



Corporate Responsibility Report 2004





SCOPE OF THE CORPORATE RESPONSIBILITY REPORT

This corporate responsibility report published by Red Electric for the third consecutive year, has been prepared and validated in accordance with the directives of the 2002 guide for preparing sustainability reports published by the Global Reporting Initiative (GRI), and the data has been verified in accordance with "AccountAbility 1000" standard (AA1000), compliance with which ensures the transparency and dependability of the data included. The validation and verification process was carried out by an independent entity and the corresponding report included at the end of the document.

References [] included in this paragraph and the rest of the document correspond to GRI indicator codes, as listed in the final part of the document. These indicators and their measures have not been reformulated with respect to those presented in previous editions [2.16, 2.19].

This report includes the principle actions and results of Red Eléctrica during 2004 within the framework of corporate governance [2.1, 2.11, 2.12, 2.13]. Although the majority of the data included corresponds to the parent corporation, Red Eléctrica de España, S.A., it was deemed appropriate to include some of the principle actions of the affiliates in each of the perspectives so that this information would be amplified in future editions [2.6, 2.15].

Economic and environmental data in this report were submitted for external audit and are published in greater detail in the company's 2004 Annual Report, Corporate Governance Report and Environmental Report [2.18].

This report lists some of the actions and results showing the company's commitment to respect and support human and labour rights, and includes a list of the 10 Principles of the United Nations Global Compact together with the associated GRI indicators and their location in the document

Any clarification and additional information for this Corporate Responsibility Report or its validation and verification document can be sent to the contact addresses found at the end of the document [2.20, 2.21].



This report has been reviewed by the Urgent Spanish Foundation (Fundéu).

TABLE OF CONTENTS

| | |
|--|----|
| <i>Corporate Declaration</i> | 4 |
| <i>Our Company</i> | 8 |
| <i>Corporate responsibility in Red Eléctrica</i> | 13 |
| <i>Corporate governance</i> | 25 |
| <i>Technical-economic responsibility</i> | 31 |
| <i>Social responsibility</i> | 43 |
| <i>COMMITMENT TO OUR WORKERS</i> | 44 |
| <i>COMMITMENT TO SOCIETY</i> | 58 |
| <i>Environmental responsibility</i> | 73 |
| <i>Projects for 2005</i> | 87 |
| <i>Index of GRI indicators</i> | 88 |
| <i>United Nationals Global Compact</i> | 93 |
| <i>Verification report</i> | 94 |

CORPORATE DECLARATION

Any reflection that we make on how to advance towards a better world for us and for future generations, on how to stop the progressive deterioration of the environment, on how to create economic value consistently and on how to reduce enormous social inequalities leads us to the conclusion that we need to find a sustainable balance between the economic, environmental and social perspectives, using the adoption of better corporate governance practice as a fundamental axis.

Within the framework of this reflection, corporate responsibility arises as a new value. Companies aware of the impacts produced by their products and manufacturing in the environmental and societal spheres, as well as society's growing demand for ethical and transparent behaviour, has advanced greatly over the past few years. Companies have passed from a model that sought only to create value for the shareholder to a broader concept, where all interacting parties are taken into account: clients, shareholders, investors, employees, social agents, suppliers and public administrations.

At Red Eléctrica we are firmly convinced of our corporate responsibility to achieve sustainable development, and of the requirement to work with this as a strategic factor of our activities, every day. One expression of this pledge was the 2004 creation of the Corporate Responsibility Directive Commission, formed of the highest level executives whose task within the company is directly related with the projects we wish to move forward.

The services provided by Red Eléctrica are indisputably essential for the economic development of cities and the wellbeing of their citizens. Thus for example, when we build an electric line between two towns, when we interconnect with our neighbouring countries or when we join two continents via an underwater cable such as that linking Spain and Morocco, we are contributing in great measure to the progress of their communities.



Our commitment is to make our activities compatible with care and respect for the environment, the professional and human development of the people working in the company, and to create wealth for our shareholders and the society surrounding our activities.

In fulfilling this goal, our basic line of action is to respond correctly to the constant increase in the demand for electrical energy through an efficient management of the operations system. We also promote grid development to facilitate the progressive incorporation of energies, a large part of which are clean and renewable, in covering this demand. To do so, during this year system operations has been upgraded with the creation of a General Operations Division. With regard to amplification and improvement of the grid, 243 million euros were invested in 2004 and we continue with an ambitious investment program which will increase significantly over the next five years, up to the amount of 1,900 million euros.

Our concern for the environment unfolds in an array of actions that range from such aspects as the preparation of environmental impact studies in all projects beyond the limits established by legal standards, to dedicating a good part of our RUDI resources to research projects designed to decrease the effects of our activities on the environment, and programs to reinforce social acceptance of our projects, contributing to the development of the surrounding area with incentives and accompanying measures.

One significant example of these is the REMO Project (the Western Mediterranean Electrical Reinforcement Project in its Spanish acronym). Great efforts were made as part of this project to define compensatory measures accepted by all parties related or affected by the project.

A company's corporate responsibility resides especially in its relationship with its employees, its most important asset. We in Red Eléctrica believe this, and it is for this reason that the development, motivation, integration and satisfaction of our human team constitutes one of the principle concerns of the management team; we are completely convinced that the key to the company's future are the people who form it.

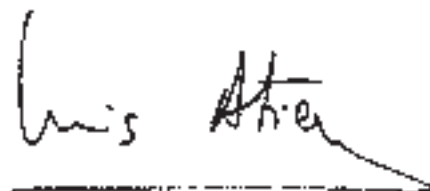
Red Eléctrica has for one more year demonstrated a guaranteed operating efficiency and profitability, as seen in the excellent grid availability data, placing it at 98.4%, as well as increased economic results. Net benefit increased by 14.3% with respect to 2003, and shareholder's dividends increased by 12%.

With regard to corporate governance in Red Eléctrica we have adopted corporate governance best practices, keeping our work transparent through the information that we transmit to our shareholders and markets. Especially important this year was the amplification of shareholders right to attend the General Meeting, eliminating the requirement to hold a minimum number of shares in order to participate. In addition to maximizing the active role of the shareholder, means and procedures were developed to cast votes electronically through the company webpage.

This report, published for the third consecutive year, has been prepared and validated in accordance with the of the Global Reporting Initiative (GRI) and presents balanced and reasonable information on the economic, environmental and social management of our company. In addition for the first time it has been verified in accordance with AA1000 Assurance Standard (2003), assuring that the information presented is dependable and corresponds to reality.

To demonstrate the importance that we in Red Electric give the activities related to our social responsibility, human rights and work conditions, we recently obtained for all Red Eléctrica activities SA8000 certification, granted by one of the most prestigious certifying entities in the world, Social Accountability International. This recognition places us among the first Spanish companies to achieve it, and the only one in the energy sector.

Finally, I want to make clear Red Eléctrica's commitment to continue working in the line of progress for sustainable development, in co-operation with all actors intervening in this thrilling, and necessary project.

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

Luis Atienza Serna
President of Red Eléctrica de España

OUR COMPANY

Red Eléctrica provides an essential service for society.

Our mission is to ensure the global functioning of the Spanish electrical system through the practice of two basic activities: operation of the Spanish electrical system and transport of high voltage electricity. Both functions, which are intimately interrelated, form what is internationally known as TSO (Transmission System Operator).

Red Eléctrica is among the most important electricity carriers of the world due to its size and the substantive form of its efficiency and quality. With a grid of over 27,800 kilometres of electric lines spread throughout Spanish territory and interconnections with France, Portugal, Morocco and Andorra, it ensures the correct carrying of electrical energy between production and consumption centres [EC2].

Since its beginning in 1985, Red Eléctrica has been guided at all times by one single guideline: To offer the electrical system and citizens a maximum quality service in a responsible and efficient manner.



The involvement and high qualifications of the over 1400 people working in Red Eléctrica Group, its installations and its management systems allow the company to provide a carrying grid that is capable, dependable and safe. These qualities also it to operate the electrical system satisfying demanding standards for responsibility, quality, efficiency and transparency with an adequate response to the growing requirements confronting the Spanish electrical system as a result of the increased demand for electricity registered over the past years.

Principle figures [2.8]

| | 2001 | 2002 (*) | 2003 (*) | 2004 |
|--|--------|----------|----------|--------|
| RESULTS AFTER TAXES (million euros) ¹ | 380.9 | 459.9 | 686.7 | 766.2 |
| ADJUSTED BUSINESS (million euros) ¹ | 91.1 | 99.9 | 115.8 | 132.4 |
| CASH FLOW AFTER TAXES (million euros) ¹ | 195.0 | 224.7 | 320.9 | 348.8 |
| INVESTMENTS (million euros) ¹ | 244.8 | 1,158.7 | 778.3 | 281.2 |
| ELECTRICAL LINES (km of circuit) ² | 19,240 | 27,005 | 27,538 | 27,831 |
| SUBSTATIONS (positions) ² | 717 | 1,730 | 1,799 | 1,924 |
| TELECOMMUNICATIONS NETWORK (km of fibre optic) | 8,500 | 10,000 | 13,000 | 13,400 |
| NUMBER OF EMPLOYEES ¹ | 1,009 | 1,168 | 1,280 | 1,415 |

(*) 2002 and 2003 data reflect the acquisition of carrying assets from electrical companies

¹ Red Eléctrica Group Data

² Assets acquired from Viesgo and Inalta after the close of the year are not reflected [3.18]

Red Eléctrica counts on the most advanced technology, developing high value technological applications with significant efforts in R&D+I and also counting on its significant knowledge of the sector; adding to its role and leadership in international organizations and programs.

Since its creation, Red Eléctrica has maintained a firm commitment to preserving the natural environment and to provide quality, safety and health for its workers, which has translated into its receipt of the respective ISO 14001, ISO 9001 and OHSAS 18001 certifications [3.20]. In 2003 it received the Golden Seal for Company Excellence according to the European Model for Excellence, designed by the European Foundation for Quality Management (EFQM).

At the close of this report it had also satisfactorily completed the external auditing process to certify its corporate responsibility, as required by standard SA8000, with receipt of the certificate remaining pending.

Red Eléctrica's entry to the Stock Market in 1999 marked the beginning of a new stage as a private company. Currently all capital is listed on the four Spanish stock exchanges.

RED ELECTRIC ACTIVITIES [2.3, 2.7, EC2]

In 1985 Red Eléctrica was created to manage the merged operation of the National Electrical System, the first company created in the world to exclusively transport electricity and operate the electrical system. The Electrical Sector Law of 1997 confirmed Red Eléctrica's role as a key player in system functioning. This law presented an important step towards privatizing the electrical sector through the introduction of free competition. Red Electric carries out its activities as system operator and carrier [SO7] within this new regulatory framework.

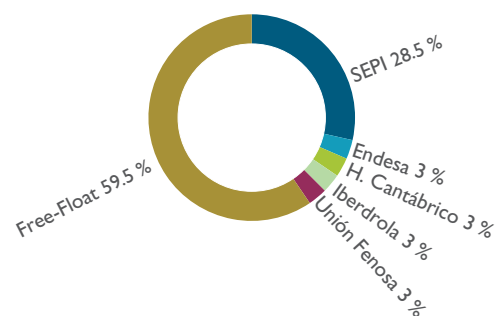
Principle Activities

As operator of the Spanish electrical system Red Eléctrica's main function is to guarantee the continuity and safety of the electrical supply and to ensure the correct coordination of the generation-transport complex at all times, every day of the year, throughout national territory.

As carrier and manager of the transport grid, Red Eléctrica is responsible for developing and extending the high voltage grid, for providing maintenance and improvements under homogeneous and coherent criteria and for managing the transport of electricity between foreign systems and the Spanish electrical system. It also guarantees access to the grid to third parties, so that all players in the sector can form part as equals.

These activities constitute the main business of Red Eléctrica, representing 98% of its adjusted consolidated income in 2004.

Share structure (May 6, 2004)





INSTALLATIONS

At the end of 2004 Red Eléctrica had 27,831 kilometres of high voltage lines, 1,924 transformer positions and 35,666 MVA of capacity, representing 87.4% of the total Spanish high voltage electricity transportation grid. It also has electrical control centres (both peninsular and island) constantly directing and overseeing the functioning of the Spanish electrical system.

Other activities [2.4, 2.5]

Experience acquired on the national level allows the company to perform other business activities complementary to its fundamental function of carrying electrical energy and operating the electrical system, in order to maximize profits from this experience and technological and financial capacity.

These activities, carried out through affiliate corporations, centre on international business in the form of investments in foreign electric transportation grids and consulting services directed towards the electrical sector; in addition to investment in a telecommunications service provider.

INTERNATIONAL INVESTMENT AND CONSULTING SERVICES

Affiliate company Red Eléctrica Internacional was created to carry out these activities, channelling and maximizing Group businesses abroad with criteria regarding profitability and controlling assumed risk.

Our main international investments are in Bolivia and Peru



International investment in electricity transport grids began in 1999 with the constitution of Red Eléctrica del Sur, S.A. (REDESUR) in Peru, in which Red Eléctrica has a 30% share. The company currently has a total of 530 km of 220 kV circuits and four substations, giving it a market share of 16%. The 2002 purchase of the Bolivian corporation known as Transportadora de Electricidad, S.A. (TDE) represented a strong advance in international expansion, significantly upgrading the position of Red Eléctrica Group in the Andean region. TDE owns and operates the Bolivian National Interconnection System (SIN) which serves 85% of the national market. The company's license was issued for an indefinite period, and it has 2,000 kilometres of high voltage lines, 19 substations and an electric control centre.

Consulting services are oriented towards technical business consulting in highly specialized areas where Red Eléctrica Group has references and competitive advantages. This service is provided mainly in northern Africa and in Eastern European countries.

TELECOMMUNICATIONS SERVICES

With an extensive fibre optic grid of over 13,000 kilometres, this activity centres principally on providing wideband and ADSL services for wholesalers through our affiliate Red Eléctrica Telecommunications.



*Obtaining triple certification in quality,
the environment and workers health by all of our affiliates*

BUSINESS EXCELLENCE

For over five years Red Eléctrica has directed its activities with a focus on management excellence, adopting the European Excellence Model (EFQM).

In 2003 it obtained the Gold Seal for Business Excellence granted by the Quality Management Club (+500 points). This distinction allows it to carry, beginning in 2004, the EFQM level "Recognized for Excellence". During this fiscal year and for the third consecutive year, it was also named as finalist and received an honourable mention in the Premios Príncipe Felipe a la Excelencia Empresarial (Prince Philip Award for Business Excellence) in the category of Industrial Quality.

During 2004 Red Eléctrica set into operation a guiding plan to improve management of excellence. Among the activities performed are:

- Broadcasting of new policies and strategies at all levels of the company.
- Improved management of excellence in its people.
- Optimization of alliance and resource management.
- Review and updating of all company processes.
- Satisfaction surveys of business agents and benchmarking with international electricity transport companies.
- Re-engineering of the corporate responsibility management system.

Especially worthy of note is the receipt of different certifications by Red Eléctrica affiliates. As a result, all companies forming the group now possess the integral triple certification of quality management, environment and safety, and work health systems, in accordance with international standards ISO 9001, ISO 14000 and OHSAS 18001, respectively.





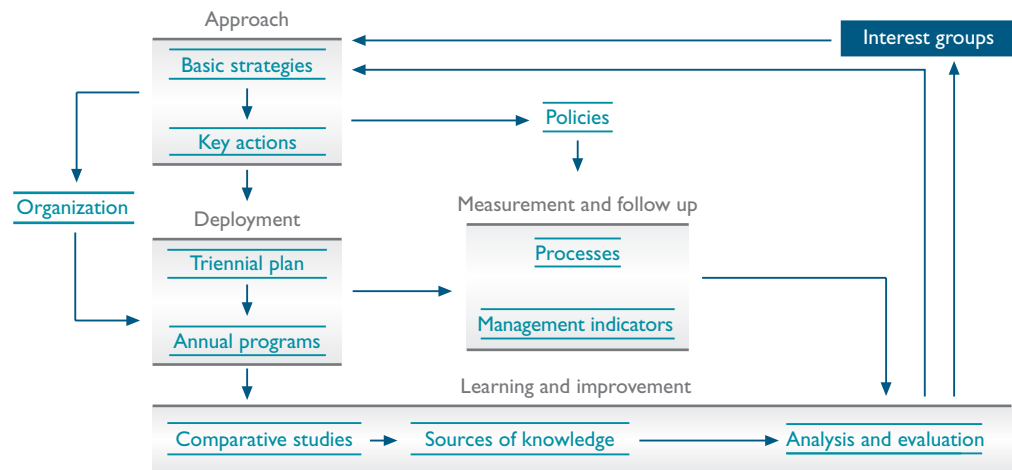
Corporate responsibility in Red Eléctrica

Our management is based on
continuous improvement of the system
and the incorporation of best practices

CORPORATE RESPONSIBILITY (RC)

The Corporate Responsibility Management System (CRMS) is formed of a set of elements that refer to the structure, management, temporary layout, follow up, evaluation, and learning and improvement. This structure allows a dynamic and coherent management, facilitating the receipt of information necessary to design actions to continuously improve the system.

Schematic map of the Corporate Responsibility Management System



STRATEGIC DEVELOPMENT

Before defining and reviewing strategies, bases were established to identify and select principal **interest groups** [3.9]. The company's organization and its interaction with its surroundings were analyzed and identified according to the typology established by the organization, as seen in the table on the following page [2.9].

Based on this inventory, analysis methods were designed to identify and apply expectations and requirements as well as to verify compliance. According to the interest group, different communications systems were developed with an established frequency, as shown in the matrix [3.10].

Different types of information were obtained through different methods of consultation which are described in detail in the different perspectives [3.11]. This information is integrated into the decision making process for strategic elements of the corporation, as well as in the SWOT analysis (strengths, weaknesses, opportunities and threats) included in the company plan [3.3, 3.4, 3.12, 3.16, 3.17].

The first focus element of the management system is the **basic strategy** "Excellence in performing activities".

Matrix of interest groups, execution and consultation frequency matrix

[2.9, 3.9, 3.10]

| INTEREST GROUPS / EXECUTION | Identification of requirements and expectations | Satisfaction measurement | Communications, dialogue and information | Alliances and agreements | Evaluation of trends and best practices |
|--|---|--------------------------|--|--------------------------|---|
| 1 SHAREHOLDERS / INVESTORS | A | A | P | - | - |
| 2 CLIENTS / BUSINESS AGENTS | B | B | P | A | A |
| 3 MARKETS AND COMPANIES | - | - | - | - | A |
| 4 SUPPLIERS / FINANCIAL ENTITIES | B | B | P | B | - |
| 5 ORGANIZATIONS AND ADMINISTRATIONS | B | B | P | B | - |
| 6 SOCIAL (AFFECTED BY INSTALLATIONS, NGOS, UNIONS, ETC.) (*) | B | B | P | A | - |
| 7 COMMUNICATIONS MEDIA AND ANALYSTS (*) | B | B | P | - | - |
| 8 SECTORIAL ORGANIZATION AND OPINION ENTITIES (*) | B | B | P | A | A |
| 9 EMPLOYEES | A | A | P | T | - |
| 10 PARTNERS | - | - | P | A | - |

Frequency of consultations: P PERMANENT A ANNUAL B BIENNIAL T TRIENNIAL (*) Scheduled for 2005

Since its creation, the organization has saturated its strategies with the principles of Corporate Responsibility (CR). Continuous adaptation of these strategies to their changing surroundings has allowed them to evolve from generating value for shareholders as the central axis of the corporation, to the need to create economic, environmental and social value for all interest groups at short, medium and long term.



Basic Strategy [1.1, 3.7]

One strategic element for Red Eléctrica in developing and consolidating its business project is management excellence in all its processes, activities, resources and installations, in harmony with a responsible management of corporate governance practices, in preserving and respecting the natural environment, in external and internal corporate actions, with special support and respect for human rights and with a transparent economic management for the purpose of achieving a sustainable development of this triple axis.

These will facilitate Red Eléctrica's consolidation as leader in the sector and will favour its recognition by its interest groups, as a company of reference for management, supporting the company's fulfilling its vision.

After revising and updating the basic strategy, bearing in mind all the criteria set, it is laid out at medium and long term through a series of **key actions** and **corporate policies** [3.16]. It is at this level that the requirements and expectations of different interest groups are considered, projecting them against the **triennial plan** and corresponding **annual programs** [3.12].

Basic principles of the corporate responsibility policy [3.7, 3.13, HR1, HR4-7, LA10, SO1-2]:

- To promote best corporate governance practices in management, through complying with legislation, transparency, codes of ethics and risk management.
- To direct activities of the Red Eléctrica Group in defending the long-term viability and value of the company for its shareholders and clients, offering a service that ensures the continuity and quality of the electrical supply
- To create an open communications channel with its interest groups in order to know their requirements and expectations, to improve to their satisfaction as well as to truthfully report business activities and results, guaranteeing at all times maximum transparency and true exchange of information.
- To maximize Red Eléctrica Group's support in developing the society surrounding its business activities, by participating in general interest and social projects, and educational, cultural and scientific programs, with special attention given to communities where the company carries out its activities.
- To understand that development and satisfaction of people is the principle element in achieving Red Eléctrica's objectives, with special attention to attitudes and behaviours, not discriminating based on sex, race, nationality, sexual orientation, age, handicap, language, religion or political beliefs, seeking equality (compensation, work schedule, development and education), professional development, work safety and health, work environment, integration of the individual and conciliation of personal with professional life. Any disciplinary measure will be carried out according to the legal framework and dispositions of the collective agreement.
- To ensure protection and compliance of basic human rights, freedom of affiliation, the right to collective bargaining, no child labour, elimination of "forced" work or under duress and any other practice implying a violation of personal or collective dignity. This includes compliance with the articles contained in the declarations and agreements of worker's rights.
- To maintain a firm commitment to act preventively in preserving the natural environment and the rational use of resources, integrating protection of the natural environment in the company's strategy. In this regard its activities will be directed towards initiatives that promote improvement of the environment and the use of technologies that respect the environment.
- To scrupulously respect current legislation in the fields of activities and countries where Red Eléctrica Group is active, preventing any involvement in any type of corruption, including extortion and bribery.

The principles of our corporate responsibility policy mark the way to a successful management



In addition to the corporate responsibility policy, our review of our strategies will include adapting and updating all other policies associated with economic, environmental and social performance [3.7], as well as for example the directors policy and commitment to its application, signed by each director, to ensure their involvement and obligation to act as a model for ethical behaviour. In addition the institutional relations policy establishes the commitment to maintain an absolutely neutral political position [SO3, SO5].

Along these lines one of the projects planned will be preparation of a code of ethics and conduct applicable to all company employees [3.7].

The organization has assigned responsibility and work to define, **coordinate** and implement the management system and action plans to a unit already in existence. It has also created two work and development teams. One of these, the "CR Directing Commission", works at strategy level, and the other, the "CR Operations Team" is at the tactical level. Both groups are formed of representatives from each of the areas responsible for the perspectives comprising the management system (structure, corporate governance, society - internal and external- and environment). In addition two employees, representing the remaining workers, are permanent members of the operations team, participating in defining projects and coordinating and leading some of them [3.6, LA13].



