



Annual Corporate Governance Report 2004 Financial Year







# Annual Corporate Governance Report

## Listed Public Companies

Particulars of issuer · financial year 2004

Name of the individual or corporation:

**RED ELÉCTRICA DE ESPAÑA**

Tax ID no.: A-78003662

Legal Office:

Paseo Conde de los Gaitanes, 177  
La Moraleja · Alcobendas · 28109 Madrid

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# MODEL ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY TRADED CORPORATIONS<sup>1</sup>

## Introduction

RED ELÉCTRICA DE ESPAÑA, S.A. (hereinafter referred to as RED ELÉCTRICA, the Company, or the Corporation) has since its inception has considered the adoption of better Corporate Governance practices as a firm, decided and priority concern, not just fulfilling the literal meaning of applicable legal standards and the broadest national and international recommendations regarding these matters, but also voluntarily implanting a series of measures and procedures that go to the heart of the most important questions of legitimate concern to the shareholders of this and all other publicly held companies.

As a result, since 1999 when it was first listed on the markets, the Company has had a series of measures dealing with Corporate Governance, for the purpose of allowing a more effective, transparent, independent, secure, high-quality and more representative corporate governance, placing RED ELÉCTRICA as a leading company in terms of Corporate Governance.

The main purpose of this Report is not to limit ourselves to simply complying with the requirements of Law 26/2003, Ministry of Economy Order 3772/2003 dated December 26, and Spanish National Stock Commission Circular 1/2004 dated March 17; but rather to attempt to reflect more completely and in greater detail the assets and administrative structure of the Corporation, the obligations of the members of the Board and in general matters that shareholders, investors and markets consider relevant for a better knowledge of the Corporation. This information is permanently available on the corporate webpage ([www.ree.es](http://www.ree.es)).

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<sup>1</sup> Unless expressly indicated otherwise in the present report, its contents should be understood to refer to to December 31, 2004

# A

## Ownership Structure

### A.1. COMPLETE THE FOLLOWING TABLE WITH THE CAPITAL STRUCTURE OF THE CORPORATION.

<i>Date last modified</i>	<i>Corporate capital</i>	<i>Number of shares</i>
05-17-1999	270,540,000	135,270,000

In the event there are different kinds of shares, indicate same in the following table:

<i>Class</i>	<i>Number of shares</i>	<i>Face value</i>
-	-	-

All shares correspond to a single class and series and grant the owners the same rights.

### A.2. LIST IN DETAIL DIRECT AND INDIRECT OWNERS WITH SIGNIFICANT SHARES, THEIR ENTITY AT CLOSING DATE, EXCLUDING DIRECTORS:

<i>Tax ID</i>	<i>Legal name of shareholder</i>	<i>Number of direct shares</i>	<i>Number of indirect shares (*)</i>	<i>% of Total capital</i>
Q-2820015B	Sociedad Estatal de Participaciones Industriales (SEPI)	38,551,950	-	28.5

The relevant shareholding by electric companies is of interest, although their participation is not significant. These shareholders and their participation as of May 2004, date of the Annual General Meeting of Shareholders, were as follows:

<i>Legal name of shareholder</i>	<i>% Total capital</i>
Iberdrola, S.A.	3%
Endesa, S.A.	3%
Hidroeléctrica del Cantábrico, S.A. <sup>2</sup>	3%
Unión Fenosa Distribución, S.A.	3%
Electra de Viesgo Distribución, S.L.	1%

(\*) through:

<i>Tax ID</i>	<i>Legal name of shareholder (individual or corporate)</i>	<i>Number of direct shares</i>	<i>% of capital</i>
-	-	-	-
	Total:	-	-

Indicate the most significant movements in share structure occurred during the financial year:

<i>Tax ID</i>	<i>Legal name of shareholder</i>	<i>Date of transaction</i>	<i>Description of transaction</i>
-	-	-	-

<sup>2</sup> As of April 1, 2005, Hidroeléctrica del Cantábrico, S.A. notified the Spanish SEC of the sale of its entire stake in the Company's share capital.



**A.3. COMPLETE THE FOLLOWING TABLES REGARDING MEMBERS OF THE BOARD OF DIRECTORS WHO OWN SHARES IN THE CORPORATION:**

Share ownership by RED ELÉCTRICA directors, both direct and indirect and both individual as well as accumulated, was as follows at December 31, 2004:

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Date first appointed</b>	<b>Date last appointed</b>	<b>No. of direct shares</b>	<b>No. of indirect shares (*)</b>	<b>% Total capital stock</b>
14.932.129-T	Luis M <sup>a</sup> Atienza Serna	07.08.04	07.08.04	50		0.0000
13.565.025-Q	Pedro Rivero Torre	01.29.85	07.17.03	0		0
50.016.157-N	Juan Gurbindo Gutiérrez	02.03.98	07.17.03	0		0
16.028.507-Z	Antonio Garamendi Lecanda	07.20.99	07.17.03	10		0.0000
51.975.956-G	Manuel Alves Torres	10.26.99	07.17.03	10		0.0000
36.486.924-T	Joaquim Clotet i Garriga <sup>3</sup>	10.26.99	07.17.03	3,000		0.002
11.015.316-H	Elías Velasco García	04.04.02	07.17.03	146		0.0001
652.064-Z	José Riva Francos	04.22.03	07.17.03	552		0.0004
7.780.529-C	José Ignacio Sánchez Galán	07.17.03	07.17.03	0		0
22.674.311-Z	José Manuel Serra Peris	07.17.03	07.17.03	0		0
37.240.141-J	Rafael Suñol Trepas	12.16.04	12.16.04	20		0.0000

(\*) through:

<b>Tax ID</b>	<b>Legal name of the direct share owner</b>	<b>No. of direct shares</b>	<b>% Total capital stock</b>
-	-	-	-
	<b>Total:</b>	-	-
<b>% total capital in power of the Board of Directors</b>		<b>0.0025</b>	

Complete the following tables regarding members of the Board of Directors holding rights to corporate shares:

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Number of direct options</b>	<b>Number of indirect option rights</b>	<b>Number of equivalent shares</b>	<b>% of Total capital</b>
-	-	-	-	-	-

**A.4. INDICATE, IF APPLICABLE, ANY FAMILY, BUSINESS, CONTRACTUAL OR CORPORATE RELATIONSHIP EXISTING BETWEEN OWNERS OF SIGNIFICANT SHARE PARTICIPATIONS TO THE EXTENT KNOWN BY THE CORPORATION, EXCEPT WHEN BARELY RELEVANT OR DERIVING FROM ORDINARY COMMERCIAL BUSINESS OR TRAFFIC:**

<b>Tax IDs</b>	<b>Related name</b>	<b>Type of relations</b>	<b>Brief description</b>
-	-	-	-

**A.5. INDICATE, IF APPLICABLE, ANY COMMERCIAL, CONTRACTUAL OR CORPORATE RELATIONSHIP EXISTING BETWEEN OWNERS OF SIGNIFICANT SHARE PARTICIPATIONS AND THE CORPORATION, EXCEPT WHEN BARELY RELEVANT OR DERIVING FROM ORDINARY BUSINESS TRAFFIC OR MOVEMENT:**

<b>Tax IDs</b>	<b>Related name</b>	<b>Type of relations</b>	<b>Brief description</b>
-	-	-	-

There is no relevant relationship or relationship outside regular business movement or traffic, of a family, commercial, contractual or corporate nature between shareholders with significant share participations, the State Industrial Ownership Corporation (SEPI) and the corporation and/or its group.

<sup>3</sup> On April 21, 2005, the Company's Board of Directors accepted the resignation presented by the said Director.

**A.6. INDICATE ANY PRIVATE AGREEMENTS EXECUTED BETWEEN SHAREHOLDERS THAT MAY HAVE BEEN COMMUNICATED TO THE CORPORATION:**

<i>Tax IDs</i>	<i>Parties intervening in the private agreement</i>	<i>% of corporation capital affected</i>	<i>Brief description of agreement</i>
-	-	-	-

As of December 31, 2004 the corporation had no information regarding the existence of agreements between shareholders, requiring them to adopt a common policy through the concerted exercise of voting rights in General Meetings or that restricted or affected their ability to freely transfer the shares.

Indicate, if applicable, any agreed actions existing between shareholders of the corporation and which are known to the corporation:

<i>Tax IDs</i>	<i>Parties intervening in the agreed action</i>	<i>% of corporation capital affected</i>	<i>Brief description of the action agreed upon</i>
-	-	-	-

As of December 31, 2004 the Corporation had no knowledge of the existence of any agreements between shareholders binding the shareholders to a specific action regarding voting rights; neither did the corporation have any knowledge of a common corporate management policy or any policy for said purpose or any other for the purpose of influencing the corporation.

In the event of any modification or breaking of said agreements or action agreed upon during the fiscal period, expressly indicate same.

**A.7. INDICATE ANY INDIVIDUAL OR LEGAL ENTITY EXERCISING OR WITH THE POWER TO EXERCISE CONTROL OVER THE CORPORATION AS DESCRIBED IN ARTICLE 4 OF THE STOCK EXCHANGE LAW:**

<i>Tax ID</i>	<i>Name of the individual or corporation</i>
Q-2820015B	State Industrial Ownership Corporation (SEPI)

**Observations**

Pursuant to the terms of Royal Decree 377/1991 dated March 15 regarding reporting of significant share ownership in corporations listed and purchase by same of treasury stock, as the closing date of the 2004 financial year the State Industrial Ownership Corporation (SEPI) was the direct owner of a significant share of the corporation, owning 38,551,950 shares representing 28.5% of the capital. No other individual or entity exercises or has the power to exercise control of the corporation, as described in article 4 of the Stock Exchange Law.

**A.8. COMPLETE THE FOLLOWING TABLES REGARDING TREASURY STOCK:**

As of the closing date of the financial year:

<i>No. of direct shares</i>	<i>No. of indirect shares (*)</i>	<i>Total % of capital</i>
184,188	-	0.14

(\*) through:

<i>Tax ID</i>	<i>Legal name of the direct share owner</i>	<i>Total % of capital</i>
-	-	-
<b>Total:</b>		-

List significant variations, as described in Royal Decree 377/1991, that occurred during the year:

<i>Date</i>	<i>No. of direct shares</i>	<i>No. of indirect shares</i>	<i>Total % of capital</i>
04.27.04	1,353,685	-	1.001
10.21.04	1,381,440	-	1.021

From April 21 through October 21, 2004 the percentage of treasury stock corresponded to accumulated purchases during the 2004 financial year, with the balance for said dates 269,905 shares (0.200%) and 235,888 shares (0.174%) respectively.

<i>Annual results for treasury stock transactions (in thousands of euros)</i>	<i>1,158</i>
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#### **A.9. LIST THE CONDITIONS AND PERIODS OF ANY AUTHORIZATIONS ISSUED BY THE MEETING TO THE BOARD OF DIRECTORS REGARDING THE PURCHASE OR TRANSFER OF TREASURY STOCK DESCRIBED IN SECTION A.8.**

Pursuant to the resolution made in response to point sixth of the Agenda of the Annual General Meeting of shareholders held on May 6, 2004, the corporate Board of Directors was authorized, in accordance with the terms of article 75 and the First Additional Provision of the Law of Corporations and other applicable norms, to buy back shares of the corporation, either directly or indirectly and to the extent it deemed advisable under the circumstances, under the following conditions:

- (i) Maximum number of shares to be acquired will not surpass the limit established by law (currently set at 5%), as long as all other applicable legal requirements are also respected, and
- (ii) Acquisitions cannot be at a price over that listed on the Exchange.

Acquisitions may be in the form of sale-purchase, exchange, or any other form of transaction for onerous title, according to the circumstances. To effectively execute said resolution and in compliance with the limits established by law, actions acquired in accordance with said authorization may be sold at any time according to circumstances, at a price not less than the price listed on the Exchange.

As such the Board of Directors is authorized to the extent necessary to request all authorizations and adopt all agreements necessary or appropriate to comply with current legal standards, to execute and consummate this resolution. This authorization will remain in effect for 18 months beginning from the date of the General Meeting, May 6, 2004.

In addition to the information contained in the foregoing section A.8, the Management and Annual Reports for 2004 will include additional information on operations transacted by the Corporation with its treasury stock.

#### **A.10 INDICATE, IF APPLICABLE, ANY LEGAL AND STATUTORY RESTRICTIONS TO VOTING RIGHTS, AS WELL AS LEGAL RESTRICTIONS REGARDING THE ACQUISITIONS OR TRANSFER OF SHARES OF CAPITAL STOCK.**

Law 53/2002 dated December 30 regarding Fiscal, Administrative and Corporate Measures modified article 34 and the Ninth Transitory Provision of Law 54/1997 dated November 27 regarding the Electrical Sector, reducing the maximum permitted amount of direct and indirect ownership of capital stock of RED ELÉCTRICA from 10% to 3%. Pursuant to the terms of said law, the State Industrial Ownership Corporation (SEPI) is subject to a special regimen, and will keep its share ownership in the company of at least 10% from January 1, 2004. Said provisions are set in article 5 and the Only Additional Provision of the Statutes of the corporation, respectively.

Said Law 53/2002 abolished the joint limit of 40% share ownership for shareholders from the electrical sector; allowing no shareholder to syndicate his shareholding; and further established that voting rights for said shares that exceed the maximum percentages established by law would be held in abeyance until the amount of share participation or voting rights was adjusted.

Said Law established the obligation to adjust share participations to the limits established by law during the year 2003, which act was carried out by the four shareholders affected (Iberdrola, S.A.; Endesa, S.A.; Hidroeléctrica del Cantábrico, S.A.; and Unión Fenosa Distribución, S.A.) who each owned 10% of the capital stock. Said companies through a Public Sale concluded in June of 2003 reduced their share ownership by 7%, thus representing a total offering of 28% of the capital of the corporation.

As stated above, according to the special legal regimen applicable to the electrical sector; no shareholder can own shares representing in excess of 3% of the capital of the corporation.

Each share grants one vote, and any shareholder may attend the General Meetings; there is no requirement regarding a minimum number of shares as was the case until the Extraordinary General Meeting of Shares held July 17, 2003, when the statutory requirement requiring ownership of at least 50 shares in order to attend the Meetings was abolished.

Section G) of this Report provides a summary of recent changes in legislation approved in this regard.

# Administrative structure of the company

## B.1. BOARD OF DIRECTORS

B.1.1. LIST THE MAXIMUM AND MINIMUM NUMBER OF DIRECTORS ALLOWED BY THE STATUTES:

<b>Maximum number of directors</b>	<b>13</b>
<b>Minimum number of directors</b>	<b>9</b>

B.1.2. COMPLETE THE FOLLOWING TABLE PRESENTING THE CAPITAL STRUCTURE OF THE CORPORATION.

