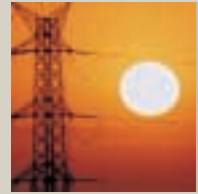




RED ELÉCTRICA DE ESPAÑA



Annual Report 2002



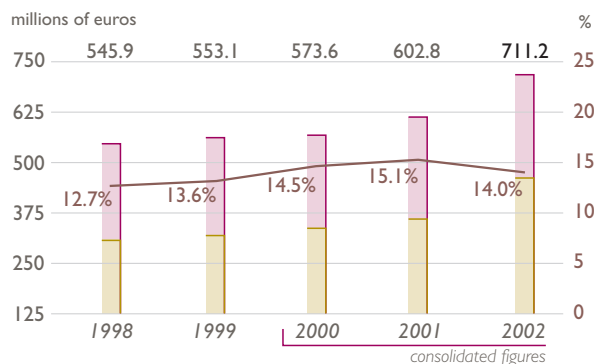
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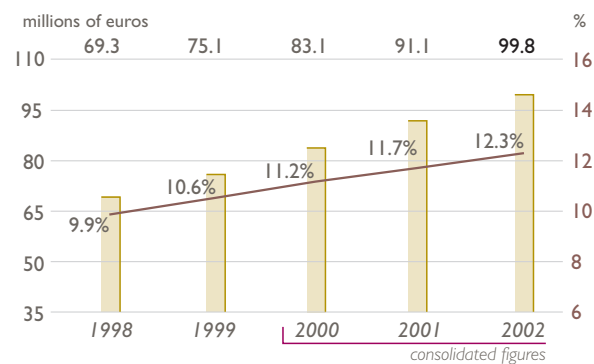
Operating revenues

Sales of energy and power and other income
 Revenues from transmission and system operation
 Margin (PAT/Operating revenues)



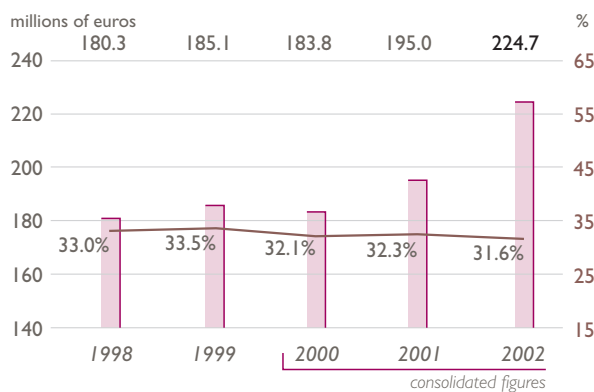
Profit after tax

Profit after tax (PAT)
 ROE (PAT/equity)



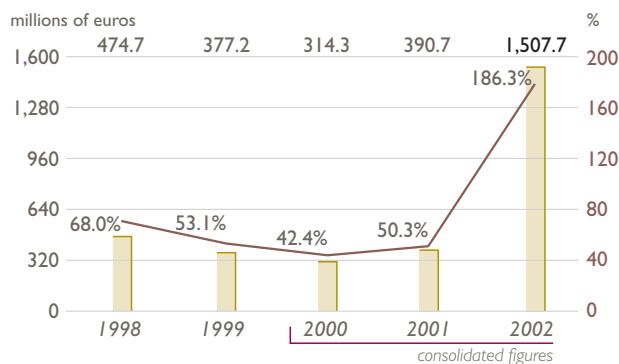
Cash flow after tax

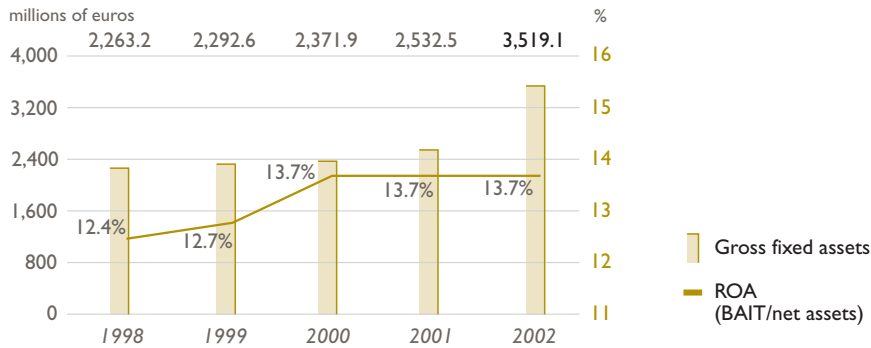
Cash flow after tax
 Cash flow after tax/operating revenues



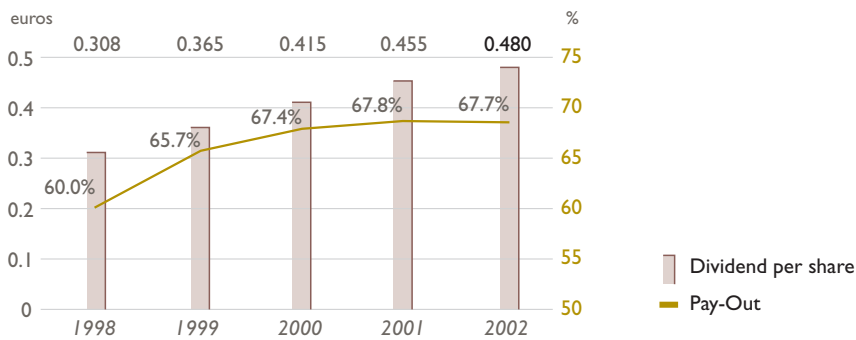
Net financial liabilities

Net financial liabilities
 Net financial liabilities/equity

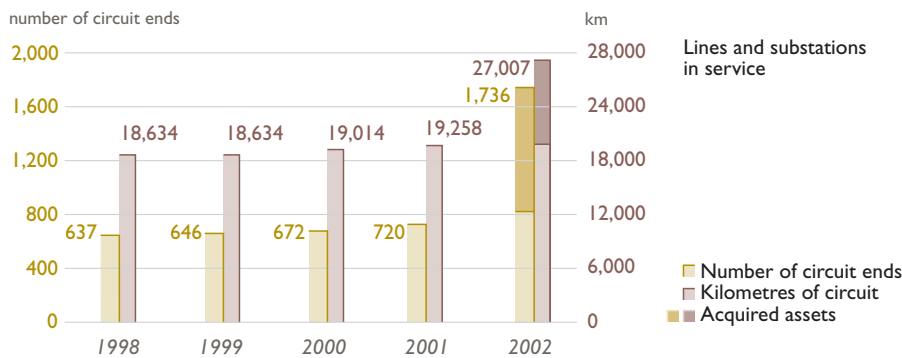




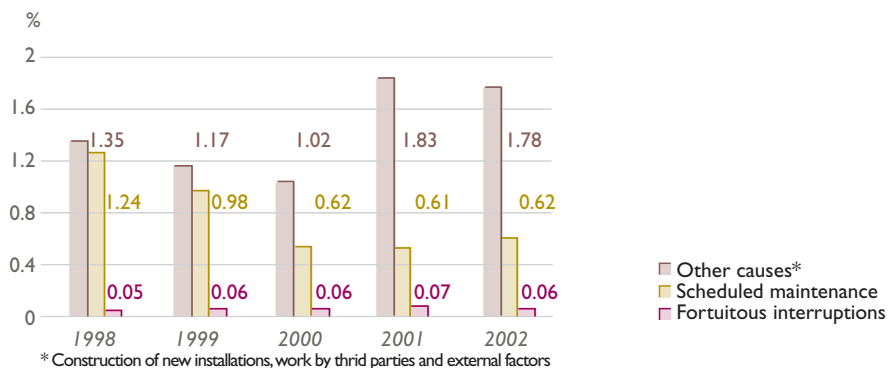
Fixed assets



Dividend per share



Size of the grid



Unavailability

(supply interruptions)

The Chairman's Letter

To our shareholders:

In recent years we have witnessed important changes for RED ELÉCTRICA DE ESPAÑA in regard to the legal, regulatory and economic environment and in regard to development of the company itself. However, 2002 proved to be a year of significant changes with far-reaching consequences for the future.

The purchase of Endesa's and Unión Fenosa's transmission assets, together with the parts acquired in the company which controls Iberdrola's transmission assets, have supposed the most important milestone since the creation of the company in 1985 and have led to the final definition of our strategic position. RED ELÉCTRICA is now one of the most important power transmission companies in the world in terms of size but especially in terms of efficiency and quality. These parameters will prove increasingly decisive with regard to profitability and will ensure the company's future in this area of activity.

The opportunities which will be available from now on for scale economies, for enhancement of technological and operational efficiency, for growth and profitability, are so important that we should speak now of a new RED ELÉCTRICA.

Since the definition of the company's new strategy in 1998, our main priority has been to provide the Spanish electricity system with a service of quality and excellence which would be a source of profit, of prestige and -above all- of future opportunities.





The conviction that this was the best course and our persistence and tenacity, have changed the context in which the company operates. This will be to the benefit of all those with a direct interest: shareholders, employees, managers, suppliers, users of the transmission grid and society in general. Electricity is not only an essential service in legal terms but a technical cornerstone of our world, of economic development and of individual and family welfare.

As a result of the acquisitions mentioned above, RED ELÉCTRICA is now organised on the lines of the TSO (Transmission System Operator) model. This model is increasingly accepted as the norm in deregulated electricity systems - especially in the European Union. The alignment with a standard model is -in itself- of considerable importance but it also opens up possibilities of better regulation and it will allow RED ELÉCTRICA to become a significant player in the area of European transmission grids in the near future.

Our operational reliability and solid financial position meant that these acquisitions could be entirely financed with debt while maintaining excellent credit ratings. This bodes well for our future and indicates yet another quality we can add to the continuous improvement in recent years..

Therefore our efforts in the coming years will be applied first to integrating these new facilities with the company's operational and management systems. We shall also work to maintain the past

pace of continuous improvement in our financial results. This should be a consequence of the synergy which will emerge progressively as we take advantage of scale economies and operational improvements in accordance with a plan which was specifically designed for this purpose and is now being implemented.

Apart from this singular and decisive event, 2002 ended with results which maintained the positive tone of previous years. Profit after tax rose to 99.8 million euros - an increase of 9.6%. This figure has grown by 74% over the last five years and the average increase each year has been 11.7%. This is a reflection of the level of effort being expended.

Investment in new facilities for the transmission grid came to 203 million euros which was a record figure. A total of 710 km of circuit and 88 circuit ends were commissioned and these were also record figures. This reflects a level of activity which is unequalled in Europe and the investments made will generate new revenue in the coming years. They are therefore the basis of the company's future development.

In 2003 the increase in transmission revenues associated with the effect of the new investments, will be 10.2%. Total revenue for this year, including the newly-acquired facilities, is expected to grow by 57.7%. Revenue from system operation has also grown by 22.1% which is in line with growth in recent years.

The strong growth in demand since 1996 has become a constant challenge to the quality of system management through the greater requirements faced by the generation and transmission system. In all cases, the system's performance has been more than adequate and this is a source of satisfaction. This success is the result of the foresight incorporated in our planning, of the continuous improvements in the operating systems and tools and of the training provided to our staff. Our people are the key to excellence in this, and in everything we do. The recent winter witnessed successive peaks of demand which broke all records, however, at no time there were difficulties encountered in regard to the security of supply.

The year 2002 was also associated with other important events. The acquisition of TDE, the transmission operator in Bolivia, strengthens our presence in Latin America. And it concerns sound and profitable plans. In this case, the creation of value does not stem from financial concepts alone but from the ability to contribute experience and technical capacity to improve operational efficiency. It will therefore lead to better financial results at the companies in which we are present. This acquisition reinforces our position in the Andes area where we already hold a 30% stake in RED ELÉCTRICA DEL SUR (REDESUR) in Peru. With regard to the latter company, which holds a 30-year licence to strengthen the electricity system in southern Peru, it is worth to mention that 2002 saw the first full year of operation since the 530-km power line associated with the licence entered service. The company is now the leading power transmission company in Peru in terms of service quality. In both cases, the financial results have achieved and even improved budget figures.

In addition, our telecommunications subsidiary continues to develop in a satisfactory manner although slower than initially expected. This is due

to the slowdown in demand for transmission capacity and Internet infrastructures. On the other hand, demand clearly began to recover in the second half of 2002 and should continue this year, leading to sales growth and the corresponding improvement in financial results. Our flexible strategy has allowed us to reduce the investment plan for the 2002-2006 period from 400 million to 150 million euros. We can therefore attend to investment needs in a selective fashion according to real demand and to optimise the company's results.

The foregoing illustrates the main lines of our strategy, which were already defined four years ago. This strategy is constantly revised to reflect the current economic and regulatory environment and any significant business opportunities. I would like to take a moment here to briefly comment on certain aspects of it.

The first of these strategic lines, as mentioned above, concerns the level of excellence of the service provided by the electricity system. In this respect, RED ELÉCTRICA's ability is increasingly recognised, in a clear and ample fashion, both in Spain and abroad. This is precisely the best mainspring of the company's development.

The second line of strategy is diversification as an additional source of value for our shareholders. This is fully compatible with the basic activity and essential skills of the company and it has been our approach from the beginning, focused on management of electricity networks and telecommunications. Since these business lines are based on services that are of vital importance to any modern society, their source and future is guaranteed.

Business strategies are supported by two internal activities at the company. The first of them concerns constant improvement applied to the internal business systems. It is demonstrated by the

improvements recorded in all the indices of operational and administrative efficiency and it can be seen in the yearly comparisons carried out by independent organisations. RED ELÉCTRICA occupies the top position in these comparisons and can thus be regarded from many points of view as a model at international level.

The second internal strategy is to give priority to people - in all senses of the word. We believe that this is the key to excellence and success. A rigorous selection process, careful attention to training and professional development -reconciling company needs with those of family- and personal safety, are the principles of our human resources policy, together with continuous improvement in the organisation through simplification.

Beyond these achievements, which I would not hesitate to qualify as very favourable, we continue to make progress in the area of good corporate governance. The company's statutes and the procedures of the Board of Directors have been adapted to the latest legislation (Act 44/2002 of November 22nd, on Reform of the Financial System, and Act 53/2002 of December 30th, on Fiscal, Administrative and Corporate Measures) and to the recommendations of the Aldama Commission on governance of listed companies.

Our company has always exercised transparency in matters of corporate governance and in making information available to outside parties. We recently received public recognition by the Spanish Accounting and Business Administration Association (AECA) with regard to quality of the financial information on our web page. We wish to maintain a leading position in this area which is of great importance for our shareholders as well as for financial markets and society in general. As evidence of this, this year RED ELÉCTRICA is publishing its principles of social responsibility and

has also signed the principles of the UN Global Compact on human rights, employment standards and protection of the environment. It plans to support and encourage these principles in areas of its responsibility.

Our aim is to make the company increasingly efficient, capable of improving its financial attraction, of creating value for its shareholders and able to capitalise on growth opportunities. In summary, we want to be a leader in the electricity transmission sector in Europe and a more profitable and transparent company for our shareholders.

The confidence of our shareholders, valuable support of our Board of Directors and the their dedication of those who work at the company every day, continue to be the keys to improving results in a new phase where the way ahead is open for RED ELÉCTRICA DE ESPAÑA.



Pedro Mielgo Álvarez
Chairman of RED ELÉCTRICA DE ESPAÑA

Board of Directors and Senior Management



BOARD OF DIRECTORS
AT DECEMBER 31ST 2002

EXECUTIVE CHAIRMAN:

PEDRO MIELGO ÁLVAREZ

DIRECTORS REPRESENTING FOUNDERS:

PEDRO RIVERO TORRE (UNESA)

RAFAEL MIRANDA ROBREDO (ENDESA)

JUAN GURBINDO GUTIÉRREZ (SEPI)

MANUEL ALVES TORRES (SEPI)

IBERDROLA, S.A.*

HIDROELÉCTRICA DEL CANTÁBRICO, S.A.**

ELÍAS VELASCO GARCÍA (UNIÓN ELÉCTRICA FENOSA)

ENRIQUE HERNÁNDEZ PÉREZ (SEPI)

INDEPENDENT DIRECTORS:

MARÍA LUISA HUIDOBRO Y ARREBA

ANTONIO GARAMENDI LECANDA

JOAQUIM CLOTET I GARRIGA

PABLO ISLA ÁLVAREZ DE TEJERA

SECRETARY (NON-BOARD MEMBER):

RAFAEL GARCÍA DE DIEGO BARBER

* The company Iberdrola S.A., has been designated legal entity on the Board. It in turn appointed Mr. José Ignacio Sánchez Galán as its natural person representative.

** The company Hidroeléctrica del Cantábrico S.A., has been designated legal entity on the Board. It in turn appointed Mr. Joaquín Coronado Galdós as its natural person representative.

SENIOR MANAGEMENT

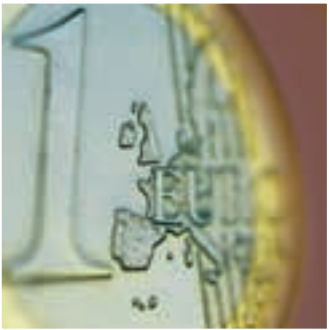
CHAIRMAN

PEDRO MIELGO ÁLVAREZ

GENERAL MANAGER

VICTORIANO CASAJÚS DÍAZ

2002 Year's Review





SPECIAL CABLE MANUFACTURING

JANUARY 29TH 2002

RED ELÉCTRICA signed contracts with Pirelli and ABB for the manufacture of special cable for the San Sebastián de los Reyes-Loeches-Morata high voltage power line. This line is being modified in connection with the needs of Barajas airport extension.

PARTICIPATION IN THE UN GLOBAL COMPACT

APRIL 4TH 2002

RED ELÉCTRICA signed the nine principles of the Global Compact related to human rights, employment conditions and preservation of the environment. It is firmly committed to support these principles and promote them in the areas where it operates.

CONSTRUCTION OF SPECIAL SECTION

APRIL 23RD 2002

RED ELÉCTRICA awarded Cobra a contract for the construction of a special section entailing an underground gallery and the installation of high voltage cables for the San Sebastián de los Reyes-Loeches-Morata power line under the Barajas Plan.

AGREEMENT WITH CASTILE-LA MANCHA AUTONOMOUS COMMUNITY

JUNE 18TH 2002

RED ELÉCTRICA and the Industry and Labour of Castile-La Mancha Regional Ministry Autonomous Community signed a co-operative agreement for the development of electricity infrastructure dur-

ing the period 2002-2011. This particularly refers to infrastructure needed to facilitate development of renewable energies.

AECA PRIZE

JUNE 18TH 2002

The Spanish Accounting and Business Administration Association (AECA) awarded RED ELÉCTRICA a prize the "Company with best financial information on as Internet".

RECOGNITION FOR IMPLEMENTATION OF THE EMAS REGISTER

JUNE 26TH 2002

Following a proposal by the Ministry of the Environment, the European Commission chose RED ELÉCTRICA as an example of best practice in implementation of the "Eco-Management and Audit Scheme" (EMAS).

ACQUISITION OF THE BOLIVIAN COMPANY, TDE

JUNE 27TH 2002

RED ELÉCTRICA INTERNACIONAL acquired Transportadora de Electricidad (TDE), owner and operator of the National Interconnected System in Bolivia.

"MADRID EXCELENTE" AWARD

JULY 5TH 2002

RED ELÉCTRICA obtained "Madrid Excelente" mark of guarantee. This certificate recognises commitment to quality by companies operating in Madrid and demonstrates their patent concern for the region.

AGREEMENT WITH VALENCIA AUTONOMOUS COMMUNITY

JULY 30TH 2002

RED ELÉCTRICA and the Industry and Trade Regional Ministry of Valencia Autonomous Community signed a co-operative agreement for the development of electrical infrastructure in the 2002-2010 period. The purpose of this infrastructure is to evacuate the electricity produced by the wind farms that will be built in the community during this period.

CERTIFICATION IN THE PREVENTION OF OCCUPATIONAL HAZARDS

OCTOBER 8TH 2002

RED ELÉCTRICA was certified in the prevention of occupational hazards OHSAS, 18001:1999 (Occupational Health and Safety Assessment Series), for its handling of occupational health and safety matters. This was a testimony to its efforts in this regard.

PROJECT FOR DEPLOYMENT OF REDIRIS

NOVEMBER 5TH 2002

The Ministry of Science and Technology awarded RED ELÉCTRICA TELECOMUNICACIONES a project for the deployment of the new infrastructure required for RedIRIS, which will multiply its capacity and will improve the flow of information among the scientific and academic community at domestic level.

AWARD OF THE EMAS DIPLOMA

NOVEMBER 5TH 2002

The Minister of Environment, Mr. Jaume Matas, handed RED ELÉCTRICA the EMAS diploma for efficiency and success in implementing the European Union's Eco-Management Audit Scheme.

ACQUISITION OF TRANSMISSION FACILITIES

NOVEMBER 6TH 2002

RED ELÉCTRICA signed agreements with Endesa and Unión Fenosa leading to the purchase of their respective power transmission assets. These transactions were a major step in positioning the company as the sole transmission company in Spain and they bring it closer to becoming the leading transmission company in Europe.

INTEREST ACQUIRED IN REDALTA

NOVEMBER 8TH 2002

RED ELÉCTRICA acquired a 25% part in Redalta. This company is being used for conveyance of Iberdrola's transmission assets.

PRINCE FELIPE PRIZE FOR CORPORATE EXCELLENCE

NOVEMBER 11TH 2002

RED ELÉCTRICA was a finalist in the seventh Prince Felipe Prize in the Industrial Quality category, in recognition of organisational quality and excellence in management.

SEAL OF EUROPEAN EXCELLENCE

DECEMBER 19TH 2002

RED ELÉCTRICA received the seal of European Excellence, in the silver level, in an evaluation carried out by the Quality Management Club.





The Group's Activities

Management of the Mainland Transmission Grid





Planning and Development of the Transmission Grid

RED ELÉTRICA'S EFFORTS IN INVESTMENTS IN THE development and improvement of the transmission grid have once again risen to all-time highs. During the year, 710 km of power lines and 88 new line ends were added to the company's assets in operation. In addition, transformer capacity was increased by 2,250 MVA.

STUDIES RELATED TO DEVELOPMENT OF THE TRANSMISSION GRID

Various studies and additional works served as a basis of a document titled "Planning for the Electricity and Gas Sectors. Development of the Transmission Grid 2002-2011", published by the Ministry of Economy in September 2002.

The above mentioned studies include the following:

PLANNING PROPOSAL FOR THE TRANSMISSION GRID

This study was carried out in the first half of the year in conjunction with the market agents. It contains information and opinion provided by the latter. The study includes a specific proposal regarding development of the grid, which is in accordance with the transmission grid planning process described in Royal Decree 1995/2000.

STUDIES TO REINFORCE INTERNATIONAL INTERCONNECTIONS

Activities carried out in conjunction with the



operators of neighbouring electricity systems included studies with RTE (the French operator) for improvement of the interconnection with France. Actions were identified to reinforce the grid structure by means of new 400 kV corridors in the central and centre-west Pyrennes.

In addition, the interconnection network with Portugal was jointly examined with REN (the Portuguese operator) to identify the steps needed to establish an Iberian electricity market by 2007, in accordance with the co-operation protocol signed by Spanish and Portuguese authorities in November 2001. The development of this interconnection entails the following actions:

- **Short-term:** construction of a new 400 kV power line between the Balboa and Alqueva substations, installation of a second 400 kV circuit between Cartelle and Lindoso, and reinforcement of the 400 kV Tajo interconnection axis.
- **Medium-term:** reinforcement of the interconnections along the Duero in 220 kV or 400 kV.

DETERMINATION OF MAXIMUM WIND USAGE

A preliminary study was carried out to determine the maximum amount of wind power generation which would be technically admissible in the Spanish mainland electricity system.

FORECASTS OF MAINLAND POWER DEMAND FOR THE 2002-2012 PERIOD

This report analyses demand coverage in the Spanish mainland system annually for 2002-2012 period. It is based on particular assumptions for demand growth, and on the performance and development of generators, including special regime's facilities. Various scenarios were evaluated based on different assumptions regarding the incorporation of new power generation capacity in the Spanish electricity system, yearly hydrological resources for the year and the availability of generators.

MAINLAND POWER DEMAND AT GENERATOR BUSBARS FORECASTS FOR 2002-2012

This document deals with medium and long-term forecasts of annual mainland power demand covering total energy and summer and winter hourly peaks. It also contains monthly demand forecasts and estimates for the different Autonomous Communities, in the first two years of the period considered.

These forecasts were drawn up with the help of the Electricity Demand Forecast System (SIPREDE), a computer tool developed by RED ELÉCTRICA.



These annual demand forecasts consider three different macro-economic and weather scenarios. In the case of 2002 and 2003, demand forecast has been made on a monthly basis with regard to its three traditional components: employment, temperature and economic factors.

Both these forecasts and the demand coverage studies were used as a basis to determine future demand in the Iberian electricity system. This was done as part of the activities related to implementation of the Iberian Electricity Market.



Construction of New Facilities

The main activities in this area are listed below - arranged geographically or according to type.

FACILITIES UNDER CONSTRUCTION

NORTHERN REGION

Work continues on design and construction of the main North trunk. This will increase transmission and evacuation capacity for electrical energy in Asturias, Cantabria, the Basque Country and Navarre.

ARAGON AND CATALONIA

Important developments in the transmission grid are underway in this area to provide service to the Madrid-Barcelona high-speed train and for a new interconnection between France and Spain. It will also evacuate power from the wind farms along its route.

CENTRAL REGION

The installations for supplying the Madrid-Barcelona high-speed train line have been completed and work has started on definition of the trunk line between the Autonomous Communities of Galicia, Castile and León and Madrid.

GALICIA

Engineering work for the trunk lines that will transfer excess electricity to Asturias is well advanced, and work has started on the trunk line leading to the central area of the mainland.

EXTREMADURA

The prior studies and other work for the construction of the new Spain-Portugal interconnection (Balboa-Alqueva) have been completed. Approvals are now being obtained for the start of construction.



ANDALUSIA

Transmission grid facilities are under construction in order to connect the combined-cycle power plants in Cadiz and to carry power away from the new wind farms in Tarifa.

LEVANTE

Engineering work on the facilities for transferring power away from the wind farms and construction on increasing supply capacity to Murcia continues.

INCREASED CAPACITY PROGRAMME

Work has started on a programme to increase the capacity of certain power lines over the next four years. It will affect 37 circuits, with a total length of 3,000 km, as well as equipment at 21 substations.

NEW INSTALLATIONS IN SERVICE

SUBSTATIONS

a) Associated with the Madrid-Aragón-Lérida trunk

- Rueda de Jalón 400 kV: four circuit breaker positions and three line end connection points.
- Anchuelo 400 kV: substation with four circuit breaker positions and three line end connection points.
- Medinaceli 400 kV: substation with four circuit breaker positions and three line end connection points.
- Terrer 400 kV: substation with three circuit breaker positions and three line end connection points.



- Fuentes de la Alcarria 400 kV: substation with four circuit breaker positions and three line end connection points.
 - Magallón 400 kV: substation with one circuit breaker position.
- b) Other substations
- Santurce 400 kV: fully-enclosed substation with one line end connection points.
 - Zierbena 400 kV: substation with six circuit breaker positions and three line end connection points.
 - Boimente 400 kV: substation with ten circuit breaker positions and three line end connection points.

In addition, various circuit breaker positions have been built at the following substations in operation: Trillo (4 positions), Pinar (4 positions), Gurrea (3 positions), Mesón (1 position), Cartelle (4 no. 400 kV positions and 2 no. 220 kV positions), Vic (1 no. 400 kV position and 1 no. 220 kV position), Rocamora (2 positions), Balboa (1 position), La Plana (1 position), Soto de Ribera (2 positions), Trives (1 position), Moraleja (1 position), Catadau (1 position) and San Sebastián de los Reyes (1 position).

Additionally, transformer equipment has been added to the transmission grid in substations at Magallón, Vic, Boimente and Puerto de la Cruz. Condensor banks to compensate 220 kV reactive power were also added to substations at Catadau and San Sebastián de los Reyes, and a 400 kV bank was added at Moraleja.

POWER LINES

- 400 kV Trillo-Magallón line: 215.7 km double circuit.
- 400 kV Trillo-Loeches reversible line at Anchuelo: 6.5 km double circuit.
- 400 kV Castejón-La Serna line: 9.0 km single circuit.
- 400 kV Santurce-Zierbena line: 4.0 km single circuit.
- 400 kV Aluminio-Puentes reversible line at Boimente: 4.8 km single circuit.
- 200 kV Castrelo-Velle reversible line at Cartelle: 4.06 km double circuit.
- 400 kV La Serna-Peñaflor reversible line at the Magallón substation: 31.2 km double circuit.

Additionally, second circuits have been commissioned on the 400 kV Trives-Cartelle line of 66.8 km and on the 400 kV Mesón-Cartelle line of 110.46 km.