In 2004 Red Eléctrica created a commission to direct corporate responsibility

One important sign of the degree of corporate responsibility demonstrated by Red Eléctrica in its activities is the definition and design of **management process** regulating system. This process is listed on the Map of Processes as a strategic process, whose interrelation allows the display of all criteria of corporate responsibility at any level.

To measure the degree of advance or efficiency of the system, a series of **indicators** has been identified based on those defined by international standards (GRI, Iris, Global Compact, etc.) as well as by the company's study of moral conduct in activities and processes. Indicators obtained in 2005 will be reviewed and improved in order to re-design a CR Control Centre, included within the company's Control Centre.

The **program** for the 2004 financial year included a total of 36 projects associated with different perspectives, constituting the model for CR in Red Eléctrica. Mean compliance was 88.6%, with improvements and projects listed in the summary in the following table [3.19].

2004 Corporate responsibility program

Projects

Products obtained

Compliance

1. Structural management

| | | | |
|--------|--|---|-------|
| RC1.01 | Identifying requirements of interest groups and assessing their satisfaction | · Studies satisfying and identifying the requirements and expectations of clients, shareholders and users of our publications | 66 % |
| RC1.02 | Study of companies leaders in CR | · Identification of companies leaders in CR · Best practices (Benchmarking) report | 100 % |
| RC1.03 | Identification of CR indicators | · Study and selection of CR indicators | 100 % |
| RC1.04 | Development of new strategic CR lines | · Review and update report · New edition of the CR policy | 67 % |
| RC1.05 | 2003 report on corporate responsibility | · Validation of the report in accordance with GRI criteria | 100 % |
| RC1.06 | Outreach to employees on CR | · Design of the virtual training tool | 50 % |
| RC1.07 | Integration of the CR management model in affiliates | · Definition of the CR Reporting channel from affiliates to the head company | 15 % |

2. Corporate Governance

| | | | |
|--------|--|--|-------|
| RC2.01 | Modification of corporate statutes and Regulation of the General Meeting | · Modification of corporate statutes · Modification of the Regulations for General Meetings | 100 % |
| RC2.02 | Development of Statute regarding Independent Director | · Statute regarding Independent Director | 100 % |
| RC2.03 | Improvement of the Regulations for the Board of Directors | · Improvement of the Regulations for the Board of Directors | 100 % |
| RC2.04 | Improvement of the Code of Conduct for the Stock Exchange | · Design and preparation of new normative documents | 90 % |
| RC2.05 | Improvement of the Risk Management system | · New group policy and general procedure for "Integral Risk Management" · Risk map and risk analysis for 40% of the processes · Training and outreach on risk management | 100 % |
| RC2.06 | Annual Corporate Governance report | · Publication of 2003 corporate governance report | 100 % |

3. Technical-economic perspective

| | | | |
|--------|---------------------------------------|---|-------|
| RC3.01 | Incorporation in sustainability rates | · Documentation required for incorporation in DJSI · SAM evaluation report | 100 % |
|--------|---------------------------------------|---|-------|

4. External social perspective

| | | | |
|--------|---|--|-------|
| RC4.01 | Minority shareholders attention plan | · Minority shareholder attention plan | 100 % |
| RC4.02 | Reinforcing the transparency of outside information | · Requirements analysis · Updating of the corporate Webpage · Adaptation to Transparency law | 100 % |

5. Internal social perspective

| | | | |
|--------|--|--|----------------|
| RC5.01 | Anti-smoking plan | · Environment analysis and evaluation (employee survey) · Outreach program · Anti-smoking support program | 100 % 100 % |
| RC5.02 | Prevention outreach on work risks in contracts | · Review of supplier qualification criteria · New value system · Training of project supervisors · Improvement of PRL evaluation and follow up with compliance audits | 100 % |
| RC5.03 | Form of retribution for contract personnel | · New model based on recognition | 100 % |
| RC5.04 | Improved work flexibility | · Analysis of leading companies · Analysis of norms and recommendations · Design and implementation of improvements | 100 % |
| RC5.05 | Operators School | · Organization and design of educational model · Preparation and documentation of training plans · Training evaluation model | 100 % |

Projects

Products obtained

Compliance

| | | | |
|--------|--|--|-------|
| RC5.06 | Inventory and development of key knowledge | <ul style="list-style-type: none"> · Location of Key Knowledge · Transmission of key knowledge and design of information system | 40 % |
| RC5.07 | Identifying potential | <ul style="list-style-type: none"> · Model design · Interviews to validate and update employee file | 40 % |
| RC5.08 | II Future directors development plan | <ul style="list-style-type: none"> · Selection of candidates · Development and integration program (2005-2006) | 40 % |
| RC5.09 | Continuation of technician development plan | <ul style="list-style-type: none"> · Development of organizational knowledge, competence in generic areas as well as cultural and technical areas. | 100 % |
| RC5.10 | Plan to improve internal communications | <ul style="list-style-type: none"> · Diagnostic of the current situation and broadcasting results · Design and implementation of the Action Plan | 80 % |
| RC5.11 | Improvement of internal communications tools | <ul style="list-style-type: none"> · New self-service functions of employee · Collaborator's internal Web · Analysis of the new internal Web | 80 % |
| RC5.12 | Implementation of reception and integration plan | <ul style="list-style-type: none"> · Tutor assignments · Company forums for knowledge and complementary information · Implementation phase, capacity development and incorporation in the competence program. | 100 % |
| RC5.13 | Phase II – Linking Project | <ul style="list-style-type: none"> · Project sessions in the different work centres | 92 % |
| RC5.14 | Efficient time management plan | <ul style="list-style-type: none"> · Workshops · Diffusion and start up of the plan · Performance follow up | 100 % |

6. Environmental Perspective

| | | | |
|--------|--|---|-------|
| RC6.01 | Qualification of line maintenance and substations technicians in environmental aspects | <ul style="list-style-type: none"> · Training sessions · Data bases and performance follow up on technicians | 100 % |
| RC6.02 | R&D+I project development for bird protection devices | <ul style="list-style-type: none"> · CSIC Convention · Project development · Placement of bird protection devices | 100 % |
| RC6.03 | Reducing risks of spills | <ul style="list-style-type: none"> · Review of the substation oil collection systems · Inventory of expansion deposits and auxiliary transformers | 80 % |
| RC6.04 | Noise and electromagnetic fields measurement plan | <ul style="list-style-type: none"> · Determination of adjacent points · Performing a.p. measurements | 100 % |
| RC6.05 | Environmental inventory of substations corresponding to new assets | <ul style="list-style-type: none"> · Environmental inventory of substations remaining from 2003 · Proposed preventive and corrective measures | 50 % |
| RC6.06 | Improvements to the landscape | <ul style="list-style-type: none"> · Substation landscaping improvements | 100 % |

MEAN COMPLIANCE 88.6 %



36 projects in 2004 with mean compliance of 88.6%



In addition to the person responsible and a budget, each project has been assigned a series of control indicators that allow a quarterly evaluation of the degree of its advance.

Every year the management system and results obtained are evaluated by the Management in order to detect improvements and to define objectives for the next fiscal year. This review process allows the incorporation of not just new legal conditions into the system, but also new areas of focus. [3.19].

One of the main sources of information used to evaluate organizational aspects with regard to level of implementation of corporate responsibility are **comparative studies**, or **best practice** (benchmarking) studies, performed either with companies of the sector or organizations leaders in this area. During 2004 a comparative study was made with the participation of the main international electrical carriers. One of the criteria evaluated was the level of development of the corporate responsibility system, where Red Eléctrica was listed as number 1 among the 47 companies (invited and participating) evaluated.

As of the conclusion of this report, Red Eléctrica has satisfactorily completed the external audit required to obtain SA8000 certification [3.20]. The purpose of this standard is to improve global work conditions and to ensure respect for basic workers rights. Its contents are based on the different conventions of the International Labour Organization (ILO), the UN Convention for Children's Rights and the Universal Declaration of human Rights. This recognition allows Red Eléctrica to guarantee its commitment to support and respect labour rights as described in the basic principles of its corporate responsibility policy.

On the other hand, Red Eléctrica identifies bodies and entities promoting corporate responsibility and participates with those whose recognition has a greater value. The following table shows the principle organizations in which Red Eléctrica currently participates, listing the role played by Red Eléctrica in each, and the commitments and voluntary initiatives signed and supported by it.



Organization maximizing corporate social responsibility [3.14, 3.15]

| | <i>Organization</i> | <i>Principal performance of Red Eléctrica</i> |
|---|---|--|
| Initiatives and entities related with CR | Global Compact (Global Compact) | · Organization that since 2002 supports the principles promoted by the Global Compact |
| | Global Reporting Initiative (GRI) | · Corporate responsibility report prepared in accordance with GRI criteria · Validation of the memorandum of agreement with GRI criteria since 2003 |
| | Asociación Española de Contabilidad y Administración de Empresas (AECA) (Spanish Company Accounting and Administration Assn.) | · Level D protection partner · Meetings of the permanent Group and AECA Transparency Congress on company and corporate knowledge · Participation in work sessions and conferences and exchanges of experiences and information |
| | Asociación Española de Normalización (AENOR) (Spanish Standards Association) | · Participated in the work group as “Observer” AEN/CTN 165 “Ethics” |
| Knowledge diffusion organizations | Fundación Ecología y Desarrollo (Environment and Development Foundation) | · Information supplied regarding CRMS and its results · Information regarding positions between companies of the sector and CR leaders obtained by SIRI Group and EIRIS |
| | Fundación Entorno (Environment Foundation) | · Collaborating company |
| | Fundación Empresa y Sociedad (Company and Society Foundation) | · Information supplied regarding CRMS and its results |
| | Foro Empresa y Desarrollo Sostenible (Company and Sustainable Development Forum) | · Participation together with the most important companies in the area of CR in preparing the “Government Code for the Sustainable Business” |
| | Fundación AVINA (AVINA Foundation) | · Participation in fora for the exchange of experiences |
| Experience exchange groups | Club de Excelencia en Sostenibilidad (Club for Excellence in Sustainability) | · The president of Red Eléctrica is a member of the General Assembly · Participation in developing educational/informative materials · Exchange of experiences · Participation in fora and encounters |
| Broadcasting organizations, communications media and evaluation of results | Monitor Español de Reputación Corporativa (Spanish Monitor for Corporate Reputation) | · Provided information related to CRMS and its results · Obtained information on positioning between companies of the sector and CR leaders |
| | Observatorio de la RSC (CSR Observatory) | · Provided information related to CRMS and its results · Obtained information on positioning between companies of the sector and CR leaders |
| | Europa Press: CR Section | · Provided information related to CRMS and its results |

AWARDS [SO4]

Red Eléctrica has received the following awards over the past years, the result of its commitment to sustainable growth, dialogue and transparency with its interest groups.

Structural perspective

- Twelfth best IBEX 35 company in the CRS Ranking of the magazine Actualidad Económica, 2004.
- Gold seal for Business Excellence, granted by the Club for Quality Management, and the “Recognized for Excellence” seal of the EFQM. 2003 and 2004.
- Licence to use the Madrid Excelente Mark. 2002, 2003 and 2004

- Finalist in the VII, VIII and IX Premio Príncipe Felipe a la Calidad Industrial. 2002, 2003 and 2004.
- 2002 national prize to the company with best business strategy, granted by Grupo Dirigentes.
- Best electrical company according to the Rating of El nuevo lunes, 2002.
- Recognition by the Asociación Española de la Calidad (Spanish Association for Quality) for collaborating provided in the Workshop of the energy Industry Section and presentations made during biennials IX and X. 1999 and 2001.

Red Eléctrica es la empresa energética europea más reconocida por su gestión de la excelencia



Technical-economic perspective

- Notable credit qualifications by Standard & Poor's and Moody's from 1999 through 2004.
- Second most efficient operator in the world according to international electrical sector qualification agencies. 2002.
- Best "Valor Refugio" in the 2001 Exchange. 2002.
- Award for technological innovation in the section on Management and Transport of Electrical Energy, Iberdrola Instituto Tecnológico. 1999.

Corporate governance perspective

- First prize, Spanish company with best financial information on the Internet, convened by the Asociación Española de Contabilidad y Administración de Empresas (AECA, Spanish Business Administration and Accounting Association). 2002.

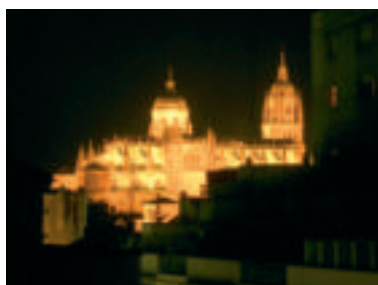


Internal corporate perspective

- Nineteenth best company to work for in Spain, according to the VI edition of the magazine Actualidad Económica, 2004.
- Runner up for Flexible Business Award for the years 2003 and 2004, II and III edition of the "Campaign towards a balance of professional and personal life" , promoted by CVA, IESE and the Gaceta de los Negocios.
- Certified since 1997 in the «Programa Óptima» of the Women's Institute, Ministry of Work and Social Affairs.

External corporate perspective

- Tenth best report for IBEX 35 companies in 2002 and 2003, according to the study prepared by the magazine Actualidad Económica.
- Second best webpage for IBEX 35 companies in 2002 according to the study sponsored by the magazine Look&Enter.



Wide-ranging external recognition of Red Eléctrica's responsible management in different spheres of activity

Environmental aspect

- Award for the "Best Environmental Report 2003", granted by the Instituto de Censores Jurados de Cuentas de España (ICJCE) (Spanish Institute for Sworn Auditors); and the Asociación Española de Contabilidad y Administración de Empresas (AECA).
- Recognition by the European commission as best Spanish company in implementation of environmental programs and audits. 2002.
- Environmental management award in the IV National Environmental Awards, convened by the newspaper Expansión and the Ministry of the Environment. 2001.



Corporate governance



We adopt the best corporate governance practices and we act with maximum transparency on information provided to shareholders and markets

CORPORATE GOVERNANCE

This chapter contains a synthesis of the corporate governance report prepared annually by the company and also provides a complete and detailed description of the ownership and administrative structure of the corporation, obligations of the members of the board, and in general all matters that shareholders, investors and markets may consider relevant for a better knowledge of the company.

Governance regulations applied by the corporation

- Corporate statutes
- Regulations for the Board of Directors
- Independent Director Statute
- Regulation for the General Meeting of Shareholders
- Internal Code of Conduct in the Stock Market



This report is prepared in accordance with the requirements established in current legislation and in accordance with Circular 1/2004 of the Spanish Securities Exchange Commission (CNMV for its initials in Spanish). All information relating to this matter is available on the corporate webpage (www.ree.es).

Since its inception Red Eléctrica has maintained a firm, decided and priority concern to adopt the best corporate governance practices, not just complying with the letter of legal norms and the most wide-ranging national and international norms in the matter, but also voluntarily implementing a series of measures and procedures to arrive at the core of the most important questions of legitimate concern to shareholders of any listed corporation.

The result of this was the adoption in 1999, when the corporation was listed on the stock exchanges, of a series of measures regarding corporate governance, for the purpose of achieving a greater effectiveness, transparency, independence, representativeness, security and quality in exercising the functions of the company governance organs, all of which has placed Red Eléctrica in leadership position in terms of corporate governance.

GOVERNING STRUCTURE OF THE ORGANIZATION [3.1]

Board of Directors

The corporation has a small, active and efficient Board of Directors, comprised of eleven members (five independent external directors - 45% - , five nominee directors and one executive director), instead of a larger board whose functions would be supported by an executive

committee [3.2]. This composition is an appropriate response to the current shareholders of the corporation and recommendations for corporation governance.

Its composition, organization and functions are developed in accordance with the Regulations for the Board of Directors dated November 18, 2003 which modified previous regulation of 1999, was reported to the CNMV, recorded in the Mercantile Registry and published in the webpage of the corporation (www.ree.es).

In accordance with the recommendations of the Aldama Report, the mandate of independent directors as well as all other directors, is set for a period of four (4) years, and directors may be re-elected for an indefinite number of periods. In addition the Regulations for the Board establishes that dismissal of external nominee directors or independent directors will not be proposed prior to the conclusion of the statutory period for which they were appointed, except for sufficient cause and upon report to the Nominations and Remuneration Committee. The age of seventy (70) years was established as maximum age to exercise the position of director [3.2].

Auditing Committee [3.6]

The Auditing Committee is comprised of three members, and throughout 2004 it was integrated only of external directors: one nominee and two independents, with one of these acting as president. The committee meets at least every quarter when called by the president or when two of the members request a meeting, and whenever the Board of Directors or its president requests the issuance of a report. During 2004 the Auditing Committee met on nine separate occasions, issuing a like number of reports to the Board of Directors.

Governing structure of the organization

| | N.º of members | Executives | Nominee | Independent | N.º meetings |
|--|-------------------|------------|---------|-------------|-----------------|
| BOARD OF DIRECTORS | 11 | 1 | 5 | 5 | 13 |
| AUDITING COMMITTEE (*) | 3 | - | 1 | 2 | 9 |
| APPOINTMENTS AND REMUNERATION COMMITTEE (*) | 4 | 1 | 1 | 2 | 10 |

* An independent director serves as president

Nominations and Remuneration Committee [3.6]

The Nominations and Remuneration Committee is formed of four directors, three external and one executive. Of the external directors, two independent directors are appointed, with one serving as president of the committee. The committee meets as often as necessary to adequately carry out its functions and in any event, at least on a quarterly basis, when called by the president or requested by two of its members and whenever the Board of Directors or its president request that it issue a report or adopt proposals. During the 2004 financial year the Committee met on ten occasions.



Directors Remuneration [3.5]

The Regulations for the Board of Directors establishes that the annual report prepared by the Nominations and Remuneration Committee will mention, any delivery or assignment of shares, share options or systems referring to share value, in the case of remuneration for executive directors, as well as a breakdown of salaries in cash and in kind, bonuses, pension funds, indemnification reserves and any other compensations that may exist. The Corporate Governance report will include a detailed description of retribution earned by directors 2004 as and for compensation, the type of director and benefit attributed to the corporation.

Improvements in the communications channels and participation mechanisms of shareholders in the general meeting



General Meeting of Shareholders [3.8]

Shareholders' rights to receive information, attend and participate which extend beyond legal requirements, are described in the corporate statutes and the regulation of the General Meeting of Shareholders. Shareholders' rights have been especially extended with regard to the right to receive information and attend general meetings, facilitating the request and receipt of information without any requirement to possess a minimum number of shares to attend the meetings.

Also worthy of note is the maximization of the contents of the corporate web page as a means of communication with shareholders and investors, and its adaptation to the requirements of order ECO/3772/2003, dated December 26 and circular 1/2004 dated March 17 from the National Stock Exchange Commission (CNMV).

With regard to the transparency of mechanisms used to delegate votes in general meetings, article 2 of the Regulation of the General Meeting of Shareholders establishes that the corporate web page will include, among other aspects, channels of communications between the corporation and shareholders and pertinent explanations on exercising the right to information, indicating e-mail addresses and postal service addresses where shareholders may direct their requests, as well as means and procedures to confer representation in the General Meetings and to exercise their vote in absentia, with forms approved for this purpose [3.11].

The Board of Directors approved a procedure for the 2004 General Ordinary Meeting of Shareholders allowing the electronic casting of votes and electronic requests for information, in order to maximize the active role of the shareholder pursuant to the most recent corporate governance practices.

External auditors [3.6]

The Board Regulation, pursuant to best practices in these matters, provides that relations with external auditors of the company will be channelled through the Audit Committee. The Board of Directors will abstain from hiring auditing firms whose total anticipated fees for all concepts, exceed ten per cent of total income during the last fiscal period

Remuneration paid to external auditors for the corporation and group companies during the 2004 financial year did not represent a significant percentage over total income of the auditing firm. In addition fees corresponding to professional services for services other than auditing, paid by companies either directly or indirectly affiliated with the auditing firm, are not relevant and do not affect either the strategy or general planning of the corporation.

Risk management [3.4, 3.13]

During 2004 the company continued to carry out actions to improve its risk control system, including approving the Group Risk Policy and general procedure to regulate this process. The purpose of the Risk Policy is to establish principles and guidelines to ensure the identification, analysis, evaluation, management and control of any relevant risks that may possibly affect the objectives and activities of Red Eléctrica Group or that may have a negative impact on its strategy; and further that these processes be carried out systematically and with uniform criteria [3.16, 3.17].

The most significant risks to which the Group is subject and which are integrated in the risk control system, are: a) Regulatory, as principal business activities of the Group are subject to regulation; b) Operational, basically deriving from activities assigned the company in the electrical system; c) Market, as the majority of income as well as determined expenses may be influenced by the evolution of variables such as inflation or interest rates; d) Business and credit (or counterpart), especially in telecommunications activities; and e) Environmental, due to society's growing demand with regard to the care and protection of the natural environment.

The risk control system covers both internal processes as well as the surroundings in which they are carried out, covering all activities performed by the Group, and said management is in accordance with the risk profile established by the Board of Directors and included in the company plan. This system is periodically fed with the status and evolution of risks identified via the Risk Map. During 2004 the risk evaluation plan was 100% completed [3.17].





Technical-economic responsibility



The excellent development
of our activities allows us to maintain
a sustainable economic growth
and provide value to our interest groups

ECONOMIC RESPONSIBILITY

ACTIVITY MANAGEMENT SYSTEMS [3.20, PR2 Y PR8]

Quality Management System

Red Eléctrica believes that the establishment of quality management systems in all its business units and in all its processes, products and services is vital.

In line with this strategy, Red Eléctrica has a Global Quality Management System, with ISO 9001 certification since 1996, the scope of which has extended until it covers all areas of the organization. In the past years R&D+I Management, Metering Management (both in 2003) and Green Certificate Management (in 2004) have been incorporated with certified activities.

Red Eléctrica Group holds a triple certification for quality, the environment and work health and safety, for all its companies



In addition to this certification, Red Eléctrica includes within its quality manual accreditation for the services provided by it relating to work performed by third parties as international recognition and an element of confidence for its clients. As such during 2004 Inspection Services and Verification of Electrical Metering were accredited in 2004, with accreditation of the Electrical Laboratory expected in 2005.

Work Health and Safety Management System

The Red Eléctrica Work Health and Safety System has been certified since 2002 according to the international specification Occupational Health and Safety Assessment Series (OHSAS) 18001.

Red Eléctrica was the first electrical company to obtain this recognition on an international level. Its excellent results in accident rates and work risk prevention activities bear witness to the efficiency of the management system implemented.

Environmental Management System

The Environmental Management System has been certified in accordance with ISO 14001 since 1999. Red Eléctrica was the first Spanish company to obtain this certificate for all its activities and work centres.

Since 2001 it has been included in the EMAS registry (Eco Management and Audit Scheme), a community environmental management and auditing system. It was the first Spanish company to obtain this registry by the Ministry of the Environment.

In addition and in accordance with Corporate Policy for Quality Management whose purpose is to implement certified management systems in participating corporations, the final processes necessary to certify affiliates were concluded in 2004, successfully obtaining triple certifications for the quality, work health and safety, and environmental management systems for affiliates Red Eléctrica Telecomunicaciones (RET) and Red Eléctrica del Sur (REDESUR).

