I lines.
- Conductors and earth-wires replaced in the Grijota-Vitoria and Compostilla-Mudarra lines.

PROTECTIONS

A complete renewal of 12 busbar connections as well as the partial renewal of 12 additional ones has been carried out in the transmission lines of the grid. In addition, protection systems for 11 new circuits have been commissioned into service.



It is proper to underline finally the efforts to meet the General Protection Criteria, as previously agreed by the Incidents Analysis Group (GRAI).

NEW PROJECTS AND STUDIES

During the current year, the basic and detailed studies on the reactive energy compensating equipment have been completed. As an outcome of such studies, the MSC capacitors, in the 100 MVAR mobile batteries, have been defined, standardised and specified for possible use in 400 and 220 kV facilities. The commissioning into service of this type equipment is pending to be legally regulated.

CONTROL SYSTEMS

A new digital control system has been fitted in the Pinilla-Magallón Substations while a Megaphasor has been added to the Saucelle Substation.

The digital control systems fitted in the Itxaso and Romica Substations have been enlarged and 14 remote control stations have been retrofitted.

The development of a new built-in digital control system has been also started to be implemented in the substations for the high-speed railway line.

WORKS FOR RED ELÉCTRICA TELECOMUNICACIONES

During the last quarter of 2000, co-operation with RED ELÉCTRICA Telecommunications Company has progressed at a rather lively pace. The mentioned co-operation has made available the grid know-how plus the existing facilities added to the involvement for deploying the DWDM technology in the new network.

Specifically, the first DWDM Madrid-Vigo loop, which is present at points in Bilbao, Santander, Oviedo, Lugo, La Coruña, Santiago, Orense, León and Valladolid, has been commissioned. For this loop deployment and due to the technology being applied, two new regeneration points housed in sheds adjoining the line have been inserted on the existing fibre optics network, while insertion of four additional points is planned.

LINES. WORKS IN PROGRESS

		NUMBER OF CIRCUITS	LENGTH OF ALIGNMENT (km)
400 kV	FUENCARRAL-L/GALAPAGAR-SS REYES	2	9
	OLMEDILLA-ROCAMORA (OLMEDILLA-ROMICA STRETCH) (2 ND CIRCUIT)	1	74
	MADRID-ARAGÓN LEG	2	239
	BOIMENTE-L/ALUMINIO-PUENTES I	2	14
	BOIMENTE-L/ALUMINIO-PUENTES II	2	14
	SOTO-PENAGOS	1	175
	MAGALLÓN-L/LA SERNA-PEÑAFLOR	2	33
	CASTEJÓN-LA SERNA	2	10
	PINAR-PUERTO DE LA CRUZ (2 ND CIRCUIT)	1	35
	D. RODRIGO-PUERTO DE LA CRUZ	1	0.2
	E/S PUERTO DE LA CRUZ	4	5.5
	LADA-VELILLA	1	96
	SANTURCE-ZIERBENA	1	4.4
	LITORAL-ROCAMORA (2 ND CIRCUIT)	1	185
			CIRCUITS TOTAL km
220 kV	CARTELLE-L/VELLE-CASTRELO	1	9
	BOLARQUE-TRILLO	1	46
	SOTERRADO L/MUDARRA-LA OLMA	1	3
	PASO A 220 kV L/MUDARRA-LA OLMA	1	23
			CIRCUITS TOTAL km

SUBSTATIONS. WORKS IN PROGRESS

		BUSBAR CONNECTIONS	TRANSFORMER
400 kV	ARAGÓN	2 LINE CONTCNS.	
	PEÑALBA	1 LINE CONTCN.	
	LA SERNA (FHASE I)	4 LINE CONTCNS.	
	PINILLA	2 LINE CONTCNS.	
	ROCAMORA	1 LINE CONTCN.	
	FUENCARRAL	5 LINE CONTCNS.	
	TAJO	1 LINE CONTCN.	
	ANCHUELO	2 LINE CONTCNS. + 1 TRANSFORM.	400/132
	TRILLO	2 LINE CONTCNS.	
	FUENTES DE LA ALCARRIA	2 LINE CONTCNS.	
	MEDINACELI	2 LINE CONTCNS.	
	TERRER	2 LINE CONTCNS.	
	RUEDA DE JALÓN	2 LINE CONTCNS.	
	CASTEJON	6 LINE CONTCNS.	
	SOTO DE RIBERA	2 LINE CONTCNS.	
	PENAGOS	2 LINE CONTCNS. + 1 TRANSFORM.	400/220
	BOIMENTE	5 LINE CONTCNS. + 2 TRANSFORM.	400/132
	OLMEDILLA	1 LINE CONTCN.	
	NUEVA ESCOMBRERAS	11 LINE CONTCNS.	
	PINAR	3 LINE CONTCNS.	
	PUERTO DE LA CRUZ	6 LINE CONTCNS.	
	SANTURCE	1 LINE CONTCN.	
	ZIERBENA	3 LINE CONTCNS.	
220 kV	LUBIÁN	3 LINE CONTCNS.	
	BOLARQUE	1 LINE CONTCN.	
	TRILLO	2 LINE CONTCNS.	



MAINTENANCE OF THE **TRANSMISSION GRID FACILITIES**





Maintenance works of the transmission grid facilities have been carried out during 2000 as required to meet the following:

- Improved scheduling of works which involve outages.
- Increased use of live wire works technologies.
- Increased application of predictive maintenance.

The above not only has allowed improved levels of service quality and facilities availability but it made possible also to lower maintenance costs.

LINES MAINTENANCE

Both predictive and preventive maintenance schemes as well as the inspections legally required have been regularly implemented. The helicopter has been routinely applied as a used method for intensive inspections with satisfactory results. At the same time, research and methodologies based on the use of DVD as an information support, instead of videotapes, has been continued.

The protection scheme against corrosion has been routinely applied in several stretches of the electric lines where maintenance problems were significant. Through those actions, 74,000 m² of metallic structures have been protected. Works to keep in proper condition a large number of lines, at the request of both private parties and government agencies, have been also carried out.

Finally, the significant increase experienced by live wire jobs which were carried out on 29 lines has to be stressed. This has helped to lower outage hours due to maintenance.

MAINTENANCE OF SUBSTATIONS, PROTECTIONS, MEASUREMENT AND REMOTE CONTROL SYSTEMS

A system for continuous analysis of gases dissolved in oil from power transformers has been enforced. This state-of-the-art technology to detect possible defects while the equipment remains in service, combined with other methods developed already in previous years, allow to determine the oil condition and correct any anomalies, there by leading to improved availability ratios.

As part of the scheme to prevent failures in current transformers, besides the usual measurement readings of partial discharges, oil analysis and thermographic inspections, two systems have been fitted in to determine and evaluate the service condition of the mentioned equipment in two pilot substations.





Remote diagnosis of high voltage circuit breakers combined with thermographic inspections, have been steadily applied for improved knowledge of the condition and to help maintenance.

The equipment responsible for the transmission grid protection have been operating correctly and any external disturbances in the grid were always suppressed.

As regards the values reading systems, all the equipment fitted to the international interconnections (with France, Portugal and Morocco) was reviewed with satisfactory results, as required by the Metering Points Regulations. The fitness condition of the recording units attached to digital energy meters, which report the transferred energy data to the main concentrator, has been also checked.

Accuracy of the readings received by the operations dispatchers from the measured values converters, which are built in the facilities, has been increased through a specific scheme for quality improvement.

The maintenance plan for remote control systems has been applied and all the anomalies have been corrected. One third of the mentioned anomalies were found during maintenance works performance.

The annual mean availability of the remote control service provided by the remote control system reached up to 99.9%.

TELECOMMUNICATIONS MAINTENANCE

During 2000, the usual predictive maintenance operations both of the equipment and fibre optic cables have been



continued as required by the previously established maintenance schedules.

New operating procedures and computer applications have been developed based on the ISO 9001 quality specification. In this way, both the mean time to repair of failures as well as the equipment and telecommunication services availability for the Transmission and Operation of the Electric System have been improved.

As a follow up to the Quality System application, the quality levels of those services show a clear improvement. The availability of the telecommunications system for remote control and operation of the southern area from its new location at the Control Centre, in Tres Cantos, which has reached up to 99,98%, must be highlighted.

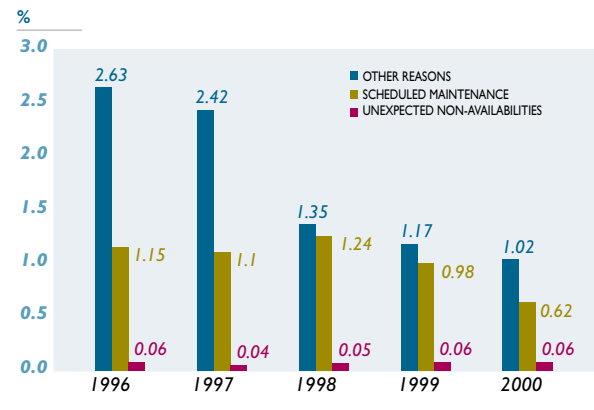
A new procedure to repair failed fibre optic cables and splicing boxes has been implemented for maintenance of the fibre optic network. A Telecommunications Maintenance Workshop has been also formally opened and outfitted specially with fibre optic instruments and materials.

PERFORMANCE OF THE TRANSMISSION GRID

As regards safety and service continuity, quality indicators of the transmission service have reached rather satisfactory levels. The co-ordination and grouping of maintenance tasks as well as the growing use of predictive procedures and live wire working technologies are responsible for such achievements. The foregoing developments have reduced significantly the mean annual number of outages per circuit in the grid.

In 2000, the total availability has reached 98.30%, higher than the 97.79% achieved during the previous year.

Trend of non-availability rate



In this figure, a positive trend is noticeable in the unavailability trend values.

On the other hand, the performance achieved by the substations and protection equipment have remained at the rather high level achieved in previous years, and the performance of the remote control systems is quite satisfactory.

In conclusion, the service quality improvement, achieved every year, has to be highlighted. This is due to both the professional expertise and strict compliance of quality criteria in the performance of maintenance tasks.





OPERATION OF THE **POWER SYSTEM**



TRENDS OF THE SYSTEM'S MAIN VALUES

In 2000, the following points have characterised the system:

- The sustained high growth rates shown by the demand.
- As a whole, the year has been slightly dry, but achieved rather high peaks of hydraulicity.
- A lower import balance of international exchanges.
- An increase in the energy purchased by the system from plants operating under a special arrangement.

DEMAND

The annual electric energy demand reached 194,904 GWh, and this implies a 5.7% growth versus the previous year. Following correction for the years labour and temperature effects, the demand increase is estimated to be 6.4% and shows the sustained growth achieved by the Spanish economy in recent years.

The electric energy demand, both monthly as well as daily and hourly, exceeded its historical peaks during the month of January, when the monthly demand reached 17,838 GWh, the daily one was 663 GWh and the hourly demand amounted to 33,236 MW.

Structure of the electricity generation in 2000

	GWh	% of total
ENERGY		
HYDRAULIC	27,842	15.8
NUCLEAR	62,206	35.2
COAL	76,374	43.2
FUEL + GAS	10,249	5.8
TOTAL	176,671	100

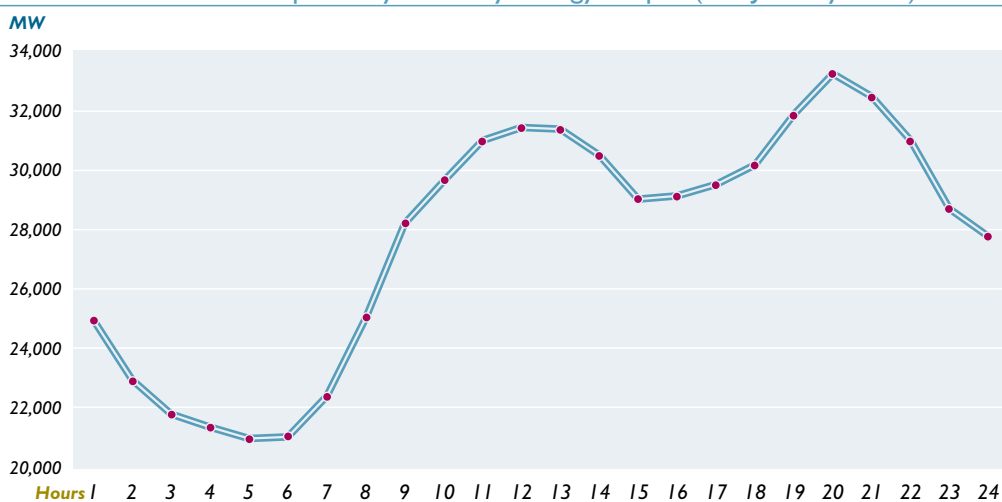
GENERATION

Gross generation by domestic utilities achieved a 6.9% growth versus the previous year with an output of 176,671 GWh.

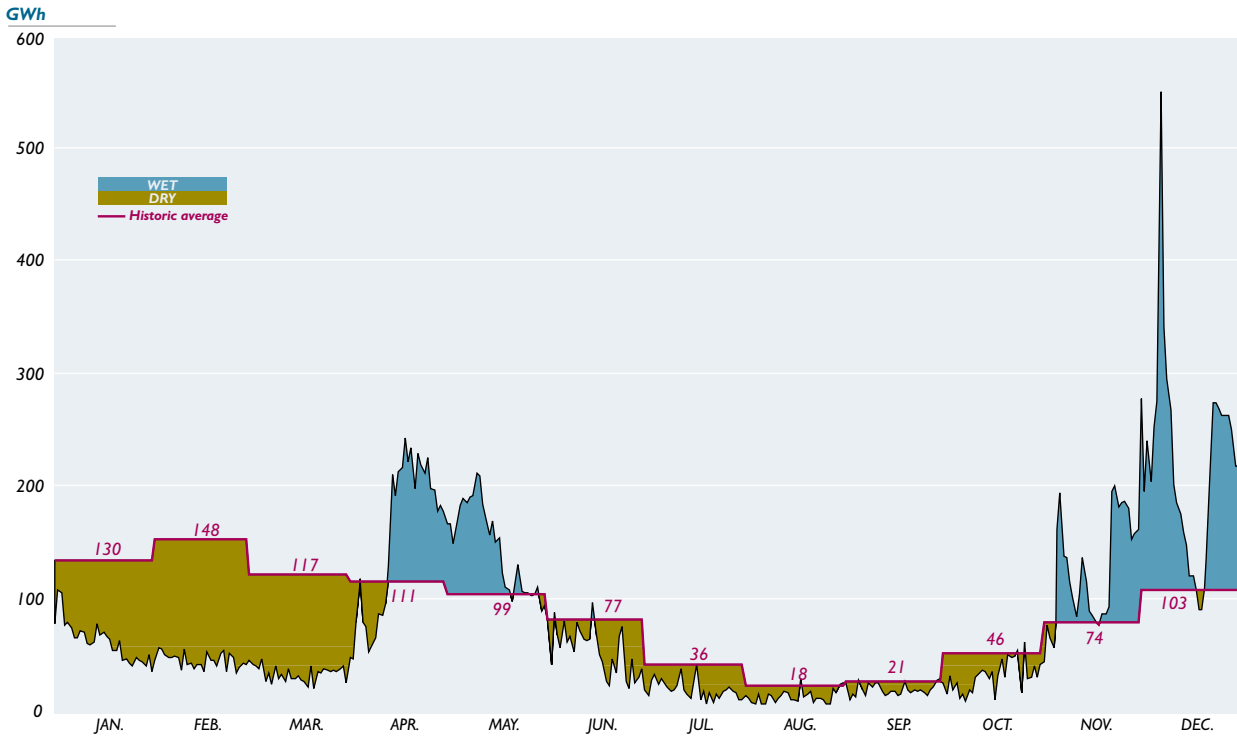
In 2000, the generation structure has not changed significantly compared to that of 1999.

- Output of hydroelectric power plants was slightly larger than 27,800 GWh, which implies a 15.2% increase versus the previous year.
- Nuclear power plants output was slightly higher than 62,200 GWh, and shows a 5.7% increase.
- In 2000, coal-fired power plants achieved the largest share of the generated power as they exceeded, slightly, 76,300 GWh, which represents a 5.6% increase.
- The gas and fuel units output reached 5,803 GWh and 4,446 GWh, which show a 17.0% increase and a 10.5% decrease, respectively.

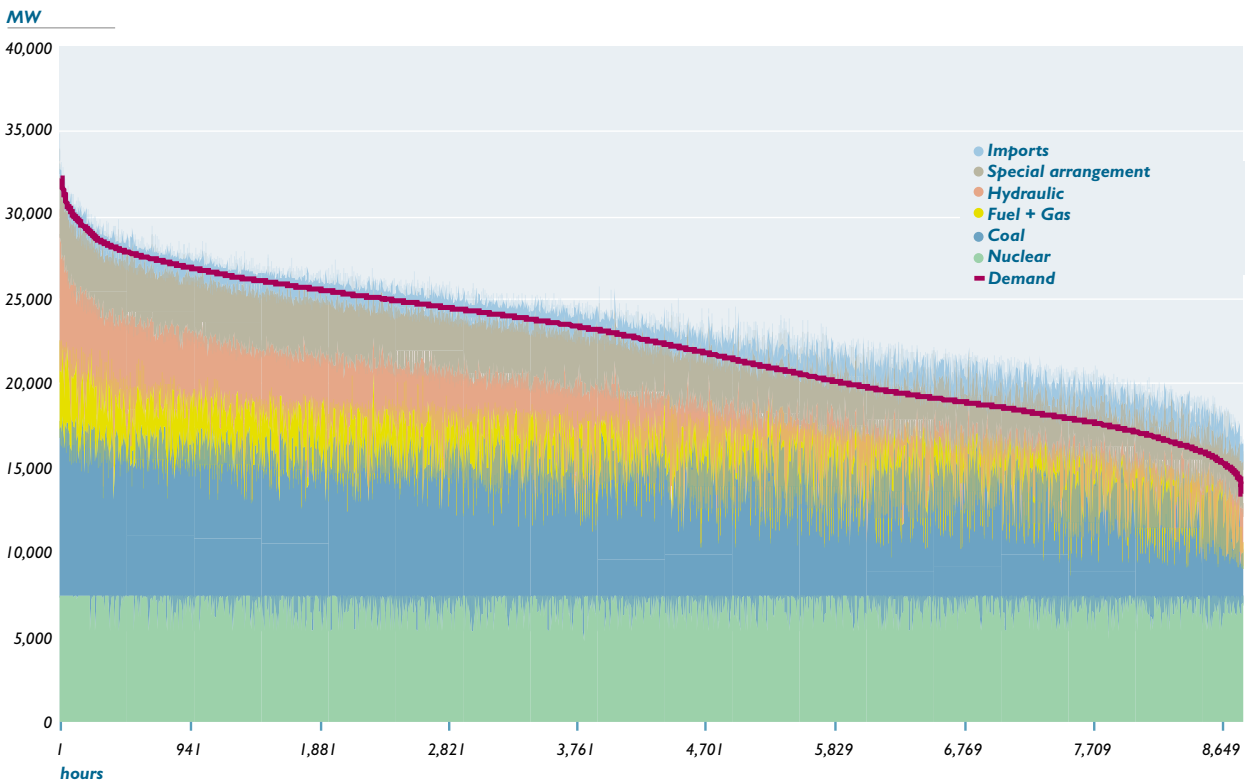
Load curve for peak day and daily energy output (25th January 2000)



Available hydraulic production in 2000 versus the historical average



Load monotonous curve



Input from each market to the final price (PTA/kWh)

	JAN.	FEB.	MAR.	APR.	MAY.	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	ANNUAL
MEAN PRICE OF DAILY MARKET	5.38	5.83	6.25	5.34	4.05	4.38	4.92	4.60	6.44	6.63	6.10	3.63	5.29
MEAN PRICE OF INTER-DAYS MARKET	-0.019	-0.013	-0.001	-0.040	-0.014	-0.013	-0.020	-0.008	0.014	0.006	0.001	-0.016	-0.017
TECHNICAL RESTRICTIONS	0.15	0.05	0.02	0.02	0.11	0.33	0.35	0.32	0.32	0.15	0.29	0.25	0.197
ANCILLARY SERVICES AND DEVIATION MANAGEMENT	0.10	0.05	0.10	0.09	0.09	0.08	0.04	0.08	0.12	0.13	0.12	0.26	0.107
GUARANTEED POWER	1.10	1.10	1.10	1.09	1.08	1.09	0.76	0.76	0.77	0.77	0.77	0.75	0.93
FINAL MEAN PRICE	6.71	7.02	7.46	6.49	5.32	5.87	6.05	5.75	7.66	7.68	7.27	4.88	6.51

INTERNATIONAL EXCHANGES

The import balance of the year amounted to 4,440 GWh and shows a 22.4% decrease versus the previous year. Of the total amount, 4,679 GWh were imported under the agreement between RED ELÉCTRICA and Electricité de France which shows a 96.8% usage. Utilities imported 3,984 GWh of which 3,261 GWh were received from France, 710 GWh from Portugal and 13 GWh from Morocco.

The exports amounted to 588 GWh to Morocco through the agreement between RED ELÉCTRICA with the Moroccan ONE. The utilities exported also 3,667 GWh broken down as follows: Andorra (270 GWh); Portugal (1,632 GWh); Morocco (1,678 GWh), and France (87 GWh).

ANCILLARY SERVICES AND THE MANAGEMENT OF DEVIATIONS

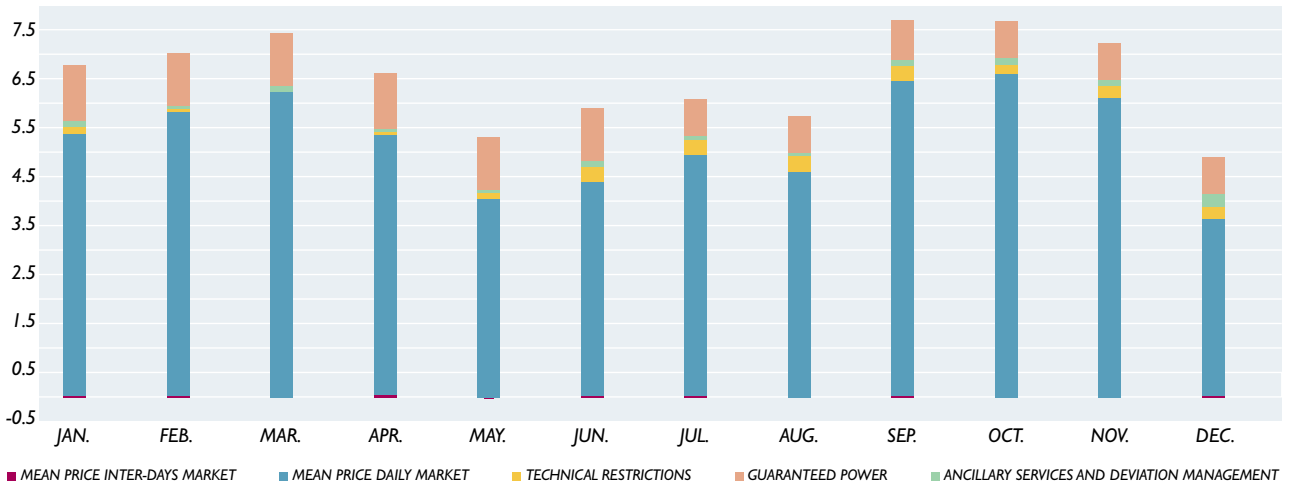
The ancillary services for secondary and tertiary control and energy scheduled for emergency situations has implied a cost to the system of 24,527 million pesetas. The mean power of the assigned secondary control band was 1,190 MW. The secondary control energy that was used amounted to 1,667 GWh and the total cost 13,505 million pesetas.

Demand coverage is ensured by RED ELÉCTRICA through the deviations handling, to make up for any unbalance between generation and consumption. In 2000, a total of 1,129 GWh were handled under this procedure, which implied a 2,223 million pesetas cost for the system.



Share of each market segment to the final price

pesetas / kWh



The effects of these processes, which are handled by RED ELÉCTRICA, on the mean daily market price (5.29 PTA/kWh) was 0.107 PTA/kWh, but 0.197 PTA/kWh, due to technical restrictions, must be added to that amount. The total 0.304 PTA/kWh is an amount similar to that planned for 1997, although the demand in 2000 has been 24.7% higher than that of 1996.

To the mentioned values, 0.93 PTA/kWh has to be added due to guaranteed power which added to that for the inter-days market (-0.017 PTA/kWh) determine the final energy price of 6.51 PTA/kWh.

The high levels of quality and efficiency achieved by RED ELÉCTRICA in the system's operation are clearly evidenced by the foregoing data.





OTHER **BUSINESSES**





TELECOMMUNICATIONS



RED ELÉCTRICA TELECOMUNICACIONES has been registered in 2000. The new company signals the main diversifying action engaged in by RED ELÉCTRICA, which will decisively contribute to generate added value for the shareholders.

A significant share of the transmission capacity that the fibre optic network owned by RED ELÉCTRICA offers is now released the long-term lease agreement with Netco Redes has been renegotiated. A business strategy was then defined and successfully marketed early in June. Since July of the previous year, RED ELÉCTRICA has been awarded also a CI license to operate in the telecommunications market. As a follow-up, a business plan was established and approved by the Board of Directors, which is the basis for the new Company operations. RED ELÉCTRICA TELECOMUNICACIONES was registered on the past 17th November with 60 million euros of share capital.

The business strategy is based in taking advantage of both the assets and technical and professional know-how available in RED ELÉCTRICA. The company is aimed to provide carrier's carrier services in telecommunications through the development of two business lines:

- **Carriers carrier services supplied to other telecommunications operators.** A carrier's carrier service will be supplied with different bandwidths and speeds to connect any points specified by the client. Location of the equipment in RED ELÉCTRICA TELECOMUNICACIONES centres is also enclosed and completed by customised approaches for geographic deployment of telecommunications services.
- **Internet approaches, in addition to other, are aimed to:**
 - Web servers and Applications services premises.
 - Implementing and management of Intranets for single client exclusive use.

A high quality access to Internet is provided to these clients. These services are addressed to operators, Internet access suppliers and companies that have more complex requirements.

The company operates as a cybercarrier (cyberoperator), that is to say, as a signals carrier that provides high quality services to operators in the Spanish market. RED ELÉCTRICA'S service quality and reliability are ensured and is a paramount priority for the new Company.

The Business Plan is being met in all respects. The plan is aimed to larger growth of Internet services. The most profitable services are found to be the servers housing, computerised applications, clients networks development and management based on Internet.

In this way, RED ELÉCTRICA TELECOMUNICACIONES takes advantage of RED ELÉCTRICA infrastructure to meet the current demand for capacity services arising from the many telecommunications operators found currently in Spain and sets the basis for the supply of solutions based on Internet.



Fibre Optic Network (31-12-00)



Investments of 700 million euros are foreseen by the plan to develop the telecommunication business in the 2000-2004 period. The plan is aimed to achieve, in the year 2009, leaving aside the prevailing market operator, a 26% share of the services to operators market and 5% of the Internet based solutions. Income for that year based on the mentioned business target is expected to exceed 640 million euros.

STRUCTURE OF THE TELECOMMUNICATIONS NETWORK

The telecommunications network is based on RED ELÉCTRICA basic infrastructure which consists of the

fibre optic cables, buildings available to be used as Data Processing Centers and substations which will be used as access points the fibre optic network.

Based on the above, a communications layer, at the optical level, which uses state-of-the-art technology, DWDM or wave lengths modulation (colours) is in progress, which increases 120 fold the communications capacity and provides, besides, for higher reliability. The IP transmission and switching (protocol used in Internet) is built on this layer, where the services to be rendered by RED ELÉCTRICA TELECOMUNICACIONES are based.



The meshed-type structure of the network allows for optical loops (based on the DWDM technology). The signal will not be lost if a loop is cut off, since the communication direction will be reversed and established again through the loop stretch that is not damaged.