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Representative</b>	<b>Position on the board</b>	<b>Date first nominated</b>	<b>Date last nominated</b>	<b>Election procedure</b>
14.932.129-T	Luis M <sup>a</sup> Atienza Serna		Presidente	07.08.04	07.08.04	Cooption
13.565.025-Q	Pedro Rivero Torre		Vocal	01.29.85	07.17.03	General Meeting
50.016.157-N	Juan Gurbindo Gutiérrez		Vocal	02.03.98	07.17.03	General Meeting
16.028.507-Z	Antonio Garamendi Lecanda		Vocal	07.20.99	07.17.03	General Meeting
51.975.956-G	Manuel Alves Torres		Vocal	10.26.99	07.17.03	General Meeting
36.486.924-T	Joaquim Clotet i Garriga		Vocal	10.26.99	07.17.03	General Meeting
11.015.316-H	Elías Velasco García		Vocal	04.04.02	07.17.03	General Meeting
652.064-Z	José Riva Francos		Vocal	04.22.03	07.17.03	General Meeting
7.780.529-C	José Ignacio Sánchez Galán		Vocal	07.17.03	07.17.03	General Meeting
22.674.311-Z	José Manuel Serra Peris		Vocal	07.17.03	07.17.03	General Meeting
37.240.141-J	Rafael Suñol Trepas		Vocal	12.16.04	12.16.04	Cooption
<b>Total number of directors</b>			<b>11</b>			

Indicate any resignations from the board of directors occurring during the period

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Date</b>
9.633.422-X	Pedro Mielgo Alvarez	07-08-2004
37.649.061-Q	Enrique Lacalle Coll	12-16-2004

B.1.3. COMPLETE THE FOLLOWING TABLES REGARDING TREASURY STOCK:

### EXECUTIVE DIRECTORS

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Committee proposing appointment</b>	<b>Position in the corporate hierarchy</b>
14.932.129-T	Luis M <sup>a</sup> Atienza Serna	Nominations and Remuneration Committee	President

#### Profile

47 years of age

Bachelor in Economic and Business Sciences, Universidad de Deusto.

Certificate in Superior European Studies, Université de Nancy (France), Centre for Superior European Studies

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

#### Profesional career:

##### Has served as:

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 of the 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 the Institute for European Studies, Universidad de Deusto

Has given numerous courses, seminars and conferences as well as published articles regarding economic policy, energy policy, agrarian policy and European research in economic and general information newspapers and magazines of the sector, as well as work documents for University Institutes and Research Centres.

Member of the Boards of Directors of the Instituto Nacional de Hidrocarburos (INH), the Corporación Logística de Hidrocarburos (CLH) and the Basque Energy Department (EVE).

**Currently serves as:**

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

**EXTERNAL NOMINEE DIRECTORS**

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Committee proposing appointment<sup>4</sup></b>	<b>Name of the corporation represented or proposing his appointment</b>	<b>Tax ID of significant shareholder</b>
50.016.157-N	Juan Gurbindo Gutiérrez	Board of Directors as there was no Nominations and Remuneration Committee	SEPI	Q-2820015B

**Profile**

57 years of age

Industrial Engineer, Universidad Politécnica de Madrid

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

**Professional career:**

**Has served as:**

Director of energy generation projects, INITEC

Responsible for electric sector companies in SEPI

Director of the SEPI Presidential Cabinet

Member of the SEPI Management Board

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

**Currently serves as:**

SEPI Director of Administration and Resources

Physical representative of SEPI in the Banco Arabe-Español, President of the SEPI Labour Services Foundation

Patron of the SEPI Foundation (previously Fundación Empresa Pública)

51.975.956-G	Manuel Alves Torres	Board of Directors as there was no Nominations and Remuneration Committee	SEPI	Q-2820015B
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**Profile**

51 years of age

Bachelor of Economic and Business Sciences

**Professional career:**

**Has served as:**

Head of Budgeting, STANDARD ELÉCTRICA S.A.

Superior Technician, Asst. Director of Companies, Corporate Sub-Director, INI

Director of Planning and Follow-Up of TENEO

**Currently serves as:**

Director of Planning and Control, SEPI

Member of the SEPI Management Committee

Represents SEPI in the Fundación SEPI (previously Fundación Empresa Pública) and in the Fundación de Servicios Laborales SEPI

Member of the Board of Directors of Tragsa and Sedettur

<sup>4</sup> Regard has been had for the date of first appointment in the company. Please refer to part B.1.2. of the Report.

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Committee proposing appointment<sup>4</sup></i>	<i>Name of the corporation represented or proposing his appointment</i>	<i>Tax ID of significant shareholder</i>
11.015.316-H	Eliás Velasco García	Board of Directors as there was no Nominations and Remuneration Committee	Unión Fenosa Distribución, S.A.	A-82153834

**Profile**

65 years of age  
 Engineer, Escuela Técnica Superior de Ingenieros de Minas (Madrid)  
 Course in Senior Management - PADE (IESE)

**Professional career**

**Has served as:**

Head of Nuclear Production at the Central Nuclear de Santa María de Garoña (NUCLENOR)  
 Head of the Santillán Nuclear Power Station (ELECTRA DE VIESGO, S.A.)  
 Director-General Director of ENAGAS

**Currently serves as:**

Director/General Manager of Unión Fenosa, S.A.  
 President, Unión Fenosa Gas, S.A.  
 Joint and Several Administrator of Unión Fenosa Generación, S.A.  
 Vice President of: Spanish Energy Club, Nueva Generadora del Sur, S.A., Enel Unión Fenosa Renovables, S.A. and Planta Regasificadora de Sagunto, S.A.  
 President, Spanish Egyptian Gas company (SEGAS) and Spanish Committee for the World Energy Council  
 Director of Sogama, S.A. and the Compañía Española de Industrial Electroquímicas, S.A. (CEDIE)

7.780.529-C	José Ignacio Sánchez Galán	Nominations and Remuneration Committee	Iberdrola, S.A.	A-48010615
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**Profile**

54 years of age  
 Superior Industrial Engineer, Escuela Técnica de Ingeniería of the I.C.A.I. (Madrid)  
 Certificate in Business Administration, I.C.A.D.E. (Madrid)  
 Certificate in General Business Administration and Foreign Trade, Industrial Organization School (E.O.I.)

**Professional career**

**Has served as:**

General Director of Industrial Batteries for the Grupo Tudor, S.A.  
 General Manager of Industria de Turbo Propulsores (ITP)  
 Delegate Director of Airtel Móvil (today Vodafone España)

**Currently serves as:**

Executive VP and Managing Director of Iberdrola, S.A.  
 President of Apex Inmobiliaria  
 Member of the Board of Directors of Bodegas Matarromera and Page Ibérica  
 Member of the Board of Patrons of the Fundación Universitaria Comillas-ICAI and the Universidad Pontificia de Comillas de Salamanca, the Fundación de Estudios Financieros and the Fundación Premysa

37.240.141-J	Rafael Suñol Trepal	Nominations and Remuneration Committee	SEPI	Q-2820015B
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**Profile**

60 years of age  
 Degree in Economics CCEE-1969, ADE-ESADE 1980, PADE-IESE 1999

**Professional career:**

**Has served as:**

Partner, SOCIOS FINANCIEROS, S.A. and President, ACTIVA VENTURES, S.G.F.C.R  
 Director and Vice President, FECSA  
 Director, ENDESA  
 Managing Director, BANCO DE FOMENTO

President, BANCO DE CREDITO INDUSTRIAL; President, SOCIEDAD DE FOMENTO EMPRESARIAL (A venture capital company), and Director of the ICO  
 Asst. General Manager, GDS, Grupo de Servicios de CAJA DE BARCELONA  
 Technician in Study Services at the BANCO URQUIJO, Barcelona  
 President, CREDITO & DOCKS and DIVERGESTION; Director of SOFIVAC Cía. General de Inversiones and ESPAÑOLA DE ZINC, companies associated with the BANCO CENTRAL bank.  
 President of COBRHI, S.A. and ERICSSON INNOVA  
 Director of FRIDA ALIMENTARIA, VISUAL TOOLS and ERICSSON ESPAÑA  
 Member of the Management Board of the INSTITUTO ESPAÑOL DE ANALISTAS FINANCIEROS  
 Professor, INSTITUTO DE EMPRESA and member of its General Council  
 Member of the Management Board, ASOCIACION DE AMISTAD HISPANO-FRANCESA DIALOGO and of the Executive Committee of the "GARCIA LORCA" Centenary  
 General Secretary of the CIRCULO DE ECONOMIA, Vice President of its Management Board and Dean and Deputy Dean of the COLEGIO DE ECONOMISTAS DE CATALUÑA  
 Member of the Mayor of Barcelona's Economic Advisory Committee and a former member of the UAB Social Council

**Currently serves as:**

Managing Director of AURICA XXI, SCR, S.A. and corporations in which it has interests and Director of PEUGEOT ESPAÑA

**INDEPENDENT DIRECTORS**

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Committee proposing the appointment</b>
13.565.025-Q	Pedro Rivero Torre	Board of Directors as there was no Nominations and Remuneration Committee at that time

**Profile**

66 years of age  
 Doctor in Economic and Business Sciences, Universidad Complutense de Madrid  
 Doctor Honoris Causa, Universidad de Castilla-La Mancha  
 Member, Real Academia de Doctores

**Professional career:**

**Currently serves as:**

Professor of Financial Economics and Company Accounting  
 External auditor (on leave of absence)  
 Executive VP and General Manager, UNESA  
 Member, Economic and Social Council  
 Member, Social Council of the Universidad de Castilla-La Mancha  
 Member, Electricity Advisory Board, CNE  
 Board member, CIEMAT  
 Convener of the Corporate Social Responsibility Committee of the AECA  
 Director, OMEL (Compañía Operadora del Mercado Electrico, S.A.)

<b>Tax ID</b>	<b>Legal name of director</b>	<b>Committee proposing the appointment</b>
16.028.507-Z	Antonio Garamendi Lecanda	Board of Directors as there was no Nominations and Remuneration Committee at that time

**Profile**

47 years of age.  
 Businessman. Insurance Broker.

**Professional career:**

**Has served as:**

General Delegate of Equitativa, S.A., Vizcaya.  
 Managing Director of Bankoa, S.A. (Insurance brokerage)  
 President of the "Negocios de Comunicación" Group (La Gaceta de los Negocios newspaper, 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.



**Currently serves as:**

President of Galea Empresarial, S.L.  
 Managing Director of Iniciativas de Comunicación Económica S.A. (ICESA)  
 Director, Group Tubos Reunidos S.A.  
 Member of the Strategic Committee, Sodexho Pass, S.A. Group  
 Member of the Advisory Council of the Human Group  
 Member of the Management Board, CEOE  
 Member of the Board and Treasurer, Confemetal  
 Member of the Management Board: Vizcaya Business Confederation (CEBEK), the Vizcaya Chamber of Commerce and the Vizcaya Chamber of Urban Property  
 Member of the Committee for the IEE Economic Studies Institute

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Committee proposing the appointment</i>
36.486.924-T	Joaquim Clotet i Garriga	Board of Directors as there was no Nominations and Remuneration Committee at that time

**Profile**

60 years of age  
 Bachelor in Economic and Business Sciences, Universidad de Barcelona  
 Degree in Computing, Instituto de Informática de Madrid

**Professional career:****Has served as:**

1976-80: Banca Catalana. Chief of Information Systems.  
 1980-86 La Caixa. Technical Sub-Director. Member of the Management Committee.  
 1986-88. Banesto. Assistant General Manager and Member of the Management Committee.  
 1988-90. La Caixa. Deputy Manager. Member of the Management Committee.  
 1990-96. VP, Editorial Planeta de Agostini, Managing Director of Planeta Internacional and Difusora Internacional.  
 Administrator, Editorial Deusto.  
 1996-99. VP of the Sociedad Estatal de Participaciones Industriales (SEPI).  
 Director, Endesa, Iberia, Sevillana and Fecsa.  
 President of Babcock-Wilcox and Muprespa.

**Currently serves as:**

Consultant for Serrat, Serrat i Associats.  
 Member of the Boards of Directors of BRB Internacional, S.A., Pro Sport Comercializaciones Deportivas, S.A., Apolo Films, S.L., Screen Veintiuno, S.A.

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Committee proposing the appointment</i>
652.064-Z	José Riva Francos	Nominations and Remuneration Committee

**Profile**

51 years of age  
 Architect, E.T.S.A. Madrid, Specializing in Urbanism.  
 Architect in Madrid.

**Professional career:**

1981: Participation in the Minoru Yamasaki Studio collaborating in the development of the Madrid's Torre Picasso Project  
 1981-86: Architect in Madrid, own studio  
 ARCO Studio, architecture and construction, producing various projects for private parties and the Patronato de Casas del Aire (Air Ministry)

**Currently serves as:**

VP, Managing Director of all the companies in the Suardiaz Group based in Madrid and with branches in the 12 main ports of the peninsula and the Canary Islands.  
 Managing Director of Vapores Suardiaz, Suardiaz Group, Trans European Transport, S.A., Aéreo Transport Internacional S.A.  
 Director of T.C.V. Terminal Contenedores Valencia, Tercero, S.A. (Canary Islands), Agencia Marítima Transhispánica, S.A., Autoterminal, S.A. (Barcelona), Navicar Portugal (Terminal de Vehículos), Terminales Marítimas Bilbao (TMB)  
 President of Oligsa and Ventastur  
 President and Managing Director of Ayala 6, S.A. and Camajuani  
 Member of the Board of Directors of Almacenes La Estrella, Legista, Aldeasa and Enagás

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Committee proposing the appointment</i>
22.674.311-Z	José Manuel Serra Peris	Nominations and Remuneration Committee

**Profile**

45 years of age  
Degree in Law from the Universidad de Valencia  
Member of the State Corps of Solicitors.

**Professional career.**

**Has served as:**

State Solicitor in the Treasury Dept. of Valencia and the Superior Court of Justice in the Valencian Community.  
General Technical Secretary, Ministry of Industry and Energy  
Under-Secretary at the Ministry for Industry and Energy  
Secretary of State for Industry and Energy  
President, Spanish Patents and Trade Marks Office  
President of the Centre for Technological and Industrial Development (CDTI)  
President of the Fundación de la Escuela de Organización Industrial  
President of the Instituto para la Diversificación y el Ahorro de Energía (IDAE)  
President of the Instituto para la Reestructuración de la Minería del Carbon y Desarrollo Alternativo de las Comarcas Mineras  
President of the Centro de Investigaciones Energetica, Medioambientales y Tecnológicas (CIEMAT).  
Member of the Boards of Directors of the Sociedad Estatal de Participaciones Industriales (SEPI) and the Sociedad Estatal de Participaciones Patrimoniales (SEPPA)  
Member of the Board of Directors of Iberia, Líneas Aéreas de España, S.A. and member of the Board of Directors and the Executive Committee of Endesa

**Currently serves as:**

Solicitor and consultant  
Member of the Boards of Directors of the Grupo Empresarial Ence, S.A., Uralita, S.A. and Natraceutical, S.A.