Currently Red Eléctrica Group is one of the few groups to obtain this triple certification for all its companies at the international level, and the first at the national level in the electricity sector.

TECHNOLOGICAL DEVELOPMENT AND INNOVATION

2004 presented a step forward in establishing and defining the Red Eléctrica technological strategy. This strategy is directed towards developing and optimizing electrical system infrastructure, assuring a guaranteed supply from the system, and integration of the system with its surroundings under criteria established regarding sustainable development.

R&D+I activity during 2004 was carried out in 36 projects with a total investment of 2.36 million euros, 20% more than the previous year.

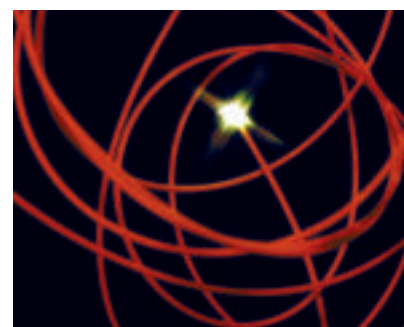
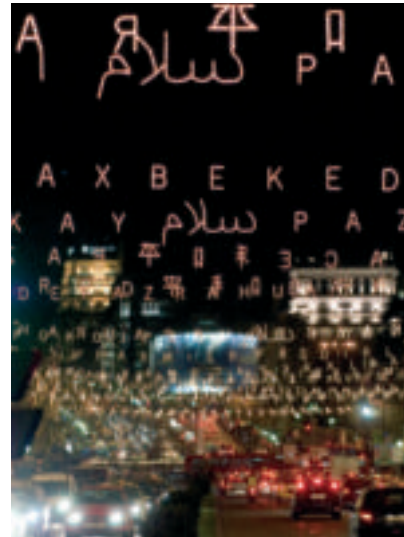
R&D+i

| | 2001 | 2002 | 2003 | 2004 |
|--------------------------------|------|------|------|------|
| NUMBER OF PROJECTS | 30 | 32 | 37 | 36 |
| INVESTMENT (MILLIONS OF EUROS) | 1.6 | 1.5 | 2.0 | 2.4 |

In the environmental sphere, special emphasis was given to studies regarding the effects of magnetic and electrical fields over 50 Hz on the human body. A project has been initiated, for the purpose of obtaining a model to calculate the density of the current induced inside the body. On the other hand another project was also started to design a new bird protection device, to attempt to prevent collisions of birds with the electrical circuits, in order to achieve a sustainable integration of installations with the environment.

Another research and development priority are research projects to create mechanisms and incentives to promote energy and environmental efficiency of the system through managing demand. Especially important in this field is the EMERGIE project operating management of demand and the energy management research agreement with the International Energy Agency [ENI7].

Technology has put into service new aspects currently on the rise, such as the generation of clean energies and their integration into the transport grid. Research and development projects in this line of work will allow us to move forward to adapt the current transport system to emerging



technologies, achieving a sustainable development of the system and its environment. During 2004 ties with universities and technological centres were strengthened to serve as a base for the development of research in Red Eléctrica.

TECHNICAL-ECONOMIC RESULTS [2.8, 2.14]

2004 saw the consolidation of the company's growth after the purchase of transport assets made by the main business. Net profits increased by 14.3% over those of fiscal 2003, reaching 132.4 million euros. Cash flow after taxes increased by 8.7% over the previous year, allowing us to finance a large part of the investments made by the company.

Standard & Poor's and Moody's credit ratings (AA-/A-1+ y A2, respectively) remained stable, reflecting the company's high levels of solvency and financial strength. These ratings demonstrate the strategic importance and low risk of Red Eléctrica's principal activity.

Main consolidated financial highlights

| Millions of euros | 2001 | 2002 | 2003 | 2004 |
|--------------------------|-------|---------|-------|-------|
| ADJUSTED BUSINESS* [EC1] | 380.9 | 459.9 | 686.7 | 766.2 |
| INCOME AFTER TAXES | 91.1 | 99.9 | 115.8 | 132.4 |
| CASH-FLOW AFTER TAXES | 195.0 | 224.7 | 320.9 | 348.8 |
| INVESTMENTS | 244.8 | 1,158.7 | 778.3 | 281.2 |
| RESERVES [EC7] | 437.4 | 466.2 | 499.4 | 536.0 |

* Net energy purchases

Value to shareholders [PR8]

Red Eléctrica keeps its promise to maximize value to shareholders, on the one hand offering an attractive dividend amount and, on the other, contributing to share revaluing through an efficient business management. The company offers its shareholders one of the greatest yields on the market with a return, as of the close of the 2004 financial year, over 130% since its entry on the market in July 1999.

In 2004 listed value, backed by the company's good growth prospects and dividend yield, closed the year at 16.50 euros per share, an increase of 26.9% greatly surpassing that registered by the Ibex 35 (17.4%) and the Energy Sector of the Madrid Exchange (19.8%). In the month of December it reached a historic high of 16.75 euros per share, affecting the price listed by decision of the Technical Advisory Committee to exclude the company from the Ibex 35 beginning January 1, 2005.

Direct compensation to shareholders in the form of dividends in 2004 reached 0.6138 euros per share, for a growth of 12% over the previous year [EC6].



Stock exchange indicators

| | 2001 | 2002 | 2003 | 2004 |
|------------------------------|--------|--------|--------|--------|
| DIVIDEND PER SHARE (euros) | 0.4550 | 0.4800 | 0.5480 | 0.6138 |
| BENEFIT PER SHARE (euros) | 0.67 | 0.74 | 0.86 | 0.98 |
| DIVIDEND OVER NET PROFIT (%) | 67.8 | 67.7 | 65.0 | 65.3 |
| ANNUAL CLOSING PRICE (euros) | 10.45 | 9.64 | 13.00 | 16.50 |



Red Eléctrica offers its shareholders one of the best yields on the market with a return at the close of the 2004 financial year in excess of 130% since it was first listed in July, 1999

Value to clients and business agents [3.11, 3.12]

Red Eléctrica's activities require a cooperative attitude with its clients and its business agents. Consequently multiple **conventions and agreements** have been established with different agents (administrations, autonomous communities, electric utilities,...) with some of the most outstanding in 2004 as follows:

- Agreement with Endesa to coordinate actions to speed up the development of transport grid infrastructure.
- Agreement with Unión Fenosa to coordinate actions to control and maintain of the transport and distribution grids.



In addition, every biennial Red Eléctrica identifies the **expectations and requirements** of its business agents and evaluates their **degree of satisfaction** with all services and products, designing **plans for improvement** based on the results received [PR8].

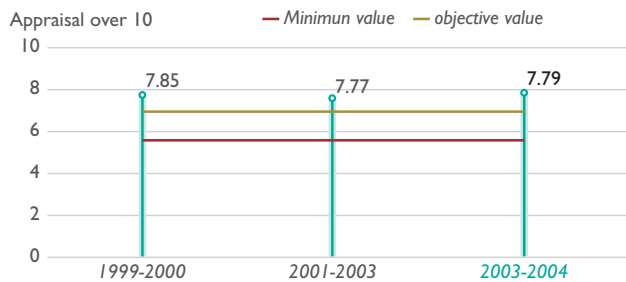
Given the characteristics of the products and services provided by the organization, these are exempt from labelling mechanisms and additional information regarding special application measures that may affect the safety and health of clients receiving them [PR1, PR2, PR6 and PR7]. As a result, the organization has received no complaints with regard to health and safety of its products and services, nor regarding the health and safety of its clients [2.17, PR4, PR5].

Products and services identified and evaluated are as follows [2.2, 2.8]:

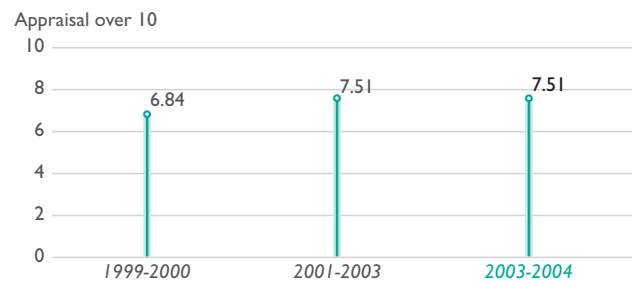
| | |
|--|--|
| • PLANNING AND DEVELOPMENT OF THE TRANSPORT GRID (RdT) | • REAL TIME OPERATION OF THE ELECTRICAL SYSTEM |
| • MANAGING ACCESS TO THE TRANSPORT GRID | • METERS |
| • DISCHARGE MANAGEMENT AND WORK IN THE INSTALLATIONS | • TECHNICAL OPERATION INFORMATION |
| • INFORMATION FOR THE ELECTRICITY MARKET | • ECONOMIC OPERATING INFORMATION |
| • TECHNICAL VIABILITY OF THE RESULTING MARKET PROGRAMS | • LOCAL OPERATION AND MAINTENANCE OF RDT INSTALLATIONS |
| • GUARANTEED SAFETY OF THE SYSTEM IN EMERGENCY, WARNING OR REPOSITION MODE | • INSPECTION AND VERIFICATION OF ELECTRICAL METERS |
| | • GREEN CERTIFICATES MANAGEMENT |

The good results obtained in the evaluation carried out during 2004 consolidate those obtained in previous periods.

Appraisal of global client satisfaction



Valoración de la atención al cliente



Principal improvements implemented over the past years have been [3.1.2]:

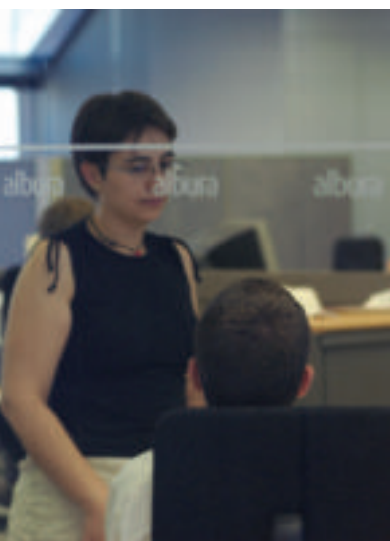
- Management of access to the transport grid and feasibility reports.
- Discharge programs and amendments.
- Development of the SIMEL system and norms on metering.
- Information for the electricity market.
- Planning and development of the transport grid.
- Feasibility of resulting market programs.
- Greater flexibility in complaint management.

The action plan for improvements, as well as its follow up, was sent to participants in the satisfaction survey in order to keep them informed of the degree of advance of the projects and principal improvements obtained. These are evaluated in the survey, to validate the degree of adaptation to improvements implemented. The 2003-2004 action plan will be prepared during the first quarter of 2005.

In many business processes, **communication and the exchange of information** with clients is based on work groups or other channels, among which we can include:

- Permanent work groups for critical business products. Metering Management Group, with Electrical Agents, the Ministry of Industry, Commerce and Tourism, National Energy Commission and the Technical Management Committee for the Iberian Electrical System, with generators, distributors, National Electrical Network (REN) and national organizations.
- Specific groups to improve system normativity.
- List of client requirements and demands in projects. Each project director collects the requests from clients and integrates them into entry data to be considered in verifications or validations prior to delivering the product.

Another important source of information is claims and consultation management which, according to the procedure governing this process, are dealt with and resolved in the short term or incorporated into work programs. The information received as well as the response given is documented in the different management tools.



The following table lists the total number of claims and consultations recorded during 2004 classified according to the activity or process involved, including its solution status.

Claims and consultations

| | N.º of claims and consultations | % of solution |
|----------------------------------|--|----------------------|
| TRANSPORT-PRESENCE INSTALLATIONS | 7 | 86 % |
| SUPPLY QUALITY | 35 | 100 % |
| OPERATING ACTIVITIES | 33 | 100 % |
| METERING | 2 | 100 % |
| VARIOUS | 2 | 100 % |



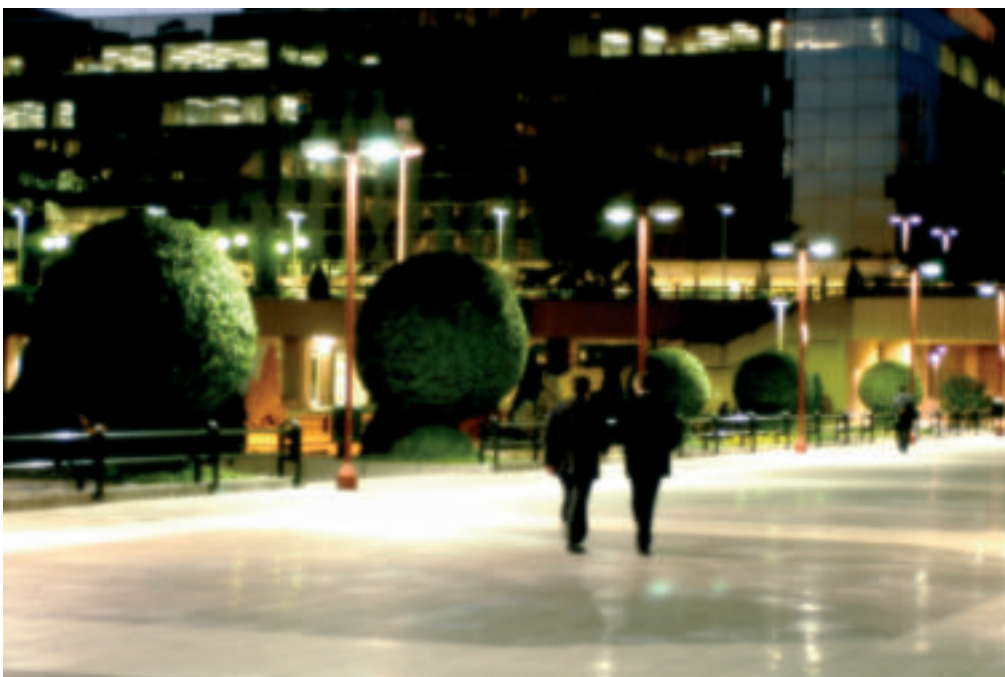
Corporate information systems guarantee the safety and protection of the clients' data, with no complaints generated in this respect [PR3, PRI I].

Value to suppliers [3.11, 3.12]

Red Eléctrica's relationship with its suppliers and contractors is constituted with a focus on transparent co-operation. **Alliances and agreements** are established with strategic suppliers, allowing stability in the supply of materials and services considered key to company activities. Red Eléctrica currently has nine quality agreements as well as framework contracts and supply agreements, representing a high percentage of the most important acquisitions.

In line with other companies of the sector, in 2003 Red Eléctrica joined the REPRO supplier qualification system, achieving significant improvements during the 2004 financial year in efficiency thanks to the homogenization of information handling and application of best practices in this area. Participation in this system also involves important benefits for providers, as they update and communicate their own information only once to the REPRO system, instead of doing so with each of the companies forming part of the qualification system.

The supplier **qualification system** guarantees that only those who fulfil established standards can supply the products or services required by Red Eléctrica. This system qualifies suppliers, taking into account productive and economic capacity and quality criteria. It also assess environmental as well as work health and safety aspects, establishing control criteria for contracting companies [EN33].



Supply qualification indicators

| | |
|--|-----|
| QUALIFIED SUPPLIERS | 412 |
| QUALIFIED SUPPLIERS WITH ISO 9001 CERTIFICATE | 216 |
| QUALIFIED SUPPLIERS WITH ENVIRONMENTAL ASSESSMENT | 206 |
| QUALIFIED SUPPLIERS WITH WORK HEALTH AND SAFETY ASSESSMENT | 163 |

Evolution of the acquisition process



Given that prevention of work risks is a constant concern in Red Eléctrica, in 2004 a work group was created to follow up and improve the company in this regard. One of the first decisions of this group was to prepare a new qualification protocol for suppliers whose services may be subject to work risks, in order to establish stricter limits and a more thorough follow up on supplier's behaviour in this regard.

In addition a work group analyzed the environmental assessment currently carried out. To improve its development, in 2004 a scaled series of qualification levels was begun and will be extended in 2005, in order to evaluate the current levels of products and services defined by Red Eléctrica as qualified.

With regard to promoting supplier compliance with labour rights, Red Eléctrica is currently in the process of designing for its suppliers a commitment document as well as other actions [HR2, HR3]. For example, the company that supplies physical security services was requested to provide security personnel for the organization with training in human rights [HR11].

To improve communications as well as to provide quick attention to complaints and questions, in 2004 a survey was prepared to measure the **degree of supplier satisfaction** with their interaction with Red Eléctrica. A study will be made in 2005 that will allow direct information regarding expectations and needs of this group, as well as to what extent they are in line with organization policies relating to excellence, the environment, prevention of labour risks and Corporate Responsibility. This information will allow us to adjust and focus lines of action with suppliers in order to promote compliance with the Corporate Responsibility principles set by Red Eléctrica [PR8].

Acquisitions and service costs during this period reached 416 million euros [EC3]. In 2004 all billings for acquisitions were paid on their due dates [EC4]. Principal suppliers in 2004 were ABB, PIRELLI, NEXANS, SIEMENS and INDRA, with purchases involving 32% of total purchasers during this period [EC11].



The per country breakdown of acquisitions show that most were in Spain (97.5%) and Europe (2.4%), with most of these in France (1.6%) and Germany (0.4%). These numbers refer to the location of the corporate office of the other party involved in the transaction. If we consider the place of production, then the numbers would show smaller differences between Spain and the other European countries [EC11].

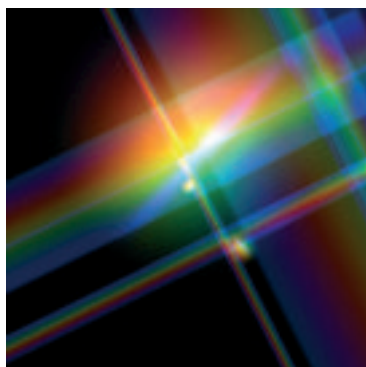
With regard to capital suppliers, financing cost for debts to credit entities in 2004 was in the amount of 80.7 million euros [EC6].

Another important group of suppliers are those providing services that have been outsourced, such as management of informatics services, central warehouse management and general services - dining room, travel management, reception, cleaning, etc. – [EC13].

Value to society

For over twenty years Red Eléctrica had contributed to the progress and wellbeing of society, thanks to an efficient and responsible management of its business model.

Aware of its responsibility with society through its management of an essential public service such as a guaranteed electrical supply, Red Eléctrica maintains the development of a solid investment plan as a strategic priority, in order to extend and improve the transport grid.



243 million euros invested in extending and improving the transport grid, 13% more than in 2003

Investment efforts carried out over the past years, with over 2.000 km of electrical lines started in service, has meant a reinforcement of the transport grid, leading to a dependable and safe grid that can guarantee the strong growth in electrical demand.

Grid investments in 2004 centred principally on connections to receive energy produced by combined cycles and wind parks, extending international interconnections, and to support the development of the high speed railroad network, effectively contributing to covering the energy demands required by economic activities and society in general. These investments reached 23 million euros, 13% more than in the previously year.

Social value indicators

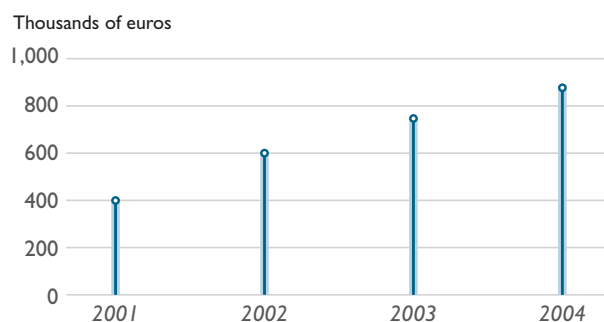
| million euros | 2001 | 2002 | 2003 | 2004 |
|-------------------------------------|-------|-------|-------|-------|
| GROUP COMPANY TAX [EC8] | 48.1 | 45.4 | 60.1 | 65.3 |
| TOTAL GROUP SALARY EXPENSES [EC5] | 57.2 | 61.6 | 66.8 | 77.5 |
| INVESTMENT IN NEW REE INSTALLATIONS | 129.9 | 203.4 | 215.4 | 243.4 |
| SUBSIDIES FOR REE COUNTRIES* [EC9] | - | 14.6 | 13.3 | 8.8 |

* Includes capital subsidies received mainly by the head company from the European Union for construction of electrical installations

In terms of community donations, in 2004 Red Eléctrica dedicated 419,890 euros to organizations, institutions and associations; 26,958 to symposiums and congresses; and 449,263 euros to sponsorships and collaborations in educational, environmental and social projects [EC10].

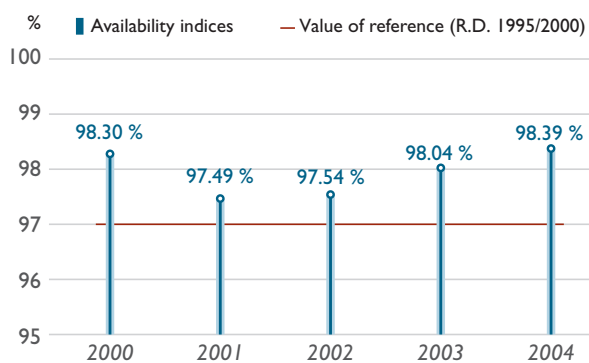


Evolution of the investment in social action



On the other hand Red Eléctrica maintains a special commitment to efficiently serving society with the best quality ratings in electrical supply. Once again the equipment and systems comprising the transport grid stand out for their excellent performance, with an availability level of 98.39% in terms of supply safety and continuity, placing them at the head of the ratings for transport companies in the international sphere.

Transport grid results



Service quality indicators*

| | 2001 | 2003 | 2003 | 2004 |
|-----------------------------|------|------|------|-------|
| ENERGY NOT SUPPLIED | | | | |
| ENS (MWh) | 107 | 0 | 360 | 1,448 |
| DOWN TIME MEAN | | | | |
| TIM* (MINUTES) | 0.27 | 0.0 | 0.84 | 3.27 |
| VALUE OF REFERENCE | | | | |
| TIM* MINUTES (RD 1995/2000) | 15 | 15 | 15 | 15 |

(*) TIM = ENS/mean system power

PARTICIPATION IN KEY ENTITIES AND ORGANISMS [3.11, 3.15]

Red Eléctrica is present in 32 national and international organizations, actively working in their directing bodies, study and normalization committees, and work groups. Around 140 people of all areas of the company act, dedicating a total of close to 10,000 hours. Among these are:

CIGRE (International Council of Large Electric Grids). This organization is formed of electrical companies, equipment manufacturers, engineering and research centres from all over the world, for the purpose of exchange technical knowledge. Red Eléctrica acts as president and secretary of the Spanish Committee.

EEl (Edison Electric Institute). Group of electrical companies of the US and affiliated international companies. Red Eléctrica participates in financial conferences with analysts and investments of the sector.

ETSO (Association of European Electrical Systems Operators). Association formed of operators from European Union countries (except Latvia and Lithuania), Switzerland, Norway and Rumania. Red Eléctrica is a founding member and maintains its active participation in the association, forming part of its Executive Committee.

