



RED ELÉCTRICA
DE ESPAÑA

**Annual Corporate
Governance Report
2005 Financial Year**



Dear Shareholders,

Sound Corporate Governance practices are currently an essential requirement if business projects are to be properly recognised by the stock markets and society in general. The voluntary and constant implementation of these practices has been RED ELÉCTRICA's basic and priority objective, as reflected in the successive Annual Corporate Governance Reports published by the Company since it was listed on the stock exchange in 1999, which evidence the Company's continuing efforts to achieve an outstanding position in Corporate Governance matters.

The main purpose of this Annual Corporate Governance Report (the Company's seventh Report on the matter) is to provide a full and detailed description of the measures adopted by the Company to obtain greater efficiency, transparency, independence, representativeness, security and quality when exercising the duties of the Company's management bodies. In addition, throughout the Report we have included other issues that you, as Shareholders, as well as investors and stock markets, may deem relevant for a better understanding of the Company.

Once again, the following Report reflects the continuing efforts of all those persons who today make up RED ELÉCTRICA to reach the greatest business diligence and to keep the Company in the vanguard of the best Corporate Governance practices of publicly traded corporations, aimed at creating permanent value for shareholders and electricity consumers. And of all this is used in the challenge to reach business excellence by bringing together economic and social benefits.

Signed. Luis M^a Atienza Serna

Chairman of the Board of Directors



INDEX

Page	7		Introduction
Page	9		Corporate Governance in Red Eléctrica
Page	27		Annual Corporate Governance Report
	28	A	Ownership structure
	35	B	Structure of the Company's management
	69	C	Related transactions
	72	D	Risk control systems
	75	E	General Meeting
	86	F	Level of compliance with Corporate Governance recommendations
	96	G	Other information of interest



INTRODUCTION. OBJECT AND SYSTEM USED

RED ELÉCTRICA DE ESPAÑA, S.A. (hereinafter, indistinctly referred to as RED ELÉCTRICA, the Corporation, the Company or the Parent Company) has, since its inception, shown a firm, decided and priority concern to adopt better Corporate Governance practices beyond the strict fulfilment of current regulations and Spanish and international recommendations on the matter. In this regard, the Company has been voluntarily adopting, since it became listed on the stock exchange, a whole series of practices, measures and procedures in Corporate Governance matters, all aimed at achieving greater efficiency, transparency, independence, representativeness, security and quality when exercising the duties of the Company's management bodies.

The object of this Annual Corporate Governance Report for the 2005 financial year, in line with RED ELÉCTRICA's standard practice, is not just to fulfil the necessary legal requirements, basically established in Act 26/2003, of 17 July, Ministry of Economy Order 3772/2003, of 26 December, and Comisión Nacional del Mercado de Valores Circular 1/2004, of 17 March, but to provide a full and detailed description of the Company's ownership and administration structure, the obligations of its Board members and, in general, of any issues that shareholders, investors and the stock markets may deem relevant for a better understanding of the Company. This information is complemented by the information continuously posted on the Company's website (www.ree.es).

For purposes of systematic presentation and to make the Report easy to use and understand for shareholders, investors, and stock markets, we have structured it in two clearly separate parts. In the first half, we succinctly explain the main issues of RED ELÉCTRICA's Corporate Governance: a brief description of the Company's internal regulations on Corporate Governance (section 1) and the development and current shareholder structure of the Company (section 2). In section 3, we refer to RED ELÉCTRICA's governing and management bodies and to its organisation and operational structure. A particularly important novelty in this section is an express, individual and itemised description of the remuneration received by the members of the Board of Directors, following the latest recommendations in the matter, both in Spain and internationally. Furthermore, section 4 includes the various resolutions adopted by the Board of Directors throughout the 2005 financial year that have affected Corporate Governance.

The second half of our Report includes the Company's Annual Corporate Governance Report for the 2005 financial year, further to the provisions established in Annex 1 of CNMV Circular 1/2004, of 17 March. To do this, we have followed the guidelines established in the Circular regarding ownership structure (section a), the structure of the Company's management (section b), linked transactions (section c), risk control (section d), General Meeting (section e), follow-up on corporate governance recommendations (section f), and other information of interest (section g).



I. CORPORATE GOVERNANCE IN RED ELÉCTRICA

1. REGULATIONS RELATED TO CORPORATE GOVERNANCE IN RED ELÉCTRICA

The internal rules on Corporate Governance applicable to RED ELÉCTRICA, available at all times on the Company's website (www.ree.es), are as follows:

The Bylaws, which are constantly being adapted to best corporate practices and have therefore been successively modified by the Company's Ordinary General Meeting during the 2003, 2004 and 2005 financial years, for the foregoing purposes.

The Board of Directors' Regulations, approved by the Company's Board of Directors at its meeting held on 18 November 2003, which amended the previous Regulations dated 8 June 1999. Pursuant to Article 22 of the Bylaws, the main aim of the Regulations is to establish basic rules for the Board's organisation and operation, the rules of conduct of its members, and the supervision and control system of the Board of Directors, in order to ensure the best professionalism and effectiveness. All of this is carried out by encouraging the active participation of its members, making the interest of the Company and of its shareholders prevail over their own interest, and upholding the laws, Bylaws and Corporate Governance principles. The Regulations have been notified to the Spanish securities exchange regulator (the Comisión Nacional del Mercado de Valores; hereinafter, the CNMV) and recorded at the Mercantile Registry.

The Regulations of the General Shareholders' Meeting. The General Shareholders' Meeting of Red Eléctrica de España, S.A., held on 17 July 2003 further to the proposal of the Board of Directors dated 23 June 2003, approved these Regulations, which incorporate the basic principles of the shareholder's statute, in line with the best corporate governance practice. Likewise, it includes all the new forms of shareholder protection and participation, in order to acknowledge the shareholders' rights in the Company to the fullest, applying the corporate interest as the final aim of all corporate activities. The Regulations have been notified to the CNMV and recorded at the Mercantile Registry.

The internal regulations governing conduct in the stock markets, approved by the Board of Directors of Red Eléctrica at its meeting held on 22 July 2003. In light of Act 44/2002, on Measures to Reform the Financial System, the Board deemed it appropriate to modify the former Internal Code of Conduct (approved on 7 February 1994 further to Royal Decree 629/1993 of 3 May), adding new provisions on the handling of relevant events and reserved information, and on the procedures to be followed in relation to trading in own shares (treasury stock). Furthermore, it includes the requirement to fulfil any obligations binding directors, pursuant to Act 26/2003. The Regulations have been notified to the CNMV.

The Independent Director's Statute was approved by the Board of Directors at its meeting held on 27 May 2004. Its main purpose is to establish certain criteria in relation to independent Directors, and to incorporate them in a consistent manner with the activity criteria established in the Bylaws, thereby continuing with the permanent adaptation to the best corporate governance practice that is followed by the Company. The Statute contains a whole series of criteria to provide a better definition and transparency in the election of potential independent directors, and detailed provisions on their requirements and incompatibilities, in order to strengthen the role of these directors and protect minority shareholders. The Statute was voluntarily drawn up by the Company and was notified to the CNMV.

2. SHAREHOLDER STRUCTURE

Royal Decree-Law 5/2005 of 11 March, on urgent reform measures to encourage productivity and improve public sector procurement, has made several reforms to the Electricity Sector Act. These reforms include a change in the maximum shareholding by the Company, in order to guarantee its independence vis-à-vis other electricity sector agents.

The maximum shareholding that may be held in RED ELÉCTRICA shall be one per cent (1%) for those who participate in the electricity sector and for any individuals or legal entities who, directly or indirectly, hold a significant shareholding in these agents. The limit shall be three per



cent (3%) for other shareholders, whether individuals or legal entities. Furthermore, the Royal Decree-Law has kept the special provisions applicable to the State Industrial Ownership Corporation (SEPI), which has remained unchanged and which, in any case, shall continue holding a share of at least ten per cent (10%).

Pursuant to the provisions established in Royal Decree 377/1991, of 15 March, on the reporting of significant shareholdings in listed companies and on the acquisition by the latter of treasury stock, it is hereby stated that the State Industrial Ownership Corporation (SEPI), at 31 December 2005, directly holds a significant stake in the Company by owning 27,054,000 shares, representing 20% of the share capital. There is no other individual or legal entity that exercises or may exercise control over the Company, pursuant to the provisions established in Article 4 of the Stock Exchange Act.

However, we should highlight the significant role played by electricity companies, though not holding significant stakes, in the Company's shareholder base since it was incorporated. Said shareholders and the stake they held at 26 May 2005 (last Ordinary General Shareholders' Meeting) are described below:

Legal name of shareholder (individual or corporate)	Total % of share capital
Iberdrola, S.A.	3%
Endesa, S.A.	3%
Unión Fenosa Distribución, S.A.	3%
Electra de Viesgo Distribución, S.L.	1%

The following graphs summarise the development of the Company's shareholder structure:

[Gráfico página 11 de la memoria](#)

The legal provisions on both the general and special shareholding regime have been included in Articles 5 and 17, and in the Single Additional Provision and Second Transitional Provision, of the Company's Bylaws. In order to adjust to the provisions of Royal Decree-Law 5/2005, the Bylaws were amended at the Ordinary General Shareholders' Meeting held on 26 May 2005.

In short, the foregoing legal and Bylaw measures prevent any shareholder or shareholders' group from controlling RED ELÉCTRICA.

3. GOVERNANCE AND MANAGEMENT STRUCTURE

3.1. The Ordinary General Shareholders' Meeting

3.1.1. Basic principles

The General Meeting, duly convened and legally incorporated, represents all the shareholders and exercises the corresponding powers and duties in the Company. Its resolutions, adopted pursuant to the Shareholders' Meeting Regulations and the Bylaws, shall bind all shareholders, notwithstanding their legal right of severance. The General Meeting shall be in charge of adopting all the resolutions inherent to its status as the Company's sovereign body. In particular, by way of example, it is in charge of:

- ▶ Approving the Annual Accounts of RED ELÉCTRICA and of its subsidiaries, the management performance of the Board of Directors, and the proposed allocation of results.
- ▶ To appoint and remove Directors, to ratify or revoke their appointments by co-option and to appoint and re-elect Accounts Auditors.



- ▶ To approve plans or to authorise trades over treasury stock.
- ▶ To approve the establishment of remuneration systems benchmarked to share value in favour of Directors.
- ▶ To agree to the issue of debentures, an increase or decrease in the share capital, the transformation, merger, spin-off or dissolution of the Company, and any modification of the Bylaws.
- ▶ To authorise the Board of Directors to increase the share capital, pursuant to the provisions established in the Spanish Corporations Act.

3.1.2. Governing regulations

The rules on the Meeting's organisation and activity are included in the Bylaws (Articles 11 to 18, both inclusive) and in the Regulations of the General Shareholders' Meeting, approved by the Meeting on 17 July 2003 and subsequently modified on 6 May 2004.

As already mentioned, the main aim of the Regulations is to incorporate basic principles from the shareholders' statute, in line with the best corporate governance practice. Furthermore, all the new means of shareholder protection and participation are included, in order to acknowledge shareholders' rights in the Company to the fullest, using the corporate interest as the final end of all corporate activity.

The Regulations of the General Shareholders' Meeting were notified to the CNMV, are available on the Company's website (www.ree.es), and are recorded at the Mercantile Registry.

During the 2005 financial year and in order to encourage shareholder participation, an electronic voting system was implemented, pursuant to current law and internal development rules, which was used for the first time at the Ordinary General Shareholders' Meeting held on 26 May 2005. The aim is to practically and progressively adjust the legal mechanisms available to shareholders in order to better exercise their rights, combining new technology with legal security and thus encouraging their active participation in the Company's sovereign body.

3.2 The Board of Directors

3.2.1. Basic principles

The Company acts through a small, active and efficient, Board of Directors (11 members) that governs and represents the Company with the support of an Audit Committee and an Appointments and Remuneration Committee.

Pursuant to the Bylaws and the Board of Directors' Regulations, the prevailing criteria at all times in the Board's activity is to defend the viability and value of the company in the long-term, as well as to protect and encourage the Company's general interests. In particular, the Board is entrusted with all management and representation duties of the Company, in or out of court, which shall be either exercised directly or through delegation, replacement or empowerment, in the terms established by law, in the Bylaws and in the Board Regulations.

The Board's policy is to entrust the ordinary management of the Company to the executive bodies and management team, and to focus its activity on general supervision and the approval of basic activity guidelines.

3.2.2. Governing regulations

The Board's organisational and operating rules are included in the Bylaws (Article 19 to 26, both inclusive) and in the Board of Directors' Regulations. In this regard, the Board of Directors of the Company, at its meeting held on 18 November 2003, decided to modify the Board Regulations, dated 8 June 1999.

The main aim of these Regulations, pursuant to Article 22 of the Bylaws, is to establish basic organisation and operating rules, rules of conduct for its members and a supervision and control regime, in order to ensure the best professionalism and effectiveness. All of this is carried out by encouraging the active participation of its members, giving priority to the interest of the



company and of its shareholders over their own interests, and upholding the law, Bylaws and Corporate Governance principles.

The Board of Directors' Regulations have been notified to the CNMV, are available on the Company's website (www.ree.es), and are recorded at the Mercantile Registry.

3.2.3. Composition

Pursuant to the provisions established in the Company's Bylaws, the Board of Directors of the issuing Company consists of a minimum of nine (9) and a maximum of thirteen (13) members, to be appointed by the General Shareholders' Meeting. The Extraordinary General Shareholders' Meeting, held on 17 July 2003, established eleven (11) as the number of Directors, within the foregoing range.

The identity of the Directors, the dates of their first and last appointment, position on the Board and characteristics of each director, election procedure and Board Committees to which they belong, at 31 December 2005, are provided below:

Director's Name	First Appointment	Last Appointment	Position on the Board	Type of Director	Election Procedure	Board Committees to which the Director belongs
Mr. Luis M ^a Atienza Serna	08.07.04	26.05.05	Chairman	Executive	General Meeting	Appointments and Remuneration (Member)
Mr. Pedro Rivero Torre	29.01.85	17.07.03	Member	Independent	General Meeting	Audit (Member) Appointments and Remuneration (Member)
Mr. Juan Gurbindo Gutiérrez	03.02.98	17.07.03	Member	Proprietary (SEPI)	General Meeting	Appointments and Remuneration (Member)
Mr. Antonio Garamendi Lecanda	20.07.99	17.07.03	Member	Independent	General Meeting	Appointments and Remuneration (Chairman)
Mr. Manuel Alves Torres	26.10.99	17.07.03	Member	Proprietary (SEPI)	General Meeting	Audit (Member)
Mr. José Riva Francos	22.04.03	17.07.03	Member	Independent	General Meeting	---
Mr. José Manuel Serra Peris	17.07.03	17.07.03	Member	Independent	General Meeting	---
Mr. Rafael Suñol Trepal	16.12.04	26.05.05	Member	Proprietary (SEPI)	General Meeting	---
Ms. María de los Ángeles Amador Millán	26.05.05	26.05.05	Member	Independent	General Meeting	---
Mr. Martín Gallego Málaga	28.06.05	28.06.05	Member	Independent	Cooptation	---
Mr. Francisco Javier Salas Collantes	28.06.05	28.06.05	Member	Independent	Cooptation	Audit (Chairman)

3.2.4. Remuneration of the Board of Directors

During the 2005 and 2004 financial years, the total remuneration accrued by the members of the Board of Directors of the Parent Company, both as a result of belonging to the Board of the Company and of the Group's companies, amounted to 2,269 and 2,321 thousand euros, respectively. These amounts include both an estimate of the remuneration tied to results and the salaries of those Board members who are also employees. A breakdown of this remuneration is provided below:



► Remuneration by the Parent Company:

Item:	Thousands of euros	
	2005	2004
Fixed Remuneration	360	417
Variable Remuneration	1,095	1,106
Per diems	780	706
Total Remuneration	2,235	2,229

► Remuneration in the event that the Company Directors belong to other boards and/or senior executive bodies of Group companies:¹

Item:	Thousands of euros	
	2005	2004
Fixed Remuneration	-	-
Variable Remuneration	-	-
Per diems	34	92
Total Remuneration	34	92

► The total remuneration by type of director is as follows:

Type of Director:	Thousands of euros			
	Parent Company		Group	
Executive	698	778	-	-
External Proprietary	620	705	-	-
External Independent	912	746	34	92
Total Remuneration	2,235	2,226	34	92

¹ This remuneration relates to the telecommunications subsidiary, Albura, which was sold in the 2005 financial year.

The total remuneration accrued by the members of the Board of Directors of Red Eléctrica de España, S.A., both due to their membership of the Company Board and that of the Group companies, in the 2005 financial year, for each Director, is provided below:

	Parent Company		Thousands of euros		
	Remuneration	Remuneration	Group		
	Fixed	Variable	Per diems	Per diems	Total
Mr. Luis M ^a Atienza Serna	360	256 ⁽⁴⁾	82	-	698
Mr. Pedro Rivero Torre	-	85	107	13	205
Mr. Juan Gurbindo Gutiérrez ⁽¹⁾	-	85	82	-	167
Mr. Antonio Garamendi Lecanda	-	85	82	13	180
Mr. Manuel Alves Torres ⁽¹⁾	-	85	82	-	167



Mr. José Riva Francos	-	85	57	-	142
Mr. José Manuel Serra Peris	-	85	57	-	142
Mr. Rafael Suñol Trepas	-	85	57	-	142
Ms. María de los Ángeles Amador Millán ⁽³⁾	-	49	26	-	75
Mr. Francisco Javier Salas Collantes ⁽³⁾	-	43	37	-	80
Mr. Martín Gallego Málaga ⁽³⁾	-	43	26	-	69
Mr. Joaquim Clotet i Garriga ⁽²⁾	-	25	25	8	58
Mr. Elías Velasco García ⁽²⁾	-	42	30	-	72
Mr. José Ignacio Sánchez Galán ⁽²⁾	-	42	30	-	72
Total remuneration accrued	360	1,095	780	34	2,269

(1) Amounts received by the State Industrial Ownership Corporation (SEPI)

(2) Post of Director abandoned during the 2005 financial year

(3) Joined the Board of Directors of the Parent Company during 2005

(4) Including the variable remuneration derived from his/her status as executive Director

There are no pension obligations undertaken with regard to members of the Board of Directors.

There are guarantee or protection clauses in favour of the executive Director to cover the event of dismissal or changes of control. This contract was approved by the Appointments and Remuneration Committee, and the Board of Directors of the Company has been duly informed. Said clauses follow standard market practice and cover the event of termination of the employment relationship, providing for indemnities of up to one year's salary, unless applicable regulations provide for a higher amount.

At 31 December 2005 and 2004, the Consolidated Balance Sheet does not reflect any loans, advances or guarantees by the Company in favour of the members of the Board of Directors.

During the 2005 financial year, the members of the Board of Directors have not carried out operations with the Company or its Group companies, whether directly or through persons acting on their behalf, which are outside ordinary business or are not conducted in normal market conditions.

3.2.5. Professional characteristics

Below is a description of the main activities conducted outside the Company by the members of the Board of Directors, at 31 December 2005:

Mr. Luis Atienza Serna

Background

48 years old

Bachelor in Economic and Business Sciences, Universidad de Deusto.

Certificate in Higher European Studies, University of Nancy (France), Centre for Higher European Studies.

Certificate in Development Economy (D.E.A.), University of Nancy, School of Law and Economic Sciences.

Career

Posts held:

Minister of Agriculture, Fishing and Food.



General Secretary of Energy and Mineral Resources of the Ministry of Industry and Energy.

President, Institute for Energy Savings and Diversification (IDAE).

President, Spain Geomining Technological Institute.

President, Centre for Energy, Environmental and Technological Research (CIEMAT).

General Secretary, Agrarian Structures, Ministry of Agriculture, Fishing and Food.

Economic Councillor, Basque Government.

Member of the Basque Parliament.

Professor, School of Economic and Business Sciences and International Business Administration Institute and Institute for European Studies, Universidad de Deusto.

He has given many courses, seminars and conferences, and has published articles on economic, energy and agrarian policy and European research in economic and general publications, including work documents for University Institutes and Research Centres.

He belongs to the Board of Directors of the Instituto Nacional de Hidrocarburos (INH), the Corporación Logística de Hidrocarburos (CLH) and the Basque Energy Department (EVE).

At present:

President of the Doñana 21 Foundation for Sustainable Development in the Doñana Reserve.

Mr. Pedro Rivero Torre

Background

67 years old

Doctor in Economic and Business Sciences, Universidad Complutense de Madrid.

Doctor Honoris Causa, Universidad de Castilla-La Mancha.

Member, Real Academia de Doctores.

Career

At present:

Professor of Financial Economics and Company Accounting.

External Auditor (on leave of absence).

Vice President, UNESA.

Member, Economic and Social Council.

Member, Social Council of Universidad de Castilla-La Mancha.

Member, Electricity Advisory Board, CNE.

Board member, CIEMAT.

Chairman of the Corporate Social Responsibility Committee, AECA.

Director, OMEL (Operador del Mercado Ibérico de Energía – Polo Español, S.A.).

Mr. Juan Gurbindo Gutiérrez

Background

58 years old

Industrial Engineer, Universidad Politécnica de Madrid.

Masters in Business Administration, Industrial Organisation School (EOI) of Madrid, and Manchester Business Administration School.

Career

Posts held:

Director of energy generation projects, INITEC.

Responsible for electric sector companies, SEPI.

Director of the Presidential Cabinet, SEPI.

Member of SEPI's Management Board.

Member of the Board of Directors of Iberia, Austral, Aerolíneas Argentinas, Aviaco, Endesa and Electra de Viesgo.



At present:

Director of Administration and Resources, SEPI
He represents SEPI on the Board of Banco Árabe-Español.
President of the Labour Services Foundation, SEPI.
Sponsor of the SEPI Foundation (former Fundación Empresa Pública).

Mr. Antonio Garamendi Lecanda

Background

47 years old
Entrepreneur. Insurance broker

Career

Posts held:

General Delegate of Equitativa, S.A. (Vizcaya).
Managing Director of Bankoa, S.A. (Insurance Brokerage Company).
President of the "Negocios de Comunicación" Group (La Gaceta de los Negocios, Dinero magazine, Intereconomía Radio and ORT News Agency).
President of the Spanish Confederation of Young Entrepreneurs (CEAJE).
President, Business Creation Commission, CEOE.
Director, Babcock & Wilcox Española, S.A.

At present:

President of Galea Empresarial, S.L.
Vice President of Entel - Ibai
Managing Director of Iniciativas de Comunicación Económica, S.A. (ICESA).
Director, Grupo Tubos Reunidos, S.A.
Member of the Strategic Committee of Sodexho Pass, S.A. Group
Member of the Management Board, C.E.O.E.
Member and Treasurer of Confemetal and the Formetal Foundation.
Committee Member of the Institute for Economic Studies (IEE).
Member of the Management Board: Vizcaya Business Confederation (CEBEK), Vizcaya Chamber of Commerce, and the Vizcaya Chamber of Urban Property.
Member of the Executive Committee of the Vizcaya Federation of Metal Companies.
Insurance broker (AG Seguros)
Chairman of the Energy Commission, CEOE (since March 2006).

Mr. Manuel Alves Torres

Background

51 years old
Bachelor of Economic and Business Sciences

Career

Posts held:

Head of Budgeting, Standard Eléctrica, S.A.
Higher Technician, Assistant Director of Companies, Corporate Sub-Director, INI.
Director of Planning and Supervision, Teneo.
Member of the Board of Directors of Potasas de Subiza, Potasas de Suria, Grupo Ence, Grupo Inespal, Enatcar, Clínica Castelló, Minas de Almagrera, Agencia Efe, Binter Canarias and Hipódromo de la Zarzuela.

At present:

Director of Planning and Control, SEPI.
Member of SEPI's Management Committee.
He represents SEPI in the SEPI Foundation and in the SEPI Labour Services Foundation.
Board Member of Tragsa and Sedettur.



Mr. Francisco Javier Salas Collantes

Background

57 years old
Bachelor of Economic Sciences, specialising in Business Economics

Career

Posts held:

Head of Economic and Financial Planning, Empresa Nacional del Uranio (ENUSA).
Economic and Financial Manager of Empresa Nacional del Uranio (ENUSA).
Financial Manager and General Manager of Corporate Management of Instituto Nacional Industria (INI).
President of Instituto Nacional Industria (INI) and Teneo.
President of IBERIA.
Board Member in the following entities: Banco Exterior de España, Endesa, Seat, INI, Teneo, Argentaria, Red Eléctrica de España, Secoinsa, Infoleasing, S.K.F., OPTIMIZA.
Sponsor of the Cruz Roja, Conferencia Anual Francisco Fernández Ordóñez, Isaac Albeniz, Universidad Complutense, Argentaria, Empresa Pública and José Carreras Foundations.

At present:

Founding Member and Manager of SAGA Servicios Financieros (Management and M&A Consultants).
President of Asociación Profesional de Empresas de Limpieza (ASPEL).
Director of Uniseco (President) and of Telvent (Chairman of the Audit Committee).
Director of Ged Capital Development, S.A., SGEGR and Ged Iberian Private Equity, S.A., SGEGR.
Member of the Advisory Council (Spain) of Banco Privado Portugués and of Grupo FCB/TABSA.
President of Fundación Entorno, Empresa y Medio Ambiente.
Sponsor of Instituto de Cuestiones Internacionales y Política Exterior (INCIPE).
Sponsor of the APMIB Foundation (Vice President).

Mr. José Riva Francos

Background

52 years old
Architect, E.T.S.A. Madrid. Specialty: Urban Development.
Architect in Madrid

Career

Posts held:

1981: Visit to Minoru Yamasaki Studio, collaborating in the Project to build Torre Picasso, Madrid.
1981/1986: Architect in Madrid, own studio.
"Estudio ARCO, Arquitectura y Construcción": various works carried out for private clients and for the "Patronato de Casas del Aire" (Air Force Ministry).

At present:

Vice President and Managing Director of all the companies belonging to Grupo Suardíaz, with main offices in Madrid and branch offices in the 12 most important ports of mainland Spain and the Canary Islands.
President of Oligsa and Ventastur.
President and Managing Director of Ayala 6, S.A. and Camajuani.
Board Member of Almacenes La Estrella, Logista and Enagás.



Mr. Martín Gallego Málaga

Background

65 years old

Doctor in Mining Engineering. Specialty: Power. Universidad Politécnica de Madrid.

Bachelor in Economic Sciences, Universidad Complutense de Madrid.

Certificate in Industrial Project Assessment, World Bank, Washington D.C.

Specialist in Economic Development and International Aid, Instituto Complutense de Estudios Internacionales de Madrid.

Career

Posts held:

General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy.

President of the Nuclear Energy Board (currently CIEMAT), of Instituto para la Diversificación y Ahorro de la Energía (IDAE), of Instituto Geológico y Minero de España (ITGM) and of the Coordinating Committee of the Research Office for Energy Sectors.

President of Hidroastur, S.A. and of Grupo Minero de Wolframio La Parrilla, S.A.

