



RED ELÉCTRICA DE ESPAÑA

ANNUAL REPORT 2001

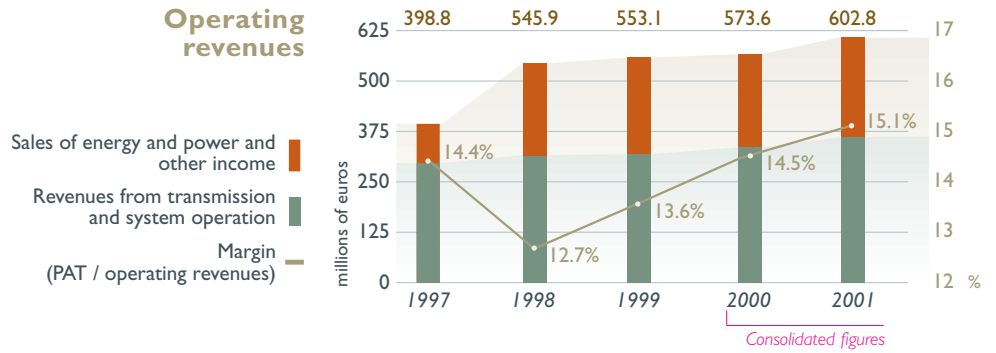




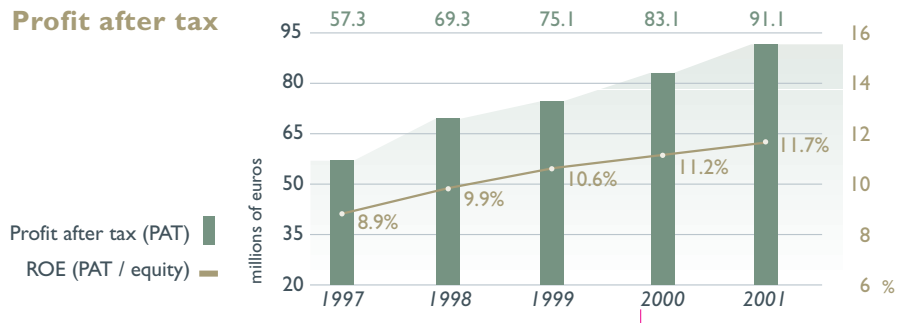
KEY INDICATORS	4
CHAIRMAN'S LETTER	6
BOARD OF DIRECTORS AND SENIOR MANAGEMENT	10
OUTSTANDING EVENTS IN 2001	12
BUSINESS AREAS	15
TRANSMISSION GRID MANAGEMENT	16
TRANSMISSION GRID DEVELOPMENT	17
TRANSMISSION GRID INSTALLATIONS MAINTENANCE	25
OPERATION OF THE ELECTRICITY SYSTEM	28
TELECOMMUNICATIONS BUSINESS	33
INTERNATIONAL BUSINESS	37
CORPORATE MANAGEMENT	41
HUMAN RESOURCES	42
ADMINISTRATION AND FINANCIAL MANAGEMENT	46
MEMBERSHIP OF INTERNATIONAL ORGANISATIONS	52
CO-OPERATION AND SPONSORSHIP	54
RESEARCH, DEVELOPMENT AND INNOVATION	56
QUALITY	60
ENVIRONMENT	63
SHAREHOLDERS AND STOCK EXCHANGE INFORMATION	67
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STATUTORY INFORMATION	73
CONSOLIDATED ANNUAL ACCOUNTS FOR 2001	74
BALANCE SHEET	74
PROFIT AND LOSS STATEMENT	76
NOTES TO THE ACCOUNTS	79
CONSOLIDATED DIRECTORS' REPORT	108
PROFIT DISTRIBUTION PROPOSAL	114
INDEPENDENT AUDITORS' REPORT	115
RED ELÉCTRICA DE ESPAÑA, S.A. FINANCIAL STATEMENTS	116
CORPORATE MANAGEMENT CODE	121

KEY INDICATORS

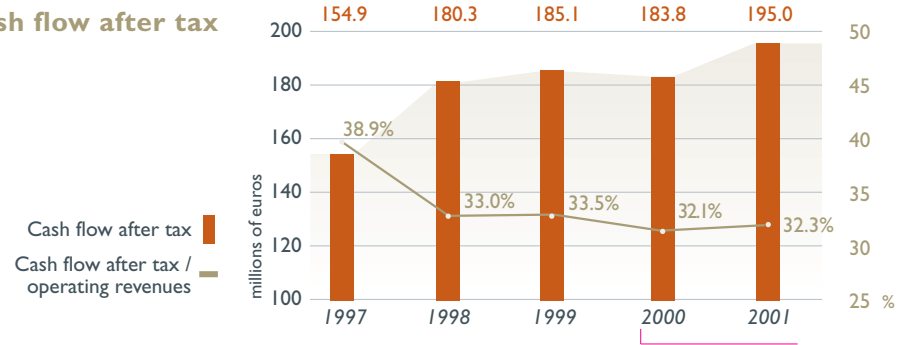
Operating revenues



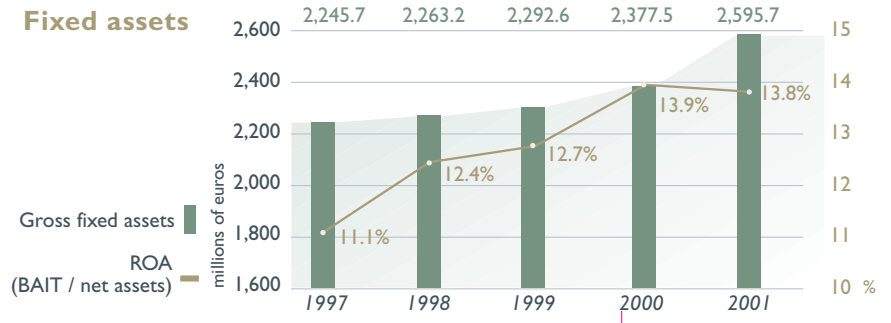
Profit after tax

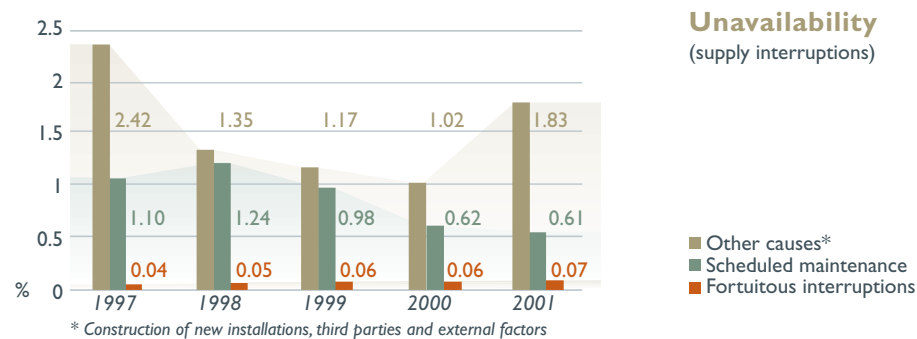
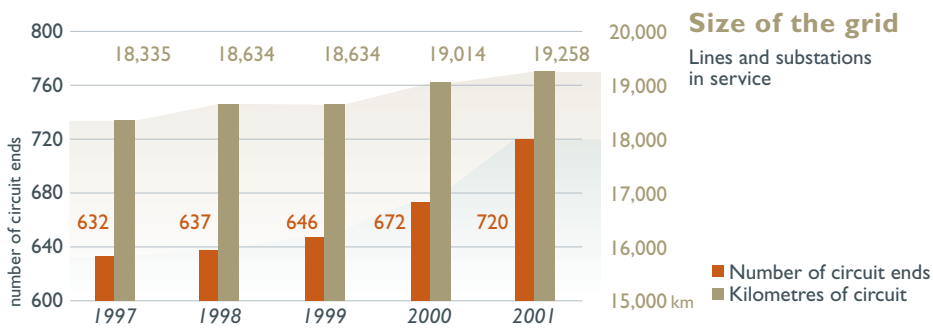
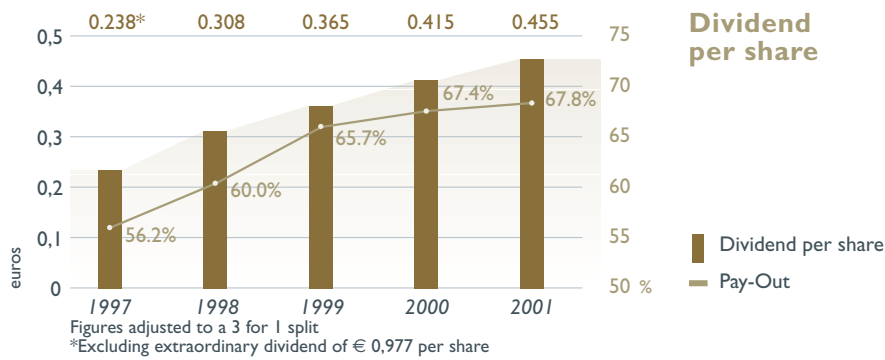
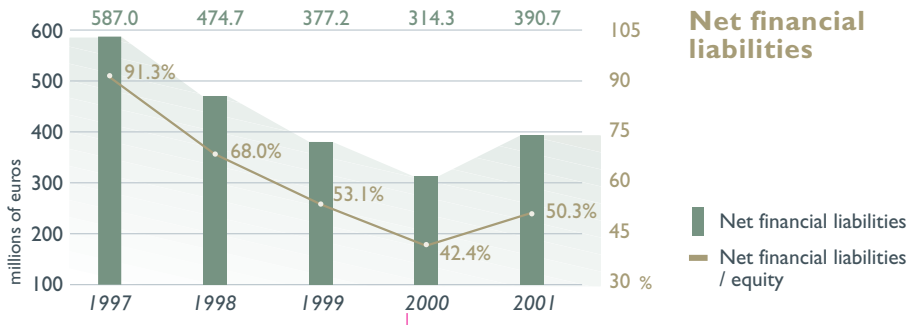


Cash flow after tax



Fixed assets





CHAIRMAN'S **LETTER**



Pedro Mielgo Álvarez
Chairman of RED ELÉCTRICA DE ESPAÑA

TO THE SHAREHOLDERS:

RED ELÉCTRICA is always aware of its responsibility for the Spanish electricity supply system which is the basic and fundamental purpose of the company. Bearing this in mind, it took decisive steps in 2001 to consolidate its leadership in the various business areas where it operates.

The implementation process for a new model of integrated operation for the Spanish electricity system was completed last year. It modifies the previous regional structure with the aim of providing greater security and quality for the power supply in Spain. This complex process was completed several months in advance of the planned date.

RED ELÉCTRICA's investment in the transmission grid during 2001 came to 130 million euros. This figure represents an increase of 66% over the previous year. A total of 245 km of new transmission lines and 48 circuit ends at substations, were commissioned during the year. Together with the substantial investments which are currently in progress, the amount spent will help to improve the quality of the network. In recent years the transmission grid in Spain has grown faster than in any other western European nation. This helps to explain the importance of these investments which are the greatest guarantee of our ability to cover the requirements of future growth.

On November 26th last year, the Spanish and Portuguese governments signed a Co-operation Protocol covering the creation of an Iberian

electricity market. This paves the way for a regional market which in turn will be another step in the creation of an internal electricity market for the whole European Union. This agreement is not just a political decision with far-reaching consequences, it also creates new opportunities and opens up new perspectives for RED ELÉCTRICA. Co-ordination and integration of the two Iberian electricity systems is already a reality. This includes joint planning of both transmission grids and other current activities in which RED ELÉCTRICA is playing a decisive role.

These events made 2001 an important year for the future of our company. The company is focused on providing the public with an essential service -the transmission and operation of the electricity system- and it has a well-defined potential in telecommunications and an international capability. In fact, RED ELÉCTRICA has become a world-wide model in terms of its managerial ability and the efficiency of its operation of the Spanish electricity system.

With regard to corporate activities, 2001 is the first year in which RED ELÉCTRICA is presenting consolidated accounts for the main business (RED ELÉCTRICA DE ESPAÑA) together with RED ELÉCTRICA TELECOMUNICACIONES and RED ELÉCTRICA INTERNACIONAL (where the latter includes RED ELÉCTRICA DEL SUR).

Last year's results followed the steady growth recorded in recent years. In contrast to the stormy

environment affecting companies and other sectors everywhere as a consequence of the slow down of the major economies and its impact on the rest of the world. This solid growth is based on constant improvement in processes, productivity and technological leadership. Apart from the excellent results, these achievements also generated steady improvements in quality. The indicators continue to improve and we have already reached levels which put us in the vanguard of the world's transmission and electricity system management companies.

In 2001 the RED ELÉCTRICA GROUP obtained a consolidated profit after tax of 91.1 million euros. This represents an increase of 9.5% over the prior year. For the fourth consecutive year, RED ELÉCTRICA DE ESPAÑA'S profits have grown by approximately 10%. Therefore, despite the difficult external environment, our company continues its upward path thanks to its sound business foundations which represent the greatest guarantee for our shareholders.

This growth is partly due to the 7.9% increase in adjusted turnover (after deducting energy purchases) which rose to 381 million euros. Growth was also due to the constant improvement in internal efficiency in recent years. These improvements resulted in the containment of operating expenses and the absorption of those related to the recent creation of subsidiaries whose potential is obviously still in development.

The unfavourable international economic environment did not affect the demand for electrical energy in Spain. This demand continued to

grow at a high rate (more than 5%) and the records for monthly, daily and hourly power demand were all broken last winter.

Due to the significant increase in demand, the electricity system had to deal with exceptional situations. The outcome confirmed the excellent quality of the system and the perfect level of co-ordination with the utility companies. Even at times of greatest demand, the transmission lines under the control of RED ELÉCTRICA were operating at less than 70% of capacity.

The quality of our operations, which was tested in all manner of situations, is associated with grid maintenance. Maintenance operations are responsible for the elevated level of availability which is among the highest in Europe. The appropriate co-ordination of network availability and operational efficiency ensures that users can enjoy a high level quality, service at minimum cost.

To achieve its objectives the company invests considerable effort in improving its technical procedures and in keeping them up-to-date. This applies to the state-of-the-art tools for live-line operations, to the elimination of transmission losses, to long-term power-demand research and to the analysis of restrictions in the operation of the electricity system. All these activities, together with many others carried out by RED ELÉCTRICA in the form of R+D+I (Research, Development and Innovation), allow us to constantly increase service quality to the benefit of the Spanish Electricity System users.

The solid basis of our electricity business has not been overlooked by financial analysts and investors when they evaluate our activity and profit expectations. Evidence of this can be seen in the performance of the share price in 2001. Despite the poor performance of the world's stock exchanges, RED ELÉCTRICA's shares rose by 3.98% (11.8% more than the IBEX 35 Index). They closed the year at 10.45 euros - providing shareholders with total gains of 8.1%. The profits, the favourable response of the markets and our participation in the Ibex 35 are factors worthy of positive evaluation.

At the end of the year the rating agencies reviewed their assessments made the previous year. As a result our ratings remained unchanged. This reaffirms the solvency and financial capacity of the company to continue with its planned strategy and the associated projects.

New activities were also launched last year. These included telecommunications - based on a sound business plan and aimed in the medium term at the most attractive products and market segments. RED ELÉCTRICA has already become the leader of a diverse group with domestic and international interests, profitable and consistent with its basic capabilities.

With regard to developments in our telecommunications business, I am pleased to announce that the Intelligent Optic Network is already operational and its domestic roll-out is planned for completion during the second quarter of the current year. In addition, access to points of presence in the various cities has been complet-

ed in an exceptionally short period of time. The launch of ConeXalia (a multi-service network shared by all operators) and the acceptance of RED ELÉCTRICA TELECOMUNICACIONES as the main supplier of broadband capacity in Spain, gives an idea of the importance of this business to RED ELÉCTRICA. The cost and the time-to-market are less than we expected. RED ELÉCTRICA TELECOMUNICACIONES' trademark - ALBURA - is destined to occupy an important place among the most prestigious brands in the sector.

The creation of RED ELÉCTRICA INTERNACIONAL is a symbol of another aspect of our development and diversification strategy, which is already having positive results in Peru, Tunisia and Libya. It will shortly be extended to other countries.

All these activities are carried out in accordance with our commitment to society and the environment. RED ELÉCTRICA is the first Spanish company to achieve membership of the EU Eco-Management and Eco-Audit System (EMAS). Its efforts in this regard have been rewarded with the Company and Environment Prize - the most prestigious of its kind in Spain.

We continue to persevere in the creation of added value for our shareholders, with the support of our Board of Directors and the daily efforts and dedication of those who work at the company.



BOARD OF **DIRECTORS AND SENIOR MANAGEMENT**



RED ELÉCTRICA DE ESPAÑA, S.A.

Members of the Board of Directors at 31st 2001

CHAIRMAN

Pedro Mielgo Álvarez

MEMBERS

Pedro Rivero Torre

Rafael Miranda Robredo

María Luisa Huidobro y Arreba

Victoriano Reinoso y Reino

Juan Gurbindo Gutiérrez

Antonio Garamendi Lecanda

Manuel Alves Torres

Joaquim Clotet i Garriga

Pablo Isla Álvarez de Tejera

Germán González del Valle Chávarri

Juan Massó Garolera

IBERDROLA, S.A.

(Represented by D. José Ignacio Sánchez Galán)

SECRETARY (NON-BOARD MEMBER)

Rafael García de Diego Barber

SENIOR MANAGEMENT

CHAIRMAN

Pedro Mielgo Álvarez

GENERAL MANAGERS

Victoriano Casajús Díaz

Ángel Landa López de Ocáriz



FEBRUARY 23RD

RED ELÉCTRICA INTERNACIONAL was incorporated with a share capital of 60 million euros. The corporate object of this company is to provide consulting, design and construction services. It will also hold shares and actively participate in international operations which will be focused on the electricity transmission area.

MARCH 21ST

REDESUR (a company in which RED ELÉCTRICA plays the leading role) put into operation the second phase of its licence to improve the transmission system in Southern Peru. This phase concludes -within the contractual period- the construction of the facilities associated with the licence including 530 km of 220 kV circuit and four substations.

APRIL 10TH

In an open tender procedure RED ELÉCTRICA was awarded a contract for consulting work covering technical and economic studies related to operation of the interconnection between the electricity systems of Tunisia and Libya.

MAY 21ST

RED ELÉCTRICA was awarded a prize by *Actualidad Económica* and the *Financial Times Stock Exchange* for companies which have created the biggest value for their shareholders during 2000.

JUNE 13TH

RED ELÉCTRICA TELECOMUNICACIONES and Cable & Wireless signed a strategic agreement to develop advanced telecommunications in Spain. This agreement reinforces the company's strategy of developing Internet services and infrastructure for businesses using the latest design techniques.

JUNE 19TH

RED ELÉCTRICA and Fundación Entorno signed a co-operation agreement in the environmental area.

The signing of this agreement emphasizes once more RED ELÉCTRICA's commitment to protect the environment and its duty to society.

JUNE 26TH

RED ELÉCTRICA sent an urgent shipment of equipment and connection material to help repair electrical installations which were gravely affected by the earthquake in Southern Perú.

JULY 3RD

RED ELÉCTRICA released the results of a research project on the biological effects of industrial frequency electromagnetic fields on living beings.

Apart from RED ELÉCTRICA, the Valladolid University, the Scientific Research Council and UNESA also took part in it. The conclusions of this project confirm that electromagnetic fields generated by high voltage power lines are not related to cancer or congenital defects.

JULY 5TH

RED ELÉCTRICA TELECOMUNICACIONES launched ConeXalia - a service based on a new concept - a multi-service network shared by all operators.

This service is based on distributed connectivity and will use RED ELÉCTRICA TELECOMUNICACIONES' facilities. Participating operators will have 140 points of presence at their disposal to connect to ConeXalia. This thus becomes the most important forum in Spain using broadband.

JULY 25TH

The consolidated accounts for the RED ELÉCTRICA GROUP were released for the first half of 2001. They reflected an 8.7% increase in profit after tax compared to the same period of the previous year.

The companies included in the consolidation with RED ELÉCTRICA DE ESPAÑA, S.A., were

RED ELÉCTRICA TELECOMUNICACIONES, S.A., RED ELÉCTRICA INTERNACIONAL, S.A. and RED ELÉCTRICA DEL SUR, S.A.

JULY 29TH

The European Electricity Operators' Association (ETSO) commenced the final stage of its existence following the two-year transition period which was established when it was set up on July 1st 1999. RED ELÉCTRICA is a founder member of this association.

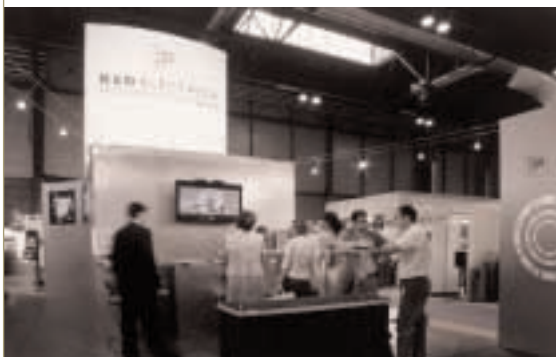
JULY 30TH

RED ELÉCTRICA signed a co-operation agreement with the government of the Valencia autonomous community for the development of electrical facilities during the period 2001-2007.

SEPTEMBER 7TH

RED ELÉCTRICA signed an agreement with AENA to bury a double circuit 400 kV line from San Sebastián de los Reyes-Loeches-Morata of 12.5 km related to the construction of new runways at Barajas airport.





SEPTEMBER 30TH

The reorganisation of the electricity control centres was completed three months in advance and functions were transferred from the centres at La Coruña and Barcelona to the two new control centres at La Moraleja and Tres Cantos in Madrid (which are now fully functioning).

OCTOBER 23RD

RED ELÉCTRICA was the first Spanish company to become a member of the EU Eco-Management and Eco-Audit System (EMAS).

OCTOBER 31ST

RED ELÉCTRICA was awarded the Company and Environment Prize. It was the fourth occasion in which these prizes have been awarded by *Expansión* and Garrigues & Andersen with the co-operation of IESE. These prizes are granted to companies or private entities for outstanding initiatives in environmental management.

NOVEMBER 26TH

The respective ministers of economy in Spain and Portugal signed a protocol of co-operation covering the "Iberian Electricity Market".

Under this agreement, RED ELÉCTRICA and Rede Eléctrica Nacional -as operators of the Spanish and Portuguese electricity systems,

respectively- will co-ordinate planning and expansion of their transmission networks. They must now draw up a proposal for forecasting demand coverage and joint planning of the Iberian network.

NOVEMBER 26TH

ALBURA -the new RED ELÉCTRICA TELECOMUNICACIONES brand- was launched.

NOVEMBER 27TH

The Board of Directors of RED ELÉCTRICA approved payment of an interim dividend of 0.18 euros per share against the profits for 2001. This dividend represents an increase of 5.88% compared to the interim dividend in the previous year.

NOVEMBER 30TH

Standard & Poor's and Moody's reviewed RED ELÉCTRICA's ratings, which remained unchanged from the previous year.

DECEMBER 17TH

In view of the sharp increase in demand which coincided with exceptional low temperatures throughout Europe and the shortage of hydro-electric resources, RED ELÉCTRICA adopted a series of special measures to maintain equilibrium in the domestic electricity system.

BUSSINESS AREAS



TRANSMISSION GRID **MANAGEMENT**



TRANSMISSION GRID MANAGEMENT



During 2001 the rate of RED ELÉCTRICA's investment in the transmission network reached record levels.

Shortly after the introduction of the Electricity Sector Act in 1998, RED ELÉCTRICA started to study the future requirements of the grid in the context of the new scenario which can be characterised as follows:

- New projects involving combined cycle power plants.
- An important increase in wind power generation.
- The need to develop international interconnections.
- Other structural improvements to the network.

It is useful to observe that in recent years the Spanish transmission grid has grown more than any other country in Europe. This gives an idea of the level of investment required.

During 2001 the expansion and improve-

ment plans for the transmission grid executed by RED ELÉCTRICA included 198 km of 400 kV of overhead circuits, 47 km of 220 kV overhead circuits, 3 no. 400 kV substations and 3 no. 220 kV substations. These were added to the company's assets in operation

400 kV INSTALLATIONS:

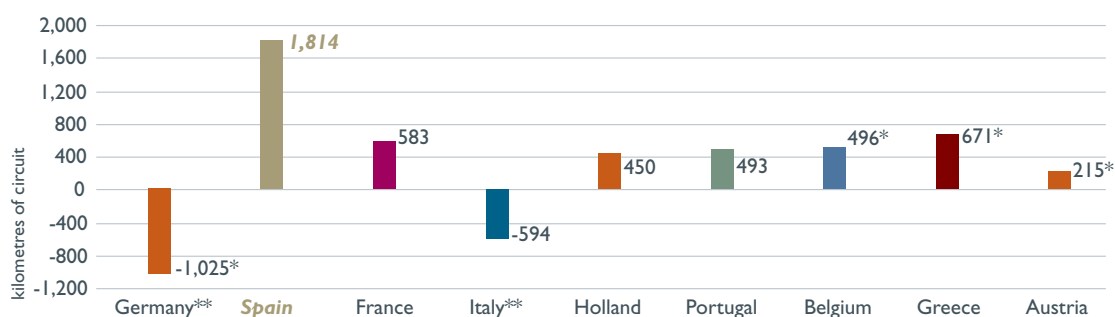
The Aragón-Peñalba and the Castejón-La Serna power lines and the reversible line at Fuencarral on the Galapagar-San Sebastián de los Reyes line were added to the transmission network together with a second circuit on the Olmedilla-Romica line. Substations were commissioned at Peñalba, Castejón and Fuencarral.

220 kV INSTALLATIONS:

The Bolarque-Trillo line, the reversible line at Gurrea on the Villanueva-Sabiñánigo line and the reversible line at Lubián on the Puebla de Sanabria-San Agustín line were added to the transmission network. Substations were commissioned at Trillo, Gurrea and Lubián.

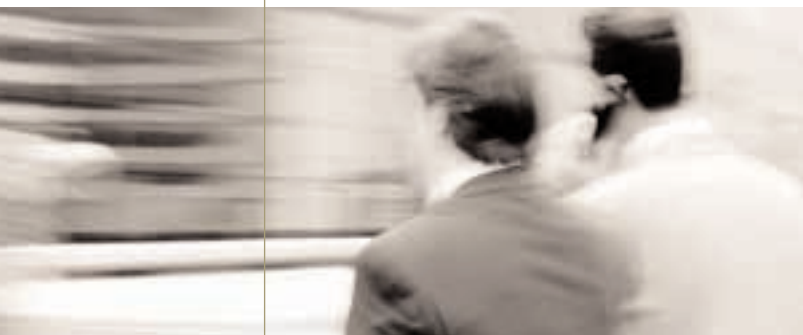
INCREASES IN TRANSMISSION NETWORKS BY COUNTRY (220 kV - 400 kV)

1995-2001



Source: Annual yearbook of the UCTE and other technical publications (2001 figures).

* Figures available up to 2000. ** 220 kV lines were demounted or switched to lower voltages



FUTURE DEVELOPMENT STUDIES FOR THE TRANSMISSION GRID

TRANSMISSION GRID PLANNING

Among the studies and activities which RED ELÉCTRICA is constantly carrying out concerning grid planning and access for new operators, we might point up the following:

WORK ON THE 2002-2011 PLANNING PROPOSAL

The first stage of the grid planning defined in Royal Decree 1955/2000, dated December 27th 2000, was commenced. RED ELÉCTRICA has been working on studies that will lead to a development proposal in the first half of 2002. For this purpose proposals and other information have been obtained from the parties involved in the planning process, especially from transmission, distribution and generation companies, not to mention autonomous community governments.

STUDIES FOR IMPROVING INTERNATIONAL INTERCONNECTIONS

Various studies have been carried out working together with operators in neighbouring systems. RED ELÉCTRICA. With RTE (the French operator) RED ELÉCTRICA has analysed the Spain-France interconnection and defined short-term measures (imminent improvements) and medium-term measures (structural improvements to the network entailing a new 400 kV corridor in the Eastern Pyrennes. In addition, other structural solutions have been identified in

order to increase the capacity of the interconnection with the rest of the European system, bringing it progressively to 8% - 10% of internal demand.

