



Corporate
Responsibility
Report 2003



RED ELÉCTRICA
DE ESPAÑA



2003 Corporate
Responsibility Report

Scope of the Corporate Responsibility Report

This document refers to the Red Eléctrica Group's commitment to its stakeholders. It explains the corporate action taken by the Group during 2003 in terms of three main aspects – economic*, social and environmental.

The report is being published for the second consecutive year. It was prepared in accordance with the 2002 guidelines for the preparation of sustainability reports as published by the Global Reporting Initiative (GRI) and it has been validated by AENOR. The validation certificate is attached at the end of the document.

The economic and environmental management data in the report have been independently audited and they are available in greater detail in the company's Annual Report and in the Environmental Report for 2003.

AENOR's validation report and any other clarification or additional information associated with this Corporate Responsibility Report, are available to the public via the contact information provided at the end of the document.

(*) For a definition of the term "economic" in this context, refer to the text of the GRI guide.



4	Corporate statement: Chairman's letter
8	Our company
16	Commitment to corporate responsibility
26	Economic responsibility
32	Social responsibility
34	COMMITMENT TO OUR PEOPLE
44	COMMITMENT TO SOCIETY
50	Environmental responsibility
60	Dialogue and transparency
66	GRI indicators
71	Certificate of validation

corporate statement: the Chairman's letter

Last year Red Eléctrica de España published its first Annual Social Responsibility Report. In the short space of time that has expired since then the questions generally associated with this aspect of business activity have acquired even more importance and become subject to greater public scrutiny and attention than ever.

Public interest in anything related to the basic values of society is a sign of vitality and should be encouraged. At Red Eléctrica this has been our point of view for many years and therefore, since our listing on the stock exchange in 1999, we have pursued a policy of responsibility and transparency, maintaining and developing the practice of good governance that was started much earlier.

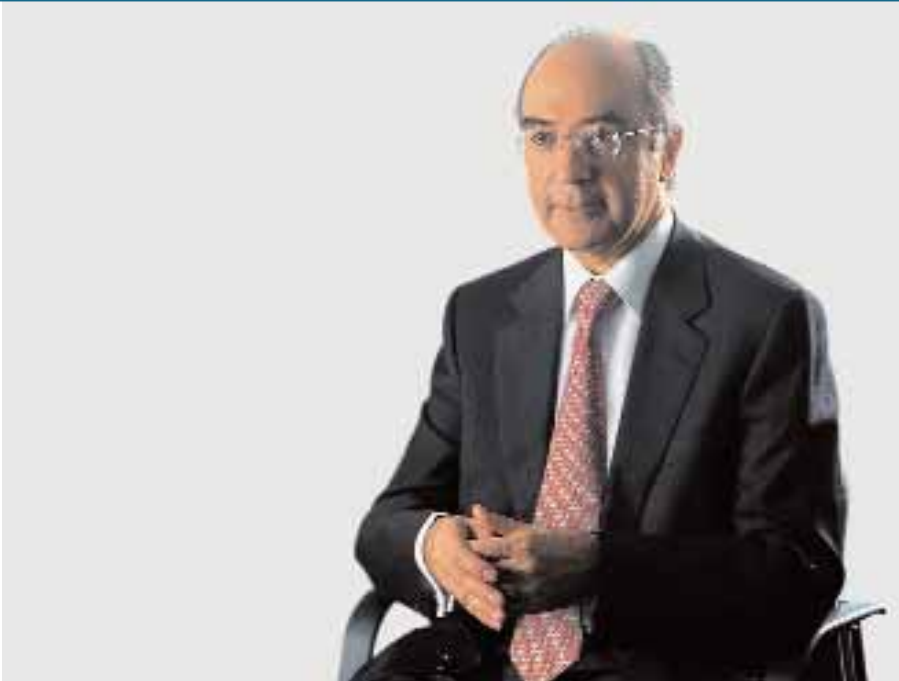
Economic development and well-being of our society depend on electricity much more than one might have imagined only a few years ago. Thus our business activity is of special relevance for society and requires us to act in a responsible manner.

With few exceptions, this line of reasoning can be easily extended to the activities of any company. In a world whose development and well-being depend essentially on the division of labour, specialisation, trade and information, practically everything is in the public interest – to a greater or lesser degree. It is therefore natural that everyone is interested in things that are of value to society.

How can this legitimate public interest be made compatible with the equally legitimate interests of people and companies? How can the different types of activity – whether business activity or otherwise – be integrated with growing respect for others? How can these actions be reported without revealing confidential details or treading on sensitive issues? How can all this be handled in a free society? These are the challenges now facing the concept of corporate responsibility.

Red Eléctrica's commitment to its stakeholders (shareholders, employees, customers, suppliers, related government agencies and society as a whole) has taken the form of increasingly broad and transparent information for the public, specific action and established systems and procedures. Where possible these efforts have been verified and checked by third parties.

Red Eléctrica started down this path many years ago. In 2002 it signed the nine principles of the UN Global Compact on human rights, employment standards and



protection of the environment. This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organisation's economic, environmental and social performance.

In the area of corporate governance, we have been one of the first companies to adapt its Articles of Association and Regulations to new legislation in the form of the Transparency of Listed Companies Act (Law 26/2003).

For this purpose an Extraordinary General Meeting was held on July 17th 2003 to reduce the number of directors to 11 with the intention of achieving greater capability and effectiveness. The meeting also approved new Regulations for the Board of Directors. This year we are publishing a new Corporate Governance Report. It deals in detail with all the relevant events arising during the year and goes beyond the legal reporting requirements.

Our economic and operational responsibility has led to the best financial results in the history of the company. Business efficiency is growing on all fronts and in all international comparisons the quality ratings are excellent. All this points to a systematic and positive trend.

The risk management system has been extended to cover all facets of Group activities. All these activities are linked to our corporate responsibility management system, they complement it and they develop it further.

The supplier relations system now allows a growing number of firms to be evaluated and qualified. It has increased the possibilities of doing business for both parties and established service level agreements with the more important companies. In addition, we ask our suppliers to join us in ensuring respect for people, society and the environment, in any work that they carry out in our name.

Attention to employees in 2003 took various forms. These included the signing of a new collective employees agreement for five years and the adaptation of the company's organisation following the acquisition of transmission assets from other electricity com-

panies. This adjustment entails the hiring of an important number of new staff in the coming years. Most of them will require training for their new responsibilities. Other activities in this area included career development, technical training and management training programmes, the establishment of flexible social benefits where employees can choose a package that matches their personal or family circumstances, the reconciliation of work with family life and constant improvement in the prevention of risks and in occupational health.

We continue to co-operate with universities on the development of educational programmes. These programmes include the employment of future graduates, lectures on electrical energy matters on, the environment, on energy economics and on business administration, or joint projects in areas of interest.

We continue to actively protect the environment. Apart from our normal everyday activities, this also refers to environment impact studies for all new facilities and specific action to improve the level of environmental protection. This is particularly true in Spain where the percentage of land subject to some type of environmental protection is the highest in the European Union. The Institute of Auditors and the Spanish Accounting and Business Administration Association awarded a prize to Red Eléctrica for the best environmental report in 2003. This award recognises the principles followed in the preparation of the report and the quality of the work that goes into the preparation of such information.

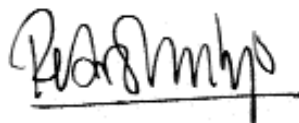
The purpose of our participation in international organisations is to be aware of developments and trends in the regulatory environment as well as the position of the various interest groups. We also try to promote knowledge of the problems faced by electricity systems in the countries and economic areas where we operate. Furthermore we contribute with proposals on technical standards and regulations at the domestic and international levels.

In regard to public scrutiny and relations with the various parties interested in the Company's activities, 2003 witnessed an extraordinary level of activity. We distributed more than 50,000 copies of different printed publications and more than 100,000 copies of electronic publications. There were 8,000 contacts with individual shareholders and more than 100 meetings with institutional investors. A virtual press room was launched and all the existing communication tools were improved. Independent recognition for the second year running of the quality of our financial information on the Internet, confirms the effectiveness of our work in this important field. The web site received more than 350,000 visits – more than three times the volume three years ago.

These results are the fruit of continuous work and improvement. We believe that a clear vision and anticipation are the keys to success.

It is not by chance that we are the first European electricity company to obtain successive certificates for its Quality System (under the ISO 9001 Standard), for our Environmental Management System (under the ISO 14001), for our Occupational Health and Safety System (under the OHSAS 18001 Standard) and finally, the European Gold Seal for Business Excellence. The latter recognition is of special importance. It makes us the only European electricity company that has achieved this level of results and excellence.

These achievements are important because they confirm that we are on the right road and above all they are a powerful incentive to maintain a leading position in our dealings with society which, in the final analysis, is who we serve.

A handwritten signature in black ink, appearing to read 'Pedro Mielgo Álvarez', written over a horizontal line.

Pedro Mielgo Álvarez
Chairman of RED ELÉCTRICA DE ESPAÑA

Red Eléctrica provides society with an essential service.

It ensures overall performance of the Spanish electricity system through two basic activities – transmission of high-voltage electricity and operation of the electricity system. These functions are intimately related and inseparable. Together they define the function of TSO (Transmission System Operator) – as it is known in international circles



Red Eléctrica is the owner of practically all the Spanish high-voltage electricity network. It is one of the most important electricity transmission companies in the world by size and especially in terms of efficiency and quality. Its facilities, management systems and its highly-qualified employees means that the transmission grid is reliable, safe and has appropriate capacity. The indices of availability and service quality rank highly at international level.

These qualities allow it to operate the electricity system in accordance with strict standards of responsibility, efficiency and transparency. It can thus respond appropriately to the growing demands that face the Spanish electricity system as a result of the increase in consumption in recent years.

Key figures

	2001	2002*	2003*		2001	2002	2003
<i>millions of euros</i> ADJUSTED SALES (GROUP)	380.9	459.9	686.7	<i>number of employees</i> WORKFORCE (GROUP)	1,009	1,168	1,280
<i>millions of euros</i> PROFIT AFTER TAX (GROUP)	91.1	99.9	115.8	<i>km of circuit</i> POWER LINES*	19,240	27,005	27,538
<i>millions of euros</i> CASH-FLOW AFTER TAX (GROUP)	195.0	224.7	320.9	<i>circuit ends</i> SUBSTATIONS*	717	1,730	1,799
<i>millions of euros</i> INVESTMENTS (GROUP)	244.8	1,158.7	778.3	<i>km of optic fibre</i> TELECOMMUNICATIONS NETWORK	8,500	10,000	13,000

(*) The 2002 and 2003 figures reflect the acquisition of transmission assets from utility companies

For this purpose Red Eléctrica uses the latest technology, it develops valuable technical applications in-house, it conducts a continuous R&D&I programme and it has important knowledge of the sector due to its role and leadership in international organisations and programmes.

All corporate processes and services are carried out under certifiable management systems (quality, environment and occupational health and safety). These are integrated and duly recognised in accordance with the most demanding international standards (ISO 9001, ISO 14001 and OHSAS 18001).



For more than five years the European Model of Business Excellence has been the main reference point in the work of consolidation and improvement and in the quest for leadership in services provided to the electricity system and in the satisfaction of customers and other stakeholders. In 2003 Red Eléctrica received the Gold Seal of Business Excellence under the European Model of Excellence.

Red Eléctrica's flotation in 1999 marked the start of a new phase – as a private company. At the present time the company is listed on the four Spanish stock exchanges and forms part of the Ibex 35 index.

Red Eléctrica is the first electricity company to obtain the following certificates: ISO 9001, ISO 14001, OHSAS 18001 and the Gold Seal of Business Excellence

Red Eléctrica guarantees the continuity and reliability of the Spanish electricity supply at all times

Red Eléctrica's activities

Red Eléctrica was created in 1985 to manage the unified operation of the Spanish electricity system. It was the first company in the world set up exclusively to handle transmission and system operation functions. The Electricity Sector Act of 1997 confirmed Red Eléctrica's role as the key player in system operation. This act was an important step in deregulation of the electricity system and opened the way to competition. Under the new regulatory framework Red Eléctrica handles transmission and operates the system.



Red Eléctrica guarantees equal access to the network by all relevant parties

Main activities

As the company responsible for transmission and for management of the transmission grid, Red Eléctrica is responsible for development and expansion of the high-voltage electricity network. It is also responsible for carrying out maintenance and improvements in accordance with uniform and coherent criteria and for managing the transit of electricity between foreign systems and the Spanish electricity system. It also guarantees access to the network by third parties so that all agents in the sector can use it under a system of equality.

As operator of the Spanish electricity system, Red Eléctrica is responsible for ensuring the continuity and reliability of the electricity supply and for ensuring co-ordination of generation and transmission at any moment in time throughout the year.



We managed a network of more than 27,000 km

Red Eléctrica is one of the most important electricity transmission companies in the world in terms of size, efficiency and quality

Royal Decree 1747 of December 19th 2003 extended Red Eléctrica's duties to operate and develop the transmission grid, to include the electricity systems on the Spanish islands and other non-mainland areas of Spain.

These activities make up Red Eléctrica's main business and in 2003 they accounted for 98% of its adjusted consolidated turnover.

Facilities

The acquisition of transmission assets from the utility companies meant an important jump in terms of quality and quantity. Following this acquisition the company's assets at the end of 2003 totalled 27,538 km of high-voltage power lines, 1,799 circuit ends and 31,616 MVA of transformer capacity. This is 86% of the total Spanish high-voltage electricity transmission network. It also has an electricity control centre that is constantly managing and supervising the operation of the Spanish electricity system.

Other activities

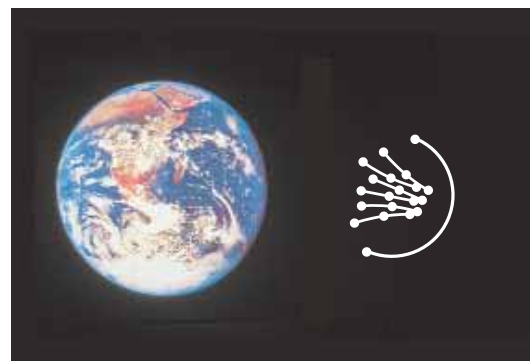
The experience acquired at national level allows the company to undertake other business activities that complement its main functions (ie, transmission and operation of the Spanish electricity system). This is done in order to take maximum advantage of its experience and of its technical and financial capacity.

These activities are conducted through our subsidiaries and they focus on telecommunication services and, at international level, on investments in transmission networks and consulting services for the power sector.

Telecommunication services

This activity is conducted through Red Eléctrica Telecomunicaciones which operates under the trade name “*albura*”. Its activities are mainly focused on transmission and capacity business with the provision of broadband services and ADSL services for wholesalers. The current optic fibre network is more than 13,000 km long.