Furthermore, modifications were carried out to increase the capacity of the new Escombreras-Rocamora and Hernani-Cantegrit lines, both 400 kV, increasing their power rating to 431 MVA.

COMMUNICATION SYSTEMS

Activities in this area were as follows:

- **Telecommunication circuits:** 152 new circuits of different capacities have been added to the telecommunications network in order to provide services related to transmission and operation of the network: telephone, telecontrol, tele-protection, tele-management, and for connection between control rooms.
- **Optic Fibre Network:** 2,160 km of optic fibre cable along the high voltage power lines was commissioned. The new cables have mostly 48 optic fibre strands.
- **Transmission network:** Work continued on

deployment of the SDH network for migration and extension of the existing PDH transmission network. Some 29 hubs were commissioned with this technology.

- **Switched Network:** 11 new switching centres and 4 remote switching modules were commissioned. In addition, 22 hubs with permanent connections and 12 with switched connections were added to the IP services network.
- **Carrier and Tele-protection Systems:** 22 new carrier wave links were installed for tele-protection signal transmission associated with secondary line protections.

RENEWAL AND IMPROVEMENT OF INSTALLATIONS IN SERVICE

With the object of ensuring the availability and reliability of the transmission grid, the renewal and improvement programme analyses the real condition of equipment and facilities, based on security, quality and cost criteria.

SUBSTATIONS

High voltage equipment was replaced at 25 substations. This included work carried out at La Mudarra, Montearenas, Puentes de García Rodríguez and Lancha.

On the other hand, circuit breakers, voltage and capacitor transformers and lightning conductors were replaced in accordance with the specific overhaul plans for these items of equipment. The auxiliary service installations were overhauled at La Mudarra and Puentes de García Rodríguez and auxiliary services were upgraded at another 9 facilities.

PROTECTIONS

Protections and/or tele-protections were installed or improved at 22 locations including work at Montearenas, Guadame, Catadau and Lancha.

CONTROL SYSTEMS

The digital control system at the Puentes de García Rodríguez substation was extended and upgraded.

POWER LINES UNDER CONSTRUCTION

	KILOMETRES CIRCUITS
400 kV	
MADRID-ARAGÓN TRUNK	60
ARAGÓN-LEVANTE TRUNK	260
PAMPLONA-MAGALLÓN TRUNK	204
NORTH-WEST TRUNK	233
NORTH-EAST TRUNK	324.4
GERONA MAIN SUPPLY	45
MURCIA MAIN SUPPLY	381
LEVANTE TRUNK	63
INTERNATIONAL CONNECTIONS	70
LÉRIDA-BARCELONA TRUNK	24
WIND FARM CONNECTIONS	61.9
SECOND CIRCUITS	171.5
COMBINED CYCLE POWER PLANT CONNECTIONS	198
TOTAL	2,095.8
220 kV	
PALOS DE LA FRONTERA-TORREARENILLAS	2.5
CORDOBILLA-MURUARTE-ORCOYEN	28.8
MUDARRA-LA OLMA	24
TOTAL	55.3

SUBSTATIONS UNDER CONSTRUCTION

	POSITIONS		TRANSFORMER
	CIRCUIT BREAKER	CONEXIÓN	
400 kV			
MADRID-ARAGÓN TRUNK	4	3	
ARAGÓN-LEVANTE TRUNK	4		
PAMPLONA-MAGALLÓN TRUNK	15		(400/220)
NORTH-WEST TRUNK	5		
NORTH-EAST TRUNK	16		
GERONA MAIN GERONA	16		
GERONA MAIN MURCIA	22	8	
LEVANTE TRUNK	2		
INTERNATIONAL CONNECTIONS	4		
LÉRIDA-BARCELONA TRUNK	14	4	
WIND FARM CONNECTIONS	31	11	
SECOND CIRCUITS	6		
COMBINED CYCLE			
POWER PLANT CONNECTIONS	12	4	
220 kV			
VARIOUS SUBSTATIONS	11		(400/220)

Facilities' Maintenance



As in previous years, the improvement in scheduling maintenance work, the growing use of live line operations and greater efforts related to predictive maintenance, resulted in highly satisfactory service quality and facilities availability.

POWER LINE MAINTENANCE

During 2002 the predictive and preventive maintenance programmes continued to be applied together with official inspections. Helicopters and DVD, as a graphic information support, also continued to be used for intensive inspections, as the customary methodology, with highly satisfactory results. Furthermore, anti-corrosion protection and conservation work was carried out on more than 82,000 m² of steel structures.

Live line working techniques were used more intensively. They were applied on 35 lines and, for the second year running, 228 km of compound fibre optic cable was replaced with the installations in service.



SUBSTATIONS, PROTECTIONS, MEASUREMENT AND REMOTE CONTROL SYSTEMS AND BUILDINGS MAINTENANCE

The power transformer and reactor maintenance plan continued, using discrete and continuous measurement techniques (monitoring). The former technique included more than 317 analyses of oil, 38 insulation measurements (power factor) and status analyses of windings on 28 power units (transformers and reactors).

With regard to measurement transformers, the maintenance plan included the use of partial discharge measurement techniques at 279 current transformers, precision verification measurements at 139 voltage transformers (capacitor type), oil analysis at 71 current transformers and thermal imaging on all installed measurement transformers.

In addition, the monitoring systems, which are pioneer facilities at international level and which were installed at two substations, are yielding the expected results and continue to widen our knowledge of insulation ageing of measurement transformers.

Tele-diagnosis of high voltage circuit breakers continued in order to maximise maintenance cycles. That has helped to reduce outages due to circuit breaker maintenance. In 2002 more than 830 measurements were taken to evaluate the status of 141 installed circuit breakers. In addition,

more than 940 circuit breaker measurements have been received and analysed during certification or acceptance of circuit breakers at the supplier's factory.

The maintenance plan for protection systems was carried out as planned and measurement equipment installed on the interconnections was checked in accordance with the Measurement Point Regulations. The equipment and systems for transmission grid protection worked correctly. Overall, the efficiency index of these protections in regard to their function of eliminating defects and disturbances in the transmission grid, was 98.19%.

The average annual availability of the telecontrol service provided by the remote control equipment was 99.96%.

RED ELÉCTRICA TRANSMISSION GRID PERFORMANCE

During this year, the indicators of service quality and network availability have been highly satisfactory in terms of security and continuity of supply.

As a result of the co-ordination achieved in the maintenance work and the growing application of predictive maintenance techniques and live line working, the performance of the transmission grid in 2002 reflected a high rate of availability - rising to 97.54%.

In addition, the average outage time was 0.0002 minutes compared to 0.2736 minutes in 2001. This is an excellent result that proves the efficiency of the company's grid management.

The optimum performance of equipment at substations, protections and remote control systems, together with the optimum size and effective capacity of the transmission grid have contributed to these excellent service quality indices.



Acquisition of Transmission Assets



In November 2002, RED ELÉCTRICA DE ESPAÑA reached separate agreements with Endesa Distribución Eléctrica, S.L. and with Unión Fenosa Distribución, S.A, for the acquisition of their respective transmission networks.

All of Endesa's operational assets were acquired for an amount of 920 million euros. The operation covers another 30 million euros for work-in-progress which is expected to enter service between 2003 and 2004.

With regard to the purchase of Unión Fenosa's transmission assets, the value of the operation was 395 million euros and covers 100% of the active assets at December 31st 2001.

The assets have been purchased without transfer of personnel and four-year contracts have been signed with Endesa and Unión Fenosa for operation and maintenance.

In November 2002, RED ELÉCTRICA also reached an agreement with Grid Industries, Red de Alta Tensión (Redalta) and Infraestructuras de Alta Tensión (Inalta) to acquire 25% of the share capital of Redalta for 14.9 million euros.

Iberdrola has sold its entire transmission network to Inalta, which is a 100% owned subsidiary of Redalta, for 764 million euros.

Iberdrola will carry out the operation and maintenance services, under a contract that contains an option allowing RED ELÉCTRICA to take over after the third year.

This transaction became effective on December 27th 2002 and it was consolidated in the RED ELÉCTRICA GROUP'S accounts by the equity method. Therefore, it is not associated with any debt or guarantees of the above companies. RED ELÉCTRICA has an option to purchase the share capital of Redalta between the 5th and the 7th year.

TRANSMISSION GRID FACILITIES OWNED BY RED ELÉCTRICA

	ASSETS OF RED ELÉCTRICA	ACQUIRED ASSETS*		TOTAL ASSETS
		FROM ENDESA	FROM UNIÓN FENOSA	
KILOMETRES OF CIRCUIT	19,951	5,692	1,364	27,007
400 kV	15,541	135	70	15,746
220 kV AND LESS	4,410	5,557	1,294	11,261
Nº OF LINES ENDS	809	705	222	1,736
400 kV	598	34	8	640
220 kV AND LESS	211	671	214	1,096
TRANSFORMERS (MVA)	22,526	3,209	1,231	26,966

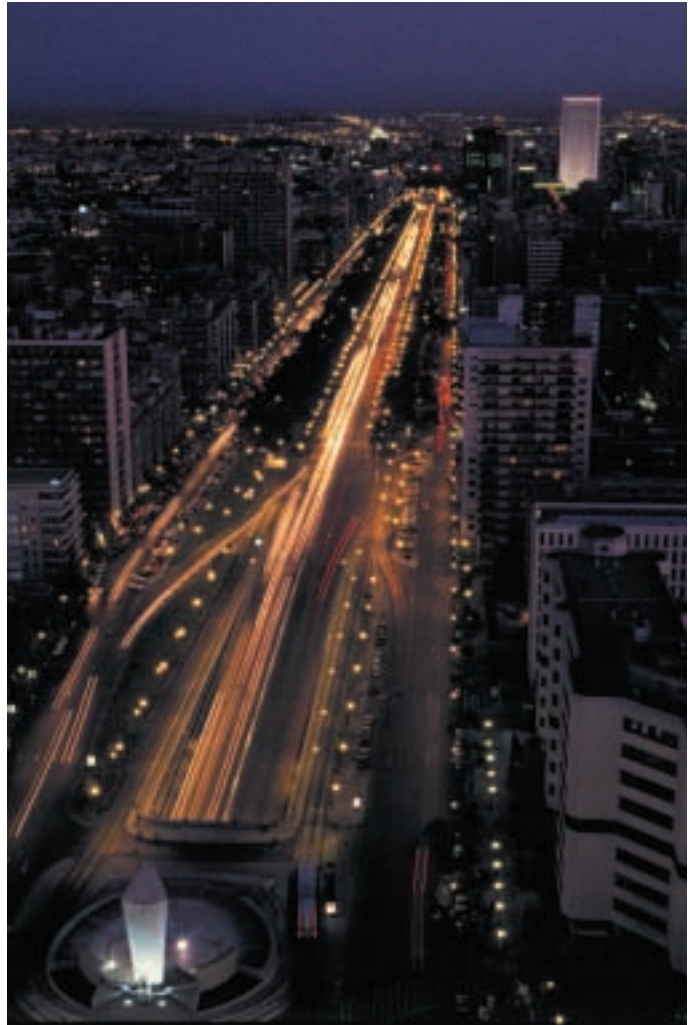
* Estimated figures at December 31st 2002

The facilities acquired from Endesa and Unión Fenosa total 205 km of 400 kV power lines and 6,851 km of 220 kV lines, plus 927 line ends and approximately 4,500 MVA of transformer capacity. This operation makes RED ELÉCTRICA the owner of 84% of the transmission grid and, once the purchase option is exercised for Iberdrola's transmission network, it will be the owner of practically all the mainland transmission grid.

Overall this operation meets the demanding criteria of profitability which RED ELÉCTRICA uses to analyse its investments. The constant goal is to create value for shareholders, to maintain the commitment with regard to profitability and to optimise the capital structure. In addition, it generates positive results from the beginning without using the company's available borrowing capacity.

These operations are of great strategic importance for RED ELÉCTRICA. They are the greatest opportunity for profitable growth and the final step in positioning the company as the unique transmission operator in Spain. In addition, it brings the company closer to being the leading transmission company in Europe and it places it in an optimum position to participate in any future European consolidation process, which might be expected to occur progressively in the medium term.

In addition, this operation will provide significant advantages for the electricity sector and for the end-user; fundamentally in terms of improved quality and security of supply.



Mainland Electricity System's Operation



CHANGES IN KEY INDICATORS FOR THE MAINLAND SYSTEM

THE PERFORMANCE OF THE ELECTRICITY SYSTEM IN 2002 was characterised by moderate growth in demand for electrical energy.

From the hydroelectric point of view, 2002 was a dry year except for the last few months when the hydraulic energy capability figures were excellent.

Power produced under special regime continued to grow.

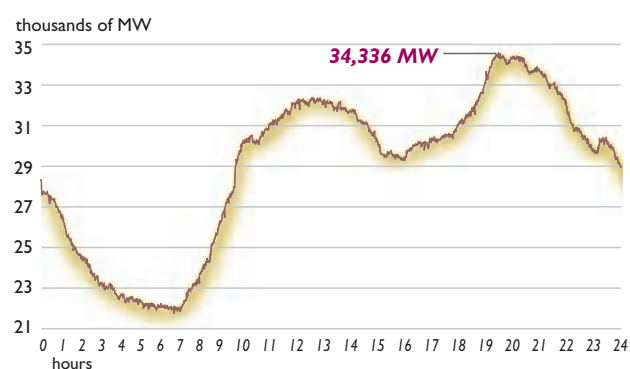
With regard to installed generation resources, six combined-cycle power plants entered service under the ordinary regime in 2002. This resulted in an increase in total gross installed power of 2,794 MW.

DEMAND

Annual demand for electrical energy grew by 2.3% over the previous year reaching 210,278 GWh. After adjustments for employment factors and temperature, demand in 2002 grew by 3.4%.

The peak figures for energy demand were recorded in January with 19,310 GWh of monthly demand, 681 GWh of daily demand, and the average hourly power demand was 34,336 MW.

LOAD CURVE ON PEAK DAY
JANUARY 9TH 2002

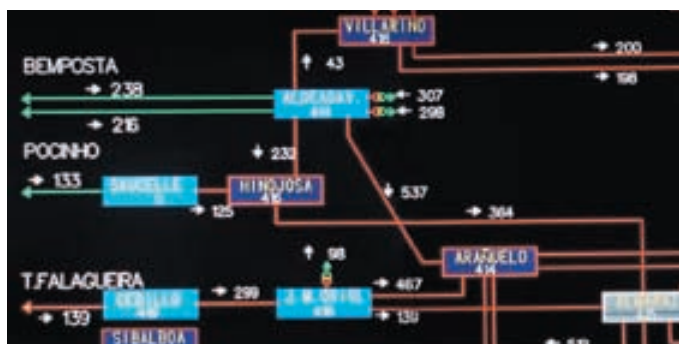


GENERATION

Gross generation by producers in the ordinary regime grew by 1.4% compared to the previous year, reaching 186,125 GWh.

BREAKDOWN OF GENERATION IN 2002

ENERGY TYPE	GWh	% OF TOTAL
HYDROELECTRIC	22,559	12.1
NUCLEAR	63,016	33.9
COAL	78,768	42.3
OIL+GAS	21,782	11.7
OUTPUT (AT GENERATOR TERMINALS)	186,125	100



In 2002 the breakdown of generation was quite different to 2001. This was mainly because available hydroelectric energy was much lower than the previous year due to the drought suffered during much of it.

Hydroelectric power stations produced 22,559 GWh, which was 42.8% less than the previous year. Conventional thermal generators, especially gas and oil-fired, increased production by 117.4% and 43.3%, respectively, over the previous year. Total production figures were 11,781 GWh and 10,001 GWh, respectively. In addition, coal-fired generators increased production by 15.7% over the previous year to reach 78,768 GWh. Nuclear power stations produced 63,016 GWh, which supposed a decline of 1.1%.

INTERNATIONAL POWER EXCHANGES

The year resulted in net imports of 5,302 GWh. This was an increase of 58% over the previous year.

Total imports came to 9,599 GWh, of which 8,807 GWh came through the interconnection with

France, 719 GWh came through the interconnection with Portugal and 73 GWh came from Morocco.

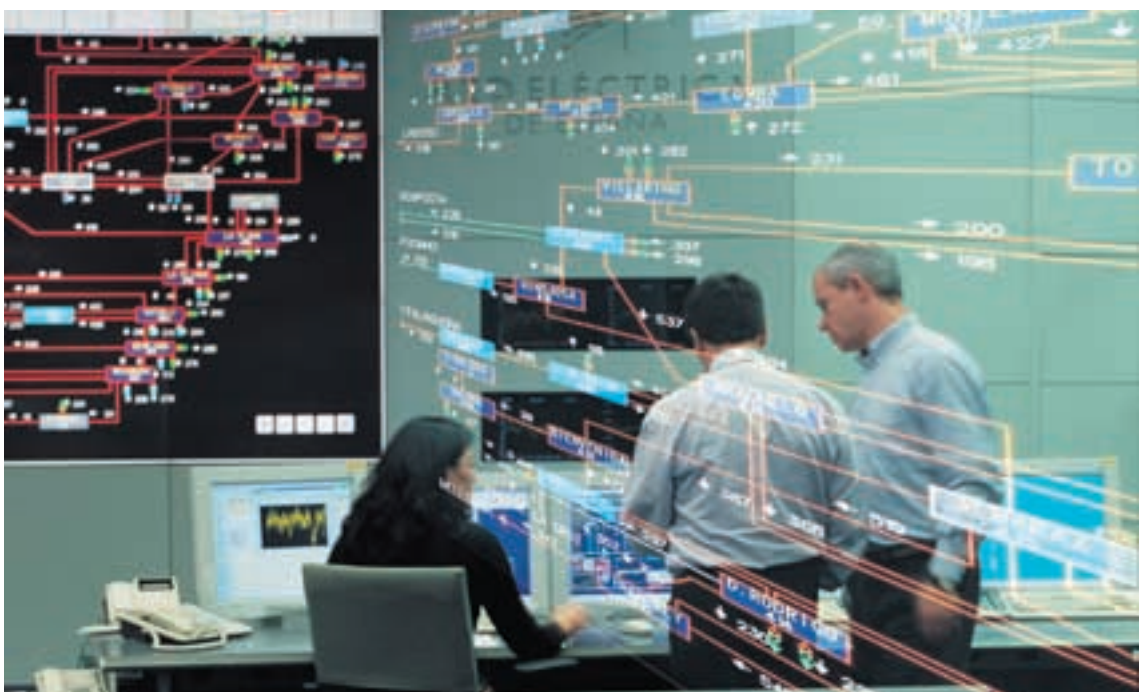
Total exports came to 4,297 GWh. Of this amount, 2,595 GWh went through the interconnection with Portugal, and the interconnections with Morocco, Andorra and France accounted for 1,388 GWh, 290 GWh and 24 GWh, respectively.

MARKETS ASSOCIATED WITH OPERATIONS

The purpose of these markets is to adapt the production schedules from the daily and intra-day markets to quality and security requirements. They provide an answer for technical constraints, for the assignment of ancillary services and for deviation management.

The energy negotiated by RED ELÉCTRICA in all the operation markets came to 10,629 GWh. This was 5.6% of the total energy acquired in the production market and it was 3% less than in 2001.

Attention is drawn to the significant improvement in the procurement of energy programmed



for resolving technical constraints. This came to 2,409 GWh, which represented a fall of 38% over 2001 in regard to the base-operating programme.

Energy associated with ancillary services for secondary and tertiary control, as well as scheduled energy for emergency situations, came to 6,319 MWh. This was 11% more than the previous year. Of this amount, 1,853 MWh was for secondary control and 3,508 MWh was energy assigned for tertiary control. Average assigned power in the control band was 1,128 MW, and the average price was 2.071 c€/kWh.

RED ELÉCTRICA guarantees coverage of demand by managing deviations to prevent an imbalance between generation and consumption. In 2002 these activities accounted for 1,901 GWh, which resulted in a total cost for the system of 43 million euros.

The repercussion of the above processes, handled by RED ELÉCTRICA, over the average price in the daily market, which in 2002 was 3.891, was 0.243 c€/kWh.

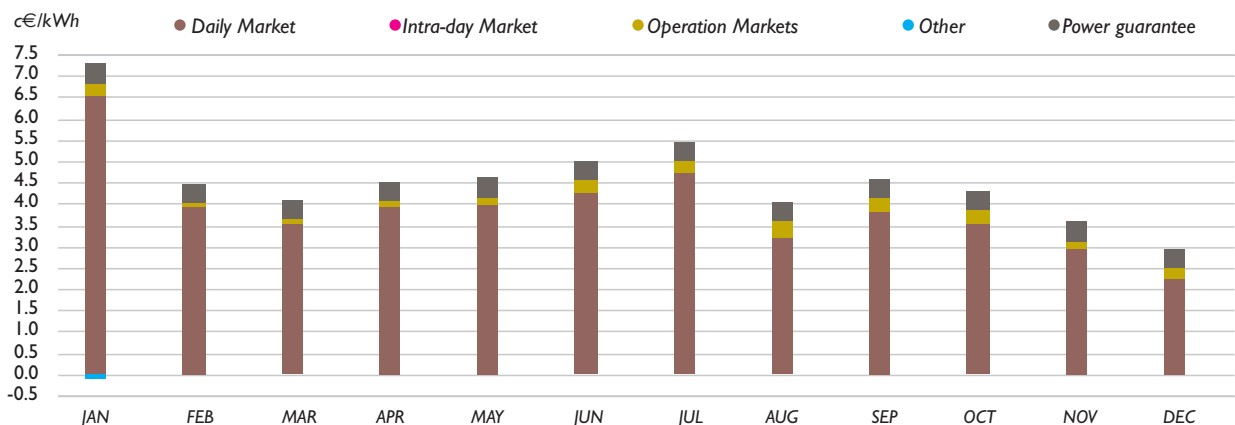
Out of this amount, 0.077 c€/kWh corresponds to energy for secondary, tertiary, emergency and deviations, 0.059 c€/kWh corresponds to technical



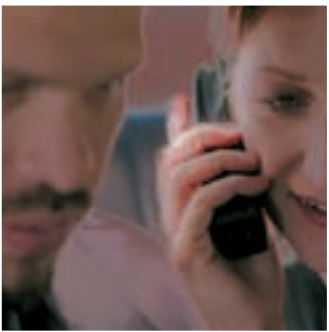
constraints, and 0.107 c€/kWh to allocation of the secondary control band.

These figures were increased by 0.451 c€/kWh to cover power guarantee which, together with the repercussion of the intra-day market (-0.009 c€/kWh) and the repercussion of the excess / deficit associated with international contracts (-0.005 c€/kWh), determine the final price of energy in the production market at 4.571 c€/kWh.

COMPOSITION OF THE FINAL PRICE (c€/kWh)



Telecommunications Business





IN 2002 ALBURA FOCUSED ITS EFFORTS ON CONTINUING with the deployment and development of the trunk and meshing lines of its telecommunications network, in accordance with its strategic vision of becoming the leading supplier of broadband infrastructure and Internet infrastructure solutions.

The ALBURA telecommunications network is supported on RED ELÉCTRICA'S basic infrastructure and currently consists of more than 10,000 km of optic fibre. During the year, new circuits were put into service, some circuits were acquired from third parties, hubs and access points were installed in main cities, and new technology and systems were incorporated to optimise the available services.

ALBURA continued its activity of marketing broadband solutions and services. For this purpose, it strengthened its network, it continued to install service lines to firms and government offices and it launched new products, including those based on IP and ADSL solutions.

SALES

In 2002, more than 94 new contracts were signed with a value of more than 18 million euros. These include the one signed with the Ministry of Science and Technology to develop the new RedIRIS2 network in Spain.

This project will provide-linking circuits to practically all the points of presence in the telecommunications network that connects the main research centres in Spain.

In addition, the company's marketing activities were strengthened in the sectors related to telecommunication operators, government offices and large companies. In line with the company's efforts to serve the market better, a 24-hour customer centre was put into operation.

ALBURA'S turnover increased by 21% compared to the previous year. Attention is drawn to the more than 100% increase in revenues from external activities to RED ELÉCTRICA GROUP.





INVESTMENT IN INFRASTRUCTURE

Investment was focused on strengthening the main data network, on the development of infrastructure needed for new IP and ADSL services and on the roll-out of information systems that offer customers the level of quality that market demands.

In 2002, work on infrastructure was mainly concerned with the following:

- Further development of the intelligent DWDM optical network and of the SDH managed capacity network. The equipment in operation, in terms of optical level and managed capacity, has increased significantly.

- Deployment of the IP/MPLS multiservice network, where new IP hubs have been put into service.
- The installation of computerised management tools including the marketing management and invoicing system as well as systems and equipment related to operations.

BUSINESS LINES

In accordance with its strategy, ALBURA is positioned itself as a supplier of broadband infrastructure and data transmission, and it offers two different product lines:

PRODUCTS AND SERVICES RELATED TO TRANSMISSION AND CAPACITY

In this area, it offers capacity services at the DWDM optical level and SDH managed capacity services.

INTERNET PRODUCTS AND SERVICES INFRASTRUCTURE

The services provided here include the following:

- ADSL broadband access.
- Data transmission services and traffic management at IP level.
- Virtual IP services.
- Services based on massive data storage systems.
- Virtual private network solutions with integrated services.



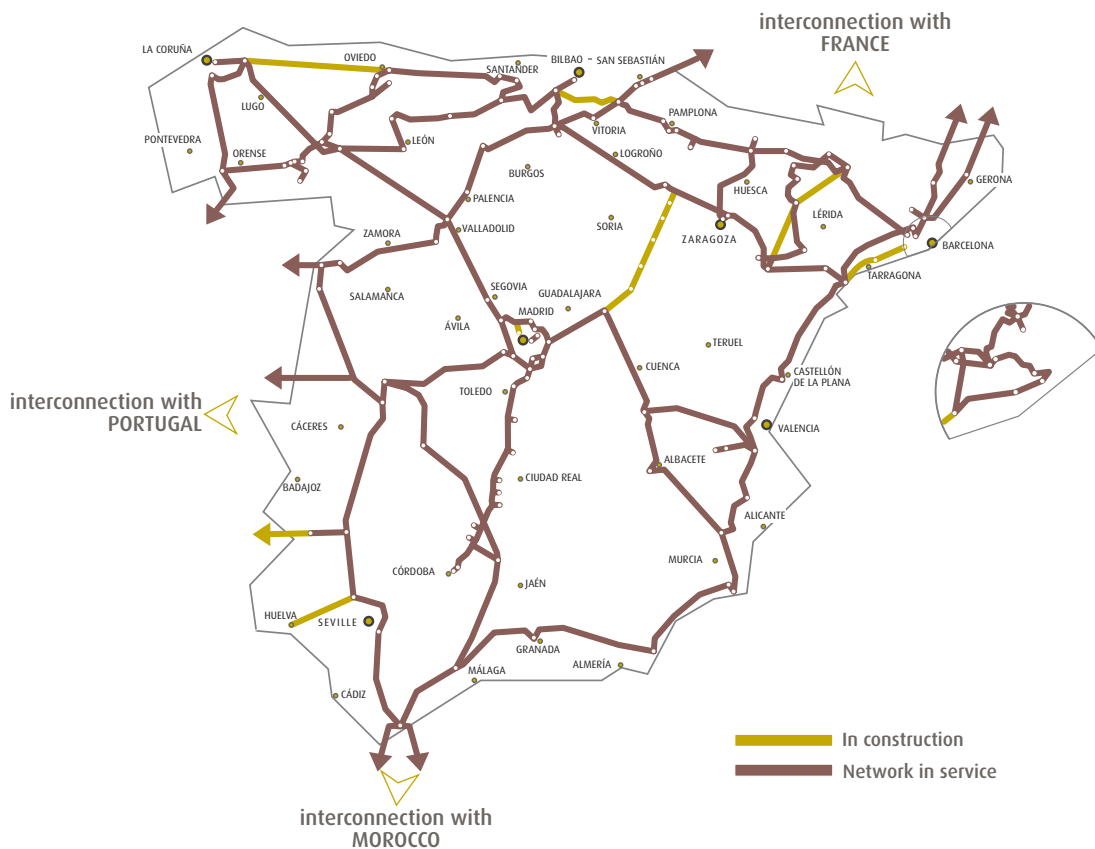
OUTLOOK

In 2003 ALBURA's marketing activities will continue to be focused on providing products and services to other operators, to major customers and to government departments - in line with activities in 2002.

The capital spending plan for 2003 was drawn up in accordance with forecasted sales and revenue and it will be implemented depending on actual developments during the year.



FIBRE OPTIC MAP
DECEMBER 31ST 2002



International Business





INTERNATIONAL EXPANSION IS ONE OF THE RED ELÉCTRICA Group's development strategies and it represents a natural market for growth. Expansion opportunities in the international arena arise from deregulation of electrical industries in developing countries, pursuing improvements in efficiency, reductions in production and supply costs, and modernisation of infrastructure and technology.

