



Annual Report 2004





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The activities reported in this annual report have been reviewed by the Fundación del Español Urgente (Fundéu).

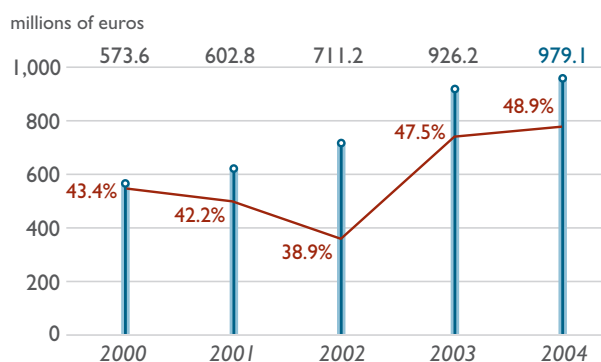
TABLE OF CONTENTS

<i>Financial highlights 2004</i>	4
<i>Letter from the president</i>	6
<i>Board of directors and senior management</i>	11
<i>Important events of 2004</i>	12
<i>Group activities</i>	15
<i>OPERATION OF THE ELECTRICITY SYSTEM</i>	16
<i>TRANSMISSION GRID MANAGEMENT</i>	20
<i>TELECOMMUNICATIONS BUSINESS</i>	28
<i>INTERNATIONAL BUSINESS</i>	30
<i>Our people</i>	35
<i>Business excellence</i>	41
<i>QUALITY MANAGEMENT</i>	42
<i>TECHNOLOGICAL INNOVATION</i>	45
<i>COMMITMENT TO THE ENVIRONMENT</i>	47
<i>Economic-financial management</i>	51
<i>Our shareholders</i>	57
<i>Legal documentation</i>	63

FINANCIAL HIGHLIGHTS 2004

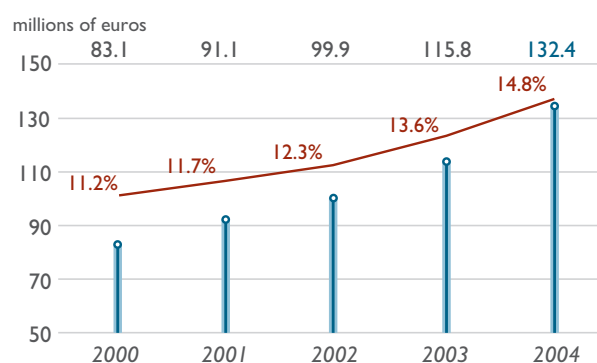
Operating revenue

■ Operating revenue
— EBITDA / Operating revenue



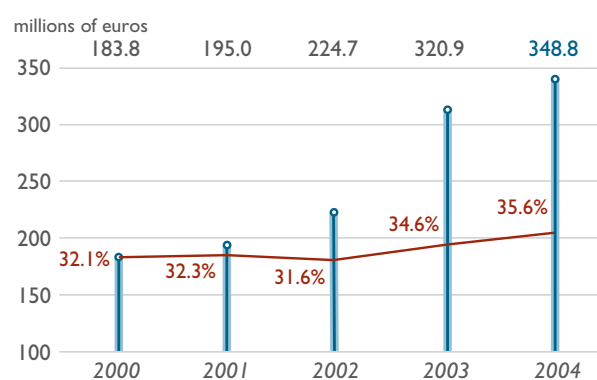
Income after taxes

■ Profit after tax (PAT)
— ROE (PAT/Stockholders equity)



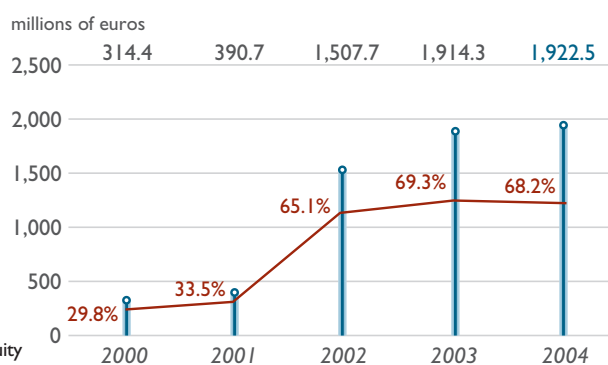
Cash flow after taxes

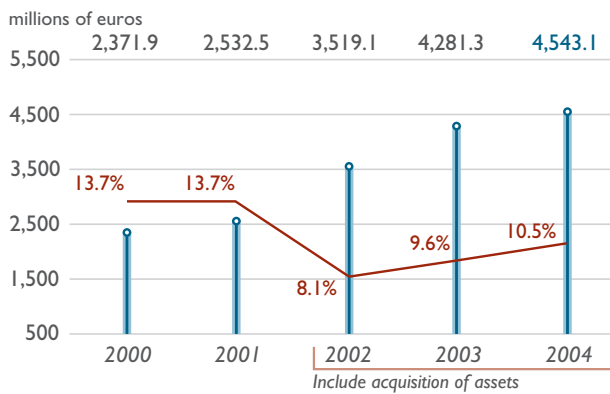
■ Cash flow after taxes
— Cash flow after taxes / operating revenue



Net financial liabilities

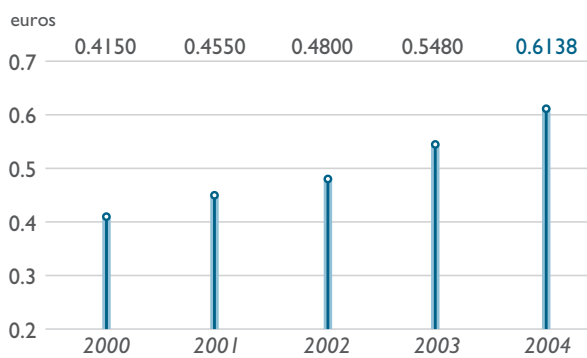
■ Net financial liabilities
— Net financial liabilities / net financial liabilities + stockholders equity





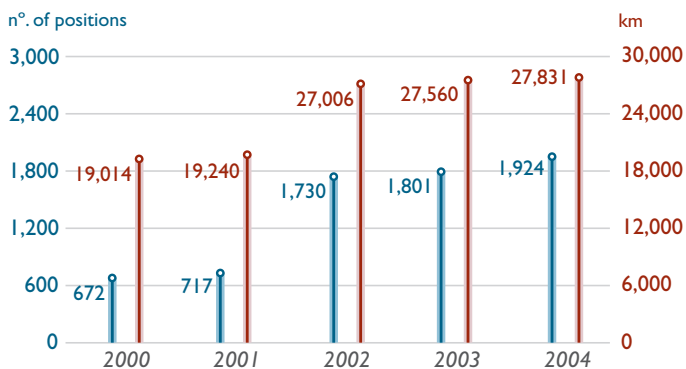
Fixed assets*

■ Gross fixed assets
— ROE (EBIT / net assets)



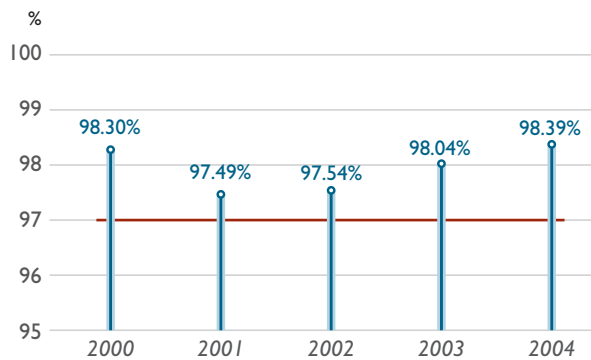
Dividends per share*

■ Dividends per share



Physical Size of the grid*

■ N°. of substations
■ Kilometres of lines



Grid performance*

■ Availability rate
— Reference value (R.D. 1995/2000)

* Individual highlights of the head company

LETTER FROM THE PRESIDENT

Dear Shareholders:

It is a great pleasure for me to address you for the first time through this Annual Report, presenting the achievements and activities of the past financial year and at the same time demonstrating one more year of growth and consolidation of our company. 2004 was a year of changes, of challenges and of opportunities that allowed us to reach a new dimension as a company. We find ourselves constantly closer to our objective of becoming the only carrier and operator on the electricity system. The purchase of the Viesgo assets at the end of 2004 is one step further in this direction; the February 2005 purchase of Redalta, owner of the old Iberdrola high voltage lines, is seen as the final step in achieving this objective, placing Red Eléctrica as the cornerstone of the Spanish Electricity system.

This new situation and the synergies deriving from it give us a great capacity to generate business and create value, with the consequent growth in income and cash flow. During this financial year both parameters increased 143 per cent and 87 per cent respectively over those of the previous year.

All this growth is based on the service that Red Eléctrica provides to society, a service that is among the best in the world in terms of quality and continuity of supply. And all this, in an environment of continuous increase in electricity demand, presents a great challenge which the company has successfully confronted, assuring at all times a continuous and quality supply.

The significant development of the electricity network carried out by our company in 2004 and projected for the immediate future are part of an investment programme designed to extend the network, firstly to fulfil this increased demand. The integration of the assets of Endesa and Union Fenosa helps in this objective, allowed by agreements signed with these two companies to strengthen investments in transmission and distribution.



However this programme will also facilitate newly generated supplies including from combined cycles as well as wind energy compatible with the dependability and security of the electricity system, and will also contribute to the development of new railroad infrastructures and reinforce international interconnections. In short, at the end of the year we inaugurated the Portugal connection with the Balboa and Alqueva substations, allowing us to increase transmission capacity by 20 per cent and forming a decisive step for starting operations of the Iberian Electricity Market. This also sets the bases for completing a new interconnection with France, and the project to duplicate the underwater connection with Morocco is also well advanced.

We have also undertaken an ambitious investment plan to improve and renew the network, both the existing Red Eléctrica network as well as those acquired, to keep them dependable and safe. The quality of these parameters is demonstrated when compared on an international basis, with our company obtaining excellent service quality indicators.

This investment plan is also developed in a manner that is compatible with a suitable shareholder remuneration policy, manifest in the company's commitment to maximize value for investors, uniting share stability (which has shown an extraordinary performance on the stock exchange) with high dividends. On the other hand and as included in the financial plan, the company has maintained its credit rating, specifically demonstrating the recognition of the company's solvency and financial strength.

During this year a process was begun which will culminate with the assumption of island and mainland electricity systems operating activities. Start up of operations and opening control centres in the Balearic and Canary archipelagos will make it possible to take over the operation of these systems as allowed by the regulating agency. Red Eléctrica's arrival at these systems increases operating transparency and guarantees neutrality, thus serving as a step forward in deregulating the electricity sector in Spain.

International activities have strengthened, evolving very favourably during the past year with income surpassing projections for affiliates TDE in Bolivia and REDESUR in Peru, our international bridgeheads. In any case, and although during the next years our growth will be very focused on the Spanish transmission grid, we continue to analyze business opportunities in the international sphere that may constitute sectors for medium and long term growth and generation of value for Red Eléctrica.

Eléctrica Telecomunicaciones has achieved significant progress in infrastructure development to provide ADSL services, increasing its value as a solid platform in the telecommunications market. At the same time the search continues for a strategic partner to contribute to the value of the company's assets.

With regard to one of the company's greatest assets, its human resources, personnel development projects remain in process through training programmes, development of individual potential and improving work conditions, especially with regard to making work life compatible with family life.

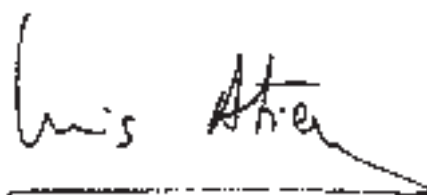
As a result, we continue with our objective of excellence in company management. We are the first business group in the energy sector with a triple integral certification for quality, environmental and work health and safety systems for all its companies, according to ISO 9001 and 14001 and OHSAS 18001 standards.

Our clear focus on technological innovation also allows us to confront, with guarantees and efficiency, our work as system operators and managers of the transmission grid. This technological commitment gives value to the company and to the society we serve.

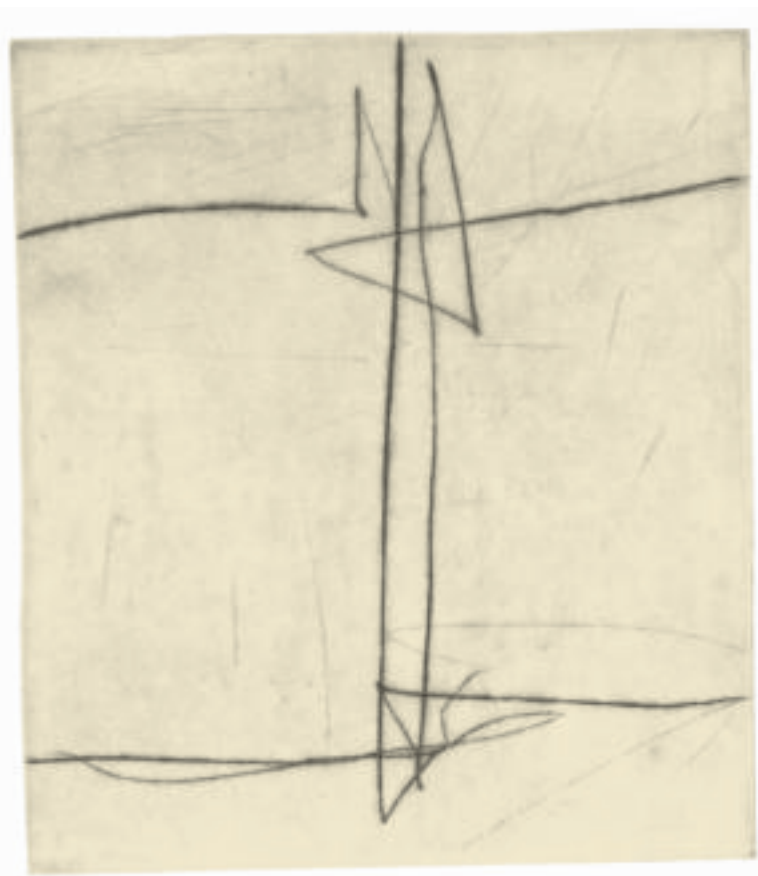
We also maintain an active responsibility with the environment, preserving the natural environment with which we interact as a strategic priority for our business management model. This requires that we dedicate special attention to the industrial processes with which we are involved that could, without this care, lead to environmental repercussions incompatible with the environmental certification which we hold and with our commitment to society.

In the sphere of corporate governance Red Eléctrica has taken new steps on the road of corporate responsibility and transparency. Since its beginnings the company has consistently shown a decided concern to adopting the best governance policies, continuously and voluntarily implanting a series of measures and procedures beyond those established for listed corporations.

The economic conditions deriving from this series of aspects are truly satisfactory. A review of the investment plan performed during the first months of 2005 shows a noticeable increase over the previous, by approximately 25 per cent. This is possible thanks to the stability of the company, allowing it to undertake a demanding plan that places us on the road to a permanent consolidation as an electricity system carrier and operator. In my opinion, Red Eléctrica's rightful place

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

Luis Atienza Serna
President, Red Eléctrica de España



BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors as of December 31, 2004:

Executive President:

Luis Atienza Serna

Proprietary Directors:

Juan Gurbindo Gutiérrez (SEPI)

Manuel Alves Torres (SEPI)

José Ignacio Sánchez Galán (Iberdrola)

Elías Velasco García (Unión Eléctrica Fenosa)

Rafael Suñol Trepal (SEPI)

Independent Directors:

Pedro Rivero Torre

Antonio Garamendi Lecanda

Joaquim Clotet i Garriga

José Riva Francos

José Manuel Serra Peris

Non-voting Secretary:

Rafael García de Diego Barber

Management

President:

Luis Atienza Serna

General Manager – Transmission:

Carlos Collantes Pérez-Arda

General Manager – Operations:

Alberto Carbajo Josa

General Manager – Administration and Finance:

Esther Rituerto Martínez

IMPORTANT EVENT OF 2004

CREDIT RATING

FEBRUARY 11, 2004

The Standard & Poor's rating agency maintains Red Eléctrica's credit rating at AA-/A-+, improving its outlook to stable. This rating recognizes the company's financial strength and stability.

BURIAL OF 400 kV ELECTRICAL LINE

FEBRUARY 24, 2004

Red Eléctrica starts operations to bury a 12.7 km section of the San Sebastián de los Reyes-Loeches-Morata 400 kV transmission line, affected by the amplification of the Madrid-Barajas airport. The technical complexity made this project unique in Spain and one of the most important on the international level, reflecting the company's technological capacity.

FINANCING OF INVESTMENT PLAN

MARCH 17, 2004

Red Eléctrica executes a framework collaboration agreement with the European Investment Bank to finance its investment programme for the 2004-2008 period.

REINFORCEMENT OF INTERCONNECTION WITH PORTUGAL

MARCH 29, 2004

Red Eléctrica starts up operation of the second circuit of the 400 kV Cartelle-Lindoso electricity line, representing one of the principal axes of the Spain-Portugal electricity interconnection and constituting one of the basic elements for development of the Iberian Electricity Market.

FLEXIBLE COMPANY AWARD

JUNE 14, 2004

Red Eléctrica obtains second place in the III Edition of the Flexible Company Award, oriented towards research in flexibility measures developed by companies to allow the employees to combine work and family.

NEW PRESIDENT

JUNE 24, 2004

The Board of Directors of Red Eléctrica resolves to replace company president Pedro Mielgo Álvarez by Luis Atienza Serna.

MAINLAND ELECTRICITY SYSTEM

JULY 1, 2004

Red Eléctrica initiates full performance of its functions as operator of the Canaries, Balearics, Ceuta and Melilla electricity system as established in Royal Decree 1747/2003, which specifies the specific conditions for providing electricity and specifically for generating economic activity responsibility of Red Eléctrica.

AGREEMENT WITH ENDESA

AUGUST 2, 2004

Red Eléctrica and Endesa arrive at an agreement to facilitate the development of a transmission network infrastructure. The agreement will allow both companies to coordinate their activities, facilitating the processes necessary to execute the projects planned.

ACQUISITION OF VIESGO TRANSMISSION ASSETS

NOVEMBER 25, 2004

Red Eléctrica acquires, effective January 1, 2005, Enel Viesgo transmission network assets for the amount of 45.6 million euros.

VII NATIONAL CONGRESS ON THE ENVIRONMENT

NOVEMBER 23-26, 2004

Red Eléctrica actively participates in the VII National Congress on the Environment, organizing a dynamics room for participation of different work groups and round tables, discussing the company's commitment and environmental responsibility.



Reinforcement of the interconnection with Portugal completed in 2004 represents a decisive step for the future start up of the Iberian Electricity Market.

AGREEMENT WITH UNIÓN FENOSA

DECEMBER 17, 2004

Red Eléctrica and Union Fenosa reach an agreement to impulse development of the transmission and distribution networks. The agreement will allow the reordering of installations and improve control and maintenance, with the resulting improvement to safety of the electricity system as a whole.

NEW ELECTRICAL INTERCONNECTION WITH PORTUGAL

DECEMBER 27, 2004

Red Eléctrica and Rede Eléctrica Nacional inaugurate the first circuit of the Balboa-Alqueva 400 kV line, increasing interconnection capacity between Spain and Portugal by 20%.



Group Activities



Providing progress and wellbeing
to society for twenty years,
thanks to an efficient and responsible
management of our corporate model

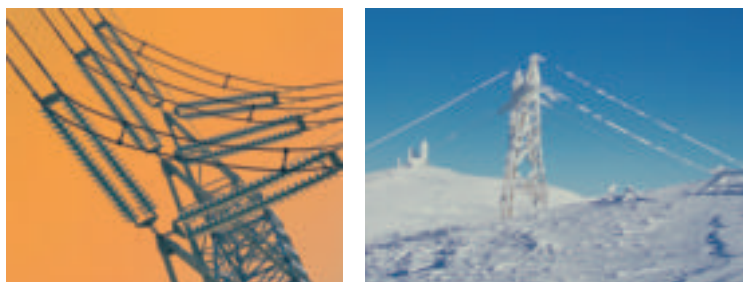
OPERATION OF THE ELECTRICITY SYSTEM

EVOLUTION OF THE PRINCIPAL MAGNITUDES OF THE MAINLAND SYSTEM

Electricity system performance in 2004 was characterized by a moderate growth in the demand for electricity energy surpassing the strong increases noted in previous years. New historical maximums in average power per hour and daily energy were recorded, in the winter as well as in the summer.

From the hydroelectric viewpoint 2004 was dry, with December the month of lowest hydraulic production capacity. The progressive increase in energy from special regime producers was maintained, covering 19% of mainland demand. As for installed power, this year ten combined cycle groups have been incorporated in the ordinary production regime, with a total power of 3,865 MW. Installed special regime power increased approximately 4,120 MW.

Red Eléctrica handled new peaks in electricity demand during both winter as well as summer, with complete dependability and guarantee



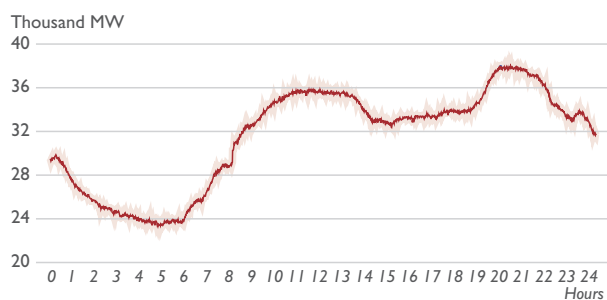
Demand

Annual demand for electricity energy reached 234,916 GWh, a growth of 4.01% over last year. After accounting for employment factors and temperature, demand in 2004 showed a 4% growth.

Demand for electricity energy on a monthly as well as on a daily and hourly basis surpassed their respective historic highs. Maximum monthly demand in December reached 20,976 GWh.

Maximum daily demand for energy

March 2, 2004



Demand point coverage

March 2, 2004 (20-21 h)

	MW	%
HYDRAULIC	9,041	24
NUCLEAR	7,356	19
COAL	8,455	22
FUEL-GAS	2,904	8
COMBINED CYCLE	4,073	11
WIND	980	2,5
SPECIAL REGIME (NOT WIND)	4,800	13
INTERNATIONAL TRADE	116	0,5
B.C. DEMAND	37,724	100

Maximum daily energy was recorded on March 2 at 753 GWh and maximum half hour demand was produced that same day at 37,724 MW. Historic highs were also reached in summer half hour energy demand and daily energy demand in June, at 36,619 MW and 752 GWh respectively.

Generation

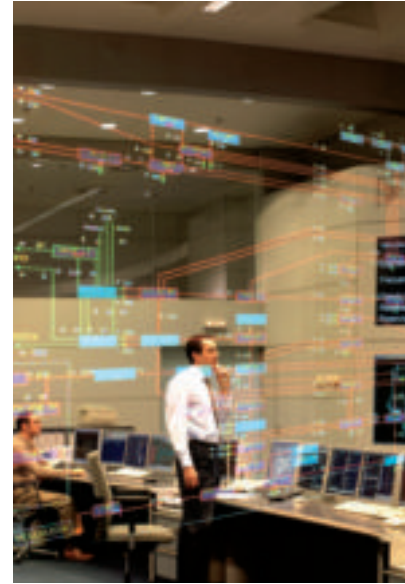
Gross generation by producers in ordinary regime increased 5.3% over that of last year reaching 206,257 GWh. The 2004 generation structure differed noticeably from that of 2003, due mainly to much lower supplies of hydraulic energy over those of last year:

Hydroelectric centres produced 29,708 GWh, 23.4% less than last year. As a result of the drop in hydraulic energy and the start up of numerous combined cycle centrals, gas and coal groups increased production over that of the last few years by 75.5% and 5.6% respectively, generating 32,785 GWh and 76,304 GWh. Fuel groups reduced production 9.4% over that of the previous year, producing 3,936 GWh; and nuclear equipment generated 63,524 GWh, an increase of 2.66%.

On the other hand special regime energy acquisitions reached 44,952 GWh, 8.6% over those of 2003 with 30% of this power corresponding to wind power.

INTERCAMBIOS INTERNACIONALES

The 2004 balance of international trade programmes was the export of 3,075 GWh. This represents a significant change in trading trends, and marks the first year since creation of the Spanish production market that the balance of international trade shows the Spanish electricity system as exporter .



For the first time since creation of the electricity market in 1998, scheduled international trades recorded an export balance.

Los programas de importación alcanzaron un volumen global igual a 8.068 GWh, valor que representa una reducción de un 6% respecto al año 2003, observándose la siguiente distribución: 7.085 Import programmes reached a global volume equal to 8,068 GWh, a reduction of 6% over that of 2003, distributed as follows: 7,085 GWh (88%), 976 GWh (12%) and 6 GWh, through interconnections with France, Portugal and Morocco respectively. The electricity supply contract from Electricité de France to Red Eléctrica throughout 2004 had a global use of 96%, representing a global volume equal to 4,531 GWh.

Export programmes increased by 52% over those of the previous year, reaching a total of 11,142 GWh. The most significant increase was observed in the interconnection with Portugal with a total volume of 7,460 GWh as opposed to 4,433 GWh in 2003, representing an increase of 68%. In addition 1,834, 1,563 GWh and 85 GWh were exported through interconnections with France, Morocco and Andorra, respectively. During 2004 the supply contract from Red Eléctrica to Electricité de France ("support contract") was not executed.