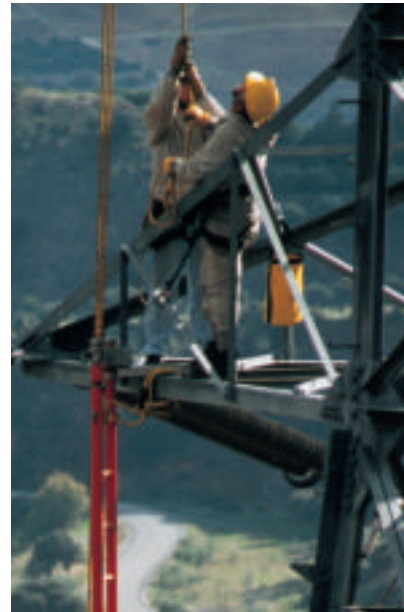
EURELECTRIC (Electrical Industry Union). This sectorial association represents common interests of the European electrical industry, formed as a result of the merger of UNIPEDE (founded in 1925) and EURELECTRIC (founded in 1990). Its mission is to contribute to the development and competitiveness of the electrical industry, and to promote the role of electricity in social progress. As a centre of strategic experience, it identifies and represents the interests of its members, and helps them to formulate and implement common solutions to strategic policies.

IESOE (Electrical Interconnection of Southwest Europe). This organization is formed of RTE (France), REN (Portugal), OME (Morocco) and Red Eléctrica (Spain). Its purpose is to analyze the performance of the electrical interconnection grid of these countries and to draft initiatives to perfect their operation. Red Eléctrica serves as president and secretary.

OME (Mediterranean Energy Observatory). Founded in 1991 by thirty energy companies (electric, gas and oil), its purposes are to foment collaboration between the principal companies of the energy sector operating in the southern Mediterranean basin and to promote dialogue between governments, the European Commission and other international organisms regarding energy matters in the Mediterranean.

UCTE (Electricity Transport Coordination Assn.). This association coordinates transport system operators from 23 countries of the European continent. Their common purpose is to guarantee the safety of the interconnected electric grid, which they have been doing now for over 50 years. The UCTE grid includes providing supplies to 450 million people (530 GW of installed capacity, 2300 TWh of energy consumed and 210,000 km of transport lines).

TSO-International Comparison. International association of electricity systems 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.





Social responsibility



Our social responsibility is to achieve the satisfaction of our employees and to contribute to the economic development and wellbeing of the community

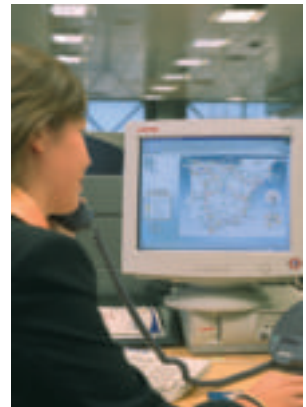
COMMITMENT WITH OUR EMPLOYEES

Our relationship with our employees constitutes an essential element in fulfilling our corporate responsibility. Excellence in management and results of the processes, products and services provided by Red Eléctrica to society are the fruit of the efforts and dedication of its employees, the company's most important asset.

This premise, a fundamental pillar of the basic strategy "Excellence in carrying out activities", is realized through the key actions of a "People-based organization" and defined cultural values.

Our cultural values such as integrity, transparency, fair and equal treatment, anticipation and teamwork contribute to creating value for all interest groups, including the employees themselves.

Our values such as integrity, transparency, fair and equal treatment, anticipation and team work contribute to creating value for all interest groups of Red Eléctrica



Group personnel management policies are designed, revised and updated based on these strategies and cultural values. Principal guidelines and principles flowing from these policies are:

[HRI, LA10]:

- Creation of jobs based on the principle of non-discrimination and promoting equal opportunities.
- Fomenting the growth of talent within the group through professional development and knowledge management.
- A motivating compensation system based on internal equality and transparency.
- Recognizing the contributions to business results and personal efforts, motivating the creation of value, continuous improvement, and individual initiative.
- Improving the efficiency of companies of the Group through better management of the people working there.
- Attracting and retaining the best professionals: developing pride of ownership.
- Agile and participative communication at all levels.
- A friendly work atmosphere, conciliatory and based on stable work relationships.
- A policy for directive personnel that ensures an equal, fair and respectful treatment of all people under them.

These principles and guidelines, together with those already established in the corporate responsibility policy, form Red Eléctrica's commitment to support and respect the protection of human rights as established in the Universal Declaration Of Human Rights and the principles of the Global Compact, as well as other international norms. [HRI].



The main objective of Red Eléctrica's human resources policy is to develop, motivate and integrate the people working for the company

WORK ENVIRONMENT

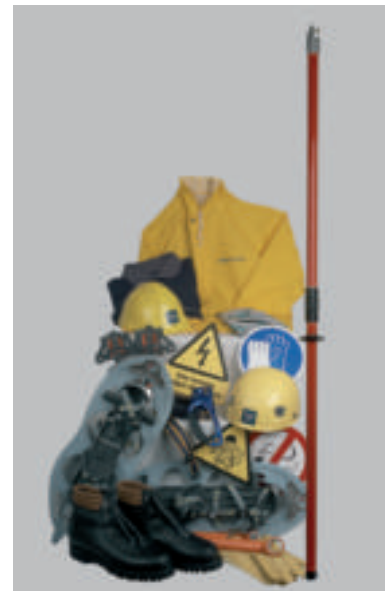
Culture, organization and jobs

Diffusion of the **business culture** among the Group personnel acquires strategic importance, especially considering that close to 27% of the staff are recently incorporated. The company's reception and integration program lasts for 36 months and is directed to employees incorporated within the past three years.

This program, which began in January 2004, consists of four phases: adaptation, integration, training and consolidation. The adaptation phase occurs during the first semester of work, during which the employees attend fora and meetings, receive basic information on tools used daily and has the aid of a tutor who guides him in his first steps in the company.

The integration phase is designed to increase the new employee's identification with the business culture, as well as to favour the acquisition of multidisciplinary knowledge that will facilitate his professional development and the development of multi-functional skills used in practice of his work position. As of December 2004 over one hundred employees incorporated between 2003 and 2004 had entered this phase which includes sessions on interpersonal communication and informative forums on company activities. In total 2494 hours were dedicated to this program in 2004.

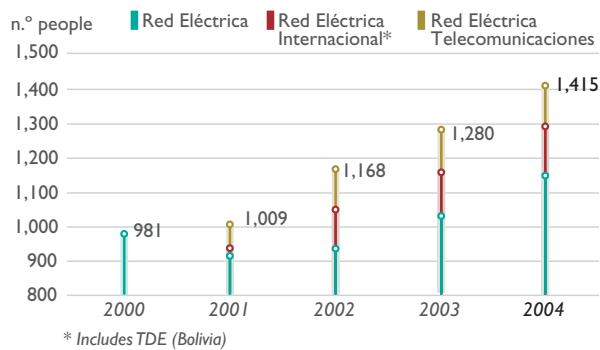
The **organizational model** was revised during 2004, favouring functional flexibility and improving the staff planning in order to increase internal efficiency. This model promotes the employee's assumption of responsibility, encouraging delegation, team work and contributions from all those forming Red Eléctrica Group. In addition the number of directors per employee has been reduced, and improved delegation and vertical communication encouraged.



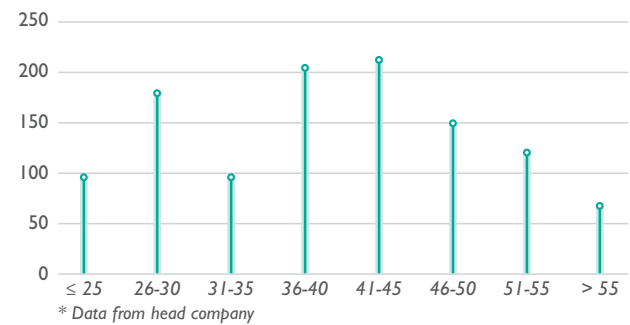
The head company carried out different changes to the organization, generally separating system operating activities from electrical energy transport activities [2.4, 2.14]. This separation was in response to better adapt to changes in the sector and to new market demands, as well as the surroundings deriving from the strong growth in assets and company activities.

With respect to **jobs**, as of December 2004 the Group consisted of 1,415 people, of whom 81% were from the head company. In terms of national geographical distribution, de-centralized units of Red Eléctrica represented 33% of the staff in 2004 [2.8, LA1].

Evolution of the Red Eléctrica Group staff



Staff distribution by age group*



Job indicators⁽¹⁾ [LA1, LA2, LA3]

| | 2001 | 2002 | 2003 | 2004 |
|---|-------|------|-------|-------|
| TOTAL STAFF | 918 | 936 | 1,031 | 1,145 |
| MEAN STAFF | 941 | 931 | 968 | 1,082 |
| FUA STAFF (%) | 98.6 | 99.1 | 92.0 | 93.1 |
| CONTRACT PERSONNEL ⁽²⁾ (%) | 99.5 | 99.5 | 99.6 | 99.6 |
| AVERAGE AGE (YEARS) | 41.5 | 41.6 | 40.6 | 40.0 |
| MEAN SENIORITY (YEARS) | 11.7 | 11.7 | 11.5 | 11.8 |
| UNDESIRED OUTSIDE TURNOVER ⁽³⁾ (%) | 1.94 | 0.22 | 0.32 | 1.36 |
| TOTAL TURNOVER ⁽⁴⁾ | 11.83 | 3.38 | 3.10 | 3.01 |

(1) Data from head company (2) Does not include administrative team

(3) Voluntary resignations from previous year staff

(4) Desired and undesired resignations from previous year staff

Evolution of the staff (%)*

| | 2001 | 2002 | 2003 | 2004 |
|------------------------------|------|------|------|------|
| WOMEN | 20.2 | 20.8 | 21.5 | 21.3 |
| MEN | 79.8 | 79.2 | 78.5 | 78.6 |
| WOMEN IN EXECUTIVE POSITIONS | 8.2 | 9.2 | 9.3 | 10.9 |

* Data from head company

Distribution of staff per professional group (number of people)*

| | 2001 | % | 2002 | % | 2003 | % | 2004 | % |
|-------------------------|------------|------------|------------|------------|--------------|------------|--------------|------------|
| ADMINISTRATIVE STAFF | 85 | 9.3 | 87 | 9.3 | 86 | 8.3 | 92 | 8.0 |
| SENIOR TECHNICIANS | 190 | 20 | 209 | 22 | 256 | 25 | 282 | 25 |
| MID LEVEL TECHNICIANS | 248 | 26 | 250 | 26 | 333 | 32 | 408 | 36 |
| TECHNICIANS-SPECIALISTS | 262 | 28 | 257 | 27 | 207 | 20 | 217 | 19 |
| AUXILIARY TECHNICIANS | 133 | 14 | 133 | 14 | 149 | 14 | 146 | 13 |
| TOTAL | 918 | 100 | 936 | 100 | 1,031 | 100 | 1,145 | 100 |

* Data from head company

In 2004 the increasing trend for number of personnel continued with the incorporation of 145 people in the head company for a net increase in personnel of 11%, over the previous year. This growth reduced average age of all staff to 40 years, with 21.3% women, a notable percentage considering that women have traditionally had a very low representation in this sector. [2.14, LA2].

The legal form of contracting personnel is undefined, once the company's testing and integration periods have passed. At the end of 2004, 91.3% of the personnel had been hired under this formula; the rest were awaiting the conclusion of the corresponding test. [LA16].



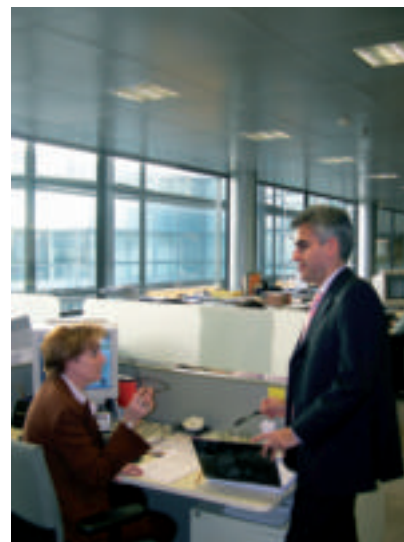
Red Eléctrica, a company in expansion with 27% new hires in the past three years

The VIII collective agreement, which runs until 2006, presents the legal framework in which the company agrees to comply with a culture to defend the application of such values as equal opportunities, multiculturalism and non-discrimination in all activities related to personnel management. 99,6% of non-administrative employees of Red Eléctrica fall under the terms of this agreement [LA3].

One of the key forms of hiring new employees is through **educational conventions with universities**; 15% of today's staff arrive through these. As of December 2004, there were 12 scholarship recipients distributed throughout all the organizational units. Total number of collaborators hired through temporary work companies at the end of 2004 was 17 [LA1].

Hiring and selection criteria are established in the VIII collective agreement. Red Eléctrica's selection policy is ruled by the principles of transparency, integrity and non-discrimination [LA10, HR1, HR4]. Job openings are broadcast externally through the communications media, and internally through bulletin boards placed for the employees (available in the internal corporate intranet) as well as with employment agencies. 37.8% of the positions published internally have been covered by employees.

Team work, initiative and interpersonal communication are all included in the criteria for selecting new personnel. Red Eléctrica considers hiring young people entering the job market (their first job) a strategy in order to develop their potential within the company as a driver to create value and to enrich Red Eléctrica's processes, products and services.





Red Eléctrica believes that compliance with the principle of **equal work opportunities** and promotion and development of women is fundamental. Input from a work team constituted through the Harmony Project (headed by the company in the framework of the European Union "Leonardo" program) were considered in planning and defining equality measures, and a positive action plan drafted which was recognized through certification of the Women's Institute «Óptima» programme since 1997 [HR4, LA10].

Percentage of women in all professional categories of Red Eléctrica

| | Women | Men | % Women |
|--------------------------|------------|------------|--------------|
| EXECUTIVES [LA11] | 10 | 82 | 10.9% |
| SUPERIOR EXECUTIVES | 87 | 195 | 30.9% |
| MID LEVEL EXECUTIVES | 55 | 353 | 13.5% |
| ADMINISTRATIVE PERSONNEL | 91 | 55 | 62.3% |
| TECHNICIAN SPECIALISTS | 1 | 216 | 0.5% |
| STAFF 2004 [LA1] | 244 | 901 | 21.3% |

Red Eléctrica has been recognized since 1997 with the optima certification from the Women's Institute, in recognition of its policy for equality



Red Eléctrica maintains its policy to reject child labour and forced labour in all national and international companies forming the group, advancing this policy with special sensitivity in countries where it operates with low levels of economic development. [HR6 and HR7].

With regard to our affiliates, TDE is ruled by a strict code for equal opportunity, applied at the time of incorporating new personnel. Current TDE staff is comprised of 113 people, of whom 15% are women. On the other hand in 2004 over 88 indirect jobs were generated on a monthly basis, destined to temporary support personnel in different areas of the Company [2.8, LA2].

Work health and safety [LA5, LA14]

All companies forming Red Eléctrica Group are certified in the areas of work health and safety, pursuant to international norm OHSAS 18001. This system includes the Work Health and Safety Policy, a company prevention service and a safety and oversight committee formed of six representatives from all work centres and another six appointed by the company Management [LA6]. All agreements are developed and validated within the safety and oversight committee [LA15].

One of the tools considered fundamental by the corporation in preventing risks is training and recycling of knowledge relating to work safety. For this reason it offers a description of the risks inherent to each position, reaching 100% of the employees. In addition in 2004 4,185 hours of training were given, in which 14.3% of the staff participated.

Accident rate indicators [LA7]

| (Red Eléctrica) | 2001 | 2002 | 2003 | 2004 |
|--|------|------|------|------|
| N.º OF WORK ACCIDENTS WITH LOSS/INJURY | 9 | 11 | 6 | 11 |
| FREQUENCY RATE* | 6.88 | 6.95 | 3.64 | 5.25 |
| N.º OF WORK DAYS LOST DUE TO ACCIDENTS | 121 | 172 | 120 | 258 |
| DEGREE OF SEVERITY** | 0.18 | 0.17 | 0.07 | 0.12 |

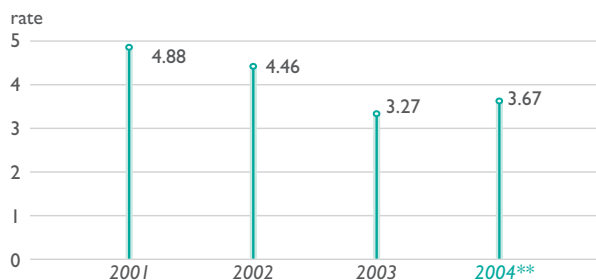
* N.º of accidents with loss per million hours worked

** N.º of days lost due to work accident + estimated per mortal accident and incapacity, per thousand hours worked

Accident rate indicators

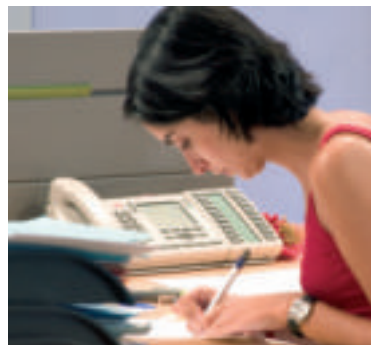
| (Contractor companies) | 2001 | 2002 | 2003 | 2004 |
|--|-------|-------|-------|--------|
| N.º OF WORK ACCIDENTS WITH LOSS/INJURY | 78 | 79 | 57 | 40 |
| FREQUENCY RATE | 66.33 | 44.10 | 34.08 | 21.76 |
| N.º OF DAYS LOST DUE TO ACCIDENTS | 8,576 | 3,025 | 1,350 | 14,489 |
| DEGREE OF SEVERITY | 6.78 | 1.63 | 0.81 | 7.53 |

Absenteeism rate* [LA7]



* Includes absences due to (TI, accidents, paid leave of absence, maternity, medical assistance).

** Data through October



The work risk evaluation system extends beyond employee safety, also reaching contract workers with Group companies, as stated earlier in the section on technical-economic perspective. As a complement to the prevention measures, 179 of those responsible for Red Eléctrica contracts were homologated to prevent work risk.

In 2004 155 safety plans and 318 supplier safety procedures were approved as part of the process of coordinating business activities.

Medical service, in addition to providing first aid personnel and means, also directs activities designed to prevent accidents and to oversee employee health. Principle functions include medical recognition, vaccination and prevention campaigns, broadcasting preventive measures, training in first aid and medical consultations. It also provides information on illnesses with social relevance such as AIDS [LA8], cancer and illness associated with different groups.



Over 1300 medical consultations were given in 2004, and 838 recognitions. In addition different health campaigns were set in march, including anti-tetanus and flu vaccinations and an anti-smoking campaign. This last was broadly accepted by the staff.

As a preliminary step to preparing this company's action plan, a survey was carried out to learn the position and predisposition of the employees to any measures that would possibly be adopted related to forbidding smoking inside the company [3.11]. 75% of the employees accepted the measures proposed, and even suggested many actions that were included in the plan.

The next step was to invite the group of smokers to sessions where they were offered both psychological as well as medical aid to help them stop smoking. As of December 2004 a total of 40 people had participated in the treatments, and new groups created for 2005 [3.12].

Employee participation programs of special note are the annual blood drive and special efforts made in response to the tragic events occurred on March 11 in Madrid.

During 2004 affiliate TDE located in Bolivia complied with its annual health oversight program, especially of high risk personnel, organizing the following activities:

- Yellow fever and tetanus vaccination campaign which covered 90% of the company's personnel.
- Basic life support training.
- Spread of manuals regarding workplace accident prevention measures, driving and first aid.

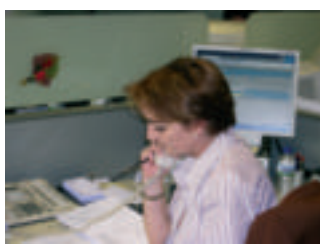
In terms of creating a pleasant work environment, important reforms were concluded to infrastructures in the corporate offices, allowing ergonomic and environmental improvements that facilitate work and communication.



COMPENSATION AND RECOGNITION

The Strategic Plan for Human Resources gives special attention to all policies designed to bind and motivate people. The compensation policy is designed with this objective in mind, rewarding performance and directed towards creating value.

In 2003 a new compensation model was implemented in response to criteria regarding internal equity, transparency and recognition, including fixed compensation within the broad salary levels and an extraordinary compensation recognizing outstanding performance and contributions. This system of recognition compensates proactive behaviour, improvement and development of value to the group and its companies, and maximizes motivation and integration with the business project.



The Red Eléctrica I compensation model is in response to criteria regarding internal equity, transparency, recognition and personal development

Actions of the administrative staff are ruled by a Code of Conduct and addresses personnel management, including for example decentralization of the human resources functions. Delegation, team work and interpersonal communication are factors that stand out in the executive development program, based on the capacity-management model. A variable compensation model has been designed for the administrative staff, tied to management objectives reaching 30% of the first administrative level and up to 15% of the remaining directors [3.5].

Labour and union relations

The Red Eléctrica Group model for labour relations is based on strict compliance with current legislation and social dialogue. It supports and respects human rights proclaimed on the international level: respect for the freedom to associate, syndicate and effective recognition of the right to collective bargaining, elimination of all forms of forced labour, effective abolition of child labour and the elimination of all types of discrimination in selecting, hiring and the performance of any work position [HR5, HR6, HR7, HR9, HR10, LA4].

Red Eléctrica has a union representative at each work centre, as well as an Intercentre Committee with powers attributed by the VIII collective convention, applicable to employees of the head company. Based on legal norms, Red Eléctrica has 35 personnel delegates, elected every four years. As a result of the last electrical process 15 delegates were selected for the Independent Energy Union (SIE), 12 for CCOO, 6 for UGT and 2 for CGT, representing all employees covered by the convention [LA3, LA13].

Union activities are carried out through different commissions and work groups, allowing the contribution of all unions in the company. Existing commissions are as follows: Post Assessment Commission, Training Committee, Health and Safety Committee, Commission on Social Matters and the Peer Oversight and Interpretation Commission [LA13, LA15].

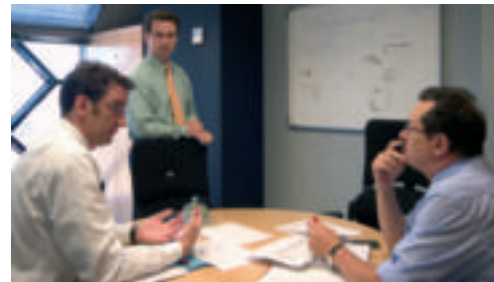
Union representatives are assigned different information bulletin boards by the company, as well as a virtual area in the intranet where they can carry out their information broadcast, consultation and negotiation activities with the employees [LA4].

PERSONAL DEVELOPMENT, STRATEGIC AXIS IN PERSONNEL MANAGEMENT FOR RED ELÉCTRICA

Training and knowledge management [3.19, LA16, LA17]

Development and management of talent constitute one of the axes round which personnel management policies turn in Red Eléctrica. Within this framework the company set different professional development programs in march for different groups and training programs that in 2004 reached 96% of the employees.