This international environment offers opportunities for investment in transmission systems, as well as for technical and business consulting services for companies involved in restructuring electricity systems.

RED ELÉCTRICA'S prestige, as manager of the transmission grid and system operator in Spain, together with the experience acquired during the deregulation of this system, allows it to provide specialised consulting services in a successful manner.

INTERNATIONAL INVESTMENT

RED ELÉCTRICA INTERNACIONAL focuses its investment activities on the acquisition of companies and transmission assets, and on licences for transmission systems where the company may contribute with its capacity and experience.

It also monitors other investment opportunities closely; it analyses developments in legislation and regulations in Europe and South America and evaluates opportunities which might be attractive to the RED ELÉCTRICA GROUP in strategic terms.

In 2002, RED ELÉCTRICA INTERNACIONAL acquired 99.94% of the Bolivian company, Transportadora de Electricidad, S.A. (TDE). This acquisition implies a significant step in international expansion and it has considerably reinforced RED ELÉCTRICA GROUP'S position in the Andes area where it already holds 30% in the Peruvian company, REDESUR.

TDE is the owner and operator of the Bolivian Domestic Interconnected System, which covers 85% of the domestic market. It holds an indefinite licence and it owns approximately 2,000 km of power lines and 19 substations.

The integration of TDE with the RED ELÉCTRICA GROUP has been a priority from the time the company was acquired. In order to achieve rapid and effective transition to the GROUP'S procedures, a professional team from RED ELÉCTRICA has drawn up an in-depth analysis and diagnosis of the company. A plan to change its corporate identity has been put into operation together with a new organisation model. The aim is two-fold: to adapt its structure for management by process and to allow a better balance between function and responsibility in the different areas.



Finally, in order to maintain its quality system, TDE has adapted it to the ISO 9001:2000 standard. The system has been certified by AENOR (Spain), by UNIT (Uruguay) and by IBNORCA (Bolivia). In 2002, TDE also obtained an international ISO 14001 certificate for its Environmental Management System from the above-mentioned institutions.

REDESUR holds a 30-year licence for reinforcing the electricity systems in Southern Peru. Last year was the first full year of operation after the 530-km power line associated with the licence was commissioned.

The quality of design, materials and erection of facilities and the preventive maintenance carried out, especially on protection and control equipment, were key factors in the company's activities. As a result, last year REDESUR occupied first place among the transmission companies in Peru for service quality, and it was the only company in the sector that was not held responsible for outages in electricity supply.

In addition, REDESUR, through its subsidiary REDINSUR, reached an agreement with third parties for the hire of their excess fibre optic capacity. It is hoped that similar agreements can be reached with other telecommunications operators in the medium term.

CONSULTING SERVICES

These activities are focused on highly specialised technical and business consulting in areas in which the RED ELÉCTRICA GROUP possesses appropriate references and competitive advantages.

In 2002, the following consulting and technical assistance projects have been carried out:

- Guidance on design of the management change process at the National Electric Power Authority (NEPA), which is the transmission and operation company in Nigeria. This project is financed and promoted by the World Bank, under the reforms' programme initiated by the Nigerian government in the electricity sector.
- Technical assistance to EDELCA, Electrificación del Caroní (Venezuela), to establish procedures and methods for washing insulator strings on transmission lines using helicopters.
- Design of pylons for a 60 kV transmission line for Office National de Electricité (ONE) in Morocco.

In addition, work continued on the existing technical assistance projects at ONE (Morocco) for a new telecontrol system at Agadir and technical studies related to operations for the interconnection between Tunisia and Libya. The latter project covers co-ordination between STEG (Tunisia) and GECOL (Libya), which are the companies concerned.





Corporate Affairs

Human Resources





IN 2002 THE COMPANY'S ACTIVITIES IN THE HUMAN resources management field were mainly focused on attention to people and the strategy of creating value. There were three particular aspects:

- Improvement in the efficiency ratios.
- Simplification of RED ELÉCTRICA'S organisation structure and consolidation of the organisation model in GROUP subsidiaries.
- Improvement in human resources management processes.

INCREASING EFFICIENCY

Greater efficiency in managing people has again made it possible to increase cash flow per employee, which grew from 218.1 thousand euros in 2001 to 244.8 thousand euros in 2002. Turnover per employee also grew from 642.5 thousand euros in 2001 to 745.6 thousand euros in 2002. This significant increase was achieved despite a 2% increase in RED ELÉCTRICA'S workforce in 2002.

The entire workforce of the GROUP grew by nearly 16%. This was basically due to consolidation and growth associated with diversification in the telecommunications and international sectors.

ORGANISATIONAL CHANGES

In 2002, new steps were taken to simplify the vertical and horizontal dimensions of the organisation's structure, in a manner that was coherent with the adjustments associated with the early retirement programme and the take-over of Transportadora de Electricidad (TDE) in Bolivia.

These changes have adjusted the structure of the company to face the requirements related to the acquisition of transmission facilities and to provide a common organisational model for all GROUP companies.



PROCESSES' IMPROVEMENT

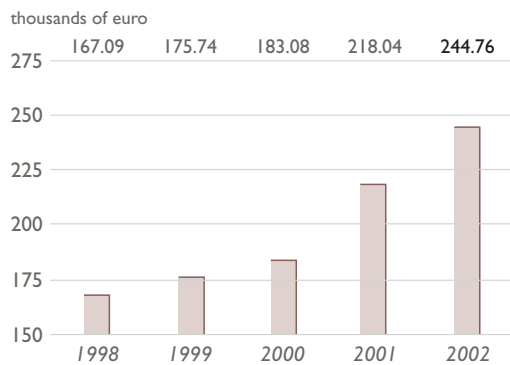
The increase in efficiency ratios was possible thanks to continuous improvement in recent years, and because 2002 obtained its greatest success in the following processes:

- Occupational health and safety of employees - which was recognised in the form of the international certificate for prevention of occupational hazards, OHSAS 18001. This is the first time it has been awarded to a power company.
- Internal communications - through implementation of new technology and channels for participation and communication, which have been implemented throughout the GROUP.

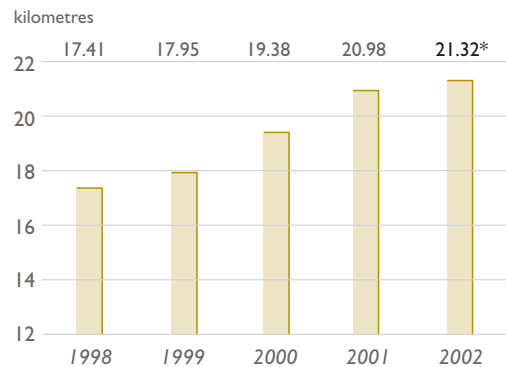
- Development and training of employees - with the design and implementation of high-impact programmes for the company, such as technical specialisation and skill development of managers, where the corresponding replacement plans for management positions have been defined and put into operation.

Furthermore, training in new technology and investment in e-learning platforms were increased. Overall, we carried out a total of 32,678 hours of training, spread over 225 courses and involved 1,896 participants.

CASH FLOW PER EMPLOYEE
BASED ON RED ELÉCTRICA WORKFORCE



OPERATIVE EFFICIENCY (km OF GRID PER EMPLOYEE)
BASED ON RED ELÉCTRICA WORKFORCE



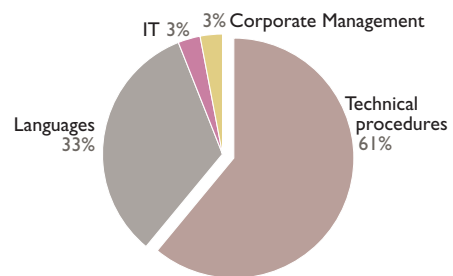
* Not including newly acquired assets.



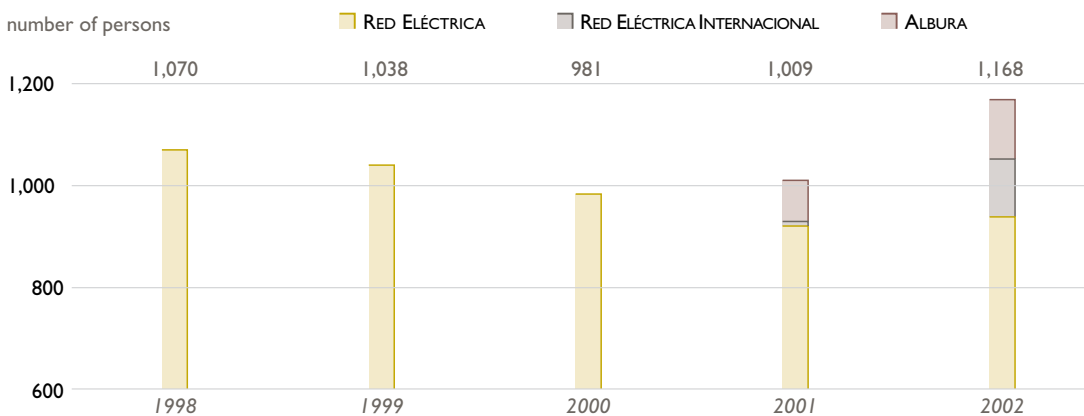


- Development of the skills management model, which was already in use for some processes such as the replacement plans for management positions and for internal and external selection processes. In 2003, these will be integrated with personal development plans and the management of career paths.

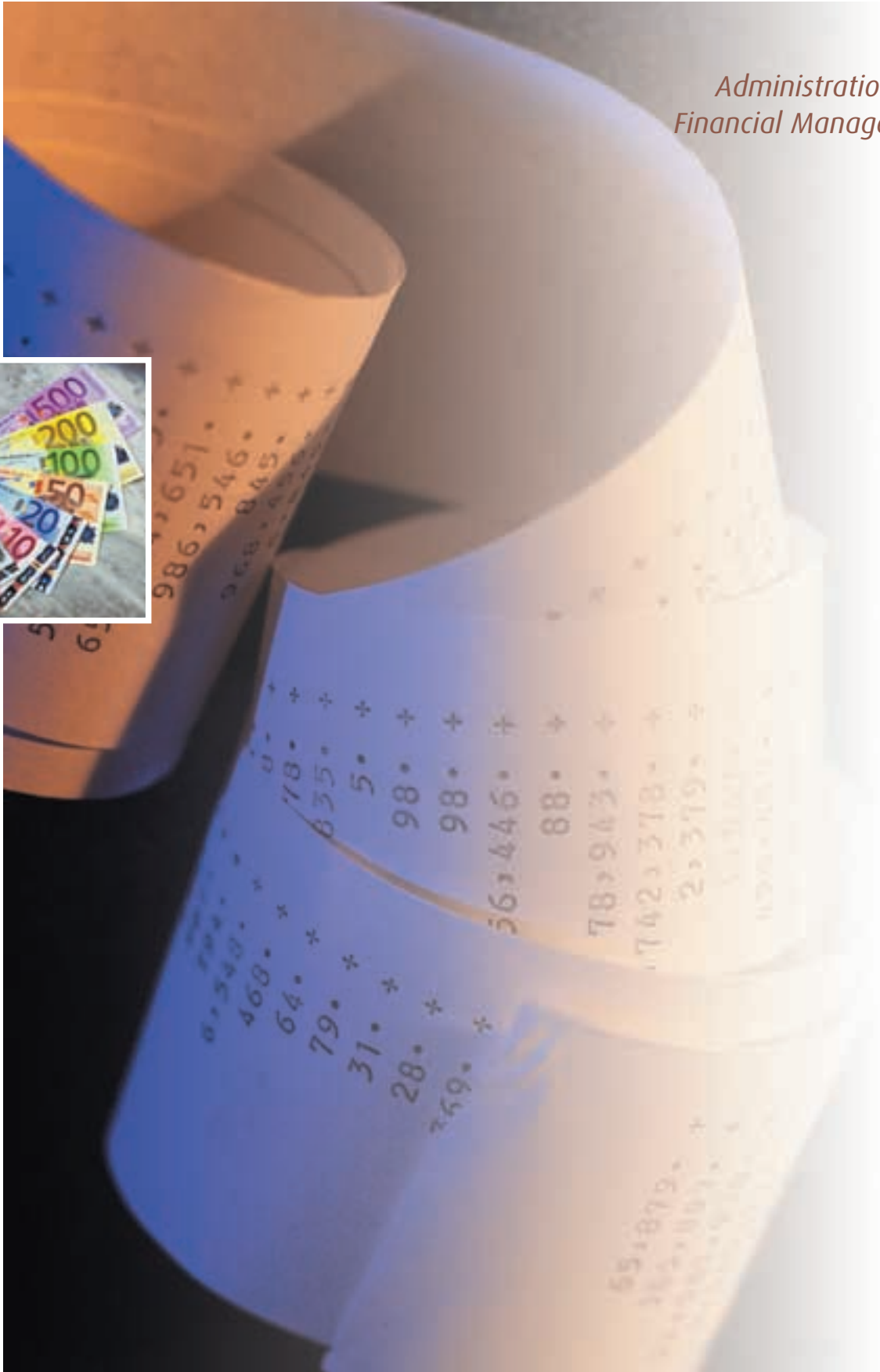
TRAINING PROGRAMMES



STRUCTURE AND CHANGES IN THE RED ELÉCTRICA GROUP WORKFORCE



*Administration and
Financial Management*





RESULTS

THOUSANDS OF EUROS	1998	1999	2000*	2001*	2002*	% 02/01
ADJUSTED TURNOVER	336,340	340,959	353,141	380,987	459,931	20.7
GROSS MARGINS (EBITDA)	234,595	234,593	249,168	254,234	276,372	8.7
OPERATING PROFIT (EBIT)	135,440	136,105	147,482	147,384	156,950	6.5
EARNINGS ON ORDINARY ACTIVITIES	102,613	116,673	131,393	133,131	138,572	4.1
PROFIT AFTER TAX	69,331	75,131	83,140	91,071	99,858	9.6

* Consolidated data

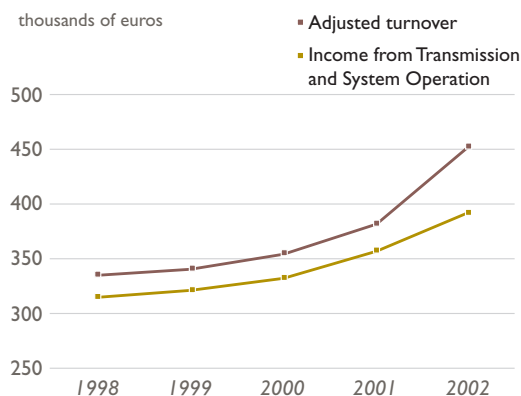
RED ELÉCTRICA GROUP CONTINUED TO IMPROVE ITS KEY indicators along the year. Consolidated profit after tax came to 99,858 thousand euros, which means an increase of 9.6% on the previous year.

The improvement in the GROUP'S consolidated results was based on an increase in turnover and improvement in internal efficiency. These helped gross margin (EBITDA) to grow by 8.7%, despite an increase in costs which was caused by the start up of new companies - principally in the telecommunications business.

INCOME

Consolidated turnover came to 695,507 thousand euros. Net turnover, adjusted for purchases of energy and power related to international exchanges, is the figure which expresses the GROUP'S activity in a more uniform fashion. It grew to 459,931 thousand euros which an increase of 20.7% over 2001. The main components of represents the consolidated turnover figure were as follows:

DEVELOPMENT OF TURNOVER



- Income from transmission and system operation came to 379,889 and 12,713 thousand euros, respectively. These figures grew by 9.4% and 49.3%, respectively, over the amounts for 2001. Income from transmission activities includes 11,092 thousand euros from TDE in Bolivia, corresponding to the six-month period since it was taken over by the GROUP.
- Income from the sales of energy and power, which was mainly associated with the import

INCOME

THOUSANDS OF EUROS	1998	1999	2000**	2001**	2002**	% 02/01
ADJUSTED OPERATING INCOME	342,585	349,301	361,837	387,969	470,287	21.2
CONSOLIDATED ADJUSTED TURNOVER*	336,340	340,959	353,141	380,987	459,931	20.7
Income from Transmission and System Operation	316,197	322,080	333,369	355,770	392,602	10.4
Adjusted Sales of Energy and Power*	6,383	6,966	6,802	8,099	6,900	(14.8)
Telecommunications and other services rendered	13,760	11,913	12,970	17,118	60,429	253.0
OTHER INCOME***	6,245	8,342	8,696	6,982	10,356	48.3
EARNINGS BY COMPANY						
CONSOLIDATED BY EQUITY METHOD	-	-	-	647	605	(6.5)
EXTRAORDINARY INCOME	14,569	6,707	7,964	8,009	9,753	21.8

* Net of energy and power purchases. ** Consolidated figures. *** Not including capitalised expense.

and export contracts with EDF (France) and ONE (Morocco), came to 244,476 thousand euros and the corresponding purchases totalled 235,576 thousand euros. This resulted in a net balance of 6,900 thousand euros.

- Income from other GROUP activities came to 60,429 thousand euros, which was an increase of 43,311 thousand euros compared to the previous year. This increase was due to additional revenues for engineering and construction work for third parties and to revenues for the provision of telecommunication services, which came to 13,370 thousand euros in 2002.

Other Income came to 10,356 thousand euros and basically consists of work carried out by GROUP companies on their own fixed assets, of

R+D+I expense added to fixed assets and of supplementary income associated with operations.

Extraordinary income came to 9,753 thousand euros and was mainly due to capital grants taken to income and prior years' income. All these are related to the electricity business.

EXPENSES

Operating expenses for the GROUP, net of energy and power purchases, rose to 195,297 thousand euros. This was an increase of 44.9% over 2001. This increase was basically due to the increase in expense associated with the start-up of GROUP companies, to expenses generated by work for third parties and to expenses in the second half of the year generated by the incorporation of TDE.

EXPENSES

THOUSANDS OF EUROS	1998	1999	2000**	2001**	2002**	% 02/01
ADJUSTED OPERATING EXPENSES	207,148	213,195	214,357	240,585	313,337	30.2
OPERATING EXPENSE	108,601	113,021	112,775	134,768	195,297	44.9
Personnel costs	53,355	55,075	54,396	57,172	61,641	7.8
Provisions and other operating expense*	55,246	57,946	58,379	77,596	133,656	72.2
DEPRECIATION OF FIXED ASSETS	98,547	100,174	101,582	105,817	118,040	11.6
FINANCIAL EXPENSE***	32,828	19,430	16,190	14,900	17,462	17.2
AMORTISATION OF GOODWILL ON CONSOLIDATION AND COMPANY LOSSED BY EQUITY METHOD	-	-	-	-	1,521	-
EXTRAORDINARY CHARGES	12,639	8,667	13,312	2,004	2,810	40.2

* Net of energy and power purchases. Includes changes in trade provisions.

** Consolidated figures. *** Expenses net of financial income and capitalised interest expense.

Personnel expenses came to 61,641 thousand euros for the whole GROUP. This was an increase of 7.8% compared to the previous year - due mainly to the incorporation of 106 TDE employees in June 2002. The total workforce of the GROUP at the end of 2002 was 1,168 employees. This was a 15.8% increase compared to the same period in the previous year. The average workforce during the year was 1,102 employees, which was 9.8% increase over 2001.

The remaining operational expense, provisions and other operating expenses, net of energy and power purchases, came to 133,656 thousand euros. This was 72.2% more than the previous year.

The above led to an increase in GROUP gross margin (EBITDA) of 8.7% to 276,372 thousand euros. In the electricity business, gross margin grew by 10.2%.

Depreciation and amortisation of fixed assets came to 118,040 thousand euros of which 107,029 thousand euros corresponds to RED ELÉCTRICA DE ESPAÑA, S.A., and the remainder corresponds to GROUP subsidiaries.

The consolidated proceeds of financial operations came to -17,462 thousand euros (including capitalised financial expense of 5,292 thousand euros). This was an increase of 17.2% compared to 2001. This result was due to greater leveraging, which was basically associated with



investments in the transmission grid and investments made abroad.

The consolidated profit after tax came to 99,858 thousand euros, compared to 91,071 thousand euros in 2001. This is a rise of 9.6%. The effective tax rate in 2002 was 31.4%. The drop in the effective tax rate compared to the same period in the previous year was mainly due to deductions on investments abroad and TDE.

FINANCING

Consolidated cash flow after tax came to 224,744 thousand euros, which was an increase of 15.2% compared to 2001. This figure represents 48.9% of the consolidated adjusted turnover (net of energy



purchases). The cash flow allowed the GROUP to finance a significant part of the investments made in 2002.

The important amount of investment made by the GROUP, which was mainly related to advance payments on acquisition of transmission networks, increased consolidated net bank debt by 1,116,986 thousand euros compared to the close of the previous year.

Despite this important increase in borrowings, the company's low risk profile and sound business activities, together with the stability and predictability of its revenues, have been considered

in the rating reviews conducted by Standard and Poor's (which maintained the company's rating at AA- /A-1+) and Moody's (which gave RED ELÉCTRICA a corporate rating of A2 and a stable profile). These ratings are among the best obtained by companies of similar characteristics at international level.

On December 20th 2002, a bridging loan of 1,560 million euros with a duration of one year was arranged for acquisition of transmission assets. This operation will be refinanced during 2003 with an appropriate combination of bank loans and bond issues, aimed at optimising the GROUP's capital structure.

EXTERNAL FUNDS

THOUSANDS OF EUROS	1998	1999	2000*	2001*	2002*	% 02/01
TOTAL NET FINANCIAL DEBT	474,693	377,168	314,374	390,675	1,507,661	285.9
SHORT-TERM FINANCE	(9,661)	(17,940)	(24,664)	(22,683)	(29,333)	29.3
CASH AND BANKS	(217)	(523)	(15,166)	(542)	(2,243)	313.8
SHORT-TERM FINANCE	80,120	49,241	78,585	162,661	1,167,939	618.0
LONG-TERM FINANCE	404,451	346,390	275,619	251,239	371,298	47.8
Credit facilities and loans	248,080	220,072	149,301	124,921	244,980	96.1
Bonds issued	156,371	126,318	126,318	126,318	126,318	0.0
OTHER SHORT-TERM CREDITORS	153,053	138,269	181,341	245,052	309,514	26.3
OTHER LONG-TERM CREDITORS	44,006	45,821	46,733	45,358	57,774	27.4
TOTAL	671,752	561,258	542,448	681,085	1,874,949	175.3

* Consolidated figures

SHAREHOLDERS' EQUITY

THOUSANDS OF EUROS	1998	1999	2000**	2001**	2002**	% 02/01
SHARE CAPITAL*	270,996	270,540	270,540	270,540	270,540	-
REVALUATION RESERVE	247,022	247,022	247,022	247,022	247,022	-
OTHER RESERVES	110,220	137,506	162,626	189,956	231,434	21.8
CONSOLIDATED RESERVES	-	-	(246)	404	(12,233)	-
EXCHANGE GAINS OR LOSSES	-	-	962	1,393	(1,810)	-
NET PROFIT FOR THE YEAR	69,333	75,136	83,140	91,071	99,858	9.6
INTERIM DIVIDEND	-	(20,290)	(22,877)	(24,299)	(25,511)	5.0
TOTAL	697,571	709,914	741,167	776,087	809,300	4.3

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

INVESTMENTS OF RED ELÉCTRICA GROUP

Investments made by RED ELÉCTRICA GROUP during 2002 came to 1,158,710 thousand euros. This was an increase of 913,877 thousand euros over the previous year. These investments were distributed as follows:



- 815,929 thousand euros as advance payment for the transmission networks of Unión Fenosa Distribución and Endesa Distribución, together with the part acquired in Redalta.
- 203,396 thousand euros for extension and improvements in the Spanish mainland transmission grid. This represents an increase of 56.6% compared to 2001.
- 91,668 thousand euros for the purchase of TDE in Bolivia.
- 39,677 thousand euros for telecommunications activities.
- 8,040 thousand euros for other investment, including 3,110 thousand euros invested in TDE's transmission grid.

INVESTMENTS

THOUSANDS OF EUROS	1998	1999	2000*	2001*	2002*	% 02/01
ACQUISITION OF TRANSMISSION NETWORKS IN SPAIN	-	-	-	-	815,929	-
INVESTMENT IN THE TRANSMISSION GRID IN SPAIN	18,048	34,480	78,300	129,885	203,396	56.6
Power lines	10,367	14,647	47,600	70,971	106,442	50.0
Substations	7,681	19,833	30,700	58,914	96,954	64.6
PURCHASE OF HOLDINGS IN COMPANIES ABROAD	-	5,517	-	-	91,668	-
INVESTMENT IN EQUIPMENT AND THE TELECOMMUNICATIONS NETWORK	-	-	5,621	105,164	39,677	(62.3)
OTHER INVESTMENTS	5,289	10,349	5,884	9,784	8,040	(17.8)
TOTAL	23,337	50,346	89,805	244,833	1,158,710	373.3

* Consolidated figures



*Research, Development
and Innovation*





IN 2002 WORK CONTINUED ON CONSOLIDATION OF research, development and technical innovation goals with regard to different areas and procedures. Simultaneously, there was a significant increase in the internal efforts expended on these activities and this demonstrates RED ELÉCTRICA'S commitment to generating knowledge within the organisation.

Research, development and innovation projects carried out by RED ELÉCTRICA in 2002 included those listed below.

COMPLETED PROJECTS

ANALYSIS OF OPERATING RESTRICTIONS (ARO)

This project entailed development of a software program to quantify the constraints which the configuration of the electricity system and its expected development generate with regard to the effective implementation of offers accepted in the production market.

The goal was to determine the most economic solution in matching offers of generation with demand and that satisfies the technical constraints posed by operation of the electricity system.

COMMON INFORMATION MODEL (CIM)

This project entailed development of a prototype database manager for energy control systems, based on the model defined in the IEC 61970 301 CIM standard of the International Electrotechnical Commission.

It demonstrates the possibility of developing a portable database manager, based entirely on Java, which also verifies the standard and its ability to handle all the elements in RED ELÉCTRICA'S transmission grid model. It also incorporates the advantages of navigation, accessibility and the ability to interact with other systems.

STUDY OF THE CORONA EFFECT

The purpose of this project was to develop equipment capable of detecting the corona effect, which can occur on 400 kV lines in the presence of certain events related to line components. This equipment analyses the radio frequency signals produced by the corona effect, and it has been validated with field measurement, on foot and using helicopters, on 400 kV lines.

SIPREOLICO

This system produces wind power predictions for each hour of the day, for all wind farms in the mainland system for the following 48 hours. It uses the hourly output from each wind farm and the wind forecasts received every six hours. RED ELÉCTRICA



uses the information generated in the deviation handling markets and in constraint analysis. The results are made available to distributors, so that they can be used in the daily and intra-day markets.

AUTOMATIC RESTORE SYSTEM (SAR)

This project consisted of installing a restore guidance system in the RED ELÉCTRICA control centres. In the case of incidents, this system helps the operators to restore service rapidly, securely and reliably. The system incorporates the latest technology in regard to algorithms. The previous version was only useful for regional-size networks. At the present time, the limitation associated with the response time has been resolved, so it can be adapted to large domestic networks.

PROJECTS IN PROGRESS

STATUS ESTIMATION BASED ON PHASORS (FASORNET)

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

The use of phasors means that the algorithm can be expressed as a group of linear equations and this reduces the execution time considerably and increases the precision of the results.

EXAMINE

The purpose of this project is to develop a supervision and control system for managing weaknesses in European electricity infrastructure. It is developing a novel monitoring system for the European system and it also entails a study of a system which would act automatically in the event of incidents which affect stability.

MEASUREMENT OF CURRENT LEAKAGE

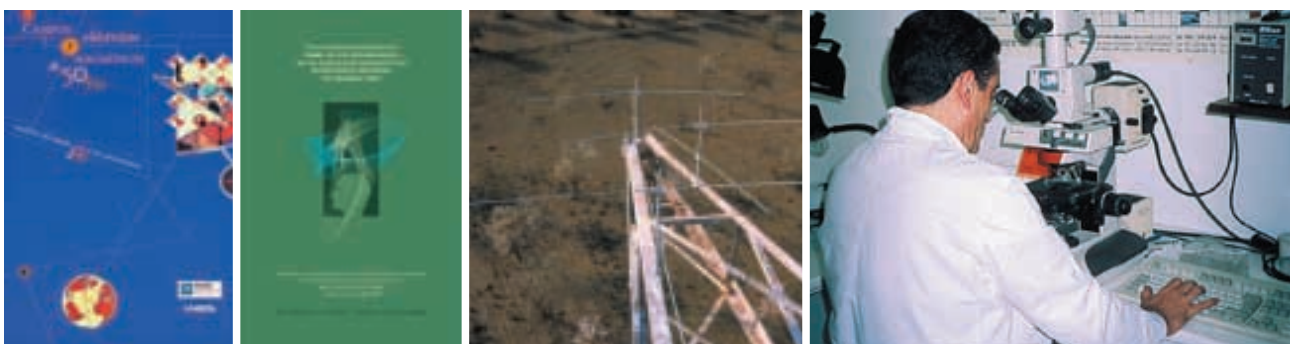
It entails development of equipment to measure current leakage at insulator strings (glass or composite) on power lines while they are in service. The goal is to reduce or eliminate - as far as possible - outages due to contamination.