PROCESSING OF REQUESTS ACCESS TO THE TRANSMISSION GRID

Various access feasibility evaluations associated with new combined-cycle natural gas generators were carried out. Replies were issued on 10 requests with a total power of 10,380 MW. This brings the total number of processed requests at December 31st 2001 to 43 and involves a total of 33,210 MW.

In addition, feasibility studies have been conducted for new wind generators. These studies include the processing of individual requests of access by new parties (with a combined power of 19,500 MW) and the preparation and updating of development plans for Andalusia, Aragon, Asturias, the Valencia autonomous community, Castile-La Mancha and Catalonia (with aggregate power forecasts of some 11,300 MW).

GRID STUDIES

GRID EQUIPMENT RENEWAL PROPOSAL

A study was conducted on the renewal of equipment and switchgear on the transmission grid with the goal of increasing transmission capacity and the interconnection of access points for new generation facilities.

IMPACT OF THE TUNISIA-LIBYA INTERCONNECTION ON STABILITY OF THE MEDITERRANEAN RING

The impact of this new interconnection on the stability of the resultant new system (a Mediterranean open electricity ring) has been evaluated. The study deals with the problems which will arise following the creation of a system more than 7,000 km long, suggesting solutions.

DETERMINATION OF MAXIMUM WIND POWER SHARE

Using the results of the PROFIT project (Impact of wind farms on the operation of the Spanish Mainland Electricity System) the required calculations are being carried out to determine the maximum permissible percentage of wind power in the Spanish Mainland Electricity System for the 2004 planning horizon.

FORECASTING

FORECASTS OF MAINLAND POWER DEMAND AT GENERATOR BUSBARS 2001-2010

This deals with the long-term forecasts of annual mainland power demand covering total energy and hourly peaks for summer and winter. These forecasts are drawn up with the help of the Electricity Demand Forecast System (SIPREDE) developed by RED ELÉCTRICA.

The yearly demand forecasts are prepared by defining three scenarios related to different macro-economic and climate situations. For 2001 and 2002 monthly forecasts were drawn up based on separate consideration of the traditional components of demand: employment factors, temperature and economic activity. Forecast demand is broken down by autonomous community.

COVERAGE OF MAINLAND POWER DEMAND FOR THE 2001-2010 PLANNING HORIZON

This report analyses the coverage of electricity demand in the Spanish mainland system based on particular suppositions of demand growth, the performance of generators and their development. It covers both the ordinary and the special regimes.

Furthermore, various scenarios were evaluated based on different possibilities for the incorporation of new power to the Spanish electricity system, for the availability of generators and for the hydroelectric aspects.

FORECASTS FOR THE ELECTRICITY SYSTEM 2001-2010

This document contains conclusions based on a forecast of developments in the Spanish mainland electricity system drawn up by RED ELÉCTRICA. For each year in the forecast it shows the expected level of demand (total energy and peak figures), generation, coverage and the resulting improvements and extensions required to transmission grid facilities.

This publication was the information given to the Spanish National Energy Commission by RED ELÉCTRICA for the preparation of their "Framework Report on Electrical Energy and Natural Gas Demand and its Coverage". This report was published at the end of 2001.

INSTALLATIONS IN SERVICE DECEMBER 31ST 2001

POWER LINES (km)

400 kV	14,841
220 kV	4,327
110 kV AND LESS	75
UNDERWATER CABLE 400 kV	13
UNDERWATER CABLE 400 kV	2
TOTAL	19,258

POSITIONS

400 kV	521
220 kV	196
110 kV AND LESS	3
TOTAL	720

SUBSTATIONS

TOTAL	137
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TRANSFORMERS

NUMBER	39
TOTAL POWER (MVA)	19,676

REACTORS

NUMBER	28
TOTAL POWER (MVA _r)	3,400

AVAILABILITY OF THERMAL POWER STATIONS

This document analyses the statistics on the operation of thermal power stations in the Spanish mainland electricity system (coal-fired and nuclear) from 1984 to 2000. It shows the fault ratios (unavailability due to breakdowns) and scheduled unavailability for the power stations individually and grouped by type. In addition, the start-up reliability of coal-fired power stations is analysed for 2000.

FACILITIES UNDER CONSTRUCTION

NORTHERN REGION

Work continues for the improvement of the infrastructures in Asturias, Cantabria, the Basque Country and Navarre. Work on the Lada-Velilla and Soto-Penagos power lines is currently in progress and preliminary studies are being carried out for improvements to infrastructure in the Basque Country.

Construction of the main north trunk line will increase transmission and evacuation capacity for electrical energy in these areas, where a significant increase is expected in generation by means of combined cycle plants and wind farms.



ARAGÓN AND CATALONIA

Design work continues on reinforcing infrastructure which will improve the supply of electrical energy to this region and will provide for a new interconnection between France and Spain. This will increase the interchange capacity with Europe.

Furthermore, transmission infrastructure is being developed in Aragón following the Special Regime Evacuation Plan 2000-2002 in line with the agreement signed between RED ELÉCTRICA and the government of Aragón.

GALICIA

Construction work continues on new power lines and substations which will help to evacuate energy generated by auto-producers, cogeneration and wind farms in southern Galicia.

CENTRAL REGION

Preliminary work has started on the definition of alignments and locations for the new Northwest-Centre trunk line (conversion from 220 kV to 400 kV on the present Trives-Tordesillas-Otero trunk line).

EXTREMADURA

Work has started on the determination of alignments and on environmental impact surveys for the new Spain-Portugal interconnection (Balboa-Alqueva).

ANDALUSIA

Work continues on the installation of a second circuit for the Pinar-Estrecho line and on preliminary studies for the D. Rodrigo-Puerto de la Cruz line, together with preliminary studies for the construction of a second interconnection circuit between Morocco and Spain.



LEVANTE

Work continues on the preliminary design and authorizations for the new supply line to Murcia and the evacuation of planned generation in the Albacete area.

Lastly, attention is drawn to the imminent termination of work on installations related to electrical energy supply for the future Madrid-Aragón-Lérida trunk line which will service the Madrid-Barcelona high-speed train line. In addition, good progress is being made on the work to improve power supply in the Valladolid area by means of the Mudarra-La Olma line.

NEW INSTALLATIONS IN SERVICE

In 2001 the following installations owned by RED ELÉCTRICA were incorporated in the transmission network:

SUBSTATIONS

- **Peñalba 400 kV:** a substation with four circuit breaker positions and three line end connection points.
- **Castejón 400 kV:** a substation with six circuit breaker positions.
- **Fuencarral 400 kV:** a substation with three circuit breaker positions.



- **Gurrea 220 kV:** a substation with four circuit breaker positions and one line end connection point.
- **Lubián 220 kV:** a substation with two circuit breaker positions and one line end connection point.
- **Trillo 220 kV :** a substation with two circuit breaker positions.

Construction of various circuit breaker positions is also underway at the following substations which are already in service: La Serna (4 positions), Bolarque (1 position), Pinilla (8 positions), Rocamora (2 positions), Olmedilla (1 position), Benejama (2 positions), Tajo de la Encantada (2 positions) and Aragon (2 positions).

POWER LINES

- 400 kV Aragón-Peñalba line: 44 km double circuit.
- 400 kV Castejón-La Serna line: 9.2 km double circuit.
- 220 kV Bolarque-Trillo line: 46 km single circuit.
- Reversible link at Fuencarral on the 400 kV Galapagar-San Sebastián de los Reyes line: 8.5 km of double circuit.
- Reversible link at Gurrea on the 220 kV Villanueva-Sabiñánigo line: 0.25 km of double circuit.
- Reversible link at Lubián on the 220 kV Puebla de Sanabria-San Agustín line: 0.1 km of double circuit.

In addition, a second circuit has been commissioned on the 400 kV Olmedilla-Romica line which is 76.6 km in length.

COMMUNICATION SYSTEMS

The action taken in this area was as follows:

- **Telecommunication circuits:** 56 new circuits of different capacity have been commissioned in the telecommunications network. They will

provide the usual telephone, tele-protection, tele-control and tele-management services for equipment and will provide basic infrastructure for the interconnection of the control rooms.

- **Optic fibre network:** 1,133 km of optic fibre have been replaced. The composition of the cables has been increased from 6 to 48 fibres.
- **Mobile radio systems:** work continued on adapting the repeater stations in the mobile radio network to bring it in line with the Spanish Frequency Assignment Table (CNAF).
- **Switching systems:** six new switching centres were installed in the network and 25 SDH technology hubs were commissioned in the low capacity network. This work is associated with the technology migration which is being carried out in parallel with the roll-out of RED ELÉCTRICA TELECOMUNICACIONES' DWDM network.
- **Carrier and tele-protection systems:** eight new carrier wave links have been installed for transmission of tele-protection signals associated with the protection of secondary lines.



RENEWAL AND IMPROVEMENT OF INSTALLATIONS IN SERVICE

The following work was carried out in this area:

SUBSTATIONS

Various items of equipment were replaced at 30 substations and this mainly affected La Mudarra, Puente Bibey, Puentes de García Rodríguez y Grado.

In accordance with the individual overhaul plans for equipment, a large number of circuit breakers were replaced together with voltage transformers, capacitive transformers and lightning conductors. In addition, general auxiliary services were overhauled and renewed at various facilities and protection systems at 19 substations were improved.

POWER LINES

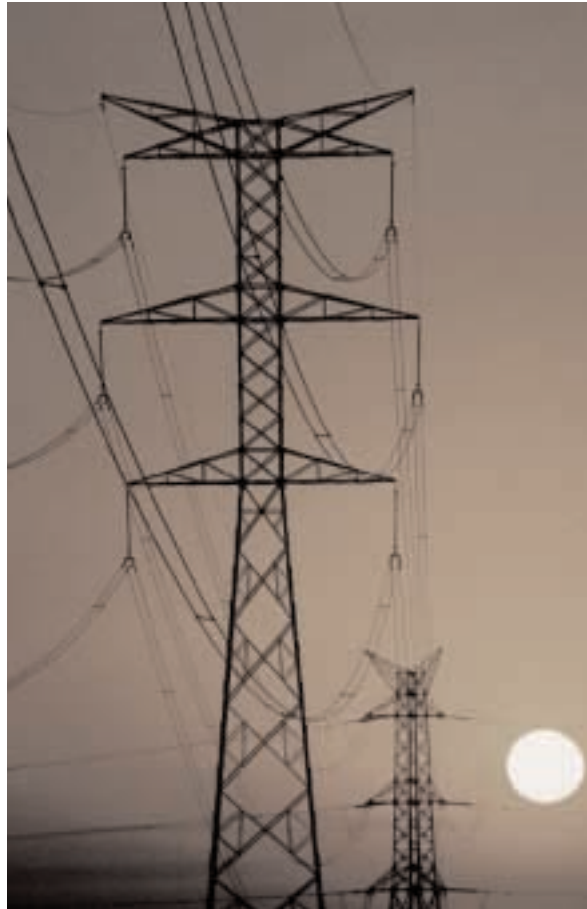
This section included the replacement of glass insulators by composite insulators on the Guadame-Tajo de la Encantada line.

PROTECTIONS

Protections at 52 line ends on the transmission network have been renewed.

In addition, another series of activities was carried out including the following:

- The CAPE programme was put into service for co-ordination of protections, databases, adjustments and short circuits. This software allows protections to be analysed and calculated at network level.
- An improvement in the analysis of events associated with protections through automation of the database which holds the records, its connection to event broadcasting at the electricity control centre and the immediate generation of reports for the despatching officer when the events occur.



- An extension to the simulator at the Protections Laboratory and the start of work to achieve official recognition as an ENAC entity.

CONTROL SYSTEMS

Remote tele-control stations were installed at the Lubián and Conchas substations together with the new digital control systems at the Fuencarral and Castejón substations. The digital control systems have also been extended to 19 other substations.

In addition, development and commissioning was completed for the new integrated digital control system at the Gurrea, Aragón and Peñalba substations.



POWER LINES IN CONSTRUCTION

REGION

400 kV

	KILOMETERS OF CIRCUIT
MADRID-ARAGÓN TRUNK LINE	390
PLAMPLONA-MAGALLÓN TRUNK LINE	214
NORTE OCCIDENTAL TRUNK LINE	271
NORTE ORIENTAL TRUNK LINE	324.4
WIND FARM CONNECTIONS IN GALICIA	166
WIND FARM CONNECTIONS IN ARAGÓN	66
WIND FARM CONNECTIONS IN TARIFA	57.2
NEW ELECTRICITY SUPPLY IN MURCIA	346
TOTAL	1,834.6

200 kV

CARTELLE:VELLE-CASTRELO LINE	9
RUNNING THE MUDARRA-LA OLMA L. UNDERGROUND	3
CONVERSION OF THE MUDARRA-LA OLMA L. TO 220	23
TOTAL	35

SUBSTATIONS UNDER CONSTRUCTION

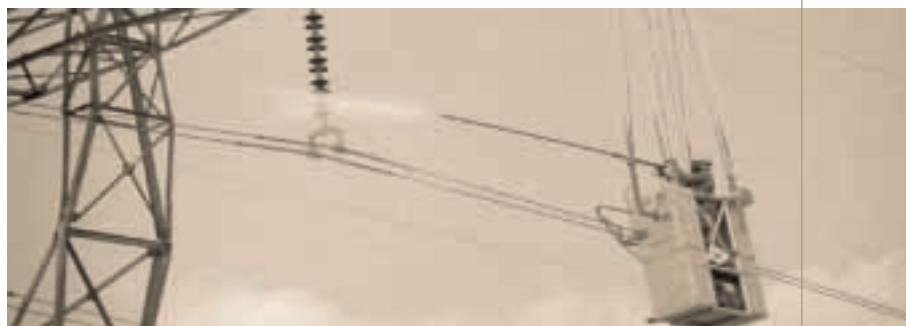
400 kV

	POSITION		TRANSFOR.
	CIRCUIT BREAKER	CONNECTION	
ANCHUELO	4	3	(400/132)
TRILLO 400	4		
FUENTES DE LA ALCARRIA	4	3	
MEDINACELI	4	3	
TERRER	3	3	
RUEDA DE JALÓN	4	3	
SOTO DE RIBERA	2		
PENAGOS	5		(400/220)
BOIMENTE	8		(2:400/132)
MESÓN	2		
CARTELLE	2		
ZIERBANA	6		
SANTURTZI	1		
MURUARTE	5		(400/220)
PINAR	5		
PTO. DE LA CRUZ	9		
ROCAMORA	2		
EL PALMAR	11		
LITORAL	2		
NUEVA ESCOMBRENAS	17		
Vic	1		(400/132)

200 kV

MURUARTE	5		
CARTELLE	4		
GURREA	3	1	

MAINTENANCE OF TRANSMISSION GRID INSTALLATIONS



The constant efforts to improve scheduling of any work which entails outages, the use of live line operations and the greater use of predictive maintenance have helped to improve the service quality and availability of facilities ratings.

This has all been achieved without increasing the cost of maintenance operations compared to the previous year.

POWER LINE MAINTENANCE

The use of helicopters for intensive inspections and the use of the DVD as a source of graphic information have become the normal working method. The results of the predictive and preventive maintenance programmes are highly satisfactory.

Furthermore, the anti-corrosion protection programme continues on those stretches of power lines which have greater conservation difficulties. This programme has protected 86,000 m² of steel structure. A considerable number of adjustments to power lines have been carried out at the request of individuals and official organisations.

Live line operations were carried out on 28 power lines and this was a notable increase. For the

first time in Spain, 91 km of compound fibre optic cable have been replaced with the installations in service. These operations have contributed to a reduction in maintenance-related outages.

MAINTENANCE OF SUBSTATIONS, PROTECTION, MEASUREMENT AND REMOTE CONTROL SYSTEMS AND BUILDINGS

In accordance with the established programme, a maintenance plan has been drawn up for power transformers and reactors using continuous discrete measurement techniques (monitorisation). More than 130 oil samples have been analysed, 38 insulation measurements (power factor) were made and the status of windings on 28 power units (transformers and reactors) were analysed.

The monitorisation techniques used include the use of continuous oil analysis based on changes in dissolved gases, load and temperature. This has improved our knowledge regarding the operating condition of power units.

With regard to measurement transformers, the maintenance plan entailed the use of measurement techniques involving partial discharges, accuracy verification measurements, oil analysis and thermal imaging. In addition, the monitorisation systems at two substations are pioneer installations at international level. Results have confirmed expectations and helped us to learn more about ageing of measurement transformer insulation.





Tele-diagnosis continues to be applied to high voltage circuit breakers. The maintenance cycles have been maximised and this has helped to reduce the amount of outages due to circuit breaker maintenance. During 2001 more than 750 measurements were taken to evaluate the status of 130 circuit breakers.

The maintenance plan for protection systems was carried out in the defined manner and inspections of measurement equipment on the interconnections were carried out in accordance with the Measurement Point Regulations. The equipment and protection systems on the transmission grid functioned correctly. Taken as a group, the index of efficiency of protections and their ability to eliminate defects and disturbances in the transmission network, was 100%.

The average annual availability of the tele-control service provided by the remote control equipment was 99.94%.

TELECOMMUNICATIONS MAINTENANCE

The usual predictive maintenance activities continued in 2001. This covered the telecommunication equipment and the fibre optic cables.

With regard to the essential telecommunication services for operation and transmission of the electricity system, the availability of the tele-control and tele-protection service was close to 100%.

A specific code and procedures were drawn up to ensure the quality of infrastructure and maintenance of the fibre optic network. In addition, courses on fibre optics were given to technical personnel from the regions, and latest generation measurement instruments were purchased. In 2001, availability of the fibre optic network was 99.95%.

During the year the Quality Management System, which had been started in 2000, continued to operate. Its purpose is to improve telecommunications maintenance processes and therefore the level of quality of the services provided by this equipment.

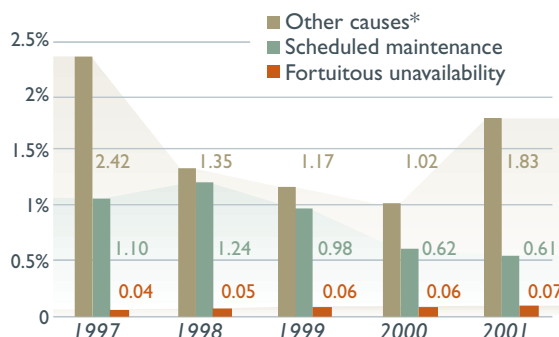
TRANSMISSION GRID PERFORMANCE

The outage ratio indicates the average time which each line has been out-of-service due to outages for preventive maintenance, fortuitous unavailability due to transitory or permanent faults or for





UNAVAILABILITY BY YEAR



*Construction of new installations, operations by third parties and factors external to the network

reasons unrelated to maintenance such as the construction of new installations, work by third parties or factors which are external to the network. This quality index and the continuity of service provided by the electricity system are shown in the chart above.

The co-ordination of outages for construction and maintenance operations and the application of predictive maintenance techniques and live-line operations have helped to keep the quality index for the transmission service at very satisfactory levels in terms of security and continuity of supply. The overall availability of the network in 2001 was 97.49%.

In addition, the performance of substation equipment and protections remained at the high level achieved in previous years and the performance of the remote control systems was very satisfactory.

The commendable performance of the transmission network was due to its optimum dimension and effective capacity-among other factors. This was confirmed on the day of maximum load in the system (December 17th) when practically all the lines were operating at 70% of capacity and more than 85% of the lines were working at 50% of their effective capacity.



ELECTRICITY SYSTEM **OPERATION**



MAIN SYSTEM INDICATORS EVOLUTION

Operation of the electricity system in 2001 was marked by strong and persistent demand growth. This resulted in new records for daily energy, average hourly power and peak power:

From the point of view of hydroelectric power the year can be classified as "wet" although there were wide variations during the period.

Lastly, the progressive increase in energy acquired by the system from producers under the special regime continued.

DEMAND

Annual demand for electrical energy reached 205,630 GWh which was 5.5% more than the previous year. After adjustments for employment factors and temperature, demand in 2001 grew by 5.2%. This rate of increase is lower than previous years but is still considered high.

Monthly, daily and hourly demand for electrical energy set new records in December. The new figures are 18,962 GWh for monthly demand, 710 GWh for daily energy demand, 34,930 MW for average hourly power demand and 35,490 MW for peak power.

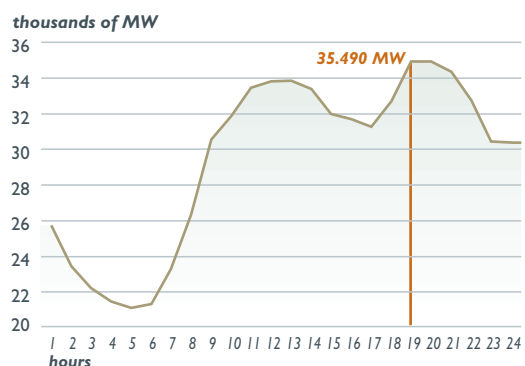
GENERATION

Gross generation by domestic operators grew by 3.9% over the prior year and reached 183,559 GWh.

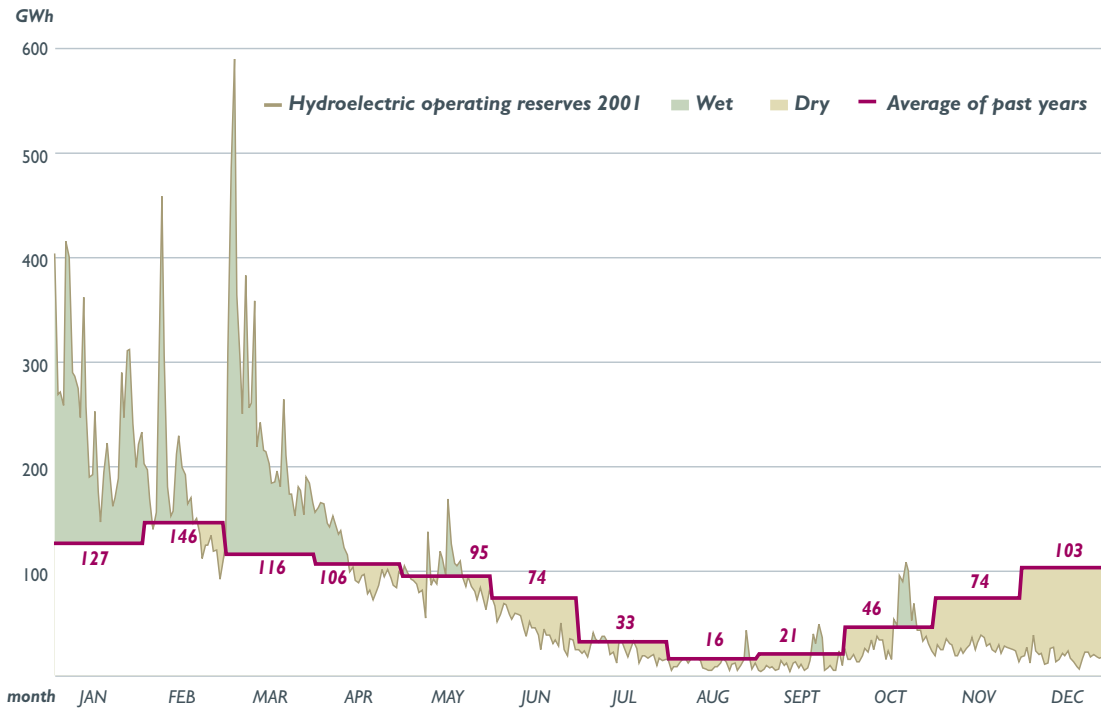
BREAKDOWN OF GENERATION IN 2001

ENERGY	GWh	% OF TOTAL
HYDROELECTRIC	39,374	21.5
NUCLEAR	63,705	34.6
COAL	68,080	37.1
OIL + GAS	12,400	6.8
TOTAL	183,559	100

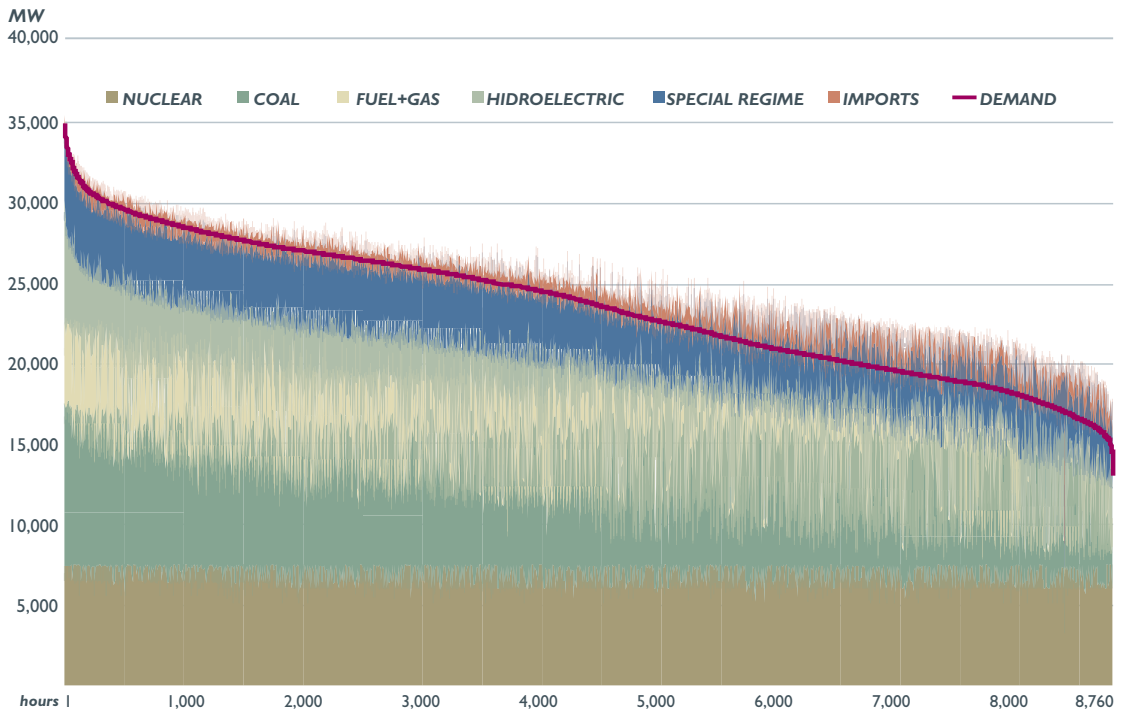
LOAD CURVE ON PEAK DAY
DECEMBER 17TH 2001



HYDROELECTRIC OPERATING ELECTRICAL ENERGY RESERVES BY DAY Compared to the average year



LOAD DURATION CURVE



In 2001 the generation structure was quite different to 2000. Among other things, hydroelectric operating reserves were much higher than the previous year due to the high amount of rain and snow fallen between November 2000 and March 2001. Hydroelectric power stations produced slightly more than 39,300 GWh, which was 41.4% more than the previous year. Output from nuclear power stations rose by 2.4% to 63,700 GWh. As a result of the greater hydroelectric activity, production from coal-fired power stations fell by 10.9% to 68,080 GWh. Gas and oil-fired production was 5,427 GWh and 6,973 GWh, respectively. These figures represent increases of 23.9% and 18.8% for gas and oil, respectively.

INTERNATIONAL POWER EXCHANGES

The year resulted in net imports of 3,450 GWh, 22.3% less than the previous year.

Utilization of the arrangements under RED ELÉCTRICA's contract with Electricité de France was 88.5% and accounted for 4,265 GWh of imports. Traders imported 3,166 GWh of which 2,257 GWh arrived through France, 897 GWh came from Portugal and 12 GWh from Morocco.

Exports consisted of 583 GWh to Morocco under RED ELÉCTRICA's contract with ONE and

3,493 GWh exported by market participants to Andorra (251 GWh), Portugal (1,184 GWh), Morocco (1,012 GWh) and France (1,046 GWh).