We have an optic fibre network of more than 13,000 km



International investment and consulting services

Our subsidiary, Red Eléctrica Internacional, was set up to handle these activities. It channels and supports the Group’s business abroad in accordance with criteria of profitability and control of the risks assumed.

The business of investing in transmission grids in other countries commenced in 1999 with the incorporation of Red Eléctrica del Sur S.A. (REDESUR) in Peru. Red Eléctrica holds a 30% interest in this company. At the present time it has a total of 530 km of 220 kV circuit and four substations, representing a 16% market share. The acquisition of a Bolivian company in 2002, Transportadora de Electricidad S.A. (TDE), boosted international expansion and significantly strengthened the Red Eléctrica Group’s position in the Andes area. TDE is the owner and operator of the Bolivian domestic interconnected system, which covers 85% of the domestic market. It holds an indefinite licence and owns approximately 2,000 km of power lines, 19 substations and an electricity control centre.

The consulting services are focused on highly-specialised technical and business consulting in areas in which the Red Eléctrica Group has appropriate credentials and competitive advantages. This business is mainly being pursued in North Africa and Eastern Europe.

Bolivia and Peru are our principal international achievements





Business excellence

As a service-oriented company with a commitment to society, Red Eléctrica has focused its management approach on ensuring maximum satisfaction of all stakeholders: customers, shareholders, related government agencies, employees, suppliers and society in general.

Therefore since 1999 Red Eléctrica conducts all its business activities with the goal of achieving *management excellence*. It uses the EFQM's European model of excellence as its main point of reference. This approach is backed by the continuous and integrated efforts of the company's human, technical and financial resources. The goal is to maintain a position of leadership among the world's electricity transmission companies and system operators.

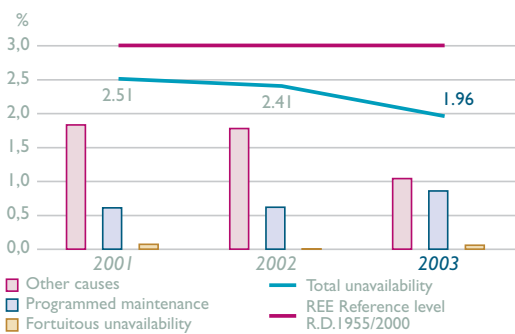
The service quality indicators rank highly in international comparisons

The degree of achievement of these goals can be seen in the key indicators, in the external evaluation of the systems, in growing external recognition, in the prizes obtained and in other areas.

Excellence in service to society

Society's perception of Red Eléctrica's activities is mainly based on the quality of supply provided through the electricity system. The service quality of the transmission grid is measured by the supply interruptions or outages caused by events in the grid and by the availability of the installations of which it is composed.

Unavailability rate



Service quality indicators

	2001	2002	2003
Energy not supplied ENS (MWh)			
RED ELÉCTRICA (PRIOR FACILITIES)	107	0	30.8
RED ELÉCTRICA (ACQUIRED FACILITIES)*	-	-	329.6*
Average interruption time AIT (minutes)			
RED ELÉCTRICA (PRIOR FACILITIES)	0.27	0.00	0.07
RED ELÉCTRICA (ACQUIRED FACILITIES)*	-	-	0.77
REFERENCE LEVEL (RD. 1955/2000)	15	15	15

AIT = ENS / Average system power

(*) Figures from April onwards, the date of incorporating the facilities acquired from other electricity companies



The service quality indicators (grid availability, energy not supplied and average interruption time) at Red Eléctrica have performed well in recent years and exceed the requirements set in Spanish legislation by a wide margin.

Excellence in management

Red Eléctrica believes it is essential to conduct evaluations using independent experts or entities to learn the real effectiveness of its Management Excellence System.

Therefore this system is periodically assessed internally and externally in accordance with the methodology of the European Foundation for Quality Management

(EFQM), which is considered to be the most suitable one for the company's activities. For this purpose a Red Eléctrica excellence report has been drawn up. Among other items it contains information related to stakeholders.

In 2003 improvements made to the management excellence system helped it to improve its 2001 evaluation by 20%. Red Eléctrica is the first Spanish electricity company to obtain the Gold Seal of Business Excellence granted by the Quality Management Club (with more than 500 points). This distinction entitles it to use the EFQM "Recognised for Excellence" label.

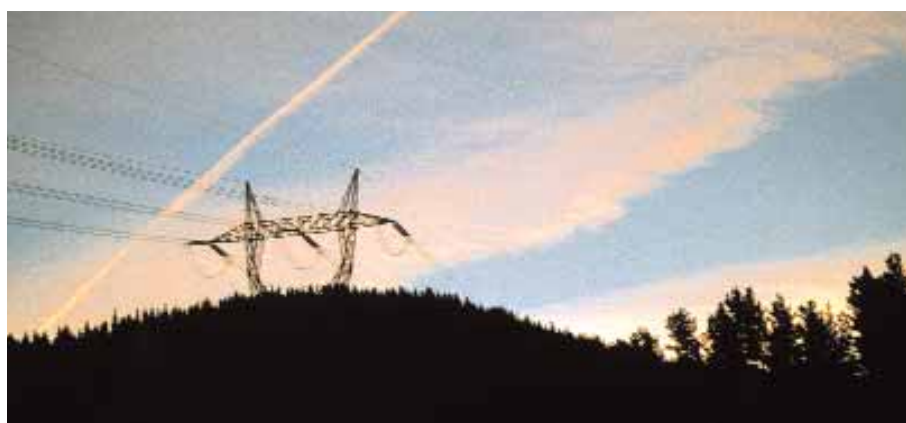
With the Gold Seal for Excellence, Red Eléctrica has joined a group of 11 Spanish companies that have achieved this distinction. In terms of recognition by the EFQM, it is a member of the vanguard group which comprises 26 leading companies in Europe. Red Eléctrica is the only electricity company in the group.

Based on its business management excellence, Red Eléctrica entered the Prince Felipe Prize for Business Excellence and in 2002 and 2003 it was a finalist in the industrial quality section. The company was thus able to strengthen its position as one noted for its quality and for the extent, value and transparency of its technical management as well as for its efforts in improving its results and external image.

Red Eléctrica is the first European electricity company to obtain more than 500 points under the EFQM model



Our strategy is focused on achieving excellence in the provision of our services





Other forms of recognition include the renewal of the *Madrid Excelente* quality mark following the corresponding review and checking.

Red Eléctrica's management demonstrates its commitment to excellence through its presence in various organisations and forums related to this field of activity. For example, the Chairman of the Red Eléctrica Group is a member of the governing council of the Quality Management Club. Other managers are members of the governing board of AENOR and of its committees and working groups and others are members of the Spanish Quality Association. Until 2003 Red Eléctrica participated actively in the Andalucía Quality Prizes, in the European Quality Seminars, in the 1st Excellence Conference of the Madrid Community and in numerous other events and university courses.

At Red Eléctrica we believe it is essential to set up quality management systems in all business units

With the goal of applying its management excellence to processes and activities, in 2003 Red Eléctrica organised a total of 16 internal recycling courses on the EFQM excellence model and these were attended by 25% of the workforce.

Excellence in quality

As stated in the company's business plan, it is considered essential to set up quality management systems in all business units and for all products and services.

Therefore Red Eléctrica has a global system of quality management, certified according to the ISO 9001:2000 standard since 1996. It has progressively increased the scope of this system to cover all areas of the organisation.

Continuous improvement of the system has helped to achieve an extremely systematic approach to activities and appropriate control through process management with the associated metrics and indicators. Each year an average of ten process improvements are carried out to ensure the cyclical and continuous analysis and improvement of the organisation in the medium term.



The efforts made in recent years to improve the internal efficiency of the business units and company processes is reflected in the satisfaction surveys of internal clients. According to the result of the last survey, the average service quality provided by the different business units was 7.41 (out of 10 points). This was 6% better than the result in the last survey in 2000.

It also carries out activities with the same aim at the companies in which it has an interest. In accordance with the Corporate Quality Management Policy an evaluation was conducted on the status of quality at its subsidiaries (Red Eléctrica Internacional, Red Eléctrica Telecomunicaciones, REDESUR and TDE). The development of their quality management systems is co-ordinated through three-year plans.

The improvement in internal efficiency has increased the satisfaction of internal customers by 6%



This type of co-operation and co-ordination between the parent company and the subsidiaries obtained its first result in the certification of the quality system at Red Eléctrica Internacional for consulting work and professional services. The good results obtained in this certificate, which was implemented in 11 months, have led to the same approach being applied at Red Eléctrica Telecomunicaciones and at REDESUR. These companies expect to obtain corresponding ISO 9001 certificates in 2004. The company's subsidiary in Bolivia, TDE, is targeting its improvements on achieving the Fundibeq Excellence Prize. In 2001 it was a finalist for this prize, obtaining more than 500 points.

TDE was a finalist in the Fundibeq Excellence Prize after obtaining more than 500 points





commitment to corporate responsibility

At Red Eléctrica we believe it is both necessary and possible to reconcile business activity and economic development with a socially responsible commitment





Corporate Responsibility

Red Eléctrica believes that it is both necessary and possible to reconcile business activity and economic development with a socially responsible commitment. This conviction is not new at Red Eléctrica. It has always adopted a responsible attitude in the execution of its activities. However, at this time it wishes to declare this publicly and show that it can play a positive role in economic development, in active respect for its employees and in conservation of the environment.

Corporate responsibility has become one of the inescapable strategic concerns of our activity. This commitment can be seen in the adoption of recommendations and guidelines from domestic and international initiatives, in the field of social responsibility and good governance, and in the adoption of policies and management systems in the economic, social and environmental areas.

Corporate values

CREATION OF VALUE FOR SHAREHOLDERS _____
 COMMITMENT TO SOCIETY AND THE ENVIRONMENT _____
 ORGANISATION BASED ON PEOPLE _____

CUSTOMER FOCUS _____
 QUALITY AND EFFICIENCY _____
 DELEGATION _____
 TEAMWORK _____

PROACTIVE AND ANTICIPATION _____
 FLEXIBILITY AND ADAPTATION _____
 INTEGRITY AND TRANSPARENCY _____
 PRIDE IN THE GROUP _____

Global Compact

In 2002 Red Eléctrica signed the nine principles of the UN Global Compact on human rights, employment conditions and the preservation of the environment. It is firmly committed to supporting these principles and to promoting them in the areas where it operates.



Principles of the Global Compact

Human rights

- Support and respect for internationally proclaimed human rights.
- Ensure that businesses are not complicit in human rights abuses.

Labour standards

- Uphold the freedom of association and effective recognition of the right to collective bargaining.
- Elimination of all forms of force and compulsory labour.
- Effective abolition of child labour.
- Elimination of discrimination in respect of employment and occupation.

Environment

- Support for a precautionary approach to environmental challenges.
- Initiatives to promote greater environmental responsibility.
- Encourage the development and diffusion of environmentally friendly technologies.

As a result of this commitment, Red Eléctrica has ensured that all its employees are aware of these principles. During the year it participated in meetings organised by the Compact in Spain. These meetings allowed the companies to share their experience in implementing the nine principles.

Red Eléctrica accepts and supports the nine principles of the Global Compact

Code of governance for the sustainable company

Red Eléctrica was a member of the governing board for “Code of governance for the sustainable company”. This forum was organised by IESE, the Entorno Foundation and Pricewaterhouse Coopers. It brought together personalities of recognised prestige from the business, academic and social areas and from the administration, with the goal of developing a tool to help the boards of Spanish companies incorporate the principles of sustainable development in their activities and decisions.



The Entorno Foundation

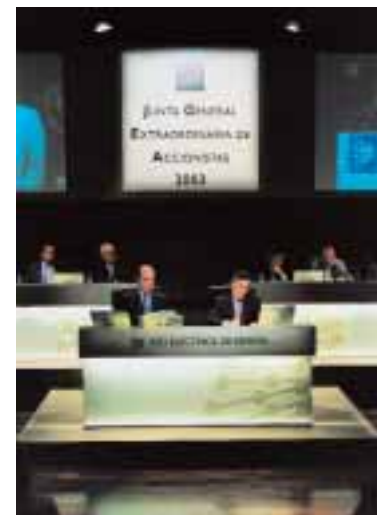
Red Eléctrica has an agreement with the Entorno Foundation to support environmental improvement at the company. This entails training, information and research in co-operation with the business world.

Sustainability Excellence Club

After a process of evaluation, Red Eléctrica has become a member of the Sustainability Excellence Club. This club was set up in order to promote sustainable development in the business sector and to provide a platform for sharing responsible practices. It is attended by leading companies in sustainability management in Spain.

Corporate Governance

Since privatisation Red Eléctrica is constantly concerned and gives priority to adopting the best practices of Corporate Governance. This is not restricted to complying with the letter of the law or with the most prevalent recommendations on this subject. It goes further, implementing measures and procedures which go to the core of the most important questions that concern shareholders, the financial community and society as a whole.



Red Eléctrica was one of the first companies to introduce corporate governance in their Articles of Association and Regulations

The Corporate Governance Report, which is included in the company's Annual Report and is available on the web site (www.ree.es), provides abundant information on the details of Red Eléctrica's corporate governance and the recommendations and initiatives in this regard adopted during 2003.

Areas of the company involved in corporate governance
Annual General Meeting

Ultimate control of the company resides in the Annual General Shareholders' Meeting (AGM) when it is duly and legally assembled. Its resolutions, adopted in accordance with the established procedures and Articles of Association, are binding on all shareholders without detriment to the legal right of separation. The right of shareholders to information and to attend and participate in meetings is defined in the Articles of Association and in the new rules for conducting the AGM.



Red Eléctrica's Code of Corporate Governance

- ARTICLES OF ASSOCIATION
 - REGULATIONS OF THE GENERAL Shareholders' MEETING
 - CODE OF INTERNAL CONDUCT FOR THE SECURITIES MARKET
 - REGULATIONS OF THE BOARD OF DIRECTORS
- All these documents are available on the company's web site: www.ree.es

Red Eléctrica has a smaller, active and efficient Board of Directors comprising eleven members

These Regulations of the General Shareholders' Meeting were approved on July 17th 2003, they have been recorded at the Mercantile Register and published on the company's web site (www.ree.es). Following the most widely-accepted recommendations in these matters, the rules are based on Law 26 of July 17th 2003 which incorporated the Aldama Report into Spanish company law. This affects the rights of shareholders and affects the rules governing the organisation and actions of the AGM.

The company's web site has become an important channel of communication with shareholders and investors. Furthermore the rules for the AGM provide for maximum participation by shareholders in matters of their interest (the right of attendance, calling of meetings, adding items and proposals to the meeting agenda, enquiries and requests for information and votes).

Board of Directors

The company has elected a smaller, active and efficient Board of Directors consisting of eleven members. There are five independent external Directors, five external Directors representing founders and one executive Director. These reflect the current range of shareholders in an adequate fashion and follow the recommendations of Corporate Governance.