TREE GROWTH

The project consists in developing a system which, using artificial vision techniques, will identify tree growth conditions close to power lines, which might affect the transmission network

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 experimental work is being done in cooperation with Valladolid University and with scientific advice from UNESA.





IELAS

The project entails development of a current measurement transformer based on magnetic striction and piezoelectric materials. Preliminary estimates indicate that this design could reduce volume by 26%, weight by 72%, insulating oil by 100% and cut manufacturing costs by 37%, compared to current designs.

TREATMENT OF STUMPS

An evaluation of different biotic means (fungi) and existing abiotic means (herbicides) for treating tree stumps after power line right-of-ways have been cleared of fast-growing species, in order to prevent renewed growth.

EMERGIE

This project concerns development of methodologies to evaluate the impact of changes in the electricity market, identifying costs and benefits which might be generated or avoided.

The aspects which were considered included the following: the methodology for calculating tolls and remuneration for the use of the network, uniform European tariffs for access to the transmission grid, the incorporation of economic signals associated with costs and investment requirements for the transmission system, as well as the incorporation of offers from the demand side on the supply of services by the system operator.

NEW PROJECTS

ANEMOS

The purpose of this project is to facilitate co-operation between the best European experts on predictive meteorology and wind farm production in order to develop a prediction system for new generation and to integrate wind farms into electricity systems. It is being financed by the European Union under the V Framework Programme.

ANALYSIS OF TRANSFORMER GAS

The purpose here is to develop a Kohonen neural network to classify the results of dissolved gas analysis carried out on power transformer and reactors, in order to provide more accurate diagnostics.

SIPREOLICO II

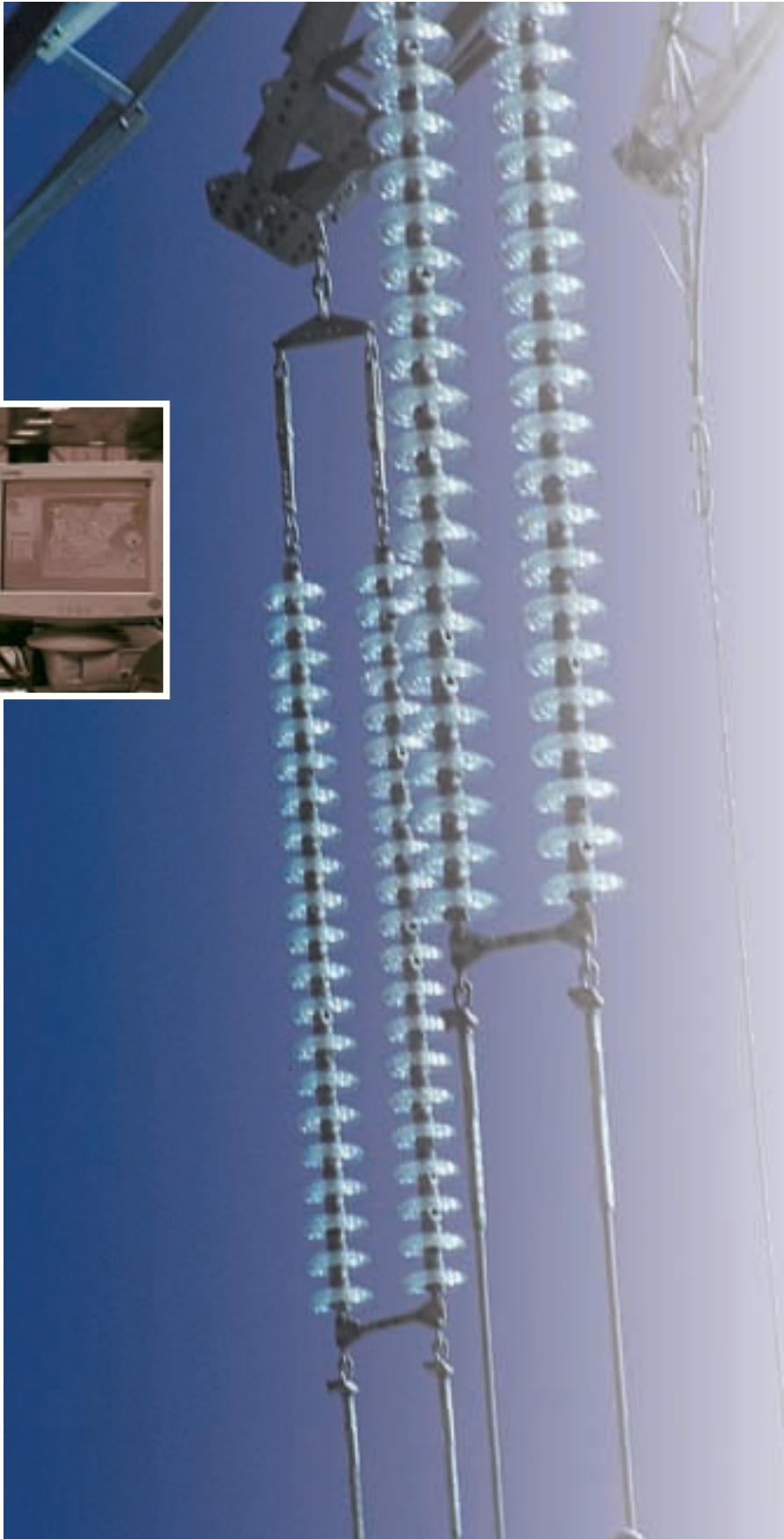
The project consists of an improvement in the wind generation forecasting system (Sipreolico). The frequency of calculation will be increased to 15 minutes and a new model will be developed which integrates different sources of meteorological predictions and which will automatically select the most reliable. Furthermore, models which will allow better forecasts of local wind using a more detailed representation of the terrain, are being studied.

NEW RED ELÉCTRICA SUBSTATION (NSR)

This project entails the design of a new model of substation based on totally-enclosed equipment. It should be easier to install, more reliable and more flexible in operation.

This type of substation, which is more compact and lower in height, significantly reduces the environmental effect and it will be easier to maintain - with less outage time and greater safety for personnel.

Quality





THE THREE-YEAR QUALITY PLAN 2000-2002 CONCLUDED in 2002. Some 95% of the planned programmes and projects was achieved. At the present time, a new three-year plan is being drawn up, which contains quality developments to support the 2003-2007 Company Plan in the medium term.

A summary of the activities in 2002 related to quality is provided below.

PROCESS MANAGEMENT

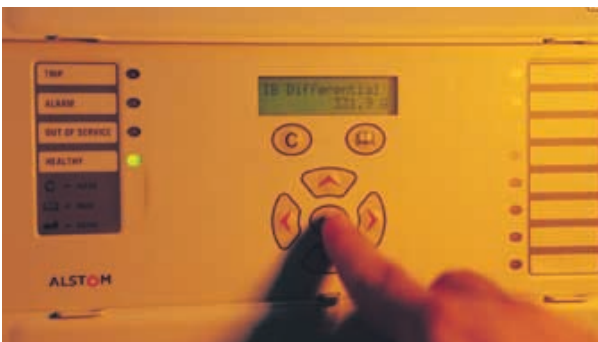
The corporate process management system was consolidated and implemented for more than 90% of processes. For each process it provides full information on the responsible party, the participants, their suppliers, their customers, the relationship with other processes, the associated standards, and the products and the measurements related to tracking and control.

Each system of indicators implies the definition of target values, periodic tracking of quality parameters for the process and its products and evaluations. All this information is contained in the Process Manual.

The Process Map is a key part of this manual. It provides a visual and graphic guide. It is a complete summary of the business and management of the company and it is a component of the Company Plan and of the Integrated Control Panel.

Depending on how critical they are and on the planned approach, improvements were analysed, designed and implemented for the following processes or activities:

- Action in the event of incidents that affect operation, transmission, personal safety, facilities or the environment.
- Access control to the company's facilities.
- Telecommunication management in the RED ELÉCTRICA GROUP.
- Qualitative reception of materials and equipment.
- Integration and improvement of technical standards.
- Internal benchmarking of the line maintenance.
- Improvement in planning and co-ordination together with external audits of the management systems (quality, environment and occupational safety).
- Maintenance of fire prevention systems.





RELATIONSHIP WITH CUSTOMERS AND BUSINESS PARTNERS

The 2001-2002 survey of customer and business partners' satisfaction was carried out in the last half of the year:

Overall, our business partners continued to hold a good opinion of RED ELÉCTRICA'S management, its compliance with corporate strategy and the development and deployment of the services provided.

The service factors received higher marks than the previous survey. Eight out of ten service factors were considered to be a strong point and the value was more than seven points out of 10.

SUPPLIER MANAGEMENT

A new method for evaluating the production processes of suppliers of goods and equipment to RED ELÉCTRICA was analysed, improved and implemented. Its goal is as follows:

- Reduction of costs associated with qualitative reception.

- Up-to-date knowledge of the production cycles for the products to be received.
- Efficiency and reduction in the time between order and reception of the equipment or material in question..

CERTIFICATION OF THE MANAGEMENT SYSTEMS

The most important milestone in the area of systems certification was the certificate for the prevention of occupational hazards at RED ELÉCTRICA under the OHSAS 18001 international standard (Occupational Health and Safety Assessment Series) for all its centres and business activities.

This recognition which was awarded by the certifying agency TÜV Rheinland International, guarantees that RED ELÉCTRICA is the first electricity company to obtain this certificate anywhere in the world.

As a final step in this matter, work was started on integration of the quality, environmental and occupational safety systems. This project will reduce the amount of time required for audits, it will make the three-year audit planning process more rational and it will prevent repetition of audits associated with the different systems.

RECOGNITION OF QUALITY

THE PRINCE FELIPE PRIZE FOR CORPORATE EXCELLENCE

RED ELÉCTRICA was present for the first time in the VII edition of the Prince Felipe Prize for Industrial Quality and was one of the four finalists out of 25 companies pre-selected in the first round. This award signifies explicit recognition of the company's quality and it is an evidence of the constant improvement present in all RED ELÉCTRICA'S processes and staff members.

EUROPEAN SEAL OF EXCELLENCE

RED ELÉCTRICA received the seal of European Excellence, silver level, in its first appearance at the evaluations carried out by the Quality Management Club.

At the present time, efforts and improvements are being directed to achieving the Gold Level. This would bring RED ELÉCTRICA into line with the most prestigious and reputable companies in Europe.

GUARANTEE MARK: MADRID EXCELENTE

This mark, which is awarded for excellence of corporate management, guarantees the reliability and quality of products and services provided by the organisation.

RED ELÉCTRICA received this award in July 2002 as a recognition of its processes and results, of its meticulous compliance with legislation, and its commitment to the social and economic environment in which it carries out its activities.

CO-OPERATION WITH ORGANISATIONS AND ASSOCIATIONS

RED ELÉCTRICA continued to participate in the energy industry section of the Spanish Quality Association through working groups, two of which are led by our company: "Exchange of Experience" and "Integration of Management Systems". It also participates in another two working groups: "Communication in Quality" and "ISO 9001:2000 Standards". It also participates in the recently-created Quality Committee for Services. This association consists of more than 20 organisations from all sectors of the Spanish business world.



Likewise, it participated in the X Conference on Quality in the Energy Industry which was held in Tarragona and where it presented a paper and directed a workshop.

It also co-operated with the Quality Management Club in evaluation of companies for awarding the European Seals of Excellence under the model of the European Foundation for Quality Management.

*International
Organisations' Membership*





RED ELÉCTRICA'S PARTICIPATION IN OTHER ORGANISATIONS, entities and associations, especially those of a technical or professional nature, is important to improve the company's knowledge of its environment and to participate in the taking of decisions of these organisations, contributing from its own experience.

In this regard, RED ELÉCTRICA participates in various international organisations, co-operating actively with the organisers and with the study and working groups; these include the following:

CIGRE (INTERNATIONAL CONFERENCE ON LARGE POWER NETWORKS). This organisation consists of utility companies, manufacturers of electrical capital goods, consulting firms and research centres from all over the world. The purpose is to exchange technical knowledge. RED ELÉCTRICA chairs the Spanish Committee and holds also the Secretariat of this Committee.

EI (EDISON ELECTRIC INSTITUTE). An association of US power utilities and international affiliates. RED ELÉCTRICA participates in the financial meetings with analysts and investors from the electricity sector:

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 sits on the Management Committee.

EURELECTRIC (THE EUROPEAN ELECTRICAL INDUSTRY ORGANISATION). This organisation includes electricity companies from all over Europe plus associates

from the north of Africa, Mexico, South Africa and other countries.

RED ELÉCTRICA is a founder member and sits on the Management Committee.

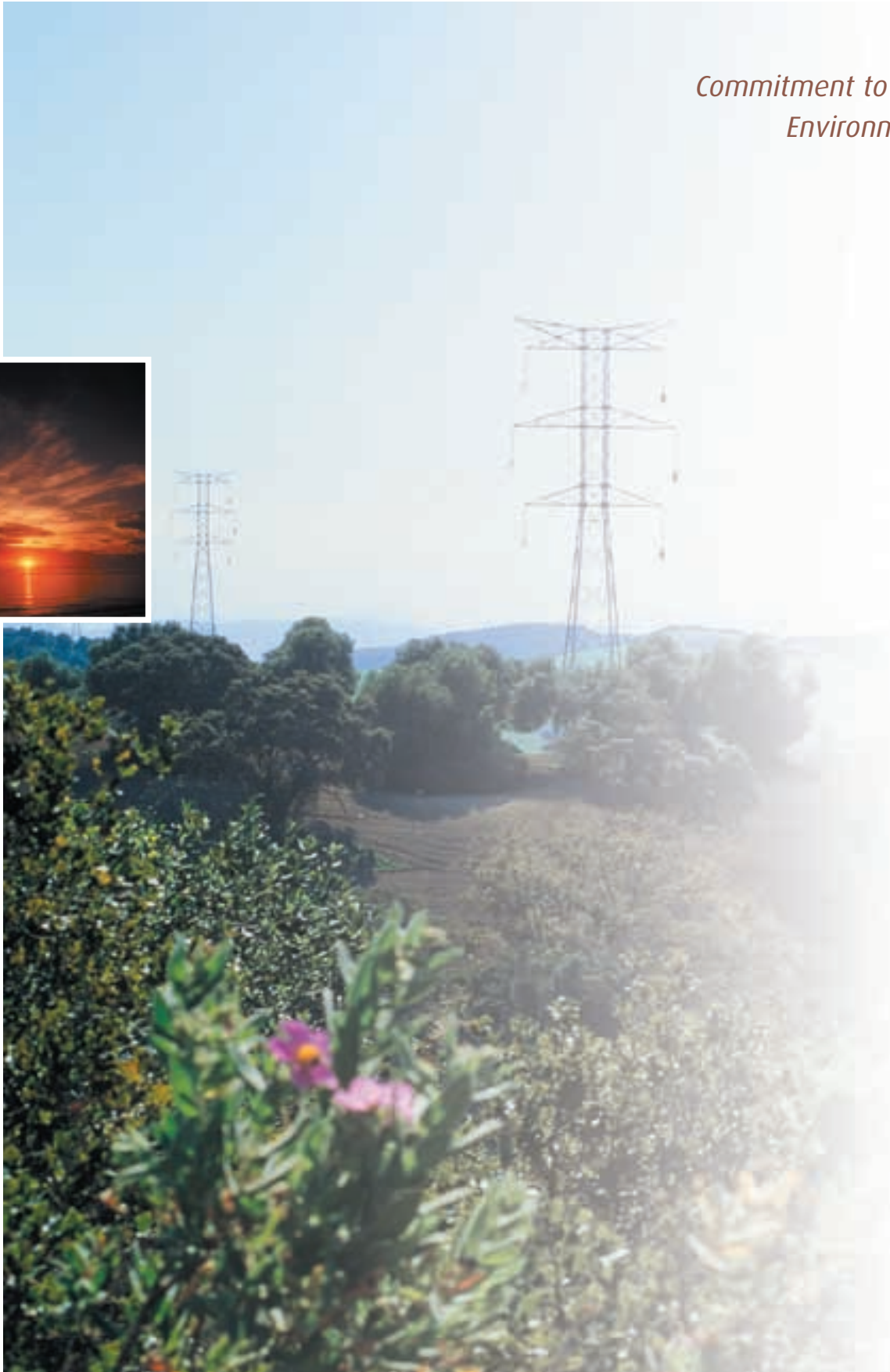
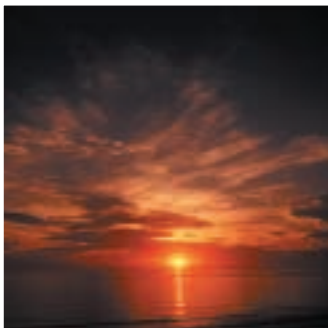
IESOE (SOUTHWEST EUROPEAN ELECTRICAL INTERCONNECTION). This organisation consists of Réseau de Transport d'Électricité, Rede Eléctrica Nacional de Portugal and the Spanish electricity companies. Its purpose is to examine the operation of the interconnected networks of the member countries and to prepare recommendations for improvement. RED ELÉCTRICA is the Chairman and Secretary, as well as the Chairman of the Spanish delegation.

OME (MEDITERRANEAN ENERGY OBSERVATORY). This organisation comprises utility companies and gas and oil companies from the Mediterranean rim. It sponsors and promotes co-operation among its members in energy matters.

OSTE (TRANSIT TRACKING ORGANISATION OF LARGE NETWORK ELECTRICITY). 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 officially mentioned in the directive.

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 is the chairman and the Secretary of the Spanish Committee.

*Commitment to the
Environment*





DURING 2002, RED ELÉCTRICA OBTAINED THE PRIZE for best practice in implementation of the “Eco-Management and Audit Scheme” (EMAS), which is awarded by the European Commission. The Ministry of Environment also awarded it the EMAS diploma for efficiency and success in implementing the “European Eco-Management and Eco-Audit Regulations”.

Thus, both a domestic and an European organisation have recognised RED ELÉCTRICA’S commitment to act in accordance with the most demanding requirements associated with environmental management. This commitment is reflected and integrated with the company’s strategy through its Environmental Policy.

Part of the company’s strategy is to be increasingly responsible in terms of environmental protection. This is reflected by the Group’s Environmental Policy which now lays out corporate principles and guidelines which are even more demanding than those in the previous policy of the parent company.

DESIGN AND CONSTRUCTION OF NEW FACILITIES

A positive environmental impact declaration (DIA) was obtained in 2002 for three power lines, and further declarations are expected for another five lines.

In addition, an environmental impact evaluation has been completed for the underground cable on the section of the power line affected by the Barajas airport extension project. Evaluations have

also been completed for three power lines and three substations, and other evaluations have been started on the environmental impact of another 30 lines and substations.

Environmental supervision was conducted on the construction of various power lines and stringing of second circuits, and on construction work related to the extension and improvements at substations. This entailed the application of preventive and corrective measures, as defined in the environment monitoring programmes which were drawn up for each case. In regard to substations, handling of the waste generated has been verified.

RESEARCH PROJECTS AND ENVIRONMENTAL STUDIES

In this area attention is drawn to the co-operative agreement with the Governing Board of Scientific Research at the Doñana Biological Station for a study on “The use of power substations by the common kestrel in Navarre and Aragon. The importance of preservation of this specie at national level”.





Besides, work continues on the project "Use of power line supports for nesting by birds of prey". This is based on a proposal of the Wild Life Section of the territorial service of the Regional Ministry of Environment of Castile and León Autonomous Community for the protection of the common falcon in the province of Valladolid.



Work also continued on the project "Tracking of stork nesting and devices to discourage it on power line towers". Additionally, a project has been started on "Effect of low frequency electromagnetic fields on programmed cellular death: implications for the immune system", with the object of clarifying questions which arose during the projects carried out in the 1995-2000 period, with scientific co-operation from Valladolid University and the Scientific Research Superior Council (CSIC).

Lastly, attention is drawn to a novel project, NSR, to design a new model of substation which will significantly reduce the visual impact, minimise oil contamination risks and reduce energy losses, achieving more rational use of resources.

PREVENTION AND REDUCTION OF ENVIRONMENTAL EFFECTS

With the goal of monitoring the level of bird collisions with earth wires, work continued on the study "Beacons on the 400 kV Guadame-Tajo Power Line". The object is to determine the level of accidents and to check the effectiveness of the anti-collision measures.

In addition, installation of bird-saver spirals to prevent collision by birds continued on the potentially dangerous spans of power lines in Aragon, Castile-La Mancha, Extremadura and Navarre. Devices for discouraging nesting by storks were also installed in Andalusia, Extremadura and Madrid.

With regard to contamination prevention activities at substations, most of the proposals arising from the review carried out in 2001 have been implemented. This refers to oil collection pits for all power machines and to generator sets and their fuel tanks. Improvements consist of building or

increasing the size of oil collection pits for power machines together with the installation at various substations of new methods for collecting potential fuel spills from generator sets.

INVENTORY

OF NATURE RESERVES

Notable activities in this area during the year were related to updating of maps and to legislation on protected nature reserves in all the Autonomous Communities.

MONITORING OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

With regard to monitoring of the Environmental Management System in 2002, audits were carried out for renewal of the Environmental Management System in accordance with UNE Standard EN ISO 14,001, and another audit was performed to verify the Environmental Statement for subsequent renewal of the company's membership of the European Eco-Management and Eco-Audit System (EMAS). In both cases the result of the evaluation was positive.

In addition, environmental audits were carried out, an extensive review was made of internal standards to adapt them to new environmental legislation approved during the year, and we continued to respond to environmental enquiries and claims.

CO-OPERATION

WITH OTHER ORGANISATIONS

Together with representatives of other organisations and companies, work continued in 2002 on preparation of the Electrical Infrastructure Plan for Madrid Autonomous Community. The goal is to plan the alignment of future high voltage power lines in a manner which will ensure power supply to the Madrid Region in the future, which may also be used as corridors for local infrastructure. During the year corridors were planned for the northwest area of the Community.

Co-operation agreements were signed with various scientific organisations and the company participated in various national and international working groups involving technicians and experts. Additions in this area during the year were the study committee on "Environmental behaviour of electricity systems" of the International Conference on Large Power Networks and the working sub-group "Electricity Networks" of the AENOR National Technical Committee.

As in previous years, extensive efforts were made to communicate through publications and manuals. These included publication of the "2001 Environmental Statement", which was verified by AENOR, and publication for internal use of the "Environmental Management System Guide for Employees".



*Shareholders and
Stock Exchange Information*

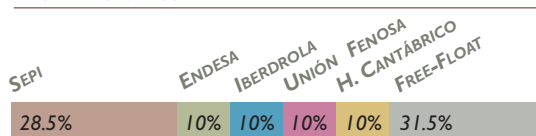


AT DECEMBER 31ST 2002, THE SHARE CAPITAL OF RED ELÉCTRICA, totally subscribed and fully paid, came to 270,540,000 euros in the form of 135,270,000 shares with a face value of 2 euros. During 2002 there was no change in the number of shares in circulation or in their nominal value.

All the shares are quoted on the four Spanish stock exchanges and they are traded on the Spanish continuous market. The share is part of the IBEX-35, which is an index of the most representative companies traded on the Spanish stock exchange market. At the end of the year, its weighting in the index was 0.36% and in the IBEX-Utilities index it was 0.93%.

The structure of share ownership -based on the latest notifications of significant shareholders submitted to the Spanish Stock Exchange Commission- is as follows:

SHARE OWNERSHIP DECEMBER 31ST 2002



DETAILS OF FREE-FLOAT APRIL 26TH 2002 (ANNUAL GENERAL MEETING)

INSTITUTION	SMALL SHAREHOLDERS
59.6%	40.4%

DETAILS OF INSTITUTIONAL HOLDERS APRIL 26TH 2002 (ANNUAL GENERAL MEETING)

DOMESTIC	FOREIGN
48.8%	51.2%

The actively-traded capital consists of 42,610,050 shares, and at the end of 2002 it was estimated that institutional investors held 51.2% of these. These institutions are mainly located in Spain, the United States, the United Kingdom and Luxembourg.

At December 31st 2002, the number of own shares held by the Company came to 1,009,005. This represents 0.75% of the total outstanding shares.

SHARE PRICE

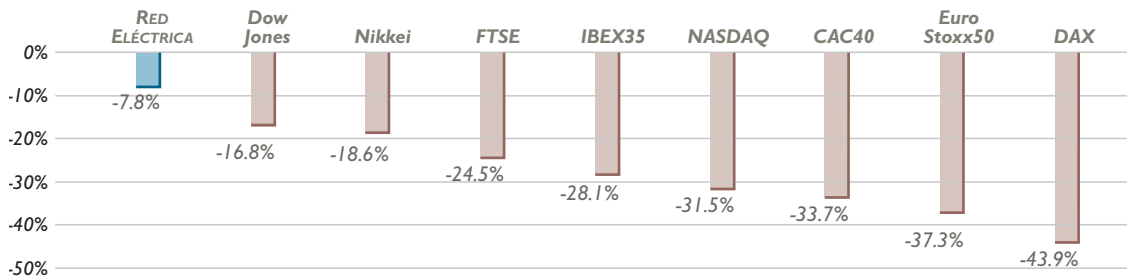
The year ended with the third annual consecutive decline of the world's main exchanges. This has only occurred on two other occasions in the twentieth century. During these three years, exchanges as a whole have lost more than 40% of their value.

In this context, RED ELÉCTRICA's shares closed 2002 at 9.64 euros. This was a decline of 7.8% with regard to the end of the previous year. However, RED ELÉCTRICA's performance was better than the IBEX-35, the Spanish Energy Sector Index and the EuroStoxx Utilities, which recorded losses of 28.1%, 18.9% and 27.1%, respectively.

DISTRIBUTION OF SHARE CAPITAL BY SIZE OF HOLDING APRIL 26TH 2002 (ANNUAL GENERAL MEETING)

Nº OF SHARES	Nº OF SHAREHOLDERS	%	Nº OF SHARES	%
FROM 1 to 1,000	56,316	94.93	12,014,990	8.88
FROM 1,001 to 5,000	2,420	4.08	5,013,685	3.71
FROM 5,001 to 25,000	421	0.71	4,585,762	3.39
FROM 25,001 to 80,000	92	0.16	3,948,023	2.92
MORE THAN 80,000	69	0.12	17,047,590	12.60
SPECIAL SHAREHOLDERS	5	0.01	92,659,950	68.50
TOTAL	59,323	100.00	135,270,000	100.00

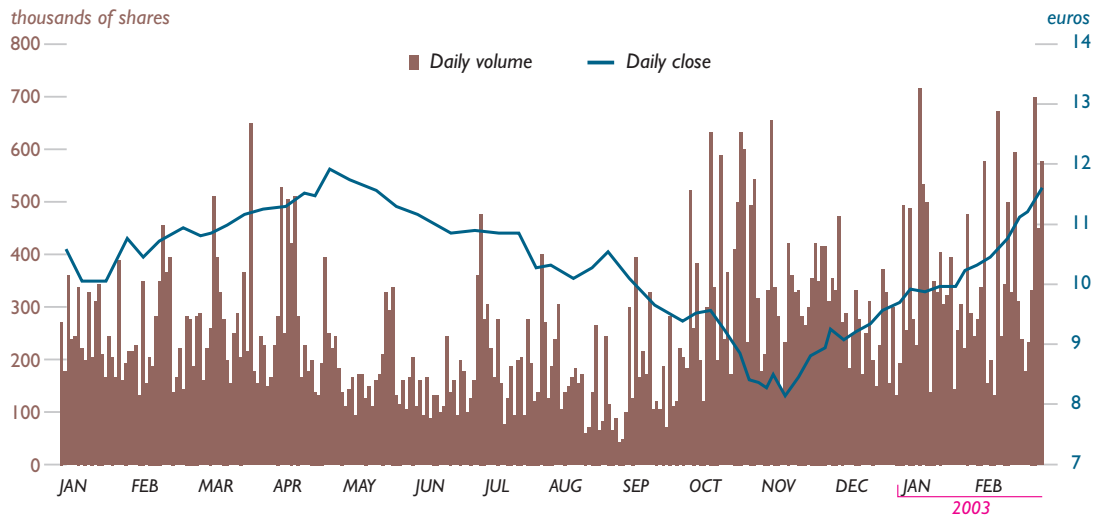
MOVEMENTS OF THE MAIN STOCK EXCHANGE INDICES - 2002



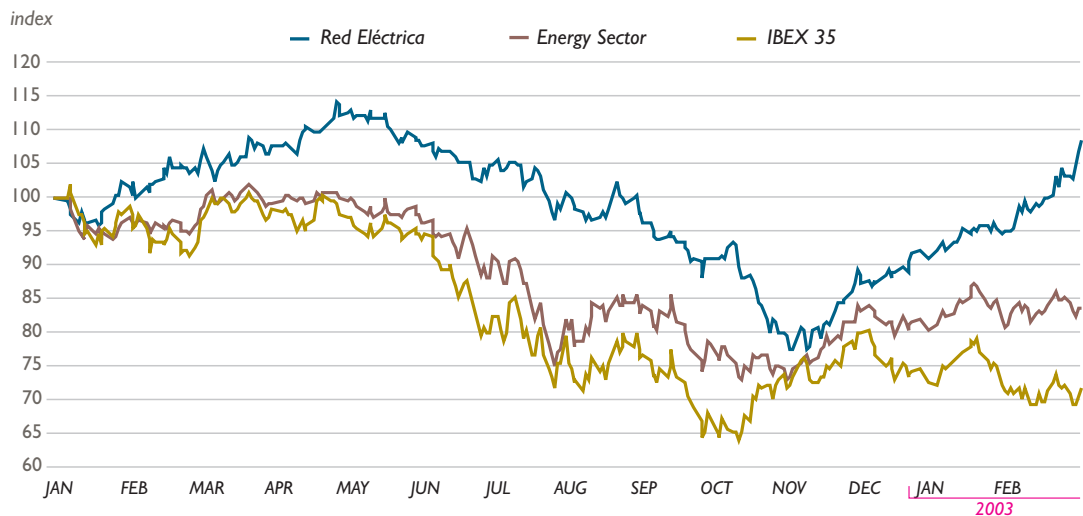
At the beginning of November, an agreement was made to acquire the transmission networks of Endesa and Unión Fenosa, and to purchase a 25% stake in Redalta. The latter company is being used for conveyance of Iberdrola's transmission assets.