MARKETS ASSOCIATED WITH OPERATIONS

Red Eléctrica manages markets associated with operations whose purpose is to adapt scheduled production from daily and intra-daily markets to the quality and safety requirements of the electricity system. These markets provide solutions to technical constraints, assign complementary services and manage deviations.

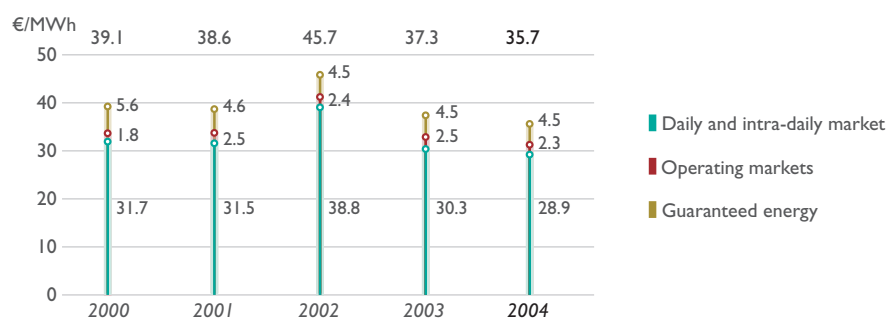
Total energy managed by these markets reached 14,512 GWh, representing 6.8% of the total energy acquired in the production market and 14% over the 2003 amount.

Energy scheduled to resolve technical constraints over the base functioning programme, placed at 5,951 GWh, increased by 35% over that of the previous year, and energy scheduled for constraints in real time increased 51% over that of 2003.

Management of complementary secondary or tertiary regulation services as well as energy listed for emergency services reached a total of 6,734 GWh, 75% over that of the previous year. Of this total, 2,035 GWh correspond to secondary regulation energy and 3,678 GWh to tertiary regulation energy. Mean power of the regulation band assigned was 1,211 MW at an average price of 12.1 € / MW.

Red Eléctrica also guarantees coverage of demand by managing deviations, thus preventing imbalances between generation and consumption. During 2004 1,777 GWh was managed for this concept, for a total cost to the system of 21.5 million euros.

Average final price for energy in the production market



The repercussion of these markets managed by Red Eléctrica on mean final price for energy in the production market, placed in 2004 at 35.7 €/MWh, was 2.3 €/MWh.

OPERATIONS OF ISLAND AND MAINLAND ELECTRICITY SYSTEMS

On July 1, 2004 Red Eléctrica began functions as operator of the Canaries, Balearics, Ceuta and Melilla electricity systems, as established in Royal Decree 1747/2003. However until the corresponding regulations are approved, it continues to exercise these functions in a non-binding capacity for the agents; except in the Canaries where it fully exercises management of the transmission grid based on the powers granted by the Canaries government.



Red Eléctrica is responsible for operating island and mainland electricity systems

Red Eléctrica as system operator performs the following basic functions within the island and mainland electrical systems model:

- Receives information necessary from producers to execute the generation programme (availability of groups, fuel reserves, etc.) as well as projected demand from distributors, marketers and consumers.
- With this information and together with its own projections for demand:
 - Prepares management of generating groups necessary to cover demand;
 - Determines needs for rolling reserves based on variable generating costs for the generator groups, from smaller to larger;
 - Analyzes and manages technical constraints; and
 - Establishes the hourly generating programme for each of the systems.
- Later publishes the energy generated and consumed by each of its agents as well as generating costs so that the corresponding payments can be made to its agents through the Agent for the Iberian Energy Market Spanish Pole.
- Also plans development of the transmission grid, managing accesses to and supervising correct real-time management of the generation-transmission system.



TRANSMISSION GRID MANAGEMENT

GRID PLANNING

Throughout 2004 Red Eléctrica has reviewed the transmission grid planning described in Ministry of the Economy document "Planning for the Electricity and Gas Sectors. Development of Transmission Grids, 2002-2011", published in October 2002.

The proposed revision establishes an average horizon (2008) during which uncertainties relating to the location of new generators, projected demand and start-up of installations are more closely defined.

As such, Red Eléctrica has developed a new methodology with multiple scenarios to provide better information on system performance as a whole. This also allows an integral evaluation of the uncertainties present in the different variables affecting that performance, and as such prioritizes actions based on their impact. In addition transmission installations have been identified for the 2008-2011 period that are configured as large axes of the transmission grid.

Red Eléctrica, fulfilling its functions as operator of the Canaries and Balearics Electricity systems, also presented a first proposed plan for the transmission network of both territories.

Projected Electricity Demand and Its Coverage

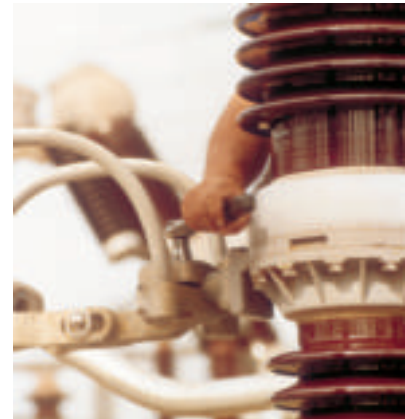
Every year Red Eléctrica prepares projections for electricity demand as well as its coverage. Projected **demand for electricity in the peninsula for the period 2004-2015** include annual demand estimates and hours of peak demand for winter and summer. This year projections include minimum average hour power (valley) demand with the seasonal load curve separated out. For the first two years projected demand was calculated on a monthly basis and another annual projection for regional communities.



On the other hand projected coverage of mainland electricity demand for the 2004-2015 horizon includes the needs of the electricity system for new generating equipment to confront the future. Projections show different scenarios with different hypotheses on the evolution of growth in demand, incorporating power, including hydraulic and wind power, into the system and fuel prices.

In this way projected energy and power balances are obtained that will serve as the base for demand coverage studies by the Iberian Electricity Market (MIBEL in its Spanish acronym) and for review of transmission grid planning 2005-2011.

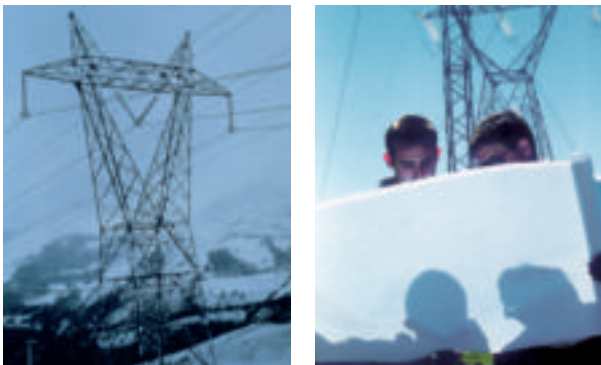
In addition Red Eléctrica has for the first time prepared a projection of electricity demand and estimated need for electricity system generating equipment for the Canary and Balearic Islands for the period 2004-2012.



Studies reinforcing international interconnections

INTERCONNECTION WITH FRANCE

Red Eléctrica and the Réseau de Transport d'Électricité (RTE) have moved forward with studies to define the border corridor through which the new interconnection axis will pass east of the Pyrenees, between the Bescanó (Spain) and Baixas (France) substations.



Reinforcement of international interconnections is one of the main grid development objectives

This interconnection axis forms part of the reinforcements projected at medium to long term, and will increase interconnection capacity to the standards established during the March 2002 European Summit held in Barcelona, for countries members of the European Union. This 400 kV axis will also guarantee the dependability and quality of supply in the Gerona area and feed traction substations for the future high speed train between Barcelona and Perpignan.

INTERCONNECTION WITH PORTUGAL

Joint studies are under way with Rede Eléctrica Nacional (REN) to define a new 400 kV interconnection axis between the countries through the Duero region. These studies, which will be completed in 2005, include an environmental impact study.



INTERCONNECTION WITH MOROCCO

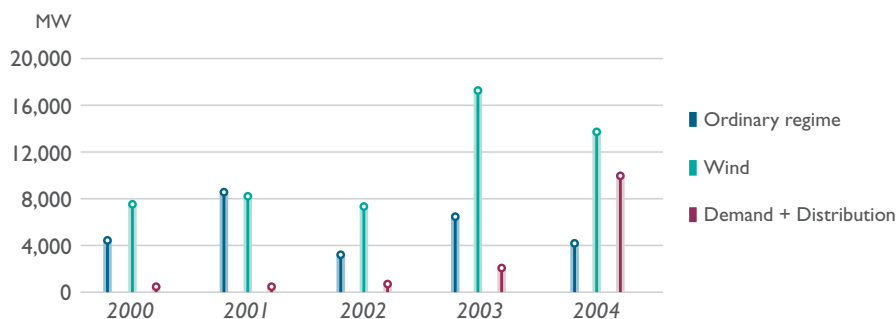
Reinforcement work scheduled for the interconnection with Morocco through the installation of a second underwater circuit cable has continued in accordance with the periods set. The new installation is expected to start in operation in 2006.

Access to the Grid

During 2004 Red Eléctrica continued managing procedures to allow access and connect new installations to the transmission network, receiving, analyzing and answering requests for the incorporation of new installations to the electricity system presented by different agents.

The graph reflects the requests received for access to the transmission grid which were answered by Red Eléctrica during the 2000-2004 period, with a breakdown based on the nature of the installation requesting connection: access for ordinary regime generation, mostly combined natural gas cycles, for wind generation and for demand (supporting the distribution network and direct supply to consumers).

Requests for access to the transmission grid, responded to



DEVELOPMENT OF THE GRID

Plans to expand and improve the transmission grid have been developed assuming the incorporation of Red Eléctrica assets consisting of 271 km of high voltage power lines and 123 substations, as well as 7 new transformers with a combined transformation capacity of 4,050 MVA. In addition transmission capacity increased by 400 km of high tension lines.

Evolution of the Red Eléctrica transmission grid

	2001	2002	2003	2004
KILOMETRES OF CIRCUIT	19,240	27,006	27,560	27,831
400 kV	14,838	15,781	16,307	16,547
220 kV and under	4,402	11,225	11,253	11,284
NUMBER OF POSITIONS	717	1,730	1,801	1,924
400 kV	521	639	681	738
220 kV and under	196	1,091	1,120	1,186
TRANSMISSION CAPACITY (MVA)	20,272	26,966	31,616	35,666

New Installations

POSITIONS	400 kV	220 kV
SANTA ENGRACIA	6	
FUENCARRAL	1	
APARECIDA	5	
LITORAL	2	
ESCOMBRERAS	1	
PALOS	7	1
BEGUES	1	3
NUEVA ESCOMBRERAS	6	
MORELLA	5	
GUILLENA	3	2
LOECHES	1	
MORALEJA	1	
S.S. REYES	1	
FUENDETODOS	4	
GALAPAGAR	4	3
OLMEDO	6	
LA ELIANA	2	
BALBOA	1	
SIERO		1
PINTO		5
TORREARENILLAS		2
LA MUDARRA		1
TRÉVAGO		5
ACECA		4
JIJONA		1
HOYA MORENA		1
ONCALA		1
ACQUIRED FROM ELECTRIC COS.**		36
TOTAL	57	66

400 kV Lines

	km CIRCUIT
BALBOA-PORTUGUESE BORDER L.	40.5
PALOS-GUILLENA L.	198
SANTA ENGRACIA SS-BARCINA-LA SERNA L.	0.4
FUENDETODOS SS-ALMAZAN-ESCATRON L.	0.5
OLMEDO SS	0.5
APARECIDA SS	0.2
TOTAL	240.1

220 kV Lines

	km CIRCUIT
PALOS-TORREARENILLAS L.	2.6
TRÉVAGO-L/ONCALA-MAGALLÓN L.	0.4
MUDARRA-VALLADOLID L.	21.1
ESCOMBRERAS-FAUSITA (BURIED) L.	0.1
ESCOMBRERAS-FAUSITA (AERIAL) L.	0.5
PINTO-L/AÑOVER-EL HORNILLO L.	0.3
SANCHINARRO-FUENCARRAL 2 L.	4.8
FRANCESES-L/ PALAU-LA ROCA-VIC* L.	0.6
R. DE CALDES-L/ SETMENAT-S. FORT* L.	0.6
TOTAL	31

400/220 kV Transformers

	MVA
GALAPAGAR	600
PIÉROLA	450
FAUSITA	600
STA COLOMA	600
CAPARACENA	600
EL PALMAR	600
GUILLENA	600
TOTAL	4.050

220 kV Condensers

	MVA _r
GUILLENA	2x100
HOYA MORENA	100
JIJONA	100

400 kV Reactors

	MVA _r
MORALEJA	150
S.S.REYES	150
TRILLO	150

INCREASE IN TRANSMISSION CAPACITY

	km CIRCUIT	Δ MEDIO MVA/CIRCUIT
400 kV lines	224	431
220 kV lines	176	105

* Pending signing of purchase agreements

CONSTRUCTION OF INSTALLATIONS

Northern Region

Grid development work focuses mainly on increasing transmission capacity for the northern axis in order to provide energy to Asturias, Cantabria, the Basque Country and Navarre.

Aragon and Catalonia

In this region the transmission grid is being reinforced to provide service to the Lérida-Barcelona-French border high speed train and also building a new electricity interconnection between Spain and France, including in its trajectory connection to the wind parks.



Central Region

Engineering and construction work continue on the energy axis between the communities of Galicia and Castilla y León towards Madrid, together with reinforcement of the Madrid circuit. Work has also begun on the Transmanchego axis project.

Investments in the transmission grid focus mainly on providing energy to combined cycle and wind parks, supporting the development of the high speed train network, reinforcing and networking the mainland grid and amplifying international interconnections



Galicia

Engineering work continues both on the energy network axis towards Asturias as well as the axis to the central region of the peninsula.

Extremadura

Upon completion of work on the 400 kV Balboa-Alqueva line connecting Spain and Portugal, advance engineering studies will continue for reinforcement of the Extremadura-Andalusia axis.

Andalusia

Reinforcement work continues on the transmission grid, specifically the work necessary to support the Córdoba-Málaga high speed train once combined cycle installations and wind parks in the area start operations.

Levant

Grid development in this area centres on building installations to receive energy from the wind parks and reinforcing electricity supply to Murcia and the coast in general. In addition advance engineering studies are already initiated for the future interconnection between the peninsula and the Balearics.



Installations under construction 12-31-2004

400 kV Lines

	km CIRCUIT
PAMPLONA-MAGALLON AXIS	120
NORTH-EAST AXIS	150
NORTH-WEST AXIS	60
INTERNATIONAL CONNECTIONS	150
WIND PARK CONNECTIONS	180
LEVANTE AXIS	16
MURCIA AMPLIFICATION	150
WEST-CENTRAL AXIS	150
ASTURIAS-GALICIA AXIS	50
CATALUÑA AND TAV REINF.	14
COMBINED CYCLES CONNECTION	255
INCREASE TRANSMISSION CAPACITY	256
TOTAL	1,551

220 kV Lines

	km CIRCUIT
PAMPLONA RING	31

220 kV Substations

	POSICIONS	
	TRANSMISSION	ACCESS
VARIOUS SUBSTATIONS	12	6

400 kV Substations

	POSICIONS		TRANSFORMER	CONDENSER	REACTOR
	TRANSMISSION	ACCESS			
PAMPLONA-MAGALLON AXIS	10		600 MVA		150 MVAr
NORTH-EAST AXIS	6				
INTERNATIONAL CONNECTIONS	12		2x600 MVA		150 MVAr
WIND PARK CONNECTIONS	16	4			
WEST-CENTRAL AXIS	15	6	2x600 MVA		
LEVANTE AXIS	9	2		100 MVAr	
ASTURIAS-GALICIA AXIS	8	7	600 MVA		
MURCIA AMPLIFICATION	24	9	2x600 MVA		
CATALUÑA AND TAV FRENCH BORDER REINFORCEMENT	14	4	600 MVA	2x100 MVAr	
COMBINED CYCLES CONNECTION	13	4	600 MVA		
TOTAL	127	36			



INSTALLATIONS MAINTENANCE

Line Maintenance

During 2004 all line inspections planned were performed using traditional inspection methods on foot as well as helicopter inspections as a monitoring method.

Numerous maintenance jobs were performed on installations to improve both network availability as well as service quality, including laying fibre optic cable, substituting isolators and placing bird protection devices (scarecrows).

In addition rust proofing was applied to metal structures, protecting over 80,000 m²; and tree trimming and street cleaning work was performed under the lines, affecting over 10,000,00 m² of land.



Substation Maintenance

In accordance with the maintenance plan for power transformers and reactors, over 486 oil analyses were performed, 27 insulation measurements made (power factor) and the status of the windings checked in 27 power equipments (transformers and reactor).

Maintenance on instrument transformers included the use of partial discharge measurement techniques made in 195 current transformers to verify the precision of 136 voltage transformers (capacitative), oil analyzed in 70 current transformers and infrared thermography performed on all instrument transformers installed.

With regard to high voltage circuit breakers, the use of telediagnosis resulted in a decrease of machine downtime due to maintenance. This year 1,213 measures were performed to evaluate the status of 205 circuit breakers with the corresponding evaluation reports and recommendations issued.

With regard to protection systems, metering equipment installed in the interconnections has been reviewed in accordance with the Metering Point Regulation. Protection systems and equipment for the transmission grid show correct functioning with an efficiency rating of 98.6%. In addition the mean annual availability of telecontrol service provided by remote control equipment has been 99.99%.

PERFORMANCE OF RED ELÉCTRICA TRANSMISSION GRID

For yet another year the equipment and systems comprising the transmission network stand out for their excellent performance, with some presenting highly satisfactory service quality indicators in terms of a safe and continuous electricity supply, placing them at the head of international ratings for electric transmission companies.

Mean service quality indicators for the Red Eléctrica grid are:

- Availability of the transmission grid reached 98.39%, the result mainly of the strict application of quality criteria in maintenance work and the use of predictive and voltage work techniques.
- Energy not supplied (ENS) to the system as a result of interruptions in service due to network downtime was estimated at 1,448 MWh.
- Mean interruption time (TIM) defined as the ratio of energy not supplied to mean system power, was 3.272 minutes.

Benchmark values for these numbers determined in Royal Decree 1995/2000, are: 97% for transmission grid availability rate and 15 minutes for average interruption time.





SINGLE PROJECT

Burying the 400 kV San Sebastián de los Reyes-Loeches-Morata line

Red Eléctrica has start operation of the double circuit section of the 400 kV San Sebastián de los Reyes – Loeches – Morata transmission line. The purpose of the line is to eliminate physical and electrical obstacles to existing aerial installations caused by the new runways of the Madrid-Barajas Airport.

This line constitutes one of the sections of the Madrid electricity circuit and is an important installation for supplying distribution sub-stations in the capital.

The new buried line is connected to the rest of the grid through two underground-aerial substations, and has the following technical specifications:

- Length of the buried section is 12.7 km, in a ventilated gallery 2x2.5 m at minimum depth of 2 metres.
- Line voltage: 400 kV
- Section of copper cable used: 2,500 mm².
- The significant amount of transmission capacity, over 3,200 MW, equivalent to the power generated by three nuclear centrals, gives an idea of the complexity of the installation.

This project is unique in Spain and one of the most important in the world, demonstrating Red Eléctrica's elevated technical ability. Projects at a similar level of complexity have been developed only in Copenhagen, Berlin and Tokyo.

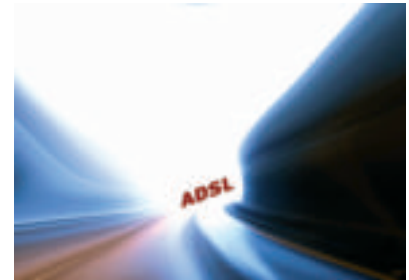
During execution of this project, Red Eléctrica made intense efforts to mitigate as much as possible environmental effects caused by this type of project.

TELECOMMUNICATIONS BUSINESS

Red Eléctrica Telecomunicaciones has a network of over 13,400 km of fibre optic cable throughout the country, and offers a wide array of wideband and data communications services for telecommunications operators, Internet service providers and public administrations.

During 2004 Red Eléctrica Telecomunicaciones had two objectives: on the one hand, to develop a wholesale ADSL offering on local loop infrastructure (ULL) placing it as an alternative operator in access services in Spain with a differentiated offering with high added value; and it has also focused its efforts on creating a service proposal that perfectly fulfils the needs of public administrations.

We consolidated our benchmark position in the Spanish transmission and capacity market



It has also continued to reinforce its managed network structure (DWDM/SDH) with a presence in 175 in order to maintain a position of reference in the Spanish transmission and capacity market, where it enjoys the confidence of the largest operators in the country.

With regard to its wholesale ADSL service offering, 80 centrals have been placed in service, located in Madrid, Barcelona, Málaga and Badajoz, covering 30% of national demand for ADSL. Red Eléctrica Telecomunicaciones plans to continue with this outlay of infrastructure during 2005, reaching a national coverage of 55%.

With regard to services provided to public administrations, during 2004 the company was awarded the following projects:

- **Nuclear Security Council.** Project consists of implanting a multiservice emergency network over which IP telephony, videoconferencing and data communications infrastructure will be established between nuclear centres, Government Departments and other points, for a total of 18 locations.
- **Generalitat de Catalunya.** Through the "Department of Telecommunications and Information Society" the company will provide the city of Amposta with wideband service as part of its Territoris Digitals (Digital Cities) project and also increase the bandwidth currently received by the Consell Comarcal de l'Alta Ribagorça in the RuralNet framework.

In addition Red Eléctrica Telecomunicaciones, through its participation in Tecnimap 2004, has joined the “e-Cooperation in Public Administration” drive as a technology agent, providing its experience in specific solutions for public administrations with a wide array of services.

The company has also increased direct communications with its clients through its new web page. Through its new graphic design the web encourages external communication with its target audience, strengthening its client service position.

In order to improve the quality of service to its clients, during 2004 Red Eléctrica Telecomunicaciones implanted an integral management system (quality, occupational health and safety and environment) certified by AENOR, making it the first telecommunications operator to receive this triple certification.

INVESTMENTS

Total investments during this period came to 6,624 thousand euros, broken down as follows:

- 2,311 thousand euros in wholesale ADSL development
- 2,870 thousand euros in laying the ATM/IP data network
- 1,443 thousand euros in acquiring DWDM equipment.

BUSINESS LINES

Red Eléctrica Telecomunicaciones offers a wide range of wideband and data communications services directed to telecommunications operators, Internet service providers (ISPs), large corporations and public administrations. These products can be classified in three major groups:

Transmission and Capacity Services

Optic level DWDM transmission services and SDH managed capacity both for long distance as well as in metropolitan areas.

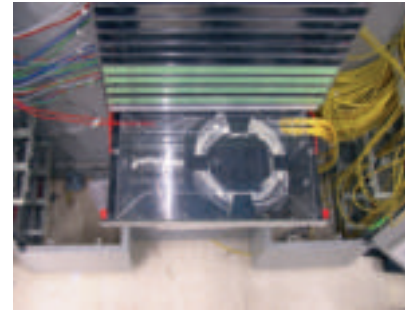
ADSL Service Wholesalers

Added ADSL line traffic services for users throughout Spain.

Data Services

Including:

- IP transmission for operators
- Internet access for large companies and public administrations
- Virtual Private Networks at IP level
- Complementary IP services (mail, news, domain management, etc.)
- Mass data storage, remote copy or low demand storage.



INTERNATIONAL BUSINESS

The Red Eléctrica Group channels its international business through Red Eléctrica Internacional, a company dedicated to utilizing strategic investment opportunities in transmission infrastructures, as well as providing technical and business consulting services at the international level. These activities constitute the two basic pillars on which the group centres its international activities.

Capacities built by Red Eléctrica and the experience accumulated since its creation – over twenty years ago – in electricity systems management and operation, constitute a solid asset and an important benchmark, allowing the Group to approach international expansion with confidence.

Investing in transmission assets and providing consulting services are lines of business in the international sphere



INTERNATIONAL INVESTMENT

Red Eléctrica Internacional's investment activity yielded important fruit, with a 30% participation in Peruvian corporation Red Eléctrica del Sur, S.A. (REDESUR) and 99.94% participation in the company Transportadora de Electricidad S.A. (TDE), a benchmark company in the Bolivian electric transmission sector.

REDESUR operates a 30 year concession to reinforce the electricity systems of southern Peru. Since starting up commercial operations in 2001, the corporation's business has shown a very favourable evolution, with improvements surpassing original projections. Once again the operations and maintenance quality for the company's transmission network in 2004 was registered as excellent, with no interruptions occurring in electricity supply.



The REDESUR integral management system has satisfactorily surpassed quality, environmental and occupational health and safety audits performed by AENOR, constituting an additional affirmation of the company's operating excellence.

Needless to say, of equal importance is shareholder remuneration. During 2004 REDESUR again distributed dividends in the amount of 1.5 million dollars.

With regard to TDE during the past period the company made significant efforts to set the bases for consolidation as the benchmark carrier in Bolivia, where it already has approximately 2000 km of lines.

During 2004 TDE presented the regulatory agency with various projects designed to reinforce, improve and expand the Bolivian transmission grid. These projects, some of which are already in execution, would imply an investment in excess of 20.8 million dollars.

Among investments pending regulatory approval, integration of Tarija to Bolivia's National Interconnection System (SIN) and the Carrasco - Cochabamba transmission line are especially important. Both projects would imply the start-up of over 476 km of 230 kV lines, equivalent to 24.5% of the current TDE line.

TDE projects the development of an ambitious investment programme during the next years, reflecting the company's commitment to Bolivian society. This wide-ranging commitment also



extends to its shareholders, as the company will make its investment plan compatible with a suitable shareholder compensation policy, begun in 2004, distributing dividends in an amount close to 2.6 million dollars.