Consultant for Endesa, Chase Manhattan Bank, Campsa, Price Waterhouse, Hunosa and OFICO.

Expert and Consultant for the European Communities Commission (Brussels) and the World Bank (Washington).

General Corporate Manager for International Trade and Diversification, Grupo Endesa.

Board Member of the following entities: Instituto Nacional de Hidrocarburos (currently Repsol-YPF), Campsa, Banco Saudí Español, Gas Andalucía, S.A., Tejo Energía, S.A., Electricidad de Caracas, S.A., Cable y Televisió de Catalunya, S.A., Cable y Comunicaciones Madrid, S.A., Internacional del Agua, S.A., Aguas de Barcelona, and Managing Director of Endesa Desarrollo, S.A. and of Grupo Eléctrico de Telecomunicaciones, S.A. (currently Auna).

Expert Director of the Spanish Economic and Social Council.

Director for Industry and Energy, Spanish Embassy in Washington.

At present:

Consultant

Professor in the School of Industrial Organisation

Member of the Governing Council, CIEMAT

Ms. María de los Ángeles Amador Millán

Background

56 years old

Bachelor in Law, Universidad Complutense de Madrid

Career

Posts held:

General Technical Secretary, Ministry of Public Works and Urban Development.

Representative of the Governing Board of the Lawyers' Association of Madrid.

Assistant Secretary of the Ministry of Health and Consumer Affairs.

Minister of Health and Consumer Affairs.

Court Representative for Segovia.

Spokesman for Health Matters in Congress, Grupo Parlamentario Socialista.

Court Representative for Madrid.

Vice Chairman of the Constitutional Commission of Congress.

At present:

Practising lawyer.



Mr. José Manuel Serra Peris

Background

46 years old
Bachelor in Law, Universidad de Valencia.
Member of the State Corps of Solicitors.

Career

Posts held:

State Solicitor in the Treasury Department of Valencia and High Court of Justice of the Autonomous Community of Valencia.
General Technical Secretary of the Ministry of Industry and Energy.
Vice Secretary of the Ministry of Industry and Energy.
Secretary of State for Industry and Energy.
President of the Spanish Patent and Trademark Office.
President of the Centre for Technological and Industrial Development (CDTI), President of Fundación de la Escuela de Organización Industrial, President of Instituto para la Diversificación y el Ahorro de Energía (IDAE).
President of Instituto para la Reestructuración de la Minería del Carbón y Desarrollo Alternativo de las Comarcas Mineras and President of Centro de Investigaciones Energéticas, Medioambientales y Tecnológicas (CIEMAT).
Board Member of the State Industrial Ownership Corporation (SEPI) and of the State Asset Ownership Corporation (SEPPA).
Board Member of Iberia, Líneas Aéreas de España, S.A, and member of the Board of Directors and Executive Committee of Endesa.

At present:

Lawyer and consultant.
Board Member of Grupo Empresarial Ence, S.A., Uralita, S.A. and Natraceutical, S.A.

Mr. Rafael Suñol Trepal

Background

61 years old
Bachelor in Economic and Business Sciences, E-1969, ADE-ESADE 1980, PADE-IESE 1999

Career

Posts held:

Managing Director of Aurica, SCR, S.A., partner of Socios Financieros and President of Activa Ventures.
Director and Vice President of Fecsa and Director of Endesa.
Managing Director of Banco de Fomento.
President of Banco de Crédito Industrial and Director of ICO.
Assistant General Manager of GDS, Caja de Barcelona, after working for Banco Urquijo, Barcelona.
President of Crédito&Docks and of Dinvergestión, and Director of companies linked to Banco Central.
Director of Ericsson España, Frida Alimentaria and Visual Tools, and President of Cobrhi.

At present:

Chairman of the Advisory Council of Corporación Age.
Director of Peugeot España, Inypsa, Telstar, Bidsa, Grafos and Serveis Funeraris de Barcelona.



3.2.6. Board Committees

Pursuant to applicable law and Corporate Governance practice, the Company established an Audit Committee in 2003, all the members of which were external Directors, and an Appointments and Remuneration Committee, most of the members of which were external Directors. These committees replaced the two former committees that had been carrying out similar tasks since 1999. The Regulations of the Board of Directors describe the composition, operation and duties of these Committees.

Consequently, the duties of the Appointments and Remuneration Committee, pursuant to the Bylaws and the Board Regulations, include a proposal for review of the remuneration policy applicable to the Board and Senior Management. In turn, the Audit Committee is in charge of supervising the government rules within its scope of responsibility, amongst other duties.

The members of the Company's Audit Committee at 31 December 2005 are as follows:

Director	Post	Type of Director
Francisco Javier Salas Collantes	Chairman	Independent
Manuel Alves Torres	Member	Proprietary
Pedro Rivero Torre	Member	Independent

The members of the Company's Appointments and Remuneration Committee at 31 December 2005 are as follows:

Director	Post	Type of Director
Mr. Antonio Garamendi Lecanda	Chairman	Independent
Mr. Luis M ^a Atienza Serna	Member	Executive
Mr. Pedro Rivero Torre	Member	Independent
Mr. Juan Gurbindo Gutiérrez	Member	Proprietary

3.3 Senior Management

3.3.1. Composition

The members of the Company's Senior Management at 31 December 2005 are as follows:²

Legal name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transport
Esther M ^a Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations
Ángel Landa López de Ocáriz	Deputy General Manager

3.3.2. Remuneration

Staff expenses (remuneration in cash and in kind, Social Security, pension plans, etc.) of the senior executives of the Parent Company amounted to 1,013 thousand euros in 2005 (717 thousand euros in 2004) and are recorded under "Staff Expenses" in the Consolidated P&L Account.

² Exclusively for the purposes of CNMV Circular 1/2004, of 17 March, this refers to those individuals who manage the Company at the highest level and, consequently, separately from any employment or legal relationship with the Company.



At 31 December 2005 and 2004, there were no loans or advances in relation to members of the Senior Management.

Guarantee or protection clauses exist in favour of members of the Senior Management to cover events of dismissal. These contracts were approved by the Appointments and Remuneration Committee and the Board of Directors of the Parent Company was duly informed.

Said contracts affect two executives who belong to the Senior Management. The aforementioned clauses follow standard market practice and cover events of termination of the employment relationship, providing indemnities of up to two years' salary, unless applicable regulations provide for higher compensation.

3.3.3. Professional background

Below is a description of the background of the Company's Senior Management members.

Mr. Ángel Landa López de Ocáriz

64 years old
Industrial Engineer, specialty obtained from E.T.S.I. Industriales (Bilbao).

Career

Posts held:

Member of the Department for Relations with Large Utilities, Iberduero.
Head of Settlements Department, Red Eléctrica de España, S.A.
Head of Management and Activity Planning, Red Eléctrica de España, S.A.
Head of Electrical System Operation, Red Eléctrica de España, S.A.
Technical Manager of Comisión Nacional del Sector Eléctrico (CSEN).
Regulations Manager of Comisión Nacional del Sector Eléctrico (CSEN).
General Operations Manager of Red Eléctrica de España, S.A.

Mr. Carlos Jaime Collantes Pérez-Ardá

51 years old
Industrial Engineer, specialty obtained from E.T.S.I. Industriales de Navarra

Career

Posts held:

Services Manager of Exploitation Studies Department, Fenosa, S.A.
Head of Research Department, Unión Fenosa, S.A.
Head of Manoeuvring Office, North Area, Unión Fenosa S.A.
Deputy Regional Manager for the North-East, Red Eléctrica de España, S.A.
Deputy Manager of Operating Systems, Red Eléctrica de España, S.A.
Territorial Coordination Manager, Red Eléctrica de España, S.A.

Ms. Esther María Rituerto Martínez

51 years old
Degree in Physics, specialising in Automatic Calculus, Universidad Complutense de Madrid.
MBA from Escuela de Organización Industrial.

Career

Posts held:

Risks Manager, Bankinter.



Manager of Planning and Control, INI; Manager of Planning and Control, Teneo, S.A.;
Manager of Planning and Control, The State Industrial Ownership Corporation (SEPI).
Member of SEPI's Executive and Management Committees.
Managing Director of Izar Construcciones Navales, S.A.

Board member of the following entities: Endesa, Iberia Líneas Aéreas de España, Indra,
Construcciones Aeronáuticas, Izar, Agencia Efe, Patronato Fundación Empresa
Pública, Ensidesa, Altos Hornos de Vizcaya, Compañía Transatlántica Española, Binter
Canarias and Endiasa.

Mr. Alberto Carbajo Josa

55 years old
Mining Engineer, Universidad Politécnica de Madrid.
Degree in Economics, Universidad Autónoma de Madrid.
Masters in European Communities, Escuela Diplomática de Madrid.

Career

Posts held:

General Manager of OFICO (Oficina de Compensación de la Energía Eléctrica).
General Manager for Mining and Construction Industries, Ministry of Industry and
Energy.
Director of the National Electricity System Commission.
International Regulations Manager of Unión Fenosa, S.A.

4. MAIN RESOLUTIONS OF THE 2005 FINANCIAL YEAR RELATED TO CORPORATE GOVERNANCE.

The main resolutions adopted by the Company in the 2005 financial year, related to Corporate Governance, are as follows:

1. The following resolutions were adopted at the Board of Directors' Meeting held on 21 April 2005:
 - ▶ The Company's Corporate Governance Report for the 2004 financial year was unanimously approved. Said Report was presented, for information purposes, to the Ordinary General Shareholders' Meeting of the Company held on 26 May 2005, under the eighth point of the Agenda.
 - ▶ Further to Royal Legislative Decree 1564/1989, of 22 December, which approves the Revised Text of the Spanish Corporations Act, Stock Exchange Act 24/1988, of 28 July, including the amendments made by Act 26/2003 (Transparency Act), Electronic Signatures Act 59/2003, of 19 December, and the provisions established in Article 17 bis) of the Bylaws, Article 15.8 of the Regulations of the Shareholders' Meeting, and Article 35 of the Board Regulations, the Board of Directors approved the procedure for electronic voting at the Ordinary General Shareholders' Meeting for the 2005 financial year.
 - ▶ Acceptance of Mr. Joaquim Clotet i Garriga's resignation from his post as independent Director of RED ELÉCTRICA.
 - ▶ Appointment, further to the proposal made by the Appointments and Remuneration Committee at its meeting of 12 April 2005, of Mr. Fernando Frías Montejo as Vice Secretary of the Board of Directors.
2. The following resolutions on the matter were adopted at the Ordinary General Shareholders' Meeting held on 26 May 2005:



- ▶ Ratification of the appointment as Directors of RED ELÉCTRICA, made by the Board of Directors pursuant to Article 138 of the Spanish Corporations Act, of Messrs. Luis M^a Atienza Serna (executive Director) and Rafael Suñol Trepas (proprietary Director), at the meetings held on 24 June and 16 December 2004, respectively, to replace and as a result of the resignations of Messrs. Pedro Mielgo Álvarez and Enrique Lacalle Coll, respectively; said appointment was made for the term of office stipulated in the Bylaws, upon prior report and proposal presented by the Board of Directors, further to a report from the Appointments and Remuneration Committee.
 - ▶ Appointment of Ms. María de los Ángeles Amador Millán as independent Director of RED ELÉCTRICA, for the term of office stipulated in the Bylaws of four years, further to the report and proposal made by the Board of Directors, further to a report from the Appointments and Remuneration Committee, following the procedure established in the Board Regulations and in the independent Director's Statute.
3. The following resolutions of interest were adopted by the Board of Directors at its meeting held on 28 June 2005:
- ▶ Appointment as independent Directors of RED ELÉCTRICA of Messrs. Francisco Javier Salas Collantes and Martín Gallego Málaga, until the first General Meeting, in order to cover the vacancies existing in the Board of Directors as a result of said Board meeting, further to the replacement and resignations of Messrs. Elías Velasco García and José Ignacio Sánchez Galán, further to the reports and proposals made by the Appointments and Remuneration Committee, following the procedure established in the Board Regulations and in the Independent Director's Statute.
 - ▶ Appointment of Mr. Francisco Javier Salas Collantes as a member of RED ELÉCTRICA's Audit Committee, for a term of three years, further to the proposal made by the Chairman of the Board of Directors, further to a report from the Appointments and Remuneration Committee, following the procedure established in the Board Regulations and in the Independent Director's Statute.
4. The Audit Committee, at its meeting held on 21 July 2005, pursuant to the provisions established in the Bylaws and in the Regulations of the Board of Directors, entrusted the independent Director Mr. Francisco Javier Salas Collantes to act as Chairman of the Audit Committee; said post was then vacant as a result of the resignation of its former Chairman, Mr. Joaquim Clotet i Garriga, from his post as Director.



II. ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA DE ESPAÑA, S.A.

FOR THE 2005 FINANCIAL YEAR, CNMV CIRCULAR 1/2004, OF 17 MARCH

ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT
Publicly Traded Corporations

Identification of the issuer – financial 2005

Company Name:
RED ELÉCTRICA DE ESPAÑA, S.A.
Tax Code. **A-78003662**

Registered Address:
Pº Conde de los Gaitanes, 177
La Moraleja – Alcobendas
28109 MADRID



STANDARD ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED SPANISH CORPORATIONS ("SOCIEDADES ANÓNIMAS")³

A OWNERSHIP STRUCTURE

A.1. Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of Shares
17-05-1999	270,540,000	135,270,000

If different classes of shares exist, indicate in the table below:

Class	Number of Shares	Individual Face Value
--	--	--

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

A.2. Description of any direct and indirect holders of significant stakes and amount thereof at the closing date of the financial year, excluding Directors:

Tax Number or Code	Legal name of shareholder (individual or corporate)	Number of direct shares	Number of indirect shares (*)	Total % of share capital
Q-2820015B	State Industrial Ownership Corporation (SEPI)	27,054,000	--	20

Since the Company was incorporated, electricity companies have played a significant role in its shareholder base. However, at the present date, they are not deemed shareholders with a significant stake for the foregoing purposes.

As of May 2005 (date of the last General Shareholders' Meeting), said companies and their stake in the Company's share capital was as follows:

Legal name of shareholder (individual or corporate)	Total % of share capital
Iberdrola, S.A.	3%
Endesa, S.A.	3%
Unión Fenosa Distribución, S.A.	3%
Electra de Viesgo Distribución, S.L.	1%

(*) Through:

Tax Number or Code	Legal name of stakeholder (individual or corporate)	Number of direct shares	% of share capital
--	--	--	--
	Total:	--	--

Indicate the most relevant movements in the shareholder structure that took place during the financial year:

Tax Number or Code	Legal name of stakeholder (individual or corporate)	Date of operation	Description of operation
--	--	--	--

³ Unless another date is expressly indicated in this Report, the content thereof is deemed to refer to 31 December 2005.



A.3. Complete the following tables on the members of the company's board of directors who hold company shares:

At 31 December 2005, the direct and indirect shareholding of Directors in RED ELÉCTRICA's share capital, both in individual and aggregate terms, is provided below:

Legal name of director (individual or corporate)	Date of first appointment	Date of last appointment	Number of direct shares	Number of indirect shares (*)	Total % of share capital
Luis M ^a Atienza Serna	08.07.04	26.05.05	6,750	-	0.0049
Pedro Rivero Torre	29.01.85	17.07.03	0	-	0
Juan Gurbindo Gutiérrez	03.02.98	17.07.03	0	-	0
Antonio Garamendi Lecanda	20.07.99	17.07.03	10	-	0.0000
Manuel Alves Torres	26.10.99	17.07.03	10	-	0.0000
José Riva Francos	22.04.03	17.07.03	552	-	0.0004
José Manuel Serra Peris	17.07.03	17.07.03	0	-	0
Rafael Suñol Trepas	16.12.04	26.05.05	20	-	0.0000
María de los Ángeles Amador Millán	26.05.05	26.05.05	0	-	0
Martín Gallego Málaga	28.06.05	28.06.05	20	-	0.0000
Francisco Javier Salas Collantes	28.06.05	28.06.05	20	-	0.0000

(*) Through:

Tax Number or Code	Legal name of direct stakeholder (individual or corporate)	Number of direct shares	Total % of share capital
--	--	--	--
--	Total:	--	--

Total % of share capital held by the board of directors	0.0053
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Complete the following tables on members of the company's board of directors who hold rights over company stock:

Tax Number or Code	Legal name of director (individual or corporate)	Number of direct rights to corporate shares (options)	Number of indirect rights to corporate shares (options)	Number of equivalent shares	Total % of share capital
--	--	--	--	--	--



A.4. Give details of any relationships of a family, commercial, contractual or corporate nature, known to the Company, between the owners of significant shareholdings, unless the relationships are negligible or arise in the normal course of business:

Tax Number(s) or Code(s)	Related names or company identities	Type of relationship	Brief description
--	--	--	--

A.5. Give details of any relationships of a commercial, contractual or corporate nature between the owners of significant shareholdings and the Company, unless the relationships are negligible or arise in the normal course of business:

Tax Number(s) or Code(s)	Related names or company identities	Type of relationship	Brief description
--	--	--	--

The significant shareholder of the Company, the State Industrial Ownership Corporation (SEPI), does not have any significant relationship with the Company and/or its group, or which is outside the Company's ordinary business activity, of a family, business, contractual or corporate nature.

A.6. Give details of any shareholders' agreements of which the Company has been notified:

Tax Number(s) or Code(s)	Executing parties of agreement	% of share capital affected	Brief description of the agreement
--	--	--	--

At 31 December 2005, the Company is not aware of any agreements or covenants reached by the shareholders, obliging them to adopt a common policy through the concerted exercise of voting rights at the General Meetings, or which restrict or condition the free transferability of their shares.

Give details of any concerted actions between the shareholders in your Company that are known to the Company:

Tax Number(s) or Code(s)	Executing parties of concerted action	% of share capital affected	Brief description of the concerted action
--	--	--	--

At the closing date of the 2005 financial year, there is no record in the Company of any shareholder agreements or covenants obliging them to a concerted exercise of their voting rights, or to a common policy in the company management, with the aim of significantly influencing the Company.

If, during the financial year, said covenants or agreements or concerted actions were modified or terminated, indicate expressly.



A.7. Indicate if there is any individual or legal entity that exercises or may exercise control over the company, within the meaning of Article 4 of the Stock Exchange Act:

Tax Number or Code	Name or company identity
Q-2820015B	State Industrial Ownership Corporation (SEPI)
Comments	
<p>The State Industrial Ownership Corporation (SEPI) is the direct owner, at the closing date of the 2005 financial year, of a significant stake in the Company, holding 27,054,000 shares that represent 20% of the share capital. The foregoing follows the provisions of Royal Decree 377/1991, of 15 March, on the notification of significant stakes in listed companies and the acquisition of own shares. In relation to said stake, during the 2005 financial year, the State Industrial Ownership Corporation (SEPI) carried out a private placement of 11,497,950 shares, representing 8.5% of the Company's share capital.</p> <p>There is no other individual or legal entity that exercises or may exercise control over the Company, further to Article 4 of the Stock Exchange Act.</p>	

A.8. Complete the following tables on the company's treasury stock:

At the end of the year:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
160,982	--	0.12

(*) Through:

Tax Number or Code	Legal name of the direct share owner	Total % of share capital
--	--	--
--	Total:	--

Details of significant changes, as required under Royal Decree 377/1991, carried out during the financial year:

Date	Number of direct shares	Number of indirect shares	Total % of share capital
27.01.05	1,359,580	--	1.005
10.03.05	1,513,315	--	1.119
15.06.05	1,394,396	--	1.031
20.10.05	1,360,324	--	1.006

On 27 January, 10 March, 15 June and 20 October 2005, the percentage of treasury stock reflects accumulated purchases during the 2005 financial year. The treasury stock balance on said dates was: 63,537 shares (0.047%), 877,819 shares (0.649%), 278,136 shares (0.06%) and 374,049 shares (0.277%), respectively.

Results obtained during the year from treasury stock transactions (in thousands of euros)	2,022
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A.9. State the conditions and the term(s) of the authorization(s) granted by the Company in general meeting to the board of directors for the acquisitions or transfers of own shares described in section A.8.

Under point nine of the Agenda of the Ordinary General Shareholders' Meeting held on 26 May 2005, the Board of Directors of Company was authorised, pursuant to the provisions established in Article 75 and applicable articles and in the First Additional Provision of the Spanish Corporations Act and other applicable provisions, to buy back shares of the Company, directly or indirectly and to the extent it believes necessary in the circumstances, subject to the following terms:

- (i) the maximum number of shares to purchase shall not exceed the legal limit established (currently 5%), provided that the remaining legal requirements applicable may also be fulfilled, and
- (ii) the acquisitions may not be executed at a price higher than that listed on the Exchange.

The acquisition modes may consist of a sale-purchase, exchange, or any other business transaction for consideration, as the circumstances may require. In order to effectively execute the foregoing resolution and fulfil the legal limits established, the shares purchased under said authorisation may be transferred at any time, as the circumstances may require, at least at the price listed on the Exchange.

Consequently, the Board of Directors was authorised, in the broadest sense necessary, to request as many authorisations and to adopt as many resolutions as necessary or appropriate to fulfil current legal provisions, and to successfully execute this resolution. The authorisation shall remain valid for 18 months as of the date the General Meeting was held, 26 May 2005.

Apart from the information contained in Section A.8 above, in the Annual Report and Management Report, for the 2005 financial year, additional information is included on the transactions carried out by the Company with its treasury stock.

A.10 If applicable, indicate any legal and Bylaw restrictions on the exercise of voting rights, as well as the legal restrictions on the acquisition or transfer of equity interests.

Pursuant to the provisions established in the Company's Bylaws, each share entitles its owner to one vote. Furthermore, any shareholder may attend the General Meeting, without any required minimum number of shares, as was the case until the Extraordinary General Shareholders' Meeting of 17 July 2003, which removed the Bylaw requirement of at least 50 shares in order to attend the General Meetings.

Of particular importance in the 2005 financial year was the approval of Royal Decree-Law 5/2005, of 11 March ("RDL"), on urgent reforms to encourage productivity and improve public sector procurement, which introduced a set of reforms including, amongst others, the modification of Electricity Sector Act 54/1997, of 27 November ("*Ley del Sector Eléctrico*" or LSE).

Amongst the changes introduced by the LSE and which affect the Company's shareholder, Article 23 of the RDL has established new maximum limits on shareholdings in the Company. As indicated in Section III of the Preamble of the RDL, the purpose of said modification is to ensure the Company's independence vis-à-vis companies that carry out liberalised activities in the electricity sector.

The foregoing legal limits on a shareholding in RED ELÉCTRICA were modified by Article 23 of the RDL, which has redrafted said Article 34.1 LSE and expressly provides as follows:

"The system operator shall be a corporation whose shareholding may be owned by any individual or legal entity, provided that the total direct or indirect stake in the company's share capital does not exceed three per cent of the company's total equity or voting rights. These shares may not be syndicated for any purpose whatsoever. In the case of parties carrying out



activities in the electricity sector and any individuals or legal entities who, directly or indirectly, hold a stake in the latter's share capital exceeding five per cent, the maximum shareholding in the system operator shall be one per cent. Furthermore, the total stakes held directly or indirectly by parties carrying out activities in the electricity sector may not exceed 40%.

For the purposes of calculating said shareholding, a specific individual or legal entity, apart from the shares and other securities owned or acquired by entities belonging to its same group, as this term is defined in Article 4 of Stock Exchange Act 24/1988, of 28 July, shall also be deemed to hold shares or securities owned:

a) By individuals acting in their own name but on behalf of the legal entity, in a concerted manner or jointly as a decision-making unit. Unless there is evidence to the contrary, the members of a legal entity's management body shall be deemed to act on its behalf or in a concerted manner.

b) By those shareholders together with whom the legal entity exercises control over a controlled company, pursuant to Article 4 of Stock Exchange Act 24/1988, of 28 July.

In any case, both the "proprietary" ownership of the shares and other securities and voting rights enjoyed under any other title shall be taken into account.

Non-compliance with the maximum shareholding to which this Article refers shall be considered a very serious breach, in the terms of Article 60, and liability shall be borne by the individuals or legal entities who own the securities or who are attributed the excess shareholding or voting rights, according to the provisions established in the foregoing paragraphs."

Moreover, said Article 23 of RDL 5/2005 provides that:

"All voting rights inherent to shares or other securities owned by individuals who hold interests in the share capital of the corporation who acts as the system operator, which exceed the maximum percentages established herein, shall be held in abeyance as of the entry into force of this Royal Decree-Law. The Spanish Energy Commission shall be entitled to bring any legal actions aimed at executing the limits established herein".

To conclude, the foregoing legal and Bylaw measures prevent a shareholder or shareholders' group from controlling Red Eléctrica.

Article 23 of RDL has modified Article 34.1 of the LSE, establishing that, in relation to parties carrying out activities in the electricity sector and any individuals or legal entities who directly or indirectly own the latter's share capital, with a stake exceeding five per cent (5%), the maximum shareholding in the company shall be one per cent (1%). The shareholders' stakes shall be adapted to these new limitations before 1 January 2008.

For remaining shareholders, whether individuals or legal entities, the RDL has maintained the maximum direct or indirectly shareholding in the Company, i.e. three per cent (3%), already introduced by Act 53/2002, of 30 December, on Fiscal, Administrative and Social Policy measures. The RDL maintains the special treatment given to the State Industrial Ownership Corporation (SEPI), which has remained unchanged, and which shall in any case continue holding a stake of at least ten per cent (10%). As already mentioned in section A.7 above, in the 2005 financial year the State Industrial Ownership Corporation (SEPI) carried out a private placement of 11,497,950 shares, representing 8.5% of the Company's share capital, thereby reducing its stake from 28.5% to 20%.

The RDL has kept the existing prohibition on syndicating shares and has again established an aggregate limit of forty per cent (40%) for the stakes held by shareholders carrying out activities in the electricity sector, as provided in the initial wording of the LSE, of 27 November 1997. Furthermore, the RDL has provided that the voting rights inherent to the shares that exceed the maximum percentages established by law shall be held in abeyance as of the entry into force of the RDL (15 March 2005). In addition, the Spanish Energy Commission continues to be entitled to bring any legal actions aimed at imposing said legal limitations.



The RDL defines breach of the shareholding limitations established therein as a very serious violation. Liability shall be borne by the individuals or legal entities who hold the securities or who are attributed the excess shareholding.

The new set of rules established by the RDL obliged the Company to modify its Bylaws at the General Meeting held on 26 May 2005 (see Section E.8 below), in order to meet the deadline established in the RDL for adaptation purposes (1 June 2005).