**OTROS CONSEJEROS EXTERNOS**

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Committee proposing the appointment</i>
-	-	-

List the reasons why these cannot be considered independent or nominee:

Indicate any changes in the type of each director, as applicable, occurring during the period:

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Date of change</i>	<i>Previous category</i>	<i>Current category</i>
-	-	-	-	-

**B.1.4. INDICATE IF THE TYPE OF DIRECTOR LISTED IN THE FOREGOING POINT CORRESPONDS TO THE DISTRIBUTION SET IN THE REGULATION OF THE BOARD**

Article 20 of the Statutes and Article 7 of the Regulations for the Board of Directors establish that the Board of Directors, exercising the powers to make proposals to the General Meeting and to elect members to cover unfilled positions, will see that the number of external or non-executive members of the Board represent a broad majority over executive Directors. In any event, the composition of the board will be such that it assures the most appropriate representation of capital stock.

To this effect article 7 of the Regulations for the Board of Directors defines executive directors as (i) stable directors, either delegates or with powers, who can make decisions regarding any part of the business and (ii) those who may carry out executive functions or senior management responsibilities in any other position, within the company or with any other corporation of the group or maintain a contractual work or significant business relationship with the corporation. Those receiving special powers from the General Meeting or Board of Directors via their delegation,

authorization or powers of attorney for a specific act are not considered executive directors.

The second paragraph of the above-mentioned article 7 of the regulation defines external directors representing a substantial shareholder as those proposed by owners of a substantial number of shares of the corporation; and further that this position is not compatible with maintaining a business or professional relationship with the corporation or its group except with prior express authorization of the Board.

In addition independent external directors are understood as those who are neither representatives of substantial shareholders nor executive directors with a recognized professional reputation, that comply with requirements of impartiality and objectivity criteria.

In this regard, the Board of Directors in its meeting of May 27, 2004 approved the Independent Director Statute, establishing determined principles relating to the figure of the Independent Director and providing a definition that is coherent with continuing the line of permanent adaptation to best Corporation Governance practices. With regard to corporate governance, we in Red Eléctrica have adopted the best corporate governance practices, maintaining transparent execution in the information that we transmit to our shareholders and markets.

This Statute, the result of a long analysis by the Board of Directors, was drafted voluntarily and is currently in the process of revision and updating, as applicable, to adjust to legal norms or as considered advisable upon reflection of the Board of Directors.

**B.1.5. INDICATE, IF EXISTING, POWERS DELEGATED TO DELEGATE DIRECTOR/S:**

<b>Tax ID</b>	<b>Legal name of director</b>
14.932.129-T	Luis M <sup>a</sup> Atienza Serna

**Brief description**

In its meeting of July 29, 2004 and pursuant to the proposal of the Nominations and Remuneration Committee, the Board of Directors unanimously agreed:

*“To delegate the President of the Board of Directors to defend and pursuant to the provisions of article 141 of the current Law of Corporations, 149 of the Companies’ Register Regulations, 22 of the Articles of Association and 5 of the Regulations for the Board of Directors, with all powers that can be delegated according to law and the statutes”.*

**B.1.6. IDENTIFY, IF APPLICABLE, MEMBERS OF THE BOARD ASSUMING POWERS AS ADMINISTRATOR OR DIRECTOR OF OTHER CORPORATIONS FORMING PART OF THE GROUP OF THE CORPORATION LISTED:**

<b>Director’s Tax ID</b>	<b>Legal name of director</b>	<b>Name of the group Entity</b>	<b>Tax ID of the group Entity</b>	<b>Position</b>
14.932.129-T	Luis M <sup>a</sup> Atienza Serna	Red Eléctrica Telecomunicaciones, S.A.	A-82806399	President of the Board of Directors and of the company
		Red Eléctrica Internacional, S.A.U.	A-82852906	Joint Administrator
		Red Eléctrica del Sur, S.A. (REDESUR)	-	Presidente del Directorio
		Transportadora de Electricidad, S.A. (TDE)	-	President of the Board of directors
13.565.025-Q	Pedro Rivero Torre	Red Eléctrica Telecomunicaciones, S.A.	A-82806399	Director
16.028.507-Z	Antonio Garamendi Lecanda	Red Eléctrica Telecomunicaciones, S.A.	A-82806399	Director
36.486.924-T	Joaquim Clotet i Garriga <sup>5</sup>	Red Eléctrica Telecomunicaciones, S.A.	A-82806399	Director

<sup>5</sup> On April 21, 2005, the Company’s Board of Directors accepted the resignation presented by the said Director.

**B.1.7.** LIST, IF APPLICABLE, DIRECTORS OF THE CORPORATION WHO ARE MEMBERS OF THE BOARD OF DIRECTORS OF OTHER ENTITIES LISTED ON OFFICIAL SPANISH STOCK EXCHANGES OTHER THAN THE ENTITY OF YOUR GROUP, AS HAS BEEN REPORTED TO THE CORPORATION:

<i>Tax ID</i>	<i>Legal name of director</i>	<i>Listed entity</i>	<i>Position</i>
16.028.507-Z	D. Antonio Garamendi Lecanda	Grupo Tubos Reunidos, S.A.	Director
11.015.316-H	D. Elías Velasco García	Unión Fenosa, S.A.	Director.-General Director
652.064-Z	D. José Riva Francos	Aldeasa, S.A. Compañía de Distribución Integral Logista, S.A.	Consejero Director Director
7.780.529-C	D. José Ignacio Sánchez Galán	Enagás, S.A. Iberdrola, S.A.	Executive Vice President and Delegate Director
22.674.311-Z	D. José Manuel Serra Peris	Grupo Empresarial Ence, S.A. Uralita, S.A. Natraceutical, S.A.	Director Director Director

**B.1.8.** COMPLETE THE FOLLOWING TABLES REGARDING AGGREGATE REMUNERATION OF DIRECTORS EARNED DURING THE PERIOD.

a) In the corporation subject of this report:

<i>Concept of remuneration</i>	<i>In thousands of euros</i>
Fixed compensation	417
Variable compensation	1,106
Per diems	706
Statutory amounts	-
Options over shares and/or	-
Other financial instruments	-
Other	-
<b>Total</b>	<b>2,229</b>

  

<i>Other benefits</i>	<i>In thousands of euros</i>
Advance payments	-
Credits granted	-
Funds and Pension Plans: Contributions	-
Funds and Pension Plans: Obligations accepted	-
Life insurance premiums	-
Guarantees constituted by the corporation in favour of directors	-
<b>Total</b>	<b>-</b>

b) Resulting from the director of the corporation forming part of other boards of directors and/or upper management of corporations of the group:

<i>Concept of remuneration</i>	<i>In thousands of euros</i>
Fixed compensation	-
Variable compensation	-
Per diems	92
Statutory amounts	-
Options over shares and/or	-
Other financial instruments	-
Other	-
<b>Total</b>	<b>-</b>

  

<i>Other benefits</i>	<i>In thousands of euros</i>
Advance payments	-
Credits granted	-
Funds and Pension Plans: Contributions	-
Funds and Pension Plans: Obligations accepted	-
Life insurance premiums	-
Guarantees constituted by the corporation in favour of directors	-
<b>Total</b>	<b>-</b>

c) Total remuneration per type of director:

<i>Tipología consejero</i>	<i>Por sociedad</i>	<i>Por grupo</i>
Executive	778 <sup>6</sup>	-
External nominee	705	-
External independent	746	92
Other external	0	-
<b>Total</b>	<b>2,229</b>	<b>92</b>

d) Regarding benefits attributed to parent corporation:

<b>Total remuneration to directors (in thousands of euros)</b>	<b>896</b>
<b>Total directors remuneration/benefit attributed to the parent corporation (stated in percentage)</b>	<b>0.70</b>

**B.1.9.** IDENTIFY THE MEMBERS OF UPPER MANAGEMENT WHO ARE NOT EXECUTIVE DIRECTORS, AND INDICATE TOTAL REMUNERATION EARNED IN THEIR FAVOUR DURING THE PERIOD:

<i>Tax ID</i>	<i>Name of the individual or corporation</i>	<i>Position</i>
50.783.770-T	Victoriano Casajús Díaz	General Director
32.409.569-Q	Carlos Collantes Pérez-Ardá	General Director of Transport
16.505.108-D	Esther M <sup>a</sup> Rituerto Martínez	General Director, Administration and Finances
2.179.318-E	Alberto Carbajo Josa	General Director of Operations
16.193.599-N	Ángel Landa López de Ocáriz	Assistant General Director
<b>Total remuneration to upper management (in thousands of euros)</b>		<b>717<sup>7</sup></b>

**B.1.10.** ATTACH, IF EXISTING, ANY CLAUSES REGARDING GUARANTEE OR PROTECTION IN CASE OF FIRING OR CHANGES IN CONTROL THAT FAVOUR THE MEMBERS OF UPPER MANAGEMENT, INCLUDING EXECUTIVE DIRECTORS OF THE CORPORATION OR ITS GROUP. INDICATE IF THESE CONTRACTS HAVE BEEN REPORTED AND/OR APPROVED BY BODIES OF THE CORPORATION OR ITS GROUP:

<b>Number of beneficiaries</b>	<b>3</b>
<b>Body authorizing the clause</b>	<b>Board of Directors</b> At the proposal of the Nominations and Remuneration Committee
	<b>General Meeting</b>
<b>Was the General Meeting informed of the clause?</b>	<input checked="" type="checkbox"/> <b>YES<sup>8</sup></b> <input type="checkbox"/> <b>NO</b>

Contractual indemnification approved by the Board of Directors of the corporation in favour of its current President – Executive Director – in the event of extinguishment of his work contract, when indemnification is allowed pursuant to applicable standards, will be equal to one year's salary in cash, except when indemnifications established in current norms surpasses the amount stated herein.

<sup>6</sup> This includes the total remuneration accruing in the 2004 financial year by the incoming and outgoing Presidents holding this post in the company during the said period.

<sup>7</sup> This includes the remuneration accrued by the outgoing General Manager until the effective date of departure from the company and by the new General Managers since their incorporation.

<sup>8</sup> The Company's Executive Director was informed of the corresponding clause.

**B.1.11. INDICATE THE PROCESS TO ESTABLISH REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND CLAUSES OF THE STATUTES RELEVANT IN THIS REGARD.**

Statutory clauses regarding remuneration of members of the Board of Directors are as follows:

**- Article 20 of the Articles of Association:**

*“(…) Remuneration to the Board of Directors will consist of a fixed monthly amount, as per diems for attending the Administrative bodies and participating in Company benefits. Remuneration, both global and annual, for each committee and for the previous concepts will be 1.5 per cent of the liquid benefits of the Company, approved by the General Meeting. All of the above remunerations will, in any case, be maximum amounts, and the Board itself will distribute the amount between the foregoing concepts and the Directors, in the manner and proportion and at such time as it deems fit. In accordance with the dispositions of article 130 of the Law of Corporations, remuneration for the concept of participation in benefits can only be received by Directors after payment of all contributions to the legal and statutory reserve and having paid all shareholders a minimum dividend of 4%.*

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

*The remuneration foreseen in this section will be compatible with and independent from the salaries, remunerations, compensations, pensions or indemnities of any type established in general or as a one-off arrangement for those members of the Board of Directors who have an employment relationship with the company, whether under an ordinary contract or a special Senior Management one, a service provision arrangement, as these relationships will be compatible with the condition of a member of the Board of Directors”.*

- As established in the Only Additional Disposition of the Articles of Association, remuneration to Directors who are representatives of substantial shareholders representing the SEPI will be adjusted to meet the applicable standards of remuneration of the public sector.
- Article 28 of the Regulation of the Board provides the foregoing dispositions, including the appropriateness of a significant part of the Board's remuneration being associated with performance of the company.
- Article 29 of the Regulation of the Board establishes specific guidelines to be taken into account by the Board of Directors and the Nominations and Remuneration Committee to set compensation to the External director; making his exclusion necessary from protection systems financed by the Corporation for cases of firing, death or any others allowed for executive Directors; furthermore that his effective dedication will in any event be valued; and coverage for risks deriving from attending meetings of the Board and performance of his functions as can be assured, and that the Board agrees to establish, will not be considered as remuneration to the external Director; With regard to the independent director; the amount of compensation will be calculated in a way that offers incentives for his dedication but not to constitute an obstacle to his independence.

**B.1.12.** INDICATE, AS APPLICABLE, THE IDENTITY OF THE MEMBERS OF THE BOARD WHO ARE ALSO MEMBERS OF THE BOARD OF DIRECTORS OR DIRECTORS OF CORPORATIONS HOLDING A SIGNIFICANT PARTICIPATION IN THE LISTED CORPORATION AND/OR ENTITIES OF ITS GROUP:

<b>Directors Tax ID</b>	<b>Legal name of director</b>	<b>Significant shareholder CIF</b>	<b>Legal name</b>	<b>Position</b>
50.016.157-N	Juan Gurbindo Gutiérrez	Q-2820015B	State Industrial Ownership Corporation (SEPI)	Director, Administration and resources
51.975.956-G	Manuel Alves Torres	Q-2820015B	State Industrial Ownership Corporation (SEPI)	Director of Planning and Control

List, as applicable, relevant relationships different than those included in the foregoing section, linking members of the board of directors with significant shareholders and/or entities of its group:

<b>Directors Tax ID</b>	<b>Legal name of director</b>	<b>Significant shareholder CIF</b>	<b>Legal name</b>	<b>Description of relationship</b>
-	-	-	-	-

**B.1.13.** INDICATE AS APPROPRIATE, AMENDMENTS INTRODUCED DURING THE PERIOD, TO THE REGULATION OF THE BOARD:

No amendments were made to the Regulations for the Board of Directors during fiscal 2004.

Notwithstanding this, it is appropriate to note that in compliance with the responsibilities of the Nominations and Remuneration Committee contained in article 18.1 b) of the Regulation of the board relating to proposal to the Board of a system for selecting independent directors, during the May 27, 2004 meeting of the Board of Directors, the "Statute regarding Independent Director of Red Eléctrica de España" was approved.

The purpose of said Statute is to establish determined principles in relation to the figure of independent director, adapting it in a coherent form to the criteria for acting established by the Articles of Association, continuing the line of permanently adapting to best Corporate Governance practices assumed by the Corporation, all as stated in section B.1.4. of this report.

The Statute, the fruit of a long analysis by the Board of Directors, was drafted voluntarily and is currently undergoing revision and updating, as applicable, required by legal standards or deemed advisable upon reflecting of the Board of Directors.

Without prejudice to the foregoing, the foregoing procedures were approved by the Auditing Committee throughout fiscal 2004:

- Procedure to fulfil the functions assigned to the Audit Committee with regard to External Auditors.
- Audit Committee procedure to review economic-financial information sent to Market Oversight bodies

In addition and with regard to procedures approved by the Audit Committee, since fiscal 2003 the Corporation also has a specific procedure to determine those investments planned by affiliates, which must be submitted for prior approval of the Corporate Board of Directors.

**B.1.14. INDICATE PROCEDURES FOR APPOINTMENT, RE-ELECTION, EVALUATING AND REMOVING DIRECTORS. LIST THE COMPETENT BODIES, PROCESSES AND CRITERIA REQUIRED IN EACH OF THE PROCEDURES.**

Article 21 of the Regulations for the Board of Directors establishes that Directors will be appointed by the General Meeting or by the Board of Directors. Proposal for appointment of a director, including for co-option, will be previously reported by the Nominations and Remuneration Committee.