These facilities were deployed in 2000, when the north-west loop was established to link Madrid with all the cities in the north-western quarter and enclosed the link to Portugal and the north-eastern loop that links the cities in the north and east of Spain. In the south of the Peninsula, the deployment will be implemented in 2001. For the network deployment, agreements with leading world suppliers of know-how have been established.

The network is managed from ALEF, the existing control centre at RED ELÉCTRICA headquarters. The establishment of an enlarged management centre is planned to be set up during 2001.

Both the performance quality and operation cost effectiveness contribute to a favourable market reception, which will be materialised by agreements to render services, some of them formalized already in 2000.

REGULATORY FRAMEWORK

RED ELÉCTRICA TELECOMUNICACIONES is using RED ELÉCTRICA infrastructure through an agreement between both Companies which establishes the assignment of that infrastructure to RED ELÉCTRICA TELECOMUNICACIONES. The agreement encloses, as well, the telecommunications services to be mutually rendered and the backup services which the parent Company provides to the subsidiary, so as to achieve a higher efficiency level and prevent any redundancy in RED ELÉCTRICA Group.

In any event, compliance of the duties arising from the Law for the Electricity Industry and those stated by any Spanish legislation which can be applied to the related operations is completely ensured.

By setting up RED ELÉCTRICA TELECOMUNICACIONES our growth potential is boosted and value added generated for our shareholders.





INTERNATIONAL **DEVELOPMENT**



One of the mainstays of the RED ELÉCTRICA Group growth strategy is the international expansion of the company's business operations. In this regard, the international scenario is the natural scope for the business expansion of the Company through the engagement in new endeavours.

RED ELÉCTRICA experience in the operation and development of electricity grids provides an extremely valuable base to meet successfully the two main types of the operations to be carried out in the foreign markets: investment in electric power transmission assets and engaging in advisory and consulting projects.

As a follow up to the strategy for international expansion, the steps to set up RED ELÉCTRICA INTERNACIONAL were approved by the Board of Directors in September 2000. The Company is intended to channel and promote the Group businesses abroad. The international company will be a fully-owned subsidiary of RED ELÉCTRICA.

Both returns and low risk criteria will be paramount when deciding about international investments.

INTERNATIONAL INVESTMENTS

The activities under this caption are aimed to ensure a selective access to new electricity systems and utilities already established in this industry. RED ELÉCTRICA is ready to contribute its expertise as operator of electricity systems and manager of transmission grids. Investments that contribute value to RED ELÉCTRICA Group, through adequate returns and acceptable risk levels, will be selected.

For investments in existing or newly set-up utilities, RED ELÉCTRICA demands to be part of the concerners management. These are long-term investments.

Basically, the international investments of RED ELÉCTRICA are aimed to take an interest in projects which allow:

- To hold an interest in existing transmission utilities to be privatised, which are currently government-owned.
- Purchase transmission utilities which are currently privately owned.
- Secure long-term concessions for building, operation and maintenance of transmission systems.
- Formalise agreements to operate electricity systems.

For achieving the mentioned aims, the legislative and regulatory developments are watched closely in both Latin-American countries as well as in any markets where investment possibilities are noticed.

INVESTMENT IN PERÚ

During 2000, the concession holding company, REDESUR, under RED ELÉCTRICA leadership, has continued the works to strengthen electricity systems in the south of Peru, as established in the Concession award.





The first leg in the Concession, to lay out the second circuit of the Socabaya-Moquegua line, was commissioned on the 26th October 2000 meeting the dates and conditions established in the Concession Agreement. REDESUR was congratulated by the Authorities for the correct operation of the facilities and the high rating that the consultant hired by the Peruvian Government awarded to the completed work.

Construction of the second and last part of this project was carried out satisfactorily during 2000 and commissioning is planned for March 2001.

ADVISORY AND CONSULTING SERVICES

The advisory and consulting services are targeted on projects that show a high technological content. In projects of this kind, a competitive advantage is achieved by RED ELÉCTRICA know-how that allows to render high value added services.

In 2000, the following technical assistance and consulting agreements have been formalised:

ASSISTANCE FOR SETTING UP A SUPRANATIONAL AGENCY TO CO-ORDINATE ELECTRICITY MARKETS IN SOUTH AMERICA

In February 2000, an agreement was formalised by RED ELÉCTRICA and the European Commission, within the framework of the ALURE funding scheme, for the provision of advisory services to the electric utilities in South-American countries which are part of the CIER association. The project is intended to set up a supranational agency for international co-ordination of South-American electricity markets.

The project is planned to last 18 months with RED ELÉCTRICA leading a consortia which encloses the Swedish utility Vattenfall and the South-American utilities associated in CIER.

ADVISORY SERVICES RENDERED TO TRANSELECTRICA, THE RUMANIAN TRANSMISSION GRID COMPANY

In December 2000, an agreement was formalised by RED ELÉCTRICA and the Rumanian Ministry of Finance, for providing advisory services to Transelectrica, the Rumanian Transmission Grid Operator. The main targets of the project are intended to define the investments required and specify also the information and control systems. Transelectrica would be thus able to carry out an efficient and reliable operation within the new Rumanian regulatory framework. Additionally, RED ELÉCTRICA is supplying advice for designing an inde-

pendent market operator taking into account the organisation, computerised systems and business plan requirements.

This project is funded by the PHARE scheme of the European Union through the European Investments Bank and the European Bank for Reconstruction and Development.

RED ELÉCTRICA has been awarded also the following projects:

PROJECT TO IMPLEMENT A TEMPORARY SCADA SYSTEM IN BOSNIA AND TRAINING COURSES

The project which is funded by the Agencia Española de Cooperación Internacional is intended to set up for

the Zekc Bosnian utility a control system to improve the transmission grid. Simultaneously, members of the technical staff from Zekc will be trained by RED ELÉCTRICA in its own facilities in Spain.

TECHNICAL ASSISTANCE TO OPERATE

THE TUNISIA-LIBYA INTERCONNECTION

Advisory services are provided under this project to the Steg (Tunisia) and Gecol (Libya) utilities on the technical and operational requirements for integrating the electricity systems of both countries. The project, which is financed through their own funds by Steg and Gecol, will help to commission the first interconnection line between both countries with Hydro Quebec (Canada) co-operation.



During 2000, RED ELÉCTRICA has continued implementing the projects awarded in previous years, and of them, the following are worth mentioning:

- Technical assistance rendered for renewal of the Electricity Control Dispatching Centre of ONE (Morocco), which was successfully completed.
- System for operations planning in Syria, which has been developed to the full satisfaction of the client. Completion of the system is scheduled during the first quarter of 2001.
- Technical assistance provided for the Agadir (Morocco) Remote Control System. The project development is rather advanced.

The RED ELÉCTRICA Group is a consolidated reality as evidenced by the described projects in the telecommunications business and the international arena. RED ELÉCTRICA INTERNACIONAL contributes to the growth and expansion abroad of the Group leading always to the same target: the generation of added value for our shareholders.



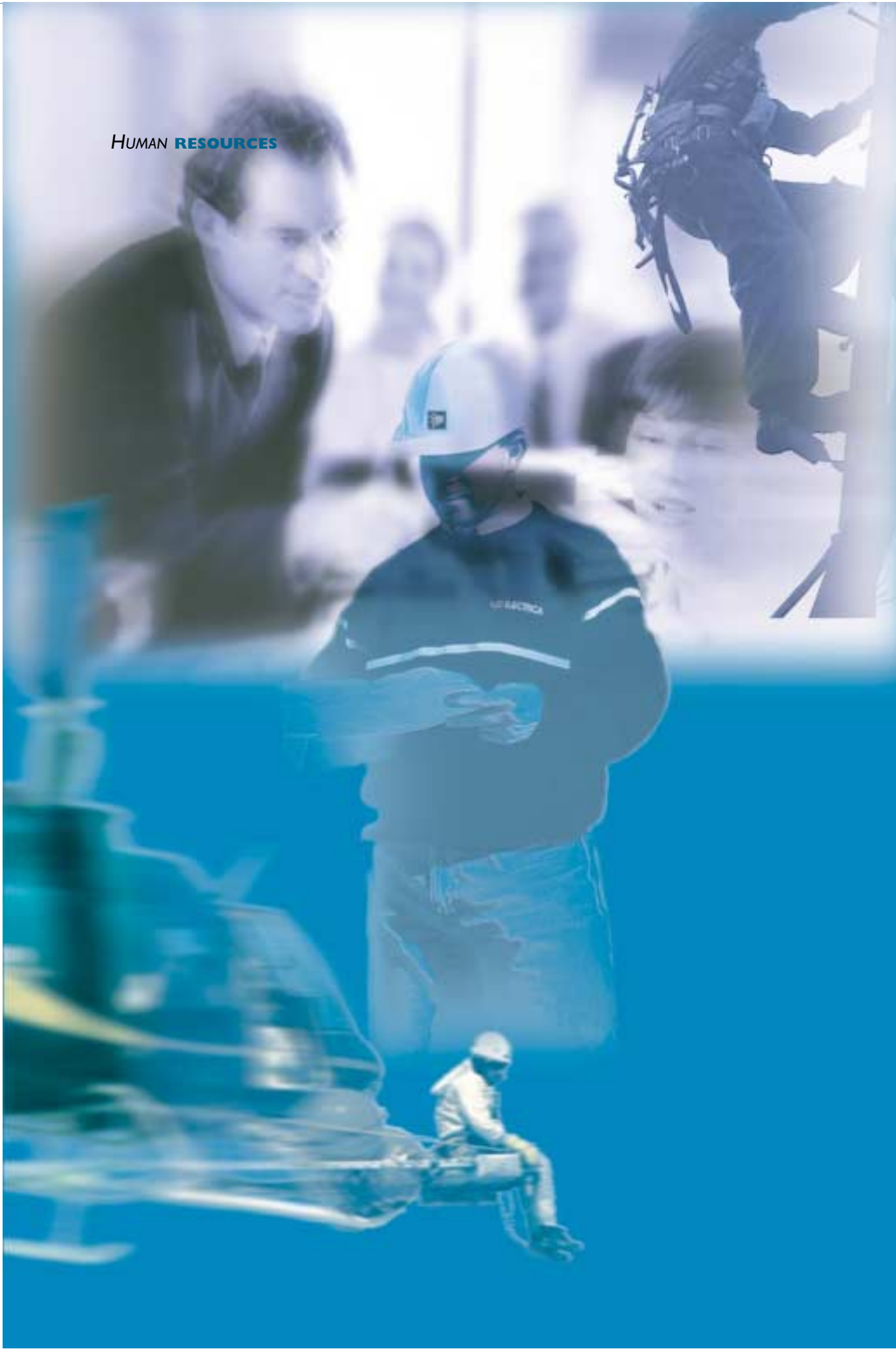


CORPORATE MANAGEMENT





HUMAN **RESOURCES**



RED ELÉCTRICA's staff has risen, yet another year, to the important strategic challenges facing the company in 2000. The implementation of the new skill-based human resources management model, which affords employees an understanding of the framework in which the company conducts business, was instrumental in this achievement.

NEW MANAGEMENT MODEL

The staff has assumed the company's business strategies with the support of a new methodology for determining yearly objectives: the integrated management chart.

Executives have used this chart to specify each organisational unit's objectives and action plans to ensure due development of the company's Strategic Plan.

CULTURAL CHANGE

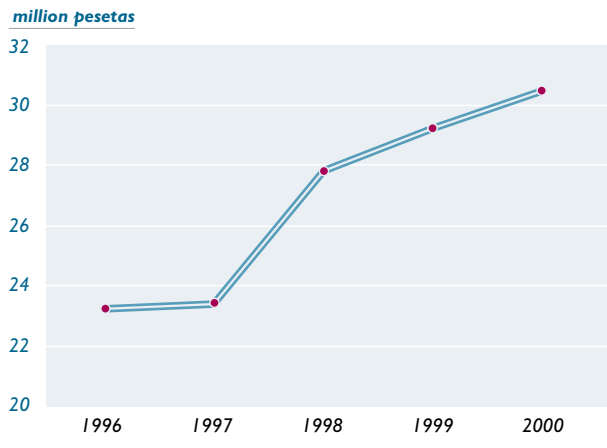
The definition of a new business culture is extremely helpful to the Executive Team. The people who work at RED ELÉCTRICA have understood and adapted to this cultural change, an outcome of the new business environment.

The new culture is built on the foundations provided by the essential cultural values that ought to inspire our men and women in the performance of their duties.

SKILL-BASED HUMAN RESOURCE MANAGEMENT

An analysis of the Strategic Plan revealed the need for a new human resource management system. This system addresses the changes required for staff adaptation and facilitates the introduction of new cultural values.

Cash-Flow/Employee



The new system, which is already under way, seeks to gradually reinforce the development of the skills that differentiate the best performance in each job. With this purpose in mind, the skills required for each job were identified, the Executive Team's suitability in these terms evaluated and the respective Development Plan initiated. Moreover, this system has identified a series of people with potential who, after sufficient preparation, will be in a position to opt for executive positions in the medium term.



STAFF PROFILE

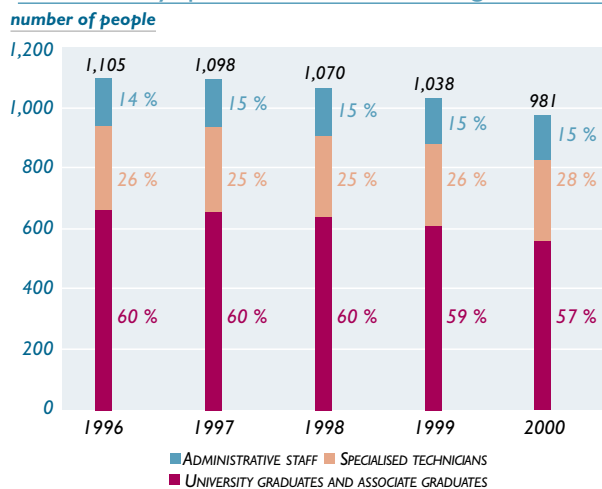
The most prominent feature of RED ELÉCTRICA's staff is that it is highly qualified, with 57% university graduates or associate graduates, 28% specialised workers and 15% support personnel. The average age of the company's employees is 41.

One of the most significant achievements in the year 2000 was personnel optimisation as a result of better organisation and greater efficiency in internal processes.

The total headcount on 31 December was 981 employees, down 5.5% from the preceding year

This downsizing was essentially the result of the Employment Regulation Proceedings negotiated in the first few months of the year with the workers' legal representatives and subsequently approved by the Directorate General for Labour.

Staff evolution and structure by qualifications and training



Moreover; new professionals have been hired, whose experience and profiles are well suited to the needs resulting from the diversification of the company's business in the areas of telecommunications and internationalisation.



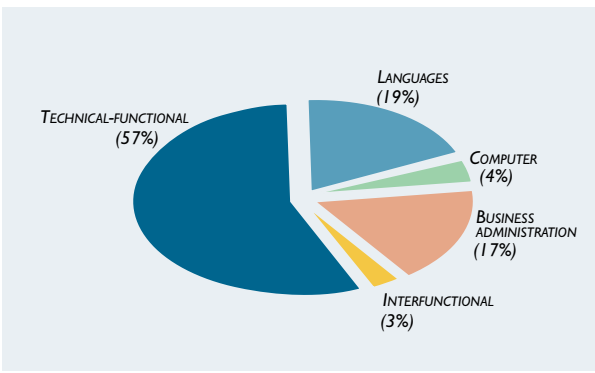


HUMAN RESOURCES PLAN

In this area attention must be drawn to the efforts made to reduce accident rates, which have been lowered to 0.26% of workdays lost per 1000 hours worked. Our enormous investments in training have involved the deployment of sums equivalent to over 3.4% of personnel expenses and 27,000 training hours. At the same time we have made arrangements for around one hundred educational co-operation grants and outsourced pension plan commitments.

This new human resources management plan represents yet another step forward in the cultural change. This change is consistent with our business strategy and the demands of the new environment.

Ttraining programmes





ECONOMIC AND **FINANCIAL MANAGEMENT**



Results

millions of pesetas / thousands of euros

	1996	1997	1998	1999	2000	00/99 (%)	2000(€)
EARNINGS BEFORE INTEREST, TAXES,							
DEPRECIATION AND AMORTISATION (EBITDA)	36,878	35,310	39,033	39,314	41,545	5.7	249,690
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	23,017	19,457	22,535	22,646	24,689	9.0	148,384
ORDINARY PROFIT	15,402	13,031	17,073	19,413	21,995	13.3	132,190
AFTER TAX PROFIT	10,547	9,540	11,536	12,501	13,832	10.6	83,130

In the year recently ended, RED ELÉCTRICA continued to improve on its most relevant business figures. The company's after tax profit came to Pta 13,832 million, up 10.6% over 1999, maintaining the upward trend recorded in the last few years.

The improvement over the 1999 results rested on turnover growth, cutbacks in operating expenses as a result of continuous improvement policies applied by the company in recent years, and declining financial costs.

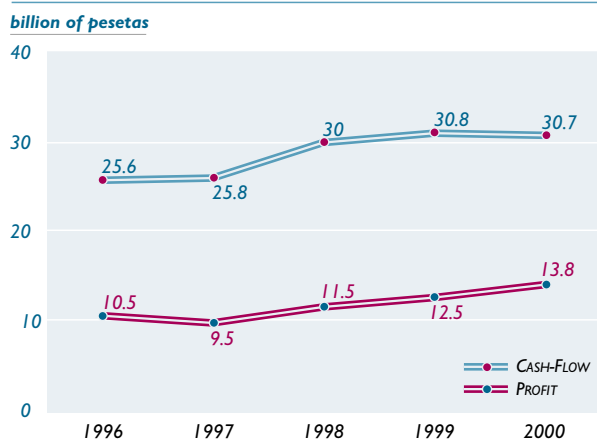
REVENUE

Turnover amounted to Pta 93,531 million. The adjusted turnover, i.e., net of power purchases and power from international trading, which provides a more standardised view of the company's business trends, came to Pta 58,774 million, up 3.6% over 1999. This increase over the preceding year was due primarily to growth in revenues from the transmission business, supplemented by a rise in sales in diversified activities. The major components of the adjusted turnover are as follows:

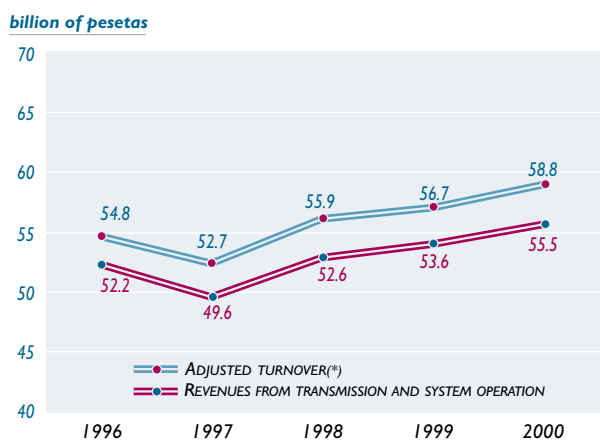
- Revenue for the provision of transmission services and system operation, which amounted to Pta 55,468 million, 3.5% higher than in 1999. These services are remunerated at a rate fixed yearly by the Ministry of Economy.

- Income from energy and power sales deriving essentially from import and export contracts with EDF (France) and ONE (Morocco). The amount of these sales, net of energy and power purchases, came to Pta 1,132 million.

Evolution of profit and Cash-Flow after tax



Turnover



(*) Net of energy and power purchases

Income

<i>millions of pesetas / thousands of euros</i>	1996	1997	1998	1999	2000	00/99 (%)	2000(€)
ORDINARY ADJUSTED INCOME	58,391	55,950	57,544	58,383	60,897	4.3	365,998
ADJUSTED TURNOVER (1)	54,784	52,710	55,963	56,731	58,774	3.6	353,239
Transmission and system operation revenues	52,246	49,624	52,611	53,590	55,468	3.5	333,369
Adjusted energy and power sales (2)	1,341	776	1,062	1,159	1,132	(2.3)	6,802
Revenues from provision of other services and other sales	1,197	2,310	2,290	1,982	2,174	9.7	13,068
OTHER INCOME	3,607	3,240	1,581	1,652	2,123	28.5	12,759
INGRESOS EXTRAORDINARIOS	842	1,777	2,424	1,116	1,325	18.7	7,964

(1) Net of energy and power purchases.

(2) Net of energy and power purchases. Until 1999 includes revenues from and short-term resettlements of international trading.

- Revenues from other activities, foremost among which are the revenues generated by diversified businesses such as telecommunications services, engineering consultancy and work done for third parties, amounted to Pta 2,174 million in 2000, up 9.7% over the preceding year.

Other income, which came to Pta 2,123 million, includes work done by the company for its tangible fixed assets, R&D expenses included in intangible fixed assets and ancillary operating revenues.

Extraordinary income came to Pta 1,325 million. This revenue is essentially the result of the transferral of capital grants and deferred income to profits.

EXPENSES

Ordinary adjusted expenses (net of energy and power purchases) amounted to Pta 38,902 million, which may be broken down as follows:

- Operating expenses (net of energy and power purchases) came to Pta 18,869 million, very similar to the figure recorded in 1999. This represents a decline, in real terms, of 3.7%. This trend reflects favourably on the policy of continuous improvement in internal efficiency implemented by the company in the last few years.

Under operating expenses, attention should be drawn to the 1.3% decline in personnel expenses with respect to 1999. In this regard the average number of people employed by RED ELÉCTRICA in 2000 was 1,007, down by 4.5% from 1999.



- Period depreciation and amortisation amounted to Pta 16,856 million.
- External financial costs for all items came to Pta 3,177 million, which figure includes the financial expenses in connection with investments under way. The decline in this chapter with respect to 1999 is due to lower indebtedness.

Extraordinary expenses came to Pta 2,349 million, consisting essentially of the provision - made in several instalments, the last in 2000 - for the anticipated costs of the employment regulation proceedings lodged by the company and approved by the labour authority.

FINANCING

The after tax cash-flow amounted to Pta 30,676 million, a figure equivalent to 31.6% of RED ELÉCTRICA's total revenues and 49.2% of its total adjusted revenues (net of energy and power purchases).



This cash-flow enabled the company to reduce its indebtedness by Pta 6,893 million with respect to the figure at year-end 1999. Financial costs, as mentioned, have likewise been substantially reduced, a feat which is the more significant, if possible, in a year such as 2000 when monetary conditions tightened as a result of the steep rises in interest rates established by the European Central Bank.

Expenses

<i>millions of pesetas / thousands of euros</i>							
	1996	1997	1998	1999	2000	00/99 (%)	2000(€)
ORDINARY ADJUSTED EXPENSES	42,989	42,919	40,471	38,970	38,902	(0.2)	233,808
OPERATING EXPENSES	20,063	19,275	18,070	18,805	18,869	0.3	113,407
Personnel expenses	8,141	8,521	8,877	9,164	9,046	(1.3)	54,366
Purchases, works, supplies and outside services and other expenses (1)	11,922	10,754	9,193	9,641	9,823	1.9	59,041
PERIOD DEPRECIATION AND AMORTISATION	13,676	15,720	16,397	16,668	16,856	1.1	101,305
FINANCIAL EXPENSES (2)	9,250	7,924	6,004	3,497	3,177	(9.2)	19,096
GASTOS EXTRAORDINARIOS	1,810	805	2,103	1,442	2,349	62.9	14,119

(1) Net of energy and power purchases. Includes variation in operating provisions.

(2) Expenses net of financial income.

In 2000, the company's financial structure continued to be geared to compliance with the basic objectives of its financial strategy, i.e., the maintenance of a diversity of sources of financing and the need to obtain a substantial level of long-term funding to provide structural stability, with a high volume of funds in hand to ensure the desired degree of flexibility.

With a view to vesting the company with a borrowing capacity appropriate to its needs, via speedy and efficient access to capital markets, it applied for a credit rating,

devoting a good deal of effort to that endeavour in the second and third quarters of the year.

The corporate ratings awarded to RED ELÉCTRICA by the agencies involved were made public in November, as follows: Standard & Poor's came forward with a grade of A-1+ for short-term and AA- for long-term investments and Moody's, with a long-term grade of Aa3. These grades are among the highest granted to any Spanish private, non-financial company.

Outside financing

millions of pesetas / thousands of euros

	1996	1997	1998	1999	2000	00/99 (%)	2000(€)
TOTAL FINANCIAL DEBT	96,186	98,444	80,626	65,828	58,935	(10.5)	354,204
SHORT-TERM FINANCING	20,036	43,094	13,331	8,193	13,075	59.6	78,585
LONG-TERM FINANCING	76,150	55,350	67,295	57,635	45,860	(20.4)	275,619
Debt to purchase fixed assets	27,022	8,974	-	-	-	-	-
Loans	24,696	27,859	41,277	36,617	24,842	(32.2)	149,301
Bonds issued	24,432	18,517	26,018	21,018	21,018	-	126,318
OTHER CURRENT LIABILITIES	33,182	29,355	25,466	23,006	29,053	26.3	174,611
OTHER LONG-TERM ACCOUNTS PAYABLE	6,404	6,911	7,322	7,624	15,262	100.2	91,733
TOTAL	135,772	134,710	113,414	96,458	103,250	7.0	620,548

Shareholders' equity

millions of pesetas / thousands of euros

	1996	1997	1998	1999	2000	00/99 (%)	2000(€)
SUBSCRIBED CAPITAL (*)	45,090	45,090	45,090	45,014	45,014	-	270,540
REVALUATION RESERVES	41,101	41,101	41,101	41,101	41,101	-	247,022
RESERVES	30,565	14,272	18,339	22,879	27,059	18.3	162,626
NET PROFIT FOR THE YEAR	10,547	9,540	11,536	12,501	13,832	10.6	83,130
INTERIM DIVIDEND	(2,367)	(3,000)	-	(3,376)	(3,806)	12.7	(22,877)
TOTAL	124,936	107,003	116,066	118,119	123,200	4.3	740,441

(*) Redenominated in euros in 1999.

INVESTMENTS

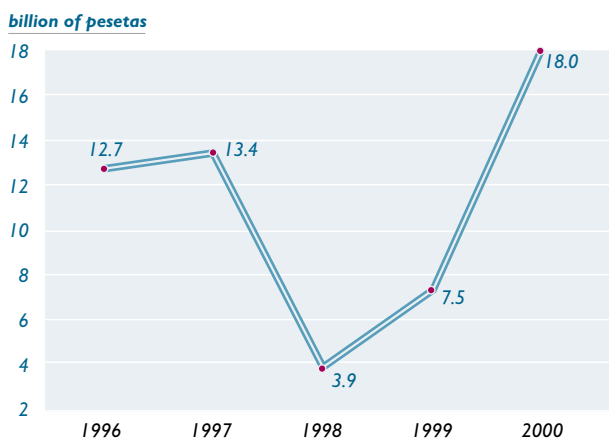
RED ELÉCTRICA's investments in 2000 amounted to Pta 18,004 million, up 141.41% over 1999. These investments include, among others:

- The investments undertaken by RED ELÉCTRICA to expand and improve the transmission grid, for a total of Pta 13,028 million.
- Financial investments, net of outstanding share outlays, for a total of Pta 3,997 million, in connection with the constitution of RED ELÉCTRICA TELECOMUNICACIONES and

capital brought in to RED ELÉCTRICA INTERNACIONAL, founded in 2001.

- Investments in infrastructure projects, equipment and R&D, which totalled Pta 979 million.

Investments



Investments

millions of pesetas / thousands of euros

	1996	1997	1998	1999	2000	2000(€)
INVESTMENTS IN THE TRANSMISSION GRID	10,714	5,940	3,003	5,737	13,028	78,300
LINES	6,104	3,966	1,725	2,437	7,920	47,600
SUBSTATIONS	4,610	1,974	1,278	3,300	5,108	30,700
SPAIN-MOROCCO INTERCONNECTION	681	6,164	-	-	-	-
OTHER INVESTMENTS	1,292	1,309	880	1,722	4,976	29,906
FINANCIAL INVESTMENTS (*)	-	-	-	915	3,997	24,022
OTHER PROJECTS	1,292	1,309	880	807	979	5,884
TOTAL	12,687	13,423	3,883	7,459	18,004	108,206

(*) Net of outstanding share outlays.