B STRUCTURE OF THE COMPANY'S MANAGEMENT

B.1. Board of Directors

B.1.1. Description of the maximum and minimum number of directors under the Bylaws:

Maximum number of directors	13
Minimum numbers of directors	9

B.1.2. Complete the following table indicating the Board members:

Legal name of director	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Luis M ^a Atienza Serna	Chairman	08.07.04	26.05.05	General Meeting
Pedro Rivero Torre	Member	29.01.85	17.07.03	General Meeting
Juan Gurbindo Gutiérrez	Member	03.02.98	17.07.03	General Meeting
Antonio Garamendi Lecanda	Member	20.07.99	17.07.03	General Meeting
Manuel Alves Torres	Member	26.10.99	17.07.03	General Meeting
José Riva Francos	Member	22.04.03	17.07.03	General Meeting
José Manuel Serra Peris	Member	17.07.03	17.07.03	General Meeting
Rafael Suñol Trepas	Member	16.12.04	26.05.05	General Meeting
María de los Ángeles Amador Millán	Member	26.05.05	26.05.05	General Meeting
Martín Gallego Málaga	Member	28.06.05	28.06.05	Co-option
Francisco Javier Sala Collantes	Member	28.06.05	28.06.05	Co-option

Total Number of Directors	11
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Give details of the directors who left the board during 2005:

Legal name of director	Departure date
Joaquim Clotet i Garriga	21.04.05
Elías Velasco García	28.06.05
José Ignacio Sánchez Galán	28.06.05


B.1.3. Complete the following tables on the board members and their individual status:
EXECUTIVE DIRECTORS

Legal name of director	Committee proposing appointment	Position in the corporate organisational chart
Luis M ^a Atienza Serna	Appointments and Remuneration	Chairman

Background

48 years old

Bachelor in Economic and Business Sciences, Universidad de Deusto.

Certificate in Higher European Studies, University of Nancy (France), Centre for Higher European Studies.

Certificate in Development Economy (D.E.A.), University of Nancy, School of Law and Economic Sciences.

Career
Posts held:

Minister of Agriculture, Fishing and Food.

General Secretary of Energy and Mineral Resources of the Ministry of Industry and Energy.

President, Institute for Energy Savings and Diversification (IDAE).

President, Spain Geomining Technological Institute.

President, Centre for Energy, Environmental and Technological Research (CIEMAT).

General Secretary, Agrarian Structures, Ministry of Agriculture, Fishing and Food.

Economic Councillor, Basque Government.

Member of the Basque Parliament.

Professor, School of Economic and Business Sciences and International Business Administration Institute and Institute for European Studies, Universidad de Deusto.

He has given many courses, seminars and conferences, and has published articles on economic, energy and agrarian policy and European research in economic and general publications, including work documents for University Institutes and Research Centres.

He belongs to the Board of Directors of the Instituto Nacional de Hidrocarburos (INH), the Corporación Logística de Hidrocarburos (CLH) and the Basque Energy Department (EVE).

At present:

President of the Doñana 21 Foundation for Sustainable Development in the Doñana Reserve.

EXTERNAL PROPRIETARY DIRECTORS

Legal name of director	Committee proposing appointment ⁴	Legal name of significant shareholder represented or proposing appointment	Tax Number or Code of the significant shareholder
Juan Gurbindo Gutiérrez	Board of Directors, given the absence of an Appointments and Remuneration Committee	SEPI	Q-2820015B

Background

58 years old

Industrial Engineer, Universidad Politécnica de Madrid.

Masters in Business Administration, Industrial Organisation School (EOI) of Madrid, and Manchester Business Administration School.

⁴ The date of first appointment in the Company has been taken into account (see Section B.1.2 of the Report).



Career

Posts held:

Director of energy generation projects, INITEC.
 Responsible for electric sector companies, SEPI.
 Director of the Presidential Cabinet, SEPI.
 Member of SEPI's Management Board.
 Member of the Board of Directors of Iberia, Austral, Aerolíneas Argentinas, Aviaco, Endesa and Electra de Viesgo.

At present:

Director of Administration and Resources, SEPI
 He represents SEPI on the Board of Banco Árabe-Español.
 President of the Labour Services Foundation, SEPI.
 Sponsor of the SEPI Foundation (formerly Fundación Empresa Pública).

Legal name of director	Committee proposing appointment	Legal name of significant shareholder represented or proposing appointment	Tax Number or Code of the significant shareholder
Manuel Alves Torres	Board of Directors, given the absence of an Appointments and Remuneration Committee	SEPI	Q-2820015B

Background

51 years old
 Bachelor of Economic and Business Sciences

Career

Posts held:

Head of Budgeting, Standard Eléctrica, S.A.
 Higher Technician, Assistant Director of Companies, Corporate Sub-Director, INI.
 Director of Planning and Supervision, Teneo.
 Member of the Board of Directors of Potasas de Subiza, Potasas de Suria, Grupo Ence, Grupo Inespal, Enatcar, Clínica Castelló, Minas de Almagrera, Agencia Efe, Binter Canarias and Hipódromo de la Zarzuela.

At present:

Director of Planning and Control, SEPI.
 Member of SEPI's Management Committee.
 He represents SEPI in the SEPI Foundation and in the SEPI Labour Services Foundation.
 Board Member of Tragsa and Sedettur.

Rafael Suñol Trepal	Appointments and Remuneration Committee	SEPI	Q-2820015B
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Background

61 years old
 Bachelor in Economic and Business Sciences, E-1969, ADE-ESADE 1980, PADE-IESE 1999

Career

Posts held:



Managing Director of Aurica, SCR, S.A., partner of Socios Financieros and President of Activa Ventures.

Director and Vice President of Fecsa and Director of Endesa.

Managing Director of Banco de Fomento.

President of Banco de Crédito Industrial and Director of ICO.

Assistant General Manager of GDS, Caja de Barcelona, after working for Banco Urquijo, Barcelona.

President of Crédito&Docks and of Dinvergestión, and Director of companies linked to Banco Central.

Director of Ericsson España, Frida Alimentaria and Visual Tools, and President of Cobrhi.

At present:

Chairman of the Advisory Council of Corporación Age.

Director of Peugeot España, Inypsa, Telstar, Bidsa, Grafos and Serveis Funeraris de Barcelona.

INDEPENDENT DIRECTORS

Legal name of director	Committee proposing appointment
Pedro Rivero Torre	Board of Directors, given the absence, at the time, of an Appointments and Remuneration Committee

Background

67 years old

Doctor in Economic and Business Sciences, Universidad Complutense de Madrid.

Doctor Honoris Causa, Universidad de Castilla-La Mancha.

Member, Real Academia de Doctores.

Career

At present:

Professor of Financial Economics and Company Accounting.

External Auditor (on leave of absence).

Vice President, UNESA.

Member, Economic and Social Council.

Member, Social Council of Universidad de Castilla-La Mancha.

Member, Electricity Advisory Board, CNE.

Board member, CIEMAT.

Chairman of the Corporate Social Responsibility Committee, AECA.

Director, OMEL (Operador del Mercado Ibérico de Energía – Polo Español, S.A.)

Antonio Garamendi Lecanda	Board of Directors, given the absence, at the time, of an Appointments and Remuneration Committee
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Background

47 years old

Entrepreneur. Insurance broker

Career

Posts held:

General Delegate of Equitativa, S.A. (Vizcaya).

Managing Director of Bankoa, S.A. (Insurance Brokerage Company).

President of the “Negocios de Comunicación” Group (La Gaceta de los Negocios, Dinero magazine, Intereconomía Radio and ORT News Agency).

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

President, Business Creation Commission, CEOE.

Director, Babcock & Wilcox Española, S.A.

At present:

President of Galea Empresarial, S.L.

Vice President of Entel - Ibai



Managing Director of Iniciativas de Comunicación Económica, S.A. (ICESA).
 Director, Grupo Tubos Reunidos, S.A.
 Member of the Strategic Committee of Sodexo Pass, S.A. Group
 Member of the Management Board, C.E.O.E.
 Member and Treasurer of Confemetal and the Formetal Foundation.
 Committee Member of the Institute for Economic Studies (IEE).
 Member of the Management Board: Vizcaya Business Confederation (CEBEK), Vizcaya Chamber of Commerce, and the Vizcaya Chamber of Urban Property.
 Member of the Executive Committee of the Vizcaya Federation of Metal Companies.
 Insurance broker (AG Seguros)

José Riva Francos	Appointments and Remuneration Committee
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Background

52 years old
 Architect, E.T.S.A. Madrid. Specialty: Urban Development.
 Architect in Madrid

Career

Posts held:

1981: Visit to Minoru Yamasaki Studio, collaborating in the Project to build Torre Picasso, Madrid.
 1981/1986: Architect in Madrid, own studio.
 "Estudio ARCO, Arquitectura y Construcción": various works carried out for private clients and for the "Patronato de Casas del Aire" (Air Force Ministry).

At present:

Vice President and Managing Director of all the companies belonging to Grupo Suardiaz, with main offices in Madrid and branch offices in the 12 most important ports of mainland Spain and the Canary Islands.
 President of Oligsa and Ventastur.
 President and Managing Director of Ayala 6, S.A. and Camajuani.
 Board Member of Almacenes La Estrella, Logista and Enagás.

José Manuel Serra Peris	Appointments and Remuneration Committee
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Background

46 years old
 Bachelor in Law, Universidad de Valencia.
 Member of the State Corps of Solicitors.

Career

Posts held:

State Solicitor in the Treasury Department of Valencia and High Court of Justice of the Autonomous Community of Valencia.
 General Technical Secretary of the Ministry of Industry and Energy.
 Vice Secretary of the Ministry of Industry and Energy.
 Secretary of State for Industry and Energy.
 President of the Spanish Patent and Trademark Office.
 President of the Centre for Technological and Industrial Development (CDTI), President of Fundación de la Escuela de Organización Industrial, President of Instituto para la Diversificación y el Ahorro de Energía (IDAE).
 President of Instituto para la Reestructuración de la Minería del Carbón y Desarrollo Alternativo de las Comarcas Mineras and President of Centro de Investigaciones Energéticas, Medioambientales y Tecnológicas (CIEMAT).
 Board Member of the State Industrial Ownership Corporation (SEPI) and of the State Asset Ownership Corporation (SEPPA).
 Board Member of Iberia, Líneas Aéreas de España, S.A, and member of the Board of Directors and Executive Committee of Endesa.

**At present:**

Lawyer and consultant.

Board Member of Grupo Empresarial Ence, S.A., Uralita, S.A. and Natraceutical, S.A.

María de los Ángeles Amador Millán	Appointments and Remuneration Committee
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Background

56 years old

Bachelor in Law, Universidad Complutense de Madrid

Career**Posts held:**

General Technical Secretary, Ministry of Public Works and Urban Development.

Representative of the Governing Board of the Lawyers' Association of Madrid.

Assistant Secretary of the Ministry of Health and Consumer Affairs.

Minister of Health and Consumer Affairs.

Court Representative for Segovia.

Spokesman for Health Matters in Congress, Grupo Parlamentario Socialista.

Court Representative for Madrid.

Vice Chairman of the Constitutional Commission of Congress.

At present:

Practising lawyer.

Martín Gallego Málaga	Appointments and Remuneration Committee
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Background

65 years old

Doctor in Mining Engineering. Specialty: Power. Universidad Politécnica de Madrid.

Bachelor in Economic Sciences, Universidad Complutense de Madrid.

Certificate in Industrial Project Assessment, World Bank, Washington D.C.

Specialist in Economic Development and International Aid, Instituto Complutense de Estudios Internacionales de Madrid.

Career**Posts held:**

General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy.

President of the Nuclear Energy Board (currently CIEMAT), of Instituto para la Diversificación y Ahorro de la Energía (IDAE), of Instituto Geológico y Minero de España (ITGM) and of the Coordinating Committee of the Research Office for Energy Sectors.

President of Hidroastur, S.A. and of Grupo Minero de Wolframio La Parrilla, S.A.

Consultant for Endesa, Chase Manhattan Bank, Campsa, Price Waterhouse, Hunosa and OFICO.

Expert and Consultant for the European Communities Commission (Brussels) and the World Bank (Washington).

General Corporate Manager for International Trade and Diversification, Grupo Endesa.

Board Member of the following entities: Instituto Nacional de Hidrocarburos (currently Repsol-YPF), Campsa, Banco Saudí Español, Gas Andalucía, S.A., Tejo Energía, S.A., Electricidad de Caracas, S.A., Cable y Televisión de Catalunya, S.A., Cable y Comunicaciones Madrid, S.A., Internacional del Agua, S.A., Aguas de Barcelona, and Managing Director of Endesa Desarrollo, S.A. and of Grupo Eléctrico de Telecomunicaciones, S.A. (currently Auna).

Expert Director of the Spanish Economic and Social Council.

Director for Industry and Energy, Spanish Embassy in Washington.

At present:

Consultant

Professor in the School of Industrial Organisation



Member of the Governing Council, CIEMAT

Francisco Javier Salas Collantes	Appointments and Remuneration Committee
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Background

57 years old
Bachelor of Economic Sciences, specialising in Business Economics

Career

Posts held:

Head of Economic and Financial Planning, Empresa Nacional del Uranio (ENUSA).
Economic and Financial Manager of Empresa Nacional del Uranio (ENUSA).
Financial Manager and General Manager of Corporate Management of Instituto Nacional Industria (INI).
President of Instituto Nacional Industria (INI) and Teneo.
President of IBERIA.
Board Member in the following entities: Banco Exterior de España, Endesa, Seat, INI, Teneo, Argentaria, Red Eléctrica de España, Secoinsa, Infoleasing, S.K.F., OPTIMIZA.
Sponsor of the Cruz Roja, Conferencia Anual Francisco Fernández Ordóñez, Isaac Albeniz, Universidad Complutense, Argentaria, Empresa Pública and José Carreras Foundations.

At present:

Founding Member and Manager of SAGA Servicios Financieros (Management and M&A Consultants).
President of Asociación Profesional de Empresas de Limpieza (ASPEL).
Director of Uniseco (President) and of Telvent (Chairman of the Audit Committee).
Director of Ged Capital Development, S.A., SGECR and Ged Iberian Private Equity, S.A., SGECR.
Member of the Advisory Council (Spain) of Banco Privado Portugués and of Grupo FCB/TABSA.
President of Fundación Entorno, Empresa y Medio Ambiente.
Sponsor of Instituto de Cuestiones Internacionales y Política Exterior (INCIPE).
Sponsor of the APMIB Foundation (Vice President).

OTHER EXTERNAL DIRECTORS

Tax Number or Code	Legal name of director	Committee proposing appointment
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Describe the reasons why these cannot be considered proprietary or independent:

Indicate any changes occurring in the period in the type of each director:

Tax Number or Code	Legal name of director	Date of change	Former category	Current category
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B.1.4. State whether the Board composition resulting from the above classification of directors matches the composition envisaged in the board regulations.

The distribution contemplated in the Bylaws and in the Board Regulations reflects the classification of directors made in point B.1.3 above. Pursuant to the provisions established in Article 20 of the Bylaws and in Article 7 of the Board Regulations, which implements the same,



the Board of Directors of the Company, further to its powers of proposal to the General Meeting and of co-option to cover vacancies, shall ensure that its external or non-executive Directors represent a broad majority over executive Directors. In any event, the Board's composition shall be determined in such a way as to ensure the most adequate representativeness of the share capital.

In addition, Article 8 of the Board Regulations provides that the Board of Directors shall consist of the number of Directors determined by the General Meeting, within the limits established by the Company's Bylaws, which, in turn, may propose a number of directors to the General Meeting which, in the Company's specific circumstances, is the most adequate to ensure the effective operation and stability of the Board.

Article 7 of the Board Regulations makes the following definitions on each director's specific category (executive, external proprietary and external independent).

According to said article, executive Directors are (i) those directors who are delegated or empowered in a stable manner to adopt decisions in relation to any part of the business, and (ii) those who, under any other title, hold executive duties or Senior Executive responsibilities within the Company or any Group company, or who hold a significant employment or business relationship with the Company. Directors who are entrusted with special duties by the General Meeting or Board of Directors, through delegation, authorisation or empowerment for a specific act, shall not be considered executive Directors.

According to section two of Article 7 of the Regulations, proprietary external Directors shall be those who are proposed by holders of significant and stable shareholdings in the Company. The post of proprietary director shall be incompatible with any business or professional relations with the Company or its group, unless this is expressly and previously authorised by the Board.

Also according to section two of Article 7, independent external Directors shall be those without "proprietary" or "executive" status, who enjoy acknowledged professional prestige, and who meet the requirements of impartiality and objectivity.

In this regard, the Company's Board of Directors, at its meeting held on 27 May 2004, approved the Independent Director's Statute, in order to establish certain criteria related to independent directors and to incorporate them in a consistent manner with the principles of activity established in the Bylaws, thereby giving continuity to the policy of constant adaptation to the best Corporate Governance practice followed by the Company. This Statute may be consulted on the Company's website (www.ree.es).

The Statute was voluntarily drawn up by the Company after a lengthy examination process on the part of the Board of Directors. This Statute is at all times subject to any reviews and updates that may be necessary further to applicable legislation or as a result of subsequent recommendations of the Board of Directors. During the 2005 financial year, the Statute suffered no change whatsoever.

B.1.5. Indicate, if any, the powers entrusted to the managing director(s):

Legal name of director	Brief description
Luis M ^a Atienza Serna	<p>At the meeting of the Company's Board of Directors, held on 29 July 2004, further to the proposal made by the Appointments and Remuneration Committee, it was unanimously resolved:</p> <p><i>"To entrust the Chairman of the Board of Directors, by virtue of and pursuant to the provisions established in Article 141 of the current Spanish Corporations Act, Article 149 of the Mercantile Registry Regulations, Article 22 of the Bylaws and Article 5 of the Board of Directors' Regulations, with all the powers of the Board of Directors that may be delegated by law and by statute".</i></p>



B.1.6. Identify any members of the board who hold the post of director or executive in other companies belonging to the group of the listed company:

Legal name of director	Company name of the group entity	Tax Number or Code of the group entity	Position
Luis M ^a Atienza Serna	Red Eléctrica Internacional, S.A.U.	A-82852906	Joint Director
	Red Eléctrica del Sur, S.A. (REDESUR)	--	Chairman of the Board of Directors
	Transportadora de Electricidad, S.A. (TDE)	--	Chairman of the Board of Directors

B.1.7. Describe any company directors who belong to the board of directors of other companies listed in official Spanish stock exchanges other than your group, and who have been notified to the company:

Legal name of director	Listed company	Post
Mr. Antonio Garamendi Lecanda	Grupo Tubos Reunidos, S.A.	Director
Mr. José Riva Francos	Compañía de Distribución Integral Logista, S.A. Enagás, S.A.	Director Director
Mr. José Manuel Serra Peris	Grupo Empresarial Ence, S.A. Uralita, S.A. Natraceutical, S.A.	Director Director Director
Mr. Rafael Suñol Trepal	INYPESA	Director

B.1.8. Complete the following tables on the aggregate remuneration of directors accrued during the year.

a) Remuneration earned as director of the reporting company:

Remuneration item	In thousands of euros
Fixed remuneration	360
Variable remuneration	1,095
Per diems	780
Amounts per Bylaws	--
Options over shares and/or other financial instruments	--
Other	--
TOTAL:	2,235

Other benefits	In thousands of euros
Advances	-----
Loans granted	-----
Pension Funds and Plans: Contributions	-----
Pension Fund and Plans: obligations undertaken	-----
Life insurance premiums	-----
Guarantees established by the company in favour of directors	-----
TOTAL:	-----

b) Remuneration earned as a director and/or senior executive of other companies within the Group:

Remuneration item	In thousands of euros
Fixed remuneration	--
Variable remuneration	--



Per diems	34 ⁵
Amounts per Bylaws	--
Options over shares and/or other financial instruments	--
Other	--
TOTAL:	34

Other benefits	In thousands of euros
Advances	----
Loans granted	----
Pension Funds and Plans: Contributions	----
Pension Fund and Plans: obligations undertaken	----
Life insurance premiums	----
Guarantees established by the company in favour of directors	----
TOTAL:	----

c) Total remuneration by type of director:

Type of director	Per company	Per group
Executive	698	--
External Proprietary	620	--
External Independent	917	34
Other External	0	--
Total	2,235	34

d) Directors' remuneration in relation to profits attributable to parent company:⁶

Total directors' remuneration (in thousands of euros)	2,269
Total directors' remuneration / profits allocated to controlling company (%)	1,556

B.1.9. Name the members of senior management who are not executive directors, and state the total remuneration they earned during the financial year:⁷

Name of the individual or corporation	Position
Carlos Collantes Pérez-Ardá	General Manager of Transport
Esther M ^a Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations
Ángel Landa López de Ocáriz	Assistant General Manager

Total senior management remuneration (in thousands of euros)	1,013
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B.1.10. State in overall terms whether there are any guarantee or golden parachute clauses in favour of senior managers, including executive directors, of the Company or the Group in the event of dismissal or a change of ownership. State whether such clauses must be notified to and/or approved by the management bodies of the Company or the Group:

⁵ This remuneration pertains to the telecommunications subsidiary, Red Eléctrica Telecomunicaciones, S.A.U. (Albura), which was sold on 30 June 2005 to T-Online International AG.

⁶ The profits obtained by the RED ELÉCTRICA Group and attributed to the parent company, in the 2005 financial year, amounted to 162,422 thousand euros (135,806 thousand euros in 2004).

⁷ Exclusively for the purposes of CNMV Circular 1/2004, of 17 March, this refers to those individuals who manage the Company at the highest level and, consequently, separately from any employment or legal relationship with the Company.



Number of beneficiaries	3
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	Board of Directors	General Meeting
Body authorising the clause	Appointments and Remuneration Committee, reporting to Board of Directors	

	YES	NO
Was the General Meeting informed of the clause?	X ⁸	

There are guarantee or protection clauses in favour of executive Directors to cover dismissals or changes of control. This contract was approved by the Appointments and Remuneration Committee, duly notifying the Board of Directors of the Parent Company.

Said clauses follow standard market practice and cover termination of the employment relationship, providing indemnities of up to one year's salary, unless applicable regulations establish a higher amount.

There are guarantee or protection clauses in favour of members of the Senior Management in the event of dismissal. These contracts were approved by the Appointments and Remuneration Committee, duly notifying the Board of Directors of the Parent Company.

The contracts affect two executives belonging to the Senior Management. Said clauses follow standard market practice and cover the event of termination of the employment relationship, providing indemnities of up to two years' salary, unless the applicable regulations establish a higher amount.

B.1.11. Describe the process for setting directors' remuneration and cite the relevant clauses of the Bylaws.

Provisions regarding remuneration of the members of the Board of Directors are established in Article 20 and in the Single Additional Provision of the Bylaws, as well as in Articles 28 and 29 of the Board Regulations. These provisions are indicated below:

-Article 20 of the Bylaws:

"(...)The remuneration of the Board of Directors shall consist of a fixed monthly amount, daily allowances for attendance to the meetings of the Management bodies and a share in the profits obtained by the Company. The aggregate yearly remuneration for the entire Board and for the above items shall be 1.5 per cent of the net profits of the Company, approved by the General Meeting. The above remuneration is in any event the maximum amount that may be paid to the Board, which shall distribute such amount among the above items and among the directors, in the manner; at the time and in the proportion it may freely establish. Pursuant to article 130 of the Spanish Corporations Act, the remuneration of the share in the profits may only be received by the directors after the mandatory reserve and the reserve established by the bylaws have been provided for and after a minimum dividend of 4% has been recognized to the shareholders.

The remuneration consisting of the delivery of shares or options on the shares or indexed to the value of the shares shall require a General Shareholders' Meeting resolution, stating the number of shares that are delivered, the strike price of the options, the value of the shares taken as a reference and the term of such remuneration system.

The remuneration contemplated in this article shall be compatible with and independent from the salaries, remuneration, indemnification, pension or compensation of any kind established in general or specifically for those members of the Board of Directors who hold a labour —ordinary

⁸ Reference is made to the clause applicable to the executive Director of the Company and to members of the Senior Management whose contracts contemplate this type of provision.



or special senior executive— employment or service relation with the Company, which relations shall be compatible with the status of member of the Board of Directors.”

- Single Additional Provision of the Bylaws:

“When the director, being a natural person, holds his office representing the shareholder contemplated in the Ninth Transitional Nine relating to article 34.1 of the Electricity Sector Act, his remuneration shall be established as laid down in the applicable provisions on the events of incompatibility for the public sector; notwithstanding the remuneration that may accrue for such public shareholder, either because he has been appointed directly as a member of the Board of Directors or because of the services provided to the Board or its executive committees by the individuals representing such public shareholder in the share capital of the Company, and which exceed those to which they may be personally entitled to under such legislation, all the foregoing while, under the Ninth Transitional Provision, such ownership situation is maintained.”

- Article 28 of the Board Regulations:

“1. Directors shall be entitled to obtain such remuneration as is established by the Shareholders' Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and those contained in these Regulations

2. The Board shall ensure that Directors' remuneration is moderate, having regard to market circumstances, and that a significant part is linked to the Company's income.

Directors' remuneration shall be transparent. For this purpose, the Appointments and Remuneration Committee shall draw up an annual report on the policy on Directors' remuneration with the degree of individual identification by Director or groups of Directors and by the item or items which it may decide in each case, which may be included independently from the remuneration payable as executives. The annual report drawn up by this Committee shall include a reference to the transfer or allotment of shares, stock options or systems which take the share value as a reference, in the case of the remuneration of Executive Directors, as well as itemization of the salaries in cash and in kind, bonuses, pension funds, provisions for indemnity and other payments which may exist. Said Report shall include the appropriate explanations regarding the maximum limit of 1.5 percent of the profits established in Article 20 of the Corporate Bylaws if there are qualifications in the Audit Report.”

- Article 29 of the Board Regulations:

“The Board of Directors and the Appointments and Remuneration Committee shall adopt all measures within their reach to ensure that the remuneration of the External Directors complies with the following guidelines:

- a) External Directors shall be remunerated according to their actual dedication.*
- b) External Directors shall be excluded from the benefits system financed by the Company for cases of removal, death or any others provided for executive Directors*
- c) The amount of the independent Director's remuneration shall be calculated in a manner that it offers incentives for his dedication, but does not constitute an obstacle to his independence.*
- d) The coverage of those risks which may arise from attendance at Board meetings and the performance of their functions, which may be insurable and which the Board decides to establish, shall not be considered remuneration of the external Directors.”*

B.1.12. Give details of the directors, if any, who are also directors or executives of companies that own significant shareholdings in the reporting company and/or other companies in the Group as applicable.

Legal name of director	Tax Code of significant shareholder	Legal name of significant shareholder	Position
Juan Gurbindo Gutiérrez	Q-2820015B	State Industrial Ownership Corporation (SEPI)	Head of Administration and Resources



Manuel Alves Torres	Q-2820015B	State Industrial Ownership Corporation (SEPI)	Head of Planning and Control

Give details of any significant relationships, other than those disclosed in the preceding paragraph, between members of the Board of Directors and companies owning significant shareholdings in the reporting company and/or other companies in the Group:

Director's Tax Code or Number	Legal name of linked director	Tax Code or Number of significant shareholder	Legal name of significant shareholder	Description of relationship
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B.1.13. Indicate, if applicable, any amendments made to the board regulations during the year.

During the 2005 financial year, no amendments were made to the Company's Board Regulations.