The Board of Directors, within its sphere of actions, will see that candidates elected will be individuals with recognized solvency, competence and experience; and will take all precautions with regard to those called to cover the positions of independent director; all as established in article 22 of the Regulation.

Pursuant to article 23 of the regulations, the Directors will hold the position for the period set in the Articles of Association and may be re-elected upon report of the Nominations and Remunerations Committee. Any Director ending his mandate or who for any other reason ceases to serve in the position cannot provide services in any other entity competing with the company for a period of two years, except with the permission of the Board.

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

In this regard, the Board of Directors of the Corporation in May 2004 approved the Statute regarding Independent Director; establishing strict evaluation criteria and a detailed selection procedure to be used in the appointment of independent directors.

With regard to the removal of Directors, article 24 of the regulations provides that these will cease to act at the end of the period for which they were appointed or when the General Meeting using the attributions granted them by law or statute, so decide. The Board of Directors will not propose the removal of any external directors representing substantial shareholder interest or independent directors before they have completed the statutory period for which they were appointed, except for sufficient cause and after report from the Nominations and Remunerations Committee.

The Nominations and Remuneration Committee is studying, as ordered by the Board of Directors, the possibility of performing a self-evaluation process of the Board of Directors.

**B.1.15. INDIQUE LOS SUPUESTOS EN LOS QUE ESTÁN OBLIGADOS A DIMITIR LOS CONSEJEROS.**

Section second of article 24 of the Regulation of the Board determines that directors will place their position at the disposal of the Board of Directors and will, if this body considers it appropriate, present their formal resignations, under the following situations:

- a) *When they reach the age of 70 years.*
- b) *When involved in any of the situations listed as incompatible or legally forbidden.*
- c) *When found guilty of an illegal act or sanctioned in a disciplinary matter for grave or very grave matter instructed by the supervisory authorities of the stock exchange, energy and telecommunications.*
- d) *When they have seriously infringed their obligations as Directors.*
- e) *When leaving the executive positions which they held upon appointment as Director.*
- f) *When their presence on the board places the interests of the corporation at risk, and the Board has so decided with a vote of two thirds of the members.*
- g) *In the case of a Director representing a majority shareholder, when the shareholder represented by the director releases him from his participation in the Company or reduces it to a level below that which reasonably justified his appointment as Director."*



**B.1.16.** EXPLAIN IF THE FUNCTION OF THE FIRST EXECUTIVE OF THE CORPORATION IS HELD BY THE PRESIDENT OF THE BOARD. IF SO, INDICATE MEASURES TAKEN TO LIMIT THE RISKS OF RESULTING FROM ACCUMULATION OF POWERS IN ONE PERSON:

**YES**     **NO**

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**Measures to limit risk**

Article 25 of the Articles of Association states that the President of the Board is the President of the Company and its governance and administrative bodies, and the person responsible for the Management as well as fully representing the same in all matters. None of the Articles of Association and the current Regulations for the Board of Directors set specific requirements for appointment as President, other than those already given with regard to the Directors.

The President has the power to adopt such emergency measures as he deems appropriate for the interests of the corporation. He will then immediately inform the Board of Directors, as well as regularly inform them in the regular meetings of the management carried out in different corporate areas and businesses of the corporation, requesting as pertinent approvals of the agreements presented as necessary.

Creation of the Auditing and Nominations and Remuneration Committees in 1999, composed completely of members of the Board of Directors specializing in matters within their sphere of action, a specific control is exercised over the basic and strategic responsibilities of the corporation which in no event will be performed exclusively by the president.

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**B.1.17.** ARE ANY REINFORCED MAJORITIES REQUIRED, OTHER THAN THOSE LEGALLY SET, FOR ANY TYPE OF DECISION?:

**YES**     **NO**

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

Indicate how agreements are adopted by the board of directors, stating at least the minimum attendance for a quorum and type of majorities required to adopt agreements.

**Adoption of agreements**

<b>Description of agreement</b>	<b>Quorum</b>	<b>Majority required</b>
Any agreement, except to amend the Regulation of the board.	Half plus one of the members must be present or represented	Simple

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 whole number of directors immediately over half.

The President 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 Articles of Association establishes that each Director may delegate another Director, in writing and especially for each meeting, so that he may be present and vote for him in the meetings of the Board of Directors.

Article 21 of the Articles of Association and article 20 of the Regulations for the Board of Directors establish that agreements will be adopted by a majority of votes, except for matters where by Law the agreements must be adopted by a superior majority.

As such, there will be no cases of resolutions adopted by a reinforced majority contrary to the number established in applicable law and in the case of any amendment to the before mentioned Regulation for the board of directors.

**B.1.18.** STATE IF THERE ARE ANY SPECIFIC REQUIREMENTS OTHER THAN THOSE RELATING TO DIRECTORS, TO BE APPOINTED AS PRESIDENT.

YES  NO

**Description of the requirements**

-

**B.1.19.** INDICATE IF THE PRESIDENT HAS THE DECIDING VOTE

YES  NO

**Matters subject to deciding vote**

Independently of the matters referring to voting, articles 21 of the Statutes and 20 of the Regulations for the Board of Directors expressly provide that, in case of a tie vote, the President will have the final and deciding vote.

**B.1.20.** INDICATE IF THE STATUTES OR REGULATIONS FOR THE BOARD OF DIRECTORS ESTABLISH ANY AGE LIMIT FOR DIRECTORS

YES  NO

**Age limit - president**

**Age limit delegate director**

**Age limit director**

-

-

70

Article 23 of the Regulations for the Board 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 president, other than that relating to all Directors.

**B.1.21.** INDICATE IF THE STATUTES OR REGULATION OF THE BOARD ESTABLISHES A LIMITED MANDATE FOR INDEPENDENT DIRECTORS

YES  NO

**Maximum number of years of mandate**

-

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

The Board of Directors will not propose the admission of external Directors prior to the conclusion of the period for which they were appointed, except for sufficient case and after the report of the Nominations and Remuneration Committee.

**B.1.22.** INDICATE THE EXISTENCE OF ANY FORMAL PROCESSES TO DELEGATE VOTES TO THE BOARD OF DIRECTORS. IF EXISTING, GIVE A BRIEF DESCRIPTION.

Article 21 of the Articles of Association establishes that each director may delegate another director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors.

Article 30 of the Regulation of the Board establishes that in the event the Director cannot attend the meetings called, for justified cause, then he will instruct the Director representing him, so that he is 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 PRESIDENT:

<b>Number of meetings of the board</b>	<b>13</b>
<b>Number of meetings of the board without the president</b>	<b>0</b>

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

<b>Number of meetings of the executive or delegate committee</b>	<b>-</b>
<b>No. of meetings of the Audit Committee</b>	<b>9</b>
<b>No. of meetings of the Nominations and Remuneration Committee</b>	<b>10</b>
<b>No. of meetings of the Strategy and Investments Committee</b>	<b>-</b>
<b>No. of meetings of the committee</b>	<b>-</b>

**B. 1.24.** INDICATE IF THE INDIVIDUAL AND CONSOLIDATED ANNUAL FINANCIAL STATEMENTS PRESENTED FOR APPROVAL OF THE BOARD WERE PREVIOUSLY CERTIFIED:

YES  NO

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

<b>Tax ID</b>	<b>Name</b>	<b>Title</b>
-	-	-

**B.1.25.** EXPLAIN, IF EXISTING, MECHANISMS ESTABLISHED BY THE BOARD OF DIRECTORS TO PREVENT THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FORMULATED BY THEM FROM BEING PRESENTED IN THE GENERAL MEETING WITH RESERVATIONS IN THE AUDIT REPORT. .

The Regulation of the Board establishes that the Board of Directors will prepare the final financial statements, seeing that there are no reservations by the auditor. Nevertheless when the Board considers that it must maintain its criteria, then it will publicly state the contents and scope of the discrepancy.

The Audit Committee will supervise the process of preparing the economic-financial information to be sent to the Market oversight bodies, reinforcing the absence of reservations in the annual audit reports.

The corporation, since its constitution, has not been subjected to reservations in the audits of its Annual Statements, demonstrating the maximum correction, dependability and sufficiency of the annual Financial Statements of the corporation and its Group throughout its life, guaranteeing at all times the maximum transparency of its information.

**B.1.26. LIST THE MEASURES ADOPTED TO ENSURE THE EQUAL AND SYMMETRICAL TRANSMISSION OF INFORMATION REPORTED TO THE STOCK MARKETS.**

Information relevant to investors affecting the Corporation transmits a faithful image of same in both quantity and quality, is correct and broadcast equally, symmetrically and in useful time to the markets.

The Corporation regular reports relevant information to the markets through the Spanish Securities Committee (CNMV in its Spanish acronym) as soon as it is known, regarding the adoption of a corresponding decision or signature of the agreement or contract at hand. Relevant legal and economic-financial information, as well as strategic information, is generally reported when the markets are closed to prevent the possible production of oscillations in share prices.

Since the Company was first listed in the Exchange in 1999, RED ELÉCTRICA has broadcast 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 webpage of the corporation and various print publications.

Contents of an economic and financial nature are incorporated into the web page, after they have been reported to the CNMV when said notification is required. Said information is permanently updated in order to satisfy the needs of the markets for timely information, beyond mere compliance with legal obligations established.

Principal economic-financial and corporate contents that may be consulted in the webpage of the corporation are as follows:

- *General information*:: Organization, shareholders, Board of Directors, business activities and business strategy.
- *Economic Information*: Principal Figures, Annual Financial Statements, Management Report, Consolidated Financial Statements, Consolidated Management Report, Consolidated Annual Report and Projected Earnings.
- *Shareholders and investors*: Shareholder today, Relevant Facts and other communications to the CNMV, stock exchange information in real time, dividends, emissions, *rating*, shareholders, Annual Report, shareholders bulletin, presentations to investors, Board of Directors, Audit Committee, Nominations and Remuneration Committee, Corporate Governance Report, Articles of Association, Regulation of the Board of Directors, Independent Director Statute, Internal Rules of Conduct in the Stock Exchange, Notifications of the last General Meetings of Shareholders, Agenda and documentation relating to the development of the General Meetings of Shareholders, communications channels between the Corporation and shareholders and Shareholders Office.

Efforts of the company to respond to expectations of its shareholders and investors in the area of informative transparency, beyond requirements established by law, has led to the public recognition of the markets, institutions and specialists of the sector; represented by AECA, which in 2002 distinguished the company with the "Award for the Company with Best Financial Information on the Internet", revalidated with the corresponding "Honourable Mention" in 2003. It also stands out for its excellent position in studies and classifications recently published by different communications media.

From the perspective of regulation, the Rules of the General Meeting and the Regulations for 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 practices applied by the Corporation as well as information that may be of interest.

Article 2 of the Rules for the Meeting in particular establishes the contents of the Corporate webpage which, incorporate 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 corporation. The Regulation of the Company Board of Directors, for its part dedicates a complete chapter to relations between the Board and its shareholders, markets and auditors (articles 35 to 38, inclusive), for the purpose of facilitating and improving the flow of corporate information in favour of third parties.

Fiscal 2004 stands out especially for the adaptation of the contents of the corporate webpage to the requirements established in Order 3772/2003 dated December 26 of the Ministry of the Economy. Although the greatest part of the contents required by the Order were already available in the Company webpage, the information contained in same has been adapted to the conditions set in said Order.

Adaptations made and published in the webpage during the first quarter of fiscal 2004 consisted of the following:

- (i) Including the quorum constituting and results of the voting of each of the resolutions proposed to the General Meetings held during the past year.
- (ii) Addition of information relating to the right to attend and procedures to confer a representation at the General Meetings as provided in the Articles of Association and the regulation of the General Meeting.
- (iii) Creation of a specific section relating to electronic voting, stating that this is still pending development of regulations for same.
- (iv) Creation of a section relating to emissions in circulation.
- (v) Creation of a section relating to the rating granted by credit qualification bodies.
- (vi) Amplification of information relating to shareholders, with greater detail on significant participations, treasury stock and private agreements.

Pursuant to the terms of article 8 of the Rules of Conduct in the Stock Exchange approved on July 22, 2003, the Corporation must report Relevant Facts and Information to the CNMV as soon as it is known, the decision adopted or agreement or contract with third parties signed, and always prior to broadcast to the market.

The Corporation will make the information public, except when excepted by the CNMV when necessary to protect the legitimate interests of Red Eléctrica, as stated in article 91 of the Stock Exchange law.

Subjects affected by said Rules of Conduct will abstain from providing analysts, shareholders, investors or the press with information whose content is considered as fact or relevant information, unless previously provided to the market in general through the CNMV.

The internal body overseeing the Rules of Conduct of the Stock Exchange will in each case decide the treatment to be given the fact or relevant information in the information media, and will further decide the form of communication of same to market analysts and investors. The Oversight Body will act within the framework of standards established by the Board of Directors and criteria and directives established by the Audit Committee.

Also noteworthy is the approval of a procedure through which the Audit Committee reviews economic-financial information to be sent to the market oversight bodies. This procedure was reported to the Board of Directors, and establishes with regard to quarterly economic-financial information to be provided by the Corporation to the CNMV and the CNE, that once the Board of Directors has been informed of the monthly information corresponding to the last month of the quarter (in its meeting during the month following close of the quarter), that the information to be sent to the oversight bodies will be provided to the members of the Committee for its review, at least 3 days prior to the date in which said information is to be sent.

Information on relevant facts to the CNMV will be sent or reported first to members of the audit Committee, with the greatest period of time possible under the circumstances.

- a) Information to be provided in advance will be sent to members of the committee with sufficient time for its review.
- b) Information that cannot be provided with sufficient time in advance will be communicated to members of the Committee by the most appropriate means according to the situation: telephone, fax, e-mail, etc. Members of the Committee will make the comments they deem appropriate.
- c) In exceptional cases when these are required by the markets in real time, the Audit Committee will be informed simultaneously.

Finally, all economic-financial information in addition to that described above to be sent to said bodies at the initiative of the Company, or required by same, will be reviewed by the Audit Committee following the process of those described above that is most appropriate to the situation.

#### **B.1.27. IS THE SECRETARY OF THE BOARD A DIRECTOR?**

YES     NO

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According to the dispositions of article 11 of the Regulations for the Board of Directors, the Secretary of the Board of Directors, which he will attend as counsellor, does not need to be a Director. The current Secretary of the Board of Directors is Rafael García de Diego Barber, counsellor of the Illustrious Bar Association of Madrid, and who does not hold the position of Director of the Corporation.

Pursuant to articles 26 of the Articles of Association and 11 of the Regulation of the Board, the Secretary, among others, 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 test statutory regularity and compliance of dispositions issued by regulatory bodies, and oversee observance by the Board of Directors and its Committees of the Company's principles or criteria regarding Corporate Governance.