MEMBERSHIP IN INTERNATIONAL ORGANISATIONS

RED ELÉCTRICA finds that membership in the mentioned organisations is a high value added engagement that helps, leaving aside other considerations, to establish a legislation and standards framework that meets the 96/92 European Directive.

This Directive is intended to set up the European electricity market through the interconnected operation of the European transmission grids.

The above aims will work to the advantage of all the parties concerned and, specially, the consumers.



RED ELÉCTRICA's membership in both domestic and international organisations is intended to help draw up proposals for legislation, control, standards and criteria to operate grids and electricity systems, as well as anything related to the foregoing, using to advantage the built up knowledge and expertise, and in close co-operation always with other domestic and international utilities, specially, within the European Union sphere.

The main organisations, where RED ELÉCTRICA is actively engaged, are listed below:

EURELECTRIC (EUROPEAN UTILITIES COMMITTEE)

RED ELÉCTRICA is member of EURELECTRIC'S Executive Committee as founder member and is the Chairman of the transmission grid operators. A number of initiatives related to the development of a European internal electricity market have been carried out by this organisation.

UCTE (UNION FOR CO-ORDINATING ELECTRICITY TRANSMISSION)

This organisation is comprised of 18 countries from Continental Europe which are electrically interconnected. RED ELÉCTRICA is the Chairman and Secretary of the Spanish Committee.

IESOE (ELECTRICITY INTERCONNECTION IN SOUTH-WESTERN EUROPE).

Electricité de France, Red Eléctrica Nacional de Portugal and the Spanish utilities are enclosed in this organisation which is intended to study the operation of grid interconnections between the member countries and draw up common initiatives for operations improvement. RED ELÉCTRICA is the Chairman and Secretary of this organisation as well as chairs the Spanish Delegation.

CIGRE (INTERNATIONAL CONFERENCE OF LARGE ELECTRICITY GRIDS)

This organisation encloses world-wide both utilities and manufacturers of electrical capital goods. RED ELÉCTRICA is the permanent Secretary of the Spanish Committee.

OME (MEDITERRANEAN ENERGY OBSERVATORY)

This organisation is comprised of utilities, plus gas and oil companies operating in the Mediterranean Basin countries. It sponsors and promotes energy co-operation between the member countries.

ETSO (EUROPEAN ELECTRICITY SYSTEMS OPERATORS ASSOCIATION)

Operators in all the member states of the European Union are part of this association. RED ELÉCTRICA is a founder member and actively engaged in the Association's work as part of its Management Committee.

INTERNATIONAL ASSOCIATION OF LIVE WIRE WORKING OPERATIONS

The association encloses utilities from Hungary, France, Italy, Portugal, Germany, Bulgaria, Poland and Spain. It was set up in 1990 and its purpose is to achieve homogeneous criteria for carrying out live wire work, issuing standards in the form of recommendations. RED ELÉCTRICA is the Chairman since 1998.

OSTE (AGENCY FOR TRACKING ELECTRICITY TRANSFERS IN LARGE GRIDS)

This agency was set up as part of the European Commission to study the effects of the 90/547/CEE Directive on electricity transfer through the existing large grids in the European Union. RED ELÉCTRICA is the only Spanish utility enclosed in the Directive Annex.



CO-OPERATION AND **SPONSORING ACTIVITIES**





Leaving aside the responsible performance of its own activities, RED ELÉCTRICA contribution to society is basic for the efficient operation of the economy and the welfare of all electricity users, as summarised in the four guidelines listed below:

- Co-operation with universities, specially, in the fields related to electrical engineering and economics as well as other similar areas. In this regard, the following agreements are worth highlighting:
 - Agreement to support teaching activities in the Chair of Industrial Economics within the Carlos III University for training experts in the Economics of Industrial Sectors.
 - Agreement for co-operation with the Comillas Pontifical University.
 - Agreement with the Valladolid University and its Biology and Molecular Genetics Institute to study the effects of electromagnetic fields on cells life.
 - Agreement with the Higher Technical School of Electrome-Mechanical Engineers of Seville and the Industrial Research and Co-operation Association of Andalucía to study possible ways to mitigate magnetic fields induced by overhead electric transmission lines.
- Cultural activities which enclose sponsoring of books editions and other high level actions.
- Activities for disseminating reports and studies about electrical and environmental subjects related to grids and electricity systems, and specially, those where RED ELÉCTRICA sponsors or funds research and development works:
 - Publishing a volume that encloses all the papers submitted during the III Conference on Electrical Lines and the Environment held in 1999.
 - Updating and publishing again the "Inventory of the Iberian Flora compatible with High Voltage lines".
- Co-operation with municipalities and other cultural, educational and sports institutions.





RESEARCH, DEVELOPMENT AND **INNOVATION**





The technological research, development and innovation aims of the Company were redefined in 2000 for aligning them with the basic strategies and furthering their contribution to the generation of value added. The position they hold in the organisation chart was also reviewed and the synergism and internal co-operation effects were emphasised. In view of the foregoing, all the domestic procedures that control this function were updated too.

Of the technological research, development and innovation projects carried out by RED ELÉCTRICA in 2000, the following are worth highlighting.

COMPLETED PROJECTS

POWER TRANSFORMERS

This study is intended to implement the different technologies for measurement and monitoring of power transformers, achieve a more accurate evaluation of their condition, and prevent, in the most reliable fashion, any possible failures.

FAULT PREVENTION IN CURRENT TRANSFORMERS

Evaluation and analysis of possible applications in RED ELÉCTRICA of different systems for current transformers measurement and diagnosis.

INSTRUMENT TO MEASURE EARTHING RESISTANCE OF SUPPORT TOWERS

Development of equipment used to measure the earthing resistance in high voltage lines supporting towers.

TRAFELAS

Development of a piezoelectric sensor for measuring voltages in high voltage lines. It is based on a device that generates mechanical waves, in the high voltage primary circuit, which are transferred through a dielectric to a different sensor where the mechanical waves are converted, in turn, to voltages.

ELECTRONET

It is intended to establish a standard format for displaying databases in electric power systems, whether they are used for generation or transmission.

PROJECTS IN PROGRESS

INSTRUMENT TO MEASURE LEAKAGE CURRENTS AND THE CORONA EFFECT

Development of an instrument to measure leakage currents. The instrument will be attached to tower structures, if insulation problems are induced by pollution.



DIAGNOSIS OF COMPOSITE MATERIALS INSULATION

Design, tests and trials both in the laboratory and the field to evaluate the performance over time of composite materials insulators used in RED ELÉCTRICA installations.

ANCHORINGS CORROSION AND RUSTING

Work to develop a unit that can measure corrosion or rusting in anchorings of high voltage lines towers and, additionally, define a system for measuring and interpreting the findings.

RESEARCH ON LONG-TERM ELECTRICITY DEMAND (INDEL)

This is aimed to understand the electricity demand in the country; explain its trends versus time, determine the significant consumer segments, as well as any external factors which explain demand trends.

EFFORTS TO MINIMISE TRANSMISSION LOSSES IN REGIONAL POWER SYSTEMS

This is intended to show the industrial feasibility of an automatic and distributed system to control voltages and handle reactive power. The system will reduce significantly energy losses in the transmission grid and improve the safety conditions in the system.

FOTORED

An analysis of the advantages and disadvantages and the proposed approaches to solve them, for large scale use of photovoltaic power, and targeted specially on systems fitted in office buildings.

PILOTLESS HELICOPTER

A prototype of pilotless flying vehicle is developed for tracking and gathering pictures of electric lines to be visually examined later using computer based viewing procedures.

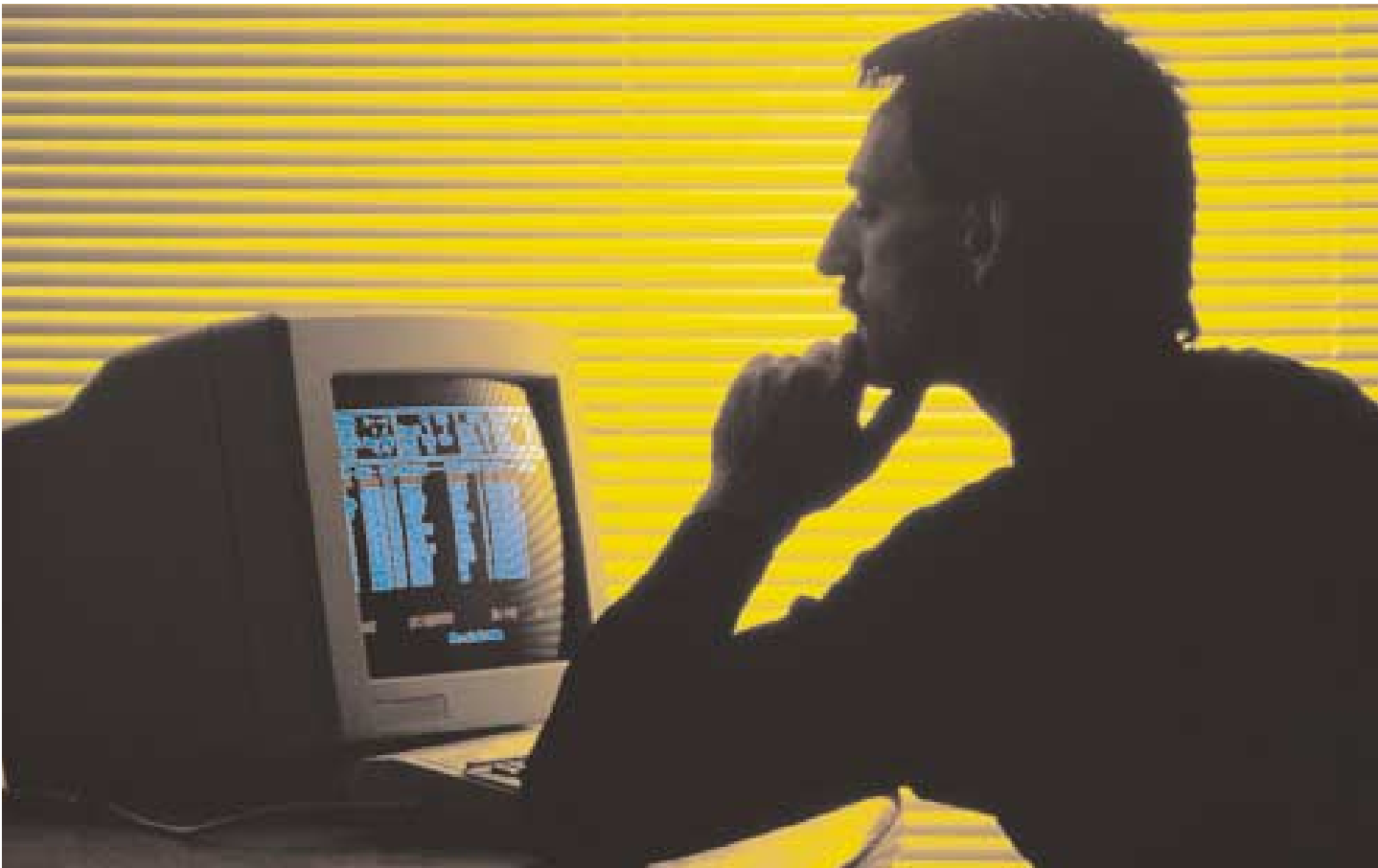
WIND EFFECTS

The effects of wind on the electric system of the Peninsula are surveyed taking into account those factors which affect the system's operator.

NEW TECHNOLOGIES FOR ELECTRIC SYSTEMS (NUTEC)

Efforts to further the knowledge about FACTS devices, both at the experimental level and for analysis to identify possible applications in the Spanish electricity system.





NEW PROJECTS

PREVIENTO

This is intended to develop a tool for prediction of wind power in a 48 hours forecasting horizon. The tool has to allow for quantifying the predictions uncertainty, point out wrong predictions and correct them.

The random component related to wind power is also optimised to make renewable energies a reliable option in a deregulated energy market.

CIM

The project is intended to develop a database prototype for energy control systems based on the International Electrotechnical Commission Standard (IEC 61970 301).



QUALITY



After consolidating the quality systems designed for each of its lines of business and essential support areas, RED ELÉCTRICA has enhanced its performance in other fields and aspects relating to excellence and continuous business improvement. The principal measures taken in 2000 are described below.

PROCESSES

All the functions and activities conducted in the company were analysed and the Process Map was designed, reflecting the new organisation and interrelations between the various business areas. This analysis made it possible to formulate a detailed catalogue of processes, which groups them under three categories - strategic, operational and support - and contains all the basic information associated with each one.

Moreover, an efficiency analysis was conducted on the company's 15 financial-administrative processes (23% of the total), identifying their strong and weak points. In addition to other work performed in this area, re-engineering was studied for two processes relating to the deployment of quality systems.

EXTERNAL AND INTERNAL CUSTOMERS

Two projects were implemented in 2000, with the following objectives:

- To ascertain external customer satisfaction with RED ELÉCTRICA in its role as the electric power system operator.
- To evaluate the effectiveness and efficiency of RED ELÉCTRICA's internal processes.

The first project involved designing a survey and interviewing a sufficient number of customers to obtain reliable and representative conclusions. With a response rate of 76% of all the questionnaires circulated, results

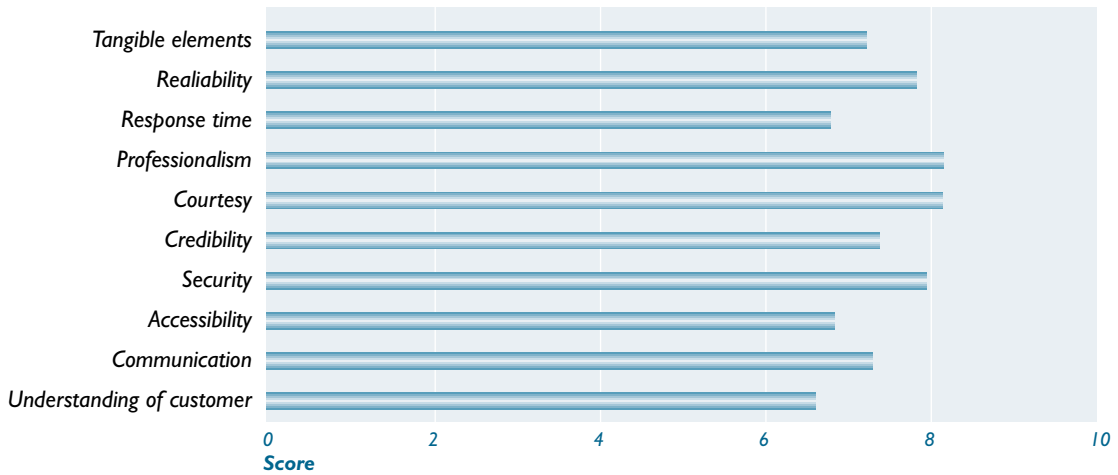
were obtained on customer satisfaction with the services rendered by RED ELÉCTRICA in the framework of electric power system operation. The interviews were used to identify customer requirements and expectations in connection with each of these services.

RED ELÉCTRICA was graded very satisfactorily overall, with a score of 7.85 on a scale of 10.

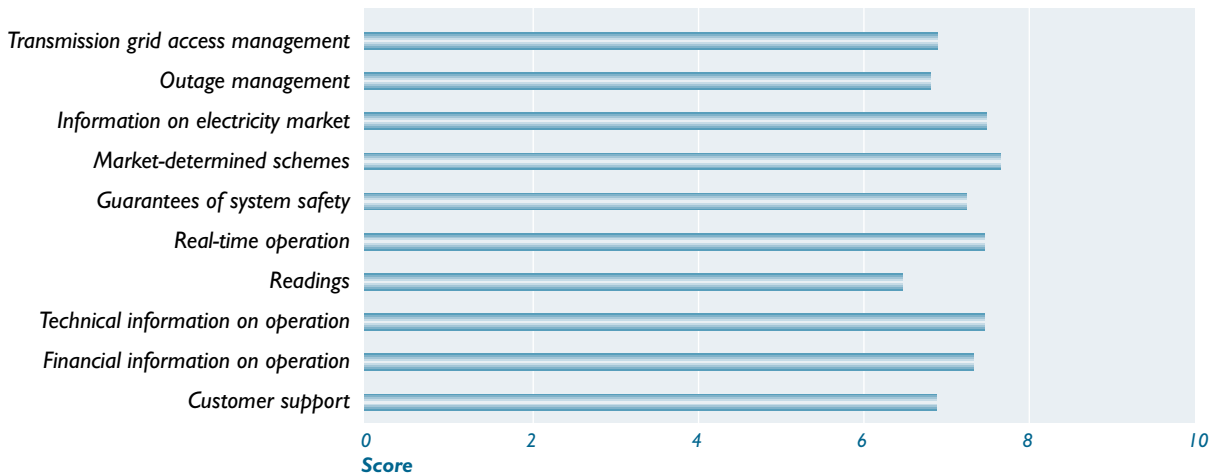
The second project, which covered all company processes, evaluated top management and department opinions on the degree of process effectiveness, as well as on their added value and the quality of the work performed by the company's organisational units that participate in the activities involved in such processes.



System operation: quality



System operation: services



SUPPLIERS

With the intention of involving the company's main suppliers more intensely in the quality of RED ELÉCTRICA's products and services, the classification and monitoring system for suppliers of goods and service providers was redesigned and improved. The number of quality agreements with suppliers was also enlarged.

CERTIFICATIONS

Designing was begun on two new quality systems to certify RED ELÉCTRICA's safety activities.

The first will assure, pursuant to the OHSAS (Occupational Health and Safety Assessment Series) 18001 standard, that company actions and processes are consistent with the prevention of occupational hazards.

The second project will provide for continuing improvement in safety for people and facilities. This certificate will supplement RED ELÉCTRICA's existing ISO 9001 series quality credentials.

EXTERNAL CO-OPERATION

RED ELÉCTRICA continues to head two working groups established under the Energy Industries Section of the Spanish Quality Association (AEC). One of them drafted and published a "Guide for the integration of Quality, Environmental and Occupational Hazard Prevention Management Systems".

The company also co-operated with the team that assessed candidate companies for the award of the First Andalusian Prize for Quality under the European Foundation for Quality Management (EFQM) Model for Excellence.

Finally, two papers were submitted to the Ninth Workshop on Quality in the Energy Industry held at La Coruña.





THE ENVIRONMENT



ENVIRONMENTAL ACTIONS COVERED BY THE PROJECT AND CONSTRUCTION OF FACILITIES

During 2000, a positive statement has been issued by the respective authorities about the environmental impact of the incoming-outgoing 400kV line at the Magallon Substation in the La Serna-Peñaflor line. This is the second line RED ELÉCTRICA submits to the environmental impact evaluation as provided by Law 54/1997 of November 27th for the Electricity Industry. In addition, an environmental impact statement about the study of other lines completed in 1999 is expected.

On the other hand, the environmental impact evaluations of 6 lines and 4 substations have been completed and the environmental impact studies of an additional 5 lines and 4 substations have been started. Due to their characteristics, 3 of the mentioned lines must be submitted to the environmental impact evaluation procedure.

Environmental supervision work has been carried out during construction of different lines and substations and the preventive and control steps required by the environmental monitoring scheme for those facilities have been started.

ENVIRONMENTAL STUDIES AND RESEARCH PROJECTS

As concerns the environmental studies and research actions, the "Effects of low frequency electromagnetic fields on the scheduled cells death (apoptosis)" have been carried out through a co-operative effort with the Biology and Molecular Genetics Institute, in the School of Medicine of Valladolid University, and UNESA. The mentioned project has concluded in that apoptosis linked to the embryo development and tumours changing processes are not affected by electromagnetic fields arising from electrical facilities.,

Moreover, a research project on "Procedures to mitigate magnetic fields" induced by overhead electricity transmission lines has been carried out in co-operation with the Industrial Research and Co-operation Association of Andalusia and the Higher Technical School of Electro-Mechanical Engineers in Seville University. Knowledge about the methods to reduce the magnetic field near high voltage overhead transmission lines and, specially, for their design and lay out of active and passive inductive loops, has been furthered by the project.

A device that acts as a deterrent for birds nesting on electric lines towers has been also registered in the Patents and Trademarks Office as a useful model that has shown outstanding performance following the tests carried out in previous years under the project "Tests of deterrent actions to keep white storks from nesting on electric power transmission lines towers".



STEPS TO PREVENT AND REDUCE ENVIRONMENTAL EFFECTS

As concerns the actions intended for the protection of birds population, the study "Tracking the markings performance in the 400 kV Valdecaballeros-Guillena electric power line" has been completed and the one known as "Markings in the 400 kV Guadame-Tagus line" has been started for tracking birds accidents due to collisions against the line earthing wires in the right of way going through a Natural Reservation. A study named "Impact on birds and their habitats of new electric power lines to supply the high speed Madrid-French Border railway line" has been started. This study is intended mainly to carry out a detailed analysis of the birds and habitats found in the areas near the four planned alignments to identify and implement preventive steps, when necessary.

Fitting birds-guards spirals on possible dangerous spans of overhead lines has been continued to keep birds from crashing against the wires in several Castilla-La Mancha, Madrid and Aragon power transmission lines.



Regarding actions to prevent pollution in substations, the condition of pits used to collect oil from power equipment has been reviewed in 15 substations and the respective improvement proposals have been submitted.

As regards wastes handling, the work to quantify them has been continued for submission to the respective government agencies, during 2001, of a proposal to reduce such wastes, whenever possible.

In order to lower the amounts consumed both of electric power and other consumables (water, paper, fuel, etc.) a Code of Good Environmental Practices has been approved and published for circulation to the employees

ENVIRONMENTAL MANAGEMENT SYSTEM

The required audits, both in-house and external, have been carried out to ensure the proper operation of the Environmental Management System. An exhaustive analysis of the in-house specifications, which include environmental criteria and the new legislation that came into effect during the year, has been carried out and all environmental inquiries and claims have been duly acknowledged.

Throughout the year, the first Environmental Statement, issued as an Annual Report, has been drafted. Validity of the next issue is a must requirement to file in 2001 RED ELÉCTRICA's application to register with the Community Environmental Management and Audits System (EMAS).



CO-OPERATION WITH AGENCIES,
INTERNATIONAL ACTIVITIES AND PUBLICATIONS

The company has engaged in several domestic and international workgroups made up by technical personnel and experts. Amongst them it is worth highlighting the workgroup on electromagnetic fields led by UNESA; the Committee on Equipment and Electromagnetic Fields Measurement and the Systems Committee on Environmental Management sponsored by AENOR; the Environment and Society group of EUROELECTRIC, and the group made up by the Ministry of the Environment, Autonomous Communities Authorities and UNESA which

has to draw up a Royal Decree Bill for "Implementing measuring procedures of a technical nature in high voltage electric facilities", in order to protect the birds population.

In addition, the Company has engaged actively in different domestic and international seminars such as "Electromagnetic Fields and Health" sponsored by the Higher Research Council (CSIC); the V National Congress on the Environment; the 5th International Conference on Live Wire Work ICOLIM 2000, and the 7th International Symposium on "Environmental Concerns in Rights-of-Way Management" (Calgary).

In the International scenario, Environmental Monitoring Schemes were developed during the construction of four electric power lines in Peru. In addition, feasibility studies of two electric power lines in Peru, another one in Brazil and an interconnecting line with France have been carried out.

As in previous years, information has been circulated to third parties through the works, books and bulletins published of which the following are worth highlighting: the first "Environmental Annual Report" from RED ELÉCTRICA, which describes the actions carried out up to 1999; a book of the papers submitted to the "III Meetings on electric power lines and the Environment". The "Code of Good Environmental Practices", and the updated release of the "Inventory of the Iberian Flora compatible with high voltage lines".



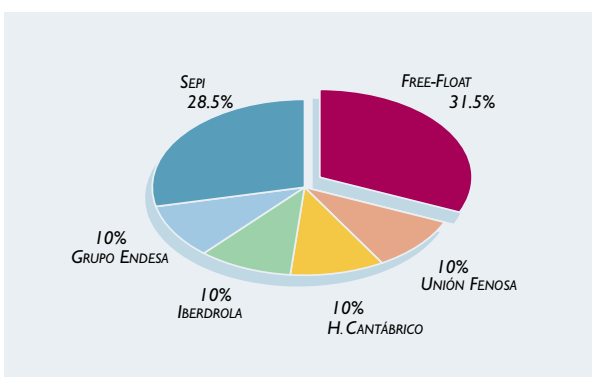


SHAREHOLDERS AND **STOCK MARKET PERFORMANCE**



The year 2000 witnessed RED ELÉCTRICA's consolidation as a benchmark security on the Spanish exchange. The strategy implemented by the company, namely drawing on the value of its telecommunications assets, together with its inclusion on the select IBEX-35 index, determined its excellent stock market performance, with a 67.5% increase in the value of the security, the second largest rise on the Spanish stock exchange in 2000.

Shareholder structure



SHAREHOLDER STRUCTURE

As of 31 December 2000 the company's fully subscribed and paid up capital stock amounted to 270,540,000 euros, consisting of 135,270,000 shares with a par value of 2 euros each. There were no changes in the number of shares in circulation or their face value during the year.

DIVIDENDS

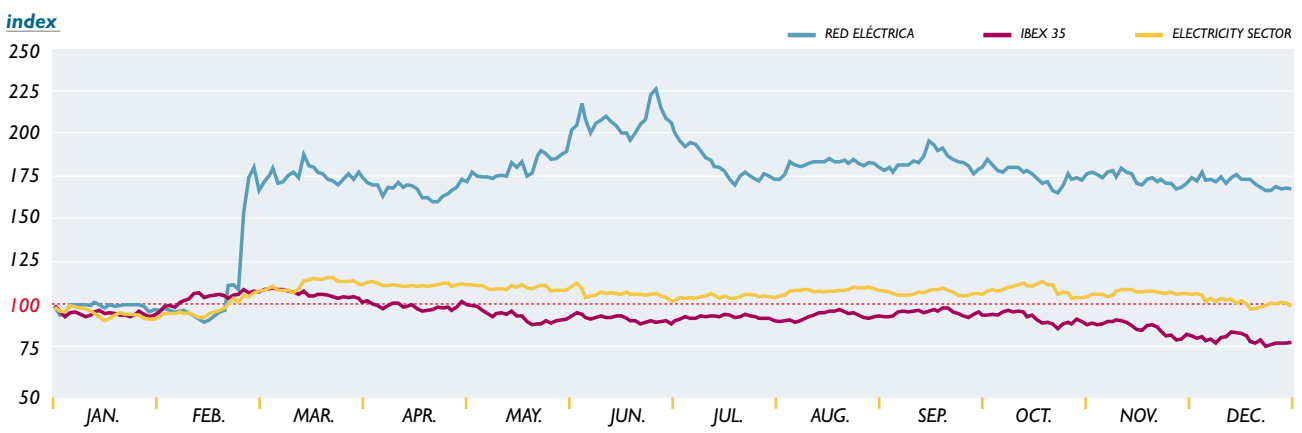
As part of its strategy to create shareholder value, RED ELÉCTRICA has continued to implement a policy of remunerating shareholders by increasing the dividend distributed.

The dividend proposal raised to the General Shareholders' Meeting for approval is 0.415 euros per share, computed over all shares, for a pay-out ratio of 67.4% and an increase of 13.5% over the gross dividend paid last year. On 2 January 2001 shares entitled to a dividend received a gross interim dividend for financial year 2000 of 0.17 euros per share, leaving an outstanding gross supplementary dividend for the year 2000 of 0.245 euros per share.

STOCK MARKET PERFORMANCE

Financial year 2000 closed with a substantial decline in variable income markets, with the main securities rate showing the poorest year-end results recorded since the early nineties. While the downward pressure was felt, generally speaking, across all industries and securities, the effects of the adjustments were particularly severe on so-called new economy securities.