B.1.14. Describe the procedures for the appointment, re-election, evaluation and removal of directors. Specify the competent bodies, the formal steps to be taken and the criteria to be used in each procedure

Directors shall be appointed by the General Meeting or by the Board of Directors, as established in Article 21 of the Board Regulations. Any proposed appointment of Directors shall be previously reported by the Appointments and Remuneration Committee, including co-option. Within the scope of its powers, the Board of Directors shall ensure that the elected candidates are persons of acknowledged solvency, competence and experience, and shall impose stricter requirements in relation to any potential candidates to the post of independent Director, as provided in Article 22 of the Regulations.

Following best corporate governance practice, the post of independent Director, as for other Directors, is established for a term of four (4) years, pursuant to the Bylaws (Article 20) and the Board Regulations (Article 23). Said Directors may be re-elected for an indefinite period of time, regardless of the type or qualifications of the Director. In this regard, reference should be made to the Independent Director's Statute, which establishes an entire range of strict evaluation criteria, as well as a specific selection procedure for appointment purposes. This Statute may be consulted on the Company's website (www.ree.es).

The foregoing procedure was put in practice on three occasions by the Company during 2005, as a result of the appointment as independent Directors of Ms. María de los Ángeles Amador Millán, Mr. Francisco Javier Salas Collantes and Mr. Martín Gallego Málaga.

To this effect, the Appointments and Remuneration Committee, pursuant to the provisions established in the Independent Director's Statute, proceeded to draw up the necessary reports, which thoroughly and individually analysed whether or not the Bylaw requirements were met (including academic qualifications, professional career, possible conflicts of interest, etc.), in order to appoint and designate the foregoing independent Directors.

According to Article 23 of the Board Regulations, Directors shall hold their post for the term of office provided in the Bylaws and may be re-elected, further to a report from the Appointments and Remuneration Committee. Any Director who completes his term or who, for any other reason, abandons his post, may not work for another competing entity of the Company for a period of two years, except with the permission of the Board.

With regard to the removal of Directors, Article 24 of the Board Regulations provides that they will leave office at the end of the term of office for which they were appointed or when the General Meeting so decides, under its powers according to the law or to the Bylaws. Said



Article expressly provides, as recommended practice, that the Board of Directors will not propose the removal of any external directors representing substantial shareholder interests or independent directors before they have completed the term of office stipulated in the Bylaws, except for sufficient cause and further to a report from the Appointments and Remuneration Committee.

The Appointments and Remuneration Committee is studying, as expressly ordered by the Board of Directors, the possibility of performing a self-evaluation process of the Board of Directors and of its Committees, in response to the practice being demanded by the stock markets for listed companies.

B.1.15. Indicate any events in which directors are forced to resign.

Article 24.2 of the Board Regulations determines that directors will place their position at the disposal of the Board of Directors and will, if the Board deems appropriate, tender their formal resignation, in the following situations:

- a) *When they reach 70 years of age.*
- b) *When they are subject to any of the grounds for incompatibility or prohibition provided for by law.*
- c) *When they are convicted of an offence or penalized in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.*
- d) *When they have seriously breached their obligations as Directors.*
- e) *When they leave executive posts with which their appointment as Director was associated.*
- f) *When their continued presence on the Board endangers the Company's interests, and the Board so finds with the favourable vote of two thirds of its members.*
- g) *In the case of a proprietary Director; when the shareholder whose shareholding interests he represents on the Board disposes of his shareholding in the Company or reduces it below the level which reasonably justified his appointment as such.*

B.1.16. Explain if the function of chief executive officer and chairman of the board of directors is performed by the same individual? If so, describe the measures taken to limit the risks deriving from the concentration of power in the hands of one person.

YES	NO
	X
Measures to limit risks	

Article 25 of the Bylaws states that the Chairman of the Board is the President of the Company and of its governing and management bodies.

Furthermore, he/she is the person responsible for the Senior Management as well as fully representing the same in all matters, further to powers delegated by the Board.

The President has the power to adopt such emergency measures as he/she deems appropriate for the interests of the Company. He/she will then immediately inform the Board of Directors, as well as regularly report to the Board at ordinary meetings of the management carried on in different areas of the Company, requesting, as pertinent, approvals of the resolutions presented.

The creation of the Audit and Appointments and Remuneration Committees in 1999, entirely composed of members of the Board of Directors specialized in matters within their sphere of responsibility, reinforces the specific control exercised over the basic and strategic responsibilities of the Company, which in no event will be performed exclusively by the President.



B.1.17. Are enhanced majorities, other than the statutory majorities, required for any kind of decision?

YES	NO
X	

Article 3.4 of the Regulations of the Board of Directors establishes that, to be valid, any amendment of said Regulations will require approval by a two thirds majority of the Directors attending.

Describe how resolutions of the Board of Directors are adopted, stating at least the minimum quorum and the type of majority required for the adoption of resolutions.

Adoption of resolution

Description of resolution	Quorum	Type of majority
Any resolution, except to amend the Board Regulations.	Half plus one of its members, present or represented.	Simple

There are no provisions for resolutions that require an enhanced majority for their adoption, apart from the specific ones envisaged in the applicable law and in the event of amendment of the Board Regulations.

Except in cases where other quorums for attendance have been specifically established, the Board will be validly constituted with the attendance of at least half plus one of its members, present either personally or through a representative. In the event there is an odd number of directors, then a quorum will be present with the attendance of the integer number of Directors immediately over half.

Article 21 of the Bylaws establishes that each Director may empower another Director, in writing and specifically for each meeting, so that he may be present and vote for him in the meetings of the Board of Directors.

The Chairman will organize the discussion, overseeing and promoting the participation of all Directors in the deliberations of the body, and will submit the matters for vote when he deems them to have been sufficiently debated. Each Director, present personally or through a representative, will have one vote.

Article 21 of the Bylaws and Article 20 of the Regulations of the Board of Directors establish that resolutions will be adopted by a majority of votes, except for matters on which the law requires that resolutions be adopted by a higher majority.

B.1.18. State if there are any specific requirements other than those relating to directors, to be appointed as chairman.

YES	NO
X	

Description of the requirements
--

B.1.19 Indicate if the chairman has the casting vote:

YES	NO
X	

Matters subject to a casting vote
In the event of a tie vote, the Chairman shall have the casting vote and shall settle the issue, regardless of the subject matter of the resolution being voted on (Article 21 of the Bylaws and Article 20 of the Board Regulations).



B.1.20. Indicate if the bylaws or regulations for the board of directors establish any age limit for directors:

YES	NO
	X

Age limit - Chairman	Age limit – Managing Director	Age limit – Director
-	-	70

Article 23 of the Board Regulations establishes that Directors must place their position at the disposal of the Board of Directors and if this body deems appropriate, present their formal resignation when they reach the age of seventy (70) years.

There is no age limit for the Chairman established in the Bylaws or in the Board Regulations, other than that relating to all Directors.

B.1.21. Indicate if the bylaws or regulations of the board set a limit to the term of office of independent directors:

YES	NO
	X
Maximum term of office	

Independent directors will have a term of office of four years, the same as all other Directors, and may be re-elected indefinitely.

As already indicated in Section B.1.14 above, unless there is sufficient cause and a report is previously issued by the Appointments and Remuneration Committee, the Board of Director may not propose the removal of any external Directors before they complete the term for which they were appointed.

B.1.22. State whether there are formal procedures for delegating votes voting at Board meetings. If there are, give brief details.

As already indicated in Section B.1.17 above, Article 21 of the Bylaws establishes that each Director may empower another Director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors.

If a Director cannot, for justified cause, attend a Board meeting that has been called, he give instructions to the Director that will representing him, endeavouring that he be represented by a Director of the same category.

B.1.23. Indicate the number of meetings held by the board of directors during the period. Also state, if appropriate, the number of times the board has met without the presence of the chairman:

Number of board meetings	13
Number of board meetings without the chairman	0

Indicate the number of meetings of the different board committees, held during the year:

Number of meetings of the executive or delegate committee	--
Number of meetings of the Audit Committee	8
Number of meetings of the Appointments and Remuneration Committee	10
Number of meetings of the Strategy and Investments Committee	--
Number of meetings of the committee	--



B.1.24. Indicate if the individual and consolidated annual financial statements submitted for board approval are previously certified:

YES	NO
	X

Identify, if applicable, the person/people certifying the individual and consolidated annual financial statements of the corporation, for formulation by the board:

Tax Number	Name	Title
--	--	--

B.1.25. Give details of any mechanisms the board of directors has established to avoid having the individual and consolidated annual accounts laid before the general meeting with qualifications in the auditors' report.

The Board Regulations expressly establish that the Board of Directors of the Company will formulate the final financial statements, striving to ensure that there are no auditor qualifications. Nevertheless, when the Board considers that it must maintain its criteria, then it will publicly state the contents and scope of the discrepancy.

In this regard, the Audit Committee is particularly important, as it continuously monitors the process of reporting economic and financial information to the market supervisory bodies, thereby strengthening the possible absence of qualifications in the annual audit reports.

The Company, since its incorporation, has not been subject to qualifications in the audits of its annual accounts. This bears out the utmost accuracy, reliability and sufficiency of the annual Financial Statements of the Company and its consolidated Group throughout its life, guaranteeing at all times the maximum informational transparency.

B.1.26. Give details of the measures adopted to ensure that information disclosed to the securities markets is given fairly and symmetrically.

Information on the Company of significance to investors at all times conveys a true and fair view of the Company in both quantity and quality, is correct and disseminated fairly, symmetrically and in due time to the markets.

The Company regularly reports significant information to the markets through the CNMV as soon as it is known, when the decision in question is adopted or when the contract concerned is signed. Relevant legal and economic-financial information, as well as strategic information, is generally disclosed when the markets are closed to prevent the possible production of oscillations in share prices.

According to Article 8 of the Regulation on the Company's Conduct in the Stock Exchange, approved on 22 July 2003, significant events and information shall be notified to the CNMV by the Company as soon as the event is known, the decision is adopted or the agreement or contract is signed with third parties, and always before it is disclosed to the market.

Pursuant to the provisions established in Article 91 of the Stock Exchange Act, the Company shall ensure that the information is made public, unless it is excluded from this obligation by the CNMV, whenever it is necessary to protect Red Eléctrica's legitimate interests. Furthermore, the parties subject to said Regulation on the Company's Conduct must refrain, when addressing analysts, shareholders, investors or the press, from providing any information whatsoever that represents a significant fact or event, without it being previously disclosed to the market as a whole through the CNMV.

The internal body in charge of supervising compliance with the code of conduct for the stock markets, i.e. the General Administration and Finance Department, shall act within the scope established by the Board of Directors and further to the criteria and guidelines established by the Audit Committee and shall decide, in each case, how to handle the significant event or



relevant vis-à-vis the media. Furthermore, it shall decide how to notify any such information to market analysts and investors.

The Company has a procedure whereby the Audit Committee reviews the economic-financial information that is sent to market supervisory bodies. With respect to the quarterly economic-financial information to be sent by the Company to the CNMV and to the National Energy Commission, said procedure states that, once the Board of Directors is presented with the monthly information corresponding to the last month of the quarter (at its meeting held in the month following the end of the quarter), the Committee members shall be provided, for review purposes, with the information to be sent to the supervisory bodies, at least three days before the deadline for its delivery.

The members of the Audit Committee shall be apprised, in advance or as early as the circumstances permit, of the reports of relevant events that are sent to the CNMV, in accordance with the following:

- I. Any information that is foreseeable in advance shall be sent to the Committee members, with sufficient time for its review.
- II. Any information not foreseeable sufficiently in advance shall be notified to the Committee members by the most adequate means in each specific case: telephone, fax, e-mail, etc. The Committee members shall make any comments they deem appropriate.
- III. In exceptional cases where information is required by the markets in real time, the Audit Committee shall be simultaneously notified.

Any other economic-financial information apart from the foregoing, sent at the Company's initiative to said bodies, or at the latter's request, shall be reviewed by the Audit Committee following the process that best adjusts to the situation, as described above.

Since the Company was first listed in the Exchange in 1999, RED ELÉCTRICA has disclosed all economic-financial and business information of the Company, together with all other information referring to the electrical system in which it operates, which may be of interest to shareholders and investors, through the website of the corporation and various print publications.

Section G) of this Report includes a list of all the relevant events and other disclosures sent by the Company to the CNMV in 2005.

All economic and financial information is posted on the website after being notified to the CNMV, when notification is required, and is permanently updated in order to duly meet the markets' information needs, beyond a mere fulfilment of legal obligations.

The principal economic-financial and corporate contents that may be consulted on the Company's website are as follows:

General information: business activities and business strategy, main concerns, shareholding, Board of Directors, organisation, the environment and corporate social responsibility.

Shareholders and investors: Shareholder today, calendar, Relevant Events and other communications to the CNMV, stock exchange information in real time, dividends, issues, rating, shareholders, Annual Report (including annual accounts, management report, consolidated annual accounts, consolidated management report, consolidated annual report), quarterly newsletter, shareholders bulletin, presentations to investors, information on corporate governance: Board of Directors, Audit Committee, Appointments and Remuneration Committee, Corporate Governance Report, Bylaws, Regulations of the Shareholders' Meeting and of the Board of Directors, Independent Director's Statute, Internal Code of Conduct in the Stock Markets, Notifications of the last General Meetings of Shareholders, remote voting,



communications channels between the Company and shareholders and the Shareholders' Office.

The Company's efforts to respond to expectations of its shareholders and investors in the area of informational transparency, beyond requirements established by law, have led to public recognition by the markets, institutions and specialists of the sector. As a result, the Company holds an excellent position in studies and classifications recently published by different communications media.

From a regulatory point of view, the Regulations of the General Meeting and of the Board of Directors dedicate special attention to the principle of transparency and information, as a key tool in diffusion to shareholders and investors of both the Corporate Governance practice applied by the Company as well as information that may be of interest.

Article 2 of the Shareholders' Meeting Regulations specifically stipulates the contents of the Company website which, incorporating the latest technologies, is configured as an instrument to assure the transparency of corporate actions and to allow greater effectiveness in the shareholders' exercises of their rights, facilitating the relationship between shareholders and the Company. The Board Regulations, in turn, dedicate an entire chapter to relations between the Board and shareholders, markets and auditors (Articles 35 to 38, inclusive), for the purpose of facilitating and improving the flow of corporate information for third parties.

B.1.27. Does the secretary of the board hold a directorship?

YES	NO
	X

According to the provisions of Article 11 of the Regulations of the Board of Directors, the Secretary of the Board of Directors must be a lawyer, though not necessarily a Director.

The current Secretary of the Board of Directors is Mr. Rafael García de Diego Barber, a lawyer belonging to the Bar Association of Madrid, who does not hold a directorship and who has held this post since 4 May 1995.

Pursuant to Article 26 of the Bylaws and Article 11 of the Regulations of the Board, the Secretary, among other duties, oversees the formal and material legality of actions of the Board and that its governing rules and procedures are respected and regularly reviewed.

The Secretary of the Board will also check for compliance with the Bylaws and with the provisions issued by regulatory bodies, and shall oversee observance by the Board of Directors and its Committees of the Company's Corporate Governance policy and principles.

Of interest during the 2005 financial year was the appointment, by the Board of Directors of the Company at its meeting held on 21 April, of Mr. Fernando Frías Montejo, a lawyer belonging to the Bar Association of Madrid, as Non Director Vice Secretary of the Company, pursuant to Article 21 of the Bylaws and Article 12 of the Board Regulations, in order to assist the Board Secretary or replace him in the event of absence.

B.1.28. Indicate any mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

The relations between the Company and its external auditors will be channelled through the Audit Committee. Pursuant to the terms of Article 38 of the Regulations of the Board of Directors, the Board will refrain from hiring audit firms whose anticipated fees for all items are projected to surpass 10% of total income during the last financial year.

In addition, Article 38 of the Regulations obliges the Board of Directors to provide yearly information on the overall fees paid by the Company to the audit firm for non-audit services.



The Corporation makes frequent presentations to financial analysts and investment banks to report the key economic-financial figures of the Group are reported, as well as review its business performance. Said presentations are regularly attended by the most important professionals and specialists in the sector. After the presentations are made, all participants are offered the opportunity to be included in a list of entities periodically receiving key information on the Company of interest to them.

Presentations to analysts are first sent to the CNMV so that they are known by the markets through its website, and are then immediately posted on the Company website.

Since 1999, the Corporation has also had an "Investor Relations Unit", responsible for acting as a communications channel with financial professionals and for handling their questions.

B.1.29. Indicate if the audit. firm provides any non-audit services to the company and/or group. If so, state the auditor's fees for such services in absolute terms and as a percentage of the total fees invoiced to the company and/or group.

YES	NO
	X

	Company	Group	Total
Fees for non-audit services (thousands of euros)	79	0	79
Fees for non-audit services / total amount invoiced by audit firm (%)	61.72	0	61.72

B.1.30. Indicate the number of consecutive years the current audit. firm has audited the company's and/or group's annual accounts. Also indicate the how long the current audit firm has audited the company's annual accounts compared to the total number of years in which the company's annual accounts have been audited:

	Company	Group
Number of consecutive years	18 ⁹	5

	Company	Group
No. of years audited by current audit firm/No. of years the company has been audited (%)	86%	100%

B.1.31. Give details of directors' shareholdings, as disclosed to the company, in companies whose business is similar, analogous or complementary to the main business of the company or the group to which it belongs. State also any offices or functions the named directors hold or perform in those companies:

Legal name of director	Tax Code of the subject company	Name of company in which shares are held	% shareholding	Position or functions
Mr. José Riva Francos	A-48010615	Iberdrola, S.A.	0.0001	---
Mr. José Manuel Serra Peris	A-28023430	Endesa, S.A.	0.0003	---
	A-48010615	Iberdrola, S.A.	0.0004	---
	A-08015497	Gas Natural, S.A	0.0007	---
Mr. Martín Gallego Málaga	A-28023430	Endesa, S.A.	0.0001	---

⁹ Including the 2005 financial year.



B.1.32. Indicate if there is a procedure to allow directors to take independent professional advice:

YES	NO
X	
Describe procedure	

A specific procedure exists in the Company in order for Directors to obtain external advice.

To receive assistance in exercising their functions, Article 27 of the Regulations of the Board establishes that external Directors may request that the Board of Directors hire legal, accounting, financial or other expert consultants, at the expense of the Board.

The task entrusted to them will deal only with specific problems of a certain magnitude and complexity arising in carrying out their responsibilities.

The request be presented to the Chairman and may be rejected by the Board of Directors if it considers that:

- a) It is not necessary for proper performance of the functions entrusted to the external directors;
- b) The cost thereof is not reasonable in view of the importance of the problem and the assets and income of the Company; or
- c) The technical assistance received may be adequately provided by experts or technicians of the Company, or has been entrusted to other external experts.

With regard to the Audit Committee and the Appointments and Remuneration Committee, Articles 15.5 and 17.6, respectively, of the Regulations of the Board state that the Committees may propose that the Board of Directors seek independent professional consultation.

Furthermore, said Committees may have access to any type of information or documentation of the Company that is necessary to better carry out their functions, pursuant to the provisions established in the foregoing Articles of the Board Regulations.

B.1.33. Indicate if there is a procedure to ensure that directors have the information they need in order to prepare for board and board committee meetings in good time:

YES	NO
X	
Describe the procedure	

The Board of Directors meetings shall be called at least six (6) days prior to the meeting and all the relevant information shall be sent together with the notice. The notice shall always include the Agenda of the meeting and, in general, whenever possible, the relevant information shall be attached duly abbreviated and prepared.

Notwithstanding the foregoing, Article 19.3 of the Regulations of the Board establishes that the Notice of Meeting will be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the Board may be convened by telephone and the prior notice period shall not apply when, in the Chairman's opinion, the circumstances so require. The emergency reasons shall be explained in the minutes of the meeting.

Article 26 of the Regulations of the Board further establishes that the Director is vested with the broadest powers to receive information on any aspect of the corporation, to examine its books, records, documents and other background on corporate operations and to inspect all installations. Custody of the information extends to affiliate corporations, both national and foreign.

Further to said Article 26 of the Board Regulations and in order to not disturb the ordinary management of the Company, exercise of rights to information will be channelled through the



Chairman of the Board of Directors, who will deal with all requests of the Director, facilitating all information directly, offering the appropriate contact person at the correct level of the organization or making arrangements to allow him to practice the corresponding examination and inspection *in situ*.

The President of the Company may restrict, as provided in said Article 26 of the Regulations of the Board, on an exceptional and temporary basis, access to certain information, informing the Board of Directors of said action during its next meeting.

B.1.34. State whether the company provides liability insurance for the benefit of its directors.

YES	NO
X	

B.2. Committees of the Board of Directors

B.2.1. List the management bodies:

The Company has established a small, active and efficient Board of eleven (11) members, instead of a larger Board that operates with the support of an Executive Committee. This notwithstanding, the Board's organisation is established in Article 14 of the Board Regulations.

The composition, organisation and duties of the Committees are described in the Board of Directors' Regulations of 18 November 2003, which modified the former Regulations of 1999; these were notified to the CNMV, recorded at the Mercantile Registry and published in the Company's website (www.ree.es). Article 22 of the Bylaws provides that the Board will act as a whole or in such committees as may be set up, either permanently or on an *ad hoc* basis, with delegated and executive powers or powers to study, advise and propose.

In accordance with the law and Corporate Governance practice, the Company obligatorily set up an Audit Committee in 2003, composed entirely of external Directors, and an Appointments and Remuneration Committee, with a majority of external Directors, which have replaced the two former Committees that had been exercising similar duties since 1999. Its composition, operation and responsibilities are described in the current Board of Directors' Regulations.

Specific internal regulations have not been established for said Committees. Instead, there is a consolidated and detailed set of provisions included in the Board of Directors' Regulations (Articles 15 and 16: Audit Committee; Articles 17 and 18: Appointments and Remuneration Committee).

Name of the body	No. of members
Audit Committee	3
Functions	

Pursuant to Article 23 of the Bylaws and Article 16 of the Board Regulations, the Committee's minimum functions are as follows:

- a. In relation to economic-financial information, to approve accounting principles and criteria and to ensure compliance with accounting rules and, in general, to support the Board in monitoring the economic and financial reporting process.
- b. In relation to internal control systems, to approve the internal control procedures, to supervise the internal auditing services, to follow up on the internal control systems and to periodically analyse the Report on the Prevention of Occupational Hazards.
- c. In relation to external auditors, to establish the necessary procedures to ensure the independence of the external Auditor, to serve as a communications channel between



the Board and the external Auditor, and to propose the appointment of external Auditors, amongst others.

- d. In relation to compliance with legal provisions and internal regulations, to supervise compliance with the Code of Conduct in the Stock Markets and to review compliance with the requirements imposed by the supervision and control authorities of the stock exchange.
- e. In relation to the Company shareholders, to be aware of and, if applicable, to reply to any initiatives, suggestions or complaints raised by the shareholders in the exercise of their rights and, if applicable, to inform the General Meeting of any issues within its competence raised by the shareholders.
- f. Finally, as already mentioned above, to maintain the Board of Directors periodically informed of its activities and to draw up an annual activity report, to be included in the annual information of the Company and its Group, as well as a plan of action for each year.

Section G of this Report includes a summary of the activities of the Audit Committee carried out during 2005.

Appointments and Remuneration Committee	4
Functions	

According to Article 24 of the Bylaws and Article 18 of the Board Regulations, the essential responsibilities of the Committee may be summarised as follows:

- a) To make proposals to the Board of Directors regarding the system and amount of annual remuneration for the Directors.
- b) To propose and periodically revise criteria and forms of remuneration to the Chairman, the Board and the senior management of the Company and its subsidiaries, having regard to their results and to the responsibility, dedication and lack of conflicts of interest required of the Directors. It will also examine and evaluate the executive policy of the Company.
- c) To oversee the transparency of Board remuneration and to know the guarantee clauses included in senior management contracts.
- d) To previously report on all proposals presented by the Board of Directors to the General Meeting regarding appointment or removal of Directors, including in situations of co-option.
- e) To make proposals to the Board of Directors regarding the selection of expert independent Directors.
- f) To propose and report on any other matter related to the foregoing which is requested of it by the Chairman or by the Board of Directors.

Section G of this Report includes a summary of the activities carried out by the Appointments and Remuneration Committee in financial 2005.

B.2.2. List all committees of the board of directors and their members:

EXECUTIVE OR MANAGEMENT COMMITTEE

Tax Number or Code	Name	Position
--	--	--
--	--	--
--	--	--



--	--	--
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Further to section B.2.1 above, the Company has a small, active and efficient Board of eleven (11) members, instead of a larger Board operating with the support of an Executive Committee.

AUDIT COMMITTEE

Name	Post
Mr. Francisco Javier Salas Collantes	Chairman
Mr. Manuel Alves Torres	Member
Mr. Pedro Rivero Torre	Member

The Secretary of the Committee is Mr. Rafael García de Diego Barber, who is also the Secretary of the Company's Board of Directors, pursuant to Section B.1.27 above.

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Post
Mr. Antonio Garamendi Lecanda	Chairman
Mr. Luis M ^a Atienza Serna	Member
Mr. Pedro Rivero Torre	Member
Mr. Juan Gurbindo Gutiérrez	Member

The Secretary of the Committee is Mr. Rafael García de Diego Barber, who is also the Secretary of the Company's Board of Directors, pursuant to Section B.1.27 above.

STRATEGY AND INVESTMENT COMMITTEE

Tax Number or Code	Name	Position
--	--	--
--	--	--
--	--	--
--	--	--

COMMITTEE

Tax Number or Code	Name	Position
--	--	--
--	--	--
--	--	--
--	--	--

B.2.3. Describe the rules of organization and procedure of each board committee, and the responsibilities assigned to each one .

AUDIT COMMITTEE

Background

The Company's Audit Committee was created by virtue of a resolution adopted by the Board of Directors of Red Eléctrica on 30 November 1999, referred to as the Audit and Compliance Committee. This Committee was the result of the process of adapting the Company's rules of governance to the new situation derived from the IPO launched by the State Industrial Ownership Corporation (SEPI) and from the Company's listing on the stock markets on 7 July 1999.

The Board of Directors of Red Eléctrica, at its meeting held on 18 November 2003, established the new Audit Committee, which replaced the former Audit and Compliance Committee, further to the provisions established in Article 23 of the Bylaws and in Chapter V, Articles 15 and 16 of the new Board of Directors' Regulations, approved at said meeting. The foregoing was also



carried out pursuant to Article 47 of Act 44/2002, of 22 November, on Measures to Reform the Financial System.

Organisation and operation

The powers, organisation and operation of the Audit Committee are therefore governed by the Bylaws and by the Regulations of the Board of Directors of Red Eléctrica, adapted to Acts 44/2002 and 26/2003; this was notified to the CNMV and recorded at the Mercantile Registry.

Ever since the Audit and Compliance Committee was established in 1999, it has been in charge of reviewing the Company's annual accounts, of ensuring compliance with legal requirements and the adequate application of generally accepted accounting principles, and to inform of any modifications of the accounting principles and criteria that are proposed by the Management.