#### **B.1.28. INDICATE ANY MECHANISMS ESTABLISHED BY THE CORPORATION TO PRESERVE THE INDEPENDENCE OF THE AUDITOR, FINANCIAL ANALYSTS, INVESTMENT BANKS AND QUALIFICATION AGENCIES.**

External auditors of the company will be associated with the Board of Directors through the Audit Committee. Pursuant to the terms of article 38 of the Regulations for the Board of Directors, the Board will abstain from hiring auditing firms whose anticipated fees for all concepts are projected to surpass 10% of total income during the last financial year and will publicly report, on a yearly basis, the global fees paid by the company to the auditing firm for services other than for auditing.

The Corporation makes frequent presentations to financial analysts and investment banks. Professionals and the most outstanding specialists in the sector regularly attend these presentations and the most outstanding economic-financial numbers of the Group are reported, as well as those regarding business evolution.

Presentations to analysts are first sent to the Spanish National Stock Exchange Commission so that they are known by the markets through its webpage, and then published in the Corporate webpage. After making the presentations referred to, all participants are offered the opportunity to be included in a list of entities periodically receiving the most outstanding information of the corporation, of interest to same.

Since 1999 the Corporation has also had an "Investors Relations Unit", responsible for acting as a channel of communications with financial professionals as well as attending to the questions of same.

In February 2004, the Corporate Audit Committee, exercising the powers attributed by the Articles of Association and the Regulations for the Board of Directors, approved a procedure to comply with functions assigned to the Audit Committee with regard to external auditors, which among other things attempts to foment the independence and professionalism of the External Auditor:

**B.1.29.** INDICATE IF THE AUDITING FIRM PERFORMS OTHER WORK FOR THE CORPORATION AND/OR ITS GROUP OTHER THAN THE AUDITING; AND IF SO STATE THE AMOUNT OF FEES FOR SAID WORK AND THE PERCENTAGE REPRESENTED BY SAME OF TOTAL FEES BILLED TO THE CORPORATION AND/OR ITS GROUP.

**YES**     **NO**

	<b>Corporation</b>	<b>Group</b>	<b>Total</b>
<b>Amount for work other than auditing (thousands of euros)</b>	50	0	50
<b>Amount for work other than auditing/total amount billed by auditing firm (%)</b>	52.63	0	37.87

**B.1.30.** INDICATE THE NUMBER OF UNINTERRUPTED YEARS THAT THE CURRENT AUDITING FIRM HAS AUDITED ANNUAL ACCOUNTS OF THE CORPORATION AND/OR ITS GROUP. ALSO INDICATE THE PERCENTAGE REPRESENTING THE NUMBER OF YEARS AUDITED BY THE TOTAL NUMBER OF YEARS THAT THE ANNUAL ACCOUNTS HAVE BEEN AUDITED:

	<b>Corporation</b>	<b>Group</b>
<b>Number of uninterrupted years</b>	17 <sup>9</sup>	4
<b>N° of years audited by current auditing firm/No. of years the company has been audited (in %)</b>	85%	100%

<sup>9</sup> This includes the 2004 financial year.

**B.1.31.** INDICATE THE PARTICIPATIONS OF MEMBERS OF THE BOARD OF DIRECTORS OF THE CORPORATION IN ENTITIES WITH THE SAME, ANALOGOUS OR COMPLEMENTARY ACTIVITIES AS THOSE CONSTITUTING THE CORPORATE PURPOSE, BOTH OF THE CORPORATION AS WELL AS ITS GROUP, AND THAT HAVE BEEN REPORTED TO THE CORPORATION. ALSO INDICATE THE POSITIONS OR FUNCTIONS EXERCISED IN THESE CORPORATIONS:

<b>Director Tax ID</b>	<b>Legal name of director</b>	<b>Tax ID of the subject Corp.</b>	<b>Legal name of the direct share owner</b>	<b>% Participation</b>	<b>Position or functions</b>
11.015.316-H	D. Elias Velasco García	A-28005239	Unión Fenosa, S.A.	0.0024	Director- General Director
7.780.529-C	D. José Ignacio Sánchez Galán	A-48010615	Iberdrola, S.A.	0.017	Executive Vice President and Delegate Director
22.674.311-Z	D. José Manuel Serra Peris	A-28023430 A-48010615	Endesa, S.A. Iberdrola, S.A.	0.0002 0.0001	- -

**B.1.32.** INDICATE AND WHEN APPLICABLE LIST IF THERE IS A PROCEDURE ALLOWING DIRECTORS EXTERNAL ADVICE:

YES  NO

**List procedure**

To receive assistance in exercising their functions, article 27 of the Regulation 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 relief and complexity arising in carrying out their responsibilities.

The request to hire will be presented to the President of the Company and may be rejected by the Board of Directors if it accredits:

- a) That it is not necessary for full performance of the functions charged to the external directors;
- b) That the cost for same is not reasonable in view of the importance of the problem and the assets and income of the company;
- c) That 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 Nominations and Remuneration Committee, articles 15.5 and 17.6 respectively of the Regulation of the Board state that the Committees may propose that the board of Directors seek independent professional consultation as well as agree to any type of information or documentation of the corporation necessary to better carry out its functions.

**B.1.33.** INDICATE AND WHEN APPLICABLE LIST IF THERE IS ANY PROCEDURE ALLOWING DIRECTORS TO HAVE THE INFORMATION NECESSARY TO PREPARE THE MEETINGS OF ADMINISTRATIVE BODIES WITH SUFFICIENT TIME:

YES  NO

**Description of procedure**

Article 19.3 of the Regulation of the Board establishes that the Notice of Meeting will be sent at least three (3) days prior to the date of the meeting. The Notice will always include the Agenda of the meeting, and all general relevant information, duly summarized and prepared, will be attached whenever possible.

In practice meetings of the Board of Directors will be called at least six (6) over the date of same, and all relevant information will be sent together with the notice.



Article 26 of the Regulation of the Board further establishes that the Director is invested with the broadest powers to receive information of 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 alien.

In order to not disturb the ordinary management of the company, exercise of rights to information will be channelled through the President of the Board of Directors, who will deal with all requests of the Director; facilitating all information directly, offering the appropriate interlocutor in the correct level of the organization or arbitrating measures to allow him to practice examination and inspection desired in situ.

The President of the Corporation may restrict, as provided in said article 26 of the Regulation of the Board, on an exceptional and temporary basis, access to determined information, informing the Board of Directors of said action during its next meeting.

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**B.1.34.** INDICATE IF THERE IS A GUARANTEE OF RESPONSIBILITY IN FAVOUR OF DIRECTORS OF THE CORPORATION.

**YES**     **NO**

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**B.2. COMMITTEES OF THE BOARD OF DIRECTORS**

**B.2.1.** ENUMERATE ADMINISTRATIVE BODIES:

Article 22 of the Statutes provides that the Board will act as a whole or in committees that may be constituted, either permanently or for a specific matter; with delegated and executive powers or powers to study, advise and propose.

In accordance with the law and the foregoing statute, the Audit Committee and the Nominations and Remuneration Committees will be required. In addition, said article allows the possibility of creating an Executive Committee, organized as described in article 14 of the Regulation of the Board although currently this has not been constituted as the corporation has opted for a system of administration based on a reduced, but active and efficient Board.

Specific internal regulations have not been established for said Committees, but rather a complete regulation based on the Regulations for the Board of Directors chosen.

<b>Name of the body</b>	<b>N° of members</b>
Audit Committee	3

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**Functions**

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Functions of the Committee, regulated in article 23 of the Articles of Association, and performed in article 16 of the Regulation of the board, are minimum:

- I. To report in the General Meeting of Shareholder on any matters presented by shareholders under their jurisdiction.*
- II. To propose to the Board of Directors the appointment of External Auditors of Accounts for submission to the General Meeting of Shareholders.*
- III. To supervise the internal audit services, if existing.*
- IV. To know the financial information and internal control processes of the corporation.*
- V. To remain in contact with the external auditors to receive information on any matters that may place the independence*

of same at risk, and any other matters related to the Accounts Auditing process, as well as the other communications provided in legislation regarding Accounts Audits and technical Audit standards.

VI. Any other jurisdiction attributed by the Board, either generally in its internal Regulation or specifically entrusted.”

Paragraph G of this report includes a summary of the activities of the Audit Committee carried out during fiscal 2004.

<b>Name of the body</b>	<b>N° of members</b>
Nominations and Remuneration Committee	4

#### **Functions**

Basic responsibilities, pursuant to article 24 of the Articles of Association and article 18 of the Regulation of the board, 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 President, the Board and the Upper Management of the Company and its affiliates, considering the results of same and the responsibility, dedication and incompatibilities required of the Directors. It will also know and value the directive policy of the company.
- c) To oversee the transparency of remuneration to the Board and to know the guarantee clauses included in contracts with Upper Management.
- d) To previously report 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 President or by the Board of Directors”.

Paragraph G of this Report includes a summary of the activities carried out by the Nominations and Remuneration Committee in fiscal 2004.

#### **B.2.2. LIST ALL COMMITTEES OF THE BOARD OF DIRECTORS AND ITS MEMBERS**

<b>EXECUTIVE OR DELEGATED COMMITTEE</b>		
<b>Tax ID</b>	<b>Name</b>	<b>Position</b>
-	-	-

<b>AUDIT COMMITTEE</b>		
<b>Tax ID</b>	<b>Name</b>	<b>Position</b>
36.486.924-T	D. Joaquim Clotet i Garriga	President
51.975.956-G	D. Manuel Alves Torres	Member
13.565.025-Q	D. Pedro Rivero Torre	Member

<b>NOMINATIONS AND REMUNERATION COMMITTEE</b>		
<b>Tax ID</b>	<b>Name</b>	<b>Position</b>
16.028.507-Z	D. Antonio Garamendi Lecanda	President
14.932.129-T	D. Luis M <sup>a</sup> Atienza Serna	Member
13.565.025-Q	D. Pedro Rivero Torre	Member
50.016.157-N	D. Juan Gurbindo Gutiérrez	Member

**STRATEGY AND INVESTMENTS COMMITTEE**

<i>Tax ID</i>	<i>Name</i>	<i>Position</i>
-	-	-

**COMISIÓN DE -----**

<i>Tax ID</i>	<i>Name</i>	<i>Position</i>
-	-	-

**B.2.3. DESCRIBE THE RULES OF ORGANIZATION AND FUNCTIONING, AS WELL AS RESPONSIBILITIES ATTRIBUTED TO EACH OF THE BOARD COMMITTEES**

**COMITÉ DE AUDITORÍA**

**Composición y funcionamiento**

Pursuant to Law 44/2002, an Audit Committee was established in November 2003, whose organization, functioning and jurisdictions are listed in article 23 of the Articles of Association and in articles 15 and 16 of the Regulations for the Board.

Prior to 1999 the Corporation had an Audit and Compliance Committee whose jurisdictions and responsibilities were adapted to current legislation and to the most recent practices in the area of Corporate Governance.

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

The President of the Committee is chosen by the members from among the non-executive Directors and the Secretary is the Secretary of the Board of directors. Members of the committee are appointed and removed by the Board of Directors at the proposal of the President of the Board.

The members of the Committee perform their duties for a period of not longer than three years, and may be re-elected and removed at the end of said period upon occurrence of same in their tenure as Directors, or whenever the Board of Directors so resolves, in this last case after notice to the Nominations and Remuneration Committee. The President is substituted every three years and can be re-elected after one year has passed since his removal.

The Committee will meet at least every quarter; whenever called by its President or when requested by two of its members, and whenever the Board or its President requests the issuance of a report. During the 2004 financial year the Audit Committee met on nine (9) occasions.

Notice of meeting, which will include the Agenda, will be sent by the President or Secretary of the Committee to each of its members at least three days prior to the date scheduled for same, except when for reasons of emergency the meeting must be held within a shorter period of time.

The Committee will be constituted with the attendance of the majority of its members and resolutions or recommendations adopted by a majority of votes, all of which will be documented in the minutes at the end of the meeting.

Members of the administrative staff or personnel of the Corporation required by its President will attend meetings of the Committee, collaborating with same and allowing access to information held by them on the matters dealt with.

To best carry out its functions, the Committee may propose to the Board of Directors that it seek the advice of independent professionals and may accede to any type of information or documentation required by the Corporation.

With regard to External Auditors, article 38 of the Rules of the Board states as follows:

1. *Relations between the Board and the external auditors of the company will be channelled through the Audit Committee.*
2. *The Board of Directors will abstain from hiring any auditing firms whose fees for all concepts are anticipated to surpass ten per cent of its total income during the last fiscal period.*
3. *The Board of Directors will publicly report, on an annual basis, the global amount paid by the company as fees to the auditing firm for services other than auditing."*

Jurisdiction of the Audit Committee will include, minimum, the duties listed in the foregoing section B.2.1 of this report and article 16 of the Regulations for the Board, which can be summarized in six major sections. 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 generic functions.

The Audit Committee, formed completely of External Directors, met formally with the external auditor on various occasions throughout 2004, whenever considered convenient for the best performance of its functions, and presenting the questions, clarifications and observations the committee deemed appropriate.

The procedure used to carry out the functions assigned the Audit Committee is important with regard to annual accounts. Since the establishment of the Audit and Compliance Committee in 1999, it has been responsible for reviewing the Company's annual accounts, overseeing compliance with legal requirements and the correct application of generally accepted accounting principles, and reporting any proposals to modify the accounting principles and criteria suggested by the Board.

Upon transformation of that Committee into the Audit Committee in November 2003 with functions and responsibilities established by law and the statutes, said body also received a mandate to approve the accounting principles and criteria used in preparing the Annual Financial Statements of the corporation and its consolidated Group, as well as proving their accuracy, dependability and sufficiency.

The Committee is also responsible for overseeing compliance of the Company's financial documentation with legal accounting standards and in particular with community recommendations and directives regarding accounting of electrical sectors, as may apply.

Especially noteworthy is the adoption of the Audit Committee of a specific procedure wherein the Committee itself supervises periodic and specific financial information sent to market oversight bodies. All the foregoing redounds in a more direct control of the preparation of the Corporation's economic-financial information. Said control, carried out by a professional body integrated of Directors with maximum professional qualifications with regard to the matters under the jurisdiction of said Committee – as seen in the Professional career previously shown in this report – reinforces accounting principles regarding dependability, security, accuracy and sufficiency, as well as transparency of the process of preparing the corporate economic information.

The Audit Committee also approved a procedure to determine the treatment of investments from affiliates forming part of RED ELÉCTRICA Group.

Without prejudice to the foregoing, the Audit Committee throughout 2004 approved the following procedures regarding the matters listed:

Procedure to fulfil the functions assigned to the Audit Committee with regard to External Audits.

Procedure to review financial-economic information sent to the Market oversight bodies.

Fiscal 2004 was also marked by the periodic review of the Plan to Implement International Standards for Financial Information (NIFF) in RED ELÉCTRICA Group, and the knowledge of a 2004 opening balance of said Group.

Section G of this report includes a summary of the Audit Committee activities carried out during 2004.

## **NOMINATIONS AND REMUNERATION COMMITTEE**

Following the recommendations of different national and international reports on Corporate Governance and especially those of the Report of the Special Committee to Foment Transparency and Security of Markets and Listed Companies (the Aldama Report), a Nominations and Remuneration Committee was constituted on November 18, 2003. However this committee has performed the functions of the Remunerations Committee since 1999.

