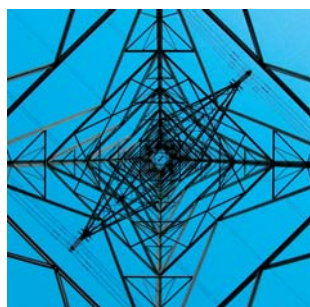




Annual Report 2003



**RED ELÉCTRICA**  
DE ESPAÑA

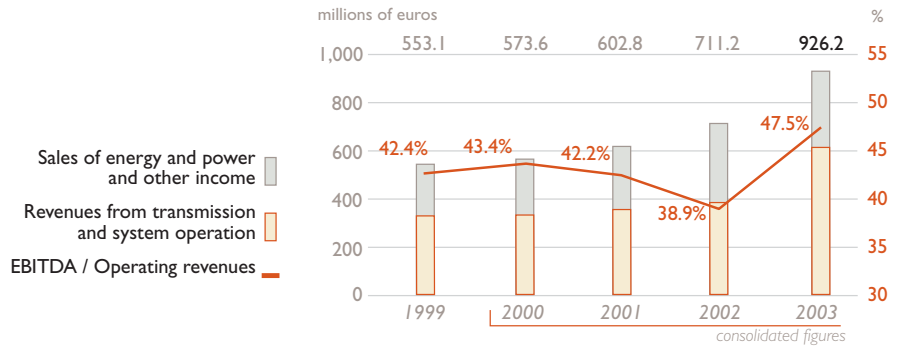




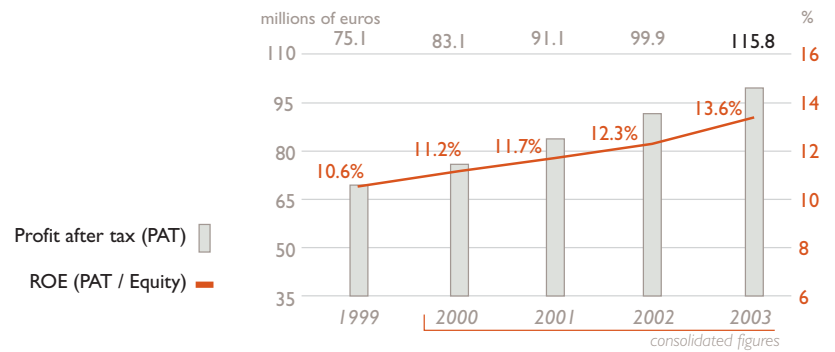
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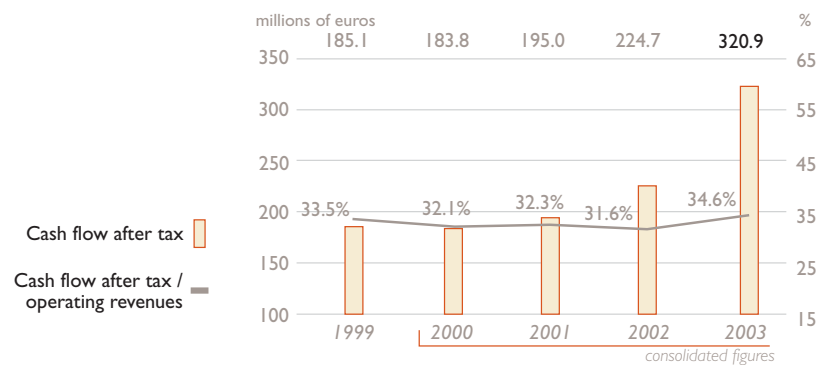
## Operating revenues



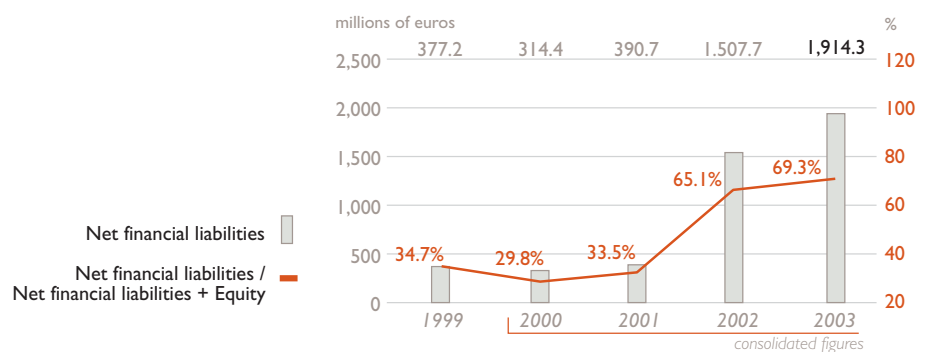
## Profit after tax



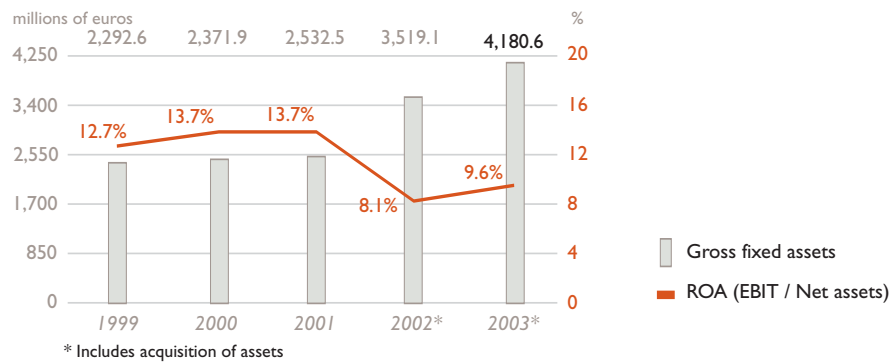
## Cash flow after tax



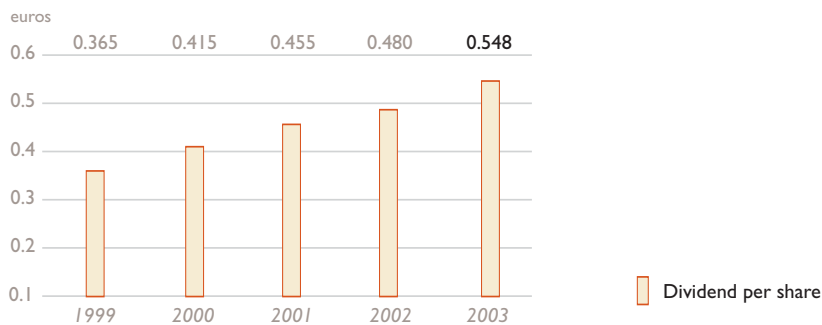
## Net financial liabilities



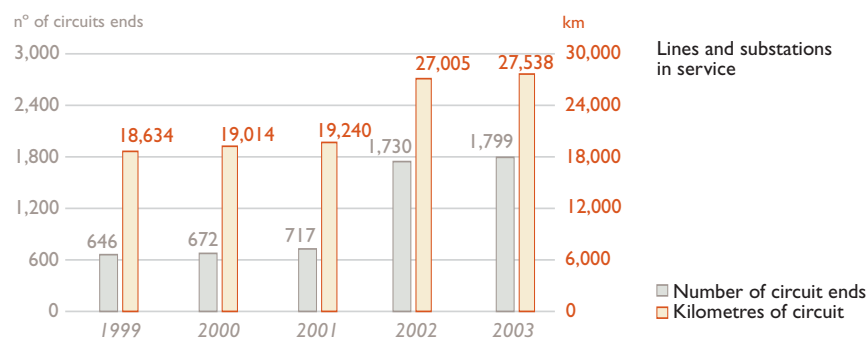
### Fixed assets



### Dividend per share



### Size of the Grid



### Unavailability (supply interruptions)



*To our shareholders:*

*Since 1998 there have been important changes in our company, in the sector in which it operates and in the legal and business environment. In 2003 these changes resulted in developments along three lines.*

*First, the acquisition of Endesa's and Unión Fenosa's transmission assets was brought to a conclusion. The latest financial statements already reflect the expected synergies and economies of scale that will continue to arise in future years.*

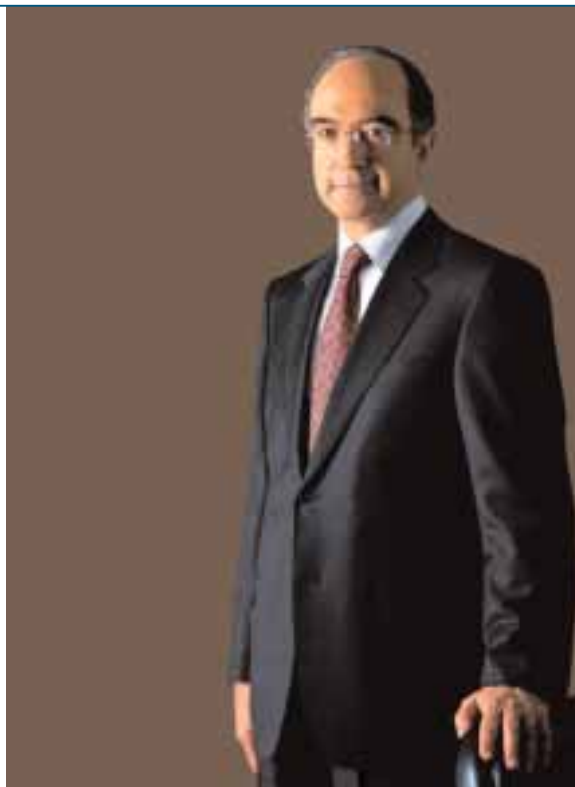
*Second, the constant strategy of internal improvement continues to bear fruit year after year. This is one of the keys to the improvement in results and to the high quality of the service we provide to the Spanish electricity system.*

*Lastly, the new regulatory developments related to the Spanish islands and other non-mainland electricity systems and the drive to establish an Iberian electricity market represent first-class opportunities for further growth. The first of these developments means Red Eléctrica is now present in autonomous cities and communities outside the Spanish mainland. The second development will emerge from legislation and regulations that are soon to be adopted in Spain and Portugal. Both opportunities will become a reality in the second half of 2004.*

*A new Red Eléctrica has started out on a new phase of its existence. It is approaching this from a sound basis, with more capacity than ever to provide services and generate business and it enjoys growing prestige based on the higher quality of the services it provides.*

*Our first priority is to provide the Spanish electricity system with a service of quality and excellence – extending this to cover all relevant aspects. The acquisition of additional assets has been magnificently received by the markets which understand their value for the short and long term. This was reflected by the share price which gained 34.9% during the year, beating the Ibex 35 by 6.7%. The total return to shareholders since the company's debut on the stock exchange, ie, from July 1999 to February 27th 2004, has been 95%. This makes Red Eléctrica one of the most profitable IPOs in the last five years.*

*The acquisition of these assets has led to a significant transformation of the company. The financial efforts associated with the operation were also an opportunity to restructure the Group's financial liabilities. As a result of the solid structure of our business and Red Eléctrica's credibility in all senses of the word, the bridging loan signed in 2002 was refinanced under excellent terms by means of two instruments: a 5-year syndicated loan that attracted great attention from all the main banks in Spain and a programme of bonds on the euromarket. The success of the bond issue can be gauged by the demand which was three times the amount issued. It was also reflected in the advantageous terms obtained by the company and it was seen as one of the most outstanding operations of the year. As a result of these actions, by the end of the year 70% of the debt had been placed at fixed rates, minimising the risk of future increases in interest rates.*



*Our excellent level of operational reliability and strong financial footing allowed us to finance these acquisitions entirely with debt while maintaining enviable credit ratings. This situation is an additional guarantee of our future and a value added to the constant improvement of recent years. At the beginning of February 2004, Standard & Poor's maintained their rating for Red Eléctrica and upgraded the long-term outlook.*

*In the coming years the efforts of our organisation will be focused on ensuring medium-term growth while maintaining the same level of investment in the transmission network and, in the short term, by integrating the new assets with the company's operating and management systems. Both approaches will ensure sustained improvement in the financial statements as a result of the synergy that will progressively emerge as we take advantage of the economies of scale and operational improvements in accordance with a plan that is already prepared and implemented.*

*The year closed with results that were even better than the positive trend in recent years. Profit after tax rose to 116 million euros – an increase of 15.9% over the previous year. Growth over the last five years has thus been 67.8%, an average annual increase of 11%.*

*Total cash flow for the year exceeded 320 million euros. This was 42% more than the previous year due to the larger asset base. This confirms the Group's capacity to finance its business and draws attention to its new dimensions.*

*For the second year running, investment in new transmission grid installations exceeded 200 million euros. In 2003 some 533 km of new circuits and 69 new circuit ends were put into service and the transmission capacity of the many lines was increased. Over the last five years more than 1,800 km of circuits and 230 circuit end positions have been put into service. These increases are much higher than those of any other European country and this level of activity is the best guarantee of the reliability of the electricity system.*

*These investments also mean solid growth in revenues from regulated activities. In 2004 it is expected that they will be 11% higher than in 2003.*

Last year revenues from system operation grew significantly to 33 million euros, compared to 6 million euros in 1999. This should be seen as highly positive because it represents an improvement commensurate with Red Eléctrica's plans as well as recognition of the quality of the service the company provides to the Spanish electricity system.

In 2003 demand for electricity increased by 6% on the Spanish mainland and by 9% in the non-mainland systems. This confirmed the strong growth trend that started in 1997 and new record highs were established for demand in both winter and summer. Our response under these conditions was a further guarantee of the safety of the mainland electricity system. This stands in contrast to the difficulties faced by various developed countries during the year. Probably they lack the forecasting capacity that we use to plan our operations in the areas of supply safety, investment and quality. In these fields Red Eléctrica is constantly working on internal adaptation and improvement and on technical standards, to meet the ever-increasing demands.

Another event of special importance last year was the public offer of 28% of the company's capital by Endesa, Iberdrola, Unión Fenosa and Hidroeléctrica del Cantábrico. The placement was carried out in a co-ordinated manner by the companies in question using an accelerated bookbuilding process on June 18th 2003. The operation generated extraordinary interest in the market and the offer was nearly eight times oversubscribed. The placement was closed at 11.00 euros per share and the price hardly suffered in the following weeks.

Our international business continues to generate results in line with the established plans in Bolivia and in Peru. Both companies are focusing their activities on quality and efficiency and this will ensure their results and their future in the medium term.

Red Eléctrica Telecomunicaciones is also developing in a satisfactory manner. Results in 2003 were better than expected and the operation is expected to break even in 2005. The possibility of new business based on high-quality basic infrastructure is becoming more tangible and this confirms the vision that led us to undertake this activity. During the year our flexible business strategy allowed us to adjust investment commensurate with real demand and optimise the company's revenues.

In addition the extraordinary general meeting of shareholders on July 17th approved changes to the company's articles of association incorporating the recommendations on corporate governance contained in recent legislation (Law 26/2003) and the Aldama Report. The meeting also approved a reduction in the number of directors to 11 and approved a new code for the Board.

These decisions highlight Red Eléctrica's commitment to responsibility and transparency as the main principles of its policy on corporate governance. This policy pays special attention to the demands of shareholders and of society in general. Our approach takes into account recent change of opinion regarding the governance of listed companies but it is also the result of the responsibility and anticipation which we have always accorded to these questions.

The year finished with the award of the Gold Seal of Business Excellence to Red Eléctrica by the European Foundation for Quality Management. With this, we are the first European electricity company to obtain successive certificates for its quality system (under the ISO 9001 standard), for environmental management (under ISO 14001), for prevention of occupational risks (in accordance with the OHSAS standard) and now this level of quality which has only been achieved by 26 companies in the whole of Europe. This underscores our authentic commitment to quality and to work well done.



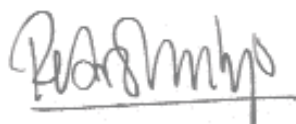
*Our medium-term strategy is focused on implementing the general lines defined five years ago, revising these in accordance with the business and regulatory environment. The principles concerned refer to excellence in providing responsible service to the electricity system; diversification of business activities as an additional source of value for shareholders; constant internal improvement and the recognition of people as the key to excellence and success.*

*This strategy of excellence that we have adopted, helps us to improve our net revenues and profit year after year and to achieve growing recognition in all areas. I sincerely believe that this strategy will continue to be the basis of the combination of growth and strength that we offer shareholders and society at large.*

*Over the years we have demonstrated that the traditional view of power grid operation as a mature activity with limited growth prospects can be overturned. This business can be transformed into a source of earnings and value, of prestige and corporate development. We have also demonstrated that leadership in quality is compatible with constant business improvement and with electricity costs that are among the lowest in the developed world.*

*Compliance with the strategic goals is a source of satisfaction for our shareholders. At the same time it is a source of professional satisfaction for our employees and a guarantee of reliability for users of the transmission grid and for society as a whole. In the final analysis it is society we serve. Each day we take another step towards a more efficient, stronger, more profitable and more widely-recognised company that is a leader in Europe and in the rest of the world.*

*None of this would be possible without the trust of our shareholders, the support of the Board of Directors and the daily efforts of the employees of all the companies that make up the Red Eléctrica Group. These efforts are the real keys to the success which we aspire to attain in the coming years.*



Pedro Mielgo Álvarez  
Chairman of RED ELÉCTRICA DE ESPAÑA



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# board of directors and senior management

## **Board of Directors at December 31st 2003**

### **Executive Chairman**

Pedro Mielgo Álvarez

### **Directors Representing Founders**

Juan Gurbindo Gutiérrez (SEPI)

Manuel Alves Torres (SEPI)

Elías Velasco García (Unión Eléctrica Fenosa)

Enrique Lacalle Coll (SEPI)

José Ignacio Sánchez Galán (Iberdrola)

### **Independent Directors**

Pedro Rivero Torre

Antonio Garamendi Lecanda

Joaquim Clotet i Garriga

José Riva Francos

José Manuel Serra Peris

### **Secretary (non-Board Member)**

Rafael García de Diego Barber

## **Senior Management**

### **Chairman**

Pedro Mielgo Álvarez

### **General Manager**

Victoriano Casajús Díaz



## **Prize for corporate excellence** · 24/01/03

Red Eléctrica obtained the 2002 Excellence Prize for the best business strategy, awarded by the magazine, *Dirigentes*. This award recognises the successful management of the company in maintaining its position among the strongest companies in Europe.

## **Outstanding Internet presence** · 11/02/03

Red Eléctrica's web site achieved second place in the ranking published by *Dinero* and *Look&Enter* for the web sites of companies in the Ibx 35 Index.

## **Acquisition of transmission assets** · 27/03/03

Red Eléctrica concluded the acquisition of the transmission assets of Endesa and Unión Fenosa that had been agreed in November 2002.

## **Refinancing the acquisition of TDE** · 30/05/03

Red Eléctrica Internacional signed long-term contracts to finance the acquisition of TDE (a Bolivian company) with the International Finance Corporation (a multilateral agency of the World Bank).

## **The Flexible Company Prize** · 17/06/03

Red Eléctrica's policy of reconciling work with family life obtained a runners-up prize in the 2nd Flexible Company Competition.

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## **Extraordinary General Meeting** · 17/07/03

*Red Eléctrica held its first Extraordinary General Meeting to approve the new Board of Directors and modifications to the bylaws and the rules for the General Shareholders' Meeting*

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## **The RedIRIS Project** · 17/06/03

Red Eléctrica Telecomunicaciones, the Ministry of Science and Technology and the Scientific Research Board jointly presented the new RedIRIS (Spanish academic and research network) that was developed and commissioned by the company.

## **Public offer of 28% of share capital** · 18/06/03

The electricity utility companies put 28% of Red Eléctrica's share capital up for sale. This reduced their individual holdings in the company from 10% to 3%. Demand was nearly more than eight times the shares available.

## **Additional interconnection with Morocco** · 31/07/03

Red Eléctrica de España and the Moroccan National Electricity Office signed an agreement for the installation of a second underwater interconnection cable between Spain and Morocco. Commissioning is expected to take place in December 2005. This project will double the present interconnection capacity to 800 MW.



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### Refinancing the asset purchase · 05/09/03

As part of a medium-term Eurobond programme, Red Eléctrica made its first issue of 800 million euros with a ten-year term through its subsidiary Red Eléctrica de España Finance B.V. On July 7th 2003 it also signed a syndicated loan of 700 million euros for five years.

### Agreement with the Catalan regional government · 25/09/03

The regional government of Catalonia and Red Eléctrica agreed an investment programme for improvement of the Catalan electricity network for the three-year term, 2004-2006.

### Agreement with Libya · 26/09/03

Red Eléctrica Internacional and Gecol (the Libyan electricity corporation) signed a three-year co-operation agreement to improve and develop the Libyan transmission system.

### 4th Conference on the Environment · 02/10/03

Red Eléctrica organised the 4th Conference on Power Lines and the Environment. It discussed environmental aspects related to transmission and distribution of electrical energy.



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### Operation of the non-mainland electricity systems · 19/12/03

*Red Eléctrica takes over responsibility for operating the non-mainland electricity systems under Royal Decree 1747 of December 19th 2003 on regulation of the electricity systems in these territories*

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### Agreement with Iberdrola and Inalta · 18/12/03

Red Eléctrica, Iberdrola and Inalta reached an agreement on development of the transmission grid in areas where the growth in power demand is greatest.

### Gold Seal of Excellence · 30/12/03

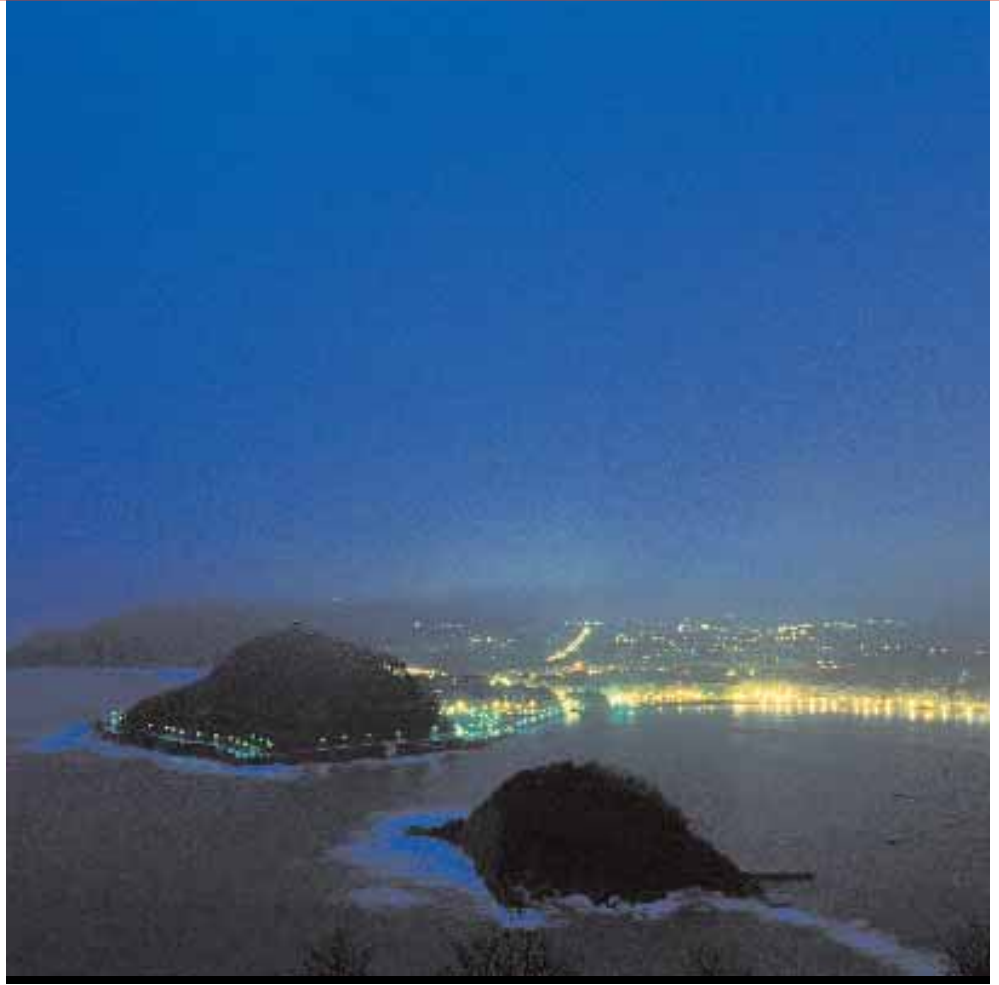
The Quality Management Club awarded Red Eléctrica the Gold Seal of Business Excellence, in line with the European Model of Excellence, organised by the European Foundation for Quality Management (EFQM).



### Best environment report · 30/12/03

Red Eléctrica's environment report obtained a prize for the best environment and sustainability information by Spanish companies. This prize was awarded by the Spanish Institute of Auditors and the Spanish Accounting and Business Administration Association.





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at the **s**ervice  
of **s**ociety

*Our main duty to society is to ensure excellent operation  
of the electricity system*



# Operation of the mainland electricity system



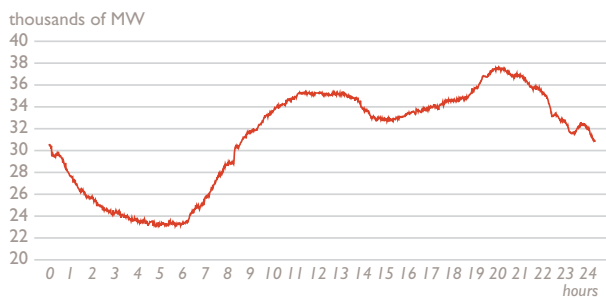
Operation of the system acquires particular relevance in a deregulated sector such as the one that exists in Spain since 1998. In ensuring the overall performance of the electricity system Red Eléctrica operates the electricity grid and co-ordinates its use with the production facilities so that the continuity and safety of the power supply is guaranteed at all times.

Starting with the results of the daily and intra-day market sessions, Red Eléctrica is responsible for resolving any technical constraints so that the schedules actually followed by generators result in a viable and safe situation.

In 2003 the permanent commitment to improving safety resulted in proposals for revising a good number of operating procedures. It also gave rise to other proposals for new procedures related to voltage control on the transmission network, quality and continuity of supply, measurements, development and access to the grid, etc. In addition, a co-ordinated operating procedure was drawn up for the electricity and gas distribution systems during alert situations.

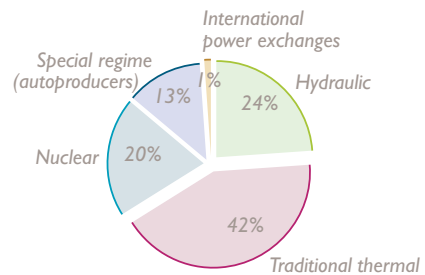
## Load curve on peak day

February 18th 2003



## Coverage of peak demand

February 18th 2003 (19-20 h)



*Red Eléctrica managed the record highs in power demand in a totally reliable and safe manner*

## Key indicators for the mainland system

In 2003 the electricity system was noted for the high rate of growth in the demand for electricity. New records were established for the average hourly power and daily energy. From the hydroelectric point of view the year was wet with the exception of the summer months when the energy capability of hydroelectric facilities was less than the usual figure for this period. Power produced under the special regime continued to grow progressively.



In terms of total installed generation resources, this year one hydroelectric power station and three combined-cycle power plants entered service under the ordinary regime. This added 1,671 MW of installed power. At the same time 564 MW of oil-fired stations were closed down.

## Demand

Annual demand for electrical energy grew by 6.2% over the previous year reaching 224,208 GWh. After adjustments for employment factors and temperature, demand in 2003 grew by 4.8%. Demand for electrical energy – in terms of monthly, daily and hourly figures – exceeded their respective record levels. In January monthly demand reached 20,134 GWh. February 19th was the day of maximum demand with 753 GWh. The maximum demand for average hourly power was recorded on February 18th with 37,212 MW.

Records for average hourly power and daily energy demand were also broken in summer. In June the figures were 34,538 MW and 708 GWh, respectively.

## Generation

Gross generation by producers in the ordinary regime grew by 5.3% compared to the previous year, reaching 195,922 GWh. The breakdown of generation was quite different to 2002. This was because the available hydraulic energy was much greater than in 2002, due to high precipitation in October 2002 and January 2003.



*New records set for power demand in winter and summer*

## International power exchanges

	IMPORT		EXPORT		BALANCE		CHANGE (%)
	2002	2003	2002	2003	2002	2003	
FRANCIA	8,806	6,903	24	1,176	8,782	5,727	-35
PORTUGAL	719	1,633	2,595	4,433	-1,877	-2,800	49
ANDORRA	0	0	290	271	-290	-271	-7
MARRUECOS	73	11	1,388	1,467	-1,315	-1,456	11
<b>TOTAL</b>	<b>9,598</b>	<b>8,547</b>	<b>4,298</b>	<b>7,347</b>	<b>5,300</b>	<b>1,200</b>	<b>-77</b>

Hydroelectric power stations produced 38,773 GWh, which was 72.1% more than the previous year. As a result of the greater hydrological resources, coal and oil-burning power stations reduced their output by 8.3% and 56.6% compared to 2002 and generated 72,249 GWh and 4,343 GWh, respectively.

Gas-fired power plants increased their output by 58.6% to 18,683 GWh while nuclear power stations produced 61,875 GWh (a drop of 1.8%).



### Markets associated with operations

The purpose of these markets is to adapt the production schedules from the daily and intra-day markets to meet the quality and safety requirements. They include the resolution of technical constraints, assignment of ancillary services and management of deviations.

The volume of energy traded by Red Eléctrica in the operation markets came to 12,718 GWh. This was 6.2% of the total energy acquired in the production market and it was 20% higher than in 2002.

Attention is drawn to the increase in energy programmed for resolving technical constraints beyond the base operating programme. This came to 4,409 GWh which was 83.1% greater than in 2001. At the same time energy programmed for constraints in real time fell by 30%.

*Red Eléctrica guarantees a constant balance between the generation and consumption of electrical energy through its management of the operation markets*

Energy associated with ancillary services for secondary and tertiary control and scheduled energy for emergency situations, came to 6,291 MWh. This was 0.4% less than the previous year. Of this amount, 1,967 MWh was for secondary control and



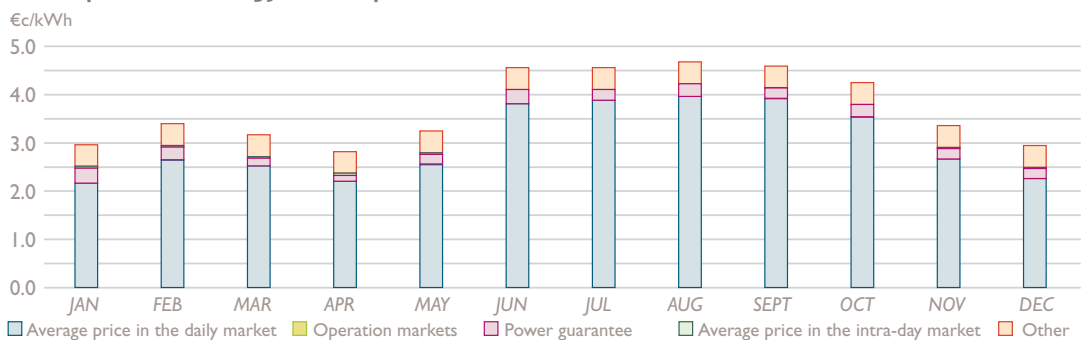
3,648 MWh was energy assigned for tertiary control. Average assigned power in the control band was 1,191 MW and the average price was 1.596 €cents/kWh.

Red Eléctrica guarantees coverage of demand by managing deviations to prevent an imbalance between generation and consumption. In 2003 these activities accounted for 2,018 GWh which resulted in a total cost for the system of 23 million euros.

The repercussion of the processes managed by Red Eléctrica on the price in the production market was 0.230 €cents/kWh. Of this amount, 0.055 €cents/kWh corresponds to energy for secondary, tertiary, emergency and deviations, 0.097 €cents/kWh is related to technical constraints and 0.078 €cents/kWh to the allocation of the secondary control band.



### Final price of energy in the production market



These figures must be increased by 0.452 €cents/kWh to cover the power guarantee which, together with the repercussion of the intra-day market (practically zero in 2003) and the repercussion of the excess / deficit associated with international contracts (0.018 €cents/kWh), determines the final price of energy in the production market at 3.726 €cents/kWh.

### Operation of the non-mainland electricity systems

The Electricity Sector Act (Law 54/1997) heralded the start of deregulation of the electricity supply in Spain. However the specific characteristics of the non-mainland systems meant that the act would consider the activities related to the electricity supply in these territories would be object of special regulation.

These reservations mainly affected the production market and the bidding system established on the Spanish mainland. In view of the particular conditions in these territories, these concepts had no place. Thus Royal Decree 1747 of December 19th 2003, which regulated the non-mainland electricity systems, established special conditions for activities associated with the electricity supply and specifically for cost-

*Royal Decree 1747/2003 appointed Red Eléctrica as the operator of non-mainland electricity systems*



*New offices and electricity control centres on the islands*

effective despatching of generation. This was to be the responsibility of Red Eléctrica de España as the system operator in those territories.

On July 1st 2004 Red Eléctrica will become fully responsible for operation of the electricity systems on the Canary Islands, the Balearic Islands and in Ceuta and Melilla – as established by Royal Decree 1747/2003.

In order to perform these functions it has developed the necessary tools and, in co-operation with the central and regional governments concerned, proposals are being drawn up for appropriate regulations and operating procedures. Offices and control centres are planned for the Canary Islands (Las Palmas and Santa Cruz de Tenerife) and in the Balearic Islands (Palma de Mallorca). In view of the particular conditions more limited facilities are planned for Ceuta and Melilla.

At the present time offices, communications and information and management systems are being prepared in the Canary and Balearic Islands. The first phase of hiring of local personnel has been completed and these people are currently undergoing intensive training at the head office.

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*Red Eléctrica extends its activities to cover operation of non-mainland electricity systems*

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# Management of the mainland transmission

## Development of the transmission grid

In 1999 Red Eléctrica started on an important investment programme. This has culminated this year with a new record level of investment in the transmission grid of 215 million euros. During 2003, 533 km of power lines and 69 new circuit ends were commissioned. In addition transformer capacity was increased by 4,650 MVA.

This solid investment programme, putting 1,800 km of power lines into service in five years, underlines the key role played by Red Eléctrica in the Spanish electricity system, which it has provided with an interconnected network that guarantees the safety and quality of service.

## Planning for the transmission grid

The various studies and activities that Red Eléctrica is constantly carrying out related to the planning of the transmission grid and the handling of grid access requests from new agents, include the following items.



*Record investment in the transmission grid:  
215 million euros in 2003*

## Review of grid planning

The grid planning review was triggered by a publication of the Ministry of Economy in October 2002, titled "Gas and electricity sector planning - development of the transmission grid 2002-2011". It includes a restatement of priorities, of the definition of installations and a fresh look at criteria and methodology.

A new methodology was chosen consistent with the use of multiple scenarios weighted according to the variations that might occur in the uncertainties being considered.

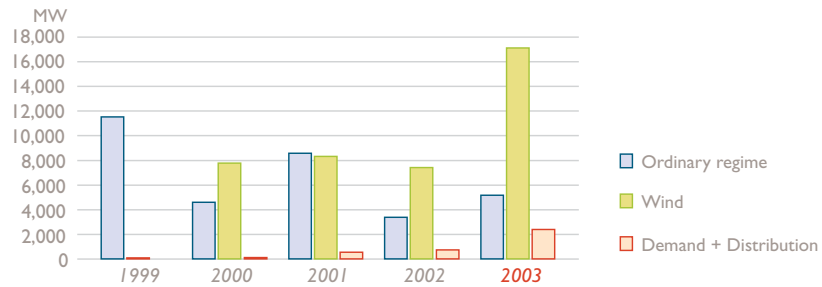
The goal of the multi-scenario approach is to expose the planning risks by considering the uncertainty of the forecasts instead of devising a "least favourable case" that covers all negative circumstances.

*A new grid planning methodology based on multiple scenario probability studies*

## Grid access

During 2003 Red Eléctrica continued to handle and respond swiftly to all requests for connection to the transmission grid coming from the various agents in the mainland electricity system.

### Requests answered for access to the transmission grid



The graph shows the requests for access to the transmission grid processed by Red Eléctrica from 1999 to 2003, broken down into access by generation under the ordinary regime (mainly combined cycle natural gas), wind generation and consumer access – whether associated with market trading or at tariff rates via distribution.

### Studies to reinforce international interconnections

Red Eléctrica and Réseau de Transport d'Électricité have jointly revised the studies for development of the Spain-France interconnection. They have defined the necessary medium and long-term action to increase the capacity of the interconnection between the Iberian Peninsular and the rest of the European system. These improvements will help to increase the capacity of the interconnection bringing it progressively up to 8% - 10% of internal demand.

Red Eléctrica also developed a plan with Rede Electrica Nacional to increase the capacity of the Spain-Portugal interconnection. This plan extends to 2006.

In regard to the interconnection with Morocco, Red Eléctrica and the Office National d'Électricité have signed an agreement to construct a second underwater cable between Spain and Morocco. This is expected to be commissioned in December 2005. The project will double the capacity of the present interconnection to 800 MW.

*Increasing the international interconnections is one of the main goals in grid development*

### Forecasts of mainland power demand and coverage

Red Eléctrica is constantly making forecasts of mainland power demand and its coverage.

The forecasts of mainland power demand for the period 2003 – 2012 include the volume of energy and the summer and winter hourly peaks for the medium and long term. Detailed monthly demand forecasts have been prepared for the first two years, breaking down the estimate into the three basic components. These are employment factors, temperature and economic activity.

### Transmission grid facilities owned by Red Eléctrica

	2001	2002	2003
KILOMETRES OF CIRCUIT	19,240	27,005	27,538
400 kV	14,838	15,745	16,270
220 kV and minor	4,402	11,260	11,268
NUMBER OF CIRCUITS ENDS	717	1,730	1,799
400 kV	521	639	684
220 kV and minor	196	1,091	1,115
TRANSFORMERS (MVA)	20,276	26,966	31,616



In addition, the mainland power demand coverage forecast for 2003 – 2012 shows the results for the balance for energy and power in different system situations. This analysis considers various scenarios based on different hypotheses for demand growth and for incorporation of new generation equipment (whether ordinary or special regime) together with different hypotheses related to changes in fuel prices and in hydrological resources.

*The high rate of construction of transmission installations in recent years was maintained*

### Construction of new facilities

Construction activity for installations in 2003 is shown below, arranged by area:

#### Northern region

Work continues on design and construction of the main north trunk. This will increase transmission and transfer 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-French Frontier high-speed train and for a new interconnection between France and Spain. It will also transfer power from the wind farms along the route.

#### Central region

Work continues on definition of the trunk line to transfer energy from the regions of Galicia, Castile and Leon, and Madrid.





### Galicia

Engineering work is underway on the trunk line which will transfer electricity to Asturias and on the lines between this trunk and the central area of the mainland.

### Extremadura

Work on approvals for construction of the new Spain-Portugal interconnection between the Balboa and Alqueva substations is in progress.

### Andalucia

Transmission grid facilities are under construction for transferring power from the combined-cycle plants in Cadiz and from the new wind farms at Tarifa.

## New installations in service

### New 400 kV power lines

	<i>km of circuit</i>
TRILLO-LOECHES REVERSIBLE LINE AT FUENTES DE LA ALCARRIA	60
PINAR-TARIFA (STRAITS) (2 <sup>ND</sup> C)	28.6
PINAR-ESTRECHO LINE AT PUERTO DE LA CRUZ	14.4
MUDARRA-ESCATRÓN REVERSIBLE LINE AT ALMAZAN	0.4
LITORAL-ROCAMORA (2 <sup>ND</sup> C)	185.1
ESCOMBRERAS-ROCAMORA REVERSIBLE LINE AT N. ESCOMBRERAS	0.8
VALDECABALLEROS-GUADAME (2 <sup>ND</sup> C)	186.2
CARTELLE-LINDOSO (2 <sup>ND</sup> C)	47.1
HERRERA-GÜEÑES REVERSIBLE LINE AT VIRTUS	1.4
D. RODRIGO-PINAR REVERSIBLE LINE AT ARCOS DE LA FR.	1.1
<b>TOTAL</b>	<b>525.1</b>

### New 220 kV power lines

	<i>km of circuit</i>
MUDARRA-LA OLMA (UNDERGROUND)	2.7
MUDARRA-LA OLMA	0.8
FUENCARRAL-S.CHINARRO (ACQUIRED FROM IBERDROLA)	4.3
<b>TOTAL</b>	<b>7.8</b>

### Increased capacity

	<i>MVA</i>
221 km OF 400 kV LINES	1,724
110 km OF 220 kV LINES	184

### Levante

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



## The transmission assets integration project

This project covers all the activities and necessary tasks to take over control of the new transmission assets acquired from the utility companies. Initial tasks were carried out in 2003. These include the following:

- Survey and inspection of installations.
- Start of engineering work for telecontrol adaptation.
- Launch of the document management project.
- Specification and purchase of the new control system.
- Start of adaptation work at the control buildings.
- Specification and launch of telecommunication and maintenance plans.
- Final integration of 34 acquired line ends in the Red Eléctrica telecontrol system.



## Renewal and improvement programme

Renovation and improvement work carried out on installations in 2003 included the following:

- High voltage equipment at 19 substations has been replaced including work at Mudarra, Herrera, La Robla and Norte (Madrid). Ancillary services installations at 24 facilities have been adapted and renewed. These include Bienvenida, Guillena and Monzón.
- Protections and/or teleprotections were installed or improved at 18 locations including work at Aldeadávila, Ascó and Saucelle.