AUXILIARY SERVICES AND DEVIATIONS HANDLING

In 2001 procurement for auxiliary services (secondary and tertiary control) plus scheduled stand-by power came to 5,700 MWh. This was 12% more than the prior year. Of this total, 1,769 MWh corresponds to secondary control energy and 3,019 MWh to tertiary control. The average power band allocated for control purposes was 1,215 MW and the average price paid was 0.991 euro cents per kWh.





RED ELÉCTRICA is obliged to handle deviations and guarantee coverage of demand, eliminating the imbalance between generation and consumption. In 2001 a total of 1,390 GWh was procured in connection with this procedure and the total cost to the system was 38 million euros.

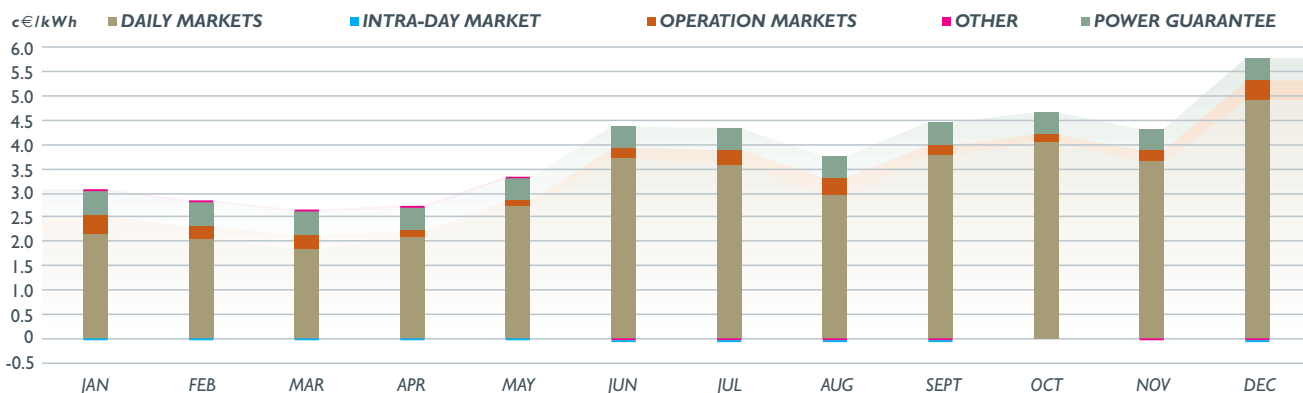
The effect of the processes handled by RED ELÉCTRICA on the average daily market price (which in 2001 was 3.158 euro cents per kWh) is 0.25 euro cents per kWh. Of this amount, 0.078 euro cents per kWh corresponds to secondary, ter-

tiary and emergency control and deviation management, 0.116 euro cents per kWh is for technical restrictions and 0.057 euro cents per kWh represents the allocated secondary control band.

These figures must be increased by 0.459 euro cents per kWh to cover the power guarantee. These amounts plus the adjustment for the intra-day market (-0.008 euro cents per kWh) and the net effect of excess or deficit under international contracts, determine the final price of electrical energy at 3.859 euro cents per kWh.

CONTRIBUTION OF THE VARIOUS MARKETS TO THE FINAL PRICE (€€/kWh)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	ANNUAL
AVERAGE PRICE IN THE DAILY MARKET	2.184	2.045	1.825	2.084	2.731	3.685	3.603	2.991	3.791	4.047	3.646	4.892	3.158
AVERAGE PRICE IN THE INTRA-DAY MARKET	-0.004	-0.007	-0.005	-0.003	-0.006	-0.016	-0.015	-0.007	-0.012	0.001	0.000	-0.016	-0.008
OPERATION MARKETS	0.350	0.298	0.289	0.120	0.128	0.215	0.235	0.313	0.206	0.145	0.201	0.445	0.250
OTHER	0.016	0.024	0.025	0.020	0.005	-0.016	-0.016	-0.004	-0.019	0.001	-0.003	-0.033	-0.001
POWER GUARANTEE	0.454	0.459	0.454	0.460	0.466	0.464	0.461	0.458	0.455	0.458	0.462	0.458	0.459
AVERAGE FINAL PRICE	3.000	2.819	2.588	2.681	3.324	4.332	4.268	3.751	4.421	4.652	4.306	5.746	3.859





RED ELÉCTRICA TELECOMUNICACIONES completed its first full year of activity. It focused on its corporate strategy and mission - which is to become the leading supplier of broadband services and Internet infrastructure solutions based on a high level of availability and the capillarity of its broadband network. This will be achieved through a high level of quality, efficiency and a commitment to customer service.

With these objectives in mind, a new brand, ALBURA, was launched on November 26th 2001. RED ELÉCTRICA TELECOMUNICACIONES' services will be henceforth marketed under this name.



ALBURA's telecommunications network is supported by RED ELÉCTRICA's basic infrastructure which consists of the fibre optic cables, the buildings used as data centres and the access points to the fibre network at substations.

ALBURA offers integral broadband solutions as an operator as well as data services through its network (IP/MPLS), connectivity, housing and hosting for other operators and companies, Internet access providers (ISPs) and application service providers (ASPs).

In 2001 activities were centred on the preparation of infrastructure, roll-out of services and widening of marketing activity including the following:

- Development of a telecommunications network infrastructure.
- The commencement of carrier capacity and transmission services (ConeXalia) and Internet infrastructure solutions.
- The completion of the interconnection with Portugal and start the beginning of works on the interconnection with France and Morocco which are expected to finish in 2002.

ASSET IMPROVEMENTS

During 2001 additional infrastructure was created so that ALBURA would be able to offer the market a full range of products.

ALBURA's current installations can provide any type of telecommunications service through a single trunk line network based on:

- 8,900 km of fibre optic cable.
- An intelligent optic network (DWDM) with an interconnected topology consisting of five optic rings: Northwest, Northeast, South, Madrid and Barcelona.

- A capacity network (SDH) with national coverage and presence in the major cities.
- A multi-service data network (IP/MPLS) with the ability to integrate services and to ensure the level of quality required by the customer.
- Fifty points of presence (PoPs) - metropolitan communication hubs located in the main provincial capitals of Spain and connected to all the carrier houses which operate in Spain.
- ADSL connections and telephony throughout Spain.

The services are managed from the Network and Service Operation Centre.

BUSINESS LINES

The business strategy aims to provide telecommunication infrastructure services through two lines of activity:

- As a supplier of transmission and capacity. In this area Albura offers the following range of services: DWDM optical level capacity, managed capacity (SDH), interconnection services with other operators for voice and other services, and ConeXalia.

ALBURA's main bet in this business area is ConeXalia, a management service for trading broadband capacity for the telecommunications market launched in Madrid on July 5th 2001.

ConeXalia runs on a multi-service network which can be shared by all the operators in a flexible, active, dynamic and neutral fashion to provide economies of scale. Our customers can transform capital investments into variable costs and increase their development capacity in new markets in the telecommunications sector.



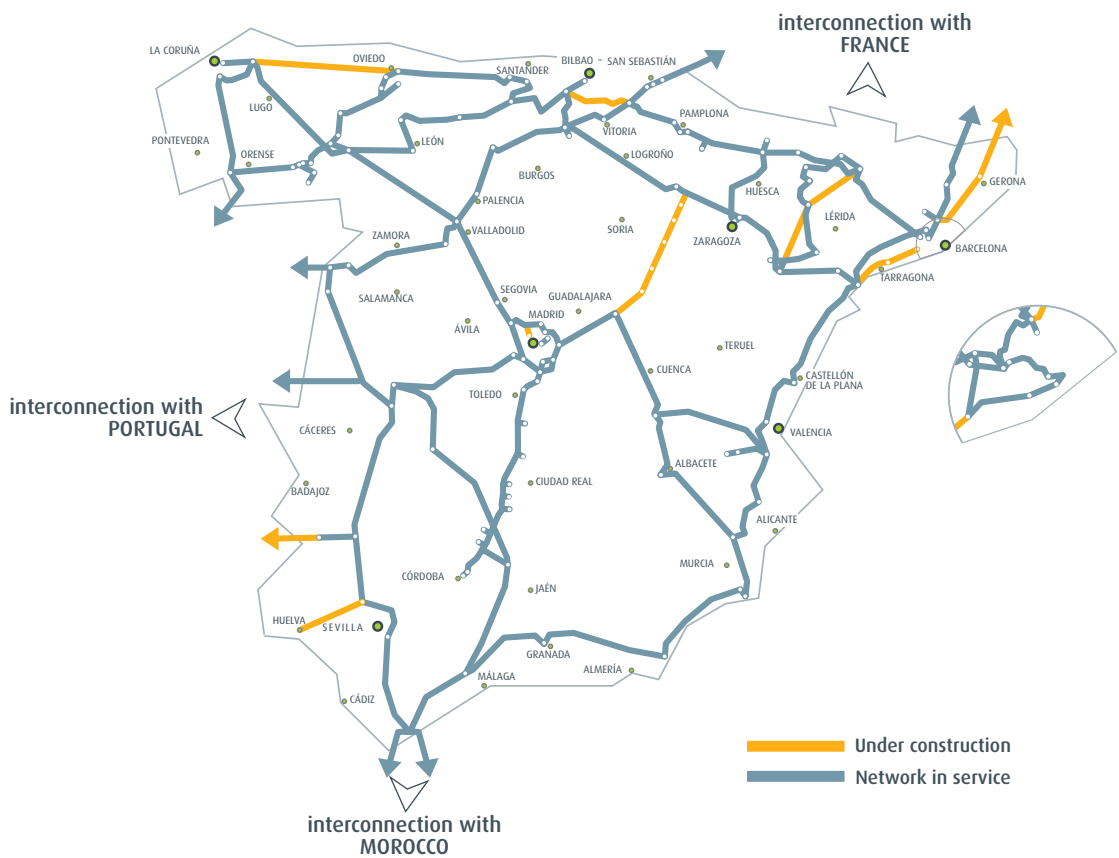
- As a provider of Internet infrastructure solutions. This activity is associated with the following integrated services:
 1. Solutions based on the IP/MPLS network (network architecture) which are associated with the use of multi-service network infrastructure: Internet access for companies and service providers: broadband access (ADSL) and virtual private networks (VPNs) with integrated services.
 2. Data centre solutions which provide customers with a professional environment for data storage: housing and managed services.

OUTLOOK FOR 2002

In 2002 the strategic priorities will focus on consolidation of marketing activity and product development. With regard to telecommunications network infrastructure, work will continue on the structure of the data centres.



FIBER OPTIC NETWORK DECEMBER 31ST 2001





International expansion is one of the growth strategies of the RED ELÉCTRICA Group and a natural market where the company's business can be increased.

In most developing and emerging countries the power industry is moving towards deregulation and privatisation as a result of all economic sectors becoming more open. Other factors include the general emphasis on improved efficiency and on reducing the cost of production and supply of electrical energy.

The international environment provides opportunities to invest in transmission systems and it also provides the possibility of supplying technical and business consulting services associated with infrastructure and control system improvement projects to those companies involved in the restructuring and deregulation of electricity systems.

The experience acquired and the skills developed by RED ELÉCTRICA in the management and operation of electrical power systems and in the development and deregulation of the Spanish electricity system, have provided experience of singular value associated with two business areas in the international market: investment in energy transmission assets and specialised consulting services.

In order to pursue its international strategy, RED ELÉCTRICA incorporated RED ELÉCTRICA INTERNACIONAL in February 2001 as a wholly-owned subsidiary with a share capital of 60 million euros. Its corporate objective is to develop and manage the Group's business abroad giving priority to profitability and low risk.

INTERNATIONAL INVESTMENT

RED ELÉCTRICA focuses its international investment activities on the acquisition of transmission companies and assets, and on acquiring long-term



licences to manage electricity systems where the company can provide added value through its experience as a manager and operator of energy transmission systems. Only those investment projects which add value for the RED ELÉCTRICA Group and provide an attractive combination of profitability and risk will be selected.

On March 21st 2001, the second phase of improvements of the transmission system in Southern Peru was put into service by the licensee, REDESUR (a company in which RED ELÉCTRICA plays the leading role).

This completes the installations comprised within the licence which calls for 530 km of 220 kV circuit and 4 substations (Socabaya, Moquegua, Tacna and Puno). The final phase included the construction of 192 km on the 220 kV Puno-Moquegua line and 125 km on the Moquegua-Tacna line plus substations at Puno, Moquegua and Tacna.

A close watch is also being kept on legislative developments and potential investment opportunities in numerous markets in Europe, Asia and especially in South America where RED ELÉCTRICA has strengthened its presence taking part in the most immediate opportunities.

CONSULTING SERVICES

Activity in this area focuses on highly-specialised technical and business consulting services where RED ELÉCTRICA has a competitive advantage and where the project offers an appropriate level of profitability. The main areas in which consulting projects have been carried out are as follows:

- Reorganisation, restructuring and deregulation of utility companies.
- The use of advanced technology for the operation and remote control of electricity systems and telecommunication systems.
- The implementation of advanced technology and maintenance procedures for power systems.
- The establishment of competitive energy markets.





In 2001, the following consulting and technical advice projects were successfully completed:

- **Advice given to two Romanian companies, TRANSELÉCTRICA (transmission grid) and OPCOM (energy markets).**

The purpose of this project was to specify the information and control systems and to establish the relationship between the companies concerned.

- **Installation of a provisional SCADA system in Bosnia.**

The project entailed the installation by the Bosnian company ZECK of a control system for the transmission network at the recently-created operation co-ordination centre for the three existing electricity companies.

- **An operation planning system in Syria.**

Under the project, PEGTE was supplied with planning tools for operation of the Syrian electricity system. A further offer was made to provide user training and software upgrades.

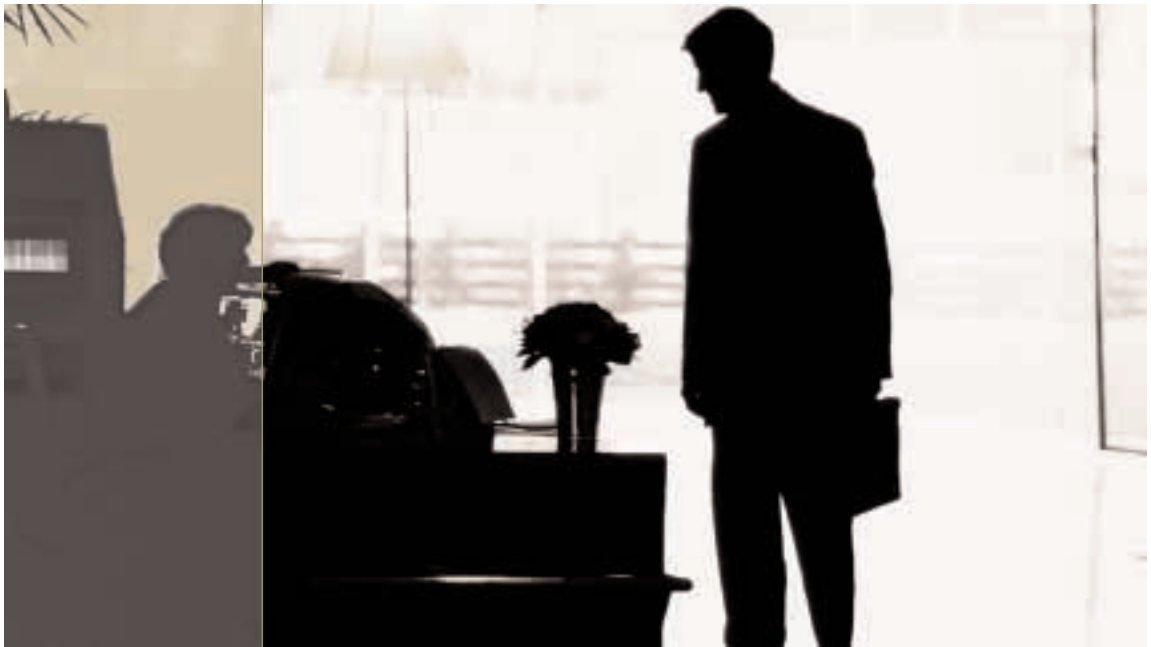
- **Technical assistance provided to the *Office National de L'Electricité* (ONE) for the installation of a new telecontrol system at Agadir (Morocco).**

In addition, the technical assistance projects for the renovation of the ONE control centre and for the operation of the Tunisia-Libya interconnection, are still in progress. The latter is being carried out in conjunction with HYDRO QUÉBEC (Canada) and entails guidance for two electricity companies -STEG (Tunisia) and GECOL (Libya)- regarding the technical and operational aspects for the integration of these countries' electricity systems.

CORPORATE *MANAGEMENT*



HUMAN **RESOURCES**



In 2001 Human Resources focused mainly on the organisation and size optimisation of the workforce of the companies within the RED ELÉCTRICA GROUP. It also focused on establishing a corporate culture suitable for an increasingly competitive environment where efficiency and results are paramount.

The implementation of a new management model based on greater efficiency in processes and activities was commenced in 2000. This model, together with the launching of new business activities, has made it possible to optimise the workforce and increase the need to prepare it for the new strategic challenges ahead.

The creation of new subsidiaries (RED ELÉCTRICA TELECOMUNICACIONES and RED ELÉCTRICA INTERNA-

CIONAL) has brought a new perspective to the reorganisation of the GROUP's human resources. New professional staff with the experience and necessary skill profiles for the development of new business has been added to the workforce.

The reorganisation process in 2001 included the following actions:

- Reorganisation of the electricity control centres was completed. The six control centres existing in 1998 were reduced to two and this had a corresponding effect on the workforce.
- The early retirement plan initiated in 2000 continued. This plan has affected one quarter of the management and made it necessary to launch the corresponding replacement campaigns.
- The GROUP's corporate IT services have been outsourced.



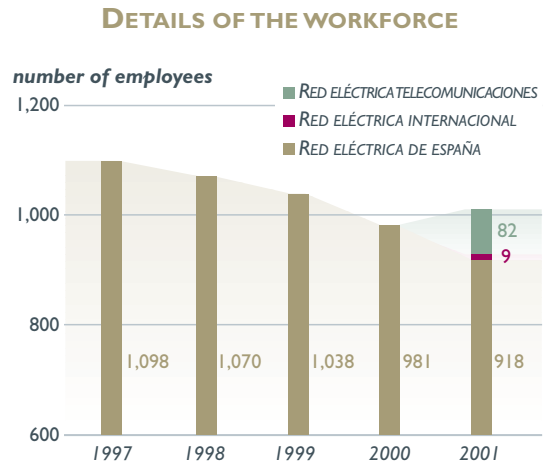
Following these operations, on December 31st the total workforce of the RED ELÉCTRICA GROUP consisted of 1,009 employees. This is an increase of 2.9% over the previous year. The increase was mainly due to the creation of the subsidiaries - in RED ELÉCTRICA the workforce fell by 6.4%.

CONSOLIDATION OF THE MANAGEMENT MODEL

The business management model set up in 2000 was consolidated in 2001 with the definition of the cultural values which should inspire the actions of those who work at the company.

Special attention should be paid to the steps taken to bring employee behaviour in line with the new strategic focus and the new corporate culture.

- Some of the company's policies and management procedures were adapted. A new policy for managers was designed and implemented. It defines the legal relationship between the company and its managers and includes a code



of ethics and a new employment framework for management.

- A skills management model was implemented. It identifies and develops the most suitable skills of the management team by providing training, tools and the necessary policies in regard to human resources management.

This model has also helped with the promotion plans which started in 2000 with the identification of a group of persons with the potential to occupy management positions. These persons have joined an ambitious development programme which has been highly successful. One-third of the professional staff in the promotion plans are currently managers.

Using the same methodology used with the management team, this model has been implemented for the rest of the workforce.

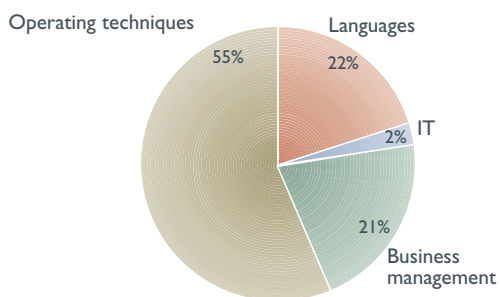


THE HUMAN RESOURCES TRAINING PLAN

In terms of training and development a series of specific programmes were conducted with a total of 32,000 training hours. This was an increase of 18.5% over the previous year and the equivalent investment came to 3.2% of personnel expense.

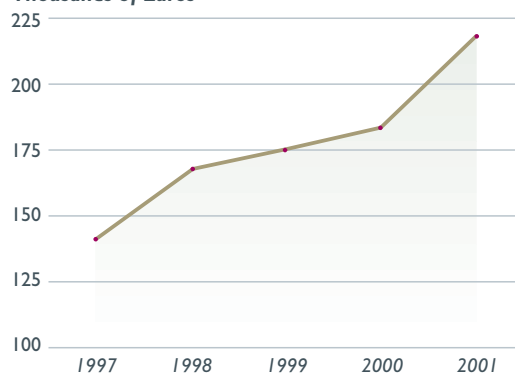


TRAINING PROGRAMMES



CASH-FLOW / EMPLOYEE*

Thousands of Euros



* Based on the RED ELÉCTRICA workforce



ADMINISTRATION AND **FINANCIAL MANAGEMENT**



RESULTS

Thousands of Euros	1997	1998	1999	2000*	2001*	% 01/00
GROSS MARGINS (EBITDA)	212,223	234,595	234,593	249,168	254,234	2.0
NET OPERATING PROFIT (EBIT)	116,946	135,440	136,105	147,482	147,384	-0.1
PROFIT ON ORDINARY ACTIVITIES	78,319	102,613	116,673	131,393	133,131	1.3
PROFIT AFTER TAX	57,335	69,331	75,131	83,140	91,071	9.5

* Consolidated results

Last year the RED ELÉCTRICA GROUP continued to improve its main business indicators. Consolidated profit after tax came to 91,071 thousand euros. This was an increase of 9.5% over the previous year. Profit after tax of the parent company, RED ELÉCTRICA DE ESPAÑA, S. A., was 90,785 thousand euros.

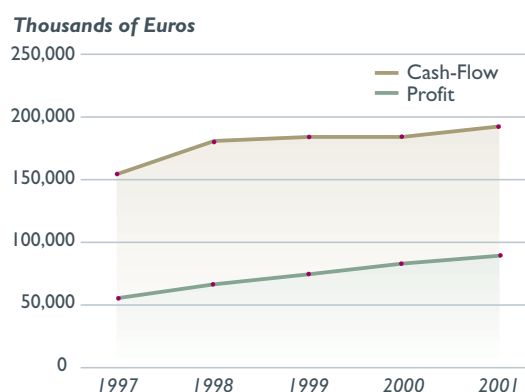
The improvement in consolidated GROUP profits compared to 2000 was due to an increase in turnover and the containment of operating costs. This helped gross margins (EBITDA) to increase by 2% despite the sharp increase in costs. The cost increases were due to the start-up of the new companies and were mainly generated by the telecommunications business.

INCOME

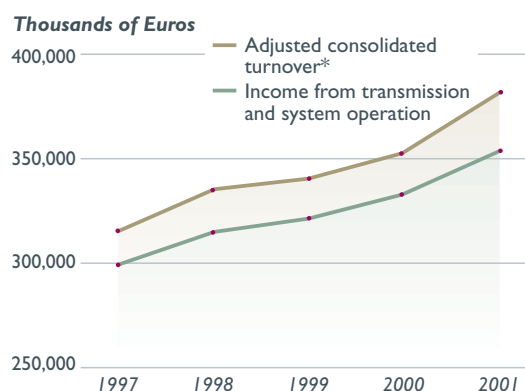
Consolidated turnover rose to 591,467 thousand euros. Consolidated net turnover, after adjustments for energy and power purchases related to the parent company's international exchanges of power, came to 380,987 thousand euros. This figure is a more representative indicator of the Group's activity and it grew by 7.9% compared to 2000. The main components of the consolidated turnover were as follows:

- Income from transmission and system operation services came to 347,253 thousand euros and 8,517 thousand euros, respectively. Transmission services grew by 6.1% and system operation services by 37% compared to 2000.
- Income from the sale of energy and power was mainly related to the import and export contracts with EDF (France) and ONE (Morocco). The value of this income after adjustments for energy and power purchases, came to 8,099 thousand euros.

CASH FLOW AND PROFIT AFTER TAX



TURNOVER



* Net of energy and power purchases

- Income from the GROUP's diversified activities rose to 17,118 thousand euros. Of this amount, 10,113 thousand euros correspond to telecommunication services.

After deduction of 4,344 thousand euros for capitalisation of financial expense, other income came to 6,982 thousand euros. It mainly consists of work carried out by the GROUP's companies on

their own fixed assets, R+D+I expense incorporated in intangible fixed assets and other income related to operations.

Extraordinary income came to 8,009 thousand euros and was mainly due to capital grants taken to income and prior years' income. All these are related to the electricity business.

OPERATING INCOME

Thousands of Euros	1997	1998	1999	2000**	2001**	% 01/00
ADJUSTED OPERATING INCOME	336,266	345,842	350,888	364,740	392,313	7.6
CONSOLIDATED ADJUSTED TURNOVER (*)	316,794	336,340	340,959	353,141	380,987	7.9
Income from transmission and system operation	298,246	316,197	322,080	333,369	355,770	6.7
Adjusted sales of energy and power	4,664	6,383	6,966	6,802	8,099	19.1
Telecommunication and other services rendered	13,884	13,760	11,913	12,970	17,118	32.0
OTHER INCOME (***)	19,472	9,502	9,929	11,599	11,326	-2.4
EXTRAORDINARY INCOME	10,680	14,569	6,707	7,964	8,009	0.6

(*) Net of energy and power purchases. (**) Consolidated figures. (***) Includes capitalisation of financial expense.

EXPENSES

Operating expenses for the GROUP, net of energy and power purchases and trade provisions, rose to 134,768 thousand euros. This was an increase of 19.5% over 2000 and was mainly due to the start-up of the new GROUP companies.

Personnel expenses came to 57,172 thousand euros for the whole GROUP. This was an increase of 5.1% due to the combined effect of a reduction in the workforce at the parent company -where personnel expenses fell 1.7% to 53,436 thousand

OPERATING EXPENSES

Thousands of Euros	1997	1998	1999	2000**	2001**	% 01/00
ADJUSTED OPERATING EXPENSES	257,964	243,233	234,212	233,450	259,829	11.3
COST OF SALES	115,846	108,601	113,021	112,775	134,768	19.5
Personnel expenses	51,211	53,355	55,075	54,396	57,172	5.1
Cost of materials consumed, repairs, external services, etc (*)	64,635	55,246	57,946	58,379	77,596	32.9
DEPRECIATION AND AMORTISATION	94,478	98,547	100,174	101,582	105,817	4.2
FINANCIAL EXPENSES (***)	47,640	36,085	21,017	19,093	19,244	0.8
EXTRAORDINARY EXPENSES	4,838	12,639	8,667	13,312	2,004	-84.9

(*) Net of energy and power purchases. Includes variations in trade provisions. (**) Consolidated figures. (***) Expenses net of financial income.



euros- and the hiring of new personnel (mainly for RED ELÉCTRICA TELECOMUNICACIONES) where personnel expenses came to 3,482 thousand euros.

Other cost of sales, purchase of goods and services, net of energy and power purchases, came to 77,596 thousand euros. This was an 32.9% increase over the previous year due to an increase in electricity-related business and the start-up of the new companies

This resulted in a 2% increase in gross margins (EBITDA) for the GROUP. In the case of the electricity business the gross margin grew by 6.2%.

Depreciation and amortisation of assets came to

105,817 thousand euros of which 102,931 thousand euros correspond to RED ELÉCTRICA and the remainder to the new GROUP subsidiaries.

Net finance expense related to external finance came to 19,244 thousand euros and this includes financial expense incorporated in work-in-progress (4,344 thousand euros). The overall figure for the GROUP rose by 0.8%.

Extraordinary expenses were 2,004 thousand euros. They included extraordinary provisions for risk and depreciation of assets. The years up to and including 2000 reflect the provisions related to restructuring of the workforce which was completed in 2000.



FINANCE

The GROUP's cash flow after tax rose to 195,031 thousand euros - an increase of 6.1% over the previous year.