Article 16.6.a) of the Regulations of the Company's Board of Directors provides, amongst other duties of the Audit Committee, to draw up an annual report of its activities, notwithstanding the additional duty to maintain the Board of Directors duly informed of the activities carried out by the Committee.

In addition, the Committee is in charge of approving the accounting principles and criteria to be used when drawing up the Annual Accounts of the Company and of its consolidated Group, and to check that these are accurate, reliable and sufficient. It is also in charge of ensuring compliance with legal accounting rules in the Company's financial statements and, in particular, with any Community recommendations and obligations on electricity companies' accounting that may be applicable.

Of significance in this regard was the Audit Committee's adoption of a specific procedure for the Committee to supervise any financial information, whether periodic or specific, that is sent to the stock exchange supervision bodies.

All of this results in a more direct control over the drafting of the Company's economic and financial information. As this control is carried out by a collegial body consisting of Directors with the highest professional qualifications in relation to the Committee's matters, as indicated by the career backgrounds of these Directors as described below, the principles of reliability, security, accuracy and sufficiency in accounting terms are strengthened, as well as the transparency of corporate economic reporting process.

Composition

The Audit Committee consists of three members, pursuant to Article 23.1 of the Bylaws and Article 15 of the Board Regulations, who are appointed to their posts for a period of three years.

Under the previous regulations, the Committee was composed of a majority of non-executive Directors appointed by the Board of Directors. At present, the Committee entirely consists of non-executive Directors. The Chairman of the Committee is elected by its members from amongst the non-executive Directors, and the Secretary of the Board of Directors acts as Secretary of the Committee.

As already mentioned, the Directors belonging to the Committee are particularly qualified to hold their posts, with broad professional experience, holding posts of the highest responsibility outside the Red Eléctrica group in functions similar to those entrusted to them. Below is a brief description of each member's career (further details are provided in Section B.1.3 above):

- ▶ Mr. Francisco Javier Salas Collantes is a Graduate in Economic Sciences, specialising in Business Economics, and throughout his career he has held relevant professional posts in economic-financial areas, as well as posts of the highest corporate responsibility; amongst other posts, he has been Director of Banco Exterior de España, of Argentaria and of Inforeasing, he is a founding member and manager of SAGA Servicios Financieros and is a member of the Advisory Committee for Spain of Banco Privado Português; amongst other posts, he has acted as President of INI, TENEO and IBERIA.



- ▶ Mr. Manuel Alves Torres is a Graduate in Economic and Business Sciences. At present, he is the Head of Planning and Control and a member of the Executive Committee of the State Industrial Ownership Corporation (SEPI). He has been Director, amongst other companies, of Grupo Ence, Enatcar, Grupo Inespal, Minas de Almagrera and Agencia EFE. He is currently Director, amongst other companies, of Tragsa and Sedettur.
- ▶ Mr. Pedro Rivero Torre is a Professor in Financial Economics and Corporate Accounting at Universidad Complutense de Madrid, a Chartered Accountant (on leave of absence) and he holds, amongst others, the posts of Vice President of UNESA and belongs to the Economic and Social Council.

The Chairman shall be replaced every three years and may be re-elected after a year has elapsed since abandoning his post.

The Committee meets at least on a quarterly basis and any time it is convened by the Chairman or two of its members so request, and whenever the Board or Chairman of the Board requests that it issue a report. During 2005, the Audit Committee held eight (8) meetings.

At its meeting held on 21 July 2005, pursuant to the provisions established in the Bylaws and in the Board Regulations, the Audit Committee appointed Mr. Francisco Javier Salas Collantes, an independent Director, to hold the post of Chairman of the Audit Committee. This post had been left vacant since the resignation as director of its former Chairman, Mr. Joaquim Clotet i Garriga.

The notice of the meetings, including the Agenda, shall be sent by the Chairman or Secretary of the Committee to each one of its members, at least three days before the date foreseen for the meeting, unless the meeting needs to be convened earlier for emergency reasons.

The Committee may be convened if the majority of its members are in attendance and shall adopt its decisions or recommendations by majority vote. This shall be recorded in the minutes at the end of the meeting.

The meetings of the Committee must be attended by members of the management team or of the Company's staff who were summoned by the President. They shall collaborate and enable access to any information available in relation to the issues to be discussed.

In order to better perform its duties, the Committee may make a proposal to the Board of Directors to receive the advice of independent professionals, and may access any type of information or documentation of the Company it may required.

With regard to External Auditors, Article 38 of the Board Regulations states as follows:

- "1. The relations of the Board with the Company's external auditors shall be channelled through the Audit Committee*
- 2. The Board of Directors shall refrain from hiring audit firms where the envisaged fees payable to them, for all items, exceed ten percent of its total income for the last fiscal year*
- 3. The Board of Directors shall publicly report each year the overall fees the Company has paid to the audit firm for services other than audit services."*

The minimum powers of the Audit Committee will include the duties listed in Section B.2.1 above, which are described in Article 16 of the Board Regulations, and which can be classified in six major groups, i) economic-financial information; ii) internal control systems; iii) external auditors; iv) compliance with legal provisions and internal norms; v) shareholders of the corporation, and vi) other general functions.

The Audit Committee, composed entirely of external Directors, met formally with the external auditor on various occasions during 2005, whenever considered convenient for the best performance of its functions, and presented the questions, clarifications and observations the Committee deemed appropriate. Since 2004, the Audit Committee has been applying the rules contained in the procedure in order to fulfil the duties assigned to the Audit Committee in relation to External Auditor, and in the procedure to review the economic-financial information sent to the stock exchange supervisory bodies.



Section G of this Report includes a summary of the activities of the Audit Committee carried out in 2005.

APPOINTMENTS AND REMUNERATION COMMITTEE

Background

Following the recommendations of the Aldama Report, dated 18 November 2003, the Company's Board of Directors established an Appointments and Remuneration Committee. However, since 1999, the Nominations Committee had been partly exercising the duties of said Committee.

Organisation and procedure

The organization, procedures and powers of said Committee are regulated in Article 24 of the Bylaws and in Articles 17 and 18 of the Board Regulations.

Article 24 of the Bylaws and Articles 17 and 18 of the Board of Directors' Regulations regulate the powers, organisation and procedures of the Appointments and Remuneration Committee.

Amongst the duties of the Committee, Article 18.4.(a) of the Board Regulations includes the duty to draw up an annual report of its activities, notwithstanding its duty to maintain the Board of Directors periodically informed of the Committee's activities.

In 2005, the report of activities carried out by the Appointments and Remuneration Committee in 2004 was approved, which was included in abbreviated form in the 2004 Annual Corporate Governance Report of the Company. The 2006 Plan of Action of the Appointments and Remuneration Committee foresees the drawing up of a report of the activities carried out in the 2005 financial year.

Composition

Article 17 of said Regulations provides that the Committee will be composed of the number of Directors determined by the Board of Directors, with a minimum of three and a maximum of five, a majority of external Directors and the participation of independent Directors, reasonably reflecting the composition of the Board.

At the close of the 2005 financial year, the Appointments and Remuneration Committee, further to the aforementioned rules, consisted of four Directors, three of whom are external and one executive; from amongst the external Directors, two independent Directors have been appointed, one of whom is the Chairman of the Committee. The appointment and removal of Committee members is carried out by the Board of Directors at the proposal of the Chairman of the Board.

The Committee members hold their post for no longer than three years and may be re-elected; they leave office whenever they are no longer Directors or when so resolved by the Board of Directors, pursuant to a report from the Audit Committee. The Chairman may be re-elected after one year after having left office. The Committee shall take into account any suggestions made by the Chairman, Board members, executives or shareholders of the Company in issues affecting the appointment of Directors, appointment of managing or executive Directors, or compliance with the Principles of Corporate Governance, the Bylaws and Board Regulations.

The Committee may be convened with a quorum of a majority of its members and shall adopt its decisions or recommendations by majority vote, which shall be recorded in the minutes at the end of the meeting. In order to better fulfil its duties, the Committee may propose to the Board of Directors that advice be requested from independent professionals and may access any type of information or documentation of the Company that is required to carry out its duties.

The Committee shall be convened as necessary to ensure the proper performance of its duties and, in all events, on a quarterly basis, whenever summoned by the Chairman or requested by



two of its members, and any time the Board of Directors or Chairman request that a report be issued or proposals be adopted. In the 2005 financial year, the Committee held ten (10) meetings.

The notice of the meetings, including the Agenda, shall be sent by the Chairman or Secretary of the Committee to each one of its members, at least three days before the date foreseen for the meeting, unless the meeting needs to be convened earlier for emergency reasons.

Section G of this Report includes a summary of the activities of the Appointments and Remuneration Committee carried out in 2005.

B.2.4. Describe the powers of each committee to make recommendations, issue opinions and act on behalf of the Board:

Committee name	Audit
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Brief description

Without prejudice to the minimum powers under the law and the Bylaws established in Sections B.2.1 and B.2.3, the Committee supports the Board in performing its oversight functions such as supervising the preparation of economic-financial information and internal controls of the Company, and the independence of the External Auditor

Article 16 of the Regulations of the Board attributes to the Audit Committee the following powers to exercise the authority set out in Article 23.3 section (vi) of the Bylaws:

- ▶ In relation to financial information:
 - a) Approve the accounting principles and criteria to be used in the preparation of the financial statements of the Company and of its consolidated Group, and verify their correctness, reliability and sufficiency.
 - b) Ensure observance of accounting rules in the Company's financial documentation and, in particular, of EU recommendations and requirements regarding the accounting of electricity companies which may be applicable
 - c) Be aware of the Company's financial reporting process.
 - d) Review the financial information to be sent to the supervisory bodies of the markets.
- ▶ In relation to internal control systems:
 - a) Approve the internal control procedures at the Company in relation to expenditure and investment, making, where necessary, the appropriate modifications.
 - b) Supervise the internal audit services, which shall address requests for information from the Audit Committee in the performance of its functions.
 - c) Review the appointment and replacement of those in charge of internal control.
 - d) Monitor observance of internal control systems, and of other additional plans which may be implemented, for which purpose it may delegate the performance of preparatory tasks to its Chairman. In this respect the persons in charge of internal control shall inform the Committee when they identify irregularities or breaches which may give rise to a significant impact or harm to the net worth, the results or to the image of the Company or of its Group.
- ▶ In relation to external auditors:



- a) Propose to the Board of Directors the appointment of External Auditors for the submission thereof to the Shareholders' Meeting, seeking it is the same audit firm for all the companies of the group, as well as the terms of the audit contract, the scope of the professional mandate and the extension or termination thereof.
 - b) Establish procedures to ensure the independence and professionalism of the External Auditors and receive information regarding issues which might jeopardize it.
 - c) Receive any relevant information regarding the process of performance of the Audit of Accounts, regarding such issues as may jeopardize the independence of the latter; as well as any other information envisaged in the accounting rules.
 - d) Act as a communication channel between the Board and the External Auditor; evaluate the results of each audit and the responses of the management team to its recommendations, mediating in the event of disputes between the former and the latter in relation to the principles and criteria applicable in the preparation of the financial statements.
 - e) Supervise the performance of the audit contract, seeking to ensure that the principal contents of the audit report are drawn up clearly and precisely.
 - f) Be aware of the relevant situations identified by the External Auditor, in the same way as information from the internal control systems is received, which might adversely affect the net worth, the results, or the image of the Group.
 - g) Regularly request from the External Auditors, and at least once a year; an appraisal of the quality of the Group's internal control procedures.
- ▶ In relation to compliance with legal provisions and internal regulations:
- a) Supervise observance of the Code of Conduct in the Securities Market and, in general, of the rules of governance, drawing up proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue a report on the measures to be implemented
 - b) Review observance of actions and measures which are a consequence of reports or inspections by the supervisory and control authorities of the Securities Market.
- ▶ In relation to the Company shareholders:
- a) Be aware of and, where relevant, provide responses to the initiatives, suggestions or complaints which may be made by shareholders in relation to the scope of the functions of this Committee
 - b) Inform, where relevant, the Shareholders' Meeting of issues which are raised at it by shareholders on issues falling within its powers.
- ▶ Other:
- a) Keep the Board of Directors duly informed of its activities and draw up an annual report to be included in the management report and an action plan for each financial year,
 - b) Report to the Board on extraordinary investment transactions when it so requests.
 - c) Propose and report on any other matter related to the foregoing as may be requested by the Chairman or by the Board of Directors.
 - d) Any other power conferred on it by the Board.

Committee name	Appointments and Remuneration
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Brief description

In accordance with the provisions of Article 24.6 of the Bylaws, Article 18 of the Regulations of the Board establishes that the Appointments and Remuneration Committee has the following basic responsibilities, in carrying out the duties that rest with it under the Bylaws:

- ▶ In relation to appointments, removals and re-elections:
 - a) Report in advance on all the proposals which the Board of Directors makes to the Shareholders' Meeting for the appointment or removal of the Directors, including in cases of cooption.
 - b) Propose to the Board of Directors a system for selecting independent Directors.
- ▶ In relation to remuneration:
 - a) Propose and review from time to time the remuneration criteria and schemes of (i) the Chairman; (ii) the Board; and (iii) Senior Management of the Company and participated companies, taking into account their results, and the responsibility, dedication and level of incompatibility demanded of the Directors. It shall also be aware of and assess the Company's policy on executives, and exercise control over the activity of management and evaluation of Senior Executives;
 - b) Propose to the Board the amount of annual remuneration for Directors;
 - c) Ensure the transparency of Directors' remuneration.
 - d) Approve, prior to signature, any contract which contains guarantee or safeguard clauses in the event of dismissal or change of control in favour of members of senior management of the Company or its Group companies, and report them to the Board for its information.
 - e) Prepare on an annual basis the information on Directors' remuneration which the Board of Directors has to approve and include within the annual public documentation.
- ▶ In relation to the discharge of the directors' duties:
 - a) Ensure fulfilment by the Directors of the obligations established in these Regulations, inform the Board of their performance, and issue the appropriate reports and proposals as well as, as the case may be, on the measures to be adopted in the event of breach.
 - b) Authorize the Directors to use corporate assets.
- ▶ Other functions:
 - a) Keep the Board of Directors informed of its activities and draw up an annual report which shall be included in the management report, as well as an action plan for each financial year
 - b) Propose and report on any other matter related to the foregoing which may be requested by the Chairman or by the Board of Directors.
 - c) Any other power which may be conferred on it by the Board.

B.2.5. State whether there are any written regulations governing the work of Board committees, the place where the regulations may be consulted, and any changes that have been made to them during the year. Also state whether any voluntary annual report has been prepared on the work of each committee.

As already mentioned in Section B.2.1 above, there are no specific internal regulations for the Board Committees. Instead, a revised and detailed set of provisions is included in the Board



Regulations (Articles 15 and 16: Audit Committee; Articles 17 and 18: Appointments and Remuneration Committee).

The Regulations may be consulted on the Company's website (www.ree.es, "Shareholders and Investors", Corporate Governance).

No change was made to these Regulations during the 2005 financial year. The Regulations were approved by the Board of Directors at its meeting held on 18 November 2003.

The Company has voluntarily drawn up an annual report on the activities of the Audit and Appointments and Remuneration Committees, a summary of which is attached hereto in Section G.

B.2.6. If the Company has an executive committee, describe the powers delegated to it and the degree of autonomy it has, in the performance of its duties, to adopt resolutions concerning the Company's administration and management.

As stated before in Section B.2.1, Article 22 of the Bylaws allows the possibility of creating an Executive Committee whose organization is governed by Article 14 of the Regulations of the Board.

Currently, no such committee has been established, as the Company has opted for a system of management based on a small, active and efficient Board of Directors with eleven (11) members.

Under the provisions of the articles mentioned above, the only Board Committee that may have delegated powers would be the Executive Committee.

B.2.7. Indicate if the composition of the Executive Committee reflects the proportions of the different types of directors on the Board:

YES	NO
If not, describe the composition of the executive committee	
At present, the Company has no Executive Committee.	

B.2.8. If there is an Appointments Committee, indicate if all its members non-external directors:

YES	NO
	X

C RELATED OPERATIONS

C.1. Give details of any significant transactions involving the transfer of resources or obligations between the Company or Group entities and the Company's significant shareholders

Tax Number or Code of significant shareholder	Legal name of significant shareholder	Tax Number or Code of the Company or entity of the Group	Legal name of the Company or entity of the Group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
--	--	--	--	--	None	--

C.2. Give details of any significant transactions involving the transfer of resources or obligations between the Company or Group entities and directors or officers of the Company:



Tax Number or Code of directors or executives	Legal name of directors or executives	Tax Number or Code of the Company or entity of the Group	Legal name of the Company or entity of the Group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
--	--	--	--	--	<p>There are no transactions with executives or directors of the Company that can be considered significant.</p> <p>The 31 December 2005 balance sheet included no loans or advances, nor guarantees established by the companies of the Group in favour of members of the Board of Directors of the Company.</p> <p>At said date there were no pension obligations undertaken with regard to members of the Board of Directors of the Company.</p>	--

C.3. Give details of any significant transactions carried out by the company with other companies belonging to the group, unless the transactions are eliminated in the process of preparing the consolidated financial statements and, in their purpose and terms, are part of the ordinary course of the Company's business:

Tax Code	Legal name of the Group entity	Brief description of operation	Amounts (thousand euros)
--	Red Eléctrica del Sur (REDESUR)	Transactions of no material significance, carried out in the ordinary course of the business and which are included merely for informational purposes.	421

C.4. Identify, if applicable, any conflicts of interest between directors of the company, as described in Article 127 ter of the Spanish Corporations Act.

There were no conflicts of interest in 2005 between Directors and the Company based on the provisions of Article 127 ter of the Spanish Corporations Act and Article 31 of the Regulations of the Board.

C.5. Give details of the mechanisms in place to detect, determine and resolve any conflicts of interest between the company and/or group, on the one hand, and its directors, executives or significant shareholders, on the other

Article 31.3 of the Board Regulations establishes that Directors will refrain from attending and intervening in deliberations affecting matters in which they have a direct or indirect personal interest.



Said obligation is likewise applicable to members of the Senior Management of the Company, as stated in the said Article of the Regulations. A personal interest will also be considered to exist when the matter affects a person related to the director or to a company with which he has an employment or professional relationship, or in which he holds a management position or significant shareholding.

For the purposes of the foregoing paragraph, Article 31.3 of the Board Regulations, the following will be considered as related persons of the individual Director:

- (i) Director's spouse or person holding a comparable sentimental relationship;
- (ii) Ascendants, descendants or siblings of the Director or of the Director's spouse;
- (iii) Spouses of ascendants, descendants and siblings of the Director;
- (iv) Companies with respect to which the Director, either personally or through an nominee person, is in any of the situations contemplated in Article 4 of Stock Exchange Act 24/1988.

With regard to directorships held by companies, the following will be considered related persons:

- (i) Partners of the Director that is a legal entity, who are involved in any of the situations contemplated in Article 4 of Stock Exchange Law 24/1988, of 28 July.
- (ii) Directors, whether *de jure* or *de facto*, liquidators and of attorney with general powers of the Director entity.
- (iii) Corporations forming part of the same group, as defined in Article 4 of Stock Exchange Act 24/1988, of 28 July, and their members.
- (iv) Individuals who are considered related to the representative of the entity Director as established for individual Directors.

The Director will report any conflict he may have with the interests of the Company. In case of conflict, the affected Director will refrain from participating in the transaction involved in the said conflict.

Furthermore, Article 2 of the Code of Conduct in the Stock Markets includes within its subject persons the members of the Board of Directors and all those who regularly attend the same as well as General Managers.

Pursuant to Article 10 of the Code of Conduct in the Stock Markets, members of the Board of Directors will inform the Board of Directors, through the oversight body and without prejudice to the provisions of the Regulations for the Board of Directors, of any conflicts of interest which they may be subject to as a result of family relationships or ties, personal assets or any other reason. Said information will be kept up to date, and any modification or cessation of said situations reported, as well as the appearance of any new possible conflicts of interest. For all the foregoing and in accordance with Article 13 of the Code of Conduct, the oversight body is currently the General Administration and Finance Department, which will act with the collaboration of the Secretary of the Board of Directors. Said body will be entrusted with functions regarding awareness, registry and monitoring functions of the information referred to in these Regulations.

The oversight body will have all powers necessary to carry out the functions entrusted to it by the Code of Conduct, and will periodically report to the Audit Committee on compliance with said Code and any incidents which may occur. The Audit Committee will be responsible for monitoring and supervising the actions of the oversight body and internal resolution of conflicts that may be presented by the subject persons, without prejudice to execution of the resolutions of the oversight body. The Audit Committee will prepare an annual evaluation of compliance with the standards of the Code of Conduct and adopt, as appropriate, appropriate measures for



a better implementation and improvement. The Committee will be responsible for making proposals to the Board on modifications that it deems appropriate to adopt.

With regard to executives of the Company, Article 2.2.c) of the Code of Conduct in the Stock Markets establishes the possibility of the Oversight Body determining for each case, personnel who are permanently subject to the Code and as such subject to possible conflicts of interest. Article 2.2.f) of said Code provides that, when circumstances so require, the oversight body may decide to include as persons subject to the Code, on a temporary basis, personnel participating in a special transaction who may have information of economic significance. The parties affected will be given written notice both of their inclusion and of their exclusion.

In the same way and with regard to significant shareholders, according to the provisions of Article 3 1.3 of the Regulations of the Board, proprietary Directors must reveal to the Board any conflict of interest between the Company and the shareholder proposing the Director's nomination, when said conflict affects matters presented to the Board. Furthermore, said Director must refrain from participating in the adoption of any of the corresponding resolutions.

In accordance with the applicable provisions of Article 33 of the Regulations of the Board, the Board of Directors formally reserves for itself knowledge of any material transaction of the Company with a significant shareholder. In no case will the transaction be authorized unless a report has been previously issued by the Appointments and Remuneration Committee, evaluating the transaction from the perspective of equal treatment of shareholders and market conditions.

When dealing with ordinary transactions, a generic authorization of the line of operations and conditions for execution will be sufficient. When transactions with significant shareholders are subject to the decision of the General Meeting of Shareholders, then the Board will recommend to the significant shareholders involved that they refrain from voting and will determine the standard content of the information provided through the company website.

D RISK CONTROL SYSTEMS

D.1. Give a general description of the company and/or group risk policy, setting out and evaluating the risks covered by the risk control systems and explaining how those systems are appropriate to the profile of each type of risk.

The Risk Policy followed by the RED ELÉCTRICA Group, approved in 2004, is aimed at providing principles and guidelines to enable the identification, analysis, evaluation, management and control of significant risks that may affect the Group's objectives and activities, and to enable these processes to be carried out systematically with standard criteria.

Significant risks for the RED ELECTRICA Group are considered to be those that may significantly affect its corporate objectives, aimed at the sustained generation of value over time, or the fundamental functions entrusted to it in Spain and in other countries, so that the Company can provide an essential supply of electrical energy.

The main contours of this policy can be summarized as:

- ▶ Risk management must be fundamentally anticipative, directed also at the medium and long term and taking into account possible scenarios in an ever more globalised environment.
- ▶ Risk management will generally be carried out having regard to the relation between the importance of the risk (probability/impact) and investment and measures needed to reduce the it.
- ▶ Activities related to the electrical system must also take into account the possibility that a risk may present in terms of service quality and security.
- ▶ In the case of financial risk management, this will be directed towards preventing undesired variations in the core value of the Group, and not toward obtaining extraordinary profits.



The most important risks to which the Group is exposed, and which are the focus of the risk control system, are: a) **Regulatory**, as the principal business activities of the RED ELÉCTRICA Group are subject to regulation; b) **Operational**, basically deriving from activities assigned in the electrical system and requirements regarding care and protection of natural surroundings; c) **Market**, due to the fact that most of its income, as well as certain expenses, may be influenced by the evolution of variables such as inflation or interest rates; and d) **Business and Credit (or counterparty)**, although to a smaller extent after the sale of the telecommunications subsidiary.

The risk control system covers both risks to internal processes as well as risks to the environment in which it operates, covering all activities carried out by the Group, and is consistent with its risk profile.

D.2. Describe the control systems established to evaluate, mitigate or reduce the principal risks to the company and its group.

Risk control system

The risk control system is based on the following:

- a) Risk identification, analysis and evaluation and assignment of indicators.

Carried out per type of risk and with the participation of the units responsible for managing the processes associated with the types of risk analysed.

The analysis takes into account the probability of an occurrence (through critical factors with an influence over the occurrence or not of the risk, weighting the risk, the situation of the Company with respect to each critical factor, and the assignment of an overall score to the factors as a whole) and the impact in case it materialises (based on the effect on earnings, social impact or reputation).

Risk assessment and evaluation is the result of bringing together the probability of its occurrence with the impact it would have.

Indicators shall enable a periodic supervision and an identification of any changes in the risk situation.

- b) Risk reduction and mitigation activities

Once the risk has been assessed, the evaluation is compared with the situation considered acceptable and, if appropriate, an action plan is designed that contemplates the actions necessary to reduce the probability of the occurrence of the risk, its impact in case it occurs or both.

- c) Monitoring of the action plan

The established actions are periodically checked, along with the evolution of the corresponding indicators.

- d) Review of the risk situation

Apart from monitoring risk-related indicators, in order to have an updated risk map, the risk identification, analysis and assessment processes carried out are periodically reviewed.

- e) Reporting

Information from prior phases of the system is periodically sent to decision-making and risk oversight bodies.



During the 2005 financial year, RED ELÉCTRICA has continued to implement the General Procedure approved in 2004, with the introduction of improvements in the system described. This procedure was designed following the conceptual framework of the COSO II Report.

Furthermore, in 2005, a software tool has been implemented to support the aforementioned system.

Processes

The RED ELÉCTRICA Group is constantly designing and implementing processes to mitigate or reduce its risks, subjecting them to a process of continuous improvement and verification.

These processes have been integrated into systems structured according to international standards of reference (ISO 9001, ISO 14001 and OHSAS 18001), are subject to systematic audits on the adequacy of design and compliance, and include control aspects for the objectives sought.

Projects

All proposals for projects of significance from an economic or strategic point of view include the corresponding risk analysis, which allows an evaluation of the risks to be carried out when the related decisions are to be made. These decisions are made by the competent body according to the limits stipulated in each particular case, with more important projects requiring the approval of the Board of Directors.

D.3. In the event that any of the risks affecting the company and/or its group has materialised, indicate the circumstances causing the same and if the control systems established worked.

In the 2005 financial year, the established control system worked properly and no significant risk materialised.

D.4. Indicate if there is any committee or other corporate body in charge of establishing and supervising control mechanisms and describe their functions.

The Board of Directors governs and manages the Group, and is responsible for establishing the control environment and risk profile of the Company and its investee companies.

In this sense, Article 5.6 b) of the Regulations of the Board establishes that identifying the main risks of the Company and the RED ELÉCTRICA Group is the direct responsibility of the Board, together with knowledge of their internal control, prevention and information systems.