These actions provided significant support for the RED ELÉCTRICA share price which corrected its downward trend from the year's lowest of 7.91 euros to close up in February 2003 at 11.33 euros. This represents a rise of 43.2%.

RED ELÉCTRICA'S SHARE PRICE AND DAILY VOLUME



RED ELÉCTRICA'S SHARE PRICE - THE IBEX35 AND THE ENERGY SECTOR



SHARE PRICE BY MONTH · 2002

	DAYS QUOTED	SHARE PRICE (EUROS)			CLOSE	VARIATIONS % MTHLY	TRADES	
		MAXIMUM	MINIMUM	AVERAGE			N° OF SHARES	VALUE (EUROS)
JANUARY	22	10.70	9.99	10.29	10.45	0.0	5,411,650	55,737,955.83
FEBRUARY	20	11.20	10.46	10.83	11.20	7.2	5,183,031	56,156,363.21
MARCH	20	11.45	10.70	11.09	11.25	0.4	5,493,389	60,939,134.21
APRIL	21	11.95	11.11	11.48	11.80	4.9	5,705,653	65,530,785.29
MAY	22	11.85	11.13	11.49	11.26	-4.6	3,836,242	44,106,562.03
JUNE	20	11.37	10.60	10.99	10.95	-2.8	4,554,250	50,035,707.03
JULY	23	11.10	10.07	10.72	10.44	-4.7	5,932,722	63,634,476.23
AUGUST	21	10.70	10.01	10.25	10.06	-3.6	2,774,923	28,446,398.22
SEPTEMBER	21	10.20	9.05	9.69	9.47	-5.9	5,207,552	50,489,159.05
OCTOBER	23	9.75	8.03	8.94	8.09	-14.6	9,281,099	82,999,524.52
NOVEMBER	20	9.38	7.91	8.64	9.09	12.4	6,825,572	59,037,160.52
DECEMBER	17	9.67	9.04	9.32	9.64	6.1	4,877,086	45,456,771.16
TOTAL FOR YEAR · 250		11.95	7.91	10.18	9.64	-7.8	65,083,169	662,569,997.30

In 2002 the effective trading volume was 662.6 million euros, involving 65.1 million shares. This was 1.5 times the freely-traded capital.

DIVIDENDS

RED ELÉCTRICA continued to focus on maximising shareholder value. As part of this strategy, the direct shareholder remuneration in the form of dividends grew by 5.5% compared to 2001. This represented a pay-out of 67.7% - in line with similar levels in recent years.

The gross dividend per share proposed to the Annual General Assambly on account of 2002 profits is 0.48 euros. On January 3rd 2003, a gross interim dividend of 0.19 euros per share was paid on shares with dividend rights. Therefore, 0.29 euros per share are pending payment as part of a gross supplementary dividend for 2002.



DIVIDEND PER SHARE

	1998	1999	2000	2001	2002
DIVIDEND PER SHARE (IN EUROS)	0.308	0.365	0.415	0.455	0.480
INTERIM DIVIDEND	0.308	0.150	0.170	0.180	0.190
SUPPLEMENTARY DIVIDEND	-	0.215	0.245	0.275	0.290
DIVIDEND AS A PERCENTAGE OF NET PROFIT (PAY-OUT) (%)	60.0	65.7	67.4	67.8	67.7

SHARE INFORMATION

	2000	2001	2002
TOTAL NUMBER OF SHARES	135,270,000	135,270,000	135,270,000
NUMBER OF SHARES ACTIVELY TRADED	42,610,050	42,610,050	42,610,050
FACE VALUE (IN EUROS)	2	2	2
DAILY TRADING (IN NO. OF SHARES)			
MAXIMUM	10,635,905	1,075,878	865,787
MINIMUM	38,052	53,511	42,618
SHARE PRICE (IN EUROS)			
MAXIMUM	13.90	11.32	11.95
MINIMUM	5.37	9.00	7.91
AVERAGE	10.44	10.16	10.18
CLOSE	10.05	10.45	9.64
MARKET CAPITALISATION AT YEAR END (IN EUROS)	1,359,463,500	1,413,571,500	1,304,002,800
EARNINGS PER SHARE (EPS) (IN EUROS)	0.61	0.67	0.74
CASH FLOW PER SHARE (CFPS) (IN EUROS)	1.36	1.44	1.66
SHARE PRICE / EPS (PER)	16.35	15.52	13.06
SHARE PRICE / CFPS (PCF)	7.40	7.25	5.80
SHARE PRICE / BOOK VALUE PER SHARE (PBVR)	1.83	1.82	1.61

SHAREHOLDERS AND INVESTORS

As a listed company, RED ELÉCTRICA pursues criteria of transparency and information opportunity, as required by its presence in the financial markets. It conducts an external communication plan aimed at satisfying the information needs of its shareholders, of the market and of the public in general.

Therefore RED ELÉCTRICA maintains 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 order to service more effectively small shareholders, the company, through its Shareholder Office (telephone: 900 100 182 - e-mail accionistas@ree.es), conducts various activities in order to attend queries for information by means of documents and informative leaflets, the organisation of visits to installations and offices and the participation in events and forums of a financial nature.



Thus, RED ELÉCTRICA has continued to maintain direct contact with the financial community and with analysts. In 2002 the company's management team participated in various presentations and held frequent meetings with domestic and international institutional investors, with analysts and with potential investors.

In addition, the company is conscious of the breadth of its target public and the constant supply of information which it requires. RED ELÉCTRICA transmits information regularly through the public it systems and through traditional information channels.

Its commitment in this regard has been recognised by the Spanish Accounting and Business Administration Association (AECA), which awarded RED ELÉCTRICA a prize as the "Company with best financial information on Internet in 2002", in the IBEX-35 category, for the quality of its content, design, ease of navigation and the accessibility of its web page (www.ree.es).



■ ■ ■ Legal
Documentation



RED ELÉCTRICA GROUP

CONSOLIDATED BALANCE SHEET 2002 at 31 December · In thousands of Euros (Translation from the original in Spanish)

ASSETS	2002	2001
ESTABLISHMENT COSTS (note 5-a)	1,723	1,299
INTANGIBLE ASSETS (note 6)	9,396	4,976
Research and development expenses	20,752	18,582
Software	11,020	6,996
Advances and tangible assets under construction	2,767	-
Amortisation	(25,143)	(20,602)
TANGIBLE ASSETS (note 7)	2,463,568	1,431,250
Land and buildings	46,992	38,149
Plant and machinery	2,651,678	2,227,990
Other installations, equipment and furniture	132,876	121,491
Plant and machinery under construction	152,651	169,651
Advances and tangible assets under construction	827,638	38,413
Provisions	(25,354)	(22,134)
Depreciation of plant and machinery	(1,264,535)	(1,078,675)
Other depreciation	(58,378)	(63,635)
INVESTMENTS (note 8)	40,517	26,239
Investments in equity accounted companies	8,180	8,382
Other investments	3,732	-
Long-term loans to associated companies	11,197	-
Other loans	4,235	4,912
Long-term guarantee deposits	601	495
Long-term balances recoverable from public entities	12,572	12,450
PARENT COMPANY SHARES (note 12-d)	9,029	2,764
LONG-TERM DEBTORS (note 9)	8,392	17,524
TOTAL FIXED ASSETS	2,532,625	1,484,052
GOODWILL ON CONSOLIDATION (note 10)	19,902	-
DEFERRED EXPENSES (note 11)	52,995	31,741
STOCKS	6,790	4,903
Raw materials and other supplies	11,309	8,903
Provisions	(4,519)	(4,000)
DEBTORS (note 9)	288,630	136,516
Trade debtors	27,534	23,434
Associated companies	157	1,967
Sundry debtors	129,494	97,101
Personnel	1,468	1,261
Public entities	131,219	13,132
Provisions	(1,242)	(379)
SHORT-TERM INVESTMENTS (note 8)	29,333	22,683
Short-term investment portfolio	24,263	20,440
Loans to equity accounted companies	22	-
Other loans	5,048	2,243
CASH AND BANKS	2,243	542
PREPAID EXPENSES (note 22)	17,638	11,420
TOTAL CURRENT ASSETS	344,634	176,064
TOTAL ASSETS	2,950,156	1,691,857

SHAREHOLDERS' EQUITY AND LIABILITIES	2002	2001
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
OTHER PARENT COMPANY RESERVES	231,434	189,956
Legal reserve	54,199	54,199
Reserve for own shares	9,029	2,764
Other reserves	168,206	132,993
RESERVES IN FULLY CONSOLIDATED COMPANIES	(13,911)	(813)
RESERVES IN EQUITY ACCOUNTED COMPANIES	1,678	1,031
CONVERSION DIFFERENCES	(1,810)	1,579
Conversion differences in fully consolidated companies	(1,948)	-
Conversion differences in equity accounted companies	138	1,579
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	99,858	91,071
Consolidated profit	99,861	91,071
Profit attributable to minority interests	(3)	-
INTERIM DIVIDEND (note 4-b)	(25,511)	(24,299)
TOTAL SHAREHOLDERS' EQUITY (note 12)	809,300	776,087
MINORITY INTERESTS	62	-
Capital grants	71,669	61,534
Exchange gains	1,030	87
Other deferred income	146,144	130,141
TOTAL DEFERRED INCOME (note 13)	218,843	191,762
Provisions for pensions and other liabilities	14,859	9,117
Provisions for taxes	292	234
Other provisions	10,276	10,347
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (note 14)	25,427	19,698
BOND ISSUES (note 15)	95,966	126,318
LOANS (note 16)	244,980	124,921
OTHER CREDITORS (note 17)	43,642	45,358
UNCALLED SHARE PAYMENTS (note 8)	4,132	-
LONG-TERM CREDITORS	388,720	296,597
BONDS ISSUED (note 18)	33,041	2,846
Non-convertible bonds	30,351	-
Interest payable	2,690	2,846
LOANS (note 19)	1,172,903	168,266
Loans and other debt	1,167,939	162,661
Interest payable	4,964	5,605
SHORT-TERM DEBT WITH ASSOCIATED COMPANIES	2	241
Associated companies	2	241
TRADE CREDITORS (note 20)	93,688	104,263
For purchases and services received	93,688	104,263
OTHER CREDITORS (note 21)	187,037	101,204
Public entities	19,011	23,838
Other	165,223	74,806
Short-term guarantee deposits received	2,803	2,560
ACCRUALS (note 22)	21,133	30,893
TOTAL CURRENT LIABILITIES	1,507,804	407,713
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,950,156	1,691,857

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2002 · In thousands of Euros
(Translation from the original in Spanish)

EXPENSES	2002	2001
EXPENSES		
MATERIALS CONSUMED	277,470	222,303
Purchases of energy and power	235,576	210,480
Maintenance and repair materials	41,894	11,823
PERSONNEL EXPENSES (note 24-b)	61,641	57,172
Wages and salaries	47,201	42,069
Social Security	10,180	9,568
Pensions and similar obligations	813	845
Other social charges	3,447	4,690
AMORTISATION AND DEPRECIATION (notes 5-a, 6 and 7)	118,040	105,817
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	1,382	1,033
Change in provisions for stocks	519	671
Change in provision for bad debts	863	362
OTHER OPERATING EXPENSES	90,380	64,740
External services	80,197	56,323
Local taxes	2,117	1,930
Other administrative expenses	1,075	958
Provision for liabilities and charges	6,991	5,529
TOTAL OPERATING EXPENSES	548,913	451,065
OPERATING PROFIT	162,242	151,728
FINANCIAL AND SIMILAR EXPENSES	24,788	20,827
On debt with third parties	24,788	20,827
EXCHANGE LOSSES	1,214	321
TOTAL FINANCIAL EXPENSES	26,002	21,148
LOSSES ON EQUITY ACCOUNTED COMPANIES	474	-
AMORTISATION OF GOODWILL ON CONSOLIDATION (note 10)	1,047	-
PROFIT ON ORDINARY ACTIVITIES	138,572	133,131
CHANGES IN PROVISIONS FOR TANGIBLE ASSETS AND OWN SHARES	1,969	263
LOSSES ON TANGIBLE ASSETS	381	499
LOSSES ON OWN SHARES OPERATIONS (note 12-d)	393	186
EXTRAORDINARY EXPENSES	39	825
PRIOR YEARS' ITEMS	28	231
TOTAL EXTRAORDINARY EXPENSES (note 24-c)	2,810	2,004
EXTRAORDINARY PROFIT	6,943	6,005
CONSOLIDATED PROFIT BEFORE INCOME TAX	145,515	139,136
INCOME TAX (note 23)	45,444	48,065
TAXES OTHER THAN INCOME	210	-
PROFIT FOR THE YEAR	99,861	91,071
PROFIT ATTRIBUTABLE TO MINORITY INTERESTS	3	-
PROFIT ATTRIBUTABLE TO PARENT COMPANY	99,858	91,071

INCOME	2002	2001
INCOME		
NET SALES (note 24-a)	695,507	591,467
Services rendered (Transmission and system operation)	392,602	355,770
Other service income	59,996	17,027
Sales of energy and power	242,476	218,579
Sales of by-products	433	91
SELF-CONSTRUCTED ASSETS	13,213	9,463
OTHER OPERATING INCOME	2,435	1,863
Other income	1,249	1,754
Grants	210	89
Surplus provision for liabilities and charges	976	20
TOTAL OPERATING INCOME	711,155	602,793
INVESTMENT INCOME	9	38
OTHER INTEREST AND SIMILAR INCOME	1,428	1,719
EXCHANGE GAINS	1,811	147
TOTAL FINANCIAL INCOME	3,248	1,904
NET FINANCIAL EXPENSES	22,754	19,244
PROFIT FROM EQUITY ACCOUNTED COMPANIES	605	647
PROFIT ON TANGIBLE ASSETS	11	14
PROFIT ON TREASURY STOCK OPERATIONS (note 12-d)	444	248
CAPITAL GRANTS TAKEN TO INCOME	4,475	5,504
EXTRAORDINARY INCOME	3,591	2,003
PRIOR YEARS' ITEMS	1,232	240
TOTAL EXTRAORDINARY INCOME (note 24-c)	9,753	8,009

■ ■ ■ Notes to the Consolidated
Annual Accounts for 2002



(1) Activities of GROUP 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 of 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. In 2002 RED ELÉCTRICA DE ESPAÑA, S.A. has reached agreements for the acquisition of the transmission networks of Endesa Distribución, S.L. and Unión Fenosa Distribución, S.A. and the acquisition of a 25% interest in Red de Alta Tensión, S.A. (hereinafter REDALTA). The statutory objective of REDALTA is holding 100% of the shares in Infraestructuras de Alta Tensión, S.A.U. (hereinafter INALTA), the holding company of the transmission network of both Iberdrola Distribución, S.A. and Iberdrola, S.A. (note 28-c, d and e). These agreements represent a decisive step for the Parent company, making it the Spanish Transmission and System Operator (STO) and one of the largest international STOs.

Furthermore, 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, required a different legal 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.

Telecommunications and information technology products and services are commercialised through RED ELÉCTRICA TELECOMUNICACIONES, utilising its national telecommunications network. These products and services basically comprise transmission and capacity services, as well as services relating to internet-based solutions (IP). In May 2002 RED ELÉCTRICA TELECOMUNICACIONES, S.A. subscribed 20% of the share capital of Nap de las Américas-Madrid, S.A. (note 2-c).

RED ELÉCTRICA INTERNACIONAL, S.A. acquires holdings, administers national and foreign securities, and renders consulting, engineering and construction services as well as electricity services outside the Spanish electrical system. In June 2002 RED ELÉCTRICA INTERNACIONAL, S.A. acquired 99.94% of Transportadora de Electricidad, S.A. (hereinafter TDE), which acts as a high-voltage electricity transmission operator in Bolivia. TDE holds a 67% interest in Cybercia, S.A. (note 2-c).

The GROUP comprises the companies, including the aforementioned acquisitions, 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 Parent 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 years ended 31 December 2002 and 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 individual companies comprising the GROUP. At the date of preparation of these consolidated annual accounts, most of the individual annual accounts of 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.

Subsidiaries which, taken as a whole, have little effect on the Consolidated Annual Accounts have not been consolidated in 2002 and have been recorded at the lower of cost of acquisition or market value. Details of these companies are included in Appendix I to this report. Consolidation of these subsidiaries would not have had a significant impact on the Group's assets, liabilities, shareholders' equity or consolidated profits.

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 translated 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 translation of the financial statements to Euros using the following criteria:
 - assets and liabilities, at the closing exchange rate
 - share capital and reserves, at the historic exchange rate
 - income and expenses, 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. Exchange losses resulting from foreign investments, the risk of which is hedged by financing each currency, are netted against unrealised exchange gains, recorded under deferred income. Unhedged exchange losses are netted against shareholders' equity
- 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.
- Reserves of fully consolidated subsidiaries are recorded separately from those of the Parent company in the 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.
- 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 inter-company transactions, retained earnings and profits are reflected under the headings "Reserves in equity accounted companies" and "Share in profits/losses of equity accounted companies", respectively.
- The positive differences between the cost of acquisition and underlying book value of subsidiaries acquired which are not assigned to assets, are shown as goodwill on consolidation and amortised over the period estimated to provide revenues to the GROUP, to a maximum of ten years (notes 5-e and 10).

c) Comparison of information

In 2002 there have been changes to the consolidated group compared to 2001, due to consolidation of the following companies:

- Transportadora de Electricidad, S.A. (TDE) (Appendix I)

The principal activity of TDE is the transmission of electricity in Bolivia. TDE owns and operates the Bolivian National Interconnection System (NIS), through a licence awarded for an indefinite period of time. TDE has approximately 2,000 kilometres of lines and 19 substations, with a transformation capacity of 433 MVA. This company was incorporated in 1997 as part of the privatisation process of the National Electricity Company (ENDE) and its registered offices are located in Cochabamba (Bolivia).

- Cybercia, S.A. (Appendix I)
Cybercia, S.A carries out service and business activities in general. Its principal activity is to render computer services for TDE. The registered offices of this company are located in Cochabamba (Bolivia).
- Nap de las Américas-Madrid, S.A. (Appendix I)
Nap de las Américas-Madrid, S.A. has its registered offices in Plaza de la Independencia, 1 (Madrid) and was incorporated on 30 May 2002. Its statutory activity consists of rendering internet connection services, supplying internet infrastructure and service management through a neutral network access point.

Due to the incorporation of these companies in the financial statements of the RED ELÉCTRICA GROUP, assets have increased by Euros 125,728 thousand compared to 2001 and shareholders' equity has dropped by Euros 568 thousand (leading to a rise of Euros 1,380 thousand in the profits for the year and a decrease of Euros 1,948 thousand in reserves-conversion differences).

(3) Legislation

a) National

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 on the activity.

In addition to its transmission activity, the Company has also been assigned the functions of system operator and manager of the transmission grid through this Act. 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 Law 54/1997, Royal Decree 1955/2000 also establishes the authorisation procedure for new transmission installations.

Royal Decree 1164 of 26 October 2001 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.

Royal Decree 1432 of 27 December 2002 establishes the methodology for the approval or modification of the average or reference rates and regulates the methodology by which these annual rates are calculated. This Decree also amends Royal Decree 2017/1997, to adapt it to the new methodology for the calculation of the rates including income and payments resulting from intra-EU transmission and international connections in the procedure for the settlement of the regulated costs.

In addition to the aforementioned legislation, 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. The total deregularisation of supply, established in Royal Decree-Law 6/2000, was completed by the end of 2002 with the approval of a number of legal provisions aimed at regulating the mechanisms necessary to ensure that from 1 January 2003 all consumers can choose their electricity supplier.

Fundamentally, regulation of the telecommunications sector is based on the General TELECOMMUNICATIONS Law of 1998. The objective of this Law is to promote competitive conditions between operators under the equal opportunities principle and by removing the former system of exclusive rights.

b) International

At international level, the RED ELÉCTRICA GROUP has investments in the electricity sector in Bolivia and Peru.

Both these countries have deregulated their electricity industry and use a regulation model supported by existing tariffs for the transmission activity. The regulatory models applied in both these countries are based on transparency of legislation, long-term stability and predictability of future income.

(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 2002 be distributed as follows:

BASIS OF DISTRIBUTION	<i>Thousands of Euros</i>
Profit for the year	95,953
Total	95,953
DISTRIBUTION	
To voluntary reserves	31,214
To dividends:	
Interim dividend	25,511
Supplementary dividend	39,228
Total	95,953

b) Parent company interim dividend

At the board meeting held on 26 November 2002 the directors agreed to distribute an interim dividend of Euros 0.19 per share on account of 2002 profits, payable as of 3 January 2003. 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 2002 to 3 January 2003, 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:

	<i>Thousands of Euros</i>
Funds available at 31.10.2002:	
Short-term loans	98,790
Long-term loans	19,500
Cash and banks	489
Forecast collections:	
Ordinary activities	163,233
Financial operations	1,065,906
Forecast payments:	
Ordinary activities	(1,069,414)
Financial operations	(76,191)
Forecast funds at 3.1.2003	202,313

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 of the Parent company and as expected at the date of the distribution, the profit generated in 2002 has permitted payment of this interim dividend.

The distribution of earnings for the year ended 31 December 2001, carried out in 2002, is shown in details of changes in consolidated shareholders' equity (note 12).

(5) Accounting Principles

The most significant accounting principles applied in the preparation of the consolidated annual accounts, in accordance with the General Chart of Accounts for the sector and the Standards for the Preparation of Consolidated Accounts, are as follows:

a) Establishment costs

In the accompanying consolidated balances sheet, establishment costs, which comprise costs incurred in the incorporation, start-up and share capital increases of GROUP companies, are reflected at cost, less amortisation calculated on a straight line basis over a maximum five-year period. Establishment costs amortised in 2002 and 2001 amount to Euros 480 thousand and Euros 371 thousand, respectively.

b) Intangible assets

Intangible assets, principally comprising software and costs incurred on 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. Certain costs related to these projects are expensed during the year and capitalised as self-constructed assets.

In 2002 and 2001 the Parent company capitalised expenses of Euros 395 thousand and Euros 685 thousand, respectively.

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

c) **Tangible 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 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 controlled or supervised by the companies. In 2002 and 2001 the Group companies capitalised Euros 7,526 thousand and Euros 4,434 thousand in this regard, respectively.
- Financial costs on external financing. In 2002 and 2001 the Group companies capitalised Euros 5,292 thousand and Euros 4,344 thousand in this regard, respectively.

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

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:

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

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

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".

GROUP interests that have not been consolidated, irrespective of the percentage interest held, are stated individually at the lower of cost, including any inherent expenses and adjusted, where applicable, to the relevant legislation, or market value. The market value is determined as the underlying book value of the interest in unlisted companies.

e) **Goodwill on consolidation**

Goodwill on consolidation, shown in the consolidated balance sheet at 31 December 2002, comprises the goodwill generated in the GROUP on the acquisition of Transportadora de Electricidad, S.A. For the purposes of the formulation of the annual accounts of the GROUP, goodwill is amortised over the ten-year period in which it is estimated it will be recovered.

f) 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 (notes 12-d and 24-c).

g) 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.

h) 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.

i) 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 (notes 15 and 16).

j) 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 (note 11).

When interest rate swaps are contracted to hedge the related interest rate risk and redemption premiums, where applicable, the amounts receivable 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 (notes 9, 13 and 15).

k) 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.

l) Income taxes

Since 2002 RED ELÉCTRICA DE ESPAÑA, S.A. files tax returns with the Spanish companies in which it holds an interest of at least 75%, in accordance with the special consolidation tax regime, regulated by Law 43 of 27 December 1995, governing income tax. Consequently, taxable income and the deductions and tax credits are determined for the GROUP as a whole and the tax payable is distributed among the companies comprising the tax group on the basis of the agreement established, adapted to the Resolutions of the Accounting and Audit Institute of 9 October 1997 and 15 March 2002.

The legislation applicable in their respective countries is applied to companies that are not part of the tax GROUP.

Income taxes are calculated on the basis of the profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria (for individual and consolidated accounts), and taking into consideration any applicable credits and deductions. The effect of timing differences, where applicable, is included in deferred tax assets or liabilities (note 23).

As permitted by Mercantile legislation, the Parent company has not recorded the deferred tax liability related to timing differences which existed at 31 December 1989 (note 12-d). The effect of these timing differences is recognised as an increase in the income tax expense in the year in which they crystallise.

m) Deferred income and expenses

Deferred expenses mainly comprise advance expenses incurred under agreements entered into with 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.

n) 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 Spanish GROUP companies are equivalent to up to 3% of the base salary established in the fund and are recorded on an accruals basis.

o) 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.

The Parent company makes provisions for retirement and other commitments, on which the estimated costs incurred derive from the personnel restructuring plan approved by the Spanish employment authorities on 12 April 2000. In accordance with Royal Decree 1588/99, which governs the regulations for instrumentation of company pension commitments with employees and beneficiaries, the Parent company has externalised its commitments in this regard and removed some from its balance sheet liabilities.

p) Recognition of income and expenses

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

(6) Intangible Assets

Intangible assets at 31 December 2002 and 2001 and movement during the years then ended are as follows:

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN INTANGIBLE ASSETS at 31 December 2002 and 2001 · In thousands of Euros

	31 December 2000	Additions	31 December 2001	Additions	Changes to cons. group	Changes in exchange rates	Disposals	31 December 2002
Cost								
Research and development expenses	18,330	252	18,582	356	2,053	(101)	138	20,752
Software	6,464	532	6,996	2,557	1,584	(74)	(43)	11,020
Advances on intangible assets	-	-	-	2,767	-	-	-	2,767
Total Cost	24,794	784	25,578	5,680	3,637	(175)	(181)	34,539
Accumulated amortisation								
Research and development expenses	(12,772)	(1,983)	(14,755)	(1,829)	(1,430)	87	-	(17,927)
Software	(4,824)	(1,023)	(5,847)	(937)	(470)	31	7	(7,216)
Total Accumulated amortisation	(17,596)	(3,006)	(20,602)	(2,766)	(1,900)	118	7	(25,143)
Net book value	7,198	(2,222)	4,976	2,914	1,737	(57)	(174)	9,396

The changes to the consolidated group correspond to the incorporation of the Bolivian companies TDE and Cybercia, S.A.