Comparison of performance: RED ELÉCTRICA · IBEX35 · Electricity Sector



In this context, attention should be drawn to the consistently high price sustained by RED ELÉCTRICA's share, which, trading at 10.05 euros at year-end, was one of the star performers on the Spanish exchange. Indeed, its net rise in value of 67.5% is the more meritorious when compared to the 21.75% decline in the IBEX-35 and the 0.71% dip in electricity industry securities overall.

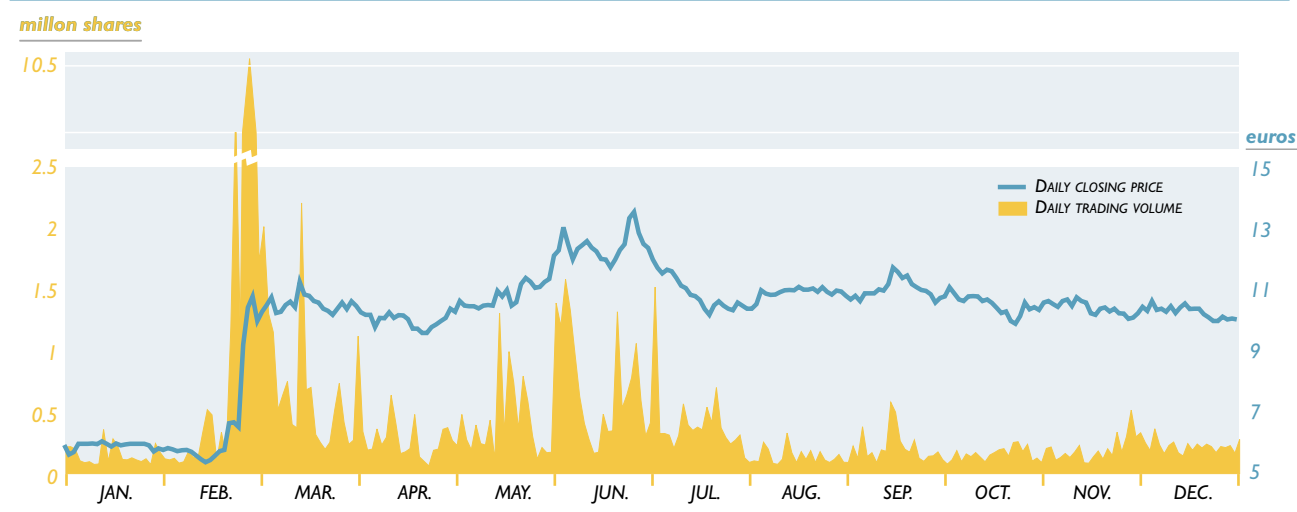
RED ELÉCTRICA's stock market performance was

impacted by the company's strategy of drawing on the value of its telecommunications assets and by its entry in the select IBEX-35 index.

Total shareholder returns, including dividends distributed during the year, amounted to 71%.

In 2000, a total of 102.9 million shares, or 2.4 times the free floating capital, were traded on the market. Effective turnover came to 1.076 billion euros

RED ELÉCTRICA share prices and daily trading volume



Share prices month by month

	DAYS QUOTED	MONTHLY PRICES (EUROS)				VARIATION % MONTHLY	TRADING VOLUME	
		HIGH	LOW	AVERAGE	CLOSING		TITLES	TURNOVER (EUROS)
JANUARY	20	6.16	5.60	5.93	5.75	-4.17	2,577,357	15,292,093.78
FEBRUARY	21	12.45	5.37	9.27	10.80	87.83	27,829,366	257,989,863.57
MARCH	23	11.37	9.50	10.58	10.28	-4.81	17,655,779	187,010,294.06
APRIL	18	10.75	9.00	10.05	10.10	-1.75	4,738,983	47,655,193.47
MAY	22	11.48	10.10	10.85	11.37	12.57	8,507,370	92,368,864.37
JUNE	22	13.90	11.23	12.45	12.00	5.54	17,080,739	212,718,313.33
JULY	21	11.99	10.18	10.87	10.40	-13.33	7,370,732	80,156,117.11
AUGUST	23	11.34	10.43	10.89	10.65	2.40	3,227,561	35,167,870.01
SEPTEMBER	21	11.75	10.60	11.17	10.70	0.47	3,550,197	39,688,726.29
OCTOBER	21	10.95	9.85	10.44	10.46	-2.24	2,978,733	31,118,467.65
NOVEMBER	21	10.85	9.95	10.33	10.36	-0.96	4,265,247	44,068,897.04
DECEMBER	17	10.63	9.52	10.21	10.05	-2.99	3,184,094	32,526,662.51
YEARLY TOTAL	250	13.90	5.37	10.44	10.05	67.50	102,966,158	1,075,761,363.19

Main stock exchange indicators in 2000

TOTAL N° OF SHARES	135,270,000
FREE-FLOAT	42,610,050
PAR SHARE VALUE (EUROS)	2
MINIMUM DAILY TURNOVER (SHARES)	38,052
MAXIMUM DAILY TURNOVER (SHARES)	10,635,905
YEAR-END MARKET CAPITALISATION (EUROS)	1,359,463,500
NET EARNINGS PER SHARE (EPA) (EUROS)	0.61
PRE-TAX CASH-FLOW PER SHARE (EUROS)	1.61
PRICE/EARNINGS RATIO (P/E) (TIMES)	16.35
PRICE/CASH-FLOW RATIO (P/CF) (TIMES)	5.98
COTIZACIÓN/VALOR CONTABLE POR ACCIÓN (PVC) (N° VECES)	1.84
GROSS DIVIDEND PER SHARE FOR 2000 (EUROS)	0.415
PAY-OUT RATIO (%)	67.4

RELATIONSHIP WITH SHAREHOLDERS

To provide the market with punctual and transparent information on company strategies, projects and activities, RED ELÉCTRICA is constantly in touch with investors through its Investor Relations unit and its Shareholders' Office.

Direct contact was made with investors and analysts throughout the year, with company executives participating in presentations and meetings in the major Spanish cities as well as in Europe and the United States. Moreover, information has been distributed to the principal domestic and international analysis firms.

Individual shareholder queries and information needs, in turn, have been attended by the personalised service provided by our Shareholders' Office. Moreover, RED ELÉCTRICA's web site (www.ree.es) contains a section specifically intended for shareholders that furnishes all the information required to keep abreast of business trends and the most relevant developments in the company.





STATUTORY **INFORMATION**



RED ELÉCTRICA DE ESPAÑA, S.A.**BALANCE SHEETS**

31 DECEMBER 2000 EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

ASSETS	2000	1999
INTANGIBLE FIXED ASSETS (NOTE 5)	1,198	1,590
RESEARCH AND DEVELOPMENT EXPENSES	3,050	3,017
SOFTWARE	1,076	997
ACCUMULATED AMORTISATION	(2,928)	(2,424)
TANGIBLE FIXED ASSETS (NOTE 6)	217,662	220,360
LAND AND BUILDINGS	5,876	5,878
PLANT AND MACHINERY	357,829	348,382
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	10,553	10,728
PLANT AND MACHINERY UNDER CONSTRUCTION	19,787	16,290
ADVANCES AND OTHER ASSETS UNDER CONSTRUCTION	606	172
PROVISIONS	(3,602)	(3,380)
DEPRECIATION OF PLANT AND MACHINERY	(164,051)	(148,815)
OTHER DEPRECIATION	(9,336)	(8,895)
INVESTMENTS (NOTE 7)	15,246	3,800
INVESTMENTS IN GROUP COMPANIES	11,481	-
INVESTMENTS IN ASSOCIATED COMPANIES	918	915
LONG-TERM INVESTMENT PORTFOLIO	-	5
OTHER LOANS	974	1,139
LONG-TERM GUARANTEE DEPOSITS	36	10
LONG-TERM BALANCES RECOVERABLE FROM PUBLIC ENTITIES (NOTE 21)	1,972	1,731
PROVISIONS	(135)	-
OWN SHARES (NOTE 10 (i))	1,008	-
LONG-TERM DEBTORS (NOTE 8)	968	968
TOTAL FIXED ASSETS	236,082	226,718
DEFERRED EXPENSES (NOTE 9)	1,857	2,222
STOCKS	413	568
RAW MATERIALS AND OTHER SUPPLIES	967	1,066
PROVISIONS	(554)	(498)
DEBTORS (NOTE 8)	17,787	17,508
TRADE DEBTORS	2,420	2,924
GROUP COMPANIES	226	-
ASSOCIATED COMPANIES	87	160
SUNDRY DEBTORS	14,296	14,012
PERSONNEL	315	324
PUBLIC ENTITIES (NOTE 21)	446	234
PROVISIONS	(3)	(146)
SHORT-TERM INVESTMENTS (NOTE 7)	4,104	2,985
SHORT-TERM INVESTMENT PORTFOLIO	1,501	2,001
OTHER LOANS	2,603	984
CASH AND BANKS	127	87
PREPAID EXPENSES (NOTE 20)	312	152
TOTAL CURRENT ASSETS	22,743	21,300
TOTAL ASSETS	260,682	250,240

SHAREHOLDERS' EQUITY AND LIABILITIES	2000	1999
SHARE CAPITAL	45,014	45,014
REVALUATION RESERVE	41,101	41,101
RESERVES	27,059	22,879
LEGAL RESERVE	9,018	9,018
RESERVE FOR OWN SHARES	1,008	-
OTHER RESERVES	17,033	13,861
PROFIT FOR THE YEAR	13,832	12,501
INTERIM DIVIDEND (NOTE 3 (b))	(3,806)	(3,376)
TOTAL SHAREHOLDER'S EQUITY (NOTE 10)	123,200	118,119
CAPITAL GRANTS	10,297	11,031
EXCHANGE GAINS	15	13
OTHER DEFERRED INCOME	20,290	20,578
TOTAL DEFERRED INCOME (NOTE 11)	30,602	31,622
PROVISIONS FOR PENSIONS AND OTHER LIABILITIES	2,327	3,085
PROVISIONS FOR TAXES	39	39
OTHER PROVISIONS	1,264	917
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (NOTE 12)	3,630	4,041
BONDS ISSUED (NOTE 13)	21,018	21,018
LOANS (NOTE 14)	24,842	36,617
OTHER CREDITORS (NOTE 15)	7,775	7,624
UNCALLED SHARE PAYMENTS	7,487	-
GROUP COMPANIES (NOTE 7)	7,487	-
TOTAL LONG-TERM LIABILITIES	61,122	65,259
BONDS ISSUED (NOTE 16)	503	430
INTEREST PAYABLE	503	430
LOANS (NOTE 17)	14,154	9,349
LOANS AND OTHER DEBT	13,075	8,193
INTEREST PAYABLE	1,079	1,156
TRADE CREDITORS (NOTE 18)	8,609	7,240
FOR PURCHASES AND SERVICES RECEIVED	8,609	7,240
OTHER CREDITORS (NOTE 19)	12,494	7,558
PUBLIC ENTITIES	3,735	3,673
OTHERS	8,533	3,593
WAGES AND SALARIES PAYABLE	8	3
SHORT-TERM GUARANTEE DEPOSITS RECEIVED	218	289
ACCRUALS (NOTE 20)	6,368	6,622
TOTAL CURRENT LIABILITIES	42,128	31,199
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	260,682	250,240

RED ELÉCTRICA DE ESPAÑA, S.A.**PROFIT AND LOSS ACCOUNTS**

31 DECEMBER 2000 EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

EXPENSES	2000	1999
COST OF MATERIALS CONSUMED	36,696	35,596
PURCHASES OF ENERGY AND POWER	34,757	33,637
MAINTENANCE AND REPAIR MATERIALS	1,939	1,959
PERSONNEL EXPENSES (NOTE 22 (B))	9,046	9,164
WAGES AND SALARIES	6,717	6,521
SOCIAL SECURITY	1,564	1,612
PENSIONS AND SIMILAR OBLIGATIONS	140	164
OTHER SOCIAL CHARGES	625	867
AMORTISATION AND DEPRECIATION (NOTES 5 AND 6)	16,856	16,668
CHANGES IN TRADE PROVISIONS	17	(49)
CHANGE IN PROVISIONS FOR STOCKS	56	(49)
CHANGE IN PROVISIONS FOR BAD DEBTS	(39)	-
OTHER OPERATING EXPENSES	7,867	7,731
EXTERNAL SERVICES	7,024	7,063
LOCAL TAXES	326	208
OTHER ADMINISTRATIVE EXPENSES	127	191
PROVISION FOR LIABILITIES AND CHARGES (NOTE 12)	390	269
TOTAL OPERATING EXPENSES	70,482	69,110
OPERATING PROFIT	25,172	22,910
FINANCIAL AND SIMILAR EXPENSES	3,156	3,754
ON DEBT WITH THIRD PARTIES	3,156	3,754
EXCHANGE LOSSES	192	6
TOTAL FINANCIAL EXPENSES	3,348	3,760
PROFIT ON ORDINARY ACTIVITIES	21,995	19,413
CHANGES IN PROVISIONS FOR TANGIBLE FIXED ASSETS (NOTES 6, 7(A) AND 10(I))	396	193
LOSSES ON TANGIBLE FIXED ASSETS	20	4
LOSSES ON OWN SHARES (NOTE 10)	1	-
EXTRAORDINARY EXPENSES	1,901	1,163
PRIOR YEARS' ITEMS	31	82
TOTAL EXTRAORDINARY EXPENSES (NOTE 22 (C))	2,349	1,442
PROFIT BEFORE TAX	20,971	19,087
INCOME TAX (NOTE 21)	7,139	6,586
PROFIT FOR THE YEAR	13,832	12,501

INCOME	2000	1999
NET SALES (NOTE 22 (A))	93,531	90,368
SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	55,468	53,590
OTHER SERVICE INCOME	2,151	1,964
SALES OF ENERGY AND POWER	35,889	34,811
SALES OF BY-PRODUCTS	23	3
SELF-CONSTRUCTED ASSETS (NOTES 4 (A) AND (C))	1,368	1,041
OTHER OPERATING INCOME	755	611
OTHER INCOME	627	529
GRANTS	29	34
SURPLUS PROVISION FOR LIABILITIES AND CHARGES	99	48
TOTAL OPERATING INCOME	95,654	92,020
INVESTMENT INCOME	12	121
OTHER INTEREST AND SIMILAR INCOME	149	139
OTHER INTEREST	149	139
EXCHANGE GAINS	10	3
TOTAL FINANCIAL INCOME	171	263
NET FINANCIAL EXPENSE	3,177	3,497
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS	1	21
PROFIT ON OWN SHARES (NOTE 10)	3	-
CAPITAL GRANTS TAKEN TO INCOME	878	665
EXTRAORDINARY INCOME	328	318
PRIOR YEARS' ITEMS	115	112
TOTAL EXTRAORDINARY INCOME (NOTE 22 (C))	1,325	1,116
NET EXTRAORDINARY LOSSES	1,024	326

**NOTES TO THE
ANNUAL ACCOUNTS**
31 DECEMBER 2000 AND 1999
(TRANSLATION FROM THE ORIGINAL IN SPANISH)

(I) NATURE AND PRINCIPAL ACTIVITIES, AND LEGISLATION

(A) NATURE AND PRINCIPAL ACTIVITIES

Red Eléctrica de España, S.A. (hereinafter "the Company") was incorporated on 29 January 1985, basically as a result of the contribution of a part of the assets forming the high voltage grid in service at 15 February 1984.

The principal activities carried out by the Company are the transmission of electrical energy, operation of the system and management of the transmission grid, co-ordination of international exchanges of electrical power and administration of international energy agreements. The Company has diversified activities, the most significant of which is the utilisation and expansion of surplus communication capacity from the Company's network (the main domestic grid) for telecommunications activities. The Company also applies the technological capabilities, experience and know-how obtained from consultancy and engineering services rendered both within Spain and internationally.

The policy implemented in 1999 to expand the business base through diversification and internationalisation to take full advantage of the Company's potential has required legal and organisational segregation of activities. In accordance with Law 54 of 27 November 1997 (the Electricity Act) and Royal Decree 277 of 25 February 2000, establishing procedures for the legal segregation of activities related to the supply of electrical energy, the unbundling of regulated activities and those related to other businesses is mandatory.

Accordingly and as approved by the National Energy Commission, in 2000 the Company has segregated its telecommunications activities and incorporated a new company, Red Eléctrica Telecomunicaciones, S.A., on 17 November 2000 (see note 7 (a)).

As part of the diversification strategy, in March 2000 the Company, Netco Redes, S.A. (NETCO) and Retevisión, S.A. (RETEVISION) subscribed a contract which modified the agreement made between the Company and NETCO on 4 June 1997 for the cession of the use and rights of way for telecommunications. As a result, the aforementioned agreement has been transferred to the new subsidiary, Red Eléctrica Telecomunicaciones, S.A. (see note 27 (d)).

In July 2000 the Telecommunications Market Commission granted the Company an individual CI licen-

ce, which authorises it to install and operate a public telecommunications network under the terms established by the Ministerial Order dated 22 September 1998, regarding the regime for individual licences for telecommunications services and networks.

The Company has taken measures to legally unbundle its international activities and has obtained the required authorisation from the National Energy Commission. The incorporation of a new company is scheduled for 2001 (see notes 7 (a) and 28).

(B) LEGISLATION

The legal framework for the electricity sector is contained in the Electricity Act (Law 54/1997 of 27 November), which incorporates into Spanish legislation the provisions of Directive 96/92/CE of the European Parliament and the European Council dated 19 December 1996 on common regulation for the internal electricity market.

The Electricity Act represents a significant step towards the deregulation of the sector, as it provides for the creation of a free market for electricity generation and commercialisation.

This Act recognises the monopolistic nature of electricity transmission, on the basis of the cost savings provided by a single grid. The deregulation of transmission is instrumented through generalised third-party access to the grid, which is made available to the various parties to the electricity system and consumers. Remuneration for this activity is established by the Spanish State, thereby avoiding any possible abuse given the existence of a single grid. Such remuneration is determined based on the cost of investment, operation and maintenance of installations, as well as other expenses incurred to develop the activity.

The Company has been assigned the functions of system operator and manager of the transmission grid through this Act, in addition to its transmission activity. Accordingly, the Company is required to guarantee the quality and safety of power supplies and to co-ordinate the production and transmission systems. In its capacity as manager of the transmission grid, the Company is in charge of the

development and extension of the high voltage network and must ensure that it is maintained and improved in accordance with uniform and coherent criteria. It is also responsible for the administration of power transmissions between external systems using the Spanish grid, as well as withholding access to the grid when capacity is insufficient.

The Electricity Act deregulates intra-EU and international electrical energy exchanges, which may be carried out freely by the agents defined in this legislation. In its capacity as system operator, the Company is responsible for short-term exchanges to ensure the quality and safety of the electricity supply. The Company will also continue to manage agreements for the long-term exchange of power with other EU and international electricity systems entered into prior to the enactment of the Law 54 of 1997.

Since the Electricity Act came into effect, various provisions have been published regarding matters related to the activities carried out by the Company.

Royal Decree 2017 of 26 December 1997 governs the settlement procedures for accounts payable and receivable to ensure remuneration of regulated electricity supply activities, including transmission and operation of the system.

Royal Decree 2019 of 26 December 1997, which organises and regulates the electricity production market, sets out the functions of the system operator in relation to this market.

Royal Decree 2819 of 23 December 1998, which governs activities related to the transmission and distribution

of electrical energy, regulates the financial framework for the transmission activity.

Royal Decree 1955 of 1 December 2000, which regulates transmission, distribution, commercialisation, supply and the authorisation procedures for electrical energy installations, defines the transmission activity and the components of the grid. This Royal Decree establishes the functions of the Company, in its capacity as system operator and manager of the transmission grid, in areas relating to planning, the quality of the services, wastage, access and connection to the grid. In accordance with article 36 of the Electricity Act, Royal Decree 1955/2000 also sets out the authorisation procedures, for new transmission facilities.

In addition to the aforementioned legislation directly related to Company activities, Royal Decree-Law 6 of 23 June 2000 came into effect. This Royal Decree, regarding urgent measures to promote competition in the goods and services markets, establishes further measures to deregulate the supply of power. These measures include, inter alia, the simplification of requirements for qualified consumers and the development of a structure for grid access rates, thereby permitting major consumers access to the market as qualified consumers at competitive prices. This legislation contemplates deregulation of power supply for all consumers as of 1 January 2003 and the elimination of rates for the supply of high voltage electricity as of 1 January 2007.

(2) BASIS OF PRESENTATION

The accompanying annual accounts have been prepared by the board of directors of the Company in the format established by prevailing Spanish legislation to present fairly the shareholders' equity, financial position, results of operations and changes in financial position for 1999 and 2000, and the proposed distribution of profit for the latter year.

The annual accounts have been prepared on the basis of the accounting records of the Company and are expressed in millions of Pesetas. The balance sheets and statements of profit and loss disclosed in Appendices I and II, respectively, are also provided in thousands of Euros for information

purposes. The fixed exchange rate established with regard to the Euro is Ptas. 166.386 per Euro.

The annual accounts for 2000 and 1999 have been prepared in accordance with the rules for the adaptation of the Spanish Chart of Accounts to the electricity sector, which were approved in Royal Decree 437 of 20 March 1998.

The directors consider that the annual accounts for 2000 will be approved by the shareholders at their annual general meeting without significant changes. The 1999 annual accounts were approved at the annual general meeting held on 26 May 2000.

(3) DISTRIBUTION OF EARNINGS**(A) PROPOSED DISTRIBUTION OF EARNINGS**

The directors will propose to the shareholders at their annual general meeting that the profit for the year ended 31 December 2000 be distributed as follows:

Millions of Pesetas

BASIS OF DISTRIBUTION	
PROFIT FOR THE YEAR	13,832
TOTAL	13,832
DISTRIBUTION	
TO VOLUNTARY RESERVES	4,511
TO DIVIDENDS	
Interim dividend	3,806
Supplementary dividend	5,515
TOTAL	13,832

(B) INTERIM DIVIDEND

At the board meeting held on 28 November 2000 the directors agreed to distribute an interim dividend of Euros 0.17 per share (approximately Ptas. 28 per share) on account of 2000 profits, payable as of 2 January 2001. The total amount does not exceed the limits established by article 216 (b) of the Spanish Companies Act and the Company maintains the minimum distributable reserves required by article 194 of this legislation.

On the basis of the forecast cash and bank balances for the period from 31 October 2000 to 2 January 2001,

liquidity was sufficient to distribute this dividend. In accordance with the requirements of article 216 (a) of the Spanish Companies Act, the following forecast of cash and bank balances was prepared:

Millions of Pesetas

AVAILABLE FUNDS AT 31.10.00	
SHORT-TERM LOANS	8,500
LONG-TERM LOANS	11,164
CASH AND BANKS	153
FORECAST COLLECTIONS	
ORDINARY ACTIVITIES	15,034
FINANCIAL OPERATIONS	-
FORECAST PAYMENTS	
ORDINARY ACTIVITIES	16,482
FINANCIAL OPERATIONS	4,337
AVAILABLE FUNDS AT 2.01.01	14,032

On the basis of the projected cash and bank balances one year from the agreement date, management did not foresee any limitations to cash flows available. As reflected in these annual accounts and as expected at the date of the distribution, the profit generated in 2000 has permitted the payment of this interim dividend.

The distribution of the profit for the year ended 31 December 1999, carried out in 2000, is shown in details of and movement in shareholders' equity in Appendix V to note 10.

(4) ACCOUNTING PRINCIPLES

The accompanying annual accounts have been prepared in accordance with accounting principles established in the Spanish Chart of Accounts and rules for its adaptation to the electricity sector. The most significant accounting principles applied are as follows:

(A) INTANGIBLE FIXED ASSETS

Intangible fixed assets, principally comprising software and costs incurred in research and development projects which are expected to benefit the Company's operations over a number of years, are stated at cost of production or acquisition, less accumulated amortisation. Research and development costs are expensed during the year and capitalised as self-constructed assets. Costs capitalised as such have amounted to Ptas. 70 and Ptas. 89 million in 2000 and 1999, respectively.

Amortisation is provided on a straight line basis over a period not exceeding five years, depending on the nature of the asset.

(B) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at the value assigned on contribution, or at the cost of acquisition or production, less accumulated depreciation.

In 1996 the Company revalued its tangible fixed assets as permitted by Royal Decree 7 dated 7 June 1996 and Royal Decree 2607 dated 20 December 1996. The revaluation was carried out on the basis of the maximum rates established by that legislation, reduced by 40% in order to take into consideration the structure of the Company's financing.

The cost of tangible fixed assets directly constructed by the Company is recorded in accordance with the policy explained in section (c) below.

Repairs and maintenance costs of tangible fixed assets are expensed when incurred.

Depreciation is provided on a straight line basis over the estimated useful lives of the relevant assets, applying the following annual rates:

	<i>Annual rate</i>
BUILDINGS	2%-10%
PLANT AND MACHINERY:	
• In operation when acquired by the Company:	
Power lines and substations	5%
Control and communication systems (supervisory control centres)	14.28%
• Built and brought into service by the Company:	
Power lines and substations	2.5%
Control and communication systems (supervisory control centres)	7.14%
OTHER INSTALLATIONS, MACHINERY, EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS	4%-25%

Net increases in value arising from the revaluation of fixed assets are depreciated over the remaining useful lives of the related assets.

(C) TANGIBLE FIXED ASSETS UNDER CONSTRUCTION

The Company capitalises the following items during the period of construction of the related assets:

- Direct costs related to the construction of assets in projects directly controlled or supervised by the Company. In 2000 and 1999 the Company capitalised Ptas. 815 and Ptas. 688 million in this regard, respectively.
- Financial costs on external financing. The Company capitalises financial expenses in accordance with Royal Decree 437 dated 20 March 1998, which establishes the rules for the adaptation of the Spanish General Chart of Accounts to companies operating in the electricity sector. In 2000 and 1999 the Company has capitalised financial expenses of Ptas. 483 and Ptas. 264 million, respectively.

Costs so capitalised are credited to the profit and loss account under self-constructed assets.

In 1996 the Company voluntarily revalued the cost of tangible fixed assets under construction as permitted by Royal Decree 7 dated 7 June 1996 and Royal Decree 2607 dated 20 December 1996. This revaluation was carried out on the basis of the maximum rates established by that legislation, reduced by 40% in order to take into consideration the structure of the Company's financing.

Provision is made against the value of assets under construction when there is evidence that their net book value may be affected by circumstances other than usage, obsolescence or normal service. Such circumstances mainly

relate to the capitalisation of financial expenses when the accumulated balance for a specific asset represents a significant portion of the total cost of a project due to delays in bringing the asset into operation for reasons not attributable to the Company.

(D) INVESTMENTS IN GROUP AND ASSOCIATED COMPANIES

Investments in group and associated companies are stated at the lower of cost and market value. Market is determined as the underlying net book value of the shareholding, adjusted to take into account any latent unrecorded goodwill at the year end. Any negative differences between cost and market at 31 December are recorded under provisions for decline in value of investments (see note 7 (a)).

(E) OWN SHARES

Own shares are stated at the lower of cost of acquisition, representing the total amount paid plus inherent expenses, and market value.

The market value of securities listed on secondary organised markets is determined as the lower of the average quotation during the closing quarter and the quotation price at the balance sheet date.

Any negative differences between cost and market at 31 December are recorded under provisions for own shares and the related allowances are considered as extraordinary expenses (see notes 10 (i) and 22 (c)).

(F) STOCKS

Stocks of spare parts and other consumables are stated at cost of acquisition.

Provision is made where cost exceeds market value or when it appears doubtful that items will be used.

(G) FOREIGN EXCHANGE TRANSACTIONS

Foreign exchange transactions are translated into Pesetas at the rates of exchange prevailing at the transaction date. Exchange gains or losses arising on settlement of these transactions are taken to income or expensed when incurred.

Unhedged balances receivable and payable in foreign currency at the year end are expressed in Pesetas at the rates of exchange prevailing at 31 December. Unrealised foreign exchange losses, determined for groups of currencies with similar maturity or market trends, are charged to expenses while unrealised exchange gains, similarly determined, are deferred.