The Management Committee, composed of managers from the key strategic areas of the Company, is in charge of establishing and monitoring risk control mechanisms. Its functions are:

- ▶ Foster implementation of the Integrated Risk Management Policy.
- ▶ Propose the risk profile of the Group to the Board of Directors including it in the Strategic Plan.
- ▶ Analyse the monitoring of the risk situation, resolving the appropriate actions.

Risk control activities are centralized in the Technical Secretariat, which reports to the Chairman.

D.5. Identify and describe processes to comply with the different regulations affecting your company and/or its group.

As indicated in Section D.2 above, the RED ELECTRICA Group structures its processes in accordance with internal norms and procedures, using international standards as a reference.



This set of internal standards and procedures, subject to continuous review and improvement, includes different regulations affecting the processes.

The internal standards and procedures, in relation to their design, adaptation to existing regulations and due compliance, are systematically reviewed by the Internal Audit and Compliance services. This unit reports directly to the Chairman, and at a second level said procedures are supervised by the Audit Committee.

Internal standards and compliance are subject to an external audit on a periodic basis, by international ISO and OHSAS standards certification bodies.

E GENERAL MEETING

E.1. Give details of the quorum requirements for General Meetings established in the Bylaws. Describe how they differ from the quorum provisions of the Spanish Corporations Act (LSA).

Article 14 of the Bylaws and Article 11 of the Regulations of the General Shareholders' meeting do not contemplate any difference in relation to the provisions established in Articles 102 and 103 of the Spanish Corporations Act.

Article 11 of the Meeting Regulations establishes that the General Meeting of Shareholders will be validly constituted at first call when shareholders present either personally or by proxy possess at least twenty five per cent of paid-in capital with the right to vote. At second call, the General Meeting will be constituted regardless of the capital in attendance.

In order for the General Ordinary or Extraordinary Meeting to validly resolve to increase or reduce capital, transform, merge or split up the Company, and in general any modification to the Bylaws, then at least fifty per cent (50%) of paid-in capital with the right to vote must be present, at first call, either personally or by proxy. At second call, the participation of twenty five percent (25%) of said capital will be sufficient.

The resolutions referred to in the foregoing paragraph may be validly adopted only with the participation of shareholders representing at least fifty per cent (50%) of paid-in voting capital, and with a favourable vote of two thirds of the capital present or represented at the meeting. Shares issued without the right to vote will not be computed at any meeting, nor will any shareholders who are not up to date in the payment of capital calls.

Shareholders with the right to attend and vote who vote using the remote voting procedure set out in Article 15.8 of the Regulations of the General Meeting, will be considered as present for quorum purposes.

E.2. Explain the procedure for adopting company resolutions. Describe any difference with the provisions of the LSA.

The system for adopting corporate resolutions does not contemplate any difference from the provisions established in current law.

The Bylaws (Article 17) and the Regulations of the General Meeting of Shareholders (Article 15.9) only establish that resolutions will be adopted by a majority of votes, except when by law a greater majority is required.

E.3. List any rights of the shareholder with regard to General Meetings that may be different from those established in the LSA.

Rules regarding shareholders' rights are given in Article 15 of the Bylaws and in Articles 6 to 10 of the Regulations of the General Meeting.

The Bylaws refer expressly to the right to information and to attend General Meetings.



In accordance with current legislation, Article 6 of the Regulations of the Meeting states the rights of the shareholders, adding as a principal innovation, beyond the provisions of the LSA, the right to participate in corporate matters under the terms set out in Article 7 of said Regulations.

Right to participate

Said article provides that shareholders owning 5% of corporate capital may request that the Board, prior to issuing the notice, include some point in the Agenda for the next General Meeting. The Board of Directors will include the matters requested in the form that best suits the company's interest, whenever these refer to matters within the powers of the General Meeting.

This right has been upheld by Act 19/2005, of 14 November, on European Corporations domiciled in Spain, which in fact has given rise to a proposal to modify the Bylaws and the Regulations of the General Meeting. The issue shall be voted on at the Ordinary General Meeting to be held for the 2005 financial year, in order to adapt said provisions to the Act.

Shareholders may also formulate proposals regarding matters included in the Agenda, as well as make suggestions regarding activities and interests of the Company which, in their judgment, should be discussed at the General Meeting. In both cases, shareholders may make these proposals and suggestions through the Shareholders' Office.

Right to information

The Company is especially interested in the shareholders' right to information, as reflected in Article 15 of the Bylaws and Article 8 of the Regulations of the Meeting. Thus, Article 8 of the Regulations of the Meeting establishes an obligation to place at the disposal of shareholders, free of charge, both through the Shareholders' Office as well as on the corporate website, documentation and information related to the Agenda of the meeting, including the following:

- a) Notice of the General Meeting with proposed resolutions and the corresponding reports of the Board of Directors.
- b) Annual Financial Statements of the Company, Consolidated Financial Statements and proposal for application of results of the period.
- c) Corporate Management Report and Consolidated Management Report for the period.
- d) Audit Report for the Consolidated Financial Statements and Corporate Financial Statements.
- e) Annual Corporate Governance Report.
- f) Social Report (now entitled the Corporate Social Responsibility Report).
- g) Environmental Report.
- h) Any other report required, or as determined by the Board of Directors.

In order to reinforce the shareholders' right to information, shareholders may request from the Company pertinent documentation, reports or clarifications regarding matters included in the Agenda, as well as information, clarifications or questions regarding information provided by the Company to the CNMV since the date of the last General Meeting.

The Shareholders' Office deals with requests presented by shareholders of the Company. Shareholders may also formulate questions in writing regarding information accessible to the public or which has been communicated to the competent authorities, as well as formulate consultations through said Office.

In addition, Article 15.4 of the Regulations of the Meeting establishes that shareholders can verbally request, during the Meeting, reports or clarifications that they consider appropriate



regarding matters included in the Agenda. In the event this right cannot be satisfied at that time, then the Board of Directors will provide the information in writing within seven days following the holding of the meeting.

Right to attend

Article 15 of the Bylaws and Article 9 of the Meeting Regulations establish that shareholders who are up to date on payments of capital calls and evidence their share ownership with a certificate showing they are the owners of record in the book-entry system records at least five days prior to the Meeting have the right to attend.

Board members and officers of the Company will attend the General Meetings. In order to encourage the widest dissemination of the development of the meetings and the resolutions adopted, the media will be given access to the General Meeting and allowed to make audiovisual recordings.

The Bylaws and the General Meeting Regulations establish specific conditions for the representation of shareholders in the General Meetings, although there is no specific policy established by the Company regarding the delegation of votes for the General Meetings of Shareholders.

To this effect, Article 15 of the Bylaws and Article 10 of the Meeting Regulations provide that shareholders with the right to attend (which all shareholders enjoy as indicated below, given that there is no requirement regarding minimum number of shares to attend the Meetings) may be represented in the General Meeting by another shareholder with the right to attend, as established in Articles 106 to 108 inclusive of the Spanish Corporations Act, in relation to the provisions of the Bylaws. Said representation must be conferred in writing and specifically for each Meeting.

Except for cases of public proxy solicitation, which are subject to the prevailing legal provisions, no person can accumulate proxy votes that together with his votes give him voting rights to over 3% of the share capital.

As stated previously in this Report (Section A. 10), Article 23 of Royal Decree-Law 5/2005 has modified Article 34.1 of the Electricity Sector Act, providing that any entities carrying out activities in the electricity sector and any individuals or legal entities who, directly or indirectly, hold more than a five per cent (5%) equity stake therein, shall be subject to a maximum percentage stake in the company's capital of one per cent (1%). The adjustment of the shareholders' stakes to these new limitations must be carried out before 1 January 2008, without prejudice to any voting rights over shares that exceed the maximum legally established percentage continuing to be held in abeyance until the equity stake or voting rights are adjusted. For remaining shareholders, whether individuals or legal entities, the Royal Decree-Law has maintained the maximum stake, directly or indirectly held in the Company's capital, of three per cent (3%), already introduced by Act 53/2002, of 30 December, on Fiscal, Administrative and Social Policy Measures. The Royal Decree-Law maintains the specific provisions applied to the State Industrial Ownership Corporation (SEPI), which has remained unchanged, and which shall in any case hold a stake of at least ten per cent (10%). Consequently, as provided in Article 15 of the Bylaws and in Article 10 of the Meeting Regulations, and except for public proxy solicitations representation to which the prevailing legal rules shall apply, in each case, no entity may accumulate proxy votes which, together with its own votes, attribute voting rights exceeding 3% of the share capital.

E.4. Indicate, if applicable, measures adopted to encourage the participation of shareholders in the general meetings.

The General Meeting Regulations specifically provide for the right of participation, developed in Article 7 and explained in detail in Section E.3 above, to which we refer.

All of this reflects the Company's particular interest, in line with the best Corporate Governance practices, in developing new forms of shareholder protection and participation, in order to acknowledge shareholder rights in the Company to the maximum. Of interest is the



implementation of an electronic voting system at the Ordinary General Shareholders' Meeting held on 26 May 2005.

E.5. Indicate if the position of chairman of the general meeting coincides with the chairman of the board of directors. If so, describe the measures adopted to guarantee the independence and proper functioning of the general meeting:

YES	NO
X	
Describe the measures	

Further to the Company regulations, the post of Chairman of the General Meeting coincides with the post of Chairman of the Board of Directors.

As indicated in Article 12 of the Regulations of the General Meeting of Shareholders, the General Meeting will be presided by the Chairman of the Board of Directors, and in his absence by the Vice Chairman with greatest seniority in the position or, in his absence, by the person appointed by the Board of Directors and, if no appointment has been made, by the Director or shareholder freely chosen by the shareholders attending each Meeting. The Secretary or Vice Secretary of the Board of Directors, as the case may be, shall act as Secretary of the Meeting. If both are absent, the Secretary of the Meeting shall be the Director or shareholder freely chosen by the shareholders attending each Meeting.

The Chairman will chair the meeting, establishing the order of deliberations and talks; he will decide the method of voting on resolutions; resolve any questions, clarifications or complaints arising with regard to the Agenda, the list of attendees, share ownership, delegations or proxies, quorum requirements and adoption of resolutions by the meeting, or the Bylaw limit on voting rights; he will turn over the floor to shareholders who so request, ending their talks or not turning over the floor when he deems the matters in question have been sufficiently deliberated.

With regard to measures to guarantee the independence and proper functioning of the General Meeting, Article 5 of the Meeting Regulations establishes that General Meetings, both ordinary and extraordinary, will be called by publication of a notice by the Board of Directors in the Official Gazette of the Mercantile Registry and in one of the newspapers with widest circulation in Madrid, at least fifteen days prior to the date scheduled for the Meeting, except when longer notice is required by Law and without prejudice to giving more notice than required by law and the Bylaws, as is customary practice of the Company, to make it as easy as possible for shareholders to plan their participation.

Also of interest is the requirement established in Act 19/2005, of 14 November, referred to in Section E.3 above, which obliges corporations to give notice of the Ordinary General Shareholders' Meeting at least one month before the scheduled date. This, obviously will require the relevant amendments to the Bylaws and to the General Meeting Regulations by the General Shareholders' Meeting.

The notice will indicate the date of the meeting at first call and the matters included in the Agenda. It may also indicate another date at second call. Between both calls, at least twenty-four hours must elapse. When a second call is not provided for and the General Meeting cannot be held, it shall be announced in the same manner as the first call, within fifteen days since the date on which it was not held, and at least eight days prior to holding the second meeting. In the announcement, the Board shall endeavour to provide a likely date for the meeting at first or second call.

Meetings may be held at the registered office of the company or any other location in the city where the head offices are located. The notice will announce the place and time where shareholders can consult the documents to be submitted for approval of the Meeting, without prejudice to the ability of any shareholder attending to request and receive these same documents, free of charge. The notice of the General Meeting will also be posted on the company website and a copy sent to the Exchanges on which the company shares are listed.



The Board must call an Extraordinary General Meeting if shareholders owning 5% of share capital submit a reasoned request to such effect, specifying the matters to be dealt with at such meeting, which must be amongst those for which the General Meeting has powers. In this case, the Meeting will be called for a date within thirty days following the date the request was made in a notarised document to the Board of Directors, and the Board will draw up the agenda, including the matters stated in the request in the form which best suits the company's interest.

In the event the General Meeting is not called by the Board of Directors despite the requirement for them to do so, then it may be held, at the request of shareholders and in the presence of the Board, by the competent Judge for the company registered office who, if applicable, will appoint the person to preside same.

The quorum necessary for the General meeting is established in Article 14 of the Bylaws and in Article 11 of the Meeting Regulations. The Bylaws and Regulations of the General Meeting of Shareholders show no differences with regard to Articles 102 and 103 of the Spanish Corporations Act. As indicated below, in 2003 the minimum requirement of shares (50) for attending the General Meetings was eliminated from the Bylaws.

Article 15 of the Meeting Regulations sets out the rules to be followed for the correct functioning of the General Meeting of Shareholders. Said Article provides that, prior to addressing the matters on the Agenda, a list of those attending will be prepared, stating the status or representation of each and the number of shares represented by them, either personally or by proxy. The number of shareholders present in person or by proxy will be totalled at the end of said list, as well as the amount of capital owned, succinctly specifying those corresponding to shareholders with voting rights, all of which will be verified by the Secretary.

Once the meeting has been convened, the Secretary will read the information on the notice and attendance based on the attendance list. In view of the list of those attending, the Chairman will declare the Meeting validly constituted, if applicable. In the event a Notary is present at the request of the Company to draw up the minutes of the Meeting, then he will ask those attending if there is any objection or protest regarding the shareholder attendance information and capital stated by the Chairman.

In the Ordinary General Meeting the Chairman will report to the Meeting on the most important aspects occurred during the period and proposals of the Board, or said presentation may be completed by the individuals authorized by him.

The Chairman of the Audit Committee will be at the disposal of the Meeting to respond to any questions presented by the shareholders on matters under his responsibility.

Upon conclusion of all pertinent presentations, the Chairman will give the floor to shareholders who so request, directing and coordinating the deliberations, following the Agenda established except as allowed by Articles 131 and 134 of the Spanish Corporations Act.

Article 15.8 of the Meeting Regulations establishes that each share gives the right to one vote as established in the Bylaws, subject to the limits set out therein according to the Electricity Sector Act.

The Chairman will also decide on the most suitable method for proceeding with a vote in each case, announcing it publicly in the General Meeting with sufficient time and prior to proceeding with the vote.

Article 15 of the Meeting Regulations allows the possibility of establishing electronic voting systems, as long as the identity of the voter and his status as shareholder or proxy is accredited and the number of shares voted by him are stated clearly and unequivocally, as well as the sense of the vote or abstention, as applicable.

In 2005, an electronic voting system was successfully implemented at the Ordinary General Shareholders' Meeting held on 26 May 2005, after this procedure had been authorised by the Board of Directors.



Article 17 of the Bylaws and Article 15.9 of the Regulations of the General Meeting of Shareholders do not include any differences from the provisions established in current law, but rather only establish that resolutions will be adopted by a majority vote, except when a higher majority is required by law.

The foregoing is also without prejudice to the rights to information and to attend described in detail in Section E.3 of this Report.

E.6. Indicate, if applicable, modifications made to the regulations of the general meeting during the period.

During the 2005 financial year, no modifications were made to the Regulations of the General Meeting. The Regulations may be consulted on the Company's website (www.ree.es).

E.7. Indicate attendance data for the general meetings held during the period discussed in this report:

Date of General Meeting	Attendance data			
	% in person	% by proxy	% remote voting	Total %
26-05-2005	37.63	14.47	--	52.10

The seven shareholders who voted electronically at the last Ordinary General Meeting are included in the percentage of shareholders "present", further to the provisions of the Bylaws and Regulations of the General Shareholders' Meeting.

E.8. Briefly indicate resolutions adopted in the general meetings held during the financial period referred to in this report and the percentage of votes for the adoption of each resolution.

Resolutions adopted	In favour	Against	Abstained
1. Approve the Annual Financial Statements (Balance Sheet, Profit and Loss, Notes) and the Management Report for Red Eléctrica de España, S.A., for the 2004 financial year. The Annual Financial Statements and Management Report of Red Eléctrica de España, S.A. approval of which is proposed in this act, correspond to those that were formulated by the Board of Directors at its meeting held on 11 March 2005.	99.968%	0.031%	0.001%
2. Approve the Annual Financial Statements (Balance Sheet, Profit and Loss, Notes) and the Management Report for the Consolidated Group of Red Eléctrica de España, S.A., for the 2004 financial year. The Annual Financial Statements and Management Report of the Consolidated Group of Red Eléctrica de España, S.A. approval of which is proposed in this act, correspond to those that were formulated by the Board of Directors at its meeting held on 11 March 2005.	99.968%	0.031%	0.001%
3. Approve the distribution of results profits by the Board of Directors at its meeting held on 11 March 2005 and, consequently, to distribute the profits of the 2004 financial year, amounting to 127,235,182.83 euros, as follows: To dividends: 82,994,718.85 euros	99.969%	0.031%	0.000%



<p>To voluntary reserves: 44,240,463.98 euros</p> <p>TOTAL 127,235,182.83 euros</p> <p>Pay to shares with a dividend right the gross amount of 0.6138 euros per share. Payment of dividends shall be made on 1 July 2005 at the banks and financial entities that are announced in due course, discounting the gross amount of 0.2375 euros per share paid as interim dividend on 3 January 2005, by virtue of a resolution adopted by the Board of Directors on 25 November 2004.</p>			
<p>4. Approve the management performance of the Board of Directors of Red Eléctrica de España, S.A. for the 2004 financial year.</p>	99.967%	0.032%	0.001%
<p>5. Ratify the appointments as Directors of Red Eléctrica de España, S.A., made by the Board of Directors pursuant to the provisions established in Article 138 of the Spanish Corporations Act, of Messrs. Luis M^a Atienza Serna and Rafael Suñol Trepát, at the meetings held on 24 June and 16 December 2004, respectively, to replace and as a result of the resignations of Messrs. Pedro Mielgo Álvarez and Enrique Lacalle Coll, respectively, and, consequently, to appoint them for the term of office stipulated in the Bylaws, further to the report and proposal made by the Board of Directors, further to a report from the Appointments and Remuneration Committee. To appoint Ms. María de los Ángeles Amador Millán as Director of Red Eléctrica de España, S.A., for the term of office stipulated in the Bylaws of four years, further to the report and proposal made by the Board of Directors, further to a report from the Appointments and Remuneration Committee.</p>	99.966%	0.031%	0.003%
<p>6. Amend Articles 2 (corporate object), 5 (share capital), 17 (chairman and secretary, procedure), the Single Additional Provision and Second Transitional Provision of the Bylaws.</p>	99.995%	0.002%	0.003%
<p>7. Re-elect KPMG Auditores, S.L. as auditors of Red Eléctrica de España, S.A. and of its Consolidated Group, for the 2005 financial year, pursuant to the provisions of Article 204 of the Spanish Corporations Act.</p>	99.965%	0.034%	0.001%
<p>8. Inform the General Shareholders' Meeting of the Annual Corporate Governance Report of Red Eléctrica de España, S.A. for the 2004 financial year.</p>	For information purposes	For information purposes	For information purposes
<p>9. Authorise the derivative acquisition of treasury stock on the legally stipulated terms.</p>	99.998%	0.001%	0.001%
<p>10. Delegate to the Board of Directors, with powers of sub-delegation, the full execution of the resolutions adopted.</p>	99.997%	0.001%	0.002%



E.9. Indicate, if applicable, the number of shares necessary to attend the general meeting and if there is any restriction in this regard in the Bylaws.

There is currently no Bylaw restriction of any kind in this regard, and there is no minimum number of shares required in order to attend the General Meeting.

The Extraordinary General Meeting of Shareholders held on 17 July 2003 abolished the Bylaw requirement to hold a minimum of 50 shares in order to attend the General Meeting. All of this was basically aimed at encouraging maximum shareholder participation in the discussions of Company matters.

E.10. State and explain the company's policies with respect to the appointment of proxies at general meetings

The Company has no specific policy on the appointment of proxies for voting in the General Meetings of Shareholders. Notwithstanding the foregoing, the Bylaws and the Regulations of the General Meeting establish specific conditions for General Meeting proxies.

To this effect, Article 15 of the Bylaws and Article 10 of the Regulations of the Board of Directors provide that shareholders with the right to attend may appoint another shareholder with the right to attend as a proxy for the General Meeting, in the form established in Articles 106 to 108 of the Spanish Corporations Act, both inclusive, with respect to the provisions of the Bylaws. Said representation will be conferred in writing and specifically for each Meeting.

Except for cases of public proxy solicitations, which are subject to the prevailing legal provisions, no person can accumulate proxy votes that together with his votes give him a right to vote over 3% of the share capital. In addition, there is no provision allowing the syndication of shares for any purpose.

As reported before in this Report (Section A), Royal Decree-Law 5/2005 has modified Article 34 of Electricity Sector Act 54/1997, of 27 November, by establishing a limit on share ownership to 3% of share capital, except for the special provisions for the State Corporation of Industrial Ownership (SEPI). The RDL has maintained the maximum stake directly or indirectly held in the Company's capital, of three per cent (3%), already introduced by Act 53/2002, of 30 December, on Fiscal, Administrative and Social Policy Measures, except for entities carrying out activities in the electricity sector, which are subject to a 1% limit. In addition, the special regimen of the State Industrial Ownership Corporation (SEPI) has been maintained, whereby it shall continue, in any case, holding a stake of at least ten per cent (10%).

Said Act established that voting rights for shares in excess of the percentage established by law would be held in abeyance until the amount of capital ownership or voting rights was adjusted.

As such, in accordance with Article 15 of the Bylaws and Article 10 of the Meeting Regulations, except in cases of public proxy solicitations, which are subject to the applicable legal rules, in each case no individual can accumulate proxies that together with his own votes would give the right to vote over 3% of the corporate capital.

Likewise, of interest are the provisions contained in the Bylaws and General Meeting Regulations regarding votes and delegation by electronic means, introduced at the Ordinary General Shareholders' Meeting on 6 May 2004, which were successfully implemented by the Company (electronic voting at the Meeting held on 26 May 2005). As already indicated in Section E.5 above, the Company contemplated the use of electronic voting for the Ordinary General Shareholders' Meeting to be held in 2005, once the Board of Directors approves the procedure that established the necessary rules, means and procedures.

At the Ordinary General Shareholders' Meeting for the 2005 financial year, shareholders shall for the first time be offered, apart from electronic voting, the possibility of electronic proxy appointments, voting by post, the issue of second copies and a request for information by electronic means.



E.11. Indicate if the company is aware of the policy of institutional investors as to whether or not they participate in company decisions:

YES	NO
	X
Describe the policy	

The relations between the Company and institutional investors are general in nature and are not specific or special for any of them.

On a regular basis, the Company organizes informational meetings or road shows at the main financial centres in Spain and abroad, wherever there is a greater presence of institutional investors, in order to inform them of its activities and its business performance in an attempt to bring the Company closer to these groups of investors.

In no case does the Company disclose to institutional shareholders any information that might place them in a privileged or advantageous situation vis-à-vis the other shareholders.

The Company does not receive any information flowing inversely, i.e. from the institutional investor, apart from such concrete information as the investors may disclose to the markets.

E.12. Indicate the address and form of access to website contents regarding corporate governance.

Article 2 of the General Meeting Regulations establishes the content of the corporate website, whose purpose is to serve as an instrument to assure the transparency of corporate activities and at the same time allow shareholders greater effectiveness in the exercise of their voting rights, as well as to facilitate the relationship between shareholders and the Company.

The Company has been using this form of communication since it became a publicly traded corporation in 1999. The content of the website is updated regularly, extending beyond the requirements of applicable legislation in accordance with Act 26/2003, of 17 July.

To this effect, the Company's website (www.ree.es) includes a section that is entered from the home page, dedicated to "Shareholders and Investors". Said section includes, among other things, a section specifically entitled "Corporate Governance" containing all the information on this matter that may be of interest to the shareholder. Said page includes the following contents, among others, in accordance with the Regulations of the General Meeting of Shareholders:

1. Bylaws.
2. Regulations of the Meeting and Board and other provisions of corporate governance.
3. Quarterly reports for the period and annual reports for the past two years, together with reports of the external auditors.
4. Annual Corporate Governance report prepared by the Board.
5. Composition of the Board and its Committees.
6. Shareholders identified with permanent holdings, both direct and indirect, and their representation on the Board, as well as all private agreements between shareholders which have been disclosed to the Company and the market.
7. Shareholdings of each of the members of the Board.
8. Information contained in the presentations made to different market operators and analysts, intermediaries and significant shareholders.
9. Significant events reported to the CNMV.



10. Resolutions adopted during the last General Meeting, including details on the meeting composition and voting results.
11. Current notice for the next General Meeting.
12. Information required to be placed at the disposal of shareholders with the notice of the General Meeting.
13. Responses to proposals and suggestions made by shareholders.
14. Communication channels between the Company and shareholders and pertinent explanations regarding the exercise of the right to information, indicating e-mail and postal addresses where shareholders may address their questions.
15. Means and procedures for appoint proxies for General Meetings, as well as means and procedures to cast votes from a distance, with forms approved for the same.

With regard to the publicity of the resolutions approved by the General Meeting, Article 17 of the Meeting Regulations specifies that, without prejudice to the recording of said resolutions in the Mercantile Registry and legal provisions regarding publication of corporate resolutions as may apply, the Company will provide the text of the resolutions approved and reported to the CNMV as timely communication of relevant events, on the same day the meeting is held or on the following business day. The text of the resolutions will also be available on the Company website, after they are reported to the CNMV.

Especially important in the 2005 financial year was the maximization of the contents of the Company website as a communications instrument with shareholders and investors, and its adaptation to the requirements of Order ECO/3772/2003, of 26 December, and CNMV Circular 1/2004. The following measures should be highlighted:

- ▶ Inclusion of the quorum requirement and result of the votes on each of the proposals made to the General Meetings held in the past year.
- ▶ Addition of information relating to attendance and procedures to appoint proxies in the General Meetings, in accordance with the Bylaws and Regulations of the General Meeting of Shareholders.
- ▶ Creation of a specific section relating to electronic voting, stating that this is still pending development in the corresponding Regulations.
- ▶ Creation of a section relating to outstanding securities issues.
- ▶ Creation of a section relating to the rating granted by credit rating agencies.
- ▶ Expansion of information relating to shareholders, with greater detail on significant holdings, treasury stock and private agreements between shareholders.

F DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the extent to which the company complies or fails to comply with existing corporate governance recommendations.

If the company does not comply with any recommendation, explain what recommendations, rules, practices or criteria it uses.



Until such time as the single document referred to in Ministerial Order ECO/3722/2003, dated 26 December, becomes available, the recommendations of the Olivencia Code and the Aldama Report should be taken as the basis for completing this section.

1. PRELIMINARY COMMENTS

In order to fulfil the provisions of this sector and given that at the date of approval of this Report the document referred to in Order ECO/3722/2003, of 26 December, has not been yet developed, below is a summary of the Company's level of compliance with current corporate governance recommendations.