As far as service quality, 2004 ended very satisfactorily for TDE with 99.79% of its transmission grid available and no responsibility whatsoever incurred as a result of system disconnections.

*REDESUR and TDE obtain triple certification
for their integral management systems
(quality, environment, occupational health and safety)*



During this period the company also obtained international certification for its Occupational Health and Safety Management System according to the requirements of UNIT 18001 and OHSAS 18001. It is the first electricity company in Latin America to have an integral management system with quality (ISO 9001:2000) and environmental management (ISO 14001) certification.

In the immediate future, Red Eléctrica Group's international investments will follow two channels: firstly through organic growth leading to the consolidation of its affiliate TDE, and secondly through investment in new transmission infrastructures, planned for the Latin American region for different



reasons. Privatization and deregulation of the electricity transmission sector; number of investment opportunities and cultural identification, among others will continue to represent a fundamental strategic area within the Group objectives.

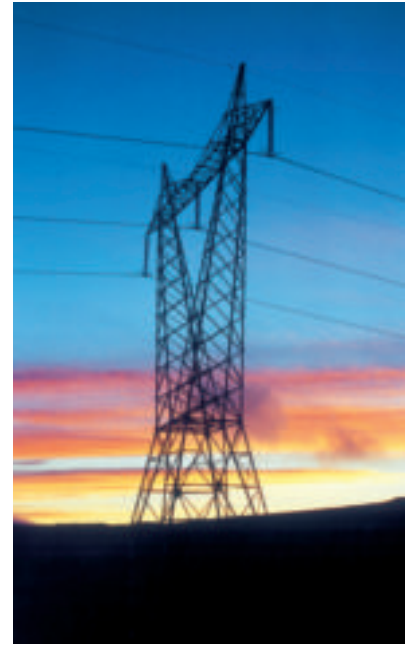
INTERNATIONAL CONSULTING

Marketing of consulting services during 2004 was significantly strengthened with the incorporation of a team of 12 individuals, highly qualified and with clear international vocation.

In this respect a new Framework Collaboration Agreement was formalized with GRTE-Sonelgaz Transport (Algeria). The importance of this type of agreement is seen in the volume of contracts with electric companies ONE (Morocco) and GECOL (Libya) during 2004, based on similar individual agreements executed the previous year.

Most significant projects finalized through 2004 are:

- **Serbia and Montenegro.** Implementation of an energy control system (SCADA/AGC) with ICCP communications protocol. This project was financed by the Spanish Agency for International Cooperation.
- **Rumania.** Technical-economic review of the Rumania-Hungary interconnection line project. The European Reconstruction and Development Bank awarded Red Eléctrica Internacional the "Due Diligence" process for construction of the interconnection line between both countries, taking into account both technical aspects as well as quantification of the economic benefits associated with the new interconnection.




Consulting services are directed to projects requiring highly specialized technical and business consultation through which the Red Eléctrica Group provides its experience as manager and operator of power systems

Principal projects in course at the close of 2004 are:

- **Libya.** Background studies to extend the UCTE synchronism area to Northern Africa.
- **Libya.** Critical times study to determine maximum allowable time to eliminate a short circuit for each point of the grid.
- **Morocco.** 2010 horizon wind penetration study.
- **Southeast Europe.** Study of investment projects to consolidate a regional electricity market.



Our people



Individual development
and knowledge transfer
are key points in our
human resources management

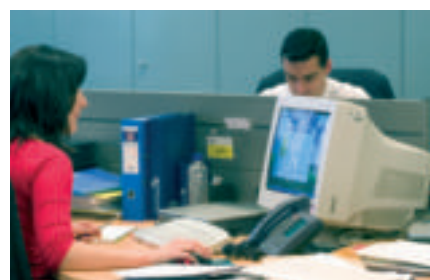
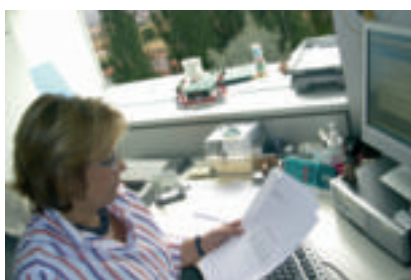
A CULTURE BASED ON PEOPLE

Our staff continued to grow in 2004, motivated by the acquisition of new electricity transmission assets and the assumption of responsibilities inherent in operating island and mainland electricity systems.

With the incorporation of 114 people during the year, the Red Eléctrica staff reached a total of 1,145 employees. The Red Eléctrica Group reached a total of 1,415 people, 10.5% more than last year.

This growth has resulted in a younger team of individuals with more female representation and high development potential. Considered by the magazine *Actualidad Económica* as one of the 20 best companies to work for in Spain, Red Eléctrica maintains a vision of the future based on high qualification and developing the potential of its professionals.

*High qualification of its employees
And their development potential
form the basis of Red Eléctrica's success*



Continuing the Strategic Plan for Human Resources initiated in 2003, individual management action programmes were based on developing potential, transferring knowledge and creating a friendly workplace atmosphere.

Setting these plans in motion required the collaboration and commitment of the employees. In this sense the staff's feeling of belonging was very important: 85% of the employees consulted stated they were proud to belong to Red Eléctrica, which also explains the company's low external turnover rate.



MANAGEMENT EXCELLENCE

Management excellence of the individuals, according to the quality requirements ruling Red Eléctrica's business processes, showed a return in maintaining the tendency of cost per employee begun in prior years.

In 2004 the organization optimization process continued to confront needs deriving from the company's growth. Specifically, and to facilitate integration of transmission assets, the territorial operating and maintenance structure was reviewed, improving productivity rates per employee. Other organizational adjustments were also made to improve internal efficiency, always safeguarding the principles of service excellence. In addition and to optimize personnel management processes and to improve information to employees, new easily accessed informational systems were integrated through the corporate intranet.

INCREASED TALENT

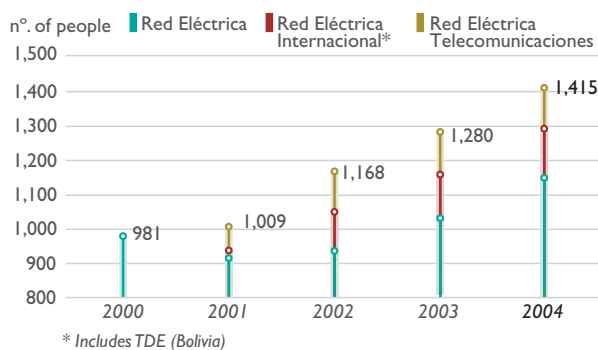
Red Eléctrica places its emphasis on hiring young professionals with potential, offering them an attractive career development. Cooperation agreements with universities and engineering schools constitute an important employment channel, with 15% of the staff currently arriving from here. After passing test and practice periods, 100% of the candidates pass to an unlimited hiring model.

To take part in a business project one must first know and understand it deeply. For this reason the company is especially careful in incorporating new employees. From the time they are welcomed to the company and for the next 36 months, new professionals participate in thematic fora and activities oriented towards acquiring interfunctional-type knowledge, as well as a better understanding to the Group's culture.

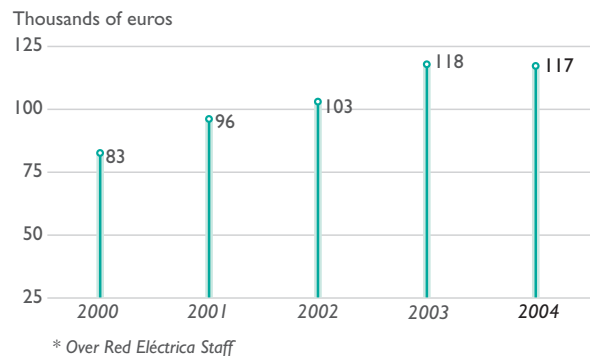
2,494 hours were dedicated in 2004 to developing these acceptance and integration plans, directed to employees with at least three years experience with the company.



Evolution of the Group Staff



Net Benefit Per Employee*



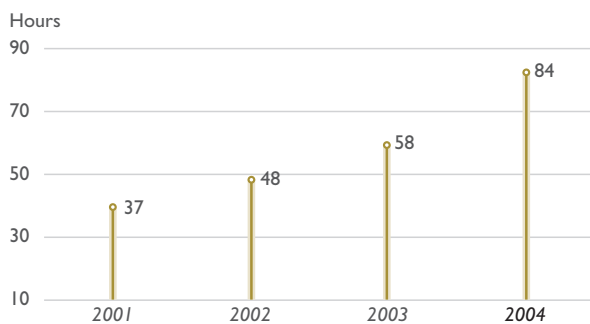
TRAINING, THE KEY TO PROFESSIONAL DEVELOPMENT

A company whose mission is to offer excellent services needs an ambitious training programme to convert its employees into “benchmark experts” for each of the activities constituting the business model.

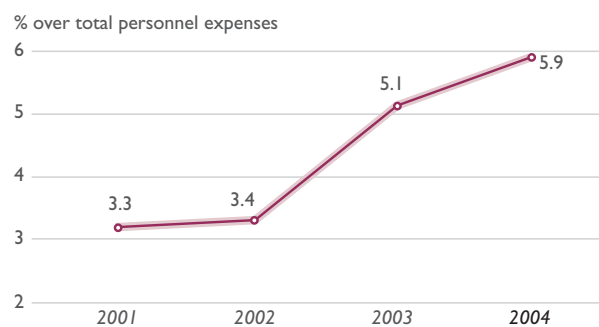
Incorporation of young professionals and timely recycling of specialized personnel require special training. During 2004 5.9% of all personnel expenses were dedicated to this activity, with 90,947 hours of training provided, 62% more than that of the previous year, reaching 96% of the staff.

The training plan is designed annually based on needs detected in the training requirement analysis performed for all company units and including professional development, horizontal training and a technical training programme.

Hours of Training Per Employee



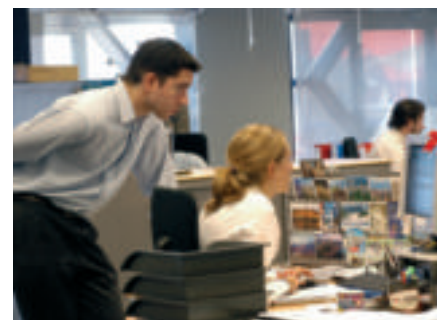
Investment in Training



KNOWLEDGE MANAGEMENT AND TRANSFER. SCHOOL OF OPERATIONS.

2004 saw the start up of the process of identifying key knowledge required for operating the electricity system. This project incorporated the School of Operations, which during the year gave 31,290 hours of training, mostly to internal instructors. New operators received up to 300 hours of training per person with the most experienced operators receiving 48 hours.

The School of Operations manages training and re-training of operators from the electric control centrals



The School of Operations is equipped with the most modern didactic media, including an electricity control centre and power system simulator.

The educational process combines classroom study, laboratory practice, site visits, workshops, simulator training sessions, supervised training on the job and virtual training. Those passing the new operators training programme receive university credit from the Comillas University.

FRIENDLY AND PEACEFUL WORK ENVIRONMENT

Reforms to the workplace environment in 2004 included a significant improvement in work conditions in the corporate offices and other work centres, including reinforcement of safety measures.



Improved workplace conditions and the implementation of an attractive work environment are priority activities for employee integration and development

With regard to corporate environment, Red Eléctrica maintains its commitment to its people within the framework of the current work agreement. The flexibility proposed in the work schedule and conciliation measures adopted to make work time compatible with family represent significant improvements in the employees' work conditions. These and other activities have been recognized through the runner-up award of the III Flexible Company Award, for the second consecutive year.

In addition a survey was made to evaluate the status of internal communication in all units of the company, considering ascending and descending corporate communication, time management, directors time and company culture. The diagnostic prepared from this study with broad participation of the staff, served as a guideline in designing the 2005 Internal Communications Plan. The objectives of the new plan are directed to acquiring a better knowledge of operating units and promoting a more participative style.





Business excellence



Excellence in business
management represents one
of the essential leadership
values for Red Eléctrica

QUALITY MANAGEMENT

Focusing on an excellent management, Red Eléctrica has developed a system designed to satisfy the requirements and expectations of the different interest groups, increasing the quality of the services provided and providing value to the area around it and society.

This objective, carried out through the continuous and integral efforts of the people working in Red Eléctrica and using suitable technological and economic resources, seeks firstly the long term existence of the company, and secondly to consolidate its benchmark positioning in international level energy transmission and operation of electricity systems.

Development of this excellent management system has led to the improvement of the company's reputation and image, allowing it to be seen constantly more as modern, enterprising, and concerned for its environment.

*One of the basic strategies of the company
Is permanent direction of its processes,
Services and products to achieving the
Satisfaction of all its groups of interest,
Both internal and external*



Red Eléctrica's model of excellence is fundamental in its proposal for European Foundation for Quality Management (EFQM) with guidelines are based on the following elements:

- Active participation of the management team in applying main power lines and systems for management excellence.
- A management model that reaches all systems, processes, products and services provided, with sufficient and precise indicators to recognize external and internal situations and facilitate decision making to improve business management.
- Continuous analysis of the environment and the needs of groups of interest.
- Corporate governance based on good government and generation of wealth, and directed to a sustainable development and respect and integration of the individual.
- Directed to permanent improvement of the corporate reputation and external image.

As a result of the development and implementation of this model, since 2003 Red Eléctrica is the energy company most recognized for its management excellence, both at national as well as European level.

In addition it has become the first European electric company to obtain the Gold Seal for Business Excellence, granted by the Quality Management Club (+ 500 points). This distinction allows it to bear the phrase EFQM "Recognised for Excellence" phrase, beginning in 2004.



Red Eléctrica is the European energy company most recognized for its management excellence

Backed by its business management, Red Eléctrica has participated in the IX Prince Philip Award for Business Excellence, receiving for third consecutive year the nomination as finalist in the area of Industrial Quality. It has also renewed the "Madrid Excelente" mark of quality guarantee held by it since 2002.

QUALITY MANAGEMENT SYSTEMS

The most relevant element in developing business excellence is the design and implementation of quality management systems in all organizational units of the company.

In this sense, in 2004 Red Eléctrica continued its integral management of its certifiable systems (ISO 9001:2001, ISO 14001 and OHSAS 18001), extending its scope with green certificate management, a service entrusted to the company beginning this year.



First business group from the energy sector holding triple integral certification for quality, environment and occupational health and safety for all its companies

Following the management model proposed by the corporate policy for excellence and quality, affiliates Red Eléctrica Telecomunicaciones and REDESUR (Peru) in 2004 received triple integral certification for their quality, environmental and occupational health and safety systems. Together with those already existing in Red Eléctrica as well as affiliates Red Eléctrica Internacional and TDE (Bolivia) this makes the Red Eléctrica Group the first business group within the energy sector to have triple certification for all its companies.



Red Eléctrica has also accredited its inspection and electricity metering verification services through the National Accreditation Agency (ENAC). This accreditation testifies to the dependability of the services provided in client's installations and makes Red Eléctrica the first company to hold this recognition.

RELATIONS WITH INTEREST GROUPS

Red Eléctrica's management is committed to its clients, market agents and other interest groups. Throughout the year it carried out a 2003-2004 satisfaction survey for the services provided to clients, including interviews to detect their expectations and requirements.

Results of the survey, in which 85 clients took part, show the obvious opinion that our clients have of the company mission and responsibilities.

With regard to suppliers, the following activities were developed in 2004:

- Supplier qualification and monitoring process redesigned;
- Alliances formed with goods suppliers, through quality agreements;
- Supplier and focal group satisfaction survey designed to identify needs and expectations to be developed in 2005.



TECHNOLOGICAL INNOVATION

As part of its Research, Development and Innovation activities (R&D+I), Red Eléctrica has dedicated its efforts to advance in its technological strategy, oriented to maintaining its leadership in business activities and sustained by an increase in investment in R&D+I projects. This strategy turns around four fundamental axes:

- Optimization of electricity system support structures.
- Increasing system guaranteed supply.
- Developing internal efficiency.
- Integration of business activities with its surroundings.



Energy operating and transmission activities require intense work in the field of technological innovation

At the operations level, 2004 saw a strengthening of Red Eléctrica's network of technological contacts, both in the international sphere with participation in European projects as well as in the national sphere. In this context power line work centred on applying mechanisms for managing electricity demand in favour of energy efficiency (EMERGIE) as well as projects focused on facilitating the integration of wind energy in the electric system stand out.

R&D+I activity resulted in the development of around thirty projects, with an investment level of 2.36 million euros, representing an increase of 20% over 2003.

PROJECTS FINALIZED IN 2004

Gas Analysis in Transformers Using Kohonen Neuron Networks

The purpose of the project was to develop a Kohonen neuron network to classify the results of dissolved gas analyses generated in Red Eléctrica's power transformers and reactors in order to obtain information allowing more precise diagnoses of transformer status.

PLAER

Development of Long Term Improvement in Planning Tools for the Transmission Grid (PLAER). The objective of the project consisted in incorporating market mechanisms and generating and filtering load flow models and plans.

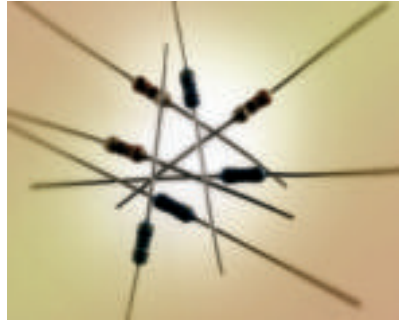
Development of a Prototype for Technological Supervision

The purpose of the project is to provide Red Eléctrica with tools to supply structured information on our technological and sectorial surroundings to facilitate decision making with regard to the most appropriate technological strategy or the opportunity to carry out an R&D+I project.

SIGRES / Substation Equipment Remote Management System

This project has allowed the creation of the first application in the world of the new IEC 61850 protocol for the purpose of developing remote management of equipment installed in substations.

Development of technological innovation provides value to the company and society



PROYECTOS SIGNIFICATIVOS EN CURSO EN EL 2004 ENCOURAGED

Purpose of the project is to optimize future “energy corridors”, understood as electricity, gas and hydrogen interconnections between the European Union and neighbouring countries.

VITA (Vital Infrastructure Threats and Assessment)

Assessment and assurance of critical infrastructure, whose objective is to define exceptional emergency situation scenarios (terrorism or natural catastrophe) and simulate them with OTS (operator training simulator) from the Red Eléctrica training school.

Directing of Energy Flows

The objective is to analyze devices capable of directing energy flows to allow maximum use of the transmission grid capacities.

EMERGIE. Tool for Researching Manageable Consumption.

The purpose is to prospect potential existing in electricity consumption processes to manage power demand to optimize energy and economic efficiency of the transmission system and the consequent reduction in environmental impact.

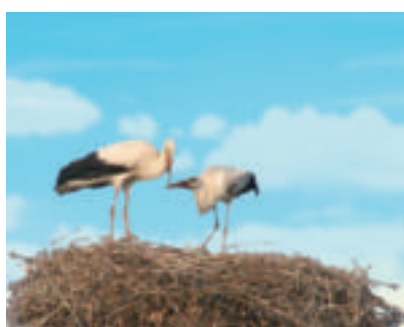


COMMITMENT TO THE ENVIRONMENT

The Red Eléctrica Group maintains its commitment to form part of the best companies in terms of environmental protection during their customary business activities. As such, during 2004 environmental certifications were obtained according to UNE EN ISO 14001, for activities performed by affiliates Red Eléctrica Telecomunicaciones and REDESUR (Peru), thus completing the environmental certification of all companies comprising the Group.

ENVIRONMENTAL ACTIVITIES

Red Eléctrica performs environmental impact studies for all new installations projects, whether subject or not to the procedure regulating this type of studies contained in Law 6/2001 dated May 8 regarding environmental impact studies.



Preserving the natural environment in which we act is one of our strategic priorities

As a result, in 2004 the Ministry of the Environment issued its positive Environmental Impact Statement for three power lines (new feeder to Gerona, Balboa-Portuguese Border L. and Parla urban consortium) and one substation (Morella), and environmental assessment resolutions for five substations (Ayora, El Cereal, Galapagar, Segovia and La Espluga).

Work on the thirteen new power lines and eleven new substations was also subject to environmental monitoring, as well as work to modify, amplify, renew or improve seven power lines and sixty substations. This work consisted mainly of applying preventive and corrective measures in the design of areas for placement of hazardous wastes and verifying the correct handling of wastes generated in these projects.

RESEARCH PROJECTS AND ENVIRONMENTAL STUDIES

With regard to research projects and environmental studies, the following stand out.

- Project to protect **the common hawk population** in the province of Valladolid, performed in collaboration with the Wildlife Section of the Territorial Service of the Environmental Department of the Castilla y León Regional Government.

- **Effectiveness and useful life analysis of “scarecrow” anti-collision signs in electricity transmission lines**, carried out together with the Doñana Biology Station and the Superior Scientific Research Council. This project involved the installation of spirals of various colours as well as a new model of scarecrow in a section approximately 12 kilometres long of a line located in the south of the Iberian peninsula which is the site of an IBA (Important Bird Area).
- **Substation use study for the kestrel**, carried out together with the Doñana Biology station. This study noted an unprecedented fact: congregation of hundreds of kestrels in electricity transmission substations in Navarre and Aragon.
- Study for **the biotic and abiotic treatment of stumps in rows of electricity lines**, carried out together with the Polytechnic University in Madrid. The purpose was to prevent the reappearance of trees whose rapid growth characteristics can place security distance at risk.
- Project to analyze **currents induced in the human body by industrial frequency electromagnetic fields**, developed in collaboration with the Complutense University in Madrid, the superior Scientific Research Council and the UNESA.

We participated in various research projects dedicated to care of the environment



Finally, a project studying the **effects of low frequency electromagnetic fields on programmed cell death: implications for the immunological system concluded**. This project was carried out with the scientific collaboration of the University of Valladolid, the Superior Scientific Research Council and UNESA. Results obtained both in cellular studies (in vitro) as well as in laboratory animals (in vivo) show that industrial frequency electromagnetic fields within levels recommended by the European Union for public exposure (100 μ T) cannot affect the immunological system by altering programmed cell death.

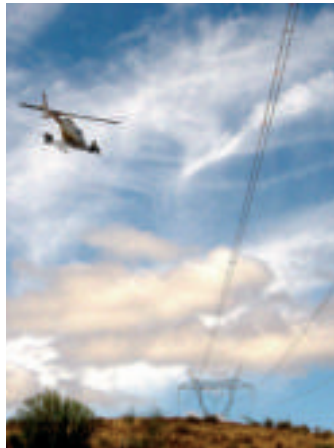
PREVENTION AND REDUCTION OF EFFECTS ON THE ENVIRONMENT

Wildlife protection

During 2004 a collaboration agreement was begun with the General Council of Aragon, marking power lines in that regional community in order to minimize risks of collision by wildlife.

Collaboration agreements have also continued with:

- Agricultural, Water and Environmental Council of the Murcia Region, to protect and recover the peregrine falcon population.
- Agricultural, Water and Environmental Council of the Board of Extremadura, to mark potentially dangerous line sections, given the great abundance and diversity of bird species existing in the area.



We actively and constantly work to minimize the interaction of our installations with wildlife

Pollution Prevention

In the area of pollution prevention in installations, controlled substances from three fuel deposits in the Tarifa substation were treated and 30% of the auxiliary transformers were reviewed, with preventive measures proposed to be considered in oil contention systems.

Also during 2004 the electromagnetic and noise field measurements plan was begun, to measure these parameters in the company's power lines and substations in order to determine the level of the electric, magnetic and audible noise field to which people permanently close to the installations are exposed.

ENVIRONMENTAL COMMUNICATION ACTIVITIES

Red Eléctrica participated in the VII National Environmental Congress "Sustainable Development Summit" held in Madrid in November 2004. This congress dealt with thematic areas related to basic principles of sustainable development, the environment, society and economy. Red Eléctrica collaborated as a company sponsor with a speaker, a dynamics room, and numerous interventions informing those attending of the environmental activities carried out during its 20 years in existence.

In previous years an extensive broadcasting work has been carried out through publications manuals, especially the publication and external diffusion of the book "IV Days on electrical power lines and the Environment" organized by Red Eléctrica in 2003, as well as publication of the video documentary "Forest of Forests".





Economic-financial management

The Red Eléctrica Group consolidated its growth through the main business acquisition of transmission assets

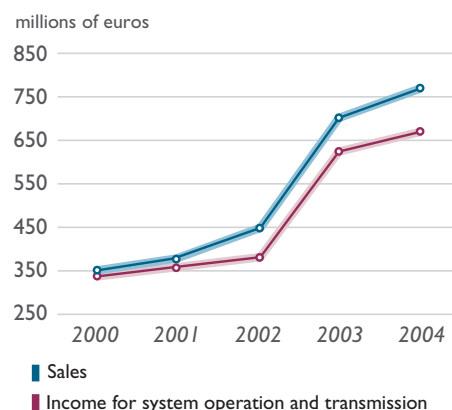
Net profits grew 14.3%, reaching 132.4 million euros

ECONOMIC-FINANCIAL MANAGEMENT

Main figures

Thousands of euros	2000	2001	2002	2003	2004	04/03%
ADJUSTED SALES	353,141	380,987	459,931	686,732	766,211	11.6
GROSS INCOME (EBITDA)	249,168	254,234	276,372	439,832	478,949	8.9
NET INCOME (EBIT)	147,482	147,384	156,950	246,392	272,670	10.7
INCOME-ORDINARY ACTIVITIES	131,393	133,131	138,572	174,975	199,111	13.8
CONSOLIDATED INCOME AFTER TAXES	83,140	91,071	99,858	115,784	132,381	14.3

Adjusted Sales



INCOME

Fiscal 2004 saw an increase of 11.6% in Consolidated Sales (net purchases of energy and power from international exchanges between the head company and giving a more homogenous statement of the evolution of Group activities) due mainly to:

- Increase in transmission income for service start-ups in fiscal 2003,
- Increase in income recognized by system operation, which activity began new operating services in island and mainland electricity systems,
- Increase in telecommunications services provided, and
- Increased income for engineering and construction work by third parties.