(H) INTEREST RATE HEDGING OPERATIONS

Profit or loss on over-the-counter operations to hedge interest rates on financial debt is calculated and taken to profit and loss simultaneously with the income and expense on the transactions covered. The income or expense recognised represents the net difference between the transactions covered and the corresponding hedging operations. The average interest rates on financial debt are calculated by applying this criteria (see notes 13 and 14).

(I) BONDS ISSUED

Bonds issued are stated at their face value. The redemption premium, representing the difference between face value and the value at which the bonds were issued, is recorded under deferred expenses and charged to expenses over the period to maturity of the debt using the interest method.

When interest rate swaps are contracted to hedge the related interest rate risk and redemption premiums, where applicable, the amounts receivable by the Company in the long term in respect of the latter are recorded under deferred income and taken to income over the period to maturity using the interest method (see notes 8, 9, 11 and 13).

(J) CURRENT/LONG-TERM

Assets and liabilities are classified as current if maturing within twelve months and long-term if maturing more than twelve months from the balance sheet date.

(K) INCOME TAXES

Income taxes are calculated on the basis of the profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria and taking into consideration any applicable credits and deductions. The effect of timing differences, where applicable, are included in deferred tax assets or liabilities.

As permitted by the rules for adaptation to the mercantile legislation, the Company has not recorded the deferred tax liability related to timing differences which existed at 31 December 1989 (see note 10 (f)). The effect of these timing differences is recognised as an increase in the income tax expense in the year in which they crystallise.

(L) DEFERRED INCOME

Capital grants, transfers of non-returnable tangible assets and other deferred income are stated at the amounts originally received or awarded, or at the replacement cost of the relevant assets.

Grants and deferred income used to finance fixed assets are recognised in proportion to the value of the assets funded over their estimated useful lives.

Deferred income generated on financial derivatives contracted for hedging purposes, agreements for the transfer of the rights to use fixed assets (see note 27) and, in general, on any agreement or commitment with a duration of more than one year, are taken to income over the term of the related agreement or commitment.

(M) PENSION PLAN

With effect from 2 November 1990, the voluntary, defined-contribution pension plan adopted by the Company in 1985 was integrated into a pension fund in accordance with current legislation. Contributions made by the Company are equivalent to up to 3% of the base salary established in the fund and are recorded on an accruals basis.

(N) PROVISIONS FOR LIABILITIES AND CHARGES

These provisions are made to cover the estimated amount of probable or known liabilities and charges arising from the Company's obligations, and are booked when the liability arises.

Provisions for pensions and other commitments include the estimated cost of the personnel restructuring plan approved by the labour authorities on 12 April 2000. These provisions are made with a charge to extraordinary expenses (see notes 12 and 22 (c)). In cases where commitments have been externalised, the related liability is written off.

(O) RECOGNITION OF INCOME AND EXPENSES

Income and expenses are recognised on an accruals basis. Nevertheless, following prudent criteria, the Company only records realised gains at the year end, while foreseeable liabilities and potential losses are booked as soon as they become known.

(5) INTANGIBLE FIXED ASSETS

Intangible fixed assets at 31 December 2000 and 1999 and movement during the years then ended are as follows:

<i>Millions of Pesetas</i>					
	31.12.98	Additions and adjustments	31.12.99	Additions and adjustments	31.12.00
COST					
RESEARCH AND DEVELOPMENT COSTS	2,934	83	3,017	33	3,050
SOFTWARE	832	165	997	79	1,076
TOTAL COST	3,766	248	4,014	112	4,126
ACCUMULATED AMORTISATION					
RESEARCH AND DEVELOPMENT COSTS	(1,530)	(280)	(1,810)	(315)	(2,125)
SOFTWARE	(450)	(164)	(614)	(189)	(803)
TOTAL ACCUMULATED AMORTISATION	(1,980)	(444)	(2,424)	(504)	(2,928)
NET BOOK VALUE	1,786	(196)	1,590	(392)	1,198

(6) TANGIBLE FIXED ASSETS

Tangible fixed assets at 31 December 2000 and 1999 and movement during the years then ended are as follows:

RED ELÉCTRICA DE ESPAÑA, S.A.**MOVEMENT IN TANGIBLE FIXED ASSETS. 31 DECEMBER 2000 AND 1999 (EXPRESSED IN MILLIONS OF PESETAS)**

	31.12.98	Additions and restatements	Disposals and write-downs	Transfers	31.12.99	Additions and restatements	Disposals and write-down	Tranfers	31.12.00
COST									
LAND AND BUILDINGS	5,879	5	(6)	-	5,878	(2)	-	-	5,876
PLANT AND MACHINERY	346,104	142	-	2,136	348,382	383	(58)	9,122	357,829
OTHER INSTALLATIONS, MACHINERY, EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS	11,683	213	(1,408)	240	10,728	203	(636)	258	10,553
PLANT AND MACHINERY UNDER CONSTRUCTION	12,787	5,715	-	(2,212)	16,290	12,615	-	(9,118)	19,787
ADVANCES AND OTHER ASSETS UNDER CONSTRUCTION	116	220	-	(164)	172	696	-	(262)	606
TOTAL COST	376,569	6,295	(1,414)	-	381,450	13,895	(694)	-	394,651
ACCUMULATED DEPRECIATION									
BUILDINGS	(659)	(111)	6	-	(764)	(109)	-	-	(873)
PLANT AND MACHINERY	(133,644)	(15,171)	-	-	(148,815)	(15,279)	43	-	(164,051)
OTHER INSTALLATIONS, MACHINERY, EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS	(8,574)	(942)	1,385	-	(8,131)	(964)	632	-	(8,463)
TOTAL ACCUMULATED DEPRECIATION	(142,877)	(16,224)	1,391	-	(157,710)	(16,352)	675	-	(173,387)
PROVISION FOR MPAIRMENT (NOTE 22 (c))	(3,187)	(193)	-	-	(3,380)	(222)	-	-	(3,602)
NET BOOK VALUE	230,505	(10,122)	(23)	-	220,360	(2,679)	(19)	-	217,662

(1) See notes 4(b) and (c).

Transfers to plant and machinery during 2000 comprise seven power lines, two power transformers, bays at five substations, and communication and control systems amounting to Ptas. 9,122 million. Transfers in 1999 amounted to Ptas. 2,136 million and represented two power transformers, bays at two substations and communication and control systems.

As a result of the revaluation of assets carried out as per-

mitted by Royal Decree 7 of 7 June 1996 and Royal Decree 2607 of 20 December 1996, the depreciation charge for 2000 amounts to approximately Ptas. 3,788 million (Ptas. 3,794 million in 1999). At 31 December 2000 the revaluation of tangible fixed assets, net of depreciation, amounts to Ptas. 27,083 million (Ptas. 30,877 million in 1999).

The Company has contracted insurance policies to cover the replacement cost of tangible fixed assets.

(7) INVESTMENTS

Details at 31 December 2000 are as follows:

<i>Millions of Pesetas</i>	2000	1999
INVESTMENTS IN GROUP COMPANIES	11,481	-
INVESTMENTS IN ASSOCIATED COMPANIES	918	915
PUBLIC ENTITIES, LONG-TERM	1,972	1,731
OTHER LOANS	974	1,139
LONG-TERM GUARANTEE DEPOSITS	36	10
OTHER LONG-TERM INVESTMENTS	-	5
PROVISIONS	(135)	-
TOTAL LONG-TERM INVESTMENTS	15,246	3,800
UNCALLED PAYMENTS ON SHARES IN GROUP COMPANIES	(7,487)	-
SHORT-TERM INVESTMENTS	1,501	2,001
OTHER LOANS	2,603	984
TOTAL SHORT-TERM INVESTMENTS	4,104	2,985

(A) LONG-TERM INVESTMENTS

Investments in group companies basically comprise the interest held in Red Eléctrica Telecomunicaciones, S.A. The main activities of Red Eléctrica Telecomunicaciones, S.A. are the promotion, development and operation of industrial, commercial and service projects for telecommunications and related activities, as well as the construction, acquisition, management and operation of telecommunications networks and the related capacity. Red Eléctrica Telecomunicaciones, S.A. was incorporated by the Company on 17 November 2000 with a share capital of

Euros 60 million (Ptas. 9,983 million). This share capital has been fully subscribed by the Company and Euros 45 million (approximately Ptas. 7,487 million) are pending payment at 31 December 2000, which have been recorded under uncalled share payments.

Investments in group companies also include a deposit of Euros 9 million (Ptas. 1,498 million) made by the Company as a share capital contribution for the incorporation of Red Eléctrica Internacional, S.A., which had commenced at 31 December 2000 (see note 28). This deposit may not be used for any purpose other than the incorporation of that company.

Investments in associated companies reflect the shareholding in Red Eléctrica del Sur, S.A. (REDESUR). The principal activity of this company is the transmission of electrical energy. REDESUR has been awarded a thirty-year concession to reinforce the transmission grid in the south of Peru by constructing and operating various power lines and substations. The remuneration receivable from this concession is guaranteed by the Peruvian Government. This shareholding was acquired on 5 March 1999 at a cost of Ptas. 915 million (Ptas. 918 million at 31 December 2000), which has been fully paid up in 2000 (the Ptas. 641 million pending payment at 31 December 1999 was reflected under other creditors (see note 19)). In 2000 REDESUR has brought into service the installations related to the first phase of the concession and has begun to receive the related remuneration.

Details of investments in group and associated companies, which are not listed on the stock exchange, at 31 December, 2000, expressed in millions of pesetas are as follows:

COMPANY Registered offices Principal activity	% owned by Red Eléctrica de España, S.A.	Net book value per Red Eléctrica de España, S.A.	Shareholders' equity of companies*			
			Share Capital	Reserves	Gain for 2000 Total Extraordinary	
A) GROUP COMPANIES						
RED ELÉCTRICA TELECOMUNICACIONES, S.A. PASEO CONDE DE LOS GAITANES, 177, ALCOBENDAS (MADRID). TELECOMMUNICATION SERVICES.	100%	9,983	9,983	-	(135)	-
RED ELÉCTRICA INTERNACIONAL, S.A. PASEO CONDE DE LOS GAITANES, 177, ALCOBENDAS (MADRID). INTERNATIONAL HOLDINGS. CONSULTANCY, ENGINEERING AND CONSTRUCTION SERVICES. ELECTRICITY ACTIVITIES OUTSIDE THE SPANISH SYSTEM.	100%	1,498	1,498 (Deposit for share capital contribution)			
B) ASSOCIATED COMPANIES						
RED ELÉCTRICA DEL SUR, S.A. JUAN DE LA FUENTE, 453, LIMA (PERU). TRANSMISSION OF ELECTRICAL ENERGY.	30%	918	3,215	242	57	-

(*) Value in Pesetas as per audited financial statements. The shareholders' equity of Red Eléctrica del Sur, S.A. has been harmonised with the accounting principles applied by the Company and valued in Pesetas using the year-end exchange rate.

The Company does not present consolidated annual accounts as the investments held in group and associated companies are not significant for consolidation purposes. Nevertheless, for information purposes, Appendices III and IV include the consolidated balance sheets and statements of profit and loss, respectively, which would have resulted from applying consolidation criteria. To this effect Red Eléctrica Telecomunicaciones, S.A. has been fully consolidated, while REDESUR has been incorporated using the equity accounting method and its annual accounts have been harmonised to bring them into line with the accounting criteria followed by the Company.

Long-term balances with public entities reflect deferred tax assets (see note 21).

Other long-term loans have mainly been made to personnel and earn interest at variable rates linked to Euribor plus a differential ranging from 0.25% to 0.75%.

In accordance with Spanish accounting principles, the provision at 31 December 2000 covers the difference between

the acquisition cost and underlying net book value of the interest held in Red Eléctrica Telecomunicaciones, S.A.

(B) UNCALLED SHARE PAYMENTS

Uncalled share payments relate to the shares of Red Eléctrica Telecomunicaciones, S.A.

(C) SHORT-TERM INVESTMENTS

At 31 December 2000 short-term investments represent the acquisition of government debt securities maturing on 2 January 2001 and the accrued interest receivable thereon. At 31 December 1999 short-term investments reflected the acquisition of promissory notes which fell due on 7 January 2000, as well as the related accrued interest receivable.

Other short-term loans mainly comprise short-term deposits and interest receivable on operations involving financial derivatives. Interest on these operations is accrued in line with the operations hedged.

(8) DEBTORS

Details of debtors at 31 December are as follows:

<i>Millions of pesetas</i>	2000	1999
LONG-TERM DEBTORS	968	968
TOTAL LONG-TERM	968	968
DEBTORS FOR THE SALE OF ENERGY		
DOMESTIC ELECTRICITY COMPANIES	1,961	821
FOREIGN ELECTRICITY COMPANIES	459	2,103
	2,420	2,924
DEBTORS FOR SERVICES RENDERED		
DOMESTIC ELECTRICITY COMPANIES	13,107	12,736
OTHER DEBTORS	1,189	1,276
	14,296	14,012
GROUP COMPANIES	226	-
ASSOCIATED COMPANIES	87	160
PERSONNEL	315	324
TAX AUTHORITIES		
DEFERRED TAX ASSETS (NOTE 21)	446	234
PROVISION FOR BAD DEBTS	(3)	(146)
TOTAL SHORT-TERM	17,787	17,508

Long-term debtors reflect the redemption premium on the swap operation contracted to hedge the September 1997 bond issue.

The balance receivable from domestic electricity companies for sales of energy represents mainly electricity

charges billed or pending invoice in accordance with the power supply contract between Electricité de France (EDF) and the Company (see note 27 (a)), which are settled through Compañía Operadora del Mercado Español de la Electricidad, S.A. (OMEL), in accordance with article 3 of Royal Decree 215 of 5 February 1999.

The balance receivable in respect of sales of energy to foreign electricity companies at 31 December 2000 and 1999 relates mainly to electricity charges billed or pending invoice in accordance with the power supply export agreements entered into by the Company (see note 27 (b) and (c)).

At 31 December 2000 and 1999 the balance receivable from domestic electricity companies for services rendered represents amounts pending collection or to be invoiced in respect of transmission and operation of the system.

At 31 December 2000 and 1999 other debtors reflect mainly the short-term balance receivable from entities other than group and associated companies, mainly in respect of consultancy services, engineering and construction work, maintenance and advances to creditors for services.

The balance receivable from group companies at 31 December 2000 comprises amounts billed or pending invoice to Red Eléctrica Telecomunicaciones, S.A. related to the start-up of that company (see note 22 (d)).

The balance receivable from associated companies at 31 December 2000 and 1999 includes amounts billed to REDESUR, mainly for engineering services rendered (see note 22 (d)).

The balance due from personnel mainly comprises loans maturing in the short term.

(9) DEFERRED EXPENSES

Details at 31 December are as follows:

<i>Millions of pesetas</i>	2000	1999
DEFERRED EXPENSES FOR MARKETABLE SECURITIES	530	674
OTHER DEFERRED EXPENSES	1,327	1,548
	1,857	2,222

At 31 December 2000 and 1999 other deferred expenses comprise the recognition of employees' future length of service periods as established in the collective labour agreement made in 1999. These costs are taken to personnel expenses on a straight line basis, in accordance with external studies carried out in this regard.

(10) SHAREHOLDERS' EQUITY

Details of movement in shareholders' equity during 2000 and 1999 are shown in Appendix V, which forms an integral part of this note.

(A) SHARE CAPITAL

At 31 December 2000 and 1999 the share capital comprises 135,270,000 bearer shares of Euros 2 par value each. These shares have been fully subscribed and paid, and have the same voting and profit sharing rights. The Company's shares have been listed on the four Spanish stock exchanges since 7 July 1999, after the public offer for their sale.

At the general and extraordinary meeting held on 17 May 1999, the shareholders agreed to restate the share capital in Euros and authorised the following operations, as a result of which the Company's share capital totals Euros 270.54 million:

- A share capital decrease of Pta. 1 per share, with reimbursement of shareholders' contributions. A reserve was simultaneously set up with a charge to voluntary reserves for the value of redeemed capital (see section (g) of this note).
- A split of the par value of the share capital on the basis of a ratio of 1 to 3, simultaneously tripling the number of shares issued. There has been no change in the value of the share capital as a result.
- Restatement of the share capital in Euros subsequent to conversion, rounding and adjustments as established in Law 46 of 17 December 1998 regarding the implementation of the Euro. As a result, a reserve was set up for differences on conversion to Euros (see section (h) of this note).

In accordance with article 1 of Royal Decree 377 of 1991 regarding the notification of significant investments in listed companies, investors must declare direct or indirect interests in share capital which exceed 5%. The Company has received notification of such interests and verified this information against the official data of the Spanish Stock Exchange Authorities. At 31 December 2000 and 1999 Sociedad Estatal de Participaciones Industriales (SEPI), the State holding company, owns 28.5% of the Company's share capital, while Iberdrola, S.A., Unión Fenosa, S.A., Hidroeléctrica del Cantábrico, S.A. and Endesa, S.A. hold interests of 10% each, either directly or indirectly through subsidiaries.

The Electricity Act (Law 54/1997 of 27 November) establishes that no single shareholder may own total direct and indirect interests exceeding 10%. Also, the sum of the

total interests held directly and indirectly by companies operating in the electricity sector may not exceed 40%. These shares may not be syndicated. These maximum limits for shareholdings are not applicable to SEPI, which will hold an interest of at least 25% in the share capital of the Company until 31 December 2003, after which it will maintain a minimum interest of 10%.

(B) REVALUATION RESERVE

Under Royal Decree 7 dated 7 June 1996 and Royal Decree 2607 dated 20 December 1996, the Company credited to the 1996 revaluation reserve the amount of the increase in the value of tangible assets arising from the revaluations carried out in accordance with that legislation.

The balance of this reserve is Ptas. 41,101 million, net of a one-off tax charge on the revaluation, and was inspected and agreed by the tax authorities in 1999 (see note 21). Accordingly, the balance on the reserve may be applied to offset prior years' losses, to increase share capital or to increase distributable reserves after 31 December 2006.

The balance of the revaluation reserve will only be distributed, either directly or indirectly, to the extent that the surplus on revaluation has been realised, that is, when the related assets have been fully depreciated, disposed of or written off.

(C) LEGAL RESERVE

Companies are obliged to transfer 10% of the profits of each year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase share capital.

At 31 December 2000 and 1999 the legal reserve is equal to 20% of the share capital of the Company.

(D) INVESTMENT RESERVE

This reserve was established in accordance with the Spanish Energy Council ruling of 11 December 1987, which required the Company to set up a provision of Ptas. 1,352 million.

The investment reserve is not distributable without the express authorisation of the Energy Council.

(E) VOLUNTARY RESERVES

Voluntary reserves are freely distributable, except where restricted by the Spanish Companies Act.

(F) RESERVE FOR ACCELERATED DEPRECIATION

As permitted by Royal Decree-Law 2/1985, prior to 1990 the Company provided accelerated depreciation for tax purposes of Ptas. 4,428 million in respect of tangible assets acquired between 9 May and 31 December 1985, and set up the relevant reserve for accelerated depreciation, which at 31 December 2000 amounts to Ptas. 2,605 million (Ptas. 2,711 million in 1999). Each year the Company debits this reserve and credits extraordinary income in an amount equal to the annual depreciation charge based on the useful lives of the assets subject to accelerated depreciation. The tax payments which have deferred as a result of accelerated depreciation have been estimated at approximately Ptas. 912 million at 31 December 2000 (Ptas. 949 million in 1999), using the standard tax rate of 35%.

Subsequent to 1990 the Company made an adjustment of Ptas. 2,546 million to taxable income, as permitted by the aforementioned legislation, and recorded the related deferred tax liability. The timing difference arising in this regard at 31 December 2000 amounts to Ptas. 1,822 million (Ptas. 1,897 million in 1999).

(G) RESERVE FOR REDEEMED CAPITAL

This reserve was set up at the annual general meeting held on 17 May 1999 (see section (a) of this note). Distribution of the balance is subject to the requirements established by the Spanish Companies Act for share capital reductions.

(H) DIFFERENCES ON CONVERSION TO EUROS

This account represents the differences arising on conversion of the share capital of the Company to Euros (see section (a) of this note). In accordance with Law 46 of 17 December 1998 regarding the implementation of the Euro, this reserve is not distributable.

(I) OWN SHARES

As authorised by the shareholders at their annual general meeting held on 26 May 2000, the Company has acquired own shares during the year to create a market for the sha-

res and to provide liquidity to investors. Prior to 2000 the Company had carried out no operations involving own shares.

Movement in own shares during the year has been as follows:

Millions of Pesetas

BALANCE AT 1 JANUARY	-
ADDITIONS	2,179
DISPOSALS	(1,132)
PROVISIONS	(39)
BALANCE AT 31 DECEMBER	1,008

At 31 December 2000 the own shares held by the Company represent 0.45% of the share capital and amount to 602,654 ordinary shares with a total par value of Euros 1.2 million (approximately Ptas. 200 million). The Company has complied with the requirements of article 75.2 and the second additional provision of the Spanish Companies Act, which establish that the par value of acquired shares listed on official secondary markets, together with those already held by the Company and its subsidiaries, must not exceed 5% of the share capital. The subsidiaries do not hold own shares or shares in the Company.

At 31 December 2000 the Company has set up the required restricted reserve for own shares with a charge to voluntary reserves, which amounts to Ptas. 1,008 million, equivalent to the own shares in the portfolio at that date.

The Company has also made the necessary provisions to reflect own shares at market value (see note 4 (e)), which have been booked under change in provisions for tangible assets and treasury stock (see note 22 (c)).

In 2000 operations with own shares have generated profits of Ptas. 3 million and losses of Ptas. 1 million, which have been recorded under profit and loss on own shares, respectively (see note 22 (c)).

(11) DEFERRED INCOME

Details at 31 December are as follows:

<i>Millions of Pesetas</i>	2000	1999
CAPITAL GRANTS	10,297	11,031
EXCHANGE GAINS	15	13
OTHER DEFERRED INCOME	20,290	20,578
	30,602	31,622

At 31 December 2000 and 1999 other deferred income mainly comprises the portion assigned to the Company of the compensation received from EDF pursuant to the agreement made on 8 January 1997 to amend electricity supply contracts (see note 27(a)). This caption also reflects amounts arising from the agreement to cede the use of surplus capacity of the Company's fibre optic network (see note 27(d)) and unrealised gains on operations involving financial derivatives contracted to hedge bonds issued in September 1997, as well as revenues from agreements to modify and relocate electrical installations.

(12) PROVISIONS FOR LIABILITIES AND CHARGES

Details are as follows:

<i>Millions of Pesetas</i>	2000	1999
PROVISION FOR PENSIONS AND OTHER COMMITMENTS	2,327	3,085
PROVISION FOR TAXES	39	39
PROVISION FOR OTHER LIABILITIES	1,264	917
	3,630	4,041

The provision for pensions and other commitments at 31 December 2000 and 1999 mainly reflects the amount set aside with a charge to extraordinary expenses to cover

the cost of the personnel restructuring plan approved by the labour authorities (see notes 4 (n) and 22 (c)). In 2000 the Company has partially externalised commitments with its personnel deriving from this plan through an insurance policy, in accordance with Royal Decree 1588 of 1999, which ratifies the regulations for instrumentation of company commitments with employees and beneficiaries in respect of pensions.

The provision for other liabilities mainly covers the possibility of unfavourable rulings in respect of claims from third parties.

(13) BONDS ISSUED

At 31 December 2000 and 1999 this balance represents bonds issued at fixed and variable rates. During 2000 unhedged and hedged debts have accrued average annual interest of 5.58% and 5.38%, respectively (4.68% for hedged debts in 1999).

At 31 December 2000 the Company has contracted swap and collar operations to hedge against interest rate risks. The debt covered in 2000 and 1999 amounts to Ptas. 15,250 and 16,500 million, respectively.

In accordance with the terms of each bond issue, at 31 December 2000 and 1999 the debt matures as follows:

<i>Millions of Pesetas</i>	2000	1999
THREE YEARS	5,050	-
FOUR YEARS	8,468	5,050
FIVE YEARS	7,500	8,468
THEREAFTER	-	7,500
	21,018	21,018

(14) LONG-TERM LOANS

Details of long-term loans are as follows:

<i>Millions of Pesetas</i>	2000	1999
LOANS AND CREDIT FACILITIES	30,502	38,765
LESS, CURRENT PORTION (NOTE 17)	(5,660)	(2,148)
	24,842	36,617

In 2000 the Company has repaid in advance a syndicated loan of Ptas. 9,000 million at the year end (an amount of Ptas. 14,000 million was drawn down in 1999). During the year the Company has also repaid in advance sundry loans for a total of approximately Ptas. 1,198 million.

Details of long-term foreign currency loans at 31 December are as follows:

<i>Millions of Pesetas</i>	2000	1999
SWISS FRANC	1,406	1,535
US DOLLAR	-	1,198
	1,406	2,733

At 31 December 2000 the Company has contracted swap and collar operations to hedge against interest rate risks. The debt covered in 2000 amounts to Ptas. 6,555 million (Ptas. 8,003 million in 1999, involving operations to hedge against both interest and exchange rate risks).

During 2000 unhedged and hedged Peseta and EMU currency loans have accrued average interest at annual rates of 5.33% and 4.93%, respectively (4.44% for hedged loans in 1999).

Average interest on unhedged and hedged foreign currency loans has been 6.05% (8.08% for hedged loans in 1999).

Long-term maturities of the loans are as follows:

<i>Millions of Pesetas</i>	2000	1999
TWO YEARS	8,036	7,199
THREE YEARS	2,341	11,807
FOUR YEARS	2,351	2,477
FIVE YEARS	2,362	2,487
THEREAFTER	9,752	12,647
	24,842	36,617

(15) OTHER LONG-TERM CREDITORS

Details of other long-term creditors at 31 December 2000 and 1999 are as follows:

<i>Millions of Pesetas</i>	2000	1999
DEFERRED TAX LIABILITY (NOTE 21)	7,765	7,616
LONG-TERM DEPOSITS RECEIVED	10	8
	7,775	7,624

The long-term maturity of balances with other long-term creditors is as follows:

<i>Millions of Pesetas</i>	2000	1999
TWO YEARS	346	292
THREE YEARS	301	320
FOUR YEARS	291	275
FIVE YEARS	270	265
THEREAFTER	6,567	6,472
	7,775	7,624

(16) BOND INTEREST PAYABLE

At 31 December 2000 and 1999 this balance comprises accrued interest payable on the bonds issued by the Company (see note 13).

(17) SHORT-TERM LOANS

Details of short-term loans are as follows::

<i>Millions of Pesetas</i>	2000	1999
LOANS (NOTE 14)	5,660	2,148
PROMISSORY NOTES AND CREDIT FACILITIES	7,415	6,045
	13,075	8,193
ACCRUED INTEREST PAYABLE	1,079	1,156
	14,154	9,349

During 2000 unhedged and hedged promissory notes and short-term credit facilities, which are denominated in

Pesetas, have accrued average annual interest at 3.91% (3.18% on hedged operations in 1999).

Promissory notes are issued by the Company through financial institutions and are recorded at their face value. The difference between this value and the amount actually received is recorded on an accruals basis and classified as prepaid expenses.

At 31 December 2000 and 1999 a programme to issue "highly liquid" promissory notes up to a maximum of Euros 168 million (approximately Ptas. 28,000 million) has been registered with the Spanish Securities and Exchange Commission.

At 31 December 2000 the Company has unused credit facilities for Ptas. 11,222 million (Ptas. 11,130 million at 31 December 1999)

(18) TRADE CREDITORS

Details at 31 December are as follows:

<i>Millions of Pesetas</i>	2000	1999
SUPPLIERS OF ENERGY AND POWER PURCHASES	1,616	1,513
CREDITORS FOR SERVICES RENDERED	6,993	5,727
	8,609	7,240

Suppliers of energy and power purchases mainly relate to the agreement with Electricité de France (EDF) to supply energy and power (see note 27(a)).