The composition, organisation, functions and duties of the Board are contained in the new Regulations of the Board of Directors, dated November 18th 2003. These modify the previous rules from 1999. They have been notified to the stock exchange commission, recorded at the mercantile register and published on the company's web site (www.ree.es).

In accordance with the recommendations in the Aldama Report, no specific limit has been placed on the mandate of independent Directors. The general rule of terms of four years applies to all Directors, who can be indefinitely re-elected. Furthermore the rules establish that dismissal of external Directors representing founders or independent Directors cannot be proposed prior to the period for which they were appointed except in the case of sufficient grounds and following a report to that effect by the appointments and remuneration committee. The maximum age for holding the position of Director has been fixed at 70 years.

Red Eléctrica is constantly concerned with and gives priority to the adoption of best practices of corporate governance



During 2003 the Board of Directors held eighteen (18) meetings, which were attended by the Chairman.

Audit Committee

The Audit Committee consists of three members: two independent Directors and one Director representing founders. An independent Director chairs the committee. In 2003 the audit committee met 7 times.

Independent Directors are a majority in the committees of the Board of Directors

Appointments and Remuneration Committee

In line with the recommendations of the report by the special commission to encourage transparency and safety in the markets and at listed companies (the Aldama Report), in November 2003 the company set up an appointments and remuneration committee. However, prior to that date and since 1999 these functions were partially performed by another committee.

The appointments and remuneration committee has four members: one executive Director; two independent Directors and one Director representing founders. An independent Director chairs the committee.





Transparent information regarding the remuneration of Directors

The committee meets as often as necessary to carry out its functions and at least every three months. Meetings can also be convened by its chairman or requested by two members. It must also meet when the Board of Directors or its Chairman requests a report or the adoption of resolutions.

Remuneration of Directors

In accordance with legislation and recent corporate governance practice, the Annual Report contains a breakdown of Directors' remuneration by item (salary, board attendance, work on committees and payments linked to results) as well as by type of Director. In addition itemised remuneration is shown for the company's Directors, for membership of the boards of other group companies (see the 2003 Corporate Governance Report).

Contact with external auditors

Contact between the Board of Directors and the company's external auditors is channelled through the audit committee. The Board of Directors must abstain from hiring a firm of auditors if the expected fees for all concepts will be greater than ten percent of its total income in the previous year. Furthermore, each year it must report publicly the overall fees paid by the company to the auditors for services other than auditing. In 2003 the fees paid to the auditors, KPMG, for services other than auditing, came to 620,000 euros.



POLICY	Unit responsible	POLICY	Unit responsible
CO-ORDINATION, TRACKING AND CONTROL OF SERVICES RENDERED TO GROUP COMPANIES	Technical Adviser to the Chairman	MANAGEMENT OF HUMAN RESOURCES	Corporate HR Dept.
MAINTENANCE	Maintenance Dept.	ACCOUNTING AND FINANCE	Corporate Acc. and Finance Dept.
ENGINEERING AND CONSTRUCTION	Engineering and Construction Dept.	INVESTMENTS	Corporate Acc. and Finance Dept.
OPERATIONS	Operations Dept.	PROCUREMENT	Corporate Acc. and Finance Dept.

The risk management system covers all group activities

Risk management

The Red Eléctrica Group employs a risk control system that covers internal process risk and the risk in the environment in which it works. The purpose of this system is to unify the processes of identifying, assessing, managing and reporting risk. It covers all group activities in accordance with the defined risk profile in each case.

The Board of Directors is responsible for defining the level of control and the risk profile for Red Eléctrica and its subsidiaries. The Board establishes the company's negotiating strategy and ensures the implementation of systems and procedures as necessary for the management of all risks.

The management committee monitors risk and establishes appropriate measures to ensure suitable control and management. The risk control function is concentrated in a unit that reports directly to the Chairman.

Strategy and management systems

“The best strategy for achieving efficient management of a company starts with in-depth knowledge of the business environment, the needs and expectations of stakeholders, of market trends and of the capacity, circumstances and skills of the company itself. A management style that is self-critical, comprehensive, profound and integrated with strategy is the most important factor in the survival and growth of companies.”



Efficient management of a company starts with in-depth knowledge of its business environment

This message was transmitted by Senior Management to all the company's executives in 2000. It sowed the seeds of a new strategic management process for the business. Directed by the Management Committee this process defined the elements necessary to gather, integrate and assign priority to the requirements of stakeholders. It determined the demands arising from legislation and from markets, as well as the critical factors that facilitate a culture for success, the essential tools for control and monitoring of systems and the means of achieving targets.

The cultural values of Red Eléctrica are based on business excellence and actions that help to achieve the company's vision and strategy.

Values and ethical behaviour must be supported and respected as key factors in business success. The code of conduct, signed by every manager of the company, implies

POLICY	Unit responsible	POLICY	Unit responsible
MANAGEMENT OF ASSET RISK	Corporate Accounting and Finance Dept.	EXTERNAL COMMUNICATIONS	Comm. and Institutional Relations Dept.
QUALITY MANAGEMENT	Technical Adviser to the Chairman	INSTITUTIONAL RELATIONS	Comm. and Institutional Relations Dept.
ENVIRONMENTAL	Technology and the Environment Dept.	CORPORATE IMAGE	Communications and Institutional Relations Dept.
OCCUPATIONAL HEALTH AND SAFETY	Corporate HR Dept.	CORPORATE RESPONSIBILITY	Comm. and Institutional Relations Dept.
		CONSULTING SERVICES	Red Eléctrica Internacional

a commitment to act in an exemplary and ethical manner. For example, in terms of institutional relations there is a commitment to maintain absolute political neutrality.

The Company Plan, which is the basis of strategic management, contains an action known as “Corporate Governance and Corporate Social Responsibility” as part of the strategy of focusing the organisation on the creation of value. This strategic line of action defines Red Eléctrica's commitment in this area.

Values and ethical behaviour are the basis of our actions

The next strategic level contains the policies. Their goal is to define the guidelines in each area where the company operates. Each policy is associated with a manager responsible for its design, deployment and implementation via the corresponding management systems. Since 2003 Red Eléctrica has installed a Corporate Responsibility Policy whose goal is to establish the principles and general guidelines that facilitate application of social and environmental commitments in the Red Eléctrica Group's activities.



The basic principles of the Corporate Responsibility Policy

- To encourage the participation of the Red Eléctrica Group in projects of general interest and in educational, cultural and scientific programmes.
- To ensure open exchange of information with interested parties, communicating the activities and business results in a true manner, through clear and transparent messages.
- To uphold a firm commitment of respect for the environment, integrating protection of the natural surroundings with the company's strategy in order to achieve a balance between business activity and sustainable development.
- To design strategies, plans and projects aimed at achieving maximum value for shareholders.
- To focus innovation and technical development on efficiency in all fields.
- To respect the dignity of people in all group activities.
- To develop an employment policy that pays special attention to career development, occupational health and safety, equal opportunity, the working environment, the integration of people and to the reconciliation of work and private life.
- To respect legislation in those areas and countries where the Red Eléctrica Group is present, in a scrupulous manner.

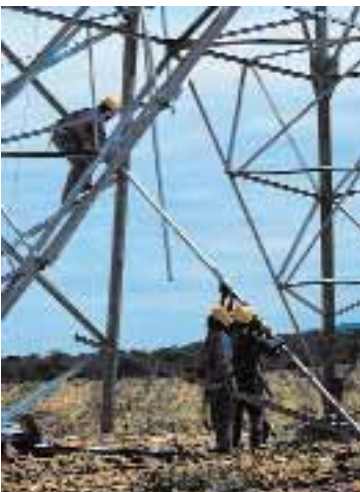
Corporate responsibility forms part of our business strategy

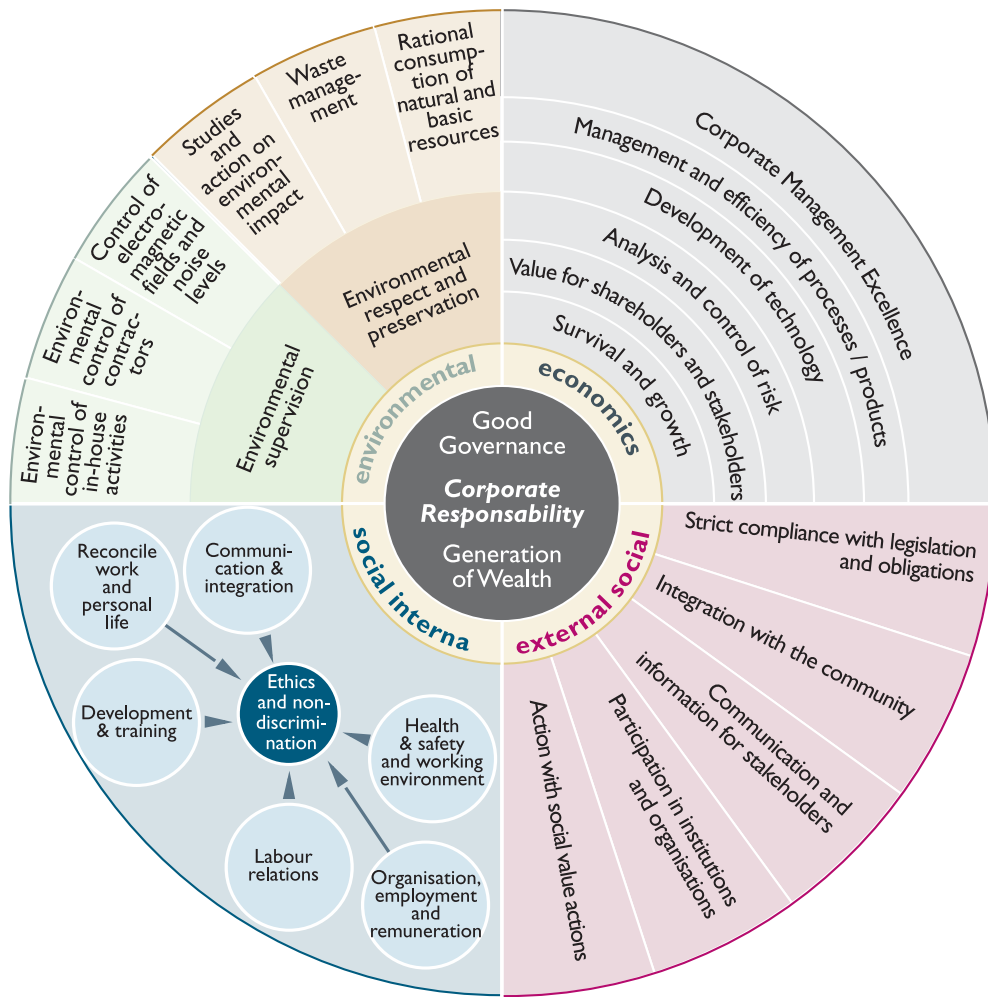
Corporate Responsibility Management System

Red Eléctrica has a Corporate Responsibility Management System that is based on the corresponding Corporate Responsibility Policy. It establishes the four aspects of the annual action programmes (external social, internal social, environmental and economic) in accordance with the following scheme of corporate responsibility activities:

Corporate responsibility management covers the following activities:

- Design and implementation of the systems and structures needed to conduct the activities.
- Implementation of this strategy in the company's management excellence.
- Preparation of annual programmes for social, economic and environmental action.
- Definition of indicators and systems for control and evaluation, and proposed targets for each year.
- Announcing the programmes and monitoring their progress.



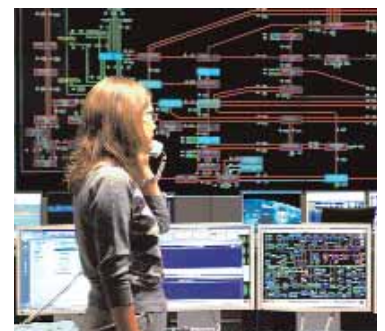


- Obtaining management reports from each area.
- Preparation of the Annual Corporate Responsibility Report.
- Participation in corporate responsibility forums and meetings.

We believe the corporate responsibility has three aspects – economic, social and environmental

At Red Eléctrica corporate responsibility is supported and complemented by the following:

- The organisation's certified management systems (quality, environment, and occupational health and safety).
- The control panel and the existing measurement systems including the process management system.
- Management excellence at Red Eléctrica.





economic responsibility

Our economic commitment is based on creating persistent value in societies where we operate, offering a service of maximum quality



Economic responsibility

We generated net profit of 116 million euros - 15.9% more than the previous year

Red Eléctrica's activities as the company responsible for transmission and operation of the Spanish electricity system has an unquestionable effect on society as a whole, providing an important contribution to economic development.

In recent years the financial results at Red Eléctrica have reflected a positive trend. In 2003 the net consolidated profit was 116 million euros. This represents an increase of 15.9% over the previous year. This increase was mainly due to a rise in income following incorporation of recently acquired transmission assets and by new facilities that were put into operation. Revenues from telecommunication services and engineering work for third parties also made important contributions.

Key figures

	2001	2002*	2003*
millions of euros ADJUSTED SALES (GROUP)	380.9	459.9	686.7
millions of euros PROFIT AFTER TAX (GROUP)	91.1	99.9	115.8
millions of euros CASH-FLOW AFTER TAX (GROUP)	195.0	224.7	320.9
millions of euros INVESTMENTS (GROUP)	244.8	1,158.7	778.3

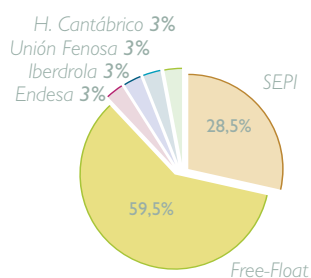
(*) The 2002 and 2003 figures reflect the acquisition of transmission assets from utility companies

Stock exchange information

	2001	2002	2003
DIVIDEND PER SHARE (euros)	0.455	0.480	0.548
EARNINGS PER SHARE (euros)	0.67	0.74	0.86
DIVIDEND AS A PERCENTAGE OF NET PROFIT (%)	67.8	67.7	65.0
SHARE PRICE (euros) (year close)	10.45	9.64	13.00

Share ownership

July 17th 2003
(Extraordinary General Shareholders Meeting)



Value for shareholders

Red Eléctrica has a commitment to maximise value for shareholders. It must offer attractive remuneration in the form of dividends and a steady increase in the share price. This is not based on the value of its tangible assets alone but also on intangible factors mainly related to its employees, to its knowledge and to responsible management.

In 2003 the share price finished the year at 13.00 euros. This represents an increase of 34.9% – higher than the Ibex 35 (28.2%) and the energy sector of the Madrid Stock Exchange (25.8%). In terms of direct shareholder remuneration, the dividend in 2003 was 0.548 euros per share, an increase of 14.2% over the previous year. Since being listed on the stock exchange in July 1999 and up to December 2003, payments to shareholders total 84%. Furthermore, reserves last year increased by 20.9% bringing shareholders' equity to 849 million euros. Details of shareholder remuneration can be found on page 60 of the 2003 Annual Report.