### New circuit ends

Substation	400 kV	220 kV
GALAPAGAR	1	-
CARTELLE	2	3
MAGALLÓN	1	-
VIRTUS	5	-
GURREA	-	4
ARCOS DE LA FRONTERA	16	-
ALMAZÁN	6	-
PUERTO DE LA CRUZ	8	-
GUADAME	2	-
LA ELIANA	1	-
MONTEARENAS	-	1
FUENCARRAL	2	1
RUEDA DE JALÓN	1	-
PURCHASED FROM IBERDROLA	-	15
<b>TOTAL</b>	<b>45</b>	<b>24</b>

### New transformers

Substation	MVA
MURUARTE	600
PENAGOS	600
ESCOMBRERAS	450
FUENDETODOS	600
CARTELLE	600
BEGUES	600
FUENCARRAL	600
PALOS	600
<b>TOTAL</b>	<b>4,650</b>

## Power lines under construction [31-12-2003]

400 kV	km of circuit
PAMPLONA-MAGALLÓN TRUNK	120
NORTH TO EAST TRUNK	150
INTERNATIONAL CONNECTIONS	180
NORTH TO WEST TRUNK	60
WIND FARM CONNECTIONS	60
LEVANTE TRUNK	79
MURCIA MAIN SUPPLY	100
COMBINED-CYCLE CONNECTION	255
<b>TOTAL</b>	<b>1,004</b>

### 220 kV

PAMPLONA RING	31
CAPACITY INCREASE	62
MUDARRA-LA OLMA	24
<b>TOTAL</b>	<b>117</b>
CAPACITY INCREASE	160

## Substations under construction [31-12-2003]

400 kV	CIRCUIT ENDS		TRANSFORMER
	TRANSMISSION	ACCESS	
PAMPLONA-MAGALLÓN TRUNK	10	-	600 MVA
NORTH TO EAST TRUNK	6	-	
INTERNATIONAL CONNECTIONS	7	-	600 MVA
WIND FARM CONNECTIONS	10	3	
LEVANTE TRUNK	6	3	600 MVA
MURCIA MAIN SUPPLY	12	6	
COMBINED-CYCLE CONNECTION	10	8	600 MVA
<b>TOTAL</b>	<b>61</b>	<b>20</b>	

### 220 kV

MISC SUBSTATIONS	5	4
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## Maintenance of facilities

### Power Lines

All planned inspections were carried out in 2003 on both Red Eléctrica's original assets and those recently acquired. Apart from traditional inspections on foot, DVD recordings were made using helicopters as the means of supervision.

In addition 84,000 m<sup>2</sup> of structures were protected against corrosion. During the year important amounts of work were carried out on trimming trees and clearing the ground under power lines (totalling 6,000,000 m<sup>2</sup> of treatment).

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*The excellent levels of service quality and grid availability rank highly in international surveys*

## Substations

The power transformer and reactor maintenance plan was continued using discrete and continuous measurement techniques (monitorisation). The former technique included more than 404 analyses of oil, 32 insulation measurements (power factor) and status analyses of windings on 31 power machines (transformers and reactors).

With regard to measurement transformers, the maintenance plan included the use of partial discharge measurement techniques at 222 current transformers, precision verification measurements at 170 voltage transformers (capacitor type), oil analysis at 80 current transformers and thermal imaging on all installed measurement transformers.

Tele-diagnosis of high-voltage circuit breakers continued in order to maximise maintenance cycles. This has helped to reduce outages due to circuit breaker maintenance. In 2003 more than 558 measurements were taken to evaluate the status of 170 circuit breakers. In addition, more than 235 circuit breaker measurements have been received and analysed during certification or acceptance of circuit breakers at suppliers' factories.

In regard to protection systems, inspections of measurement equipment installed on interconnections were carried out in accordance with the measurement point regulations. The transmission grid protection equipment and other systems functioned



correctly. Overall, the efficiency index for protections in regard to their function of eliminating defects and disturbances in the transmission grid was 97.92%.

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

*Optimum level of efficiency of protection and telecontrol equipment*

### Performance of the Red Eléctrica transmission grid

During the year the indicators of service quality and network availability were highly satisfactory in terms of safety and continuity of supply.



The use of live maintenance techniques and predictive maintenance together with excellent maintenance work co-ordination, meant that in 2003 the transmission grid – including the recently acquired assets – maintained a high level of availability, reaching 98.04% (97.54% in 2002).

The average outage time in 2003 was 51 seconds. This figure is significantly lower than the one for the entire transmission grid in recent years: 2.006 minutes in 2002, 17.868 minutes in 2001 and 2.107 minutes in 2000. This index reflects the efficient grid management carried out by the company.

*The average outage time in 2003 was 51 seconds*



## Telecommunications business



In 2003 Red Eléctrica Telecomunicaciones, which operates under the **albura** trademark, focused its efforts on meeting its targets in a market affected by extensive adjustment and consolidation. The company centred its activities on strengthening its corporate positioning and on improving its image with customers, operators, suppliers and the government.

Red Eléctrica Telecomunicaciones closed the year as one of the main neutral telecommunication operators in the transmission and capacity business. It consolidated its proprietary transmission network which currently has 13,000 km of optic fibre. Furthermore, it has optimised and strengthened the structure of its network (DWDM/SDH) and this helped it to become a market leader among the main Spanish fibre optic networks.

*Red Eléctrica Telecomunicaciones strengthened its positioning in the broadband services business*

*A network of 13,000 km of optic fibre that reaches 75% of the population and 90% of business centres*



The company has increased its presence in the provision of broadband services and become one of the main references in ADSL for wholesalers at national level. Its customers are some of the leading European ISPs.

Red Eléctrica Telecomunicaciones also focused on the telecommunications market for the public sector and pursued all tender opportunities in this business area. New after-sales and customer services were also successfully implemented and important projects were carried out associated with the information society. Attention is drawn to the following activities in this field:

- **The RedIRIS Project.** In June the Ministry of Science and Technology, the Scientific Research Board and Red Eléctrica Telecomunicaciones jointly presented the new RedIRIS (Spanish academic and research network). Thanks to this project the scientific and university community has improved the exchange of data, network response times, quality and service reliability.
- **The RuralNet Project.** Red Eléctrica Telecomunicaciones has brought broadband to the Pyrenees area of Catalonia using its optic communication network with the technical help of the Consell de l'Alta Ribagorça in Lerida. This project has helped to overcome the digital gap in isolated, rural and mountain areas in Spain.



*86 new contracts with large operators*

In addition, the company has improved communications with customers, suppliers and the media by further developing its web site ([www.albura.com](http://www.albura.com)) and creating a virtual press room ([gabinetedeprensa@albura.com](mailto:gabinetedeprensa@albura.com)) that can provide information on its products, services and corporate activities.

It was also present at the ITU TELECOM WORLD 2003 exhibition in Geneva. This is the most important world event in the telecommunications sector. It was attended by 19 Spanish companies and institutions to promote and raise awareness of their corporate images.

With regard to commercial activities in 2003, 86 new contracts with a value of more than 7.4 million euros were signed. These included various broadband supply service contracts for important amounts signed with large operators.

*Leader in ADSL services for wholesalers at national level*

*10.8 million euros in investment and deployment of equipment and the fibre optic network*



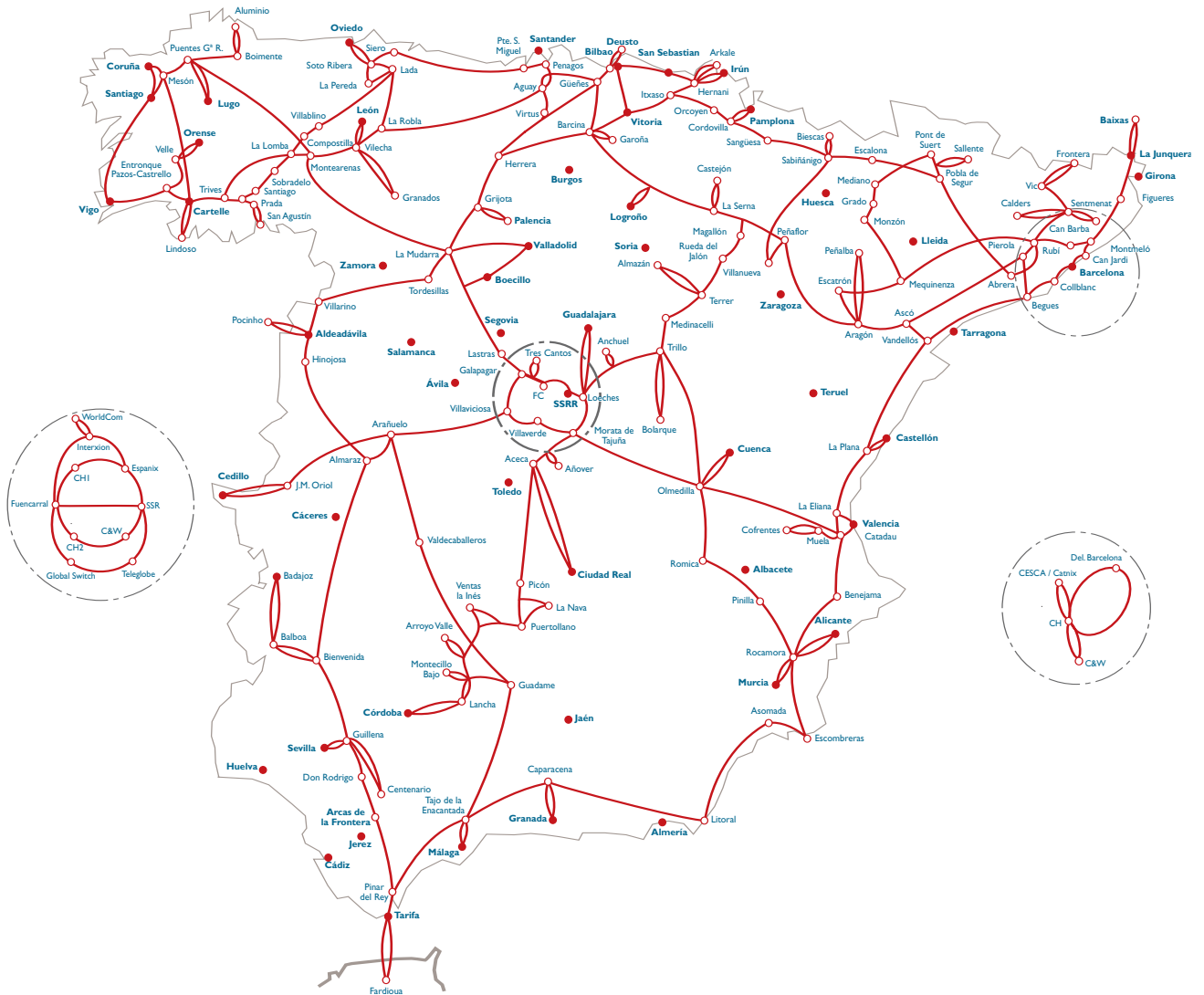
## Investments

The company's investment plan was adapted to business requirements and to the sales forecasts in its business plan. In 2003 investment came to 10.8 million euros of which 1.7 million euros was earmarked for the acquisition of optic fibre under long-term licence agreements.

Other investment spending was basically as follows:

- Continued deployment of DWDM and SDH equipment for transmission services and capacity.
- Development of the ATM/IP data network to provide traffic multiplexing services for ADSL lines for wholesalers.

## Red Eléctrica Telecomunicaciones' fibre-optic map (31-12-2003)



# International Business

The experience of Red Eléctrica in the operation and development of electricity networks provides a solid base for successfully tackling the two main opportunities in external markets: investment in transmission systems and the provision of technical and business guidance. The basic criteria applied to the Group's international investment activities are profitability and risk control.

## *Bolivia and Peru continue to be Red Eléctrica's principal international achievements*

### **Investment in transmission infrastructure**

Through its subsidiary, Transportadora de Electricidad S.A. (TDE), Red Eléctrica Internacional focused its activities in 2003 on developing the Bolivian transmission network.

TDE was acquired by Red Eléctrica in June 2002 and it has obtained a series of temporary licences from the Bolivian regulator to invest in the national interconnected system. Two of these projects are related to the increase in transformer capacity at the Valle Hermoso substation and the increase in voltage on the Vinto-Kenko power line. Both projects will strengthen the transmission grid and increase the reliability of supply to important cities such as Cochabamba, Oruro and La Paz.

TDE has presented other projects that, at the end of 2003, were in an advanced stage of consideration. They may entail additional investment of more than \$50 million and include the following: implementation of a new SCADA system, the interconnection between Tarija and the national system, and the transmission line between the cities of Carrasco and Cochabamba.

Red Eléctrica Internacional closed the financing process for the acquisition of TDE in May 2003. Finance agreements were signed with the International Finance Corporation, a multilateral agency belonging to the World Bank Group that guarantees long-term finance in a context of very low interest rates.



*New investment projects for the Bolivian transmission network*

*International investment is focused on projects where the company can contribute its capacity and experience in the management of electricity networks*

### *REDESUR pays dividend*

Red Eléctrica Internacional holds a 30% stake in the Peruvian company, Red Eléctrica del Sur S.A. (REDESUR). This company has performed positively during the year, exceeding the targets in its business plan and in line with its performance in recent years. In December 2003 REDESUR paid its first dividend of \$1.5 million to shareholders.

## *The business lines in the international area are investment in transmission assets and consulting services*

### **Consulting Services**

Consulting services are an activity of strategic interest for Red Eléctrica Internacional. It consolidates and extends the presence and international image of Red Eléctrica and also provides experience and knowledge of the environment with regard to investment opportunities.

### *Framework agreements signed with ONE and GECOL*

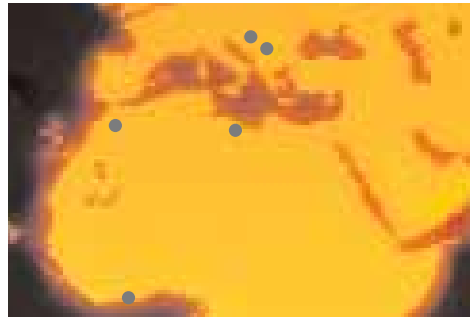
In 2003 Red Eléctrica Internacional launched an international consulting development campaign to sponsor this activity. The plan considers the possibility of an additional qualified and competitive team.

In this regard co-operative framework agreements have been signed with ONE (Morocco) and GECOL (Libya). These agreements establish the conditions to facilitate construction and future development of the projects of interest to both customers.





In connection with the agreement signed with GECOL, Red Eléctrica Internacional was awarded a contract for "dynamic studies and calculation of critical times". The goal is to determine the maximum allowable time for eliminating a short circuit at each node of the network.



In 2003, the following consulting and technical assistance projects were concluded:

- **Nigeria: the Change Management for the Transmission Development Project.**

The goal of this project was to identify, justify and plan the action required to establish a new transmission and system operation company (TranSysCo). This will be split off from NEPA (National Electric Power Authority) as an initial step in reform of the Nigerian electricity sector. The project was promoted and financed by the World Bank.

- **Slovakia: a review of the Krizovany substation rehabilitation project.**

The European Bank for Reconstruction and Development awarded Red Eléctrica Internacional a contract for due diligence on the Krizovany substation adaptation project as a result of the closure of the Bohunice nuclear power station.

*The consulting services and technical assistance have been certified in accordance with the ISO 9001:2000 standard*

At the end of 2003 the principal projects in progress were as follows:

- **Serbia and Montenegro**

- A SCADA/AGC system with an ICCC communications protocol.

- **Morocco**

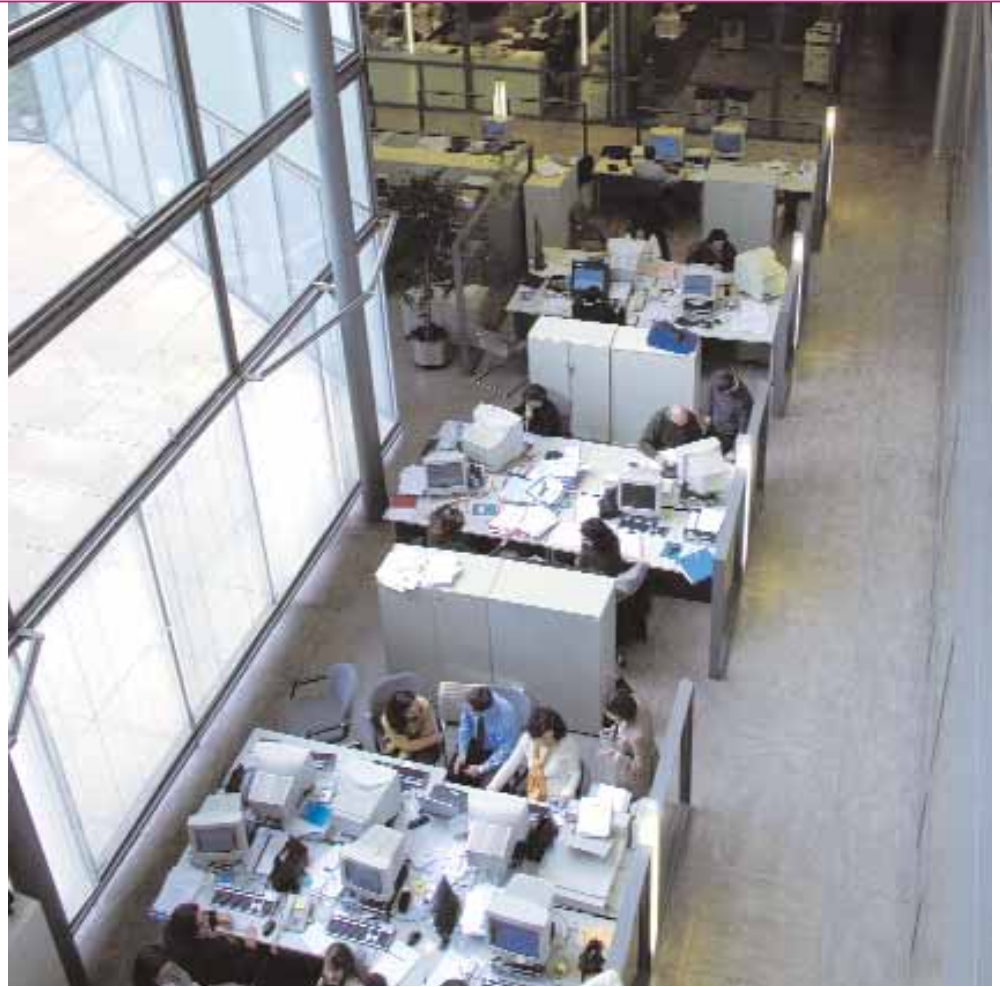
- Design of standardised 60 kV pylons (2002-2003).
- Regional telecontrol system for the distribution network.

- **Libya**

- Initial studies for extending the UCTE synchronised zone to North Africa.
- Defence plan for the power line that connects the eastern and western systems of this country.

During 2003 implementation was completed of a system to ensure the quality of the consulting and technical assistance services under the ISO 9001:2000 standard. This system has been certified by AENOR.





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# our people

*Management excellence, an increase in skills and an attractive working environment are the main lines of the human resources strategic plan*



*New jobs: 124 people in 2003*

*The number of Group employees in 2003 rose to 1,280*

*Greater role of personnel in handling new challenges*

### **New employees for new activities**

The increase in Red Eléctrica's workforce in 2003 made this the year of greatest activity in human resources in recent years. With the addition of 124 new employees, the company has – in a timely fashion – commenced the process of adaptation to the new requirements arising from the purchase of transmission assets and operation of the non-mainland electricity systems.

At the same time the organisation was adjusted accordingly. New units were created and others were restructured. Important efforts were made in recruiting, selection and training of new personnel. The 21,000 applications processed and more than 56,000 hours of training reflect the intense activity in this area.

### **New strategy for important challenges**

A new human resources strategic plan was started in 2003. The important strategic challenges require greater involvement by the people who work in the Red Eléctrica Group. This means that each person must make a commitment to fulfil his or her functions, with defined goals and values, and with career development.

This approach is the cornerstone of the new human resources strategic plan that entails three main lines of action: management excellence, an increase in skills and an attractive working environment.

*Red Eléctrica's leadership is based on the high level of qualification of its professional staff*



## Management excellence

Excellence in man management and continuous processes of improvement once more helped to increase efficiency and contain personnel costs in global and unit terms. In 2003 the cash flow per employee increased by 34% over the previous year.

From the point of view of operational efficiency, the number of circuit ends operated per employee doubled and the number of network kilometres managed per person increased by 33%, from 21.4 km to 28.5 km per employee. This figure puts us among the top European transmission companies.

Operational excellence helped to facilitate the incorporation of the new transmission assets and the non-mainland electricity systems. This means that activity over five years at Red Eléctrica will double while the workforce will increase by around 20%.

## Increase in skills

The addition of a large number of new staff and the constant process of transformation at Red Eléctrica arising from a changing environment and the implementation of the company's strategic plan, require appropriate management. This management is based on two lines of approach: internal transfer of knowledge and skills management.

*Increasing efficiency:  
34% increase in cash flow  
per employee*



## Knowledge transfer

Red Eléctrica's leadership as the operator of the electricity system and manager of the transmission grid is based on solid knowledge of these activities. Thus internal training forms part of the company's strategic processes.

The keys to Red Eléctrica's success in this field can be attributed to the perception of knowledge transfer as the responsibility of all company staff. The success is also due to a tested methodology and use of the latest technology.

*Priority is given to reinforcing  
and retaining skills*

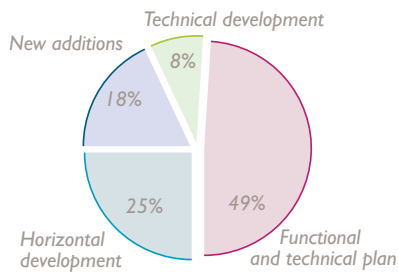
*Intense activity at the operator school*

During 2003 there was a significant increase in the level of activity at the operator school. More than 40 new operators were hired for control centres on the mainland and on the islands.

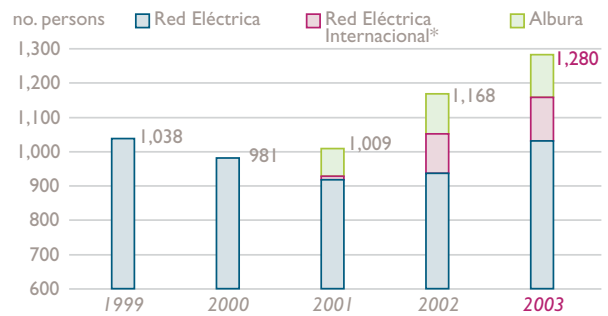
Skills management

The skills management model facilitated the preparation of a precise and objective inventory of the requirements of each job and identified the technical know-how and ability that the company requires. This was then used to define the specific training that employees require.

Development and training plans (hours)



Changes in the Red Eléctrica Group workforce



\* Includes TDE (Bolivia)

*88% of new executives are appointed through internal promotion*

The executive and technical career development plans based on this model are increasing the level of qualification of Red Eléctrica's staff and involving them in the corporate strategy. The results are already beginning to be seen. Some 88% of those joining the management team have come through internal promotion while the unsolicited external turnover was 0.32% in 2003.



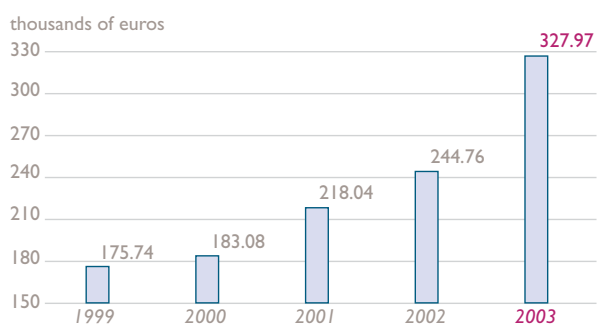
## Attractive working environment

Fluid employee relations and a more attractive working environment were indispensable factors in implementing the human resources strategy. They have a significant effect on employees' commitment.

A major event during the year was the signing of the 8th collective wage agreement which will help us tackle the important challenges in the years ahead with a stable employment scenario up to the end of 2006. An increase in flexibility and an increase in management's organisational ability, together with a more equitable remuneration scheme, are some of the more relevant aspects of this new environment for employee relations.

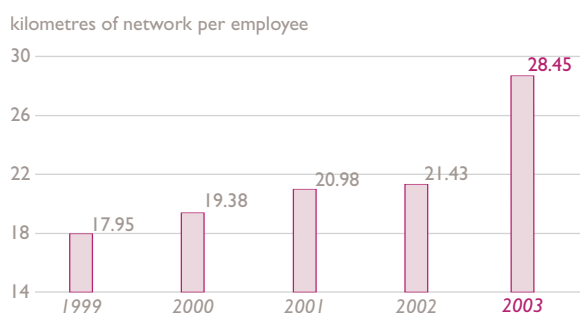
*The 8th collective wage agreement will provide a stable employment scenario up to the end of 2006*

## Cash flow per employee\*



\* Of the Red Eléctrica workforce

## Operating efficiency\*



\* Of the Red Eléctrica workforce

## Training of personnel\*

	2001	2002	2003
TRAINING HOURS	34,400	44,184	56,124
TRAINING HOURS PER EMPLOYEE	37	48	58
COST OVER TOTAL PERSONNEL EXPENSE	3.3	3.4	5.1

## Prevention of occupational risk\*

	2001	2002	2003
EMPLOYEE ACCIDENT FREQUENCY RATE	6.88	6.95	3.64
EMPLOYEE ACCIDENT SEVERITY	0.18	0.17	0.07
CONTRACTORS' ACCIDENT SEVERITY RATE	6.78	1.63	0.81

\* Figures of Red Eléctrica de España



At the same time, during 2003 the working environment has been notably improved. This refers to ergonomics – with the renewal and improvement of installations and workstations. Steps were also taken to reconcile work with private life. Progress in this field was recognised when Red Eléctrica received a runners-up prize in 2003 for its family-oriented policies in the 2nd Flexible Company Competition.

*Flexible company runners-up prize for reconciling private and professional activities*





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# e n v i r o n m e n t a l c o m m i t m e n t

*Our goal is to become one of the companies  
that best integrate protection of the environment  
with business activities*



*Prize for the Best Environment and Sustainability Information among Spanish companies*

**Environmental activities**

The company’s 2003 environment report obtained a prize for the best environment and sustainability information among Spanish companies. This was awarded under the best environment report category by the Spanish Institute of Auditors and the Spanish Accounting and Business Administration Association (2nd edition) for the high quality of its content and the criteria used in its preparation. As this year’s winner, Red Eléctrica entered for the European Sustainability Information Prize in which 16 countries are participating.

The award confirmed Red Eléctrica’s commitment to inform society in a clear and transparent manner regarding its activities related to the environment. It also reflects our efforts in becoming one of the companies that best integrate environmental protection with business activity.

**Positive environmental impact declarations**

**Power Lines**

MURUARTE-CASTEJÓN

NUEVA ESCOMBRERAS- ROCAMORA

PALOS-GUILLENA

**Substations**

MURUARTE

MORELLA

**Environmental impact assessment decisions**

**Substations**

FUENDETODOS

OLMEDO

SANTA ENGRACIA

SEGOVIA

**Environmental impact studies**

**Completed**

1 UNDERGROUND CABLE

5 LÍNES 22 LINES

4 SUBSTATIONS

**In progress**

1 UNDERGROUND CABLE

1 SUBSTATION

2 SUBSTATIONS

**Started**

3 LINES

*Environmental impact studies for all new installations*

**Design and construction of new facilities**

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

From 2003 onwards and at Red Eléctrica’s request, the Ministry of the Environment subjects our new substation projects to environmental assessment. This is done to



determine whether or not it is necessary to submit the substation in question to the official environmental impact assessment procedure.

## Research projects and environmental studies

During 2003 Red Eléctrica continued work on the following research projects and environmental studies:

A **study of the use of substations by the lesser kestrel**, that was carried out with the co-operation of the Doñana Biological Station (Scientific Research Board). This study revealed a surprising fact. Hundreds of lesser kestrels are congregating at transmission substations in Navarre and Aragon.



## *Red Eléctrica is actively and continuously carrying out studies and research projects on protection of the environment*

A **project for protection of the peregrine falcon** in the province of Valladolid in co-operation with the wild life section of the territorial service of the environmental council of the Castile and Leon regional government.

**Monitoring of nesting by white storks** and the effectiveness of measures to discourage this (registered design 2000) on power line pylons in Andalusia, Castile and Leon, Castile-La Mancha, Extremadura and Madrid.

**An evaluation of the “Treatment of tree stumps by biotic and abiotic means in power line right-of-ways”.** This was carried out jointly with the faculty of mountain engineers at the Madrid Polytechnic University. The goal is to prevent renewed growth of these trees which, due to their fast growth characteristics, could pose a threat to the safe distances. The first trials were carried out in 2003 in various areas of the Spanish mainland and the first results are expected in 2004.

A project on **“The effect of low-frequency electromagnetic fields on programmed cell death – implications for the immune system”** with scientific co-operation from Valladolid University and the Scientific Research Board.





In addition a project has been started on “**Currents induced in the human body by industrial frequency electromagnetic fields**” in co-operation with the Salvador Velayos Institute of Applied Magnetism and UNESA. The goal is to develop a method of calculating the currents induced by industrial frequency electromagnetic fields in live beings and to verify it experimentally.

### Prevention and reduction of environmental effects

Red Eléctrica defines and applies preventive and corrective measures to prevent or reduce the effect of its installations and activities on the environment.

#### Protection of birdlife

A co-operation agreement has been signed with the Murcia council for agriculture, water and the environment with the goal of protecting and regenerating the population of Bonelli’s eagle. Various sections of the Litoral-La Asomada power line will be marked in the Almenara Sierra, Las Moreras and COPE Cape. This project is included in the Life-Naturaleza scheme “Preservation of Bonelli’s eagle (*Hieraaetus fasciatus*)”.

Given the wide diversity of birdlife in the area, Red Eléctrica and the Council of Agriculture and the Environment of the Regional Government of Extremadura have signed a co-operative agreement to assess the most frequented sections and to install “birdsaver” devices.

### *Preventing or reducing the impact of installations and activities on the environment has been given priority*

*Red Eléctrica co-operates actively with various birdlife protection organisations*

In addition, “birdsaver” spirals have been installed on the spans of power lines most frequented by birds in Andalucía, Castile-Leon and Extremadura. Devices for discouraging nesting by storks were also installed in Castile-La Mancha and Extremadura. Furthermore, the 400 kV Guadame-Tajo power line has been marked where it passes through the “Laguna de Los Jarales” nature reserve.

#### Prevention of contamination

With regard to activities to prevent contamination at substations, trays have been installed to control the discharge of fuel tanks and generators have been overhauled. Loss of water from three oil collection pits at one substation has also been corrected.

## Monitoring of the environmental management system

In 2003 an audit was carried out on certification of the Environmental Management System in accordance with the UNE EN ISO 14001 standard. The result of the assessment was positive. An audit was carried out to verify the environmental statement with positive results. The company's membership of the European Eco-Management and Audit System (EMAS) was also renewed.

Five internal audits were also carried out. There was an exhaustive analysis of internal standards including environmental criteria and of new legislation that appeared during the year. Work also continued on responding to queries and claims related to the environment.



## Co-operation with other organisations

Red Eléctrica, together with representatives of other organisations, companies and the Madrid Autonomous Community, continued the preparation of the **Electrical Infrastructure Plan**. This plan was started in 2001 and its main goal is to plan corridors for high voltage power lines that will ensure a supply of electricity to the community in the future. These could become territorial infrastructure corridors. Corridors for the north-west and west of the Madrid Community were planned in 2003.

*Red Eléctrica is participating in the design of the regional electrical infrastructure plan of the Madrid Autonomous Community*



Co-operation agreements have been set up with various organisations and institutions related to environmental matters. The company has also participated in various domestic and international working groups of organisations such as AENOR, EUROELECTRIC and CIGRE, among others.

In October 2003, Red Eléctrica organised the **4th Conference on Power Lines and the Environment**. It was attended by companies from the electricity sector; government authorities, national and international experts, public and private organisations, associations, etc. The aim is to share knowledge and experience, to discuss and reflect on environmental issues related to transmission and distribution of electricity and their role in the challenge posed by sustainable development.


*Sustainable development – one of the challenges proposed in the 4th Conference on Power Lines and the Environment*



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# quest for excellence

*An unceasing quest for excellence  
in all its activities is a strategic principle  
at Red Eléctrica*



## Excellence and quality

### *Leaders in quality and in operating efficiency*

Since 2000 Red Eléctrica has been working to focus its activities on a system of excellence that will ensure maximum satisfaction for all its stakeholders. This refers to customers, shareholders, related government agencies, employees, suppliers and society in general.

This approach is backed the continuous and integrated efforts of the company's human, technical and financial resources. The goal is to maintain a leadership position among transmission companies and electricity system operators at international level.

### *Corporate responsibility based on good governance, the generation of value and a commitment to sustainable development, form part of our business strategy*

At Red Eléctrica, excellence is implemented through continuous and integrated efforts in the following areas:

- Full and active involvement of senior management in the implementation of the guidelines and systems to attain excellent management.
- A model of strategic management that covers all systems and processes with a sufficient number of accurate indicators. This will allow us to monitor the internal and external situation, make appropriate decisions and evaluate and improve business management.
- Continuous analysis of the business environment and stakeholders' needs with the object of implementing best practice and anticipating future demands in the sector in which Red Eléctrica operates.
- Active corporate responsibility engaged in the development of society, in respect for, and conservation of, the environment, and the satisfaction and integration of its employees. A system based on good governance, the generation of value at all levels and a firm, visible and determined commitment to work towards a more humane, better developed, inhabitable world with a better standard of living.
- Efficient management of the processes and resources that are associated with satisfying the spokesmen and spokeswoman of society.





The excellence management model attempts to develop the activity management systems in an integrated manner based on the most demanding international standards. Red Eléctrica applies the following systems for this purpose:

- A global quality management system that has been certified according to the ISO 9001:2000 standard since 1996.
- A environment management system certified under the ISO 14001 standard since 1999.
- An occupational health and safety system that has been certified under the OHSAS 18001 standard since 2000.

Red Eléctrica Internacional has obtained a certificate for its quality management systems under ISO 9001:2000. TDE (the Bolivian subsidiary) obtained an overall quality management system certificate under ISO 9001:2000 and an environmental management system under ISO 14001.



## Recognition of excellence

With the object of measuring the real degree of effectiveness and implementation of its excellence management system, Red Eléctrica uses independent organisations or experts. This work is carried out according to the European Foundation for Quality Management (EFQM), which is considered the most appropriate for the company's activities.

As a result of these evaluations, in 2003 Red Eléctrica became the most widely-known energy company at Spanish and European levels, for its excellence management.

In addition it is the first European company to obtain the Gold Seal of Business Excellence issued by the Quality Management Club (+500 points).

This distinction entitles it to use the EFQM "Recognised for Excellence" label as one of the 12 Spanish companies (26 in Europe) that have attained this level.

In 2003 the improvements incorporated in the excellence management system helped it to improve its 2001 evaluation by 20%.

*Red Eléctrica is the most widely-recognised European energy company in terms of excellence management*

*The first European electricity company to achieve the Gold Seal of Business Excellence*

*Finalist in the Prince Felipe Business Excellence Prize for the second year running*

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

Based on its business excellence management, Red Eléctrica entered for the Prince Felipe Prize for Business Excellence and, for the second year running, was a finalist in the industrial quality section. The company was thus able to strengthen its position as one noted for its quality and for the extent, value and transparency of its technical management as well as for its efforts in improving its results and external image. Furthermore, Red Eléctrica has renewed the *Madrid Excelente* quality mark.

*We strive to achieve maximum satisfaction of all stakeholders*

**Satisfaction of stakeholders**

Red Eléctrica is committed to its relations with customers, market agents and other stakeholders. In 2003 it implemented the improvements arising from the satisfaction survey of customers in 2002 (11 improvement projects). This mainly affected operation of the Spanish mainland electricity system.

Next year it plans to carry out a new survey of various stakeholders to evaluate the suitability of the improvements made to the customer management system.



**Development of the process management system**



*We are extending our alliances with suppliers*

During 2003, supplier management intensified relations with suppliers. Work focused on establishing, improving and updating service level agreements (five agreements were made and one is pending approval). These alliances have resulted in an improvement in the quality of supplies and an increase in mutual trust.

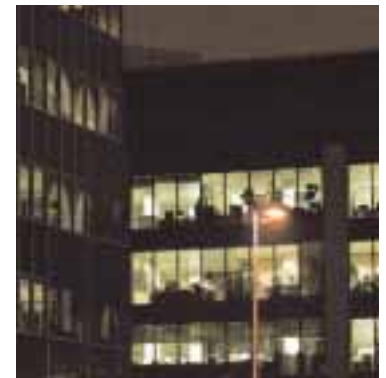
The improvement processes included three pilot schemes with suppliers of critical items (high voltage circuit breakers, engineering services and measurement transformers). This entailed assessment of their processes and proper management of documentation and communication between the company and its suppliers.

# Research, Development and Innovation

In 2003 the management model for research, development and innovation was accorded greater importance and adjusted appropriately. There are three main aspects: strengthening of the business strategy, a focus on projects leading to consolidation of the company's leadership in system operation and transmission activities, and incorporation of the R&D&I activity in the company's quality management system.

The company's priorities in terms of goals and technology have been defined under the LIDER Project (strategic R&D for Red Eléctrica). This project started with the preparation of a technology map and concluded with an analysis of the basic business activity. The result was a definition of key actions in the area of innovation:

- Optimisation of existing infrastructure.
- An increase in the survival ability of the electricity system.
- An increase in process efficiency.
- The integration of business activities with their corresponding sector under criteria of sustainable development.



*The R&D&I projects are essential to optimise design of electric infrastructure*

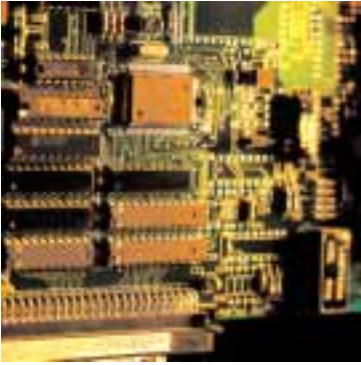
In addition special emphasis was accorded to capitalising on innovative activity. Intellectual and industrial property was protected through patents (an application was made for a patent for the New Network Substation in 2003). Furthermore, projects of a markedly innovative character, not previously identified as R&D&I were brought to light.

## Completed projects

### Evaluation and analysis of critical infrastructure protection (ACIP)

Under the 5th Framework Programme, this project has helped to evaluate and identify the need to develop models, simulations, methodology and tools related to protection of critical infrastructure.

*More than 35 R&D&I projects in progress*



*Technical research and development creates additional value for the company and society*

### Wave quality

The result of this project was the INTAR programme for analysing low-frequency electrical disturbances that influence the study of large networks.

### Status estimation based on phasors (FASORNET)

This project entailed development and installation of phasor measurement devices (model and angle for voltage and current) using GPS technology.

This helped to design and evaluate a new status estimation based on this type of measurement.

### EXAMINE

This is a supervision and control system for managing the vulnerability of European electricity infrastructure. It has developed a novel monitoring mechanism for the European system with algorithms distributed among the various system operators. It also entails a model that would act automatically in the event of incidents that affect stability, based on the phasor measurements.

*Technical innovation is one of the keys to business excellence*

### New Red Eléctrica Substation

This project entails the design of a compact GIS substation that will substantially reduce the time required for installation and replacement of equipment. It will also significantly reduce the environmental impact.

### Projects in progress

#### Models for extending the electricity market (EMERGIE)

This project concerns the development of methodologies to evaluate the impact of changes in the electricity market, identifying the costs and benefits that might be generated or avoided. The aspects considered included the following: the methodology for calculating tolls and remuneration for use of the network, uniform European tariffs for access to the transmission grid, business action associated with costs and investment requirements for the transmission system.

#### IELAS

This is part of the 5th Framework Programme and its goal is to develop a current measurement transformer based on magnetic striction and piezoelectric materials. This would eliminate insulating oil and reduce weight and volume.



### Analysis of transformer gas

The purpose of this development is to improve the diagnosis of the status of power transformers and reactors by classifying the analyses of dissolved gases using a Kohonen neural network.

### ANEMOS

This activity is part of the 5th Framework Programme. Its goal is to facilitate co-operation between the best European experts on predictive meteorology and wind-farm production in order to develop prediction systems for new generation.

### Tree growth

This project consists in development of an artificial visioning system to assess tree growth close to high voltage power lines when this might produce tripping or other incidents. The system allows preventive measures to be taken in advance, reducing maintenance costs, increasing grid availability and reducing environmental risks.



*Our activities require a high level of technology and constant innovation*



### Measurement of current leakage

This entails development of equipment to measure current leakage at glass or composite insulator strings while they are in service. Software is used to interpret the measurements obtained. Preventive or corrective action can be taken to eliminate or reduce – as far as possible – outages due to contamination.

### SIPREÓLICO II

This project consists of an improvement in the wind generation forecasting system (SIPREÓLICO). The resolution will be increased to 15 minutes and it will combine different sources of meteorological predictions. Furthermore, models are being studied which will allow better forecasts of local winds using a more detailed representation of the terrain.

### Autonomous helicopter

Development of a power line inspection system using unpiloted helicopters. They will be equipped with cameras, communications and the controls necessary to support or replace the current system which uses helicopters with pilots.

*R&D&I is aimed at better efficiency and safety*



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# creating value

*Consolidated profit after tax came to  
115.8 million euros – an increase of 15.9%*



## A new business dimension

### Administration and financial management

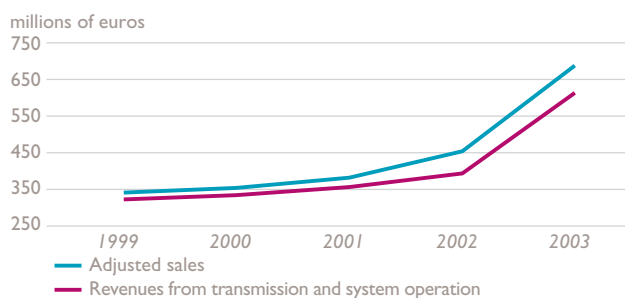
The incorporation of transmission assets acquired last year from Endesa and Unión Fenosa together with continuation of the investment programme and the corresponding new installations and the constant internal improvements, led to a quantitative and qualitative leap in the Group's key indicators.

Consolidated profit after tax in 2003 came to 115.8 million euros, which was an increase of 15.9% on the previous year. This increase is the result of the following:

- An increase in domestic transmission revenues due to the assets acquired and new installations commissioned in 2002.
- The incorporation of the earnings of the Bolivian company, Transportadora de Electricidad (TDE), which was not part of consolidation in the first six months of 2002.
- Revenues from telecommunication services, which have recorded a significant increase compared to the previous year.
- Engineering and construction work carried out for third parties.