The important investments made by the parent company during 2001 to set up its subsidiaries and on improvements to the transmission grid, increased consolidated net financial debt by 76,301 thousand euros compared to the end of the previous year. This increase was reflected in financial expenses although the cost of debt did not vary significantly. The year 2001 witnessed a change in the downward trend of financial debt in recent years.

The high level of available funds meant that the greatest requirements could be easily financed while maintaining the basic principles of the GROUP's financial strategy. These are flexibility, a sound balance sheet and cost efficiency. Attention is also drawn to the negotiations with financial entities to provide RED ELÉCTRICA TELECOMUNICACIONES with a stable source of finance and these are expected to materialise at the beginning of 2002.

At the end of 2001, preparations were made to renew the company's credit rating. This work made possible to maintain the credit ratings for the parent company in 2000. Standard & Poor's rated the

EXTERNAL FUNDS

Thousands of Euros	1997	1998	1999	2000*	2001*	% 01/00
TOTAL NET FINANCIAL DEBT	586,993	474,693	377,168	314,374	390,675	24.3
SHORT-TERM INVESTMENTS	-4,426	-9,661	-17,940	-24,664	-22,683	-8.0
CASH AND BANKS	-241	-217	-523	-15,166	-542	-96.4
SHORT-TERM FINANCE	259,000	80,120	49,241	78,585	162,661	107.0
LONG-TERM FINANCE	332,660	404,451	346,390	275,619	251,239	-8.8
Debt on acquisition of fixed assets	53,935	-	-	-	-	-
Credit facilities and loans	167,436	248,080	220,072	149,301	124,921	-16.3
Bonds issued	111,289	156,371	126,318	126,318	126,318	-
OTHER SHORT-TERM CREDITORS	176,427	153,053	138,269	181,341	245,052	35.1
OTHER LONG-TERM CREDITORS	41,536	44,006	45,821	46,733	45,358	-2.9
TOTAL	804,956	671,752	561,258	542,448	681,085	25.6

(*) Consolidated figures.

SHAREHOLDERS' EQUITY

Thousands of Euros	1997	1998	1999	2000**	2001**	% 01/00
SHARE CAPITAL (*)	270,996	270,996	270,540	270,540	270,540	-
REVALUATION RESERVE	247,022	247,022	247,022	247,022	247,022	-
OTHER RESERVES	85,776	110,220	137,506	162,626	189,956	16.8
CONSOLIDATED RESERVES	-	-	-	-246	404	264.2
EXCHANGE GAINS OR LOSSES	-	-	-	962	1,393	44.8
NET PROFIT FOR THE YEAR	57,337	69,333	75,136	83,140	91,071	9.5
INTERIM DIVIDEND	-18,030	-	-20,290	-22,877	-24,299	6.2
TOTAL	643,101	697,571	709,914	741,167	776,087	4.7

(*) Restated in euros in 1999. (**) Consolidated figures.

company A-I in the short term and AA in the long term while Moody's rated it Aa3 for the long term. These ratings are among the best obtained in Spain by a non-financial private company and they provide the GROUP with the ability to raise considerable funds at highly competitive costs.

INVESTMENT

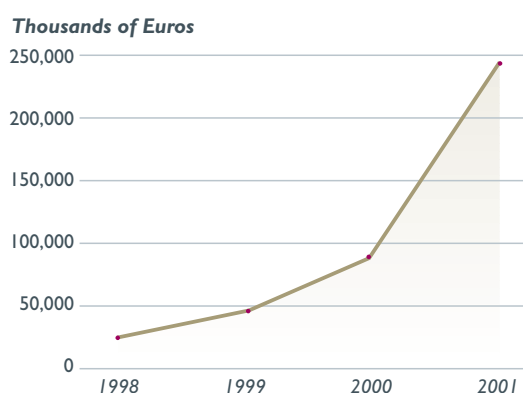
During 2001 the RED ELÉCTRICA GROUP invested 244,833 thousand euros. This was an increase of 172.6% over the previous year.

These investments included:

- Investment by the parent company on improvements and extensions of the transmission grid, which came to 129,885 thousand euros.
- Investments in other infrastructure, equipment and R+D+I projects for an amount of 9,784 thousand euros.
- Investment in setting up the telecommunications network which came to 105,164 thousand euros.



INVESTMENT



INVESTMENT

Thousands of Euros	1998	1999	2000*	2001*	% 01/00
INVESTMENT IN THE TRANSMISSION GRID	18,048	34,480	78,300	129,885	65.9
POWER LINES	10,367	14,647	47,600	70,971	49.1
SUBSTATIONS	7,681	19,833	30,700	58,914	91.9
INVESTMENT IN THE TELECOMMUNICATIONS NETWORK	-	-	5,621	105,164	1,770.9
OTHER INVESTMENT	5,289	10,349	5,884	9,784	66.3
TOTAL	23,337	44,829	89,805	244,833	172.6

(*) Consolidated figures.

MEMBERSHIP OF **INTERNATIONAL ORGANISATIONS**



The process of creating an internal energy market has already had very significant consequences. It has especially highlighted the importance of the transmission networks and their management in this process and in regard to the security of supply.

At the same time, recent initiatives by the European Commission have also underlined this importance and made it necessary for the companies responsible for transmission networks to participate actively in the main international organisations. RED ELÉCTRICA is conscious of the strategic importance of this participation and is actively present in the following organisations.

EURELECTRIC · COMMITTEE OF THE EUROPEAN ELECTRICITY COMPANIES

RED ELÉCTRICA is a founder member and chairs the group of transmission companies. This organisation has developed various initiatives to facilitate the creation of a European electricity market.

UCTE · UNION FOR THE CO-ORDINATION OF THE TRANSMISSION OF ELECTRICITY

This organisation consists of 18 countries in continental Europe which are linked electronically. RED ELÉCTRICA participates actively in all the working groups.

OME · MEDITERRANEAN ENERGY OBSERVATORY

This organisation comprises utility companies and gas and oil companies from the Mediterranean rim. It sponsors and promotes co-operation by its members in energy matters.

CIGRE · INTERNATIONAL CONFERENCE ON LARGE POWER NETWORKS

This organisation consists of utility companies and manufacturers of electrical capital goods world-wide. RED ELÉCTRICA chairs the Spanish

Committee and is the permanent Secretary of this committee.

IESOE · SOUTHWEST EUROPEAN ELECTRICAL INTERCONNECTION

This organisation consists of RTE (France), REN (Portugal) and a delegation of Spanish electrical companies led by RED ELÉCTRICA. Its purpose is to examine the operation of the interconnected networks of the member countries and to prepare recommendations for improvements.

ETSO · EUROPEAN ELECTRICITY OPERATORS' ASSOCIATION

All the operators in the European Union member states participate in this association. RED ELÉCTRICA is a founder member and participates actively in the association where it sits on the Management Committee.

INTERNATIONAL LIVE OPERATIONS ASSOCIATION

This association consists of companies from Hungary, France, Italy, Portugal, Germany, Bulgaria, Poland and Spain. Its purpose is to achieve uniform criteria for live-line working and issue recommendations in the form of codes.

OSTE · LARGE NETWORK ELECTRICITY TRANSIT TRACKING ORGANISATION

This organisation was set up under the European Commission to study the consequences of Directive 90/547/EEC on the transit of electricity through the large networks in the European Union. RED ELÉCTRICA is the only Spanish company mentioned in the appendix to the Directive.

EEI · EDISON ELECTRIC INSTITUTE

An association of U.S. electricity companies and international affiliates. RED ELÉCTRICA participates in the financial meetings with analysts and investors from the electricity sector.

CO-OPERATION AND **SPONSORSHIP**



RED ELÉCTRICA's activities are increasingly relevant to society due to the social impact of its electricity operations. It supplements this with its participation in projects and other activities of general interest so that its contribution can be as fruitful as possible.

The company's co-operation and sponsorship activities come under the following general lines of action:

- Co-operating with educational centres -mainly at university level- with special reference to engineering and the electrical sector; including the following:
 - Supporting the chair of industrial economics at the Carlos III University in order to help training experts in the field of applied economics for industrial sectors.
 - Sponsoring a summer course on electromagnetic fields and their effect on public health at the Campus of Cantabria University.
- Scientific and cultural activities via the publication or distribution of work or studies related to electrical and environmental matters. RED ELÉCTRICA provides co-operation, sponsorship or finance for research and development activities:
 - Publication of the book with the results of "Five years of research on the biological effects of industrial frequency electromagnetic fields on living beings". This is the result of scientific co-operation between Valladolid University, the Scientific Research Council, UNESA and RED ELÉCTRICA from 1995 to 2000.
 - Sponsorship of the book "The tawny vulture (great bustard) on the Iberian Peninsula". This project was supported by the Spanish Ornithological Society / Birdlife which published the book. The book contains the results of the third national census and the first co-ordinated Iberian census on this bird.
- Co-operation with municipalities and institutions on cultural, educational and sporting activities.



RESEARCH, DEVELOPEMENT **AND INNOVATION**



In 2001 further action was taken to restate the goals of research, development and innovation and the related organisational structure and standards. This work started in 2000.

In a changing technical environment, technology monitoring and distribution of the information obtained are basic factors which help to keep the R+D+I on the correct path. Therefore, studies have been made and a pilot scheme prepared to set up a Technology Monitoring System and the associated distribution of information.

Technical research, development and innovation projects carried out by RED ELÉCTRICA in 2001, included those listed below. In the case of completed projects, a brief summary of the results is given.

COMPLETED PROJECTS

MINIMISATION OF TRANSMISSION LOSSES

IN REGIONAL POWER SYSTEMS

This entails an industrial viability study on an automatic and distributed system for voltage control and reactive power management. It would signifi-

cantly reduce the energy losses in the transmission network and improve system stability and reliability.

In the field trials, the system demonstrated its ability to maintain a suitable voltage profile over the area in question, minimising energy losses even in the event of disturbances or changes in topology.

FOTORED

Studies on the limitations and competitiveness of incorporating photovoltaic solar energy in the network. It evaluates the advantages and disadvantages and proposes methods for handling large scale power generation of photovoltaic origin.

LONG-TERM ELECTRICITY

DEMAND RESEARCH (INDEL)

The goal of this project is to analyse the behaviour of mainland power demand. Studies have been carried out for nearly a decade and have established the pattern of consumption behaviour in different economic segments: residential, commercial, services and industrial. This work was based on surveys of consumer habits and in situ moni-



toring of consumers through the installation of recording equipment.

The results of this evaluation were made public in the "Spanish Electricity Demand Atlas" published by RED ELÉCTRICA in 1999. The second part of the project which was carried out over the last three years entailed the development and implementation of a Forecasting System for electricity demand in the medium and long terms.

SIMULATION OF THE MAINLAND

SHARED CONTROL (RCP)

Development of a frequency / power control simulation tool for the Spanish mainland system taking into account the current operating tools for the Mainland Shared Control.

This tool helped to analyse various problems associated with the current design of the Mainland Shared Control and the economic and technical implications in an accurate manner. It is also able to evaluate new designs which might be capable of resolving these problems.



PROJECTS IN PROGRESS

SIPREOLICO

Development of an hourly prediction system for wind generation.

WIND POWER

An evaluation of the impact of wind energy on the mainland electricity system taking into account those aspects which affect system operation.

COMMON INFORMATION MODEL (CIM)

Development of a database management prototype for energy control systems based on the model defined by the International Electro-technical Commission (the IEC 61970 301 CIM standard).

EXAMINE

A supervision and control system for managing weaknesses in European electricity infrastructure. The project is developing a novel monitoring system for the European electricity system. It will be controlled by different system operators. The project also includes a study of a system which would act automatically in the event of incidents which affect stability.

ANALYSIS OF OPERATING RESTRICTIONS IN THE ELECTRICITY SYSTEM (ARO)

The configuration of the electricity system and its expected development creates certain restrictions for the implementation of the energy production and consumption offers that have been accepted in the electricity market. This project is developing a software programme to quantify these restrictions.

PILOTLESS HELICOPTER

Creation of a prototype of a crewless helicopter able to take images of power lines for later viewing. This project will include novel devices to cap-

ture images and to ensure the flight stability and safety which will allow the aircraft to operate close to high voltage installations.

MEASUREMENT OF CURRENT LEAKAGE

Development of equipment to measure current leakage at insulator strings (glass or composite) on power lines while they are in service. The goal is to reduce or eliminate -as far as possible- outages due to contamination.

A STUDY OF THE CORONA EFFECT

Development of measurement equipment which can identify defects on power lines using a prior determination of their characteristics and the radio frequency signals of the corona effect associated with certain installation problems.

NEW PROJECTS

FASORNET

This project includes the development of phasor measurement devices (module and angle for voltage and current) using GPS technology. It also includes the design of a new algorithm for status estimation based on phasors.

IELAS

Development of a current measurement transformer based on magnetic striction and piezoelectric materials.

TREE GROWTH CONTROL SYSTEM

Development of a system which, using artificial vision techniques, will identify tree growth conditions close to power lines, which might affect the transmission network.



MECHANISMS ASSOCIATED WITH ELECTROMAGNETIC FIELDS

A study of the mechanisms by which industrial frequency electromagnetic fields might interact with human beings and cause some type of biological effect. The project draws on scientific advice from UNESA and co-operation from CIEMAT (Energy, Environment and Technology Research Centre) and from Valladolid University.

TREATMENT OF STUMPS USING FUNGI AND HERBICIDES

An evaluation of different fungi and existing herbicides for treating tree stumps after power line right-of-ways have been cleared, in order to prevent renewed growth.

QUALITY



During 2001 important steps were taken to deploy and develop the quality of the company's internal management procedures and systems. The most significant activities, projects and milestones in this area were as follows:

PROCESS MANAGEMENT

RED ELÉCTRICA has an integrated process management system. For each process it defines the persons responsible and their main activities, the associated indicators and their measurement, a schedule (which is reflected in improvement projects) and the target values. The system contains 49 processes and 80 sub-processes and it covers all the company's activities.

The arrangement and catalogue of these processes have been an important step towards a more efficient management of the company's business activities and a greater integration with the defined strategy and the senior staff at RED ELÉCTRICA.

During the year, work continued on the process improvement programme. Among others, processes associated with payments, purchasing and supply, classified information, line maintenance, investment management and project management, have been evaluated and revised.

QUALITY CERTIFICATES

During 2001 RED ELÉCTRICA brought its quality system certificate into line with the requirements of the ISO 9001: 2000 standard.

In addition, the function and scope of the certificate has been extended to other technical fields which were not fully defined in the past. This refers to:

- Consulting work and professional services.
- Design, construction and maintenance of telecommunication systems.
- Physical and installation security.

After widening the scope of the certificate the company has achieved its goals and it now has a certificate which applies to all its business activities.

In the area of prevention and occupational safety, a management system based on the international OHSAS 18001 standard (Occupational Health and Safety Assessment Series) has been designed and implemented. The corresponding audit was carried out in December and it identified areas for improvement. Steps have been taken to achieve certification of this management system in the medium term.

The internal standards system which is used to define goals, assign responsibility and ensure that action is coherent and integrated with the organisation's strategy, policies and plans, is acquiring particular relevance as a support for the certified quality systems. During the year, work continued on completing and adapting the standards system to match the new company objectives and the environment in which it operates.



RELATIONSHIP WITH CUSTOMERS AND BUSINESS PARTNERS

Following the customer satisfaction survey conducted in 2000 and the identification of production requirements and expectations for the services which the company provides, 24 improvement projects were set up of which 19 were completed in 2001. Information on the status of the project and the action taken was sent to the companies and other parties in the survey.

EUROPEAN SEAL OF EXCELLENCE

In 2001 RED ELÉCTRICA was awarded the European Seal of Excellence, confirmation level, with points in the 410-425 range. This award is decided jointly by the Quality Management Club and Bureau Veritas Quality International. It evaluates the degree of adaptation of the organisation and of company management to the various criteria and requirements defined in the EFQM (European Foundation for Quality Management) model of excellence.

EXTERNAL CO-OPERATION

RED ELÉCTRICA actively co-operates in the development of corporate efficiency in the energy sector through its participation in the energy industry section of the Spanish Quality Association. Apart from participating in all the working groups in this section, it chairs two of these groups - specifically, "*Experience exchange*" and "*Management Systems Integration*".

RED ELÉCTRICA has also supported the quality development in the autonomous community of Andalucía. It takes part in the evaluation team for companies that applied for the second Corporate Excellence Prize in that community.



ENVIRONNEMENT



Out of a total of 61 organisations, RED ELÉCTRICA was one of the three companies which were awarded a prize in the fourth edition of the ENVIRONMENT PRIZES in October 2001. The company received one for its excellent overall environmental management which is reflected and integrated in the company's strategy in the form of its Environmental Policy, and confirmed by the results obtained during a long period of responsible work.

This is one of the most important prizes awarded in Spain in this area. Its purpose is to reward the Spanish companies and administrations for developing the best initiatives and for making exceptional efforts on behalf of the environment.

ENVIRONMENTAL ACTIVITIES ASSOCIATED WITH THE DESIGN AND CONSTRUCTION OF INSTALLATIONS

During 2001 positive environment impact evaluations were obtained for four power lines (Trillo-Calatayud Este, Calatayud Este-Magallón, La Serna-Castejón and Santurce-Zierbena) together with an estimate of the environmental impact of the Penagos substation.

Environmental impact surveys have been completed for nine power lines and three substations

and studies have been started for a similar number of installations. Seven of these must be submitted to environmental impact evaluation.

Environmental supervision has been conducted on construction works for various power lines and substations with the corresponding application of preventive and corrective measures defined in the environmental tracking programmes for these installations.

In the international arena, environmental handling programmes have been developed for three power lines and four substations in Peru and an environmental impact survey has been commenced for the interconnection with Portugal and this is currently undergoing environmental impact evaluation.

RESEARCH PROJECTS AND ENVIRONMENTAL STUDIES

In this area, a project was carried out on "*Tracking of stork nesting and devices to discourage this on towers of power lines*". This was used to verify the efficiency of devices installed during 2000.

The device for discouraging nesting on power line towers has been presented to the different companies in the electricity sector and entered by the Patent Office as a registered design.



Lastly, attention is drawn to the presentation of a book called "Five years of research on the biological effect of industrial frequency electromagnetic fields on living beings" at the Spanish Medical General Council. The publication contains a summary of the results obtained from five years (1995-2000) of scientific co-operation between Valladolid University, the Scientific Research Council, UNESA and RED ELÉCTRICA in the most advanced area of biological research.

PREVENTION AND REDUCTION OF ENVIRONMENTAL EFFECTS

With regard to activities associated with the protection of birdlife, work continued on a study known as "Beacons on the 400 kV Guadame-Tajo power line" which was started last year. The main goal is to study the level of bird collisions with the earth wires on the stretch where it passes through the Laguna de los Jarales natural park to south of Córdoba. The object is to determine the level of accidents and to check the effectiveness of the anti-collision measures.

In addition, the installation of bird-saver spirals (to prevent collision by birds) has continued on the potentially dangerous spans on the power lines in Castile and León, La Rioja, Extremadura, Castile-La Mancha and Andalusia.

With regard to contamination prevention activities at substations, the oil collection pits of all power machines have been inspected and the generator sets and their fuel tanks have been analysed at 48 substations. As a result of this, the corresponding action plans have been drawn up.

With regard to waste management, plans were presented to minimize waste in those autonomous communities where the company carries out activities which might generate some type of waste.



ENVIRONMENTAL MANAGEMENT SYSTEM

In October 2001, RED ELÉCTRICA was officially admitted as a member of the European Eco-Management and Eco-Audit System (EMAS). It thus became the first Spanish company to achieve this.

Among other things, this will allow us to use a common management tool in conjunction with the other member states. This tool has been accorded a special value under the fourth edition of the European Union programme on environment matters.

Membership of EMAS is another step on the way to continuous improvement. The object is to evaluate and improve the environmental behaviour of the company and to distribute the relevant information to the interested parties and to society in general through periodic environmental declarations (which RED ELÉCTRICA issues each year in the form of Environmental Minutes). These declarations can be audited and are public in nature.

With regard to verification of the operation of the Environmental Management System, internal and external audits were conducted, an exhaustive analysis was carried out on the internal standards including environmental criteria and legislation issued during the year and we have continued to respond to environmental enquiries and claims.

In addition, the identification of environmental costs was studied in greater depth together with a search for indicators and an analysis of social concerns and demands with the goal of reaching a balance between business efficiency and sustainability.

CO-OPERATION WITH OTHER ORGANISATIONS AND COMMUNICATIONS

RED ELÉCTRICA, together with representatives of other organizations and companies, commenced preparation of an Electrical Infrastructure Plan at the request of the Madrid Autonomous Community. The main goal is to plan the alignment of future high voltage lines which will ensure power supply to the Madrid region in the future and which can also be used as corridors for local infrastructure.



Co-operation agreements have been signed with various scientific organisations and the company has participated in various national and international working groups involving technicians and experts. These include AENOR's working groups on the Environmental Management System and Environmental Cost Evaluation. The company has also taken part in working groups on liaison between the company and the public to prepare governance guidelines for a model sustainable company. This activity is promoted by the Entorno Foundation, IESE and Price Waterhouse Coopers.

Furthermore, we have participated actively in numerous national and international seminars and meetings have been held to exchange experiences with representatives of other electricity companies interested in the implementation and operation of RED ELÉCTRICA's Environmental Management System.

As in previous years, extensive efforts were made to communicate through publications, books and manuals. These included the publication and external distribution of "*Environmental Minutes 2000*", the book, "*Five years of research on the biological effect of industrial frequency electromagnetic fields on living beings*" and the publication, "*Electrical and magnetic 50 Hz fields - the state of current knowledge*".

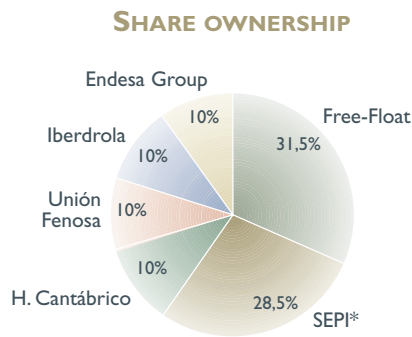
SHAREHOLDERS AND STOCK EXCHANGE INFORMATION



SHARE CAPITAL

In December 31st 2001, the share capital of RED ELÉCTRICA, totally subscribed and fully paid, came to 270,540,000 euros in the form of 135,270,000 shares with a face value of 2 euros. During 2001, there was no change in the number of shares in circulation or their nominal value.

The structure of share ownership -in line with the recent notifications on significant shareholders sent to the Stock Exchange Commission- is as follows:

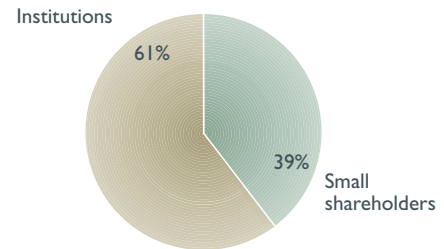


*The Spanish State Holding Company

RED ELÉCTRICA's shares have been traded on the Continuous Market of the Madrid Stock Exchange since July 7th 1999. The actively-traded capital consists of 42,610,050 shares and at the end of 2001 it was estimated that institutions held 61% of these. These institutions are mainly located in Spain, the United States, the United Kingdom and Luxembourg.

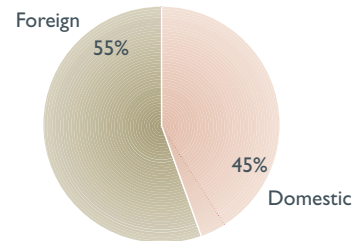
DETAILS OF FREE-FLOAT

DECEMBER 31ST 2001



DETAILS OF INSTITUTIONAL HOLDERS

DECEMBER 31ST 2001



DISTRIBUTION OF SHARE CAPITAL BY SIZE OF HOLDING

DECEMBER 31ST 2001

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	%	TOTAL NUMBER OF SHARES	%
FROM 1 TO 1,000	59,984	96.18	12,001,491	8.87
FROM 1,001 TO 5,000	1,877	3.01	4,456,483	3.29
FROM 5,001 TO 25,000	341	0.55	3,386,028	2.50
FROM 25,001 TO 80,000	86	0.14	4,055,135	3.00
MORE THAN 80,001	67	0.11	18,710,913	13.84
ACCIONISTAS DE REFERENCIA	5	0.01	92,659,950	68.50
TOTAL	62,360	100	135,270,000	100

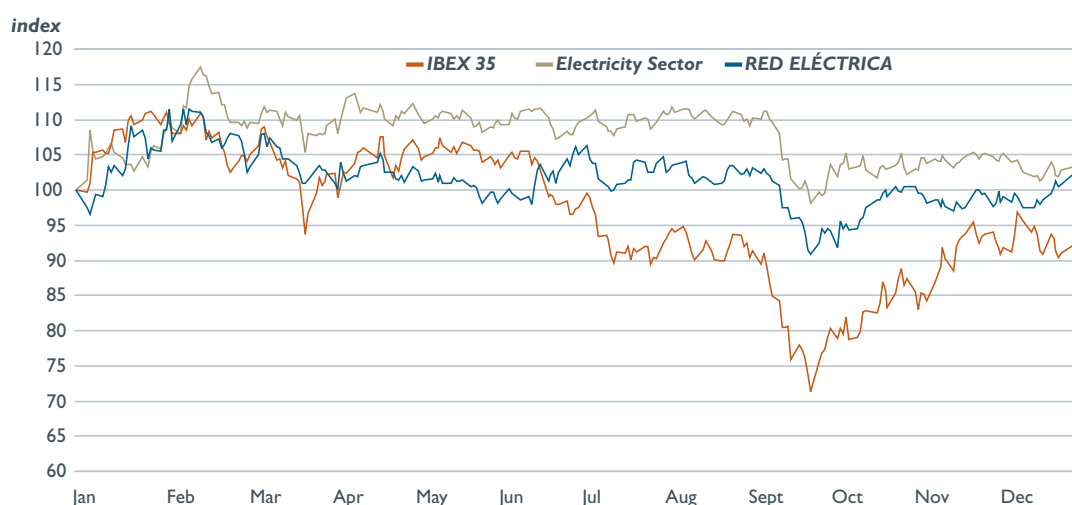


SHARE PRICE

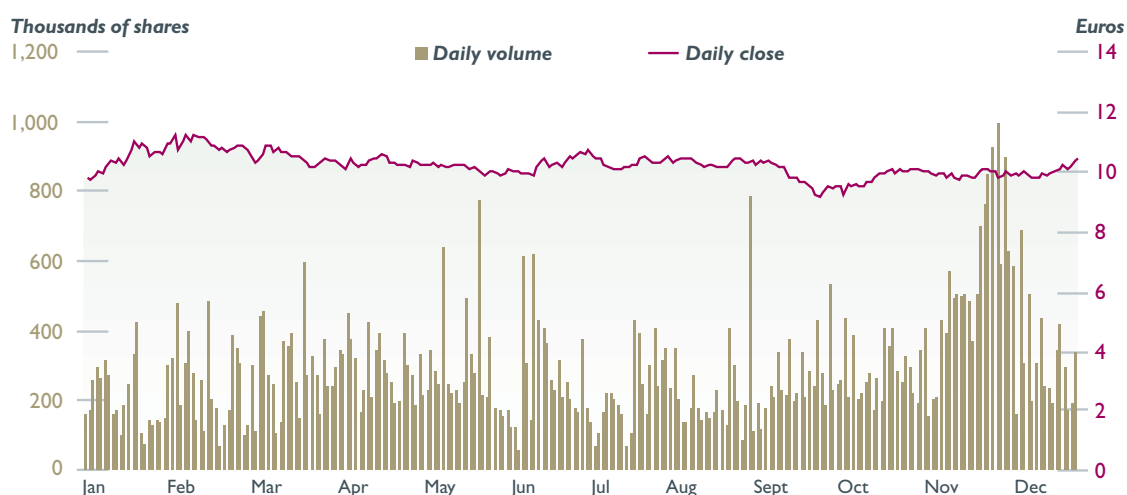
During 2001, the world's stock exchanges fell sharply due mainly to the impact of the global economic crisis and the events on September 11th. However, in the last quarter of 2001, expectations of economic recovery contributed to a partial improvement in the share markets. In Europe, as in the United States, the main stock markets recorded losses (Dow Jones -6.03%, London -15.75%, Frankfurt -19.80% and Paris -21.97%). Despite this, the Ibx 35 performed better than other European markets and fell only by 7.82%.