Operations School, the project that best represents transfer of knowledge with 54% of the instructors from inside the company



Knowledge transfer is a key factor in forming experts in the electrical sector; responsible for the excellence of the service provided by Red Eléctrica to society. The project that best represents this is the **Operations School**, a project where 54% of the instructors are from inside the company which in 2004 imparted 31,290 hours of training newly hired personnel (over 300 hours of training per person), and which also updates older professional knowledge. This training has reached university recognition in the form of the title of "Specialist in Operating Electrical Systems", thanks to an agreement reached with the Universidad de Comillas de Madrid (ICAI).



The school was born as a permanent training area for operators and technicians of the Operations Department. Training itineraries for the school are divided into two major groups: initial training for newly hired control centre operators, with a duration of approximately 9 months, and the re-training phase for experienced operators, with programs lasting between 1 and 4 weeks per year.

These programs were created after a profound analysis of the training needs of Red Eléctrica operators. The methodology used is directed towards achieving maximum performance of the

educational process: classes in the school room, laboratory practice, on-site visits, workshops, training sessions in the simulator; supervised on the job training and virtual training.

Red Eléctrica prepares its annual training and development plan based on an analysis of the needs of all organizational units. 2004 saw an important effort in training, with 685 courses and 84 hours of training given per employee in different programs (languages, management informatics and computerization, prevention of work risks, the environment, quality, work health and safety), as well as functional technical training.

Training indicators [LA9]

| | 2001 | 2002 | 2003 | 2004 |
|--|--------|--------|--------|--------|
| HOURS OF TRAINING | 34,400 | 44,184 | 56,124 | 90,947 |
| TRAINING DAYS (%) | 16 | 72 | 77 | 81 |
| STAFF IN TRAINING (%) | 92 | 71 | 89 | 96 |
| HOURS PER EMPLOYEE* | 37 | 48 | 58 | 84 |
| INVESTMENT IN TRAINING OVER TOTAL PERSONNEL EXPENSES | 3.3 | 3.4 | 5.1 | 5.9 |

* Over average staff

The technological possibilities of e-learning and resources available for training have contributed to the quality of this activity, 34% which is provided by instructors from inside the company and which was evaluated by participants 7.63 over a maximum of 10 [3.11].

With respect to affiliates, Red Eléctrica Telecomunicaciones dedicated a total of 1,544 hours during the year; TDE a total of 6,241 hours and Red Eléctrica Internacional reached an average of 72.6 hours per employee.

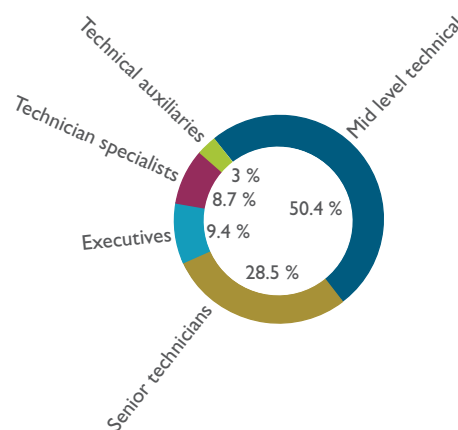
Training sessions on Corporate Responsibility were presented to a reduced group during 2004. Courses and outreach sessions will be organized in the future to inform all personnel of the Group in detail of the Red Eléctrica CR model and practices designed to support and protect human rights, the new code of conduct and possibility voluntary participation in projects such as the corporate volunteer program [HR8].

Personnel promotion and development

To promote the transfer of key electrical system knowledge, a program has been created to manage knowledge in the different business areas. A project has also been outlined to identify professional interests of the employees, the results of which will be used to develop personal professional itineraries. All these projects have a parallel informatics development whose purpose is to build a global vision of the development of the employee's professional career. [LA17]

Mobility between companies of the group and opportunities for development have contributed to retaining talent and establishing an attractive professional environment. In 2004 undesired external turnover was 1.36%.

Distribution of training time 2004





Programs to develop talent are directed to training “key technicians” or highly qualified personnel, which in 2004 included 85 employees. These courses will offer a global vision and development of generic skills and will be given in coordination with superiors who will provide advice in this sense. New programs have also been included for other professional groups, such as courses for executive secretaries.

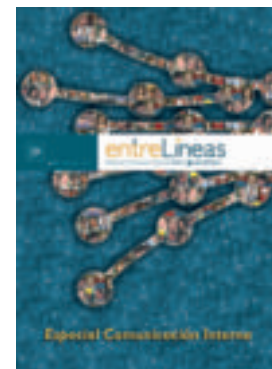
With regard to the administrative staff, 2004 saw the preparation of programs directed towards developing didactic skills and managing people from all of the companies forming Red Eléctrica Group. Efforts made in this area are in response to the policy of administrative personnel, making them responsible for the continued improvement in performance of the individuals through their professional development, permanent adaptation of personal profiles to those defined for the position, developing the associated skills and technical knowledge, anticipating changes in technology, organization or business that may occur in the future. In 2004 2639 hours were dedicated to programs designed to develop these skills.

Communication, participation and integration [3.11, 3.12, 3.19]

Internal communication in Red Eléctrica is comprised of three strategic lines [LA4]:

- To ensure an effective receipt and understanding of the information considered of interest by the administration for its employees (descending communication).
- To promote initiative and individual contribution, accepting suggestions and opinions to improve, develop and make the business more efficient, and to foment contributions, either individual or group.
- To facilitate the presentation of information in a precise, accurate and agile manner at all levels of each organization and between all companies of the Group, when necessary.

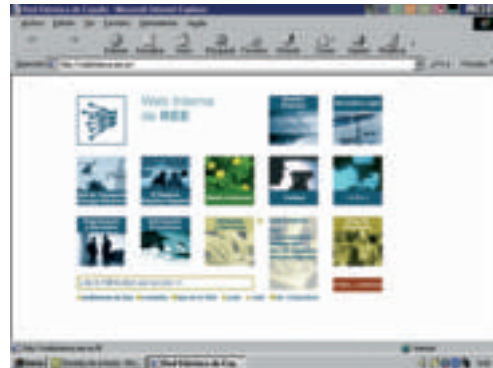
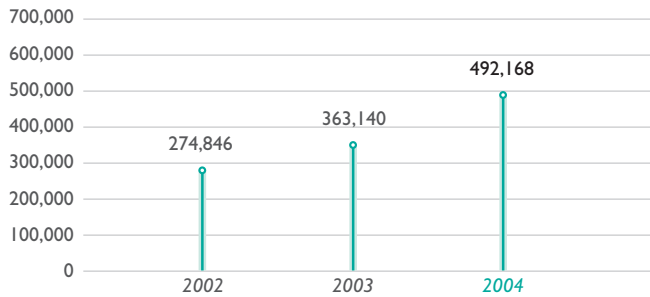
Communications are fluid, through different channels that facilitate the integration and involvement of the individual



Communication and dialogue within the company occurs fluidly through different internal communications channels. The most traditional channel, the corporate magazine entitled *entreLineas* (betweenLines), was first published in 1993. It has been followed by the electronic publications *Red en Línea* (The Grid on Line) and *e-managers* (e-directives). In addition the employee self-service area constitutes an important channel of information, presenting all employee compensation and time management data.

The intranet was consolidated as the first communications channel and an effective means of developing the daily work of the employees. In 2004 it received 492,168 visits, with the most consulted sections Employee Services, current news, company press releases and internal norms.

Nº of Intranet visits



Telephone Call-In Centres facilitated providing solutions to questions, consultations or incidents relating to informatics systems and general services. Evaluation surveys of the different processes (general services, informatics services, training, etc.) helped to identify improvements. Initiatives and complaints received were handled with complete confidentiality. [PR3].

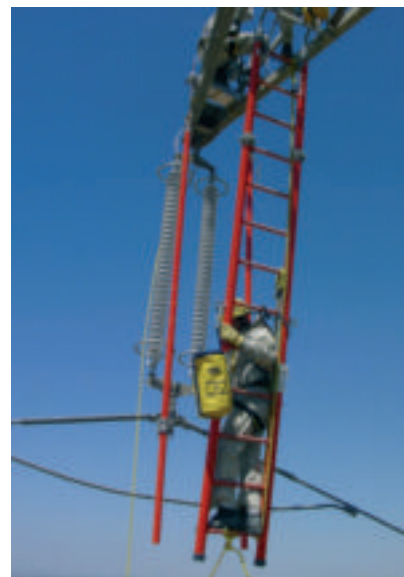
In 2004 a study was carried out to maximize internal communication and other aspects of the work environment, with an important part of the staff participating.

| Participant Data: | Admin. Staf | Non-admin. Staff | Total |
|--------------------------|--------------------|-------------------------|--------------|
| SURVEYS | 44 | 427 | 475 |
| FOCUS GROUPS (2) | - | 16 | 16 |
| INTERVIEWS | 16 | 56 | 72 |

Considering the results of this study presented to the entire staff, an internal communications plan was prepared for 2005 with reinforcement given in the areas of improving and taking advantage of positive aspects. Some of the lines of action were oriented towards improving knowledge of other units and promoting ascending internal communication through the creation of groups known as "Internal Communications Observatories".

Some of the results of the study demonstrate the importance of teamwork in Red Eléctrica, and the pride of ownership in the company shown by 85% of the participants.

Employee participation is a priority in the company's internal communications strategy. Close to 40% of the employees participated in 2004 in photography and short story competitions, group sports activities and other games organized to provide a better knowledge of the company. Red Eléctrica also periodically organizes encounters so that personnel and their families can meet in an environment other than work.



CONCILIATION OF WORK AND PERSONAL LIFE

In its Strategic Plan Red Eléctrica states that it is an organization based on people, and formulates its commitment to reconciling the professional life with personal time and equal opportunities, through its Corporate Responsibility Policy and within the legal labour framework of the collective agreement.

Flexibility

The current agreement introduces important commitments that favour flexibility in the work environment and the reconciliation of work life with personal time:

- Work time of 1700 hours per year.
- Flexible application of the work schedule with different schedules for starting and finishing times and lunch hours.
- Balanced work day, summer and winter, that allows a continuous work day for up to 3.5 months per year.
- Work calendar adapted to the work centres.

Red Eléctrica obtains, for the second consecutive year, runner up in the III Edition of the Flexible Company Award



- Extension of paid leaves beyond the requirements set by law. Work day reductions of up to minimum 15% due to maternity, and the possibility of enjoying accumulated nursing leave until the child reaches the age of 8 years, and 3 days, or 5 if at a distance, for the death of a family member through second degree and when changing homes.
- Application of reduced work day and leave of absence to care directly for minor children or handicapped family members with a substantial improvement over the amount established by law.

In 2004 a new employee maintenance system was set in operation, easily accessed through Employee Services. This new digitalized platform provides the employee with information on hours worked, vacations and absences with a more visual and graphic system allowing better planning.

In order to offer the employees of Red Eléctrica a greater flexibility, employees can enjoy their vacations at any time during the year, as long as the work situation allows. It also offers flexibility in enjoying a continuous work day, with the possibility of reducing the number of weeks in exchange for vacation days.

Especially noteworthy is the agreement reached between the company and the union in 2004 to adopt improvements in conciliating work life with the family life of mothers and fathers working in Red Eléctrica, through the extension of maternity leaves and aids.



These new measures adopted include extending maternity leave to begin at week 38 of the pregnancy through the post-partum period, the possibility of adjusting nursing hours to the needs of the workers, adding them to maternity leave or vacation time, accumulating them weekly or monthly. In addition economic aid is allowed at the time of each birth, adoption or new child.

A work table was also created to analyze and propose new measures that favour the conciliation of the employees work and family lives.

In response to the social problem of domestic violence, the "Red Eléctrica Agreement Against Domestic or Sexual Violence" was negotiated with union representatives. Through this agreement the company offers integral support measures - psychological, medical, legal and economic and facilities for work flexibility - to company employees who may find themselves affected by this social problem.

Social benefits [LA12]

Red Eléctrica's Human Resources policy, developed in the collective agreement, establishes a series of social benefits for its employees who may choose among the following according the established limits:

- Pension plan.
- Private medical insurance for the employee and his/her dependent family members.
- Life and handicap insurance.
- Special electricity rates in the family home.
- Loans to acquire home or car.
- Restaurant ticket.
- Child care ticket.
- Temporary incapacity complement of up to 100% of regular salary.
- Loans to cover special personal expenses.
- Aids to practice sports in installations close to the work centre, encouraging participating through holding different championships/competitions.

During 2004 the cost assumed by Red Eléctrica for social benefits was 3,123 thousand euros.

Employee services

- Company dining room.
- Employee bus.
- Employee parking.
- Internet in the job when work functions require.
- Portable computer equipment and mobile phone according to the nature of his/her work.
- Discounts in travel agencies, information on sales, etc.
- ATMs
- Medical advice.



COMMITMENT TO SOCIETY

Red Eléctrica carries out its work in a continuous interaction with the institutions, economies, society and environment around it. Aware of this reality, we of Red Eléctrica Group work hard to seek the best formulas to maintain a permanent and systematic dialogue with the actors involved, both directly or indirectly, in carrying out our activities.

Red Eléctrica seeks the best formulas to maintain a fluid dialogue with the parties involved in carrying out its activities



COMMUNITY INTEGRATION [SO1]

Red Eléctrica has created a tool to integrate company projects with its institutional and social surroundings, achieving an appropriate balance between economic, social and environmental interests. This tool is known as the Project Social Acceptance Program (PAS) and its main objectives are:

- To achieve that company projects are carried out with maximum institutional and social consensus possible.
- To respond quickly to the demand for information generated by its surroundings and to facilitate understanding the necessity for company projects.
- To provide transparent information on project development, based on timely, clear and truthful messages issued to the parties around it.
- To conciliate general and individual interests of the territorial area, with the necessary development of the electrical transport grid.

During 2004 the process of normalizing the PAS was carried out, including analysis, measurement and follow up on each project from four different perspectives: economic, environmental, territorial and social. Each of these perspectives define a series of parameters that were evaluated and whose results will provide precise information on the type of actions to be undertaken in each project.

Currently there are ten projects associated with a PAS: three of these are in the north-western axis, three in the north-eastern axis, one in Galicia, another in Gerona, and another in each of the new interconnections between Spain and France and Morocco. This last, known as the REMO Project (Western Mediterranean Electrical Reinforcement, for its initials in Spanish), presents different unique aspects as described in the next section.

THE REMO PROJECT [3.11, 3.12]

Environment and social measuring to define accepted compensatory measures

The REMO project, declared of community interest by the European Union and financed by the EIB (European Investment Bank) and by the ADB (African Development Bank), crosses a protected area that has been qualified as an CIA (Community Interest Area), specifically the Parque Natural del Estrecho (Tarifa) and that included in the Natura 2000 network.

The Habitat directive of the European Union provides that ... in the event of any plan or project of public interest, including social or economic reasons, in an area declared a special conservation area, then the member State will take the **compensatory measures** necessary to guarantee that the global coherence of Natura 2000 remains protected...

To determine these compensatory measures to be set in operation in the project, in 2003 and 2004 a convention was applied with the MIGRES foundation as mediator between environmental and social agents of the Campo de Gibraltar and Tarifa region and Red Eléctrica. Its objective was to collect, evaluate and give priority to the different initiatives that best fit the concept of environmental and social compensatory measures, meeting the conservation needs of the region affected.

Compensatory measures are not limited exclusively to compensation for habitats and species affected by construction and later the functioning of the infrastructure, but rather are directed to reinforcing the most sensitive elements of the ecosystem in order to reduce its fragility.

The REMO project includes a definition of the territory and fauna and flora species for which different compensatory measures will be applied. Effective application of these measures requires both an intense public information activity for potential users of the territory, which will allow a more rational and correct use of the resources and a greater awareness of the citizenry in defence of its values. In this sense, compensatory measures proposed for the project will also provide users of the territory with adequate information on the environmental and social values located in the area of application, directed to a sustainable development of its resources.



The guiding philosophy of the list of compensatory measures for this project has been to involve local society and that of Campo de Gibraltar in particular; from the first moment, in the definition process. The mediation by the MIGRES Foundation was fundamental in this regard, provided at the time of consultations with the different interest groups related or affected by the project, including: **research bodies** (Estación Biológica de Doñana del C.S.I.C., Universidad de Sevilla, Universidad de Cadiz, Gibraltar Ornithological and Natural History Society, Sociedad Gaditana de Historia Natural), **environmental NGOs** (Ecologistas en Acción, Agaden Cádiz, Grupo Ornitológico del Estrecho, Colectivo Ornitológico Cigüeña Negra, Circé, Sociedad Española de Ornitología), **social NGOs** (Asociación Palestra, Instituto de Estudios Campogibraltares), **business associations** (Asociación Eólica de Tarifa, Asociación Grandes Industrias del Campo de Gibraltar, Cofradía de Pescadores) and **private organizations** (Asociación Naturaleza y Turismo Rural en el Estrecho, ORNITUR).

The REMO project is a clear example of the integration of our activities in the community with the acceptance of all interested parties



These consultations translated into the presentation of 85 projects. After consulting with specialists on the subjects proposed and various meetings with local and autonomous community representations, a selection was made of those that best adapt to the concept of compensatory measures as described above, and which were considered priority and of social interest based on the conservation needs of the area.

The projected selected constituting compensatory measures were grouped in three main lines of action:

- **Conservation:** projects involving direct actions on the environment or generating information needed, currently not available, that would allow the development of specific projects.
- **Education and diffusion:** the main objective of the projects included in this point is to inform society of the natural values of the territory in general.
- **Research:** projects to generate basic information on the characteristics of the Straits of Gibraltar.

SOCIAL ACTION

Broadcasting on the Spanish electrical system, collaboration with education centres researching social and environmental aspects of high voltage electrical grids and contribution to cultural and social development with entities addressing cultural and social development of the most underprivileged populations, is one of Red Eléctrica's principal activities in the sphere of co-operation and sponsorship.

Support for education

The main recipient of our activities in the educational sphere is the university world. For several years Red Eléctrica has had numerous agreements signed with different universities for the development of projects of interest to the electrical system and entrepreneurial formation, including:

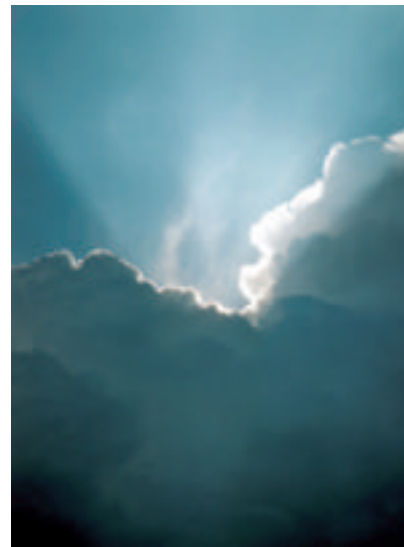
- Red Eléctrica Chair at the Universidad Autónoma de Madrid: Collaboration agreement for the development of social research on energy and the environment.
- Universidad Carlos III: Scholastic collaboration agreement to develop a master's degree specializing in the economics of the energy sector. This year represents its 13th edition.
- Universidad de Navarra (IESE): Co-operation with the Supporting Company in the development of business research programs. Through this collaboration, the company maintains a close contact with the most advanced studies in training of executives and other business areas.

To reinforce the link between the university and business worlds, in 2004 a collaboration was signed with the Universidad de Valladolid for the program with ties to businesses. Through this program Red Eléctrica offers its technicians the opportunity to teach in the area of electrical knowledge and to facilitate the use of its installations for a practical perspective of this teaching.



Red Eléctrica has always been closely tied to education, convinced that this is a fundamental pillar of social development

In addition during 2004 Red Eléctrica continued to sponsor or actively collaborate in courses, fora and conferences organized by different entities such as «High voltage lines and mobile telephony: a health risk» (Universidad de Cantabria), «Advanced Research Workshop on Modern Transformers (ARWtr2004)» (Universidad de Vigo) or «IX Symposium of the Institute of Internal Auditors».





The company also participates in the Company-Parliamentary Program, coordinated by the Circle of Businessmen, formed to improve mutual knowledge between business and members of Parliament.

Support for the environment

Red Eléctrica has always supported initiatives in this sphere, as protection and support of the natural environment constitutes one of its principle concerns. Activities in 2004 included:

- Fundación Doñana 21: Agreement in which Red Eléctrica assigned installations of its delegation in Seville for the development of activities to broadcast knowledge of its sustainable development principles within the business world. Through this agreement Red Eléctrica joined the «Doñana» Forum for the Sustainable Business [EC12].
- Superior Council for Scientific Research (Doñana Biological Station): Collaboration agreement for the «Use of Red Eléctrica electricity carrier substations for the lesser kestrel in Navarre and Aragon. Its importance for conservation of this species at state level».
- Fundación Entorno: Collaboration agreement to promote company improvement in environmental matters through training, information and research activities.
- SEO – Birdlife: Sponsor of the «VI International Count of the White Stork».
- VII National Congress on the Environment: Economic collaboration and active participation in conferences, round tables and work groups.

Studying improvement of our natural environment constitutes one of Red Eléctrica's principal lines of action in the sphere of social action



Aid for social and cultural development

Co-operation in this field is addressed mainly to projects located in areas where Red Eléctrica works. In this line, Red Eléctrica collaborate with different local administrations in a number of social and cultural activities directed to improving the life of the residents. In addition during 2004 the following collaboration agreements were signed:

- Fundación Energía sin Fronteras (Energy Without Borders Foundation): Red Eléctrica is one of the countries participating in 2002 in the creation of this foundation, whose purpose is to facilitate access to light and water in the most underprivileged areas of the world, as well as to transmit the knowledge necessary to maintain infrastructures created for these purposes.
- Clínica Universidad de Navarra: Collaboration agreement for medical research in treating diseases such as cancer and Alzheimer's.
- Fundación Universidad Carlos III: Collaboration agreement to carry out social activities of this entity.

- Asociación de Ayuda en Carreteras del País Vasco (DYA) (Basque Country Association for Highway Aid): Collaboration with the body responsible for providing aid to accident victims and the ill.
- Universidad Autónoma de Madrid: Collaboration agreement sponsoring development of the «XXXI Ciclo de Grandes Autores e Intérpretes de la Música» (XXXI Cycle of Great Composers and Musicians).
- Fundación Deporte de Alcobendas (Alcobendas Sports Foundation, or FUNDAL): Annual sponsorship to encourage sports in Alcobendas as well as to facilitate its practiced by employees of Red Eléctrica Group.
- Federación de Municipios y Provincias: Collaboration in the exposition «A Full Lifetime, 25 years of democratic city governments», organized by the Spanish Federation of Municipalities and Provinces that encompasses the gamut of Spanish local administrations. This event is a demonstration of the achievements of local governments, principal agents in improving the world in which we live.



Social action activities in Bolivia and Peru cover such diverse fields as education, culture, solidarity and regional economic development

Red Eléctrica in other countries

Red Eléctrica social action activities in Bolivia and Peru are carried out through their respective affiliates TDE and REDESUR. These activities cover such diverse fields as education, culture, social solidarity and regional economic development.