(19) OTHER CREDITORS

At 31 December 2000 and 1999 other creditors are as follows:

<i>Millions of Pesetas</i>	2000	1999
TAX AND SOCIAL SECURITY AUTHORITIES	3,735	3,673
SHORT-TERM GUARANTEE		
DEPOSITS RECEIVED	218	289
OTHER DEBTS	8,541	3,596
	12,494	7,558

Balances due to the tax and social security authorities comprise the following:

<i>Millions of Pesetas</i>	2000	1999
TAXES PAYABLE		
WITHHOLDINGS	130	218
INCOME TAX	2,520	2,289
VAT	615	707
OTHER TAXES	10	2
SOCIAL SECURITY	143	156
DEFERRED TAX LIABILITY (NOTE 21)	317	301
	3,735	3,673

Other debts are as follows:

<i>Millions of Pesetas</i>	2000	1999
CREDITORS FOR PURCHASES OF FIXED ASSETS AND OTHER ITEMS	4,735	2,955
DIVIDEND PAYABLE (NOTE 3 (b))	3,806	-
CALLS ON SHARE CAPITAL OF ASSOCIATED COMPANIES (NOTE 7)	-	641
	8,541	3,596

The increase in creditors for purchases of fixed assets and other items mainly reflects higher investments in tangible assets in 2000.

(20) PREPAID EXPENSES AND ACCRUALS

At 31 December 2000 prepaid expenses comprise Ptas. 312 million (Ptas. 152 million in 1999) relating to financial expenses incurred in 2000 which will be recognised over the ensuing years, and prepayments on insurance policies contracted by the Company in respect of future years.

Accruals mainly reflect income of Ptas. 3,866 million (Ptas. 4,182 million in 1999) received in advance in respect

of billings for guaranteed power supplies in accordance with the power supply agreement between Office Nationale de l'Electricité de Maroc (ONE) and the Company (see note 27(c)), and income of Ptas. 2,377 million (Ptas. 2,308 million in 1999) received in advance on the power supply agreement between EDF and the Company (see note 27(b)).

(21) TAXATION

As a consequence of the treatment permitted by fiscal legislation for certain transactions, the accounting profit differs from taxable income. A reconciliation of the accounting profit for the year with the taxable income that the Company expects to declare after approval of the 2000 annual accounts, together with that for 1999, is as follows:

<i>Millions of Pesetas</i>	2000	1999
PROFIT BEFORE INCOME TAX	20,971	19,087
PERMANENT DIFFERENCES	59	17
TAXABLE ACCOUNTING INCOME	21,030	19,104
TIMING DIFFERENCES		
GENERATED DURING THE YEAR	174	(256)
REVERSAL OF PRIOR YEARS	686	558
TAXABLE INCOME	21,890	19,406

Details of the income tax charge for 2000 and 1999 are as follows:

<i>Millions of Pesetas</i>	2000	1999
ACCOUNTING INCOME AT 35%	7,360	6,686
LESS, DEDUCTIONS	(99)	(106)
EXPENSE FOR THE YEAR	7,261	6,580
PRIOR YEARS' ADJUSTMENTS	(122)	6
INCOME TAX CHARGE	7,139	6,586

The Company is obliged to maintain fixed assets for which credits have been taken for a period of five years.

Details of timing differences in the recognition of expenses and income for accounting and tax purposes at 31 December 2000 and 1999 and the related accumulated deferred tax assets and liabilities are as follows:

<i>Millions of Pesetas</i>	2000		1999	
	Timing difference	Tax effect	Timing difference	Tax effect
TIMING DIFFERENCES GIVING RISE TO DEFERRED TAX ASSETS				
GENERATED IN PRIOR YEARS	5,615	1,965	3,997	1,399
GENERATED DURING THE YEAR	1,497	524	1,568	549
REVERSALS OF PRIOR YEARS	(174)	(61)	(376)	(132)
	1,323	463	1,192	417
PRIOR YEARS' ADJUSTMENTS	(29)	(10)	426	149
	6,908	2,418	5,615	1,965
TIMING DIFFERENCES GIVING RISE TO DEFERRED TAX LIABILITIES				
GENERATED IN PRIOR YEARS	(22,619)	(7,917)	(21,729)	(7,606)
GENERATED DURING THE YEAR	(1,323)	(463)	(1,724)	(603)
REVERSALS OF PRIOR YEARS	860	301	834	292
	(463)	(162)	(890)	(311)
PRIOR YEARS' ADJUSTMENTS	(9)	(3)	-	-
	(23,091)	(8,082)	(22,619)	(7,917)

Timing differences giving rise to deferred tax assets have mainly arisen due to the provision for liabilities and charges (see notes 12 and 22 (c)).

Timing differences giving rise to deferred tax liabilities relate principally to the accelerated depreciation of certain tangible assets.

In 1999 and 2000 the tax authorities have inspected the principal taxes from 1994 to 1997, inclusive, including the one-off charge on the uplift in value tangible fixed assets revalued in accordance with Royal Decree 7 of 1996. As a

result of this inspection, the Company has recorded extraordinary expenses of Ptas. 10 million in 2000 (Ptas. 72 million in 1999). The main taxes for years subsequent to 1997 are open to inspection. The directors do not expect that significant additional liabilities will arise in this regard.

The Company has notified the tax authorities of the agreement reached by the board of directors on 14 December 2000, whereby the Company will opt to file consolidated tax returns, as permitted by article 81 of Law 43 of 1995 regarding income tax.

(22) INCOME AND EXPENSES

(A) NET SALES

Details are as follows:

Millions of Pesetas	2000	1999
INCOME FROM SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	55,468	53,590
SALES OF ENERGY AND POWER	35,889	34,811
OTHER INCOME FROM SERVICES RENDERED	2,151	1,964
SALES OF BY-PRODUCTS AND OTHER INCOME	23	3
	93,531	90,368

Income from services rendered relates to transmission activities and the operation of the system, the remuneration for which is established annually by the Ministry of Industry and Energy. In accordance with Royal Decree 2066 dated 30 December 1999, which establishes electricity tariffs for 2000, the remuneration of transmission activities was fixed at Ptas. 54,434 million, including tolls (Ptas. 52,552 million in 1999), while revenues for the operation of the system were set at 0.053% of tariffs and 0.145% of power transmission tolls (0.053% and 0.138%, respectively, in 1999). This caption also includes revenues collected during 2000 in respect of prior years' settlements.

In 2000 and 1999 sales of energy and power represent income recognised in respect of energy and power contributed under the import and export contracts made by the Company with EDF (France) and ONE (Morocco) (see note 27 (a), (b) and (c)).

Other income from services rendered includes revenues generated from the diversification of the Company's activities, comprising the cession of surplus capacity in its telecommunications networks, as well as consulting, engineering, construction and maintenance work performed for third parties.

(B) PERSONNEL EXPENSES

Details are as follows:

Millions of Pesetas	2000	1999
WAGES AND SALARIES	6,717	6,521
SOCIAL SECURITY	1,564	1,612
PENSIONS AND SIMILAR COMMITMENTS	140	164
OTHER SOCIAL CHARGES	625	867
	9,046	9,164

The average number of employees, distributed by category, is as follows:

	2000	1999
MANAGERS	22	22
HONOURS GRADUATES	273	289
GRADUATES	294	316
ASSISTANTS	272	272
ADMINISTRATIVE STAFF	146	155
	1,007	1,054

(c) EXTRAORDINARY INCOME AND EXPENSE

Details are as follows:

<i>Millions of Pesetas</i>	2000	1999
PROFIT ON TANGIBLE ASSETS	1	21
PROFIT ON OWN SHARES (NOTE 10)	3	-
CAPITAL GRANTS TAKEN TO PROFIT AND LOSS	878	665
EXTRAORDINARY INCOME	328	318
PRIOR YEARS' PROFIT AND INCOME	115	112
TOTAL EXTRAORDINARY INCOME	1,325	1,116
CHANGES IN THE PROVISION FOR TANGIBLE ASSETS AND		
TREASURY STOCK (NOTES 6, 7 AND 10)	396	193
LOSSES ON TANGIBLE ASSETS	20	4
LOSSES ON OWN SHARES (NOTE 10)	1	-
EXTRAORDINARY EXPENSES (NOTE 12)	1,901	1,163
PRIOR YEARS' LOSSES AND EXPENSES	31	82
TOTAL EXTRAORDINARY EXPENSES	2,349	1,442

Changes in the provision for tangible assets and treasury stock in 2000 represent the amount provided to cover the difference between the acquisition costs and underlying net book values of shareholdings in group companies and to

reflect own shares at market value. In 2000 and 1999 this caption also includes the change in the provision for impairment of tangible assets under construction, due to the capitalisation of significant financial expenses in projects which have been delayed for reasons not attributable to the Company.

In 2000 and 1999 extraordinary expenses mainly comprise the amount provided to cover the cost of the personnel restructuring plan (see notes 4 (n) and 12).

(d) TRANSACTIONS WITH GROUP AND ASSOCIATED COMPANIES

Transactions carried out with group and associated companies in 2000 and 1999 are as follows:

<i>Millions of Pesetas</i>	Group companies		Associated companies	
	2000	1999	2000	1999
OTHER INCOME FOR SERVICES RENDERED	-	-	283	219
NON-TRADING AND OTHER				
OPERATING INCOME	193	-	13	-
OTHER OPERATING EXPENSES	-	-	43	-

(23) REMUNERATION OF AND BALANCES WITH MEMBERS OF THE BOARD OF DIRECTORS

In 2000 and 1999 the members of the board of directors received remuneration of Ptas. 208 and Ptas. 119 million, respectively, including estimated objective-linked bonuses and the salaries of directors who are also employees of the Company.

At 31 December 2000 loans of less than Ptas. 1 million have been made to members of the board (loans of Ptas. 1 million at 31 December 1999). These loans earn interest at EURIBOR plus a differential of 0.25% and mature in more than one year.

(24) ENVIRONMENTAL ISSUES

During 2000 the Company has incurred expenses of approximately Ptas. 169 million (Ptas. 148 million in 1999) to protect and improve the environment, mainly in respect of studies to determine the impact of transmission lines on the environment, protection of birdlife, waste management, landscaping of installations, treatment of herbicides and pesticides, and maintenance and review of the environmental management system in accordance with the UNE-EN-ISO 14001 standard. The Company has also incurred expenses in various environmental publications, including the

Company's first environmental report, as well as certain costs related to an environmental department which handles these matters.

Studies have also been carried out in 2000 to determine the environmental impact of new electrical installations. These studies have cost approximately Ptas. 68 million (approximately Ptas. 33 million in 1999) and have been recorded as an increase in the value of the related tangible fixed assets.

The Company has no litigation or contingencies relating to environmental protection or improvements.

(25) INFORMATION BY ACTIVITY

In accordance with the Electricity Act and Royal Decree 437 dated 20 March 1998 approving rules for the adaptation of the Spanish General Chart of Accounts to companies operating in the electricity sector, the Company has prepared separate information by activity.

In 2000 and 1999 income, expenses, assets and liabilities have been split for accounting purposes between transmission activities, operation of the system, other electricity activities and other non-electricity activities (see note 1).

The principal criteria used to prepare the accounting information by activity, which is disclosed in Appendices VII (a) and (b) and VIII (a) and (b), are as follows:

- Direct expenses and income have been assigned to the relevant activity at source.
- Personnel expenses have been assigned proportionally on the basis of the time incurred by staff in each activity.
- Amortisation and depreciation charges have been allocated on the basis of the activity in which the related asset is used.
- Financial income and expenses are allocated in accordance with financing requirements for each period, except when borrowings relate directly to a specific activity.
- General and structural costs have been assigned on the basis of the use of services by each activity, applying

objective allocation criteria such as the number of employees, services and materials consumed, etc.

- The income tax expense is allocated proportionally to activities on the basis of the profit generated by each.
- Fixed assets are assigned directly to activities. Shared assets have been assigned in accordance with the estimated use by each activity, applying objective allocation criteria.
- Current assets have been allocated to the activities generating balances, except for cash and bank balances, short-term investments and other current assets, which have been assigned to activities showing net cash surpluses.
- In 1998 shareholders' equity, net of profit for the year, was allocated to the activities under the assumption that they share the same financial structure. Dividends are distributed by activities generating profits, calculated on a proportional basis.
- Deferred income has been allocated directly to the activities.
- Given their financial nature, bond issues, bank loans, long-term debtor balances and deferred expenses have been assigned on the basis of the net financing requirements of each activity.
- The remaining current liabilities have been allocated directly to the activities. Liabilities pertaining to more than one activity have been split by applying objective criteria.

(26) YEAR 2000 AND EURO ISSUES

(A) YEAR 2000

In 1999 the Company established a Year 2000 Committee and prepared various action plans, concentrating especially on the transmission network. The cost of these action plans was approximately Ptas. 300 million, which mainly reflects expenses incurred in maintenance and renewal of systems in 1999. The net book value of software and other installations with useful lives affected by the Year 2000 issue is considered to be immaterial.

The headquarters of the emergency committee for the operation of the electrical system during the transition to the year 2000 were located at the Company during the transition phase. This committee comprised representatives of the Company, the Ministry of Industry and Energy, the National Commission for Energy, the National Commission for the Electrical System, OMEL and the main Spanish electricity companies.

The transition to the year 2000 has been entirely satis

factory and no incidents have occurred in relation to the operation of the electrical system nor in the performance of the Company's transmission grid.

(B) IMPLEMENTATION OF THE EURO

In 1998 the Company created a Co-ordination Committee for the implementation of the Euro to plan and organise transition to this currency with minimum adaptation costs.

The Company has also established a plan to change bookkeeping from the Peseta to the Euro. The initial measures to adapt to the single currency were undertaken during the transition phase (see note 10 (a)). At their board meeting held on 14 December 2000 the directors agreed to maintain the accounting ledgers in Euros, with effect as of 1 January 2001.

No significant expenses are expected to arise from this process.

(27) COMMITMENTS

At 31 December 2000 the Company is party to certain long-term agreements, as follows:

a) An agreement for the supply of electricity by Electricité de France (EDF) to the Company. Supply commenced in October 1994 for a period of 16 years. On 8 January 1997 the Company and EDF agreed to modify the supply agreement as the expected capacity of the international electricity connection with France had been significantly reduced as a result of the decision by the French State not to authorise the construction of the Aragón-Cazaril line.

Under the revised agreement, the power to be supplied by EDF has been reduced to between 300 and 550 megawatts, depending on the year. Also, the price of energy acquired in accordance with this contract and the power available have been reduced. Both parties undertake to extend the Pyrenees electricity connection by constructing a new electricity line.

b) An agreement for the supply of energy by the Company to EDF during the winter peak period. This agreement commenced in November 1995 for a period of 15 years and establishes that the Company will provide

EDF with power equal to that stipulated in the supply agreement mentioned in section a), above, for a maximum of 600 hours during the winter months, in accordance with the modifications agreed on 8 January 1997.

c) An agreement for the supply of energy by the Company to the Office Nationale de l'Electricité de Maroc (ONE). In May 1998 a modification was agreed to reduce the power supplied to 90 MW during the period from May 1998 to December 2002.

d) An agreement made in 1997 between the Company and Netco Redes, S.A. to cede the use and rights of way of the Company's fibre optic network for a period of 30 years. In 1997 the rights ceded under this agreement were transferred to Retevisión, S.A. In March 2000 NETCO, Retevisión and the Company agreed to modify this contract. As a result, the exclusivity and non-competition clauses have been eliminated, and the Company is entitled to use its infrastructure to render telecommunications services to third parties, while Retevisión has the right to use the Company's power lines to meet its infrastructure needs. Under the revised agreement, the Company is expressly permitted to cede its rights to a subsidiary.

(28) SUBSEQUENT EVENTS

Red Eléctrica Internacional, S.A. was incorporated on 23 February 2001 with a share capital of Euros 60 million (Ptas. 9,983 million). These shares have been fully subscribed by the Company, which has paid up Euros 15

million (approximately Ptas. 2,495 million), of which approximately Euros 6 million (Ptas. 918 million) relate to the non-monetary contribution of the interest held in REDESUR (see note 7 (a)).

(29) STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

The statements of source and application of funds for 2000 and 1999 are disclosed in Appendix VI, which forms an integral part of this note.

APPENDIX I

RED ELÉCTRICA DE ESPAÑA, S.A.

BALANCE SHEETS

31 DECEMBER 2000 EXPRESSED IN THOUSANDS OF EUROS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

ASSETS	2000	1999
INTANGIBLE FIXED ASSETS (NOTE 5)	7,198	9,556
RESEARCH AND DEVELOPMENT EXPENSES	18,330	18,134
SOFTWARE	6,464	5,994
ACCUMULATED AMORTISATION	(17,596)	(14,572)
TANGIBLE FIXED ASSETS (NOTE 6)	1,308,175	1,324,393
LAND AND BUILDINGS	35,314	35,327
PLANT AND MACHINERY	2,150,597	2,093,820
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	63,426	64,479
PLANT AND MACHINERY UNDER CONSTRUCTION	118,920	97,904
ADVANCES AND OTHER ASSETS UNDER CONSTRUCTION	3,645	1,031
PROVISIONS	(21,648)	(20,317)
DEPRECIATION OF PLANT AND MACHINERY	(985,967)	(894,394)
OTHER DEPRECIATION	(56,112)	(53,457)
INVESTMENTS (NOTE 7)	91,632	22,841
INVESTMENTS IN GROUP COMPANIES	69,000	-
INVESTMENTS IN ASSOCIATED COMPANIES	5,517	5,501
LONG-TERM INVESTMENT PORTFOLIO	-	35
OTHER LOANS	5,857	6,843
LONG-TERM GUARANTEE DEPOSITS	217	59
LONG-TERM BALANCES RECOVERABLE FROM PUBLIC ENTITIES (NOTE 21)	11,855	10,403
PROVISIONS	(814)	-
OWN SHARES (NOTE 10 (i))	6,057	-
LONG-TERM TRADE DEBTORS (NOTE 8)	5,815	5,815
TOTAL FIXED ASSETS	1,418,877	1,362,605
DEFERRED EXPENSES (NOTE 9)	11,162	13,355
STOCKS	2,480	3,415
RAW MATERIALS AND OTHER SUPPLIES	5,809	6,405
PROVISIONS	(3,329)	(2,990)
DEBTORS (NOTE 8)	106,903	105,225
TRADE DEBTORS	14,546	17,574
GROUP COMPANIES	1,358	-
ASSOCIATED COMPANIES	524	962
SUNDRY DEBTORS	85,921	84,214
PERSONNEL	1,890	1,950
PUBLIC ENTITIES (NOTE 21)	2,680	1,405
PROVISIONS	(16)	(880)
SHORT-TERM INVESTMENTS (NOTE 7)	24,664	17,937
SHORT-TERM INVESTMENT PORTFOLIO	9,019	12,024
OTHER LOANS	15,645	5,913
CASH AND BANKS	769	522
PREPAID EXPENSES (NOTE 20)	1,873	916
TOTAL CURRENT ASSETS	136,689	128,015
TOTAL ASSETS	1,566,728	1,503,975

SHAREHOLDERS' EQUITY AND LIABILITIES	2000	1999
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
RESERVES	162,626	137,504
LEGAL RESERVE	54,199	54,199
RESERVE FOR OWN SHARES	6,057	-
OTHER RESERVES	102,370	83,305
PROFIT FOR THE YEAR	83,130	75,131
INTERIM DIVIDEND (NOTE 3 (B))	(22,877)	(20,291)
TOTAL SHAREHOLDER'S EQUITY (NOTE 10)	740,441	709,906
CAPITAL GRANTS	61,885	66,299
EXCHANGE GAINS	88	78
OTHER DEFERRED INCOME	121,948	123,676
TOTAL DEFERRED INCOME (NOTE 11)	183,921	190,053
PROVISIONS FOR PENSIONS AND OTHER LIABILITIES	13,988	18,543
PROVISIONS FOR TAXES	234	234
OTHER PROVISIONS	7,596	5,512
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (NOTE 12)	21,818	24,289
BONDS ISSUED (NOTE 13)	126,318	126,318
LOANS (NOTE 14)	149,301	220,074
OTHER CREDITORS (NOTE 15)	46,733	45,824
UNCALLED SHARE PAYMENTS	45,000	-
GROUP COMPANIES (NOTE 7)	45,000	-
TOTAL LONG-TERM LIABILITIES	367,352	392,216
BONDS ISSUED (NOTE 16)	3,024	2,585
INTEREST PAYABLE	3,024	2,585
LOANS (NOTE 17)	85,068	56,189
LOANS AND OTHER DEBT	78,585	49,239
INTEREST PAYABLE	6,483	6,950
TRADE CREDITORS (NOTE 18)	51,743	43,512
FOR PURCHASES AND SERVICES RECEIVED	51,743	43,512
OTHER CREDITORS (NOTE 19)	75,088	45,426
PUBLIC ENTITIES	22,447	22,076
OTHERS	51,286	21,596
WAGES AND SALARIES PAYABLE	45	15
SHORT-TERM GUARANTEE DEPOSITS RECEIVED	1,310	1,739
ACCRUALS (NOTE 20)	38,273	39,799
TOTAL CURRENT LIABILITIES	253,196	187,511
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,566,728	1,503,975

APPENDIX II

RED ELÉCTRICA DE ESPAÑA, S.A.

PROFIT AND LOSS ACCOUNTS

31 DECEMBER 2000 EXPRESSED IN THOUSANDS OF EUROS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

EXPENSES	2000	1999
COST OF MATERIALS CONSUMED	220,549	213,935
PURCHASES OF ENERGY AND POWER	208,895	202,162
MAINTENANCE AND REPAIR MATERIALS	11,654	11,773
PERSONNEL EXPENSES (NOTE 22 (B))	54,366	55,075
WAGES AND SALARIES	40,369	39,193
SOCIAL SECURITY	9,399	9,689
PENSIONS AND SIMILAR OBLIGATIONS	839	988
OTHER SOCIAL CHARGES	3,759	5,205
AMORTISATION AND DEPRECIATION (NOTES 5 AND 6)	101,305	100,174
CHANGES IN TRADE PROVISIONS	104	(297)
CHANGE IN PROVISIONS FOR STOCKS	339	(297)
CHANGE IN PROVISIONS FOR BAD DEBTS	(235)	-
OTHER OPERATING EXPENSES	47,283	46,470
EXTERNAL SERVICES	42,216	42,451
LOCAL TAXES	1,959	1,253
OTHER ADMINISTRATIVE EXPENSES	764	1,150
PROVISION FOR LIABILITIES AND CHARGES (NOTE 12)	2,344	1,616
TOTAL OPERATING EXPENSES	423,607	415,357
OPERATING PROFIT	151,286	137,692
FINANCIAL AND SIMILAR EXPENSES	18,966	22,564
ON DEBT WITH THIRD PARTIES	18,966	22,564
EXCHANGE LOSSES	1,154	35
TOTAL FINANCIAL EXPENSES	20,120	22,599
PROFIT ON ORDINARY ACTIVITIES	132,190	116,673
CHANGES IN PROVISIONS FOR TANGIBLE FIXED ASSETS (NOTES 6, 7(A) AND 10(I))	2,383	1,162
LOSSES ON TANGIBLE ASSETS	129	27
LOSSES ON OWN SHARES (NOTE 10)	8	-
EXTRAORDINARY EXPENSES	11,423	6,982
PRIOR YEARS' ITEMS	176	497
TOTAL EXTRAORDINARY EXPENSES (NOTE 22 (C))	14,119	8,668
PROFIT BEFORE TAX	126,035	114,711
INCOME TAX (NOTE 21)	42,905	39,580
PROFIT FOR THE YEAR	83,130	75,131

This Appendix forms an integral part of note 2 to the annual accounts.

INCOME	2000	1999
NET SALES (NOTE 22 (A))	562,134	543,121
SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	333,369	322,080
OTHER SERVICE INCOME	12,926	11,805
SALES OF ENERGY AND POWER	215,697	209,215
SALES OF BY-PRODUCTS	142	21
SELF-CONSTRUCTED ASSETS (NOTES 4 (A) AND (C))	8,219	6,259
OTHER OPERATING INCOME	4,540	3,669
OTHER INCOME	3,773	3,174
GRANTS	175	206
SURPLUS PROVISION FOR LIABILITIES AND CHARGES	592	289
TOTAL OPERATING INCOME	574,893	553,049
INVESTMENT INCOME	68	726
OTHER INTEREST AND SIMILAR INCOME	895	833
OTHER INTEREST	895	833
EXCHANGE GAINS	61	21
TOTAL FINANCIAL INCOME	1,024	1,580
NET FINANCIAL EXPENSE	19,096	21,019
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS	4	124
PROFIT ON OWN SHARES (NOTE 10)	19	-
CAPITAL GRANTS TAKEN TO INCOME	5,275	3,996
EXTRAORDINARY INCOME	1,974	1,912
PRIOR YEARS' ITEMS	692	674
TOTAL EXTRAORDINARY INCOME (NOTE 22 (C))	7,964	6,706
NET EXTRAORDINARY LOSSES	6,155	1,962

APPENDIX III
RED ELÉCTRICA DE ESPAÑA S.A.
CONSOLIDATED BALANCE SHEET
 AS 31 DECEMBER 2000 EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

ASSETS	2000
ESTABLISHMENT COSTS	184
INTANGIBLE FIXED ASSETS	1,198
INTANGIBLE ASSETS	4,126
ACCUMULATED AMORTISATION	(2,928)
TANGIBLE FIXED ASSETS	218,598
LAND AND BUILDINGS	5,876
PLANT AND MACHINERY	357,829
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	10,559
PLANT AND MACHINERY UNDER CONSTRUCTION	19,787
ADVANCES AND OTHER ASSETS UNDER CONSTRUCTION	1,536
DEPRECIATION OF PLANT AND MACHINERY	(164,051)
OTHER DEPRECIATION AND PROVISIONS	(12,938)
INVESTMENTS	5,518
INVESTMENTS IN GROUP COMPANIES	1,498
INVESTMENTS IN EQUITY ACCOUNTED COMPANIES	1,038
OTHER LOANS	2,982
PARENT COMPANY SHARES	1,008
LONG-TERM TRADE DEBTORS	968
TOTAL FIXED ASSETS	227,474
DEFERRED EXPENSES	1,857
STOCKS	413
DEBTORS	17,753
TRADE DEBTORS	2,420
EQUITY ACCOUNTED COMPANIES	87
OTHER DEBTORS	15,249
PROVISIONS	(3)
SHORT-TERM INVESTMENTS	4,104
SHORT-TERM INVESTMENT PORTFOLIO	1,501
OTHER LOANS	2,603
CASH AND BANKS	2,522
PREPAID EXPENSES	312
CURRENT ASSETS	25,104
TOTAL ASSETS	254,435

This Appendix forms an integral part of note 7 to the annual accounts.