The performance of RED ELÉCTRICA's shares was noteworthy in the unfavourable environment. They closed the year at 10.45 euros per share which was an increase of 3.98% compared to 12 months earlier. This gain was in line with the electricity sector index for the Madrid Stock Exchange. The total return to investors, including the gross interim dividend against 2001 profits, was 8.1%.

SHARE PRICE OF RED ELÉCTRICA, THE IBEX 35 AND THE ELECTRICITY SECTOR



RED ELÉCTRICA'S SHARE PRICE AND DAILY VOLUME



SHARE PRICE BY MONTH

	DAYS QUOTED	SHARE PRICE (EUROS)				VARIATION % MTHLY	VOLUME	
		MAXIMUM	MINIMUM	AVERAGE	CLOSE		NUMBER OF SHARES	VALUE (EUROS)
JAN	22	11.00	9.61	10.39	10.91	8.56	4,512,666	46,886,353.35
FEB	20	11.32	10.55	10.92	10.56	-3.21	4,967,000	54,261,162.61
MAR	22	10.96	10.01	10.43	10.30	-2.46	6,334,418	66,097,838.86
APR	19	10.58	10.03	10.29	10.39	0.87	5,756,913	59,275,346.75
MAY	22	10.46	9.83	10.11	9.86	-5.10	6,928,728	70,079,731.83
JUN	21	10.67	9.80	10.21	10.55	7.00	5,668,356	57,916,254.72
JUL	22	10.70	10.01	10.30	10.31	-2.27	5,137,193	52,962,874.67
AUG	22	10.48	10.10	10.29	10.37	0.58	4,838,271	49,832,046.62
SEPT	20	10.39	9.00	9.65	9.47	-8.68	5,278,445	50,975,951.47
OCT	22	10.18	9.20	9.80	10.00	5.60	6,421,294	62,985,157.82
NOV	22	10.09	9.70	9.91	9.95	-0.50	12,370,002	122,672,371.14
DEC	16	10.45	9.76	10.00	10.45	5.03	5,335,399	53,409,741.64
TOTAL FOR YEAR	250	11.32	9.00	10.16	10.45	3.98	73,548,685	747,354,831.48



In 2001, 73.5 million shares were traded. This was 1.7 times the number of freely-traded shares. The volume of these trades was 747.4 million euros.

DIVIDENDS

During 2001, RED ELÉCTRICA focused on maximising shareholder value. As part of this strategy, the direct shareholder remuneration in the form of dividends grew by 9.6% compared to 2000 and represented a pay-out of 67.8%.

The gross dividend per share proposed by the Annual General Meeting on account of 2001 profits is 0.455 euros. At January 3rd 2002, a gross interim dividend of 0.180 euros per share was paid on shares with a right to dividend. Therefore 0.275 euros per share are pending payment as the supplementary part of the gross dividend for 2001.

DIVIDEND PER SHARE

	1997	1998	1999	2000	2001
DIVIDEND PER SHARE (IN EUROS)	0.238 *	0.308	0.365	0.415	0.455
INTERIM DIVIDEND	0.133	0.308	0.150	0.170	0.180
SUPPLEMENTARY DIVIDEND	0.105	-	0.215	0.245	0.275
DIVIDEND AS A PERCENTAGE OF NET PROFIT (PAY-OUT) (%)	56.2	60.0	65.7	67.4	67.8

Figures adjusted for the 3:1 share split. (*) Excludes the extraordinary dividend of 0.977 euros per share.

SHARE INFORMATION

	2000	2001
TOTAL NUMBER OF SHARES	135,270,000	135,270,000
NUMBER OF SHARES ACTIVELY TRADED	42,610,050	42,610,050
FACE VALUE (EUROS)	2	2
DAILY TRADING (IN NO. OF SHARES)		
MAXIMUM	10,635,905	1,075,878
MINIMUM	38,052	53,511
SHARE PRICE (IN EUROS)		
MAXIMUM	13.90	11.32
MINIMUM	5.37	9.00
AVERAGE	10.44	10.16
CLOSE	10.05	10.45
MARKET CAPITALISATION AT YEAR END (IN EUROS)	1,359,463,500	1,413,571,500
EARNINGS PER SHARE (EPS) (IN EUROS)	0.61	0.67
CASH FLOW PER SHARE (CFPS) (IN EUROS)	1.36	1.44
SHARE PRICE / EPS (PER)	16.35	15.52
SHARE PRICE / CFPS (PCF)	7.40	7.25
SHARE PRICE / BOOK VALUE PER SHARE (PBVR)	1.83	1.82

SHAREHOLDERS AND INVESTORS

Throughout 2001, RED ELÉCTRICA maintained direct contact and constant open dialogue with its shareholders and with institutional investors, analysts and financial entities in order to keep them aware of the results and other relevant events at the company and to inform them regarding its strategy and future projects.

In 2001 the company's management team participated in meetings and presentations in the

main Spanish financial centres as well as those in Europe and the United States.

The Shareholder Relations Office and the web site (www.ree.es) have channelled and responded to shareholders' queries and requests for information. In addition a series of activities was organized -including visits to facilities- to provide shareholders with a better knowledge of the company's activities and enhance mutual understanding.





RED ELÉCTRICA GROUP

CONSOLIDATED BALANCE SHEET

31 december 2001 · Expressed in thousands of Euros · (Translation from the original in Spanish)

ASSETS	2001	2000
ESTABLISHMENT COSTS (note 5-a)	1,299	1,108
INTANGIBLE ASSETS (note 6)	4,976	7,198
Research and development expenses	18,582	18,330
Softwares	6,996	6,464
Amortisation	(20,602)	(17,596)
TANGIBLE ASSETS (note 7)	1,431,250	1,313,797
Land and buildings	38,149	35,314
Plant and machinery	2,227,990	2,150,597
Other installations, equipment and furniture	121,491	63,458
Plant and machinery under construction	169,651	118,920
Advances and other assets under construction	38,413	9,235
Provisions	(22,134)	(21,648)
Depreciation of plant and machinery	(1,078,675)	(985,967)
Other depreciation	(63,635)	(56,112)
INVESTMENTS (note 8)	26,239	33,168
Investments in equity accounted companies	8,382	6,233
Other investments	-	9,000
Other loans	4,912	5,857
Long-term guarantee deposits	495	223
Long-term balances recoverable from public entities (note 22)	12,450	11,855
PARENT COMPANY SHARES (note 11-i)	2,764	6,057
LONG-TERM TRADE DEBTORS (note 9)	17,524	5,815
TOTAL FIXED ASSETS	1,484,052	1,367,143
DEFERRED EXPENSES (note 10)	31,741	11,162
STOCKS	4,903	2,480
Raw materials and other supplies	8,903	5,809
Provisions	(4,000)	(3,329)
DEBTORS (note 9)	136,516	106,696
Trade debtors	23,434	14,546
Associated companies	1,967	524
Sundry debtors	97,101	85,973
Personnel	1,261	1,890
Public entities (note 22)	13,132	3,779
Provisions	(379)	(16)
SHORT-TERM INVESTMENTS (note 8)	22,683	24,664
Short-term investment portfolio	20,440	9,019
Other loans	2,243	15,645
CASH AND BANKS	542	15,166
PREPAID EXPENSES (note 21)	11,420	1,873
TOTAL CURRENT ASSETS	176,064	150,879
TOTAL ASSETS	1,691,857	1,529,184

NOTE: Figures for 2000 are shown for comparative purposes (see note 2-c to the consolidated annual accounts)

SHAREHOLDERS' EQUITY AND LIABILITIES	2001	2000
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
OTHER PARENT COMPANY RESERVES	189,956	162,626
Legal reserves	54,199	54,199
Reserve for own shares	2,764	6,057
Other reserves	132,993	102,370
RESERVES IN FULLY CONSOLIDATED COMPANIES	(813)	-
RESERVES IN EQUITY ACCOUNTED COMPANIES	1,031	(246)
DIFFERENCE ON CONVERSION OF EQUITY ACCOUNTED COMPANIES	1,579	962
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	91,071	83,140
INTERIM DIVIDEND (note 4-b)	(24,299)	(22,877)
TOTAL SHAREHOLDERS' EQUITY (note 11)	776,087	741,167
Capital grants	61,534	61,885
Exchange gains	87	88
Other deferred income	130,141	121,948
DEFERRED INCOME (note 12)	191,762	183,921
Provisions for pensions and other liabilities	9,117	15,784
Provision for taxes	234	234
Other provisions	10,347	5,800
PROVISION FOR LIABILITIES AND CHARGES (note 13)	19,698	21,818
BOND ISSUES (note 14)	126,318	126,318
LOANS (note 15)	124,921	149,301
OTHER CREDITORS (note 16)	45,358	46,733
LONG-TERM CREDITORS	296,597	322,352
BONDS AND OTHER MARKETABLE SECURITIES ISSUED (note 17)	2,846	3,024
Interest payable	2,846	3,024
LOANS (note 18)	168,266	85,068
Loans and other debt	162,661	78,585
Interest payable	5,605	6,483
SHORT-TERM DEBTS WITH ASSOCIATED COMPANIES	241	-
Debts with associated companies	241	-
TRADE CREDITORS (note 19)	104,263	58,397
For purchases and services received	104,263	58,397
OTHER CREDITORS (note 20)	101,204	75,164
Public entities	23,838	22,447
Other debts	74,295	51,362
Salaries payable	511	45
Short-term guarantee deposits	2,560	1,310
ACCRUALS (note 21)	30,893	38,273
TOTAL CURRENT LIABILITIES	407,713	259,926
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,691,857	1,529,184

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2001

Expressed in thousands of Euros · (Translation from the original in Spanish)

EXPENSES	2001	2000
EXPENSES		
MATERIALS CONSUMED	222,303	220,525
Purchases of energy and power	210,480	208,895
Maintenance and repair materials	11,823	11,630
PERSONNEL EXPENSES (note 23-b)	57,172	54,396
Wages and salaries	42,069	40,399
Social security	9,568	9,399
Pensions and similar obligations	845	839
Other social charges	4,690	3,759
AMORTISATION AND DEPRECIATION (notes 6 and 7)	105,817	101,582
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	1,033	104
Change in provisions for stocks	671	339
Change in provision for bad debts	362	(235)
OTHER OPERATING EXPENSES	64,740	46,645
External services	56,323	41,578
Local taxes	1,930	1,959
Other administrative expenses	958	764
Provision for liabilities and charges	5,529	2,344
TOTAL OPERATING EXPENSES	451,065	423,252
OPERATING PROFIT	151,728	150,383
FINANCIAL AND SIMILAR EXPENSES	20,827	18,966
On debt with third parties	20,827	18,966
EXCHANGE LOSSES	321	1,154
TOTAL FINANCIAL EXPENSES	21,148	20,120
PROFIT ON ORDINARY ACTIVITIES	133,131	131,393
CHANGE IN PROVISION FOR TANGIBLE AND INTANGIBLE ASSETS	263	1,570
LOSSES ON TANGIBLE ASSETS	499	129
LOSSES ON TREASURY STOCK OPERATIONS (note 11-i)	186	8
EXTRAORDINARY EXPENSES	825	11,429
PRIOR YEARS' ITEMS	231	176
TOTAL EXTRAORDINARY EXPENSES (note 23-c)	2,004	13,312
EXTRAORDINARY PROFIT	6,005	-
PROFIT BEFORE INCOME TAX	139,136	126,045
INCOME TAX (note 22)	48,065	42,905
PROFIT FOR THE YEAR	91,071	83,140

NOTE: Figures for 2000 are shown for comparative purposes (see note 2-c to the consolidated annual accounts).

INCOME	2001	2000
INCOME		
NET SALES (note 23-a)	591,467	562,036
Services rendered (Transmission and system operation)	355,770	333,369
Other service income	17,027	12,829
Sales of energy and power	218,579	215,697
Sales of by-products	91	141
SELF-CONSTRUCTED ASSETS (notes 5-b and 5-c)	9,463	8,219
OTHER OPERATING INCOME	1,863	3,380
Other income	1,754	2,613
Grants	89	175
Surplus provision for liabilities and charges	20	592
TOTAL OPERATING INCOME	602,793	573,635
INVESTMENT INCOME	38	68
OTHER INTEREST AND SIMILAR INCOME	1,719	898
EXCHANGE GAINS	147	61
TOTAL FINANCIAL INCOME	1,904	1,027
NET FINANCIAL EXPENSE	19,244	19,093
PROFITS IN EQUITY ACCOUNTED COMPANIES	647	103
PROFIT ON SALE OF TANGIBLE ASSETS	14	4
PROFIT ON TREASURY STOCK OPERATIONS (note 11-i)	248	19
CAPITAL GRANTS TAKEN TO INCOME	5,504	5,275
EXTRAORDINARY INCOME	2,003	1,974
PRIOR YEARS' ITEMS	240	692
TOTAL EXTRAORDINARY INCOME (note 23-c)	8,009	7,964
NET EXTRAORDINARY LOSS	-	5,348

CONSOLIDATED **ANNUAL ACCOUNTS**



NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS • 2001

(1) CONSOLIDATED COMPANIES

RED ELÉCTRICA DE ESPAÑA, S.A. (hereinafter the Parent company) was incorporated on 29 January 1985, basically as a result of the contribution of a part of the assets forming the high voltage grid in service at 15 February 1984.

The principal activities carried out by the Parent company are the transmission of electrical energy, operation of the system and management of the transmission grid, co-ordination of international exchanges of electrical power and administration of international energy agreements.

The Parent company's strategy to expand business activities and build on opportunities for growth, which is based on the process of diversification and internationalisation undertaken in 1999, clearly required a different legal, corporate and organisational structure.

In accordance with Law 54 of 27 November 1997 (the Electricity Act) and Royal Decree 277 of 25 February 2000, establishing procedures for the legal segregation of activities related to the supply of electrical energy, the unbundling of regulated activities and those related to other businesses is mandatory.

Accordingly and as approved by the National Energy Commission, the Company has legally segregated its telecommunications and international activities through the incorporation of the solely-owned subsidiaries, RED ELÉCTRICA TELECOMUNICACIONES, S.A. and RED ELÉCTRICA INTERNACIONAL, S.A., on 17 November 2000 and 23 February 2001, respectively. The RED ELÉCTRICA GROUP (hereinafter the GROUP) was formed as a consequence of the legal segregation process.

In 2001 the GROUP companies have actively diversified their electricity and non-electricity activities. Diversification has involved, inter alia, the development of telecommunications activities through the utilisation of the telecommunications equipment and surplus capacity in the fibre optic network owned by the Parent company, the configuration and preparation of this network to provide services to third parties, and the provision consulting and engineering services both in Spain and internationally.

The GROUP comprises the companies enumerated in Appendix I. The Parent company is RED ELÉCTRICA DE ESPAÑA, S.A.

(2) BASIS OF PRESENTATION

A) FAIR IMAGE

The accompanying consolidated annual accounts have been prepared by the board of directors of the Company in the format established by prevailing Spanish legislation to present fairly the shareholders' equity, financial position and consolidated results of the GROUP for the year ended 31 December 2001. The consolidated accounts have been prepared on the basis of the accounting records of the individual companies in accordance with the provisions of the amended Spanish Companies Act, Royal Decree 1643/1990 by which the Spanish General Chart of Accounts was approved, and Royal Decree 1815/1991, by which

the Standards for the Preparation of Consolidated Accounts were approved, as well as Royal Decree 437/1998, which adapts the Spanish General Chart of Accounts for use by companies operating in the electricity sector.

The accompanying consolidated annual accounts have been prepared by the directors of the Parent company based on the annual accounts prepared by the the individual companies comprising the GROUP. At the date of preparation of these consolidated annual accounts, the individual annual accounts of the GROUP companies are pending approval by the respective shareholders at their general meetings.

The directors of the Parent company consider that these consolidated annual accounts will be approved by the shareholders at their general meeting without significant changes.

B) CONSOLIDATION PRINCIPLES

The following methods have been used to consolidate the individual accounts of the GROUP companies:

- Companies in which the Parent company holds majority voting rights or has made agreements with the remaining shareholders have been fully consolidated.
- Companies in which the Parent company exercises significant influence, but does not have majority voting rights or agreements with third parties have been consolidated using the equity method.

The main consolidation principles applied are as follows:

- The accounting principles and criteria used by the GROUP companies have been harmonised with those applied by the Parent company.
- The financial statements of foreign companies have been converted by applying the closing exchange rate method, as established in the Standards for the Preparation of the Consolidated Annual Accounts approved by Royal Decree 1815 of 20 December 1991. This method consists of the conversion of the financial statements to Euros using the following criteria:
 - assets and liabilities are stated at the closing exchange rate.
 - share capital and reserves are stated at the historic exchange rate.
 - income and expenses are recognised at the average exchange rate.

Any exchange differences resulting from conversion to Euros at closing exchange rates are recorded under shareholders' equity as

conversion differences in equity accounted companies in the consolidated balance sheet at 31 December.

- All significant balances and transactions between fully consolidated companies have been eliminated in the consolidation process.
- Margins on sales of capitalised goods and services between GROUP companies are eliminated when the relevant operations are carried out.
- Under the equity method, investments in associated companies are recorded at the value of the share in equity held by the parent company rather than at their book value. After eliminating the results of intercompany transactions, retained earnings and profits are reflected under the headings "Reserves in equity accounted companies" and "Share in profits of equity accounted companies" respectively.
- Reserves of fully consolidated subsidiaries are recorded separately from those of the Parent company in accompanying consolidated balance sheets under the heading "Reserves in fully consolidated companies", as required by the Standards for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1815 of 20 December 1991.

C) COMPARISON OF INFORMATION

The GROUP has presented consolidated annual accounts for the first time in 2001, as since investments held in GROUP and associated companies in 2000 were not significant to the presentation of the true and fair image of the parent company in the 2000 accounts.

The unaudited consolidated balance sheet and statement of profit and loss from the Parent company's annual accounts for 2000, included in Appendices III and IV, have been used for comparative purposes.

(3) LEGISLATION

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

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

This Act recognises that electricity transmission is a natural monopoly due to the economies of scale provided by a single grid. The deregulation of transmission is instrumented through generalised third-party access to the grid, which is made available to the various parties to the electricity system and consumers in exchange for the payment of access tariffs. Remuneration for this activity is established by the Spanish State and is determined based on the cost of investment, operation and maintenance of installations, as well as other expenses incurred in the activity.

The Company has been assigned the functions of system operator and manager of the transmission grid through this Act, in addition to its transmission activity. Accordingly, the Parent company is required to guarantee the quality and safety of power supplies and to co-ordinate the production and transmission systems. In its capacity as manager of the transmission grid, the Parent company is in charge of the development and extension of the high voltage network and must ensure that it is maintained and improved in accordance with uniform and coherent criteria. It is also responsible for the administration of power transmissions between external systems using the Spanish grid, as well as withholding access to the grid when capacity is insufficient.

The Electricity Act deregulates intra-EU and international electrical energy exchanges, which may be carried out freely by the agents defined in this legislation. In its capacity as system operator, the Parent company is responsible for short-term exchanges to ensure the quality and safety of the electricity supply. The Parent company will

also continue to manage agreements for the long-term exchange of power with other EU and international electricity systems entered into prior to the enactment of Law 54 of 1997.

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

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

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

Royal Decree 2819 of 23 December 1998, which governs activities related to the transmission and distribution of electrical energy, regulates the financial framework for the transmission activity, establishing the formulas and values used to calculate the income generated.

Royal Decree 1955 of 1 December 2000, which regulates transmission, distribution, commercialisation, supply and the authorisation procedures for electrical energy installations, defines the transmission activity and the components of the grid. This Royal Decree establishes the functions of the Parent company, in its capacity as system operator and manager of the transmission grid, in areas relating to planning, the quality of the services, wastage, access and connection to the grid.

In accordance with article 36 of the Electricity Act, Royal Decree 1955/2000 also sets out the authorisation procedures for new transmission facilities.

In addition to the aforementioned legislation directly related to the Parent company's activities, Royal Decree-Law 6 of 23 June 2000, regarding urgent measures to promote competition in the goods and services markets, establishes further measures to deregulate the supply of power. These measures include, inter alia, the simplification of requirements for qualified consumers and the development of a structure for grid access rates, thereby permitting major

consumers access to the market as qualified consumers at competitive prices. This legislation envisages deregulation of power supplies for all consumers as of 1 January 2003, and the elimination of tariffs for the supply of electricity to consumers connected at a voltage of over 1kV as of 1 January 2007. After that date, such consumers will be supplied through commercial operators, paying access tariffs.

Royal Decree 1164 of 26 October 2001, published during the year, establishes access rates

for the transmission grid and distribution of electricity. This legislation sets out a new structure of grid access rates adapted to the previous two laws enacted to deregulate the market (which since 1 July 2000 permit all consumers with a connection of over 1 kV to choose their supplier and all consumers with a low voltage connection to do so from 1 January 2003) and is based on an objective methodology for the allocation of the costs included in the access rates to the different types of supply.

(4) DISTRIBUTION OF EARNINGS

A) PROPOSED DISTRIBUTION OF EARNINGS OF THE PARENT COMPANY OF THE GROUP

The directors will propose to the shareholders at their annual general meeting that the profit for the year ended 31 December 2001 be distributed as follows:

BASIS OF DISTRIBUTION	Thousands of Euros
Profit for the year	90,785
Total	90,785
DISTRIBUTION	
To voluntary reserves	29,287
To dividends	
Interim dividend	24,299
Supplementary dividend	37,199
TOTAL	90,785

B) INTERIM DIVIDEND

At the board meeting held on 27 November 2001 the directors agreed to distribute an interim dividend of Euros 0.18 per share (approximately Ptas. 29.9 per share) on account of 2001 profits, payable as of 3 January 2002. The total amount does not exceed the limits established by article 216 (b) of the Spanish Companies Act and the Parent company maintains the minimum

distributable reserves required by article 194 of this legislation.

On the basis of the forecast cash and bank balances for the period from 31 October 2001 to 3 January 2002, liquidity was sufficient to distribute this dividend. In accordance with the requirements of article 216 (a) of the Spanish Companies Act, the following forecast of cash and bank balances was prepared:

	Thousands of Euros
Funds available at 31.10.2001:	
Short-term loans	61,094
Long-term loans	51,086
Cash and banks	571
Forecast collections:	
Ordinary activities	99,612
Financial operations	41,939
Forecast payments:	
Ordinary activities	100,315
Financial operations	62,163

AVAILABLE FUNDS AT 3.1.2002 91,824

On the basis of the projected cash and bank balances one year from the agreement date, management did not foresee any limitations to cash flows available. As reflected in the individual annual accounts and as expected at the date of the distribution, the profit generated in 2001 has permitted payment of this interim dividend.

(5) ACCOUNTING PRINCIPLES

The most significant accounting principles applied in the preparation of the consolidated annual accounts are as follows:

A) ESTABLISHMENT COSTS

In the accompanying consolidated balances sheet, establishment costs, which comprise costs incurred in the incorporation and start-up of GROUP companies, are reflected at cost, less accumulated amortisation calculated on a straight line basis over a maximum five-year period. Establishment costs amortised in 2001 amount to Euros 371 thousand.

B) INTANGIBLE ASSETS

Intangible assets, principally comprising software and costs incurred in research and development projects which are expected to benefit the Company's operations over a number of years, are stated at cost of production or acquisition, less accumulated amortisation. Research and development costs are expensed during the year and capitalised as self-constructed assets. In 2001 the Parent company capitalised expenses of Euros 676 thousand in respect of research and development work and in-house software development.

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

C) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at the value assigned on contribution, or at the cost of acquisition or production, less accumulated depreciation. The Parent company revalued its tangible fixed assets as permitted by Royal Decree 7 of 7 June 1996 and Royal Decree 2607 of 20 December 1996.

The cost of tangible assets held by GROUP companies incorporates certain amounts incurred during the construction period as an increase in the value of the assets, as follows:

- Direct costs related to the construction of assets in projects directly controlled or supervised by the companies. In 2001 the Parent company capitalised Euros 4,443 thou-

sand in this regard.

- Financial costs on external financing. In 2001 the Parent company capitalised Euros 4,344 thousand in this regard.

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

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

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

	<i>Annual Rate</i>
Buildings	2%-10%
Plant and machinery:	
In operation when acquired	
by the Company	5%-14.28%
Built and brought into service	
by the Company	2.50%-7.14%
Other installations, machinery, equipment, furniture and other tangible assets (incl. telecommunication installations)	4%-25%

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

Provision is made against the value of assets under construction when there is evidence that their net book value may be affected by circumstances other than usage, obsolescence or normal service. Such circumstances mainly relate to the capitalisation of financial expenses when the accumulated balance for a specific asset represents a significant portion of the total cost of a project due to delays in bringing the asset into operation for reasons not attributable to the companies.

D) INVESTMENTS

Equity accounted companies are valued at the underlying book value of the corresponding GROUP shareholding. Net profit obtained each year from these companies is reflected under "Share in profits/losses of equity accounted companies".

E) OWN SHARES

Own shares are stated at the lower of cost of acquisition, representing the total amount paid

plus inherent expenses, and market value.

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

Any negative differences between cost and market at 31 December are recorded under provisions for own shares and the related allowances are considered as extraordinary expenses (see notes 11 (i) and 23 (c)).

F) STOCKS

Stocks of spare parts and other consumables are stated at cost of acquisition. Provision is made where cost exceeds market value or when it appears doubtful that items will be used.

G) FOREIGN EXCHANGE TRANSACTIONS

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

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

H) INTEREST RATE HEDGING OPERATIONS

Profit or loss on over-the-counter operations to hedge interest rates on financial debt is calculated and taken to profit and loss simultaneously with the income and expense on the transactions covered. The income or expense recognised represents the net difference between the transactions covered and the corresponding hedging operations. The average interest rates on financial debt are calculated by applying this criterion (see notes 14 and 15).

I) BONDS ISSUED

Bonds issued are stated at their face value. The redemption premium, representing the difference between face value and the value at which

the bonds were issued, is recorded under deferred expenses and charged to expenses over the period to maturity of the debt using the interest method.

When interest rate swaps are contracted to hedge the related interest rate risk and redemption premiums, where applicable, the amounts receivable by the Parent company in the long term in respect of the latter are recorded under deferred income and taken to income over the period to maturity using the interest method (see notes 9, 10, 12 and 14).

J) CURRENT/LONG-TERM

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

K) INCOME TAXES

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

As permitted by the rules for adaptation to Companies legislation, the Parent company has not recorded the deferred tax liability related to timing differences which existed at 31 December 1989 (see note 11 (f)). The effect of these timing differences is recognised as an increase in the income tax expense in the year in which they crystallise.

L) DEFERRED INCOME AND EXPENSES

Deferred expenses mainly comprise advance expenses incurred under agreements entered into with telecommunications providers for the permanent transfer of the rights to use fibre optic networks. These amounts are expensed over the term of the related contract.

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

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

Deferred income comprises amounts generated on financial derivatives contracted for hedging purposes, and under agreements for the transfer of the rights to use fixed assets, mainly comprising advance income under contracts for the permanent transfer of the rights to use fibre optic grids, or other contracts entered into with clients for the provision of services and, in general, under any agreement or commitment with a duration of more than one year. Such amounts are taken to income over the term of the related agreement or commitment.

M) PENSION PLAN

The GROUP companies have adopted voluntary, defined contribution pension plans which are

integrated into a pension fund in accordance with current legislation.

Contributions made by the GROUP companies are equivalent to up to 3% of the base salary established in the fund and are recorded on an accruals basis.

N) PROVISIONS FOR LIABILITIES AND CHARGES

The GROUP's policy is to record provisions to cover the estimated amount of probable or known and quantifiable liabilities and charges, arising from the Company's obligations. Provisions are booked when the liability arises.