Organization, functioning and jurisdiction of said Committee is regulated in article 24 of the Articles of Association and articles 17 and 18 of the Rules of the Board.

### **Composition and functioning**

Article 17 of said Rules provide that the Committee will be formed of members of the Board of Directors, with a minimum of three and maximum five, with the majority External Directors and the participation of independent Directors, reasonably reflecting the composition of the Board.

The President of the Committee is elected by members of the committee and the Committee Secretary is the Secretary of the Board of Directors. Members of the Committee are appointed and dismissed by the Board of Directors at the proposal of the President of the Board.

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

The Committee will consider suggestions to be provided to the President, members of the Board, directors or shareholders of the corporation on matters that affect the appointment of Directors, appointment of Delegate or Executive Directors and compliance with principles of Corporate Governance, the Statutes and Regulations for the Board of Directors.

The Committee meets as often as necessary to carry out its functions and at least every quarter; when called by its President or requested by two of its members, and whenever the Board of Directors or its President requests the issuance of a report or adoption of proposals. During the 2004 financial year the Committee met on ten (10) occasions.

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

The Committee will be validly constituted with the attendance of the majority of its members. Decisions or recommendations will be adopted by a majority of votes, all of which will be documented in the minutes at the conclusion

of the meeting. To better carry out its duties, the Committee may recur to advice from independent professionals and have access to any type of corporate information or documentation required by them to perform their functions.

A summary of the activities of the Nominations and Remunerations Committee carried out in the 2004 financial year is included in Section G of this Report.

**B.2.4. INDICATE, IF APPLICABLE, ADVISORY AND CONSULTATION POWERS AND, IF APPLICABLE DELEGATIONS HELD BY EACH OF THE COMMITTEES:**

<b>Committee name</b>
<b>Audit</b>

**Brief description**

Without prejudice to minimum legal and statutory jurisdictions established in section B.2.1, the Committee supports the Board in performing its oversight functions such as supervising the preparation of economic-financial information and internal controls of the corporation, and the independence of the external auditor.

Article 16 of the Regulations for the Board attributes to the Audit Committee the following jurisdictions to exercise the qualifications set in article 23.3 section (vi) of the statutes:

**With regard to financial-economic information:**

- a) To approve the accounting principles and criteria to be used in preparing the Annual Financial Statements of the corporation and its consolidated group, and to test their accuracy, dependability and sufficiency.
- b) To oversee compliance of the company's financial documentation with accounting standards and in particular, directives regarding communication and recommendations on accounting by electrical companies as may apply.
- c) To know the company's financial information process.
- d) To review the financial-economic information to be sent to the market oversight bodies.

**With regard to internal control systems:**

- a) To approve internal control procedures of the Company in the areas of investment and expenses, introducing, as applicable, timely modifications.
- b) To supervise internal audit services in response to information required by the Audit Committee in exercising its functions.
- c) To review the nomination and substitution of those responsible for internal control.
- d) To monitor internal control systems and other additional plans placed in practice, in which efforts it may delegate to its President the performance of preparatory tasks. In this regard, those responsible for internal control will inform the Committee of any irregularities or failures to comply which may cause a significant impact or harm to the Corporation or its group.

**With regard to external auditors:**

- a) To make proposals to the Board of Directors regarding appointment of External Auditors for submission to the General Meeting of Shareholders, assuring that the same audit firm is hired for all companies of the group, and the conditions of the audit contract, the scope of its professional mandate and any extension or dismissal.
- b) To establish procedures that assure the independence and professionalism of the External Auditors and receive information on matters that may place same at risk.
- c) To receive any relevant information related to the auditing process, on those matters that may place the auditor's independence at risk, as well as any other information provided in accounting standards.

- d) To serve as a channel for communications between the Board and the External Auditor; to evaluate the results of each audit and responses from the management team and its recommendations, mediating between the two in the event of any discrepancies with regard to the principles and criteria applicable in preparing the financial statements.
- e) To supervise compliance with the audit contract, seeing that the principal contents of the audit report are drafted clearly and precisely.
- f) To know of any relevant situations detected by the External Auditor; in the same form that it receives the information from the internal control systems, which may negatively affect the assets, results or image of the group.
- g) To periodically request from the External Auditor, at least once per year, an evaluation of the quality of the internal control procedures of the Group.

**With regard to compliance with legal provisions and internal norms:**

- a) To supervise compliance with the Stock Exchange Code of Conduct and general rules of governance, formulating proposals for improvement to the board of directors, receiving information in this respect and, as applicable, issuing reports on measures to be applied.
- b) To review compliance of actions and measures taken as a result of the reports or inspections by CNMV supervision and control authorities.

**With regard to the shareholders of the Corporation:**

- a) To know and, as applicable, respond to the initiatives, suggestions or complaints presented by shareholders with regard to the sphere of the functions of this Committee.
- b) To report as applicable, during the General Meeting, on any matters presented by shareholders on matters under its jurisdiction.

**Other:**

- a) To keep the Board of Directors duly informed of the activities carried out by it and to prepare an annual report which will include the management report and an action plan for each financial year.
- b) To inform the Board of any unusual investment operations when the Board so requests.
- c) To propose and report on any other matter related to the foregoing when requested by the President or by the Board of Directors.
- d) Any other jurisdiction attributed by the Board.

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**Committee name**

Nominations and Remuneration

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**Brief description**

In accordance with the provisions of article 24.6 of the Articles of Association, article 18 of the Regulations for the Board establishes that the Nominations and Remunerations Committee has the following basic responsibilities, in carrying out the duties attributed to it in the statutes:

**With regard to appointments, dismissals and re-elections:**

- a) To report, prior to their acceptance, on all proposals made by the Board of Directors to the General Meeting and regarding the appointment or dismissal of Directors, including in cases of co-option.
- b) To propose to the Board of Directors a system for selecting independent Directors.

**With regard to remunerations:**

- a) To periodically propose and review criteria and schemes for remunerations to be paid to (i) the president, (ii) the board and (iii) the Senior Management of the company and its affiliates, taking into account the results of same and the responsibility, dedication and incompatibilities required of the Directors. It will also know and assess the policy of

Company directors, and exercise control of Senior Management and evaluation activities.

- b) To propose to the Board of Directors the system and amount of annual remuneration to be paid to the Directors.
- c) To oversee the transparency of remunerations to Directors.
- d) To approve, prior to signature, any contract containing guarantee or protection clauses for dismissals or change of control in favour of members of the Senior Management of the corporation or companies of its group, and to report to the Board on same.
- e) To prepare an annual report regarding remunerations to be paid to the directors, to be approved by the Board of Directors and included in its annual reporting documents.

**With regard to compliance with duties of the directors:**

- a) To see that the Directors fulfil the obligations established in this Regulation, inform the Board of said compliance, issue the corresponding reports and proposals, and if applicable, measures to be adopted in case of failure to comply.
- b) To authorize the Directors to use corporate assets.

**Other functions:**

- a) To keep the Board informed of its activities and to prepare an annual report to be included in the management report and an action plan for each period.
- b) To make proposals and report on any other matter related to the foregoing which is requested by the President or by the Board of Directors.
- c) Any other matter attributed it by the Board.

**B.2.5. INDICATE, IF APPLICABLE, THE EXISTENCE OF REGULATIONS FOR THE BOARD COMMITTEES, THE PLACE WHERE THEY CAN BE CONSULTED, AND ANY MODIFICATIONS MADE DURING THE PERIOD. ALSO INDICATE IF ANY ANNUAL REPORT HAS BEEN VOLUNTARILY PREPARED ON THE ACTIVITIES OF EACH COMMITTEE.**

No specific internal rules have been established for said Committees, having opted for a complete regulation as described in the Regulations for the Board of Directors. Said Rules can be consulted on the corporate web page [www.ree.es](http://www.ree.es), in the section on shareholders and Investors, Corporate governance.

During the 2004 financial year no modification was made to said Rules, which were approved by the Board of Directors in its meeting of November 18, 2003.

Without prejudice to the foregoing, Audit Committee approval is required for the procedures described as follows:

- Procedures to fulfil the functions assigned to the Audit Committee with regard to External Auditors.
- Audit Committee procedures to review economic-financial information sent to Market Oversight Bodies.

In addition and with regard to the procedures approved by the Audit Committee, please note that since 2003 the Corporation has also had a specific procedure to determine investments purportedly to be made by affiliates whose significant volume and/or strategic nature require them to be submitted for prior approval of the Board of Directors of the Corporation.

An annual report was voluntarily prepared regarding the activities of the Audit Committee as well as the Nominations and Remuneration Committee, a summary of which is attached to this report in section G.



**B.2.6.** IN THE EVENT THERE IS AN EXECUTIVE COMMITTEE, EXPLAIN THE DEGREE OF ITS DELEGATION AND AUTONOMY IN EXERCISING ITS FUNCTIONS, IN ADOPTING RESOLUTIONS REGARDING COMPANY MANAGEMENT AND ADMINISTRATION.

As stated before in section B.2.1, article 22 of the Articles of Association allows the possibility of creating an Executive Committee whose organization is governed by article 14 of the Regulations for the Board. Currently no such committee has been constituted, as the Corporation has opted for a system of management based on a reduced, active and efficient Board of Directors.

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 PARTICIPATION OF DIFFERENT DIRECTORS ON THE BOARD, BASED ON THEIR CATEGORY:

YES     NO

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**If no, explain the composition of the executive committee**

Currently there is no Executive Committee, as the company has opted for a reduce, active and efficient Board of Directors, although said Committee is expressly allowed in article 22 of the Articles of Association as well as article 14 of the Regulations for the Board.

**B.2.8.** IN THE EVENT THERE IS A NOMINATIONS COMMITTEE, INDICATE IF ALL MEMBERS ARE EXTERNAL DIRECTORS:

YES     NO

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## Related Operations

### C.1. LIST RELEVANT OPERATIONS INVOLVING THE TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE CORPORATION OR ENTITIES OF ITS GROUP, AND SIGNIFICANT SHAREHOLDERS OF THE CORPORATION:

<i>Tax ID of significant shareholder</i>	-
<i>Name or significant shareholder</i>	-
<i>Tax ID of the corporation or entity of the group</i>	-
<i>Name or the entity of the group</i>	-
<i>Nature of the relationship</i>	-
<i>Type of operation</i>	<b>None</b>
<i>Amount (thousands of euros)</i>	-

### C.2. LIST RELEVANT OPERATIONS INVOLVING A TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE CORPORATION OR ENTITIES OF ITS GROUP, AND ADMINISTRATORS OR DIRECTORS OF THE CORPORATION:

<i>Tax ID of significant shareholder</i>	-
<i>Name or significant shareholder</i>	-
<i>Tax ID of the corporation or entity of the group</i>	-
<i>Name or the entity of the group</i>	-
<i>Nature of the relationship</i>	-
<i>Type of operation</i>	There are no operations with administrators or directors of the corporation that can be considered relevant. The December 31, 2004 balance included no credits or advance payments, nor guarantees constituted by the corporations of the group in favour of members of the Board of directors of the corporation. At said date there were no pension obligations undertaken with regard to members of the Board of Directors of the Corporation.
<i>Amount (thousands of euros)</i>	-

### C.3. LIST RELEVANT OPERATIONS OCCURRING BETWEEN THE CORPORATION AND OTHER CORPORATIONS BELONGING TO THE SAME GROUP, IF AND WHEN THESE ARE NOT ELIMINATED IN THE PROCESS OF PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS AND DO NOT FORM PART OF THE TRAFFIC OF THE CORPORATION IN TERMS OF ITS PURPOSE AND CONDITIONS:

<i>Tax ID</i>	<i>Name of the group entity</i>	<i>Amount (thousand euros)</i>	<i>Brief description of the operation</i>
	Red Eléctrica del Sur (REDESUR)	380	Operations that are not relevant, developed as part of customary traffic between companies and included for merely informative purposes
A-83214775	Red de Alta Tensión (REDALTA)	1.971	Partial 25% subrogation of a participatory loan signed by REDALTA with its majority shareholder, Grid Industries, S.A. Said amount corresponding to interest accrued for said loan in favour of the corporation.
A-83149112	Infraestructuras de Alta Tensión, S.A. (INALTA)	35.197	Operations relating to engineering and construction work provided by the corporation to INALTA.

**C.4. IDENTIFY, IF APPLICABLE, ANY CONFLICTS OF INTEREST BETWEEN DIRECTORS OF THE CORPORATION, AS DESCRIBED IN ARTICLE 127 TER OF THE LSA.**

There were no conflicts of interest in 2004 between Directors and the Corporation based on the provisions of article 127 ter LSA and article 31 of the Regulations for the Board.

**C.5. LIST THE MECHANISMS ESTABLISHED TO DETECT, DETERMINE AND RESOLVE POSSIBLE CONFLICTS OF INTEREST BETWEEN THE CORPORATION AND/OR ITS GROUP, AND ITS DIRECTORS, ADMINISTRATORS AND SIGNIFICANT SHAREHOLDERS.**

With regard to Directors and Senior Management of the Corporation, article 31.3 of the Regulations for the Board establishes that the Director will abstain from attending and intervening in deliberations affecting matters in which he has a personal interest, either direct or indirect. Said obligation is equally applicable to members of the Senior Management of the Corporation, as stated in the article of said Rules. A personal interest will also be considered to exist when the matter affects a person associated to the director or to a corporation with which he has a work or professional relationship, or in which he holds a management position or significant shareholding.

For the effects established in the foregoing paragraph, the following will be considered as people associated to the individual Director:

- (i) Director's spouse or person holding an analogous relationship of affection;
- (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) Corporations in which the director, either personally or through an intervening party, is associated through any of the situations contemplated in article 4 of Law 24/1988 regarding the Stock Exchange.

With regard to a Director who is a corporation, the following individuals will be considered associated:

- (i) Partners of the Director that is a legal entity, who are involved in any of the situations contemplated in article 4 of Law 24/1988 dated July 28 regarding the Stock Exchange.
- (ii) Administrators, by right or in fact, liquidators and powers of attorney with general powers of the Director entity.
- (iii) Corporations forming part of the same group, as defined in article 4 of Law 24/1988 dated July 28 regarding the Stock Exchange, and their partners.
- (iv) Individuals who are considered associated with 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 corporation. In case of conflict, the director affected will abstain from intervening in the operation regarding said conflict.

Article 2 of the Rules of Conduct in the Stock Exchange on the other hand includes within its sphere subject to application, members of the Board of Directors and all those who regularly attend same as well as General Managers.

Pursuant to article 10 of the Rules of Conduct in the Stock Exchange, 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 associations or family relationships, personal patrimony 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 Rules 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 this Regulation.

The Oversight Body will have all powers necessary to carry out the functions entrusted it by the Rules of Conduct, and will periodically report to the Audit Committee on compliance with said regulation and any incidents which may occur; as applicable. The Audit Committee will be responsible for the custody and supervision of the actions of the Oversight Body and internal resolution of conflicts that may be presented by the Actors, 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 Rules of Conduct and adopt, as appropriate, timely 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 managers of the corporation, the Rules of Conduct in the Stock Exchange establishes in its article 2.2c) the possibility of the Oversight Body determining for each case, personnel who are permanently subject to the Regulation and as such subject to possible conflicts of interest. Article 2.2.f) of said regulation provides that, when circumstances so require, the Oversight Body may decide to include within the sphere of application of said Regulation, on a temporary basis, personnel participating in a special operation who may have information of a transcendent economic nature. The parties affected will be informed of both their inclusion as well as exclusion, in writing.