BOLIVIA

TDE's commitment to education is seen through the different activities undertaken with students and in mutual co-operation agreements signed with universities. Among the first group, this year the program of visits to the TDE Interactive Electricity Centre in Cochabamba received 2014 children from 6 to 17 years of age from eleven educational institutions. In addition the extended action program was also renewed, designed mainly for children and adolescents of rural schools for the purpose of raising awareness on the use and precautions to be taken with electricity and the elements forming them. During 2004 3,722 children from 32 schools participated in this program, with a participation of 8000 children projected fore 2005.

In terms of co-operation with universities, in 2004 TDE signed mutual collaboration agreements with three universities recognized at the national level, to perform student practices and end of study projects. In addition it delivered electrical equipment to these universities, to be used in teaching.

Principal activities in the cultural sphere were addressed to supporting regional customs and values and developing young artists. In this regard TDE sponsored an important number of cultural activities (music, theatre, painting), two of which were presented in the company auditorium: a concert with electric-acoustic music as part of the VII National Festival of Contemporary Music, and Spanish films, organized by the Spanish Embassy.

Red Eléctrica actively contributes to increasing the social wellbeing of the countries in which it works



Among its activities in the sphere of social solidarity, as in previous years TDE maintained a series of contributions to social institutions and entities that help children, senior citizens and the sick with the greatest needs, as well as its permanent collaboration with the Bolivia Volunteer Rescue Group (SAR) in its search and rescue activities. The SAR for its part gave practical courses in Basic Life Support to TDE personnel.

Within the business environment TDE actively collaborated in congresses, courses and seminars addressed to increasing knowledge of electrical systems as well as those dealing with social and environmental areas. Of special note was the 2004 event "First National Encounter On Renewable Energy Technologies", whose objective was to analyze the status of the development of renewable energies in Bolivia and to study existing initiatives for rural electrification. The Encounter was held in the TDE auditorium, coordinated and moderated by the Centre of Information on Renewable Energies – CINER.

TDE's participation in the "Second Contest for Projects Applying Science, Technology and Innovation to the Industry" also stands out. The contest was organized by the Regional Chamber of Industries to foment initiatives designed to provide technical solutions to concrete needs and projects associated with the company. As a result of this initiative TDE recognized three research projects that were assigned to multidisciplinary teams from the Universidad Mayor de San Simón.

Other noteworthy activities included sponsorship of the presentation of results of the "Formulation of a macroeconomic and energy frame of reference for planning electrical development in Bolivia with a 2015 horizon" project, the «II Conference of Economic Science and International Trade» of the Universidad Autónoma Juan Misael Saracho (Bermejo – Tarija) and the course on «Live Line Maintenance to 24.9 kV».



PERÚ

Red Eléctrica del Sur, S. A. (REDESUR), a Peruvian corporation with a 30% share owned by Red Eléctrica Internacional, contributed to educational and personal development of underprivileged groups in southern Peru, the area in which it works [HRI2]. Among the more noteworthy activities carried out was the signing of an agreement last year with the Ministry of Education for a free assignment, for a period of five years, of its fibre optic installations, to support a project granting internet access to all Peruvian schools.

2004 saw the continuance of the annual program to deliver school materials to educational centres in the most depressed economic areas of Peru, this year covering 709 students. In addition construction of a school room damaged by the rains concluded with the participation of parents, professors and students with economic help aid from REDESUR.

Currently there is no joint community-administration complaint mechanism, nor is there any data regarding operating income that is distributed to local communities. [HRI3, HRI4]



One demonstration of our commitment to educational development is seen in the educational activities carried out southern Peru through our participation in REDESUR

COMMUNICATION WITH INTEREST GROUPS [2.9, 2.22, 3.8, 3.10, 3.11, 3.12]

This section provides a report on communications activities developed by Red Eléctrica in different spheres with its interest groups (shareholders and investors, clients, suppliers, communications media and public administrations). In addition, as operators of the Spanish electrical system, the corporation as a whole constitutes an important interest group to the company.

Environmental communication

Aware of the interest generated by environmental conditions affected by its work, Red Eléctrica considers it essential to maintain a fluid and transparent dialogue with all interested parties. In this regard the company places at the disposition of the corporation different channels for environmental communications, including the annual publication of the Environmental Report and its web page (www.ree.es) containing a specific section with ample information on different environmental aspects of the company. During 2004 this section received over 38,000 visits.

It also provides an integral information system to listen to and resolve any questions and complaints received, handling all response as quickly as possible.

Evolution of consultations

| Field | 2001 | 2002 | 2003 | 2004 |
|-----------------------------|-----------|-----------|-----------|-----------|
| BIRDS | 4 | 5 | 13 | 1 |
| ELECTROMAGNETIC FIELDS | 23 | 45 | 8 | 5 |
| GREEN CERTIFICATES | 0 | 0 | 4 | 1 |
| ENVIRONMENTAL COSTS | 0 | 0 | 0 | 1 |
| INSTALLATIONS | 4 | 5 | 4 | 4 |
| GENERAL ENVIRONMENTAL INFO. | 0 | 6 | 8 | 4 |
| PUBLICATIONS | 1 | 4 | 11 | 13 |
| NOISE | 0 | 2 | 0 | 1 |
| TOTAL | 32 | 67 | 48 | 30 |

Evolution of complaints

| Field | 2001 | 2002 | 2003 | 2004 |
|-------------------------------|----------|----------|----------|----------|
| BIRDS | 1 | 0 | 0 | 0 |
| SCENIC IMPACTS | 1 | 0 | 0 | 1 |
| CLOSENESS TO THE INSTALLATION | 1 | 0 | 1 | 1 |
| ADMINISTRATIVE REQUIREMENTS | 0 | 0 | 0 | 3 |
| FIRE RISK | 1 | 0 | 1 | 0 |
| NOISE | 0 | 2 | 3 | 0 |
| TOTAL | 4 | 2 | 5 | 5 |

Red Eléctrica also actively participates in congresses, debate fora and work groups. 2004 was marked by our outstanding participation in the VII National Congress on the Environment «Summit on Sustainable Development» held in Madrid. The congress dealt with such subjects as basic principles of sustainable development, the environment, society and economy. Red Eléctrica had its own company pavilion, with numerous executives and technicians from the company participating in fora, round tables and work groups. There was also a company presentation explaining our functions and environmental activities.

Another important milestone this past year was the publication of the book IV Symposia on Electrical Lines and the Environment. This book contains written contributions and all the presentations made during the symposium organized by Red Eléctrica and held in October 2003, with the attendance of companies from the electrical and administrative sectors, universities, associations, etc. For the purpose of exchanging knowledge and experiences, debating and reflecting on all environmental aspects related to the transport of electrical energy, as well as its contribution to sustainable development.



In addition since it initiated its activities in 1995, Red Eléctrica has published a good number of publications both in paper as well as audiovisual format, including: the documentary «Forest of Forests» and the technical video «Burying the 400 kV line affected by the Barajas plan» showing the efforts made to minimize the environmental impacts caused by these projects, as well as the recovery of archaeological finds carried out during the project. The company has also published books regarding different investigations made on electric and electromagnetic fields.

Shareholder and investor communications

The base of confidence in Red Eléctrica from her shareholders, investors and financial community lies in our constant search for transparent, fluid and close dialogue, beyond just complying with legal obligations.

This is thanks to two units: Shareholder Relations and Investor Relations, who identify and resolve all questions and requests for information from the different groups through a combination of media that facilitate communication to the extent possible.

Principal communication channels

- Shareholder attention office
- Toll-free telephone: **900 100 182**
- Shareholder e-mail: **accionistas@ree.es**
- Investor e-mail: **relacioninversores@ree.es**
- Corporate Web page: **www.ree.es**. **Shareholder and investor section**
- Quarterly shareholder bulletin
- On-site visits to the installations and work centres
- Presentations to investors and road shows



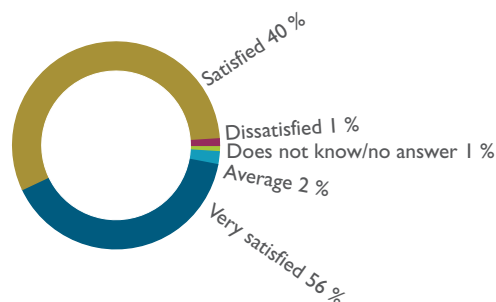
Shareholder communications indicators in 2004

| | |
|---|--------|
| SHAREHOLDER OFFICE (number of consultations) | 1,165 |
| SHAREHOLDER TELEPHONE AND E-MAIL | 1,087 |
| DOCUMENTATION SENT (No. of mailings made) | 3,161 |
| SHAREHOLDER IDENTIFICATION (No. of registries) | 3,397 |
| WEBPAGE FOR SHAREHOLDER AND INVESTORS (No. of visits) | 44,333 |

As in previous years, a survey was carried out through personal interview with shareholders for the purpose of evaluating the degree of satisfaction with the services provided by the Shareholders Office. 2004 results show that a broad majority is satisfied or very satisfied with the services provided through this channel.

The Investors Relationship Unit is responsible for handling Investors' questions and serving as a communications channel with professionals of the financial community. Through this unit, Red Eléctrica makes presentations and holds frequent meetings with the financial community and analysts. During 2004 132 meetings were held with analysts and institutional investors, with 14 road shows and 7 presentations to investors in both variable as well as fixed income, in Spain, the United States and the main European financial centres.

To what degree are you satisfied with the service provided by Red Eléctrica's Minority Shareholder Attention office?



Communications with clients and business agents

Red Eléctrica places at the disposition of its clients and business agents an adequate combination of means to satisfactorily cover their requests for information. On the one hand, it prepares and distributors a significant number of technical publications; and it also uses new technologies to at all times and instantly provide up to date information. In addition to the corporate website which provides broad information to all interested parties, Red Eléctrica also counts on other information systems, including: the System Operator Information System (SIOS), the Electrical Metering Information centre (SIMEL), Installations Data Base (BDI) and the Statistics and Information Centre (INES, all for their initials in Spanish).

Publicity and marketing activities by the company are limited to campaigns related to specific events directed to very specific groups (such as the Notice of the meeting of shareholders). Nevertheless, Red Eléctrica complies with all norms regarding publicity and product marketing [PR9, PR10].

We constantly work to maintain a fluid and transparent communication with all our interest groups



Communications with suppliers

Red Eléctrica promotes collaboration with its suppliers for common development, improving efficiency of processes and generating mutual benefits. In the sphere of communications, in 2003 an area dedicated specifically to suppliers was set up on the company website where information regarding qualification, hiring conditions and billing could be exchanged, as well as resolving any questions or as a forum for any comments or suggestions.

During 2004 we took a step forward, incorporating into this area a purchase bidding system via the Internet that allows suppliers, upon invitation by Red Eléctrica, to electronically present their bids in a fast and efficient manner.

During 2004, the suppliers area of the website received 11,047 visits, with 49,148 pages consulted, 2.6 times more than the previous year. All questions or complaints received at the e-mail facturasproveedores@ree.es and by telephone are handled and resolved promptly.



Communications with the media

Red Eléctrica is a symbol of informational credibility and transparency with the communications media, thanks to our efforts to improve the information requested from and provided by us.

In 2004, Red Eléctrica organized, for the first time, a training symposium addressed to reporters from the regional media of Andalusia, Asturias, Cantabria, Catalonia, Galicia, Madrid, Murcia, the Basque Country and Valencia to explain the functioning of the Spanish electrical system and company activities in each community. The company also revealed in Galicia and Andalusia activities underway to adapt to wind energy.

With regard to the presence of Red Eléctrica in the media, this has increased this year by 26.5% with 6,265 news stories published, of which 2,255 corresponding to the national press and 4,010 to regional media. Most frequent subjects are electrical contents (50%), stock market price (20%), and organizational matters (14%).

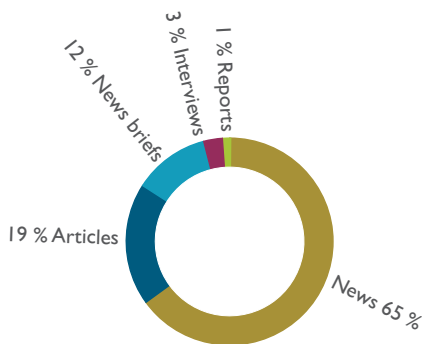
The on-line press room, an instrument for communications with media professionals, this year received 20,380 visits with 74,400 pages consulted.

News stories published about Red Eléctrica in the press

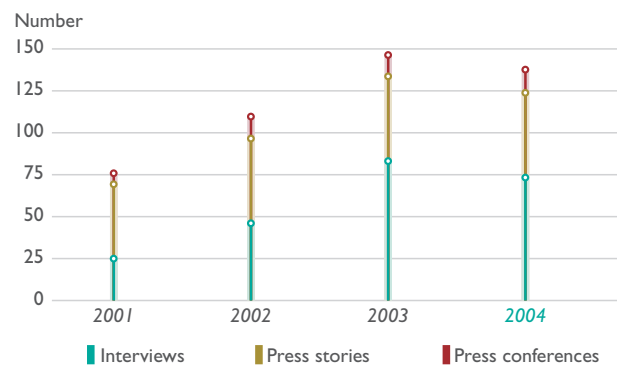
| | 2003 | 2004 |
|----------------|--------------|--------------|
| NATIONAL PRESS | 2,228 | 2,255 |
| REGIONAL PRESS | 2,724 | 4,010 |
| | 4,952 | 6,265 |



Type of information published in 2004



Information released



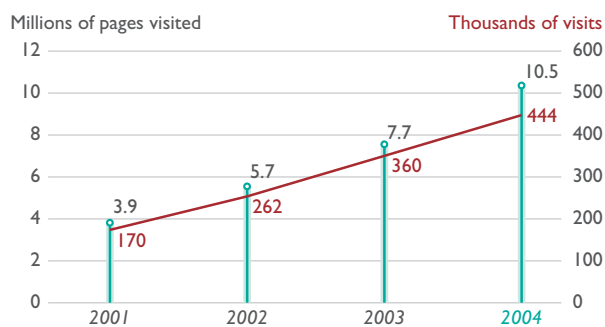
With regard to the activities of our Bolivian affiliate TDE with the media, there were 153 news stories in the national press in 2004. The most important press stories related to investments in new projects, certification given the company in work health and safety, maintenance of the quality and environmental systems certification and the results of the first phase of the TDE educational program in rural areas.

Corporate Web

Red Eléctrica places its corporate website at the disposition of the corporation (www.ree.es), for the purpose of broadcasting financial-economic and business information of the company, together with all other information referring to the electric system in which it operates, information of interest to the different parties interested. This communication is provided with maximum criteria for transparency, quality, swiftness and range in broadcasting information.



Corporate Web annual evolution



Relevant facts are included in the webpage as soon as they are reported to the CNMV, together with information on the company corporate governance report. In addition complete updated economic and financial information is always available, in order to cover the investor's need for information beyond simply complying with obligations established by law.

Red Eléctrica also offers real time information on its website regarding peninsular electric consumption and wind energy production, evolution of the Spanish electrical system, environmental management, press releases and current news of the company.

During 2004 over 10 million pages were viewed in 444,154 visits to the company website, coming from a hundred countries.

In 2004 important improvements were made, including amplification of information relating to extra-peninsular electrical systems, adaptation of the contents of the shareholder and investor section to comply with the dispositions of the Transparency Law and the Regulations for the Board of Directors, electronic subscription and an news bulletin service directed to the communications media which will be extended in the future to other groups.

The Group's policy of transparency has translated into improvement of affiliate TDE's webpage (www.tde.com.bo) with the incorporation in 2004 of a space that allows a digitalized version of the company annual report, in Spanish and in English. During this year the TDE site received a total of 10,124 outside visits, 144% more than in 2003.

Publications

Red Eléctrica carries out extensive work publishing and broadcasting publications for the double purpose of assuring compliance with its legal obligations relating to information they must place at the disposition of agents of the electrical sector, and maximizing the company's recognition within its institutional, economic and social environment.

To fulfil these objectives, every year the company prepares and distributes to the exterior over 25 types of corporate publications, technical documents and informative materials, with a diffusion of close to 50,000 copies printed.

The target audience to whom these documents are addressed represent a broad spectrum of the social context: institutions, public administrations and organisms, electric companies, communications media, shareholders, etc., with a total distribution of close to 4000 addressees.



Over 25 types of publications with a diffusion of close to 50,000 printed copies and 190,000 electronic downloads from the web

Distribution of the publications in electronic format, allowing a greater diffusion of information to all interested parties with a very significant savings in cost, continued to increase in 2004 with over 190,000 downloaded, 84% more than in 2003.

PRINCIPAL PUBLICATIONS IN 2004

- 2003 annual report (published in Spanish and English)
- 2003 Corporate Responsibility report (published in Spanish and English)
- 2003 Environmental Report (published in Spanish and English)
- 2003 Report on the Spanish electrical system
- Preliminary 2004 Report on the Spanish electrical system (published in Spanish and English)
- Monthly report (information on the electrical system)
- Statistical bulletin on electrical energy (monthly)
- Shareholders bulletin (quarterly)
- 2004 Map of the Iberian electrical system
- Book «IV Symposiums on Eléctrica Lines and the Environment»

All of these documents can be viewed and downloaded through the website (www.ree.es). In addition to these other periodic publications are prepared to report on specific subjects, either printed, in electronic format, on video or in other formats.



Environmental responsibility



We consider protection of the natural environment to be a priority commitment, as reflected in our environmental policy

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL POLICY AND MANAGEMENT

Red Eléctrica Group through its environmental policy demonstrates its commitment to protect the environment, facilitating and encouraging each individual to work with maximum respect for the natural environment, and to demonstrate a responsible commitment to society.

To guarantee compliance with this policy, Red Eléctrica has an Environmental Management System that establishes the responsibilities for the environment for all areas of the company. This system was certified in May 1999 in accordance with norm UNE-EN ISO 14001 and has been registered with the Community System for Ecomanagement and Ecoauditing (EMAS) since October of 2001 [3.20].

Red Eléctrica is on the cutting edge in developing and applying activities and projects to protect the environment



Red Eléctrica has an Environment Department, whose principal mission is to provide technical support for all units of the organization in developing its activities. It also performs important work in the area of consciousness-raising, so that each employee assumes a commitment to the environment in carrying out their functions.

Applying techniques most respectful to our natural environment, research, training and communication activities, collaboration with environmental organizations, etc. clearly demonstrate Red Eléctrica's vocation to protect the environment, an activity where Red Eléctrica is the world leader in the electrical sector:



During 2004 the Environmental Management Systems of Red Eléctrica Telecomunicaciones and Red Eléctrica del Sur (REDESUR) were certified in accordance with standard UNE EN ISO 14001, thus completing the environmental certification of all companies forming the Group. This confirms Red Eléctrica Group's commitment to form part of the companies with the best integration of environmental protection in the normal performance of their work.

Red Eléctrica installations –lines and substations– present no highly significant impact to the environment [EN14]. More specifically, Red Eléctrica has no traditional production process involving the manufacturing of products and transportation or consumption of raw materials and energy [2,17, EN1, EN2, EN4, EN18, EN34], emission of contaminating gases [EN10], use or dumping of chemical products [EN13], use of water (except for domestic use) [EN20, EN21, EN22], or impermeable soil [EN24], generation of waste waters [EN12, EN32], production or extraction activities [EN23] or sale of products [EN15].

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

ENVIRONMENTAL CONSERVATION

Environmental impact studies and actions

Red Eléctrica carries out environmental impact studies for all projects for new installations, whether or not they are subject or not to the environmental impact evaluation procedure established in Law 6/2001, dated May 8, for environmental impact evaluations. During the development of these studies, Red Eléctrica agrees with environmental bodies of the corresponding autonomous communities on the alternative with the lowest impact for each project. Thanks to these studies new installations do not affect sensitive or protected areas [EN25, EN26, EN28], although on occasion this is inevitable, as occurred in the REMO project described on page 59. In these cases all attempts are made to minimize the impact of the installations on the environment.

In 2004 the company obtained from the Ministry of the Environment a positive environmental impact assessment (EIA) for three lines (new feeder to Girona, Balbo-Portuguese Border line and the Parla Urbanistic Consortium), and resolutions on environmental evaluations for five substations (Ayora, El Cereal, Galapagar, Segovia, La Espluga). At the end of the year projects for 38 lines and 21 substations remained in process with this environmental body.

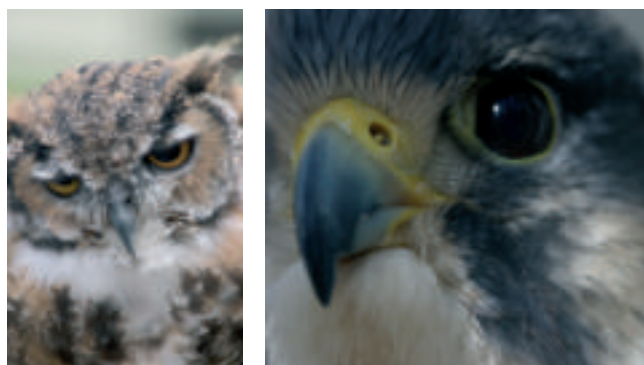
During the year environmental supervision was performed on construction of 13 new lines, 11 new substations, as well as modification, amplification, renovation or improvement projects on 7 lines and 61 substations, consisting of applying preventive and corrective measures, designing areas for hazardous waste placement and verifying the correct management of those generated in the foregoing projects.



Bird protection

Possible negative effects of high voltage electrical installations on the environment are eliminated or reduced in great measure through the environmental impact study which ensures that conflictive areas are avoided, as well as the corresponding control during the construction phase. Once built, the only significant effect on the biodiversity is the risk of birds colliding with the aerial electrical lines in determined areas. Red Eléctrica is very active in reducing this impact in areas where it can occur. In this sense, an agreement was signed in 2004 with the City Council of Aragon, and some of the activities set in agreements with Extremadura and Murcia continue to mark lines with spiral bird protection devices [EN7, EN27].

Minimizing interactions between birds and the installations constitutes one of our priority objectives



Gaps have also been marked in Andalusia, Aragon, Castilla-León, Extremadura, Madrid and Murcia, follow up continues on the effectiveness of devices to prevent nesting activities, and new devices installed in Andalusia, Castilla-La Mancha, Castilla-León, Extremadura and Galicia.

Great efforts are also being carried out in researching this matter, as described in detail in the section on Environmental Innovation and Improvement.

Environmental control of company activities

During 2004 oil collection systems were revised in 10 substations (Ascó, Escatrón, Loeches, Mequinenza, Narcea, Peñaflo, Puentes, Rubí, San Sebastián de los Reyes and Vic) and 3 fuel deposits prepared in the Tarifa Station Terminal to prevent spills. Landscaping improvements were also made in Can Barba and La Eliana.

Other actions consisted of preparing an inventory of 30% of the auxiliary transformers, proposing preventive measures for the oil containment systems. Prevention measures and procedures were also reviewed in the case of accidental spills, and management of generated waste improved in the installation maintenance.