(7) Tangible Assets

Tangible fixed assets at 31 December 2002 and 2001 and movement during the years then ended are as follows:

RED ELÉCTRICA GROUP

DETAILS OF THE MOVEMENT IN TANGIBLE ASSETS at 31 December 2002 and 2001 · In thousands of Euros

	31 December 2000	Additions	Disposals	Transfers	31 December 2001	Additions	Changes to cons. group	Changes in exchange rates	Disposals	Transfers	31 December 2002
Cost											
Land and buildings	35,314	2,890	(55)	-	38,149	279	9,064	(443)	(57)	-	46,992
Electrical energy plant and machinery	2,150,597	1,081	(1,307)	77.619	2,227,990	6,808	194,644	(9,509)	(1,445)	233,190	2,651,678
Other installations, machinery, equipment, furniture, and other tangible fixed assets	63,458	3,638	(1,621)	56.016	121,491	8,568	10,966	(536)	(23,417)	15,803	132,875
Electrical energy plant and machinery under construction	118,920	128,467	(117)	(77.619)	169,651	197,772	1,882	(92)	(320)	(216,242)	152,651
Advances and other assets under construction	9,235	85,194	-	(56.016)	38,413	821,977	-	-	-	(32,751)	827,639
Total Cost	2,377,524	221,270	(3,100)	-	2,595,694	1,035,404	216,556	(10,580)	(25,239)	-	3,811,835
Accumulated depreciation											
Buildings	(5,250)	(679)	-	-	(5,929)	(812)	(2,476)	128	19	-	(9,070)
Electrical energy plant and machinery	(985,967)	(93,626)	918	-	(1,078,675)	(102,487)	(88,564)	4,536	655	-	(1,264,535)
Other installations, machinery, equipment, furniture, and other tangible fixed assets	(50,862)	(8,135)	1,291	-	(57,706)	(11,495)	(1,747)	91	21,549	-	(49,308)
Total accumulated depreciation	(1,042,079)	(102,440)	2,209	-	(1,142,310)	(114,794)	(92,787)	4,755	22,223	-	(1,322,913)
Provision for decline in value (note 24-c)											
	(21,648)	(486)	-	-	(22,134)	(1,259)	(2,062)	101	-	-	(25,354)
Net book value	1,313,797	118,344	(891)	-	1,431,250	919,351	121,707	(5,724)	(3,016)	-	2,463,568

The changes to the consolidated group correspond to the incorporation of the Bolivian company TDE.

Transfers of plant and machinery to the Group during 2002 mainly comprise Euros 230,336 thousand, corresponding to the Parent company. These assets consist of twelve power lines, four power transformers, three battery condensers and bays at 23 substations and communication and control systems (amounting to Euros 77,619 thousand in 2001, for the Parent company, which had five lines, one power transformer and bays at thirteen substations, as well as communication and control systems).

At 31 December 2001 advances and tangible assets under construction mainly comprise the payments on account of Euros 801,000 thousand made by the Parent company derived from the contracts entered into with Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. for the acquisition of transmission assets (note 28-c and d).

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 2002 incurred by the Parent company amounts to approximately Euros 22,584 thousand (Euros 22,687 thousand in 2001). At 31 December 2002 the revaluation of tangible fixed assets, net of depreciation, amounts to Euros 117,396 thousand (Euros 140,001 thousand in 2001).

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

(8) Investments

Movement in investments during the years ended 31 December 2002 and 2001, and details of investments, uncalled share payments and short-term investments are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Investments in equity accounted Group companies	8,180	8,382
Other investments	3,732	-
Long-term loans to associated companies	11,197	-
Other loans	4,235	4,912
Long-term guarantee deposits	601	495
Long-term public entities	12,572	12,450
Total long-term investments	40,517	26,239
Uncalled share payments	(4,132)	-
Total uncalled share payments	(4,132)	-
Short-term investments	24,263	20,440
Loans to associated companies	22	-
Other loans	5,048	2,243
Total short-term investments	29,333	22,683

a) Long-term investments

Movement in investments in equity accounted companies, other investments, long-term loans to associated companies and uncalled share payments recorded during the years ended 31 December 2002 and 2001 is as follows:

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN INVESTMENTS IN EQUITY ACCOUNTED COMPANIES, OTHER INVESTMENTS, LONG-TERM LOANS TO ASSOCIATED COMPANIES AND UNCALLED SHARE PAYMENTS at 31 December 2002 and 2001 · In thousands of Euros

	31 December 2000	Additions	Equity accounted companies	Disposals	31 December 2001	Additions	Equity accounted companies	Disposals	31 December 2002
Equity accounted companies									
REDESUR	6,233	-	2,149	-	8,382	-	(839)	-	7,543
NAP DE LAS AMÉRICAS DE MADRID S.A.	-	-	-	-	-	1,111	(474)	-	637
Total	6,233	-	2,149	-	8,382	1,111	(1,313)	-	8,180
Other investments									
REDALTA	-	-	-	-	-	3,732	-	-	3,732
Total	-	-	-	-	-	3,732	-	-	3,732
Long-term loans with associated companies									
REDALTA	-	-	-	-	-	11,197	-	-	11,197
Total	-	-	-	-	-	11,197	-	-	11,197
Uncalled share payments									
NAP DE LAS AMÉRICAS DE MADRID S.A.	-	-	-	-	-	1,111	-	(711)	400
REDALTA	-	-	-	-	-	3,732	-	-	3,732
Total	-	-	-	-	-	4,843	-	(711)	4,132

(*) Additionally, at 31 December 2002 called share payments amounted to Euros 155 thousand corresponding to Nap de las Américas-Madrid, S.A., recorded under other creditors.

Investments in equity accounted companies fully 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) and the interest held by RED ELÉCTRICA TELECOMUNICACIONES, S.A. in Nap de las Américas-Madrid, S.A. (Appendix I), of which Euros 555 thousand is pending payment at 31 December.

At 31 December 2002 other investments comprise the 25% interest in REDALTA, which owns 100% of the shares in INALTA, amounting to Euros 3,732 thousand. Payment is pending on this interest at 31 December 2002, which is recorded under uncalled share payments (note 28-e).

At 31 December 2002 long-term loans to associated companies comprise the partial subrogation by the Parent company of its 25% of the position of Grid Industries S.A. in the participating loan extended by this company to REDALTA (notes 21 and 28-e).

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 (note 23).

b) Short-term investments

At 31 December 2002 and 2001 short-term investments mainly represent the acquisition by the Parent company of government debt securities maturing on 2 January 2003 and 2 January 2002, respectively, and the accrued interest receivable thereon.

At 31 December 2002 and 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:

	Thousands of Euros	
	2002	2001
Long-term debtors	8,392	17,524
Total (long term)	8,392	17,524
Trade debtors	27,534	23,434
Associated companies (note 24-d)	157	1,967
Sundry debtors	129,494	97,101
Personnel	1,468	1,261
Public entities:		
VAT recoverable	127,641	11,501
Taxes other than income	555	-
Deferred tax assets (note 23)	3,023	1,631
Provision for bad debts	(1,242)	(379)
Total (short term)	288,630	136,516

At 31 December 2002 long-term debtors comprise balances receivable on the transfer of the rights to use fibre optic networks. At 31 December 2001 this caption also comprised the redemption premium on the swap operation contracted to hedge the September 1997 bond issue, which has been redeemed in advance in 2002.

Trade debtors include 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 with Electricité de France (EDF). 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 (note 28-a) and the balance receivable from foreign telecommunication and electricity transmission services.

The balance receivable from associated companies at 31 December 2002 and 2001 includes amounts billed to REDESUR, mainly for engineering services rendered by the Parent company (note 24-d).

At 31 December 2002 and 2001 sundry debtors mainly comprise income unbilled and/or receivable from the Parent company from transmission and system operation activities carried out. This caption also includes advances to creditors for services and trade debtors, mainly in respect of consultancy services, maintenance, engineering and construction work, which comprise virtually all the increase in this caption compared to 2001.

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

At 31 December 2002 VAT recoverable mainly comprises the VAT on payments made by the Parent company on account of contracts entered into with Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. for the purchase of assets (note 28-c and d).

(10) Goodwill on Consolidation

At 31 December 2002 goodwill on consolidation is derived exclusively from consolidation of TDE. Goodwill of Euros 20,949 thousand was generated at the date of acquisition of TDE by RED ELÉCTRICA INTERNACIONAL, S.A., representing the difference between the cost of the investment (Euros 91,668 thousand) and the value of the equity acquired (Euros 70,719 thousand). The Company estimates that goodwill will be recovered over a period of 10 years. Amortisation for the six-month period is Euros 1,047 thousand and the net book value of this caption is therefore Euros 19,902 thousand.

(11) Deferred expenses

Details at 31 December are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Deferred expenses for marketable securities	1,466	2,326
Other deferred expenses	51,529	29,415
Total	52,995	31,741

At 31 December 2002 and 2001 other deferred expenses relate to 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 those amounts corresponding to the 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. At 31 December 2002 this caption includes the advance payments made by the Parent company for the maintenance of the transmission assets subject to the contracts that the Parent company entered into with Unión Fenosa Distribución, S.A. (note 28-d).

(12) Shareholders' Equity

Details of movement in shareholders' equity during 2002 and 2001 are as follows:

RED ELÉCTRICA GROUP

MOVEMENT IN CONSOLIDATED SHAREHOLDERS' EQUITY at 31 December 2002 and 2001 · In thousands of Euros

	Share capital	Revaluation reserve	Legal reserve	Other reserves	Total reserves
Balances at 31 December 2000	270,540	247,022	54,199	108,427	162,626
Distribution of 2000 profit:					
Dividends	-	-	-	-	-
Voluntary reserves	-	-	-	27,832	27,832
Other reserves	-	-	-	-	-
Net movement in reserve for own shares	-	-	-	-	-
Reversal of accelerated depreciation reserve	-	-	-	(635)	(635)
Differences on conversion	-	-	-	-	-
Profit for 2001	-	-	-	-	-
Interim dividend	-	-	-	-	-
Other	-	-	-	133	133
Balances at 31 December 2001	270,540	247,022	54,199	135,757	189,956
Distribution of 2001 profit:					
Dividends	-	-	-	-	-
Voluntary reserves	-	-	-	29,287	29,287
Other reserves	-	-	-	12,737	12,737
Net movement in the reserve for own shares	-	-	-	-	-
Reversal of accelerated depreciation reserve	-	-	-	(634)	(634)
Differences on conversion	-	-	-	-	-
Profit for 2002	-	-	-	-	-
Interim dividend	-	-	-	-	-
Others	-	-	-	88	88
Balances at 31 December 2002	270,540	247,022	54,199	177,235	231,434

a) Share capital

At 31 December 2002 and 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 1 of Royal Decree 377 of 1991 regarding the notification of significant investments in listed companies, investors must declare direct or indirect interests in share capital which exceed 5%. The 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 2002 and 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 shareholder may own total direct and indirect interests exceeding 10%. Also, the sum of the total interests held directly and indirectly by companies operating in the electricity sector may not exceed 40%. These shares may not be syndicated. Law 53 of 30 December 2002 governing tax, administrative and social measures establishes that no shareholder may own total direct and indirect interests in the share capital of the company that operates the system, attributable to the Parent company, exceeding 3% of the share capital.

Reserves in fully consolidated companies	Reserves in equity accounted companies	Differences on conversion of fully consolidated companies	Differences on conversion of equity accounted companies	Profit for the year	Interim dividend	Total
-	(246)	-	962	83,140	(22,877)	741,167
-	-	-	-	(56,018)	22,877	(33,141)
-	-	-	-	(27,832)	-	-
(813)	103	-	-	710	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(635)
-	-	-	617	-	-	617
-	-	-	-	91,071	-	91,071
-	-	-	-	-	(24,299)	(24,299)
-	1,174	-	-	-	-	1,307
(813)	1,031	-	1,579	91,071	(24,299)	776,087
-	-	-	-	(61,498)	24,299	(37,199)
-	-	-	-	(29,287)	-	-
(13,098)	647	-	-	(286)	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(634)
-	-	(1,948)	(1,441)	-	-	(3,389)
-	-	-	-	99,858	-	99,858
-	-	-	-	-	(25,511)	(25,511)
-	-	-	-	-	-	88
(13,911)	1,678	(1,948)	138	99,858	(25,511)	809,300

These shares may not be syndicated. The interests held in the Parent company should be adjusted within a 12-month period from 1 January 2003, the date on which this Law came into force. Voting rights exceeding the aforementioned maximum percentages established by this Law will be suspended until the interests in the share capital or voting rights are adjusted.

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. 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 1996.

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

Spanish 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 2002 the legal reserve is equal to 20% of the share capital of the Parent company.

d) Other reserves

Other reserves include:

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 Spanish Energy Council.

Voluntary reserves

Voluntary reserves of Euros 145,233 thousand at 31 December 2002 comprise the Parent company's voluntary reserve and consolidation adjustments to the reserves of the Parent company to eliminate transactions with its subsidiaries. This reserve is freely distributable to the shareholders, subject to certain limitations imposed by the Spanish Companies Act.

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 2002 amounts to Euros 14,393 thousand (Euros 15,027 thousand at 31 December 2001). Each year the Parent company reduces 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 5,037 thousand at 31 December 2002 (Euros 5,259 thousand at 31 December 2001), using the standard tax rate of 35%.

Subsequent to 1990 the Parent 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 2002 amounts to Euros 10,054 thousand (Euros 10,508 thousand in 2001).

Reserve for redeemed capital

This Parent company reserve (Euros 271 thousand at 31 December 2002) was set up at the annual general meeting held on 17 May 1999 as a result of the share capital reduction by the Parent company to convert the share capital into Euros. Distribution of the balance is subject to the requirements established by the Spanish Companies Act for share capital reductions.

Differences on conversion to Euros

This reserve 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 governing the implementation of the Euro, this reserve is not distributable. At 31 December 2002 this reserve amounts to Euros 185 thousand.

Our Shares

In 2002 and 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 2002 and 2001 has been as follows:

	Thousands of Euros	
	2002	2001
Balance at 1 January	2,764	6,057
Additions	49,722	40,726
Disposals	(42,747)	(44,242)
(Allowance)/Reversal of provision	(710)	223
Balance at 31 December	9,029	2,764

At 31 December 2002 the own shares held by the Parent company represent 0.75% of the share capital and amount to 1,009,005 ordinary shares with a total par value of Euros 2,018 thousand (279,129 shares, representing 0.21% of the share capital, with a total par value of Euros 558 thousand at 31 December 2001). 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 2002 the Parent company has set up the required restricted reserve for own shares with a charge to voluntary reserves, which amounts to Euros 9,029 thousand (Euros 2,764 thousand at 31 December 2001), equivalent to the own shares in the portfolio at that date.

The Parent company has also made the necessary provisions to reflect own shares at market value. These amounts have been booked under change in provisions for tangible assets and treasury stock (note 24-c).

In 2002 operations with the Parent company's own shares have generated profits of Euros 444 thousand and losses of Euros 393 thousand (profits of Euros 248 thousand and losses of Euros 186 thousand in 2001), which have been recorded in the consolidated profit and loss account as profits or losses on own shares operations, respectively (note 24-c).

e) Consolidation reserves

A breakdown of reserves in fully consolidated and equity accounted companies and movement during the years ended 31 December 2002 and 2001 is as follows:

	Thousands of Euros					
	31 December 2000	Transfers to profit and loss	Others	31 December 2001	Transfers to profit and loss	31 December 2002
Fully consolidated						
RED ELÉCTRICA TELECOMUNICACIONES S.A.	-	(813)	-	(813)	(12,233)	(13,046)
RED ELÉCTRICA INTERNACIONAL, S.A.	-	-	-	-	(865)	(865)
.....	-	(813)	-	(813)	(13,098)	(13,911)
Equity accounted						
REDESUR	(246)	103	1,174	1,031	647	1,678
.....	(246)	103	1,174	1,031	647	1,678

f) 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.

Details of conversion differences at 31 December 2002 and 2001 are as follows:

	Thousands of Euros	
	2002	2001
Fully consolidated		
TDE	(1,948)	-
Equity accounted		
REDESUR	138	1,579
.....	(1,810)	1,579

g) Contribution to consolidated profits

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

	Thousands of Euros	
	2002	2001
Contribution to consolidated profit		
RED ELÉCTRICA DE ESPAÑA, S.A.	95,953	90,785
RED ELÉCTRICA TELECOMUNICACIONES, S.A.	(20,117)	(12,233)
RED ELÉCTRICA INTERNACIONAL, S.A.	1,640	(865)
RED ELÉCTRICA DEL SUR, S.A.	605	647
RED INTERNACIONAL DE COMUNICACIONES DEL SUR, S.A.	(5)	-
TENEDORA DE ACCIONES DE REDESUR, S.A.	(143)	-
NAP DE LAS AMÉRICAS-MADRID, S.A.	(474)	-
TRANSPORTADORA DE ELECTRICIDAD, S.A.	2,902	-
CYBERCIA, S.A.	1	-
Adjustments for consolidation	19,496	12,737
.....	99,858	91,071

(13) Deferred Income

Details at 31 December 2002 and 2001 are as follows:

	Thousands of Euros	
	2002	2001
Capital grants	71,669	61,534
Exchange gains	1,030	87
Other deferred income	146,144	130,141
.....	218,843	191,762

At 31 December 2002 and 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 (note 28-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 Redes, S.A. (NETCO) and Auna Telecomunicaciones, S.A. (formerly Retevisión, S.A.) and the Parent company agreements with clients for telecommunications services, and deferral of gains on operations involving financial derivatives contracted to hedge bonds issued, as well as revenues from agreements to modify and relocate electrical installations.

(14) Provisions for Liabilities and Charges

Details of provisions for liabilities and charges at 31 December 2002 and 2001 and movement during the years then ended are as follows:

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN PROVISIONS FOR LIABILITIES AND CHARGES at 31 December 2002 and 2001 · In thousands of Euros

	31 December 2000	Additions	Disposals	Transfers	31 December 2001	Additions	Changes to cons. group	Disposals	Transfers	31 December 2002
Provision for pensions and other commitments	15,784	2,053	(8,700)	(20)	9,117	6,029	1,729	(766)	(1,250)	14,859
Provision for taxes	234	-	-	-	234	58	-	-	-	292
Other provisions	5,800	4,547	-	-	10,347	1,642	-	(541)	(1,172)	10,276
Total provisions for liabilities and charges	21,818	6,600	(8,700)	(20)	19,698	7,729	1,729	(1,307)	(2,422)	25,427

Changes to the consolidated group are due to the consolidation of TDE and reflect the provision for the length-of-service bonus equivalent to one month's salary for each year of service payable to personnel that opt for voluntary retirement following a period of active employment of no less than five years or to personnel who have taken mandatory retirement and have been with the Company for more than three months.

The provision for pensions and other commitments at 31 December 2002 and 2001 mainly reflects the provision to cover the cost of the personnel restructuring plan in the Parent company approved by the Spanish employment authorities. In 2002 and 2001, 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.

At 31 December 2002 and 2001 this caption includes the Parent company's future commitments to retired personnel and at 31 December 2002 this caption also includes a provision to cover the purchase of the rights to these commitments held by active personnel on retirement. The Parent company has estimated the amount of these provisions based on actuarial studies.

Other provisions comprise the amounts appropriated each year by the Parent company to cover the possible unfavourable outcome of claims made by third parties.

(15) Bonds issued and other long-term marketable securities

At 31 December 2002 and 2001 this balance represents bonds issued by the Parent company at fixed and variable rates. During 2002 unhedged and hedged debts have accrued average annual interest of 6.08% and 4.39%, respectively (6.67% and 5.79%, respectively in 2001).

At 31 December 2002 the Parent company has contracted swap and collar operations to hedge against interest rate risks, covering a debt of Euros 45,076 thousand (Euros 90,152 thousand at 31 December 2001).

In accordance with the terms of each bond issue, at 31 December 2002 and 2001 the debt matures as follows:

	Thousands of Euros	
	2002	2001
Two year	50,890	30,352
Three years	45,076	50,890
Four years	-	45,076
	95,966	126,318

(16) Long-term Loans

Details of long-term loans are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Loans and credit facilities	261,224	175,645
Less, current portion	(16,244)	(50,724)
.....	244,980	124,921

In 2002 advance repayment has been made on loans amounting to approximately Euros 3,606 thousand at 31 December 2001.

At 31 December 2002 long-term debts in foreign currencies comprise loans in US Dollars and Swiss Francs for the equivalent of Euros 59,932 and Euros 6,198 thousands, respectively (Euros 7,381 thousand corresponding to Swiss Francs in 2001).

At 31 December 2002 the Parent company has contracted swap and collar operations to hedge against interest rate risks, covering debt of Euros 12,621 thousand (Euros 27,659 thousand at 31 December 2001).

During 2002 unhedged and hedged Euro currency loans have accrued average interest at annual rates of 4.49% and 4.18%, respectively (compared to 5.03% for hedged Euro currency loans in 2001).

At 31 December the long-term maturities of loans expressed in thousand of euros are as follows:

	2002		2001	
	<u>Euros</u>	<u>Foreign currency</u>	<u>Euros</u>	<u>Foreign currency</u>
Two years	12,247	3,792	12,762	1,301
Three years	15,510	3,881	12,830	1,301
Four years	21,552	3,973	16,093	1,301
Five years	21,026	3,930	16,163	1,301
Thereafter	108,515	50,554	59,685	2,177
.....	178,850	66,130	117,533	7,381

(17) Other Long-term Creditors

Details of other long-term creditors at 31 December 2002 and 2001 are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Deferred tax liability (note 23)	43,511	45,303
Long-term deposits received	131	55
.....	43,642	45,358

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

	<i>Thousands of Euros</i>	
	2002	2001
Two years	1,799	1,828
Three years	1,668	1,770
Four years	1,530	1,645
Five years	1,858	1,526
Thereafter	36,787	38,589
.....	43,642	45,358

At 31 December 2002 the Parent company has long-term credit facilities available of Euros 100,000 thousand.

(18) Bonds and other short-term marketable securities

At 31 December 2002 this caption comprises bonds of Euros 30,351 thousand issued by the Parent company redeemable in the short term.

At 31 December 2002 and 2001 this caption also includes the accrued interest payable at those dates on the bonds issued by the Parent company, as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Non-convertible bonds	30,351	-
Interest on bonds	2,690	2,846
.....	33,041	2,846

(19) Short-term Loans

Details of short-term loans are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Loans	974,011	50,724
Promissory notes and credit facilities	193,928	111,937
.....	1,167,939	162,661
Accrued interest payable	4,964	5,605
.....	1,172,903	168,266

At 31 December 2002 loans include a syndicated loan, amounting to Euros 1,560,200 thousand, obtained by the Parent company for the acquisition of transmission assets from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. (note 28-c and d), of which Euros 929,160 thousand have been drawn down at 31 December 2002, a bridging loan of US Dollars 30,000 thousand obtained by Red Eléctrica Internacional, S.A. for the acquisition of TDE, amounting to US Dollars 28,607 thousand at 31 December 2002, as well as the current portion of Euros 16,244 thousand of the long-term loans extended to the Parent company and TDE. At 31 December 2001 the current portion was included in the long-term loans of Euros 50,724 thousand extended to the Parent company.

At 31 December 2002 the Group companies have unused credit facilities with a limit of Euros 147,546 thousand (Euros 89,683 thousand at 31 December 2001).

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 2002 and 2001 the Parent company adheres to a programme to issue "highly liquid" promissory notes up to a maximum of Euros 168 million which has been registered with the Spanish Securities and Exchange Commission.

The Parent company's short-term loans, credit facilities and promissory notes are in Euros and in 2002 have accrued interest at an average annual rate of 3.49% for both hedged and unhedged operations (4.56% for hedged loans in 2001).

(20) Trade Creditors

Details at 31 December 2002 and 2001 are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Suppliers of energy and power purchases	9,105	11,473
Creditors for services rendered	84,583	92,790
.....	93,688	104,263

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 (note 28-a).

(21) Other Creditors

Details of other creditors at 31 December 2002 and 2001 are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Public entities	19,011	23,838
Other debts	165,223	74,806
Short-term guarantee deposits received	2,803	2,560
.....	187,037	101,204

Balances payable to public entities are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Taxes payable:		
Withholdings	712	857
Income tax	15,025	15,422
VAT	193	4,539
Other taxes	325	58
Social Security	897	868
Deferred tax liability (note 23)	1,859	2,094
.....	19,011	23,838

Other debts are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Creditors for purchases of fixed assets and other items	139,712	50,507
Interim dividend payable (note 4-a)	25,511	24,299
.....	165,223	74,806

The increase in creditors for purchases of fixed assets and other items mainly reflect balances payable by the Parent company at 31 December 2002 on advances for the acquisition of transmission assets from Unión Fenosa Distribución, S.A. and the balance payable to Grid Industries, S.A. for the partial subrogation of 25% of the participating loan extended by this company to REDALTA.

(22) Prepaid Expenses and Accruals

At 31 December 2002 and 2001 prepaid expenses include the advance payment made to EDF in respect of prior years' adjustments under the supply contract with the Parent company (note 28-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 (Euros 10,264 thousand and Euros 8,507 thousand at 31 December 2002 and 2001, respectively)

Prepaid expenses also include financial expenses which will be recognised in future years, and prepayments on insurance policies contracted by the Group companies in respect of future years (Euros 2,234 thousand and Euros 2,390 thousand at 31 December 2002 and 2001, respectively).

At 31 December 2002 this caption includes advance payments of Euros 4,500 thousand for operative services, maintenance, technical assistance and advisory services derived from the purchase contract for assets entered into by the Parent company and Unión Fenosa Distribución, S.A. (note 28-d).

Accruals mainly comprise income of Euros 15,186 thousand (Euros 14,097 thousand in 2001) received in advance on the power supply agreement between EDF and the Parent company (see note 28-b). At 31 December 2001 this caption also included Euros 11,618 thousand in respect of advanced invoicing for the guaranteed power supplies in accordance with the power supply agreement between the Parent company and the Moroccan l'Office Nationale de l'Electricité (ONE), in force until December 2002.

(23) Taxation

The tax group of which RED ELÉCTRICA DE ESPAÑA, S.A. is the Parent company files consolidated tax returns as of 2002. The tax payable is distributed among the companies forming the tax group based on the agreements established between the Group companies, adapted to the Resolutions of the Accounting and Audit Institute of 9 October 1997 and 15 March 2002.

At 31 December 2002 the tax group includes the subsidiaries RED ELÉCTRICA TELECOMUNICACIONES, S.A. and RED ELÉCTRICA INTERNACIONAL, S.A.

Due to the different treatment permitted by tax legislation for certain transactions, the profit for accounting purposes differs from the profit for tax purposes. A reconciliation of the consolidated accounting profit for 2002 with the taxable income that the companies expect to declare after approval of their individual annual accounts, as well as the figures for 2001, is as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Consolidated profit before income tax	145,515	139,136
Permanent differences	(856)	1,002
Consolidation adjustments	1,360	(286)
Consolidated taxable accounting income	146,019	139,852
Timing differences:		
Generated during the year	9,156	535
Reversal of prior years	1,504	1,631
Taxable income	156,679	142,018

Details of the consolidated income tax charge for 2002 and 2001 are as follows:

	Thousands of Euros	
	2002	2001
Tax calculated at each country's standard rate (*)	49,873	48,948
Deductions	(4,030)	(878)
Expense for the year	45,843	48,070
Prior years' adjustments	(399)	(5)
Income tax charge	45,444	48,065

(*) Fully consolidated foreign companies calculate the income tax expense in accordance with the legislation and standard tax rates prevailing in each respective country.

Deductions mainly comprise the deduction for export activities linked to the investment made by RED ELÉCTRICA INTERNACIONAL, S.A. in 2002 for the acquisition of TDE. RED ELÉCTRICA INTERNACIONAL, S.A. has undertaken to maintain its investment in TDE for the three years for the purposes of these deductions.

Details of timing differences in the recognition of expenses and income for accounting and tax purposes at 31 December 2002 and 2001 and the related accumulated deferred tax assets and liabilities are as follows:

	2002		2001	
	Timing difference	Tax effect	Timing difference	Tax effect
Timing differences giving rise to deferred tax assets:				
Generated in prior years	40,233	14,082	41,529	14,535
Generated during the year	9,659	3,213	2,536	887
Reversals of prior years	(4,535)	(1,587)	(3,832)	(1,341)
	5,124	1,626	(1,296)	(454)
Prior years' adjustments	(323)	(113)	-	-
	45,034	15,595	40,233	14,081
Timing differences giving rise to deferred tax liabilities:				
Generated in prior years	(135,419)	(47,397)	(138,798)	(48,579)
Generated during the year	(503)	(176)	(2,001)	(700)
Reversals of prior years	6,039	2,114	5,463	1,911
	5,536	1,938	3,462	1,211
Prior years' adjustments	257	89	(83)	(29)
	(129,626)	(45,370)	(135,419)	(47,397)

Timing differences giving rise to deferred tax assets derive mainly from the provision for liabilities and charges in GROUP companies.

Timing differences giving rise to deferred tax liabilities correspond exclusively to the Parent company and are mainly derived from the accelerated depreciation of certain tangible assets.

In general, the Group companies' main taxes are open to inspection for recent years. The GROUP companies do not expect that significant additional liabilities will arise in this regard.

(24) Income and Expenses

a) Net sales

Details are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Income from services rendered (Transmission and system operation)	392,602	355,770
Sales of energy and power	242,476	218,579
Other income from services rendered	59,996	17,027
Sales of by-products and other income	433	91
.....	695,507	591,467

Income from services rendered relates to transmission activities and the operation of the Parent company's system and amounts to Euros 381,510 thousand for the Parent company and Euros 11,092 thousand for the Bolivian company, TDE, corresponding to the six months since its incorporation into the RED ELÉCTRICA GROUP. In the case of the Parent company, the maximum remuneration for these services is established annually by Royal Decree (the electricity rates for 2002 were established in Royal Decree 1483 of 27 December 2001). The income for transmission services rendered, accrued by the Parent company in 2002, which has not been settled, amounts to Euros 368,797 thousand (Euros 347,253 thousand in 2001), while Royal Decree 1483/2001 set revenues for the operation of the system at 0.103% of rates and 0.250% of power transmission tolls (0.069% and 0.201%, respectively, in 2001). This caption also includes revenues collected during 2002 in respect of prior years' settlements.