Value for customers

Red Eléctrica believes that proactive, comprehensive and continuous management of relations with customers and other stakeholders is a basic factor in its success and in the results of its management.

Red Eléctrica's commitment to its customers is based on consideration for their requirements and expectations. These are opportunities for improving its strategic management. Thus following the customer satisfaction survey conducted in 2002, in which the company was evaluated positively with 7.77 out of 10, a 2003-2004 action plan was drawn up containing a further 12 improvements. This biennial process will be continued in 2004 with a new customer satisfaction survey.

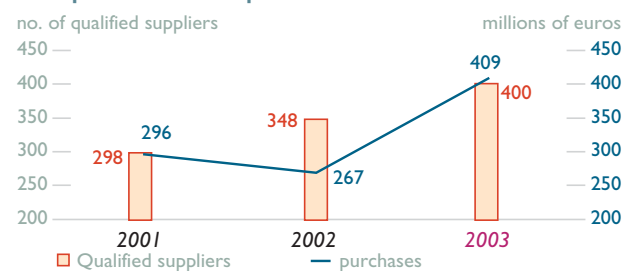
The corporate information systems ensure the safety and protection of customer data and no claim has ever been made in this respect.

We have made 12 improvements to satisfy the requirements of our suppliers

Supplier qualification system

	number
QUALIFIED SUPPLIERS	400
SUPPLIERS WITH ISO 9001 CERTIFICATES	214
SUPPLIERS QUALIFIED FOR ORDERS WITH ENVIRONMENTAL REQUIREMENTS	204
SUPPLIERS QUALIFIED FOR ORDERS WITH OCCUPATIONAL HEALTH AND SAFETY REQUIREMENTS (CONSTRUCTION AND SERVICES)	161

The procurement process



Value for suppliers

Red Eléctrica believes that its suppliers are a key part of its production processes. Therefore, its management of suppliers is focused on understanding their requirements and needs and on facilitating the circumstances to obtain maximum quality in the supply of equipment, materials and services. For this purpose Red Eléctrica has set up nine service level agreements, which cover 31% of its purchases. In 2003 action was taken to consolidate five of these agreements.

In order to improve communications with this type of stakeholder, Red Eléctrica has opened a specific channel via the company's web site to exchange necessary information. As a result of this, errors related to orders were reduced by 12%. In 2003 all purchase orders were paid on the due date.

Red Eléctrica's supplier qualification system covers environmental aspects and occupational safety as well as technical and quality criteria, for those products and services where this is appropriate.

We seek more direct communication with our suppliers

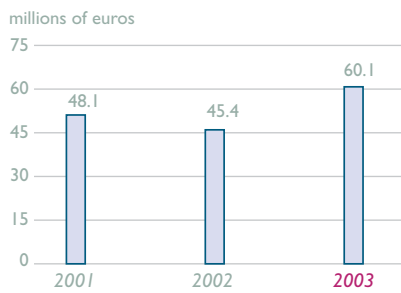


In 2003 we invested more than 215 million euros in new transmission facilities

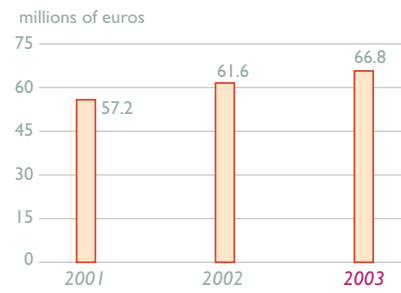
Red Eléctrica has therefore joined the REPRO supplier classification system together with other companies in this sector. The goal is to integrate this tool with the supplier management processes, to standardise treatment and to adopt the best practices.

Purchases are mainly acquired in Spain (91%) and in Europe (9%) including Germany (5%) and France (2%). In recent years Red Eléctrica's main suppliers have been: SIEMENS, ABB, ALSTOM, COBRA and INDRA.

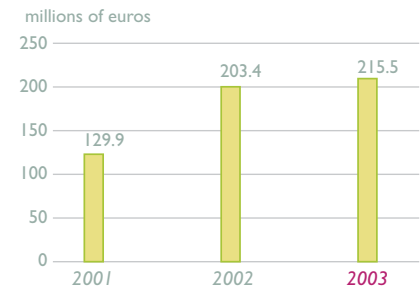
Company tax (group)



Total salaries (group)



Investment in new facilities



We have built more than 1,800 kilometres of new power lines in the last five years

Value for the social environment

Red Eléctrica is conscious of its responsibility for the Spanish electricity system. It invests in new facilities, improves its infrastructure and management systems based on customer feedback and incorporates the latest technology in its processes to provide an efficient service to society with the best levels of service quality.

Red Eléctrica has followed a solid programme of investment, putting 1,800 km of power lines into service in the last five years. It is providing the Spanish electricity system with an interconnected network that guarantees the reliability and quality of service against a backdrop of sharp increases in demand. In 2003 investment increased by 5.9% to 215 million euros. This is well above the level of investment in transmission grids in nearby European countries.

The activities carried out by Red Eléctrica provide important benefits to society. Apart from the acquisition of products and services generated by this investment, the benefits also stem from the generation of direct employment and a contribution to the economic development of the communities in which it operates.

Red Eléctrica's quest to be the leading company in its activities was brought closer by the purchase of transmission assets from other Spanish electricity companies. This means that the company now owns 86% of the 400 kV and 220 kV facilities in the mainland electricity system. This makes it one of the three top European companies in terms of facilities and comparable activity.



Technological development

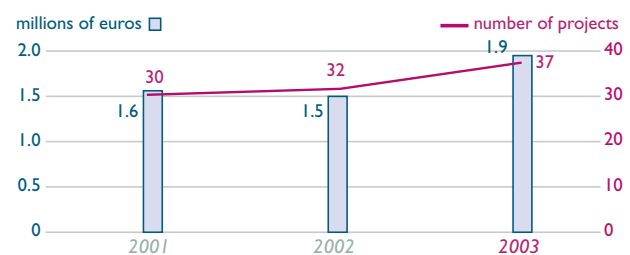
Technical research, development and innovation at Red Eléctrica encourages and consolidates the strategy based on maintaining leadership in the transmission and electricity system operation sector; and in the creation of value.

With the goal of guaranteeing the effective creation of value, in 2003 the company set up the LIDER Project (strategic R&D for Red Eléctrica). This project defines the lines of action and positioning in R&D&I.

We have set up alliances with other companies, research centres and universities to promote development and innovation

37 research projects and 2 million euros invested in R&D&I

Investment in R&D&I

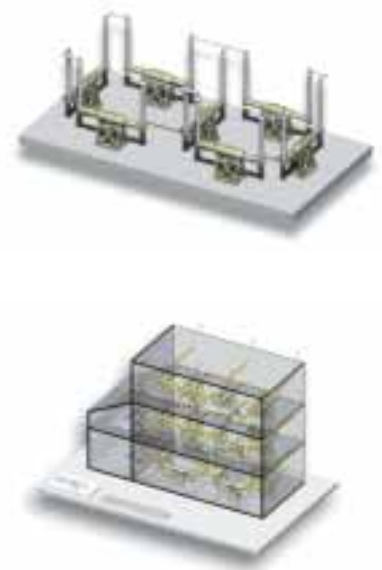


In line with this technological strategy, further weight was given to research, development and innovation activities, increasing spending by 30% to nearly 2 million euros. Current activity entails 37 research projects. In 2003 a total of 92 million euros in subsidies was received for these activities.

R&D&I activities also contemplate alliances with other companies, with research centres and with universities to promote development and innovation in terms of products and projects as well as support for basic research. In 2003 we co-operated with 15 leading universities and research centres in Spain, 10 Spanish companies and 11 European companies and research centres including partnerships with ANSALDO, CESI, SCHLUMBERGER and SEMA.

In recent years research work at Red Eléctrica resulted in numerous practical applications and patented commercial products. Attention is drawn to the patent in 2003 for a new network substation. This substation is smaller and more compact and this significantly reduces its environmental impact and facilitates maintenance – leading to less outages and greater safety.

The internal management model for the research, development and technical innovation activity was certified in 2003 under the ISO 9001:2000 standard and was incorporated in the company's quality management system.



The NSR Project – a new concept in substations, patented by Red Eléctrica



social responsibility

We have a social responsibility to achieve employee satisfaction and to contribute to the welfare of society – which we serve





Commitment to our people

Red Eléctrica's success rests on values such as integrity, transparency, fair and equal treatment, anticipation and teamwork. These values were defined with the participation of the entire management team. This way the team accepted a commitment to implement these values in all areas of the company's operations. The values have been gradually incorporated in the company's policies. Thus a specific policy and code of conduct were defined for the management team. The goals include equitable treatment for the employees in their department, justice and respect and maintaining of close dialogue as an essential requirement for creating an adequate social climate.

Integrity, transparency, fair and equal treatment, and teamwork are part of our values



Red Eléctrica's organisation gives priority to people management. This includes:

- The creation of employment based on the principle of non-discrimination.
- Increasing skills based on the development and transmission of knowledge. This is the responsibility of every graduate staff member.
- The development of personnel with high potential.
- Dynamic and participative communication.
- An incentive system based on internal equality and transparency.
- A friendly, peaceful and flexible working environment based on stable labour relations.



In accordance with the above and with the human resources strategic plan, the most significant achievements this year included a marked increase in the workforce, the role-out of career plans, a revision of the remuneration system and implementation of new internal information and communication systems.

Company organisation and employment

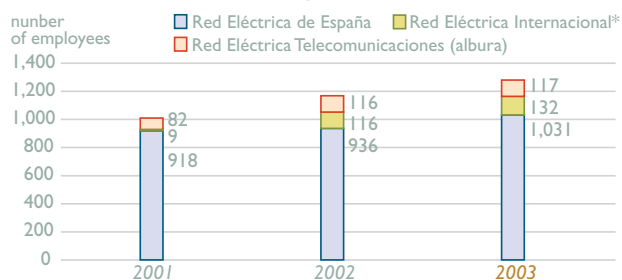
At December 31st 2003 the Red Eléctrica Group had 1,280 employees. Red Eléctrica (the main group company in Spain) accounts for 80.5% of these, Red Eléctrica Internacional (international activities) accounts for 10.3% and the remaining 9.1% are employed by Red Eléctrica Telecomunicaciones (*albura*).



In 2003 the parent company focused its activities on adapting the organisation following the acquisition of new transmission assets and on taking over responsibility for the non-mainland electricity system. The process of adapting to the larger size of the company meant that new units were created and others were restructured. Considerable efforts were expended in selecting and hiring new staff and 124 jobs were added. This increased the Red Eléctrica workforce by 10.2% over 2002.

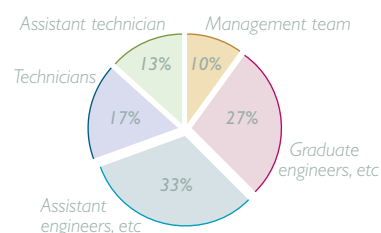
Red Eléctrica is growing – the workforce increased by 10.2% in 2003

The Red Eléctrica Group (workforce)



(*) Including TDE employees

Breakdown



Employment figures for the parent company

TOTAL WORKFORCE	1,031
FIXED EMPLOYEES	92%
WOMEN IN THE WORKFORCE	21.5%
WOMEN IN MANAGEMENT POSITIONS	9.3%
PERSONNEL COVERED BY THE COLLECTIVE AGREEMENT	91.7%
AVERAGE AGE	40.6 YEARS
AVERAGE SENIORITY	11.5 YEARS
UNWANTED TURNOVER	0.32%
AVERAGE TURNOVER	16%

Variation in the workforce

percentage	2001	2002	2003
WOMEN	20.2	20.8	21.5
MEN	79.8	79.2	78.5
WOMEN IN MANAGEMENT POSITIONS	8.2	9.2	9.3

Breakdown

number of persons	2001	2002	2003
MANAGEMENT TEAM	85	87	86
GRADUATE ENGINEERS, ETC.	190	209	256
ASSISTANT ENGINEERS, ETC.	248	250	333
TECHNICIANS	262	257	207
ASSISTANT TECHNICIANS	133	133	149
TOTAL	918	936	1,031



We respect and support the principles of internal equality, non-discrimination and equal opportunity

The hiring policy is based on a skills model. It entails an objective and transparent system that facilitates identification of the necessary technical knowledge, ability and behaviour for the company's needs. The principles of transparency, non-discrimination and equal opportunity are respected. Employment opportunities are published internally and externally in all regions and countries. This is done through a number of channels including: notice boards, intranet, the Internet, job offers and the media.

The selection criteria place special emphasis on hiring staff that are committed to the company's vision, have a customer focus and are capable of working in a team.

Since incorporation Red Eléctrica also uses another source of hiring. This comprises the co-operation programmes with various institutions related to its business activities. Internships, conceived as part of training, facilitate a fluid relationship between student and company and provide access to the job market. In 2003 a third of internees at Red Eléctrica were added to the payroll.

The usual type of employment contract at the company is an indefinite contract. At the end of 2003, 92% of the 1,031 employees had indefinite contracts. Temporary contracts with a maximum duration of one to two years apply to recent graduates undergoing training.

Red Eléctrica believes that its employees are its greatest asset and are the key to its leadership and to the quality of the service it provides

The new remuneration system resulted in salary increases for 35% of staff



The remuneration policy at Red Eléctrica is aimed at engaging and motivating people. It tries to make the quest for results compatible with the creating of value, transparency, equality and ethical behaviour of its staff. For this reason in 2003 a new remuneration system was introduced. Its main objective is to achieve greater internal equality and it resulted in salary increased for 35% of the workforce.

A variable remuneration system was designed for managers, linked to management objectives. It covers 30% of the first management level and 15% of middle management.

Red Eléctrica provides its employees with important social benefits

Social benefits

The human resources policy, through the collective employment agreement, establishes the following social benefits for employees:

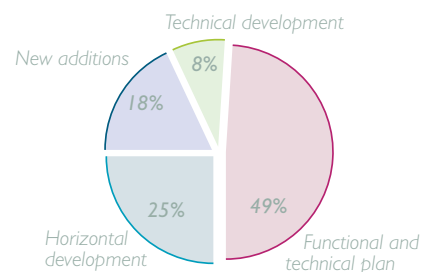
- Pension Plan
- Private medical insurance for employees and their families.
- Death and disability insurance.
- Special prices for electricity at home.
- Personal loans for purchasing or improving their homes or for acquiring a car.
- Luncheon vouchers.
- Nursery vouchers.