Following standard practice, we have taken into account the recommendations included in the Document issued by the special Commission to examine an Ethical Code for Corporate Boards of Directors, dated 26 February 1998, more commonly referred to as the Olivencia Code, as well as the Report issued by the Special Commission to Encourage Transparency and Security in Markets and Listed Companies, issued on 8 January 2003 (Aldama Report).

Red Eléctrica complies with practically all the best Corporate Governance practice followed by listed companies in Spain, as explained below.

2. OLIVENCIA CODE

The Company acts through a small, active and efficient Board of Directors which, with the support of the Audit and Appointments and Remuneration Committees, governs and represents the Company. Pursuant to the Bylaws and the Board Regulations, the criteria prevailing at all times in the Board's activity is to ensure company viability and value in the long term, and to protect and encourage the Company's general interests.

The Board specifically has all powers to manage and represent the Company, in and out of court, exercising said powers either directly or through their delegation, substitution or a power of attorney as allowed by law, the Bylaws and Regulations of the Board. The Board's policy is to delegate ordinary company management to the executive bodies and executive team and to concentrate its work on the general functions of supervision and approval of basic guidelines for the activity.

The Board's composition shall be established in such a way as to ensure the best representativeness of the share capital. The Board consists of seven independent external Directors, three proprietary external Directors, and one executive Director. Consequently, the external, proprietary and independent Directors (10) constitute a wide majority over executive Directors (1). The ratio of proprietary and independent directors has taken into account the relationship between the capital held in significant packages and the remainder, thereby adequately reflecting the current shareholder structure of the Company and the Corporate Governance recommendations.

The Chairman of the Board of Directors also heads the Company as its chief executive, and holds full representation of the Company, acting further to powers delegated by the Board. When exercising his duties, he is subject to specific control by the Board of Directors, to whom he must subsequently report or request authorisation, if necessary. Furthermore, the Audit and Appointments and Remuneration Committees effectively control the corporate management within the scope of their respective competence.

As already mentioned in Section B.2 above, Article 22 of the Bylaws foresees the possibility of creating an Executive Committee, to be organised according to Article 14 of the Board Regulations. However, at present, this Committee has not been established as the Company is applying a management system based on a small, active and efficient Board. Pursuant to current law and Corporate Governance practice, as well as the provisions of Section B.2.3 above, the Company created an Audit Committee in 2003, entirely composed of external Directors, and an Appointments and Remuneration Committee, with a majority of external Directors, who have replaced the two former Committees who were exercising similar tasks since 1999. The composition, operation and responsibilities of the Committees are developed in the Regulations of the Board of Directors.



The duties of the Appointments and Remuneration Committee, pursuant to the Bylaws and the Board Regulations, include duties of information, determination and review of the remuneration policy. In turn, the duties of the Audit Committee include those regarding the assessment of the governance system. The Appointments and Remuneration Committee consists of two independent external Directors, one proprietary external Director and one executive Director, and its main tasks include the examination of the qualifications of potential directors of the Company. The Committee shall also previously report on any proposals made by the Board of Directors to the General Meeting in order to appoint or remove Directors, including co-option.

Remuneration to Directors is transparent. To this end, the Appointments and Remuneration Committee draws up an annual report on director compensation policy. The Board Regulations provide that the annual report drawn up by said Committee shall include, as the case may be, any delivery or assignment of shares, share options or systems benchmarked to the share value, in the case of remuneration paid to executive Directors, as well as a breakdown of salaries into cash and non-cash components, bonuses, pension funds, indemnification benefits and any other compensation that may exist. Sections B.1.8 and G of the Report describe the remuneration to Directors accrued in 2005 for each item, by type of Director, in relation to the profits obtained by the Company and, finally, remuneration for each individual Director.

The Board of Directors ensures compliance with current instructions on material disclosures, pursuant to the Company's Code of Conduct in the Stock Markets. To this effect it shall adopt the necessary measures to ensure the quarterly, half-yearly and annual financial information, and any other that must be disclosed to the markets, is drawn up following the same principles, criteria and professional practice with which the annual accounts are drawn up, including the same degree of reliability. This information is reviewed by the Audit Committee having regard to these objectives. During 2005, the CNMV was notified of a total of twenty-seven (27) relevant events and other disclosures of interest on various significant market matters, which were immediately posted on the Company's website. These events and communications are described in Section G of this Report.

The remuneration paid during the period to external auditors by the Company and Group companies does not represent a significant percentage of the total income obtained by the audit firm. Furthermore, it has been verified that fees for professional services other than audit services paid to companies that are directly or indirectly related to the audit firm are not significant and do not affect the Company's strategy or general planning. In this regard, Section B.1.29 above indicates the amount of fees received by the audit firm for non-audit services and the percentage those fees represent over the total invoiced to the Company. Since it was incorporated, the Company has not been subject to any audit qualifications regarding its Annual Accounts, which attests to the high accuracy, reliability and sufficiency of the Annual Accounts of the Company and of its consolidated Group throughout its life, guaranteeing at all times the highest informational transparency.

To conclude, in 2005, of the 23 recommendations of the Olivencia Code Red Eléctrica fulfilled 22 and one in part, demonstrating the Company's permanent concern to implement the best Corporate Governance practices. Specifically, Recommendation No. 8 was partly fulfilled by Red Eléctrica, regarding Committees of the Board of Directors. According to said Recommendation: "*The Board of Directors should constitute Committees to which it delegates control, comprised exclusively of external Directors dealing with information and accounting control (Audit); to select directors and Senior Management (Nominations); to determine and revise remuneration policy (Remunerations); and to evaluate the governance system (Compliance)*".

Pursuant to the terms of current legislation and Corporate Governance practice, during financial 2003 the Company created an Audit Committee composed entirely of external Directors; and an Appointments and Remuneration Committee with a majority of external Directors and one executive Director. These two Committees substituted the two previously existing committees that had been performing similar functions since 1999. Their composition, functioning and responsibilities are described in the Regulations of the Board of Directors, as per Section B.2 above.



3. ALDAMA REPORT

Likewise, the Company has incorporated practically all the recommendations of the Aldama Report. Below are individual sections on the obligations relating to (1) principle of transparency and duty to inform; (2) principle of security and duty of loyalty; (3) the Company's management bodies; and (4) professional service providers.

3.1. Principle of transparency and disclosure duty.

Relevant information for investors that affects the Company provides a true and fair view, from a quantitative and qualitative perspective, that is accurate and released to the markets fairly, symmetrically and in due time. The Company regularly communicates with the markets through the CNMV, reporting significant information as soon as it is known, when the resolution in question is adopted or a significant agreement or contract is signed. Material information of a legal and economic-financial nature as well as strategic information is generally communicated when the markets are closed, to prevent any possible oscillations in share prices.

Since the Company was listed for trading in 1999, Red Eléctrica has published, through its website and various print publications, all economic-financial and business information of the Company, together with remaining information referring to the electrical system in which it operates, of interest to shareholders and investors. Economic and financial contents are posted on the website once they are reported to the CNMV when said notification is required, and all information is constantly updated in order to satisfy market needs for timely information, beyond simple compliance with established legal obligations.

Economic-financial and corporate principles available for consultation on the corporate website are as follows:

- ▶ *General information:* business activity and strategy, main concerns, shareholder structure, board of directors, organisation, the environment and corporate responsibility.
- ▶ *Shareholders and investors:* Shareholder today, calendar, Relevant Events and other communications to the CNMV, stock exchange information in real time, dividends, issues, rating, shareholder base, Annual Report (including annual accounts, management report, consolidated annual accounts, consolidated management report and consolidated annual report), quarterly information, shareholders' bulletin, presentations to investors, information on corporate governance: Board of Directors, Audit Committee, Appointments and Remuneration Committee, Corporate Governance Report, Bylaws, Regulations of the General Meeting and of the Board of Directors, Independent Director's Statute, Internal Code of Conduct in the Stock Markets; Notifications of the last General Meetings of Shareholders, Agenda and documentation relating to the development of the General Meetings of Shareholders, distance voting, communication channels between the Company and shareholders and the Shareholders' Office.

Efforts of the Company to respond to expectations of its shareholders and investors in the area of informational transparency, beyond the requirements established by law, has led to its public recognition by the markets, institutions and specialists of the sector.

From a regulatory point of view, the Regulations of the General Meeting and of the Board of Directors dedicate special attention to the principles of transparency and disclosure, as key tools for diffusion to shareholders and investors of both the Corporate Governance practice applied by the Company as well as information that may be of interest. In particular, Article 2 of the Regulations of the General Meeting establishes the contents of the Company website which, incorporating the latest technologies, is configured as an instrument to assure the transparency of corporate actions and to allow a greater effectiveness to shareholders in exercising their rights, facilitating the relationship between shareholders and the Company. The Regulations of the Board of Directors dedicates a full chapter to relations between the Board and its shareholders, markets and auditors (Articles 35 to 38, both inclusive), in order to facilitate and improve the flow of corporate information for third parties.



In 2005, the Company, acting through its Board of Directors, approved the Annual Corporate Governance Report for 2004 (the Report was sent to the CNMV on 22 April 2005 and may be consulted on its website- www.cnmv.es). It was published separately from the Annual Report and, as the main novelty, was even presented for informational purposes to the Ordinary General Shareholders' Meeting of 2004, as a specific point of the Agenda.

Throughout 2005, the Company has continued to follow this line of transparency and has added new content and services of interest to shareholders, investors and other securities exchange professionals. A section entitled "Financial Calendar" has been created, which reflects the dates of the Company's main events, and a Shareholders' Notification Service called "Network Today". With this service, shareholders may be duly informed of any economic-financial information of interest that is published on the web.

3.2. Principle of security and duty of loyalty.

The Aldama Report declares a strengthening of the principle of market security, bearing with it a strict regulation of Directors' liability in general and especially their duties of diligence and loyalty. This Recommendation was included by legislators in Act 26/2003. As regards the Company, its former Regulations for the Board of Directors already developed these principles in harmony with the recommendations of the former Olivencia Report. The current Board Regulations thereby conform to the Aldama Report and to Act 26/2003 and describes the former principles and duties in detail in Articles 30 and 31.

Directors of the Company are required to use due diligence and to maintain a proactive role in performing their duties as members of the Board and its Committees. More specifically, Directors must inform themselves and prepare adequately for meetings of the Board and the Committees to which they belong; regularly attend the same, actively participate in deliberations so that their criteria effectively contribute to the decision-making process, carry out any specific task assigned by the Board of Directors, promote the investigation of any irregularity in the Company management that they may have learned of and supervise any risk situation, and, if appropriate, cause extraordinary meetings of the Board to be called, collect the information necessary to effectively perform their functions and oppose any resolutions that are contrary to law, the Bylaws or the corporate interest.

The duty of loyalty is included in the Regulations of the Board, with a series of guidelines applicable to Directors and directed towards the corporate interest. The duty of loyalty is thus described from the standpoint of the subject persons and from the standpoint of the content of this duty:

Subject persons

The Director will refrain from attending and intervening in deliberations affecting matters in which he has a personal interest, either direct or indirect. A personal interest will also be considered to exist when the matter affects a person related to the Director or to a company with which he has an employment or professional association, or in which he holds a management position or significant holding. For the above purposes, persons considered related to Directors, both individuals and legal entities, are described in Article 127 ter of the Spanish Corporations Act.

The Director will report any conflict of interest that he may have with the Company, and in case of conflict he will refrain from intervening in the transaction that is subject to the conflict of interest. Proprietary directors will reveal to the Board any conflict of interest between the Company and the shareholders proposing his nomination when this affects matters submitted to the Board, refraining from participating in the adoption of the corresponding resolutions

Content of the duty

This consists of the following obligations for Directors of the Company:

Confidentiality



The Director will keep the deliberations of the Board of Directors and Committees which he forms part of secret, and in all events refrain from revealing the information, data, reports or background to which he may have access as a result of his position. Said obligations will remain in force even when he no longer holds said position.

No competition

No Director may carry out any actions that involve competition with the Company. In this regard, independent Directors cannot provide their professional services to companies whose corporate purpose is either totally or partially analogous to that of the Company, except for positions which they may perform in corporations of the Group. The independent Director will first consult with the Board of Directors prior to accepting any administrative position in another company or entity which may represent a conflict of interest or affect his dedication.

Directors will report any equity holding they may have in any company with activity identical, analogous or complementary to that of the Company, or that represents some degree of competition, as well as positions or functions exercised therein and activities on their own account or for others, outside the Company, that are analogous or complementary to the activities included in the corporate purpose.

Use of corporate assets

Directors may not use the assets of the Company or use their position in the Company to obtain a patrimonial advantage, unless appropriate compensation is paid.

Private information

Directors cannot use Company information that is not available to the public for private purposes, except with the prior approval of the Board of Directors.

Business opportunities

Directors cannot use, either directly or indirectly, for their own benefit or that of related persons or third parties, any business opportunity of the Company, unless said opportunity is previously offered to the Company and the Company declines to use it authorises the Director to do so, further to a report from the Appointments and Remuneration Committee.

Indirect transactions

Any Director who, with prior knowledge, allows or does not reveal the existence of transactions executed by members of his family or other related persons or corporations in which he holds a management position or significant holding, and which are not submitted to the conditions and controls set forth in the foregoing articles, violates his duty of loyalty to the Company.

Use of the name

Directors may not use the name of the Company or invoke their status as directors thereof in executing any transactions on their own behalf or for related persons.

Furthermore, the Company is especially concerned with guaranteeing that its activities are pursued within the sphere of confidence required for its efficiency and for social progress, all as recommended in the Aldama Report.

In this sense, the Company has assumed the recommendations and guidelines for business social responsibility, in accordance with the terms of the European Union Green Paper, and the United Nations Global Compact, and the CSR (Corporate Social Responsibility) and GRI (Global Reporting Initiative), all with the aim of managing its business not just in compliance with general legal provisions, but also exercising Corporate Social Responsibility with the maximum diligence, permanently maintaining and creating value to achieve business excellence, at all times conciliating ethical, economic, corporate and environmental benefits.



In September 2005, Red Eléctrica entered the Dow Jones STOXX Sustainability Indexes (DJSi), a European list of companies with a duty of sustainability. Red Eléctrica's entry into these indexes has placed it amongst the best valued companies in terms of corporate responsibility, as these indicators refer to the 20% best valued companies by sector, amongst the 600 companies included. The Company's wish to find a sustainable balance between the economic, environmental and social spheres, based on the best corporate governance practices, has allowed its entry into the index.

Finally, especially noteworthy is the work entrusted to the Appointments and Remuneration Committee by the Board of Directors' Regulations with regard to fulfilment of the duties of the Directors and, in particular, their duty of loyalty. In this regard, it has been expressly attributed functions of informing the Board on such compliance, issuing the relevant reports and proposals and measures to be adopted in case of non-compliances, as well as authorizing the Directors to use corporate assets. The Board Regulations remained unchanged throughout 2005.

3.3. Management Bodies.

3.3.1. General Shareholders' Meeting

Shareholders' rights to receive information, participate and attend are set out in the Bylaws and in the Regulations of the General Meeting of Shareholders. Modifications to said texts, agreed upon by the Shareholders' Meeting held in May 2004 and 2005, have been recorded at the Mercantile Registry and posted on the corporate website (www.ree.es). In particular, shareholders' rights have been extended with regard to information and attendance at General Meetings, making it easier to request and receive information and eliminating the requirement of a minimum number of shares to be able to attend.

Furthermore, the contents of the corporate website were strengthened as a communications instrument with shareholders and investors, adapting it to fulfil the requirements set out in Order ECO/3772/2003 of 26 December and CNMV Circular 1/2004 of 17 March. Although the majority of the contents required by the Order and Circular were already available on the corporate website, the information contained therein has been adapted to the requirements of said provisions. More specifically, adaptations made and posted on the website during 2005 consisted of the following:

- 1) Inclusion of the quorum requirement and result of the votes on each of the proposals made at the General Meeting held in 2005.
- 2) Addition of information relating to the right of attendance and proxy appointment procedures for General Meetings, in accordance with the Bylaws and Regulations of the General Meeting of Shareholders.
- 3) Creating a specific section dedicated to electronic voting.

The Regulations of the Shareholders' Meeting also facilitate as far as possible participation of shareholders in matters of interest (right to attend, notice, inclusion of points and proposals in the Agenda, questions and requests for information and voting). The Regulations of the General Meeting, in line with the most well-known recommendations in this area, comply with the regimen established by Act 26/2003 of 17 July, which incorporates the contents of the Aldama Report into the Spanish Corporations Act, setting forth the rights of shareholders and norms regarding the organization and functioning of the General Meeting.

Finally, adaptations to the Bylaws and Regulations of the Shareholders' Meeting were approved in 2004, allowing the delegation of votes and electronic distance voting in the General Meetings, if and when the state of technology allows its use with due guarantees. In particular, electronic voting was implemented at the Ordinary General Meeting held last 26 May 2005, the first time this mechanism was used by the General Meeting of the Company. The use of electronic delegation and voting by mail were postponed until there are sufficient technical safeguards.

At said Ordinary General Meeting the Company's Bylaws were adapted to the requirements of Royal Decree-Law 5/2005, of 11 March, on urgent reforms to encourage productivity and



improve public sector procurement (Official State Gazette No. 62, of 14 March), which has introduced into Title II (Energy Markets) a set of reforms including, amongst others, a modification of Electricity Sector Act 54/1997, of 27 November, as well as certain changes in the duties assigned to Red Eléctrica as an electrical system operator. Furthermore, the foregoing affects the limits on shareholding in the Company's capital (for further details see Section E above).

3.3.2. Board of Directors.

The Company acts through a small, active and efficient Board of Directors composed of eleven (11) members, instead of opting for a larger Board that operates with the support of an Executive Committee. Its composition, organization and functions are set forth in the new Regulations of the Board of Directors dated 18 November 2003, which modified the previous Regulations of 1999. The Regulations were notified to the CNMV, recorded at the Mercantile Registry and published on the corporate website (www.ree.es).

Pursuant to the provisions of current legislation and Corporate Governance practices, the Company created in financial 2003 an Audit Committee fully formed of external Directors, and an Appointments and Remuneration Committee with a majority of external Directors, which substituted the two previous Committees that performed similar functions since 1999. The composition, functioning and responsibilities of each Committee are set forth in the new Regulations of the Board of Directors.

Directors of the Company, professionals of recognized prestige with lengthy professional careers, as stated in Section B.1.3 of this Report, contribute to the corporate management the necessary experience and knowledge to cover the needs of the Company. At present, the Board is composed of seven independent external Directors, three external proprietary Directors and one executive Director, adequately reflecting the current shareholder base of the Company and the Corporate Governance recommendations.

In accordance with the recommendations of the Aldama Report, the term of office of independent Directors, as for all other Directors, will be four (4) years, and they may be re-elected indefinitely. The Regulations of the Board also establish that no proposals will be made to remove a proprietary or independent Director prior to completion of the term of office stipulated in the Bylaws for which the Director was appointed, except for sufficient cause and after a report is received from the Appointments and Remuneration Committee. The age of seventy (70) years has been established as the maximum for holding a directorship.

The Chairman of the Board heads the Company, as its chief executive officer, and fully represents the Company with powers delegated by the Board. Nevertheless, his actions are subject to specific controls by the Board of Directors to whom he subsequently reports or, as applicable, seeks authorization; the Audit and Appointments and Remuneration Committees also perform an effective corporate management control function in their respective spheres of interest.

With regard to remuneration to the Board accrued during 2005 and referred to by this Annual Corporate Governance Report, the Company has not just met the requirements of CNMV Circular 1/2004 of 17 March. It has preferred to provide the "maximum itemisation per Director" in order to continue fulfilling the principle of maximum transparency in market information. Furthermore, information on protection clauses have been included to cover events of termination of employment contracts, contained in executive Director and senior executive contracts. Information is provided in the Introduction above (Sections 3.2.4 and 3.3.2, respectively) and in Section G.

Annual financial statements and economic-financial information of the Company since 1999 are prepared under the supervision and oversight of the Audit Committee (former Audit and Compliance Committee), allowing improved transparency and dependability.

3.4. Professional service providers



Board relations with the Company's external auditors are channelled through the Audit Committee. The Board of Directors will refrain from hiring any audit firm whose projected fees for all items surpass 10% of their total income during the last financial year, and will publicly report on a yearly basis the aggregate fees paid by the Company to the audit firm for other non-audit services.

The Regulations of the Board of Directors state that the Board of Directors will formulate the final accounts, procuring that they contain no qualifications by the auditor. However, when the Board considers that its criteria should remain, then it will publicly explain the content and scope of the discrepancy. Since its incorporation, the Company has not been the object of audit qualifications its Annual Financial Statements, demonstrating the maximum correctness, reliability and sufficiency of the Annual Financial Statements of the Company and its consolidated Group throughout the life of the corporation. Furthermore, the Company frequently makes presentations to financial analysts and investment banks which are regularly attended by the most important professionals and specialists in the sector. These presentations explain how the Group's business is developing and its most economic and financial fundamentals.

After making the foregoing presentations, all participants are offered the opportunity to be included in a list of entities that periodically receive the most important information regarding the Company of interest to them. Presentations made to analysts are regularly sent to the CNMV to be disclosed to the markets through its website, and are then published on the Company's website. Since 1999, the Company has also had an "Investor Relations Unit", responsible for answering any questions from investors and serving as a communications channel with professionals from the financial sector.

G OTHER INFORMATION OF INTEREST

If you consider that there is any other relevant principle or aspect of your company's corporate governance practices that has not been addressed by this Report, please give details.

This section may be used to supply any additional information, clarification or qualification relating to other sections of this report, provided such additional information is relevant and not a repetition.

In particular, state whether your company is subject to the corporate governance legislation of countries other than Spain and, if so, include any information that the company is obliged to disclose that is not required in this report.

1. INFORMATION ON BOARD OF DIRECTORS' REMUNERATION.

In relation to the remuneration paid to the Board of Directors in 2005, Section B.1.8 of this Report includes the information required by CNMV Circular 1/2004, of 17 March.

Notwithstanding the foregoing, and following the principle of maximum transparency in information, the Company has provided an individual breakdown per Director of the total remuneration accrued in favour of each during the 2005 financial year:

	Thousands of euros				
	By the Parent Company			By the Group	
	Remunerati on Fixed	Remunerati on Variable	Per diems	Per diems	Total
Mr. Luis M ^a Atienza Serna	360	256 ⁽⁴⁾	82	-	698
Mr. Pedro Rivero Torre	-	85	107	13	205
Mr. Juan Gurbindo Gutiérrez ⁽¹⁾	-	85	82	-	167
Mr. Antonio Garamendi Lecanda	-	85	82	13	180
Mr. Manuel Alves Torres ⁽¹⁾	-	85	82	-	167
Mr. José Riva Francos	-	85	57	-	142
Mr. José Manuel Serra Peris	-	85	57	-	142



Mr. Rafael Suñol Trepal	-	85	57	-	142
Ms. María de los Ángeles Amador Millán ⁽³⁾	-	49	26	-	75
Mr. Francisco Javier Salas Collantes ⁽³⁾	-	43	37	-	80
Mr. Martín Gallego Málaga ⁽³⁾	-	43	26	-	69
Mr. Joaquim Clotet i Garriga ⁽²⁾	-	25	25	8	58
Mr. Elías Velasco García ⁽²⁾	-	42	30	-	72
Mr. José Ignacio Sánchez Galán ⁽²⁾	-	42	30	-	72
Total remuneration accrued	360	1,095	780	34	2,269

(1) Amounts received by the State Industrial Ownership Corporation (SEPI)

(2) Left directorship during 2005

(3) Joined the Board of Directors of the Parent Company during 2005

(4) Includes the variable remuneration derived from his/her status as executive Director

There are no pension obligations undertaken vis-à-vis members of the Board of Directors.

At 31 December 2005 and 2004 the Consolidated Balance Sheet reflected no loans, advances or guarantees established by the Company in favour of members of the Board of Directors.

During the 2005 financial year, the members of the Board of Directors have not carried out, with the Company or Group companies, directly or through nominee persons, any operations not included in ordinary traffic or not carried out in normal market conditions.

2. PROTECTION CLAUSES IN FAVOUR OF EXECUTIVE DIRECTORS AND MEMBERS OF THE COMPANY'S SENIOR MANAGEMENT

2.1. Executive Directors.

There are guarantee or protection clauses for the only executive Director that exists in the Company, to cover the event of dismissal or changes of control. This contract was approved by the Appointments and Remuneration Committee, and the Board of Directors of the Company has been duly informed.

Said clauses follow standard market practice and cover the termination of the employment relationship, providing for indemnities of up to one year's salary, unless applicable regulations provide for a higher amount.

2.2. Senior Management.

In relation to the information provided in Section B.1.10 above, there are guarantee or protection clauses to cover the event of dismissal for members of the Senior Management. These contracts were approved by the Appointments and Remuneration Committee, duly notifying the Board of Directors of the Parent Company.

The contracts affect two senior executives. Said clauses follow standard market practice and cover termination of the employment relationship, providing indemnities of up to two years' salary, unless applicable regulations establish a higher amount.

3. REPORT ON ACTIVITIES OF THE AUDIT COMMITTEE

3.1. Background and justification

The Audit Committee of RED ELÉCTRICA DE ESPAÑA, S.A. (RED ELÉCTRICA) was created by virtue of a resolution adopted by the Board of Directors of RED ELÉCTRICA on 30 November 1999, referred to as the Audit and Compliance Committee. This Committee was the result of the process of adapting the Company's governance rules to the new situation derived from the IPO launched by the State Industrial Ownership Corporation (SEPI) and from the Company's listing on the stock markets on 7 July 1999.



The Board of Directors of RED ELÉCTRICA, at its meeting held on 18 November 2003, established the new Audit Committee, which replaced the former Audit and Compliance Committee, further to the provisions established in Article 23 of the Bylaws and in Chapter V, Articles 15 and 16 of the new Board of Directors' Regulations, approved at said meeting. The foregoing was also carried out pursuant to Article 47 of Act 44/2002, of 22 November, on Measures to Reform the Financial System.

The powers, organisation and operation of the Audit Committee are therefore governed by the Bylaws and by the Regulations of the Board of Directors of RED ELÉCTRICA, adapted to Acts 44/2002 and 26/2003; this was notified to the CNMV and recorded at the Mercantile Registry.

Article 16.6.a) of the Regulations of the Company's Board of Directors provides, amongst other duties of the Audit Committee, the drawing up of an annual report of its activities, without prejudice to the additional duty to keep the Board of Directors duly informed of the activities carried out by the Committee.

Consequently, the 2006 Plan of Action of the Audit Committee contemplated the drawing up of a report on the Committee's activities during 2005, in the month of February.

3.2. Composition

The Audit Committee consists of three members, pursuant to Article 23.1 of the Bylaws and Article 15 of the Board Regulations, who are appointed to their posts for a period of three years.

According to the previous regulations, the Committee will be composed of a majority of non-executive Directors appointed by the Board of Directors. At present and throughout 2005, the Committee has entirely consisted of external Directors.