Income

Thousands of euros	2000	2001	2002	2003	2004	04/03%
ADJUSTED INCOME	361,837	387,969	470,287	702,013	778,705	10.9
ADJUSTED CONSOLIDATED SALES *	353,141	380,987	459,931	686,732	766,211	11.6
Transmission and operating income	333,369	355,770	392,602	612,366	675,289	10.3
Adjusted energy and Power sales *	6,802	8,099	6,900	5,534	6,354	14.8
Income from telecomm. Services and others	12,970	17,118	60,429	68,832	84,568	22.9
OTHER INCOME **	8,696	6,982	10,356	15,281	12,494	-18.2
PROFIT FROM EQUITY ACCOUNTED COMPANIES	-	647	605	357	725	103.1
EXTRAORDINARY INCOME	7,964	8,009	9,753	9,001	8,950	-0.5

* Net purchases of energy and power. ** Does not include capitalization of interest expense



EXPENSES

Operating expenses for the Group, net purchases of energy and power and traffic reserves, rose to 299,756 thousand euros, an annual growth of 14.3% over 2003. Operating expenses include:

- Expenses for engineering and construction work by third parties exceeded those of 2003.
- Personnel expenses rose to 77,566 thousand euros for the entire Group, representing an increase of 16.0% over the same period for fiscal 2003. Fiscal 2004 included non-recurring expenses corresponding to resignations in the upper management, without which the increase would have been 9.7%.



Operating Expenses

Thousand euros	2000	2001	2002	2003	2004	04/03%
ADJUSTED OPERATING EXPENSES	214,357	240,585	313,337	455,621	506,035	11.1
OPERATING EXPENSES	112,775	134,768	195,297	260,124	301,489	15.9
Personnel expenses	54,396	57,172	61,641	66,854	77,566	16.0
Equipment, work, supplies, and outside services *	58,379	77,596	133,656	193,270	223,923	15.9
AMORTIZATION AND DEPRECIATION	101,582	105,817	118,040	195,497	204,546	4.6
INTEREST EXPENSE **	16,190	14,900	17,462	67,719	72,189	6.6
AMORTIZATION OF GOODWILL ON CONSOLIDATION AND LOSSES FOR COMPANIES UNDER THE EQUITY METHOD	-	-	1,521	4,055	2,095	-48.3
EXTRAORDINARY EXPENSES	13,312	2,004	2,810	7,850	9,087	15.7

* Net energy and power purchases, including variation in trade provisions.

** Expenses net financial income and capitalization of interest expense

FINANCING

Consolidated cash-flow after taxes rose to 348,844 thousand euros, 8.7% over that of 2003. This figure represents 45.5% of adjusted consolidated sales (net energy purchases) and allowed the Group to finance a significant part of the investments made in 2004.

During fiscal 2004, financial activities of the Group were directed towards achieving a financing structure that provides stability to the new business dimension:

- Increasing its presence in capital markets and amplifying its investment base,
- Diversifying maturity dates of the debt, and
- Maintaining a very moderate risk profile.

In this sense one of the important activities performed during the year is the renegotiation of the syndicated credit taken in July 2003 in the amount of 700 million euros.



As a result of that renegotiation, some of the principal conditions presented by the original financing have improved, extending the period of maturity and converting the entire operation into a line of credit when before it was established only for a 200 million euro section.

In addition two relevant operations were formalized during the period, directed to financing the investment plan projected for 2004-2008:

- Framework collaboration agreement with the European Investment Bank to finance individual projects included in that plan up to maximum 300 million euros, and
- Long term loan of 200 million euros with the Official Credit Institute (ICO), the first disbursement of which made in 2004 in the amount of 20 million euros.

Maintaining an important volume of funds available during the period, both long term as well as short, has also had a positive effect on development of the Group's financial policy, providing an additional guarantee of liquidity in accordance with the levels of flexibility and solvency required by that policy. As a reflection of these elevated levels of solvency and financial strength, Red Eléctrica has maintained the credit ratings granted by Standard & Poor's and Moody's (AA-/A-I+ and A2, respectively), demonstrating the strategic importance and low risk of the principal activities of the Group.

Net debt

Thousand euros	2000	2001	2002	2003	2004	04/03%
SHORT TERM FINANCIAL INVESTMENTS	(24,664)	(22,683)	(29,333)	(11,891)	(9,079)	-23,6
CASH AND BANKS	(15,166)	(542)	(2,243)	(4,174)	(5,656)	35,5
SHORT TERM DEBTS	78,585	162,661	1,167,939	145,457	281,534	93,6
LONG TERM DEBTS	275,619	251,239	371,298	1,784,864	1,655,725	-7,2
Credits and loans	149,301	124,921	244,980	939,788	805,725	-14,3
Emissions	126,318	126,318	126,318	845,076	850,000	0,6
TOTAL NET DEBT	314,374	390,675	1,507,661	1,914,256	1,922,524	0,4

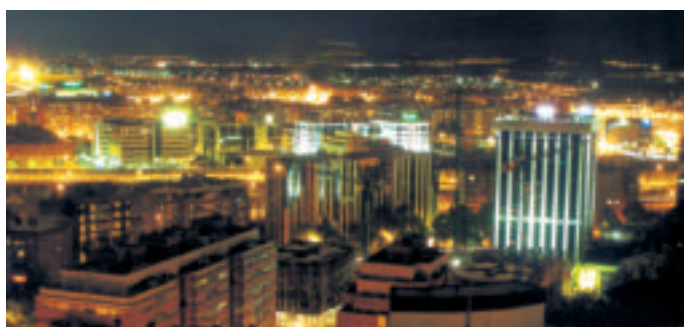
Shareholders Equity

Thousand euros	2000	2001	2002	2003	2004	04/03%
PAID IN CAPITAL	270,540	270,540	270,540	270,540	270,540	-
RESERVES	409,402	437,382	466,223	499,392	536,017	7,3
DIFFERENCES ON CONVERSION	962	1,393	-1,810	-7,996	-11,020	37,8
PROFIT 2004	83,140	91,071	99,858	115,784	132,381	14,3
INTERIM DIVIDEND	-22,877	-24,299	-25,511	-28,621	-32,093	12,1
TOTAL	741,167	776,087	809,300	849,099	895,825	5,5

INVESTMENTS – RED ELÉCTRICA GROUP

Investments made by the Red Eléctrica Group during fiscal 2004 came to 281,194 thousand euros, of which 243,368 thousand euros were dedicated to the mainland transmission grid, representing an increase of 13.0% over the same period the previous year. These investments were:

- 243,368 thousand euros to amplifying and improving the mainland Transmission Grid in Spain.
- 6,624 thousand euros to telecommunications activities.
- 7,256 thousand euros to the TDE transmission grid.
- 23,946 thousand euros to other investments, including activities necessary to develop operation of island and extra-mainland electricity systems.



Red Eléctrica maintains an ambitious investment plan to extend and improve the energy transmission grid

In addition to installations that started up operations, principle projects in progress include:

- Reinforcement of transmission infrastructure in Andalusia and the southeast area of the peninsula to incorporate the new generating grid projected.
- Development of the Northern Axis which will allow an increase in transmission capacity.
- Reinforcement of the northeast area of the peninsula.
- Increase interconnection capacity of the mainland grid with neighbouring countries.

Investments

Thousand euros	2000	2001	2002	2003	2004	04/03%
ACQUISITION OF TRANSMISSION GRIDS IN SPAIN	-	-	815,929	535,177	-	-
INVESTMENTS IN TRANSMISSION GRID IN SPAIN	78,300	129,885	203,396	215,347	243,368	13.0
LINES	47,600	70,971	106,442	77,702	74,233	-4.5
SUBSTATIONS	30,700	58,914	96,954	137,645	169,135	22.9
ACQUISITION OF SHARES IN ALIEN CORPORATIONS	-	-	91,668	-	-	-
INVESTMENT IN EQUIPMENT AND TRANSMISSION GRID	5,621	105,164	39,677	10,751	6,624	-38.4
INVESTMENT IN BOLIVIA	-	-	-	1,956	7,256	271.0
OTHER INVESTMENTS	5,884	9,784	8,040	15,082	23,946	40.5
TOTAL	89,805	244,833	1,158,710	778,313	281,194	-63.9







Our shareholders

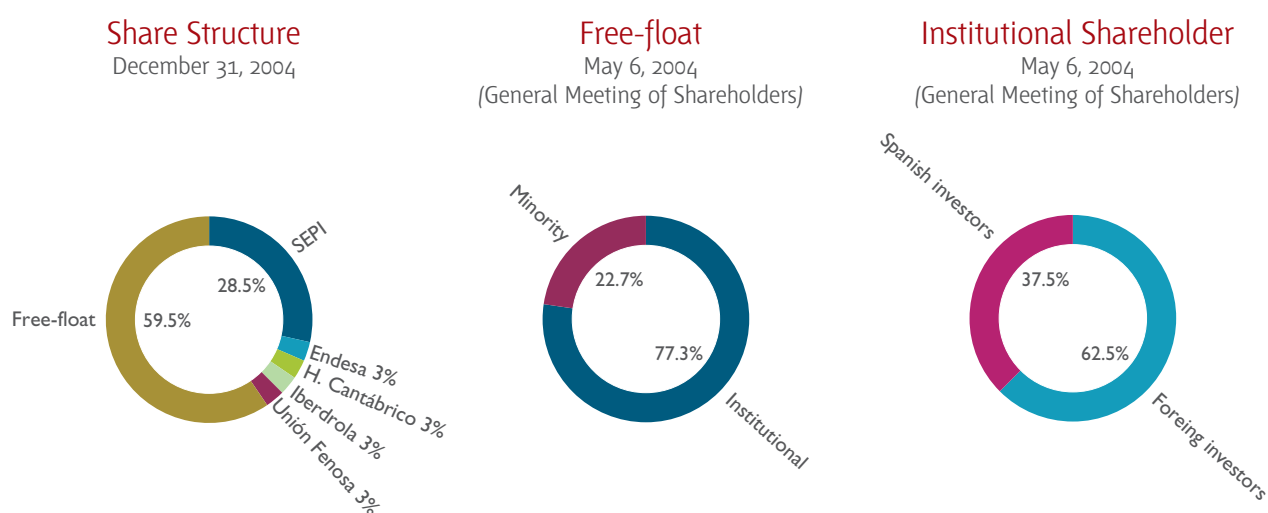
Good growth perspectives for the company and attractive dividend profitability place the quoted value at historic highs

SHAREHOLDERS AND STOCK EXCHANGE INFORMATION

Red Eléctrica capital stock at December 31, 2004, fully subscribed and paid in was 270,540,000 euros, represented by 135,270,000 shares with a face value of 2 euros each. During fiscal 2004 no change occurred affecting the number of shares in circulation or their face value.

The total capital stock of Red Electric is quoted on the four Spanish Stock Exchanges and negotiated in the continuous Spanish market. At the close of fiscal 2004, the weighted value on IBEX-35 was 0.65% and in IBEX-Utilities 1.72%.

Circulating capital is constituted by 80,485,640 shares, of which 22.7% belong to Spanish minority shareholders and 77.3% to institutional investors, located mainly in Spain, the U.K., United States and Luxembourg.



Distribution of capital stock

May 6, 2004 (General Meeting of Shareholders)

BLOCKS OF SHARES	Nº. OF SHARES	%	Nº. OF SHARES	%
FROM 1 TO 1,000	45,709	89.86	9,832,949	7.27
FROM 1,001 TO 5,000	4,207	8.27	7,541,624	5.58
FROM 5,001 TO 25,000	730	1.44	7,062,848	5.22
FROM 25,001 TO 80,000	121	0.24	5,101,700	3.77
OVER 80,000	91	0.18	50,946,529	37.66
MAJOR SHAREHOLDERS	5	0.01	54,784,350	40.50
TOTAL	50,863	100.00	135,270,000	100.00

Number of shares in treasury stock at December 31, 2004 was 184,188, corresponding to 0.14% of total company shares in circulation.

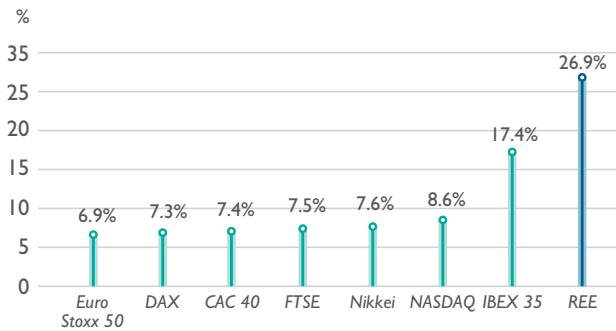
STOCK EXCHANGE MOVEMENT

2004 was the second consecutive year of recovery for the principle world exchanges. Confirmation of the world economic recovery, the absence of intense inflationary pressures despite the rise in oil prices and results of the companies listed, drove the markets.

Principle European markets closed the year with gains surpassing 7%. The IBEX 35 closed with a rise of 17.4%, largest of the main European markets. Gains were more moderate in the U.S., with the Dow Jones rising slightly above 3%.



Movement of the main stock exchange indices – 2004

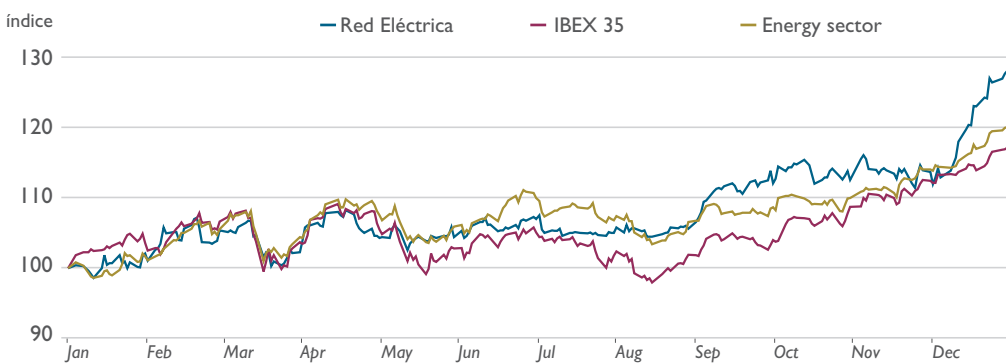


Shares were revalued by 26.9%, greatly surpassing the main stock exchange indicators

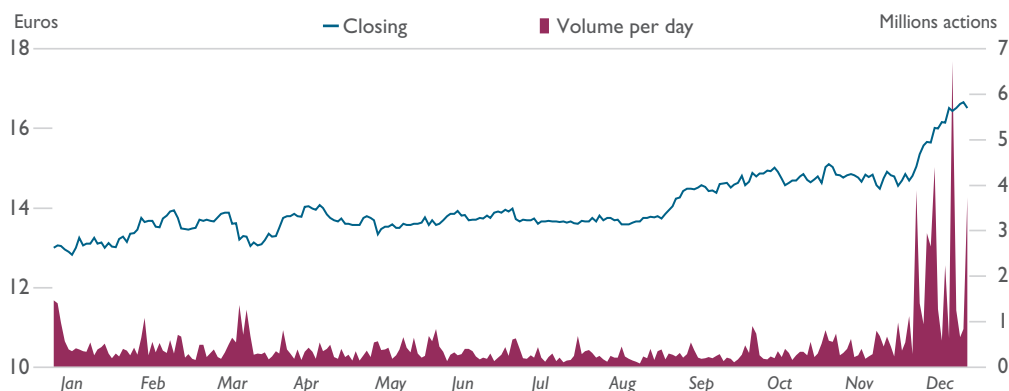
Red Eléctrica, backed by good growth perspectives and dividend profitability, closed at 16.50 euros per share, an increase of 26.9%, greatly surpassing the amount registered by Ibex 35 (17.4%) and the Energy Sector of the Madrid Stock Exchange (8.9%). During the month of December a historic high of 16.75 euros per share was reached, not affecting the price listed by decision of the Technical Advisory Committee to exclude the company from the Ibex 35 beginning January 1, 2005.

The number of actions negotiated during 2004 was 147.5 million, 1.09 times free-float capital, with an effective volume of trading of 2,108.2 million euros.

Comparison: Red Eléctrica – Ibex 35 – Energy Sector



Red Eléctrica Listing and Daily Volume



Share Price per Month

	DAYS QUOTED	MONTHLY MOVEMENTS (EUROS)				VARIATION % MONTHLY	VOLUME TRADED	
		MAX	MIN	MEAN	CLOSING		NO. SHARES	PRICE (EUROS)
JANUARY	20	13.33	12.75	13.04	13.14	-1.1	12,996,004	169,561,475
FEBRUARY	20	13.97	13.15	13.62	13.70	4.3	13,268,365	177,536,539
MARCH	23	13.98	12.91	13.40	13.75	0.4	11,646,984	156,149,383
APRIL	20	14.10	13.50	13.81	13.57	-1.3	6,988,407	96,540,563
MAY	21	13.89	13.25	13.59	13.69	0.9	8,520,030	115,837,589
JUNE	22	14.04	13.53	13.82	13.98	2.1	16,019,344	221,367,618
JULY	22	13.80	13.40	13.64	13.75	-1.6	10,007,006	134,520,803
AUGUST	21	13.93	13.50	13.69	13.93	1.3	6,737,817	92,297,837
SEPTEMBER	22	14.94	13.87	14.43	14.65	5.2	7,994,819	115,196,511
OCTOBER	20	15.20	14.52	14.77	14.63	-0.1	6,849,762	101,166,024
NOVEMBER	21	15.20	14.46	14.80	14.55	-0.5	10,087,845	149,328,243
DECEMBER	19	16.75	14.51	15.89	16.50	13.4	36,376,195	578,665,201
ANNUAL TOTAL	251	16.75	12.75	14.32	16.50	26.9	147,492,578	2,108,167,786

DIVIDENDS

Direct compensation to shareholders in the form of dividends increased by 12% during 2004 over 2003, demonstrating Red Eléctrica's commitment to maximizing value for shareholders.

Gross dividend proposed by the General Meeting of Shareholders for fiscal 2004 was 0.6138 euros per share. A gross interim dividend in the amount of 0.2375 euros per share was paid to shares with rights to dividend, with the complementary gross dividend for fiscal 2004 of 0.3763 euros per share remaining pending distribution.

Dividend per share

	2000	2001	2002	2003	2004
DIVIDEND PER SHARE (IN EUROS)	0.4150	0.4550	0.4800	0.5480	0.6138
— Interim	0.1700	0.1800	0.1900	0.2120	0.2375
— Complementary	0.2450	0.2750	0.2900	0.3360	0.3763
DIVIDEND AS % NET PROFIT	67.4	67.8	67.7	65.0	65.3

Principle Stock Exchange Indicators

	2000	2001	2002	2003	2004
NÚMERO TOTAL DE ACCIONES	135,270,000	135,270,000	135,270,000	135,270,000	135,270,000
NÚMERO DE ACCIONES EN CIRCULACIÓN	42,610,050	42,610,050	42,610,050	80,485,650	80,485,650
NOMINAL DE LA ACCIÓN (EN EUROS)	2	2	2	2	2
CONTRATACIÓN DIARIA (EN TÍTULOS)					
— Máxima	10,635,905	1,075,878	865,787	42,935,482	6,714,657
— Mínima	38,052	53,511	42,618	110,021	104,761
COTIZACIÓN (EN EUROS)					
— Máxima	13.90	11.32	11.95	13.34	16.75
— Mínima	5.37	9.00	7.91	9.54	12.75
— Media	10.44	10.16	10.18	11.29	14.32
— Cierre	10.05	10.45	9.64	13.00	16.50
CAPITALIZACIÓN BURSÁTIL					
AL CIERRE DEL EJERCICIO (EN EUROS)	1,359,463,500	1,413,571,500	1,304,002,800	1,758,510,000	2,231,955,000
BENEFICIO POR ACCIÓN (BPA) (EN EUROS)	0.61	0.67	0.74	0.86	0.98
CASH FLOW NETO POR ACCIÓN (CFPA) (EN EUROS)	1.36	1.44	1.66	2.37	2.58
COTIZACIÓN / BPA (PER) (NÚMERO DE VECES)	16.35	15.52	13.06	15.19	16.86
COTIZACIÓN / CFPA (PCF) (NÚMERO DE VECES)	7.40	7.25	5.80	5.48	6.40
COTIZACIÓN / VALOR CONTABLE POR ACCIÓN (PVC) (NÚMERO DE VECES)	1.83	1.82	1.61	2.07	2.49

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

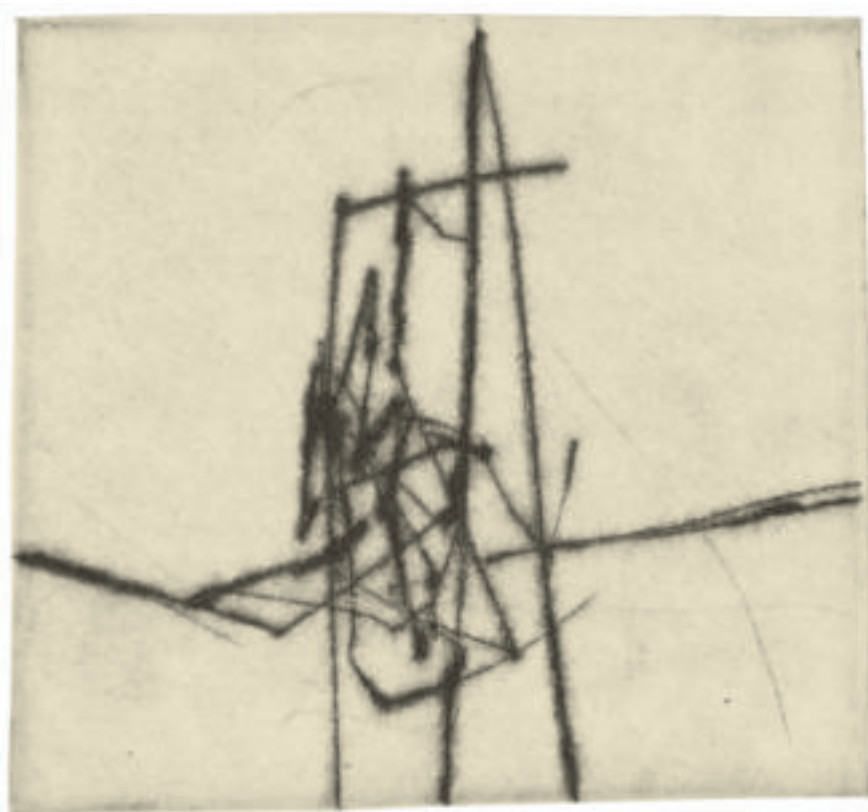
Red Eléctrica maintains an open and constant dialogue with its shareholders, institutional investors and financial analysts, informing them of all results and relevant facts and reporting strategy and future projects of the company.



Our communication with shareholders and investors is transparent, high-quality, timely and with a maximum diffusion of information

During fiscal 2004 the Red Eléctrica management team participated in various presentations and meetings with institutional investors in the principal financial centres of Spain, Europe and the United States. At the same time a fluid and permanent contact was maintained with the financial community and stock exchange analysts.

In addition, questions and requests for information received from our shareholders have been channelled through our Shareholders Office and our web page (www.ree.es).



Legal documentation





Audidores

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Consolidated Annual Accounts

(Translation from the original in Spanish)

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

We have audited the consolidated annual accounts of Red Eléctrica de España, S.A. (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheets at 31 December 2004 and 2003, the related consolidated statements of profit and loss for the years then ended and the consolidated notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit, which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In our opinion, these consolidated annual accounts present fairly, in all material respects, the consolidated shareholders' equity and financial position of Red Eléctrica de España, S.A. and subsidiaries at 31 December 2004 and 2003 and the consolidated results of their operations and source and application of funds for the years then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain applied on a consistent basis.

The accompanying consolidated directors' report for 2004, contains such explanations as the directors of the Company consider relevant to the situation of the Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2004. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Red Eléctrica de España, S.A. and its subsidiaries.

KPMG AUDITORES, S.L.