Environmental impact actions (indicators)

| | 2002 | 2003 | 2004 |
|---|-------|--------|--------|
| km OF LINE MARKED [EN27] | 400 | 448 | 544 |
| km OF LINES MARKED WITH BIRD DEVICES / km OF EXISTING LINE* [EN27] | 2.7 % | 2.7 % | 3.2 %* |
| km OF LINE IN NATURA 2000 SPACES ⁽¹⁾ / km OR EXISTING LINES [EN6, EN29] | - | 25.0 % | 25.0 % |
| LANDSCAPE RESTORATION / NEWLY BUILT INSTALLATIONS ⁽²⁾ | - | 33.0 % | 14 % |
| ARCHAEOLOGICAL PROSPECTION / NEWLY BUILT INSTALLATION ⁽³⁾ | - | 47.0 % | 62 % |

* Not including new actions

(1) Directive 92/43/CEE, dated May 21, relating to the conservation of natural habitats and wild flora and fauna

(2) One built (3) Prior to beginning construction

Emissions

Red Eléctrica do not cause a noticeable emission of gases that affect the ozone layer [EN9]. In terms of greenhouse gases, some power machinery present in the substations (transformers for example) may contain the gas SF₆ as an insulating element. To prevent uncontrolled leaks, a guide was prepared on handling SF₆. No leaks occurred in 2004 [EN8, EN30].

ENVIRONMENTAL VIGILANCE

Follow up on electromagnetic fields and noise

In 2004 an Electromagnetic Fields and Noise Measurement Plan was started, designed the previous year for the purpose of determining these parameters in Red Eléctrica lines and substations, and especially in locations close to buildings or recreational zones. This plan, to be developed in various phases over the next few years, represents an important step forward in the development of managing the activities performed on these sites..

After acquiring the measurement equipment necessary and training a broad group of technicians from the Environmental Department in its handling, the objective for 2004 was to evaluate levels to which people may be exposed when remaining under or close to electrical lines or in the valley marked by the substations. In this work 137 sections of line and 36 substations that are close to schools or recreational areas, hospitals, homes or industrial areas were selected, resulting in a total of over 1,100 measurement points.

The European Union recommends that the public in general not be exposed to electrical and industrial magnetic frequencies at levels exceeding 5 kV/m and 100 μT respectively (Official Journal of the European Communities 1999/519/CE) for extended periods of time; which recommendation was adopted by the Spanish Ministry of Health.

All cases analyzed regarding magnetic fields comply with the values recommended by the European Union, as none of the measurements effected surpassed 100 μT With regard to

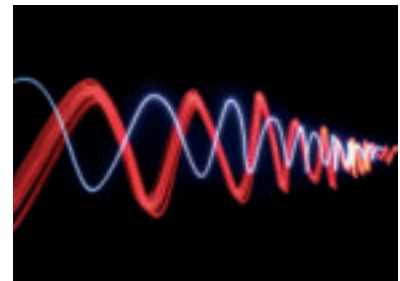


electrical field measurements, these have surpassed 5 kV/m in 8 points, representing a slight 0.7%; although this low percentage indicates that the failures to comply are anecdotal, each situation is being studied to decide on future actions.

With regard to audible noises, mean levels in this plan frequently are due to sources outside of Red Eléctrica installations, such as surrounding traffic, use of agricultural machinery, etc. In the case of the lines we see that when there is no other significant source of noise, mean values do not surpass 45-50 dBA, therefore complying with the recommendations of the World Health Organization. It is interesting to note that the Ministry of the Environment is working on a Regulation for the Noise Law for infrastructure of general interest, including electrical energy carrying installations.

Plans for 2005 include taking measurements inside the high voltage substations to evaluate workers exposure to these agents.

We perform with the greatest strictness environmental oversight and control activities



Proceedings for penalties [EN16].

During 2003 a total of five proceedings were opened, four of which remain pending resolution. Two of these have been closed and qualified as slight during 2004. One of these was resolved with a fine of 30.05 euros for failing to perform landscape and clean up work on a service road, and the other was resolved with a fine of 280 euros for the construction of a road prior with no favourable environmental report.

In addition a total of eight new matters were opened for possible penalties in 2004. One of these was qualified as serious for the opening of three sections of forest road without authorization. These openings are three meters wide and 1,100 meters long and affect natural vegetation. This commits us to continue working on the adoption of even stricter measures to prevent this type of undesirable situation from occurring again.

Evolution of the proceedings

| State | Year proceeding was filed | | |
|---------------------|---------------------------|----------|----------|
| | 2002 | 2003 | 2004 |
| CONCLUDED | 12 | 0 | 2 |
| CONCLUDED WITH FINE | 2 | 3 | 0 |
| AWAITING RESOLUTION | 0 | 2 | 6 |
| TOTAL | 14 | 5 | 8 |

ENVIRONMENTAL IMPROVEMENT AND INNOVATION

Red Eléctrica performs continuous and active research, collaborating with organizations and administrations in studies and projects addressing protection of the environment. During the 2004 financial year 9.54% of total R&D+i expenses were dedicated to environmental studies and projects. Following is a list of the most important research studies and projects carried out in the environmental area during 2004.



We performed numerous research studies and projects regarding care of the natural environment

Birds [EN7, EN27].

«Analysis of the effectiveness and useful life of bird anti-collision signalling on electrical energy carrier lines», in collaboration with the CSIC, Doñana Biological Station. Project began in 2004 and conclusion is projected for 2006. Project objects are:

- To field test the effectiveness of a new signalling device designed by Red Eléctrica and compare it with spiral bird protection devices currently installed whose effectiveness was proven in earlier studies.
- To prepare a field analysis of the effectiveness of different colours of the spiral bird protection devices used by Red Eléctrica according to bird species.
- To test in the field as well as in the laboratory the durability of the material of both anti-collision means.

As a result of the analysis of different anti-collision means existing on the market, a new design was chosen, known as the bird protection vane.

«Use of Red Eléctrica carrier substations by the lesser kestrel (*Falco naumanni*) in Navarre and Aragon. Its importance for conservation of the species at the state level», in collaboration with the CSIC, Doñana Biological Station. Project began in 2002 and concluded in 2004. This study proved a fact that was unprecedented: the congregation of thousands of lesser kestrels (*Falco naumanni*) from very different places of origin in electricity carrier substations. Occupation of a total of six substations were detected in Navarre and Aragon, two more than in previous years. It was concluded that the presence of these birds in the substations does not generate any risk to them, nor does it alter the normal functioning of the installation.





«Use of electrical lines by birds of prey for nesting», in collaboration with the Wildlife Section of the territorial Service and the Environmental Council of the Junta of Castilla-León, with the objective of protecting the peregrine falcon population (*Falco peregrinus*) in the province of Valladolid.

«Follow up on nesting of the white stork (*Ciconia ciconia*)», in collaboration with CLAVE Technical Assistance. The objective of the project was to resolve maintenance problems caused by white storks nesting (*Ciconia ciconia*) on the electric lines, without waiving the significant ecological role played by the lines as nest supports. During 2004 follow up continue on the white stork nests, testing the effectiveness of dissuasive measures – public utility model in 2000 – installed on electrical line supports owned by Red Eléctrica in Andalusia, Castilla-León, Extremadura, Galicia and Madrid.

Vegetation

«Treatment of stumps with biotic and abiotic media in electrical line streets», in collaborating with the Forest Pathology Unit of the Silvopastoral Department of the Superior School of Rural Engineering at the Universidad Politécnica de Madrid. Project began in 2003 and conclude in 2004. The purpose was to develop a method to prevent the sprouting of trees cut down during treatment of streets, whose growth characteristics may endanger safety distances between cables. Results obtain in 2004, based on the stump inoculation campaign last year, showed that the use of determined abiotic products in sufficient doses prevented the re-sprouting of the stumps, although there are indications that for a dependable result the use of biotic treatments requires more study time as the active process is slower.

Preventing or reducing the impacts caused by our installations on the environment is our principal environmental objective



Electromagnetic fields

«Currents induced in the human body by electromagnetic fields of industrial level frequencies», in collaboration with the Institute of Applied Magnetism of the Universidad Complutense of Madrid-RENFE-CSIC and UNESA. This project began at the end of 2003 and is projected to conclude in 2006. Its objective is to obtain a model to calculate the density of current induced in the human body by external fields, beginning with a morphological simulation that is as realistic as possible and the detail analysis of the electric and magnetic parameters of the different organs and tissues of our body.

«Effects of low frequency electromagnetic fields on Programmed Cell Death (PCD): Implications for the immune system», in collaboration with the Universidad de Valladolid, the Superior council of Scientific Research and Unesa. This project finished in 2004; its objectives was to prove if industrial frequency electromagnetic fields have any effect on the most important alternative form of facilitating cancer: failure of the immune system. Results obtained both in cell studies (in vitro) as in laboratory animals (in vivo) show that the electromagnetic fields with industrial level frequencies, within the levels recommended by the European Union for public exposure (100 μ T), cannot affect the immune system by altering Programmed Cell Death (PCD).

WASTE MANAGEMENT

Waste generated by Red Eléctrica comes from construction and maintenance of installations –lines, substations and buildings–. Waste management includes separating according to its nature and characteristics, storage in specifically marked watertight areas to prevent contaminating the environment, and «finally» the appropriate form of treatment (recycling, re-use and titration).



We practice a strict control over all wastes generated, so they are later handled in the most appropriate way

Maintenance activities do not involve the regular generation of wastes, neither in type nor in quantity. For this reason, large variations are noted in the data corresponding to different years.

Given these circumstances it is difficult to set objectives to minimize waste. As such, actions are designed to improve and above all to find the most appropriate management, maximizing re-use, recycling and titration of waste whenever possible. The table on the following page shows in detail waste generated during the past years and how it is managed.

To control waste generated in construction activities, before start up of construction Red Eléctrica delivers to the contractors the corresponding environmental specifications (which are included as a contract condition), indicating storage and handling requirements for waste resulting from activities to be carried out. In addition contractors must inform Red Eléctrica of the amounts of waste generated and how they were handled, which must be documented and shown in timely records during environmental supervision of the project and internal audits.



Maintenance activity waste [EN11]

| WASTES | | AMOUNTS GENERATED (kg) | | | |
|---------------------------|--|------------------------|-----------|-----------|-----------|
| | | Año 2002 | Año 2003 | Año 2004 | |
| NON-HAZARDOUS WASTE | SEPTIC TANK MUD | 50 * | 37 * | 37 * | |
| | SCRAP | METALS | 1,347,029 | 1,859,244 | 1,054,951 |
| | | INERT | | 407,932 | 100,920 |
| | PAPER AND CARDBOARD | 103,685 | 87,609 | 75,155 | |
| | TONER | 356 | 466 | 530 | |
| | WOOD | 33,827 | 73,385 | 46,010 | |
| | PLANT WASTE | 2,180 | 611,780 | 349,540 | |
| | PLASTICS | - | 750 | 5,260 | |
| | VEGETABLE COOKING OIL | 400 | 320 | 320 | |
| | USED OIL | 79,065 | 51,925 | 61,042 | |
| | OIL/WATER MIXTURE | 14,060 | 178 | 58,760 | |
| | TRANSFORMERS WITH PCBs (1) | 0 | 0 | 0 | |
| | OILS WITH PCBs | 0 | 3238 | 0 | |
| | LEAD BATTERIES | 1,097 | 3,436 | 3,750 | |
| HAZARDOUS WASTE [EN31] | NICKEL/CADMIUM BATTERIES (2) | 15 | 13,323 | 16,084 | |
| | BATTERIES | 262 | 120 | 141 | |
| | FLUORESCENT TUBES | 341 | 258 | 356 | |
| | IMPREGNATED HYDROCARBON GROUNDS | 800 | 10,495 | 4,762 | |
| | CONTAINERS THAT HELD HAZARDOUS SUBSTANCES | 448 | 1,134 | 164 | |
| | ABSORBENTS, FILTERING MATERIALS, CLEANING RAGS AND PROTECTIVE CLOTHES CONTAMINATED BY HAZARDOUS SUBSTANCES | 550 | 1,909 | 1,139 | |
| | SILICAGEL (3) | - | 113 | 328 | |

* Quantities in m3

(1) Transformers with PCBs (with contaminating content in excess of 500 ppm) were eliminated in 2001. (2) Many vehicle batteries substituted by Ni/Cd.

(3) This product is being substituted.

HAZARDOUS WASTE

| HAZARDOUS WASTE | HANDLING |
|-----------------------|---|
| SEPTIC TANK MUD | PURGED/ELIMINATED |
| JUNK | RECYCLED |
| | ELIMINATED |
| PAPER AND CARDBOARD | RECYCLED |
| TONER | RECYCLED |
| WOOD | TITRATED/ELIMINATED |
| VEGETABLE WASTE | INCORPORATED WITH EARTH/TITRATED/ELIMINATED |
| PLASTICS | RECICLAJE |
| VEGETABLE COOKING OIL | TITRATED |

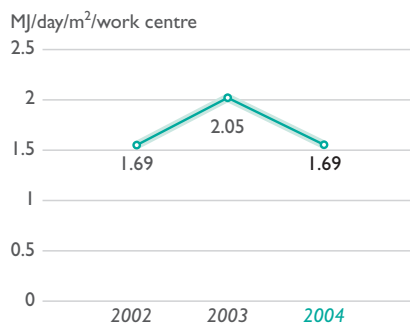
NON-HAZARDOUS WASTE

| NON-HAZARDOUS WASTE | HANDLING |
|---|-------------------------------|
| USED OIL | RECOVERY/TITRATION |
| OIL/WATER MIXTURE | RECOVERED/TITRATED/ELIMINATED |
| OILS WITH PCBs | DECONTAMINATED AND DESTROYED |
| LEAD BATTERIES | LEAD RECOVERED/ELIMINATED |
| NICKEL/CADMIUM BATTERIES | TITRATED/ELIMINATED |
| BATTERIES | RECOVERED/ELIMINATED |
| FLUORESCENT TUBES | RECOVERED/ELIMINATED |
| NON-HALOGEN DISSOLVENT | ELIMINATED |
| IMPREGNATED HYDROCARBON GROUNDS | ELIMINATED |
| CONTAINERS THAT HELD HAZARDOUS SUBSTANCES | RECYCLED/ELIMINATED |
| ABSORBENTS, FILTERING MATERIALS, CLEANING RAGS AND PROTECTIVE CLOTHES CONTAMINATED BY HAZARDOUS SUBSTANCES | TITRATED/ELIMINATED |
| SILICAGEL | ELIMINATED |

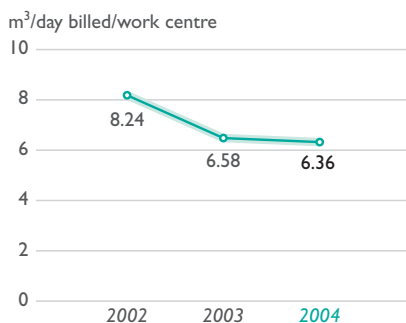
CONSUMPTION MANAGEMENT

The consciousness-raising and outreach campaign to reduce the consumption of basic resources (electricity, water and paper) directed to Red Eléctrica employees is beginning to show the desired results, with significant decreases seen in 2004 [EN3, EN5].

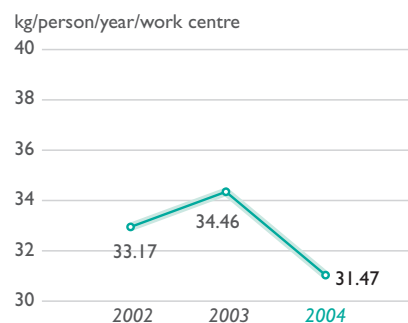
Mean electrical consumption



Mean water consumption



Mean paper consumption



In 2005 consumption measurement will be reviewed to reduce consumption even more, and aspects not evaluated until now will be included, such as energy consumed in displacements and its environmental impact [EN19, EN34].

ECO-EFFICIENCY

One of the main objectives of the Corporate Responsibility environmental perspective for 2005 will be to study the development and integration of the concept of eco-efficiency identifying areas for improvement and best practices to be implemented in Red Eléctrica [EN17].

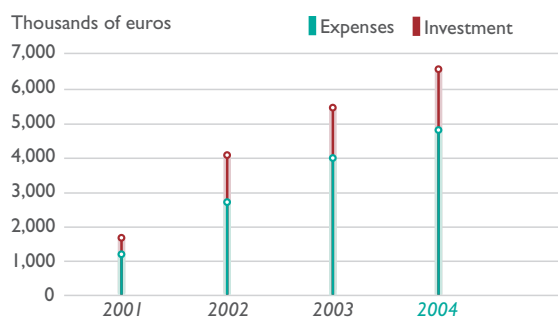
Environmental costs

During 2004 Red Eléctrica invested in the environment in the form of new installations valued at 1,704,464.50 euros, representing an increase of 8.2% over 2003. These investments correspond to environmental impact studies on all projects, application of preventive and corrective measures and environmental supervision in electrical installations under construction [EN35].

Environmental costs

| euros | 2002 | 2003 | 2004 |
|--|---------------------|---------------------|---------------------|
| INVESTMENTS | 1,379,419.18 | 1,575,382.23 | 1,704,464.50 |
| ENGINEERING AND CONSTRUCTION OF NEW INSTALLATIONS | 1,379,419.18 | 1,575,382.23 | 1,704,464.50 |
| COSTS | 2,734,189.29 | 3,956,309.87 | 4,893,172.86 |
| ENVIRONMENTAL MANAGEMENT SYSTEM | 14,459.31 | 13,681.54 | 24,639.79 |
| PREVENTIVE AND CORRECTIVE MEASURES ON INSTALLATIONS IN OPERATION | 1,878,236.01 | 2,863,660.74 | 3,527,413.47 |
| CONTAMINATION PREVENTION | - | - | 121,833.00 |
| BIRD PROTECTION | 73,335.67 | 114,770.26 | 131,555.61 |
| VEGETATION PROTECTION | 1,708,421.04 | 2,495,163.30 | 2,952,405.00 |
| SOIL PROTECTION | - | 122,087.00 | 121,268.00 |
| MANAGEMENT OF ELECTROMAGNETIC FIELDS AND NOISE | 607.71 | - | 100,047.10 |
| INSTALLATION ENVIRONMENTAL MEASURES | 43,510.67 | 65,986.38 | 44,743.00 |
| WASTE HANDLING | 43,345.92 | 54,451.78 | 55,561.76 |
| RESEARCH AND DEVELOPMENT | 74,045.03 | 127,701.05 | 225,315.58 |
| TRAINING AND COMMUNICATION | 115,177.55 | 138,887.75 | 210,386.42 |
| ENVIRONMENTAL TRAINING AND OUTREACH | 15,332.85 | 15,355.93 | 4,606.00 |
| COMMUNICATION | 99,844.70 | 123,531.82 | 205,780.42 |
| ENVIRONMENTAL RATES AND CANONS | 7,209.01 | 13,205.59 | 2,815.90 |
| GENERAL EXPENSES FOR ENVIRONMENT DEPT. PERSONNEL | 645,062.38 | 799,173.20 | 902,601.70 |

Evolution of environmental costs



Expenses incurred in environmental protection and improvement reached 4,893,172.86 euros, 23.7% more than in the preceding year. These expenses correspond to the application of preventive and corrective measures in installations in operation, as well as other expenses including an organizational unit comprised of eighteen technicians dedicated exclusively to this work, various environmental communication and training tasks, research projects on environmental matters and maintenance of the Environmental Management System.

ENVIRONMENTAL PROGRAM OBJECTIVES AND GOALS

Global compliance with the 2004 Environmental Program was 73.4%, an improvement of more than one point over the previous year. The following table shows the objectives and goals undertaken in 2004, and the degree of compliance:

2004 environmental objectives and goals

| Áreas | OBJETIVES | GOALS | Target Compliance | Target Waighting | Target Compliance | Target Waighting |
|----------------------------------|---|---|-------------------|------------------|-------------------|------------------|
| Improve environmental management | Improve Environmental Management System | · Improve installation construction process | 100 % | 90 % | 100 % | 12 % |
| | | · Integrate and improve environmental norms | 100 % | 10 % | | |
| Bird protection | Reduce effects on protected bird species | · Launch R&D+I project on effectiveness and useful life of bird protecting devices ⁽¹⁾ | 50 % | 100 % | 50 % | 6 % |
| Scenery protection | Analyze and reduce visual impact of installations | · Landscape improvements in two substations | 100 % | 100 % | 100 % | 6 % |
| | | | | | | |
| Prevent contamination | Incorporate new assets to SIGMA | · Environmental inventory and propose and corrective measures of all remaining installations in 2003 ⁽²⁾ | 0 % | 40 % | 60 % | 10 % |
| | | · Review and verify oil collection systems in 10 substations | 100 % | 60 % | | |
| | Reduce risk of accidental spills | · Condition three tanks in a substation ⁽³⁾ | 0 % | 20 % | 60 % | 14 % |
| | | · Condition and control spills from 3 fuel deposits in a substation | 100 % | 20 % | | |
| | | · Inventory 50% of machinery expansion deposits and propose preventive measures ⁽⁴⁾ | 0 % | 20 % | | |
| | | · Inventory 30% of auxiliary transformers and propose preventive measures | 100 % | 20 % | | |
| | | · Review spill prevent measures and action procedures | 100 % | 20 % | | |
| Prevent contamination | · SF6 emissions control procedure | 100 % | 30 % | 100 % | 14 % | |
| | · Electromagnetic and noise fields measurement plan | 100 % | 70 % | | | |
| | · Review managed of waste generated by maintenance and propose improvements | 100% | 100 % | | | 100 % |
| Control of suppliers | Environmental training and qualification of suppliers | · Review and improve supplier environmental qualification ⁽⁵⁾ | 0 % | 100 % | 0 % | 10 % |
| Training | Training personnel in environmental matters | · Give courses listed in the 2004 training plan | 60 % | 100 % | 60 % | 10 % |
| Communication | Improve communication | · Prepare a webpage with the Colegio Oficial de Fisicos (Official Physicists Assn.) | 100 % | 50 % | 100 % | 10 % |
| | | · Publish book of the IV Symposia on electrical lines and the environment | 100 % | 50 % | | |
| Total | | | | | 73.4 % | |

(1) Design of the new bird protection devices was from outside the company. (2) Inventory has been completed but not proposal. (3) Move to 2005. (4) Only done in two of the five areas in which Red Eléctrica is divided. (5) Review done but no improvements.