The Chairman of the Committee is elected by the members thereof from among non-executive Directors and the Secretary is the Secretary of the Board of Directors.

In 2005, a substitution took place in the Board of Directors, leading to the appointment of a new member of the Audit Committee and the appointment of a new Chairman. As a result of his resignation as independent Director of the Chairman of the Audit Committee, Mr. Joaquim Clotet i Garriga, the Board of Directors, at its meeting held on 28 June 2005, appointed as a new member of the Committee the independent Director Mr. Francisco Javier Salas Collantes, who was also appointed Chairman thereof by the Audit Committee, at its meeting held on 21 July 2005.

At 31 December 2005, the Company's Audit Committee had the following members:

▶ Francisco Javier Salas Collantes (independent Director)	Chairman
▶ Manuel Alves Torres (proprietary Director)	Member
▶ Pedro Rivero Torre (independent Director)	Member
▶ Rafael García de Diego Barber	Non Director Secretary

The Directors belonging to the Committee are particularly qualified to hold their posts, with broad professional experience, holding posts of the highest responsibility outside the RED ELÉCTRICA Group in functions of relevance to the ones entrusted to the Committee.

Below is a brief description of each Committee member's career. More details are provided on the Chairman, due to his recent incorporation into the Committee.

- ▶ Mr. Pedro Rivero Torre is a Professor in Financial Economics and Corporate Accounting at Universidad Complutense de Madrid, a Chartered Accountant (on leave of absence) and he holds, amongst others, the posts of Vice President of UNESA and belongs to the Economic and Social Council.
- ▶ Mr. Manuel Alves Torres is a Graduate in Economic and Business Sciences. At present, he is the Head of Planning and Control and a member of the Management Committee of the



State Industrial Ownership Corporation (SEPI). He is currently Director, amongst other companies, of Tragsa and Sedettur, and has been Director, amongst other companies, of Grupo Ence, Enatcar, Grupo Inespal, Minas de Almagrera and Agencia EFE.

- ▶ Mr. Francisco Javier Salas Collantes is a Graduate in Economic Sciences, specialising in Business Economics.

The Committee emphasises the technical background in economic-financial and accounting matters of its Chairman/Director, not only due to his academic qualifications but also because he has held posts of great responsibility in the management of companies and business groups; namely, Economic and Financial Director of Empresa Nacional del Uranio (1973-1983); posts held in Instituto Nacional de Industria (INI), first as Financial Director (1983-1988) and later as General Manager of Corporate Administration, in charge of the Financial, Planning and Control and Technology/Investments Departments (1988-1990); and subsequently as President of INI and TNEO, a public sector group comprising leading companies in the energy sector (1990-1996). He held these posts at the same time as he was President of Iberia (1993-1995).

He has also belonged to the Boards of Directors of financial institutions, such as Infoleasing, Banco Exterior de España and Argentaria.

At present, he holds, amongst others, the post of member of the Advisory Board (Spain) of Banco Privado Portugués; founding member of SAGA Servicios Financieros; Chairman of the Board of Uniseco Alcotán; Director of Telvent, holding the post of Chairman of the Audit Committee; and Director of the venture capital management companies Ged Iberian Fund and Ged Eastern Fund.

Although not a member of the Committee, the Head of the Technical Secretariat also attends the meetings and supports the Committee. He is in charge of the Internal Audit services and in 2005 he also helped the General Manager of Administration and Finance on several occasions, in order to inform her of matters within her remit as required by the Committee.

3.3. Functions

According to Article 23 of the Bylaws and Article 16 of the Board of Directors' Regulations, the Audit Committee's duties, amongst others, include support to the Board of Directors when monitoring the economic-financial reporting process, internal control of the Company, the independence of the external auditor, compliance with legal provisions and internal regulations, prior analysis of the Company's significant transactions, and any other duties that may be attributed by the Board of Directors.

In relation to the Company shareholders, the Committee shall be aware of and, if applicable, shall reply to any initiatives, suggestions or complaints raised by the shareholders in the exercise of their rights. It shall also inform the General Meeting, as applicable, of any issues within its competence that are raised by the shareholders.

Finally, it shall keep the Board of Directors periodically informed of its activities and shall draw up an annual report on its activities, to be included in the annual information of the Company and its Group, as well as a plan of action for each financial year.

3.4. Activities Carried Out during 2005

The Audit Committee has informed the Board of Directors of its activities at the Board meetings, immediately after each Committee meeting, and has tried to follow, to the extent possible, the calendar previously established in the annual plan of action, notwithstanding any other unexpected matters that may have arisen during the year and which were handled by the Committee as part of its duties.

The Audit Committee met eight (8) times during 2005, and provided eight reports to the Board of Directors.



The Audit Committee, whenever deemed necessary, has been assisted by various Company executives in their areas of competence. These executives have made presentations and clarified various matters, highlighting, amongst others, the plan for changeover International Financial Reporting Standards (IFRS) in the RED ELÉCTRICA Group, the forecast of year-end 2004, the 2005-2009 investment plan, the 2005 budget proposed by the RED ELÉCTRICA Group, the review of the 2004 annual accounts of the Company and its Group (for which it counted on the presence and collaboration of the external auditor), the proposed renewal of the external auditor of RED ELÉCTRICA and of its consolidated Group, the evaluation process followed by the external auditor on the internal control system, the preliminary external auditing memorandum for the 2005 financial year, or the process to authorise the Company's sale and purchase of real estate.

The most significant activities carried out by the Audit Committee in 2005 have been:

3.4.1. In relation to economic-financial information:

- ▶ Review of the actions and forecasts of the plan for changeover to International Financial Reporting Standards (IFRS) in the RED ELÉCTRICA Group and the 2004 Opening Balance Sheet under IFRS for the Group.
- ▶ Review of the forecast 2004 year-end of the RED ELÉCTRICA Group.
- ▶ Analysis of the 2005-2009 Capex Plan.
- ▶ Analysis of the 2005 Budget of the RED ELÉCTRICA Group, in order to be presented to the Board of Directors.
- ▶ Review of the 2004 Annual Accounts of RED ELÉCTRICA and its Group, to be presented to the Board for reporting purposes, and a review of the external auditor's preliminary opinion.
- ▶ Analysis of intragroup transactions carried out.
- ▶ Quarterly follow-up on the development of the annual investment budget of the subsidiaries and of the capex plan of the Bolivian subsidiary Transportadora de Electricidad, S.A.
- ▶ Analysis of the report on the Company's R&D+i investment policy.
- ▶ Review of the quarterly and half-yearly information sent to the CNMV.
- ▶ Review of the Company's Shelf Prospectus and of the Abridged Prospectus on the Issue of Promissory Notes, presented to the CNMV.
- ▶ Analysis of the forecast of results for the 2004 financial year and of the calendar for the year-end of the 2005 accounts.
- ▶ Analysis of the proposed distribution of an interim dividend for 2005, to be presented to the Board of Directors.
- ▶ Analysis of the preliminary memorandum drawn up by the external auditor for 2005.

3.4.2. In relation to internal control systems:

- ▶ Analysis of the Company's internal auditing plans for 2005 and 2006.
- ▶ Periodic analysis of the Report on the prevention of occupational hazards, throughout 2005.
- ▶ Analysis of the Report on the internal auditing results of 2004.
- ▶ Analysis and follow-up of the awards granted by the Board of Directors in 2004.



- ▶ Analysis of the external auditor's report on the Group's internal control systems, corresponding to the 2004 financial year.
- ▶ Review of the Company's procurement and purchasing procedures.
- ▶ Evaluation of the Company's Rules and Procedures including, in particular, the procedure to maintain electrical installations and the project to integrate the assets purchased in recent years from electricity companies.
- ▶ Process to authorise the sale and purchase of real estate, and drawing up the proposal to be made to the Board of Directors.

3.4.3. In relation to external auditors:

- ▶ Proposal to the Board of Directors on the renewal of the external auditors of RED ELÉCTRICA and its consolidated Group for 2005.
- ▶ It has been suggested to re-elect the current auditors, due to the complex process involved in implementing the IFRS, which gives rise to the provisional coexistence of two different accounting systems: the Spanish General Accounting Plan, applicable to individual Spanish companies, and the IFRS, applicable to the consolidated Group. This situation has made it inappropriate to change the external auditor during 2005, in order to avoid any further complexity.
- ▶ Analysis of the appointment (re-election/replacement) of the external auditors of the Company and its consolidated Group for the 2006 financial year.
- ▶ Replacement of the external auditors of the Redalta/Inalta Sub Group, once the Company became the sole shareholder of Redalta.

3.4.4. In relation to compliance with legal provisions and internal regulations:

- ▶ Supervision of compliance with the rules of corporate governance in 2004, in relation to the duties assigned in the matter to the Audit Committee.
- ▶ Appointment of a new Chairman of the Audit Committee.
- ▶ Analysis of the evaluation report on compliance with the Company's Code of Conduct in the Stock Markets corresponding to the 2004 financial year.

3.4.5. In relation to the Company shareholders:

- ▶ Follow-up of possible initiatives, suggestions and complaints made by the shareholders during the year.
- ▶ Presence of a member of the Audit Committee (due to the vacancy at the time in the post of Chairman) at the Ordinary General Shareholders' Meeting of the Company, in order to personally reply to any issues raised by the shareholders.

3.4.6. Other activities:

- ▶ Approval of the meeting calendar for the 2005 and 2006 financial years.
- ▶ Analysis of the asset sale and purchase agreement with Unión Fenosa.
- ▶ Approval of the annual report on activities of the Audit Committee, corresponding to 2004, to be included in the Company's Annual Corporate Governance Report.
- ▶ Review of the process for the annual renewal of the insurance plan adopted by the RED ELÉCTRICA Group.



- ▶ Periodic information provided to the Board of Directors on the Committee's activities.

4. REPORT ON THE ACTIVITIES OF THE APPOINTMENTS AND REMUNERATION COMMITTEE.

4.1. Background.

Following the recommendations of the Aldama Report, on 18 November 2003 the Company's Board of Directors established the Appointments and Remuneration Committee. Nevertheless, the Nominations Committee had been partly performing these functions since 1999.

The purpose of the activity report is to fulfil the obligation established in the Company's Board Regulations. Article 18.4 (a) provides that the Committee's functions include the drawing up of an annual activity report, without prejudice to the duty to maintain the Board of Directors periodically informed of the Committee's activities.

In 2004, the first activity report of the Appointments and Remuneration Committee was approved, with respect to 2003, which was included in abbreviated form in the Company's 2003 Annual Corporate Governance Report.

Furthermore, in 2005 the corresponding activity report for 2004 was approved, which was annexed to the Company's 2004 Annual Corporate Governance Report, approved by the Board of Directors on 21 April 2005.

The 2006 Plan of Action of the Appointments and Remuneration Committee contemplates the drawing up of a report of its activities in 2005, during the first quarter of the year.

4.2. Composition and Functions.

Article 24 of the Bylaws and Articles 17 and 18 of the Board of Directors' Regulations regulate the powers, organisation and operation of the Appointments and Remuneration Committee.

Article 17 of the Regulations provides that the Committee shall consist of the number of Directors that is determined by the Board of Directors, with a minimum of three and a maximum of five, with a majority of external Directors and the participation of independent Directors, attempting to reasonably reflect the composition of the Board.

At the end of 2005 and at the date of approval of this Report, further to the foregoing rules, the Appointments and Remuneration Committee consists of four Directors, three of whom are external and one executive; two independent Directors were appointed from among the external Directors, one of whom is the Chairman of the Committee.

During 2005, no changes took place in the Committee's structure and composition.

At the date of approval of this Report, the Committee's composition was as follows:

Director	Post	Type of Director
Mr. Antonio Garamendi Lecanda	Chairman	Independent
Mr. Luis M ^a Atienza Serna	Member	Executive
Mr. Pedro Rivero Torre	Member	Independent
Mr. Juan Gurbindo Gutiérrez	Member	Proprietary

The Chairman of the Committee is elected by its members and the Secretary of the Committee is the Secretary of the Board of Directors, Mr. Rafael García de Diego Barber. The appointment and removal of Committee members is carried out by the Board of Directors at the proposal of the Board Chairman.

The Committee members hold their post for a maximum term of three years and may be re-elected; they leave their posts when they give up their directorship or if resolved by the Board of



Directors, further to a report from the Audit Committee. The Chairman may be re-elected after a year has elapsed since he left office.

The Committee shall examine the suggestions forwarded by the Chairman, the members of the Committee, and the Company executives or shareholders, in matters affecting the appointment of Directors, including management or executive Directors, or compliance with Corporate Governance principles, the Bylaws and the Board Regulations.

The Committee has been convened as necessary for the proper execution of its duties. In any case, a meeting shall be convened each quarter, or when called by the Chairman or requested by two of its members, or each time the Board of Directors or Chairman thereof requests the issue of a report or the adoption of proposals.

The notice of the meetings shall include the Agenda and will be sent by the Committee Chairman or Secretary to each of its members, at least three days prior to the date foreseen for the meeting, unless the meeting needs to be held earlier for emergency reasons.

There will be a quorum for a Committee meeting with the attendance of a majority of its members and the decisions or recommendations will be adopted by majority vote, which shall be recorded in the minutes at the end of the meeting. In order to better execute its tasks, the Committee may propose to the Board of Directors the possibility of receiving advice from independent professionals, and may access any type of information or documentation of the Company that it required to execute its duties.

The basic responsibilities of the Appointments and Remuneration Committee, pursuant to Article 24 of the Bylaws, are as follows:

- a) To make proposals to the Board of Directors regarding the system and amount of annual remuneration for the Directors.*
- b) To propose and periodically revise criteria and forms of remuneration to the Chairman, the Board and the senior management of the Company and its subsidiaries, having regard to their results and to the responsibility, dedication and lack of conflicts of interest required of the Directors. It will also examine and evaluate the executive policy of the Company.*
- c) To oversee the transparency of Board remuneration and to know the guarantee clauses included in senior management contracts.*
- d) To previously report on all proposals presented by the Board of Directors to the General Meeting regarding appointment or removal of Directors, including in situations of co-optation.*
- e) To make proposals to the Board of Directors regarding the selection of expert independent Directors.*
- f) To propose and report on any other matter related to the foregoing which is requested of it by the Chairman or by the Board of Directors."*

The foregoing responsibilities are developed in further detail in Article 18 of the Regulations of the Board of Directors.

4.3. Activities Carried Out during 2005

The Appointments and Remuneration Committee met ten (10) times during the 2005 financial year. The Board of Directors was duly informed of the matters discussed at each Committee meeting.

The most relevant activities carried out by the Appointments and Remuneration Committee in 2005 are described below:



4.3.1. In relation to appointments, removals and re-elections:

- ▶ Approval of the proposal made by the Chairman to appoint Mr. Fernando Frías Montejo as Vice Secretary of the Board of Directors, to be forwarded to the Board of Directors.
- ▶ Approval of the proposal made to the Board of Directors, to be subject to the General Shareholders' Meeting, to ratify the appointments as Directors of the Company, made by the Board of Directors through co-option, of Messrs. Luis M^a Atienza Serna and Rafael Suñol Trepas, at the meetings held on 24 June and 16 December 2004, respectively, to replace the resigning Messrs. Pedro Mielgo Álvarez and Enrique Lacalle Coll, respectively, and, consequently, to appoint them for the term of office stipulated in the Bylaws.
- ▶ Analysis, prior report and proposal to the Board of Directors, to be submitted to the General Shareholders' Meeting, to appoint Ms. María de los Ángeles Amador Millán as Director of the Company, for the term of office stipulated in the Bylaws of four years, as an independent Director, to cover the vacancy left by the resignation of the independent Director Mr. Joaquim Clotet i Garriga.
- ▶ Analysis, prior report and proposal to the Board of Directors, for its approval, if applicable, through co-option, of the appointments as independent Directors of the Company of the shareholders Messrs. Francisco Javier Salas Collantes and Martín Gallego Málaga, until the first General Meeting is held, to cover the vacancies left in the Board of Directors, as a result of the resignations of Messrs. Elías Velasco García and José Ignacio Sánchez Galán, respectively, from their posts as proprietary Directors, to which they were appointed, for a term of four years, by virtue of a resolution adopted by the Extraordinary General Shareholders' Meeting of 17 July 2003; the replacement of proprietary Directors by independent Directors is a consequence of the increase in the Company's free float, as required by Royal Decree-Law 5/2005, of 11 March, which obliged the electric utility shareholders of the Company to give up any stake in the Company that exceeds 1%.
- ▶ Analysis of the Company's 2005-2007 early retirement plan.
- ▶ Analysis of the succession policy to regulate the coverage of executive positions in the RED ELÉCTRICA Group.

4.3.2. In relation to remuneration

- ▶ Approval of the degree of compliance with management and business objectives of the Company's Management Committee, as well as the business objectives of subsidiaries, all in relation to 2004.
- ▶ Approval of the variable remuneration of the members of the Company's Management Committee and of the subsidiaries' management team, in relation to 2004.
- ▶ Approval of the remuneration for 2005 of the management team of Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A.
- ▶ Approval of the business and management objectives for 2005 of RED ELÉCTRICA, of the business objectives of Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A., as well as individual objectives of the Company's Management Committee; follow-up on compliance of said objectives and modification/adjustment of the 2005 objectives.
- ▶ Approval of a proposal of RED ELÉCTRICA, to be submitted to the Board of Directors, on remuneration for its members and members of the Board Committees, in 2005, as well as remuneration for the members of the Board of Directors of Red Eléctrica Telecomunicaciones, S.A. during the period.
- ▶ Analysis of the information on the Board of Directors' remuneration to be included in the 2004 Annual Corporate Governance Report.



- ▶ Analysis and approval of an extraordinary bonus for Company employees, due to the Company's 20th anniversary.
- ▶ Analysis and adjustment of the remuneration system applied to the Company's proprietary Directors who do not have senior executive status.
- ▶ Follow-up of the application of the remuneration policy of the management team for the 2005 financial year, and proposal for 2006.
- ▶ Study of the proposal to implement a new variable remuneration system for the management team, in the medium and long term.
- ▶ Preliminary analysis of the proposed remuneration to the Board of Directors for the 2006 financial year, and approval of the remuneration to the Company President in this period.

4.3.3. Other functions

- ▶ Approval of the calendar and annual work plan for 2005.
- ▶ Approval of the annual Activity Report of the Appointments and Remuneration Committee, corresponding to 2004, to be included in the Company's Annual Corporate Governance Report.
- ▶ Continuation of the analysis of the self-assessment study of the Company's Board of Directors.
- ▶ Periodic reporting to the Board of Directors on the activities carried out by the Committee.
- ▶ Analysis of the information contained in the documents drawn up by various institutions specialising in Corporate Governance.

5. RELEVANT EVENTS AND OTHER NOTIFICATIONS TO THE CNMV

5.1 Relevant events.

RELEASE OF RESULTS OF CORPORATE ISSUERS (15/02/2005)

On 15 February, the CNMV was notified of the results of the 2004 financial year.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (16/02/2005)

On 16 February 2005, the CNMV was notified that Red Eléctrica and Grid Industries had formalised an agreement for the acquisition by Red Eléctrica of 75% of Redalta's shares (through Inalta, Redalta owns Iberdrola's transportation assets).

ACQUISITIONS OR DISPOSALS OF HOLDINGS (16/02/2005)

On 16 February 2005, the CNMV was sent the press release regarding the agreement reached with Grid Industries.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (16/02/2005)

On 16 February 2005, further information was sent to the CNMV on the agreement reached with Grid Industries.

SUSPENSION AND RESUMPTION OF TRADING(1/04/2005)

On 1 April 2005, the CNMV decided to provisionally suspend, with immediate effects, from the Stock Exchange Inter-connection System (SIBE), the shares or other securities entailing a subscription or acquisition right, of Red Eléctrica de España, S.A., whilst certain relevant information is disclosed.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (1/04/2005)

On 1 April, UBS Limited announced the placement by Hidrocantábrico of 4,058,100 ordinary shares, with a face value of 2 euros, at a price of 18.84 euros per share, representing



Hidrocantábrico's total stake in Red Eléctrica de España. The shares placed represent approximately 3% of Red Eléctrica de España's ordinary shares.

ANNOUNCEMENT OF GENERAL MEETINGS AND RESOLUTIONS (Notification of 22/04/2005)

On 22 April 2005, the CNMV was notified of the Ordinary General Shareholders' Meeting to be held at first call on 25 May 2005, at 12:30 p.m., at Teatro Auditorio, Ciudad de Alcobendas, and at second call on 26 May 2005, at the same place and at the same time.

CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (Notification of 22/04/2005)

On 22 April 2005, the CNMV was notified of the resolution adopted by the Board of Directors at its meeting held on 21 April 2005, to appoint Mr. Fernando Frías Montejo as Vice Secretary of the Board of Directors of Red Eléctrica. Furthermore, the CNMV was notified of the resolution adopted by the Board of Directors of Red Eléctrica at its meeting held on 21 April 2005, to accept the resignation presented by Mr. Joaquim Clotet i Garriga from his post as Director of Red Eléctrica.

RELEASE OF RESULTS OF CORPORATE ISSUERS (27/04/2005)

On 27 April, the CNMV was notified of the results of the first quarter of 2005.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (4/05/2005)

SEPI announced that the Board of Directors had agreed, at its meeting held on 29/04/2005, to begin administrative proceedings in order to obtain the necessary authorisations to sell up to 18.5% shares of REE.

ANNOUNCEMENT OF MEETINGS AND RESOLUTIONS (26/5/2005)

On 26 May, the Company sent the CNMV the full version of the resolutions adopted by the Ordinary General Shareholders' Meeting on 26 May 2005.

SUSPENSION AND RESUMPTION OF TRADING(24/06/2005)

The CNMV has decided to provisionally suspend, with immediate effects, trading on the Stock Exchange Inter-connection System (SIBE) of shares or other securities entailing a subscription or acquisition right, of the company Red Eléctrica de España, S.A., whilst certain relevant information is disclosed.

OTHER SIGNIFICANT EVENTS (24/6/2005)

On 24 June, the Company notified the CNMV that Red Eléctrica was currently at an advanced negotiation stage to reach an agreement on the shareholder composition of its telecommunications subsidiary Red Eléctrica Telecomunicaciones, S.A.U.

SUSPENSION AND RESUMPTION OF TRADING(24/06/2005)

The CNMV has decided to lift, as of 2:15 p.m. on today's date, the provisional suspension ordered today of the trading in the Stock Exchange Inter-connection System of shares or other securities entailing a subscription or acquisition right, of the company RED ELÉCTRICA DE ESPAÑA, S.A., after sufficient information was made available to the public through the Stock Exchange Governing Companies and CNMV on the circumstances leading to the suspension.

CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (29/6/2005)

On 29 June, the Company notified the CNMV that the Board of Directors, at its meeting held on 28 June 2005, further to the reports and proposals made by the Appointments and Remuneration Committee, had decided to appoint as Directors of Red Eléctrica de España, S.A., Messrs. Francisco Javier Salas Collantes and Martín Gallego Málaga, until the first General Meeting is held, to cover the vacancies left in the Board of Directors as a result of said meeting, and in order to replace and as a result of the resignations presented by Messrs. Elías Velasco García and José Ignacio Sánchez Galán.

CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (29/6/2005)

On 29 June, the Company notified the CNMV that the Board of Directors, at its meeting held on 28 June 2005, had decided to appoint Mr. Francisco Javier Salas Collantes as member of the Audit Committee of Red Eléctrica de España, S.A., for a term of three years, further to the



proposal made by the Chairman of the Board of Directors, and further to a report from the Appointments and Remuneration Committee.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (30/6/2005)

On 30 June, the Company notified the CNMV that Red Eléctrica de España, S.A. and T-Online International AG had reached an agreement on the sale of 100% of Red Eléctrica de Telecomunicaciones, S.A.U. to T-Online International AG.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (30/6/2005)

On 30 June, the Company notified the CNMV, in relation to the relevant events of 16 February 2005, that once the administrative authorisations had been obtained that conditioned the agreement for Red Eléctrica de España, S.A. to acquire the shares of Grid Industries, S.A. (in which CVC Capital Partners held a stake) in Red de Alta Tensión, S.A. and of Grid Industries, S.A.'s membership of a participation loan granted to Red de Alta Tensión, S.A. on 27 December 2002, the parties had fulfilled the necessary formalities to deem the operation as closed.

ANNUAL CORPORATE GOVERNANCE REPORT (20/07/05)

On 22 April 2005, the CNMV was notified and sent the approval by the Board of Directors of Red Eléctrica, at its meeting held on 21 April 2005, of the Corporate Governance Report for 2004.

CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (21/7/2005)

On 21 July, the Company notified the CNMV that the Audit Committee, at its meeting held on 21 July 2005, pursuant to the provisions established in the Bylaws and in the Board Regulations, had appointed the independent director Mr. Francisco Javier Salas Collantes to hold the post of Chairman of the Audit Committee. The post had been left vacant following the former chairman's resignation from his post as Director.

RELEASE OF RESULTS OF CORPORATE ISSUERS (28/7/2005)

On 28 July, the Company notified the CNMV of the results of the first quarter of 2005.

ACQUISITIONS OR DISPOSALS OF HOLDINGS (29/9/2005)

SEPI announced that on 28/09/05 it sold 11,497,950 shares it owned in Red Eléctrica de España, S.A. at a price of 23.05 euros per share.

ISSUES, REDEMPTIONS OR CANCELLATIONS OF DEBT SECURITIES (Notification of 20/10/2005)

On 20 October 2005, the CNMV was informed that Red Eléctrica has issued bonds on the U.S. private placement market amounting to 500 million USD, converted into euros. This issue has an average maturity of 19 years and an average yield of 4%.

FORECAST OF RESULTS OF CORPORATE ISSUERS (Notification of 25/10/2005)

On 25 October 2005, the Company notified the CNMV of the results corresponding to the first nine months of the 2005 financial year.

5.2. Other notifications.

REPORT OF RESULTS OF CORPORATE ISSUERS (Notification of 16/02/2005)

On 16 February, the CNMV was sent information on the Company.

OTHER NOTIFICATIONS (Notification of 22/04/2005)

On 22 April 2005, the CNMV was notified of the resolution adopted by the Board of Directors of Red Eléctrica to propose to the Ordinary General Shareholders' Meeting the payment, to shares with a dividend right, of the gross amount of 0.6138 euros per share. A discount shall be of 0.2375 euros per share gross, over the interim dividend paid on 3 January 2005 by virtue of a resolution adopted by the Board of Directors on 25 November 2004.

OTHER NOTIFICATIONS (Notification of 22/04/2005)

On 24 November 2005, the CNMV was notified of the resolution adopted by the Board of Directors to distribute an interim dividend against 2005 earnings amounting to a total of 0.270800 euros per share.



This Annual Corporate Governance Report was approved by the Board or Management Body of the Company, at its meeting held on 23 March 2006.

Indicate the Directors or Members of the Management Body who voted against or who abstained in relation to approval of this Report.

The Report was unanimously approved.