In the same way and with regard to significant shareholders, according to the provisions of article 31.3 of the Regulations for the Board, nominee directors must reveal to the Board any conflict of interest between the corporation and the shareholder proposing the director's nomination, when said conflict affects matters presented to the Board. Furthermore said director must abstain from participating in the adoption of any of the corresponding resolutions.

As such in accordance with the applicable provisions of article 33 of the Regulations for the Board, the Board of Directors formally reserves for itself knowledge of any relevant transaction of the company with a significant shareholder. In no case will the transaction be authorized if no report has been previously issued by the Nominations and Remuneration Committee, evaluating the operation 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 abstain from voting and will determine the typical content of the information provided through the company web page.



# D Risk Control Systems

## D.1. GENERAL DESCRIPTION OF THE RISK POLICY OF THE CORPORATION AND/OR ITS GROUP, LISTING AND EVALUATING THE RISKS COVERED BY THE SYSTEM, TOGETHER WITH THE JUSTIFICATION OF THE ADAPTATION OF SAID SYSTEMS TO THE PROFILE OF EACH RISK.

During 2004, the corporation continued working to improve its risk control system, including approval of the Group Risk Policy.

The purpose of the Risk Policy is to establish principles and directives to assure the identification, analysis, evaluation, management and control of relevant risks which may affect the objectives and activities of RED ELÉCTRICA Group, and further that these processes are carried out systematically and with uniform criteria.

Risks relevant to RED ELÉCTRICA Group are those that may significantly affect the business objectives, whose purpose is to generate sustained value over time, or the fundamental functions entrusted to it in Spain in other countries, so that the corporation can provide an essential supply of electrical energy.

Principal directives contained this policy can be summarized as:

- Risk management must be fundamentally anticipative, directed also at medium and long term and take into account possible scenarios in a constantly more globalized environment.
- Risk management will generally be carried out with criteria regarding coherence between the importance of the risk (probability/impact) and investment and means necessary to reduce same.
- 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 base value of the group, and not from obtaining other extraordinary benefits.

The most important risks to which the Group is subject, and comprising the risk control system, are: a) **Regulatory**, as the principal business activities of the Group are subject to regulation; b) **Operational**, basically deriving from activities assigned in the electrical system; c) **Market**, due to the fact that the majority of its income, as well as determined expenses, may be influenced by the evolution of variables such as inflation or interest rates; d) **Business and Credit** (or offset), especially in telecommunications activities and e) **Environmental**, from the growing demand by society with regard to care and protection of the natural environment.

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

## D.2. INDICATE CONTROL SYSTEMS ESTABLISHED TO EVALUATE, MITIGATE OR REDUCE THE PRINCIPAL RISKS TO THE CORPORATION AND ITS GROUP.

### Risk control system

The risk control system is based on the following:

#### a) Risk identification, analysis and evaluation

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

The analysis takes into account the probability of an occurrence (through critical factors with an influence over the occurrence or no of the risk, weighing the risk, the situation of RED ELÉCTRICA with respect to each critical factor and the assignment of a global assessment of the different factors) as an impact in case of occurrence (based on the effect on results, social impact or image).

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

#### b) Risk reduction and mitigation activities

Once the risk has been assessed the evaluation is compared with the situation considered possible 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 of occurring, or both.

#### c) Monitoring of the action plan

Established actions are periodically verified, as well as the evolution of the corresponding indicators.

#### d) Review of the risk situation

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

#### e) Information

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

In 2004 a General Procedure to improve the system described was designed and approved, in accordance with the conceptual framework of the COSO II report. This procedure, currently in the implementation process, incorporates a series of improvements, including:

- Incorporation of strategic objectives for the risk identification process.
- Integration of relevant projects in the risk system.
- Use of specific computer tools in system management.

### Processes

The Company is constantly designing and implementing processes to mitigate or reduce risks relating to same, subjecting them to a continuous improvement and verification system.

One example of this are the processes of the Company and Transportadora de Electricidad de Bolivia, S.A. (TDE), integrated into systems in accordance with international standards and which require a systematic audit of their adaptation of their design and effective implantation and compliance: environmental management process (which system has had ISO 14,000 certification since 1999), prevention of work risk (which system has had OHSAS 18001 certification since 2002), technical processes for Electrical System Transport and Operation (which system has had ISO 9001 certification since 1999), or financial and supply process with limits established according to type of operation, amount and duration, list of authorized counterparts, etc.

During 2004 Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica del Sur, S.A. (REDESUR) redesigned their processes, integrating them in accordance with the international standards cited.

### Projects

All proposals for significant projects, both from the economic as well as the strategic point of view, include the corresponding risk analysis, allowing decisions to be made on same. These decisions are made by the corporate body responsible for the limits established, with more important projects requiring the approval of the Board of Directors.



**D.3. IN THE EVENT THAT ANY OF THE OCCURRENCE OF RISKS AFFECTING THE CORPORATION AND/OR ITS GROUP, INDICATE THE CIRCUMSTANCES CAUSING SAME AND IF THE CONTROL SYSTEMS ESTABLISHED WORKED.**

Relevant risks to which the group is subject in performing its activities, which were described in the foregoing section D.1, are evaluated, controlled and subject to actions in order to eliminate or mitigate the risks stated; and the established control system functioning adequately during 2004.

**D.4. INDICATE IF THERE IS ANY COMMITTEE OR OTHER CORPORATE BODY IN CHARGE OF ESTABLISHING AND SUPERVISING CONTROL DEVICES AND LIST THEIR FUNCTIONS.**

The Board of Directors governs and administrates the group, and is responsible for establishing the control environment and risk profile of the Corporation and other corporations in which it has a share interest.

In this sense, article 5.6 b) of the Regulations for the Board establishes that identifying principal risks to the Corporation and its Group is the direct responsibility of the Board, together with knowledge of its internal control, prevention and information systems.

The Steering Committee, formed of managers from the most relevant and strategic areas of the Corporation, is the body in charge of establishing and monitoring risk control devices. Its functions are:

- To maximize the implementation of the Integral Risk Management Policy.
- To propose the risk profile of the group to the Board of Directors by incorporating it into the Strategic Plan.
- To analyze monitoring of the risk situation, agreeing to timely means of action.

The function of risk control is centralized in an organizational unit entitled the Technical Secretariat, which depends directly on the president.

**D.5. IDENTIFY AND DESCRIBE PROCESSES TO COMPLY WITH THE DIFFERENT REGULATIONS AFFECTING YOUR CORPORATION AND/OR ITS GROUP.**

As indicated in section D.2 above, RED ELÉCTRICA Group structures its processes in accordance with internal norms and procedures, using international standards as a frame of reference.

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

Internal standards and procedures referring to the design and adaptation to existing regulation and correct compliance, are systematically reviewed by the Internal Audit and Compliance services. This unit depends directly on the President, and at a second level said procedures are supervised by the Audit Committee.

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



# E General Meeting

## E.1. ENUMERATE THE QUORUM REQUIRED BY THE STATUTES TO CONSTITUTE THE GENERAL MEETING. DESCRIBE ANY DIFFERENCES FROM THE REGIMEN OF MINIMUMS SET IN LAW OF CORPORATIONS (LSA)

Article 14 of the Articles of Association establishes that the General Meeting will be validly constituted on the first call when shareholders present either personally or through representation possess at least twenty five per cent of paid in capital with the right to vote.

Article 11 of the Meeting Rules establishes that the General Meeting of Shareholders will be validly constituted on the first call when shareholders present either personally or through representation possess at least twenty five per cent of paid in capital with the right to vote.

The General Meeting will be validly constituted on a second call with all capital appearing at same.

For the General Ordinary or Extraordinary Meeting to validly resolve to increase or reduce capital, transform, merge or split from the Company, and in general any modification to the Articles of Association, then at least fifty per cent (50%) of paid in capital with the right to vote must be present, either personally or through representation. On a second call the appearance of twenty five per cent (25%) of said capital will be sufficient.

The resolutions referred to in the foregoing paragraph can be validly adopted only with the appearance of shareholders representing at least fifty per cent (50%) of paid in and 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 calculated at any meeting, nor any owners who are not current in the payment of capital calls.

Shareholders with the right to attend and vote who cast their votes from a distance under the procedure set in article 15.8 of the Rules for the Meeting, will be considered as present for the purpose of constituting the General Meeting.

As a result, the Articles of Association and Rules for the General Meeting of Shareholders do not contemplate any differences with regard to the regimen established in articles 102 and 103 of the Law of Corporations.

## E.2. EXPLAIN THE PROCEDURE FOR ADOPTING CORPORATE RESOLUTIONS. DESCRIBE ANY DIFFERENCE FROM THE REGIMEN SET IN THE LSA.

The Articles of Association -article 17- and the Rules for the General Meeting of Shareholders - article 15.9-, do not contemplate any differences with regard to the regimen established in current legislation, as they 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 Articles of Association and articles 6 to 10 of the Rules for the Meeting.

The Articles of Association refer expressly to the right to information and to attend the Meetings.

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

#### **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 interests of the corporation, whenever these refer to matters found under the jurisdiction of the Meeting.

Shareholders may also formulate proposals regarding matters included in the Agenda, as well as make suggestions regarding activities and interests of the Corporation which, in its judgment, should be discussed during the General Meeting. In both cases, shareholders may make these proposals and suggestions through the Shareholder Attention Office.

#### **Right to information**

The Corporation is especially interested in the shareholders' right to information, as reflected in article 15 of the Articles of Association and article 8 of the Rules for the Meeting. Thus article 8 of the Rules for the Meeting establishes an obligation to place at the disposal of shareholders, free of charge, both through the Shareholder Attention office as well as on the corporate web page, 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 Corporation, 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) Corporate Report (now entitled the Corporate 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 pertinent documentation, reports or clarifications regarding matters included in the Agenda, as well as information, clarifications or questions regarding information provided by the Corporation to the Spanish National Stock Exchange Commission since the date of the last General Meeting.

The Shareholder Attention 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 Rules for 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 Articles of Association and article 9 of the Meeting Regulations establish that shareholders who are current in payments of capital calls and accredit their share ownership through certification of their name in the corporate books at least five days prior to the Meeting have the right to attend.

Board members and directors of the Company will attend the General meetings. In order to promote the widest publication of the development of the meetings and the resolutions adopted, the communications media will be given access to the General Meeting and allowed to record in audiovisual format.

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

To this effect, article 15 of the Articles of Association and article 10 of the Meeting Regulations provide that shareholders with the right to attend – which all shareholders enjoy as indicated further; 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 Law of Corporations. Said representation must be conferred in writing and specifically for each Meeting.

Except for cases of public representation which are subject to current legal provisions, no person can accumulate votes in representation that together with his votes give him a voting rights to over 3% of the corporate capital. As stated previously in this Report (section A.10), Law 53/2002 dated December 30 regarding Fiscal, Administrative and Corporate Measures modified article 34 of Law 54/1997 dated November 27 for the Electrical Sector; establishing a limit of 3% of ownership of corporate capital, not including the special regimen for the State Ownership of Industrial Shares (SEPI).

Said Law established that the voting rights corresponding to shares exceeding the legally established maximum percentages would be held in abeyance until the adjustment of the amount of capital participation or voting rights.

As such, in accordance with article 15 of the Articles of Association and article 10 of the Meeting Regulations, except in cases where requested by public representation, the legal rules currently in effect will apply in each case, and no individual can accumulate representations that together with his own votes would give rights to vote over 3% of the corporate capital.

Section G) of this Report presents a summary of changes in recent legislative approved in this regard.

#### **E.4. INDICATE, IF APPLICABLE, MEASURES ADOPTED TO FOMENT THE PARTICIPATION OF SHAREHOLDERS IN THE GENERAL MEETINGS.**

In line with best Corporate Governance practices, the corporation considers that new forms of shareholder protection and participation must be developed to recognize their rights in the corporation, to the extent possible.

As such the Rules for the Meeting dedicates special attention to the right to participate described in article 7, and which was explained in detail in section E.3 of this report.

**E.5. INDICATE IF THE POSITION OF PRESIDENT OF THE GENERAL MEETING COINCIDES WITH PRESIDENT OF THE BOARD OF DIRECTORS. IF SO, LIST THE MEASURES ADOPTED TO GUARANTEE THE INDEPENDENCE AND GOOD FUNCTIONING OF THE GENERAL MEETING:**

**YES**     **NO**

**List of measures**

As indicated in article 12 of the Regulation of the General Meeting of Shareholders, the General Meeting will be presided by the President of the Board of Directors, and in his absence by the Vice President 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 of the Board of Directors or his Vice Secretary will act as Secretary of the Meeting. In the absence of both of said parties, then the Director or Shareholder freely chosen by the shareholders attending each Meeting will act as Secretary of same.

The President will direct the meeting, establishing the order of deliberations and interventions; he will decide the form of the votes made on resolutions; resolve any questions, clarifications or complaints arising with regard to the Agenda, the list of attendees, share ownership, delegations or representations, requirements for valid constitution of the meeting and adoption of resolutions by the meeting, or the statutory limit to voting rights; he will give the floor to shareholders requesting same, removing same or not granting and ending debates when he deems the matters object of same to have been sufficiently discussed.

With regard to measures adopted by the corporation to guarantee the independence and good functioning of the General Meeting, article 5 of the Meeting Rules establishes that the General Meeting, both ordinary and extraordinary, will be called by publication in the Board of Directors in the Official Gazette of the Companies' Register and one of the newspapers with widest circulation in Madrid, at least fifteen days prior to the date scheduled for the Meeting, except when greater notice is required by Law and without prejudice to providing more notice than that required by law and the Articles of Association, as is customary practice of the Company, to facilitate as much as possible shareholders' ability to plan their participation.

The date of the meeting and matters listed on the agenda will be included in the publication, as well as the date of the meeting on second call, which will be minimum twenty four hours after the first date. When the second call is not included and the General Meeting cannot be held, then the second notice will be published in the same way as the first notice within a period of fifteen days from the date of the first meeting which was not held, and at least eight days prior to the holding of the second meeting. The board will state in the publication the probable date of holding the meeting on first or second call.

Meetings will be held in the legal offices of the corporation or any other place in the city where the corporate offices are located. The Notice will announce the place and time where shareholders can consult documents submitted for approval of the Meeting, without prejudice to the ability of any shareholder attending to request and receive the same documents, free of charge. The Notice of the meeting will also be published on the corporate web page and a copy sent to the Exchanges on which the company shares are listed.

The Board will call an Extraordinary General Meeting when shareholders owning 5% of capital stock request same for justified reasons, listing the matters to be dealt with and which the Meeting has jurisdiction. In this case, the Meeting will be called for a date within thirty days following the date when it was requested in a notarized document to the Board of Directors, and the Board will prepare the Agenda, including the matters stated in the request in the form which best suits the interest of the corporation.