In 2002 and 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) (note 28-a and b).

Other income from services rendered includes revenues generated from the diversification of the Parent company's activities, comprising transfer of the rights to use and maintenance of the telecommunications network and rendering telecommunications services, as well as consulting, engineering, construction and maintenance work performed for third parties.

b) Personnel expenses

Details at 31 December are as follows:

	<i>Thousands of Euros</i>	
	2002	2001
Wages and salaries	47,201	42,068
Social Security	10,180	9,568
Pensions and similar obligations	813	845
Other social charges	3,447	4,691
.....	61,641	57,172

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

	<i>Thousands of Euros</i>	
	2002	2001
Managers	30	27
Honours graduates	352	288
Graduates	309	285
Assistants	264	264
Administrative staff	147	140
.....	1,102	1,004

c) Extraordinary income and expense

Details are as follows:

	Thousands of Euros	
	2002	2001
Profit on tangible assets	11	14
Profit on treasury stock operations (note 12-d)	444	248
Capital grants taken income	4,475	5,504
Extraordinary income	3,591	2,003
Prior years' items	1,232	240
Total extraordinary income	9,753	8,009
Changes in provision for tangible assets and own shares (note 7)	1,969	263
Losses on tangible assets	381	499
Losses on own shares operations (note 12-d)	393	186
Extraordinary expenses	39	825
Prior years' items	28	231
Total extraordinary expenses	2,810	2,004

Changes in the provision for tangible assets and own shares in 2002 and 2001 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 Parent company, and the charge to the provision for own shares.

d) Balances and transactions with equity accounted and other companies

In 2002 and 2001 balances and transactions with equity accounted and other companies have been as follows:

	Thousands of Euros							
	2002		2001		2001		2001	
	Balances		Transactions		Balances		Transactions	
	Debtors	Creditors	Expenses	Income	Debtors	Creditors	Expenses	Income
REDESUR	157	-	-	461	1,967	241	258	1,779
REDALTA	11,219	2	-	22	-	-	-	-
	11,376	2	-	483	1,967	241	258	1,779

(25) Remuneration of and Balances with Members of the Board of Directors

In 2002 and 2001 the members of the board of directors of the Parent company received remuneration of Euros 1,874 thousand and Euros 1,453 thousand, respectively, including estimated objective-linked bonuses and the salaries of directors who are also employees of the Company.

At 31 December 2002 no loans or advances to members of the board of the Parent company are reflected in the consolidated balance sheet (at 31 December 2001 loans amounted to approximately Euros 1 thousand, earning interest at EURIBOR plus a differential of 0.25%).

(26) Environmental Issues

During 2002 the Parent company has incurred ordinary expenses of Euros 2,660 thousand (Euros 1,212 thousand in 2001) to protect and improve the environment, mainly in the introduction of preventative and corrective measures in its installations, the protection of birdlife and vegetation, the preservation of protected natural spaces, waste management, noise control, as well as various studies to determine the impact of transmission lines on the environment and the 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 environmental publications, including an environment memorandum, as well as expenses related to a special environmental unit, which handles these matters.

The Parent company has also carried out studies in 2002 to determine the environmental impact of new electrical installations and on the environmental supervision that would be required at these newly constructed installations. These studies cost approximately Euros 1,379 thousand (approximately Euros 449 thousand in 2001) 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.

(27) 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 2002 and 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.

The principal criteria used to prepare the accounting information by activity, which is disclosed in Appendices II-a and b and 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 and short-term investments, 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.

(28) Commitments

At 31 December 2002 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) Contract of 4 November 2002 whereby the Parent company undertook to acquire the transmission assets of Endesa Distribución Eléctrica, S.L., set out in the contract for Euros 920,000 thousand once the relevant government authorisations have been obtained. Similarly Endesa Distribución Eléctrica, S.L. has undertaken to render system operation and maintenance services to the transmission network during a period of four years.
- d) Purchase contract of 5 November 2002, subject to certain condition precedents, for the acquisition of transmission assets by the Parent company from Unión Fenosa Distribución, S.A., whereby the Parent company undertakes to acquire the assets set out in the contract for Euros 395,000 thousand once the relevant government authorisations have been obtained. Similarly Unión Fenosa Distribución, S.A. has undertaken to render operation and maintenance services on the transmission network during a period of four years.
- e) Purchase contract of 23 November 2002 for a 25% interest in the share capital of REDALTA and partial subrogation of the participating loan extended by the Parent company to Grid Industries, S.A., whereby the Parent company acquired 25% of the share capital of REDALTA as of 27 December 2002, the date at which this contract was executed. REDALTA owns 100% of the shares of INALTA, which, in turn, owns the transmission assets acquired from Iberdrola Distribución S.A., solely-owned company, and Iberdrola S.A. Iberdrola, S.A. has entered into a long-term contract to render operation and maintenance services on these assets and the Parent company is entitled to render these services after the third year from the date of this contract. The Parent company also has a purchase option on the remaining 75% of the share capital of REDALTA, which may be exercised unilaterally between five and seven years from the acquisition date.

(29) Other Information

The auditor of the accounts of the GROUP companies is KPMG Auditores, S.L. The accrued remunerations for the items related to the 2002 audit of the accounts of the Group companies amounts to approximately Euros 106 thousand (Euros 51 thousand in 2001). The remunerations earned by companies directly and indirectly related to the auditors for professional services other than the audit of the accounts, which do not affect the Group companies' strategy or general planning, amount to approximately Euro 365 thousand in 2002 (Euros 203 thousand in 2001).

(30) Statements of Source and Application of Funds

The statements of source and application of funds for 2002 and 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 2002 · In thousands of Euros (Translation from the original in Spanish)

COMPANY	% ownership of Parent company	
	Direct	Indirect
- Registered offices		
- Principal activity		
A) FULLY CONSOLIDATED COMPANIES		
RED ELÉCTRICA TELECOMUNICACIONES, S.A.U.	100%	-
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid)		
- Telecommunications services.		
RED ELÉCTRICA INTERNACIONAL, S.A.U.	100%	-
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid)		
- International holding. Consulting, engineering and construction services. Power and energy activities outside the Spanish electricity system.		
TRANSPORTADORA DE ELECTRICIDAD, S.A.	-	99.94% (2)
- C/ Colombia, N° O0655, casilla, N° 640. Cochabamba (Bolivia)		
- Transmission of electricity.		
CYBERCIA, S.A.	-	67% (5)
- C/ Colombia, N° O0655, casilla, N° 640. Cochabamba (Bolivia)		
- General service and business activities.		
B) EQUITY ACCOUNTED COMPANIES		
RED ELÉCTRICA DEL SUR, S.A. (REDESUR)	-	30% (3)
- Juan de la Fuente, 453. Lima (Perú).		
- Transmission of electricity.		
TENEDORA DE ACCIONES DE REDESUR, S.A.	-	8.33% (2)
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid)		
- Management and administration of REDESUR shares.		
RED INTERNACIONAL DE COMUNICACIONES DEL SUR, S.A. (REDINSUR)	-	24.57% (4)
- Juan de la Fuente, 453. Lima (Perú).		
- Telecommunications.		
NAP DE LAS AMÉRICAS-MADRID, S.A.	-	20% (1)
- Plaza de la Independencia, 4ª Planta. 28001 (Madrid)		
- Telecommunications.		
C) UNCONSOLIDATED COMPANIES		
RED DE ALTA TENSIÓN, S.A.U. (REDALTA)	25%	-
- C/ Velázquez, 21. 28001 (Madrid)		
- Management and administration of Inalta shares.		
INFRAESTRUCTURAS DE ALTA TENSIÓN, S.A.U. (INALTA)	-	25% (6)
- C/ Velázquez, 21. 28001 (Madrid)		
- Transmission of electricity.		

*Shareholders' equity of these companies have been calculated based on their audited financial statements harmonised with the Parent company's accounting criteria and expressed in thousands of Euros.

(1) Investment made through RED ELÉCTRICA TELECOMUNICACIONES, S.A.

(2) Investment made through RED ELÉCTRICA INTERNACIONAL, S.A.

(3) Investment made through RED ELÉCTRICA INTERNACIONAL, S.A. (25%) and TENEDORA DE ACCIONES DE REDESUR, S.A. (5%).

(4) Investment made through REDESUR.

(5) Investment made through TDE.

(6) Investment made through REDALTA.

(7) Financial statements unavailable at date of close. It is estimated that the results of these companies would not be significant.

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

Net book value in holding company	Shareholders' equity of consolidated companies*			
	Share capital	Reserves	Profit/(Loss) for 2002	
			Total	Extraordinary
116,837	150,000	(13,046)	(20,117)	(681)
60,000	60,000	(865)	1,640	496
90,707	46,057	20,739	3,210	3,232
31	41	5	10	-
4,597	23,361	1,071	2,018	-
920	16,904	-	(1,716)	(1,716)
83	106	(3)	(20)	-
637	5,553	-	(2,370)	(2,010)
3,732	7,495	7,434	n.d.(7)	n.d.(7)
59,718	29,889	29,829	n.d.(7)	n.d.(7)

at year-end rates of exchange.

Appendix 11-a

RED ELÉCTRICA GROUP

CONSOLIDATED BALANCE SHEET BY ACTIVITY at 31 december 2002 · In thousands of Euros
(Translation from the original in Spanish)

ASSETS	Transmission
Fixed assets	2,300,980
Uncalled share payments	-
Establishment costs	-
Intangible assets	1,558
Tangible assets	2,260,776
Plant and machinery	2,450,487
Plant and machinery under construction	151,361
Other tangible assets	74,602
Advances and other assets under construction	815,604
Depreciation of plant and machinery	(1,168,887)
Other depreciation	(39,169)
Provisions	(23,222)
Investments	29,786
Parent company shares	8,860
Long-term loans	-
Goodwill on consolidation	-
Deferred expenses	18,695
Current assets	279,157
Stocks	6,711
Debtors	244,561
Other current assets	21,698
Prepaid expenses	6,187
TOTAL ASSETS	2,598,832
SHAREHOLDERS' EQUITY AND LIABILITIES	
Shareholders' equity	828,709
Share capital and reserves	749,780
Profit/(Loss) for the year	103,350
Interim dividend	(24,421)
Minority interests	-
Deferred income	119,338
Provisions for liabilities and charges	19,912
Long-term creditors	312,271
Current liabilities	1,288,996
Current liabilities, excluding accruals	1,283,834
Accruals	5,162
Interactivity financing	29,606
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,598,832

This appendix forms an integral part of note 27 to the notes to the consolidated annual accounts.

2002 BY ACTIVITY				
Operation of system	Other electrical activities	Diversification activities	Adjustments on consolidation	GROUP Total
16,098	159	542,958	(327,570)	2,532,625
-	-	50,625	(50,625)	-
-	-	1,723	-	1,723
1,583	2	6,253	-	9,396
12,263	107	190,713	(291)	2,463,568
13,991	-	187,491	(291)	2,651,678
-	-	1,290	-	152,651
12,896	183	92,187	-	179,868
7	-	12,027	-	827,638
(8,939)	-	(86,709)	-	(1,264,535)
(5,692)	(76)	(13,441)	-	(58,378)
-	-	(2,132)	-	(25,354)
2,085	48	285,252	(276,654)	40,517
167	2	-	-	9,029
-	-	8,392	-	8,392
-	-	-	19,902	19,902
1,528	-	43,702	(10,930)	52,995
6,399	28,186	59,475	(28,583)	344,634
-	-	79	-	6,790
5,600	17,922	40,335	(19,788)	288,630
354	-	18,319	(8,795)	31,576
445	10,264	742	-	17,638
24,025	28,345	646,135	(347,181)	2,950,156
(27,118)	12,017	240,040	(244,348)	809,300
(21,260)	8,496	261,763	(263,826)	734,953
(5,858)	4,611	(21,723)	19,478	99,858
-	(1,090)	-	-	(25,511)
-	-	-	62	62
2,322	2,235	107,590	(12,642)	218,843
3,537	82	1,896	-	25,427
4,688	-	133,491	(61,730)	388,720
40,112	28,603	178,616	(28,523)	1,507,804
40,112	13,417	177,831	(28,523)	1,486,671
-	15,186	785	-	21,133
484	(14,592)	(15,498)	-	-
24,025	28,345	646,135	(347,181)	2,950,156

Appendix 11-b

RED ELÉCTRICA GROUP

CONSOLIDATED ANALYTICAL STATEMENT OF PROFIT AND LOSS BY ACTIVITY for the year ended 31 December 2002
In thousands of Euros (Translation from the original in Spanish)

ITEMS	Transmission
Net sales and services rendered	421,853
+ Other operating income	14,447
= Value of production	436,300
- Materials consumed	(38,832)
- External expenses	(68,011)
= Value added by the company	329,457
- Personnel expenses	(43,235)
= Gross operating profit/(loss)	286,222
- Amortisation and depreciation	(103,612)
- Bad debts written off and changes in trade provisions	(7,167)
= Net operating profit/(loss)	175,443
+ Financial income	701
- Financial expenses	(19,175)
= Profit/(Loss) on ordinary activities	156,969
+ Profit on fixed assets and extraordinary income	6,639
- Loss on fixed assets and extraordinary expenses	(531)
- Changes in the provisions for decline in fixed assets	(1,798)
= Consolidated profit/(loss) before tax	161,279
- Income tax	(57,929)
= Consolidated profit/(loss) for the year	103,350
- Minority interests	-
= Profit/(Loss) attributable to the Parent company	103,350

This Appendix forms an integral part of note 27 to the notes to the consolidated annual accounts.

2002 BY ACTIVITY				
Operation of system	Other electrical activities	Diversification activities	Adjustments on consolidation	GROUP Total
13,033	242,480	55,904	(37,763)	695,507
411	4	2,128	(1,342)	15,648
13,444	242,484	58,032	(39,105)	711,155
(219)	(235,576)	(3,189)	346	(277,470)
(7,287)	(85)	(46,495)	38,489	(83,389)
5,938	6,823	8,348	(270)	350,296
(7,723)	(181)	(10,502)	-	(61,641)
(1,785)	6,642	(2,154)	(270)	288,655
(3,404)	(13)	(11,011)	-	(118,040)
(1,058)	(25)	(123)	-	(8,373)
(6,247)	6,604	(13,288)	(270)	162,242
37	40	2,913	162	3,853
(698)	(777)	(5,774)	(1,099)	(27,523)
(6,908)	5,867	(16,149)	(1,207)	138,572
1,149	1,288	677	-	9,753
(99)	(7)	(204)	-	(841)
-	-	(20,858)	20,687	(1,969)
(5,858)	7,148	(36,534)	19,480	145,515
-	(2,537)	14,812	-	(45,654)
(5,858)	4,611	(21,722)	19,480	99,861
-	-	-	(3)	(3)
(5,858)	4,611	(21,722)	19,477	99,858

Appendix III-a

RED ELÉCTRICA GROUP

CONSOLIDATED BALANCE SHEET BY ACTIVITY at 31 december 2002 · In thousands of Euros
(Translation from the original in Spanish)

ASSETS	Transmission
Fixed assets	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 charge	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

2001 BY ACTIVITY					
Operation of system	Other electrical activities	Diversification activities	Adjustments on consolidation	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

CONSOLIDATED ANALYTICAL STATEMENT OF PROFIT AND LOSS BY ACTIVITY for the year ended 31 December 2001
In thousands of Euros (Translation from the original in Spanish)

ITEMS	Transmission
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 debts written off 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
- Loss on fixed assets and extraordinary expenses	(1,727)
- Changes in the provisions for decline in 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 27 to the notes to the consolidated annual accounts.

2001 BY ACTIVITY

	Operation of system	Other electrical activities	Diversification activities	Adjustments on consolidation	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)	-	(222,303)
	(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 2002 and 2001 · In thousands of Euros
(Translation from the original in Spanish)

APPLICATIONS	2002	2001
Acquisition of fixed assets		
Establishment costs	903	562
Intangible assets	5,681	784
Tangible assets	1,035,109	221,270
Investments	13,369	3,016
Long-term creditors	-	11,709
Own shares	6,975	-
Deferred expenses	27,943	22,769
Goodwill acquired	20,949	-
Incorporation into consolidated group of long-term assets and liabilities	57,468	-
Dividends	37,111	33,008
Interim dividend	25,511	24,299
Repayment or transfer to short term of long-term debt	54,633	7,827
Provisions for liabilities and charges	1,307	8,700
.....	1,286,959	333,944
Increase in working capital	-	-
Total applications	1,286,959	333,944
CHANGES IN WORKING CAPITAL		
	Increases	
	2002	2001
Stocks	1,887	2,423
Debtors	152,114	29,820
Current liabilities	-	-
Short-term investments	6,650	-
Cash and banks	1,701	-
Prepaid expenses	6,218	9,547
.....	168,570	41,790
Changes in working capital	931,521	122,602
.....	1,100,091	164,392

This Appendix forms an integral part of note 30 to the consolidated annual accounts.

SOURCES	2002	2001
Funds generated on operations		
Profit for the year	99,858	91,071
Reversal of provisions for liabilities and charges	(1,332)	(20)
Amortisation and depreciation	118,040	105,817
Reversal of accelerated depreciation reserve	(634)	(635)
Provision for pensions and similar commitments	5,759	2,053
Reversal of provision for pensions	(1,089)	-
Goodwill	1,047	-
Loss/(Profit) on disposal of fixed assets	243	485
Provision for liabilities and charges	1,970	4,547
Exchange gains	-	-
Deferred expenses recognised during the year	2,189	2,190
Deferred capital grants and other income recognised during the year	(13,658)	(11,211)
Provision for tangible assets	1,259	486
Provision for own shares	710	(223)
	214,362	194,560
Changes in reserves in equity accounted companies and exchange differences	(3,389)	1,791
Minority interests	62	-
Transfer to short term of deferred expenses	4,500	-
Deferred income	40,739	19,053
Long-term liabilities	78,304	(17,928)
Disposal of fixed assets		
Tangible assets	231	-
Investments	8,237	405
Incorporation of group companies	-	9,000
Investments	3,260	945
Long-term debtors	9,132	3,516
	355,438	211,342
Decrease in working	931,521	122,602
Total sources	1,286,959	333,944

	Decreases	
	2002	2001
Stocks	-	-
Debtors	-	-
Current liabilities	1,100,091	147,787
Short-term investments	-	1,981
Cash and banks	-	14,624
Prepaid expenses	-	-
	1,100,091	164,392
	-	-
	1,100,091	164,392



Consolidated
Directors' Report



Development of the GROUP

2002 has been characterised by healthy results and significant progress in the consolidation of the strategy of the RED ELÉCTRICA GROUP.

The agreements for the acquisition of the transport assets of Endesa and Unión Fenosa and a 25% interest in Redalta, with a purchase option for the remaining 75% of this company, have transformed RED ELÉCTRICA into one of the largest international energy transporters and have laid the foundations for its conversion into a Spanish TSO (Electrical System Transporter and Operator), in line with the general international trend, particularly in the European Union, both in current member states and in candidate states.

The strategic positioning of the RED ELÉCTRICA GROUP within the electrical energy business has been accompanied by historic growth in the level of investment, enabling ongoing improvements in the quality service rendered to the electrical system to be combined with expansion of the international GROUP, which has strengthened its position in the Andean area with the acquisition of a 99.94% interest in the Bolivian company, Transportadora de Electricidad (TDE), and the development of the telecommunications business, with the implementation of an intelligent fibre optic reticulated trunk network.

Legal Framework

Within the process of the liberalisation of the Spanish electricity sector, Royal Decree 1432 of 27 December 2002 established a methodology with which to calculate average or reference prices for each year.

The shareholding structure of the Parent company has been significantly affected by Law 53 of 30 December 2002, whereby no individual or Company may hold an interest exceeding 3% of share capital or voting rights. Sociedad Estatal de Participaciones Industriales (SEPI) will continue to hold an interest of at least 25% in the Parent company until 31 December 2003, and will reduce this interest to at least 10% thereafter. As a result of this modification, electricity companies which hold a 10% interest in 2002 will be required to reduce their investments to 3%. This new shareholding structure will enable the liquidity of shares to rise, thereby increasing free float capital.

In relation to the telecommunications business, 2002 has seen the implementation of the General Telecommunications Law of 1998, which sets out the legal conditions for competition between telecommunications operators. The gradual liberalisation of the international electricity industry has also progressed.

Business development

The Electricity Business in Spain

In 2002 investments made by the RED ELÉCTRICA GROUP amount to Euros 1,019.3 million. In addition to payments on account of the acquisitions of the transport assets of Endesa and Unión Fenosa and the interest in Redalta, the aforementioned amount includes investments made directly by RED ELÉCTRICA to strengthen and extend the transport network. The following investments are worthy of mention:

- During the year RED ELÉCTRICA has invested Euros 203.4 million in its transport network, up 57% on 2001. 710 km of new line circuits have entered service, increasing the capacity of the 90 km of circuits already in operation, 88 positions have become functional in substations and 4 transformers and 3 condenser batteries have also been brought into service. These installations have led to the strengthening of the transport infrastructure in the north east and centre of Spain, enabling the transportation of new energy from co-generation, hydraulic and wind power produced in the areas of Galicia, Vizcaya and Navarra, and have completed the power supply for the Madrid-Barcelona high-speed train on the Madrid-Zaragoza section.

In addition to completing the reinforcement of the transport infrastructure in the Northern Axis and Navarra and the transportation of new power generated in Andalusia and the south east of Spain, investment in progress includes the improvement of the interconnection with the Portuguese transport network, and investments made to meet the requirements of the Madrid-Barcelona high-speed train and to improve the network in Catalonia.

- The agreements reached with Endesa Distribución Eléctrica and Unión Fenosa Distribución in November 2002 for the acquisition of their respective transport networks will lead to a significant change in the configuration of the transport network, with the incorporation into the RED ELÉCTRICA GROUP of over 7,000km of mainly 220kV lines, the increase in the number of positions by over 900 and the addition of over 4,500 MVA to the transformation capacity. In 2002 payments on account of these acquisitions, which at year end are pending approval by the authorities, amount to Euros 801 million.

Furthermore, the acquisition in December 2002 of a 25% interest in Redalta, which holds a 100% interest in Inalta, a company which has acquired the transport network of Iberdrola, has represented investment of Euros 14.9 million.

RED ELÉCTRICA has combined these investments with ongoing improvements in the quality of the service it renders to the Spanish electricity system:

- In relation to the safety of the electricity supply, total availability of the network owned by RED ELÉCTRICA is 97.54%, slightly up on 2001. Average unavailability of the network owned by RED ELÉCTRICA is 0.0002 minutes, compared to 0.2736 minutes in 2001. Substation and protection equipment continues to perform to the high level reached in prior years.
- In 2002 the performance of the key indicators for the electricity system was characterised by extremely dry weather conditions until October. Growth in the demand for electrical energy was 2.3%, which is down on recent years. Nevertheless, monthly electricity demand peaked in January at 19,310 GWh, which exceeded the previous historical maximum recorded in December 2001. Gross generation in the Spanish Peninsular by domestic energy producers grew by 1.4% compared to 2001, to 186,125 GWh. In relation to international energy exchanges, 5,329 GWh of electrical energy has been imported, representing a significant increase compared to 2001. In 2002 6,319 GWh of power has also been handled by supplementary secondary and tertiary services and by applying the technical restriction resolution system, leading to an 11% increase on the prior year. Furthermore, RED ELÉCTRICA has guaranteed the coverage of demand by diverting power requirements, thereby avoiding imbalances between power generation and demand, and has handled 1,901 GWh in 2002 through this procedure.

The cost of the processes managed by RED ELÉCTRICA as operator of the electricity system is 0.243 c€/kWh on the final price, which this year has been 4.571 c€/kWh.

Telecommunications Business

In the area of telecommunications, in 2002 the GROUP has focused on consolidating its infrastructures, and has continued to develop the reticulated telecommunications trunk network with the corresponding DWDM equipment, adapting the network to provide services carried out through ALBURA, mainly transport and capacity and IP solutions, such as the provision of virtual private networks (VPNs) and virtual internet services.

Furthermore, during the year commercial efforts have centred on telecommunications operators, public entities and large companies. Although 2002 has seen a slowdown in the growth of the transport and capacity and IP solutions markets, as a result of the generalised slump in the telecommunications sector, ALBURA has won new contracts for a total amount exceeding Euros 18 million. These contracts include a project for the Ministry of Science and Technology to develop the new RedIRIS2 network, for which it will provide circuits to connect practically all of the telecommunications network points which link the main research centres in Spain. This contract is for a two-year period and may be renewed on expiry for a further two years.

International Business

In 2002 the international business of the GROUP has continued to grow, on the basis of an the appropriate combination of profitability and risk.

During the year several business opportunities have been analysed by RED ELÉCTRICA INTERNACIONAL, including investment in transport systems and the provision of international consulting and technical and management advisory services.

These business opportunities include the acquisition of a 99.94% interest in the Bolivian company, Transportadora de Electricidad, S.A. (TDE), which is the largest electrical energy transporter in Bolivia and operates the Bolivian interconnected system with an indefinite licence and has ownership of approximately 2,000km of lines and 19 substations. Since its incorporation into the RED ELÉCTRICA GROUP, TDE has made investments totalling Euros 3.1 million in the Bolivian transport network. Furthermore, the total availability of its network in 2002 has reached its highest level for the last five years.

The acquisition of TDE is an important step in the international expansion of the RED ELÉCTRICA GROUP, significantly reinforcing its position in the Andean zone, where it already held a 30% interest in the Peruvian company, Red Eléctrica del Sur, S.A. (REDESUR).

For REDESUR, which holds a 30-year concession for the reinforcement of electricity systems in southern Peru, 2002 has been the first full year of operations since the 530km of lines subject to the concession were brought into service. REDESUR is now the highest-ranked electricity transporting company in Peru, in terms of the quality of the service provided. In 2002 the long-term financing of the company has been assured through the extension of a loan by the Inter-American Development Bank. Furthermore, through its subsidiary, REDINSUR, REDESUR has entered into an agreement with third parties for the lease of the spare capacity of fibre optic networks.

Key magnitudes

In 2002 the RED ELÉCTRICA GROUP obtained consolidated profit after tax of Euros 99.8 million, compared to Euros 91.1 million in 2001, representing growth of 9.6%.

The improvement of consolidated profit after tax is sustained by growth of 20.7% in adjusted consolidated net sales (less energy purchases), mainly as a result of the installations which entered service in 2001 and, internationally, the incorporation of the Bolivian company, TDE, as well as the increase in engineering and construction work carried out for third parties.

This rise, together with improvements to internal efficiency which have curbed the operating expenses of the Company, has enabled the expenses incurred from launching new Group businesses to be absorbed. In 2002 EBITDA amounted to Euros 276.4 million, representing an 8.7% increase on the prior year.

Net financial expenses in 2002 were Euros 22.8 million, up 18.2% on 2001, as a result of an increase in leverage, with net financial debt amounting to 186.3% of shareholders' equity. Investments in the transport network, advances for the acquisition of the transport assets of Endesa and Union Fenosa and foreign investments have led to net financial debt of Euros 1,507.7 million at 31 December 2002.

Consolidated cash-flow after tax amounted to Euros 224.7 million, up 15.2% on 2001. This sum represents 48.9% of adjusted consolidated net sales (less energy purchases). This generation of funds has enabled the GROUP to finance a significant portion of the investments made in 2002.

Consolidated investments in 2002 amounted to Euros 1,158.7 million, up Euros 913.9 million on 2001. Euros 815.9 million of these investments was used to pay advances for the acquisition of the transport networks of Unión Fenosa Distribución and Endesa Distribución and for the interest in Redalta, Euros 203.4 million was used to extend and improve the Spanish electricity transport network, Euros 91.7 million was allocated to the acquisition of TDE, Euros 39.7 million was assigned to the telecommunications activity and Euros 8 million was earmarked for other investments.

The increase in borrowings, as a result of the acquisitions and investments made, have permitted the optimisation of the GROUP'S capital structure and have not prevented it from being assigned high credit ratings. Following the agreements for the acquisition of the transport assets of Endesa, Unión Fenosa and the interest in Redalta, the credit rating agency Standard and Poor's has maintained the rating of AA- /A-1+ for RED ELÉCTRICA. Moody's has assigned RED ELÉCTRICA an A2 credit rating and a stable profile. These ratings, which reflect the low risk of the Company and the robustness of its business, as well as the stability and predictability of income, are among the best achieved in Spain by international companies of a similar nature.