Training figures

	2001	2002	2003
HOURS OF TRAINING	34,400	44,184	56,124
TRAINING IN WORKING HOURS (%)	16	72	77
WORKFORCE IN TRAINING (%)	92	71	94
HOURS PER EMPLOYEE	37	48	58
INVESTMENT IN TRAINING DIVIDED BY TOTAL PERSONNEL COSTS	3.3	3.4	5.1

Breakdown of training hours



The cost to Red Eléctrica of social benefits in 2003 came to 2.9 million euros. Red Eléctrica also provides a series of services for all its employees:

- Company dining room.
- Bus service.
- Parking for employees.
- Supplementary payments up to 100% of salary in the event of temporary disability.
- Internet in the workplace.
- Sports subsidies at installations close to the employment centre.
- Loans to cover special personal expenses.

There were more than 56,000 hours of training, 430 courses and 58 hours per employee of which 77% were carried out in working hours. This accounted for 5.1% of employment costs

88% of new executives are appointed through internal promotion



Career development

The addition of new staff, the changing environment at Red Eléctrica and the introduction of the company's strategic plan, all require appropriate management of skill. Each year a human resources development plan is drawn up based on skills management and training needs. This plan is prepared in co-operation with the different units and made known to the entire workforce. In 2003 there were more than 56,000 hours of training provided in the form of 430 courses with an investment per employee of 3,000 euros. The plan covers the following areas of knowledge:

- **Functional and technical:** aimed at achieving the greatest possible adjustment of each person to his or her job. This area accounted for 49% of the total training hours in 2003.
- **Lateral development:** aimed at updating knowledge in generic areas and facilitating integration with the company's culture. This area accounted for 25% of total training hours.
- **Technical development plans:** aimed at developing skills that will make it possible to access positions of greater responsibility. The first version of the development plan for future managers resulted in access of 55% of participants to management positions. In addition, the first phase of the technical career plan for highly qualified employees, was extended to 80 members of the staff.
- **Management training:** this is aimed at deploying and improving managers' skills and developing their ability to manage people. The management team spends about 53 hours a year in this training area.

The conduct of Red Eléctrica executives is governed by principles of efficiency, profitability, honesty and responsibility

More than 80 Red Eléctrica staff members participated in the technical development plan whose goal is to enhance and retain skills in the company

Red Eléctrica has designed a special plan for new employees. This plan covers the initial months of employment with full time training for the jobs they are about to carry out and details of the company's culture. In 2003 this absorbed more than 17,000 hours of training.

Considerable effort was dedicated to training more than 40 new operators hired for the Control Centres on the mainland and on the islands. This activity entailed more than 200 hours of training per person. Of this, 85% was delivered by internal instructors through the operator school.

At the same time the first virtual training project was started in 2003 via an e-learning platform. The goal is to facilitate access to the necessary training at the most convenient time. This method combines hands-on training with tutoring.

Communication and integration

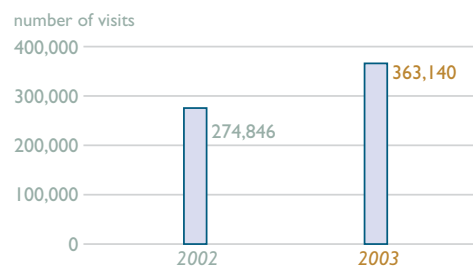
Communication is a fundamental part of the continuous process of integration and involvement of personnel with the culture, vision and strategies of the company. It takes the form of close dialogue throughout the entire organisation. Some of the main aspects are as follows:

- Distribution of the company's strategic plan in cascade.
- Preparation and distribution of the annual internal communication plan to the entire workforce.
- Maintenance and development of the communication and participation channels. Each year since 1993 the company publishes a magazine called *Entre Líneas* which is distributed to the entire workforce. More recently on-line systems have been set up. This includes the *Red en Línea* magazine, the *e-directivos* information channel and, from 2003 onwards, *Autoservicio del Empleado* which allows the entire workforce to access employment, remuneration and training details via the internal web pages and to print payslips or tax certificates.
- The effectiveness of human resource management is checked with the goal of increasing the level of identification. This is done through surveys of the different



Red Eléctrica has different internal channels of internal communication that facilitate integration and involvement

Visits to the internal web site



services that will help to identify potential improvements. At the present time a study is being carried out on the effectiveness and satisfaction of employees in regard to internal communications.

- Telephone hotlines for handling requests, queries or incident calls from users of IT or general services.

In 2003 the internal web site of Red Eléctrica received more than 363,000 visits with 2.1 million page views. This was an increase of 32% over the previous year. Such growth shows that this tool has become the prime channel of internal communication at Red Eléctrica and an efficient medium in the performance of employees' daily tasks.





Popular parts of the intranet include the *Autoservicio del Empleado*, press releases, statements made by the company to the media, policies, procedures and internal standards.

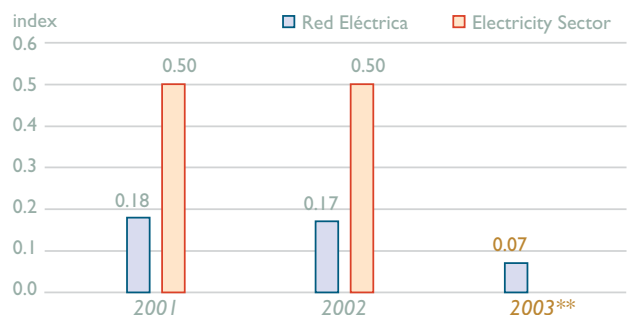
Labour relations

Fluid labour relations that favour personal commitment were essential to implement the human resources strategy. This process was facilitated by the important level of understanding of the employees' representatives. Thus the signing of the 8th collective employment agreement was a particular highlight of the year. This agreement applies to employees in the parent company and means that the important challenges arising in the coming years can be handled in a framework of stable labour relations.

There are union representatives at each employment centre together with an inter-centre committee set up under the employment agreement. Interaction with the unions takes place in the different committees and working groups that allow contributions from all sections of the company's unions. Four unions with 35 representatives were elected in 2003.

Red Eléctrica is the first electricity company in the world to obtain an international OHSAS 18001 certificate for the prevention of occupational risks

Accident severity rate*



(*) Number of days lost due to labour accidents per thousand hours worked

(**) Electricity sector figures not available

Occupational health and safety

One of Red Eléctrica's principles is to ensure the occupational health of its employees. This helps employees to perform their tasks in each area of the company and contributes to their current and future well-being.



The company has set up a management system to achieve this goal in accordance with the international OHSAS 18001 standard. It includes an Occupational Health and Safety Policy, an in-house prevention service (with experts in each preventive speciality) and a safety committee comprising representatives from all employment centres.



The prevention of occupational risk is complemented by a detailed description of the risks inherent in each job. This list covers 100% of employees. Preventive measures are aimed at ensuring that safety is integrated from the start in all the company's activities. It has helped to reduce the accident rate in Red Eléctrica and in its subcontractors. Thus, in 2003 the accident severity rate was reduced by 59% at Red Eléctrica and 53% at its subcontractors.

Accidents statistics

Red Eléctrica	2001	2002	2003
NO. OF ACCIDENTS ENTAILING TIME OFF	9	11	6
FREQUENCY RATE	6.88	6.95	3.64
NO. OF DAYS LOST PER ACCIDENT	121	172	120
SEVERITY RATE	0.18	0.17	0.07
Subcontractors			
NO. OF ACCIDENTS ENTAILING TIME OFF	78	79	57
FREQUENCY RATE	66.33	44.10	34.08
NO. OF DAYS LOST PER ACCIDENT	8,576	3,025	1,350
SEVERITY RATE	6.78	1.63	0.8



Work is currently in progress on the development of an evaluation system for occupational risk prevention at subcontractors which work with Red Eléctrica. This will analyse and evaluate their performance based on criteria such as: availability of an in-house prevention service, prevention training of employees and the accident rate compared to other companies.

Red Eléctrica also has a medical service which is the basic health unit of the occupational risk prevention system. It is equipped with material and personnel necessary for initial treatment in the case of accidents.





Its activities are focused on monitoring health and information on preventive measures including the following:

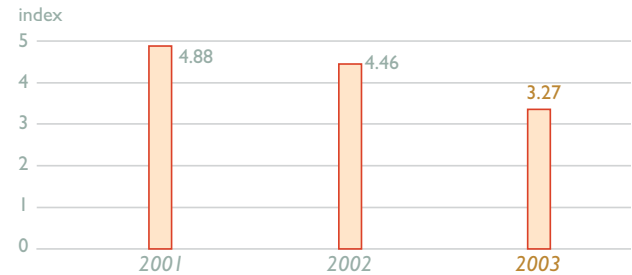
- Medical check-ups.
- Vaccination and prevention campaigns.
- Information on preventive measures.
- First-aid training.
- Consultations.

The information on preventive measures was essential in maintaining the low accident and absenteeism rates. In 2003 there were nearly 2,000 hours of training attended by 12.2% of employees. The mental and physical working environment is another essential field of action in achieving an appropriate, dignified and agreeable working space. From the mental point of view, Red Eléctrica employees base their

Preventive activity statistics

	2001	2002	2003
No. OF MEDICAL CHECK-UPS CARRIED OUT	689	576	601
No. OF CONSULTATIONS	1,163	1,330	1,432

Absenteeism rate*



(*) Including absence for any reason (IT, accidents, paid leave, maternity, medical attention)

More than 25% of the workforce participate in sporting and leisure activities subsidised by the company

personal relationship on co-operation, teamwork and respect. The company promotes and subsidises different sports and leisure activities to encourage and to fortify these relationships. These activities are habitually attended by more than 25% of the workforce. They entail paddle tennis or ordinary tennis championships, photography and short story competitions, parties for employees' children (attended by more than 300 last year).



From the physical point of view, an important reform of working space has been carried out. This has provided more open and ergonomic installations with furniture and technical equipment (video conferencing) providing better levels of communication and comfort.

Compatibility of work and private life

Red Eléctrica's strategic plan states that it is an organisation based on people. It expresses its commitment to reconciling work and private life and to equal opportunities through its Corporate Social Responsibility Policy in the legal framework of the collective employment agreement. Important obligations have been introduced as follows:

- A gradual reduction in the working hours per year to the current level of 1,700.
- Flexible working hours (arrival, departure and mealtimes)

We have reformed the physical spaces to achieve a better working environment for employees

Red Eléctrica has a strategic commitment to reconcile work with private life



- A balance between summer and winter working hours that allows for a continuous working day during an important number of weeks per year.
- A calendar for each employment centre to reflect regional differences: local festivals, climate, etc.
- An extension of paid leave beyond the legal allowance.
- Application of reduced hours and time off for child care that is substantially better than the legal provisions..

Red Eléctrica received a runners-up prize for its family-oriented policies in the 2nd Flexible Company Competition





Commitment to society

We believe it is essential to maintain constant dialogue with the social institutions to guarantee the success of the company and the satisfaction and improvement of those who are associated with it in one way or another. This is achieved through the following actions:

- Identifying the spokespersons involved and establishing the necessary relations to understand the social reality and values of the community.
- Projecting the company's position and issuing clear and truthful messages that are

In Red Eléctrica we believe it is essential to maintain constant close dialogue with spokespersons

The Social Acceptance Programme for Projects - we strive to obtain maximum social consensus

coherent with its strategy and goals. The Social Acceptance Programme (SAP) for projects is part of this activity. The SAP is a methodological, chronological and strategic action plan that co-ordinates scenarios, actors (spokespersons) and actions with the goal of informing society and making it aware of the social interest of the company's projects. The social acceptance programme takes into account all those who play a role in the development of new installations. It values their opinions and ideas and determines a series of steps to ensure that the projects are socially integrated in their environment. This is done by working towards an appropriate balance between social, economic and environmental interests. The main goal of the SAP is to ensure that Red Eléctrica's projects are carried out with the maximum possible social consensus, reconciling the general and particular interests of the surrounding area with the development of the electricity transmission grid. It contemplates different actions including the following:

- A sociological study of the local social environment.
- Interviews and presentations to different groups: government agencies, groups of ecologists, the media, associations, etc.
- Organisation of technical and explanatory meetings.
- Co-operation agreements with local town halls regarding the execution of complementary projects and public support.



In 2003 co-operation agreements were signed with various town halls in different small autonomous communities. The value of these agreements is approximately 280,000 euros.

Co-operation and sponsorship

Red Eléctrica's co-operation and sponsorship activities are focused on explaining the function of the Spanish electricity system, on co-operation with academic centres that research the social and environmental aspects of high-voltage networks and on contributions to cultural and social development through organisations working with the poorer sectors of the population.

We participate in educational, cultural and social action projects



Committed to education and cultural development

Support for educational development

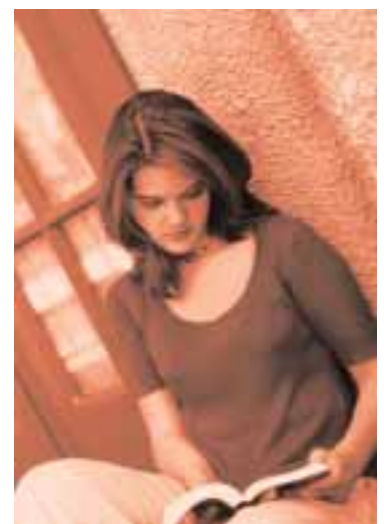
Red Eléctrica has signed various co-operation agreements with universities including the following:

- The Red Eléctrica Chair at the Madrid Autonomous University: a co-operative agreement for social research on energy and the environment.
- The Carlos III University: an agreement to co-operate on the development of areas of common interest related to the electricity sector; teaching and research.
- The Carlos III University: an agreement to co-operate on the creation of the first laboratory dealing with energy economics.
- The Navarre University (IESE): co-operation as the sponsoring company in the development of business research programmes. This co-operation enables the company to maintain close contact with the latest trends in management training and other areas of company.
- The Madrid Autonomous University: member of the board of the General Foundation.

In 2003 Red Eléctrica sponsored or actively co-operated in various university courses such as *Electromagnetic radiation and its influence on public health* (Cantabria University), *Electric energy – a quality product* (Burgos University) or *CMI Project transmission workshop* (Cambridge University).

It also participated in the MP-Companies Programme co-ordinated by the Círculo de Empresarios. The object of this programme is to improve mutual understanding between companies and members of parliament.