### Sales



15.9% increase  
in net profit

### Results

thousands of euros	1999*	2000	2001	2002	2003	03/02%
ADJUSTED SALES	340,959	353,141	380,987	459,931	686,732	49.3
GROSS OPERATING MARGIN (EBITDA)	234,593	249,168	254,234	276,372	439,832	59.1
NET OPERATING PROFIT (EBIT)	136,105	147,482	147,384	156,950	246,392	57.0
PROFIT ON ORDINARY ACTIVITIES	116,673	131,393	133,131	138,572	174,975	26.3
PROFIT AFTER TAX	75,131	83,140	91,071	99,858	115,784	15.9

(\*) Figures for Red Eléctrica de España

49.3% increase in adjusted  
revenues

### Income

Consolidated net sales, adjusted for purchases of energy and power related to international exchanges, of the parent company, provides a more uniform view of the Group's activities. This grew to 686.7 million euros which was an increase of 49.3% over 2002.



## Income

thousands of euros	1999*	2000	2001	2002	2003	03/02%
<b>ADJUSTED OPERATING INCOME</b>	349,301	361,837	387,969	470,287	702,013	49.3
CONSOLIDATED AND ADJUSTED SALES**	340,959	353,141	380,987	459,931	686,732	49.3
Income from transmission and system operation	322,080	333,369	355,770	392,602	612,366	56.0
Adjusted sales of power and energy **	6,966	6,802	8,099	6,900	5,534	(19.8)
Income from telecommunication services and others	11,913	12,970	17,118	60,429	68,832	13.9
OTHER INCOME***	8,342	8,696	6,982	10,356	15,281	47.6
<b>PROFIT FROM EQUITY ACCOUNTED COMPANIES</b>	-	-	647	605	363	(41.0)
<b>EXTRAORDINARY INCOME</b>	6,707	7,964	8,009	9,753	9,001	(7.7)

(\* Figures of Red Eléctrica de España (\*\* Net of energy and power purchases (\*\*\*) Does not include capitalisation of interest expense

*Sales have doubled in four years*

## Expenses

The operating expenses of the Group, after deducting energy and power purchases, came to 260.1 million euros, which was an increase of 33.2% over 2002. This was mainly due to additional expense associated with the new transmission assets.

*Gross operating margins (EBITDA) for the Group have increased by 59.1%*



## Expenses

thousands of euros	1999*	2000	2001	2002	2003	03/02%
<b>ADJUSTED OPERATING EXPENSES</b>	213,195	214,357	240,585	313,337	455,621	45.4
OPERATING EXPENSE	113,021	112,775	134,768	195,297	260,124	33.2
Personnel cost	55,075	54,396	57,172	61,641	66,854	8.5
Provision, work, supplies and external services **	57,946	58,379	77,596	133,656	193,270	44.6
AMORTISATION AND DEPRECIATION	100,174	101,582	105,817	118,040	195,497	65.6
INTEREST EXPENSE ***	19,430	16,190	14,900	17,462	67,719	287.8
<b>AMORTISATION OF GOODWIL ON CONSOLIDATION FOR COMPANIES UNDER THE EQUITY METHOD</b>	-	-	-	1,521	4,061	166.6
<b>EXTRAORDINARY EXPENSES</b>	8,667	13,312	2,004	2,810	7,850	179.4

(\* Figures of Red Eléctrica de España

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

(\*\*\*) Expenses net of financial income and capitalised interest expense



### Creation of a supplier area on Internet

## Procurement

The considerable capital spending and the need to integrate the Endesa and Unión Fenosa transmission networks accelerated implementation of the Red Eléctrica Group's procurement policy. This took the form of a more responsive supplier certification method that helped to increase the number of suppliers substantially and to reduce negotiation times, resulting in more efficient purchasing processes. Action taken in this regard includes a new supplier area on the web site. This makes it possible for any company to contact Red Eléctrica immediately and obtain relevant information regarding standards and the pre-qualification process.

### Significant increase in service level agreements with suppliers

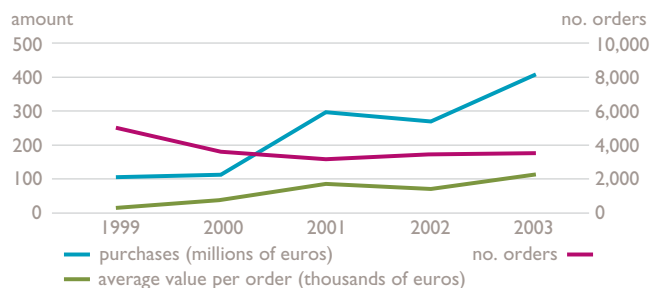
In addition, maximum support has been given to the preparation of framework agreements with large equipment manufacturers and service companies. This has achieved more flexible administrative processes and improved the financial conditions and quality of service of the companies concerned. Attention is drawn to the preparation and signing of service level agreements with a growing number of companies.

### Setting up a network of logistic centres

The first steps have also been taken to establish a network of permanent or temporary logistics centres that will cover all the supply needs. The principal indicators of Red Eléctrica's logistics in 2003 were as follows: 20,000 movements of entry and exit of merchandise, 500 transport operations and 425,000 kilometres travelled.



## Volume of orders



## Finance

Consolidated cash flow after tax came to 320.9 million euros, which was an increase of 42.8% compared to 2002. This figure represents 46.7% of the consolidated and adjusted sales and it allowed the Group to finance a significant part of the investments made in 2003.

### 42.8% increase in consolidated cash flow

At the end of 2002 the Group's financial structure underwent an important transformation connected with the acquisition of Endesa and Unión Fenosa's transmission assets. This was initially financed by a bridging loan of 1,560 million euros with a one year duration.

Red Eléctrica's finance activities in 2003 were mainly focused on achieving a financial structure that would support and provide a solid basis for the enlarged Group. Steps taken included two operations which allowed this loan to be refinanced:

- A five-year syndicated loan was signed in July with a value of 700 million euros, divided in two parts: a 500-million euro long-term loan and a credit line for the remainder. The agreed conditions reflected the strong financial position of the company, resulting in greater flexibility and very competitive costing.
- The company's first issue in September of Euromarket bonds for ten years, with a total value of 800 million euros, as part of a Euro Medium Term Notes Programme registered with a value of up to 1,500 million euros. The operation was quickly concluded (48 hours) and bids were three times the amount issued. The price obtained, which was a spread of 38 basis points over the market reference level, means this operation can be considered as a success.

The financial structure of subsidiaries, providing them with the necessary stability and resources, was also given priority during the year.

This included finance of \$30 million obtained by TDE from the International Finance Corporation (a multilateral agency) for a period of 11 years.



#### *Refinancing debt:*

- *Signing of a syndicated loan*
- *Issue of Eurobonds*



At the same time, the Group maintained a high level of cash. This helped to provide a high degree of flexibility and additional liquidity. The restructuring process has optimised the Group's sources of finance:

- It has increased its presence in the capital markets with a corresponding reduction in the percentage of bank borrowing.
- Prolonging the average life of debt.
- Reducing exposure to changes in interest rates through an increase in that part of debt placed at fixed rates. At the end of the year this was 70%.

#### *Optimisation of financing channels*

The Group has confirmed its liquidity and financial health – as shown by the latest rating from Standard&Poor's: AA-/A- I+ and stable outlook.

### Solid level of liquidity and financial strength

#### External funds

thousands of euros	1999*	2000	2001	2002	2003	03/02%
<b>TOTAL NET DEBT</b>	377,168	314,374	390,675	1,507,661	<b>1,914,255</b>	27.0
SHORT-TERM INVESTMENTS	(17,940)	(24,664)	(22,683)	(29,333)	<b>(11,891)</b>	(59.5)
CASH AND BANKS	(523)	(15,166)	(542)	(2,243)	<b>(4,174)</b>	86.1
SHORT-TERM FINANCE	49,241	78,585	162,661	1,167,939	<b>145,456</b>	(87.5)
LONG-TERM FINANCE	346,390	275,619	251,239	371,298	<b>1,784,864</b>	380.7
Credit lines and loans	220,072	149,301	124,921	244,980	<b>939,788</b>	283.6
Bond issues	126,318	126,318	126,318	126,318	<b>845,076</b>	569.0
<b>OTHER SHORT-TERM CREDITORS</b>	138,269	181,341	245,052	309,214	<b>297,412</b>	(1.5)
<b>OTHER LONG-TERM CREDITORS</b>	45,821	46,733	45,358	47,774	<b>43,064</b>	(9.9)
<b>TOTAL</b>	<b>561,258</b>	<b>542,448</b>	<b>681,085</b>	<b>1,864,649</b>	<b>2,254,731</b>	<b>21.4</b>

(\*) Figures of Red Eléctrica de España



#### Shareholders' equity

thousands of euros	1999*	2000	2001	2002	2003	03/02%
PAID-UP CAPITAL	270,540	270,540	270,540	270,540	<b>270,540</b>	-
REVALUATION RESERVE	247,022	247,022	247,022	247,022	<b>247,022</b>	-
OTHER RESERVES	137,506	162,626	189,956	231,434	<b>279,846</b>	20.9
CONSOLIDATED RESERVES	-	(246)	404	(12,233)	<b>(27,476)</b>	(124.6)
DIFERENCES ON CONVERSION	-	962	1,393	(1,810)	<b>(7,996)</b>	341.8
PROFIT FOR 2003	75,136	83,140	91,071	99,858	<b>115,784</b>	15.9
INTERIM DIVIDEND	(20,290)	(22,877)	(24,299)	(25,511)	<b>(28,621)</b>	12.2
<b>TOTAL</b>	<b>709,914</b>	<b>741,167</b>	<b>776,087</b>	<b>809,300</b>	<b>849,099</b>	<b>4.9</b>

(\*) Figures of Red Eléctrica de España

## Group investments

Investments made by the Red Eléctrica Group in 2003 came to 778.3 million euros. Of this 215.3 million euros were spent on the mainland transmission network representing a 5.9% increase with regard to the previous year.

In addition to the facilities commissioned during the year, the main projects currently in progress are as follows:

- Improvements to the transmission infrastructure in Andalucía and in the Levante region to incorporate planned new generation.
- Spending earmarked for improvement of the north trunk line, which will increase transfer capacity.
- Improvements to the grid in the north-west and north-east of the mainland.
- An increase in the capacity of the interconnection with Portugal.

*Important investment plan in the coming years*

*Over 215 million euros invested in the transmission grid - 5.9% more than the previous year*

## Investments

thousands euros	1999*	2000	2001	2002	2003	03/02%
ACQUISITION OF TRANSMISSION GRID IN SPAIN	-	-	-	815,929	535,177	(34.4)
SPENDING OF TRANSMISSION GRID IN SPAIN	34,480	78,300	129,885	203,396	215,347	5.9
Power lines	14,647	47,600	70,971	106,442	137,645	29.3
Substations	19,833	30,700	58,914	96,954	77,702	(19.9)
PURCHASE OF HOLDINGS IN FOREIGN COMPANIES	-	-	-	91,668	-	-
INVESTMENT IN TELECOMMUNICATION EQUIPMENT AND NETWORK	-	5,621	105,164	39,677	10,751	(72.9)
OTHER INVESTMENTS	10,349	5,884	9,784	8,040	17,038	111.9
<b>TOTAL</b>	<b>44,829</b>	<b>89,805</b>	<b>244,833</b>	<b>1,158,710</b>	<b>778,313</b>	<b>(32.8)</b>

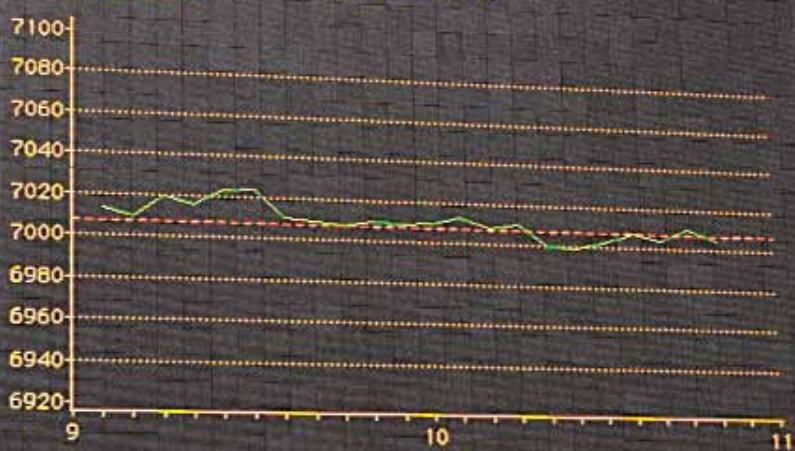
(\*) Figures of Red Eléctrica de España



# BOLSA DE MADRID



## IBEX 35



SESION	ANTER.	ULTIMO	MINIMO	MAXIMO
22/10/2003	7007.40	7005.30	6999.00	7028.40



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# our shareholders

*In 2003 the share price rose 34.9%  
reflecting Red Eléctrica's stronger  
market presence*



*The new distribution of share capital will provide greater independence, greater flexibility, greater liquidity and more transparency*

*Strong interest in Red Eléctrica's shares*

### Shareholder and stock exchange information

The composition of Red Eléctrica's shareholders changed significantly in 2003 following the public offer of 28% of the company's share capital. The sale of 37,875,600 shares by Endesa, Hidroeléctrica del Cantábrico, Iberdrola and Unión Fenosa was required by legislation (Law 53/2002) that establishes that no individual or company may hold more than 3% of the company's capital or voting rights except for the public sector holding company (SEPI). The latter is obliged to hold at least 10% from January 1st 2004 onwards.

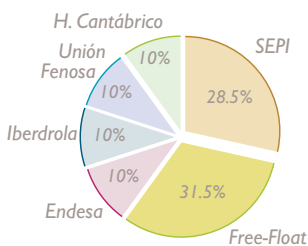
The placement of shares was carried out in a co-ordinated manner by the four companies concerned using an accelerated bookbuilding process on June 18th 2003 as the market opened. Demand outstripped supply and meant that the shares were placed at 11.00 euros - 3.18% below the closing price on the previous day. The offer targeted Spanish and international institutional investors.

#### The placement in figures

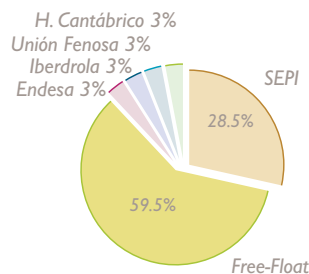
NUMBER OF SHARES	37,875,600
VALUE OF THE OPERATION	417 MILLIONS OF EUROS
PLACEMENT PRICE	11.00 EUROS PER SHARE
DEMAND	3,279 MILLION EUROS
OVERSUBSCRIBED	7.9 TIMES
PLACEMENT WITH DOMESTIC INVESTORS	12,498,948 SHARES (33% OF OFFER)
PLACEMENT WITH INTERNATIONAL INVESTORS	25,376,652 SHARES (67% OF OFFER)

At December 31st 2003, 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.

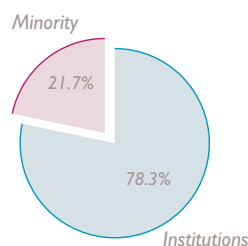
#### Share ownership December 31st 2002



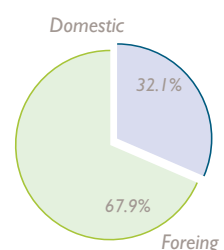
#### Share ownership July 17th 2003 - Extraordinary Meeting of Shareholders



#### Free-Float July 17th 2003 - Extraordinary Meeting of Shareholders



#### Institutional shareholders July 17th 2003 - Extraordinary Meeting of Shareholders



All the shares are quoted on the four Spanish stock exchanges and they are traded on the Spanish electronic continuous market. At the end of 2003 the weight of the company's shares in the Ibex 35 was 0.38% and 0.96% in the Ibex Utilities.



Prior to January 1st 2004 the weight of the company's shares in the stock exchange indices was limited due to the small percentage of freely-traded shares on the market. From the first trading day of 2004 onwards, the shares now participate fully as follows: 0.63% in the Ibex 35 and 1.58% in Ibex Utilities.

### Greater participation in the Ibex 35

There are 80,485,650 freely-traded shares. Of these 21.7% are held by small Spanish shareholders and 78.3% by institutional investors that are mainly located in Spain, the United Kingdom, the United States and Luxembourg.

### Distribution of share capital by size of holding

July 17th 2003 (Extraordinary Meeting of Shareholders)

NO. OF SHARES	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
FROM 1 TO 1,000	48,670	90.94	9,375,093	6.93
FROM 1,001 TO 5,000	3,928	7.34	6,870,173	5.08
FROM 5,001 TO 25,000	679	1.27	6,642,312	4.91
FROM 25,001 TO 80,000	131	0.24	5,489,668	4.06
MORE THAN 80,000	108	0.20	68,340,804	50.52
SHAREHOLDERS WITH A SIGNIFICANT HOLDING*	1	0.00	38,551,950	28.50
<b>TOTAL</b>	<b>53,517</b>	<b>100.00</b>	<b>135,270,000</b>	<b>100.00</b>

\*More than 5% of capital

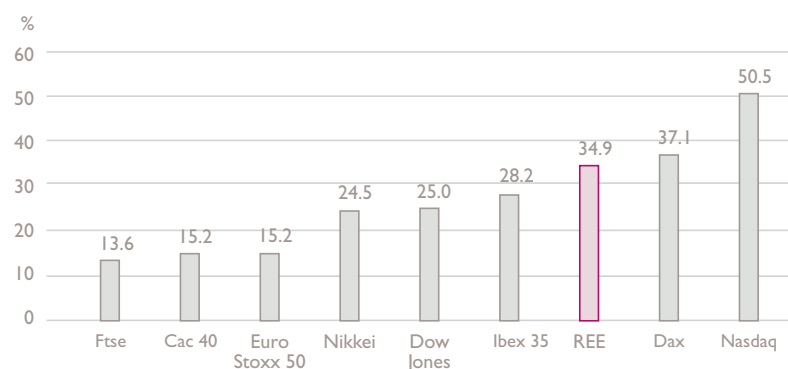
The number of freely-traded shares doubled to 59.5% of capital

The number of treasury stock shares at December 31st 2003 was 246,832. This was 0.18% of the total shares in circulation.

### Share price

In 2003 equities reversed a three-year downward spiral. The Ibex 35 closed the year up by 28.2%. This was the biggest increase since 1998 and in Europe it was only exceeded by the German DAX (37.1%). The market recovery affected all sectors without exception and practically all counters.

### Movement of the main stock exchange indices · 2003



In the case of Red Eléctrica, 2003 was a year of consolidation. In the first part of the year this was due to the greater size of the company following acquisition of the transmission assets. In the second half it was due to the greater importance of the



### In 2003 the share price rose 34.9%

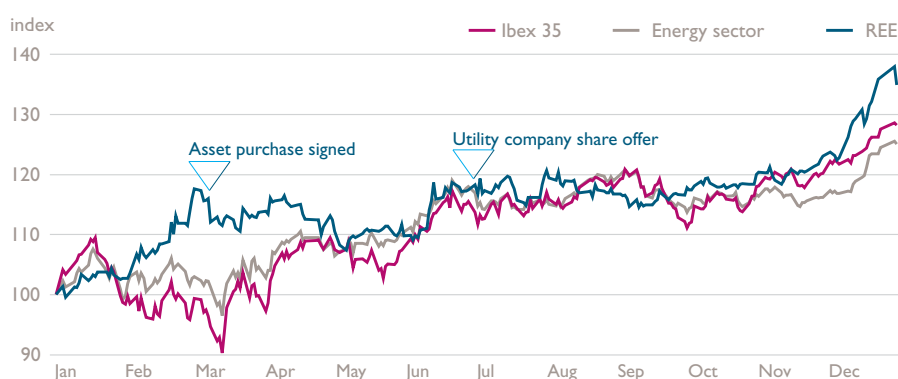
company's shares following the sale of holdings by the utility companies. This has nearly doubled the number of shares that are freely traded.

The share price finished the year at 13.00 euros. This represents an increase of 34.9% - more than the Ibex 35 (28.2%) and the energy sector on the Madrid Stock Exchange (25.0%).

The number of shares traded in 2003 was 213.4 million. This was 2.6 times the free-float capital. The effective volume of trading was 2,397.5 million euros.



### Comparison: Red Eléctrica - Ibex 35 - Energy Sector



### Share price by month

	DAYS QUOTED	MONTHLY MOVEMENT (EUROS)				% MTHLY VARIATION	TRADING	
		MAXIMUM	MINIMUM	AVERAGE	CLOSE		NO. OF SHARES	MILLIONS OF EUROS
JANUARY	21	10.11	9.54	9.85	9.98	3.5	8,174,976	80.6
FEBRUARY	20	11.38	9.96	10.59	11.33	13.5	7,385,648	78.2
MARCH	21	11.38	10.52	10.88	10.98	(3.1)	6,675,720	72.6
APRIL	20	11.30	10.51	10.97	10.65	(3.0)	5,877,185	64.5
MAY	21	10.79	10.34	10.63	10.58	(0.7)	7,664,163	81.5
JUNE*	21	11.45	10.50	11.27	11.40	7.8	92,032,928	1,026.0
JULY	23	11.65	10.96	11.33	11.63	2.0	21,236,187	240.7
AGOSTO	20	11.67	11.20	11.37	11.25	(3.3)	13,221,658	150.4
SEPTEMBER	22	11.35	11.00	11.19	11.35	0.9	12,863,979	143.9
OCTOBER	23	11.60	11.22	11.41	11.60	2.2	7,627,927	87.1
NOVEMBER	20	11.88	11.41	11.65	11.86	2.2	11,741,449	136.8
DECEMBER	18	13.34	11.77	12.45	13.00	9.6	18,887,555	235.2
<b>TOTAL FOR YEAR</b>	<b>250</b>	<b>13.34</b>	<b>9.54</b>	<b>11.29</b>	<b>13.00</b>	<b>34.9</b>	<b>213,389,375</b>	<b>2,397.5</b>

\* Utility company share offer 18-6-2003

## Dividends

Direct remuneration of shareholders in the form of dividends grew 14.2% in 2003 compared to the previous year. This reflects Red Eléctrica's commitment to maximum value for shareholders.

The gross dividend proposed to the AGM for 2003 is 0.548 euros per share. On January 2nd 2004 a gross interim dividend of 0.212 euros per share was paid on shares with dividend rights. Therefore, 0.336 per share as part of the gross supplementary dividend for 2003.

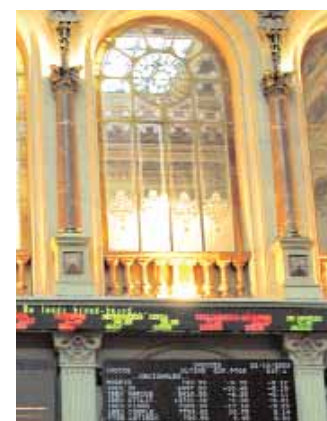
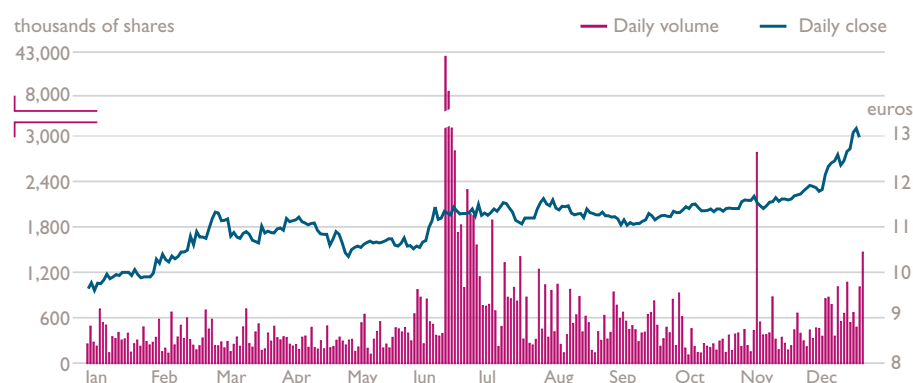
*Since the share offer on July 7th 1999, the total return for shareholders has been 84%\**

*\*at 31-12-2003*

## Dividend per share

	1999	2000	2001	2002	2003
DIVIDEND PER SHARE (IN EUROS)	0.365	0.415	0.455	0.480	0.548
Interim dividend	0.150	0.170	0.180	0.190	0.212
Supplementary dividend	0.215	0.245	0.275	0.290	0.336
DIVIDEND AS A PERCENTAGE OF NET PROFIT (PAY-OUT) (%)	65.7	67.4	67.8	67.7	65.0

## Red Eléctrica's share price and daily volume



## Share information

	2000	2001	2002	2003
TOTAL NUMBER OF SHARES	135,270,000	135,270,000	135,270,000	135,270,000
NUMBER OF SHARES ACTIVELY TRADED	42,610,050	42,610,050	42,610,050	80,485,650
FACEVALUE (IN EUROS)	2	2	2	2
DAILY TRADING (NO. OF SHARES)				
MAXIMUM	10,635,905	1,075,878	865,787	42,935,482
MINIMUM	38,052	53,511	42,618	110,121
SHARE PRICE (IN EUROS)				
MAXIMUM	13.90	11.32	11.95	13.34
MINIMUM	5.37	9.00	7.91	9.54
AVERAGE	10.44	10.16	10.18	11.29
CLOSE	10.05	10.45	9.64	13.00
MARKET CAPITALISATION AT YEAR END (IN EUROS)	1,359,463,500	1,413,571,500	1,304,002,800	1,758,510,000
EARNINGS PER SHARE (EPS) (IN EUROS)	0.61	0.67	0.74	0.86
NET CASH FLOW PER SHARE (CFPS) (IN EUROS)	1.36	1.44	1.66	2.37
SHARE PRICE / EPS (PER)	16.35	15.52	13.06	15.19
SHARE PRICE / CFPS (PCF)	7.40	7.25	5.80	5.48
SHARE PRICE / BOOK VALUE PER SHARE (PBVR)	1.83	1.82	1.61	2.07

*Open dialogue and maximum transparency with shareholders and the financial community*



*The web site has received more than 350,000 visits*

## Shareholders and investors

Red Eléctrica is conscious of the demands arising from its growing presence in the financial markets. It therefore pursues an external communication policy aimed at satisfying the information needs of its public, governed by criteria of transparency, quality, timeliness and maximum distribution of information.

For this purpose it maintains open and permanent dialogues with its shareholders, institutional investors and with financial analysts with the goal of informing them regarding results and relevant events as well as the company's strategy and future plans.

During 2003 the management team attended presentations and meetings with institutional investors in the main financial centres of Spain, Europe and the United States. Following the public share offer and with the goal of strengthening contacts with investors who expressed an interest in the company, 9 road shows, 86 meetings and 8 presentations were made to institutional investors in Spain, the United Kingdom, German, Belgium, Denmark, Italy, Switzerland, Sweden, Canada and the United States.

In addition, the company set up various communication channels, managed mainly through the Shareholders' Office, to extend awareness of the company by shareholders and small investors. The services included the following:

- Handling of queries and requests for information: telephone 900 100 182
- E-mail: [accionistas@ree.es](mailto:accionistas@ree.es)
- The shareholder and investor section on the web site ([www.ree.es](http://www.ree.es))
- Circulation of the quarterly Shareholder's Bulletin.
- Arranging visits to the company's facilities.





Corporate  
Governance Report

## Introduction

A priority and constant concern of Red Eléctrica de España S.A. (hereinafter referred to as Red Eléctrica, the Company) has been the adoption of better Corporate Governance practices, not just to fulfil the literal meaning of applicable legal standards and the most extensive recommendations made in these matters, but also to implement measures and procedures that go to the heart of the most important questions that legitimately concern the shareholders of this and any other listed companies.

As such, new Articles of Association were approved in 1999, voluntarily implementing Regulations for the Board of Directors, adopting an Internal Code of Conduct regarding trading. In addition, the composition and number of Directors on the Board were modified with the establishment of different classes of Directors (executive and external, some independent and others representing substantial shareholders). Two Committees were created and have functioned regularly to facilitate the resolutions of the Board of Directors on certain matters - the Auditing and Compliance Committee and the Remunerations Committee. Finally, measures deemed pertinent were taken in order to achieve greater effectiveness, transparency, independence, representation, security and quality in exercising the functions of the Company's different governing bodies.

Among this series of activities, the interest of the Company's governing bodies has indubitably remained primarily focused on adopting measures to ensure the best corporate governance practices. One result of this was the approval of the new Articles of Association by the Extraordinary General Meeting of the Company's Shareholders held on July 17th, 2003, together with the Corporate Governance practices referred to and Regulations for the General Meetings of Shareholders designed to facilitate the orderly development of the meetings and allowing the maximum participation by shareholders in matters of interest to them.

Both documents are in accordance with the provisions of Law 26 dated July 17th, 2003, which incorporated into Spanish corporate law important aspects of the report issued by the Special Commission to Foster Transparency and Security in the Markets and in Listed Companies (the Aldama Report) and the most far-reaching international recommendations in these matters. In addition, a new Internal Code of Stock Market Conduct was adopted in July, and in November the Regulations for the Board of Directors were modified.

One of the recommendations included in the Aldama Report included in Law 26/2003 referred to the preparation of an Annual Corporate Governance Report which would list corporate practice in this area. Although since 1999 the annual report of the Company includes a chapter devoted to Corporate Governance, expressly stating the observations of the most wide-ranging recommendations and organizational and operational standards for the Board of Directors, this report is designed to comply with the legal dictates established in Law 26/2003.

Nevertheless, the principal objective of this Report is not to limit ourselves to complying with the requirements of Law 26/2003 and the later Ministry of Economy Order 3772 dated December 26th, 2003, but rather to attempt to give a more complete and detailed reflection of the assets and administrative structure of the Company, the obligations of the members of the Board and in general those matters that shareholders, investors and markets may consider relevant for a better understanding of the Company. This information is complemented by the information published on the corporate web page ([www.ree.es](http://www.ree.es)).

# Chapter I

## Ownership structure of the company<sup>1</sup>

### 1. SHARE CAPITAL

The Ordinary and Extraordinary Meeting of Shareholders held on May 17th, 1999, set the company's share capital at 270,540,000 euros, represented by 135,270,000 completely subscribed and paid up bearer shares.

The shares have been listed on the four Spanish Stock Exchanges since July 7th, 1999, after completing the procedure for a Initial Public Offering.

All shares belong to one class and series and confer the same rights on their owners.

### 2. SUBSTANTIAL PARTICIPATIONS IN CORPORATE CAPITAL

In accordance with the terms of Royal Decree 377 dated March 15th, 1991, relating to the communication of substantial ownership in listed companies and acquisition of treasury stock by these, as of the closing date of the 2003 financial year the State Society for Industrial Ownership (SEPI in its Spanish acronym) held a significant part of the Utility, with 38,551,950 shares representing 28.5% of the total share capital.

There is no individual or entity exercising or capable of exercising control of the company as established in article 4 of the Stock Exchange law.

Law 53 dated December 30th, 2002, regarding Fiscal, Administrative and Corporate Measures amended Article 34 and the Ninth Transitional Provision of the Electricity Sector Act (Law 54 dated November 27th, 1997), reducing the maximum amount of direct and indirect ownership of Red Eléctrica capital from 10% to 3%. According to the terms of the said Act, the SEPI is under a special regimen, required to hold an interest in the company of at least 25% until December 31st, 2003, after which date the required share will be 10%. These considerations have been included in article 5 and in the Sole Additional Provision of the Articles of Association, respectively.

The aforesaid Law 53/2002 eliminated the joint limit of 40% for stock ownership in the electricity sector, not allowing the syndication of shares to all shareholders, and also established that the voting rights corresponding to stakes exceeding the maximum percentages legally established would be suspended until the amount of capital ownership or voting rights is adjusted.

The Act established the obligation to adjust share ownership to the legal limits in the course of 2003 and this has been carried out by the four shareholders affected (Iberdrola, S.A., Endesa, S.A., Hidroeléctrica del Cantábrico, S.A. and Unión Fenosa Distribución, S.A.). These entities had owned 10% of the capital, however through the Public Sales of Shares finalized in July, 2003, that share was reduced by 7%, resulting in a total placement of 28% of the corporate capital.

As indicated above, as per the special legal regimen applicable to the electricity sector, no shareholder may hold shares in excess of 3% of the corporate capital.

According to the terms of Royal Decree 377/1991 and the Ministry of Economy Order 3722 dated December 26th, 2003, the SEPI is considered a substantial shareholder, without the participation of any other shareholder allowing it to exercise a material influence over the company.

There is no material relationship between the SEPI and the Utility and/or its group nor any relationship outside the sphere of ordinary business activities.

<sup>1</sup> Except where a different date is expressly indicated in this report, the contents will be understood as referring to December 31st, 2003.

However, it is important to note the relevant role played by the electricity companies among the company's shareholders since its incorporation. These shareholders and their stakes as of July, 2003, the time of the Extraordinary General Meeting of Shareholders, were as follows:

<i>Company</i>	<i>Stake in Share Capital</i>
IBERDROLA, S.A.	3%
ENDESA, S.A.	3%
HIDROELÉCTRICA DEL CANTÁBRICO, S.A.	3%
UNIÓN FENOSA DISTRIBUCIÓN, S.A.	3%
ELECTRA DE VIESGO DISTRIBUCIÓN, S.L.	1%

### 3. STOCKHOLDINGS OF MEMBERS OF THE BOARD OF DIRECTORS

Capital share ownership, both direct and indirect, by Directors of Red Eléctrica, both individually and collectively, as of December 31st, 2003, was as follows:

<i>Director</i>	<i>Direct Shares (*)</i>	<i>% share capital</i>
MR. PEDRO MIELGO ÁLVAREZ	1,794	0.0013
MR. PEDRO RIVERO TORRE	0	0
MR. JUAN GURBINDO GUTIÉRREZ	0	0
MR. ANTONIO GARAMENDI LECANDA	10	0.0000
MR. MANUEL ALVES TORRES	10	0.0000
MR. JOAQUIM CLOTET I GARRIGA	0	0
MR. ELÍAS VELASCO GARCÍA	146	0.0001
MR. ENRIQUE LACALLE COLL	2,775	0.0021
MR. JOSÉ RIVA FRANCOS	552	0.0004
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	0	0
MR. JOSÉ MANUEL SERRA PERIS	0	0
<b>Total</b>	<b>5,287</b>	<b>0.0039</b>

(\*) NO INDIRECT SHARES

### 4. AGREEMENTS BETWEEN SHAREHOLDERS

As of December 31st, 2003, the company had no notice of the existence of any agreements or pacts between shareholders requiring them to adopt a common policy through the concerted exercise of voting rights at the General Meetings or that would restrict or constrain the free transfer of shares, nor of the existence of any agreements between shareholders which would require the concerted exercise of voting rights or a shared management policy or for the purpose of exerting a significant influence on the company.

### 5. TREASURY STOCK

During the 2003 financial year, in order to facilitate adequate levels of depth and liquidity to investors, 2,680,489 titles were acquired with a global nominal value of 5.4 million euros and an effective amount of 29.5 million euros. The number of shares disposed of during the 2003 financial year came to 3,442,662 shares for a global face value of 6.9 million euros and an effective amount of 36.5 million euros.

As of December 31st, 2003, Corporate treasury stock represented 0.18% of capital and totalled 246,832 shares, with a global nominal value of 0.5 million euros and market value of 3.2 million euros.

According to the terms of Royal Decree 377/1991, no significant variations were produced in the percentage of treasury stock during the 2003 financial year.



The results obtained in the period for treasury stock operations were 1,447 thousand euros.

In accordance with the resolution adopted as a result of item four on the agenda of the Ordinary General Meeting of shareholders held on April 25th, 2003, the Board of Directors is authorized, in accordance with the terms of article 75 and concordant articles, the First Additional Provision of the Spanish Companies' Act and other applicable legislation, to carry out the derivative acquisition of corporate shares, either directly or indirectly and insofar as may be deemed appropriate according to circumstances, under the following conditions:

- (i) the maximum number of shares acquired will not pass the legal limit established (currently set at 5%), as long as other applicable legal requirements are also respected.
- (ii) the acquisitions cannot be for a price higher than that listed on the Stock Exchange.

The Annual Accounts and Management Report corresponding to the 2003 financial year include additional information on treasury stock operations carried out by the company.

## Chapter II

# Administrative structure of the company

### 1. COMPOSITION OF THE BOARD OF DIRECTORS

In accordance with the terms of paragraph one of article 20 of the Company's Articles of Association, the Board of Directors will be formed of a minimum of nine (9) and a maximum of 13 (13) members, to be appointed by the General Meeting of Shareholders.

The Extraordinary Meeting of Shareholders held on July 17th, 2003, set the effective number of Directors at eleven (11), within the minimum and maximum limits stated above.

Article 20 of the Articles of Association and article 7 of the Regulations for the Board of Directors establish that in exercising its powers to make proposals to the General Meeting and co-opting to cover vacancies, the Board will see that the composition of external or non-executive directors represent a majority over executive directors.

In any event, the Board will be formed in such a way as to ensure the most appropriate representation of corporate capital.

To this effect, article 7 of the Board of Directors Regulations define executive directors as (i) the Managing Directors or proxies appointed on a stable basis authorised to take decisions regarding any part of the business and (ii) those carrying out executive functions or senior management responsibilities in any other position within the company or any other undertaking in the group or who are related to the Company through a business or labour agreement. Those granted special powers by the General Meeting or Board of Directors, via delegation, authorization or powers of attorney for a specific act are not regarded executive directors.

Paragraph two of the above-mentioned article 7 of the regulations defines external directors representing a substantial shareholder as those proposed by the registered owners of a material number of shares in the Company; furthermore, this position is not compatible with maintaining a business or professional relationship with the Company or its group except with the prior express authorization of the Board.

In addition, independent external directors are understood to be those who are neither representatives of substantial shareholders nor executive directors but enjoy a recognized professional reputation and comply with the requirements of impartiality and objectivity of criterion.

Any proposal for the Board of Directors to re-elect a director must be previously notified by the Appointments and Remuneration Committee as specified in paragraph three of article 7 of the Regulations of the Board of Directors.

The identity, type and dates relating to the first and most recent appointment of each director are as follows:

<i>NAME OF DIRECTOR</i>	<i>FIRST APPOINTED</i>	<i>LAST APPOINTED</i>	<i>POSITION ON THE BOARD</i>	<i>TYPE OF DIRECTOR</i>
MR. PEDRO MIELGO ÁLVAREZ	30.09.97	17.07.03	CHAIR	EXECUTIVE
MR. PEDRO RIVERO TORRE	29.01.85	17.07.03	MEMBER	INDEPENDENT
MR. JUAN GURBINDO GUTIÉRREZ	03.02.98	17.07.03	MEMBER	SHAREHOLDER REPRESENTATIVE (SEPI)
MR. ANTONIO GARAMENDI LECANDA	20.07.99	17.07.03	MEMBER	INDEPENDENT
MR. MANUEL ALVES TORRES	26.10.99	17.07.03	MEMBER	SHAREHOLDER REPRESENTATIVE (SEPI)
MR. JOAQUIM CLOTET I GARRIGA	26.10.99	17.07.03	MEMBER	INDEPENDENT
MR. ELÍAS VELASCO GARCÍA	04.04.02	17.07.03	MEMBER	SHAREHOLDER REPRESENTATIVE (UNIÓN FENOSA DISTRIBUCIÓN, S.A.)
MR. ENRIQUE LACALLE COLL	25.03.03	17.07.03	MEMBER	SHAREHOLDER REPRESENTATIVE (SEPI)
MR. JOSÉ RIVA FRANCOS	22.04.03	17.07.03	MEMBER	INDEPENDENT
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	17.07.03	17.07.03	MEMBER	REPRESENTING SUBSTANTIAL SHAREHOLDER (IBERDROLA S.A.)
MR. JOSÉ MANUEL SERRA PERIS	17.07.03	17.07.03	MEMBER	INDEPENDENT

A brief summary of the professional career of each of the Board Members is given below, with information as of December 31st, 2003:

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#### **Mr. PEDRO MIELGO ÁLVAREZ · Chair**

57 years of age

Industrial Engineer, Polytechnic University in Madrid

PDG in Business Administration by IESE

Degree in Marketing from Stanford University

#### **Professional Career**

Head of Production, REPOSA (Rhône Poulenc Group)

Projects Director, CAMPSA

Energy Projects Director and Foreign Trade Director, INITEC

Director General, INIEXPORT

Director, OMEL (Compañía Operadora del Mercado Eléctrico, S.A.)

Executive Chair of Red Eléctrica since 1997.

Currently member of the Electricity Advisory Board belonging to the Spanish National Energy Commission (CNE).

Member of the Board of Directors of various Spanish and international organizations in the sector, including the Spanish Energy Club, ETSO (European Transmission System Operators), OME (Observatoire Méditerranéen de l'Énergie) and Eurelectric.

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**Mr. PEDRO RIVERO TORRE · Member**

65 years of age

Doctor in Economics and Business Sciences, Complutense University in Madrid

Doctor Honoris Causa, University of Castilla-La Mancha

**Professional Career**

Professor of Financial Economy and Company Accounting

External auditor (on leave of absence)

Executive VP and General Director; UNESA

Member of the Economic and Social Council

Member, Electricity Advisory Board of the CNE

Member of the CIEMAT

Director, OMEL (Compañía Operadora del Mercado Eléctrico, S.A.)

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**Mr. JUAN GURBINDO GUTIÉRREZ · Member**

56 years of age

Industrial Engineer, Polytechnic University in Madrid

Master in Business Administration, Industrial Organization School (EOI) in Madrid and the Manchester Business Administration School

**Professional Career**

He has acted as director of energy generation products for INITEC

Responsible for electricity sector companies in SEPI

Director of the Personal Office of the Chair, SEPI

Member of the SEPI's Management Committee

He has sat on various Boards of Directors for the EFE News Agency, Iberia, Austral, Aerolíneas Argentinas, Aviaco, Endesa and Electra de Viesgo.

He is currently Director of Administration and Resources at SEPI.

He represents the SEPI in the Banco Arabe-Español. Chair of the SEPI's Employment Services Foundation

Patron of the SEPI Foundation (previously a State-funded Foundation).

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**Mr. ANTONIO GARAMENDI LECANDA · Member**

45 years of age

Business owner. Insurance Broker.