Regarding the stock market development of the Company, although there has been a global fall in stock markets, RED ELÉCTRICA shares have performed better than companies listed on the Ibex-35 and on the Electricity Sector and Eurostoxx Utilities indices. Whereas these indices have posted decreases of

28.1%, 18.9% and 27.1%, respectively, the share price of RED ELÉCTRICA at the 2002 close was Euros 9.64, down 7.8% on the prior year.

At 31 December 2002 the GROUP has 1,168 employees, representing a 15.8% rise compared to the prior year, mainly as a result of the incorporation of TDE, which contributed 106 employees to the GROUP.

Other information

Research, Development and Technological Innovation

Within the framework of the Plan for Research, Development and Technological Innovation, in 2002 RED ELÉCTRICA has worked on around thirty projects, with a total volume of approximately Euros 1.5 million, up 25% on 2001.

The most significant of the projects completed during 2002 are those related to the Analysis of Operational Restrictions (ARO), the CIM network database management tool, based on international standards, a device to detect faults on lines on the basis of radio frequencies emitted by the corona effect, and the wind power forecasting system (SIPREOLICO), which is highly useful given the increase in wind power within the Spanish electricity system.

Environmental Protection

A commitment to the environment is a priority for the RED ELÉCTRICA GROUP, reflected by its Environmental Policy. In 2002 the European Commission awarded RED ELÉCTRICA a prize for best practice in the implementation of the Eco-Management and Audit Scheme (EMAS). The Parent Company was also awarded the EMAS diploma by the Ministry of the Environment for the effectiveness and success with which it has implemented the Scheme.

During the current year audits have also been carried out for the renewal of the EMAS system certificate, in accordance with Standard UNE-EN-ISO 14,001, and for the verification of the Notes to the Environmental Audit so that it may be deposited in the EMAS registry, confirming the suitable functioning of the EMAS system.

Quality

In 2002 RED ELÉCTRICA was a finalist in the Prince of Asturias Prize for Industrial Quality, in recognition of the quality of the organisation, a testimony to the ongoing improvements made in all processes and the calibre of RED ELÉCTRICA GROUP personnel. The Group was also awarded the Certificate of European Excellence, silver level, in its first entry for this evaluation.

Furthermore, in recognition of the quality of its web page content, navigability, design and accessibility, in June 2002 the Spanish Association of Accountancy and Business Administration (AECA) awarded RED ELÉCTRICA first prize as the 'Company with the Best Financial Information on the Internet, 2002' in the Ibex-35 category.

Parent Company Shares

The shareholders of RED ELÉCTRICA at their annual general meeting held on 26 April 2002 authorised the board of directors to acquire own shares, as permitted by Article 75 and related articles of the Spanish Companies Act.

In 2002, with the objective of providing a market for shares and to provide liquidity to investors, 4,773,072 own shares have been acquired for a total par value of Euros 9.5 million and a total cash value of Euros 49.7 million. Furthermore, 4,043,196 shares have been sold for a total par value of Euros 8.1 million and a cash value of Euros 42.7 million.

At 31 December 2002 the Parent Company holds 1,009,005 own shares, representing 0.75% of share capital, with a total par value of Euros 2 million and a total market value of Euros 9 million.

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 Parent Company and its subsidiaries may not exceed 5% of share capital. The subsidiaries hold no own or Parent Company shares.

Forecast development

Over the coming years the RED ELÉCTRICA GROUP will channel the majority of its resources into consolidating its main business, electricity transport and the operation of the electricity system, and positioning itself as a Spanish TSO (Electrical System Transporter and Operator), following the general international trend. The Group will combine this role with the development of its telecommunications business and international activities, which generate additional growth with which to create value for its shareholders. These diversification activities will concentrate on basic infrastructure networks.

During the next few years the GROUP will focus a large amount of its activity on the integration of the transport assets, which were among the acquisitions carried out at the end of 2002. The maximisation of the efficiencies deriving from the new dimensions of the transport network, relating to the standardisation of its installations and the improvement of technological developments, such as optimising operating synergies and efficiencies, will enable the RED ELÉCTRICA GROUP to continue to increase profits and exceed the high levels of profitability obtained for the shareholder. The estimated increase in profit per share is between 13% and 15% until 2006, which, at current pay-out levels, will enable the Group to achieve sustained growth in dividends for the shareholder.

The plans for the extension and strengthening of the Spanish and Bolivian transport networks, and the implementation of the intelligent fibre optic network for the telecommunications business will require the RED ELÉCTRICA GROUP to invest approximately Euros 1,000 million over the coming years.

In the immediate future, RED ELÉCTRICA will continue to work diligently on the projects commenced following the agreements entered into at the end of 2001 by the Spanish and Portuguese governments to implement the Iberian Electricity Market.

Through its strategy, the RED ELÉCTRICA GROUP will also continue to focus its business management, organisational structure and activity on creating value for its shareholders.



RED ELÉCTRICA DE ESPAÑA, S.A.
Financial statements



RED ELÉCTRICA

BALANCE SHEET at 31 December · In thousands of Euros (Traslation from the original in Spanish)

ASSETS	2002	2001
INTANGIBLE ASSETS	3,143	4,885
Research and development expenses	18,813	18,582
Software	7,061	6,897
Amortisation	(22,731)	(20,594)
TANGIBLE ASSETS	2,273,146	1,370,565
Land and buildings	35,259	35,259
Plant and machinery	2,464,478	2,227,990
Other installations equipment an furniture	52,422	82,179
Plant and machinery under construction	151,361	169,651
Advances and tangible assets under construction	815,612	17,423
Provisions	(23,222)	(22,134)
Depreciation of plant and machinery	(1,177,826)	(1,078,675)
Other depreciation	(44,938)	(61,128)
INVESTMENTS	208,756	123,723
Investment in group companies	210,000	120,000
Investment in associated companies	3,732	-
Loans to associated companies	11,197	-
Other loans	4,170	4,912
Long-term guarantee deposits	248	272
Long-term balances recoverable from public entities	12,572	12,450
Provisios	(33,163)	(13,911)
OWN SHARES	9,029	2,764
LONG-TERM DEBTORS	-	5,815
TOTAL FIXED ASSET	2,494,074	1,507,752
DEFERRED EXPENSES	20,283	8,972
STOCKS	6,711	4,903
Raw materials and other supplies	11,230	8,903
Provisions	(4,519)	(4,000)
DEBTORS	280,900	145,507
Trade debtors	17,916	20,731
Group companies	12,660	23,253
Associated companies	157	1,967
Sundry debtors	129,002	97,049
Personnel	1,315	1,255
Public entities	121,090	1,631
Provisions	(1,240)	(379)
SHORT-TERM INVESTORS	22,679	14,269
Loans to associated companies	22	-
Short-term investment portfolio	21,659	12,026
Other loans	998	2,243
CASH AND BANKS	307	279
PREPAID EXPENSES	16,952	10,884
TOTAL CURRENT ASSETS	327,549	175,842
TOTAL ASSETS	2,841,906	1,692,566

SHAREHOLDERS' EQUITY AND LIABILITIES	2002	2001
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
RESERVES	217,977	189,236
Legal reserves	54,199	54,199
Reserve for own shares	9,029	2,764
Other reserves	154,749	132,273
PROFIT FOR THE YEAR	95,953	90,785
INTERIM DIVIDEND	(25,511)	(24,299)
TOTAL SHAREHOLDERS' EQUITY	805,981	773,284
Capital grants	71,669	61,534
Exchange gains	10	87
Other deferred income	142,266	129,164
TOTAL DEFERRED INCOME	213,945	190,785
Provisions for pensions and other liabilities	13,021	9,117
Provisions for taxes	234	234
Other provisions	10,276	10,347
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	23,531	19,698
BOND ISSUES	95,966	126,318
LOANS	185,048	124,921
OTHER CREDITORS	43,642	45,358
UNCALLED SHARE PAYMENTS	54,357	45,000
Group companies	50,625	45,000
Associated companies	3,732	-
LONG-TERM CREDITORS	379,013	341,597
BONDS ISSUED	33,041	2,846
Non-convertible bonds	30,351	-
Interest payable	2,690	2,846
LOANS	1,111,606	167,098
Loans and other debt	1,106,662	161,493
Interest payable	4,944	5,605
SHORT-TERM DEBT WITH GROUP AND ASSOCIATED COMPANIES	14,633	5,056
Group companies	14,633	4,830
Associated companies	-	226
TRADE CREDITORS	86,433	50,333
For purchases and services received	86,433	50,333
OTHER CREDITORS	153,375	111,930
Public entities	17,252	23,578
Others	134,367	86,868
Short-term guarantee deposits received	1,756	1,484
ACCRUALS	20,348	29,939
TOTAL CURRENT LIABILITIES	1,419,436	367,202
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,841,906	1,692,566

RED ELÉCTRICA

PROFIT AND LOSS ACCOUNTS at 31 December · In thousands of Euros (Translation from de original in Spanish)

EXPENSES	2002	2001
EXPENSES		
MATERIALS CONSUMED	274,714	220,919
Purchases of energy and power	235,576	210,480
Maintenance and repair materials	39,138	10,439
PERSONNEL EXPENSES	53,350	53,436
Wages and salaries	40,055	38,860
Social security	9,101	9,083
Pensions and similar obligations	764	802
Other social charges	3,430	4,691
AMORTISATION AND DEPRECIATION	107,029	102,931
CHARGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	1,380	1,033
Charge in provisions for stocks	519	671
Changes in provisions for bad debts	861	362
OTHER OPERATING EXPENSES	84,517	71,588
External services	75,012	63,178
Local taxes	1,450	1,923
Other administrative expenses	1,063	958
Provision for liabilities and charges	6,992	5,529
TOTAL OPERATING EXPENSES	520,990	449,907
OPERATING PROFIT	189,450	165,783
FINANCIAL AND SIMILAR EXPENSES	21,022	20,744
On debt with third parties	21,022	20,744
EXCHANGE LOSSED	116	321
TOTAL EXTRAORDINARY EXPENSES	21,138	21,065
PROFIT ON ORDINARY ACTIVITIES	169,113	145,945
CHANGE IN PROVISIONS FOR TANGIBLE ASSETS AND TREASURY STOCK	21,050	13,361
LOSSES ON TANGIBLE FIXED ASSETS	251	499
LOSSES ON TREASURY STOCK OPERATIONS	393	186
EXTRAORDINARY EXPENSES	-	825
PRIOR YEARS' ITEMS	-	231
TOTAL EXTRAORDINARY EXPENSES	21,694	15,102
PROFIT BEFORE TAX	156,628	138,850
INCOME TAX	60,465	48,065
TAX OTHER THAN INCOME	210	-
PROFIT FOR THE YEAR	95,953	90,785

INCOME	2002	2001
INCOME		
NET SALES	694,064	603,982
Services rendered (Transmission and system operation)	381,510	355,770
Other service income	69,645	29,542
Sales of energy and power	242,476	218,579
Sales of by-products	433	91
SEFT-CONSTRUCTED	13,041	9,463
OTHER OPERATING INCOME	3,335	2,245
Other income	2,150	2,136
Grants	209	89
Surplus provision for liabilities and charges	976	20
TOTAL OPERATING INCOME	710,440	615,690
INVESTMENT INCOME	60	38
Associated companies	22	-
Outside the group companies	38	38
OTHER INTEREST AND SIMILAR INCOME	715	1,042
EXCHANGE GAINS	26	147
TOTAL FINANCIAL INCOME	801	1,227
NET FINANCIAL EXPENSE	20,337	19,838
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS	8	14
PROFIT ON TREASURY STOCK OPERATIONS	444	248
CAPITAL GRANTS TAKEN TO INCOME	4,475	5,504
EXTRAORDINARY INCOME	3,568	2,001
PRIOR YEARS' ITEMS	714	240
TOTAL EXTRAORDINARY INCOME	9,209	8,007
NET EXTRAORDINARY LOSS	12,485	7,095

RED ELÉCTRICA

PROPOSED DISTRIBUTION OF PROFITS FOR 2002

The profit for 2002 was 95,953,308.97 Euros. The distribution of this profit as proposed by the Board of Directors to the Annual General Assembly of Shareholders comprises a gross dividend of 0.48 euros per share (for shares with dividend rights), having already been paid an interim dividend of 0.19 euros per share. The balance after payment of dividends will be transferred to voluntary reserves.

	<i>Amounts in euros</i>
VOLUNTARY RESERVES	31,213,565.71
DIVIDENDS:	
INTERIM DIVIDEND	25,511,443.26
SUPPLEMENTARY DIVIDEND (calculated on the total number of shares)	39,228,300.00
TOTAL	95,953,308.97

CERTIFICATION

Rafael García de Diego Barber, Secretary of the Board of Directors of RED ELÉCTRICA DE ESPAÑA, S.A., by virtue of article 109 of the regulations of the Mercantile Register,

HEREBY CERTIFIES

That the Annual Accounts and the Directors' Report for the consolidated RED ELÉCTRICA GROUP, together with the Balance Sheet, Profit and Loss statement and proposed distribution of profits of RED ELÉCTRICA DE ESPAÑA, S.A., as contained in the present document, are a true and accurate copy of those which were inspected and approved during the meeting of the Board of Directors of RED ELÉCTRICA DE ESPAÑA, S.A., held on March 11st 2003. A copy of these documents, signed by all the directors in accordance with article 171.2 of the supplementary legislation to the Companies Act, is held at the Secretary's Office.

And as evidence thereof, I hereby issue this certificate in Madrid on March 17th 2003.





Audidores

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Consolidated Annual Accounts

(Translation from the original in Spanish)

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 sheets at 31 December 2002 and 2001, the related consolidated statements of profit and loss for the years then ended and the notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the 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 our opinion, these consolidated annual accounts present fairly, in all material respects, the consolidated shareholders' equity and financial position of Red Eléctrica de España, S.A. and subsidiary companies at 31 December 2002 and 2001 and the consolidated results of their operations and their consolidated source and application of funds for the years then ended and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain applied on a consistent basis.

The accompanying consolidated directors' report for 2002 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 2002. Our work as auditors is limited to the verification of the consolidated directors' 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 subsidiary companies.

KPMG AUDITORES, S.L.

Valeriano Pérez Lozano
12 March 2003



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

Inscrita en el Registro Oficial de Auditores de Cuentas con el n.º 50702,
y en el Registro de Sociedades del Instituto de Auditores-Censores,
Jurados de Cuentas con el n.º 30.
Reg. Mer Madrid, T. 11.961, F. 04, Sec. 0, H. M-100.007, Inscric. 1.ª
N.I.F. B. 79510195



INVERSIONES FINANCIERAS

detalle de este capítulo en el Balance de situación consolidado al 31 de diciembre es como sigue:

	2001	miles de euros
Participación en sociedades puestas en equivalencia	8.382	20.000
Otras participaciones	-	6.000
Otros créditos	4.912	5.800
Costos y fianzas constituidas a largo plazo	495	2.000
Administraciones Públicas a largo plazo (nota 22)	12.450	11.800
Al Inmovilizaciones financieras	26.239	33.100
Cartera de valores a corto plazo	20.440	9.000
Otros créditos	2.243	15.600
Al Inversiones financieras temporales	22.683	24.600

INMOVILIZACIONES FINANCIERAS

Participación en sociedades puestas en equivalencia al 31 de diciembre de 2001 recoge íntegramente la participación directa e indirecta (a través de Red Eléctrica de España, S.A. (REDESUR, S.A.) en RED ELÉCTRICA DEL SUR, S.A. (REDESUR) (véase Anexo I). Otras Participaciones al 31 de diciembre de 2001 recoge el depósito como aportación de capital para la constitución de la filial RED ELÉCTRICA INTERNACIONAL, S.A. por parte de la Sociedad Matriz. Esta sociedad se ha constituido el 23 de febrero de 2001.

Otros créditos a largo plazo incluye, principalmente, los concedidos por las sociedades del grupo a su personal con vencimiento a largo plazo. Estos créditos devengan intereses a tipos variables referenciados al Euribor más unos diferenciales comprendidos entre el 0,25% y el 0,75%.

El saldo de Administraciones Públicas a largo plazo corresponde al Impuesto sobre beneficios anticipado a largo plazo de la Sociedad Matriz (véase nota 22).

B) INVERSIONES FINANCIERAS TEMPORALES

Al 31 de diciembre de 2001 la Cartera de valores a corto plazo corresponde fundamentalmente a las adquisiciones de deuda pública por parte de la Sociedad Matriz con fecha de vencimiento el 2 de enero de 2002, así como a sus intereses devengados y no cobrados.

Otros créditos a corto plazo incluye al 31 de diciembre de 2001 los intereses a corto plazo generados por las operaciones con instrumentos financieros derivados por la parte devengada y no vencida en el ejercicio. Dicho devengo se produce en forma simétrica al de las operaciones cubiertas.

DEUDORES

detalle de este capítulo en el Balance de situación consolidado al 31 de diciembre es como sigue:

	2001	miles de euros
Deudores a largo plazo		200.000
Al (largo plazo)	17.524	5.800
Intereses por ventas y prestación de servicios	17.524	5.800
Empresas asociadas, deudores (nota 23-d)	23.434	14.500
Deudores varios	1.967	500
Administraciones Públicas:		
Impuestos anticipados (nota 22)	97.101	85.900
Hacienda Pública, deudora por IVA	1.261	1.800
Reserva para insolvencias	1.631	2.600
Al (corto plazo)	11.501	1.000
	(379)	(1.000)
	136.516	(1.000)
		106.600

At the meeting of the Board of RED ELÉCTRICA DE ESPAÑA. S.A. (hereinafter the Company) held on 11 March 2003, the Directors resolved to include the following information in connection with the Corporate Governance Report in the Annual Report for 2002.

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 drawn up 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 principles 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.

In 2002, two laws were approved which established obligations affecting the Company, and which will result, in the near future, in modifications to its Articles of Association, Regulations of the Board of Directors and Internal Code of Conduct for the Securities Market. The laws in question are as follows:

- Law 44 of 22 November 2002 for Financial System Reform Measures.

This legislation has modified Law 24 of 24 July 1988 for the Regulation of the Securities Market, and will introduce the following new regulations that will result, in the adoption of internal measures relating to the corporate governance of the Company.

Law 44 of 2002 has established the obligation for listed companies to have an Audit Committee, and to implement statutory regulation of their competencies, number of members and regulations governing their operation.

Furthermore, this Law has established a list of minimum competencies for the Audit Committee, and requires that the Committee be mainly composed of non-executive members; the Chairman will be selected from among the Committee members and must be replaced every four years, and may be reappointed after one year's absence from that office.

RED ELÉCTRICA already has an Audit Committee, although it would be necessary to analyse and review the Articles of Association, Regulations of the Board of Directors and the Operating Regulations for the Audit Committee, to adapt them to the requirements of the aforementioned law.

Law 44 of 2002 has established the obligation to submit to the National Securities Market Commission, within a period of nine months, a new Internal Code of Conduct for the Securities Markets that is adapted to the latest legal requirements. The most significant modifications affecting the Company refer to relevant information and privileged information, which should be contained within the new Internal Code of Conduct approved by the Board of Directors.

- Law 53 of 30 December 2002 for Tax, Administrative and Labour Measures.

This law has modified article 34 and the ninth Transitional Provision of Law 54 of 27 November 1997 of the Electricity sector, reducing from 10% to 3% the maximum limit for direct and indirect interests in the share capital of RED ELÉCTRICA.

This Law has eliminated the combined limit of 40% for interests held by shareholders in the electricity sector, although it prohibits the syndication of shares to all shareholders.

The Law has established that voting rights corresponding to interests that exceed the legally established percentages will be suspended until the interests in share capital or voting rights are reduced accordingly. The adaptation of legally held interests to the newly established limits should be carried out in 2003.

The new legal requirements relating to limits of shareholder interests will require RED ELÉCTRICA to review and adapt its Articles of Association.

Finally, a recent report prepared by the Special Commission for the Development of Transparency and Security in Markets and Listed Companies, known as the "Aldama Commission" which covers various aspects relating to the governance of listed companies, will require modifications to the regulations governing the Articles of Association, Regulations of the Board of Directors, Internal Code of Conduct for the Securities Market and the Operating Regulations for the Commissions of the Board of Directors and approval, if required, of a new Regulation by the General Shareholders' Meeting.

The areas affected by the report issued by the Aldama Commission are basically as follows:

- Principle of transparency and the obligation to inform
- Principle of security and the obligation of loyalty and diligence
- Composition and operation of the Board of Directors
- Commissions of the Board of Directors
- Remuneration to the Board of Directors and Executive Management
- Regulations of the Board of Directors
- Operation of the General Shareholders' Meeting
- Regulations of the General Shareholders' Meeting
- Reliability and accuracy of the information provided by companies rendering professional services

The recommendations of the Aldama Commission should be complied with during a second phase, once the governance regulations of the Company have been adapted to Law 44 of 2002 and Law 53 of 2002, and in the light of foreseeable corporate legal reforms carried out over the coming months, as well as valuations by the financial markets.

2. Information concerning acceptance of the recommendations contained in the 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 in 2002.

Recommendation 1. 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 2. 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.

The number of independent directors will foreseeably increase in the near future, due to the reduction from 10% to 3% of the maximum legal limit of interests in the share capital of the Company.

Recommendation 3. 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 2002 the members of the Board of Directors, the nature of each directorship and the date of appointment are as follows:

Director	Appointment	Nature
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. 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
Iberdrola, S.A. *	26.06.01	shareholder representative
Hidroeléctrica del Cantábrico, S.A. **	29.01.02	shareholder representative
D. Elías Velasco García	04.04.02	shareholder representative
D. Enrique Hernández Pérez	23.04.02	shareholder representative

(*) Iberdrola S.A., has been appointed legal director, represented by José Ignacio Sánchez Galán.

(**) Hidroeléctrica del Cantábrico S.A., has been appointed legal director, represented by Joaquín Coronado Galdós.

The structure of the Board of Directors of the Company will foreseeably be affected by the entry into force of the abovementioned Law 53 of 2002.

Recommendation 4. 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, and it has not been considered necessary to change the size of the Board in 2002.

Nonetheless, in the light of the foreseeable change that could be made to the structure of the Board of Directors of the Company, derived from Law 53 of 2002, it could be necessary to modify the current number of members that comprise the Board of Directors of the Company

Recommendation 5. 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. Without prejudice to the existence of certain competencies that are exclusive to the Board of Directors, all corporate actions of relevance are duly reported to the Board of Directors of the Company.

Recommendations 6, 12, 14 and 23. 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 7. 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 8. 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. Pedro Rivero Torre

D. Manuel Alves Torres

D. Joaquim Clotet i Garriga

- D. Pedro Rivero Torre is a Professor of economics and accounting at the Complutense University of Madrid and occupies, inter alia, the positions of Executive Vice-President of UNESA and is also a member of the Economic and Social Council.
- D. Manuel Alves Torres acts as Director of Planning and Control at SEPI (the State Society of Industrial Interests).
- D. Joaquim Clotet i Garriga has held, among other relevant positions, the posts of Deputy General Manager of Banesto, Deputy Manager of la Caixa, Vice-chairman of Planeta-Agostini, Managing Director of Planeta Internacional, Vice-chairman of SEPI, Director of Endesa, Iberia, Sevillana and Fecsa.

Remuneration Committee:

D. Antonio Garamendi Lecanda

D. Pablo Isla Álvarez de Tejera

D. Pedro Mielgo Álvarez

D. Pedro Rivero Torre

The members of these Committees are specially qualified to undertake the responsibilities of their offices, and have broad professional experience, occupying positions of the utmost responsibility outside the RED ELÉCTRICA GROUP, performing duties related to those entrusted to the Committees.

On 17 December 2002 the Board of Directors of the Company agreed to reappoint the members of the two Committees for a period of three years, after the terms of their office expired.

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.

As indicated previously, the regulations of the Audit and Compliance Committee will be adapted to the requirements of Law 44 of 2002, and the Committee should review its competencies, the number and attributes of its members, the new duties relating to the position of Chairman and the laws governing its operation.

Compliance with Law 44 will require modifications to the Articles of Association, Regulations of the Board of Directors and Regulations governing the Operation of the Audit and Compliance Committee.

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 five meetings in 2002 and the Remuneration Committee four. The schedule for meetings is flexible, for the purposes of communicating the decisions made to the Board.

In 2002 the total remuneration accrued by the directors that sit on these two committees for being members thereof has amounted to Euros 101 thousand.

Recommendations 9, 10 and 11. 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 2002. However, the Chairman may also call extraordinary meetings of the Board if he deems it necessary for the proper running of the Company. The Articles of Association (article 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. This recommendation should be more stringently applied for appointments of independent directors.

In 2002 Hidroeléctrica del Cantábrico, S.A., represented on the Board by Joaquín Coronado Galdós as legal director, Elías Velasco García and Enrique Hernández Pérez were respectively appointed during the meetings held on 29 January 2002, 4 April 2002 and 23 April 2002, to respectively replace Germán González del Valle Chávarri, Victoriano Reinoso y Reino and Juan Massó Garolera as a result of their resignations.

Recommendation 13. 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 15. 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 15 February 2001, the Directors approved the system for the remuneration of directors, which provides for compensation in respect of attendance at and work undertaken

en 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 5 March 2002, the Directors agreed to maintain the same remuneration system in 2002 as 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.

Neither the Parent nor GROUP companies have approved a remuneration plan for directors, management or remaining personnel, based on stock or similar options.

The amounts paid by way of remuneration of the members of the Board of Directors are disclosed in the notes to the consolidated annual accounts and in the notes to the annual accounts of individual GROUP companies.

Recommendations 16 and 17. 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).

In 2002, assets for the transport of electricity were purchased by the Company from Endesa Distribución Eléctrica, S.L., Unión Fenosa Distribución, S.A. and a 25% interest was acquired in Red de Alta Tensión, S.A., a company through which the purchase of assets for the transportation of electricity from Iberdrola Distribución, S.A., and Iberdrola, S.A. was instrumented.

In the meeting held on 13 November 2002, the Board of Directors of the Company approved the acquisitions of assets for the transportation of electricity from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A., and in the meeting held on 4 December 2002, the Board approved the acquisition of the interest in Red de Alta Tensión, S.A.

Recommendations 18 and 19. 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.

RED ELÉCTRICA, as a company listed on the stock market and in observance of the principles of transparency and breadth of information in the financial markets supported by the Code of Good Governance, has made its corporate web page available on the Internet (www.ree.es).

This website contains all the economic, financial and business information of the Company, together with the rest of the information on the electric system in which RED ELÉCTRICA operates.

The economic and financial contents of this website are incorporated when communicated to the National Securities and Market Commission and are continually updated, in order to duly satisfy the information requirements of the markets, well beyond mere compliance with established legal obligations.

In recognition of the quality of the contents of this website, its navigability, design and accessibility, in June 2002 The Spanish Association of Accounting and Business Administration (AECA), awarded RED ELÉCTRICA First Prize as "Company with the best financial information on the internet in 2002", in the Ibex 35 category.

The main economic and financial contents that can be consulted on the web page of RED ELÉCTRICA are as follows:

- General information: Organisation chart, shareholder structure, Board of Directors, business activities and business strategy.

- “Economic Information” section: Key indicators, Consolidated Annual Accounts, Consolidated Directors’ Report and summary of results.
- “Shareholders” section: Relevant Matters and other news of interest, stock market information in real time, dividends, Annual Report, quarterly information, shareholder bulletin, presentations to investors, Corporate Governance, General Shareholders’ Meeting and Shareholder Office.

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 is in charge of monitoring and complying with the legal obligations associated with these operations and monitoring that the Company’s Internal Regulations on securities markets are followed. These regulations are applicable to directors, management and other employees with access to sensitive information or information that is relevant to the markets.

At their Annual General Meeting held on 26 April 2002, 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.

Operations with own shares carried out in 2001 are disclosed in the Notes to the Annual Accounts.

Recommendations 20 and 21. 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 2002 Annual Accounts of the Company and Group companies is disclosed in the individual and consolidated notes to the annual accounts. Fees paid to companies directly or indirectly related to the audit firm in respect of professional services other than audit are also detailed in these notes. Such amounts are not significant and do not affect either the Company’s strategy or general planning.

Recommendation 22. Quality of accounting

During 2001 and 2002 the Company has obtained regular, unqualified reports on its financial statements from the external auditors.

CO-ORDINATION:

RED ELÉCTRICA COMMUNICATONS AND INSTITUTIONAL RELATIONS MANEGEMENT

PHOTOGRAPH:

PHOTOGRAPHS OF EMPLOYEES:

José María César, pages 16 y 29
Alejandro Bermejo, page 17
Pedro Somarriba, page 19
Ali Reza Karbasi, page 20
Juan José González, pages 22 y 50
Roberto Arranz, page 23
Ángel Andrés Martínez, page 24
José Antonio Celorrio, page 29
Carlos Llanos, page 50
Victor Navazo, pages 58 y 61
José Luis Mata, page 59

Dr. Juan Represa, page 54

PROFESSIONAL PHOTOGRAPHERS:

Antonio Sanz, Fernando Prados, Guillermo R. Gordillo,
Javier Azurmendi e Hisao Suzuki.

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