Julian Martín Blasco

14 March 2005



KPMG Auditores S.L.
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KPMG International, Sociedad Suiza

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Jurados de Cuentas con el nº 10.
Pag. Mar. Madrid, 7, 11 301, P. 04, Dep. B. H. M-198.007. Inscrp. 1.ª
N.I.F. B-78910102

CONSOLIDATED ANNUAL ACCOUNTS 2004

<i>Consolidated Financial Statements</i>	66
<i>Notes to the Consolidated Annual Accounts</i>	70
<i>Consolidated Directors' Report 2004</i>	113
<i>Individual Financial Statements</i>	120
<i>Proposed Distribution of Profits</i>	125

RED ELÉCTRICA GROUP

Consolidated Balance Sheet at 31 December 2004

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

Assets	2004	2003
ESTABLISHMENT COSTS (NOTE 5)	-	1,152
INTANGIBLE ASSETS (NOTE 6)	12,287	10,780
RESEARCH AND DEVELOPMENT EXPENSES	19,762	20,970
SOFTWARE	22,777	17,738
AMORTISATION	(30,252)	(27,928)
TANGIBLE ASSETS (NOTE 7)	3,084,243	3,018,615
LAND AND BUILDINGS	45,629	46,129
ELECTRICAL ENERGY PLANT AND MACHINERY	4,349,140	4,130,172
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	159,711	148,438
ELECTRICAL ENERGY PLANT AND MACHINERY UNDER CONSTRUCTION	195,646	176,218
ADVANCES AND TANGIBLE ASSETS UNDER CONSTRUCTION	54,491	41,686
PROVISIONS	(31,262)	(26,837)
DEPRECIATION OF ELECTRICAL ENERGY PLANT AND MACHINERY	(1,597,034)	(1,423,890)
OTHER DEPRECIATION	(92,078)	(73,301)
INVESTMENTS (NOTE 8)	46,401	43,809
INVESTMENTS IN EQUITY-ACCOUNTED COMPANIES	8,170	8,640
LONG-TERM LOANS TO EQUITY ACCOUNTED AND ASSOCIATED COMPANIES (NOTE 24)	14,867	12,900
OTHER LOANS	2,376	3,173
LONG-TERM GUARANTEE DEPOSITS	514	639
LONG-TERM BALANCES RECOVERABLE FROM PUBLIC ENTITIES	20,474	18,457
PARENT COMPANY SHARES (NOTE 12)	1,218	1,551
LONG-TERM DEBTORS (NOTE 9)	4,198	4,292
TOTAL FIXED ASSETS	3,148,347	3,080,199
GOODWILL ON CONSOLIDATION (NOTE 10)	15,712	17,807
DEFERRED EXPENSES (NOTE 11)	43,106	54,286
STOCKS	28,037	18,459
RAW MATERIALS AND OTHER SUPPLIES	33,152	21,807
PROVISIONS	(5,115)	(3,348)
DEBTORS (NOTE 9)	243,957	210,229
TRADE DEBTORS	28,821	32,589
EQUITY-ACCOUNTED COMPANIES (NOTE 24)	36,655	66
SUNDRY DEBTORS	171,238	155,424
PERSONNEL	1,075	4,367
PUBLIC ENTITIES	6,434	18,905
PROVISIONS	(266)	(1,122)
SHORT-TERM INVESTMENTS (NOTE 8)	9,079	11,891
SHORT-TERM INVESTMENT PORTFOLIO	7,835	10,692
LOANS TO EQUITY-ACCOUNTED AND ASSOCIATED COMPANIES (NOTE 24)	31	27
OTHER LOANS	1,213	1,172
CASH IN HAND AND AT BANKS	5,656	4,174
PREPAYMENTS (NOTE 22)	4,080	2,890
TOTAL CURRENT ASSETS	290,809	247,643
TOTAL ASSETS	3,497,974	3,399,935

Shareholders' equity and liabilities	2004	2003
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
OTHER PARENT COMPANY RESERVES	337,195	279,846
LEGAL RESERVE	54,199	54,199
OTHER RESERVES	282,996	225,647
RESERVES IN FULLY CONSOLIDATED COMPANIES	(47,905)	(28,781)
RESERVES IN EQUITY ACCOUNTED COMPANIES	(295)	1,305
CONVERSION DIFFERENCES	(11,020)	(7,996)
CONVERSION DIFFERENCES IN FULLY CONSOLIDATED COMPANIES	(9,553)	(6,965)
CONVERSION DIFFERENCES IN EQUITY ACCOUNTED COMPANIES	(1,467)	(1,031)
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	132,381	115,784
CONSOLIDATED PROFIT	132,388	115,789
LOSSES ATTRIBUTABLE TO MINORITY INTERESTS	(7)	(5)
INTERIM DIVIDEND (NOTE 4)	(32,093)	(28,621)
TOTAL SHAREHOLDERS' EQUITY (NOTE 12)	895,825	849,099
MINORITY INTERESTS	55	55
CAPITAL GRANTS	85,381	81,011
EXCHANGE GAINS	2,707	2,357
OTHER DEFERRED INCOME	167,137	153,198
TOTAL DEFERRED INCOME (NOTE 13)	255,225	236,566
PROVISIONS FOR PENSIONS AND OTHER LIABILITIES	23,596	15,124
PROVISIONS FOR TAXES	398	484
OTHER PROVISIONS	29,931	27,811
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (NOTE 14)	53,925	43,419
BONDS ISSUED (NOTE 15)	850,000	845,076
BANK LOANS (NOTE 16)	805,725	939,788
OTHER CREDITORS (NOTE 17)	48,295	42,664
UNCALLED SHARE PAYMENTS (NOTE 8)	-	400
TOTAL LONG-TERM CREDITORS	1,704,020	1,827,928
BONDS AND OTHER MARKETABLE SECURITIES ISSUED (NOTE 18)	58,018	62,670
NON-CONVERTIBLE BONDS	45,076	50,890
INTEREST PAYABLE	12,942	11,780
BANK LOANS (NOTE 19)	243,414	101,884
LOANS AND OTHER DEBT	236,458	94,566
INTEREST PAYABLE	6,956	7,318
SHORT-TERM DEBT WITH EQUITY ACCOUNTED AND ASSOCIATED COMPANIES (NOTE 24)	1	11
EQUITY-ACCOUNTED AND ASSOCIATED COMPANIES	1	11
TRADE CREDITORS (NOTE 20)	81,137	69,262
FOR PURCHASE AND SERVICES RECEIVED	81,137	69,262
OTHER CREDITORS (NOTE 21)	181,706	173,730
PUBLIC ENTITIES	28,748	29,950
OTHER	150,779	141,271
SHORT-TERM GUARANTEE DEPOSITS RECEIVED	2,179	2,509
ACCRUALS (NOTE 22)	24,648	35,311
TOTAL CURRENT LIABILITIES	588,924	442,868
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3,497,974	3,399,935

RED ELÉCTRICA GROUP

Consolidated Statement of Profit and Loss for the year ended 31 december 2004
(Expressed in thousands of Euros) (Translation from the original in Spanish)

Expenses	2004	2003
EXPENSES		
MATERIALS CONSUMED	214,927	239,038
PURCHASES OF ENERGY AND POWER	194,981	220,584
MAINTENANCE AND REPAIR MATERIALS	19,946	18,454
PERSONNEL EXPENSES (NOTE 24)	77,566	66,854
WAGES AND SALARIES	55,428	50,785
SOCIAL SECURITY	12,063	11,435
PENSIONS AND SIMILAR OBLIGATIONS	908	895
OTHER SOCIAL CHARGES	9,167	3,739
AMORTISATION AND DEPRECIATION (NOTES 5, 6 AND 7)	204,546	195,497
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	1,733	(2,057)
CHANGE IN PROVISION FOR STOCKS	1,767	(1,171)
CHANGE IN PROVISION FOR BAD DEBTS	(34)	(886)
OTHER OPERATING EXPENSES (NOTE 24)	202,244	176,873
EXTERNAL SERVICES	189,957	165,089
LOCAL TAXES	3,491	3,760
OTHER OPERATING EXPENSES	1,516	2,230
PROVISION FOR LIABILITIES AND CHARGES	7,280	5,794
TOTAL OPERATING EXPENSES	701,016	676,205
OPERATING PROFIT	278,080	250,001
FINANCIAL AND SIMILAR EXPENSES	80,761	74,774
ON DEBT WITH THIRD PARTIES	80,761	74,774
EXCHANGE LOSSES	179	240
TOTAL FINANCIAL EXPENSES	80,940	75,014
LOSSES ON EQUITY ACCOUNTED COMPANIES	-	1,966
AMORTISATION OF GOODWILL ON CONSOLIDATION (NOTE 10)	2,095	2,095
PROFIT ON ORDINARY ACTIVITIES	199,111	174,975
CHANGES IN PROVISIONS FOR FIXED ASSETS	4,691	2,973
LOSSES ON TANGIBLE ASSETS	267	382
LOSSES ON OWN SHARE OPERATIONS (NOTE 12)	1	-
EXTRAORDINARY EXPENSES	2,177	3,970
PRIOR YEARS' EXPENSES AND LOSSES	2,671	525
TOTAL EXTRAORDINARY EXPENSES (NOTE 24)	9,807	7,850
NET EXTRAORDINARY INCOME	-	1,151
CONSOLIDATED PROFIT BEFORE INCOME TAX	198,254	176,126
INCOME TAX (NOTE 23)	65,270	60,153
TAXES OTHER THAN INCOME	596	184
CONSOLIDATED PROFIT FOR THE YEAR	132,388	115,789
PROFIT ATTRIBUTABLE TO MINORITY INTERESTS	7	5
PROFIT ATTRIBUTABLE TO PARENT COMPANY	132,381	115,784

Income	2004	2003
INCOME		
NET SALES (NOTE 24)	961,192	907,316
SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	675,289	612,366
OTHER SERVICE INCOME	84,568	68,832
SALES OF ENERGY AND POWER	201,335	226,118
SELF-CONSTRUCTED ASSETS	14,163	11,321
OTHER OPERATING INCOME	3,741	7,569
OTHER INCOME	2,418	1,511
GRANTS	222	984
SURPLUS PROVISION FOR LIABILITIES AND CHARGES	1,101	5,074
TOTAL OPERATING INCOME	979,096	926,206
INVESTMENT INCOME	1,989	1,759
EQUITY ACCOUNTED AND ASSOCIATED COMPANIES (NOTE 24)	1,989	1,708
NON-GROUP COMPANIES	-	51
OTHER INTEREST AND SIMILAR INCOME	784	1,665
EXCHANGE GAINS	568	262
TOTAL FINANCIAL INCOME	3,341	3,686
NET FINANCIAL EXPENSE	77,599	71,328
PROFIT FROM EQUITY ACCOUNTED COMPANIES	725	363
PROFIT ON TANGIBLE ASSETS	466	120
PROFIT ON OWN SHARE OPERATIONS (NOTE 12)	1,159	1,447
CAPITAL GRANTS TAKEN TO INCOME	4,410	3,965
EXTRAORDINARY INCOME	2,099	2,625
PRIOR YEARS' PROFIT AND INCOME	816	844
TOTAL EXTRAORDINARY INCOME (NOTE 24)	8,950	9,001
NET EXTRAORDINARY EXPENSE	857	-

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS 2004

[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.

Through its electrical energy transmission activity, the Parent company owns most of the mainland transmission network in Spain and is therefore one of the principal international electrical energy transmission operators.

This position has been consolidated by the transmission assets acquired from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A in 2003 and the 25% interest in the share capital of Red de Alta Tensión, S.A. (REDALTA), the sole shareholder of Infraestructuras de Alta Tensión, S.A. Unipersonal (INALTA), which, in turn, owns the transmission assets acquired from Iberdrola Distribución Eléctrica, S.A. Unipersonal, and Iberdrola, S.A. (notes 8 and 31).

In its system operation activity, the Parent company guarantees the continuity and security of the power supply and correct coordination of the production and transmission system.

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 preventing access to the grid when capacity is insufficient.

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

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

Accordingly, and as approved by the National Energy Commission, in 2000 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., mainly to operators and wholesalers.

Red Eléctrica Internacional, S.A. and subsidiaries 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 attracting funds, performing financial transactions and rendering services to Group companies.

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 2004 and 2003. 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 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 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 net 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) c) Comparison of information

In 2004 there have been changes to the consolidated group compared to 2003, as Nap de las Américas-Madrid, S.A. is no longer part of the consolidated group. This company was incorporated on 30 May 2002 and its registered offices are at Plaza de la Independencia, 1 (Madrid). Its statutory activity consists of internet connection services, the supply of internet infrastructures, and management of services through a neutral network access point.

As a result of this company no longer being consolidated, consolidated profit for 2004 shown in the financial statements of the Red Eléctrica Group has been reduced by Euros 62 thousand for 2004 compared to 2003.

[3] LEGISLATION

a) National

The legal framework for the electricity sector is contained in the Electricity Act (Law 54 of 27 November 1997). 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. The Electricity Act deregulates intra-EU and international electrical energy exchanges, which may be carried out freely by the agents defined in this legislation.

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 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.

- 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.
- Directive 2003/54/CE on common legislation for the internal electricity market in European Union countries establishes legislation relating to the organisation and operation of the electricity sector. Development of legislation in Spain is pending completion.
- Royal Decree 2392 of 30 December 2004 which establishes income on transmission activity for 2005 has recognised that remuneration of transmission installations should take place from the time of their entry into service.

Regulations governing the telecommunications sector were introduced at the end of 2004 to develop the precepts of the General Law for the sector enacted at the end of 2003. These included vital issues such as the telecommunications markets, the operators with significant power in the market, access to telecommunications networks and the resources associated to that access, interconnection of the different networks and numeration.

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 the Parent company's profits and dividends which the Board of Directors agreed to distribute on account of the 2004 profit are detailed below:

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 2004 be distributed as follows:

Basis of distribution	Thousands of Euros
PROFIT FOR THE YEAR	127,235
TOTAL	127,235
Distribution	
TO VOLUNTARY RESERVES	44,240
TO DIVIDENDS:	
INTERIM DIVIDEND	32,093
SUPPLEMENTARY DIVIDEND	50,902
TOTAL	127,235

b) Parent company interim dividend

At the board meeting held on 25 November 2004 the directors agreed to distribute an interim dividend of Euros 0.2375 per share on account of 2004 profits, payable as of 3 January 2005. 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 2004 to 3 January 2005, liquidity was sufficient to distribute this dividend. In accordance with the requirements of article 216 (a) of the Spanish Companies Act, the following forecast cash flow statement was prepared:

	Thousands of Euros
Funds available at 31.10.2004	
SHORT-TERM LOANS	282,593
LONG-TERM LOANS	350,000
CASH IN HAND AND AT BANKS	804
Forecast collections	
ORDINARY ACTIVITIES	160,857
FINANCIAL OPERATIONS	20,000
Forecast payments	
ORDINARY ACTIVITIES	(153,681)
FINANCIAL OPERATIONS	(37,724)
FORECAST FUNDS AT 03.01.2005	622,849

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 forecast at the date of the distribution, the profit generated in 2004 has permitted payment of this interim dividend.

The distribution of profit for the year ended 31 December 2003, carried out in 2004, 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 2004 and 2003 amount to Euros 1,152 thousand and Euros 571 thousand, respectively.

b) Intangible assets

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

In 2004 and 2003 the Parent company capitalised expenses of Euros 497 thousand and Euros 452 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 2004 and 2003 the Parent company capitalised Euros 8,256 thousand and Euros 7,260 thousand in this regard, respectively.
- Financial costs on external financing. In 2004 and 2003 the Parent company capitalised Euros 5,410 thousand and Euros 3,609 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.

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 (INCLUDING TELECOMMUNICATIONS 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 net book value of the corresponding Group shareholding. Net profit obtained each year from these companies is reflected under "Share in profits/losses of equity accounted companies".

e) 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 cost of acquisition, representing the total amount paid, and market value.

Market value is determined as the lower 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 quota-

tion during the last quarter are recorded under changes in provision for fixed assets and own shares considered as extraordinary expenses (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 (note 12).

Reversals of recorded negative differences as a result of subsequent adjustments in value or sales of own shares are expensed or charged against reserves, depending on where 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, 16, 18 and 19).

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, 15 and 18).

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. has filed 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).

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

o) Provisions for liabilities and charges

The Group's policy is to record provisions to cover the estimated amount of probable or known and quantifiable liabilities and charges, arising from the Company's obligations. Provisions are booked when the liability arises (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 2004 and 2003 and movement during the years then ended are as follows:

Details of Movement in Intangible Assets at 31 December 2004 and 2003 · (Expressed in thousands of Euros) (Translation from the original in Spanish)

	31 December 2002	Additions	Changes in exchange rates
Cost			
RESEARCH AND DEVELOPMENT EXPENSES	20,752	691	(329)
SOFTWARE	11,020	5,098	(261)
ADVANCES ON INTANGIBLE ASSETS	2,767	-	-
TOTAL COST	34,539	5,789	(590)
Accumulated amortisation			
RESEARCH AND DEVELOPMENT EXPENSES	(17,927)	(1,174)	290
SOFTWARE	(7,216)	(2,106)	122
TOTAL ACCUMULATED AMORTISATION	(25,143)	(3,280)	412
NET BOOK VALUE	9,396	2,509	(178)

[7] TANGIBLE ASSETS

Tangible assets at 31 December 2004 and 2003 and movement during the years then ended are as follows:

Details of Movement in Tangible Assets at 31 December 2004 and 2003 · (Expressed in thousands of Euros) (Translation from the original in Spanish)

	31 December 2002	Additions	Changes in exchange rates
Cost			
LAND AND BUILDINGS	46,992	221	(1,475)
ELECTRICAL ENERGY PLANT AND MACHINERY	2,651,678	555,834	(31,871)
OTHER INSTALLATIONS, MACHINERY EQUIPMENT, FURNITURE AND OTHER ASSETS	132,875	2,926	(1,764)
ELECTRICAL ENERGY PLANT AND MACHINERY UNDER CONSTRUCTION	152,651	170,436	(218)
ADVANCES AND TANGIBLE ASSETS UNDER CONSTRUCTION	827,639	41,496	-
TOTAL COSTE	3,811,835	770,913	(35,328)
Accumulated depreciation			
BUILDINGS	(9,070)	(886)	431
ELECTRICAL ENERGY PLANT AND MACHINERY	(1,264,535)	(175,168)	15,197
OTHER INSTALLATIONS, MACHINERY EQUIPMENT, FURNITURE AND OTHER ASSETS	(49,308)	(15,592)	308
TOTAL ACCUMULATED DEPRECIATION	(1,322,913)	(191,646)	15,936
PROVISION FOR DECLINE IN VALUE	(25,354)	(3,697)	394
NET BOOK VALUE	2,463,568	575,570	(18,998)

Disposals	Transfers	31 December 2003	Additions	Changes in exchange rates	Disposals	Transfers	31 December 2004
(144)	-	20,970	497	-	(1,705)	-	19,762
(422)	2,303	17,738	5,114	(75)	-	-	22,777
(464)	(2,303)	-	-	-	-	-	-
(1,030)	-	38,708	5,611	(75)	(1,705)	-	42,539
-	-	(18,811)	(842)	-	1,519	-	(18,134)
83	-	(9,117)	(3,070)	69	-	-	(12,118)
83	-	(27,928)	(3,912)	69	1,519	-	(30,252)
(947)	-	10,780	1,699	(6)	(186)	-	12,287

Disposals	Transfers	31 December 2003	Additions	Changes in exchange rates	Disposals	Transfers	31 December 2004
(3)	394	46,129	-	(540)	(25)	65	45,629
(1,544)	956,075	4,130,172	15,934	(11,675)	(926)	215,635	4,349,140
(2,449)	16,850	148,438	14,380	(154)	(548)	(2,405)	159,711
-	(146,651)	176,218	227,110	(80)	-	(207,602)	195,646
(781)	(826,668)	41,686	18,498	-	-	(5,693)	54,491
(4,777)	-	4,542,643	275,922	(12,449)	(1,499)	-	4,804,617
2	-	(9,523)	(856)	176	-	-	(10,203)
1,282	(666)	(1,423,890)	(180,352)	5,957	791	(460)	(1,597,034)
148	666	(63,778)	(18,274)	114	523	(460)	(81,875)
1,432	-	(1,497,191)	(199,482)	6,247	1,314	-	(1,689,112)
1,820	-	(26,837)	(4,804)	27	352	-	(31,262)
(1,525)	-	3,018,615	71,636	(6,175)	167	-	3,084,243

In 2004 transfers to electrical energy plant and machinery comprise Euros 210,337 thousand from the Parent company corresponding to lines, substations and communication and control systems (in 2003, Euros 154,386 thousand, in respect of lines, substations and communication and control systems, and Euros 801,000, the advance paid for acquisition of assets from Endesa Distribución Eléctrica, S.L. and Unión Fenosa Distribución, S.A. by the Parent company).

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. by the Parent company.

[8] INVESTMENTS

a) Investments

Investments at 31 December 2004 and 2003 and movement during the years then ended are as follows:

Details of Movement in Investments at 31 December 2004 and 2003 · (Expressed in thousands of Euros)
(Translation from the original in Spanish)

	31 December 2002	Additions	Equity accounted companies
EQUITY ACCOUNTED COMPANIES			
REDESUR, REDINSUR Y TENEDORA DE ACCIONES DE REDESUR, S.A.	7,543	-	(1,487)
NAP DE LAS AMÉRICAS-MADRID, S.A.	637	-	175
REDALTA E INALTA	-	-	(1,960)
	8,180	-	(3,272)
OTHER INVESTMENTS			
REDALTA	3,732	-	-
LONG-TERM LOANS TO EQUITY-ACCOUNTED AND ASSOCIATED COMPANIES			
REDALTA	11,197	1,703	-
OTHER LOANS	4,235	41	-
LONG-TERM GUARANTEE DEPOSITS	601	379	-
LONG-TERM BALANCES PAYABLE TO PUBLIC ENTITIES	12,572	8,358	-
UNCALLED SHARE PAYMENTS			
NAP DE LAS AMÉRICAS-MADRID, S.A.	(400)	-	-
REDALTA	(3,732)	-	-
	(4,132)	-	-

Investments in equity accounted companies comprise shareholdings in REDESUR and REDINSUR, held either directly or indirectly through Tenedora de Acciones de Redesur, S.A., as well as direct or indirect shareholdings in REDALTA and INALTA (note 31).

In 2004 Red Eléctrica Telecomunicaciones, S.A. sold its shareholding in Nap de las Américas-Madrid, S.A. for Euros 525 thousand. The purchasing company also assumed the Euros 400 thousand uncalled share payments.

At 31 December 2004 and 2003 long-term loans to associated companies comprise the partial subrogation by the Parent company of 25% of the participating loan extended to REDALTA by its majority shareholder, Grid Industries, S.A. The variations in this caption reflect capitalisation of interest in 2004 and 2003.

Other long-term loans have mainly been made to Parent company personnel and earn interest at variable rates linked to Euribor plus a market spread.

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 2004 incurred by the Parent company amounts to Euros 22,470 thousand (Euros 22,514 thousand in 2003). At 31 December 2004 the revaluation of tangible assets, net of depreciation, amounts to Euros 72,399 thousand (Euros 94,870 thousand in 2003).

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

Disposals	Transfers and conversion differences	31 December 2003	Additions	Equity accounted companies	Disposals	Transfers and conversion differences	31 December 2004
-	-	6,056	-	159	-	-	6,215
-	-	812	-	-	(812)	-	-
-	3,732	1,772	-	183	-	-	1,955
-	3,732	8,640	-	342	(812)	-	8,170
-	(3,732)	-	-	-	-	-	-
-	-	12,900	1,967	-	-	-	14,867
(11)	(1,092)	3,173	39	-	-	(836)	2,376
(341)	-	639	92	-	(217)	-	514
-	(2,473)	18,457	4,221	-	(14)	(2,190)	20,474
-	-	(400)	-	-	400	-	-
3,732	-	-	-	-	-	-	-
3,732	-	(400)	-	-	400	-	-

Long-term balances with public entities reflect deferred tax assets of the Parent company (note 23).

b) Short-term investments

At 31 December 2004 and 2003 short-term investments mainly include placements of cash surpluses by Group companies.

At 31 December 2004 and 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.

[9] DEBTORS

Details of debtors at 31 December are as follows:

	Thousands of Euros	
	2004	2003
LONG TERM DEBTORS	4,198	4,292
TOTAL (LONG TERM)	4,198	4,292
TRADE DEBTORS	28,821	32,589
EQUITY-ACCOUNTED COMPANIES (NOTE 24)	36,655	66
SUNDRY DEBTORS	171,238	155,424
PERSONNEL	1,075	4,367
PUBLIC ENTITIES:		
VAT RECOVERABLE	2,590	16,238
OTHER TAXES	881	156
DEFERRED TAX ASSETS (NOTE 23)	2,963	2,511
PROVISION FOR BAD DEBTS	(266)	(1,122)
TOTAL (SHORT TERM)	243,957	210,229

At 31 December 2004 and 2003 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.

At 31 December 2004 and 2003 sundry debtors mainly comprise income unbilled and/or receivable from the Parent company from transmission and system operation activities carried out. This caption also includes advances to suppliers and trade debtors, mainly in respect of consultancy services, maintenance and engineering and construction work for third parties.

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

[10] GOODWILL ON CONSOLIDATION

At 31 December 2004 and 2003 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 2004 and 2003 amounts to Euros 2,095 thousand in both years.

[11] DEFERRED EXPENSES

Details of short-term loans at 31 December are as follows:

	Thousands of Euros	
	2004	2003
LOAN ARRANGEMENT EXPENSES	2,971	3,178
DEFERRED EXPENSES FOR MARKETABLE SECURITIES	-	621
OTHER DEFERRED EXPENSES	40,135	50,487
	43,106	54,286

At 31 December 2004 and 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 2004 and 2003 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 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 Unión Fenosa Distribución, S.A.