**Professional Career**

He has served as General Delegate of Equitativa, S.A., Vizcaya.

Managing Director of Bankoa, S.A. (Insurance brokerage)

Chair of the "Negocios de Comunicación" Group (La Gaceta de los Negocios newspaper, Dinero Magazine, Intereconomía radio station and the ORT News Agency).

Chair of the Spanish Confederation of Young Entrepreneurs (CEAJE).

Chair, Company Creation Commission of the Spanish Employers' Federation (CEOE).

Director, Babcock & Wilcox Española, S.A.

He is currently serving as:

Chair of Galea Empresarial, S.L.

Managing Director of Iniciativas de Comunicación Económica S.A. (ICESA)

Director, Grupo Tubos Reunidos S.A.

Member of the Steering Committee, Grupo Sodexho Pass, S.A.

Member of the Management Board of the CEOE

Member and Treasurer, Confemetal

Member of the Management Board of the Vizcaya Business Confederation (CEBEK), of the Vizcaya Chamber of Commerce and the Vizcaya Chamber of Urban Property

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**Mr. MANUEL ALVES TORRES · Member**

49 years of age

Graduate in Economics and Business Sciences

**Professional Career**

Head of Budgeting, STANDARD ELÉCTRICA S.A.

In 1987, he joined the Spanish National Industry Institute (INI) where he has occupied various positions: Senior Technician, Deputy Director of Companies, Corporate Subdirector

He has served as Director of Planning and Monitoring at TENEÓ

He has also served as a member of the Board of Directors of the Grupo Empresarial Ence, Enatcar, Inespal, Minas de Almaguera and Potasas de Suria

He is currently Director of Planning and Control, SEPI

Member of the Executive Committee and the Management Committee, SEPI

Representative of SEPI at the Fundación SEPI (previously a State-funded Foundation) and in the SEPI Employment Services Foundation

Member of the Board of Directors of EFE News Agency, Tragsa, Sedetur and the Clínica Castelló.

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**Mr. JOAQUIM CLOTET I GARRIGA · Member**

58 years of age

Graduate in Economics and Business Sciences, University of Barcelona

Graduate in Computer Science, Computer Science Institute, Madrid

**Professional Career**

He has served as:

1976 - 80. Banca Catalana. Head of Information Systems.

1980 - 86. La Caixa. Technical Subdirector. Member of the Management Committee.

1986 - 88. Banesto. Deputy Director General. Member of the Management Committee.

1988 - 90. La Caixa. Deputy Director General. Member of the Management Committee.

1990 - 96. VP, Planeta de Agostini publishing company, Managing Director of Planeta Internacional and Difusora Internacional. Administrator, Editorial Deusto publishing company.

1996 - 99. VP of the Sociedad Estatal de Participaciones Industriales (SEPI).

Director, Endesa, Iberia, Sevillana and Fecca electricity companies. Chair of Babcock-Wilcox and Muprespa.

Serving as a Consultant with Serrat, Serrat i Associats since 1999.

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**Mr. ELÍAS VELASCO GARCÍA · Member**

64 years of age

Engineer, Superior School of Mining Engineers (Madrid)

Course in Senior Management - PADE (IESE)

**Professional Career**

He has served as Head of Nuclear Production at the Santa María de Garoña Nuclear Power Station (NUCLENOR)

Head of the Santillán Nuclear Power Station (ELECTRA DE VIESGO, S.A.)

Director and General Manager of ENAGÁS

He is currently serving as Director and General Manager of Unión Fenosa, S.A., Unión Fenosa Gas, S.A. and Joint and Several Administrator of Unión Fenosa Generación, S.A.

Chair of the Spanish Energy Club, the Spanish Egyptian Gas Company (SEGAS), Nueva Generadora del Sur, S.A. and Co-Chair of the Planta Regasificadora de Sagunto, S.A.

Director of Sogama, S.A. and the Compañía Española de Industrias Electroquímicas, S.A. (CEDIE)

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**Mr. ENRIQUE LACALLE COLL · Member**

53 years of age.

Graduate in Law (University of Barcelona)

Certificate in Company Management - P.D.G. (I.E.S.E. University of Navarre). University of Navarre).

**Professional Career**

He is currently serving as Special State Delegate for the Barcelona Free Zone Consortium and Chair of its Executive Committee.

Chair of Barcelona Logistics Centre (BCL), the Sociedad Parc Logistic Zona Franca, S.A. and the Board of Patrons of the Spanish Logistics Centre (CEL).

VP of the Vallès Technology Park, the Barcelona Metropolitan Strategic Plan, the Catalonia-Portugal Foundation

Member of the Barcelona Chamber of Commerce and its Executive Committee, the Management Committee of the A.P.D. Zona Mediterrania, the Advisory Committee of Foment del Treball Nacional, the Urban Land Institute (ULI) (Washington), the Steering Committee of the Global Investors in European Real Estate (Paris), the Permanent Commission of the Fundació Orfeo Català-Palau de la Música Catalana.

Member of the Board of Circulo Equestre

Chair of the Sant Vicenç de Montalt Golf Club

Chair of the Executive Committees of "Barcelona Meeting Point" (since 1997), "Marbella Meeting Point" (since 2001), "Americas Meeting Point" (since 2001)

Chair of the Executive Committee of the "International Logistics Show" (since 1999) and of "Portal Point" (since 2002)

Chair of the Organizing Committee of the "Barcelona International Automobile Show" (since 2001) at the Barcelona Trade Fair

Member of the Organizing Committee of Motorpro 2004 (Barcelona Trade Fair), the Organizing Committee of Planet Football (since 2002) and the International Nautical Show (Honour Committee)

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**Mr. JOSÉ RIVA FRANCOS · Member**

50 years of age

Architect, E.T.S.A. Madrid, Specializing in Urbanism.

Architect in Madrid.

**Professional Career**

1981: Participation in the Studio of Minoru Yamasaki collaborating in the development of the Madrid Picasso Tower Project

1981/86: Architect in Madrid, own studio.

ARCO Studio, architecture and construction, producing various projects for private individuals and the Patronato de Casas del Aire (Housing Department of the Air Force Ministry)

He is currently serving as:

VP, Managing Director of all companies of Grupo Suardiaz with its headquarters in Madrid and branches in the 12 main ports of the peninsula and the Canary Islands.

Managing Director of Vapores Suardiaz, Grupo Suardiaz, Trans European Transport, S.A., Aereo Transport Internacional S.A.

Director of T.C.V. Terminal Contenedores Valencia, Tercaro, S.A. (Canaries), Agencia Maritima Transhispanica, S.A., Autoterminal, S.A. (Barcelona), Navicar Portugal (Vehicle Terminal), Terminales Maritimas Bilbao (TMB)

Chair of Oligsa and Ventastur

Chair and Managing Director of Ayala 6, S.A. and Camajuani

Member of the Board of Directors of Almacenes La Estrella, Legista, Aldeasa and Enagas.

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**Mr. JOSÉ IGNACIO SÁNCHEZ GALÁN · Member**

53 years of age

Superior Industrial Engineer, Escuela Técnica de Ingeniería of the I.C.A.I. (Madrid)

Certificate in Business Administration, I.C.A.D.E. (Madrid)

Certificate in General Business Administration and Foreign Trade, Industrial Organization School (E.O.I.)

**Professional Career**

He has served as General Manager of Baterias Industriales del Grupo Tudor, S.A.

Director and General Manager of Industria de Turbo Propulsores (ITP)

Managing Director of Airtel Movil (now Vodafone Spain)

He is currently serving as VP and Managing Director of Iberdrola, S.A.

Chair of Apex Inmobiliaria

Chair of Iberinco

Member of the Board of Directors of Bodegas Matarromera and Page Ibérica

Member of the Board of Patrons of the Comillas-ICAI University Foundation and the Comillas Pontifical University in Salamanca

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**Mr. JOSÉ MANUEL SERRA PERIS · Member**

44 years of age

Degree in Law from the University of Valencia

Member of the Corps of State Lawyers.

**Professional Career**

Since 1986, he has worked as a barrister in private cases, together with his activities as a State Lawyer in the Tax Delegation of Valencia and in the Higher Courts of the Valencian Community.

From April 1996 to May 2000, he was appointed to various public positions in the sphere of General Administration of the State. In May 1996, he was appointed Technical Secretary-General at the Ministry of Industry and Energy; on March 20th, 1998, he was appointed Under-Secretary at the Ministry of Industry and Energy and finally on September 30th, 1998, he was appointed Secretary of State for Industry and Energy, from which position he resigned in May, 2000.

He has also served as Chair of the Spanish Office for Patents and Trade Marks, Chair of the Centre for Technological and Industrial Development (CDTI), Chair of the Foundation for the Industrial Organization School, Chair of the Institute for Energy Diversification and Saving (IDAE), Chair of the Institute for the Reorganization of Coal Mining and Alternative Development for Mining Districts and Chair of the Centre for Energy, Environmental and Technological Research (CIEMAT).

He has served as a member of the Board of Directors of the Sociedad Estatal de Participaciones Industriales (SEPI) and the Sociedad Estatal de Participaciones Patrimoniales (SEPPA), bodies in charge of executing the privatization of state-owned corporations.

He has also been a member of the Board of Directors of Iberia, Lineas Aereas de España, S.A. and member of the Board of Directors and the Executive Committee of Endesa.

On June 2nd, 2000, following a resolution adopted by the Council of Ministers, His Majesty King Juan Carlos I bestowed on him the Grand Cross of the Order of Queen Isabella in recognition of his services.

Currently he has returned to private legal practice and provides professional consultation and advisory services, as well as sitting on various Boards of Directors.

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Within the organisation chart of the Company, Mr. Pedro Mielgo Álvarez, Chairman of the Board of Directors, serves, also, as Chief Executive of the Company.

In accordance with article 25 of the Articles of Association, the Chief Executive of the Company, among other responsibilities, is in charge of the Senior Management of all company services and is the permanent representative of its Board of Directors.

None of the other Directors have executive powers in the Company.

In accordance with the terms of article 11 of the Regulations for the Board of Directors, the Secretary of the Board, necessarily an attorney at law, need not be a Company Director.

The current Secretary of the Board of Directors, Mr. Rafael García de Diego Barber, member number 17,070 of the Madrid Law Association, does not hold the position of Director of the Company.

## 2. RULES OF ORGANIZATION AND FUNCTIONING OF THE BOARD OF DIRECTORS

The Company is represented by and acts through a reduced, active and efficient Board of Directors, aided in its work by the Audit and the Appointments and Remunerations Committees.

The criterion ruling any of the activities of the Board of Directors is to defend the long-term viability and value of the company, and to protect and foment the general interests of the Company. Specifically, the Board has all the administrative and representative powers of the Company, in or out of Court, and exercises these powers either directly or through delegation, substitution or powers of attorney under the terms set out in law, in the Articles of Association and the Regulations for the Board.

The policy of the Board is to delegate ordinary management of the company to the executive bodies and the management team and to concentrate its work on the general supervisory functions and approval of basic activity guidelines.

The rules for the organization and functioning of the Board are specified in the Articles of Association, articles 19 to 26 inclusive, and the Regulations for the Board of Directors.

The Extraordinary General Meeting of Shareholders held on July 17th, 2003, approved the modified Articles of Association, adapting to new conditions introduced by Law 26 dated July 17th, 2003, amending the Spanish Companies' Act and the Stock Exchange Act, Law 44 dated November 22nd, 2002, regarding Reform of the Financial System as well as the Report of the Special Commission to Foment Transparency and Security of the Markets and Listed Companies (Aldama Report).

For these same effects, the Corporate Board of Directors resolved on November 18th, 2003, to amend the Regulations for the Board dated June 8th, 1999. The main objective of the text, as indicated in article 22 of the Articles of Association, is to establish the basic rules for organization and functioning, codes of conduct for its members and a culture of supervision and control in order to achieve the greatest level of professionalism and effectiveness in its acts.

All of this through the encouragement of the active participation of its members, placing the interests of the Company and those of its shareholders before their personal interests, as a sign of respect for the Act, the Articles of Association and the principles of Corporate Governance.

The Regulations for the Board of Directors has been communicated to the CNMV and registered with the Companies' Register, and can be found on the Company's web site -www.ree.es.

**Constitution of the board and progress of its meetings**

Pursuant to Article 21 of the Articles of Association and articles 19 and 20 of the Regulations for the Board of Directors, the board will ordinarily meet every month and at least once per quarter. In addition, and on the initiative of the Chair, it will meet as frequently as is deemed necessary for the proper functioning of the Company. Furthermore, it will be convened whenever this is requested in writing by three directors, who must state in the request the matters to be dealt with at the meeting.

During the 2003 financial year, the Board of Directors met eighteen (18) times, with the Chair present at all meetings.

Notice of a meeting will be given at least three days prior to the scheduled date by letter, fax, telegram or e-mail, authorized by the signature of the Chair or the Secretary, and will always include the Agenda of the meeting with a general description of the relevant information duly summarized and prepared. Emergency extraordinary meetings may also be notified by telephone as will be explained in the Minutes of the Meeting, when in the judgment of the Chair circumstances so dictate.

Meetings of the board may be held without notice when all Directors are present and agree to hold such a meeting. Votes by ballot without a meeting will be allowed only when no Director opposes the procedure.

All matters discussed and resolutions adopted at the meetings will be set down in the minutes, which may be approved by the Board at the conclusion of the meeting or at the beginning of the next ordinary meeting. The minutes will be signed by the Secretary and approved by the person acting as Chair of the Meeting, and recorded in the Corporate Minute Book.

**Adoption of resolutions**

Except in cases where a different quorum is specifically required, the Board of Directors will be validly called to order when there is the presence of at least one half plus one of its members, present either in person or by proxy. If the number of directors is odd, then there will be a quorum with the presence of the even number of directors over half.

The Chair will organize the discussions, promoting the participation of all directors in the deliberations and will submit all matters for vote once he considers them to have been sufficiently discussed.

Each Director present, either in person or by proxy, will have one vote. Article 21 of the Articles of Association establishes that each director may designate, in writing and specifically for each meeting, another director to vote for him in the meetings of the Board of Directors.

Article 21 of the Articles of Association and article 20 of the Regulations for the Board of Directors dictate that Resolutions will be adopted by a majority of votes, except in cases where by Law they must be adopted by a higher majority. Therefore, there will be no cases of resolutions adopted by a reinforced majority contrary to the number established in applicable law.

Regardless of the matter put to the vote, articles 21 of the Articles of Association and article 20 of the Regulations for the Board expressly require that in case of a tie in the voting, then the Chair will cast the deciding vote.

**Appointment, re-election, removal and resignation of Directors**

Article 21 of the Regulations for the Board establishes that Directors will be appointed by the General Meeting or the Board of Directors. The proposed appointment of Directors, including by co-opting, will be after presentation to the Appointments and Remunerations Committee.



The Board of Directors, within its sphere of activities, will ensure that candidates chosen are of recognized solvency, competence and experience, and shall be especially strict with regard to those called to cover the positions of independent directors as established in article 22 of the Regulations.

In accordance with article 23 of the regulations, the Directors will hold the position for the period set in the Articles of Association and may be re-elected upon the report of the Appointments and Remuneration Committee. Any Director ending his mandate or ceasing for any other reason to serve in the position may not provide services in any other entity competing with the Company for a period of two years, except with the permission of the Board.

In compliance with the recent recommendations of the Aldama report, independent Directors, like all other Directors, will act for four (4) years as stated in the articles of association - article 20 - and in the Regulations for the Board - article 23 - and they may re-elected indefinitely without distinction for class or quality of the Director:

With regard to the removal of Directors, article 24 of the Regulations provides that these will cease to act at the end of the period for which they were appointed or when the General Meeting using the attributions granted it by law or statute, so decides. The Board of Directors will not propose the removal of any external directors representing substantial shareholder interests nor independent directors before they have completed the statutory period for which they were appointed, except for sufficient cause and after a report by the Appointments and Remuneration Committee.

The second paragraph of article 24 of the Regulations for the Board of Directors specifies that Directors will surrender their position to the Board of Directors and will tender, if the Board considers it appropriate, their resignation in the following cases:

- a) When they reach the age of 70 years.
- b) When they are affected by any of the statutory grounds foreseen for incompatibility or prohibition.
- c) When found guilty of an illegal act or penalized in disciplinary proceedings for serious or very serious matters conducted by the supervisory authorities of the stock exchange, energy and telecommunications.
- d) When they have seriously infringed their obligations as Directors.
- e) When they cease to hold the executive posts with which their appointments as Directors were associated.
- f) When their presence on the Board places the interests of the Company at risk and this has been so considered by the Board with the votes in favour of two thirds of its members.
- g) In the case of a Director representing a significant shareholder, when the Company whose interest is represented disposes of its stake or reduces it to a level below that which reasonably justifies the appointment of the Director.

#### **Functions of the Company's Chief Executive**

Article 25 of the Articles of Association states that the Chair of the Board is the Chief Executive of the Company and its governance and administrative bodies, and is the person responsible for its Senior Management as well as fully representing the same in all matters.

Neither the Articles of Association nor the current Regulations for the Board of Directors set specific requirements for the appointment of the Chair, other than those already given with regard to Directors.

The Chair has the power to adopt such emergency measures as may be deemed appropriate for the interests of the Company. He will then immediately inform the Board of Directors, as well as regularly informing them at the regular meetings of the management actions carried out in the different corporate areas and business units of the Company, requesting when pertinent their approval of the resolutions presented.

The Chair of the Board of Directors has certain powers, as described below:

- To represent the company in all matters and administrative, judicial, civil, mercantile and penal acts before the Government, public corporations and administrations of all kinds, as well as before any jurisdiction (ordinary, administrative, special, labour relations, etc.) and in any case exercising all manner of actions or waiving these at any level. - To settle, compromise and agree on any interest of the company and exercise the corresponding actions in the defence of the rights of the company, in and out of Court, giving and granting the pertinent powers of attorney to barristers and appointing counsel to represent and defend the company before the said courts and bodies.
- To direct and administer the business of the Company, constantly attending to the same in order to establish the standards of governance and the company's regime and administration, organizing and regulating its technical and administrative services.
- To enter into and ratify all manner of contracts regarding any kind of goods and rights, through such agreements or conditions as may be deemed appropriate, and to constitute and cancel mortgages and other encumbrances or rights in rem over the property of the Company, as well as renouncing, with or without payment, all manner of privileges or rights.
- To act and sign in the name of the company all manner of bank operations, opening and closing current accounts, making use of the same, appearing in letters of exchange as drawer, acceptor, guarantor, endorser, endorsee or holder of same; to open credits with or without guarantee and cancel the same; to transfer funds, income, credits or securities using any procedure for the wiring or movement of money; to approve account balances and final settlements, constitute and withdraw deposits or guarantees, offset accounts, formalize exchanges, etc., all at the Bank of Spain and Official Banks as well as at private banking, credit and savings entities and any other bodies of the State administration.
- To appoint, designate and dismiss the personnel of the company, assigning salaries and wages as appropriate.

Finally, the creation of the Audit and the Appointments and Remuneration Committees, comprising completely of members of the Board of Directors specializing in matters of their sphere of influence and acting since 1999, has led to a specific control over the basic and strategic corporate responsibilities that are in no case carried out exclusively by the Chair:

#### **Functions of the Secretary of the Board of Directors**

The Secretary of the Board of Directors, who must be an lawyer, need not be a Director:

The Secretary is responsible, among other things, for supervising the formal and material legality of all acts by the board, and that all procedures and rules of governance are respected and regularly reviewed.

He or she must also verify the respect for the articles of association, compliance with the provisions of the regulatory bodies and oversee observance by the Board of Directors and its Committees of the Company's principles or criteria of Corporate Governance.

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### **3. COMMITTEES OF THE BOARD OF DIRECTORS**

Article 22 of the Articles of Association provides that the Board will act in plenary or in committees which may be constituted as either standing bodies or for specific matters, with delegated and executive powers or powers to study, consult and propose.

In accordance with the Act and the foregoing statutory precept, an Audit Committee and an Appointments and Remuneration Committee are required. In addition, the said article foresees the possibility of creating an Executive Committee organized under the terms of article 14 of the Regulations for the Board of Directors; this committee has not yet been formed since the Company has chosen an administrative system based on a reduced, active and efficient Board.

Based on the terms established in the articles mentioned above, the only Committee of the Board of Directors which may have delegated powers would be the Executive Committee.

No specific internal regulations have been established for the said Committees, it having been decided that these will be ruled completely by the Regulations for the Board of Directors.

## AUDIT COMMITTEE

### Composition and functioning

In accordance with the terms of law 44/2002, an Audit Committee was constituted in November, 2003, whose organization, functioning and jurisdiction is described in article 23 of the Articles of Association and in articles 15 and 16 of the Regulations for the Board.

Since 1999, the Company has had an Audit and Compliance Committee with jurisdiction and responsibilities adapted to current legislation and the most recent practices in matters of Corporate Governance for the creation of this Audit Committee.

Article 15 of the Regulations for the Board establishes that the Committee will comprise between a minimum of three (3) and a maximum of five (5) members to be appointed by the Board of Directors, with a majority of non-executive members named by the Board of Directors and reasonably reflecting the composition of the Board.

At the date of approval of this report, the Committee comprised the following members:

<i>DIRECTOR</i>	<i>POST</i>	<i>TYPE OF DIRECTOR</i>
MR. JOAQUIM CLOTET I GARRIGA	CHAIR	INDEPENDENT
MR. MANUEL ALVES TORRES	MEMBER	SHAREHOLDER REPRESENTATIVE
MR. PEDRO RIVERO TORRE	MEMBER	INDEPENDENT

The Committee's Chair is elected by its members from among the non-executive board members; and its Secretary is the Secretary to the Board of Directors, Rafael Garcia de Diego Barber. The appointment and dismissal of members is by the Board of Directors at the proposal of the Chair of the Board.

The Committee members carry out their responsibilities for a period not longer than three years, and may be re-elected and dismissed at the end of said period or when re-elected or dismissed as Directors or upon the agreement of the Board of Directors, in this last case acting on the report of the Appointments and Remuneration Committee. The Chair is replaced every three years and may be re-elected after one year has passed from his ceasing to act as Chair.

The Committee meets at least on a quarterly basis and whenever convened by its Chair or at the request of two of its members, and whenever the Board or its Chair requests that a report be issued. In the course of 2003 the Audit Committee met seven (7) times.

Notice of meetings, including the Agenda for the meeting, will be issued by the Chair or Secretary of the committee to each member at least three days prior to the date scheduled for the meeting, except in cases of emergency when it is necessary to meet sooner.

The Committee may be called to order with the attendance of a majority of its members and it will adopt its resolutions or recommendations by a majority vote, noted at the end of each meeting in the Minutes.

Members of the management staff or corporate personnel so requested by the Chair are required to attend Committee meetings, and they must provide assistance and allow access to any information they may have relating to the matters dealt with at the meeting.

To better fulfil its duties, the Committee may propose to the Board of Directors that advice be obtained from independent professionals and it may access any type of corporate information or documentation required.

### Functions

The Committee will have at least the following responsibilities, regulated in article 23 of the Articles of Association and implemented in article 16 of the Regulations for the Board:

- (i) To report to the General Meeting of Shareholders on questions posed by shareholders on matters within its sphere of competence.
- (ii) To propose the appointment of External Auditors to the Board of Directors for submission to the General Meeting of Shareholders.
- (iii) To supervise the internal audit services, if these exist.
- (iv) To oversee the financial information process and the internal control systems of the Company.
- (v) To maintain contacts with the external auditors in order to receive information on questions that may place the independence of the same at risk and any other matters related with the Accounts Auditing processes, as well as the other communications foreseen in the legislation on the Auditing of Accounts and the technical guidelines for Auditing.
- (vi) Any other powers or competence attributed to it by the Board of Directors, either on general terms as part of its Internal Regulations or else by a specific charge.

With regard to the external auditor, article 16.3 of the Regulations for the Board of Directors establishes a series of obligations for the Audit Committee intended to preserve its independence:

- a) To propose to the Board of Directors the appointment of External Auditors for submission to the General Meeting of Shareholders, striving to ensure that the same auditing firm is used for all companies of the group, as well as the terms of the auditing contract, the scope of its professional mandate and its extension or termination.
- b) To establish procedures to ensure the independence and professionalism of the External Auditors and receive information regarding matters that may place these at risk.
- c) To receive any relevant information relating to the auditing process, regarding questions that may place the independence of the auditors at risk, as well as any other information foreseen in accounting standards.
- d) To serve as the channel for communications between the Board and the External Auditor; evaluate audit results and responses of the management team to its recommendations, mediating between these in cases of discrepancy in connection with the principles and criteria applicable in the preparation of the financial statements.
- e) To supervise compliance with the auditing contract, ensuring that the main contents of the audit report are drafted in a clear and precise manner.
- f) To oversee the relevant situations detected by the External Auditor and in the same way to receive information from internal control systems that may negatively affect the Group's corporate assets, results or image.
- g) To request periodically from the external Auditors, at least once a year, an assessment of the quality of the Group's internal control procedures.

Article 38 of the Regulations also establishes:

- 1) The relations of the Board with the Company's external auditors will be channelled through the Audit Committee.
- 2) The Board of Directors will abstain from hiring any auditing firms whose fees for all concepts are anticipated to exceed ten per cent of the firm's total income during the preceding financial year.

- 3) The Board of Directors will publish an annual report on the global fees paid by the Company to the auditing firm for services other than auditing.

The Audit Committee, comprising solely external Directors, has formally met with the External Auditor on various occasions during the 2003 financial year, as deemed appropriate to best carry out its responsibilities and convey to the same with the questions, clarifications and observations considered appropriate.

#### **Functions relating to the Annual Accounts**

Since its constitution in 1999, the Audit and Compliance Committee has been responsible for reviewing the Company's Annual Accounts, overseeing compliance with legal requirements and the correct application of generally accepted accounting principles, and reporting on any proposals for modification of the accounting principles and criteria suggested by the Management.

When this Committee was transformed into the Audit Committee in November, 2003, with the functions and responsibilities established by law and in the articles of association, it was also entrusted with the task of approving the accounting principles and criteria to be used in the preparation of the Annual Reports of the Company and its consolidated Group, as well as verifying their accuracy, reliability and sufficiency.

It is also responsible for overseeing compliance with accounting standards in the Company's financial documentation and in particular applicable Community recommendations and requirements in the accounting of electricity companies.

Especially important is the adoption by the Audit Committee of a specific procedure for the committee to oversee the regular and occasional financial information provided to the market supervision bodies.

All of the foregoing redounds in a more direct control of the preparation of the Company's economic-financial information. This control, carried out by a professional body comprising Directors with the highest professional qualification with regard to the matters of the said committee (as seen in the professional career of each member as indicated above) presupposes a strengthening of the principles of trustworthiness, security, accuracy and sufficiency in the accounting, as well as transparency of the process of preparing the Company's financial information.

A summary of the activities of the Audit Committee during the 2003 financial year is included in Chapter VII of this report.

#### **APPOINTMENTS AND REMUNERATION COMMITTEE**

Following the recommendations of different national and international reports on Corporate Governance and especially those of the Report of the Special Commission to Foster Transparency and Security of Markets and Listed Companies (the Aldama Report), an Appointments and Remuneration Committee was constituted on November 18th, 2003. However, the Remuneration Committee has partially performed the functions of this Committee since 1999. Given the continuity of these committees, this Report includes the successive activities of both.

The organization, functioning and jurisdiction of the said Committee is regulated in article 24 of the Articles of Association and in articles 17 and 18 of the Regulations for the Board.

#### **Composition and functioning**

Article 17 of the Regulations stipulates that the Committee is to be formed of the number of Directors set by the Board of Directors, with a minimum of three (3) and a maximum of (5) members, with a majority of External Directors and the participation of independent directors, reasonably reflecting the composition of the Board.

The composition of the said Committee, at the date of approval of this report, is as follows:

<i>DIRECTOR</i>	<i>POSITION</i>	<i>TYPE OF DIRECTOR</i>
MR. ANTONIO GARAMENDI LECANDA	CHAIR	INDEPENDENT
MR. PEDRO MIELGO ÁLVAREZ	MEMBER	EXECUTIVE
MR. PEDRO RIVERO TORRE	MEMBER	INDEPENDENT
MR. JUAN GURBINDO GUTIÉRREZ	MEMBER	SHAREHOLDER REPRESENTATIVE

The Chair of the Committee is elected by members of the committee and the Committee Secretary is the Secretary to the Board of Directors, Mr. Rafael Garcia de Diego Barber. The appointment and dismissal of the Committee's members is the responsibility of the Board of Directors at the proposal of the Chair of the Board.

The Committee members carry out their functions for a period not to exceed three years. They may be re-elected and dismissed when re-elected or dismissed as Directors or when so agreed by the Board of Directors, at the report of the Appointments and Remuneration Committee.

The Committee will consider any suggestions submitted by the Chair, the members of the Board, management or shareholders of the Company in matters affecting the appointment of Directors, the appointment of Managing or Executive Directors and compliance with principles of Corporate Governance, the Articles of Association and Regulations for the Board.

The Committee meets as often as necessary to carry out its functions and at least quarterly, when convened by its Chair or at the request of two of its members, and whenever the Board of Directors or its Chair requests the issue of a report or the adoption of proposals.

Notice of meetings, including the Agenda for the meeting, will be issued by the Chair or Secretary of the committee to each member at least three days prior to the date scheduled for the meeting, except in cases of emergency when it is necessary to meet sooner.

The Committee may be called to order with the attendance of the majority of its members and its decisions or recommendations will be adopted by a majority of votes, duly noted in the minutes at the conclusion of the meeting. To better carry out its duties, the Committee may propose to the Board of Directors the possibility of obtaining advice from independent professionals and it will have access to any type of corporate information or documentation required to carry out its functions.

### **Functions**

The basic responsibilities of the Committee, in accordance with article 24 of the Articles of Association and article 18 of the Regulations for the Board, are as follows:

- a) To propose to the Board of Directors the system and amount of annual remuneration to Directors.
- b) To propose and review on a regular basis the criteria and schemes for the remuneration of the Chair, the Board and the Senior Management of the company and its affiliates, taking into account the results of same and the responsibility, dedication and incompatibilities required of the Directors. It will also know about and assess the policy for Company managers.
- c) To oversee the transparency of the Board's remuneration and to know the guarantee clauses included in Senior Management contracts.
- d) To provide information, prior to acceptance, on all proposals made by the Board of Directors to the General Meeting regarding the appointment or dismissal of Directors, including co-opting.
- e) To propose to the Board of Directors a system for the selection of independent expert Directors.
- f) To propose and report on any other matter related to the foregoing and which may be requested by the Chair or by the Board of Directors.

A summary of the activities of the Appointments and Remuneration Committee during the 2003 financial year is included in Chapter VII of this Report.

#### 4. REMUNERATION OF DIRECTORS

The remuneration received by the members of the Board of Directors of Red Eléctrica during the 2003 financial year amounts to 2,195 thousand euros, including attendance at Board meetings and dedication to Committees, estimated remuneration based on results and salaries of those board members who also render employment-related services.

The remunerations, together with the concepts therefore, are as follows:

CONCEPT OF THE REMUNERATION	THOUSANDS OF EUROS
ATTENDANCE AT BOARD MEETINGS AND COMMITTEES	717
REMUNERATION BASED ON RESULTS	1,143
SALARIES	335
<b>Total</b>	<b>2,195</b>

By type of Director, the remuneration was distributed as follows during the 2003 financial year:

	ATTENDANCE AT BOARD MEETINGS AND COMMITTEES	VARIABLE REMUNERATION BASED ON RESULTS	THOUSANDS OF EUROS	
			SALARIES	TOTAL
EXECUTIVES	69	234	335	638
SHAREHOLDER REPRESENTATIVES	321	499	0	820
INDEPENDENT DIRECTORS	327	410	0	737
<b>Total</b>	<b>717</b>	<b>1,143</b>	<b>335</b>	<b>2,195</b>

The remuneration of Directors representing substantial shareholders, namely the Sociedad Estatal de Participaciones Industriales (SEPI), is subject to the regime presented below.

During the 2003 financial year, the remuneration received by members of the Board of Directors as a result of their serving as members of other Boards of Directors in the Group totalled 87 thousand euros.

This amount corresponds completely to independent Directors.

#### Clauses in the Articles of Association and Regulations for the Board on remuneration of members of the Board

The pertinent clauses of the Articles of Association and Regulations for the Board regarding the remuneration received by members of the Board of Directors are as follows:

##### Article 20 of the Articles of Association:

*"(...) The remuneration of the Board of Directors will consist of a fixed monthly amount, as emoluments for attending the Administrative bodies plus a participation in Company profits. The overall annual remuneration for the entire Board and for the concepts listed above will be 1.5 per cent of the net profits of the Company, as approved by the General Meeting. All of the above remuneration will in any case be maximum values, and the Board itself will distribute the amount between the foregoing concepts and the Directors, in the manner and proportion and at such time as it deems fit. In accordance with the provisions of article 130 of the Spanish Companies' Act, remuneration for the concept of participation in profits may only be received by Directors after payment of all contributions to the legal and statutory reserves and having paid all shareholders a minimum dividend of 4%.*

*Remuneration in the form of delivery of shares, or rights to an option over same or indexed to share value, will require the agreement of the General Meeting of Shareholders, stating the number of shares to be delivered, the strike price of the options, the value of the shares taken as reference and the duration of this system of remuneration.*

The remuneration described in this article will be compatible with and independent of salaries, remunerations, compensations, pensions or indemnities of any kind, established either generally or specifically for those members of the Board of Directors enjoying an employment relationship, whether ordinary or specific to Senior Management, or providing services to the Company, which relationships will be compatible with their condition as members of the Board of Directors."

As established in the Sole Additional Provision of the Articles of Association, remuneration to Directors representing substantial shareholders, namely the SEPI, will be adjusted to meet the standards of remuneration applicable in the public sector:

#### Article 28 of the Regulations for the Board:

1. "Directors will be entitled to receive the remuneration set by the General Meeting and by the Board of Directors based on the provisions of the Articles of Association and those contained in these regulations.
2. The Board will see that the remuneration for Directors is moderate, based on market conditions and to a significant degree tied to performance of the Company.
3. The remuneration to Directors will be transparent. As such, the Appointments and Remunerations Committee will prepare an annual memorandum with the remuneration policy for Directors at the level of individualization per Director or groups of Directors and by the concept or concepts it may determined in each case, which may be included separately from the remuneration corresponding to them as managers. The annual memorandum prepared by this Committee will include a mention of the delivery or assignment of shares, stock options or systems indexed to share value, in the case of remuneration to Executive Board Members, as well as a breakdown of salaries in cash and in kind, bonuses, pension funds, provisions for indemnities and such other compensations as may exist. The said Memorandum will also include appropriate explanations for any amounts in excess of the maximum limit of 1.5 per cent of profits as set out in article 20 of the Articles of Association if there are any reservations in the Auditor's Report."

With regard to the remuneration for External Board Members, article 29 of the Regulations for the Board establishes:

"The Board of Directors and the Appointments and Remuneration Committee will adopt all measures available to it to ensure that the remuneration to External Directors follows the following guidelines:

- a) External Directors will be remunerated on the basis of their effective time dedicated.
- b) External Directors must be excluded from the social welfare systems financed by the Company for cases of dismissal, death or any other situations foreseen for Executive Directors.
- c) The amount of the remuneration for each Independent Director will be calculated in such a way as to serve as an incentive for their dedication, but shall not constitute an obstacle to their independence.
- d) Insurance cover, for insurable risks derived from attending Board meetings and the performance of duties which the Board agrees to establish, will not be considered as remuneration to External Directors".

## 5. POSITIONS OF DIRECTORS IN OTHER COMPANIES OF THE GROUP, SPANISH LISTED COMPANIES AND SHAREHOLDERS WITH SUBSTANTIAL HOLDINGS

As of December 31st, 2003, the positions held by Company Directors in other undertakings of the Group are as follows:

DIRECTOR	GROUP COMPANY	POSITION
MR. PEDRO MIELGO ÁLVAREZ	RED ELÉCTRICA TELECOMUNICACIONES, S.A.	CHAIR OF THE BOARD OF DIRECTORS AND THE COMPANY
	RED ELÉCTRICA INTERNACIONAL, S.A.U.	JOINT ADMINISTRATOR
	RED ELÉCTRICA DEL SUR, S.A.	MEMBER OF THE MANAGEMENT BOARD
MR. PEDRO RIVERO TORRE	RED ELÉCTRICA TELECOMUNICACIONES, S.A.	MEMBER OF THE BOARD OF DIRECTORS
MR. ANTONIO GARAMENDI LECANDA	RED ELÉCTRICA TELECOMUNICACIONES, S.A.	MEMBER OF THE BOARD OF DIRECTORS
MR. JOAQUIM CLOTET I GARRIGA	RED ELÉCTRICA TELECOMUNICACIONES, S.A.	MEMBER OF THE BOARD OF DIRECTORS



The positions of Company Directors sitting as members of the Board of Directors of other entities listed on official stock exchanges in Spain, as of December 31st, 2003, are:

<i>DIRECTOR</i>	<i>LISTED COMPANY</i>	<i>POSITION</i>
MR. ANTONIO GARAMENDI LECANDA	GRUPO TUBOS REUNIDOS, S.A.	DIRECTOR
MR. ELÍAS VELASCO GARCÍA	UNIÓN FENOSA, S.A.	MEMBER OF THE BOARD AND GENERAL MANAGER
MR. JOSÉ RIVA FRANCOS	ALDEASA, S.A.	DIRECTOR
	COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.	DIRECTOR
	ENAGÁS, S.A.	DIRECTOR
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	IBERDROLA, S.A.	VICE CHAIR AND MANAGING DIRECTOR
MR. JOSÉ MANUEL SERRA PERIS	GRUPO EMPRESARIAL ENCE, S.A.	DIRECTOR
	URALITA, S.A.	DIRECTOR
	NATRACEUTICAL, S.A.	DIRECTOR

The members of the Board of Directors also sitting as members of the Board of Directors or directors of undertakings with a significant interest in the Company, as of December 31st, 2003, are:

<i>DIRECTOR</i>	<i>SIGNIFICANT SHAREHOLDER</i>	<i>POSITION</i>
MR. JUAN GURBINDO GUTIÉRREZ	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	DIRECTOR OF ADMINISTRATION AND RESOURCES
MR. MANUEL ALVES TORRES	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	DIRECTOR OF PLANNING AND CONTROL
MR. ENRIQUE LACALLE COLL	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	SPECIAL GOVERNMENT DELEGATE IN THE CONSORTIUM OF BARCELONA'S DUTY-FREE AREA

The Company has no notice of the existence of any other relationships between members of the Board of Directors and the substantial shareholder, the Sociedad Estatal de Participaciones Industriales (SEPI).

## 6. PARTICIPATION AND POSITIONS OF DIRECTORS IN COMPANIES WITH ANALOGOUS OR COMPLEMENTARY CORPORATE PURPOSES

As of December 31st, 2003, the members of the Board holding stakes in or exercising positions or functions in other undertakings with the same, analogous or complementary corporate purpose as those of the Company or its group, were as follows:

<i>DIRECTOR</i>	<i>COMPANY</i>	<i>N° OF SHARES</i>	<i>POSITION OR FUNCTION</i>
MR. PEDRO RIVERO TORRE	IBERDROLA, S.A.	400	--
MR. JOAQUIM CLOTET I GARRIGA	UNIÓN FENOSA, S.A.	1,900	--
MR. ELÍAS VELASCO GARCÍA	UNIÓN FENOSA, S.A.	17,248	MEMBER OF THE BOARD AND GENERAL MANAGER
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	IBERDROLA, S.A.	132,274	VICE-CHAIR AND MANAGING DIRECTOR
	IBERDROLA DISTRIBUCIÓN ELÉCTRICA S.A.	--	JOINT AND SEVERAL ADMINISTRATOR
	IBERDROLA ENERGÍA S.A.	--	SOLE ADMINISTRATOR
	IBERDROLA GENERACIÓN S.A.	--	JOINT AND SEVERAL ADMINISTRATOR
	IBERDROLA INGENIERÍA Y CONSULTORÍA S.A.	--	SOLE ADMINISTRATOR
	IBERDROLA ENERGÍAS RENOVABLES II S.A.	--	JOINT AND SEVERAL ADMINISTRATOR
	ENDESA, S.A.	35,000	--
MR. JOSÉ MANUEL SERRA PERIS	ENDESA, S.A.	3,232	--

# Chapter III

## Linked or intragroup relations

### 1. OPERATIONS WITH SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

There were no operations in the 2003 financial year between the Company and/or its Group with substantial shareholders (the Sociedad Estatal de Participaciones Industriales or SEPI) leading to a transfer of resources or obligations between them.

### 2. OPERATIONS BETWEEN MEMBERS OF THE BOARD AND MANAGERS OF THE COMPANY AND THE GROUP OF COMPANIES TO WHICH THE COMPANY BELONGS

As of December 31st, 2003 there were no credits or pre-payments in the corporate Balance Sheet nor any guarantees constituted by the Company in favour of members of the Board of Directors. Nor were there at that date any obligations in the area of pensions for members of the Board.

During the 2003 financial year there were no operations that did not correspond to ordinary business or were not under normal market conditions, between members of the Board of Directors and the Company or other undertakings of the Group, whether directly or through others acting on their behalf.

Nor were there any operations by the managers of the Company other than ordinary transactions or under normal market conditions.

### 3. MATERIAL OPERATIONS WITH OTHER UNDERTAKINGS BELONGING TO THE SAME GROUP

During the 2003 financial year, there were no material transactions with other Companies in the Group except those forming part of the Company normal business with regard to its purpose and conditions.

The transactions between members of the Group and its associated Companies and those consolidated by the equity method during the financial year closed on December 31st, 2003, are as follows (stated in thousands of euros):

COMPANY	BALANCES		TRANSACTIONS	
	DEBTORS	CREDITORS	EXPENSES	INCOME
RED ELÉCTRICA DEL SUR, S.A. (REDESUR)	65	11	-	412
RED DE ALTA TENSIÓN, S.A. (REDALTA)	12,927	-	-	1,708
TENEDORA DE ACCIONES DE REDESUR, S.A.	1	-	-	-

### 4. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND/OR ITS GROUP AND MEMBERS OF ITS BOARD OF DIRECTORS, MANAGERS OR SUBSTANTIAL SHAREHOLDERS

In accordance with the terms of article 127 ter of the Spanish Companies' Act, article 20 of the Articles of Association reflects the duty of the Directors to be loyal, as described in article 31 of the Regulations for the Board.