O) RECOGNITION OF INCOME AND EXPENSES

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

(6) INTANGIBLE FIXED ASSETS

Intangible fixed assets at 31 December 2001 and movement during the year then ended are as follows:

	<i>Thousands of Euros</i>		
	<i>31 December 2000</i>	<i>Additions</i>	<i>31 December 2001</i>
COST			
Research and development expenses	18,330	252	18,582
Software	6,464	532	6,996
Total Cost	24,794	784	25,578
ACCUMULATED AMORTISATION			
Research and development expenses	(12,772)	(1,983)	(14,755)
Software	(4,824)	(1,023)	(5,847)
Total Accumulated Amortisation	(17,596)	(3,006)	(20,602)
NET BOOK VALUE	7,198	(2,222)	4,976

(7) TANGIBLE FIXED ASSETS

Tangible fixed assets at 31 December 2001 and movement during the year then ended are as follows:

	<i>Thousands of Euros</i>				
	31/12/00	Additions	Disposals	Transfers	31/12/01
COST					
Land and buildings	35,314	2,890	(55)	-	38,149
Plant and machinery	2,150,597	1,081	(1,307)	77,619	2,227,990
Other installations, machinery, equipment, furniture, and other tangible fixed assets	63,458	3,638	(1,621)	56,016	121,491
Plant and machinery under construction	118,920	128,467	(117)	(77,619)	169,651
Advances and other assets under construction	9,235	85,194	-	(56,016)	38,413
Total Cost	2,377,524	221,270	(3,100)	-	2,595,694
ACCUMULATED AMORTISATION					
Buildings	(5,250)	(679)	-	-	(5,929)
Plant and machinery	(985,967)	(93,626)	918	-	(1,078,675)
Other installations, machinery, equipment, furniture, and other tangible fixed assets	(50,862)	(8,135)	1,291	-	(57,706)
Total Accumulated Amortisation	(1,042,079)	(102,440)	2,209	-	(1,142,310)
Provision for depreciation (note 23-c)	(21,648)	(486)	-	-	(22,134)
NET BOOK VALUE	1,313,797	118,344	(891)	-	1,431,250

Transfers of plant and machinery to the GROUP during 2001 correspond to the Parent company and comprise five power lines, one power transformer, bays at thirteen substations, and communication and control systems amounting to Euros 77,619 thousand.

Transfers to the GROUP of other installations relate to fibre optics equipment and connections at electrical installations and the completion of the intelligent fibre optic grid (DWDM).

As a result of the revaluation of assets carried out as permitted by Royal Decree 7 of 7 June 1996 and Royal Decree 2607 of 20 December 1996, the depreciation charge for 2001 incurred by the Parent company amounts to approximately Euros 22,687 thousand. At 31 December 2001 the revaluation of tangible fixed assets, net of depreciation, amounts to Euros 140,001 thousand.

The GROUP companies have contracted insurance policies to cover the replacement cost of tangible fixed assets.

(8) INVESTMENTS

Details at 31 December 2001 are as follows:

	<i>Thousands of Euros</i>	
	2001	2000
Investments in equity accounted Group companies	8,382	6,233
Other investments	-	9,000
Other loans	4,912	5,857
Long-term guarantee deposits	495	223
Long-term public entities (note 22)	12,450	11,855
Total long-term investments	26,239	33,168
Short-term investments	20,440	9,019
Other loans	2,243	15,645
Total short-term investments	22,683	24,664

A) LONG-TERM INVESTMENTS

At 31 December 2001 investments in equity accounted companies basically comprise shareholdings owned in RED ELÉCTRICA DEL SUR, S.A. (REDESUR) either directly or indirectly through Tenedora de acciones de REDESUR, S.A. (see Appendix I).

At 31 December 2001 other investments comprise the deposit made by the Parent company as a contribution to share capital for the incorporation of the subsidiary RED ELÉCTRICA INTERNACIONAL, S.A. on 23 February 2001.

Other long-term loans have mainly been made to GROUP company personnel and earn interest at variable rates linked to Euribor plus a spread of between 0.25% and 0.75%.

Long-term balances with public entities reflect deferred tax assets (see note 22).

B) SHORT-TERM INVESTMENTS

At 31 December 2001 short-term investments mainly represent acquisitions by the Parent company of government debt securities maturing on 2 January 2002 and the accrued interest receivable thereon.

At 31 December 2001 other short-term loans mainly comprise short-term deposits and interest receivable on operations involving financial derivatives. Interest on these operations is accrued in line with the operations hedged.

(9) DEBTORS

Details of debtors at 31 December are as follows:

	<i>Thousands of Euros</i>	
	2001	2000
Long-term debtors	17,524	5,815
Total (long term)	17,524	5,815
Trade debtors	23,434	14,546
Associated companies (note 23-d)	1,967	524
Sundry debtors	97,101	85,973
Personnel	1,261	1,890
Public entities		
Deferred tax asses (note 22)	1,631	2,680
VAT recoverable	11,501	1,099
Provision for bad debts	(379)	(16)
Total (short term)	136,516	106,696

Long-term debtors comprise claims in respect of the transfer of the rights to use fibre optic networks and the redemption premium on the swap operation contracted to hedge the September 1997 bond issue.

Trade debtor balances mainly comprise amounts receivable by the Parent company from domestic and foreign electricity companies for sales of energy, representing mainly billed and unbilled electricity charges in accordance with the power supply contract between Electricité de France (EDF) and the Company (see note 27 (a)). These operations are settled through Compañía Operadora del Mercado Español de la Electricidad, S.A. (OMEL), in accordance with article 3 of Royal Decree 215 of 5 February 1999. This balance also includes accrued

income from export contracts which the Parent company has entered into with foreign companies (see note 27 (b) and (c)).

The balance receivable from associated companies at 31 December 2001 includes amounts billed to REDESUR, mainly for engineering services rendered (see note 23 (d)).

Sundry debtors mainly comprise unbilled income receivable from transmission and system operation activities carried out by the Parent company. This caption also includes trade debtors, mainly in respect of consultancy services, engineering and construction work, maintenance and advances to creditors for services.

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

(10) DEFERRED EXPENSES

Details at 31 December are as follows:

	Thousands of euros	
	2001	2000
Deferred expenses for marketable securities	2,326	3,186
Other deferred expenses	29,415	7,976
	31,741	11,162

At 31 December 2001 other deferred expenses amounts booked in connection with the agreements that RED ELÉCTRICA TELECOMUNICACIONES, S.A. has entered into with certain providers to cede the use of the fibre optic network from this company to other operators and the recognition of Parent company employees' future length of service periods as established in the collective labour agreement made in 1999. These costs are taken to personnel expenses on a straight line basis, in accordance with external studies carried out in this regard.

(11) SHAREHOLDERS' EQUITY

Details of movement in shareholders' equity during 2001 are shown in Appendix II.

A) SHARE CAPITAL

At 31 December 2001 the share capital of the Parent company comprises 135,270,000 bearer shares of Euros 2 par value each. These shares have been fully subscribed and paid, and have the same voting and profit sharing rights. The Parent company's shares have been listed on the four Spanish stock exchanges since 7 July 1999, after the public offer for their sale.

In accordance with article I of Royal Decree 377 of 1991 regarding the notification of significant investments in listed companies, investors must declare direct or indirect interests in share capital which exceed 5%. The Parent company has received notification of such interests and verified this information against the official data of the Spanish Stock Exchange Authorities. At 31 December 2001 Sociedad Estatal de Participaciones Industriales (SEPI), the State holding company, owns 28.5% of the Parent company's share capital, while Iberdrola, S.A., Unión Fenosa, S.A., Hidroeléctrica del Cantábrico, S.A. and Endesa, S.A. hold interests of 10% each, either directly or indirectly through subsidiaries.

The Electricity Act (Law 54/1997 of 27 November) establishes that no single sharehold-

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

B) REVALUATION RESERVE

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

The balance of this reserve is Euros 247,022 thousand, net of a one-off tax charge on the revaluation, and was inspected and agreed by the tax authorities in 1999 (see note 22). Accordingly, the balance on the reserve may be applied to offset prior years' losses, to increase share capital or to increase distributable reserves after 31 December 2006.

The balance of the revaluation reserve will only be distributed, either directly or indirectly,

to the extent that the surplus on revaluation has been realised, that is, when the related assets have been fully depreciated, disposed of or written off.

C) LEGAL RESERVE

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

At 31 December 2001 the legal reserve is equal to 20% of the share capital of the Parent company.

D) INVESTMENT RESERVE

This reserve was established in accordance with the Spanish Energy Council ruling of 11 December 1987, which required the Parent company to set up a provision of Euros 8,124 thousand.

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

E) VOLUNTARY RESERVES

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

F) RESERVE FOR ACCELERATED DEPRECIATION

As permitted by Royal Decree-Law 2/1985, prior to 1990 the Parent company provided accelerated depreciation for tax purposes of Euros 26,615 thousand in respect of tangible assets acquired between 9 May and 31 December 1985, and set up the relevant reserve for accelerated depreciation, which at 31 December 2001 amounts to Euros 15,027 thousand. Each year the Parent company debits this reserve and credits extraordinary income in an amount equal to the annual depreciation charge based on the useful lives of the assets subject to accelerated depreciation. The tax deferred as a result of accelerated depreciation has been estimated at approximately Euros 5,259 thousand at 31 December 2001, using the standard tax rate of 35%.

Subsequent to 1990 the Company made an adjustment of Euros 15,302 thousand to taxable income, as permitted by the aforementioned legislation, and recorded the related deferred tax liability. The timing difference arising in this regard at 31 December 2001 amounts to Euros 10,508 thousand.

G) RESERVE FOR REDEEMED CAPITAL

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

H) DIFFERENCES ON CONVERSION TO EUROS

This account represents the differences arising on conversion of the share capital of the Parent company to Euros. In accordance with Law 46 of 17 December 1998 regarding the implementation of the Euro, this reserve is not distributable.

I) OWN SHARES

In 2001, as authorised by the shareholders at their annual general meeting held on 27 April 2001, the Parent company has acquired own shares during the year to create a market for the shares and to provide liquidity to investors.

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

	<i>Thousands of Euros</i>
Balance at 1 January	6,057
Additions	40,726
Disposals	(44,242)
(Allowance)/Reversal provision	223
Balance at 31 December	2,764

At 31 December 2001 the own shares held by the Parent company represent 0.21% of the share capital and amount to 279,129 ordinary shares with a total par value of Euros 558 thousand. The Parent company has complied with the requirements of article 75.2 and the second additional provision of the Spanish Companies Act, which establish that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent company and its subsidiaries, must not

exceed 5% of the share capital. The subsidiaries do not hold own shares or shares in the Parent company.

At 31 December 2001 the Parent company has set up the required restricted reserve for own shares with a charge to voluntary reserves, which amounts to Euros 2,764 thousand, equivalent to the own shares in the portfolio at that date.

The Company has also made the necessary provisions to reflect own shares at market value

(see note 5 (e)). These amounts have been booked under change in provisions for tangible assets and treasury stock (see note 23 (c)).

In 2000 operations with the Parent company's own shares have generated profits of Euros 248 thousand and losses of Euros 186 thousand, which have been recorded in the consolidated profit and loss account as profits or losses on treasury stock operations, respectively (see note 23 (c)).

J) CONSOLIDATION RESERVES

A breakdown of consolidation reserves and movement during the year ended 31 December 2001 are as follows:

	<i>Thousands of Euros</i>			
	<i>31 December 2000</i>	<i>Transfer to profit and loss</i>	<i>Others</i>	<i>31 December 2001</i>
FULLY CONSOLIDATED				
Red Eléctrica Telecomunicaciones, S.A. _____	-	(813)	-	(813)
Red Eléctrica Internacional, S.A. _____	-	-	-	-
_____	-	(813)	-	(813)
EQUITY ACCOUNTED				
Red Eléctrica del Sur, S.A. _____	(246)	103	1,174	1,031
_____	(246)	103	1,174	1,031

K) CONVERSION DIFFERENCES

Conversion differences mainly reflect the effect of exchange rate fluctuations on companies' net assets located abroad and the effect of the adjustment for inflation on the net equity of companies that apply this accounting practice.

L) CONTRIBUTION TO CONSOLIDATED PROFITS

Each GROUP company's contribution to consolidated profits following adjustments for consolidation is as follows:

	<i>Thousands of Euros</i>
	<i>Contribution to consolidated profit</i>
Red Eléctrica de España, S.A. _____	90,785
Red Eléctrica Telecomunicaciones, S.A. _____	(12,233)
Red Eléctrica Internacional, S.A. _____	(865)
Red Eléctrica del Sur, S.A. _____	647
Consolidation adjustments _____	12,737
_____	91,071

(12) DEFERRED INCOME

Details at 31 December are as follows:

	<i>Thousands of Euros</i>	
	2001	2000
Capital grants	61,534	61,885
Exchange gains	87	88
Other deferred income	130,141	121,948
	191,762	183,921

At 31 December 2001 other deferred income mainly comprises the portion assigned to the Parent company of the compensation received from EDF pursuant to the agreement made on 8 January 1997 to amend electricity supply contracts (see note 27(a)). This caption also reflects amounts arising from agreements to cede the use of the fibre optic network,

mainly representing income under the agreement made in 1997 by NETCO and RETEVISION and the Parent company (see note 27(d)) and unrealised gains on operations involving financial derivatives contracted to hedge bonds issued in September 1997, as well as revenues from agreements to modify and relocate electrical installations.

(13) PROVISIONS FOR LIABILITIES AND CHARGES

Details are as follows:

	<i>Thousands of Euros</i>				
	31/12/00	Additions	Applications	Reversals	31/12/01
Provisions for pensions and other commitments	15,784	2,053	(8,700)	(20)	9,117
Provisions for taxes	234	-	-	-	234
Others provisions	5,800	4,547	-	-	10,347
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	21,818	6,600	(8,700)	(20)	19,698

The provision for pensions and other commitments at 31 December 2001 mainly reflects the amount set aside with a charge to extraordinary expenses to cover the cost of the personnel restructuring plan approved by the Spanish employment authorities (see notes 5 (n) and 23 (c)). In 2001 and 2000, in accordance with Royal Decree 1588/1999, which ratifies the regulations for instrumentation of company commitments with employees and beneficiaries in respect of pensions, the

Parent company has externalised its direct commitments with personnel derived from this plan through an insurance policy. This caption also includes the Parent company's future commitments for retired personnel, which have been estimated at 31 December 2001 based on actuarial studies.

Other provisions comprise annual allowances made by the Parent company to cover the possibility of unfavourable rulings in respect of claims by third parties.

(14) BONDS ISSUED AND OTHER LONG-TERM MARKETABLE SECURITIES

At 31 December 2001 this balance represents bonds issued by the Parent company at fixed and variable rates. During 2001 unhedged and hedged debts have accrued average annual interest of 6.67% and 5.79% respectively.

At 31 December 2001 the Parent company has contracted swap and collar operations to

hedge against interest rate risks, covering a debt of Euros 90,152 thousand.

In accordance with the terms of each bond issue, at 31 December 2001 the debt matures as follows:

	<i>Thousands of Euros</i>	
	2001	2000
Two years	30,351	-
Three years	50,891	30,351
Four years	45,076	50,891
Five years	-	45,076
	126,318	126,318

(15) LONG-TERM LOANS

Details of long-term loans are as follows:

	<i>Thousands of Euros</i>	
	2001	2000
Loans and credit facilities	175,645	183,318
Less, current portion (note 18)	(50,724)	(34,017)
	124,921	149,301

At 31 December 2001 long-term debts in foreign currencies comprise loans in Swiss Francs for the equivalent of Euros 7,381 thousand.

At 31 December 2001 the Parent company has contracted swap and collar operations to hedge against interest rate risks, covering debt of Euros 27,659 thousand.

During 2001 unhedged and hedged Peseta and EMU currency loans have accrued average

interest at annual rates of 5.33% and 5.03%, respectively.

In 2001 average interest on unhedged and hedged foreign currency loans has been 3.68%.

At 31 December the long-term maturities of loans are as follows:

	<i>Thousands of Euros</i>	
	2001	2000
Two years	14,070	48,300
Three years	14,131	14,070
Four years	17,394	14,131
Five years	17,464	14,194
Thereafter	61,862	58,606
	124,921	149,301

(16) OTHER LONG-TERM CREDITORS

Details of other long-term creditors at 31 December 2001 are as follows:

	Thousands of Euros	
	2001	2000
Deferred tax liability (note 22)	45,303	46,672
Long-term deposits received	55	61
	45,358	46,733

At 31 December the long-term maturity of balances with other long-term creditors is as follows:

	Thousands of Euros	
	2001	2000
Two years	1,828	2,079
Three years	1,770	1,808
Four years	1,645	1,750
Five years	1,526	1,625
Thereafter	38,589	39,471
	45,358	46,733

(17) BONDS AND OTHERS SHORT-TERM MARKETABLE SECURITIES

At 31 December 2001 this balance comprises accrued interest payable on the bonds issued by the Parent company (see note 14)

(18) SHORT-TERM LOANS

Details of short-term loans are as follows:

	Thousands of Euros	
	2001	2000
Loans (note 15)	50,724	34,017
Promissory notes and credit facilities	111,937	44,568
	162,661	78,585
Accrued interest payable	5,605	6,483
	168,266	85,068

During 2001 unhedged and hedged promissory notes and short-term credit facilities, which are denominated in Euros, have accrued average annual interest of 4.56%.

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

At 31 December 2001 a programme to issue "highly liquid" promissory notes up to a maximum of Euros 168 million has been registered with the Spanish Securities and Exchange Commission.

At 31 December 2001 the GROUP companies have unused credit facilities with a limit of Euros 89,683 thousand.

(19) TRADE CREDITORS

Details at 31 December are as follows

	Thousands of Euros	
	2001	2000
Suppliers of energy and power purchases	11,473	9,713
Other suppliers and creditors for services rendered	92,790	48,684
	104,263	58,397

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

(20) OTHER CREDITORS

Details of other creditors at 31 December are as follows:

	Thousands of Euros	
	2001	2000
Public entities	23,838	22,447
Other debts	74,806	51,407
Short-term guarantee deposits received	2,560	1,310
	101,204	75,164

Balances due to public entities are as follows:

	Thousands of Euros	
	2001	2000
Taxes payable		
Withholdings	857	780
Income tax	15,422	15,146
VAT	4,539	3,699
Other taxes	58	56
Social security	868	859
Deferred tax liability (note 22)	2,094	1,907
	23,838	22,447

Other debts are as follows:

	Thousands of Euros	
	2001	2000
Creditors for purchases of fixed assets and other items	50,507	28,530
Dividend payable (note 4 (a))	24,299	22,877
	74,806	51,407

The increase in creditors for purchases of fixed assets and other items mainly reflects higher investments in tangible assets in 2001.

(21) PREPAID EXPENSES AND ACCRUALS

At 31 December 2001 prepaid expenses comprise financial expenses which will be recognised in future years, and prepayments on insurance policies contracted by the GROUP companies in respect of future years.

At 31 December 2001 prepaid expenses also reflect the advance payment made to EDF in respect of prior years' adjustments under the supply contract with the Parent company (see note 27 (a)). The advance payment was made in order to adapt the flow of income and expenses derived from these adjustments to the annual resolutions of the Director General

for Energy Policy and Mines on the basis of which income derived from this contract is calculated.

At 31 December 2001 accruals mainly reflect income of Euros 14,097 thousand received in advance in respect of the power supply agreement between EDF and the Parent company (see note 27(b)), and Euros 11,618 thousand in respect of invoicing for the guaranteed power supplies in accordance with the power supply agreement between the Parent company and L'Office Nationale de l'Electricité de Maroc (ONE) (see note 27 (c)).

(22) TAXATION

Income tax is calculated based on consolidated profit reported for accounting purposes, calculated in accordance with generally accepted accounting principles, and does not necessarily coincide with taxable income.

	<i>Thousands of Euros</i>
	2001
Consolidated profit before income tax	139,136
Permanent differences	1,002
Consolidation adjustments	(286)
Consolidated taxable accounting income	139,852
Timing differences:	
Generated during the year	535
Reversal of prior years	1,631
Taxable income	142,018

Details of the consolidated income tax charge for 2001 are as follows:

	<i>Thousands of Euros</i>
	2001
Consolidated accounting income at 35%	48,948
Deductions	(878)
Expense for the year	48,070
Prior years' adjustments	(5)
Income tax charge	48,065

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

Details of timing differences in the recognition of expenses and income for accounting and tax purposes at 31 December 2001 and the related accumulated deferred tax assets and liabilities are as follows:

	<i>Thousands of Euros</i>	
	2001	
	<i>Timing difference</i>	<i>Tax effect</i>
Timing differences giving rise to deferred tax assets:		
Generated in prior years	41,529	14,535
Generated during the year	2,536	887
Reversals of prior years	(3,832)	(1,341)
	(1,296)	(454)
	40,233	14,081
Timing differences giving rise to deferred tax liabilities:		
Generated in prior years	(138,798)	(48,579)
Generated during the year	(2,001)	(700)
Reversals of prior years	5,463	1,911
	3,462	1,211
Prior years' adjustments	(83)	(29)
	(135,419)	(47,397)

Timing differences giving rise to deferred tax assets have mainly arisen due to the provision for liabilities and charges (see notes 13 and 23 (c)).

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

In 2000 the tax authorities inspected the principal taxes of the Parent company from 1994 to 1997, inclusive, including the one-off charge on the revaluation of tangible fixed assets in accordance with Royal Decree 7/1996. As a result of this inspection, in 2000 the Parent company recorded extraordinary expenses of Euros 62 thousand. The Parent company's main taxes are open to inspection for all years subsequent to 1998, and those since incorporation for the subsidiaries. The GROUP companies do not expect that significant additional liabilities will arise in this regard.

The Parent company and the subsidiaries comprising the tax group will file consolidated tax returns in 2002, once the requirements established in Income Tax Law 43/1995 have been complied with.

(23) INCOME AND EXPENSES

A) NET SALES

Details are as follows:

	Thousands of Euros	
	2001	2000
Income from services rendered (transmission and system operation)	-355,770	333,369
Sales of energy and power	218,579	215,697
Other income from services rendered	17,027	12,829
Sales of by-products and other income	91	141
	591,467	562,036

Income from services rendered relates to transmission activities and the operation of the Parent company's system, the remuneration for which is established annually by the Ministry of Finance. In accordance with Royal Decree 3490 dated 30 December 2000, which establishes electricity tariffs for 2001, the remuneration of the Parent company for transmission activities was fixed at Euros 347,253 thousand, including tolls, while revenues for the operation of the system were set at 0.069% of tariffs and 0.201% of power transmission tolls. This caption also includes revenues collected during 2000 in respect of prior years' settlements.

In 2001 sales of energy and power represent income recognised in respect of energy and power contributed under the import and export contracts made by the Parent company with EDF (France) and ONE (Morocco) (see note 27 (a), (b) and (c)).

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

B) PERSONNEL EXPENSES

Details at 31 December are as follows:

	Thousands of Euros	
	2001	2000
Wages and salaries	42,068	40,399
Social security	9,568	9,399
Pensions and similar obligations	845	839
Other social charges	4,691	3,759
	57,172	54,396

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

	Thousands of Euros	
	2001	2000
Managers	27	22
Honours graduates	288	273
Graduates	285	294
Assistants	264	272
Administrative staff	140	146
	1,004	1,007

C) EXTRAORDINARY INCOME AND EXPENSE

Details are as follows:

	Thousands of Euros	
	2001	2000
Profit on tangible assets	14	4
Profit on treasury stock operations (note 11)	248	19
Capital grants taken to profit and loss	5,504	5,275
Extraordinary income	2,003	1,974
Prior years' profit and income	240	692
Total extraordinary income	8,009	7,964
Changes in the provision for tangible assets and treasury stock (note 7)	263	1,570
Losses on tangible assets	499	129
Losses on own shares (note 11)	186	8
Extraordinary expenses (note 13)	825	11,429
Prior years' losses and expenses	231	176
Total extraordinary expenses	2,004	13,312

Changes in the provision for tangible assets and treasury stock in 2001 and 2000 mainly comprise the provision for impairment of tangible assets under construction in the Parent company, due to the capitalisation of significant financial expenses in projects which have been delayed for reasons not attributable to the company.

In 2001 extraordinary expenses basically include the amounts provided by the Parent company to cover the possibility of unfavourable rulings in respect of claims from third parties. In 2000 extraordinary expenses mainly comprise the amount provided to cover the cost of the personnel restructuring plan (see notes 5 (n) and 13).

D) BALANCES AND TRANSACTIONS WITH EQUITY ACCOUNTED COMPANIES

In 2001 balances and transactions with equity accounted companies have been as follows:

	<i>Balances</i>		<i>Thousands of Euros</i> <i>Transactions</i>	
	<i>Debtors</i>	<i>Creditors</i>	<i>Expenses</i>	<i>Income</i>
Red Eléctrica del Sur, S.A.	1,967	241	258	1,779
	1,967	241	258	1,779
	(note 9)			

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

In 2001 the members of the board of directors of the Parent company received remuneration of Euros 1,453 thousand, including estimated objective-linked bonuses and the salaries of directors who are also employees of the Company.

At 31 December 2001 loans of approximately Euros 1 thousand have been granted by the Parent company to members of the board. These loans earn interest at EURIBOR plus a differential of 0.25% and mature in more than one year.

(25) ENVIRONMENTAL ISSUES

During 2001 the Company has incurred expenses of approximately Euros 1,128 thousand to protect and improve the environment, mainly in respect of studies to determine the impact of transmission lines on the environment, protection of birdlife, waste management, landscaping, sponsorship and other agreements, and maintenance and review of the environmental management system in accordance with the UNE-EN-ISO 14001 standard and the new EMAS regulation, which became applicable to the Parent company in 2001. The Parent company has also incurred expenses in various envi-

ronmental publications, including an environment memorandum, as well as expenses related to a special environmental unit, which handles these matters.

Studies have also been carried out in 2001 to determine the environmental impact of new electrical installations. These studies cost approximately Euros 449 thousand and have been recorded as an increase in the value of the related tangible fixed assets.

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

(26) INFORMATION BY ACTIVITY

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

In 2001 the GROUP income, expenses, assets and liabilities have been split for accounting purposes between transmission activities, operation of the system, other electricity activities, diversification activities and adjustments for consolidation (see note 1).

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

- Direct expenses and income have been assigned to the relevant activity at source.
- Personnel expenses have been assigned proportionally on the basis of the time incurred by staff in each activity.
- Amortisation and depreciation charges have been allocated on the basis of the activity in which the related asset is used.
- Financial income and expenses are allocated in accordance with financing requirements for each period, except when borrowings relate directly to a specific activity.
- General and structural costs have been assigned on the basis of the use of services by each activity, applying objective allocation criteria such as the number of employees, services and materials consumed, etc
- The income tax expense is allocated proportionally to activities on the basis of the profit generated by each.
- Fixed assets are assigned directly to activities. Shared assets have been assigned in accordance with the estimated use by each activity, applying objective allocation criteria.
- Current assets have been allocated to the activities generating balances, except for cash and bank balances, short-term investments and other current assets, which have been assigned to activities showing net cash surpluses.
- In 1998 shareholders' equity, net of profit for the year, was allocated to the activities under the assumption that they share the same financial structure. Dividends are distributed by activities generating profits, calculated on a proportional basis.
- Deferred income has been allocated directly to the activities.
- Given their financial nature, bond issues, bank loans, long-term debtor balances and deferred expenses have been assigned on the basis of the net financing requirements of each activity.
- The remaining current liabilities have been allocated directly to the activities. Liabilities pertaining to more than one activity have been split by applying objective criteria.

(27) COMMITMENTS

At 31 December 2001 the GROUP is party to certain long-term agreements, as follows:

- A) An agreement for the supply of electricity by Electricité de France (EDF) to the Parent company. Supply commenced in October 1994 for a period of 16 years. On 8 January 1997 the Parent company and EDF agreed to modify the supply agreement as the expected capacity of the international electricity connection with

France had been significantly reduced as a result of the decision by the French State not to authorise the construction of the Aragón-Cazaril line.

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

Pyrenees electricity connection by constructing a new electricity line.

B) An agreement for the supply of energy by the Parent company to EDF during the winter peak period. This agreement commenced in November 1995 for a period of 15 years and establishes that the Parent company will provide EDF with power equal to that stipulated in the supply agreement mentioned in section a), above, for a maximum of 600 hours during the winter months, in accordance with the modifications agreed on 8 January 1997.