[12] SHAREHOLDERS' EQUITY

Details of movement in shareholders' equity during 2004 and 2003 are as follows:

Movement in Consolidated Shareholders' Equity at 31 December 2004 and 2003 · (Expressed in thousands of Euros)
(Translation from the original in Spanish)

	Share capital	Revaluation reserve	Legal reserve
BALANCES AT 31 DECEMBER 2002	270,540	247,022	54,199
DISTRIBUTION OF 2002 PROFIT:			
DIVIDENDS	-	-	-
VOLUNTARY RESERVES	-	-	-
OTHER RESERVES	-	-	-
NET MOVEMENT IN OWN SHARE RESERVE	-	-	-
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	-	-	-
CONVERSION DIFFERENCES	-	-	-
PROFIT FOR 2003	-	-	-
INTERIM DIVIDEND	-	-	-
OTHERS	-	-	-
BALANCES AT 31 DECEMBER 2003	270,540	247,022	54,199
DISTRIBUTION OF 2003 PROFIT:			
DIVIDENDS	-	-	-
VOLUNTARY RESERVES	-	-	-
OTHER RESERVES	-	-	-
NET MOVEMENT IN OWN SHARE RESERVE	-	-	-
TRANSFER OF ACCELERATED DEPRECIATION RESERVE	-	-	-
CONVERSION DIFFERENCES	-	-	-
PROFIT FOR THE YEAR	-	-	-
INTERIM DIVIDEND	-	-	-
OTHERS	-	-	-
BALANCES AT 31 DECEMBER 2004	270,540	247,022	54,199

a) Share capital

At 31 December 2004 and 2003 the share capital of the Parent company comprises 135,270,000 bearer shares of Euros 2 par value each. These shares have been fully subscribed and paid, and have the same voting and profit sharing rights. The Parent company's shares have been listed on the four Spanish stock exchanges since 7 July 1999, after the public offer for their sale.

In 2003 Iberdrola, S.A., Unión Fenosa Distribución, S.A., Hidroeléctrica del Cantábrico, S.A. and Endesa, S.A. have 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 shares may not be syndicated.

At 31 December 2004 SEPI holds a significant interest in the Parent company (28.5% of share capital). The maximum limits for shareholdings, established in Law 53 of 2002, are not applicable to SEPI, which in compliance of this law held an interest of at least 25% in the share capital of the Company until 31 December 2003, after which it was required to reduce its interest to a minimum of 10%.

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 Parent company	Interim dividend	Total
177,235	(13,911)	1,678	(1,948)	138	99,858	(25,511)	809,300
-	-	-	-	-	(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)
225,647	(28,781)	1,305	(6,965)	(1,031)	115,784	(28,621)	849,099
-	-	-	-	-	(74,072)	28,621	(45,451)
39,979	-	-	-	-	(39,979)	-	-
22,342	(19,006)	(1,603)	-	-	(1,733)	-	-
(230)	-	-	-	-	-	-	(230)
(4,816)	-	-	-	-	-	-	(4,816)
-	-	-	(2,588)	(436)	-	-	(3,024)
-	-	-	-	-	132,381	-	132,381
-	-	-	-	-	-	(32,093)	(32,093)
74	(118)	3	-	-	-	-	(41)
282,996	(47,905)	(295)	(9,553)	(1,467)	132,381	(32,093)	895,825

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 off-set 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 2004 and 2003 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 264,254 thousand and Euros 201,756 thousand at 31 December 2004 and 2003, respectively) comprise the Parent company's voluntary reserve and consolidation adjustments to the reserves of the Parent company to eliminate 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 2004 this reserve totals Euros 8,944 thousand (Euros 13,760 thousand at 31 December 2003). 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.

Until 31 December 2003, each year the Parent company debited this reserve and credited extraordinary income in an amount equal to the annual depreciation charge based on the useful lives of the assets subject to accelerated depreciation. At 31 December 2004 this reserve is presented net of tax, considering a rate of 35%, having generated deferred tax of Euros 4,595 thousand (at 31 December 2003 the tax deferred was estimated at Euros 4,816 thousand) (note 23).

- Reserve for redeemed capital

This Parent company reserve (Euros 271 thousand at 31 December 2004 and 2003) 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 account (Euros 185 thousand at 31 December 2004 and 2003) 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 2004 and 2003, 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 2004 and 2003 has been as follows:

	Thousands of Euros	
	2004	2003
BALANCE AT 1 JANUARY	1,551	9,029
ADDITIONS	49,022	29,532
DISPOSALS	(49,125)	(36,488)
(ALLOWANCE)/REVERSAL OF PROVISION	(230)	(522)
BALANCE AT 31 DECEMBER	1,218	1,551

At 31 December 2004 the own shares held by the Parent company represent 0.14% of the share capital and amount to 184,188 ordinary shares with a total par value of Euros 386 thousand (246,832 shares, representing 0.18% of the share capital, with a total par value of Euros 494 thousand at 31 December 2003). 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 2004 the Parent company has set up the required restricted reserve for own shares with a charge to voluntary reserves, which amounts to Euros 1,218 thousand, equivalent to the own shares in the portfolio at that date (Euros 1,551 thousand at 31 December 2003).

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 2004 operations with the Parent company's own shares have generated profits of Euros 1,159 thousand and losses of Euros 1 thousand (profits of Euros 1,447 thousand in 2003), 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 2004 and 2003 is as follows:

	Thousands of Euros						
	31 Dec. 2002	Transfers to profit/loss	Others	31 Dec. 2003	Transfers to profit/loss	Others	31 Dec. 2004
- FULLY CONSOLIDATED							
RED ELÉCTRICA TELECOMUNICACIONES, S.A.	(13,046)	(20,117)	474	(32,689)	(19,843)	(474)	(53,006)
RED ELÉCTRICA INTERNACIONAL, S.A.	(865)	1,640	1,278	2,053	(4,877)	2,867	43
RED ELÉCTRICA DE ESPAÑA FINANCE, B.V.	-	-	-	-	175	-	175
TDE	-	2,904	(1,050)	1,854	4,797	(1,768)	4,883
CYBERCIA, S.R.L.	-	2	(1)	1	3	(4)	-
	(13,911)	(15,571)	701	(28,781)	(19,745)	621	(47,905)
- EQUITY ACCOUNTED							
REDESUR	1,678	610	(504)	1,784	185	(405)	1,564
REDINSUR	-	(5)	-	(5)	(3)	-	(8)
NAP DE LAS AMÉRICAS, S.A.	-	(474)	-	(474)	175	299	-
TENEDORA DE ACCIONES DE REDESUR, S.A.	-	-	-	-	(129)	238	109
REDALTA	-	-	-	-	(1,960)	212	(1,748)
INALTA	-	-	-	-	(212)	-	(212)
	1,678	131	(504)	1,305	(1,944)	344	(295)

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 2004 and 2003 are as follows:

	Thousands of Euros	
	2004	2003
- FULLY CONSOLIDATED		
TDE Y CYBERCIA	(9,553)	(6,965)
- EQUITY ACCOUNTED		
REDESUR Y REDINSUR	(1,467)	(1,031)
	(11,020)	(7,996)

g) Contribution to consolidated profits

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

	Thousands of Euros	
	2004	2003
RED ELÉCTRICA DE ESPAÑA, S.A	127,235	114,051
RED ELÉCTRICA TELECOMUNICACIONES, S.A.	(25,938)	(19,843)
RED ELÉCTRICA INTERNACIONAL, S.A.	(1,047)	(4,877)
REDESUR	541	185
REDINSUR	5	(3)
TENEDORA DE ACCIONES DE REDESUR, S.A.	12	(129)
NAP DE LAS AMÉRICAS-MADRID, S.A.	-	175
TDE	4,582	4,797
CYBERCIA, S.R.L.	8	7
REDALTA	(1,089)	(1,960)
INALTA	1,272	(212)
RED ELÉCTRICA DE ESPAÑA FINANCE, B.V.	511	175
CONSOLIDATION ADJUSTMENTS	26,289	23,418
	132,381	115,78

Details of Movement in Provisions for Liabilities and Charges at 31 December 2004 and 2003 (Expressed in thousands of Euros) (Translation from the original in Spanish)

PROVISIONS FOR PENSIONS AND OTHER COMMITMENTS

PROVISION FOR TAXES

OTHER PROVISIONS

TOTAL PROVISIONS FOR LIABILITIES AND CHARGES

The provision for pensions and other commitments at 31 December 2004 and 2003 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 and the provision made by the company, TDE, to cover a 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.

[13] DEFERRED INCOME

Details of other long-term creditors at 31 December 2004 and 2003 are as follows:

	Thousands of Euros	
	2004	2003
CAPITAL GRANTS	85,381	81,011
EXCHANGE GAINS	2,707	2,357
OTHER DEFERRED INCOME	167,137	153,198
	255,225	236,566

Capital grants mainly include those received by the Parent company from the European Union for the construction of electricity installations.

At 31 December 2004 and 2003 other deferred income mainly comprises the portion assigned to the Parent company of the compensation received from EDF pursuant to the agreement 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 2004 and 2003 and movement during the years then ended are as follows:

31 December 2002	Additions	Applications	Reversals and conversion differences	31 December 2003	Additions	Applications	Reversals and conversion differences	31 December 2004
14,859	4,429	(970)	(3,194)	15,124	10,445	(1,851)	(122)	23,596
292	251	(36)	(23)	484	334	(145)	(275)	398
10,276	23,065	(478)	(5,052)	27,811	3,557	(597)	(840)	29,931
25,427	27,745	(1,484)	(8,269)	43,419	14,336	(2,593)	(1,237)	53,925

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 as well as the appropriation made, 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.

[15] BONDS AND OTHER LONG-TERM MARKETABLE SECURITIES ISSUED

At 31 December 2004 and 2003 this balance represents the first Eurobonds issued by Red Eléctrica de España Finance, B.V. launched in September 2003 and maturing in 2013 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.

In 2003 the Parent company has also contracted interest rate swaps to fix 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 2004 a new issue of bonds is included which was made under the same Programme for Euros 50,000 thousand, maturing in 2011.

During 2004 unhedged and hedged debts have accrued average annual interest of 4.75% and 4.69% respectively (4.71% for hedged debts in 2003).

At 31 December 2003 this balance also represented bonds issued by the Parent company at fixed and variable rates. During 2003 this hedged debt accrued average annual interest of 4.89%. At 31 December 2004 these bonds are recorded under Bonds and other short-term marketable securities issued (note 18), according to their maturity.

At 31 December 2003 the Parent company had contracted swap and collar operations to hedge against interest rate risks, covering a debt of Euros 45,076 thousand.

In accordance with the terms of each bond issue, at 31 December 2004 and 2003 the debt matures as follows:

	Thousands of Euros	
	2004	2003
TWO YEARS	-	45,076
THREE YEARS	-	-
FOUR YEARS	-	-
FIVE YEARS	-	-
THEREAFTER	850,000	800,000
	850,000	845,076

[16] LONG-TERM LOANS

The detail of the long-term loans is the following one:

	Thousands of Euros			
	2004		2003	
	Euros	Foreing currency	Euros	Foreing currency
LOANS AND CREDIT FACILITIES	804,233	70,450	875,846	79,299
LESS, CURRENT PORTION	(64,892)	(4,066)	(11,628)	(3,729)
	739,341	66,384	864,218	75,570

The Parent company has renegotiated the conditions on the syndicated loan contracted in 2003, which has been fully converted into a line of credit and maturity rescheduled to October 2009 with the possibility of extension for a further year. At 31 December 2004 Euros 550,000 thousand has been drawn down, which is recorded under loans in Euros (Euros 650,000 drawn down at 31 December 2003).

Long-term debts in foreign currencies comprise the long term loan contracted by TDE from the IFC (International Finance Corporation) in 2003 for US Dollars 30,000 thousand enabling Red Eléctrica Internacional to finance the acquisition of TDE through an intergroup loan referenced to Libor, plus a market differential (note 19). In 2004 this operation was intermediated by Red Eléctrica de España Finance, B.V.

No early loan repayments were made in 2004 (Euros 3,005 thousand in 2003).

At 31 December 2004 long-term debts in foreign currencies comprise loans in US Dollars and Swiss Francs for the equivalent of Euros 63,043 thousand and Euros 3,341 thousand, respectively (Euros 71,025 thousand and Euros 4,545 thousand at 31 December 2003).

At 31 December 2004 and 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.

During 2004 unhedged and hedged Euro currency loans have accrued average interest at annual rates of 2.93% and 3.24%, respectively (compared to 3.40% for hedged Euro currency loans in 2003). In 2004 average interest on unhedged and hedged foreign currency loans has been 3.40% (3.31% for hedged loans in 2003).

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

	2004		2003	
	Euros	Foreing currency	Euro	Foreing currency
TWO YEARS	23,017	4,193	14,892	4,275
THREE YEARS	30,089	5,792	23,016	4,412
FOUR YEARS	21,580	5,419	24,573	6,136
FIVE YEARS	533,861	4,724	671,580	5,769
THEREAFTER	130,794	46,256	130,157	54,978
	739,341	66,384	864,218	75,570

At 31 December 2004 and 2003 Group companies have unused long-term credit facilities of Euros 380,985 thousand (Euros 100,000 thousand at 31 December 2003).

[17] OTHER LONG-TERM CREDITORS

Details of other long-term creditors at 31 December 2004 and 2003 are as follows:

	Thousands of Euros	
	2004	2003
DEFERRED TAX LIABILITIES (NOTE 23)	48,193	42,562
LONG TERM DEPOSITS RECEIVED	102	102
	48,295	42,664

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

	Thousands of Euros	
	2004	2003
TWO YEARS	1,767	1,690
THREE YEARS	2,095	1,551
FOUR YEARS	2,171	1,879
FIVE YEARS	1,664	1,956
THEREAFTER	40,598	35,588
	48,295	42,664

[18] BONDS AND OTHER SHORT-TERM MARKETABLE SECURITIES ISSUED

At 31 December 2004 and 2003 this caption comprises bonds of Euros 45,076 thousand and Euros 50,890 thousand, respectively, issued by the Parent company redeemable in the short term.

This caption also includes the accrued interest payable at those dates on the bonds issued by the Parent company and by Red Eléctrica de España Finance, B.V.

At 31 December 2004 the Parent company has contracted swap and collar operations to hedge against interest rate risks, covering a debt of Euros 45,076 thousand.

[19] SHORT-TERM LOANS

Details of short-term loans at 31 December are as follows:

	Thousands of Euros	
	2004	2003
LOANS AND CREDITS	68,958	15,357
PROMISSORY NOTES AND CREDIT FACILITIES	167,500	79,209
	236,458	94,566
ACCRUED INTEREST PAYABLE	6,956	7,318
	243,414	101,884

At 31 December 2004 and 2003 loans and credits also include the current portion of long-term loans obtained from the Parent company and TDE, amounting to Euros 68,958 thousand and Euros 15,357 thousand, respectively.

At 31 December 2004 the Group companies have unused short-term credit facilities with a limit of Euros 280,426 thousand (Euros 291,794 thousand at 31 December 2003).

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 pre-payments.

At 31 December 2004 and 2003 the Parent company adheres to a programme to issue "highly liquid" promissory notes up to maximums of Euros 250,000 and Euros 168,000 thousand, respectively, which 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 2004 have accrued interest at an average annual rate of 2.20% for both hedged and unhedged operations (2.71% for hedged loans in 2003). The credit facilities of the remaining Group companies are referenced to Euribor plus a market spread.

[20] TRADE CREDITORS

Details are as follows:

	Thousands of Euros	
	2004	2003
SUPPLIERS	6,986	8,962
CREDITORS FOR SERVICES RENDERED	57,331	42,682
BILLS PAYABLE	16,820	17,618
	81,137	69,262

Suppliers mainly relate to the energy and power supply agreement that the Parent company entered into with EDF (note 27).

The rise in creditors for services rendered results essentially from the increase in engineering and construction works for third parties carried out by the Parent company during 2004.

At 31 December 2004 and 2003 bills payable comprise balances payable by the Parent company for confirming services received.

[21] OTHER CREDITORS

Details of other creditors at 31 December 2004 and 2003 are as follows:

	Thousands of Euros	
	2004	2003
PUBLIC ENTITIES	28,748	29,950
OTHER DEBTS	150,779	141,271
SHORT TERM GUARANTEE DEPOSITS	2,179	2,509
	181,706	173,730

Balances due to public entities are as follows:

	Thousands of Euros	
	2004	2003
TAX AUTHORITIES		
WITHHOLDINGS	938	826
INCOME TAX	19,810	24,759
VAT	3,853	421
OTHER	303	411
SOCIAL SECURITY	1,173	1,109
DEFERRED TAX LIABILITY (NOTE 23)	2,671	2,424
	28,748	29,950

Other debts are as follows:

	Thousands of Euros	
	2004	2003
CREDITORS FOR PURCHASES OF FIXED ASSETS AND OTHER ITEMS	118,686	112,650
INTERIM DIVIDEND PAYABLE	32,093	28,621
	150,779	141,271

[22] PREPAYMENTS AND ACCRUALS

At 31 December 2004 and 2003 prepayments comprise those relating to prepaid insurance policies contracted by Group companies for future years.

At 31 December 2004 accruals include Euros 3,936 thousand (Euros 12,567 thousand at 31 December 2003) generated in prior years on the power supply contract with EDF, as well as Euros 13,538 thousand (Euros 15,550 thousand in 2003) relating to the deferred income on the exportation contract entered into by the Parent company and EDF (note 27).

Regularisations and payments corresponding to the abovementioned importation 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.

[23] TAXATION

The tax group of which Red Eléctrica de España, S.A. is the Parent company has filed consolidated tax returns since 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 2004 and 2003 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 2004 with the taxable income that the companies expect to declare after approval of their individual annual accounts, as well as the figures for 2003, is as follows:

	Thousands of Euros	
	2004	2003
CONSOLIDATED PROFIT, BEFORE INCOME TAX	198,254	176,126
PERMANENT DIFFERENCES	855	2,511
CONSOLIDATION ADJUSTMENTS	3,672	757
CONSOLIDATED TAXABLE ACCOUNTING INCOME	202,781	179,394
TIMING DIFFERENCES		
GENERATED DURING THE YEAR	4,601	20,575
REVERSAL OF PRIOR YEARS	(547)	(4,237)
TAXABLE INCOME	206,835	195,732

Details of the consolidated income tax charge for 2004 are as follows:

	Thousands of Euros	
	2004	2003
TAX CALCULATED AT EACH COUNTRY'S STANDARD RATE	67,469	61,255
DEDUCTIONS	(2,244)	(1,090)
EXPENSE FOR THE YEAR	65,225	60,165
PRIOR YEARS' INCOME (EXPENSE)	45	(12)
INCOME TAX CHARGE	65,270	60,153

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

Details of timing differences in the recognition of expenses and income for accounting and tax purposes at 31 December 2004 and 2003 and the related accumulated deferred tax assets and liabilities are as follows:

	2004		Thousands of Euros 2003	
	Timing difference	Tax effect	Timing difference	Tax effect
DEFERRED TAX ASSETS:				
GENERATED IN PRIOR YEARS	60,387	20,968	45,034	15,595
GENERATED DURING THE YEAR	14,384	5,034	24,788	8,676
REVERSAL OF PRIOR YEARS	(7,299)	(2,555)	(9,545)	(3,341)
	7,085	2,479	15,243	5,335
ADJUSTMENT TO PRIOR YEARS	(29)	(10)	110	38
	67,443	23,437	60,387	20,968
DEFERRED TAX LIABILITIES:				
GENERATED IN PRIOR YEARS	(128,531)	(44,986)	(129,626)	(45,370)
GENERATED FROM RESERVES-ACCELERATED DEPRECIATION	(13,760)	(4,816)	-	-
GENERATED DURING THE YEAR	(9,783)	(3,425)	(4,213)	(1,474)
REVERSAL OF PRIOR YEARS	6,752	2,363	5,308	1,858
ADJUSTMENT TO PRIOR YEARS	(3,031)	(1,062)	1,095	384
	(145,322)	(50,864)	(128,531)	(44,986)

Timing differences giving rise to deferred tax assets have mainly arisen due 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 2004 the tax authorities completed their inspection of the Parent company's principal taxes for 1999, 2000, and 2001. Additional tax assessments, which have been taken to consolidated profit and loss for 2004, have not been significant. In general, the Group companies' principal taxes are open to inspection for recent years. The Group companies do not expect that significant additional liabilities would arise in the event of inspection.

[24] INCOME AND EXPENSES

a) Net sales

Details are as follows:

	Thousands of Euros	
	2004	2003
INCOME FROM SERVICES RENDERED (TRANSMISSION AND SYSTEMS OPERATION)	675,289	612,366
SALES OF ENERGY AND POWER	201,335	226,118
OTHER INCOME FROM SERVICES RENDERED	84,568	68,832
	961,192	907,316

Income from services rendered relates to transmission activities and the operation of the Parent company's system and amounts to Euros 658,053 thousand (Euros 593,328 thousand in 2003) and Euros 17,236 thousand (Euros 19,038 thousand in 2003) 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 2004, amounts to Euros 629,009 thousand, including power transmission tolls (Euros 576,902 thousand in 2003). Royal Decree 1802/2003 set revenues for the operation of the system

at 0.203% of rates and 0.563% of power transmission tolls (0.104% and 0.294%, respectively, in 2003). This caption also includes revenues collected in respect of prior years' settlements.

In 2004 and 2003 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).

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	
	2004	2003
WAGES AND SALARIES	55,428	50,785
SOCIAL SECURITY	12,063	11,435
PENSIONS AND SIMILAR OBLIGATIONS	908	895
OTHER SOCIAL CHARGES	9,167	3,739
	77,566	66,854

At 31 December 2004 other social charges include expenses incurred with respect to members of the Parent company's senior management team who left during the year.

The average headcount of the Group, distributed by category, is as follows:

	Thousands of Euros	
	2004	2003
MANAGERS	33	31
HONOR GRADUATES	457	423
GRADUATES	460	370
SPECIALISTS AND OTHER TECHNICAL STAFF	396	391
	1,346	1,215

c) Other operating expenses

Details for 2004 and 2003 are as follows:

	Thousands of Euros	
	2004	2003
EXTERNAL SERVICES	189,957	165,089
LOCAL TAXES	3,491	3,760
OTHER OPERATING EXPENSES	1,516	2,230
PROVISION FOR LIABILITIES AND CHARGES	7,280	5,794
TOTAL	202,244	176,873

The increase in external services in 2004 is mainly due to expenses relating to engineering and construction work for third parties carried out by the Parent company as well as expenses related to services rendered by Red Eléctrica Telecomunicaciones.

The allowance 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 2004 and 2003 are as follows:

	Thousands of Euros	
	2004	2003
PROFIT ON FIXED ASSETS	466	120
PROFIT ON OWN SHARE OPERATIONS	1,159	1,447
CAPITAL GRANTS TAKEN TO PROFIT AND LOSS	4,410	3,965
EXTRAORDINARY INCOME	2,099	2,625
PRIOR YEARS' PROFIT AND INCOME	816	844
TOTAL EXTRAORDINARY INCOME	8,950	9,001
CHANGES IN THE PROVISION FOR FIXED ASSETS AND OWN SHARES	4,691	2,973
LOSSES ON FIXED ASSETS	267	382
LOSSES ON OWN SHARE OPERATIONS	1	-
EXTRAORDINARY EXPENSES	2,177	3,970
PRIOR YEARS' LOSSES AND EXPENSES	2,671	525
TOTAL EXTRAORDINARY EXPENSES	9,807	7,850

Changes in the provision for fixed assets in 2004 and 2003 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. In 2004 this caption also includes provisions for fixed assets for Red Eléctrica Telecomunicaciones.

e) Balances and transactions with equity-accounted and associated companies

Details are as follows:

RED ELÉCTRICA GROUP

Details of Transactions with Equity-Accounted and Associated Companies for the years ended 31 December 2004 and 2003
(Expressed in thousands of Euros) (Translation from the original in Spanish)

	2004				2003			
	BALANCES		TRANSACTIONS		BALANCES		TRANSACTIONS	
	Debtor	Creditor	Expense	Income	Debtor	Creditor	Expense	Income
RED ELÉCTRICA DEL SUR S.A. (REDESUR)	73	1	-	380	65	11	-	412
RED DE ALTA TENSIÓN, S.A. (REDALTA)	14,898	-	-	1,971	12,927	-	-	1,708
TENEDORA DE ACCIONES DE REDESUR, S.A.	-	-	-	-	1	-	-	-
INFRAESTRUCTURAS DE ALTA TENSIÓN, S.A. (INALTA)	36,582	-	-	35,197	-	-	-	-
TOTAL	51,553	1	-	37,548	12,993	11	-	2,120

Balances and transactions essentially comprise engineering and construction work carried out by the Parent company for INALTA.

[25] ENVIRONMENTAL ISSUES

During 2004 the Group companies have incurred ordinary expenses of approximately Euros 4,916 thousand (Euros 3,984 thousand in 2003) 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 2004 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 1,773 thousand (approximately Euros 1,575 thousand in 2003), 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 2004 and 2003 the Group income, expenses, assets and liabilities have been split for accounting purposes between transmission activities, operation of the system, other electricity activities, diversification and internationalisation activities and adjustments for integration of these activities.

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 2004 the Group is party to certain long-term contracts and agreements, as follows:

Contracts between EDF and the Parent company for the import and export of electrical energy until 2010. In both contracts, the power to be supplied is from 550 to 300 MW.

Purchase and sale contract for the electrical energy transmission network, between the Parent company and Electra de Viesgo Distribución, S.L., dated 24 November 2004, for acquisition of all of the latter's transmission assets, once the corresponding State authorisations have been obtained.

Purchase and sale contracts for electrical energy transmission assets, between the Parent company and Unión Fenosa Distribución, S.A., dated 17 December 2004, for acquisition and sale to the latter company of transmission assets, once the corresponding State authorisations have been obtained.