The said article provides that Directors must refrain from attending or intervening, either directly or indirectly, in any deliberations affecting matters in which they have a personal interest.

Any matter affecting a person related to a Director, or a Company with whom he or she is an employee or there is a professional relationship or in which he or she holds a position or has a substantial involvement will also be considered to represent a personal interest.

Persons related to the Director as a private individual include:

- (i) the Director's spouse or person with an analogous relationship;
- (ii) the ascendants, descendants and siblings of the Director or his/her spouse;
- (iii) the spouses of the ascendants, descendants or siblings of the Director;
- (iv) the companies in which the Director, either personally or through another party, is involved in one of the situations described in article 4 of the Spanish Stock Market Act (Law 24/1988).

With regard to Directors which are bodies corporate, the following will be understood as people related to the same:

- (i) the partners involved in any of the situations contemplated in article 4 of the Spanish Stock Market Act (Law 24 dated July 28th, 1988) vis-à-vis the body corporate which is a Director;
- (ii) Directors, de iure or de facto, receivers, proxies with general powers of attorney from the body corporate which is a Director;
- (iii) undertakings forming part of the same group, as defined in article 4 of the Spanish Stock Market Act (Law 24 dated July 28th, 1988), and their partners;
- (iv) persons related to the representative of the body corporate which is a Director as described for the Directors who are private individuals.

Directors must notify any possible conflict of interest they may have with the Company. In the event of a conflict, the Director affected will refrain from intervening in the operation to which the conflict refers.

Directors representing shareholders will reveal to the Board any conflict of interest between the Company and the shareholder(s) proposing their appointment when this affects any of the matters submitted to the Board, and shall refrain from participating in the adoption of any of the corresponding resolutions.

With regard to compliance with the obligations of Directors, including the duty to loyalty affecting any possible conflict of interest of the same, article 18.3 of the Regulations for the Board gives the Appointments and Remuneration Committee the power to (i) oversee compliance by the Directors of the obligations established, (ii) report to the Board on compliance, and (iii) issue the corresponding reports and proposals, including, if appropriate, measures to be adopted in cases of failure to comply.

In the course of 2003, the Company was not informed by its Directors, managers or significant shareholders of any specific case of conflict of interest.

The Company's new Code of Conduct for Stock Market Trading, approved in July, 2003, establishes that members of the Board of Directors must inform the Board, through the Corporate Economic-Financial Department and without prejudice to the terms of the Regulations for the Board of Directors, of any possible conflict of interest that they may have due to their ties or family relationships, personal wealth or any other reason.

This information must be kept up to date, with any change or the end of any of the situations previously reported being notified, as well as the appearance of any new possible conflicts of interest.

## Chapter IV

# Risk control systems

Several years ago, the Red Eléctrica Group began a systematic analysis of the risks involved in its activities. This analysis was adapted in 1999 to the conceptual framework of the COSO Report on Internal Control.

Today Red Eléctrica and its Group have a risk control system that covers both risks arising from internal processes as well as risks endemic to the environment in which they operate.

The purpose of this system is to systematically homogenize risk identification, assessment, management and information processes. Other fundamental elements of the plan include the design and execution of action plans involving risks and periodic review of their status.

The system covers all the activities performed by the Company and its Group, and is in accordance with its risk profile.

A more detailed description is given below for the components of the system, the main risks of the Company and its Group, process design and investment criteria with regard to the risks and relating to the decision making, supervisory and risk control organs.

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### Risk control system

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The risk control system is based on the following:

**a) Identification, analysis and assessment of the risks**

Performed by type of risk and with the participation of the heads of the units entrusted with the management of processes linked to the types of risk analysed.

The analyses take into account both the probability of an occurrence (through critical factors impacting the materialization or otherwise of the risk, its weighting, the situation of Red Eléctrica with respect to each critical factor and the assignment of a global assessment for the set of factors) as well as the impact should it materialize (based on the effect on the bottom line, social impact or image).

The assessment and evaluation of the risk is the result of combining the probability of its occurrence with the impact its materialization would have.

**b) Actions to reduce and mitigate risk**

Once the risk assessment is performed it is compared with the situation considered assumable and, if appropriate, an action plan is designed to contemplate the actions necessary to reduce the probability of occurrence of the hazard, its impact if it materializes, or both.

**c) Follow-up on the action plan**

The status of the actions stipulated is regularly checked, as is the evolution of the corresponding indicators.

**d) Status review of the hazards**

Risk identification, analysis and assessment processes already carried out are periodically reviewed in order to have an updated "risk map".

**e) Information**

The information on prior phases of the system is periodically sent to decision making and risk supervisory bodies.

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## Main risks

The most significant risks present for the Group and integrated into the system are: a) Regulatory, since the main business activities of Red Eléctrica and its Group are subject to regulation; b) Operational, basically derived from activities assigned to it in the power system; c) Market-related, due to the fact that the majority of its income, as well as certain costs may be influenced by the evolution of economic variables such as inflation or interest rates; d) related to Business and Credit (or counterpart) especially in telecommunications activities; and e) Environmental, due to the growing demands of society regarding the care and protection of the natural environment.

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## Processes and investments

Red Eléctrica has constantly designed and implanted processes to mitigate or reduce risks relating to the same, subjecting them to a continuous improvement and verification system.

As an example of this, one may cite the processes integrated into the systems in accordance with international standards which require a systematic audit of their accurate design and their effective implementation and fulfilment: environmental management process (this system has held ISO 14,001 certification since 1999), prevention of risks in the workplace (this system has had OHSAS 18,001 certification since 2002), technical processes for Transport and Operation of the Power System (this system has had ISO 9001 certification since 1999), or the financial and supply process with limits established according to type of operation, amount and duration, list of authorized counterparts, etc.

In addition, all proposals for important projects, from an economic as well as a strategic perspective include the corresponding risk analysis, allowing these to be evaluated as part of the decision-making process. These decisions are taken by the corresponding body based on the limits established, with the most important projects requiring the approval of the Board of Directors.

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## Decision making, supervision and control organs

The Board of Directors governs and administers the Company and its Group, and has the function of defining the control environment and risk profile of Red Eléctrica and its subsidiaries.

The Board of Directors establishes the vision, mission and business strategy of Red Eléctrica, ensuring that the systems and practices required to manage all risks to which it is exposed are implemented.

The Board of Directors performs risk follow-up and establishes timely measures to ensure their adequate control and management.

The risk control function is centralized in a unit that reports directly to the Chair.

# Chapter V

## General Meeting

### 1. REGULATIONS FOR THE GENERAL MEETING

During the Extraordinary General Meeting of the Company's Shareholders held on July 17th, 2003, the Board of Directors proposed the approval of the Regulations for the General Meeting of Shareholders, which was approved with 98.94% of the votes in favour.

Its contents conform to the regime established by Law 26 dated July 17th, 2003, and is perfectly in line with the most extensive recommendations in these matters, expectations expressed by shareholders on different occasions and the opinions of the experts consulted.

The Regulations incorporate the basic principles of the shareholders' charter, including new forms of protection and participation for the maximum recognition of their rights in the Company. They also establish the principles for the organization and operation of the General Meeting and the standards governing their activity vis-à-vis statute and the Articles of Association.

Since its approval, the Regulations have been published on the web page of the Company ([www.ree.es](http://www.ree.es)) to facilitate their diffusion among shareholders and the investing public. They are entered on the Companies' Register and have been notified to the CNMV.

### 2. RULES FOR THE ORGANIZATION AND OPERATION OF GENERAL MEETING

#### Notice of Meeting

Article 5 of the Regulations for the Board establishes that the General Meeting, both ordinary and extraordinary, will be convened by the Board of Directors through the publication of a notice in the Official Gazette of the Companies' Register (BORME) and one of the newspapers with the greatest circulation in Madrid, fifteen days prior to the date scheduled for said Meeting, except when a greater notice period is required by law and without prejudice to providing notice with sufficient time to facilitate as far as possible that all shareholders can plan their attendance.

The notice published will give the date of the meeting at the first call and the matters included on the Agenda. Furthermore, it may indicate the date of a second call. A minimum term of twenty-four hours must elapse between the two calls for meeting. If the notice of the second call is not provided and it is not possible to hold the General Meeting at the first call, then due notice of the second call will be given in the same form as the first within fifteen days following the date of the meeting that could not be held and at least eight days before the date scheduled for the second meeting. The Board will strive to state in the notice published the probable date of the meeting at the first or second call.

Meetings may be held at the corporate domicile or any other place in the municipality of the corporate headquarters. The notice will state the timetable and place where the shareholders may review the documents submitted for approval at the Meeting, without prejudice to the shareholders' power to request and receive the said documents sent free of charge. The Notice of the Meeting will also be placed on the corporate web site and a copy will be sent to the Exchanges listing the shares.

The Board will convene an Extraordinary General Meeting when partners holding 5% of the corporate capital so request with an explanation of their reasons, specifying the matters to be discussed, which must refer to matters over which the Board has jurisdiction. In such a case, the Meeting will be convened to be held with-

in thirty days following the date that the Board of Directors receives a notarised request for said meeting, and the Board will draft the Agenda for the said meeting, including the matters stated in the request in the form that best suits the corporate interests.

In the event that the General Meeting is not convened by the Board of Directors despite the obligation so to do, then it must be convened by the competent Court with jurisdiction in the corporate domicile at the request of the shareholders and after hearing the opinion of the Board; this Court will, if appropriate, designate the person who is to chair the said meeting.

### **Meeting Quorum**

The quorum necessary to call a General Meeting to order is established in article 14 of the Articles of Association and in article 11 of the Regulations for General Meetings. The Articles of Association and the Regulations for the General Meeting of Shareholders do not contemplate any differences with regard to the regime established by articles 102 and 103 of the Spanish Companies' Act.

As indicated later in this document, the minimum number of shares (50) required by the articles of association in order to attend the General Meetings has been eliminated.

### **Procedure at the meetings**

Article 15 of the Regulations for General Meeting contain a detailed description of the rules for the correct functioning of the General Meeting of Shareholders.

This article specifies that, prior to beginning with the Agenda of the Meeting, a list of all those attending will be drawn up, giving the nature or representation of each person attending and the number of shares, whether personally owned or held by another, with which they may vote. The list will conclude with a determination of the number of shareholders present or represented, as well as the amount of capital held by them and specifying the amount corresponding to shareholders with voting rights, summarized and verified by the Secretary.

Once the meeting is called to order; the secretary will read the information from the notice and attendance based on the attendance list. In the light of the list of those attending the Chair will, if appropriate, declare the General Meeting valid. If a Notary Public is present at the request of the Company to prepare and certify the Minutes of the meeting, all those attending will be asked if there are any reservations or disagreement with the information regarding attendance of shareholders and capital as stated by the Chair.

At Ordinary the General Meeting, the Chair will inform the Meeting of the most relevant aspects of the financial year and the proposals of the Board; this report may be complemented by such individuals as may be authorized.

The Chair of the Audit Committee will be available at the Meeting to respond to any questions the shareholders may have regarding matters under the jurisdiction of this Committee.

Once all the presentations are completed, the Chair will allow shareholders so requesting time to speak, directing and co-ordinating the discussion and following the Agenda previously established, except under the conditions set in articles 131 and 134 of the Companies Act.

### **Voting Procedures**

Article 15.8 of the Regulations for General Meetings establishes that each share has the right to one vote as established in the Articles of Association, with the limitations specified in line with the mandate of the Electricity Sector Act.

The Chair will decide on the most appropriate method of proceeding with voting in each case, and will publicly announce same to the General Meeting with sufficient time and prior to any voting.

Particularly noteworthy is the provision contained in article 15 of the Regulations for General Meetings regarding electronic voting systems. This precept provides, in those cases where the Chair deems this method is required for reasons of logistics or urgency, the possibility of establishing an electronic means of voting, which will include accreditation of the identity of the voter and his or her capacity as shareholder or proxy, with the clear and unequivocal indication of the number of shares and the vote cast or, if appropriate, abstention.

Regardless of the foregoing provision, the development of legal norms and statutory modifications relating to means and procedures for remote voting, including, as appropriate, forms to accredit attendance and exercise of voting rights by telematic means at General Meetings, remains pending.

#### **Adoption of corporate resolutions**

Article 17 of the Articles of Association and article 15.9 of the Regulations for the General Meeting of Shareholders contain no differences with regard to the regime established in current legislation in that they only establish that resolutions will be adopted by a majority of votes, except when a superior majority is required by law.

#### **Corporate web site and publication of Company resolutions**

Article 2 of the Regulations for the General Meeting specifies the content of the Corporate web site, intended to serve as an instrument to ensure corporate transparency and at the same time to allow greater effectiveness by shareholders in exercising their rights, as well as facilitating relations between shareholders and the Company.

However, since the availability of a web site by publicly traded companies is a legal obligation, by virtue of Law 26 dated July 17th, 2003, in order to publish relevant market information, Red Eléctrica has used this medium of communication since its incorporation onto the markets in 1999 and its contents are regularly updated, with a broader scope than that required by applicable legislation.

In this regard, the corporate web page, , includes a section accessible from the home page dedicated to "Shareholders and Investors". This section includes, among others, a section specifically entitled "Corporate Governance" containing all the information of interest to the shareholder in this regard. The page also includes, among other things and in accordance with the Regulations for General Meetings of Shareholders, the following contents:

1. The Articles of Association.
2. The Regulations for General Meetings and for the Board of Directors and other provisions of Corporate Governance.
3. The quarterly performance reports and the annual reports for the past two years, together with the reports of the external auditors.
4. The annual Corporate Governance Report prepared by the Board.
5. The composition of the Board and its Committees.
6. Shareholders identified with stable stockholdings, whether direct or indirect, and their representation on the Board, as well as the private agreements between shareholders that have been reported in any form to the Company and the market.
7. The stockholdings of each of the members of the Board.
8. The information contained in the presentations given to the different market operators and analysts, intermediaries and substantial shareholders.
9. The significant events reported to the CNMV.
10. Resolutions adopted at the last General Meeting held.
11. Current notice for the next General Meeting.
12. The information to be made available to Shareholders together with the notice for the next General Meeting.
13. The responses to proposals and suggestions from shareholders.

With regard to publication of the resolutions approved by the General Meeting, article 17 of the Regulations for General Meetings specifies that, without prejudice to the inclusion on the Companies' Register of such resolutions as may be entered thereon and such legal provisions regarding publication of corporate resolutions as



may apply, the Company will provide the text of the resolutions approved to the CNMV via timely communication of significant events on the same day that the meeting was held or the following working day. The text of the resolutions will also be available through the Corporate web page, once reported to the CNMV.

With regard to the transparency of the information provided and Corporate Governance of public traded companies, the specialized media and, in general, professionals working on stock market information have highlighted the excellent position of the Company's web site in their assessments.

In this sense, in June 2003, the Spanish Business Administration and Accounting Association (AECA) confirmed the "Award to the Company with Best Financial Information on the Internet" awarded to Red Eléctrica in June 2002, with an "Honourable Mention" in recognition of the quality of its web site as a result of a comparative analysis of the contents, navigability, design and accessibility of the web pages of all Ibex-35 companies.

### 3. RIGHTS OF SHAREHOLDERS

The regulations regarding shareholders' rights are contained in article 15 of the Articles of Association and articles 6 to 10 of the Regulations for General Meetings. The Articles of Association refer expressly to the right to receive information and to attend Meetings.

In accordance with current corporate legislation, article 6 of the Regulations for General Meetings lists the specific rights of all shareholders and adds the new right of participating in corporate affairs.

#### Right to receive information

The Company pays special attention to the shareholders' right to receive information, as reflected in article 15 of the Articles of Association and in article 8 of the Regulations for General Meetings.

In this regard, the said article 8 establishes the obligation to make available to shareholders, free of charge, both in the Office for Shareholder Relations as well as on the corporate web site, the documentation and information relating to the Agenda for General Meetings, including the following documentation:

- a) The notice of the General Meeting with the corresponding resolutions and reports proposed by the Board of Directors.
- b) The Annual Financial Statements of the Company, the Consolidated Financial Statements and proposals for application of the results from the financial year.
- c) Corporate Management Report and Consolidated Management Report for the period.
- d) Audit Report for the Consolidated Financial Statements and Annual Financial Statements of the Company.
- e) Annual Report on Corporate Governance.
- f) The Company Report.
- g) The Environmental Report.
- h) Any other report as may be required, or as determined by the Board of Directors.

So as to reinforce the shareholders' right to information, they may request from the Company pertinent documentation, reports or clarifications regarding the matters listed in the Agenda for General Meetings as well as information, clarifications or formulation of written questions regarding the information facilitated by the Company to the CNMV since the last General Meeting was held.

Shareholders may also formulate written questions regarding the information available to the public or communicated to competent authorities, and may also consult same through the Office for Shareholder Relations.

In addition, article 15.4 of the Regulations for General Meetings establishes that shareholders may, in the course of the Meeting, orally request such reports or clarifications as they may consider appropriate regarding the matters contained on the Agenda. In the event that this right cannot be satisfied at that time, then the Board of Directors will provide the information in writing within seven days following the Meeting.

**Right to participate**

The Company believes, in line with best practices of Corporate Governance, that new forms of shareholder protection and participation should be developed in order to give maximum recognition of their rights in the Company. For this reason, the Regulations for General Meetings pay special attention to the right to participate stated in article 7.

This article provides for shareholders with 5% of the corporate capital to request, prior to the convening of meetings, that the Board include a point on the Agenda for the next General Meeting. The Board of Directors must include the matters so requested as may best serve the corporate interest, if and when they refer to matters within the jurisdiction of the meeting.

Shareholders may also formulate proposals regarding the matters included on the Agenda, as well as make suggestions regarding the activities and interests of the Company which in their judgment should be discussed during the General Meeting.

In both cases, shareholders may present their proposals and suggestions through the Office for Shareholder Relations.

**Right to attend**

Article 15 of the Articles of Association and article 9 of the Regulations for General Meetings establish that shareholders who are up to date in the payment of capital calls and accredit their share ownership through certification of their name in the corporate books at least five days prior to the Meeting have the right to attend.

Board members and directors of the Company shall attend the General Meetings. Generally speaking, in order to promote the widest publication of the meetings and the resolutions adopted, the media will be given access to General Meetings and allowed to record in audiovisual format.

The Articles of Association and the Regulations for General Meetings establish specific conditions for the representation of shareholders at the meetings, even though there is no specific policy established by the Company regarding the delegation of votes at the General Meetings of Shareholders.

To this effect, article 15 of the Articles of Association and article 10 of the Regulations for General Meetings provide that shareholders with the right to attend may be represented at General Meetings by another shareholder with the right to attend, as established in articles 106 to 108 inclusive of the Companies Act, having regard for the terms of the Articles of Association. Such representation must be given in writing and specifically for each Meeting.

It should be noted that the last General Meeting of the Company held on July 17th, 2003, eliminated the minimum number of shares (50) required by the Articles of Association to attend the General Meeting.

Except for cases of public representation which are subject to current legal provisions, no person may accumulate votes by proxy that, together with the votes held in his or her own name, give voting rights in excess of 3% of the corporate capital.

As indicated above in this document (Chapter I), Law 53 dated December 30th, 2002, regarding Fiscal, Administrative and Social Measures amended article 34 of the Electricity Sector Act (Law 54 dated November 27th, 1997) by establishing a limit of 3% of corporate capital on share ownership, except for the special regime of the Sociedad Estatal de Participaciones Industriales (SEPI).

The said law established that share voting rights in excess of the maximum percentage established by law will be suspended until the amount of capital ownership or voting rights is adjusted.

Therefore, in accordance with article 15 of the Articles of Association and article 10 of the Regulations for General Meetings, except where a public request is made for representation, in which case the legal rules cur-

rently in effect will apply, no individual may accumulate representations that together with votes held in his or her own name would voting rights in excess of 3% of the corporate capital.

#### 4. INFORMATION REGARDING ATTENDANCE, RESOLUTIONS ADOPTED AND VOTES RELATING TO GENERAL MEETINGS DURING THE 2003 FINANCIAL YEAR

The data given below show the attendance, resolutions and votes corresponding to the General Meetings of Shareholders held during the 2003 financial year:

##### Ordinary General Meeting of Shareholders (April 25th, 2003):

SHAREHOLDERS PRESENT	SHAREHOLDERS REPRESENTED	TOTAL SHAREHOLDERS PRESENT AND REPRESENTED	% CAPITAL
245 SHAREHOLDERS HOLDING 93,250,059 SHARES	3,302 SHAREHOLDERS HOLDING 7,986,290 SHARES	3,547 SHAREHOLDERS OWNING 101,236,349 SHARES	74.84 %

The information relating to resolutions adopted and the voting on each resolution is as follows:

RESOLUTION ADOPTED	IN FAVOUR	AGAINST	ABSTAINED
1° To approve the Annual Financial Statements (Balance Sheet, Profit and Loss Statement, and Annual Report) and the Management Report for the Company and the Consolidated Group, application of results and the management of the Board of Directors, all with regard to the 2002 financial year.	99.35%	0.00%	0.65%
2° To ratify the appointments of Directors made by the Board of Directors as specified in article 138 of the Companies Act, specifically Mr. Enrique Lacalle Coll and Mr. Jose Riva Francos, at the meetings held on March 25th, 2003, and April 22nd, 2003 respectively, in place of and as a result of the resignations of Mr. Enrique Hernández Pérez and Mr. Pablo Isla Álvarez de Tejera, respectively.	100.00%	0.00%	0.00%
3° To re-elect KPMG Auditors, S.L. as corporate auditors for the 2003 financial year, as established in Article 204 of the Companies Act.	100.00%	0.00%	0.00%
4° To authorize the Board of Directors to acquire treasury stock derivatively in accordance with current legal provisions.	100.00%	0.00%	0.00%
5° To amend article 20 of the Articles of Association, reducing the maximum number of Directors from fifteen to thirteen and adding new article 21 bis relating to the Audit Committee.	100.00%	0.00%	0.00%
6° To empower the Board of Directors to issue fixed income negotiable instruments and request the admission, permanence and exclusion of the same in organized secondary markets.	99.33%	0.00%	0.67%
7° To delegate on the Board of Administration for the full execution of resolutions adopted.	99.33%	0.00%	0.67%

##### Extraordinary General Meeting of Shareholders (July 17th, 2003):

SHAREHOLDERS PRESENT	SHAREHOLDERS REPRESENTED	TOTAL SHAREHOLDERS PRESENT AND REPRESENTED	% CAPITAL
102 SHAREHOLDERS HOLDING 57,316,445 SHARES	2,292 SHAREHOLDERS HOLDING 11,851,847 SHARES	2,394 SHAREHOLDERS OWNING 69,168,292 SHARES	51.13 %

The information relating to resolutions adopted and the voting on each resolution is as follows:

RESOLUTION ADOPTED	IN FAVOUR	AGAINST	ABSTAINED
1° To approve the proposal by the Board of Directors to amend the Articles of Association in the report adopted at the meeting of June 23rd, 2003, and the re-drafted text of the same.	93.61%	4.85%	1.54%
2° To approve the Regulations for General Meetings of Shareholders, as proposed by the Board of Directors at its meeting on June 23rd, 2003.	98.94%	0.02%	1.04%
3° To set the effective number of Corporate Directors at eleven (11).	99.98%	0.02%	0.00%
4° To re-elect as Mr. Pedro Mielgo Álvarez, Mr. Pedro Rivero Torre, Mr. Juan Gurbindo Gutiérrez, Mr. Antonio Garamendi Lecanda, Mr. Manuel Alves Torres, Mr. Joaquim Clotet i Garriga, Mr. Elías Velasco García, Mr. Enrique Lacalle Coll and Mr. José Riva Francos as Company Directors, and to ratify the appointments of Mr. José Ignacio Sánchez Galán and Mr. José Manuel Serra Peris, in replacement of Iberdrola, S.A. and Ms. María Luisa Huidobro y Arriba, respectively, due to their resignation.	98.46%	1.00%	0.54%
5° To delegate on the Board of Administration for the full execution of the resolution adopted.	99.43%	0.02%	0.55%

After the conclusion of the Extraordinary General Meeting, the Company learned of a challenge lodged against certain corporate resolutions (specifically, items three and four of the agenda) which is currently pending resolution by the appropriate court.

Since the date of their approval, the resolutions adopted at both General Meetings have been published on the corporate web site ([www.ree.es](http://www.ree.es)) for their dissemination among shareholders and the investing public; and those suitable for inclusion on the Companies' Register were entered thereon.

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## 5. RELATIONS WITH INSTITUTIONAL INVESTORS

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The relationship between the Company and institutional investors are generic and none are individual or specific; the Company customarily organizes informative meetings (road shows) in the main financial centres of Spain and abroad, especially where institutional investors are most present, to inform them of the Company's activities and business development, thus attempting to grow closer to this group of investors.

At no time does the Company deliver information to institutional shareholders that may give them a privileged situation or advantage over other shareholders.

The Company does not have information contrary to the above, i.e. flowing from the institutional investor, other than the specific information that said investors are able to transmit to the market.

# Chapter VI

## Compliance with recommendations regarding corporate governance

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### 1. PRINCIPLE OF TRANSPARENCY AND DUTY TO INFORM

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Relevant investor information affecting the Company provides a true image of the same from a quantitative and qualitative standpoint, is correct and conveyed to the markets in a timely, equitable and symmetric manner.

The Company regularly and immediately communicates all relevant information received by it to the markets through the CNMV, as well as information on the adoption of corresponding decisions or the signature of any agreement or contract. Relevant information of a legal or economic-financial nature, as well as strategic information is generally communicated when the markets are closed in order to prevent the production of any possible variations in share prices.

Since the Company was listed on the Exchange in 1999, Red Eléctrica has disseminated all economic and financial information and Company business of interest to shareholders and investors, together with other information referring to the power system in which it is operating, through its corporate web site as well as in various print publications.

The contents of an economic and financial nature are placed on the web page after they are communicated to the CNMV when said notification is required and they are permanently updated in order to satisfy the markets' need for information in a timely manner, beyond mere compliance with established legal obligations.

The principal economic, financial and company information that can be consulted on the web site of Red Eléctrica is:

- *General Information:* Organigram, shareholder composition, Board of Directors, business activities and company strategy.
- *Economic Information:* Key figures, Annual Financial Statements, Management Report, Consolidated Financial Statements, Consolidated Management Report, Consolidated Annual Report and preliminary results.
- *Shareholders and Investors:* Shareholder's Update, significant events and other communications sent to the CNMV, stock information in real time, dividends, Annual Report, quarterly reports, shareholder's bulletin, presentations to investors, Corporate Governance Report, Articles of Association of the Company, Regulations for General Meetings of Shareholders, Regulations for the Board of Directors, Internal Code of Conduct for Trading, Notices for the most recent General Meetings of Shareholders, Agenda and documentation relating to the proceedings of the General Meetings of Shareholders, communication channels between the Company and shareholders and Office of Shareholder Relations.

The Company's efforts to respond to shareholders' and investors' expectations with regard to informative transparency, beyond the scope of legal requirements, has resulted in public recognition by the Markets, institutions and specialists in the sector; represented by the AECA, which awarded the Company in 2002 its "Award for Best Internet Information", revalidating this award with an "Honourable Mention" corresponding to 2003. In addition, the Company holds an excellent position in the surveys and classifications recently published by various media.

From a normative point of view, the Regulations for General Meetings and the Regulations for the Board of Directors devote special attention to the principles of transparency in information, as a key tool for notifying shareholders and investors of both Corporate Governance practices currently used by the Company as well as information of possible interest.

More specifically, article 2 of the Regulations for General Meetings establishes the contents of the Corporate web site which, using the latest technologies, is configured as an instrument to assure transparency in all corporate actions and allows shareholders to exercise their rights with greater effectiveness, facilitating the shareholder-company relationship as discussed in greater depth in Chapter V of this Report. The Regulations for the Board of Directors on the other hand dedicate a complete chapter to the relationships between the Board and shareholders, markets and auditors (articles 35 to 38 inclusive), all for the purpose of facilitating and improving the flow of corporate information in favour of third parties.

## 2. PRINCIPLE OF MARKET SECURITY AND DUTY OF LOYALTY

The Aldama Report declares the strengthening of the principle of security in the markets, which carries with it a stricter regulation of the responsibilities of Directors both generally and specifically in their duties to exercise due diligence and loyalty. This recommendation has in turn been included by legislators in Law 26/2003. As regards the Company, its previous Regulations for the Board of Directors already incorporated these principles in accordance with the recommendations of the previous Olivencia Report.

The new Regulations for the Board of Directors, conforming to the provisions of the Aldama Report and Law 26/2003 painstakingly developed these principles and duties in its articles 30 and 31.

Corporate Directors must apply due diligence in carrying out their functions, and are thus obliged to maintain a pro-active role within the Board and its committees.

In particular, Directors must study and prepare adequately for the meetings of the Board and its different Committees, regularly attend all meetings, actively participate in the deliberations so that they may effectively contribute in the decisions made, carry out any specific task entrusted to them by the Board of Directors, pro-

mote the investigation of any irregularity in the management of the Company which may have come to their attention and oversee any situation of risk, calling, as appropriate, any extraordinary meetings of the board, collecting information necessary to exercise their functions effectively and opposing any resolutions contrary to Law, the Articles of Association or interests of the Company.

With regard to their duty for loyalty, the Regulations for the Board of Directors include a series of guidelines for actions for Directors to apply, oriented towards protecting the interest of the Company. The duty for loyalty is thus presented from a subjective as well as an objective standpoint, as described below:

#### **Subjective framework**

Directors will refrain from attending and intervening in any deliberations affecting matters in which they have a direct or indirect personal interest. Directors will be considered to have a personal interest when the matter affects a person related to them or a Company with which they hold an employment or professional relationship or in which they hold a management position or significant stockholding.

For all effects of the foregoing, persons related to Directors, whether individuals or bodies corporate, will be those described in article 127 of the Companies Act.

Directors must report any situation which may present a conflict of interest with the Company, and in the event of conflict, they will refrain from intervening in the operations the conflict refers to.

Directors representing substantial shareholders, for their part, will reveal to the Board any situation representing a conflict of interest between the Company and the shareholder(s) proposing their appointment when this affects matters submitted to the Board, and shall refrain from participating in the adoption of the corresponding resolutions.

#### **Objective framework**

This framework includes the following obligations on Company Directors:

- **Confidentiality**  
Directors will keep all deliberations of the Board of Directors and its Committees secret, and in all cases refrain from revealing any information, data, reports or history to which he has had access in exercising his duties. This obligation will remain in effect even when the Director no longer serves as such.
- **No competition**  
No Director will perform any acts that may be interpreted as competition to the Company. In this regard, Independent Directors may not provide professional services to companies whose corporate purpose is analogous, either wholly or in part, to that of the Company, except for such positions as may be held in group companies. Before accepting any management position in another company or entity that may represent a conflict of interest or affect their dedication, Independent Directors will consult with the Board of Directors.  
Directors must report any participation they may have in the capital of a Company with the same, analogous or complementary activities to those of the Company, or which represent to any degree, competition for the company, as well as any positions or functions exercised in the same and the exercise, either personally or for another party, of any analogous or complementary activity included in its corporate purpose.
- **Use of corporate assets**  
Directors may not use the assets of the Company nor make use of their position in the Company to their own advantage, unless they have provided appropriate compensation for the same.
- **Insider information**  
Directors may not make use of Company information that is not available to the public for private purposes, except as previously agreed by the Board of Directors.
- **Business opportunities**  
Directors will not exploit, either directly or indirectly, for their own benefit or for that of any individual related to them or for a third party, any business opportunity of the Company, except in cases when

prior to said opportunity being offered to the Director it was offered to the Board, and the Board desists from exploiting same and the Director's exploitation of said opportunity is authorized by the Board, following the report by the Appointments and Remuneration Committee.

- **Indirect operations**

Any Director who with prior knowledge allows or does not reveal the existence of operations performed by his family members or undertakings in which he or she holds a management position or holds a substantial interest or by other parties linked to him or her; and which has not been submitted to the conditions and controls set forth in the foregoing articles, thus infringes his or her duties of loyalty to the Company.

- **Use of the name**

Directors may not use the name of the Company nor invoke their position as Director of the Company in carrying out any operations for their own benefit or that of others related to them.

The Company, on the other hand, has a special duty to ensure that its activities are carried out in the atmosphere of trust required for the efficiency of the company and its progress, as described and recommended in the Aldama Report.

In this respect, the Company has assumed the recommendations and guidelines on the Social Responsibility of Companies, in harmony with the contents of the European Union Green Paper, the World Pact by the United Nations and the CSR (Corporate Social Responsibility) and GRI (Global Reporting) initiatives. All in order to carry out the administration of its business, not only complying with the general legal framework but also applying the maximum diligence with Corporate Social Responsibility, maintaining and creating a permanent value to achieve entrepreneurial excellence and at all times conciliating ethical, economic, social and environmental benefits.

Of final note is the work entrusted the Appointments and Remuneration Committee by the Regulations for the Board of Directors with regard to the duties of the Directors, and in particular with their duty for loyalty. This Committee is expressly empowered to report on their compliance to the Board, issue reports and the corresponding proposals and measures to be adopted in case of failure to comply, and in addition to authorize the use of corporate assets by Directors.

### 3. GOVERNING BODIES

#### 3.1. General Meetings of Shareholders

Shareholders' rights to receive information, attend and participate at meetings are set forth in the Articles of Association and in the new Regulations for General Meetings of Shareholders, entered on the Companies' Register and published on the company's web site ([www.ree.es](http://www.ree.es)).

More particularly, these documents amplify the rights of shareholders with regard to information and attendance at General Meetings, eliminating the minimum number of shares required for this effect (50 shares as per the previous Articles of Association) and facilitating requests for and receipt of information.

Of special note is the potential importance of the use of the Company's web site as a means of communication with shareholders and investors. In addition, the Regulations for General Meetings facilitate the maximum participation of shareholders in matters of interest to them (right to attend, calling of meetings, inclusion of points of interest and proposals on the Agenda, consultations and requests for information and votes cast).

The Regulations for General Meetings approved on July 17th, 2003, in accordance with the most widely-recognized recommendations in such matters, is in line with the regime established by Law 26 dated July 17th, 2003, which incorporated into Spanish Company Law the contents of the Aldama Report with regard to the development of shareholders' rights and the rules on the organization and operation of the General Meetings.

All of the foregoing information is described in detail in Chapter V of this Report.

### 3.2. Board of Directors

The Company has opted for a reduced, active and efficient Board comprising eleven (11) members, instead of a larger Board assisted by an Executive Committee.

The composition, organization and functions of the Board are set forth in the new Regulations for the Board of Directors dated November 18th, 2003, which amended the previous regulations from 1999, reported to the CNMV and entered on the Companies' Register as well as published on the Company's web site ([www.ree.es](http://www.ree.es)).

In accordance with the terms of current legislation and Corporate Governance practices, during the 2003 financial year the Company created an Audit Committee formed completely of external Directors, as well as an Appointments and Remuneration Committee with a majority of external Directors, in substitution of the two previous Committees which performed similar functions since 1999. The composition, operation and responsibilities of these committees are described in the new Regulations for the Board of Directors.

Corporate Directors, respected professionals with a long professional career as seen in Chapter II of this report, provide the expertise and knowledge necessary to cope with the needs of the company.

The Board comprises five external Independent Directors, five external Directors representing substantial shareholders and one executive director; thus adequately reflecting the current share structure of the Company and the recommendations of Company Governance - 59.5% free float and 40.5% substantial shareholders.

In accordance with the recommendations of the Aldama Report, the mandate of the Independent Directors, like all other Directors, is for a period of four (4) years, with the possibility of indefinite re-election. The Board Regulation has also established that no proposal for the dismissal of Independent Directors or External Directors representing substantial shareholders will be made before complying with the statutory period for which they were appointed, except for sufficient cause and following a report by the Appointments and Remuneration Committee.

The age of seventy (70) years has been established as the maximum limit to exercise the position of Director.

The Chair of the Board of Directors is also the Company's Chief Executive and is responsible for senior management, administration and full representation of the Company, acting with powers delegated by the Board.

Notwithstanding, the Chair is subject to specific controls by the Board in exercising his or her functions, to whom a report is given a posteriori or, when appropriate, as requested; in addition, the Audit Committee and the Appointments and Remuneration Committee effectively perform a supervisory function over corporate management with regard to their different jurisdictions.

With regard to remuneration of the Board, in accordance with applicable legal standards and recent practices of Corporate Governance, a breakdown has been made by the concept of the remuneration (attendance at Board meetings and dedication to its Committees, remuneration tied to results, and salaries) as well as by kind of Director. In addition, another concept of remuneration received by Corporate Directors has been included due to their membership of the Boards of Directors of other undertakings in the Group.

Since 1999, the preparation of the annual reports and economic or financial information of the Company has been under the supervision and oversight of the Audit Committee (previously known as the Audit and Compliance Committee), redounding in improved transparency and reliability.

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## 4. PROFESSIONAL SERVICE PROVIDERS

Relations between the Board and the company's external auditors are channelled through the Audit Committee. The Board of Directors will refrain from hiring auditing firms whose fees including all concepts are



anticipated to total in excess of 10% of the firm's total income during the preceding financial year; and publicly reports on an annual basis the global fees paid by the Company to the auditing firm for services provided other than auditing.

The Regulations for the Board of Directors establishes that the Board will draft the final accounts, striving to ensure that an unqualified opinion is expressed by the auditor. However, when the board considers that its criterion should be upheld, then it will publicly explain the contents and scope of the discrepancy.

Since its incorporation, the Company has not been the object of any qualifications in the audits of its Annual Reports, demonstrating the maximum accuracy, reliability and adequacy of the Financial Statements of the Company and its consolidated group throughout the life of the Company, at all times guaranteeing the utmost transparency with respect to information.

The Company also carries out frequent presentations to financial analysts and investment banks regularly attended by well-known professionals and specialists in the sector, reporting on the evolution of the Group's business and its most outstanding economic and financial figures.

After making the presentations described above, all participants are offered the opportunity to be included on a list of entities that periodically receive the most important information of the Company of interest to them. Presentations to analysts are regularly sent to the CNMV for diffusion to the markets through its web site, and then published on the web site of the Company.

In addition since 1999 the Company has an "Investor Relations Unit" responsible for attending all questions of investors and serving to channel communications with professionals in finance.

## Chapter VII

### Other information of interest

#### 1. SUMMARY OF MEMORANDUM OF ACTIVITIES OF THE AUDIT COMMITTEE

##### **Background**

Red Eléctrica's Audit Committee was created by the Board of Directors on November 30th, 1999, under the name of the Audit and Compliance Committee, in response to the process of adapting the rules of governance of the Company to the new situation of the IPO arranged by the State Industrial Ownership Corporation (SEPI) and the listing of the Company on the stock exchanges as of July 7th, 1999.

At a meeting held on November 18th, 2003, the Company's Board of Directors struck the new Audit Committee to substitute the previous Audit and Compliance Committee, all under the terms of article 23 of the Articles of Association and articles 15 and 16 of Chapter V of the new Regulations for the Board of Directors, approved at the same meeting. All of the foregoing was in accordance with the provisions of article 47 of the Financial System (Reform) Act (Law 44 dated November 22nd, 2002).

The Audit Committee met for the first time in its new configuration, replacing the previous Audit and Compliance Committee, on November 26th, 2003. Given the continuity of both, this summary will include the successive activities of both committees.

##### **Composition and functions**

The powers, organization and operations of the Audit Committee are ruled by the Articles of Association and Regulations for the Board of Directors, adapted to Laws 44/2002 and 26/2003 and reported to the CNMV.

Detailed information on these points are included in Chapter II of this report.

With regard to its activities, the Committee must keep the Board of Directors informed and prepare an Annual Memorandum which will be included in the Annual Report of the Company and its Group.

#### **Activities performed during the 2003 financial year**

The Annual Action Plan lists the activities that the Committee anticipates carrying out during the period, without prejudice to dealing with any other matter under its jurisdiction that has not been included.

The points listed on the Agenda were analysed and discussed during the meetings, with resolutions considered appropriate adopted. The Board was later informed of the activities performed and resolutions adopted, in compliance with the precepts of the Articles of Association and the Regulations for the Board of Directors.

During the 2003 financial year, the Board met seven (7) times, with the same number of reports being provided to the Board of Directors.

During the 2003 financial year, the Committee requested the appearance of different directors of the Company on matters under its jurisdiction as it deemed necessary in order to receive pertinent information on relevant matters, including the re-structuring of the corporate debt, various investment projects or the Committee's review of the annual accounts of the Company and its Group for the 2002 financial year, for which purpose the presence and collaboration of the External Auditor was also requested and obtained.

During the 2003 financial year, the Audit Committee has carried out the following activities, among others:

#### **In connection with economic and financial information:**

- Review of the Annual Financial Statements of Red Eléctrica and its Group corresponding to the 2002 financial year and the proposed distribution of profits submitted to the Board for final adoption.
- At the request of the Board of Directors, analysis of the process of re-structuring the Company's debt.
- Approval of a provisional review procedure to be carried out by the Committee for financial information sent to Market supervisory bodies, prior to its presentation to the Board.
- Examination of economic and financial information of the Company and its Group provided to the Markets.
- Analysis of the proposal to distribute an amount on account of dividends for the 2003 financial year for its presentation to the Board of Directors.
- Analysis of the Proposed Budget for 2004 of the Red Eléctrica group prior to submission to the Board of Directors.

#### **In connection with internal control systems:**

- Preparation of a proposal for approval by the Board regarding the criteria for determining those cases in which investments by affiliates must be previously reported to the Audit Committee or the Board of Directors of Red Eléctrica.
- Analysis of compliance with legal standards for the prevention of risks in the workplace.
- Review of the contents of the Company Operations Manual.
- Analysis of the situation of adjudications made by the Board of Directors in the 2002 financial year.
- Analysis of the results of internal audits performed during the 2002 financial year.
- Review of the internal Standards and Procedures of the Company.

#### **In connection with external auditors:**

- Proposal to the Board of Directors for the renewal of the External Auditors of the Accounts of the Company and its affiliates Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica del Sur S.A. (Redesur).