C) An agreement for the supply of energy by the Parent company to the Office Nationale

de l'Electricité de Maroc (ONE). In May 1998 a modification was agreed to reduce the power supplied to 90 MW during the period from May 1998 to December 2002.

D) RED ELÉCTRICA TELECOMUNICACIONES, S.A. has entered into agreements with telecommunications providers and clients for the transfer of the use of the fibre optic network and the long-term provision of telecommunications services.

E) The Parent company has entered into a contract to outsource all IT functions to Indra Sistemas, S.A., effective from 1 July 2001. Under this agreement Indra Sistemas, S.A. will render IT management services to the Company for a 7-year period.

(28) STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

The statements of source and application of funds for 2001 are disclosed in Appendix IV, which forms an integral part of this note.

Appendix I

RED ELÉCTRICA GROUP

DETAILS OF INVESTMENTS · at 31 December 2001 · Expressed in thousands of Euros · (Translation from the original in Spanish)

	% ownership of Parent company	
	Direct	Indirect
A) Fully consolidated companies		
RED ELÉCTRICA TELECOMUNICACIONES, S.A.U.	100%	-
<i>Registered offices:</i> Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid).		
<i>Principal activity:</i> Telecommunications services		
RED ELÉCTRICA INTERNACIONAL, S.A.U.	100%	-
<i>Registered offices:</i> Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid).		
<i>Principal activity:</i> International holding. Consulting, engineering and construction services. Power and energy activities outside the Spanish electricity system.		
B) Equity accounted companies		
RED ELÉCTRICA DEL SUR, S.A. (REDESUR)	-	30% (2)
<i>Registered offices:</i> Juan de la Fuente, 453. Lima (Perú).		
<i>Principal activity:</i> Transmission of energy and power.		
TENEDORA DE ACCIONES DE REDESUR, S.A.	-	8.33% (1)
<i>Registered offices:</i> Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid).		
<i>Principal activity:</i> Management and administration of REDESUR shares.		
RED INTERNACIONAL DE COMUNICACIONES DEL SUR, S.A. (REDINSUR)	-	21.87% (3)
<i>Registered offices:</i> Juan de la Fuente, 453. Lima (Perú).		
<i>Principal activity:</i> Telecommunications.		

*The shareholders' equity of REDESUR and REDINSUR have been calculated based on their audited financial statements harmonised with the Parent company's accounting criteria and expressed in Euros at year-end rates of exchange.

(1) Investments made through Red Eléctrica Internacional.

(2) Investments made through Red Eléctrica Internacional (25%) and Tenedora de Acciones de Redesur (5%).

(3) Investment made through Redesur.

This Appendix forms an integral part of Note 1 to the consolidated annual accounts for 2001.

Appendix II

GROUP RED ELÉCTRICA

MOVEMENT IN CONSOLIDATED SHAREHOLDERS' EQUITY · at 31 December 2001 · Expressed in thousands of Euros

(Translation from the original in Spanish)

	Share capital	Revaluation reserve	Legal reserve	Other reserves
Balances at 31 December 2000	270,540	247,022	54,199	108,427
Distribution of 2000 profit				
Dividends	-	-	-	-
Voluntary reserves	-	-	-	27,832
Other reserves	-	-	-	-
Net movement in reserve for own shares	-	-	-	-
Reversal of accelerated depreciation reserve	-	-	-	(635)
Differences on conversion	-	-	-	-
Profit for 2001	-	-	-	-
Interim dividend	-	-	-	-
Others	-	-	-	133
Balances at 31 December 2001	270,540	247,022	54,199	135,757

This Appendix forms an integral part of note 11 to the consolidated annual accounts for 2001.

Net book value in Parent company	Shareholders' equity of consolidated companies *			
	Share capital	Reserves	Profit/(Loss) for 2001	
			Total	Extraordinary
46,954	60,000	(813)	(12,233)	2
59,135	60,000	-	(865)	-
-	22,452	4,655	2,158	-
-	16,904	-	-	-
-	127	(1)	(5)	-

Total reserve	Reserves in fully consolidated companies	Reserves in equity accounted companies	Differences on conversion of consolidated to equity accounted companies	Profit for the year	Interim dividend	Total
162,626	-	(246)	962	83,140	(22,877)	741,167
-	-	-	-	(56,018)	22,877	(33,141)
27,832	-	-	-	(27,832)	-	-
-	(813)	103	-	710	-	-
-	-	-	-	-	-	-
(635)	-	-	-	-	-	(635)
-	-	-	617	-	-	617
-	-	-	-	91,071	-	91,071
-	-	-	-	-	(24,299)	(24,299)
133	-	1,174	-	-	-	1,307
189,956	(813)	1,031	1,579	91,071	(24,299)	776,087

Appendix III-a
RED ELÉCTRICA GROUP
CONSOLIDATED BALANCE SHEET BY ACTIVITY · at 31 December 2001 · Expressed in thousands of Euros
(Translation from the original in Spanish)

ASSETS

	Transmission
Fixed Asset	1,355,202
Establishment costs	-
Intangible assets	2,613
Tangible assets	1,329,083
Plant and machinery	2,214,312
Plant and machinery under construction	169,651
Other tangible assets	84,745
Advances and other assets under construction	1,251
Depreciation of plant and machinery	(1,070,757)
Other depreciation	(47,985)
Provisions	(22,134)
Investments	15,444
Parent company shares	2,712
Long-term loans	5,350
Deferred expenses	8,233
Current assets	117,049
Stocks	4,903
Debtors	96,724
Other current assets	13,249
Prepaid expenses	2,173
TOTAL ASSETS	1,480,484

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	785,324
Share capital and reserves	714,690
Profit/(loss) for the year	93,492
Interim dividend	(22,858)
Deferred income	89,788
Provisions for liabilities and charges	16,648
Long-term creditors	273,622
Current liabilities	279,628
Current liabilities, excluding accruals	275,465
Accruals	4,163
Interactivity financing	35,474
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,480,484

This Appendix forms an integral part of note 26 to the consolidated annual accounts for 2001.

YEAR 2001 BROKEN DOWN BY ACTIVITIES

Operation of System	Other Electrical Activities	Diversification Activities	Consolidation Adjustments	Group Total
18,568	95	213,410	(103,223)	1,484,052
-	-	1,299	-	1,299
2,270	2	91	-	4,976
13,621	63	88,483	-	1,431,250
13,678	-	-	-	2,227,990
-	-	-	-	169,651
20,829	103	53,963	-	159,640
11	-	37,151	-	38,413
(7,918)	-	-	-	(1,078,675)
(12,979)	(40)	(2,631)	-	(63,635)
-	-	-	-	(22,134)
2,161	29	111,828	(103,223)	26,239
51	1	-	-	2,764
465	-	11,709	-	17,524
657	-	22,851	-	31,741
3,759	29,243	54,112	(28,099)	176,064
-	-	-	-	4,903
2,827	20,736	44,328	(28,099)	136,516
781	-	9,195	-	23,225
151	8,507	589	-	11,420
22,984	29,338	290,373	(131,322)	1,691,857
(21,260)	10,697	1,326	-	776,087
(13,764)	6,244	2,145	-	709,315
(7,496)	5,894	(819)	-	91,071
-	(1,441)	-	-	(24,299)
3,344	3,512	95,118	-	191,762
3,011	39	-	-	19,698
14,029	-	8,946	-	296,597
21,769	42,165	92,250	(28,099)	407,713
21,708	16,450	91,296	(28,099)	376,820
61	25,715	954	-	30,893
2,091	(27,075)	92,733	(103,223)	-
22,984	29,338	290,373	(131,322)	1,691,857

Appendix III-b

RED ELÉCTRICA GROUP

ANALYTICAL PROFIT AND LOSS ACCOUNT BY ACTIVITY · at 31 December 2001 · Expressed in thousands of Euros

(Translation from the original in Spanish)

ITEMS

	<i>Transmission</i>
Net sales and services rendered	359,845
+Other operating income	9,758
=Value of production	369,603
-Materials consumed	(9,835)
-External expenses	(57,920)
=Value added by the Company	301,848
-Personnel expenses	(42,781)
=Gross operating profit/(loss)	259,067
-Amortisation and depreciation	(99,564)
-Bad debt write-offs and changes in trade provisions	(6,121)
=Net operating profit/(loss)	153,382
+Financial income	1,077
-Financial expenses	(18,975)
+Profit on equity accounted companies	-
=Profit/(loss) on ordinary activities	135,484
+Profit on fixed assets and extraordinary income	5,217
-Losses on fixed assets and extraordinary expenses	(1,727)
-Changes in provisions for fixed assets	(267)
=Profit/(loss) before tax	138,707
Income tax	(45,215)
=Profit/(loss) for the year	93,492

This Appendix forms an integral part of note 26 to the consolidated annual accounts for 2001.

YEAR 2001 BROKEN DOWN BY ACTIVITIES

Operation of System	Other Electrical Activities	Diversification Activities	Consolidation Adjustments	Group Total
8,678	218,579	38,750	(34,385)	591,467
1,016	2	1,031	(481)	11,326
9,694	218,581	39,781	(34,866)	602,793
(304)	(210,480)	(1,684)	-	(22,303)
(5,804)	(65)	(30,288)	34,866	(59,211)
3,586	8,036	7,809	-	321,279
(7,967)	(106)	(6,318)	-	(57,172)
(4,381)	7,930	1,491	-	264,107
(3,180)	(19)	(3,054)	-	(105,817)
(387)	(9)	(45)	-	(6,562)
(7,948)	7,902	(1,608)	-	151,728
71	35	721	-	1,904
(983)	(476)	(714)	-	(21,148)
-	-	647	-	647
(8,860)	7,461	(954)	-	133,131
1,372	1,284	136	-	8,009
(12)	(1)	(1)	-	(1,741)
4	-	-	-	(263)
(7,496)	8,744	(819)	-	139,136
-	(2,850)	-	-	(48,065)
(7,496)	5,894	(819)	-	91,071

Appendix IV
RED ELÉCTRICA GROUP

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS · at 31 December 2001 · Expressed in thousands of Euros
(Translation from the original in Spanish)

APPLICATIONS	2001
Acquisition of fixed assets	
Intangible assets _____	784
Establishment costs _____	562
Tangible assets _____	221,270
Investments _____	3,016
Long-term creditors _____	11,709
_____	237,341
Deferred expenses _____	22,769
Dividends _____	33,008
Interim dividend _____	24,299
Repayment or transfer to short-term of long-term debt _____	7,827
Provision for liabilities and charges _____	8,700
 TOTAL APPLICATIONS _____	 333,944

CHANGE IN WORKING CAPITAL	2001	
	Increases	Decreases
Stocks _____	2,423	-
Debtors _____	29,820	-
Current liabilities _____	-	147,787
Short-term investments _____	-	1,981
Cash and banks _____	-	14,624
Prepaid expenses _____	9,547	-
_____	41,790	164,392
Changes in working capital _____	122,602	-
_____	164,392	164,392

This Appendix forms an integral part of note 29 to the annual accounts for 2001.

SOURCES	2001
Funds generated on operations	
Profit for the year	91,071
Reversal of provision for liabilities and charges	(20)
Amortisation and depreciation	105,817
Reversal of accelerated depreciation reserve	(635)
Provision for pensions and similar commitments	2,053
Loss/(Profit) on disposal of fixed assets	485
Provision for liabilities and charges	4,547
Deferred expenses recognised during the year	2,190
Capital grants and other deferred income recognised during the year	(11,211)
Provision for tangible fixed assets	486
Reversal/Provision for treasury stock	(223)
	194,560
Changes in reserves in equity accounted companies and conversion differences	1,791
Deferred income	19,052
Exchange gains	1
Long-term liabilities	(17,928)
Disposal of fixed assets	
Tangible assets	405
Investments	945
Incorporation of group companies	9,000
Own shares	3,516
	211,342
Decrease in working capital	122,602
TOTAL SOURCES	333,944



DEVELOPMENT OF THE RED ELÉCTRICA GROUP

2001 has been characterized by maintenance and improvements in the level of quality of the electricity service, the most important developments of which are as follows:

- 245 km. of power lines and 48 new substations have been brought into service.
- Euros 130 thousand has been invested in the transmission grid.
- The quality and continuity of services rendered by the transmission grid to the electricity system has remained at very satisfactory levels, in 2001 the total availability of the network was 97.49%.
- The process of improving the operation of the system through reorganisation of the

control centres has been completed. At the end of 2001 the La Moraleja and Tres Cantos centres, located in Spain, were both fully operational.

In 2001 the GROUP's process of business diversification, commenced in the prior year, has been completed with the launch of RED ELÉCTRICA TELECOMUNICACIONES and RED ELÉCTRICA INTERNACIONAL.

In 2001, the GROUP has completed the process, initiated after the stock market flotation of the Parent Company in 1999, of orienting business management, structural organisation and activities towards creating value for its shareholder.

KEY ECONOMIC AND FINANCIAL MAGNITUDES

ANALYSIS OF RESULTS

In 2001 consolidated profit after tax amounted to Euros 91,071 thousand, compared to Euros 83,140 thousand in the prior year, representing a 9.5% increase.

The improvement in consolidated profit after tax is sustained by growth in adjusted consolidated net sales (net sales of electricity) and ongoing improvements to internal efficiency applied by the Company in recent years, which has curbed the operating expenses of the Parent Company and has allowed the expenses incurred from launching new GROUP businesses to be absorbed.

In 2001 EBITDA amounted to Euros 254,234 thousand, representing an increase of 2.0% with regard to the prior year. Parent Company EBITDA is up 6.2%.

Adjusted consolidated net sales (net sales of electricity) amounted to Euros 380,987 thousand, up 7.9% on 2000. This growth is predominantly due to the increase in transmission and operation of the system, sustained by an increase in services rendered by the telecommunications business to third parties.

Consolidated operating expenses (net of electricity purchases) amounted to Euros 134,768 thousand. This total, which represents an increase of 19.5% with regard to 2000, is due to the growth in operating expenses incurred from launching new GROUP businesses.

Consolidated personnel expenses amounted to Euros 57,172 thousand, and the average number of GROUP employees was 1,004, compared to 1,007 in the prior year. The average number of Parent company employees was 941.

Consolidated net profit amounted to Euros 147.384 thousand, with little variation compared to 2000, due to a 4.2% increase in consolidated depreciation and amortisation as a consequence of bringing into service electrical and telecommunications facilities.

Consolidated profit on financial operations amounted to Euros -19.244 thousand, which represents an increase of 0.8% compared to the prior year. This slight increase is due to the growth in debt as a consequence of investments made by the company, although its cost has not experienced any significant variations with regard to the prior year.

Consolidated profit on ordinary activities amounted to Euros 133,131 thousand, an increase of 1.3% with regard to the prior year.

Consolidated extraordinary profit amounted to Euros 6,005 thousand. This profit mainly includes grants taken to income and other deferred income. In 2000 extraordinary expenses included a provision for an employee restructuring plan, approved by the employment authorities, which was carried out in that year.

GROUP CASH-FLOW

Consolidated cash-flow after tax amounted to Euros 195,031 thousand, up 6.1% on the prior year. This sum represents 33.0% of Net Sales and 51.2% of Adjusted Consolidated Net Sales (less purchases of electricity).

GROUP INVESTMENTS

Consolidated investments in 2001 amounted to Euros 244,833 thousand, compared to Euros 89,805 thousand in 2000. 53.1% of these investments has been earmarked for extension and improvement of the Transmission Grids, 42.9% for the new telecommunications activity and the remaining 4.0% for other investments.

NET FINANCIAL DEBT OF THE GROUP

At 31 December 2001 net financial debt amounted to Euros 390,675 thousand, up 24.3% on 2000.

The Parent Company has succeeded in 2001 in maintaining the debt ratings obtained in 2000. Standard & Poor's awarded the Company a AA-long-term credit rating and Moody's Aa3. The short-term rating, awarded by Standard & Poor's was A-1+. These ratings are among the best achieved in Spain by private sector companies other than financial entities.

STOCK MARKET DEVELOPMENT

At year end Red Eléctrica shares were quoted at Euros 10.45 per share, up 3.98% on the prior year, despite the unfavourable conditions for stock markets worldwide which have characterised this year. This increase is in line with the performance of the Electricity Sector of the Madrid Stock Exchange. Total shareholder return for 2001 was 8.1%.

BUSINESS DEVELOPMENT

ELECTRICITY BUSINESS

LEGAL FRAMEWORK

From a legal viewpoint, in 2001 the process of liberalising the Spanish electricity sector, initiated with the introduction of Law 54/1997 has continued. Legislation which has had greatest relevance for the Electricity Business is as follows:

- Royal Decree 1164/2001, 26 October, which establishes rates of access for electricity distribution and transmission grids. This law sets out a new structure for grid access rates that is based on an objective methodology for estimating their costs, among which are transmission costs and system operation costs.
- Royal Decree 1483/2001, 27 December, which establishes electricity rates for 2002. This regulation not only determines integral rates and costs of regulated activities for 2002, but sets prices in terms of output and electrical power to be applied to the different rates of access established in Royal Decree 1164/2001.

SYSTEM TRANSMISSION AND OPERATION

The Parent Company has continued to develop plans to expand and continuously improve the electricity transmission grid. In 2001 approximately 198 km of 400 kV power lines, 47 km of 220 kV overhead power lines and 11 bays of 220 kV were brought into service. The most significant of these installations are as follows:

- The 400 kV lines of Aragón-Peñalba, Castejón-La Serna, and the access/exit connection in Fuencarral of the 400 kV Galapagar-San Sebastián de los Reyes line as well as the 400 kV substations of Peñalba, Castejón and Fuencarral, to strengthen the transmission infrastructure in the north east and central areas of the peninsular.
- A second circuit has been installed in the Olmedilla-Romica 400 kV line and new bays in the Pinilla substation, to improve the transmission infrastructure in the Levante area for transporting electricity from new wind parks and combined cycle generators in this region.

- The access/exit in Gurrea of the 220 kV Villanueva- Sabiñañigo power line and the Gurrea substation, for transporting electricity generated from wind parks in Navarra.
- The access/exit in Lubián of the 220 kV Puebla de Sanabria-San Agustín line as well as the Lubián substation, for transporting electricity generated from wind parks in Zamora. These installations are pending recognition at the 2001 close.
- The 200 kV Bolarque-Trillo line and 220 kV substations of Bolarque and Trillo, to supply the Trillo Nuclear Power Stations.

The key magnitudes of the electricity system have been characterised by sustained levels of high growth in electricity demand observed in prior years due to a generally wet year on the whole, but with extremely dry conditions in the last months of the year, a drop in the import of electrical power through international exchanges and continued growth in power acquired by the system from special generators. Details are as follows:

- Monthly, daily and hourly demand for electricity broke records in December, with monthly demand of 18,962 GWh, daily demand of 710 GWh and hourly demand of 34,930 MW. Total demand for the year was 205,630 GWh representing growth of 5.5% compared to the prior year.
- Gross electricity generation by domestic producers increased by 39% to 183,559 GWh.
- During 2001 there has been a decrease of 22.3% in international electricity exchanges, representing net imports of 3,450 GWh.
- In 2001 a total of 5,700 MWh has been managed for complementary services related to secondary and tertiary regulation, as well as emergency energy supplies, which are up 12% on the prior year. Of this total, 1,769 MWh corresponds to secondary regulation electrical power and 3,019 MWh to tertiary regulation power. The average power of the assigned regulation band was 1,215 MW with an average price of 0,991 c€/kWh.

- In 2001 RED ELÉCTRICA has also managed a total of 1,390 GWh through power divisions to ensure that demand is covered and to re-establish the balance between generation and consumption, at a total cost to the system of Euros 38 million.

The cost of the processes managed by the Parent Company as operator of the electricity system is 0,25 c€/kWh on the final price, which this year has been 3,859 c€/kWh.

The quality of the service rendered by the transmission grid in 2001 was highly satisfactory in terms of safety and continuity of the electricity supply. The total availability of the grid was 97.49%. The performance of substation and safety teams has been sustained at the same high levels achieved in prior years.

Euros 129,885 thousand has been spent on improvements to the transmission grid, continuing the growth trend started in prior years. In addition to the abovementioned installations that have been brought into service other noteworthy projects underway in 2001 are as follows:

- The new Madrid-Aragón Corridor will strengthen the transmission of electrical power between the Central and Northern and North-Eastern zones of the peninsular. It will also supply a number of substations along the route of the high speed rail link between Madrid and Barcelona.
- The investments for developments along the Northern Corridor and to extend the Navarre transmission grid.
- The strengthening of infrastructure in the Albacete, Andalusia and Galicia areas in order to bring the necessary new generating capacity into the grid.

RESEARCH, DEVELOPMENT AND TECHNOLOGICAL INNOVATION

Within the framework of the Plan for Research, Development and Technological Innovations, the strategy initiated in 2000 has continued apace. The Parent Company has worked on some thirty projects, which represents an approximate volume of Euros 1.6 million, an increase of approximately 45% compared to 2000.

The most significant of the projects completed during the year are those related to minimisation of transmission losses (Thermie), study of limits and competitiveness of the penetration of photovoltaic solar energy in the network (Fotored), understanding the characteristics of national electricity demand (INDEL) and simulation and analysis of shared peninsular regulation.

Of the most significant of the projects underway, bearing in mind the increasing importance of wind power to the Peninsular Electricity System, considerable progress has been made with the project for forecasting wind power (SIPREOLICO). The Company has also commenced other projects, including the development of an algorithm to estimate phasors, which could represent a key advance in this field, the development of a medium intensity transformer based on magnetostrictivity and piezoelectric materials, a project to investigate the mechanisms by which electromagnetic fields at industrial frequencies are able to cause a biological effect in living organisms, and a project to control the growth of trees next to high tension power lines, using artificial vision techniques.

ENVIRONMENTAL PROTECTION

The RED ELÉCTRICA GROUP considers its commitment to the environment to be a strategic policy. In October 2001 the Parent Company was awarded a prize for its Global Environmental Management –reflected and integrated in the strategy of the company through Environmental Policy- in the IV Environmental Awards. This is one of the most prestigious environmental awards in Spain and publicly recognises those companies and public bodies that have made the best initiatives and efforts for the benefit of the environment.

On 23 October 2001, RED ELÉCTRICA was granted membership of the EU Environmental Management and Audit Scheme (EMAS), becoming the first Spanish company to achieve this. This allows RED ELÉCTRICA, among other factors, to use a management tool common to all member States. Special value is attached to EMAS within the environmental framework of the European Union's VI Programme.

In 2001 RED ELÉCTRICA also obtained favourable environmental impact declarations for four power lines and a provisional impact declaration for a substation.

In 2001 RED ELÉCTRICA collaborated with representatives of various organisation and businesses and in a Madrid Regional Government initiative concerning the preparation of the Madrid Region's Electricity Infrastructure Plan. The main purpose of the initiative is to plan the routing of high tension power lines to guarantee future supply in the Madrid Region. These routes could also become significant territorial infrastructure corridors.

PARENT COMPANY SHARES

At the annual general meeting held on 27 April 2001, the shareholders authorised the board of directors to acquire RED ELÉCTRICA shares, as permitted by article 75 and related articles of the Spanish Companies Act.

In 2001, with the objective of providing a market for shares and to provide liquidity to investors, 4,031,742 own shares have been acquired for Euros 40,726 thousand. 4,355,267 shares have been sold, with a total par value of Euros 8,710 thousand and a cash value of Euros 44,242 thousand.

At 31 December 2001 own shares held by the Parent Company represent 0.21% of the share capital and total 279,129 shares, with a global par value of Euros 558 thousand and a market value of Euros 2,764 thousand.

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

TELECOMMUNICATIONS BUSINESS

2001 has been primarily focused on the launch of the Telecommunications business, in accordance with the diversification strategy of the RED

ELÉCTRICA GROUP. Activities this year have been focussed on preparing the infrastructure of the grid to the configuration of RED ELÉCTRICA TELECOMUNICACIONES, as a provider of transmission and electrical power services, and the development of services based on IP solutions.

During 2001 the necessary infrastructure have been developed to configure a fibre optic communication backbone which will transmit the products that RED ELÉCTRICA TELECOMUNICACIONES will offer. This infrastructure has been strengthened in some cities with the various fibre optic sales agreements with other companies for the purposes of connecting this network with the points of presence of RED ELÉCTRICA TELECOMUNICACIONES, located in zones which are closer to future clients in all provincial capitals of Spain.

On 26 November 2001, the GROUP unveiled the "ALBURA" brand under which it will commercialise RED ELÉCTRICA TELECOMUNICACIONES' services in the market. In 2001 services forming part of the company's proposal as a transmission and capacity provider have been developed and launched. These services include the provision optical DWDM capacity, managed SDH capacity and inter-connection with other operators. The interconnection services developed included the launch in 2001 of a new flexible broadband trading service on ConeXalia flexible, permitting operators to enter into dynamic capacity contracts and configure services in real time depending on demand, while paying only for the capacity actually used.

In addition, the company has developed services based on IP solutions supported by the deployment of a nationwide data switching network using the IP/MPLS 2001. In this context, RED ELÉCTRICA TELECOMUNICACIONES has entered into strategic agreements for the development of advanced telecommunications services in Spain.

These services, supported by the abovementioned IP/MPLS network, together with the electricity services, form the nucleus of the strategy of RED ELÉCTRICA TELECOMUNICACIONES and provide a perfect fit with market developments, including Private Virtual Networks providing integrated services (Voice, IP, Video, etc), Internet access services for corporate customers and service providers, ADSL, broadband access, etc.

INTERNACIONAL BUSINESS

2001 has seen the creation and launch of RED ELÉCTRICA INTERNACIONAL, S.A., as one of the two strategic pillars of international diversification and growth of the RED ELÉCTRICA GROUP. During this period, activity has been centred on putting together the legal and organisational framework of this company as well as seeking and analysing new business opportunities.

RED ELÉCTRICA INTERNACIONAL, S.A. was incorporated on 23 February 2001, with a share capital of Euros 60 million, fully subscribed by the Parent Company, of which it has paid 25%. Part of this payment has consisted of the contribution in kind of the Peruvian company RED ELÉCTRICA DEL SUR, S.A. (Redesur), valued at Euros 5,517 thousand.

International expansion is a key strategy for the RED ELÉCTRICA GROUP and a natural market for growth, based on appropriate returns and risk criteria.

In the majority of developing and emerging countries, the electricity industry is increasingly moving towards deregulation and liberalisation as a part of the process by which all sectors of their economies are gradually opening up economic sectors and in line with the general trend to improve efficiency in the production and supply of electrical power.

The international climate thus offers opportunities to invest in transmission systems, and at the same time to undertake technical and business consultancy services projects for companies involved in liberalisation and restructuring processes as a consequence of the modernisation of infrastructure and control systems.

The RED ELÉCTRICA GROUP's know-how and skills in the management and operation of electrical systems are highly valuable assets for the growth of its two key business lines in the international market: investment in electrical power transmission assets and specialist consultancy projects.

FORECAST DEVELOPMENT

2002 will be marked by continuing consolidation of the GROUP, combining strong investment in the development and expansion of the electricity transmission grid with the strategy of diversification in telecommunications and international businesses. GROUP investments forecast for 2002 amount to approximately Euros 250 million and while returns are expected to be in line with targets.

In the Electricity business, as well developing and extending the transmission grid, work will be undertaken to develop the Iberian Electricity Market envisaged in the agreements signed at the end of 2001 between the Governments of Spain and Portugal.

In the Telecommunications business, the strategy of developing a telecommunications network will primarily focus on developing the data centres structure and launching products and solutions, especially key services based on IP solutions.

Finally, the International Business will concentrate on the materialisation and consolidation of investment opportunities that were already at an advanced stage of analysis at the end of 2001, as well as studying and implementing further international investments in transmission assets. The International Business also expects to undertake new specialist advisory and consultancy projects.

It is likely that the coming year will bring a climate of uncertainty over the extent of recovery in the international economy. Although this represents a challenge, it should also be viewed as an excellent opportunity for expansion and development in new markets, continuing the GROUP's strategy of consolidation and growth, based on appropriate returns and risk criteria and exploiting its know-how and experience in the Electricity Business.