[28] REMUNERATION OF AND BALANCES WITH MEMBERS OF THE BOARD OF DIRECTORS

In 2004 and 2003 the members of the board of directors of the Parent company received remuneration of Euros 2,321 thousand and Euros 2,282 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 2004 and 2003 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 2004 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 2004 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 2004 audit of the accounts of the Group companies amounts to approximately Euros 82 thousand (Euros 116 thousand in 2003). 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 50 thousand in 2004 (Euros 620 thousand in 2003).

[30] SUBSEQUENT EVENTS

On 15 February 2005 the Company entered an agreement with Grid Industries S.A. (GRID), a subsidiary of CVC Capital Partners, for the acquisition of 75% of REDALTA and of the respective part of a participating loan extended to REDALTA by GRID. This agreement is subject to procurement of the corresponding administrative authorisations.

[31] STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

The consolidated statements of source and application of funds for 2004 and 2003 are as follows:

RED ELÉCTRICA GROUP

Statement of Source and Application of Funds at 31 December 2004 and 2003
(Expressed in thousands of Euros) (Translation from the original in Spanish)

Applications	2004	2003
ACQUISITIONS AND ADDITIONS OF FIXED ASSETS		
ESTABLISHMENT COSTS	-	-
INTANGIBLE ASSETS	5,611	5,789
TANGIBLE ASSETS	275,922	770,913
INVESTMENTS	6,319	10,481
OWN SHARES	49,022	29,532
	336,874	816,715
DEFERRED EXPENSES	225	6,564
INCORPORATION INTO CONSOLIDATED GROUP OF LONG-TERM ASSETS AND LIABILITIES	-	-
DIVIDENDS	45,377	39,111
INTERIM DIVIDEND	32,093	28,621
REPAYMENT OR TRANSFER TO SHORT TERM OF LONG-TERM DEBT	221,059	135,039
PROVISIONS FOR LIABILITIES AND CHARGES	2,593	1,484
WRITE OFF OF DEFERRED INCOME	739	-
UNCALLED SHARE PAYMENTS	400	-
LONG-TERM DEBTORS	94	-
	639,454	1,027,534
INCREASE IN WORKING CAPITAL	-	967,945
TOTAL APPLICATIONS	639,454	1,995,479

Changes in working capital

	Increases	2004 Decreases
STOCKS	9,578	-
DEBTORS	33,728	-
CURRENT LIABILITIES	-	146,056
SHORT-TERM INVESTMENTS	-	2,812
CASH IN HAND AND AT BANKS	1,482	-
PREPAYMENTS	1,190	-
	45,978	148,868
CHANGES IN WORKING CAPITAL	102,890	-
	148,868	148,868

Sources

	2004	2003
FUNDS GENERATED ON OPERATIONS		
PROFIT FOR THE YEAR	132,381	115,784
REVERSAL OF ACCELERATED DEPRECIATION RESERVE	(4,816)	(633)
AMORTISATION AND DEPRECIATION	204,546	195,497
PROVISION FOR TANGIBLE ASSETS	4,804	3,697
GOODWILL	2,095	2,095
PROVISION FOR OWN SHARES	-	(725)
PROVISION FOR LIABILITIES AND CHARGES		
PENSION AND SIMILAR COMMITMENTS	10,445	4,429
CONTINGENT LIABILITIES	3,891	23,316
REVERSAL OF PROVISIONS FOR LIABILITIES AND CHARGES		
PENSION AND SIMILAR COMMITMENTS	(122)	(3,194)
CONTINGENT LIABILITIES	(1,115)	(5,075)
DEFERRED EXPENSES TAKEN TO PROFIT AND LOSS	8,641	4,147
DEFERRED INCOME TAKEN TO PROFIT AND LOSS	(11,801)	(11,230)
LOSS/(PROFIT) ON DISPOSAL OF FIXED ASSETS	(199)	262
	348,750	328,370
CHANGES IN CONVERSION DIFFERENCES	(2,951)	(6,373)
MINORITY INTERESTS	-	(7)
TRANSFER TO SHORT TERM OF DEFERRED ASSETS	-	1,126
DEFERRED INCOME	31,199	28,953
LONG-TERM LIABILITIES	97,551	1,574,247
DISPOSAL AND WRITE OFF OF FIXED ASSETS		
TANGIBLE AND INTANGIBLE ASSETS	6,399	21,386
OWN SHARES	49,125	36,488
INVESTMENTS	-	-
WRITE OFF OF DEFERRED EXPENSES	2,764	-
REPAYMENT OR TRANSFER TO SHORT TERM		
OTHER INVESTMENTS	3,385	3,917
LONG-TERM DEBTORS	-	4,100
CHANGES IN INVESTMENTS IN EQUITY-ACCOUNTED COMPANIES	342	3,272
	536,564	1,995,479
DECREASE IN WORKING CAPITAL	102,890	-
TOTAL SOURCES	639,454	1,995,479

Changes in working capital

	Increases	2003 Decreases
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
	1,078,536	110,591
CHANGES IN WORKING CAPITAL	-	967,945
	1,078,536	1,078,536

RED ELÉCTRICA GROUP

Details of Investments at 31 December 2004

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

COMPANY

- REGISTERED OFFICES
- Principal activity

A) FULLY CONSOLIDATED COMPANIES

RED ELÉCTRICA TELECOMUNICACIONES, S.A.U.

- PASEO CONDE DE LOS GAITANES, 177. ALCOBENDAS (MADRID)
- Telecommunications services

RED ELÉCTRICA INTERNACIONAL, S.A.U.

- PASEO CONDE DE LOS GAITANES, 177. ALCOBENDAS (MADRID)
- International holding. Consulting, engineering and construction services.
Electricity activities outside the Spanish electricity system

TRANSPORTADORA DE ELECTRICIDAD, S.A.

- C/ COLOMBIA, N° 00655, CASILLA, N° 640. COCHABAMBA (BOLIVIA)
- Transmission of electricity

CYBERCIA, S.R.L.

- C/ COLOMBIA, N° 00655, CASILLA, N° 640. COCHABAMBA (BOLIVIA)
- Services and business activities

RED ELÉCTRICA DE ESPAÑA FINANCE, B.V.

- AMSTELDIJK, 166. AMSTERDAN (HOLANDA)
- Finance

B) EQUITY-ACCOUNTED COMPANIES

RED ELÉCTRICA DEL SUR, S.A. (REDESUR)

- JUAN DE LA FUENTE, 453. LIMA (PERÚ).
- Transmission of electricity

TENEDORA DE ACCIONES DE REDESUR, S.A.

- PASEO CONDE DE LOS GAITANES, 177. ALCOBENDAS (MADRID)
- Holding, management and administration of REDESUR shares

RED INTERNACIONAL DE COMUNICACIONES DEL SUR, S.A. (REDINSUR)

- JUAN DE LA FUENTE, 453. LIMA (PERÚ).
- Telecommunications

RED DE ALTA TENSIÓN, S.A.U. (REDALTA)

- C/ CAMINO DE LA ZARZUELA, 1. ARAVACA (MADRID)
- Holding, management and administration of Inalta shares

INFRAESTRUCTURAS DE ALTA TENSIÓN, S.A.U. (INALTA)

- C/ CAMINO DE LA ZARZUELA, 1. ARAVACA (MADRID)
- Transmission of electricity

* The shareholders' equity of these companies has been calculated based on their audited financial statements harmonised with the Parent company's accounting criteria and expressed at year-end rates of exchange.

(1) Investment made through Red Eléctrica Internacional

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

(3) Investment made through Redesur

(4) Investment made through TDE

(5) Investment made through Redalta

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

PERCENTAGE OWNERSHIP OF PARENT COMPANY		NET BOOK VALUE IN HOLDING COMPANY	SHAREHOLDERS' EQUITY OF CONSOLIDATED COMPANIES*			
Direct	Indirect		Share capital	Reserves	PROFIT/(LOSS) 2004	
					Total	Extraordinary
100%	-	71,056	150,000	(53,006)	(25,938)	(6,354)
100%	-	57,466	60,000	(4,102)	(1,047)	(2,863)
-	99.94% (1)	82,709	32,996	22,576	4,582	(295)
-	67% (4)	24	29	7	12	-
100%	-	2,000	18	2,157	511	-
-	30% (2)	4,597	17,983	712	1,803	39
-	8.33% (1)	875	11,770	1,177	145	(611)
-	24.57% (3)	66	94	(32)	20	34
25%	-	1,955	7,495	(406)	(4,354)	847
-	25% (5)	59,718	29,889	28,982	5,932	1,788

RED ELÉCTRICA GROUP

Consolidated Balance Sheet by Activity at 31 December 2004
(Expressed in thousands of Euros) (Translation from the original in Spanish)

Assets

FIXED ASSETS

UNCALLED SHARE PAYMENTS
ESTABLISHMENT COSTS
INTANGIBLE ASSETS
TANGIBLE ASSETS
PLANT AND MACHINERY
PLANT AND MACHINERY UNDER CONSTRUCTION
OTHER TANGIBLE ASSETS
DEPRECIATION OF PLANT AND MACHINERY
AMORTIZACIONES DE INSTALACIONES TÉCNICAS DE ENERGÍA ELÉCTRICA
OTHER DEPRECIATION
PROVISIONS
INVESTMENTS
PARENT COMPANY SHARES
LONG-TERM LOANS

GOODWILL ON CONSOLIDATION

DEFERRED EXPENSES

CURRENT ASSETS

STOCKS
DEBTORS
OTHER CURRENT ASSETS
PREPAYMENTS

TOTAL ASSETS

Shareholders' equity and liabilities

SHAREHOLDERS' EQUITY

SHARE CAPITAL AND RESERVES
PROFIT/(LOSS) FOR THE YEAR
INTERIM DIVIDEND

MINORITY INTEREST

DEFERRED INCOME

PROVISIONS FOR LIABILITIES AND CHARGES

LONG-TERM CREDITORS

CURRENT LIABILITIES

CURRENT LIABILITIES, EXCLUDING ACCRUALS
ACCRUALS

INTERACTIVITY FINANCING

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

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

Appendix II-a

2004 BY ACTIVITY

Transmission	Operation of system	Other electricity activities	Diversification and internationalisation	Integration adjustments	Group Total
2,956,052	28,664	370	1,284,457	(1,121,196)	3,148,347
-	-	-	-	-	-
-	-	-	-	-	-
5,268	3,063	38	3,918	-	12,287
2,914,629	20,868	198	148,548	-	3,084,243
4,186,473	14,133	-	148,534	-	4,349,140
189,728	-	-	1,215	4,703	195,646
71,902	28,860	356	104,222	-	205,340
51,500	115	4	7,575	(4,703)	54,491
(1,512,467)	(10,989)	-	(73,573)	(1,131)	(1,598,160)
(45,108)	(11,251)	(162)	(35,562)	1,131	(90,952)
(27,399)	-	-	(3,863)	-	(31,262)
34,960	4,710	134	1,127,793	(1,121,196)	46,401
1,195	23	-	-	-	1,218
-	-	-	4,198	-	4,198
-	-	-	-	15,712	15,712
14,763	1,110	-	39,563	(12,330)	43,106
231,051	10,198	15,648	113,537	(79,625)	290,809
27,978	-	-	59	-	28,037
199,481	9,999	15,647	25,372	(6,542)	243,957
1,446	34	1	87,566	(74,312)	14,735
2,146	165	-	540	1,229	4,080
3,201,866	39,972	16,018	1,437,557	(1,197,439)	3,497,974
951,584	(38,895)	14,734	156,511	(188,109)	895,825
840,345	(35,599)	11,841	194,085	(215,135)	795,537
142,516	(3,296)	3,709	(37,574)	27,026	132,381
(31,277)	-	(816)	-	-	(32,093)
-	-	-	-	55	55
163,827	1,049	-	113,110	(22,761)	255,225
39,045	12,845	331	1,704	-	53,925
1,531,640	36,954	-	1,044,108	(908,682)	1,704,020
449,804	26,386	25,742	164,934	(77,942)	588,924
443,649	26,386	8,268	163,913	(77,940)	564,276
6,155	-	17,474	1,021	(2)	24,648
65,966	1,633	(24,789)	(42,810)	-	-
3,201,866	39,972	16,018	1,437,557	(1,197,439)	3,497,974

RED ELÉCTRICA GROUP

Consolidated Analytical Statement of Profit and Loss by Activity for the year ended 31 December 2004
(Expressed in thousands of Euros) (Translation from the original in Spanish)

Items

NET SALES AND SERVICES RENDERED

+ OTHER OPERATING INCOME

= **VALUE OF PRODUCTION**

- MATERIALS CONSUMED

- EXTERNAL EXPENSES

= **VALUE ADDED BY THE COMPANY**

- PERSONNEL EXPENSES

= **GROSS OPERATING PROFIT**

- AMORTISATION AND DEPRECIATION

- BAD DEBTS WRITTEN OFF AND CHANGES IN TRADE PROVISIONS

= **NET OPERATING PROFIT/(LOSS)**

+ FINANCIAL INCOME

- FINANCIAL EXPENSES

= **PROFIT/(LOSS) ON ORDINARY ACTIVITIES**

+ PROFIT ON FIXED ASSETS AND EXTRAORDINARY INCOME

- LOSS ON FIXED ASSETS AND EXTRAORDINARY EXPENSES

- CHANGES IN THE PROVISIONS FOR FIXED ASSETS

= **CONSOLIDATED PROFIT/(LOSS) BEFORE TAX**

- INCOME TAX

= **CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR**

- MINORITY INTERESTS

= **PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY**

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

Appendix II-b

2004 BY ACTIVITY

Transmission	Operation of system	Other electricity activities	Diversification and internationalisation	Integration adjustments	Group Total
685,627	33,452	201,335	82,510	(41,732)	961,192
15,506	1,375	7	1,969	(953)	17,904
701,133	34,827	201,342	84,479	(42,685)	979,096
(17,994)	(348)	(194,981)	(2,172)	568	(214,927)
(168,153)	(16,218)	(180)	(60,555)	42,862	(202,244)
514,986	18,261	6,181	21,752	745	561,925
(49,434)	(15,075)	(432)	(12,625)	-	(77,566)
465,552	3,186	5,749	9,127	745	484,359
(178,078)	(5,901)	(32)	(20,521)	(14)	(204,546)
(1,632)	29	1	(131)	-	(1,733)
285,842	(2,686)	5,718	(11,525)	731	278,080
2,218	48	34	47,782	(46,741)	3,341
(71,028)	(1,446)	(967)	(51,799)	42,930	(82,310)
217,032	(4,084)	4,785	(15,542)	(3,080)	199,111
5,825	1,244	985	475	421	8,950
(461)	(456)	(23)	(4,176)	-	(5,116)
(1,576)	-	-	(32,986)	29,871	(4,691)
220,820	(3,296)	5,747	(52,229)	27,212	198,254
(78,304)	-	(2,038)	14,655	(179)	(65,866)
142,516	(3,296)	3,709	(37,574)	27,033	132,388
-	-	-	-	(7)	(7)
142,516	(3,296)	3,709	(37,574)	27,026	132,381

RED ELÉCTRICA GROUP

Consolidated Balance Sheet by Activity at 31 December 2003

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

Assets

FIXED ASSETS

UNCALLED SHARE PAYMENTS

ESTABLISHMENT COSTS

INTANGIBLE ASSETS

TANGIBLE ASSETS

ELECTRICAL ENERGY PLANT AND MACHINERY

ELECTRICAL ENERGY PLANT AND MACHINERY UNDER CONSTRUCTION

OTHER TANGIBLE ASSETS

ADVANCES AND OTHER ASSETS UNDER CONSTRUCTION

DEPRECIATION OF ELECTRICAL ENERGY PLANT AND MACHINERY

OTHER DEPRECIATION

PROVISIONS

INVESTMENTS

PARENT COMPANY SHARES

LONG-TERM LOANS

GOODWILL ON CONSOLIDATION

DEFERRED EXPENSES

CURRENT ASSETS

STOCKS

DEBTORS

OTHER CURRENT ASSETS

PREPAYMENTS

TOTAL ASSETS

Shareholders' equity and liabilities

SHAREHOLDERS' EQUITY

SHARE CAPITAL AND RESERVES

PROFIT/(LOSS) FOR THE YEAR

INTERIM DIVIDEND

MINORITY INTEREST

DEFERRED INCOME

PROVISIONS FOR LIABILITIES AND CHARGES

LONG-TERM CREDITORS

CURRENT LIABILITIES

CURRENT LIABILITIES, EXCLUDING ACCRUALS

ACCRUALS

INTERACTIVITY FINANCING

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

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

Appendix III-a

2003 BY ACTIVITY

Transmission	Operation of system	Other electricity activities	Diversification and internationalisation	Integration adjustments	Group Total
2,882,469	17,859	306	1,255,643	(1,076,078)	3,080,199
-	-	-	-	-	-
-	-	-	1,152	-	1,152
2,957	2,027	18	5,778	-	10,780
2,845,069	12,303	178	161,826	(761)	3,018,615
3,960,761	14,001	-	156,185	(775)	4,130,172
175,119	-	-	1,099	-	176,218
75,909	16,030	310	102,318	-	194,567
38,997	58	2	2,629	-	41,686
(1,337,726)	(9,963)	-	(76,215)	14	(1,423,890)
(42,351)	(7,823)	(134)	(22,993)	-	(73,301)
(25,640)	-	-	(1,197)	-	(26,837)
32,921	3,500	110	1,082,595	(1,075,317)	43,809
1,522	29	-	-	-	1,551
-	-	-	4,292	-	4,292
-	-	-	-	17,807	17,807
20,625	1,544	-	45,439	(13,322)	54,286
190,054	4,974	17,081	121,008	(85,474)	247,643
18,401	-	-	58	-	18,459
168,331	4,794	16,935	38,374	(18,205)	210,229
1,497	27	-	81,810	(67,269)	16,065
1,825	153	146	766	-	2,890
3,093,148	24,377	17,387	1,422,090	(1,157,067)	3,399,935
889,592	(35,595)	13,014	200,983	(218,895)	849,099
789,411	(27,141)	10,347	229,688	(240,369)	761,936
128,050	(8,454)	3,419	(28,705)	21,474	115,784
(27,869)	-	(752)	-	-	(28,621)
-	-	-	-	55	55
140,367	1,796	958	114,250	(20,805)	236,566
33,235	8,200	233	1,751	-	43,419
1,672,660	29,887	-	957,926	(832,545)	1,827,928
299,006	18,992	36,673	173,074	(84,877)	442,868
292,696	18,992	8,556	172,190	(84,877)	407,557
6,310	-	28,117	884	-	35,311
58,288	1,097	(33,491)	(25,894)	-	-
3,093,148	24,377	17,387	1,422,090	(1,157,067)	3,399,935

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

NET SALES AND SERVICES RENDERED

+ OTHER OPERATING INCOME

= **VALUE OF PRODUCTION**

- MATERIALS CONSUMED

- EXTERNAL EXPENSES

= **VALUE ADDED BY THE COMPANY**

- PERSONNEL EXPENSES

= **GROSS OPERATING PROFIT/(LOSS)**

- AMORTISATION AND DEPRECIATION

- BAD DEBTS WRITTEN OFF AND CHANGES IN TRADE PROVISIONS

= **NET OPERATING PROFIT/(LOSS)**

+ FINANCIAL INCOME

- FINANCIAL EXPENSES

= **PROFIT/(LOSS) ON ORDINARY ACTIVITIES**

+ PROFIT ON FIXED ASSETS AND EXTRAORDINARY INCOME

- LOSS ON FIXED ASSETS AND EXTRAORDINARY EXPENSES

- CHANGES IN THE PROVISIONS FOR FIXED ASSETS

= **CONSOLIDATED PROFIT/(LOSS) BEFORE TAX**

- INCOME TAX

= **CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR**

- MINORITY INTERESTS

= **PROFIT/(LOSS) ATTRIBUTABLE TO THE PARENT COMPANY**

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

Appendix III-b

2003 BY ACTIVITY

Transmission	Operation of system	Other electricity activities	Diversification and internationalisation	Integration adjustments	Group Total
632,510	15,618	226,118	74,179	(41,109)	907,316
16,600	1,152	3	2,365	(1,230)	18,890
649,110	16,770	226,121	76,544	(42,339)	926,206
(15,628)	(396)	(220,595)	(2,905)	486	(239,038)
(155,642)	(10,703)	(148)	(51,465)	41,085	(176,873)
477,840	5,671	5,378	22,174	(768)	510,295
(44,602)	(10,147)	(321)	(11,784)	-	(66,854)
433,238	(4,476)	5,057	10,390	(768)	443,441
(173,724)	(3,131)	(32)	(18,624)	14	(195,497)
1,850	138	9	60	-	2,057
261,364	(7,469)	5,034	(8,174)	(754)	250,001
2,735	51	49	17,085	(15,871)	3,686
(65,364)	(1,131)	(1,000)	(23,435)	11,855	(78,712)
198,735	(8,549)	4,083	(14,524)	(4,770)	174,975
6,695	584	1,296	848	(422)	9,001
(3,715)	(503)	(28)	(631)	-	(4,877)
(3,667)	14	-	(27,364)	28,044	(2,973)
198,048	(8,454)	5,351	(41,671)	22,852	176,126
(69,998)	-	(1,932)	12,966	(1,373)	(60,337)
128,050	(8,454)	3,419	(28,705)	21,479	115,789
-	-	-	-	(5)	(5)
128,050	(8,454)	3,419	(28,705)	21,474	115,784

RED ELÉCTRICA GROUP

Appendix IV

Information on the Members of the Board of Directors of the Parent Company at 31 December 2004
(Translation from the original in Spanish)

MEMBERS OF THE BOARD OF DIRECTORS OF THE PARENT COMPANY	DIRECT OR INDIRECT INTEREST HELD BY MEMBERS OF THE BOARD OF DIRECTORS IN COMPANIES WITH IDENTICAL, SIMILAR OR COMPLEMENTARY STATUTORY ACTIVITIES TO THAT OF THE PARENT COMPANY	MANAGEMENT POSITIONS AND FUNCTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS IN NON-RED ELÉCTRICA GROUP COMPANIES WITH IDENTICAL, SIMILAR OR COMPLEMENTARY STATUTORY ACTIVITIES TO THAT OF THE PARENT COMPANY
MR. LUIS M ^a ATIENZA SERNA	-	-
MR. PEDRO RIVERO TORRE	-	-
MR. JUAN GURBINDO GUTIERREZ	-	-
MR. ANTONIO GARAMENDI LECANDA	-	-
MR. MANUEL ALVES TORRES	-	-
MR. JOAQUIM CLOTET I GARRIGA	-	-
MR. ELÍAS VELASCO GARCÍA	21,819 UNIÓN FENOSA, S.A. SHARES	BOARD MEMBER-GENERAL MANAGER OF UNIÓN FENOSA, S.A.
MR. JOSÉ RIVA FRANCOS	853 IBERDROLA, S.A. SHARES	-
MR. JOSÉ IGNACIO SÁNCHEZ GALÁN	153,223 IBERDROLA, S.A. SHARES	EXECUTIVE VICE-CHAIRMAN AND MANAGING DIRECTOR OF IBERDROLA, S.A.
MR. JOSÉ MANUEL SERRA PERIS	3,232 ENDESA, S.A. SHARES	-
	3,932 IBERDROLA, S.A. SHARES	
MR. RAFAEL SUÑOL TREPAT	-	-

No members of the board of directors of the Parent company have directly or indirectly performed identical, similar or complementary activities to those of the Parent company on their own behalf or for third parties.

CONSOLIDATED DIRECTORS' REPORT 2004

BUSINESS DEVELOPMENT. MOST SIGNIFICANT EVENTS

In 2004 the Red Eléctrica Group has taken further steps to consolidating its leadership position.

The Parent company Red Eléctrica has strengthened its commitment to the community by responsibly carrying out its role as the Spanish TSO (Transmission and Systems Operator).

The significant development of the current national electricity transmission network has contributed to improving the Spanish electricity system through new facilities permitting guaranteed and reliable system operation, which in turn allows Red Eléctrica to provide higher quality service.

In the face of all-time high demand, to comply with its commitment to supply a guaranteed and environmentally sustainable essential service of the highest quality, the Company has had to make additional efforts to integrate recently acquired networks and optimise the efficiency derived from its increased size.

In addition, the Company's new organisational structure separates the two main activities, Transport and System Operation, which makes it possible to maximise the synergies of the two business units, contributing to optimal management of the capabilities of the Parent company.

The Red Eléctrica Group, through Red Eléctrica Internacional and the companies managed in Bolivia and Peru, has demonstrated that Transmission and Systems Operations activities outside Spain present growth perspectives based on application of Red Eléctrica's domestic experience and capabilities.

In the telecommunications business, the Group has centred its efforts in 2004 on the development of wholesale ADSL services in ULL infrastructures through Red Eléctrica Telecomunicaciones, operating independently in the transmission and capacity businesses under the trademark Albura.

The financial and economic management of the Red Eléctrica Group, which is committed to meeting the current challenges, has ensured that the Group is able to fulfil the plans and objectives reflecting shareholders' expectations, reaching optimal profitability levels and increasing the value of the Group.

Efforts made by the Red Eléctrica Group teams and their commitment to corporate social responsibility, a cornerstone of the Group's strategic orientation, have consolidated the Group's leadership position.