We support the development of education, actively co-operating with various universities





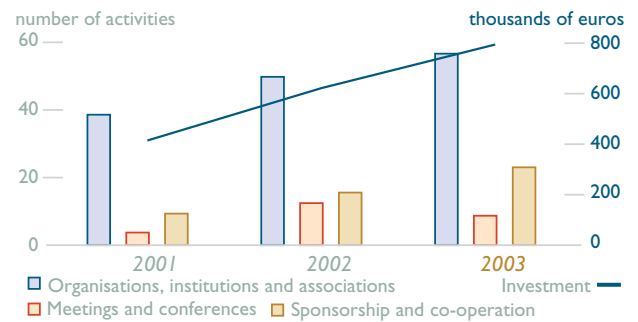
Aid for environmental development

Red Eléctrica co-operates with various organisations to promote environmental development:

- The Scientific Research Board: research at the Doñana biological station on the use of electricity substations by the lesser kestrel (in Aragon and Navarre). The goal is to evaluate and promote conservation of the species at Spanish level.
- The Entorno Foundation: a co-operation agreement to promote environmental improvement at the company, through training, information and research.
- The Tiermes Museum: a co-operation agreement with the Friends of the Tiermes Museum Association on the development of the *Protection of landscape and cultural heritage as the key to sustainable development in the Tiermes-Caracena valley*. This project was submitted to Life-Environment in 2001.
- Official College of Physicists: a co-operation agreement for the creation of an electromagnetic field section on its web site.



Social activities



Aid for social and cultural development

Red Eléctrica has signed co-operation agreements with various organisations in the social and cultural area:

- The Energy without Frontiers Foundation: co-operation as a company sponsor with the goal of facilitating access to light and water in the poorest parts of the world.
- The Navarre University Clinic: a co-operation agreement for medical research on the treatment of diseases such as cancer and Alzheimer's.
- The Carlos III Foundation: a co-operation agreement on the social action carried out by this organisation.
- The Highway Help Association in the Basque Country: co-operation with this organisation in regard to the help it provides to the sick and injured.
- The Madrid Autonomous University: a co-operation agreement on sponsorship of the *30th Great Composers and Performers Cycle*.



Red Eléctrica also co-operates with sports through agreements with organisations such as the Alcobendas Sports Foundation (which extends access

to the company's employees) and the León Handball Club to promote handball in that province).

Red Eléctrica in other countries

Red Eléctrica conducts social activities in Peru and Bolivia through its subsidiaries, REDESUR and TDE. These activities cover various fields such as education, culture, social solidarity and regional economic development.

Bolivia

Activities related to education in 2003 were mainly focused on teaching children about electricity.

- A programme of visits to the TDE interactive centre for electricity at Cochabamba. This has been attended by some 1,800 children aged between 6 and 13, from 14 schools.
- Training of 2,800 children at 24 rural schools on precautions in regard to high-voltage power lines.



1,800 Bolivian children have visited the TDE Interactive Electricity Centre



In 2003 TDE also continued its programme of grants and scholarships, benefiting students at various Bolivian universities. In addition scientific research work has been carried out by students in different areas of the company.

In terms of culture, the company has sponsored an important number of cultural activities (music, theatre, painting). The majority of these have been carried out by Bolivian artists and the goal is to support the customs and cultural values of the region.

In the business world, the company has co-operated actively on different conferences, seminars and publications aimed at improving understanding of electricity systems and social and environmental concerns. In 2003 the company also participated in different forums such as the 4th Energy Conference, the CIGRE RIAC international seminar on regional interconnections and the National Symposium on the Environment. At the symposium TDE was recognised for its efforts in preserving the environment and obtained an ISO 14001 certificate.

Students at various Bolivian universities have benefited from TDE's scholarship programme



Social solidarity activities included co-operation with organisations that care for needy children and old and sick persons, and providing constant support to the Bolivian Voluntary Salvation Group.

TDE's contribution to the community has been measured through a social responsibility survey in the form of a questionnaire sent to customers, suppliers and individuals or institutions related to TDE. The results obtained reveal an 80% positive perception. This extends to the corporate image (91%) and leadership in management excellence (85%). This confirms the prestige and recognition achieved by the company in this arena.

Peru

Red Eléctrica del Sur S.A. (REDESUR) is a Peruvian company in which Red Eléctrica Internacional holds a 30% interest. It contributes to the development of schools located in areas where the company operates, through action in educational and social matters. Activities in 2003 included a programme to donate furniture for 57 schoolrooms and other teaching material for 767 children at schools in the most depressed areas in southern Peru. In regard to solidarity, REDESUR organised a programme to distribute food and Christmas presents to more than 700 students and 60 teachers at Christmas time

Our commitment to the development and improvement of our social environment extends to the countries where we operate

Participation in organisations

Participation in organisations and associations plays an essential role in contributing to the company's knowledge of its operating environment. Red Eléctrica is a member of 37 domestic organisations and 22 international organisations. It co-operates actively with their governing boards, with the study groups, with the standards committees and with the working groups. This involves approximately 140 persons from all areas of the company. The total time spent is close to 10,000 hours and includes the following:



CIGRE (International Conference on Large Power Networks). This organisation consists of utility companies, manufacturers of electrical capital goods, consulting firms and research centres from all over the world. The purpose is to exchange technical knowledge. Red Eléctrica is the Chairman and the Secretary of the Spanish committee.

EI (Edison Electric Institute). An association of US power utilities and international affiliates. Red Eléctrica also participates in the financial meetings with analysts and investors from the electricity sector.

ETSO (European Transmission System Operators). All the operators in the European Union member states and in the candidate states for integration in 2004 are members of this association. Red Eléctrica is a founder member and participates actively in the association. It sits on the management committee. In 2003 ETSO approved a new system of settlement for cross-border flows.

EURELECTRIC (Union of the Electricity Industry). This is an association which represents the common interests of the European electricity industry. It is the result of a merger between UNIPED (founded in 1925) and EURELECTRIC (founded in 1990). The purpose of this association is to contribute to the development and competitiveness of the electrical industry and to promote the role of electricity in the progress of society.

IESOE (Electricity Interconnection in South-West Europe). This organisation consists of RTE (France), REN (Portugal), ONE (Morocco) and Red Eléctrica. Its purpose is to examine the performance of the interconnected networks of these countries and to prepare recommendations for improvement. Red Eléctrica occupies the Chair and is the Secretary.

OME (Mediterranean Energy Observatory). This organisation was set up in 1991 and consists of about thirty energy companies (electricity, gas and oil) operating in the Mediterranean basin. Its goals are to promote co-operation on energy matters among



We interact and co-operate in the development and improvement of electricity systems



its members and among the Mediterranean countries. It also promotes dialogue between governments, the European Commission and other international organisations on energy concerns around the Mediterranean.

UCTE (Union for the Co-ordination of the Transmission of Electricity). This association co-ordinates operators of transmission systems in 22 countries of continental Europe. The aim is to ensure stability and reliability of the interconnected electricity system. It has been doing this for the last 50 years. The UCTE network supplies electricity to 400 million people (512 GW installed power; 2,160 TWh and 200,000 km of power lines).

We are members of 37 domestic organisations and 22 international organisations

TSO – International Comparison. This is an international association of electricity system operators. It has European, Asian, South African and American members. Its goal is to exchange information on the current and future system operation practice, establishing comparisons and points of reference.



environmental responsibility

At Red Eléctrica we see protection of the environment as a commitment to society that is visible in all our activities.

Environmental responsibility is integrated in the company's strategy



Environmental Policy and Management

Through its Environmental Policy, the Red Eléctrica Group declares its commitment to protect the environment. It encourages everyone to carry out his or her work with maximum respect for the natural surroundings and to display a responsible commitment to society.



Red Eléctrica uses an environmental management system to ensure compliance with this policy. This system establishes the environmental duties for all areas of the company. It was certified in May 1999 under the UNE-EN ISO 14001 Standard and is registered with the EU Environmental Management and Auditing System (EMAS) since October 2001.

There is an environment department at Red Eléctrica whose main purpose is to provide technical support in this area to all the company's units in the performance of their tasks.

The application of techniques leading to the greatest respect for the natural environment, research, training and communication activities, co-operation with environmental organisations, etc, clearly demonstrates Red Eléctrica's commitment to protection of the environment. In this regard it occupies a position of international leadership in the electricity sector.



We are identifying the environmental risks associated with the new assets we acquired

We won a prize for the best environmental report

The company's Environment Report, published for four years running, obtained a prize for the best environment and sustainability information among Spanish companies. This was awarded under the best environment report category by the Spanish Institute of Auditors and the Spanish Accounting and Business Administration Association for the high quality of its content and the criteria used in its preparation. The report contains more detailed information on the different environmental activities (waste, environmental impact studies, costs, etc). It can be found in the environment section of our web site (www.ree.es).

It should be also be noted that at the beginning of October, Red Eléctrica organised the 4th Conference on Power Lines and the Environment. It was attended by companies from the electricity sector; government authorities, national and international experts, public and private organisations, associations, etc. The aim is to share knowledge and experience, to discuss and reflect on environmental issues related to transmission and distribution of electricity and their role in the challenge posed by sustainable development.

We have organised the 4th Conference on Power Lines and the Environment

Environmental control of activities

In 2003 the new substations purchased by Red Eléctrica were checked to assess their environmental status. The work consisted in assessing the technical and economic implications of possible environmental risks and defining the preventive and corrective action needed to reduce any existing risks.

With regard to activities to prevent contamination at substations, trays have been installed to prevent the discharge of fuel tanks at five substations and generators have been overhauled at a further six substations. In addition the loss of water from three oil collection pits has been corrected at one substation.



Queries

ÁREA	2001	2002	2003
BIRDLIFE	4	5	13
ELECTROMAGNETIC FIELDS	23	45	8
GREEN CERTIFICATES	0	0	4
FACILITIES	4	5	4
GENERAL ENVIRONMENTAL INFORMATION	0	6	8
PUBLICATIONS	1	4	11
NOISE	0	2	0
Total	32	67	48

Claims

ÁREA	2001	2002	2003
BIRDLIFE	1	0	0
NOISE	0	2	3
PROXIMITY TO FACILITY	1	0	1
FIRE RISK	1	0	1
IMPACT ON LANDSCAPE	1	0	0
Total	4	2	5

Furthermore, proposals were drawn up for landscape improvements at eleven substations, to be carried out from 2003 to 2005.

We strive to improve communication with interested parties

Red Eléctrica continues to expend considerable efforts to improve communication with parties interested in the protection of the environment. In 2003 a total of 48 queries and 5 complaints were received and answered. The queries were answered by direct communication or by sending publications or in-house technical documentation.





Environmental qualification of suppliers and contractors

In 2003 work continued on the environmental qualification of suppliers and contractors, supported by the Entorno Foundation. The goal is to encourage implementation of certifiable environmental management systems by supplier companies by means of a training plan. This helps them to obtain the necessary know-how to meet the requirements of the UNE-EN ISO 14001 standard and the European Environmental Management and Audit System (EMAS) in a progressive manner.

The normal activities of some of these companies are potentially damaging to the environment. Therefore over the last three years Red Eléctrica has been inviting them to participate in these training sessions. In 2003, 17% of these suppliers, selected from construction companies, consultants, etc, attended the training sessions.

We encourage our suppliers to set up environment management systems

We conduct research into electromagnetic fields and provide information



In addition, an environment supervision workshop for the construction of power lines and substations was set up for the technical staff associated with environmental surveillance of such projects. The aim of these workshops is to entrench good environmental practice.

Monitoring of electromagnetic fields and noise

In 2003 the electromagnetic fields and noise in the proximity of the new 400 kV Santurce-Zierbena power line were measured before and after putting it into service. This was done in accordance with the requirements of the Basque government environment monitoring programme and it was seen that the line complied with the standards.

Red Eléctrica continued its policy of information and transparency on this matter. It participated in various conferences including the seminar *Legal aspects of electromagnetic fields*, organised by UNESA. It also contributed with publications such as *Sustainable development in Spain - professional analysis* for the 6th National Conference on the Environment.

A project was started on *Currents induced in the human body by industrial frequency electromagnetic fields* in co-operation with the Salvador Velayos Institute of Applied Magnetism (which is dependent on the Complutense University of Madrid, the Spanish Railways and the Scientific Research Board) and with UNESA. This is expected to last two and a half years and the goal is to develop a method of calculating currents induced in the human body by industrial-frequency electromagnetic fields generated by electrical installations.

This will help to ensure compliance with international exposure recommendations. Lastly, work has started on the design of a electromagnetic field and noise management plan. The purpose of this project is to determine these parameters for all Red Eléctrica power lines and substations over the next five years – especially in locations close to buildings or recreation areas.



Action related to environmental impact (indicators)	2001	2002	2003
km OF LINE MARKED WITH BIRDSAVERS / TOTAL km. OF LINES	2.2%	2.7%	2.7%
km OF LINE IN NATURE AREAS (1) / TOTAL km. OF LINES	-	-	25.0%
LANDSCAPE IMPROVEMENTS / NEW FACILITIES BUILT (2)	-	-	33.0%
ARCHAEOLOGICAL EXCAVATIONS / NEW FACILITIES BUILT (3)	-	-	47.0%
VISUAL SIMULATIONS / SUBSTATIONS WITH EI STUDY AND/OR ENVIRONMENT STUDY (4)	-	-	31.3%

(1) Directive 92/43/EEC, dated May 21 st 1002 on the conservation of natural habitats and of wild fauna and flora.
 (2) After construction. (3) Prior to starting construction. (4) Environmental impact study (EI) and/or environmental studies.



Environmental impact studies and related action

Red Eléctrica conducts environmental impact studies for all new projects, whether or not they are subject to the environmental impact assessment procedure defined in Law 6/2001, dated May 8th.

In 2003 a positive environmental impact declaration was obtained for three power lines (the Muruarte-Castejón line, the new Escombreras-Murcia Main Supply-Rocamora line and the Palos-Guillena line) and for two substations (Muruarte y Morella). Positive environmental impact declarations are also expected for another two power lines and two substations.

In the case of facilities not subject to environmental impact assessment, environmental approval was obtained for four substations (Fuendetodos, Olmedo, Santa Engracia and Segovia) and four more have been requested. Furthermore, during the year studies were concluded on the environmental impact of one underground power line, five ordinary power lines and four substations. Environment studies at ten substations were also completed. Furthermore, environmental impact

We carry out environmental impact studies that go beyond the legal requirements on all projects



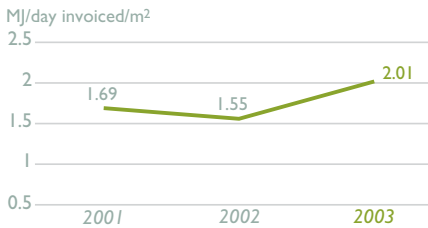


studies have been started for three power lines and one substation and environmental studies have been started at four substations. Progress continues on the environmental impact studies for one underwater cable, 22 power lines and two substations together with environment studies at 11 substations.

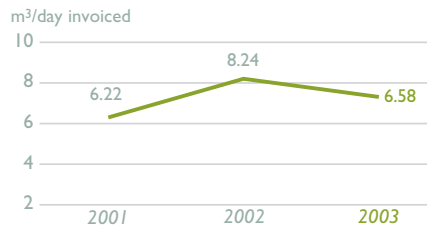
Environmental supervision was conducted on the construction of 1 underwater cable, on 6 power lines, the stringing of 3 seconds circuits and 6 capacity upgrades. This entailed the application of preventive and corrective measures as defined in the corresponding environment monitoring programmes in each case. Work on 2 power lines, on the 3 seconds circuits and on the 6 capacity upgrades, has already finished.