RED ELÉCTRICA DE ESPAÑA, S.A.
PROPOSAL FOR DISTRIBUTION OF PROFIT
31 DECEMBER 2001

The Company has generated profits for 2001 of Euros 90,785,043.19. The board of directors will propose to the shareholders at their annual general meeting that profit be distributed as Euros 0.455 gross dividend per dividend share, of which Euros 0.18 is distributed as interim dividend per share, with the remaining profit allocated to voluntary reserves.

	Euros
VOLUNTARY RESERVES	29,286,786.43
DIVIDENDS::	
INTERIM DIVIDENDS	24,299,006.76
SUPPLEMENTARY DIVIDEND (CALCULATION BASED ON TOTAL NUMBER OF SHARES)	37,199,250.00
TOTAL	90,785,043.19

CERTIFICATION

Rafael García de Diego Barber, in his capacity as Secretary of the Board of Directors of Red Eléctrica de España, S.A., and while performing the empowerments granted by Article 109 in the current Regulations of the Trade and Companies Register,

CERTIFIES, HEREBY:

That the Annual Accounts and Director's Report concerning Red Electrica's Consolidated Group, as well as the Balance Sheet, Profit and Loss Account, and Proposed Distribution of Profit, which can be seen this document, are a true and faithful reproduction of those submitted and drawn up during Red Eléctrica de España, S.A.'s meeting held on the 5th of March, 2002; as it is required in Article 171.2 of the Companies Act Reviewed Wording, a copy of each one of the said documents, signed by all the Directors, is available in the Secretary's offices.

For the record and to the intended purposes, this Certificate is issued in Madrid, on the 12th of March, 2002.





Auditores

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Consolidated Annual Accounts

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

We have audited the consolidated annual accounts of Red Eléctrica de España, S.A. (the Company) and its subsidiary companies (hereinafter the Group) which comprise the consolidated balance sheet at 31 December 2001, the related consolidated statement of profit and loss for the year then ended and the notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In accordance with prevailing Spanish legislation, these consolidated annual accounts also include, for each individual caption in the consolidated balance sheet and the consolidated statement of profit and loss, comparative figures for the previous year. We express our opinion solely on the consolidated annual accounts for 2001.

In our opinion, these consolidated annual accounts present fairly, in all material respects, the consolidated shareholders' equity and consolidated financial position of Red Eléctrica de España, S.A. and subsidiary companies at 31 December 2001 and the consolidated results of their operations and their consolidated source and application of funds for the year then ended and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain applied on a basis consistent with that of the preceding year.

The accompanying consolidated directors' report for 2001 contains such explanations as the directors consider relevant to the situation of the Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2001. Our work as auditors is limited to the verification of the consolidated report within the scope described in this paragraph and does not include a review of information other than that obtained from the audited accounting records of Red Eléctrica de España, S.A. and its subsidiaries.

KPMG AUDITORES, S.L.

Valeriano Pérez Lozano

6 March 2002



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

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y en el Registro de Sociedades del Instituto de Auditores-Censores
Jurados de Cuentas con el n.º 16.
Reg. Mat. Madrid, 1. 11.001, F. 24, Sec. 8, H. M 168.007, Inscrip. 1.ª
N.º F. B 75610123



RED ELÉCTRICA DE ESPAÑA S.A.

BALANCE SHEET · at 31 December 2001 · Expressed in thousands of Euros · (Translation from the original in Spanish)

ASSETS	2001	2000
INTANGIBLE ASSETS	4,885	7,198
Research and development expenses	18,582	18,330
Software	6,897	6,464
Amortisation	(20,594)	(17,596)
TANGIBLE ASSETS	1,370,565	1,308,175
Land and buildings	35,259	35,314
Plant and machinery	2,227,990	2,150,597
Other installations, equipment and furniture	82,179	63,426
Plant and machinery under construction	169,651	118,920
Advances and other assets under construction	17,423	3,645
Provisions	(22,134)	(21,648)
Depreciation of plant and machinery	(1,078,675)	(985,967)
Other depreciation	(61,128)	(56,112)
INVESTMENTS	123,723	91,632
Investment in group companies	120,000	69,000
Investment in associated companies	-	5,517
Other loans	4,912	5,857
Long-term guarantee deposits	272	216
Long-term balances recoverable from public entities	12,450	11,855
Provisions	(13,911)	(813)
OWN SHARES	2,764	6,057
LONG-TERM DEBTORS	5,815	5,815
TOTAL FIXED ASSET	1,507,752	1,418,877
DEFERRED EXPENSES	8,972	11,162
STOCKS	4,903	2,480
Raw materials and other supplies	8,903	5,809
Provisions	(4,000)	(3,329)
DEBTORS	145,507	106,903
Trade debtors	20,731	14,546
Group companies	23,253	1,358
Associated companies	1,967	524
Sundry debtors	97,049	85,921
Personnel	1,255	1,890
Public entities	1,631	2,680
Provisions	(379)	(16)
SHORT-TERM INVESTORS	14,269	24,664
Short-term investment portfolio	12,026	9,019
Other loans	2,243	15,645
CASH AND BANKS	279	769
PREPAID EXPENSES	10,884	1,873
TOTAL CURRENT ASSETS	175,842	136,689
TOTAL ASSETS	1,692,566	1,566,728

SHAREHOLDERS' EQUITY AND LIABILITIES	2001	2000
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
RESERVES	189,236	162,626
Legal reserves	54,199	54,199
Reserve for own shares	2,764	6,057
Other reserves	132,273	102,370
PROFIT FOR THE YEAR	90,785	83,130
INTERIM DIVIDEND	(24,299)	(22,877)
TOTAL SHAREHOLDERS' EQUITY	773,284	740,441
Capital grants	61,534	61,885
Exchange gains	87	88
Other deferred income	129,164	121,948
TOTAL DEFERRED INCOME	190,785	183,921
Provisions for pensions and other liabilities	9,117	15,784
Provisions for taxes	234	234
Other provisions	10,347	5,800
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	19,698	21,818
BOND ISSUES	126,318	126,318
LOANS	124,921	149,301
OTHER CREDITORS	45,358	46,733
UNCALLED SHARE PAYMENTS	45,000	45,000
Group companies	45,000	45,000
LONG-TERM CREDITORS	341,597	367,352
BONDS ISSUED	2,846	3,024
Interest payable	2,846	3,024
LOANS	167,098	85,068
Loans and other debt	161,493	78,585
Interest payable	5,605	6,483
SHORT-TERM DEBT WITH GROUP AND ASSOCIATED COMPANIES	5,056	-
Group companies	4,830	-
Associated companies	226	-
TRADE CREDITORS	50,333	51,743
For purchases and services received	50,333	51,743
OTHER CREDITORS	111,930	75,088
Public entities	23,578	22,447
Others	86,793	51,286
Salaries payable	75	45
Short-term guarantee deposits received	1,484	1,310
ACCRUALS	29,939	38,273
TOTAL CURRENT LIABILITIES	367,202	253,196
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,692,566	1,566,728

RED ELÉCTRICA DE ESPAÑA S.A.

PROFIT AND LOSS ACCOUNTS · at 31 December 2001 · Expressed in thousands of Euros · (Translation from the original in Spanish)

EXPENSES	2001	2000
EXPENSES		
MATERIALS CONSUMED	220,919	220,549
Purchases of energy and power	210,480	208,895
Maintenance and repair materials	10,439	11,654
PERSONNEL EXPENSES	53,436	54,366
Wages and salaries	38,860	40,369
Social security	9,083	9,399
Pensions and similar obligations	802	839
Other social charges	4,691	3,759
AMORTISATION AND DEPRECIATION	102,931	101,305
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	1,033	104
Change in provisions for stocks	671	339
Changes in provisions for bad debts	362	(235)
OTHER OPERATING EXPENSES	71,588	47,283
External services	63,178	42,216
Local taxes	1,923	1,959
Other administrative expenses	958	764
Provision for liabilities and charges	5,529	2,344
TOTAL OPERATING EXPENSES	449,907	423,607
OPERATING PROFIT	165,783	151,286
FINANCIAL AND SIMILAR EXPENSES	20,744	18,966
On debt with third parties	20,744	18,966
EXCHANGE LOSSES	321	1,154
TOTAL EXTRAORDINARY EXPENSES	21,065	20,120
PROFIT ON ORDINARY ACTIVITIES	145,945	132,190
CHANGE IN PROVISIONS FOR TANGIBLE ASSETS AND TREASURY STOCK	13,361	2,383
LOSSES ON TANGIBLE FIXED ASSETS	499	129
LOSSES ON TREASURY STOCK OPERATIONS	186	8
EXTRAORDINARY EXPENSES	825	11,423
PRIOR YEARS' ITEMS	231	176
TOTAL EXTRAORDINARY EXPENSES	15,102	14,119
PROFIT BEFORE TAX	138,850	126,035
INCOME TAX	48,065	42,905
PROFIT FOR THE YEAR	90,785	83,130

INCOME	2001	2000
INCOME		
NET SALES	603,982	562,134
Services rendered (Transmission and system operation)	355,770	333,369
Other service income	29,542	12,927
Sales of energy and power	218,579	215,697
Sales of by-products	91	141
SELF-CONSTRUCTED ASSETS	9,463	8,219
OTHER OPERATING INCOME	2,245	4,540
Other income	2,136	3,773
Grants	89	175
Surplus provision for liabilities and charges	20	592
TOTAL OPERATING INCOME	615,690	574,893
INVESTMENT INCOME	38	68
OTHER INTEREST AND SIMILAR INCOME	1,042	895
EXCHANGE GAINS	147	61
TOTAL FINANCIAL INCOME	1,227	1,024
NET FINANCIAL EXPENSE	19,838	19,096
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS	14	4
PROFIT ON TREASURY STOCK OPERATIONS	248	19
CAPITAL GRANTS TAKEN TO INCOME	5,504	5,275
EXTRAORDINARY INCOME	2,001	1,974
PRIOR YEARS' ITEMS	240	692
TOTAL EXTRAORDINARY INCOME	8,007	7,964
NET EXTRAORDINARY LOSS	7,095	6,155



At the meeting of the Board of RED ELÉCTRICA DE ESPAÑA. S.A. (hereinafter the Company) held on 5 March 2002, the Directors resolved to

include the following information in connection with the Code of Good Governance in the Annual Report for 2001.

I. INFORMATION CONCERNING THE RULES APPLICABLE TO THE GOVERNANCE OF THE COMPANY —

The Company is governed by the Articles of Association contained in the deeds made in the presence of the Notary of Madrid Mr. Manuel Rodríguez Marín on 16 and 19 May 1999, as well as by the Regulations of the Board of Directors approved on 8 June 1999, as amended by the resolution adopted at the meeting of the Board held on 25 April 2000.

At a Board meeting held on 8 June 1999, the Directors approved the Internal Code of Conduct for the Securities Markets, which replaced the code approved in 1994. The new Internal Code for the Securities Markets took effect on 7 July 1999. This Code amended the regulations prevailing until the time of its adoption in line with the Circulars issued by the Spanish Securities Market Commission in connection with significant and confidential matters and treasury stock operations.

The aforementioned amendments were designed to adapt the Company to the new situation resulting from the Public Offer for Sale carried out by Sociedad Estatal de Participaciones Industriales (SEPI—the Spanish State holding company), and the listing of the Company's shares on the stock exchanges on 7 July 1999.

The Regulations of the Board of Directors were approved in order to integrate the princi-

ples and recommendations made in the Report prepared by a Special Commission established to frame an Ethical Code for the Boards of Directors of Spanish Companies (the Code of Good Governance). The purpose of the Code of Good Governance is to establish the principles for action and the basic rules for the organisation of company boards and the performance by directors of their duties. On 25 April 2000 the Board of Directors resolved to amend the aforementioned Regulations in order to allow any of its members to perform the functions of President of the Remuneration Committee and Secretary to the two other Committees created, and to establish the availability of relevant information to monitor the evolution of shareholdings in the Company and possible non-compliance with statutory and legal limits on ownership thereof as a condition for the monitoring duties assigned to the Audit and Compliance Committee.

The basic missions assigned to the Board of Directors are defined as general oversight of the running of the Company and the creation of value for the shareholder, which shall be maximised to the extent possible in accordance with the precepts of the Law, good faith in contractual dealings and strict observance of the ethical obligations inherent in the proper conduct of the business.

2. INFORMATION CONCERNING ACCEPTANCE OF THE RECOMMENDATIONS CONTAINED IN DE CODE OF GOOD GOVERNANCE

The following pages detail the degree to which each of the recommendations contained in the Code of Good Governance has been implemented in the Company.

RECOMMENDATION 1ST.

POWERS OF THE BOARD OF DIRECTORS

The Board of Directors exercises all powers established in articles 128 and 129 of the prevailing Spanish Companies Act, as well as those referred to in clause 23 of the Company's Articles of Association.

Notwithstanding those powers that may not be delegated in accordance with relevant legislation, article 5 of the Regulations of the Board of Directors establishes certain general oversight functions that must be carried out by the Board directly.

RECOMMENDATION 2ND.

INDEPENDENCE

The Company's Board of Directors includes four independent directors, all of whom are persons of

good professional standing, and unrelated either to the executive team or to major shareholders.

RECOMMENDATION 3RD.

REPRESENTATION

The members of the Board of Directors comprise an Executive director and various external directors representing shareholders, as well as the independent directors.

The Executive director is at the same time the Chairman of the Company's Board of Directors.

The external directorships are split between shareholder representatives and independent directors basically in proportion to significant shareholdings in the Company and minor shareholders. Thus, the Board comprises four independent directors and eight appointed by shareholders. The latter represent approximately 61.5% of Board members, while a total of 68.5% of share capital is owned by major shareholders.

At 31 December 2001 the members of the Board of Directors, the nature of each directorship and the date of appointment are as follows:

<i>Director</i>	<i>Appointment</i>	<i>Nature</i>
D. Pedro Mielgo Álvarez	30.09.97	executive director
D. Pedro Rivero Torre	29.01.85	shareholder representative
D. Rafael Miranda Robredo	27.06.88	shareholder representative
D ^a María Luisa Huidobro y Arreba	25.09.90	independent director
D. Victoriano Reinoso y Reino	18.12.90	shareholder representative
D. Juan Gurbindo Gutiérrez	03.02.98	shareholder representative
D. Antonio Garamendi Lecanda	20.07.99	independent director
D. Manuel Alves Torres	26.10.99	shareholder representative
D. Joaquim Clotet i Garriga	26.10.99	independent director
D. Pablo Isla Álvarez de Tejera	30.11.99	independent director
D. Germán González del Valle Chávarri	10.10.00	shareholder representative
D. Juan Massó Garolera	27.03.01	shareholder representative
Iberdrola, S.A.	26.06.01	shareholder representative

RECOMMENDATION 4TH.

APPROPRIATE SIZE

In accordance with the Articles of Association, the Board of Directors shall comprise a minimum of nine and a maximum of fifteen members, who shall be appointed by the shareholders at their General Meeting.

The Board of Directors currently has thirteen members. This number appears appropri-

ate, and there are no plans for any change in the size of the Board.

RECOMMENDATION 5TH.

DELEGATION OF FUNCTIONS

Certain powers of the Board of Directors have been delegated to the Chairman of the Board in accordance with clause 23 of the Articles of Association. The Chairman is also responsible

for those functions specifically assigned to that office by the Spanish Companies Act and the Regulations of the Mercantile Registry, and represents the Company at the highest level. All corporate actions of relevance are duly reported to the Board of Directors of the Company.

RECOMMENDATIONS 6TH, 12TH, 14TH AND 23RD.

REGULATORY ASSURANCES, AVAILABILITY, ADVISORY SERVICES, INVESTIGATION AND CONTINUITY

These Recommendations refer to the functions of the Secretary to the Board of Directors, the Directors' obligation to resign in circumstances that might have negative effects on the proper functioning of the Board or detract from the Company's good standing and reputation, the Directors' right to receive information, and the obligation to include information concerning the Company's rules of governance in the published Annual Report, including explanations of any rules which, having been included in the Regulations of the Board of Directors (articles 12, 24, 26, 27 and 43), are not in accordance with the Code of Good Governance.

RECOMMENDATION 7TH.

EXECUTIVE STEERING COMMITTEE

The terms of this Recommendation have been included in the Regulations of the Board of Directors, although the Executive Steering Committee has not been created to date.

RECOMMENDATION 8TH.

SELF-REGULATION

At the meeting of the Board held on 30 November, 1999, the Directors resolved to create an Audit and Compliance Committee and a Remuneration Committee in accordance with the terms of the Regulations of the Board. The Directors further resolved that these committees should regulate their own functions. The membership of the Committees is as follows:

Audit and Compliance Committee:

- D. Manuel Alves Torres
- D. Joaquím Clotet i Garriga
- D. Pedro Rivero Torre

Remuneration Committee:

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

The Audit and Compliance Committee basically carries out support functions connected with oversight of the running of the Company by the Board of Directors. It proposes the appointment of the external auditor, reviews the Company's accounts, the appropriateness and integrity of internal control systems and the regular financial information disclosed to the markets, examines compliance with the Internal Code of Conduct for the Securities Markets, reports on disciplinary measures affecting Senior Officers of the Company, and monitors the evolution of shareholdings in the Company, reporting to the Board whenever any breach of the limits established by Law and in the Articles of Association may be observed.

The Remuneration Committee is basically responsible for proposing the basis for and amount of annual emoluments paid to the Directors, as well as remuneration criteria and schemes for Senior Management. It reviews remuneration schemes on a regular basis and oversees the transparency of compensation.

The Audit and Compliance Committee has held seven meetings in 2001 and the Remuneration Committee four.

RECOMMENDATIONS 9TH, 10TH AND 11TH.

DOCUMENTATION, FREQUENCY OF MEETINGS AND APPOINTMENTS

In accordance with article 18 of the Regulations of the Board of Directors, relevant information, duly summarised and prepared, must accompany notice of Board meetings, except where this would be inadvisable for reasons of security. Notice of meetings must be given at least three days in advance, as is currently the case, in order to allow the Directors sufficient time to prepare.

Article 18 of the Regulations also requires Board meetings to be held on a monthly basis. In general, this has been the case during 2001. However, the Chairman may also call extraordinary meetings of the Board if he deems it neces-

sary for the proper running of the Company. The Articles of Association (clause 21) require that meetings of the Board of Directors be held at least once per quarter. The duty of the Chairman to encourage full participation by all Directors in the Board's debates has been included in the Regulations (article 19). The Board is required to devote at least one meeting per year to the assessment of its own activities and the quality of its work.

Directors are appointed in accordance with the provisions of the Spanish Companies Act. In connection with the appointment of external directors, the Regulations of the Board of Directors includes the recommendation that candidates be persons of good professional standing who possess appropriate qualifications and experience.

On 27 March 2001, Mr. Juan Massó Garolera was appointed as a director to cover an existing vacancy, and on 26 June 2001 Iberdrola, S.A. was appointed to replace Mr. Javier Herrero Sorriqueta on the Board. This corporate director is represented by Mr. José Ignacio Sánchez Galán.

RECOMMENDATION 13TH.

AGE LIMIT

In accordance with article 24 of the Regulations of the Board of Directors, which establishes the grounds for the termination of directorships, directors shall, in general, be required to retire upon reaching the age of 70. Nevertheless, the Chairman, Vice-Chairman, Chief Executive Officers and the Secretary of the Board shall retire from such office upon reaching the age of 65, though they may continue to serve on the Board as directors.

RECOMMENDATION 15TH.

REMUNERATION

This Recommendation is reflected in article 28 of the Regulations of the Board of Directors, which stipulates moderation in matters of remuneration and requires that a significant part of Directors' emoluments be linked to the performance of the Company and be established in an open manner.

The manner of Directors' remuneration is established in clause 20 of the Articles of

Association. At the meeting of the Board held on 8 February 2000, the Directors approved the system for the remuneration of directors, which provides for compensation in respect of attendance at and work undertaken in connection with meetings of the Board or Committees, as well as variable remuneration based on the Company's earnings. At the Board meeting held on 15 February 2001, the Directors agreed to maintain the same remuneration system in 2001.

The Remuneration Committee is responsible for proposing the system for and amount of the annual emoluments paid to Directors, as well as establishing the remuneration criteria applicable to Senior Management.

The amounts paid by way of remuneration of the members of the Board of Directors are disclosed in the Notes to the Annual Accounts of the Company.

RECOMMENDATIONS 16TH AND 17TH.

LOYALTY OF DIRECTORS AND SIGNIFICANT SHAREHOLDERS

Articles 30 and 40 of the Regulations of the Board of Directors both refer to the general duties of diligence and loyalty owed by Directors to the Company, and to the matter of conflicts of interest. These articles set out the specific regime of the Director's general obligations, including the duty of confidentiality, the duty of non-competition, obligations related with conflicts of interest, the use of corporate assets, restricted information, business opportunities, and indirect operations, Directors' disclosure requirements, transactions with significant shareholders, and the principle of openness.

In connection with the duty of loyalty applicable to significant shareholders, the Board of Directors has formally reserved the right to be informed of any relevant transaction entered into between the Company and such shareholders in the Regulations to the Board of Directors (article 39).

RECOMMENDATIONS 18TH AND 19TH.

TRANSPARENCY AND FULL DISCLOSURE

In the matter of communication between the Company and its shareholders, in particular institutional investors, and the information provided

to the markets, the Regulations of the Board of Directors include these Recommendations in articles 41 (shareholders), 42 (institutional shareholders) and 43 (relations with markets).

Since 1999 the Company has maintained an "Investor Relations Office" to respond to shareholders' queries and concerns.

In February 2001 the Board of Directors resolved to create an Organisational Unit for treasury stock operations under the responsibility of the Corporate Finance Department.

This Organisational Unit has been charged with monitoring such operations and ensuring legal compliance, as well as compliance with the Company's Internal Regulations for the Securities Market.

At their Annual General Meeting held on 27 April 2001, the shareholders of the Company authorised the Board of Directors to acquire own shares of the Company in accordance with article 75 and related provisions of the Spanish Companies Act, either directly or indirectly and to the extent deemed appropriate in the circumstances, within the limits established by Law and in compliance with all other legal requirements. Procedural requirements for treasury stock operations were also regulated at the aforementioned Annual General Meeting, at which the shareholders resolved to revoke the authorisation to acquire treasury stock conferred upon the Board of Directors at the Annual General Meeting held on 26 March 2000, thereby annulling such authorisation.

The treasury stock operations carried out in 2001 are disclosed in the Notes to the Annual Accounts.

RECOMMENDATIONS 20TH AND 21ST.

RELIABILITY OF DISCLOSURES

AND IMPARTIALITY OF THE AUDITORS

Article 43 of the Regulations of the Board of Directors requires that the financial information released to the markets be prepared in accordance with the same principles, criteria and professional standards as that included in the annual accounts and be equally reliable. For these purposes, the information reported to the markets must be reviewed by the Audit and Compliance Committee.

The Company regularly checks compliance with the criteria established in Recommendation 21, which refers to the matter of the independence of auditors in connection with the overall and relative importance of the fees paid by the Company to audit professionals.

The cost of the external audit of the 2001 Annual Accounts of the Company and group companies was approximately 50,000. This sum does not represent a significant percentage of the total revenues of the firm of auditors employed.

Fees paid to companies directly or indirectly related to the audit firm in respect of professional services other than audit have also been reviewed. Such amounts are not significant and do not affect either the Company's strategy or general planning.

RECOMMENDATION 22ND.

QUALITY OF ACCOUNTING

During 2000 and 2001 the Company has obtained regular, unqualified reports on its financial statements from the external auditors

CO-ORDINATION:

RED ELÉCTRICA Communications and International Relations Management

PICTURES:

Adam Lubroth, page 6.

Fernando Prados, pages 10,14, 24, 28, 29, 31 upper frame and lower frame, 43, 45 upper frame and lower frame, 57, 58, 60 y 62.

From RED ELÉCTRICA:

Ángel Andrés Martínez, pages 16, 21 upper frame, 25 upper frame and 26 upper frame.

José Antonio Celorrio, pages 17, 20 upper frame, 21 lower frame, 27 upper frame and 66 upper frame.

Roberto Arranz Cuesta, page 22.

José María Recover Sanz, page 23.

Jesús Gómez Rodríguez, page 25 lower frame.

Mariano Hernández Toledo, page 26 lower frame.

Pedro Somarriba, page 32.

Juan José González Camino, pages 63 y 65

Agapito García Gonzalo, page 66 lower frame.

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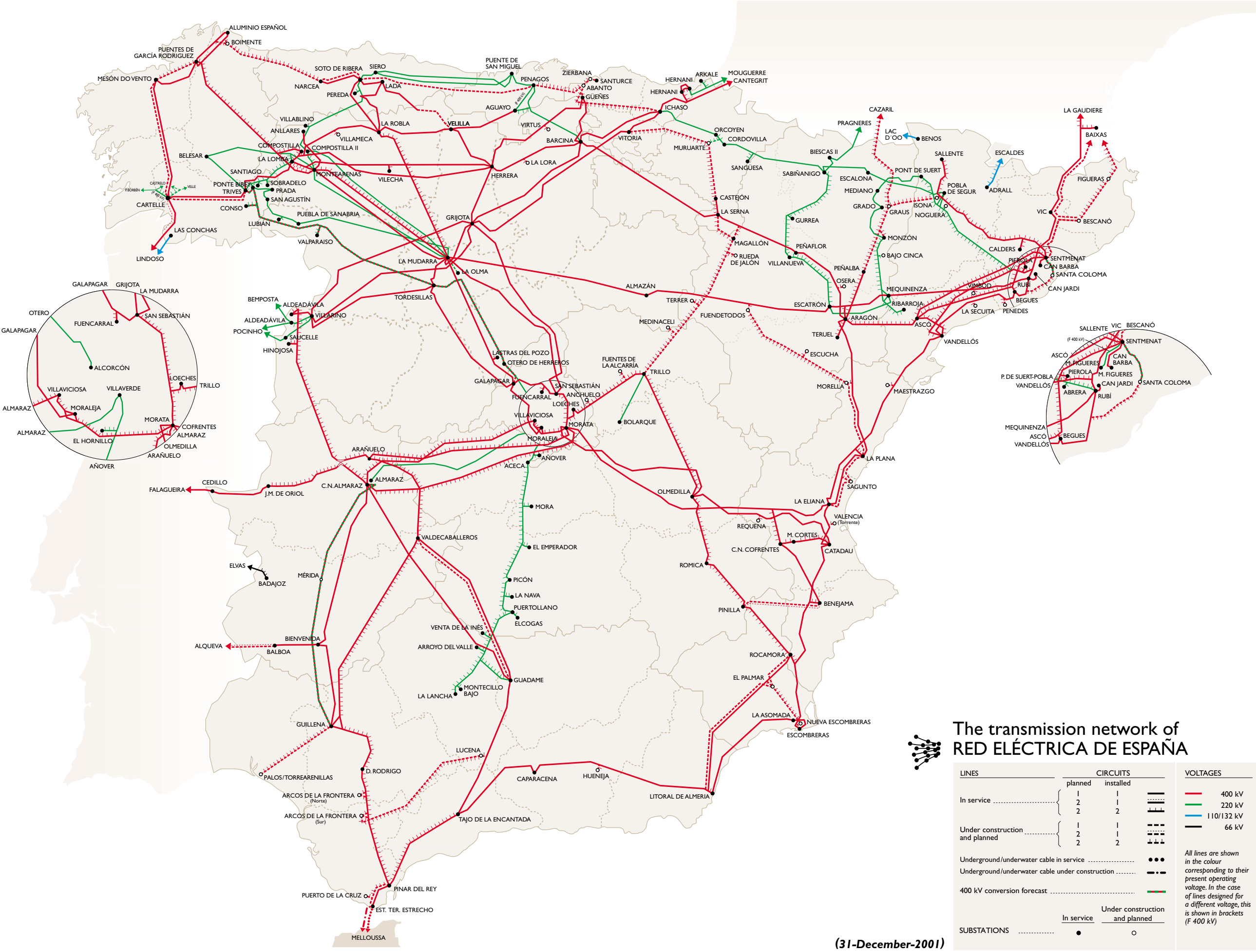
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Siglo Digital

PRINTING:

TF Artes Gráficas



The transmission network of RED ELÉCTRICA DE ESPAÑA

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

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



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DE ESPAÑA

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