#### **In connection with compliance with legal provisions and internal standards:**

- Analysis of the legal modifications affecting the Company and in particular the Audit Committee, as well

as recommendations of the Aldama Report and evaluation necessary adjustments to the standards governing the operations of the Committee to comply with the new legal regime and the amended Articles of Association.

- Analysis of the measures adopted to comply with obligations established in the Stock Market Code of Conduct, including the Committee's responsibilities with regard to contents of the Regulations.
- Study and approval of communications prior to their despatch to the CNMV regarding the Company's compliance with new legal obligations with respect to Corporate Governance introduced in Law 44/2002 and Law 26/2003.

**Other activities:**

- Information to the Board of Directors on the activities of the Committee.
- Approval of the Audit Committee Action plan for 2003.
- Analysis of various investment projects.
- Review of the renovation process for the Group's insurance program and analysis of the proposal to be submitted to the Board of Directors.
- Analysis of the first draft of the Committee's Action Plan for the 2004 financial year.
- Study of the information regarding numerous relevant matters such as administrative authorizations granted to acquire transportation assets, the proposed financing granted by multilateral organizations with regard to Corporate Affiliates, the annual program for the issue of payment notes and the proposed agreement for the issue of "eurobonds" (EMTNs).

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## 2. SUMMARY OF THE MEMORANDUM OF ACTIVITIES OF THE APPOINTMENTS AND REMUNERATION COMMITTEE

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**Background**

In response to the recommendations of the Aldama Report, the Appointments and Remuneration Committee was established on November 18th, 2003. However, since 1999 part of the functions of the new committee had been performed by the Remunerations Committee.

**Composition and functions**

The powers, organization and operations of the Appointments and Remuneration Committee are ruled by the Articles of Association and the Regulations for the Board of Directors, in accordance with the most widely accepted recommendations relating to Corporate governance. All of this has been notified in due time to the CNMV.

Detailed information regarding the points indicated above are included in Chapter II of this report.

Like the Audit Committee, the Appoints and Remuneration Committee must keep the Board of Directors informed and prepare an Annual Memorandum to be included in the Annual Report of the Company and its Group.

**Activities performed in the 2003 financial year**

Five (5) meetings were held during the 2003 financial year, with the following activities carried out:

**In connection with appointments, dismissals and re-elections:**

- Appointment of Mr. Antonio Garamendi Lecanda as Chair of the Appointments and Remuneration Committee at the meeting on December 18th.
- Proposal to the General Meeting of Shareholders of Red Eléctrica Internacional S.A. to appoint Mr. Victoriano Casajús Díaz as Joint Administrator of that company, replacing Mr. Luis Ballester Surroca who became its General Manager.
- Start of the analysis to define the criteria to be used in selecting Independent Directors.

**In connection with remuneration**

- Approval of the degree of compliance with the Corporate Objectives of Red Eléctrica and its affiliates corresponding to the 2002 financial year.
- Approval of the degree of compliance with Individual Objectives for 2002 of members of the Steering Committees of Red Eléctrica and Red Eléctrica Telecomunicaciones, S.A. and the General Manager of Red Eléctrica Internacional, S.A.
- Approval of the Variable Remuneration corresponding to the 2002 financial year for members of the Steering Committees of Red Eléctrica and Red Eléctrica Telecomunicaciones, S.A. and the General Manager of Red Eléctrica Internacional, S.A.
- Approval of targets to be achieved by the management team (at company and individual level) of Red Eléctrica, Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A. for 2003 and the corresponding weighting in the Variable Remuneration of the management team of these companies.
- Approval of the Individual Targets of members of the Steering Committee of Red Eléctrica and Red Eléctrica Telecomunicaciones, S.A. and the General Manager of Red Eléctrica Internacional, S.A. for 2003.
- Definition of the remuneration proposed for members of the Board of Directors of Red Eléctrica in 2003 for approval by the Board of Directors, as well as remuneration for members of the Board of Directors of Red Eléctrica Telecomunicaciones, S.A. for approval by the General Meeting of this subsidiary.
- Verification of the amounts of remuneration corresponding to each member of the Board of Directors of Red Eléctrica for remuneration based on the results for the 2002 financial year.
- Analysis of the proposed Corporate and Individual Targets of the members of the Steering Committees of Red Eléctrica and Red Eléctrica Telecomunicaciones, S.A. and the General Manager of Red Eléctrica Internacional, S.A. for 2004.
- Approval of the remuneration during 2004 of members of the Steering Committee of Red Eléctrica and Red Eléctrica Telecomunicaciones, S.A. and the Senior Management of Red Eléctrica Internacional, S.A.
- Approval of the criteria for updating remuneration paid to managers in the group during 2004.
- Analysis of various alternatives for deferred remuneration for certain members of the Senior Management of Red Eléctrica.
- Monitoring of the degree of compliance with Corporate Targets by Red Eléctrica and its affiliates, as well as the Individual Targets of its main managers.

**Other Functions**

- Analysis and validation of the proposed Regulations for the Board of Directors prior to their submission to the Board of Directors of the Company.



Consolidated annual  
accounts

## RED ELÉCTRICA GROUP · Consolidated Balance Sheet 2003 and 2002 at 31 December [Expressed in thousands of Euros] [Translation from the original in Spanish]

ASSETS	2003	2002
ESTABLISHMENT COSTS (NOTE 5)	1,152	1,723
INTANGIBLE ASSETS (NOTE 6)	10,780	9,396
RESEARCH AND DEVELOPMENT EXPENSES	20,970	20,752
SOFTWARE	17,738	11,020
ADVANCES AND INTANGIBLE ASSETS UNDER CONSTRUCTION	-	2,767
AMORTISATION	(27,928)	(25,143)
TANGIBLE ASSETS (NOTE 7)	3,018,615	2,463,568
LAND AND BUILDINGS	46,129	46,992
PLANT AND MACHINERY	4,130,172	2,651,678
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	148,438	132,876
PLANT AND MACHINERY UNDER CONSTRUCTION	176,218	152,651
ADVANCES AND TANGIBLE ASSETS UNDER CONSTRUCTION	41,686	827,638
PROVISIONS	(26,837)	(25,354)
DEPRECIATION OF PLANT AND MACHINERY	(1,423,890)	(1,264,535)
OTHER DEPRECIATION	(73,301)	(58,378)
INVESTMENTS (NOTE 8)	43,809	40,517
INVESTMENTS IN EQUITY ACCOUNTED COMPANIES	8,640	8,180
OTHER INVESTMENTS	-	3,732
LONG-TERM LOANS TO EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	12,900	11,197
OTHER LOANS	3,173	4,235
LONG-TERM GUARANTEE DEPOSITS	639	601
LONG-TERM BALANCES RECOVERABLE FROM PUBLIC ENTITIES	18,457	12,572
PARENT COMPANY SHARES (NOTE 12)	1,551	9,029
LONG-TERM DEBTORS (NOTE 9)	4,292	8,392
<b>TOTAL FIXED ASSETS</b>	<b>3,080,199</b>	<b>2,532,625</b>
<b>GOODWILL ON CONSOLIDATION (NOTE 10)</b>	<b>17,807</b>	<b>19,902</b>
<b>DEFERRED EXPENSES (NOTE 11)</b>	<b>54,286</b>	<b>52,995</b>
STOCKS	18,459	6,790
RAW MATERIALS AND OTHER SUPPLIES	21,807	11,309
PROVISIONS	(3,348)	(4,519)
DEBTORS (NOTE 9)	210,229	288,630
TRADE DEBTORS	32,589	27,534
EQUITY ACCOUNTED COMPANIES	66	157
SUNDRY DEBTORS	155,424	129,494
PERSONNEL	4,367	1,468
PUBLIC ENTITIES	18,905	131,219
PROVISIONS	(1,122)	(1,242)
SHORT-TERM INVESTMENTS (NOTE 8)	11,891	29,333
SHORT-TERM INVESTMENT PORTFOLIO	10,692	24,263
LOANS TO EQUITY ACCOUNTED AND ASSOCIATED COMPANIES (NOTE 24)	27	22
OTHER LOANS	1,172	5,048
CASH IN HAND AND AT BANKS	4,174	2,243
PREPAYMENTS (NOTE 22)	2,890	17,638
<b>TOTAL CURRENT ASSETS</b>	<b>247,643</b>	<b>344,634</b>
<b>TOTAL ASSETS</b>	<b>3,399,935</b>	<b>2,950,156</b>

	2003	2002
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
OTHER PARENT COMPANY RESERVES	279,846	231,434
LEGAL RESERVE	54,199	54,199
OTHER RESERVES	225,647	177,235
RESERVES IN FULLY CONSOLIDATED COMPANIES	(28,781)	(13,911)
RESERVES IN EQUITY ACCOUNTED COMPANIES	1,305	1,678
CONVERSION DIFFERENCES	(7,996)	(1,810)
CONVERSION DIFFERENCES IN FULLY CONSOLIDATED COMPANIES	(6,965)	(1,948)
CONVERSION DIFFERENCES IN EQUITY ACCOUNTED COMPANIES	(1,031)	138
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	115,784	99,858
CONSOLIDATED PROFIT	115,789	99,861
PROFIT ATTRIBUTABLE TO MINORITY INTERESTS	(5)	(3)
INTERIM DIVIDEND (NOTE 4)	(28,621)	(25,511)
<b>TOTAL SHAREHOLDERS' EQUITY (NOTE 12)</b>	<b>849,099</b>	<b>809,300</b>
<b>MINORITY INTERESTS</b>	<b>55</b>	<b>62</b>
CAPITAL GRANTS	81,011	71,669
EXCHANGE GAINS	2,357	1,030
OTHER DEFERRED INCOME	153,198	146,144
<b>TOTAL DEFERRED INCOME (NOTE 13)</b>	<b>236,566</b>	<b>218,843</b>
PROVISIONS FOR PENSIONS AND OTHER LIABILITIES	15,124	14,859
PROVISIONS FOR TAXES	484	292
OTHER PROVISIONS	27,811	10,276
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (NOTE 14)</b>	<b>43,419</b>	<b>25,427</b>
BONDS (NOTE 15)	845,076	95,966
LOANS (NOTE 16)	939,788	244,980
OTHER CREDITORS (NOTE 17)	42,664	43,642
UNCALLED SHARE PAYMENTS (NOTE 8)	400	4,132
<b>LONG-TERM CREDITORS</b>	<b>1,827,928</b>	<b>388,720</b>
BONDS AND OTHER MARKETABLE SECURITIES (NOTE 18)	62,670	33,041
NON-CONVERTIBLE BONDS	50,890	30,351
INTEREST PAYABLE	11,780	2,690
LOANS (NOTE 19)	101,884	1,172,903
LOANS AND OTHER DEBT	94,566	1,167,939
INTEREST PAYABLE	7,318	4,964
SHORT-TERM DEBT WITH EQUITY ACCOUNTED AND ASSOCIATED COMPANIES (NOTE 24)	11	2
EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	11	2
TRADE CREDITORS (NOTE 20)	69,262	93,688
FOR PURCHASES AND SERVICES RECEIVED	69,262	93,688
OTHER CREDITORS (NOTE 21)	173,730	187,037
PUBLIC ENTITIES	29,950	19,011
OTHER	141,271	165,223
SHORT-TERM GUARANTEE DEPOSITS RECEIVED	2,509	2,803
ACCRUALS (NOTE 22)	35,311	21,133
<b>TOTAL CURRENT LIABILITIES</b>	<b>442,868</b>	<b>1,507,804</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>3,399,935</b>	<b>2,950,156</b>

## RED ELÉCTRICA GROUP · Consolidated Statement of profit and loss for the years ended 31 December 2003 and 2002 · [Expressed in thousands of Euros] [Translation from the original in Spanish]

	<b>2003</b>	<b>2002</b>
<b>DEBIT</b>		
<b>EXPENSES</b>		
MATERIALS CONSUMED	239,038	277,470
PURCHASES OF ENERGY AND POWER	220,584	235,576
MAINTENANCE AND REPAIR MATERIALS	18,454	41,894
PERSONNEL EXPENSES (NOTE 24)	66,854	61,641
WAGES AND SALARIES	50,785	47,201
SOCIAL SECURITY	11,435	10,180
PENSIONS AND SIMILAR OBLIGATIONS	895	813
OTHER SOCIAL CHARGES	3,739	3,447
AMORTISATION AND DEPRECIATION (NOTES 5, 6 AND 7)	195,497	118,040
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	(2,057)	1,382
CHANGE IN PROVISIONS FOR STOCKS	(1,171)	519
CHANGE IN PROVISION FOR BAD DEBTS	(886)	863
OTHER OPERATING EXPENSES	176,873	90,380
EXTERNAL SERVICES	165,089	80,197
LOCAL TAXES	3,760	2,117
OTHER OPERATING EXPENSES	2,230	1,075
PROVISION FOR LIABILITIES AND CHARGES	5,794	6,991
<b>TOTAL OPERATING EXPENSES</b>	<b>676,205</b>	<b>548,913</b>
<b>OPERATING PROFIT</b>	<b>250,001</b>	<b>162,242</b>
FINANCIAL AND SIMILAR EXPENSES	74,774	24,788
ON DEBT WITH THIRD PARTIES	74,774	24,788
EXCHANGE LOSSES	240	1,214
<b>TOTAL FINANCIAL EXPENSES</b>	<b>75,014</b>	<b>26,002</b>
LOSSES ON EQUITY ACCOUNTED COMPANIES	1,966	474
AMORTISATION OF GOODWILL ON CONSOLIDATION (NOTE 10)	2,095	1,047
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>174,975</b>	<b>138,572</b>
CHANGES IN PROVISIONS FOR FIXED ASSETS AND OWN SHARES	2,973	1,969
LOSSES ON FIXED ASSETS	382	381
LOSSES ON OWN SHARE OPERATIONS (NOTE 12)	-	393
EXTRAORDINARY EXPENSES	3,970	39
PRIOR YEARS' EXPENSES AND LOSSES	525	28
<b>TOTAL EXTRAORDINARY EXPENSES (NOTE 24)</b>	<b>7,850</b>	<b>2,810</b>
<b>NET EXTRAORDINARY INCOME</b>	<b>1,151</b>	<b>6,943</b>
<b>CONSOLIDATED PROFIT BEFORE INCOME TAX</b>	<b>176,126</b>	<b>145,515</b>
INCOME TAX (NOTE 23)	60,153	45,444
OTHER TAXES	184	210
<b>PROFIT FOR THE YEAR</b>	<b>115,789</b>	<b>99,861</b>
PROFIT ATTRIBUTABLE TO MINORITY INTERESTS	5	3
<b>PROFIT ATTRIBUTABLE TO PARENT COMPANY</b>	<b>115,784</b>	<b>99,858</b>



**CREDIT****INCOME**

	<b>2003</b>	<b>2002</b>
NET SALES (NOTE 24)	907,316	695,507
SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	612,366	392,602
OTHER SERVICE INCOME	68,609	59,996
SALES OF ENERGY AND POWER	226,118	242,476
SALES OF BY-PRODUCTS AND OTHERS	223	433
SELF-CONSTRUCTED ASSETS	11,321	13,213
OTHER OPERATING INCOME	7,569	2,435
OTHER INCOME	1,511	1,249
GRANTS	984	210
SURPLUS PROVISION FOR LIABILITIES AND CHARGES	5,074	976
<b>TOTAL OPERATING INCOME</b>	<b>926,206</b>	<b>711,155</b>
INVESTMENT INCOME	1,759	9
EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	1,708	-
NON-GROUP COMPANIES	51	9
OTHER INTEREST AND SIMILAR INCOME	1,665	1,428
EXCHANGE GAINS	262	1,811
<b>TOTAL FINANCIAL INCOME</b>	<b>3,686</b>	<b>3,248</b>
<b>NET FINANCIAL EXPENSES</b>	<b>71,328</b>	<b>22,754</b>
PROFIT FROM EQUITY ACCOUNTED COMPANIES	363	605
PROFIT ON FIXED ASSETS	120	11
PROFIT ON OWN SHARE OPERATIONS (NOTE 12)	1,447	444
CAPITAL GRANTS TAKEN TO INCOME	3,965	4,475
EXTRAORDINARY INCOME	2,625	3,591
PRIOR YEARS' PROFIT AND INCOME	844	1,232
<b>TOTAL EXTRAORDINARY INCOME (NOTE 24)</b>	<b>9,001</b>	<b>9,753</b>



# notes to the consolidated accounts for 2003

[Translation from the original in Spanish]

## **(1) ACTIVITIES OF GROUP COMPANIES**

Red Eléctrica de España, S.A. (hereinafter the Parent company) was incorporated in 1985. The principal activities carried out by the Parent company are the transmission of electrical energy, operation of the system and management of the transmission grid, co-ordination of international exchanges of electrical power and administration of international energy agreements.

In 2003 the Parent company formalised the agreements entered into in 2002 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. (Appendix I). 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.

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 initiated in 1999, clearly required a different legal, corporate and organisational structure.

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

Accordingly, and as approved by the National Energy Commission, in 2002 and 2001 the Company 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., respectively. The Red Eléctrica Group (hereinafter the Group) was formed as a consequence of the legal segregation process.

Transmission and broadband and capacity services, including ADSL, are rendered through Red Eléctrica Telecomunicaciones, S.A. and its subsidiary (Appendix I), mainly to operators and wholesalers.

Red Eléctrica Internacional, S.A. and subsidiaries (Appendix I) mainly acquire, hold and administer national and foreign securities, and render consulting, engineering and construction services as well as electricity services outside the Spanish electrical system.

In July 2003 the Parent company incorporated the Dutch company Red Eléctrica de España Finance, B.V., the activity of which consists of obtaining funds, performing financial transactions and rendering services to Group companies (Appendix I).

The Group comprises the companies enumerated in Appendix I. The Parent company is Red Eléctrica de España, S.A.

## **[2] BASIS OF PRESENTATION**

### **a) Fair view**

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 2003 and 2002. 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, the majority of the individual annual accounts of the Group companies are pending approval by the respective shareholders at their general meetings.

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

### **b) Consolidation principles**

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

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

The main consolidation principles applied are as follows:

- The accounting principles and criteria used by the Group companies have been harmonised with those applied by the Parent company.
- The financial statements of foreign companies have been translated by applying the closing exchange rate method, as established in the Standards for the Preparation of the Consolidated Annual Accounts. This method consists of the conversion of the financial statements to Euros using the following criteria:
  - assets and liabilities are stated at the closing exchange rate
  - share capital and reserves are stated at the historic exchange rate
  - income and expenses are recognised at the average exchange rate
- Any exchange differences resulting from conversion to Euros at closing exchange rates are recorded under shareholders' equity as conversion differences in equity accounted companies and fully-consolidated 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.
- Under the equity method, investments in associated companies are recorded at the value of the share

in equity held by the Parent company rather than at their book value. After eliminating the results of intercompany transactions, retained earnings and profits are reflected under the headings Reserves in equity accounted companies and Share in profits of equity accounted companies, respectively.

- 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 and 10).

### c) Comparison of information

In 2003 there have been changes to the consolidated group compared to 2002, due to consolidation of the following companies:

- Red de Alta Tensión, S.A. (REDALTA) (Appendix I):  
The sole activity of REDALTA consists of holding and administering a 100% interest in Infraestructuras de Alta Tensión, S.A. (INALTA), a company engaged in electrical energy transmission. On 3 July 2002 this company changed its name to the current one. Its registered offices are located in Madrid.
- Infraestructuras de Alta Tensión, S.A. (INALTA) (Appendix I):  
The principal activity of INALTA consists of projects and services within or to the electrical energy transmission business. It changed its name to the current one on 3 July 2002. Its registered offices are in Madrid.
- Red Eléctrica de España Finance, B.V. (Appendix I):  
The principal activity of Red Eléctrica de España Finance, B.V. consists of obtaining funds, performing financial transactions and rendering financial services to Group companies. Red Eléctrica de España Finance, B.V. was incorporated on 23 July 2003 and has its registered offices in Amsterdam, Holland.

Furthermore, on 30 June 2002 the Bolivian company, Transportadora de Electricidad, S.A. (TDE) was integrated into the consolidated group. As a result, the consolidated statement of profit and loss for 2002 only includes figures for this company for the second half of the year.

The integration of these companies into the financial statements of the Red Eléctrica Group has led to a Euros 1,785 thousand reduction in consolidated profit for 2003, compared to 2002.

## [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.

The Parent company has been assigned the functions of system operator and manager of the transmission grid through this Act, in addition to its transmission activity. Accordingly, the Parent company is required to guarantee the quality and safety of power supplies and to co-ordinate the production and transmission systems. In its capacity as manager of the transmission grid, the Parent company is in charge of the development and extension of the high voltage network and must ensure that it is maintained

and improved in accordance with uniform and coherent criteria. It is also responsible for the administration of power transmissions between external systems using the Spanish grid, as well as withholding access to the grid when capacity is insufficient.

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

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

- Royal Decree 2017 of 26 December 1997 governs the settlement procedures for accounts payable and receivable to ensure remuneration of regulated electricity supply activities, including transmission and operation of the system.
- Royal Decree 2019 of 26 December 1997, which organises and regulates the electricity production market, sets out the functions of the system operator in relation to this market.
- Royal Decree 2819 of 23 December 1998, which governs activities related to the transmission and distribution of electrical energy, regulates the financial framework for the transmission activity, establishing the formulas and values used to calculate the income generated.
- Royal Decree 1955 of 1 December 2000, which regulates transmission, distribution, commercialisation, supply and the authorisation procedures for electrical energy installations, defines the transmission activity and the components of the grid. This Royal Decree establishes the functions of the Parent company, in its capacity as system operator and manager of the transmission grid, in areas relating to planning, the quality of the services, wastage, access and connection to the grid. In accordance with article 36 of the Electricity Act, Royal Decree 1955/2000 also sets out the authorisation procedures for new transmission facilities.
- Royal Decree 1164 of 26 October 2001, which establishes tariffs for access to the electricity transmission and distribution grids, 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.
- Law 53 of 30 December 2002 governing tax, administrative and social measures establishes that the Parent company has a preferential purchase option over transmission installations within the Spanish electricity system, and modifies the maximum direct and indirect interests in the share capital of the Parent company (note 12).
- Royal Decree 1747 of 19 December 2003 designates the Parent company as operator of electricity systems within and outside of the Spanish mainland for the Balearic and Canary Islands and Ceuta and Melilla. Furthermore, Decree 50 of 30 April 2003 of the Regional Government of the Canary Islands designates the Parent company as the operator of the transmission grid within the Autonomous Community of the Canary Islands.

In addition to the above mentioned legislation governing the activities of the Parent company, the following regulations also apply to the sector:

- 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, the 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.

- Finally, Law 36 of 11 November 2003, governing economic reform measures, modifies certain articles of the Electricity Act and introduces the possibility of contracting through forward purchases. The new system will be administered through organised markets created, organised and operated in accordance with legislation.

Regulation of the telecommunications sector was modified at the end of 2003 through a new General Law for the sector; replacing the General Telecommunications Law of 1998. The new law incorporates into Spanish legislation the new European regulation, the objective of which is to consolidate competition within the telecommunications market in recent years.

#### 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 PARENT COMPANY PROFITS

The proposed distribution of profits of the parent company and dividends on account that the board of directors agreed to distribute with a charge to profit for 2003 are the follows:

#### 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 2003 be distributed as follows:

BASIS OF DISTRIBUTION	Thousands of Euros
PROFIT FOR THE YEAR	114,051
<b>TOTAL</b>	<b>114,051</b>
<b>DISTRIBUTION</b>	
TO VOLUNTARY RESERVES	39,979
TO DIVIDENDS:	
INTERIM DIVIDEND	28,621
SUPPLEMENTARY DIVIDEND	45,451
<b>TOTAL</b>	<b>114,051</b>

#### b) Parent company interim dividend

At the board meeting held on 27 November 2003 the directors agreed to distribute an interim dividend of Euros 0.212 per share on account of 2003 profits, payable as of 2 January 2004. 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 2003 to 2 January 2004, liquidity was sufficient to distribute this dividend. In accordance with the requirements of article 216 (a) of the Spanish Companies Act, the following forecast of cash and bank balances was prepared:

	Thousands of Euros
<b>Funds available at 31.10.2003:</b>	
SHORT-TERM LOANS	264,212
LONG-TERM LOANS	50,000
CASH IN HAND AND AT BANKS	27,332
<b>Forecast collections:</b>	
ORDINARY ACTIVITIES	163,827
FINANCIAL OPERATIONS	18,000
<b>Forecast payments:</b>	
ORDINARY OPERATIONS	(196,502)
FINANCIAL OPERATIONS	(43,013)
<b>FORECAST FUNDS AT 02.01.2004</b>	<b>283,856</b>

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 annual accounts of the Parent company and as expected at the date of the distribution, the profit generated in 2003 has permitted payment of this interim dividend.

The distribution of profit for the year ended 31 December 2002, carried out in 2003, is shown in details of changes in consolidated shareholders' equity (note 12).

## [5] SIGNIFICANT 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 balance sheet, establishment costs, which comprise costs incurred in the incorporation, start-up and share capital increase of Group companies, are reflected at cost, less accumulated amortisation calculated on a straight line basis over a maximum five-year period. Establishment costs amortised in 2003 and 2002 amount to Euros 571 thousand and Euros 480 thousand, respectively.

### b) Intangible assets

Intangible assets, principally comprising software and costs incurred in research and development projects which are expected to benefit Group company 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 2003 and 2002 the Parent company capitalised expenses of Euros 452 thousand and Euros 395 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 assets are stated at 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 directly controlled or supervised by the companies. In 2003 and 2002 the Parent company capitalised Euros 7,260 thousand and Euros 7,526 thousand in this regard, respectively.
- Financial costs on external financing. In 2003 and 2002 the Parent company capitalised Euros 3,609 thousand and Euros 5,292 thousand in this regard, respectively.

Costs capitalised in relation to the abovementioned items are credited to the consolidated statement of profit and loss 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 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:

	Annual rate
BUILDINGS	2%-10%
ELECTRICAL ENERGY PLANT AND MACHINERY	2.50%-7.14%
OTHER INSTALLATIONS, MACHINERY, EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS (INCL. TELECOMMUNICATION INSTALLATIONS)	4%-25%

Operational assets acquired are depreciated over their remaining useful lives.

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

#### 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 accompanying consolidated balance sheet comprises the positive difference, net of amortisation, between the acquisition cost and the underlying net book value of TDE when it was acquired by Red Eléctrica Internacional. For the purposes of the preparation 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 average cost of acquisition, represented by the total amount paid, and market value.

Market value is determined as the lowest of the average quotation during the closing quarter, the quotation price at the balance sheet date and the underlying net book value of the shares.

Any negative differences between cost and the lower of market quotation at 31 December and the average quotation during the last quarter are recorded under changes in provision for fixed assets and own shares considered as extraordinary expenses in the consolidated profit and loss account (note 24).

The provision for the difference between the lower of the year-end quotation and the average quotation during the closing quarter; and the underlying net book value of shares is charged to reserves for own shares and recorded as a reduction in the value of own shares in the balance sheet (note 12).

Reversals of recorded negative differences as a result of subsequent adjustments in value or sales of own shares are credited in the profit and loss account or charged against reserves, as they would have previously been recorded.

**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 balances are taken to income or expensed when incurred.

Unhedged balances receivable and payable in foreign currency at 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 by the Parent company in the long term in respect of the latter are recorded under deferred income and taken to income over the period to maturity using the interest method (notes 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 consolidated profit reported for accounting purposes, adjusted for permanent differences (individual and consolidated) with fiscal criteria and consolidation adjustments, and taking into consideration any applicable credits and deductions. The effect of timing differences, where applicable, are included in deferred tax assets or liabilities (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. 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 telecommunications providers for the permanent transfer of the rights to use fibre optic networks. These amounts are expensed over the term of the related contract.

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

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

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

#### **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 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 (note 14).

#### **p) Recognition of income and expenses**

Income and expenses are recognised on an accruals basis. Nevertheless, following prudent criteria, the Group 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 2003 and 2002 and movement during the years then ended are as follows:

**Details of movement in intangible assets at 31 December 2003 and 2002** · [Expressed in thousands of Euros]  
[Translation from the original in Spanish]

	<b>31 December 2001</b>	<b>Additions</b>	<b>Changes to cons. group</b>
<b>Cost</b>			
RESEARCH AND DEVELOPMENT EXPENSES	18,582	356	2,053
SOFTWARE	6,996	2,557	1,584
ADVANCES ON INTANGIBLE ASSETS	-	2,767	-
<b>TOTAL COST</b>	<b>25,578</b>	<b>5,680</b>	<b>3,637</b>
<b>Accumulated amortisation</b>			
RESEARCH AND DEVELOPMENT EXPENSES	(14,755)	(1,829)	(1,430)
SOFTWARE	(5,847)	(937)	(470)
<b>TOTAL ACCUMULATED AMORTISATION</b>	<b>(20,602)</b>	<b>(2,766)</b>	<b>(1,900)</b>
<b>NET BOOK VALUE</b>	<b>4,976</b>	<b>2,914</b>	<b>1,737</b>

The changes to the consolidated group in 2002 correspond to the incorporation of the Bolivian companies TDE and Cybercia, S.R.L.

**(7) TANGIBLE ASSETS**

Tangible assets at 31 December 2003 and 2002 and movement during the years then ended are as follows:

**Details of movement in tangible assets at 31 December 2003 and 2002** · [Expressed in thousands of Euros]  
[Translation from the original in Spanish]

	<b>31 December 2001</b>	<b>Additions</b>	<b>Changes to cons. group</b>	<b>Changes in exchange rates</b>
<b>Cost</b>				
LAND AND BUILDINGS	38,149	279	9,064	(443)
ELECTRICAL ENERGY PLANT AND MACHINERY	2,227,990	6,808	194,644	(9,509)
OTHER INSTALLATIONS, MACHINERY, EQUIPMENT, FURNITURE, AND OTHER TANGIBLE ASSETS	121,491	8,568	10,966	(536)
ELECTRICAL ENERGY PLANT AND MACHINERY UNDER CONSTRUCTION	169,651	197,772	1,882	(92)
ADVANCES AND OTHER ASSETS UNDER CONSTRUCTION	38,413	821,977	-	-
<b>TOTAL COST</b>	<b>2,595,694</b>	<b>1,035,404</b>	<b>216,556</b>	<b>(10,580)</b>
<b>Accumulated depreciation</b>				
BUILDINGS	(5,929)	(812)	(2,476)	128
ELECTRICAL ENERGY PLANT AND MACHINERY	(1,078,675)	(102,487)	(88,564)	4,536
OTHER INSTALLATIONS, MACHINERY, EQUIPMENT, FURNITURE, AND OTHER TANGIBLE ASSETS	(57,706)	(11,495)	(1,747)	91
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(1,142,310)</b>	<b>(114,794)</b>	<b>(92,787)</b>	<b>4,755</b>
PROVISION FOR DECLINE IN VALUE (NOTE 24)	(22,134)	(1,259)	(2,062)	101
<b>NET BOOK VALUE</b>	<b>1,431,250</b>	<b>919,351</b>	<b>121,707</b>	<b>(5,724)</b>

The changes to the consolidated group in 2002 correspond to the incorporation of the Bolivian company TDE.

In 2003 additions of Euros 555,834 thousand to electrical energy plant and machinery mainly include payments made for the acquisition of the transmission assets of Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. In 2003 electrical energy plant and machinery also includes the Euros 801,000 thousand advance paid in 2002 for the acquisition of the aforementioned assets.

The remaining transfers to electrical energy plant and machinery in 2003 comprise Euros 155,075 thousand, mainly corresponding to the Parent company, as a result of 17 lines, 8 power transformers, a condenser battery and positions in 13 substations and communication and control systems (Euros 230,336 thousand in

Changes in exchange rates	Disposals	31 December 2002	Additions	Changes in exchange rates	Disposals	Transfers	31 December 2003
(101)	(138)	20,752	691	(329)	(144)	-	20,970
(74)	(43)	11,020	5,098	(261)	(422)	2,303	17,738
-	-	2,767	-	-	(464)	(2,303)	-
(175)	(181)	34,539	5,789	(590)	(1,030)	-	38,708
87	-	(17,927)	(1,174)	290	-	-	(18,811)
31	7	(7,216)	(2,106)	122	83	-	(9,117)
118	7	(25,143)	(3,280)	412	83	-	(27,928)
(57)	(174)	9,396	2,509	(178)	(947)	-	10,780

Disposals	Transfers	31 December 2002	Additions	Changes in exchange rates	Disposals	Transfers	31 December 2003
(57)	-	46,992	221	(1,475)	(3)	394	46,129
(1,445)	233,190	2,651,678	555,834	(31,871)	(1,544)	956,075	4,130,172
(23,417)	15,803	132,875	2,926	(1,764)	(2,449)	16,850	148,438
(320)	(216,242)	152,651	170,436	(218)	-	(146,651)	176,218
-	(32,751)	827,639	41,496	-	(781)	(826,668)	41,686
(25,239)	-	3,811,835	770,913	(35,328)	(4,777)	-	4,542,643
19	-	(9,070)	(886)	431	2	-	(9,523)
655	-	(1,264,535)	(175,168)	15,197	1,282	(666)	(1,423,890)
21,549	-	(49,308)	(15,592)	308	148	666	(63,778)
22,223	-	(1,322,913)	(191,646)	15,936	1,432	-	(1,497,191)
-	-	(25,354)	(3,697)	394	1,820	-	(26,837)
(3,016)	-	2,463,568	575,570	(18,998)	(1,525)	-	3,018,615

2002, all of which related to the Parent company, due to 12 lines, 4 power transformers, 3 condenser batteries and positions in 23 substations and communication and control systems).

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 2003 incurred by the Parent company amounts to Euros 22,514 thousand (Euros 22,584 thousand in 2002). At 31 December 2003 the revaluation of tangible assets, net of depreciation, amounts to Euros 94,870 thousand (Euros 117,396 thousand in 2002).

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

**(8) INVESTMENTS****a) Investments**

Investments at 31 December 2003 and 2002 and movement during the years then ended are as follows:

**Details of movement in investments at 31 December 2003 and 2002 · (Expressed in thousands of Euros)**

[Translation from the original in Spanish]

	<b>31 December 2001</b>	<b>Additions</b>	<b>Equity accounted companies</b>
<b>EQUITY ACCOUNTED COMPANIES</b>			
REDESUR	8,382	-	(839)
NAP DE LAS AMÉRICAS-MADRID, S.A.	-	1,111	(474)
REDALTA	-	-	-
	<b>8,382</b>	<b>1,111</b>	<b>(1,313)</b>
<b>OTHER INVESTMENTS</b>			
REDALTA	-	3,732	-
<b>LONG-TERM LOANS WITH EQUITY ACCOUNTED AND ASSOCIATED COMPANIES</b>			
REDALTA (NOTE 24)	-	11,197	-
<b>OTHER LOANS</b>	4,912	958	-
<b>LONG-TERM GUARANTEE DEPOSITS</b>	495	130	-
<b>LONG-TERM BALANCES PAYABLE TO PUBLIC ENTITIES</b>	12,450	2,312	-
<b>UNCALLED SHARE PAYMENTS</b>			
NAP DE LAS AMÉRICAS-MADRID, S.A.	-	(1,111)	-
REDALTA	-	(3,732)	-
	-	(4,843)	-

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 400 thousand and Euros 555 thousand is pending payment at 31 December 2003 and 2002, respectively (Euros 155 thousand relates to uncalled share payments recorded under other loans). Investments in equity-accounted companies also include the 25% interest in REDALTA, which owns 100% of the shares in INALTA, amounting to Euros 3,732 thousand. Payment was pending on this investment at 31 December 2002, which is recorded under uncalled share payments.

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. At 31 December 2003 this amount has been increased by the capitalisation of interest for 2003.

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 of the Parent company (note 23).

**b) Short-term investments**

At 31 December 2003 and 2002 short-term investments mainly include placements of cash surpluses by Group companies.

At 31 December 2003 other short-term loans mainly comprise unmatured short-term interest accrued on operations involving financial derivatives. Interest on these operations is accrued in line with the operations hedged.

<i>Disposals</i>	<i>Transfers</i>	<i>31 December 2002</i>	<i>Additions</i>	<i>Equity accounted companies</i>	<i>Disposals</i>	<i>Transfers</i>	<i>31 December 2003</i>
-	-	7,543	-	(1,487)	-	-	6,056
-	-	637	-	175	-	-	812
-	-	-	-	(1,960)	-	3,732	1,772
-	-	8,180	-	(3,272)	-	3,732	8,640
-	-	3,732	-	-	-	(3,732)	-
-	-	11,197	1,703	-	-	-	12,900
-	(1,635)	4,235	41	-	(11)	(1,092)	3,173
(24)	-	601	379	-	(341)	-	639
-	(2,190)	12,572	8,358	-	-	(2,473)	18,457
711	-	(400)	-	-	-	-	(400)
-	-	(3,732)	-	-	3,732	-	-
711	-	(4,132)	-	-	3,732	-	(400)

## (9) DEBTORS

Details of debtors at 31 December are as follows:

	Thousands of Euros	
	<b>2003</b>	<b>2002</b>
LONG-TERM DEBTORS	4,292	8,392
<b>TOTAL (LONG-TERM)</b>	<b>4,292</b>	<b>8,392</b>
TRADE DEBTORS	32,589	27,534
EQUITY-ACCOUNTED COMPANIES (NOTE 24)	66	157
SUNDRY DEBTORS	155,424	129,494
PERSONNEL	4,367	1,468
PUBLIC ENTITIES		
VAT recoverable	16,238	127,641
Taxes other than income	156	555
Deferred tax assets (note 23)	2,511	3,023
PROVISION FOR BAD DEBTS	(1,122)	(1,242)
<b>TOTAL (SHORT-TERM)</b>	<b>210,229</b>	<b>288,630</b>

At 31 December 2003 and 2002 long-term debtors comprise balances receivable on the transfer of the rights to use fibre optic networks.

Trade debtor balances mainly comprise amounts receivable by the Parent company from domestic and foreign electricity companies for sales of energy, representing mainly billed and unbilled electricity charges in accordance with the power supply contract between Electricité de France (EDF) and the Company. These operations are settled through Compañía Operadora del Mercado Español de la Electricidad, S.A. (OMEL). Trade debtor balances also include balances receivable for telecommunications and energy transmission services rendered abroad.

The balance receivable from equity-accounted companies at 31 December 2003 and 2002 includes amounts billed to REDESUR, mainly for engineering services rendered by the Parent company pending collection at year end (note 24).

At 31 December 2003 and 2002 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 trade debtors, mainly in respect of consultancy services, engineering and construction work, maintenance and advances to creditors for services.

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

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. Subsequent to the recovery of this balance, at 31 December 2003 this caption mainly comprises VAT recoverable deriving from payments made in 2003 for the aforementioned operation.

## [10] GOODWILL ON CONSOLIDATION

At 31 December 2003 and 2002 goodwill on consolidation is derived exclusively from the acquisition of TDE by Red Eléctrica Internacional, S.A. on 30 June 2002, representing the Euros 20,949 thousand 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 2003 and 2002 amounts to Euros 2,095 thousand and Euros 1,047 thousand, respectively.

## Movement in Consolidated Shareholders' Equity at 31 December 2003 and 2002 · (Expressed in thousands of Euros) (Translation from the original in Spanish)

	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Legal reserve</i>
<b>BALANCES AT 31 DECEMBER 2001</b>	<b>270,540</b>	<b>247,022</b>	<b>54,199</b>
DISTRIBUTION OF 2001 PROFIT:			
DIVIDENDS	-	-	-
VOLUNTARY RESERVES	-	-	-
OTHER RESERVES	-	-	-
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	-	-	-
DIFFERENCES ON CONVERSION	-	-	-
PROFIT FOR 2002	-	-	-
INTERIM DIVIDEND	-	-	-
OTHER	-	-	-
<b>BALANCES AT 31 DECEMBER 2002</b>	<b>270,540</b>	<b>247,022</b>	<b>54,199</b>
DISTRIBUTION OF 2002 PROFIT:			
DIVIDENDS	-	-	-
VOLUNTARY RESERVES	-	-	-
OTHER RESERVES	-	-	-
NET MOVEMENT IN RESERVE FOR OWN SHARES	-	-	-
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	-	-	-
DIFFERENCES ON CONVERSION	-	-	-
PROFIT FOR 2003	-	-	-
INTERIM DIVIDEND	-	-	-
OTHER	-	-	-
<b>BALANCES AT 31 DECEMBER 2003</b>	<b>270,540</b>	<b>247,022</b>	<b>54,199</b>



**(11) DEFERRED EXPENSES**

Details at 31 December are as follows:

	Thousands of Euros	
	2003	2002
LOAN ARRANGEMENT EXPENSES	3,178	-
DEFERRED EXPENSES FOR MARKETABLE SECURITIES	621	1,466
OTHER DEFERRED EXPENSES	50,487	51,529
	<b>54,286</b>	<b>52,995</b>

At 31 December 2003 loan arrangement expenses include the accrual of the premium for Eurobonds issued by Red Eléctrica de España Finance, B.V. (note 15). These expenses are taken to financial expenses over the term of the aforementioned issue.

At 31 December 2003 and 2002 other deferred expenses include 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 on the other hand the recognition of Parent company employees' future length of service periods as established in the collective labour agreement signed in 1999. These costs are taken to personnel expenses on a straight line basis. This heading also includes deferred expenses relating to the maintenance of the transmission assets acquired by the Parent company from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. (note 27).

**(12) SHAREHOLDERS' EQUITY**

Details of movement in shareholders' equity during 2003 and 2002 are as follows:

Other reserves	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 attributable to the Parent company	Interim dividend	Total
135,757	(813)	1,031	-	1,579	91,071	(24,299)	776,087
-	-	-	-	-	(61,498)	24,299	(37,199)
29,287	-	-	-	-	(29,287)	-	-
12,737	(13,098)	647	-	-	(286)	-	-
(634)	-	-	-	-	-	-	(634)
-	-	-	(1,948)	(1,441)	-	-	(3,389)
-	-	-	-	-	99,858	-	99,858
-	-	-	-	-	-	(25,511)	(25,511)
88	-	-	-	-	-	-	88
<b>177,235</b>	<b>(13,911)</b>	<b>1,678</b>	<b>(1,948)</b>	<b>138</b>	<b>99,858</b>	<b>(25,511)</b>	<b>809,300</b>
-	-	-	-	-	(64,739)	25,511	(39,228)
31,214	-	-	-	-	(31,214)	-	-
18,961	(15,187)	131	-	-	(3,905)	-	-
(1,247)	-	-	-	-	-	-	(1,247)
(633)	-	-	-	-	-	-	(633)
-	-	-	(5,017)	(1,169)	-	-	(6,186)
-	-	-	-	-	115,784	-	115,784
-	-	-	-	-	-	(28,621)	(28,621)
117	317	(504)	-	-	-	-	(70)
<b>225,647</b>	<b>(28,781)</b>	<b>1,305</b>	<b>(6,965)</b>	<b>(1,031)</b>	<b>115,784</b>	<b>(28,621)</b>	<b>849,099</b>

**a) Share capital**

At 31 December 2003 and 2002 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.