SHAREHOLDER'S EQUITY AND LIABILITIES	2000
SHARE CAPITAL	45,014
REVALUATION RESERVE	41,101
OTHER PARENT COMPANY RESERVES	27,059
DISTRIBUTABLE RESERVES	13,000
RESTRICTED RESERVES	14,059
RESERVES IN EQUITY ACCOUNTED COMPANIES	119
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	13,833
INTERIM DIVIDEND	(3,806)
SHAREHOLDERS' EQUITY	123,320
CAPITAL GRANTS	10,297
OTHER DEFERRED INCOME	20,305
DEFERRED INCOME	30,602
PROVISIONS FOR LIABILITIES AND CHARGES	3,630
BONDS ISSUED	21,018
LOANS	24,842
OTHER CREDITORS	7,775
LONG-TERM CREDITORS	53,635
BONDS AND OTHER MARKETABLE SECURITIES ISSUED	503
LOANS	14,154
TRADE CREDITORS	9,716
OTHER CREDITORS	12,507
ACCRUALS	6,368
CURRENT LIABILITIES	43,248
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	254,435

APPENDIX IV
RED ELÉCTRICA DE ESPAÑA, S.A.
CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2000
EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

EXPENSES	2000
EXPENSES	
MATERIALS CONSUMED	36,692
PURCHASES OF ENERGY AND POWER	34,757
MAINTENANCE AND REPAIR MATERIALS	1,935
PERSONNEL EXPENSES	9,051
WAGES AND SALARIES	6,724
SOCIAL CHARGES	2,327
AMORTISATION AND DEPRECIATION	16,902
CHANGES IN TRADE PROVISIONS	17
OTHER OPERATING EXPENSES	7,762
TOTAL OPERATING EXPENSES	70,424
OPERATING PROFIT	25,021
FINANCIAL AND SIMILAR EXPENSES	3,156
EXCHANGE LOSSES	192
TOTAL FINANCIAL EXPENSES	3,348
PROFIT ON ORDINARY ACTIVITIES	21,861
LOSSES ON TANGIBLE ASSETS	20
CHANGES IN PROVISIONS FOR INTANGIBLE ASSETS AND TREASURY STOCK	261
LOSSES ON OPERATIONS WITH THE PARENT COMPANY	1
EXTRAORDINARY EXPENSES	1,932
TOTAL EXTRAORDINARY EXPENSES	2,214
CONSOLIDATED PROFIT BEFORE TAX	20,972
INCOME TAX	7,139
CONSOLIDATED PROFIT FOR THE YEAR	13,833

This Appendix forms an integral part of note 7 to the annual accounts.

INCOME	2000
INCOME	
NET SALES	93,515
SELF-CONSTRUCTED ASSETS	1,368
OTHER OPERATING INCOME	562
TOTAL OPERATING INCOME	95,445
OTHER INTEREST AND SIMILAR INCOME	161
EXCHANGE GAINS	10
TOTAL FINANCIAL INCOME	171
NET FINANCIAL EXPENSE	3,177
SHARE OF PROFITS IN EQUITY ACCOUNTED COMPANIES	17
PROFIT ON DISPOSAL OF TANGIBLE ASSETS	1
PROFIT ON OPERATIONS WITH THE PARENT COMPANY	3
CAPITAL GRANTS TAKEN TO INCOME	878
EXTRAORDINARY INCOME	443
TOTAL EXTRAORDINARY INCOME	1,325
NET EXTRAORDINARY LOSSES	889

APPENDIX V

RED ELÉCTRICA DE ESPAÑA, S.A.

MOVEMENT IN SHAREHOLDERS' EQUITY

31 DECEMBER 2000 AND 1999 EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

	Share capital	Revaluation reserve	Legal reserve	Own shares	Investment reserve
BALANCES AT 31 DECEMBER 1998	45,090	41,101	9,018	-	1,352
DISTRIBUTION OF 1998 PROFIT					
DIVIDENDS	-	-	-	-	-
VOLUNTARY RESERVES	-	-	-	-	-
RESTATEMENT OF SHARE CAPITAL IN EUROS					
SHARE CAPITAL REDUCTION WITH A CHARGE TO VOLUNTARY RESERVES	(45)	-	-	-	-
RESTATEMENT TO EUROS (ROUNDINGS AND ADJUSTMENT)	(31)	-	-	-	-
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	-	-	-	-	-
PROFIT FOR 1999	-	-	-	-	-
INTERIM DIVIDEND	-	-	-	-	-
BALANCES AT 31 DECEMBER 1999	45,014	41,101	9,018	-	1,352
DISTRIBUTION OF 1999 PROFIT					
DIVIDENDS	-	-	-	-	-
VOLUNTARY RESERVES	-	-	-	-	-
RESERVE FOR OWN SHARES	-	-	-	1,008	-
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	-	-	-	-	-
PROFIT FOR 2000	-	-	-	-	-
INTERIM DIVIDEND	-	-	-	-	-
BALANCES AT 31 DECEMBER 2000	45,014	41,101	9,018	1,008	1,352

This Appendix forms an integral part of note 10 to the annual accounts.

Voluntary reserve	Reserve for accelerated depreciation	Reserve for redeemed capital	Differences on conversion to Euros	Total reserves	Profit for the year	Interim dividend	Total
5,153	2,816	-	-	18,339	11,536	-	116,066
-	-	-	-	-	(6,922)	-	(6,922)
4,614	-	-	-	4,614	(4,614)	-	-
(45)	-	45	-	-	-	-	(45)
-	-	-	31	31	-	-	-
-	(105)	-	-	(105)	-	-	(105)
-	-	-	-	-	12,501	-	12,501
-	-	-	-	-	-	(3,376)	(3,376)
9,722	2,711	45	31	22,879	12,501	(3,376)	118,119
-	-	-	-	-	(8,215)	3,376	(4,839)
4,286	-	-	-	4,286	(4,286)	-	-
(1,008)	-	-	-	-	-	-	-
-	(106)	-	-	(106)	-	-	(106)
-	-	-	-	-	13,832	-	13,832
-	-	-	-	-	-	(3,806)	(3,806)
13,000	2,605	45	31	27,059	13,832	(3,806)	123,200

APPENDIX VI
RED ELÉCTRICA DE ESPAÑA, S.A.
STATEMENTS OF SOURCE AND APPLICATION OF FUNDS
 FOR THE YEARS ENDED EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

APPLICATIONS	2000	1999
ACQUISITION OF FIXED ASSETS		
INTANGIBLE ASSETS	112	249
TANGIBLE ASSETS	13,895	6,295
INVESTMENTS	12,184	1,897
OWN SHARES	1,047	-
	27,238	8,441
DEFERRED EXPENSES	-	1,787
SHARE CAPITAL REDUCTION	-	45
DIVIDENDS	4,839	6,922
INTERIM DIVIDEND	3,806	3,376
REPAYMENT OR TRANSFER TO SHORT TERM OF LONG-TERM DEBT	12,093	9,963
PROVISION FOR LIABILITIES AND CHARGES	2,661	26
	50,637	30,560
INCREASE IN WORKING CAPITAL	-	1,061
TOTAL APPLICATIONS	50,637	31,621

CHANGES IN WORKING CAPITAL	2000		1999	
	Increases	Decreases	Increases	Decreases
STOCKS	-	155	-	50
DEBTORS	279	-	-	7,804
CURRENT LIABILITIES	-	10,929	7,598	-
SHORT-TERM INVESTMENTS	1,119	-	1,377	-
CASH AND BANKS	40	-	51	-
PREPAID EXPENSES	160	-	-	111
	1,598	11,084	9,026	7,965
CHANGES IN WORKING CAPITAL	9,486	-	-	1,061
	11,084	11,084	9,026	9,026

This Appendix forms an integral part of note 29 to the annual accounts.

SOURCES	2000	1999
FUNDS GENERATED ON OPERATIONS		
PROFIT FOR THE YEAR	13,832	12,501
REVERSAL OF PROVISION FOR LIABILITIES AND CHARGES	(111)	(48)
AMORTISATION AND DEPRECIATION	16,856	16,668
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	(106)	(105)
PROVISION FOR PENSIONS AND SIMILAR COMMITMENTS	1,903	1,191
PROFIT (LOSS) ON DISPOSAL OF FIXED ASSETS	19	(17)
PROVISION FOR LIABILITIES AND CHARGES	458	337
EXCHANGE GAINS	-	(3)
DEFERRED EXPENSES RECOGNISED DURING THE YEAR	365	382
CAPITAL GRANTS AND OTHER DEFERRED INCOME RECOGNISED DURING THE YEAR	(1,815)	(1,652)
PROVISIONS FOR TANGIBLE FIXED ASSETS	222	193
PROVISION FOR OWN SHARES	39	-
PROVISION FOR INVESTMENTS	135	-
	31,797	29,447
DEFERRED INCOME	793	873
EXCHANGE GAINS	2	-
LONG-TERM LIABILITIES	7,956	603
DISPOSAL OF FIXED ASSETS		
TANGIBLE ASSETS	-	40
INVESTMENTS	603	658
	9,354	698
	41,151	31,621
DECREASE IN WORKING CAPITAL	9,486	-
TOTAL SOURCES	50,637	31,621

APPENDIX VII-A
RED ELÉCTRICA DE ESPAÑA, S.A.
BALANCE SHEET BY ACTIVITY
31 DECEMBER 2000 EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

	Transmission	%	Operation of the system
ASSETS			
FIXED ASSETS	219,488	93	3,980
INTANGIBLE ASSETS	536	45	655
TANGIBLE ASSETS	214,664	99	2,794
Plant and machinery	355,587	99	2,242
Plant and machinery under construction	19,787	100	-
Other tangible assets	12,450	76	3,615
Advances and other assets under construction	530	87	76
Depreciation of plant and machinery	(162,966)	99	(1,085)
Other depreciation	(7,122)	77	(2,054)
Provisions	(3,602)	100	-
INVESTMENTS	2,400	16	496
OWN SHARES	988	98	19
LONG-TERM LOANS	900	93	16
DEFERRED EXPENSES	1,488	80	250
CURRENT ASSETS	14,911	66	375
STOCKS	413	100	-
DEBTORS	14,206	80	367
OTHER CURRENT ASSETS	-	-	-
PREPAID EXPENSES	292	93	8
TOTAL ASSETS	235,887	90	4,605
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	124,419	101	(3,802)
SHARE CAPITAL AND RESERVES	113,165	100	(1,860)
PROFIT/(LOSS) FOR THE YEAR	14,834	107	(1,942)
INTERIM DIVIDEND	(3,580)	94	-
DEFERRED INCOME	14,233	47	1,039
PROVISIONS FOR LIABILITIES AND CHARGES	2,596	72	855
LONG-TERM CREDITORS	50,185	82	982
CURRENT LIABILITIES	31,056	74	1,841
CURRENT LIABILITIES, EXCLUDING ACCRUALS	31,056	87	1,824
ACCRUALS	-	-	17
INTERACTIVITY FINANCING	13,398	-	3,690
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	235,887	90	4,605

This Appendix forms an integral part of note 25 to the annual accounts.

%	Other electricity activities	%	Other non-electricity activities	%	Total activities	%
2	20	-	12,594	5	236,082	100
55	-	-	7	-	1,198	100
1	12	-	192	-	217,662	100
1	-	-	-	-	357,829	100
-	-	-	-	-	19,787	100
22	39	-	325	2	16,429	100
13	-	-	-	-	606	100
1	-	-	-	-	(164,051)	100
22	(27)	-	(133)	1	(9,336)	100
-	-	-	-	-	(3,602)	100
3	8	-	12,342	81	15,246	100
2	-	-	1	-	1,008	100
2	-	-	52	5	968	100
13	91	5	28	2	1,857	100
1	4,301	19	3,156	14	22,743	100
-	-	-	-	-	413	100
2	2,439	14	775	4	17,787	100
-	1,862	44	2,369	56	4,231	100
3	-	-	12	4	312	100
2	4,412	2	15,778	6	260,682	100
(3)	1,375	1	1,208	1	123,200	100
(2)	709	1	1,160	1	113,174	100
(14)	878	6	62	1	13,832	100
-	(212)	6	(14)	-	(3,806)	100
3	797	3	14,533	47	30,602	100
23	34	1	145	4	3,630	100
2	4	-	9,951	16	61,122	100
4	8,645	21	586	1	42,128	100
5	2,402	7	478	1	35,760	100
-	6,243	98	108	2	6,368	100
-	(6,443)	-	(10,645)	-	-	100
2	4,412	2	15,778	6	260,682	100

APPENDIX VII-B
RED ELÉCTRICA DE ESPAÑA, S.A.
BALANCE SHEET BY ACTIVITY
31 DECEMBER 1999 EXPRESSED IN MILLIONS OF PESETAS

	Transmission	%	Operation of the system
ASSETS			
FIXED ASSETS	221,141	98	4,350
INTANGIBLE ASSETS	738	47	847
TANGIBLE ASSETS	217,131	99	3,014
Plant and machinery	346,181	99	2,201
Plant and machinery under construction	16,290	100	-
Other tangible assets	12,718	77	3,521
Advances and other assets under construction	66	38	106
Depreciation of plant and machinery	(147,888)	99	(927)
Other depreciation	(6,856)	77	(1,887)
Provisions	(3,380)	100	-
INVESTMENTS	2,327	61	471
LONG-TERM LOANS	945	98	18
DEFERRED EXPENSES	1,819	82	292
CURRENT ASSETS	14,394	68	339
STOCKS	568	100	-
DEBTORS	13,680	78	334
OTHER CURRENT ASSETS	-	-	-
PREPAID EXPENSES	146	96	5
TOTAL ASSETS	237,354	95	4,981
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	117,681	100	(1,860)
SHARE CAPITAL AND RESERVES	107,664	99	6
PROFIT/(LOSS) FOR THE YEAR	13,094	105	(1,866)
INTERIM DIVIDEND	(3,077)	91	-
DEFERRED INCOME	14,315	45	1,250
PROVISIONS FOR LIABILITIES AND CHARGES	2,776	69	1,097
LONG-TERM CREDITORS	63,743	98	1,223
CURRENT LIABILITIES	20,642	66	907
CURRENT LIABILITIES, EXCLUDING ACCRUALS	20,614	84	876
ACCRUALS	28	-	31
INTERACTIVITY FINANCING	18,197	-	2,364
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	237,354	95	4,981

This Appendix forms an integral part of note 25 to the annual accounts.

%	Other electricity activities	%	Other non-electricity activities	%	Total activities	%
2	22	-	1,205	-	226,718	100
53	-	-	5	-	1,590	100
1	12	-	203	-	220,360	100
1	-	-	-	-	348,382	100
-	-	-	-	-	16,290	100
21	39	-	328	2	16,606	100
62	-	-	-	-	172	100
1	-	-	-	-	(148,815)	100
21	(27)	-	(125)	2	(8,895)	100
-	-	-	-	-	(3,380)	100
13	10	-	992	26	3,800	100
2	-	-	5	-	968	100
13	108	5	3	-	2,222	100
2	3,925	18	2,642	12	21,300	100
-	-	-	-	-	568	100
2	2,942	17	552	3	17,508	100
-	983	32	2,089	68	3,072	100
3	-	-	1	1	152	100
2	4,055	2	3,850	1	250,240	100
(2)	988	1	1,310	1	118,119	100
-	355	-	969	1	108,994	100
(15)	827	7	446	3	12,501	100
-	(194)	6	(105)	3	(3,376)	100
4	1,009	3	15,048	48	31,622	100
27	55	1	113	3	4,041	100
2	-	-	293	-	65,259	100
3	8,589	28	1,061	3	31,199	100
3	2,098	9	989	4	24,577	100
-	6,491	98	72	2	6,622	100
-	(6,586)	-	(13,975)	-	-	100
2	4,055	2	3,850	1	250,240	100

APPENDIX VIII-A
RED ELÉCTRICA DE ESPAÑA, S.A.
ANALYTICAL PROFIT AND LOSS ACCOUNT BY ACTIVITY FOR THE YEAR ENDED
31 DECEMBER 2000 EXPRESSED IN MILLIONS OF PESETAS (TRANSLATION FROM THE ORIGINAL IN SPANISH)

ITEMS	Transmission	%	Operation of the system
NET SALES AND SERVICES RENDERED	54,457	59	1,034
+OTHER OPERATING INCOME	1,805	85	33
=VALUE OF PRODUCTION	56,262	59	1,067
-MATERIALS CONSUMED	(1,440)	4	(8)
-EXTERNAL EXPENSES	(3,874)	80	(142)
-EXPENSES ASSIGNED FROM OTHER ACTIVITIES	(2,171)	77	(351)
=VALUE ADDED BY THE COMPANY	48,777	95	566
-OTHER EXPENSES	(61)	100	-
-PERSONNEL EXPENSES	(6,763)	75	(1,563)
=GROSS OPERATING PROFIT/(LOSS)	41,953	99	(997)
-AMORTISATION AND DEPRECIATION	(16,158)	96	(681)
-BAD DEBT WRITE-OFFS AND CHANGES IN TRADE PROVISIONS	(385)	95	(42)
=NET OPERATING PROFIT/(LOSS)	25,410	101	(1,720)
+FINANCIAL INCOME	160	93	8
-FINANCIAL EXPENSES	(3,078)	92	(133)
=PROFIT/(LOSS) ON ORDINARY ACTIVITIES	22,492	102	(1,845)
+PROFIT ON FIXED ASSETS AND EXTRAORDINARY INCOME	839	63	259
-LOSSES ON FIXED ASSETS AND EXTRAORDINARY EXPENSES	(1,495)	77	(355)
-CHANGES IN PROVISIONS FOR IMPAIRMENT	(260)	66	(1)
=PROFIT/(LOSS) BEFORE TAX	21,576	103	(1,942)
-INCOME TAX	(6,742)	94	-
=PROFIT/(LOSS) FOR THE YEAR	14,834	107	(1,942)

(*) These figures differ from those shown in the profit and loss account due to assignments of income and expenses between the activities.

This Appendix forma an integral part of note 25 to the annual accounts.

%	Other electricity activities	%	Other non-electricity activities	%	Total activities (*)	%
1	35,889	38	2,151	2	93,531	100
2	-	-	285	13	2,123	100
1	35,889	38	2,436	2	95,654	100
-	(34,757)	95	(243)	1	(36,448)	100
3	-	-	(843)	17	(4,859)	100
13	(7)	-	(276)	10	(2,805)	100
1	1,125	2	1,074	2	51,542	100
-	-	-	-	-	(61)	100
17	(17)	-	(703)	8	(9,046)	100
(2)	1,108	2	371	1	42,435	100
4	(2)	-	(15)	-	(16,856)	100
10	-	-	20	(5)	(407)	100
(7)	1,106	4	376	2	25,172	100
5	3	2	-	-	171	100
4	(43)	1	(94)	3	(3,348)	100
(8)	1,066	5	282	1	21,995	100
20	213	16	14	1	1,325	100
18	-	-	(103)	5	(1,953)	100
-	-	-	(135)	34	(396)	100
(9)	1,279	6	58	-	20,971	100
-	(401)	6	4	-	(7,139)	100
(14)	878	6	62	1	13,832	100

APPENDIX VIII-B
RED ELÉCTRICA DE ESPAÑA, S.A.
ANALYTICAL PROFIT AND LOSS ACCOUNT BY ACTIVITY FOR THE YEAR ENDED
31 DECEMBER 1999 EXPRESSED IN MILLIONS OF PESETAS

ITEMS	Transmission	%	Operation of the system
NET SALES AND SERVICES RENDERED	52,588	58	1,020
+OTHER OPERATING INCOME	1,490	90	91
=VALUE OF PRODUCTION	54,078	59	1,111
-MATERIALS CONSUMED	(1,428)	4	(13)
-EXTERNAL EXPENSES	(3,792)	86	(128)
-EXPENSES ASSIGNED FROM OTHER ACTIVITIES	(2,853)	85	(283)
=VALUE ADDED BY THE COMPANY	46,005	94	687
-OTHER EXPENSES	(19)	100	-
-PERSONNEL EXPENSES	(6,830)	75	(1,693)
=GROSS OPERATING PROFIT/(LOSS)	39,156	99	(1,006)
-AMORTISATION AND DEPRECIATION	(16,037)	96	(623)
-BAD DEBT WRITE-OFFS AND CHANGES IN TRADE PROVISIONS	(176)	80	(30)
=NET OPERATING PROFIT/(LOSS)	22,943	100	(1,659)
+FINANCIAL INCOME	153	58	3
-FINANCIAL EXPENSES	(3,555)	95	(75)
=PROFIT/(LOSS) ON ORDINARY ACTIVITIES	19,541	101	(1,731)
+PROFIT ON FIXED ASSETS AND EXTRAORDINARY INCOME	751	67	135
-LOSSES ON FIXED ASSETS AND EXTRAORDINARY EXPENSES	(935)	74	(270)
-CHANGES IN PROVISIONS FOR IMPAIRMENT	(193)	100	-
=PROFIT/(LOSS) BEFORE TAX	19,164	100	(1,866)
-INCOME TAX	(6,070)	92	-
=PROFIT/(LOSS) FOR THE YEAR	13,094	105	(1,866)

(*) These figures differ from those shown in the profit and loss account due to assignments of income and expenses between the activities.

This Appendix forms an integral part of note 25 to the annual accounts.

%	Other electricity activities	%	Other non-electricity activities	%	Total activities (*)	%
1	34,796	39	1,964	2	90,368	100
6	1	-	70	4	1,652	100
1	34,797	38	2,034	2	92,020	100
-	(33,637)	95	(202)	1	(35,280)	100
3	-	-	(468)	11	(4,388)	100
8	(1)	-	(234)	7	(3,371)	100
1	1,159	2	1,130	3	48,981	100
-	-	-	-	-	(19)	100
18	(18)	-	(623)	7	(9,164)	100
(3)	1,141	3	507	1	39,798	100
4	(7)	-	(1)	-	(16,668)	100
14	-	-	(14)	6	(220)	100
(7)	1,134	5	492	2	22,910	100
1	6	2	101	39	263	100
2	(130)	3	-	-	(3,760)	100
(9)	1,010	5	593	3	19,413	100
12	213	19	17	2	1,116	100
22	(9)	1	(35)	3	(1,249)	100
-	-	-	-	-	(193)	100
(10)	1,214	7	575	3	19,087	100
-	(387)	6	(129)	2	(6,586)	100
(15)	827	7	446	3	12,501	100

2000 DIRECTORS' REPORT

(TRANSLATION FROM THE ORIGINAL IN SPANISH)

In 2000 Red Eléctrica has commenced a process to transform the Company into a diversified business group, with the objective of promoting growth and creating value for the shareholders by developing a strategy aimed at rendering services of the highest quality to the electricity system and carrying out activities to optimise use of the Company's potential. During the year the Company, which was first listed on the stock exchange in 1999, has consolidated its position in the financial markets. The Company's shares have performed well throughout 2000 and have been included in the IBEX 35.

LEGAL FRAMEWORK

From a legal viewpoint, 2000 has seen the consolidation of the Spanish electricity market's new configuration, initiated through the approval of the Electricity Act (Law 54/1997). Sector regulations are described in detail in the notes to the annual accounts, but the most relevant for the Company in 2000 are as follows:

- Royal Decree 1955 of 1 December 2000 regulates transmission, distribution, commercialisation and supply activities, as well as the authorisation procedures for electrical energy installations. In addition to defining the transmission activity and the components of the grid, it also sets out the procedures for authorisation of new transmission facilities. This royal decree establishes the functions of the Company in its capacity as system operator and manager of the transmission grid, in areas relating to planning, quality of services, wastage, access and connection to the grid.
- Royal Decree 277 of 25 February 2000 establishes the procedures for the unbundling of activities related to the supply of electrical power. In accordance with this legislation, legal segregation of regulated activities and those related to other business is mandatory.

SIGNIFICANT EVENTS

The most significant issue in 2000 has been the start of a process to transform the Company into a diversified business group. During the year the Company has commenced unbundling its telecommunications and international activities through the incorporation of Red Eléctrica Telecomunicaciones, S.A. and by initiating the process to incorporate Red Eléctrica Internacional, S.A.

Within the context of the strategy to diversify into the telecommunications sector, the incorporation of Red

Eléctrica Telecomunicaciones, S.A. will enable the Company to market very high-capacity, high-quality, wide band circuits (carriers' carrier), as well as an extensive range of internet services (ASP, housing, hosting, connectivity, management of intranet networks and other items). In March 2000 Netco Redes, S.A. (NETCO), Retevisión and the Company subscribed an agreement which modified the original contract dated 4 June 1997 between the Company and NETCO to cede the use and rights of way for telecommunications. As a result, the exclusivity and non-competition clauses have been eliminated and the Company is entitled to use its infrastructure to render telecommunications services to third parties. Under the revised agreement, the Company is expressly permitted to cede its rights to a subsidiary. The Telecommunications Market Commission has also granted the Company an individual CI licence, which authorises it to install and operate a public telecommunications network. On 2 June 2000 Red Eléctrica presented a strategic plan for the development of the telecommunications business, and has complied with all the milestones and commitments set out therein. At the end of the year Red Eléctrica Telecomunicaciones, S.A. has 16 outlets.

As part of the international diversification strategy, in 2000 the Red Eléctrica del Sur, S.A. (REDESUR) consortium, led by Red Eléctrica, has continued work on the contract to improve the electrical systems in Southern Peru, awarded in 1999. In line with the deadlines and conditions established in the contract, on 26 October 2000 the first phase of the contract, the second Socabaya-Moquegua line, entered service.

Red Eléctrica has undertaken this diversification strategy together with its plans for expansion and ongoing improvement of the electricity transmission grid. In 2000 the Company has brought into service approximately 400 km of 400 kW power lines, 21 400kW bays and 5 200kW bays, as well as a 1,700 MVA transformer. The most significant of these facilities are as follows:

- The 400 kW power lines, Romica-Pinilla I and II, Pinilla-Rocamora I and II, and the second circuits of the Don Rodrigo-Pinar del Rey and Pinar del Rey-Tajo de la Encantada lines, as well as the access/exit connection in Cartelle of the Castrelo-Pazos de Borbén line. The Magallón 400 kW substation has been fitted with an 800 MVA transformer module and a turns ratio of 400/220 kW, while 400 kW and 220 kW substations have been installed at Puinilla and Cartelle, respectively.

These facilities have been designed to transmit power from the new wind parks in Andalusia, Galicia, Aragon and Castilla-La Mancha.

- Two 400/132 kV and 450 MVA autotransformers have been installed at the Fuencarral and Boimente substations to improve the infrastructure of the grid in Madrid and Galicia.

In 2000 the evolution of the key magnitudes of the electricity system have been marked by the sustained levels of high growth in electricity demand observed in the prior year. In general terms it has been a relatively dry year, although with extreme rainfall in certain months. The import of electrical power through international exchanges has dropped slightly, while the power acquired by the system from special generators has continued to increase. Details are as follows:

- Monthly, daily and hourly demand for electricity again broke records in January, with monthly demand of 17,838 GWh, daily demand of 663 GWh and hourly demand of 33,236 MW. Total demand for the year was 194,815 GWh, representing growth of 5.7% compared to the prior year.
- Gross electricity generation by domestic producers rose by 6.8% to 176,579 GWh.
- During 2000 there has been a decrease of 22.4% in international electricity exchanges, representing net imports of 4,440 GWh.
- In 2000 the system has incurred expenses of Ptas. 24,527 million for complementary services related to secondary and tertiary regulation, as well as emergency energy supplies. The average power of the assigned secondary regulation band was 1,190 MW, while actual use amounted to 1,667 GWh, with a total cost of Ptas. 13,505 million. Red Eléctrica has also managed a total of 1,129 GWh through power diversions to ensure that demand is covered and to re-establish the balance between generation and consumption, at a total cost to the system of Ptas. 2,223 million.

During the year the Company has also consolidated the process, initiated after being listed on the stock exchange in 1999, of orienting management of the business, structural organisation and activities towards the creation of value. The Company's shares were admitted to the IBEX 35 in mid-2000 and have achieved the second highest performance rating on this index. At 31 December 2000 the quotation price was Euros 10.05 per share, compared to Euros 6 per share at the 1999 year end. This improvement, together with the dividend distributed during 2000, represents a 71% return for shareholders.

In 2000 Red Eléctrica has obtained long-term credit ratings of AA- from Standard & Poor's and Aa3 from Moody's, and a short-term A-1+ rating from Standard & Poor's. These ratings are among the best achieved in Spain by private sector companies other than financial entities.

ANALYSIS OF RESULTS

Profit after tax for 2000 amounted to Ptas. 13,832 million, representing an increase of 10.65% on the prior year and accumulated annual growth of 13.2% over the period from 1997 to 2000. This sustained rise has resulted in improved rates of profitability on both shareholders' equity and assets, with ROE of 11.2% and ROA of 13.8%.

These results include profit on ordinary activities of Ptas. 21,995 million, representing a 13.3% increase of Ptas. 2,582 million compared to 1999.