2005 environmental objectives and goals

| Áreas | OBJETIVES | GOALS |
|----------------------------------|--|---|
| Improve environmental management | Improve Environmental Management System | <ul style="list-style-type: none"> Adapt and incorporate all document management of the Environmental area of the Document Management System Improve Environmental Management system in Balearic and Canary Island installations Study applicability of main coefficients in Red Eléctrica activities, process and installations |
| Bird protection | Reduce effects on protected bird species | <ul style="list-style-type: none"> Agreement with General Council of Aragon: Signalling as established for 2005 |
| | Incorporate new assets to SIGMA | <ul style="list-style-type: none"> Environmental inventory and propose preventive and corrective measures of new asset installations that are now sent electronically directly by Red Eléctrica and incorporated with maintenance prior to 11/30/05 Condition three tanks in a substation |
| Prevent contamination | Reduce risk of accidental spills | <ul style="list-style-type: none"> Inventory 100% of the machinery expansion deposits and propose preventive measures if necessary Implement leak containment mechanism for auxiliary transformer in one substation Complete inventory of auxiliary transformers and propose preventive measures, if necessary Ensure that there are absorbent materials specially for hydrocarbons in all substations with power and/or reactance transformers Comply with plan to analyze and eliminate equipment contaminated with PCBs |
| | Improve emissions control | <ul style="list-style-type: none"> Electromagnetic field and noise measurement plan: Take measurements inside 30 substations Analyze selection and purchaser specific software to calculate and prepare noise maps. Update characteristics of Red Eléctrica installations Establish methodology to perform acoustic studies in substations Proposed preventive and corrective measures for noise in substations Prepare a methodology to analyze and reduce luminous contamination produced by substation |
| | Improve handling of waste | <ul style="list-style-type: none"> Perform 12 improve actions proposed as a result of the review made in 2004 Review handling procedure for waste generated in the installations according to proposed improvement actions |
| Protect natural resources | Improve consumption | <ul style="list-style-type: none"> Define new measurement indicators for basic consumption Feasibility of an action plan to reduce basic consumption |
| Control of suppliers | Environmental qualification of suppliers | <ul style="list-style-type: none"> Define and establish a scaled and orderly series of qualification levels Evaluate current levels of Red Eléctrica suppliers according to the above series |
| Training | Training of personnel in environmental matters | <ul style="list-style-type: none"> Give courses set in the 2005 training plan Collaboration agreement with the Association of Environmental Information Reporters (APIA) |
| Communications | Improve communication | <ul style="list-style-type: none"> Define and create a "suggestion box for environmental matters" for all Red electrical personnel Publish "Red Eléctrica and birds: 15 years of applied research. Informative pamphlet on the use of Red Eléctrica substations by the lesser kestrel (<i>Falco Naumanni</i>) in Navarre and Aragon: importance for conservation of the species |
| | Collaboration with interested parties | <ul style="list-style-type: none"> Collaboration agreement with the Spanish Ornithology Society (SEO/Birdlife) Set in march preventive and compensatory measures of the REMO project (Western Mediterranean Electrical Reinforcement) |



Projects

Desired reesults

1. Structural perspective

| | |
|---|--|
| 1. Advanced complementary training for members of the CR operating team | <ul style="list-style-type: none"> • Broader knowledge to improve or adjust the CRMS. • Evaluate impact of training sessions |
| 2. Redesign the CR command structure | <ul style="list-style-type: none"> • CR command structure • Integrate into the Process Management system |
| 3. Improve channels of dialogue and evaluation of unevaluated interest group satisfaction | <ul style="list-style-type: none"> • Evaluation reports on unevaluated interest group satisfaction • Action plans per group |
| 4. CR Management System certification according to SA8000 | <ul style="list-style-type: none"> • Audit report and SA8000 certificate |
| 5. Communication, integration and positioning in CR prescriptive bodies | <ul style="list-style-type: none"> • Information (survey, reports, etc.) sent to prescriptive bodies • Report on organization's positions within the CR sphere |

2. Corporate governance perspective

| | |
|--|---|
| 6. Incorporation of Good Governance Best practices | <ul style="list-style-type: none"> • Improve and update corporate texts (statutes and regulations) on corporate governance - if applicable • Publish new procedures or norms according to best practices and/or adaptation with current norms |
|--|---|

3. Technical-Economic perspective

| | |
|--|--|
| 7. Identify and quantify costs and investments in CR | <ul style="list-style-type: none"> • Inventory typified activities/expenses • Calculate all expenses and investments in CR |
|--|--|

4. External social perspective

| | |
|---|---|
| 8. Social action | <ul style="list-style-type: none"> • Analyze and evaluate current social actions • Report on identifying and prioritizing potential social actions • Social action plan |
| 9. Transfer CR to goods and services providers | <ul style="list-style-type: none"> • Incorporate requirements regarding ethics and human rights in hiring suppliers |
| 10. Analyze the feasibility of donating obsolete equipment or loaning installations as actions for social value | <ul style="list-style-type: none"> • Report current situation regarding the re-use or elimination of obsolete equipment • Alternatives for re-using obsolete equipment or loaning installations for social purposes |
| 11. Broadcast language patrimony: use the language | <ul style="list-style-type: none"> • Review and update webpage contents (internal and external) • Review and update contents of newly drafted publications |
| 12. Corporate volunteer program | <ul style="list-style-type: none"> • Design an employee volunteer project |

5. Internal social perspective

| | |
|---|--|
| 13. New code of ethics and business conduct | <ul style="list-style-type: none"> • Code of ethics and business conduct • Display guide and outreach sessions • Design a compliance assurance system |
| 14. Outreach to all personnel: virtual and regular training | <ul style="list-style-type: none"> • Implement virtual course • Training plans • Outreach sessions • Satisfaction valuations and impact of training sessions |

6. Environmental perspective

| | |
|---|--|
| 15. Develop the concept of eco-efficiency | <ul style="list-style-type: none"> • Development study and implement the concept of in Red Eléctrica eco-efficiency. • Action plan |
| 16. Improve management of basic consumption | <ul style="list-style-type: none"> • New consumption measurement indicators • Action plan to reduce same |

This program forms part of the 2005-2007 triennial plan, and only includes projects of special interest. In addition, the annual 2005 CR program includes other improvement projects developed within the corporate framework of corporate responsibility.

INDEX OF GRI CONTENTS

For the second consecutive year Red Eléctrica has prepared a Corporate Responsibility report in accordance with the principles and specific contents of the “Guidelines for the drafting of sustainability reports” by the Global Reporting Initiative (GRI). The following table includes indicators recommended by said guide, and the page of the document where each piece of information is found.

Vision and strategy

| | n.º page |
|--|----------|
| 1.1 Red Eléctrica vision and strategy with regard to sustainable development | 4-7, 15 |
| 1.2 President's statement | 4-7 |

Profile of the organization

| | |
|--|------------------|
| 2.1 Name of reporting organization | 2 |
| 2.2 Principal products and/or services | 8-11, 35 |
| 2.3 Organization operating structure | 9 |
| 2.4 Principal departments, operating companies, affiliates and joint companies | 10, 46 |
| 2.5 Countries in which the organization operators | 10 |
| 2.6 Nature of ownership, legal form | 2 |
| 2.7 Nature of the markets that it serves | 9 |
| 2.8 Magnitude of reporting organization | 8, 34-35, 46, 48 |
| 2.9 Principal interest groups and relationship with red Eléctrica | 14, 15, 65 |
| 2.10 Contact people for subjects related to the report | 94 |
| 2.11 Period covered by the report | 2 |
| 2.12 Date of the former most recent report | 2 |
| 2.13 Report coverage | 2 |
| 2.14 Significant changes in size | 34, 46, 47 |
| 2.15 Report preparation bases for joining companies, shared affiliates | 2 |
| 2.16 Description of the nature and effect of any re-formulation | 2 |
| 2.17 Decisions to no apply GRI principles in preparing the report | 35 |
| 2.18 Criteria and/or definitions used in accounting for economic, environmental and social costs and benefits | 2 |
| 2.19 Significant changes over previous years in calculation methods applied to key information, be it economic, environmental and social | 2 |
| 2.20 Internal policies and measures to guarantee the accuracy, exhaustiveness and veracity of the information presented in the sustainability report | 2 |
| 2.21 Current policies and measurements designed to provide independent mechanisms to verify the report as a whole | 2 |
| 2.22 Means through which users can find information on economic, environmental and social aspects of the organization's activities | 65 |

Governing structure and management systems

| | n.º page | |
|------|--|---|
| 3.1 | Organization governing structure | 26 |
| 3.2 | Percentage of board of directors formed of independent directors without executive position | 27 |
| 3.3 | Process to determine the need to guide organization's strategies on subjects such as environmental and social opportunities and risks | 14 |
| 3.4 | Executive processes to determine the identification and handling of economic, environmental and social opportunities and risks for the organization | 14, 29 |
| 3.5 | Relationship between directors remuneration and achieving the financial and non-financial goals of the organization | 28, 51 |
| 3.6 | Organizational structure and fundamental members responsible for supervising, setting in practice and auditing economic, environmental and social policies | 17, 27, 29 |
| 3.7 | Definition of mission and values, internal principles or codes of conduct and policies referring to economic, environmental and social performance | 15, 16, 17 |
| 3.8 | Mechanisms that allow shareholders to communicate their recommendations to the board | 28, 65 |
| 3.9 | Bases used to identify and select principal interested parties | 14, 15 |
| 3.10 | Methods to consult interested parties stated in terms of frequency of consultation according to type and group of interested parties | 14, 15, 65 |
| 3.11 | Type of information generated by consultations from interested parties | 14, 28, 35, 37, 40, 50, 53, 54, 59, 65 |
| 3.12 | Use of information obtained as a result of commitments with interested parties | 14, 15, 35-37, 50, 54, 59, 65 |
| 3.13 | Application of the principle of caution | 16, 29 |
| 3.14 | Commitments, principles or other voluntary initiatives signed by Red Eléctrica | 21 |
| 3.15 | Membership in business and industrial associations and/or national and international advisory organizations | 21, 40 |
| 3.16 | Policies and/or systems for handling impacts caused by the processes before and after those of Red Eléctrica | 14, 15, 29 |
| 3.17 | Organization's focus on handling indirect economic, environmental and social impacts produced as a result of its activities | 14, 29 |
| 3.18 | Principal decisions made during the preparation period of the report with regard to the location or modification of operations | 8 |
| 3.19 | Programs and procedures related to economic, environmental and social performance | 17, 20, 52, 54 |
| 3.20 | Status of certification of the economic, environmental and social management systems | 9, 20, 32, 74 |

Performance indicators

Economic indicators

| | | |
|-----|---|-----|
| EC1 | Amount of business | 34 |
| EC2 | Geographic distribution of markets | 8-9 |
| EC3 | Purchase cost of goods and services | 38 |
| EC4 | Percentage of contracts paid according to terms agreed upon | 38 |
| EC5 | Total salary expenses | 40 |

| | | |
|------|---|--------|
| EC6 | Payments to capital suppliers | 34, 39 |
| EC7 | Increase/decrease in reserves at end of period | 34 |
| EC8 | Taxes paid | 40 |
| EC9 | Subsidies, per country | 40 |
| EC10 | Donations to the community, society, etc., breakdown | 40 |
| EC11 | Breakdown of suppliers by country (of over 5% of all purchases) | 38-39 |
| EC12 | Costs of Infrastructure not related to activity | 62 |
| EC13 | Indirect economic impacts of the organization | 39 |

Environmental indicators

| | | |
|------|---|--------|
| EN1 | Total consumption of raw materials, except water | 75 |
| EN2 | Percentage of raw materials used that are waste | 75 |
| EN3 | Direct energy consumption | 82-83 |
| EN4 | Indirect energy consumption | 75 |
| EN5 | Water consumption | 82-83 |
| EN6 | Ground surface, owned or leased, located in biodiversity-rich habitats | 77 |
| EN7 | Impacts of products and services on the biodiversity | 76, 79 |
| EN8 | Greenhouse gas emissions | 77 |
| EN9 | Emissions that affect the ozone layer | 77 |
| EN10 | Emissions of NO _x , SO _x and other contaminating gases | 75 |
| EN11 | Total production of waste | 82 |
| EN12 | Significant water spills, by type | 75 |
| EN13 | Spills of chemical substances, oils and fuels | 75 |
| EN14 | Environmental impact of products and services | 75 |
| EN15 | Percentage of the weight of products sold that is recyclable | 75 |
| EN16 | Incidents and fines for failure to comply with environmental standards | 78 |
| EN17 | Initiatives to use renewable energies and increase energy performance | 33, 83 |
| EN18 | Energy consumption of the main products | 75 |
| EN19 | Other indirect energy uses | 83 |
| EN20 | Water sources used and ecosystems affected by water consumption | 75 |
| EN21 | Extraction of underground and surface waters as a percentage of the annual renewable amount of water from the source used | 75 |
| EN22 | Water recycled and re-used | 75 |
| EN23 | Ground surface, owned or leased, for productive or extraction surfaces | 75 |
| EN24 | Impermeable ground surface, owned or leased | 75 |
| EN25 | Impacts of activities on protected areas | 75 |
| EN26 | Changes caused in natural habitats as a result of activities and percentage of the habitat protected or restored | 75 |
| EN27 | Objectives and programs to protect and restore ecosystems and native species in degraded areas | 76-79 |

| | | |
|------|--|--------|
| EN28 | Species in danger of extinction with habitats in areas affected by operations | 75 |
| EN29 | Business units with operations in course or in project phase in protected areas or surrounding | 77 |
| EN30 | Relevant indirect emissions of greenhouse gases | 77 |
| EN31 | Production, transport, import of hazardous wastes according to the Basle Convention | 82 |
| EN32 | Water sources and related ecosystems affected by wastewater spills | 75 |
| EN33 | Supplier performance in environmental matters | 37 |
| EN34 | Significant environmental impacts tied to transport | 75, 83 |
| EN35 | Environmental expenses and investment | 83, 84 |

Labour practices and work conditions indicators

| | | |
|------|--|----------------|
| LA1 | Breakdown of staff data | 46-48 |
| LA2 | Net job creation and mean staff turnover | 47-48 |
| LA3 | Percentage of employees and those represented by unions and covered by collective agreements | 46-47, 51 |
| LA4 | Information, consultation and negotiation policies and procedures to employees | 51, 52, 54 |
| LA5 | Registration and notification of work accidents and illness | 48 |
| LA6 | Health and safety committees formed of the administrating and employee representatives | 49 |
| LA7 | Absenteeism and accident rates | 49 |
| LA8 | HIV (AIDS) policies or programs | 50 |
| LA9 | Average number of training hours per year and employee according to category | 53 |
| LA10 | Equal opportunity policies and programs | 16, 44, 47, 48 |
| LA11 | Composition of the high management based on gender | 48 |
| LA12 | Work advantages beyond those established by law | 57 |
| LA13 | Representation of works on management bodies | 17, 51, 52 |
| LA14 | Evidence of compliance with ILO norms on work safety and health | 48 |
| LA15 | Union agreements regarding work health and safety | 49, 52 |
| LA16 | Continuous training programs | 52 |
| LA17 | Policies focused on knowledge management or continuous training | 52, 53 |

Human rights

| | | |
|------|---|----------------|
| HR1 | Policies on human rights | 16, 44, 45, 47 |
| HR2 | Consideration of the impact of supplier selection on human rights | 38 |
| HR3 | Policies and procedures to evaluate respect for human rights in the supply chain | 38 |
| HR4 | Policies and programs to prevent work discrimination | 16, 47, 48 |
| HR5 | Policy on freedom of association and degree of application | 16, 51 |
| HR6 | Policy of rejecting child labour | 16, 48, 51 |
| HR7 | Policy on rejecting forced and obligatory labour | 16, 48, 51 |
| HR8 | Employee training on human rights | 53 |
| HR9 | Appeal procedures related to human rights | 51 |
| HR10 | Policies of no reprisals and effective and confidential employee complaint system | 51 |

| | | |
|------|--|----|
| HR11 | Training security personnel in human rights | 38 |
| HR12 | Policies regarding the needs of native peoples | 65 |
| HR13 | Complaint mechanisms for the community, managed jointly by the organization and authorities | 65 |
| HR14 | Percentage of income redistributed to local communities | 65 |

Society

| | | |
|-----|---|----------------------|
| SO1 | Management policy for impacts caused on communities | 16, 58 |
| SO2 | Policies regarding corruption and bribery | 16 |
| SO3 | Policies and mechanisms to control donations to political parties | 16 |
| SO4 | Distinctions received with regard to social, environmental and ethics actions | 21-23 |
| SO5 | Money contributed to finance political parties | 16 |
| SO6 | Resolutions relating to legal causes on anti-monopoly standards | No legal proceedings |
| SO7 | Policies and mechanisms to prevent anti-competitive behaviour | 9 |

Product responsibility

| | | |
|------|---|----------------|
| PR1 | Client health and safety policies | 35 |
| PR2 | Product labelling and information policies and mechanisms | 32, 35 |
| PR3 | Policies to protect the client's privacy | 37, 55 |
| PR4 | Failure to comply with standards referring to clients health and safety | 35 |
| PR5 | Complaints by regulatory bodies for product and services health and safety | 35 |
| PR6 | Product labelling and compliance with non-obligatory codes | 35 |
| PR7 | Failure to comply with product labelling norms | 35 |
| PR8 | Managing client satisfaction | 32, 34, 35, 38 |
| PR9 | Voluntary publicity code for respecting policies, procedures and mechanisms | 68 |
| PR10 | Infractions of product publicity and market standards | 68 |
| PR11 | Demands for violation of client's privacy | 37 |

THE UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact initiative is designed as an ethical commitment of companies of all countries to include ten principles on conduct and actions in human, labour and environmental rights and to fight corruption, as an integral part of their strategy and operations. Its purpose is to promote the creation of a global corporate citizenry that allows the conciliation of the interests and processes of business activity with the values and demands of civil society, as well as with projects of the UN, international sectorial organizations, unions and NGOs.

As a member of the Global Compact, Red Eléctrica is making the ten principles an essential part of its strategies and policies, its processes, products and service operations, and especially in its interactions with different interest groups

| Principles of the global compact | GRI Indicators | Page N.º |
|--|--------------------|------------------------|
| 1. Companies must and respect the protection of fundamental and internationally recognized human rights, within its sphere of influence. | HR1, HR2, HR3, HR4 | 16, 38, 44, 45, 47, 48 |
| 2. Companies must ensure that its companies do not participate or condone human rights abuses. | HR2, HR3 | 38 |
| 3. Companies must support the freedom of association and recognize the right to collective bargaining. | HR5, LA3, LA4 | 16, 46, 47, 51, 52, 54 |
| 4. Companies must support the abolition of all forms of forced or compulsory labour. | HR7 | 16, 48, 51 |
| 5. Companies must support the abolition of child labour. | HR6 | 16, 48, 51 |
| 6. Companies must support the elimination of discriminatory practices in employment and occupation. | HR4, LA10, LA11 | 16, 44, 47, 48, |
| 7. Companies must maintain a preventive focus that favours the natural environment. | 3.13 | 16, 29 |
| 8. Companies must foment initiatives that demonstrate a greater environmental responsibility. | 1.1, EN1-EN35 | 74-85 |
| 9. Companies must favour the development and diffusion of environmentally friendly technologies. | EN17 | 33, 83 |
| 10. Companies must work to counter corruption in all its forms, including extortion and bribery | SO2 | 16 |

VERIFICATION REPORT



VERIFICATION REPORT

SCOPE

SGS ICS Ibérica (ahead SGS) has carried out, commissioned by RED ELÉCTRICA DE ESPAÑA, S.A. (ahead REE), an independent verification of the document INFORME DE RESPONSABILIDAD CORPORATIVA 2004.

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

INDEPENDENCE

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

SGS has not participated nor advised in the elaboration of the verified document, limiting themselves to participate as independent verifier, checking the adequacy of the document contents.

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

VERIFICATION

Methodology and verifier team

The methodology determined by SGS for the Verification of Sustainability Reports have been used, consisting of:

- Audit Procedures according to based on ISO 19011
- Verification according GRI Guidelines (2002) and AA1000 Assurance Standard (2003)
- Interviews with the personnel responsible for data obtaining and preparation.
- Documents and records review (internal and public ones)
- Verification of data and its validation with the sources.

Particularly, for this verification the data of the economic area were assessed against the certification of the annual accounting audit carried out by KPMG auditors and the notification of the economic results to the Stock Market National Commission. Relevant fact dated 16.02.2005.

SGS personnel formed the verification team and it was assembled based on their knowledge, experience and qualifications for the accomplishment of this task.

CONCLUSIONS

Based on the verification carried out, the SGS verification team considers that the INFORME DE RESPONSABILIDAD CORPORATIVA 2004 - REE:

- Contains reliable information and data and these are a coherent representation of the activities and its results for the period reflected in the document.
- Has been elaborated according to the requirements of Sustainability Reporting Guidelines 2002 from Global Reporting Initiative (GRI).

Madrid, March 28th, 2005

Signed: J. Moya
SGS ICS Ibérica, S.A.

CONTACTS [2.10]

Any question, opinion or suggestion relating to this report can be addressed to:

Red Eléctrica de España, S.A.

Institutional Relations and Communications Office

Paseo del Conde de los Gaitanes, 177

28109 Alcobendas . Madrid

Telephone: 91 650 85 00 / 20 12

Fax: 91 650 45 42 / 76 77

responsabilidadcorporativa@ree.es

This document is available in electronic format on the corporate website at:

Red Eléctrica www.ree.es

CO-ORDINACIÓN:

Department of Communications and Institutional Relations of Red Eléctrica.

COVER DRAWING:

"High Voltage", dry ink engraving by Ana Rosa Alberca made for Red Eléctrica in commemoration of its 20th anniversary. Original artwork published by Nave del Arte.

DRAWINGS ON FIRST PAGE OF CHAPTERS:

Dry ink drawings by Ana Rosa Alberca acquired by Red Eléctrica for its art foundations. Original artwork published by Nave del Arte.

PHOTOGRAPHS:

PHOTOGRAPHS OF RED ELÉCTRICA EMPLOYEES:

Alberto Contreras de Lucas: pages 62
Ángel Andrés Martínez: pages 9, 39, 55, 81
Beatriz Badani (TDE): pages 63, 64, 65
Dieter Zuna (TDE): page 64
Enrique Soriano Gonzáles (REDESUR) : page 65
Javier Arévalo: pages 10, 80
José Antonio Celorrio: page 41
José García Moreno: page 23
José Luis Mata: page 8, 63
José María Cesar: page 19
Juan Carlos Polo Domínguez: page 10
Juan Dávila: pages 11, 17, 32, 38, 45, 47, 51, 52, 56, 59, 68, 74
Juan Prieto Monterrubio: page 74
Mariano Hernández Toledo: page 17
Pedro Sánchez: page 57
Rosalía Rivas Saíz: page 35
Santiago Delgado Mateo: page 80
Víctor Navazo: page 79

PHOTOGRAPHS OF COLLABORATORS:

Carlos Pérez Pérez: page 80
Guyonne F. E. Janss: page 78

PROFESSIONAL PHOTOGRAPHS:

Antonio Sanz: page 5
Fernando Fernández Maquieira: page 71
Fernando Prados: pages 15, 22, 27, 28, 29, 33, 35, 36, 37, 40, 44, 45, 47, 48, 49, 50, 51, 52, 54, 57, 67
Guillermo Gordillo: page 44
Isaac Abad: page 27, 32, 52, 68
Manuel Juan: page 19

GRAPHIC DESIGN, TREATMENT OF IMAGE AND LAYOUT:

ZEN comunicación visual. www.zen.es

PHOTOMECHANICS:

Lucam (Artwork)
Siglo Digital

PRINTER:

TF Artes Gráficas



Ecological paper TCF, 100% chlorine free.



20
aniversario
1985 · 2005