In addition, environmental supervision was conducted on the construction of 10 substations and on the extensions and improvements at another 20. The work included preventive and corrective measures, the design of areas for dangerous waste and verification of the handling of construction waste. Of these, 16 extension and improvement projects were completed during the year:

Average energy consumption



Average water consumption



Average paper consumption



Waste handling

The waste generated by Red Eléctrica comes from construction and maintenance of facilities (power lines, substations and buildings). These are separated according to type and stored in places that are labelled and sealed to prevent environmental contamination. Finally, they are dealt with in the most appropriate manner (recycling, reuse and resale).

The increase in the volume of non-dangerous waste is mainly due to the fact that maintenance and renewal of facilities does not generate a regular volume of waste in terms of type or quantity. It should be noted that some types of waste have increased considerably as a result of the renewal of equipment. In addition, this increase can also be explained by the continuous improvement in control of waste generation and waste handling.

Consumption of basic resources

The consumption of basic resources at Red Eléctrica (electricity, water and paper) takes place mainly in the buildings it owns all over Spain. An awareness campaign was launched to reduce this consumption. All employees were given a copy of the *Environment Good Practice Code*. This code provides recommendations and advice on driving and conservation of vehicles that will help to reduce fuel consumption.

Environmental costs

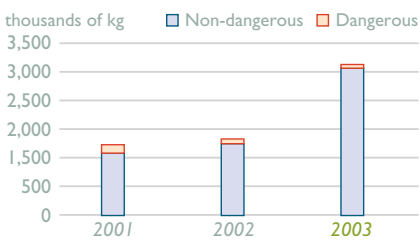
One of the principles of the Red Eléctrica Group's environmental policy is "to guide the group towards sustainable development, combining respect for the environment and support for progress and social welfare with financial aspects and with the goal of creating value in a persistent manner".

Since 1999 Red Eléctrica has been identifying and calculating the company's environmental costs. The goal is to have an accurate idea of the company's spending on protection of the environment (avoiding, reducing or repairing the damage caused by its operations).

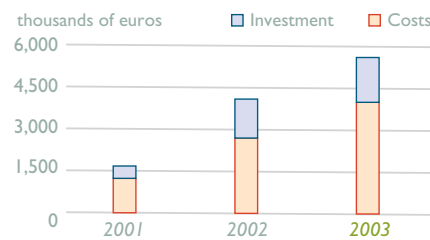


We carry out environmental supervision of all construction work

Waste handling



Environmental costs



We apply preventive measures to minimise the environmental impact



Environmental costs have experienced an important increase in recent years due to more accurate methods used to record these costs and investments. Costs are now included that were previously not taken into account.

Details of fines

Status	2002			2003		
	Shelved	Shelved and suspended fine	Pending	Shelved	Shelved and suspended fine	Pending
	12	2	-	-	1	4
Total		14			5	

Fines

In 2003 five infringements were recorded of which only one resulted in a fine. The offence in question was related to felling different species of trees, affecting the surrounding vegetation through the fall of the trees, on the left bank of the Najerilla River in the Rioja Autonomous Community. The fine was 1001 euros plus the obligation of restoring the affected area.

Compared to the previous year, the number of infringements detected fell by 64.3%. In 2002 there were 14 cases, 12 of these were dismissed and the remaining two were qualified as minor. In one, the offence was related to completion outside the authorised period of construction in the restricted waters area on the left bank of the Sgualles Gully, in the Cantabria Autonomous Community. The fine was 240 euros.

In the other case, the offence was related to the removal outside the authorised period of stork nests from power line pylons in various municipalities in Zamora Province. The fine was 150 euros.



The environmental programme. Goals and targets

Overall compliance with the 2003 environmental programme was 72.2%.

The following table shows the goals and targets set for 2003 and the degree of attainment:

Goals and targets in 2003

Areas	Goal	Target	Weighting goal	Achieved goal	Achieved target
IMPROVEMENT IN ENVIRONMENTAL MANAGEMENT	IMPROVEMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM	IMPROVEMENT IN ENVIRONMENT MANAGEMENT PROCESSES	50%	0% ⁽¹⁾	50%
		INTEGRATION AND IMPROVEMENT OF ENVIRONMENTAL STANDARDS	50%	100%	
	IMPROVEMENT IN PROCESSES	PROCEDURE FOR CONTROL OF SF6 EMISSIONS	70%	0% ⁽²⁾	30%
		SPECIFICATIONS FOR THE PREPARATION OF ENVIRONMENTAL IMPACT STUDIES IN HTML	30%	100%	
PROTECTION OF BIRDLIFE	REDUCTION OF DANGER TO PROTECTED BIRDLIFE	AGREEMENT WITH THE DOÑANA BIOLOGICAL STATION (CSIC) ON THE PRESERVATION OF THE LESSER KESTREL	25%	100%	100%
		AGREEMENT WITH THE AGRICULTURE WATER AND ENVIRONMENT COUNCIL IN THE MURCIA REGION FOR MARKING POWER LINES	25%	100%	
		AGREEMENT WITH THE AGRICULTURE AND ENVIRONMENT COUNCIL IN THE EXTREMADURA REGION ON MARKING POWER LINES	35%	100%	
		TRACKING OF THE COLLISION STUDY ON THE GUADAME-TAJO LINE	15%	110%	
PROTECTION OF THE LANDSCAPE	ANALYSIS AND REDUCTION OF THE VISUAL IMPACT OF INSTALLATIONS	GRAPHIC SIMULATIONS FOR SEVEN SUBSTATIONS AND ONE POWER LINE	30%	50% ⁽³⁾	15%
		LANDSCAPE IMPROVEMENTS FOR NINE SUBSTATIONS	70%	0% ⁽⁴⁾	
PREVENTION OF CONTAMINATION	INCORPORATION OF NEW ASSETS IN SIGMA	ENVIRONMENTAL INVENTORY AND PROPOSED PREVENTIVE AND CORRECTIVE MEASURES FOR ALL FACILITIES INCORPORATED IN TELECONTROL.	100%	100%	100%
	A REDUCTION IN THE RISK OF ACCIDENTAL SPILLAGE OF OIL FROM TRANSFORMERS AND REACTORS AND OF FUEL FROM GENERATOR SETS	LOSS OF WATER FROM THREE OIL COLLECTION PITS AT ONE SUBSTATION	20%	0% ⁽²⁾	80%
		ANALYSIS AND PROPOSAL FOR PREVENTING THE LOSS OF WATER FROM THREE COLLECTION PITS	30%	100%	
		OVERHAUL AND CHECKING OF FUEL LEAKS FROM GENERATOR SETS AT FIVE SUBSTATIONS	35%	100%	
		ANALYSIS OF POSSIBLE SOLUTION AND PROPOSAL TO PREVENT LEAKS FROM FUEL TANKS IN ONE REGION	15%	100%	
REDUCTION OF CONSUMPTION	REDUCTION OF CONSUMPTION OF ELECTRICITY AND WATER	ANALYSIS OF ELECTRICITY CONSUMPTION AT HEAD OFFICE AND CONTROL CENTRE TWO	100%	100%	100%
CONTROL OF SUPPLIERS	TRAINING AND QUALIFICATION OF SUPPLIERS	SUPPLIER TRAINING	50%	100%	50%
		REVISION AND IMPROVEMENT OF THE SUPPLIER ENVIRONMENTAL QUALIFICATION SYSTEM	50%	0% ⁽²⁾	
TRAINING	TRAINING OF PERSONNEL ON ENVIRONMENTAL MATTERS	PREPARATION OF MEDIUM-TERM TRAINING PLAN	30%	0% ⁽¹⁾	70%
		COURSE TREATMENT OF RIGHT-OF-WAYS, TRIMMING AND PRUNING	30%	100%	
		COURSE ON ENVIRONMENTAL ASPECTS OF CONSTRUCTION AND WASTE HANDLING	40%	100%	
COMMUNICATION	IMPROVEMENTS TO COMMUNICATIONS	2002 ENVIRONMENT REPORT	20%	100%	100%
		2002 SUSTAINABILITY REPORT	30%	100%	
		4TH CONFERENCE ON POWER LINES AND THE ENVIRONMENT	25%	100%	
		AGREEMENT WITH THE COLLEGE OF PHYSICISTS FOR THE DESIGN OF A WEB SITE	25%	100%	
DESIGN AND CONSTRUCTION	DESIGN AND CONSTRUCTION OF POWER LINES AND SUBSTATIONS	ENVIRONMENTAL IMPACT DECLARATIONS FOR THREE POWER LINES	50%	100%	100%
		ENVIRONMENTAL EVALUATION APPROVALS FROM THE MINISTRY OF THE ENVIRONMENT FOR EIGHT SUBSTATIONS	50%	100%	
				TOTAL	72.2%

(1) Target achieved with delay. (2) Target which ends in 2004. (3) 5 substations and one line finished. (4) Improvements at 5 substations completed



dialogue and transparency

*Transparency is an essential principle
in our relations with all stakeholders*

Red Eléctrica sets up communication channels for dialogue and information. This is done in a transparent, fluid and permanent manner with all stakeholders. The company is convinced that it is those individuals or groups who work, invest or receive services from the company that should evaluate its business behaviour.

Attention to shareholders or investors

Red Eléctrica conducts different communication campaigns aimed at shareholders, institutional investors and financial analysts. It provides specific and precise information on the company's activities and development at all times.

For this purpose it uses various communication channels, managed mainly through the Shareholders Office. In 2003 two surveys were held to evaluate the degree of satisfaction with the services provided by the Shareholders Office and the shareholders' section on the web site.



Communication channels

SHAREHOLDERS' OFFICE
FREE PHONE 900 100 182
E-MAIL: accionistas@ree.es
COMPANY WEB SITE: SHAREHOLDERS' AND INVESTORS SECTION
SHAREHOLDERS' BULLETIN
VISITS TO FACILITIES

Shareholder communication statistics

SHAREHOLDERS' OFFICE (visits)	1,805
SHAREHOLDER HOTLINE AND E-MAIL (queries answered)	3,060
DOCUMENTATION (number sent)	3,110
VISITS TO FACILITIES (shareholders participating)	150
IDENTIFICATION OF SHAREHOLDERS (no. of records)	2,935

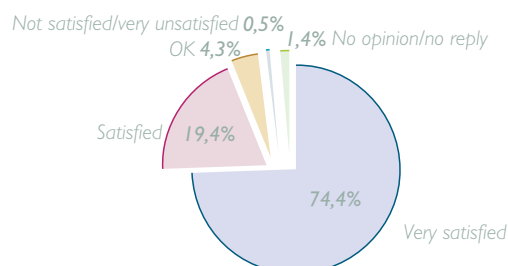
We held more than 100 meetings with institutional investors

In addition and since 1999, Red Eléctrica has an investor relations unit responsible for handling queries and providing a channel for communication. This unit handles the presentations and holds frequent meetings with the financial community and analysts.

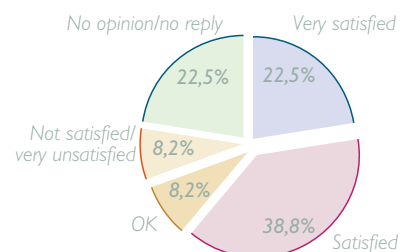
In 2003 there were 9 road shows, 86 meetings and 8 presentations to institutional investors in financial centres in Spain, Europe and the United States.

Assessment of service provided

Shareholder Office



Shareholder web pages



Communication through the media

In accordance with the company's policy on transparent information, contact with the media is frequent. The following channels are used: press conferences, press releases and interviews.

In 2003 Red Eléctrica was present in the media with 4,952 reports of which 2,228 were in the national press and 2,724 in the regional press.

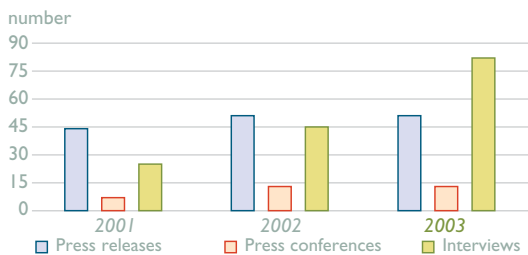
At the end of 2003 Red Eléctrica launched its on-line press room with the goal of creating a specific channel of communication for the media and to amplify the information available on its web site. During the period July-December this section received a total of 20,281 visits, with 35,400 page views.

In September a survey was carried out to determine the value of the on-line press room. This took the form of a questionnaire sent to reporters associated with our sector. The results show that 76% are satisfied or very satisfied with this service.

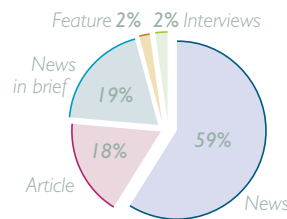


We created an on-line pressroom

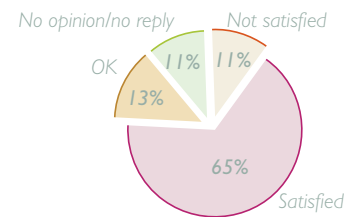
Information issued



News published 2003



Assessment of the press room



Company web site

Red Eléctrica de España makes its company web site available to the public via the Internet (www.ree.es). It provides financial and other information on the company's business together with information on the electricity system that might be of interest to the different parties. This communication is carried out under criteria of maximum transparency, quality, speed and scope of distribution.

Relevant events are added to the web site as soon as they are notified to the Spanish securities market commission together with other information on corporate governance and full accounting and financial information that is kept constantly up to date. The goal is to satisfy the information needs of investors beyond mere compliance with legal obligations.

In 2003 the company's web site recorded 7.7 million page views and 360,000 visits, coming from around 100 countries. The number of visits, with an average duration of 39 minutes, is equivalent to more than 234,000 hours of public information via this communication channel.



In two years the number of visitors to our web site has doubled

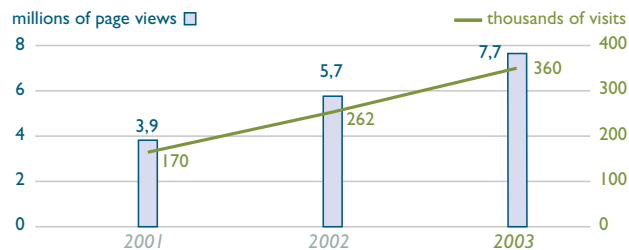


In 2003 various actions were taken to strengthen relations between the company and its public. This was based on a user survey and a study of the competition at the end of 2002. This compared our web site with another 14 leading sites. These actions included the creation of an on-line pressroom and a supplier's section with content and services specifically developed for these users. In the supplier's section there were 18,400 page views of information related to procurement. Initially evaluation of 75 potential suppliers was commenced prior to the qualification process. The efforts made by the company to respond to the expectations of society in terms of transparent information improved recognition by institutions and sector specialists. The Spanish Accounting and Business Administration Association (AECA) reconfirmed, via a mention of honour in June 2003, the prize awarded to the company for the best financial information on the Internet. This had been granted to Red Eléctrica in June 2002 in recognition of its web site following a comparison of the web sites of all the companies in the Ibex 35 index.