At 31 December 2002 Sociedad Estatal de Participaciones Industriales (SEPI), the State holding company, owned 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. held interests of 10% each, either directly or indirectly through subsidiaries.

In 2003 Iberdrola, S.A., Unión Fenosa Distribución, S.A., Hidroeléctrica del Cantábrico, S.A. and Endesa, S.A. sold 28% of the share capital of the Parent company through a public share offer, in accordance with Law 53 of 30 December 2002, governing tax administrative and social measures, which 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. These share may not be syndicated. These maximum limits for shareholdings are not applicable to SEPI, which will hold an interest of at least 25% in the share capital of the Company until 31 December 2003, after which it will maintain a minimum interest of 10%.

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%. At 31 December 2003 SEPI holds a significant interest in the Parent company (28.5% of share capital).

As a result of the changes in the shareholding structure of the Company and the board of directors' continual objective of implementing best practices in corporate governance, the shareholders of the Parent company, at their extraordinary general meeting held on 17 July 2003, approved the new composition of the board of directors, the modification of the by-laws and the ruling of the general shareholders' meeting.

**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**

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 2003 and 2002 the legal reserve is equal to 20% of the share capital of the Parent company.

**d) Other reserves**

Other reserves include:

**- Voluntary reserves**

Voluntary reserves (Euros 201,756 thousand and Euros 145,233 thousand at 31 December 2003 and 2002, respectively) comprise the Parent company's voluntary reserve and consolidation adjustments to the reserves of the Parent company relating to transactions with its subsidiaries. Voluntary reserves are freely distributable, except where restricted by the Spanish Companies Act.

**- Investment reserve**

This reserve was set up by the Parent company and amounts to Euros 8,124 thousand. The investment reserve is not distributable without the express authorisation of the Directorate General for Energy Policy and Mining.

**- Reserve for accelerated depreciation**

At 31 December 2003 this reserve totals Euros 13,760 thousand (Euros 14,393 thousand at 31 December 2002). As permitted by Royal Decree Law 2/1985, prior to 1990 the Parent company provided accelerated depreciation for tax purposes in respect of tangible assets acquired between 9 May and 31 December 1985.

Each year the Parent company debits this reserve and credits extraordinary income in an amount equal to the annual depreciation charge based on the useful lives of the assets subject to accelerated depreciation. The tax deferred as a result of accelerated depreciation has been estimated at approximately Euros 4,816 thousand at 31 December 2003 (Euros 5,037 thousand at 31 December 2002), using the standard tax rate of 35%.

**- Reserve for redeemed capital**

This Parent company reserve (Euros 271 thousand at 31 December 2003 and 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 (Euros 185 thousand at 31 December 2003 and 2002) represents the differences arising on conversion of the share capital of the Parent company to Euros. In accordance with Law 46 of 17 December 1998 regarding the implementation of the Euro, this reserve is not distributable.

**- Own shares**

In 2003 and 2002, as authorised by the shareholders, 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 in 2003 and 2002 has been as follows:

	Thousands of Euros	
	<b>2003</b>	<b>2002</b>
BALANCE AT 1 JANUARY	9,029	2,764
ADDITIONS	29,532	49,722
DISPOSALS	(36,488)	(42,747)
(ALLOWANCE)/REVERSAL OF PROVISION	(522)	(710)
<b>BALANCE AT 31 DECEMBER</b>	<b>1,551</b>	<b>9,029</b>

At 31 December 2003 the own shares held by the Parent company represent 0.18% of the share capital and amount to 246,832 ordinary shares with a total par value of Euros 494 thousand (1,009,005 shares, representing 0.75% of the share capital, with a total par value of Euros 2,018 thousand at 31 December 2002). 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 2003 the Parent company has set up the required restricted reserve for own shares with a charge to voluntary reserves, which amounts to Euros 1,551 thousand, equivalent to the own shares in the portfolio at that date (Euros 9,029 thousand at 31 December 2002).

The Parent company has also made the necessary provisions to reflect own shares at market value, as defined in significant accounting principles in note 5.

In 2003 operations with the Parent company's own shares have generated profits of Euros 1,447 thousand, with no losses (profits of Euros 444 thousand and losses of Euros 393 thousand in 2002), which have been recorded in the consolidated statement of profit and loss as profits or losses on own shares operations, respectively (note 24).

#### e) Consolidation reserves

A breakdown of reserves in fully-consolidated and equity-accounted companies and movement during the years ended 31 December 2003 and 2002 is as follows:

	Thousands of Euros					
	31 December 2001	Transfer to profit/loss	31 December 2002	Transfer to profit/loss	Other	31 December 2003
- FULLY CONSOLIDATED						
RED ELÉCTRICA TELECOMUNICACIONES, S.A.	(813)	(12,233)	(13,046)	(20,117)	474	(32,689)
RED ELÉCTRICA INTERNACIONAL, S.A.	-	(865)	(865)	1,640	1,278	2,053
TRANSPORTADORA DE ELECTRICIDAD, S.A.	-	-	-	2,904	(1,050)	1,854
CYBERCIA, S.R.L.	-	-	-	2	(1)	1
	<b>(813)</b>	<b>(13,098)</b>	<b>(13,911)</b>	<b>(15,571)</b>	<b>701</b>	<b>(28,781)</b>
- EQUITY ACCOUNTED						
REDESUR	1,031	647	1,678	610	(504)	1,784
REDINSUR	-	-	-	(5)	-	(5)
NAP DE LAS AMÉRICAS, S.A.	-	-	-	(474)	-	(474)
	<b>1,031</b>	<b>647</b>	<b>1,678</b>	<b>131</b>	<b>(504)</b>	<b>1,305</b>

#### 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 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
- FULLY CONSOLIDATED		
TDE AND CYBERCIA	(6,965)	(1,948)
- EQUITY ACCOUNTED		
REDESUR AND REDINSUR	(1,031)	138
	<b>(7,996)</b>	<b>(1,810)</b>

**g) Contribution to consolidated profits**

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

	Thousands of Euros	
	<i>Contribution to consolidated profit</i>	
	<b>2003</b>	<b>2002</b>
RED ELÉCTRICA DE ESPAÑA, S.A.	114,051	95,953
RED ELÉCTRICA TELECOMUNICACIONES, S.A.	(19,843)	(20,117)
RED ELÉCTRICA INTERNACIONAL, S.A.	(4,877)	1,640
RED ELÉCTRICA DEL SUR, S.A.	185	605
RED INTERNACIONAL DE COMUNICACIONES DEL SUR, S.A.	(3)	(5)
TENEDORA DE ACCIONES DE REDESUR, S.A.	(129)	(143)
NAP DE LAS AMÉRICAS-MADRID, S.A.	175	(474)
TRANSPORTADORA DE ELECTRICIDAD, S.A.	4,797	2,902
CYBERCIA, S.R.L.	7	1
RED DE ALTA TENSIÓN, S.A.	(1,960)	-
INFRAESTRUCTURAS DE ALTA TENSIÓN, S.A.	(212)	-
RED ELÉCTRICA DE ESPAÑA FINANCE, B.V.	175	-
ADJUSTMENTS FOR CONSOLIDATION	23,418	19,496
	<b>115,784</b>	<b>99,858</b>

**(13) DEFERRED INCOME**

Details at 31 December 2003 and 2002 are as follows:

	Thousands of Euros	
	<b>2003</b>	<b>2002</b>
CAPITAL GRANTS	81,011	71,669
EXCHANGE GAINS	2,357	1,030
OTHER DEFERRED INCOME	153,198	146,144
	<b>236,566</b>	<b>218,843</b>

Capital grants mainly include those received by the Parent company from the European Union for the construction of electricity installations.

At 31 December 2003 and 2002 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 27). 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 entered into with clients for the provision of telecommunications services, and accrued gains on operations involving financial derivatives contracted to hedge bonds issued (note 15), 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 2003 and 2002 and movement during the years then ended are as follows:

**Details of movement in provisions for liabilities and charges at 31 December 2003 and 2002**  
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

	<i>31 December 2001</i>	<i>Additions</i>	<i>Changes to cons. group</i>
PROVISIONS FOR PENSIONS AND OTHER COMMITMENTS	9,117	6,029	1,729
PROVISION FOR TAXES	234	58	-
OTHER PROVISIONS	10,347	1,642	-
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>19,698</b>	<b>7,729</b>	<b>1,729</b>

The provision for pensions and other commitments at 31 December 2003 and 2002 mainly reflects the provision to cover certain future retirement commitments assumed by the Parent company with personnel. The Parent company has estimated the provision on the basis of actuarial studies. At 31 December 2002 this caption comprised the provision for expenses relating to the Parent company redundancy plan, approved by the Directorate General for Employment. 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.

Changes to the consolidated group in 2002 were 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. This provision is also included in 2003.

Other provisions mainly include the amounts appropriated each year by the Parent company to cover the possible unfavourable outcome of claims made by third parties. Other provisions also include the appropriation made in 2003 on the basis of actuarial studies to cover the voluntary redundancy plan to adapt the profile of personnel to the Parent company's new requirements. These amounts have mainly been recorded under extraordinary expenses, together with other items resulting from the reversal of provisions which are now unnecessary.

**(15) BONDS AND OTHER LONG-TERM MARKETABLE SECURITIES**

At 31 December 2003 this balance represents the first Eurobonds issued by Red Eléctrica de España Finance, B.V. launched in September 2003 for Euros 800,000 thousand, under the Medium-Term Eurobond Issue Programme registered with the Luxembourg stock exchange on 31 July 2003 for a total of Euros 1,500,000 thousand. This Eurobond issue accrues interest at 4.75% and has an issue price of 99.591% of the par value. At 31 December 2003 and 2002 this balance represents bonds issued by the Parent company at fixed and variable rates. During 2003 unhedged and hedged debts have accrued average annual interest of 5.09% and 4.89% respectively (4.39% for hedged debts in 2002).

At 31 December 2003 and 2002 the Parent company has contracted swap and collar operations to hedge against interest rate risks, covering a debt of Euros 45,076 thousand. In 2003 the Parent company has also con-

Applications	Reversals and differences on conversion	31 December 2002	Additions	Applications	Reversals and differences on conversion	31 December 2003
(766)	(1,250)	14,859	4,429	(970)	(3,194)	15,124
-	-	292	251	(36)	(23)	484
(541)	(1,172)	10,276	23,065	(478)	(5,052)	27,811
<b>(1,307)</b>	<b>(2,422)</b>	<b>25,427</b>	<b>27,745</b>	<b>(1,484)</b>	<b>(8,269)</b>	<b>43,419</b>

tracted interest rate swaps enabling fixed reference interest rates on the issue of Eurobonds, as well as the intergroup loan for this issue, irrespective of the closing date of the operation. The completion of these operations has generated income for the Parent company which is accrued over the term of the loan.

In accordance with the terms of each bond issue, at 31 December 2003 and 2002 the debt matures as follows:

	Thousands of Euros	
	2003	2002
TWO YEARS	45,076	50,890
THREE YEARS	-	45,076
FOUR YEARS	-	-
FIVE YEARS	-	-
THEREAFTER	800,000	-
	<b>845,076</b>	<b>95,966</b>

## [16] LONG-TERM LOANS

Details of long-term loans are as follows:

	Thousands of Euros	
	2003	2002
LOANS AND CREDIT FACILITIES	955,145	261,224
LESS, CURRENT PORTION	(15,357)	(16,244)
	<b>939,788</b>	<b>244,980</b>

In 2003 the Parent company has subscribed a Euros 700,000 thousand five-year syndicated loan. The loan is broken down into two tranches, as follows: a long-term loan of Euros 500,000 thousand and a credit facility for the remaining Euros 200,000 thousand. At 31 December 2003 draw downs on this loan total Euros 650,000 thousand. Furthermore, in June 2003 TDE obtained a US Dollars 30,000 thousand long-term loan from IFC (International Finance Corporation), enabling Red Eléctrica Internacional to finance the acquisition of TDE through an intergroup loan referenced to Libor, plus a market differential (note 19).

Early loan repayments made in 2003 and 2002 amount to Euros 3,005 thousand and Euros 3,606 thousand, respectively.

At 31 December 2003 long-term debts in foreign currencies comprise loans in US Dollars and Swiss Francs for the equivalent of Euros 71,025 thousand and Euros 4,545 thousand, respectively (Euros 59,932 thousand and Euros 6,198 thousand at 31 December 2002).

At 31 December 2003 the Parent company has contracted swap and collar operations to hedge against interest rate risks on loans, covering debt of Euros 253,005 thousand (Euros 12,621 thousand at 31 December 2002).

During 2003 unhedged and hedged Euro currency loans have accrued average interest at annual rates of 3.26% and 3.40%, respectively (compared to 4.18% for hedged Euro currency loans in 2002). In 2003 average interest on unhedged and hedged foreign currency loans has been 3.31% (3.42% for hedged loans in 2002).

At 31 December the longterm maturities and currencies of loans are as follows (expressed in thousands of Euros):

	Thousands of Euros			
	2003		2002	
	EUROS	FOREIGN CURRENCY	EUROS	FOREIGN CURRENCY
TWO YEARS	14,892	4,275	12,247	3,792
THREE YEARS	23,016	4,412	15,510	3,881
FOUR YEARS	24,573	6,136	21,552	3,973
FIVE YEARS	671,580	5,769	21,026	3,930
THEREAFTER	130,157	54,978	108,515	50,554
	<b>864,218</b>	<b>75,570</b>	<b>178,850</b>	<b>66,130</b>

At 31 December 2003 and 2002 the Parent company has long-term credit facilities with a total limit of Euros 100,000 thousand.

## (17) OTHER LONG-TERM CREDITORS

Details of other long-term creditors at 31 December 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
DEFERRED TAX LIABILITIES (NOTE 23)	42,562	43,511
LONG-TERM DEPOSITS RECEIVED	102	131
	<b>42,664</b>	<b>43,642</b>



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

	Thousands of Euros	
	2003	2002
TWO YEARS	1,690	1,799
THREE YEARS	1,551	1,668
FOUR YEARS	1,879	1,530
FIVE YEARS	1,956	1,858
THEREAFTER	35,588	36,787
	<b>42,664</b>	<b>43,642</b>

### (18) BONDS AND OTHER SHORT-TERM MARKETABLE SECURITIES

At 31 December 2003 and 2002 this caption comprises bonds of Euros 50,890 thousand and Euros 30,351 thousand, respectively, issued by the Parent company redeemable in the short term.

At 31 December 2003 and 2002 this caption also includes the accrued interest payable at those dates on the bonds issued by Group companies. Details are as follows:

	Thousands of Euros	
	2003	2002
NON-CONVERTIBLE BONDS	50,890	30,351
INTEREST ON BONDS	11,780	2,690
	<b>62,670</b>	<b>33,041</b>

### (19) SHORT-TERM LOANS

Details of short-term loans are as follows:

	Thousands of Euros	
	2003	2002
LOANS AND CREDITS	15,357	974,011
PROMISSORY NOTES AND CREDIT FACILITIES	79,209	193,928
	<b>94,566</b>	<b>1,167,939</b>
ACCRUED INTEREST PAYABLE	7,318	4,964
	<b>101,884</b>	<b>1,172,903</b>

In 2002 loans included a syndicated bridging 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., of which Euros 929,160 thousand had been drawn down at 31 December 2002. In 2002 this caption also included a bridging loan of US Dollars 30,000 thousand (equivalent to Euros 28,607 thousand at 31 December 2002) obtained by Red Eléctrica Internacional, S.A. for the acquisition of TDE. At 31 December 2003 these two loans have been repaid after long-term substitute sources of financing were obtained.

At 31 December 2003 and 2002 loans and credits also include the current portion of long-term loans obtained from the Parent company and TDE, amounting to Euros 15,357 thousand and Euros 16,244 thousand, respectively.

At 31 December 2003 the Group companies have unused short-term credit facilities with a limit of Euros 291,794 thousand (Euros 147,546 thousand at 31 December 2002).

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 prepayments.

At 31 December 2003 and 2002 the Parent company adheres to a programme to issue "highly liquid" promissory notes up to a maximum of Euros 168,000 thousand has been registered with the Spanish Securities and Exchange Commission.

The Parent company's short-term loans and credits, promissory notes and credit facilities are in Euros and in 2002 have accrued interest at an average annual rate of 2.71% for both hedged and unhedged operations (3.49% for hedged loans in 2002). The credit facilities of the remaining Group companies are referenced to Libor plus a market spread.

## [20] TRADE CREDITORS

Details of the trade creditors at 31 december 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
SUPPLIERS	8,962	9,105
CREDITORS FOR SERVICES RENDERED	42,682	84,583
BILLS PAYABLE	17,618	-
	<b>69,262</b>	<b>93,688</b>

Suppliers mainly relate to the energy and power supply agreement that the Parent company entered into with EDF (note 27).

At 31 December 2003 bills payable comprise balances payable by the Parent company for confirming services received since 2003.

## [21] OTHER CREDITORS

Details of other creditors at 31 December 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
PUBLIC ENTITIES	29,950	19,011
OTHER DEBTS	141,271	165,223
SHORT-TERM GUARANTEE DEPOSITS	2,509	2,803
	<b>173,730</b>	<b>187,037</b>

Balances due to public entities are as follows:

	Thousands of Euros	
	2003	2002
TAX AUTHORITIES:		
Withholdings	826	712
Income tax	24,759	15,025
VAT	421	193
Other	411	325
SOCIAL SECURITY	1,109	897
DEFERRED TAX LIABILITY (NOTE 23)	2,424	1,859
	<b>29,950</b>	<b>19,011</b>

Other debts are as follows:

	Thousands of Euros	
	2003	2002
CREDITORS FOR PURCHASES OF FIXED ASSETS AND OTHER ITEMS	112,650	139,712
INTERIM DIVIDEND PAYABLE	28,621	25,511
	<b>141,271</b>	<b>165,223</b>

## [22] PREPAYMENTS AND ACCRUALS

At 31 December 2003 prepayments mainly include those relating to prepaid insurance policies contracted by Group companies for future years. In 2002 this caption mainly included Euros 10,264 thousand advance payments made by the Parent company to EDF, relating to prior years' regularisations of the supply contract with the Parent company (note 27).

Regularisations and payments corresponding to the abovementioned supply contract are accrued to adapt the flow of income and expenses derived from these adjustments to the annual resolutions of the Director General for Energy Policy and Mines on the basis of which income derived from this contract is calculated.

At 31 December 2003 accruals include income of Euros 12,567 thousand generated in prior years on the power supply agreement between EDF and the Parent company. In 2003 this caption also includes Euros 15,550 thousand (Euros 15,186 thousand in 2002) in respect of advance income on the support contract entered into by the Parent company and EDF (note 27).

## [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 Institute of Accountants and Auditors of 9 October 1997 and 15 March 2002.

At 31 December 2003 and 2002 the tax group includes the subsidiaries Red Eléctrica Telecomunicaciones and Red Eléctrica Internacional.

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 2003 with the taxable income that the companies expect to declare after approval of their individual annual accounts, as well as the figures for 2002, is as follows:

	Thousands of Euros	
	2003	2002
CONSOLIDATED PROFIT, BEFORE INCOME TAX	176,126	145,515
PERMANENT DIFFERENCES	2,511	(856)
CONSOLIDATION ADJUSTMENTS	757	1,360
CONSOLIDATED TAXABLE ACCOUNTING INCOME	179,394	146,019
TIMING DIFFERENCES:		
GENERATED DURING THE YEAR	20,575	9,156
REVERSAL OF PRIOR YEARS	(4,237)	1,504
TAXABLE INCOME	195,732	156,679

Details of the consolidated income tax charge for 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
TAX CALCULATED AT EACH COUNTRY'S STANDARD RATE	61,255	49,873
DEDUCTIONS	(1,090)	(4,030)
EXPENSE FOR THE YEAR	60,165	45,843
PRIOR YEARS' EXPENSE	(12)	(399)
INCOME TAX CHARGE	60,153	45,444

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

In 2002 deductions mainly comprised 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 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 2003 and 2002 and the related accumulated deferred tax assets and liabilities are as follows:

	2003		2002	
	TIMING DIFFERENCE	TAX EFFECT	TIMING DIFFERENCE	TAX EFFECT
DEFERRED TAX ASSETS:				
GENERATED IN PRIOR YEARS	45,034	15,595	40,233	14,082
GENERATED DURING THE YEAR	24,788	8,676	9,659	3,213
REVERSAL OF PRIOR YEARS	(9,545)	(3,341)	(4,535)	(1,587)
	15,243	5,335	5,124	1,626
ADJUSTMENTS TO PRIOR YEARS	110	38	(323)	(113)
	<b>60,387</b>	<b>20,968</b>	<b>45,034</b>	<b>15,595</b>
DEFERRED TAX LIABILITIES:				
GENERATED IN PRIOR YEARS	(129,626)	(45,370)	(135,419)	(47,397)
GENERATED DURING THE YEAR	(4,213)	(1,474)	(503)	(176)
REVERSAL OF PRIOR YEARS	5,308	1,858	6,039	2,114
	1,095	384	5,536	1,938
ADJUSTMENTS TO PRIOR YEARS	-	-	257	89
	<b>(128,531)</b>	<b>(44,986)</b>	<b>(129,626)</b>	<b>(45,370)</b>

Timing differences giving rise to deferred tax assets have mainly arisen due to changes to the provision for liabilities and charges in Group companies.

Timing differences giving rise to deferred tax liabilities relate principally to 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:

	Thousands of Euros	
	2003	2002
INCOME FROM SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	612,366	392,602
SALES OF ENERGY AND POWER	226,118	242,476
OTHER INCOME FROM SERVICES RENDERED	68,609	59,996
SALES OF BY-PRODUCTS AND OTHER INCOME	223	433
	<b>907,316</b>	<b>695,507</b>

Income from services rendered relates to transmission activities and the operation of the Parent company's system and amounts to Euros 593,328 thousand for the Parent company (Euros 381,510 thousand in 2002) and Euros 19,038 thousand (Euros 11,092 thousand in the six months since its incorporation into the Red Eléctrica Group) for the Bolivian company, TDE. In the case of the Parent company, the maximum remuneration for these services is established annually by Royal Decree. The income for transmission services rendered, earned by the Parent company in 2003, which has not been settled and includes that relating to the assets acquired from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A., amounts to Euros 576,902 thousand including power transmission tolls (Euros 368,797 thousand in 2002). Royal Decree 1483/2001 set revenues for the operation of the system at 0.104% of rates and 0.294% of power transmission tolls (0.103% and 0.250%, respectively, in 2002). This caption also includes revenues collected in respect of prior years' settlements.

In 2003 and 2002 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 (note 27). In 2002 sales of energy and power also included income on the electrical energy supply contract entered into by the Parent company with the Moroccan Electricity Board (Office National de l'Electricité) (ONE), which expired in December 2002.

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:

	Thousands of Euros	
	2003	2002
WAGES AND SALARIES	50,785	47,201
SOCIAL SECURITY	11,435	10,180
PENSION AND SIMILAR OBLIGATIONS	895	813
OTHER SOCIAL CHARGES	3,739	3,447
	<b>66,854</b>	<b>61,641</b>

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

	Number of persons	
	2003	2002
MANAGERS	31	30
HONOURS GRADUATES	423	352
GRADUATES	370	309
SPECIALISTS AND OTHER TECHNICAL STAFF	391	411
	<b>1,215</b>	<b>1,102</b>

**c) Other operating expenses**

Details for 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
EXTERNAL SERVICES	165,089	80,197
LOCAL TAXES	3,760	2,117
OTHER OPERATING EXPENSES	2,230	1,075
PROVISION FOR LIABILITIES AND CHARGES	5,794	6,991
<b>TOTAL</b>	<b>176,873</b>	<b>90,380</b>

The increase in external services in 2003 is mainly due to expenses incurred by the Parent company on assets acquired from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A., including those deriving from contracts entered into with the aforementioned companies for operation and maintenance (note 27). The increase is also a result of Parent company expenses relating to engineering and construction work for third parties, expenses incurred by Red Eléctrica Telecomunicaciones due to the increase in activity compared to the prior year, and those incurred by TDE relating to the twelve-month period in 2003, compared to the six-month period in 2002.

The charge to the provision for contingent liabilities includes amounts provided in each year by the Parent company to cover possible unfavourable rulings on claims lodged by third parties and future retirement commitments assumed by the Parent company with personnel.

**d) Extraordinary income and expense**

Details for 2003 and 2002 are as follows:

	Thousands of Euros	
	2003	2002
PROFIT ON FIXED ASSETS	120	11
PROFIT ON OWN SHARE OPERATIONS	1,447	444
CAPITAL GRANTS TAKEN TO PROFIT AND LOSS	3,965	4,475
EXTRAORDINARY INCOME	2,625	3,591
PRIOR YEARS' PROFIT AND INCOME	844	1,232
<b>TOTAL EXTRAORDINARY INCOME</b>	<b>9,001</b>	<b>9,753</b>
CHANGES IN THE PROVISION FOR FIXED ASSETS AND OWN SHARES	2,973	1,969
LOSSES ON FIXED ASSETS	382	381
LOSSES ON OWN SHARE OPERATIONS	-	393
EXTRAORDINARY EXPENSES	3,970	39
PRIOR YEARS' LOSSES AND EXPENSES	525	28
<b>TOTAL EXTRAORDINARY EXPENSES</b>	<b>7,850</b>	<b>2,810</b>

Changes in the provision for fixed assets and own shares in 2003 and 2002 mainly comprise the provision for impairment of tangible assets under construction in the Parent company, due to the capitalisation of significant financial expenses in projects which have been delayed for reasons not attributable to the company, and the provision for own shares.

#### e) Balances and transactions with equity-accounted and associated companies

Details are as follows:

#### Details of transactions with equity accounted and associated companies for the years ended 31 December 2003 and 2002 · [Expressed in thousands of Euros] [Translation from the original in Spanish]

	2003				2002			
	BALANCES		TRANSACTIONS		BALANCES		TRANSACTIONS	
	Debtor	Creditor	Expense	Income	Debtor	Creditor	Expense	Income
RED ELÉCTRICA DEL SUR S.A. (REDESUR)	65	11	-	412	157	-	-	461
RED DE ALTA TENSIÓN, S.A. (REDALTA)	12,927	-	-	1,708	11,219	2	-	22
TENEDORA DE ACCIONES DE REDESUR, S.A.	1	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>12,993</b>	<b>11</b>	<b>-</b>	<b>2,120</b>	<b>11,376</b>	<b>2</b>	<b>-</b>	<b>483</b>

## [25] ENVIRONMENTAL ISSUES

During 2003 the Group companies have incurred ordinary expenses of approximately Euros 3,984 thousand (Euros 2,660 thousand in 2002) to protect and improve the environment. These expenses mainly relate to the Parent company, principally in the introduction of preventive and corrective measures in its installations, the protection of birdlife and vegetation, the preservation of protected natural spaces and waste management, as well as the organisational unit responsible for such tasks, various environmental communication and training activities and environmental research projects. The environmental management system has also been maintained, including preparation of the environmental report of the Parent company, which in 2003 received a prize for the best environmental and sustainability information made available by a Spanish company, awarded by the Spanish Institute of Chartered Accountants and Auditors and the Spanish Association of Accountancy and Business Administration.

In 2003 the Parent company has also performed environmental impact and supervision studies in relation to new electricity installations. Costs incurred on these studies amount to approximately Euros 1,575 thousand (approximately Euros 1,379 thousand in 2002), which has been added to the value of tangible assets.

The Group companies have no litigation or contingencies relating to environmental protection or improvements.

## [26] INFORMATION BY ACTIVITY

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

In 2003 and 2002 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 overhead 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.

## [27] COMMITMENTS

At 31 December 2003 the Group is party to certain long-term contracts and 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 con-



nection 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 contract commenced in November 1995 for a period of 15 years. Under the terms of the contract, the Parent company will provide EDF with power equal to that stipulated in the supply agreement mentioned in the above section for a maximum of 600 hours during the winter months, in accordance with the modifications agreed on 8 January 1997.
- c)** The Parent company has assumed commitments with Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. by virtue of the purchase contracts entered into in 2003, whereby the aforementioned companies render operation and maintenance services for the assets purchased over a period of four years, as of 2003.
- d)** The Parent company has an option to purchase a 75% interest in REDALTA which may be exercised unilaterally between five and seven years from the acquisition date, in accordance with the contract for the acquisition of a 25% interest in REDALTA entered into at the end of 2002.

## **[28]** REMUNERATION OF AND BALANCES WITH MEMBERS OF THE BOARD OF DIRECTORS

In 2003 and 2002 the members of the board of directors of the Parent company received remuneration of Euros 2,282 thousand and Euros 1,961 thousand, respectively, for their membership of the board of directors of the Parent company as well as those of the Group companies. The aforementioned amounts include estimated performance-linked bonuses and the salaries of directors who are also employees of the Company.

At 31 December 2003 and 2002 no loans, advances or Group company guarantees to members of the board of the Parent company are reflected in the consolidated balance sheet. Furthermore, there are no pension commitments with the members of the board of directors of the Parent company at that date.

In 2003 the members of the board of directors of the Parent company have performed no extraordinary operations or transactions under conditions other than market, directly or through intermediaries, with the Parent company or Group companies.

Details of the interests held by the members of the board of directors of the Parent company at 31 December 2003 in the share capital of companies with a similar or complementary activity to that of Red Eléctrica de España, S.A., as well as the posts they hold and functions they perform and, where applicable, the direct or indirect performance of identical, similar or complementary activities to that of the Parent company, are included in Appendix IV, in accordance with the correspondence received from the directors of the Parent company.

## **[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 2003 audit of the accounts of the Group companies amounts to approximately Euros 116 thousand (Euros 106 thousand in 2002). 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 Euros 620 thousand in 2003 (Euros 365 thousand in 2002).

**(30) STATEMENTS OF SOURCE AND APPLICATION OF FUNDS**

The consolidated statements of source and application of funds for 2003 and 2002 are as follows:

**RED ELÉCTRICA GROUP · Statement of Source and Application of Funds at December 2003 and 2002 · [Expressed in thousands of Euros] [Translation from the original in Spanish]**

<b>APPLICATIONS</b>	<b>2003</b>	<b>2002</b>
<b>ACQUISITIONS AND ADDITIONS OF FIXED ASSETS</b>		
ESTABLISHMENT COSTS	-	903
INTANGIBLE ASSETS	5,789	5,681
TANGIBLE ASSETS	770,913	1,035,109
INVESTMENTS	10,481	14,682
OWN SHARES	29,532	49,722
	<b>816,715</b>	<b>1,106,097</b>
DEFERRED EXPENSES	6,564	27,943
GOODWILL ACQUIRED	-	20,949
INCORPORATION INTO CONSOLIDATED GROUP OF LONG-TERM ASSETS AND LIABILITIES	-	57,468
DIVIDENDS	39,111	37,111
INTERIM DIVIDEND	28,621	25,511
REPAYMENT OR TRANSFER TO SHORT-TERM OF LONG-TERM DEBT	135,039	54,633
PROVISIONS FOR LIABILITIES AND CHARGES	1,484	1,307
	<b>1,027,534</b>	<b>1,331,019</b>
INCREASE IN WORKING CAPITAL	967,945	-
<b>TOTAL APPLICATIONS</b>	<b>1,995,479</b>	<b>1,331,019</b>

<b>CHANGES IN WORKING CAPITAL</b>	<b>2003</b>	
	<i>INCREASES</i>	<i>DECREASES</i>
STOCKS	11,669	-
DEBTORS	-	78,401
CURRENT LIABILITIES	1,064,936	-
SHORT-TERM INVESTMENTS	-	17,442
CASH IN HAND AND AT BANKS	1,931	-
PREPAYMENTS	-	14,748
	<b>1,078,536</b>	<b>110,591</b>
CHANGES IN WORKING CAPITAL	-	967,945
	<b>1,078,536</b>	<b>1,078,536</b>

<b>SOURCES</b>	<b>2003</b>	<b>2002</b>
<b>FUNDS GENERATED ON OPERATIONS</b>		
PROFIT FOR THE YEAR	115,784	99,858
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	(633)	(634)
AMORTISATION AND DEPRECIATION	195,497	118,040
PROVISION FOR TANGIBLE ASSETS	3,697	1,259
AMORTIZATION ON GOODWILL OF CONSOLIDATION	2,095	1,047
PROVISION FOR OWN SHARES	(725)	710
PROVISION FOR LIABILITIES AND CHARGES		
PENSION AND SIMILAR COMMITMENTS	4,429	5,759
CONTINGENT LIABILITIES	23,316	1,970
REVERSAL OF PROVISIONS FOR LIABILITIES AND CHARGES		
PENSION AND SIMILAR COMMITMENTS	(3,194)	(1,089)
CONTINGENT LIABILITIES	(5,075)	(1,332)
DEFERRED EXPENSES TAKEN TO PROFIT AND LOSS	4,147	2,189
DEFERRED INCOME TAKEN TO PROFIT AND LOSS	(11,230)	(13,658)
LOSS/(PROFIT) ON DISPOSAL OF FIXED ASSETS	262	243
	<b>328,370</b>	<b>214,362</b>
CHANGES IN CONVERSION DIFFERENCES	(6,373)	(3,389)
MINORITY INTERESTS	(7)	62
TRANSFER TO SHORT TERM OF DEFERRED ASSETS	1,126	4,500
DEFERRED INCOME	28,953	40,739
LONG-TERM LIABILITIES	1,574,247	78,304
DISPOSAL AND WRITE OFF OF FIXED ASSETS		
TANGIBLE AND INTANGIBLE ASSETS	21,386	231
OWN SHARES	36,488	42,747
INVESTMENTS	-	8,237
REPAYMENT OR TRANSFER TO SHORT TERM		
OTHER INVESTMENTS	3,917	3,260
LONG-TERM DEBTORS	4,100	9,132
CHANGES IN INVESTMENTS IN EQUITY-ACCOUNTED COMPANIES	3,272	1,313
	<b>1,995,479</b>	<b>399,498</b>
DECREASE IN WORKING CAPITAL	-	931,521
<b>TOTAL SOURCES</b>	<b>1,995,479</b>	<b>1,331,019</b>

<b>CHANGES IN WORKING CAPITAL</b>	<b>2002</b>	
	<b>INCREASES</b>	<b>DECREASES</b>
STOCKS	1,887	-
DEBTORS	152,114	-
CURRENT LIABILITIES	-	1,100,091
SHORT-TERM INVESTMENTS	6,650	-
CASH IN HAND AND AT BANKS	1,701	-
PREPAYMENTS	6,218	-
	<b>168,570</b>	<b>1,100,091</b>
CHANGES IN WORKING CAPITAL	931,521	-
	<b>1,100,091</b>	<b>1,100,091</b>

## RED ELÉCTRICA GROUP · Details of investments at 31 December 2003 (Expressed in thousands of Euros) [Translation from the original in Spanish]

COMPANY: - REGISTERED OFFICES - PRINCIPAL ACTIVITY	% ownership of Parent company	
	DIRECT	INDIRECT
<b>A) FULLY CONSOLIDATED COMPANIES</b>		
<b>RED ELÉCTRICA TELECOMUNICACIONES, S.A.U.</b> - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid) - Telecommunications services.	100%	-
<b>RED ELÉCTRICA INTERNACIONAL, S.A.U.</b> - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid) - International holding. Consulting, engineering and construction services. Electricity activities outside the Spanish electricity system.	100%	-
<b>TRANSPORTADORA DE ELECTRICIDAD, S.A.</b> - C/ Colombia, N° 00655, casilla, N° 640. Cochabamba (Bolivia) - Transmission of electricity.	-	99,94% (2)
<b>CYBERCIA, S.A.</b> - C/ Colombia, N° 00655, casilla, N° 640. Cochabamba (Bolivia) - General services and business activities.	-	67% (5)
<b>RED ELÉCTRICA DE ESPAÑA FINANCE, B.V.</b> - Amsteldijk, 166. Amsterdam (Holanda) - Finance.	100%	-
<b>B) EQUITY ACCOUNTED COMPANIES</b>		
<b>RED ELÉCTRICA DEL SUR, S.A. (REDESUR)</b> - Juan de la Fuente, 453. Lima (Perú) - Transmission of electricity.	-	30% (3)
<b>TENEDORA DE ACCIONES DE REDESUR, S.A.</b> - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid) - Holding, management and administration of REDESUR shares.	-	8,33% (2)
<b>RED INTERNACIONAL DE COMUNICACIONES DEL SUR, S.A. (REDINSUR)</b> - Juan de la Fuente, 453. Lima (Perú) - Telecommunications.	-	24,57% (4)
<b>NAP DE LAS AMÉRICAS-MADRID, S.A.</b> - Plaza de la Independencia, 4ª Planta. 28001 (Madrid) - Telecommunications.	-	20% (1)
<b>RED DE ALTA TENSIÓN, S.A.U. (REDALTA)</b> - C/ Camino de la Zarzuela, 1. Aravaca (Madrid) - Holding, management and administration of Inalta shares.	25%	-
<b>INFRAESTRUCTURAS DE ALTA TENSIÓN, S.A.U. (INALTA)</b> - C/ Camino de la Zarzuela, 1. Aravaca (Madrid) - Transmission of electricity.	-	25% (6)

\* Shareholders' equity of these companies has been calculated based on their audited financial statements harmonised with the Group's accounting criteria and expressed at year-end rates of exchange.

(1) Investment made through Red Eléctrica Telecomunicaciones

(2) Investment made through Red Eléctrica Internacional

(3) Investment made through Red Eléctrica Internacional (25%) and Tenedora de Acciones de Redesur (5%)

(4) Investment made through Redesur

(5) Investment made through Transportadora de Electricidad, S.A.

(6) Investment made through Redalta

This appendix forms an integral part of note 1 to the consolidated annual accounts.