Electricity Transmission activity in Spain

Investments made by Red Eléctrica in 2004 for improvement and enlargement of the Spanish mainland transmission grid total Euros 243 million, up 13% from 2003. In 2004 the network grew by 271 km of lines and 123 new substations (including installations under construction by electricity companies).

Of Red Eléctrica projects underway, the most noteworthy involve the following objectives:

- Increasing interconnection with the Portuguese and Moroccan transmission networks.
- Strengthening the transmission infrastructure in Andalusia and the southeastern area of the Spanish mainland to incorporate latest technological advances into the network.
- Developing the northern axis to allow increased transmission capacity in the region
- Strengthening central, northeast and northwest areas of the Spanish mainland
- Developing the infrastructures necessary for new high speed trains

This investment effort reflects Red Eléctrica's strategic priority of guaranteeing the electricity systems as well as its intention to take an active role in developing the Spanish electricity sector.

Proper management of income recognised on transmission activity allows Red Eléctrica to not only make the network investments necessary for the electricity system, but also to adequately maintain, renew and improve the network to guarantee medium and long-term safety in line with internationally recognised quality and maintenance efficiency standards. Furthermore, Royal Decree 2392 of 30 December 2004, which establishes income on transmission activity in 2005, has permitted recognition for the first time of income generated on transmission installations as soon as they become operational.

Electric System Operation activity in Spain

In terms of guaranteed electricity supply, total availability through Red Eléctrica's grid was 98.39%, and the incidence level per TWh was far below the international average.

Faced with the challenge of guaranteeing electricity supply (which is a global concern) and in a country where historically high electricity demand has been logged in both winter and summer for a number of years and continues on the rise (up 4% on 2003), Red Eléctrica has been able to maintain its leadership position in terms of operating quality.

This leadership position results from a combination of factors in the management of the Parent company's activities:

- High technical qualification of Red Eléctrica employees, based on extensive training and specialisation.
- Well-planned organisation separating the functions of the Transmission and Systems Operation business units while at the same time optimising synergies between the two activities.
- Strict application of quality requirements in maintenance work, with live working and use of predictive techniques.
- Efficient management, as the cost of the processes managed by Red Eléctrica as electrical system operator is 0.218 c€/kWh on the final price, which has been 3.565 c€/kWh this year.
- Adequate planning of the evolution of the electric system, as shown by the Company's investments: in 2004 Red Eléctrica invested more than Euros 15 million to improve energy management and operating systems, and to complete the necessary systems for carrying out its new role as Operator of island-based electric systems in the Balearic and Canary Islands and the non-mainland systems in Ceuta and Melilla.

As Operator, in 2004 Red Eléctrica proposed a grid plan for the Balearic and the Canary Islands electric systems and estimated electricity demand and generation needs in those systems for 2004-2012.

The forecast electrical energy demand and ability to meet this demand, and the forecast energy and power figures prepared by Red Eléctrica were the basis for supply studies carried out by the Iberian Electricity Market (MIBEL) in 2004, in which the Company participates actively.

Other electrical activities in Spain

In relation to the international electricity agreements signed by Red Eléctrica, the energy supply contract with Electricité de France (EDF) had an average utilization rate of 96% in 2004, accounting for total imports of 4,531 GWh, which is almost half the total volume of the domestic import programmes.

In international contract management in 2004, electricity exchange programmes exported 3,075 GWh, compared to an import balance in 2003, due to the sharp growth in export programmes, particularly to Portugal.

International electricity activities

2004 was a turning point for the Red Eléctrica Internacional business, which has begun to recover from the slowdown in concessions awarded and privatisations of previous year and once again show signs of dynamism.

During 2004, the Group's international business continued to focus on optimising strategic investment opportunities in transmission infrastructures and electric system operation concessions, and rendering of global technical and business advisory services. These activities are the two main pillars of the Group's international activity.

The capacities developed by the Group and the experience in managing and operating electric systems gained since its incorporation are strong assets assuring success of the Group's international expansion.

In 2004 the companies managed by Red Eléctrica Internacional in Peru and Bolivia have maintained high quality standards in routine services, in line with a significant investment plan, especially in the case of Bolivia, and with an adequate shareholders' remuneration policy, as evidenced by the dividends received by Red Eléctrica Internacional from these two companies in 2004.

Strides have also been taken in global advisory services, strengthening the international presence and image of the Red Eléctrica Group. The volume of contracting with international electricity companies such as ONE (Morocco) and GECOL (Libya), as well as studies carried out in southeastern Europe (mainly Serbia-Montenegro and the interconnection between Romania and Hungary), should also be noted.

Telecommunications activity

In the telecommunications business, the development of wholesale ADSL services for ULL infrastructures has involved the phase-one opening of a network of 80 centres in Madrid, Barcelona, Malaga and Badajoz covering 30% of domestic demand. This new direct access service will not only significantly lower the final ADSL price, but will also allow for a complete access and content service.

The DWDM/SDH telecommunications network structure has been consolidated with 175 points of presence. The RedIris project for the Ministry of Science and Technology and the implementation of a multiservice emergency network for the Nuclear Safety Council should be mentioned, along with various broadband projects for the Generalitat de Catalunya as part of the Digital Cities and RuralNet projects.

OTHER RELEVANT INFORMATION

Research, development and innovation

In research, development and innovation activities (R&D&I), the Red Eléctrica Group continues its technological strategy aimed at maintaining its leadership position and based on increased participation in R&D&I projects. In 2004 the cost of such projects carried out by the Parent company totalled Euros 2.4 million, up 20% on the prior year.

In 2004 Red Eléctrica R&D&I has centred on developing demand management mechanisms for systems operation and energy efficiency (project EMERGIE) and projects aimed at facilitating integration of wind power in the system.

Efforts to select the most appropriate technological strategy have focused on the development of a technology monitoring prototype obtaining structured information on the technological aspects of Red Eléctrica to aid in the decision-making process regarding technology projects. In this regard the Parent company has increased its knowledge of the international technological arena by participating in a number of European projects, including the Vital Infrastructures Threats and Assurance (VITA) project, which defines scenarios to simulate uncommon emergency situations such as terrorism and natural disasters.

Environment

The Red Eléctrica Group continues to incorporate environmental protection in its daily operations.

In 2004 Red Eléctrica and TDE carried out environmental impact studies for all new installation projects. Red Eléctrica has also participated in a number of environmental studies and research projects and has collaborated with various autonomous communities through environmental protection agreements, especially regarding the protection of birdlife, in addition to disseminating environmental information through publications and manuals.

Red Eléctrica was a sponsor of the VIth National Environmental Conference "Sustainable Development Summit" held in Madrid in November 2004, and established collaboration and experience exchange agreements with a number of international organisations such as CIGRÉ and EURELECTRIC.

Risk management

The Red Eléctrica Group's risk control system covers all activities and is adapted to its specific risk profile. The system aims to standardise the identification, assessment and information process, and to design and carry out action plans on the main risks identified which threaten the achievement of strategic activities. These risks include regulatory risk, as the Red Eléctrica Group's core activities are subject to regulation; operating risk, mainly derived from electrical system service activities; market risk, relating to economic variables such as inflation, interest rates and exchange rates; and environmental risk, due to ever-increasing demands concerning the care and protection of the environment.

In 2004 the Group Risk Policy and the General Risk Control and Management Procedure were approved. These policies were based on the Enterprise Risk Management – Integrated Framework outlined in the Committee of Sponsoring Organisations (COSO II) report published in September 2004.

Quality and operating excellence

In 2004 the Red Eléctrica Group consolidated and unified its quality management systems for all Group companies. The most noteworthy actions have been the triple certification in quality, environment and safety in the workplace awarded at company level to Red Eléctrica Telecomunicaciones and REDESUR.

During the year, TDE was awarded the Occupational Health and Safety Management System (SYSO) International Certification in line with UNIT 18001 and OHSAS 18001 requirements, becoming the first electricity company in Latin America to have an integrated management system and therefore quality and environmental management certification.

All internal Red Eléctrica Group processes are subject to ongoing review and verification processes and are aimed at continually improving management quality and contributing to mitigate activity-related risks. Such processes include those integrated in systems in compliance with international standards, including environmental management (ISO 14001 certificate system), prevention of occupational risks (OHSAS 18001) and Transmission and Operation of the Electric System (ISO 9001 system).

This commitment to quality in management is behind Red Eléctrica's finalist position for the third year running for the Crown Prince Felipe Excellence in Business Award for Industrial Quality.

Corporate governance

Striving to be at the forefront in corporate governance, in 2004 the Red Eléctrica Group adopted the most recent standards and recommendations, approving the independent advisory statute, modifying its by-laws and general shareholders meeting regulations to allow proxy voting and delegation of powers, and updating its web page to include transparent and complete content respecting shareholders' right to information. During the year the Company also approved the Yearly Corporate Governance Report.

Stock market development

Stock market capitalisation of Red Eléctrica at the end of 2004 stood at Euros 2,232 million. The share price, which was boosted by strong growth perspectives and dividend returns, closed the year at Euros 16.50, up 26.9% on the prior year. This was significantly higher than growth in the Ibex 35 (17.4%) and the Energy Sector of the Madrid Stock Exchange

(19.8%). Historic highs in the Company's quotation were reached in December 2004, showing no adverse effect from the Technical Advisory Committee's decision to remove the Company from the Ibex 35 after 1 January 2005.

The Red Eléctrica Group offers its shareholders one of the highest returns, at over 130% since the Company was floated in 1999, combining attractive accumulated returns per dividend of over 30% and over 100% growth in that period.

OWN SHARES

At the annual general meeting held on 6 May 2004, the shareholders authorised the board of directors to acquire derivative shares, in accordance with the Spanish Companies Act.

In 2004, in order to provide investors with adequate stock market liquidity levels, 3,481,872 securities were acquired at a global par value of Euros 7 million and a cash price of Euros 49 million. Furthermore, 3,544,516 shares were sold at a global nominal value of Euros 7.1 million at a cash price of Euros 49.1 million.

At 31 December 2004, the Company's own shares accounted for 0.14% of the share capital, totalling 184,188 shares, of which their global nominal value is Euros 0.4 million and their market value Euros 3 million.

The Company has complied with the obligations of article 75.2 and the second additional provision of the Spanish Companies Act which establishes that the sum of the nominal value of shares acquired on a secondary market 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.

ANALYSIS OF PROFITS

In 2004 consolidated profit after tax was Euros 132.4 million, up 14.3% on 2003. Return on equity stood at 14.8%.

EBITDA was Euros 478.9 million in 2004, an 8.9% rise from the prior year.

Adjusted consolidated turnover (net of energy purchases) amounted to Euros 766.2 million. Growth compared to the prior year (Euros 686.7 million in 2003) was mainly due to the following:

- Greater income on transmission activity due to installations opened in 2003
- Higher income recognised on the system operation, which includes income recognised on the island and other non-mainland electric systems.
- Growth in revenue on engineering and construction projects for third parties
- Increase in telecommunications services rendered

Consolidated operating expenses (net of energy purchases) totalled Euros 299.8 million, compared to Euros 262.2 million in 2003. The following expenses should be noted:

- Costs associated with engineering and construction projects for third parties, which were above the 2003 costs.
- Personnel costs amounted to Euros 77.6 million, representing a 16.0% increase on 2003 (9.7% when excluding the non-recurring costs related to senior management dismissals). Average headcount stood at 1,346 employees, up 10.8% on the previous year. The year-end headcount was 1,415 employees, compared to 1,280 employees at 31 December 2003. This growth is mainly due to the incorporation of personnel for the integration of transmission assets acquired in 2003 and rendering of new System Operation services in island and non-mainland systems.

Depreciation and amortisation for the year amounts to Euros 204.5 million, which is 4.6% greater than in 2003, as a result of asset additions in the Parent company following the opening of new installations in 2003.

Net financial expense was Euros 72.2 million, compared to Euros 67.7 in 2003. This increase is because a bridge loan for acquiring transmission networks was replaced with long-term financing, the effect of which was offset by lower average balances.

Net financial debt at 31 December 2004 was Euros 1,922.5 million with a leverage ratio of 68.2% and solid debt coverage ratios.

The financial structure maintains a low-risk profile, with reduced exposure to interest rate variations and an average term of over 6 years. In early 2004 Standard and Poor's credit rating agency assigned Red Eléctrica a corporate rating of AA- (stable perspectives), while Moody's gave the Company an A2 corporate rating and stable profile. These credit ratings, which are among the best ratings obtained by companies of similar characteristics worldwide, reflect the low risk of the Red Eléctrica Group and the stability of its business.

Consolidated extraordinary loss in 2004 was Euros 0.9 million and mainly includes provisions for assets and telecommunications business risks, partially offset by grants taken to profit.

Consolidated cash flow after tax amounted to Euros 348.8 million, which was 8.7% higher than in 2003. This figure accounts for 45.5% of the adjusted turnover and has allowed the Red Eléctrica Group to finance a significant part of investments made in 2004.

Consolidated investments totalled Euros 281.2 million, up Euros 38.1 million on the prior year (excluding Euros 535.2 million from the 2003 figure, which was part of the cost of acquiring transmission assets from Endesa and Unión Fenosa).

OUTLOOK

The Red Eléctrica Group's Strategic Plan for 2005-2009 consists of four basic pillars:

- Strengthening Red Eléctrica's role within the Spanish electricity sector as follows:
 - Consolidating its position as a Spanish TSO
 - Investing heavily in the transmission network over the next five years, ensuring investments necessary to absorb the considerable increases expected in electricity demand, to promote competition, to preserve the continuity of electricity supply and to strengthen international interconnections.
 - Playing an active role based on constant dialogue with regulatory agencies and other sector participants, so that the Company's actions can be carried out in a stable regulatory environment.

This strategy implies that the main source of growth for the Red Eléctrica Group in coming years will be electricity transmission. As part of Red Eléctrica's strategy of consolidation as a TSO, in February 2005 the Company reached an agreement with CVC Capital Partners to acquire its 75% interest in Redalta, the owner of the transmission assets formerly held by Iberdrola. Together with the purchase of Viesgo assets in December 2004, this operation could represent a close to the cycle of Spanish transmission asset acquisitions which began at the end of 2002 with the purchase of assets from Endesa and Unión Fenosa. The acquisition of the 75% interest in Redalta has had no adverse effect on the ratings received by Moody's and Standard & Poor's, which upheld the credit ratings assigned previously.

- Reaching maximum operating efficiency levels, guaranteeing quality and continuity of electricity supply. The main objectives in this regard are as follows:
 - Reaching maximum quality of service levels, which are already high compared to other international companies, confirming that Red Eléctrica Group companies are a global model.
 - Maintaining adjusted operating costs, which, together with the expected increase in income following opening of new installations in coming years, will lead to improved EBITDA in 2005-1009.
- Continuing to analyse opportunities to generate value for shareholders in the international transmission and telecommunications businesses.

- With respect to international investments, Red Eléctrica Internacional will promote growth of existing businesses while being responsive to future business opportunities. Although these businesses are not at the core of our short-term growth, they present a real growth opportunity in the long term.
- The priority in the telecommunications business will be the search for a strategic majority partner for maximising the value-generating potential of Red Eléctrica Telecomunicaciones.
- Maintaining an efficient capital structure allowing the current solid financial position to coexist with significant growth and attractive dividends for shareholders.

The strength of this strategy will allow the Red Eléctrica Group to continue improving profits and shareholder remuneration while maintaining a solid financial profile.

The application of these strategies will consolidate the Red Eléctrica Group as a worldwide model and a participant in the development of the Spanish electricity sector. It will also confirm Red Eléctrica's appeal as a solid investment able to create value for shareholders and demonstrate that, once again, the work of the individuals comprising the Company and participating in this project has continued to make the Red Eléctrica Group a significant growth/low risk investment alternative.

Individual Financial Statements · RED ELÉCTRICA

Balance Sheet 2003 and 2004 at 31 December

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

Assets	2004	2003
INTANGIBLE ASSETS	8,369	5,002
RESEARCH AND DEVELOPMENT EXPENSES	19,762	19,265
SOFTWARE	14,675	9,775
AMORTISATION	(26,068)	(24,038)
TANGLIBLE ASSETS	2,935,695	2,857,550
LAND AND BUILDINGS	35,640	35,665
PLANT AND MACHINERY	4,200,606	3,974,762
OTHER INSTALLATIONS, EQUIPMENT AND FURNITURE	65,478	56,584
PLANT AND MACHINERY UNDER CONSTRUCTION	189,728	175,119
ADVANCES AND TANGIBLE ASSETS UNDER CONSTRUCTION	51,619	39,057
PROVISIONS	(27,399)	(25,640)
DEPRECIATION OF PLANT AND MACHINERY	(1,523,456)	(1,347,689)
OTHER DEPRECIATION	(56,521)	(50,308)
INVESTMENTS	170,326	194,236
INVESTMENTS IN GROUP COMPANIES	212,000	212,000
INVESTMENTS IN ASSOCIATED COMPANIES	3,732	3,732
LONG-TERM LOANS TO EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	14,867	12,900
OTHER LOANS	2,326	3,119
LONG-TERM GUARANTEE DEPOSITS	182	283
LONG-TERM BALANCES RECOVERABLE FROM PUBLIC ENTITIES	20,474	18,457
PROVISIONS	(83,255)	(56,255)
OWN SHARES	1,218	1,551
TOTAL FIXED ASSETS	3,115,608	3,058,339
DEFERRED EXPENSES	15,972	22,287
STOCKS	27,978	18,401
RAW MATERIALS AND OTHER SUPPLIES	33,093	21,749
PROVISIONS	(5,115)	(3,348)
DEBTORS	225,418	197,928
TRADE DEBTORS	15,636	16,928
GROUP COMPANIES	293	7,867
ASSOCIATED COMPANIES	36,644	65
SUNDRY DEBTORS	170,265	155,036
PERSONNEL	914	1,097
PUBLIC ENTITIES	1,748	17,254
PROVISIONS	(82)	(319)
SHORT-TERM INVESTORS	1,224	1,197
LOANS TO ASSOCIATED COMPANIES	31	27
OTHER LOANS	1,193	1,170
CASH AND BANKS	307	375
PREPAID EXPENSES	2,323	2,127
TOTAL CURRENT ASSETS	257,250	220,028
TOTAL ASSETS	3,388,830	3,300,654

Shareholders' equity and liabilities	2004	2003
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
RESERVES	282,435	247,428
PROFIT FOR THE YEAR	127,235	114,051
INTERIM DIVIDEND	(32,093)	(28,621)
TOTAL SHAREHOLDERS' EQUITY	895,139	850,420
CAPITAL GRANTS	85,381	81,011
EXCHANGE GAINS	288	424
OTHER DEFERRED INCOME	161,367	147,889
TOTAL DEFERRED INCOME	247,036	229,324
PROVISIONS FOR THE PENSIONS AND OTHER LIABILITIES	21,898	13,437
PROVISIONS FOR TAXES	398	426
OTHER PROVISIONS	29,925	27,805
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	52,221	41,668
BONDS	-	45,076
LOANS	722,667	868,763
GROUP AND RELATED COMPANIES	850,000	800,000
OTHER CREDITORS	48,295	42,664
LONG-TERM CREDITORS	1,620,962	1,756,503
BONDS AND OTHER MARKETABLE SECURITIES	45,583	51,769
NON-CONVERTIBLE BONDS	45,076	50,890
INTEREST PAYABLE	507	879
LOANS	186,360	40,276
LOANS AND OTHER DEBT	179,473	33,033
INTEREST PAYABLE	6,887	7,243
SHORT-TERM DEBT WITH EQUITY ACCOUNTED AND ASSOCIATED COMPANIES	31,219	30,920
EQUITY ACCOUNTED COMPANIES	31,219	30,920
TRADE CREDITORS	75,107	64,225
FOR PURCHASES AND SERVICES RECEIVED	58,287	46,607
BILL PAYABLE	16,820	17,618
OTHER CREDITORS	211,574	201,122
PUBLIC ENTITIES	26,099	27,593
OTHER	184,336	172,066
SHORT-TERM GUARANTEE DEPOSITS RECEIVED	1,139	1,463
ACCRUALS	23,629	34,427
TOTAL CURRENT LIABILITIES	573,472	422,739
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3,388,830	3,300,654

Individual Financial Statements · RED ELÉCTRICA

Profit and loss accounts for the years ended at 31 December 2004 and 2003
(Expressed in thousands of Euros) (Translation from the original in Spanish)

Debit	2004	2003
EXPENSES		
MATERIALS CONSUMED	213,313	236,738
PURCHASES OF ENERGY AND POWER	194,981	220,584
MAINTENANCE AND REPAIR MATERIALS	18,332	16,154
PERSONNEL EXPENSES	67,276	57,106
WAGES AND SALARIES	47,150	42,215
SOCIAL SECURITY	10,645	10,129
PENSIONS AND SIMILAR OBLIGATIONS	862	845
OTHER SOCIAL CHARGES	8,619	3,917
AMORTISATION AND DEPRECIATION	184,011	176,887
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	1,583	(2,089)
CHANGE IN PROVISIONS FOR STOCKS	1,767	(1,172)
CHANGE IN PROVISION FOR BAD DEBTS	(184)	(917)
OTHER OPERATING EXPENSES	186,031	168,011
EXTERNAL SERVICES	175,115	158,461
LOCAL TAXES	2,122	1,531
OTHER OPERATING EXPENSES	1,514	2,225
PROVISION FOR LIABILITIES AND CHARGES	7,280	5,794
TOTAL OPERATING EXPENSES	652,214	636,653
OPERATING PROFIT	302,404	273,036
FINANCIAL AND SIMILAR EXPENSES	75,421	69,253
ON DEBT WITH GROUP COMPANIES	40,917	11,234
ON DEBT WITH THIRD PARTIES	34,504	58,019
EXCHANGE LOSSES	18	71
TOTAL FINANCIAL EXPENSES	75,439	69,324
PROFIT ON ORDINARY ACTIVITIES	229,332	206,630
CHANGES IN PROVISIONS FOR FIXED ASSETS	28,759	24,785
LOSSES ON TANGIBLE ASSETS	-	25
LOSSES ON OWN SHARE OPERATIONS	1	-
EXTRAORDINARY EXPENSES	726	3,932
PRIOR YEARS' EXPENSES AND LOSSES	234	369
TOTAL EXTRAORDINARY EXPENSES	29,720	29,111
PROFIT BEFORE INCOME TAX	207,695	186,099
INCOME TAX	80,342	71,867
TAXES OTHER THAN INCOME	118	181
PROFIT FOR THE YEAR	127,235	114,051

Credit	2004	2003
INCOME		
NET SALES	936,637	890,844
SERVICES RENDERED (TRANSMISSION AND SYSTEM OPERATION)	658,053	593,328
SALES OF ENERGY AND POWER	201,335	226,119
OTHER SERVICE INCOME	77,249	71,397
SELF-CONSTRUCTED ASSETS	13,858	11,144
OTHER OPERATING INCOME	4,123	7,701
OTHER INCOME	2,858	2,494
GRANTS	222	133
SURPLUS PROVISION FOR LIABILITIES	1,043	5,074
TOTAL OPERATING INCOME	954,618	909,689
INVESTMENTS INCOME	1,971	1,759
ASSOCIATED COMPANIES	1,971	1,708
NON-GROUP COMPANIES	-	51
OTHER INTEREST AND SIMILAR INCOME	292	1,122
EXCHANGE GAINS	104	37
TOTAL FINANCIAL INCOME	2,367	2,918
NET FINANCIAL EXPENSES	73,072	66,406
PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS	10	18
PROFIT ON OWN SHARE OPERATION	1,159	1,447
CAPITAL GRANTS TAKEN TO INCOME	4,410	3,965
EXTRAORDINARY INCOME	2,099	2,599
PRIOR YEARS' PROFIT AND INCOME	405	551
TOTAL EXTRAORDINARY INCOME	8,083	8,580
NET EXTRAORDINARY LOSS	21,637	20,531

PROPOSED DISTRIBUTION OF PROFITS

RED ELÉCTRICA DE ESPAÑA, S.A.

PROPOSED DISTRIBUTION OF PROFITS FOR 2004

The profit for 2004 was 127,235,182.83 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 0,6138 euros per share (for shares with dividend rights) and an interim dividend of 0,2375 euros per share has already been paid. The balance after payment of dividends will be transferred to voluntary reserves.

	Amounts in Euros
VOLUNTARY RESERVES	44,240,463.98
DIVIDENDS:	
INTERIM DIVIDEND	32,092,617.85
SUPPLEMENTARY DIVIDEND	50,902,101.00
(CALCULATED ON THE TOTAL NUMBER OF SHARES)	
TOTAL	127,235,182.83

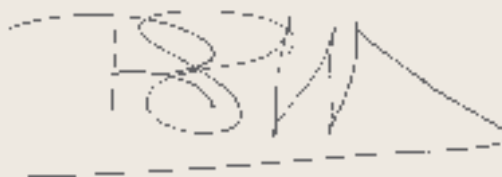
CERTIFICATION

Rafael García de Diego Barber, Secretary of the Board 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 2005. 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 14th 2005.



CO-ORDINATION:

Department of Communications and Institutional Relations of Red Eléctrica.

COVER ILLUSTRATIONS:

"High tension", dry point engraving by the painter Ana Rosa Alberca carried out for Red Eléctrica on the occasion of the 20th Anniversary original graphic art work edited by Nave del Arte.

PAGE ILLUSTRATIONS AT THE BEGINNING OF CHAPTERS:

Dry point engravings by the painter Ana Rosa Alberca acquired by Red Eléctrica by its art fund. Original graphic art work edited by Nave del Arte.

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