The web site is also ranked highly in comparisons made by the media. Red Eléctrica's web site achieved second place in the 2003 ranking published by the *Dinero* magazine and the consultants Look&Enter on web sites of companies in the Ibex 35 index.



Company web site – annual number of visitors



AECA reconfirmed, via a mention of honour in 2003, the prize for the company with the best financial information on the Internet that it granted Red Eléctrica in 2002

Publications

Red Eléctrica publishes and distributes documents with two goals in mind: to ensure compliance with its legal obligations in relation to the information it must make available to parties in the electricity sector; and to increase recognition of the company in the institutional, economic and social environment. In order to achieve these objectives, each year Red Eléctrica prepares and distributes more than 25 types of corporate publication, technical documents and other material, with a distribution of approximately 50,000 printed copies. These figures should be increased by the number of downloads of computerised versions via the company's web site.

The distribution of publications in computer format provides information to all interested parties with important savings in resources. In 2003 more than 103,000 copies were obtained in this manner – more than double the distribution of printed copies.

The target public of these documents comes from a wide range of people in society: institutions, public sector organisations, electricity companies, the media, shareholders, etc. There are nearly 4000 recipients.

Principal publications in 2003

- 2002 Annual Report of Red Eléctrica de España S.A.
- 2002 Social Report and Sustainability Report
- The 2002 Environment Report
- The 2002 Report on the Spanish Electricity System
- The 2003 Report on the Spanish Electricity System - draft
- The Monthly Report (information on the electricity system)
- The Bulletin of Electrical Energy Statistics (monthly)
- The Shareholders' Bulletin (quarterly)
- Map of the Iberian electricity system in 2002
- The 2002 TDE Annual Report
- The 2002 REDESUR Annual Report

We distribute more than 50,000 copies of various printed publications and more than 100,000 in electronic format

The contents of these publications is consistent with this report.

Red Eléctrica's web site is becoming a standard in the electricity sector based on its content and the services it provides



The Global Reporting Initiative (GRI) has published a guide for the preparation of sustainability reports in 2002. A table showing its recommended indicators is given below. The table shows the corresponding page of the document for each indicator:

Items where there is insufficient information or the information has not been broken down, will be gradually added in future versions, following the GRI guidelines.

	page
Vision and Strategy	
1.1. Statement of the Red Eléctrica Group's vision and strategy regarding its contribution to sustainable development	23
1.2. Chairman' statement	4 - 7

Organisational Profile	
2.1. Name of reporting organisation	2
2.2. Major products and/or services	8 - 11
2.3. Operational structure of the organisation	10 - 11
2.4. Description of major divisions, operating companies, subsidiaries, and joint ventures	10 - 11
2.5. Countries in which the organisation's operations are located	8, 11
2.6. Nature of ownership; legal form	11, 28
2.7. Nature of markets served	9 - 11
2.8. Scale of the reporting organisation	9 - 11
2.9. List of stakeholders, key attributes of each, and relationship with Red Eléctrica	20-21, 28-30. 34, 44, 65
2.10. Contact person(s) for the report	72
2.11. Reporting period	2
2.12. Date of most recent previous report	2
2.13. Boundaries of report	2
2.14. Significant changes in size	8.10
2.15. Basis for reporting on joint ventures, partially owned subsidiaries	65
2.16. Explanation of the nature and effect of any re-statements	n/a
2.17. Decisions not to apply GRI principles or protocols in the preparation of the report	66
2.18. Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits	2
2.19. Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information	not changes
2.20. Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report	2
2.21. Policy and current practice with regard to providing independent assurance for the full report	2
2.22. Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities	63, 65

Governance Structure and Management Systems	
3.1. Governance structure of the organisation	19-22
3.2. Percentage of the board of directors that are independent, non-executive directors	20
3.3. Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities	23, 25
3.4. Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities	23, 25
3.5. Linkage between executive compensation and achievement of the organisation's financial and non-financial goals	36
3.6. Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental and social policies	24

3.7.	Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance	14, 18, 19, 20, 23, 24, 34, 52
3.8.	Mechanisms for shareholders to provide recommendations or direction to the board of directors	20, 62
3.9.	Basis for identification and selection of major stakeholders	13, 23
3.10.	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group	13, 15, 28, 29, 39, 44-45, 48, 62-64
3.11.	Type of information generated by stakeholder consultations	13, 15, 29, 39, 44, 48, 63
3.12.	Use of information resulting from stakeholder engagements	13, 15, 29, 39, 44, 64
3.13.	Explanation of the precautionary approach	22
3.14.	Sets of principles, or other initiatives to which Red Eléctrica subscribes	13-15, 18-19, 40, 52
3.15.	Principal memberships in industry and business associations, and/or national/international advocacy organisations	14, 19, 45, 48, 49
3.16.	Policies and/or systems for managing upstream and downstream impacts	29-30
3.17.	Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities	n/i
3.18.	Major decisions during the reporting period regarding the location of, or changes in, operations	not changes
3.19.	Programmes and procedures pertaining to economic, environmental, and social performance	1, 13, 15, 23, 37-40, 54
3.20.	Status of certification pertaining to economic, environmental, and social management systems	1, 13-15, 40, 54

Performance indicators

Economic Performance Indicators

EC1.	Net sales	8, 28
EC2.	Geographic breakdown of markets	10-11
EC3.	Cost of all goods, materials, and services purchased	29
EC4.	Percentage of contracts that were paid in accordance with agreed terms	29
EC5.	Total payroll and benefits	30
EC6.	Distributions to providers of capital	28
EC7.	Increase/decrease in retained earnings at end of period	28
EC8.	Total sum of taxes of all types	30
EC9.	Subsidies received broken down by country	31
EC10.	Donations to community, civil society, and other groups broken down	46
EC11.	Supplier breakdown by organisation and country (if more than 5% of total purchases)	30
EC12.	Total spent on non-core business infrastructure development	n/i
EC13.	The organisation's indirect economic impacts	n/i

Environmental Performance Indicators

EN1.	Total materials use other than water, by type	n/a
EN2.	Percentage of materials used that are wastes	n/a
EN3.	Direct energy use	56
EN4.	Indirect energy use	n/a
EN5.	Total water use	56
EN6.	Location and size of land owned, leased, or managed in biodiversity-rich habitats	n/a
EN7.	Description of the major impacts on biodiversity	n/a
EN8.	Greenhouse gas emissions	n/a
EN9.	Use and emissions of ozone-depleting substances	n/a
EN10.	NO _x , SO _x , and other significant air emissions	n/a
EN11.	Total amount of waste	52, 57
EN12.	Significant discharges to water by type	n/a
EN13.	Significant spills of chemicals, oils, and fuels	52, 59
EN14.	Environmental impacts of principal products and services	54-56
EN15.	Percentage of the weight of products sold that is reclaimable	n/a

	page
EN16. Incidents of and fines for non-compliance with environmental standards	58
EN17. Initiatives to use renewable energy sources and to increase energy efficiency	n/a
EN18. Energy consumption footprint of major products	n/a
EN19. Other indirect energy use	n/a
EN20. Water sources and related ecosystems/habitats significantly affected by use of water	n/a
EN21. Annual withdrawals of ground and surface water as a percent of annual renewable quantity of water available from the sources	n/a
EN22. Total recycling and reuse of water	n/a
EN23. Total amount of land owned, leased, or managed for production activities or extractive use	n/a
EN24. Amount of impermeable surface as a percentage of land purchased or leased	n/a
EN25. Impacts of activities and operations on protected and sensitive areas	n/a
EN26. Changes to natural habitats resulting from activities and operations and percentage of habitat protected or restored	59
EN27. Objectives, programmes, and targets for protecting and restoring native ecosystems and species in degraded areas	59
EN28. Number of IUCN Red List species with habitats in areas affected by operations	59
EN29. Business units currently operating or planning operations in or around protected or sensitive areas	n/i
EN30. Other relevant indirect greenhouse gas emissions	n/a
EN31. All production, transport, import, or export of any waste deemed "hazardous" under the terms of the Basel Convention	n/a
EN32. Water sources and related ecosystems/habitats significantly affected by discharges of water and runoff	n/a
EN33. Performance of suppliers relative to environment	29, 54
EN34. Significant environmental impacts of transportation	n/a
EN35. Total environmental expenditures	57

Labour Practices and Decent Work

LA1. Breakdown of workforce	8, 35-36
LA2. Net employment creation and average turnover	35
LA3. Percentage of employees covered by collective bargaining agreements	35
LA4. Policy and procedures involving information to employees	39
LA5. Practices on recording and notification of occupational accidents and diseases	40-41
LA6. Formal joint health and safety committees	41
LA7. Standard injury, lost day, and absentee rates	41-42
LA8. Policies or programmes on HIV/AIDS	n/a
LA9. Average hours of training	37-38
LA10. Equal opportunity policies or programmes	34-36, 43
LA11. Composition of senior management and corporate governance bodies	35
LA12. Employee benefits beyond those legally mandated	37, 43
LA13. Worker representation in decision making or management, including corporate governance	40
LA14. Evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems	40, 41
LA15. Formal agreements with trade unions covering health and safety at work	40
LA16. Programmes to support the continued employability of employees	38
LA17. Policies for lifelong learning	24, 37, 38

Human rights

HR1.	Policies to deal with all aspects of human rights	18-19, 24, 34
HR2.	Consideration of human rights impacts as part of procurement decisions	29
HR3.	Policies and procedures to evaluate and address human rights performance within the supply chain	n/i
HR4.	Policy and programmes preventing all forms of discrimination in operations	24, 34, 36, 43
HR5.	Policy of freedom of association policy and extent to which this policy is applied	40
HR6.	Policy excluding child labour	18
HR7.	Policy to prevent forced and compulsory labour	18
HR8.	Employee training on aspects of human rights	19
HR9.	Appeal practices related to human rights issues	n/i
HR10.	Non-retaliation policy and effective, confidential employee grievance system	n/i
HR11.	Human rights training for security personnel	n/i
HR12.	Policies to address the needs of indigenous people	n/i
HR13.	Jointly managed community grievance mechanisms/authority	n/i
HR14.	Share of operating revenues from the area of operations that are redistributed to local communities	n/i

Society

SO1.	Policies to manage impacts on communities	24, 44, 52
SO2.	Policy on bribery and corruption	18, 20, 23
SO3.	Policy and mechanisms for managing political contributions	23
SO4.	Awards received relevant to social, ethical, and environmental performance	43, 52, 64
SO5.	Amount of money paid to fund political parties	23
SO6.	Court decisions regarding cases pertaining to anti-trust regulations	n/a
SO7.	Policy and mechanisms for preventing anti-competitive behaviour	n/a

Product responsibility

PR1.	Policy for preserving customer health and safety	n/a
PR2.	Policy and mechanisms related to product information and labelling	n/a
PR3.	Policy for consumer privacy	29
PR4.	Non-compliance with regulations concerning customer health and safety	n/a
PR5.	Complaints by regulatory bodies regarding the health and safety of products and services	n/a
PR6.	Voluntary code compliance and product labels	n/a
PR7.	Non-compliance with regulations concerning product information and labelling	n/a
PR8.	Mechanisms related to customer satisfaction	29
PR9.	Policies, procedures and mechanisms for adherence to voluntary codes related to advertising	n/a
PR10.	Number and types of breaches of advertising and marketing regulations	n/a
PR11.	Complaints regarding breaches of consumer privacy	29

n/a: not applicable

n/i: not available

AENOR Asociación Española de
Normalización y Certificación

SUSTAINABLE REPORT VALIDATION

VMS-Nº 004/04

The Spanish Association for Standardisation and Certification (AENOR) validates that the sustainable Report of the following firm:

RED ELECTRICA DE ESPAÑA, S.A

Entitled: **2003 CORPORATE RESPONSIBILITY REPORT**

Legal deposit number: M-13645-2004

This Report is in accordance with the requirements of the 2002 edition guide for the elaboration of Sustainable Reports, developed by the Global Reporting Initiative (GRI). The validation has been fulfilled on 24th March and no subsequent performances can be considered

The present validation will be in force, unless it is cancelled or withdrawn upon AENOR's written notification and according to specific terms of the contract - application nº GRI - 005/2004 of 18th March 2004 and to the General Regulation of January 2003, which require, amongst other commitments, the permission to visit the installations by the technical services of AENOR to verify the veracity of stated data.

Issued on: 23rd March 2004


General Manager of AENOR

This document is available to the public on Red Eléctrica's web site: www.ree.es

Any enquiries related to this report should be addressed to the Technical Assistant to the Chairman or to the Communications and Institutional Relations Department at Red Eléctrica.

Paseo Conde de los Gaitanes, 177
28109 Alcobendas.
Madrid
Telephone: 91 650 85 00 / 20 12
Fax: 91 650 45 42 / 76 77
redelctrica@ree.es

The validation report for this document is available to the public at the offices of AENOR:
Calle Génova, 6 · 28004 Madrid · Spain · Telephone: +34 91 432 60 00

CO-ORDINATION:

Red Eléctrica's Communications and Institutional Relations Department

PHOTOGRAPHY:

PHOTOGRAPHS OF EMPLOYEES:

Agapito García, page 13
Juan Carlos Felipe, page 15
Pilar Pérez, page 15
Roberto Andía, page 16 and 47
Sonia Yufra, page 18
Daniel Cayetano, page 19 and 46
Ángel Andrés, page 22 and 23
Eva Pagán, page 37
Juan Dávila, page 41
José Luis Mata, pages 41 and 49
Enrique Soriano, page 47 and 48
Raúl Gómez, page 49
Fernando Cruz, page 52
Leticia González, page 56

PROFESSIONAL PHOTOGRAPHERS:

Antonio Sanz
Ernesto Ainaud
Fernando Prados
Guillermo R. Gordillo
Isaac Abad
Juan Luque
Juanjo Lopera
Manuel Juan

The wild life section of the territorial service of the environmental council of the Castile and Leon autonomous community , pages 46 and 55

Alfonso Vigil-Escalera (archaeology area), page 56

GRAPHIC DESIGN, IMAGE PROCESSING AND LAYOUT:

ZEN Comunicación Visual. www.zen.es

COLOUR SEPARATION:

Siglo Digital

PRINTING:

TF Artes Gráficas

LEGAL DEPOSIT:

M-13646-2004



RED ELÉCTRICA
DE ESPAÑA

Pº del Conde de los Gaitanes, 177
28109 Alcobendas · Madrid
www.ree.es