- In 2000 the ordinary income of Red Eléctrica amounted to Ptas. 95,825 million, which is Ptas. 3,542 million more than in the prior year. This is mainly a consequence of the increase of 3.5% in revenues earned from transmission and operation of the system by Red Eléctrica. Sales of energy from contracts with Electricité de France (EDF) and Office National de l'Électricité of Morocco (ONE) are also 3.1% higher than in 1999, while income from other activities, mainly telecommunications, consultancy and engineering, are up 9.5%.
- The policy of ongoing improvements to internal efficiency implemented by the Company in recent years has been reflected in the cost savings obtained. Ordinary expenses, excluding the impact of higher energy purchases, have decreased from Ptas. 39,233 million in 1999 to Ptas. 39,073 million in 2000.

Operating expenses, net of energy purchases, have been Ptas. 35,725 million, representing a reduction of 3.2% in real terms.

Financial expenses have amounted to Ptas. 3,348 million, 11% lower than in 1999, mainly due to a reduction in borrowings. Cash flow before income tax has been Ptas. 37,815 million, representing 61.7% of total income if revenues from contracts for the import and export of power are excluded. The funds generated have enabled the Company to finance its investments and cut borrowings by Ptas. 6,893 million.

Extraordinary expenses have been higher than in 1999 due to full provision in 2000 for the estimated cost of the personnel restructuring plan approved during the year, which will affect control centre employees.

INVESTMENTS

During 2000 Red Eléctrica made total investments of Ptas. 18,004 million, Ptas. 10,545 million more than in 1999.

Of total investments, Ptas. 13,028 million has been spent on improvements to the transmission grid. Investments in

group and associated companies of Ptas. 3,997 million, net of share capital payments pending, relate to the contributions made to incorporate Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A.

RESEARCH, DEVELOPMENT AND TECHNOLOGICAL INNOVATION, AND ENVIRONMENTAL PROTECTION ACTIVITIES

RESEARCH, DEVELOPMENT AND TECHNOLOGICAL INNOVATION

In the framework of the research, development and technological innovation plan, which is designed to promote technological innovation in line with established corporate strategies and improve profitability, the Company has undertaken approximately 30 projects in 2000 with a cost of around Ptas. 180 million.

The most significant of the projects completed during the year are those related to the prevention of voltage gaps in transmission, measurement and monitoring techniques for power transformers, earthing resistance meters for power line supports, establishment of a standard representation format of databases for electrical power systems (Electronet) and development of a piezoelectric sensor for voltage measurement of high tension transmission grids (Trafelas). The Company has also commenced other projects, including the development of an instrument to forecast wind power, which will convert aeolian energy into a predictable product in a deregulated energy market, as well as a project for a prototype database for energy control systems based on new international standardisation requirements.

ENVIRONMENTAL PROTECTION

Red Eléctrica considers its commitment to the environment to be a strategic priority. This commitment is reflected in the

environmental policy implemented through the environmental management system, which was certified as complying with ISO 14001 standards in 1999. Red Eléctrica is the first Spanish company to have been awarded this certification for all its activities and work centres.

As part of this strategy, in 2000 the Company has published its first environmental declaration, in report format, with the objective of applying for inclusion in the EU Environmental Management Audit System (EMAS). During the year the Company has approved and published a code of best environmental practices for its employees.

Red Eléctrica has carried out environmental impact studies for all new installations projects since 1987. As a result of the modifications introduced by the Electricity Act, since 1999 the Company has submitted its power lines for environmental impact evaluation. In 2000 Red Eléctrica has obtained a favourable environmental impact evaluation for the 400 kW power line for access/exit to the Magallón substation on the La Serna-Peñaflor power line.

Also in 2000 Red Eléctrica has registered a nesting device for power line supports, developed through the Company's environmental research activities, with the Patents and Trademarks Offices.

OWN SHARES

At the annual general meeting held on 26 May 2000, the shareholders authorised the board of directors to acquire Red Eléctrica shares, as permitted by article 75 and related articles of the Spanish Companies Act.

The portfolio of own shares has fluctuated throughout the year in line with evolution of the market and to comply with the objective of creating a market for the shares and to provide liquidity to investors. In 2000 Red Eléctrica has acquired 1,249,524 own shares, with a total par value of Euros 2.5 million (approximately Ptas. 416 million), for Ptas. 2,179 million, while it has sold 646,870 own shares, with a total par value of Euros 1.3 million (approximately Ptas. 215 million), for Ptas. 1,132 million.

At 31 December 2000 own shares held by the Company represent 0.45% of the share capital and total 602,654 shares, with a global par value of Euros 1.2 million (approximately Ptas. 200 million) and a market value of Euros 6.1 million (approximately Ptas. 1,008 million).

The Company has complied with the requirements of article 75.2 and the second additional provision of the Spanish Companies Act, which establish that the par value of acquired shares listed on official secondary markets, together with those already held by the Company and its subsidiaries, must not exceed 5% of the share capital. The subsidiaries do not hold own shares or shares in the Company.



SUBSEQUENT EVENTS

Information on subsequent events is detailed in note 28 to the annual accounts.

Red Eléctrica Internacional, S.A. was incorporated on 23 February 2001 with a share capital of Euros 60 million (Ptas. 9,983 million). These shares have been fully subscribed

by the Company, which has paid up Euros 15 million (approximately Ptas. 2,495 million), of which approximately Euros 6 million (Ptas. 918 million) relate to the non-monetary contribution of the interest held in REDESUR.

OUTLOOK FOR THE FUTURE

The new companies are scheduled to be fully operational in 2001, thereby achieving consolidation of the Group and compliance with the strategy for diversification into international and telecommunications markets. This strategy will enable Red Eléctrica to increase business and profitability, with the objective of creating value for shareholders.

The investment programme for coming years relating to the start-up of the new business has been designed to have

a minimum impact on current levels of profitability. Accordingly, the Company will maintain the efficiency improvement plans implemented in recent years.

On the basis of the assumptions applied, the Group expects to make total investments in excess of Ptas. 43,000 million in 2001. Approximately 50% of this amount will be used in projects related to businesses linked to activities in the domestic electricity sector, while the remaining 50% will be applied to diversification activities.



RED ELÉCTRICA DE ESPAÑA, S.A.
PROPOSAL FOR DISTRIBUTION OF RESULTS
YEAR 2000

The profit for year 2000 came to 13,831,739,094 pesetas. The proposal for distribution of these profits formulated by the Company's Board of Directors, to be raised to the Shareholders' Meeting, entails the distribution of a gross dividend of 0.415 euros per share (approximately 69 pesetas per share) - 0.17 euros (approximately 28 pesetas) of which have been paid as an interim dividend to all shares entitled thereto - and the rest to voluntary Reserves, as follows:

Amount in Pesetas

TO VOLUNTARY RESERVES	4,511,069,422
TO DIVIDEND:	
INTERIM DIVIDEND	3,806,446,288
SUPPLEMENTARY DIVIDEND	
(CALCULATED ON TOTAL NO. OF SHARES)	5,514,223,384

TOTAL **13,831,739,094**

Rafael García de Diego Barber; Secretary of the Board of Directors of Red Eléctrica de España, S.A., by virtue of the powers vested in me under Article 109 of the Mercantile Registry Regulations, do hereby,

CERTIFY:

That the Annual Accounts, Directors' Report and Proposal for Distribution of Results contained hereunder are a true and accurate copy of the documents reviewed and approved by the Red Eléctrica de España, S.A. Board of Directors at its 6 March 2001 meeting and that a copy of each, signed by all the Directors, is in the custody of this Secretariat, pursuant to the provisions of Article 171.2 of the Consolidated Text of the Companies Act.

In witness whereof, I issue these presents at Madrid on this day 15th of March 2001.



Auditors

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Annual Accounts
(Translation from the original in Spanish)

To the Shareholders of
Red Eléctrica de España, S.A.

We have audited the annual accounts of Red Eléctrica de España, S.A. (the Company), which comprise the balance sheets at 31 December 2000 and 1999, the related statements of profit and loss for the years then ended and the notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards, which require examining, on a test basis, evidence supporting the amounts in the annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In our opinion, these annual accounts present fairly, in all material respects, the shareholders' equity and financial position of Red Eléctrica de España, S.A. at 31 December 2000 and 1999, and the results of its operations and source and application of funds for the years then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain applied on a consistent basis.

The accompanying directors' report for 2000 contains such explanations as the directors consider relevant to the situation of the Company, the evolution of its business and other matters, but is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2000. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the Company's audited accounting records.

Our audit was made for the purpose of forming an opinion on the individual annual accounts taken as a whole. The consolidated balance sheet and consolidated statement of profit and loss of Red Eléctrica de España, S.A. and its subsidiaries at 31 December 2000, shown in the accompanying Appendices III and IV, have been included to present information on the consolidated position of Red Eléctrica de España, S.A. and its subsidiaries and, consequently, do not form part of the individual annual accounts. The information set out in the above Appendices has been subject to the audit procedures applied in the examination of the individual annual accounts of the Company and its subsidiaries and, in our opinion, those aspects which are important to the individual annual accounts of the Company, taken as a whole, have been presented appropriately.

KPMG AUDITORES, S.L.

Valeriano Pérez Lozano

7 March 2001



KPMG Auditores S.L.
KPMG Auditores S.L. es miembro de
KPMG International, Sociedad Satis

Inscrita en el Registro Oficial de Auditores de Cuentas con el n.º 80100,
y en el Registro de Sociedades del Instituto de Auditores-Censores
Jurados de Cuentas con el n.º 90.
Reg. Merc. Madrid T. 11.901, F. 04, Sec. 8, H. M-180.007, Inscrip. 1.ª
N.I.F. B-76510153





CODE OF **GOOD GOVERNANCE**



CODE OF GOOD GOVERNANCE

As required by the Circular Letter dated 11/1998 and issued by the National Stock Exchange Commission (CNMV), the Board of Directors of Red Eléctrica de España, S.A. (hereinafter, the Company), during its meeting

held on the 6th of March 2001, and concerning the Code of Good Governance, resolved to include the following information in its Annual Report for 2000.

1. INFORMATION ON THE RULES OF GOVERNANCE APPLIED BY THE COMPANY

The Company is governed by its Articles of Association, which were approved in public deeds signed before the Madrid Notary, Manuel Rodríguez Marín, on the 16th March and 19th May 1999, as well as by the Board of Directors' Rules and Regulations, which were approved on the 8th of June 1999 and amended by the Board's meeting held on the 25th April 2000.

Furthermore, on 8th June 1999, the Board of Directors approved the new Rules and Regulations on In-house Practices for dealings in the Stock Exchange. These Rules and Regulations replaced the previous ones approved in 1994, which came into effect on 7th July 1999. These Rules and Regulations adjusted the previous ones to the requirements of the CNMV's Circular Letters regarding relevant, confidential and the Company's own shares transactions.

The purpose of the foregoing changes in the Rules and Regulations were intended to bring the Company in line with the new conditions arising from the Public Offering of its shares made by the Sociedad Estatal de Participaciones Industriales (Government Holding Company-SEPI) and the listing of the Company to quote on different Stock Exchanges starting on the 7th July 1999.

Moreover, the Board of Directors approval of the Rules and Regulations was intended for the Board of Directors to

meet the principles and recommendations stated in the Report drafted by the Special Commission responsible for drawing up the Code of Ethics to be applied to the Board of Directors (Code of Good Governance). The Code is aimed to determine the guiding principles, and the basic organisation and performance rules applicable to Directors. On the 25th April 2000, the mentioned Rules and Regulations were amended by the Board of Directors to allow the positions of Chairman of the Remunerations Commission and Secretary of the two Commissions that were set up could be filled by any of the members making up the mentioned Commissions and established the requirements for tracking trends of the employees holdings in the Company and any possible non-compliance of the legal restrictions applicable to such holdings, which are the responsibility of the Audits and Compliance Commission, and check the actual availability of the information required for implementing the mentioned tracking.

The overall supervision of the Company's management and generation, within legal boundaries, proper performance of contracts and compliance of ethical duties arising from a responsible business management, of the largest possible added value for the shareholders, are the main duties that the Board of Directors is bound to meet.

2. INFORMATION ABOUT ACCEPTANCE OF THE CODE RECOMMENDATIONS

Up to what point the recommendations stated in the Code of Good Governance have been implemented in the Company is described next in an orderly fashion:

RECOMMENDATION 1st. THE BOARD'S EMPOWERMENTS

The Board of Directors has been granted the empowerments defined in Articles 128 and 129 of the current Company Law as well as Article 23rd of the Company's Articles of Association.

Besides the empowerments which cannot be legally assigned, Article 5th of the Rules and Regulations applying to

the Board of Directors defines different general functions related to the supervision which the Board undertakes to exercise directly.

RECOMMENDATION 2nd. INDEPENDENCE

The Board of Directors of the Company encloses in their number four independent Directors. They have to meet the requirements set for this position which are to be persons of recognised prestige in the business world and free of any links to the management team or the substantial shareholders.

RECOMMENDATION 3RD. REPRESENTATIVE CAPACITY

The Board of Directors consists of an Executive Director and outside Directors who are either representatives of substantial shareholders or independent directors.

The Executive Director is the Chairman of the Board of Directors of the Company.

With regard to the outside Directors, the ratio of Directors who represent substantial holdings to independent Directors has to closely reflect the relationship

between the size of the substantial holdings versus the rest. There are four independent Directors and eight Directors who represent substantial holdings. The latter represent approximately 61.5% of all the Directors: the share capital owned by the shareholders amounts to 65.5%.

The makeup of the Board of Directors of the Company, as of 31st December 2000, and the nature and seniority of the Directors, is as follows:

Director	Appointed	Type
Pedro Mielgo Álvarez	30.09.97	Executive
Pedro Rivero Torre	29.01.85	Substantial holding
Rafael Miranda Robredo	27.06.88	Substantial holding
María Luisa Huidobro y Arreba	25.09.90	Independent
Victoriano Reinoso y Reino	18.12.90	Substantial holding
Javier Herrero Sorriqueta	30.11.93	Substantial holding
Juan Gurbindo Gutiérrez	03.02.98	Substantial holding
Antonio Garamendi Lecanda	20.07.99	Independent
Manuel Alves Torres	26.10.99	Substantial holding
Joaquim Clotet i Garriga	26.10.99	Independent
Pablo Isla Álvarez de Tejera	30.11.99	Independent
Germán González del Valle Chávarri	10.10.00	Substantial holding

RECOMMENDATION 4TH. PROPER NUMBER OF DIRECTORS

The Company Articles of Association state that the Board of Directors shall consist of a minimum of nine and a maximum of fifteen members to be appointed by the Annual General Meeting.

At the present time, the Board of Directors consists of thirteen members. As of the 31st December there is a vacant seat for a substantial shareholder. This number appears to be adequate and it seems there is no reason for changes.

RECOMMENDATION 5TH. DECENTRALISING FUNCTIONS

A number of empowerments are assigned to the Chairman of the Board of Directors, as defined in Article 23rd of the Company's Articles of Association. The Chairman is also bound to perform any duties that both Company Law or the Business and Companies Register Regulations have assigned to that position. The incumbent operates also as the chief representative of the Company. The Board of Directors has to be promptly notified of any corporate actions performed which might be of some significance for the Company.

RECOMMENDATIONS 6TH, 12TH, 14TH AND 23RD. APPLICABLE REGULATIONS, AVAILABILITY, ADVISORY DUTIES, RESEARCH AND CONTINUITY
 These Recommendations specify the duties to be performed

by Secretary of the Board of Directors; the compulsory resignation of Directors should they negatively affect the operation of the Board or the good name and reputation of the Company; the Directors' right to information and the duty to include information about the Rules that govern the Company in the Annual Public Report. In the latter case, an explanation must be shown regarding any rules which do not meet the Code of Good Governance. All the said recommendations have been added to the Board of Directors Rules and Regulations. (articles 12, 24, 26, 27 and 43).

RECOMMENDATION 7TH. EXECUTIVE COMMISSION

The provisions in this Recommendation have been incorporated in the Rules and Regulations which apply to the Board of Directors, although, so far, an Executive Commission has not been set up.

RECOMMENDATION 8TH. SELF-CONTROL

During the meeting held on the 30th November 1999, the Board of Directors resolved to establish both an Audit and Compliance Commission and a Remuneration Commission as provided for in the Board's own Rules and Regulations. It was also agreed that these Commissions would establish their own rules of operation. Their membership is as follows:

Audit and Compliance Commission:

Manuel Alves Torres
Joaquim Clotet i Garriga
Pedro Rivero Torre

Remunerations Commission:

Antonio Garamendi Lecanda
Pablo Isla Álvarez de Tejera
Pedro Mielgo Álvarez
Pedro Rivero Torre

The Audit and Compliance Commission has to perform basically a supporting role to the Board of Directors, through its supervision of the Company's management. It will propose the appointment of the external auditor and act as the liaison between the Board and this auditor. The Commission has to review, also, the Company's accounts and check the suitability and integrity of the in-house control systems, and the periodic financial information released to the markets. It must check compliance with the new Rules and Regulations on In-house Practices for dealings in the different stock exchanges and report any disciplinary measures affecting the Company's senior management. The trends of employees holdings in the Company must be tracked on a regular basis and reported to the Board, if any failure to comply with the legal and Articles of Association provisions is found.

On the other hand, the method to determine the annual remuneration of the Directors and amount of same as well as the criteria and schemes applied for senior management remuneration have to be submitted by the Remuneration Commission to the Board. The remuneration schemes have to be reviewed on a regular basis to ensure the full transparency of all the remunerations.

RECOMMENDATIONS 9TH, 10TH AND 11TH. DOCUMENTS, FREQUENCY AND APPOINTMENTS

Article 18th of the Board's Rules and Regulations provides that, unless it is deemed inadvisable for reasons of security, a duly drafted summary of any relevant information will be attached to the notice calling a meeting of the Board. The notice has to be issued at least three days in advance, as is currently the case, so as to allow the Directors to get themselves appropriately ready for the meetings.

The same article of the Rules and Regulations provides that the meetings of the Board will be held monthly and this has been duly complied with during the year. The possibility exists that the Chairman can call extraordinary meetings, if it is thought appropriate for the operation of the Company. Article 21st of the Articles of Association, as regards the frequency of such meetings, sets the minimum at one meeting per quarter.

All Directors are appointed in accordance with Company Law. For the appointment of external Directors, the Board's own Rules and Regulations recommend that the candidates should be persons of recognised ability, solvency and experience.

On the 10th October 2000, the Board of Directors appointed Germán González del Valle Chávarri to fill the seat of a substantial shareholder in lieu of Antonio Tuñón Álvarez. This was the only appointment during that year.

RECOMMENDATION 13TH. AGE LIMIT

Article 24 of the Board's own Rules and Regulations provides that, as a general rule and besides other reasons, Directors should resign when they reach the age of 70. Although the Chairman, Vice-Chairman, Managing Directors and the Secretaries of the Board have to resign as they reach 65, but might continue as Directors.

RECOMMENDATION 15TH. REMUNERATIONS

This Recommendation has been added to Article 28th of the Board's own Rules and Regulations. This Article points out the need for a moderate approach to remunerations, and links a significant portion of the remuneration to the Company's performance, as well as requires the transparency of remunerations.

The procedure to remunerate the members of the Board is defined in Article 20th of the Company's Articles of Association. The system for the Directors remuneration was approved during the Board of Directors' meeting held on the 8th February 2000. The procedure provides for part of the remuneration being based on the attendance and involvement in the Board and Commissions meetings, and establishes as well a variable remuneration based on the profits achieved by the Company.

The Remunerations Commission has to submit the procedure to determine the amounts of the annual remunerations payable to the Directors as well as the criteria for remuneration of the senior management services.

The Annual Report of the Company shows the amounts of the remunerations assigned to the Board of Directors.



RECOMMENDATIONS 16TH AND 17TH. LOYALTY OF BOTH DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Both recommendations deal with the general duties of diligence and loyalty to be shown by the Directors and conflicts of interest. These concepts have been developed in detail in articles 30th and 40th of the Board's own Rules and Regulations which show a specific list of the Directors' general duties, confidentiality clause, obligation of non-competition, conflicts of interest, the use of the Company's assets, non-public information, business opportunities, indirect operations, Director's duty with regard to information, transactions with substantial shareholders and the transparency principle.

As regards the loyalty requirement, which is applicable to substantial shareholders, the Board of Directors, in article 39th of the Board's own Rules and Regulations, has formally claimed the right to be informed about any relevant transaction of the Company with a substantial shareholder.

RECOMMENDATIONS 18TH AND 19TH. TRANSPARENCY AND INFORMATION SCOPE

These Recommendations refer to communications between the Company and its shareholders, especially institutional investors, and information that will be released to the different markets. The above Recommendations have been included in articles 41st (shareholders in general), 42nd (institutional shareholders) and 43rd (relations with the stock markets) of the Board's own Rules and Regulations.

Since 1999, the Company has been operating also an "Investors Relations Office", to handle their inquiries.

The resolution approved by the General Meeting of Shareholders held by the Company on the 26th May 2000 has to be highlighted. The Board of Directors of the Company is authorised by that resolution to carry out, as provided in article 75th and similar of the Company Law, whether directly or indirectly and as far as deemed convenient according to the situation, the derivative purchase

of Company's shares within the established limits and as long as the applicable legal requirements can be properly met. Moreover, the applicable procedure for dealings with the Company's own shares is established and an office is assigned responsibility for such transactions.

The own shares transactions, during 2000, are detailed in the Annual Report.

RECOMMENDATIONS 20TH AND 21ST. RELIABILITY OF THE INFORMATION AND AUDITORS IMPARTIAL STAND

Article 43rd of the Board's own Rules and Regulations states that any financial information which is made available to the stock exchanges must be based on the same principles, criteria and professional procedures as those applied to draw up the annual accounts and must be of the same order of reliability. In the latter regard, it must be checked also by the Audit and Compliance Commission.

The Company enforces habitually compliance with the criteria of Recommendation 21st that provides for the independence of the auditors based on the absolute and relative significance of the fees which they receive from the Company.

The remuneration paid during the year to external auditors by both the Company and businesses in its Group does not represent a significant percentage of the auditors firm total income.

It has been also determined that the fees which were paid for professional services, different from those rendered by the auditors, performed by companies which are directly or indirectly related to the auditors firm, are not significant and do not affect neither the strategy nor the overall planning of the Company.

RECOMMENDATION 22ND. QUALITY OF THE ACCOUNTING PROCESS

The Company is informed, on a regular basis, by the external auditors about its financial situation, and the reports in question are free of any reservations or qualifying statements as has been the case in 2000 and 1999.

CO-ORDINATION:

RED ELÉCTRICA Communications and International Relations Management.

PICTURES:

Javier Azurmendi, pages 28 lower frame, 33, 34 and 45.
Image Bank, small frame in the cover, pages 56 and 58.
Adam Lubroth, pages 6 and 14.
Óscar Masats, page 64.
Fernando Prados, pages 10, 17, 19, 28, 41, 48, 49, 59, 67, 70, 71, 72 y 76.
Proyex, page 62.
Juan Represa, page 61.
Guillermo R. Gordillo, page 19 top frame and page 34 lower frame.
Raúl Santamaría, full page cover picture and page 29.
Tiempo BBDO, page 30.

From RED ELÉCTRICA:

Ángel Andrés Martínez, pages 23 y 27.
José Antonio Celorrio, pages 24 top frame, 55 and 69.
Agapito García Gonzalo, page 67 lower frame.
Juan José González Camino, page 72 top frame.
Ascensión Jiménez, page 49 lower frame.
José Luis Mata, page 20 left.
Maribel Mendoza, page 16.

GRAPHIC DESIGN, IMAGES PROCESSING AND LAYOUT:

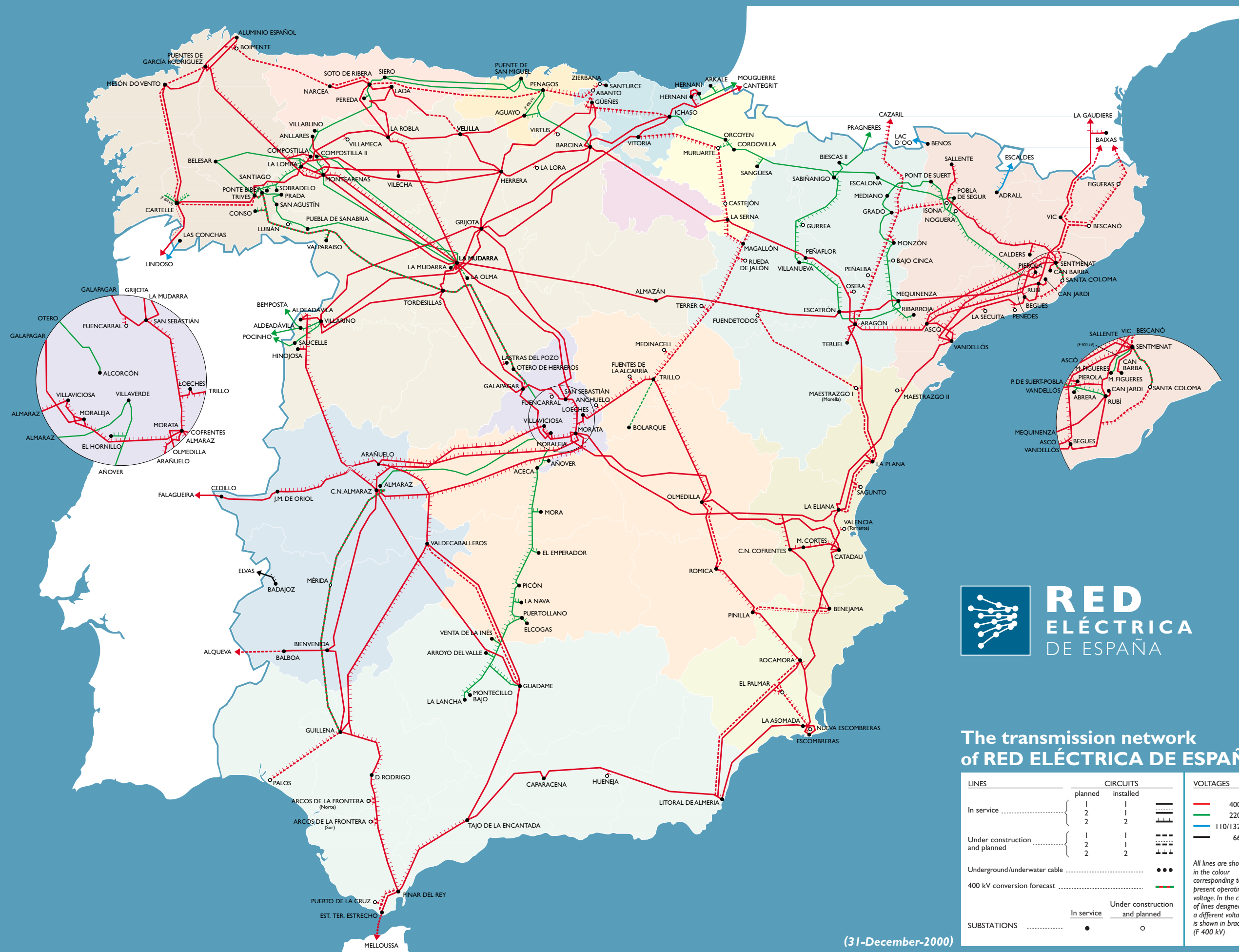
ZEN Comunicación Visual www.zen.es

PHOTOMECHANICS:

Siglo Digital

PRINTING:

TF Artes Gráficas



The transmission network of RED ELÉCTRICA DE ESPAÑA

LINES	CIRCUITS		VOLTAGES
	planned	installed	
In service	1	1	400 kV
	2	1	220 kV
	2	2	110/132 kV
Under construction and planned	1	1	400 kV
	2	1	220 kV
	2	2	110/132 kV
Underground/underwater cable			66 kV
400 kV conversion forecast			400 kV
SUBSTATIONS	In service	Under construction and planned	

All lines are shown in the colour corresponding to their present operating voltage. In the case of lines designed for a different voltage, this is shown in brackets (F 400 kV)

(31-December-2000)



RED ELÉCTRICA
DE ESPAÑA

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