## Appendix I

Net book value in holding company	Shareholders' equity of consolidated companies *			
	SHARE CAPITAL	RESERVES	Profit/(Loss) 2003 TOTAL	EXTRAORDINARY
96,994	150,000	(33,163)	(19,843)	273
58,711	60,000	775	(4,877)	(5,128)
85,579	36,584	21,079	4,797	(1,085)
26	32	7	7	-
2,000	18	1,982	175	-
4,597	19,394	1,507	616	1
920	16,904	(1,716)	(1,544)	(2,278)
55	92	(17)	(11)	-
812	5,553	(2,370)	875	-
1,772	7,495	7,434	(7,840)	(847)
58,871	29,889	29,829	(847)	52

**RED ELÉCTRICA GROUP** · Consolidated balance sheet by activity at 31 December 2003  
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

<b>ASSETS</b>	<b>TRANSMISSION</b>
<b>FIXED ASSETS</b>	<b>2,884,469</b>
UNCALLED SHARE PAYMENTS	-
ESTABLISHMENT COSTS	-
INTANGIBLE ASSETS	2,957
TANGIBLE ASSETS	2,845,069
PLANT AND MACHINERY	3,960,761
PLANT AND MACHINERY UNDER CONSTRUCTION	175,119
OTHER TANGIBLE ASSETS	75,909
ADVANCES AND OTHER TANGIBLE ASSETS UNDER CONSTRUCTION	38,997
DEPRECIATION OF PLANT AND MACHINERY	(1,337,726)
OTHER DEPRECIATION	(42,351)
PROVISIONS	(25,640)
INVESTMENTS	32,921
PARENT COMPANY SHARES	1,522
LONG-TERM LOANS	-
<b>GOODWILL ON CONSOLIDATION</b>	<b>-</b>
<b>DEFERRED EXPENSES</b>	<b>20,625</b>
<b>CURRENT ASSETS</b>	<b>190,054</b>
STOCKS	18,401
DEBTORS	168,331
OTHER CURRENT ASSETS	1,497
PREPAYMENTS	1,825
<b>TOTAL ASSETS</b>	<b>3,093,148</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	
<b>SHAREHOLDERS' EQUITY</b>	<b>889,592</b>
SHARE CAPITAL AND RESERVES	789,411
PROFIT/(LOSS) FOR THE YEAR	128,050
INTERIM DIVIDEND	(27,869)
<b>MINORITY INTERESTS</b>	<b>-</b>
<b>DEFERRED INCOME</b>	<b>140,367</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>33,235</b>
<b>LONG-TERM CREDITORS</b>	<b>1,672,660</b>
<b>CURRENT LIABILITIES</b>	<b>299,006</b>
CURRENT LIABILITIES, EXCLUDING ACCRUALS	292,696
ACCRUALS	6,310
<b>INTERACTIVITY FINANCING</b>	<b>58,288</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>3,093,148</b>

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

## Appendix II-a

## 2003 BY ACTIVITY

OPERATION OF SYSTEM	OTHER ELECTRICAL ACTIVITIES	DIVERSIFICATION ACTIVITIES	ADJUSTMENTS ON CONSOLIDATION	GROUP TOTAL
17,859	306	1,253,643	(1,076,078)	3,080,199
-	-	-	-	-
-	-	1,152	-	1,152
2,027	18	5,778	-	10,780
12,303	178	161,826	(761)	3,018,615
14,001	-	156,185	(775)	4,130,172
-	-	1,099	-	176,218
16,030	310	102,318	-	194,567
58	2	2,629	-	41,686
(9,963)	-	(76,215)	14	(1,423,890)
(7,823)	(134)	(22,993)	-	(73,301)
-	-	(1,197)	-	(26,837)
3,500	110	1,082,595	(1,075,317)	43,809
29	-	-	-	1,551
-	-	4,292	-	4,292
-	-	-	17,807	17,807
1,544	-	45,439	(13,322)	54,286
4,974	17,081	121,008	(85,474)	247,643
-	-	58	-	18,459
4,794	16,935	38,374	(18,205)	210,229
27	-	81,810	(67,269)	16,065
153	146	766	-	2,890
<b>24,377</b>	<b>17,387</b>	<b>1,422,090</b>	<b>(1,157,067)</b>	<b>3,399,935</b>
(35,595)	13,014	200,983	(218,895)	849,099
(27,141)	10,347	229,688	(240,369)	761,936
(8,454)	3,419	(28,705)	21,474	115,784
-	(752)	-	-	(28,621)
-	-	-	55	55
1,796	958	114,250	(20,805)	236,566
8,200	233	1,751	-	43,419
29,887	-	957,926	(832,545)	1,827,928
18,992	36,673	173,074	(84,877)	442,868
18,992	8,556	172,190	(84,877)	407,557
-	28,117	884	-	35,311
1,097	(33,491)	(25,894)	-	-
<b>24,377</b>	<b>17,387</b>	<b>1,422,090</b>	<b>(1,157,067)</b>	<b>3,399,935</b>

**RED ELÉCTRICA GROUP** · Consolidated analytical statement of profit and loss by activity  
for the year ended 31 December 2003  
(Expressed in thousands of Euros) (Translation from the original in Spanish)

ITEMS	TRANSMISSION
NET SALES AND SERVICES RENDERED	632,510
+ OTHER OPERATING INCOME	16,600
<b>= VALUE OF PRODUCTION</b>	<b>649,110</b>
- MATERIALS CONSUMED	(15,628)
- EXTERNAL EXPENSES	(155,642)
<b>= VALUE ADDED BY THE COMPANY</b>	<b>477,840</b>
- PERSONNEL EXPENSES	(44,602)
<b>= GROSS OPERATING PROFIT/(LOSS)</b>	<b>433,238</b>
- AMORTISATION AND DEPRECIATION	(173,724)
- BAD DEBTS WRITTEN OFF AND CHANGES IN TRADE PROVISIONS	1,850
<b>= NET OPERATING PROFIT/(LOSS)</b>	<b>261,364</b>
+ FINANCIAL INCOME	2,735
- FINANCIAL EXPENSES	(65,364)
<b>= PROFIT/(LOSS) ON ORDINARY ACTIVITIES</b>	<b>198,735</b>
+ PROFIT ON FIXED ASSETS AND EXTRAORDINARY INCOME	6,695
- LOSS ON FIXED ASSETS AND EXTRAORDINARY EXPENSES	(3,715)
- CHANGES IN THE PROVISIONS FOR FIXED ASSETS	(3,667)
<b>= CONSOLIDATED PROFIT/(LOSS) BEFORE TAX</b>	<b>198,048</b>
- INCOME TAX	(69,998)
<b>= CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>	<b>128,050</b>
- MINORITY INTERESTS	-
<b>= PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>128,050</b>

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



## Appendix II-b

<b>2003 BY ACTIVITY</b>				
<b>OPERATION OF SYSTEM</b>	<b>OTHER ELECTRICAL ACTIVITIES</b>	<b>DIVERSIFICATION ACTIVITIES</b>	<b>ADJUSTMENTS ON CONSOLIDATION</b>	<b>GROUP TOTAL</b>
15,618	226,118	74,179	(41,109)	907,316
1,152	3	2,365	(1,230)	18,890
<b>16,770</b>	<b>226,121</b>	<b>76,544</b>	<b>(42,339)</b>	<b>926,206</b>
(396)	(220,595)	(2,905)	486	(239,038)
(10,703)	(148)	(51,465)	41,085	(176,873)
<b>5,671</b>	<b>5,378</b>	<b>22,174</b>	<b>(768)</b>	<b>510,295</b>
(10,147)	(321)	(11,784)	-	(66,854)
<b>(4,476)</b>	<b>5,057</b>	<b>10,390</b>	<b>(768)</b>	<b>443,441</b>
(3,131)	(32)	(18,624)	14	(195,497)
138	9	60	-	2,057
<b>(7,469)</b>	<b>5,034</b>	<b>(8,174)</b>	<b>(754)</b>	<b>250,001</b>
51	49	17,085	(15,871)	3,686
(1,131)	(1,000)	(23,435)	11,855	(78,712)
<b>(8,549)</b>	<b>4,083</b>	<b>(14,524)</b>	<b>(4,770)</b>	<b>174,975</b>
584	1,296	848	(422)	9,001
(503)	(28)	(631)	-	(4,877)
14	-	(27,364)	28,044	(2,973)
<b>(8,454)</b>	<b>5,351</b>	<b>(41,671)</b>	<b>22,852</b>	<b>176,126</b>
-	(1,932)	12,966	(1,373)	(60,337)
<b>(8,454)</b>	<b>3,419</b>	<b>(28,705)</b>	<b>21,479</b>	<b>115,789</b>
-	-	-	(5)	(5)
<b>(8,454)</b>	<b>3,419</b>	<b>(28,705)</b>	<b>21,474</b>	<b>115,784</b>

**RED ELÉCTRICA GROUP** · Consolidated balance sheet by activity at 31 December 2002  
 (Expressed in thousands of Euros) (Translation from the original in Spanish)

<b>ASSETS</b>	<b>TRANSMISSION</b>
<b>FIXED ASSETS</b>	<b>2,300,980</b>
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 TANGIBLE 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	-
<b>GOODWILL ON CONSOLIDATION</b>	<b>-</b>
<b>DEFERRED EXPENSES</b>	<b>18,695</b>
<b>CURRENT ASSETS</b>	<b>279,157</b>
STOCKS	6,711
DEBTORS	244,561
OTHER CURRENT ASSETS	21,698
PREPAYMENTS	6,187
<b>TOTAL ASSETS</b>	<b>2,598,832</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	
<b>SHAREHOLDERS' EQUITY</b>	<b>828,709</b>
SHARE CAPITAL AND RESERVES	749,780
PROFIT/(LOSS) FOR THE YEAR	103,350
INTERIM DIVIDEND	(24,421)
<b>MINORITY INTERESTS</b>	<b>-</b>
<b>DEFERRED INCOME</b>	<b>119,338</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>19,912</b>
<b>LONG-TERM CREDITORS</b>	<b>312,271</b>
<b>CURRENT LIABILITIES</b>	<b>1,288,996</b>
CURRENT LIABILITIES, EXCLUDING ACCRUALS	1,283,834
ACCRUALS	5,162
<b>INTERACTIVITY FINANCING</b>	<b>29,606</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,598,832</b>

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

## Appendix III-a

## 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
<b>24,025</b>	<b>28,345</b>	<b>646,135</b>	<b>(347,181)</b>	<b>2,950,156</b>
(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)	-	-
<b>24,025</b>	<b>28,345</b>	<b>646,135</b>	<b>(347,181)</b>	<b>2,950,156</b>

**RED ELÉCTRICA GROUP** · Consolidated analytical statement of profit and loss by activity  
for the year ended 31 December 2002  
(Expressed in thousands of Euros) [Translation from the original in Spanish]

ITEMS	TRANSMISSION
NET SALES AND SERVICES RENDERED	421,853
+ OTHER OPERATING INCOME	14,447
<b>= VALUE OF PRODUCTION</b>	<b>436,300</b>
- MATERIALS CONSUMED	(38,832)
- EXTERNAL EXPENSES	(73,895)
<b>= VALUE ADDED BY THE COMPANY</b>	<b>323,573</b>
- PERSONNEL EXPENSES	(43,235)
<b>= GROSS OPERATING PROFIT/(LOSS)</b>	<b>280,338</b>
- AMORTISATION AND DEPRECIATION	(103,612)
- BAD DEBTS WRITTEN OFF AND CHANGES IN TRADE PROVISIONS	(1,283)
<b>= NET OPERATING PROFIT/(LOSS)</b>	<b>175,443</b>
+ FINANCIAL INCOME	701
- FINANCIAL EXPENSES	(19,175)
<b>= PROFIT/(LOSS) ON ORDINARY ACTIVITIES</b>	<b>156,969</b>
+ PROFIT ON FIXED ASSETS AND EXTRAORDINARY INCOME	6,639
- LOSS ON FIXED ASSETS AND EXTRAORDINARY EXPENSES	(531)
- CHANGES IN THE PROVISIONS FOR FIXED ASSETS	(1,798)
<b>= CONSOLIDATED PROFIT/(LOSS) BEFORE TAX</b>	<b>161,279</b>
- INCOME TAX	(57,929)
<b>= CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR</b>	<b>103,350</b>
- MINORITY INTERESTS	-
<b>= PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>103,350</b>

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

## Appendix III-b

<b>2002 BY ACTIVITY</b>				
<b>OPERATION OF SYSTEM</b>	<b>OTHER ELECTRICAL ACTIVITIES</b>	<b>DIVERSIFICATION ACTIVITIES</b>	<b>ADJUSTMENTS ON CONSOLIDATION</b>	<b>GROUP TOTAL</b>
13,033	242,480	55,904	(37,763)	695,507
411	4	2,128	(1,342)	15,648
<b>13,444</b>	<b>242,484</b>	<b>58,032</b>	<b>(39,105)</b>	<b>711,155</b>
(219)	(235,576)	(3,189)	346	(277,470)
(8,264)	(103)	(46,607)	38,489	(90,380)
<b>4,961</b>	<b>6,805</b>	<b>8,236</b>	<b>(270)</b>	<b>343,305</b>
(7,723)	(181)	(10,502)	-	(61,641)
<b>(2,762)</b>	<b>6,624</b>	<b>(2,266)</b>	<b>(270)</b>	<b>281,664</b>
(3,404)	(13)	(11,011)	-	(118,040)
(81)	(7)	(11)	-	(1,382)
<b>(6,247)</b>	<b>6,604</b>	<b>(13,288)</b>	<b>(270)</b>	<b>162,242</b>
37	40	2,913	162	3,853
(698)	(777)	(5,774)	(1,099)	(27,523)
<b>(6,908)</b>	<b>5,867</b>	<b>(16,149)</b>	<b>(1,207)</b>	<b>138,572</b>
1,149	1,288	677	-	9,753
(99)	(7)	(204)	-	(841)
-	-	(20,858)	20,687	(1,969)
<b>(5,858)</b>	<b>7,148</b>	<b>(36,534)</b>	<b>19,480</b>	<b>145,515</b>
(2,537)	14,812	-	-	(45,654)
<b>(5,858)</b>	<b>4,611</b>	<b>(21,722)</b>	<b>19,480</b>	<b>99,861</b>
-	-	-	(3)	(3)
<b>(5,858)</b>	<b>4,611</b>	<b>(21,722)</b>	<b>19,477</b>	<b>99,858</b>

**RED ELÉCTRICA GROUP****Appendix IV**

Information relating to the members of the board of directors of the Parent company at 31 December 2003 · (Translation from the original in Spanish)

<i>MEMBERS OF THE BOARD OF DIRECTORS OF THE PARENT COMPANY</i>	<i>INTERESTS DIRECTLY OR INDIRECTLY HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS OF THE PARENT COMPANY IN COMPANIES WITH AN IDENTICAL, SIMILAR OR COMPLEMENTARY ACTIVITY TO THAT OF THE PARENT COMPANY</i>	<i>POSTS AND FUNCTIONS OF MEMBERS OF THE BOARD OF DIRECTORS OF THE PARENT COMPANY IN COMPANIES NOT RELATED TO GRUPO RED ELÉCTRICA WITH AN IDENTICAL, SIMILAR OR COMPLEMENTARY ACTIVITY TO THAT OF THE PARENT COMPANY</i>
MR. PEDRO MIELGO ÁLVAREZ	--	--
MR. PEDRO RIVERO TORRE	400 IBERDROLA, S.A. SHARES	--
MR. JUAN GURBINDO GUTIERREZ	--	--
MR. ANTONIO GARAMENDI LECANDA	--	--
MR. MANUEL ALVES TORRES	--	--
MR. JOAQUIM CLOTET I GARRIGA	1,900 UNIÓN FENOSA, S.A. SHARES	--
MR. ELÍAS VELASCO GARCÍA	17,248 UNIÓN FENOSA, S.A. SHARES	MANAGING DIRECTOR OF UNIÓN FENOSA, S.A.
MR. ENRIQUE LACALLE COLL	--	--
MR. JOSÉ RIVA FRANCOS	--	--
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	132,274 IBERDROLA, S.A. SHARES 35,000 ENDESA, S.A. SHARES	VICE-CHAIRMAN AND MEMBER OF THE BOARD OF IBERDROLA, S.A. JOINT DIRECTOR OF IBERDROLA DISTRIBUCIÓN ELÉCTRICA, S.A. SOLE DIRECTOR OF IBERDROLA ENERGÍA, S.A. JOINT DIRECTOR OF IBERDROLA GENERACIÓN, S.A. SOLE DIRECTOR OF IBERDROLA INGENIERÍA Y CONSULTORÍA, S.A. JOINT DIRECTOR OF IBERDROLA ENERGÍAS RENOVABLES II, S.A.
MR. JOSÉ MANUEL SERRA PERIS	3,232 ENDESA, S.A. SHARES	--

No member of the board of directors of the Parent company has directly or indirectly performed identical, similar or complementary activities to that of the Parent company.

# consolidated directors' report 2003

[Translation from the original in Spanish]

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## DEVELOPMENT OF THE GROUP

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2003 has been a crucial year for the Red Eléctrica Group.

The acquisition of transport assets of Endesa and Unión Fenosa, as well as the 25% interest in Iberdrola through Redalta, together with continued investment in the transport network in recent years, reaching new investment records have converted Red Eléctrica into the owner of approximately 86% of the energy transportation network in Spain, consolidating its leadership position in its core activities in the domestic and international market.

The new dimension reached by the Red Eléctrica Group brings us to a new stage in which we will be able to take advantage of the efficiencies derived from these processes. This has and will allow us to continue increasing our profits surpassing the high profitability levels we have already achieved.

Ongoing improvement in service quality rendered by Red Eléctrica to the electrical system strengthens its position as a Spanish TSO (Transmission and Systems Operator), following common international trends. This has therefore shown that the strength of the electrical systems and the quality of its operation are strategic requirements.

This leadership position is due to clear strategic orientation in research, development and innovation, a policy committed to environmental and technological issues and the efforts made by the highly qualified team of the Red Eléctrica Group, which allow us to efficiently adapt to this new dimension.

The diversification of the Red Eléctrica Group has been based on enlarging the capacity of the transport network and increasing the range of services provided by the Telecommunications subsidiary, the integration of the Bolivian subsidiary TDE into the Red Eléctrica Group and international consultancy projects which extend and consolidate the international presence and image of the Red Eléctrica Group.

### **The Electricity Business in Spain**

On 27 March 2003 Red Eléctrica finally acquired Endesa and Unión Fenosa's transport networks after obtaining the necessary administrative authorisation. These acquisitions which amounted to a final outlay of Euros 535 million in 2003 in addition to the Euros 801 million payment already made in 2002 have vastly changed the structure of our transport network, incorporating approximately 7,000 km line circuits of mainly 220 kV, 900 positions and approximately 4,500 MVA in transformation capacity.

Red Eléctrica has also made a continuous effort in investment, allocating Euros 215 million to improving and extending the transportation network in Spain by a further 6% compared to 2002. Such investments have focused on reinforcing the transportation infrastructure in the North East, Andalusia, Levante, Extremadura, North Eastern and Central Spain, improving interconnection with the Portuguese transport network, transporting new wind power and combined cycle energy generated in Galicia, Vizcaya, Navarra, Andalusia and Levante. Furthermore, Red Eléctrica has invested Euros 16 million in other projects such as improving its energy and operation management systems.

In 2003, Red Eléctrica's investments totalled Euros 766 million, continuing the high investment trend of recent years which confirms the role of the Parent Company as a support to domestic energy planning. In 2003, Red Eléctrica installed 533 km of new circuits and 69 positions in substations.

In 2003 Red Eléctrica was appointed electrical systems operator of the Balearic and Canary Islands, Ceuta and Melilla, in accordance with Royal Decree 1747 of 19 December 2003, which regulates these systems. This activity commenced in 2003 and will be developed during 2004. This appointment was undoubtedly achieved as a result of Red Eléctrica's operational history and its capacity to combine growth with ongoing improvement in the quality of services rendered.

In terms of electricity supply, availability of the network owned by Red Eléctrica has achieved levels of 98.04% which is slightly up on the 97.54% recorded in 2002. This high availability level is framed within a global context, highlighting the importance of the electrical systems' operational standards in a domestic environment, hallmarked by ever increasing demand for electrical energy. Domestic demand for electrical energy was 6.0% higher in 2003 than in 2002, exceeding the rise in gross generation in Spain which was up by 5.3%.

Today, Red Eléctrica is not only an international leader among global TSOs in terms of operational quality with an incidence level per TWh far below the international average, it has also combined its highly specialised technical leadership with top efficiency. The cost of the processes managed by Red Eléctrica as electrical system operator is 0.230 c€/kWh on the final price, which has been 3.726 c€/kWh this year.

In relation to the international electricity agreements signed by Red Eléctrica, the energy supply contract of Electricité de France (EDF) had an average utilization rate of 86% in 2003, accounting for total imports of 4,160 GWh, which is almost half the total volume of the domestic import programmes.

In international contract management in 2003, electricity exchange programmes imported 1,200 GWh or 77% less than in 2002, mainly due to the sharp growth in export programmes, particularly to Portugal. In 2003, the volume of programmed exchanges was 14% higher than in 2002.

#### **International Business**

In 2003, the international business focused on integrating the Bolivian company Transportadora de Electricidad (TDE), acquired by Red Eléctrica Group in 2002, on analysing projects to develop the Bolivian transport network, some of which have already been approved by the Bolivian authorities and will commence in 2004 and on carrying out international consultancy projects to promote the international image of the Red Eléctrica Group, while achieving wider experience and knowledge.

The long-term financing agreements for Red Eléctrica Internacional's acquisition of TDE have been signed with the International Finance Corporation (IFC), a multilateral agency which forms part of the World Bank.

This year, REDESUR has achieved very satisfactory quality standards which have been in line with previous years. Furthermore, in December 2003, it distributed dividends to its shareholders for the first time since it was incorporated in 1999.

#### **Telecommunications Business**

Red Eléctrica Telecomunicaciones, a subsidiary of the Red Eléctrica Group operating under the trademark Albura, has concentrated on meeting its targets in a market undergoing sharp adjustment and consolidation processes. In 2003, important achievements have been made which have strengthened its corporate position.

- Albura has become one of the main telecommunications operators in the transport and capacity businesses, where in 2003, it consolidated its own fibre optics network of 13,000 Km.
- Broadband services rendered by Albura have positioned the Company as one of the most important domestic Wholesale ADSL providers in 2003, its clients including leading European operators.



- Albura has also shown keen interest in the Public Administration telecommunications' market by developing RedIris, an academic and domestic research network for the Ministry of Science and Technology and the Higher Council of Scientific Research.
- In 2003, after sales and customer services have also been promoted and projects have been developed in the information area, such as the RuralNet project in particular, which has succeeded in bridging the digital gap in isolated, rural and mountainous areas in Spain.

## OTHER INFORMATION

### **New Shareholding Structure**

In 2003 Iberdrola, Unión Fenosa Distribución, Hidroeléctrica del Cantábrico and Endesa sold 28% of the share capital of the Parent Company by Initial Public Offering (IPO), in compliance with Law 53/2002, which establishes that the sum of the direct or indirect share capital holdings may not exceed 3% of the share capital. This shareholding limit is not applicable to SEPI, which should maintain an interest of at least 10% as from 31 December 2003.

Following the IPO, Endesa, Hidrocantábrico, Iberdrola and Unión Fenosa hold 3% of the share capital each and together with SEPI, which holds a 28.5% interest, are the core shareholders of the Parent Company.

This new shareholding structure implies an increase in Red Eléctrica's liquidity, doubling its free-float capital which amounts to 59.5% of share capital.

### **Corporate Governance**

In 2003 transparency and Corporate Governance reforms have gathered momentum, in line with the existing international concerns and trends. Red Eléctrica has accordingly taken dynamic action and has included the latest recommendations. Furthermore, on 17 July 2003, Red Eléctrica held an Extraordinary General Meeting in which both the new Board of Directors was approved following the changes to the shareholding structure, in addition to the modification of the General Meeting's Statutes and Regulations. In 2003 Red Eléctrica also approved a new Code of Conduct for the Securities Market and new Regulations for the Board of Directors which was adapted to prevailing legislation.

Moreover, Red Eléctrica has published its Corporate Governance report, adapting it to the recent regulations and recommendations from the Ministry of Economy and the National Securities and Exchange Commission (CNMV).

### **New financial dimension**

The acquisition of the transport assets in 2002 were initially financed by a bridging loan. Consequently, in 2003 the Red Eléctrica Group's financing activity was mainly geared towards creating a financial structure to strengthen the Group's new dimension, providing it with greater flexibility.

The 5-year syndicated loan of Euros 700 million and the issue of Euro Medium Term Notes amounting to Euros 800 million, which fall due in 2013, through Red Eléctrica de España Finance B.V., a financial services company incorporated in Holland in 2003, have transformed the financial structure of the Red Eléctrica Group.

Another main priority for the year has been to develop the subsidiaries' financial structure by providing them with stability and sufficiency. In this context, mention should be made to the financing obtained by TDE from the multilateral agency IFC (International Finance Corporation), of Dollars 30 million over a maximum period of 11 years.

Following these changes to the financial structure, the Red Eléctrica Group has obtained some of the highest credit ratings compared to its international peers. In the first few months of 2004, the credit rating agency,

Standard and Poor's, assigned Red Eléctrica the rating of AA-, stable outlook. These ratings reflect the Company's low risk and the sturdiness of its business.

#### **Stock Market Performance**

2003 has been the year in which Red Eléctrica has become consolidated on the Stock Market. The year closed at a share price of Euros 13, 34.9% up on the prior year exceeding the Ibex 35 (28.2%), the Energy Sector of the Madrid Stock Exchange (25.0 %) and the Eurostoxx Utilities (10.4%). The Stock Market capitalisation of the Parent Company at the end of 2003 stood at Euros 1,759 million.

#### **Quality**

The strategy of the Red Eléctrica Group is to benefit from its leadership position and in 2003 the Group sustained its ongoing improvement policies in management quality. Consequently, Red Eléctrica has become the first European electricity company to receive recognition for its excellence from the European Foundation for Quality Management and be awarded the Official Gold Seal of Excellence from the "Club de Gestión de Calidad". This is an explicit recognition of quality and proof of continuous improvement in all Red Eléctrica Group processes.

#### **Environment**

We have also continued to develop an innovative policy in which environmental issues are a main priority. In 2003, Red Eléctrica Group's Environmental Report received an award for providing Best Environmental and Sustainability Information of Spanish companies, presented by the Spanish Institute of Chartered Accountants and the Spanish Association of Accounting and Business Administration.

In October 2003, to voice its strategic concern for sustainable development in environment issues, Red Eléctrica organised Conferences on Electricity Lines and the Environment, in which national and international experts, public and private organisations gathered together to share their knowledge and experience on all environmental aspects related to the transport of electrical energy.

#### **Research and Development Activities and Technological Innovation**

In Research, Development and Innovation activities (R+D+I), the Red Eléctrica Group has carried out projects at a cost of approximately Euros 2 million, which is 30% higher than in 2002. In 2003, the Parent Company was granted the "Electrical Substation" patent, comprising the design of a compact reinforced substation which substantially lowers construction and substitution time compared to conventional substations. Of the projects initiated in 2003, the Pelicano project is worthy of special mention, aimed at developing an an-unmanned helicopter for line inspection and pioneering equipment in electricity line maintenance. In 2003, Red Eléctrica was also awarded the ISO 9001 quality certificate for this activity.

### **ANALYSIS OF PROFITS**

In 2003, the Red Eléctrica Group obtained consolidated profits after tax of Euros 115.8 million, up 15.9% on 2002. The ongoing improvement in results has produced a return on equity of 13.64%.

Consolidated adjusted turnover (net of energy purchases) has amounted to Euros 686.7 million. This figure is up 49.3% on 2002, principally boosted by including earnings from the acquisition of Endesa and Unión Fenosa's assets, higher income from transport activities due to installations opened by Red Eléctrica in 2002 and the application of new regulatory parameters, income from the Bolivian company TDE, which was not consolidated during the first six months of 2002 and the growth in income in telecommunications and the engineering and construction projects performed for third parties.

Consolidated operating expenses (net of energy purchases) totalled Euros 260.1 million, compared to Euros 195.3 million in 2002. This rise is mainly due to the costs deriving from asset acquisitions, including operation and maintenance contracts signed with Endesa and Unión Fenosa in addition to costs incurred in the Parent Company in engineering and construction projects for third parties, costs linked to TDE for the twelve months of 2003 compared to six months in 2002 and higher expenses in Albura due to greater activity than the previous year.

Of operating expenses, consolidated personnel costs have amounted to Euros 66.9 million, representing an 8.5% increase on 2002. At 31 December 2003, average headcount stood at 1,215 employees, up 10.3% on the previous year, due to the incorporation of TDE personnel over the twelve months of 2003 compared to six months in 2002 and recruitments by the Parent Company in 2003. The final headcount of the Group amounted to 1,280 employees whereas the figure stood at 1,168 employees at 31 December 2002.

Gross consolidated operating profit (EBITDA) amounted to Euros 439.8 million, representing a 59.1% rise on 2002.

Net consolidated operating profit (EBIT) was Euros 246.4 million, 57.0% higher than the previous year.

Amortisation has amounted to Euros 195.5 million, up 65.6% on 2002. This increase is primarily due to transport assets acquired from Endesa and Unión Fenosa, from the entry into service of 710 km. of new line circuits and 88 positions throughout 2002 and from including TDE's amortisation and new telecommunications networks which came into operation.

Consolidated net financial expense has been Euros -67.7 million compared to Euros -17.5 million in 2002, mainly as a result of higher debt from having acquired transport assets from Endesa and Unión Fenosa.

Consolidated profit on ordinary activities totalled Euros 175.0 million, achieving 26.3% growth on the prior year.

Consolidated extraordinary profit stood at Euros 1.2 million as opposed to Euros 6.9 million in 2002.

Consolidated profit after tax was Euros 115.8 million compared to Euros 99.9 million in 2002, up 15.9%.

Consolidated cash flow after tax amounted to Euros 320.9 million which was 42.8% higher than in 2002. This figure accounts for 46.7% of consolidated adjusted turnover (net of energy purchases).

In 2003, consolidated investment totalled Euros 778.3 million compared to Euros 1,158.7 million in 2002. Of these investments, Euros 535.2 million were earmarked to the final payment for Endesa and Unión Fenosa's transport assets (Euros 801.0 million in 2002), Euros 215.3 million were allocated to extending the transport network, Euros 10.8 million to telecommunications and Euros 17.0 million to other investments.

At 31 December 2003, net financial debt amounted to Euros 1,914.3 million compared to Euros 1,507.7 million at 31 December 2002. This variation is mainly due to the final payments made in relation to the acquisition of the Endesa and Unión Fenosa transport networks. At 30 September 2003, net debt has diminished by Euros 98.9 million, due to the Group's cash generation capacity.

At 31 December the leverage ratio (net financial debt as a percentage of shareholders' equity) was 2.25, compared to the 2.64 maximum achieved at 31 March 2003, once the final payments relating to the acquisition of the transport networks were made.

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## OWN SHARES

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At the general meeting held on 25 April 2003, the shareholders authorised the Board of Directors to acquire derivative shares, in accordance with article 75 of the Spanish Companies' Act.

In 2003, in order to provide investors with adequate stock market liquidity levels, 2,680,489 securities were acquired at a global par value of Euros 5.4 million and a cash price of Euros 29.5 million. Furthermore, 3,442,662 shares were sold at a global nominal value of Euros 6.9 million at a cash price of Euros 36.5 million.

At 31 December 2003, the Company's own shares accounted for 0.18% of the share capital totalling 246,832, of which their global nominal value is Euros 0.5 million and their market value Euros 3.2 million.

The Company has complied with the obligations of article 75.2 and the Second Additional Provision of the Spanish Companies' Act which establishes, in relation to listed securities on the secondary market, that the sum of the nominal value of acquired shares together with those already owned by the Company and its associate companies should not exceed 5% of share capital. The associate companies do not hold any own shares or possess any in the Parent Company.

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## RISK MANAGEMENT

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Some of the risks to which the Red Eléctrica Group is subject include the following: regulatory risk: their core activities are subject to regulation; operational risk: mainly due to the activities they undertake; market risk: as a result of economic variables such as inflation, interest rates; business and credit risk: chiefly in the area of telecommunications and environmental risk, due to ever-increasing demands concerning the care and protection of the environment.

In 2003 the Red Eléctrica Group reviewed its risk control system which covers all its activities and matches its risk profile. This system is aimed at standardising the process of risk identification, valuation and information and is performed systematically. Some of its main components include the design and implementation of actions plans concerning risk-related matters and the periodical review of their status.

The design of all internal processes is geared towards mitigating associated risks and is submitted to an ongoing process of improvement and verification. One example of this are the processes incorporated into systems in accordance with international standards for environmental management (Quality Certificate ISO 14001), accident risk prevention (Quality Certificate OHSAS 18001) and technical processes related to the Transport and Operation of the Electrical System (quality certificates ISO 9001).

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## OUTLOOK

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Over the coming years, the Red Eléctrica Group will focus its strategy on consolidating its leadership position in its core business, thereby strengthening its position as a TSO: transporter and operator of the Spanish electrical system.

By availing of the efficiencies derived from the integration of the transport assets acquired, Red Eléctrica should be able to focus its strategy on obtaining synergies and economies of scale which should allow it to obtain higher profitability. Between 2004-2006 Red Eléctrica will concentrate its efforts on preparing to operate and maintain an even larger asset base over the next few years. The synergies stemming from the operation and maintenance of the new organisation, the capacity to negotiate with suppliers, the standardisation of installations and the optimisation of overheads are expected to allow Red Eléctrica to achieve higher operating margins.

Red Eléctrica's larger asset base positions the Company as a clear support mechanism for domestic energy planning. Plans for network development and forecast growth for electrical energy demand should require heavy investment in transport between 2004-2008, earmarked to strengthen the network in order to guarantee the capacity of the electrical system in relation to forecast growth. Of the investments planned for this period, special mention must be made of the transport of new wind and combined cycle energy, improving international connections with Portugal, France and Morocco, supplying the new high speed trains and the network's own structural support mechanisms.

Over the next few years, the Parent Company expects its role as System Operator to become consolidated. From 2004, Red Eléctrica will be operator of the electrical systems in the Balearic and Canary Islands and in Ceuta and Melilla, with the aim of furthering its high technical specialisation. The reduction of the income deficit in this activity together with its operating efficiency should curb losses over the coming years.

From a diversification standpoint, Red Eléctrica Internacional expects to continue gaining international experience by diversifying in markets which require specialised knowledge in transport and operational matters, using its technical and management know-how. In the telecommunications market, Red Eléctrica Telecomunicaciones expects to increase its turnover and profits, which will strengthen its position as leading operator in the provision of transportation and capacity infrastructures and wholesale ADSL services.

The strategic objectives of the Red Eléctrica Group for the coming years are as follows:

- Further its operational excellence by maintaining its unique technical know-how, which is essential for optimising margins from absorbing acquired assets while being able to adapt to an ever-changing environment.
- Act as a key support in energy planning in the liberalisation of the electricity businesses by carrying out forecast investment.
- Maintain sustainable growth by combining the increasing in earnings per share with high credit ratings and adequate risk management in order to minimise the cost of capital, guaranteeing an attractive dividend policy for shareholders.

## RED ELÉCTRICA · Balance Sheet 2003 and 2003 at 31 December (Expressed in thousands of Euros) (Translation from the original in Spanish)

<b>ASSETS</b>	<b>2003</b>	<b>2002</b>
<b>INTANGIBLE ASSETS</b>	5,002	3,143
RESEARCH AND DEVELOPMENT EXPENSES	19,265	18,813
SOFTWARE	9,775	7,061
AMORTISATION	(24,038)	(22,731)
<b>TANGIBLE ASSETS</b>	2,857,550	2,273,146
LAND AND BUILDINGS	35,665	35,259
PLANT AND MACHINERY	3,974,762	2,464,478
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	56,584	52,422
PLANT AND MACHINERY UNDER CONSTRUCTION	175,119	151,361
ADVANCES AND TANGIBLE ASSETS UNDER CONSTRUCTION	39,057	815,612
PROVISIONS	(25,640)	(23,222)
DEPRECIATION OF PLANT AND MACHINERY	(1,347,689)	(1,177,826)
OTHER DEPRECIATION	(50,308)	(44,938)
<b>INVESTMENTS</b>	194,236	208,756
INVESTMENTS IN GROUP COMPANIES	212,000	210,000
INVESTMENTS IN ASSOCIATED COMPANIES	3,732	3,732
LONG-TERM LOANS TO EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	12,900	11,197
OTHER LOANS	3,119	4,170
LONG-TERM GUARANTEE DEPOSITS	283	248
LONG-TERM BALANCES RECOVERABLE FROM PUBLIC ENTITIES	18,457	12,572
PROVISIONS	(56,255)	(33,163)
<b>OWN SHARES</b>	1,551	9,029
<b>TOTAL FIXED ASSETS</b>	<b>3,058,339</b>	<b>2,494,074</b>
<b>DEFERRED EXPENSES</b>	<b>22,287</b>	<b>20,283</b>
<b>STOCKS</b>	18,401	6,711
RAW MATERIALS AND OTHER SUPPLIES	21,749	11,230
PROVISIONS	(3,348)	(4,519)
<b>DEBTORS</b>	197,928	280,900
TRADE DEBTORS	16,928	17,916
GROUP COMPANIES	7,867	12,660
ASSOCIATED COMPANIES	65	157
SUNDRY DEBTORS	155,036	129,002
PERSONNEL	1,097	1,315
PUBLIC ENTITIES	17,254	121,090
PROVISIONS	(319)	(1,240)
<b>SHORT-TERM INVESTORS</b>	1,197	22,679
LOANS TO ASSOCIATED COMPANIES	27	22
SHORT-TERM INVESTMENT PORTFOLIO	-	21,659
OTHER LOANS	1,170	998
<b>CASH AND BANKS</b>	375	307
<b>PREPAID EXPENSES</b>	2,127	16,952
<b>TOTAL CURRENT ASSETS</b>	<b>220,028</b>	<b>327,549</b>
<b>TOTAL ASSETS</b>	<b>3,300,654</b>	<b>2,841,906</b>

	2003	2002
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
RESERVES	247,428	217,977
PROFIT FOR THE YEAR	114,051	95,953
INTERIM DIVIDEND	(28,621)	(25,511)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>850,420</b>	<b>805,981</b>
CAPITAL GRANTS	81,011	71,669
EXCHANGE GAINS	424	10
OTHER DEFERRED INCOME	147,889	142,266
<b>TOTAL DEFERRED INCOME</b>	<b>229,324</b>	<b>213,945</b>
PROVISIONS FOR PENSIONS AND OTHER LIABILITIES	13,437	13,021
PROVISIONS FOR TAXES	426	234
OTHER PROVISIONS	27,805	10,276
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>41,668</b>	<b>23,531</b>
BONDS	45,076	95,966
LOANS	868,763	185,048
GROUP AND RELATED COMPANIES	800,000	-
OTHER CREDITORS	42,664	43,642
UNCALLED SHARE PAYMENTS	-	54,357
GROUP COMPANIES	-	50,625
ASSOCIATED COMPANIES	-	3,732
<b>LONG-TERM CREDITORS</b>	<b>1,756,503</b>	<b>379,013</b>
BONDS AND OTHER MARKETABLE SECURITIES	51,769	33,041
NON-CONVERTIBLE BONDS	50,890	30,351
INTEREST PAYABLE	879	2,690
LOANS	40,276	1,111,606
LOANS AND OTHER DEBT	33,033	1,106,662
INTEREST PAYABLE	7,243	4,944
SHORT-TERM DEBT WITH EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	30,920	14,633
EQUITY ACCOUNTED COMPANIES	30,920	14,633
TRADE CREDITORS	64,225	86,433
FOR PURCHASES AND SERVICES RECEIVED	46,607	86,433
BILL PAYABLE	17,618	-
OTHER CREDITORS	201,122	153,375
PUBLIC ENTITIES	27,593	17,252
OTHER	172,066	134,367
SHORT-TERM GUARANTEE DEPOSITS RECEIVED	1,463	1,756
ACCRUALS	34,427	20,348
<b>TOTAL CURRENT LIABILITIES</b>	<b>422,739</b>	<b>1,419,436</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>3,300,654</b>	<b>2,841,906</b>

**RED ELÉCTRICA** · Profit and loss accounts for the years ended  
31 December 2003 and 2002 · [Expressed in thousands of Euros] [Translation from the original in Spanish]

	<b>2003</b>	<b>2002</b>
<b>DEBIT</b>		
<b>EXPENSES</b>		
MATERIALS CONSUMED	236,738	274,714
PURCHASES OF ENERGY AND POWER	220,584	235,576
MAINTENANCE AND REPAIR MATERIALS	16,154	39,138
PERSONNEL EXPENSES	57,106	53,350
WAGES AND SALARIES	42,215	40,055
SOCIAL SECURITY	10,129	9,101
PENSIONS AND SIMILAR OBLIGATIONS	845	764
OTHER SOCIAL CHARGES	3,917	3,430
AMORTISATION AND DEPRECIATION	176,887	107,029
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	(2,089)	1,380
CHANGE IN PROVISIONS FOR STOCKS	(1,172)	519
CHANGE IN PROVISION FOR BAD DEBTS	(917)	861
OTHER OPERATING EXPENSES	168,011	84,517
EXTERNAL SERVICES	158,461	75,012
LOCAL TAXES	1,531	1,450
OTHER OPERATING EXPENSES	2,225	1,063
PROVISION FOR LIABILITIES AND CHARGES	5,794	6,992
<b>TOTAL OPERATING EXPENSES</b>	<b>636,653</b>	<b>520,990</b>
<b>OPERATING PROFIT</b>	<b>273,036</b>	<b>189,450</b>
FINANCIAL AND SIMILAR EXPENSES	69,253	21,022
ON DEBT WITH GROUP COMPANIES	11,234	-
ON DEBT WITH THIRD PARTIES	58,019	21,022
EXCHANGE LOSSES	71	116
<b>TOTAL FINANCIAL EXPENSES</b>	<b>69,324</b>	<b>21,138</b>
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>206,630</b>	<b>169,113</b>
CHANGES IN PROVISIONS FOR FIXED ASSETS	24,785	21,050
LOSSES ON TANGIBLE ASSETS	25	251
LOSSES ON OWN SHARE OPERATIONS	-	393
EXTRAORDINARY EXPENSES	3,932	-
PRIOR YEARS' EXPENSES AND LOSSES	369	-
<b>TOTAL EXTRAORDINARY EXPENSES</b>	<b>29,111</b>	<b>21,694</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>186,099</b>	<b>156,628</b>
INCOME TAX	71,867	60,465
TAXES OTHER THAN INCOME	181	210
<b>PROFIT FOR THE YEAR</b>	<b>114,051</b>	<b>95,953</b>



**CREDIT  
INCOME**

	<b>2003</b>	<b>2002</b>
NET SALES	890,844	694,064
SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	593,328	381,510
OTHER SERVICE INCOME	71,175	69,645
SALES OF ENERGY AND POWER	226,119	242,476
SALES OF BY-PRODUCTS AND OTHERS	222	433
SELF-CONSTRUCTED ASSETS	11,144	13,041
OTHER OPERATING INCOME	7,701	3,335
OTHER INCOME	2,494	2,150
GRANTS	133	209
SURPLUS PROVISION FOR LIABILITIES AND CHARGES	5,074	976
<b>TOTAL OPERATING INCOME</b>	<b>909,689</b>	<b>710,440</b>
INVESTMENT INCOME	1,759	60
ASSOCIATED COMPANIES	1,708	22
NON-GROUP COMPANIES	51	38
OTHER INTEREST AND SIMILAR INCOME	1,122	715
EXCHANGE GAINS	37	26
<b>TOTAL FINANCIAL INCOME</b>	<b>2,918</b>	<b>801</b>
<b>NET FINANCIAL EXPENSES</b>	<b>66,406</b>	<b>20,337</b>
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS	18	8
PROFIT ON OWN SHARE OPERATION	1,447	444
CAPITAL GRANTS TAKEN TO INCOME	3,965	4,475
EXTRAORDINARY INCOME	2,599	3,568
PRIOR YEARS' PROFIT AND INCOME	551	714
<b>TOTAL EXTRAORDINARY INCOME</b>	<b>8,580</b>	<b>9,209</b>
<b>NET EXTRAORDINARY LOSS</b>	<b>20,531</b>	<b>12,485</b>

# proposed distribution of profits

## RED ELÉCTRICA PROPOSED DISTRIBUTION OF PROFITS FOR 2003

The profit for 2003 was 114,050,683.12 euros. The distribution of this profit as proposed by the Board of Directors to the Annual General Meeting of Shareholders comprises a gross dividend of 0.548 euros per share (for shares with dividend rights) and an interim dividend of 0.212 euros per share has already been paid. The balance after payment of dividends will be transferred to voluntary reserves.

	Amounts in Euros
VOLUNTARY RESERVES	39,978,994.92
DIVIDENDS:	
INTERIM DIVIDEND	28,620,968.20
SUPPLEMENTARY DIVIDEND (calculated on the total number of shares)	45,450,720.00
<b>TOTAL</b>	<b>114,050,683.12</b>

## 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 balance sheet, profit and loss statement, proposed distribution of profits of Red Eléctrica de España, S.A., the annual accounts and the directors' report for the consolidated Red Eléctrica Group, as contained in the present document, are a true and accurate copy of those that were inspected and approved at the meeting of the Board of Directors of Red Eléctrica de España, S.A. held on March 11th 2004. 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 12th 2004.





**CO-ORDINATION:**

RED ELÉCTRICA COMMUNICATIONS AND INSTITUTIONAL RELATIONS MANAGEMENT

**PHOTOGRAPHY:**

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Ángel Andrés Martínez, pages 21, 24 and 53.  
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Jesús Gómez Rodríguez, page 45.  
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Photography of dielectric testing courtesy of LCOE (Laboratorio Central Oficial de Electrotecnia), page 52.

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