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 a competent Judge of the corporate domicile who, if applicable, will appoint the person to preside same.

The quorum necessary for the General meeting is established in article 14 of the Articles of Association and in article 11 of the Meeting Regulation. The Articles of Association and Rules for the General Meeting of Shareholders show no differences with regard to articles 102 and 103 of the Law of Corporations. As indicated further herein, the minimum number of shares - 50 - required by the statutes to attend the General Meetings was abolished.

Article 15 of the Meeting Rules lists the rules to be followed for the correct functioning of the General Meeting of Shareholders. Said article provides that prior to beginning with the matters on the agenda, a list of those attending will be prepared, stating the character or representation of each and the number of shares represented by them, either personally or in representation. The number of shareholders present either in person or through representation will be totalled at the end of said list, as well as the amount of capital owned, specifying those corresponding to a summary of shareholders with voting rights, which data has all been verified by the Secretary.

Once the session has been opened the Secretary will read the information from the notice and attendance based on the attendance list. In view of the list of those attending, the President will declare the Meeting validly constituted, if applicable. In the event a Notary is present at the request of the Corporation to prepare the Minutes of the Meeting, then he will ask those attending if there is any reserve or protest regarding the shareholder attendance information and capital stated by the president.

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

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

Upon conclusion of all proper presentations the president will give the floor to shareholders requesting same, directing and coordinating the debate, following the Agenda established except as allowed by articles 131 and 134 of the Law of Corporations.

Article 15.8 of the Meeting Regulation establishes that each share gives the right to one vote as established in the Articles of Association, with the limits listed in same according to the Law of the Electric Sector:

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

Article 15 of the Meeting Regulation allows the possibility of establishing electronic voting systems, as long as the identity of the voter and his condition as shareholder or representation are 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.

The Corporation will allow the use of electronic voting during the General Meeting of Shareholders to be held in 2005, upon approval of the Board of Directors of the procedures establishing the rules, means and procedures necessary.

Article 17 of the Articles of Association and article 15.9 of the Rules for the General Meeting of Shareholders do not include any differences from the regimen established in current law, but rather only establish that resolutions will be adopted by a majority vote, except when a superior 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 RULES OF THE GENERAL MEETING, DURING THE PERIOD.**

In accordance with the proposal to modify the Articles of Association presented to the General Meeting of Shareholders of May 6, 2004 as point second on the agenda, in compliance with the requirements of Law 26/2003 dated July 17 relating to the application of new trends in the sphere of Corporate Governance, it was necessary in said meeting to proceed with the modification of the rules for the General Meeting of Shareholders, to harmonize with said modification of the statutes.

Order ECO/3722/2003 dated December 26 specifies the information that publicly traded corporations must keep on their web pages, assigning its administration the responsibility for updating and coordinating same with the public Registries.

Given that article 2 of the rules for the general meeting relating to the webpage gives a detailed list of same, said Meeting of May 6, 2004 proceeded to adapt said article in order to fully comply with the new requirements established in the order. Later, National Stock Exchange Commission Circular 1/2004 dated March 17 developed the content of said Ministerial Order, although it did not enter into effect until after the Notice of said Annual General Meeting Of Shareholders.

Given that said article was modified to complete the list of web page contents, the meeting also included a mention of the obligations of the administrators in this regard. Another series of modifications affecting representation of shareholders and exercise of the right to vote by any means of distance communications were also approved.

Articles 2 (Corporate web page), 10 (Representation), 11 (Quorum), and 15 (Constitution, deliberation and adoption of resolutions) were also modified, to read as follows:

##### **Article 2.- Corporation web page**

*The corporation will keep a web page as an instrument to assure the transparency of corporate activity and at the same time allow a greater effectiveness in the shareholders exercise of their votes, as well as to facilitate relations between shareholders and the corporation. Said web page will incorporate the latest technologies, be regulated in accordance with legal and statutory and this regulation. The web page will include, among other things and in accordance with applicable standards:*

- 1. The Articles of Association.*
- 2. Rules for the Meeting and the board and other provisions of Corporate Governance*
- 3. Quarterly reports on the exercise and annual reports for the past two years, together with reports from external auditors.*
- 4. Annual Corporate Governance report prepared by the Board.*
- 5. Composition of the Board and its Committees.*
- 6. Shareholders identified with permanent participations, both direct and indirect, and their representation on the Board, as well as all other private agreements between shareholders and any other form communicated to the Corporation and the market.*
- 7. Share participation of each of the members of the Board.*
- 8. Information contained in presentations made to different market operators and analysts, intermediaries and significant shareholders.*
- 9. Relevant facts reported to the Spanish National Stock Exchange Commission.*



10. Resolutions adopted in the last General Meetings held, with detailed information on their composition and the result of the votes.
11. Current notices for the next General Meeting.
12. Mandatory information 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. Channels of communication between the corporation and shareholders and pertinent explanation on the exercise of the right to information.
15. Means and procedures to confer representation in the General Meeting, as well as means and procedures to cast votes from a distance, with the forms approved for said purposes.

The administrators will be responsible for keeping the information on the corporate web page up-to-date, and coordinate its contents with public registries, in accordance with applicable law.

#### **Artículo 10. Representación**

Shareholders with the right to attend may be represented in the General Meeting by another shareholder with the right to attend, as established by Law and the statutes. Said representation will be granted in writing and specifically for each Meeting.

Except for cases of public representation that are subject to current legal provisions, no person can accumulate votes in representation that together with his votes give him a right to vote over 3% of the corporate capital.

Representation may be granted by regular or electronic mail, or by any other form of distance communication that duly guarantees the identity of the party conferring same, as established in applicable norms and the provisions of article 15 and 17 bis of the Articles of Association and 15.8 of these Rules for the issuance of votes via said media, to the extent that it is not incompatible with the nature of the representation conferred.

Personal attendance of the shareholder represented at the General Meeting will revoke the representation granted.

Attendance will have the same effect in terms of distance votes as that stated in article 15.8 of this Regulation.

Shareholder's representative may appoint a substitute to exercise the vote in cases of conflict of interest.

#### **Article 11.- Quorum**

The General Meeting will be validly constituted on the first notice with the attendance, either personal or through representation, of shareholders holding at least twenty five per cent of paid in and voting capital.

The meeting will be validly constituted on second notice with the presence of all capital appearing at same.

For the General Ordinary or Extraordinary Meeting to validly resolve to increase or reduce capital, transform, merge or split from the Company, and in general to make any modification to the Articles of Association, then the presence of at least fifty per cent (50%) of the paid in capital with right to vote is necessary on the first date notified for the meeting, either in person or through representation. On a second notice the presence of twenty five per cent (25%) of said capital will be sufficient.

The resolutions referred to in the foregoing paragraph can be validly adopted only with the presence of shareholders representing at least fifty per cent (50%) of paid in and 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 counted at any meeting, nor votes of any shareholders who are not current in the payment of capital calls.

Shareholders with the right to attend and vote who cast their votes from a distance under the procedure set in article 15.8 of the Rules for the Meeting, will be considered as present for the purpose of constituting the General Meeting.

#### **Artículo 15 Constitución, deliberación y adopción de acuerdos**

(...)

##### **15.8 Voting**

Each share gives one vote as established in the Statutes, with the limitations listed on same according to the mandate of the Law of the Electrical Sector.

The President will decide on the most appropriate method for voting in each case, publicly announcing same at the General Meeting with sufficient time and prior to proceeding with the vote.

Nevertheless the following deductive methods can be used to facilitate the voting procedure:

- (i) In votes on proposals of the Board on matters included in the Agenda, the votes of all shares present can be considered votes in favour except for any votes against, blank votes and abstentions expressly stated in communications with the Secretary of the Meeting, or if applicable to the Notary present at the meeting, in the form decided by the President.
- (ii) In votes regarding proposals for resolutions on matters not included in the agenda or proposals that are alternatives to those of the board, votes of all shares present will be considered as votes against except for votes in favour, blank votes and abstentions that have been expressly stated in communication with the Secretary of the Meeting, or if applicable to the Notary present at the meeting, in the form decided by the President.

In both of the foregoing cases, the shareholder may state or cast his vote by communicating same to the secretary or to the Notary, as applicable, either for each of the points in the Agenda, or jointly for various or all of them. The Secretary will give to the President the vote polls prepared together with the Notary, in the event one is present, with the result of the vote on each proposal. Said poll will include all votes, stating the identity of the voter, quality of the party casting the vote (shareholder or representative), and the sense of the vote or abstention, as applies. The Notary, if present, will reflect same in the minutes in the same form.

Shareholders with the right to attend may cast their vote on proposals relating to the points included in the agenda by postal or electronic mail, or any other means of distance communications, so long as the party casting the vote is duly identified as established in applicable standards, as well as in the Articles of Association, the Rules for the General Meeting and complementary norms and development of said Regulation, approved, if applicable, by the Board of Directors.

Votes cast by postal mail will be sent to the Company in a document with the vote, accompanied by the attendance ticket issued by the entity or entities responsible for carrying the registry of notes or if applicable, by the company.

Votes cast by electronic means will be issued under a recognized electronic signature, or other form of guarantee deemed appropriate by the Board of Directors to assure the authenticity and identification of the shareholder exercising his right to vote.

Votes cast by any other means provided in the two foregoing paragraphs must be received by the Company at least twenty four (24) hours prior to the day previous to the date set for the General Meeting in the first Notice. Otherwise, the vote will be deemed not cast.

The Board of Directors, based on the technical and legal bases making possible and duly guaranteeing the identity of the party exercising the right to vote, will be authorized to carry out the foregoing, establishing rules, means and procedures sufficient for the status of the technique to instrument casting the vote and granting representation by electronic means, adapting as appropriate to the standards dictated for said effects.

The Board of Directors may specifically regulate the use of guarantees other than the electronic signature in casting electronic votes, and reduce the advance period for receipt by the Company of votes issued by postal mail, electronically or any other form of distance communications, in accordance with the provisions of the foregoing paragraphs.

In any event, the Board of Directors will adopt specific measures to prevent duplications and to assure that the party issuing the vote is duly allowed to do so as determined in article 15 of the Articles of Association.

Rules adopted by the Board of Directors under the provisions of this article as well as means, procedures and forms established to confer representation and to cast distance votes will be published in the Corporate web page.

Personal attendance of the shareholder or his representative at the general meeting will revoke any vote cast by postal mail, electronically or by any other form of distance communications.

**E.7. INDICATE ATTENDANCE DATA FOR THE GENERAL MEETINGS HELD DURING THE PERIOD DISCUSSED IN THIS REPORT:**

Date General Meeting	Attendance data			Total
	% physically present	% through representatives	% distance votes	
05-06-2004	44.44	15.13		59.57

**E.8. BRIEFLY INDICATE RESOLUTIONS ADOPTED IN THE GENERAL MEETINGS HELD DURING THE FISCAL 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, Profit and Loss, Memorandum) and the Management Report for the Corporation and Consolidated Group of Corporations, application of profits and Board of Directors management report, all referring to fiscal 2003.	99.612%	0.031%	0.357%
2. Modify articles 14 (Quorum) and 15 (right to information and attend meetings) and add new article 17 bis (distance voting) of the Articles of Association.	97.494%	0.000%	2.506%
3. Modify articles 2 (corporate web page), 10 (representation), 11 (quorum) and 15 (constitution, deliberation and adoption of resolutions) of the Regulation of the General Meeting of Shareholders.	97.493%	0.000%	2.507%
4. Inform the General Meeting of Shareholders regarding the Regulations for the Board of Directors.		For information	
5. Re-elect KPMG Auditores, S.L., as financial auditors of the Corporation and its consolidated group for economic year 2004, as established in article 204 of the Law of Corporations.	99.967%	0.031%	0.002%
6. Authorize buy back of treasury stock under the terms set by law.	99.999%	0.000%	0.001%
7. Delegate powers to the Board of Directors to issue negotiable fixed income securities and to request, as applicable, the admission, permanence and exclusion of same in secondary organized markets.	99.999%	0.000%	0.001%
8. Delegate to the Board of Directors, powers to substitute, fully execute the resolutions adopted.	99.996%	0.003%	0.001%

**E.9. INDICATE, IF APPLICABLE, THE NUMBER OF SHARES NECESSARY TO ATTEND THE GENERAL MEETING IF THERE IS ANY STATUTORY RESTRICTION WITH REGARD TO SAME.**

There is currently no statutory restriction of any kind in this regard. In fact the Extraordinary General Meeting of Shareholders of July 17, 2003 abolished the statutory requirement of holding minimum 50 shares in order to attend the General Meeting.

**E.10. INDICATE AND JUSTIFY POLICIES FOLLOWED BY THE CORPORATION WITH REFERENCE TO DELEGATING VOTES IN THE GENERAL MEETING.**

The Articles of Association and the Regulations for the Board of Directors establish determined conditions to represent shareholders in the meetings, with no specific policy existing established by the Corporation to delegate votes in the General Meetings of Shareholders.

To this effect, article 15 of the Articles of Association and article 10 of the Regulations for the Board of Directors provide that shareholders with the right to attend may be represented in the General Meeting by another shareholder with the right to attend, in the form established in articles 106 to 108 of Law of Corporations, both inclusive with respect to the provisions of the Statutes. Said representation will be conferred in writing and specifically for each Meeting.

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

As reported before in this document (Section A), Law 53/2002 of December 30 regarding Fiscal, Administrative and Corporate Measures modified article 34 of the Electrical Sector Law 54/1997 dated November 27, establishing a limit on share ownership to 3% of corporate capital, except for the special regimen of the State Corporation of Industrial Ownership (SEPI).

Said law 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 Articles of Association and article 10 of the Meeting Rules, except in cases where requested by public representation, the legal rules currently in effect will apply in each case, and no individual can accumulate representations that together with his own votes would give the right to vote over 3% of the corporate capital.

The provisions contained the Articles of Association and the Regulations for the Board of Directors regarding voting and electronic delegation introduced in the Ordinary General Meeting of Shareholders held May 6, 2004 are also noteworthy.

As indicated in the foregoing section E.5, the Corporation has allowed shareholders the use of electronic voting for the Ordinary General Meeting of Shareholders to be held in 2005, upon approval by the Company Board of Directors of the procedure establishing the necessary rules, means and procedures.

**E.11. INDICATE IF THE COMPANY HAS KNOWLEDGE OF THE POLICY REGARDING THE PARTICIPATION-PARTICIPATION, OF INSTITUTIONAL INVESTORS IN CORPORATE DECISIONS:**

YES     NO

***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 informative 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 of its activities and the progress of its business in an attempt to come closer in this way 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, that is to say from the institutional investor; apart from any specific information such investors may convey to the markets.

**E.12. INDICATE THE ADDRESS AND FORM OF ACCESS TO WEB PAGE CONTENTS REGARDING CORPORATE GOVERNANCE.**

Article 2 of the Meeting Rules establishes the content of the corporate web page, whose purpose is to serve as an instrument to assure the transparency of corporate activities and at the same time allow shareholders greater effectiveness with the casting of their votes, as well as to facilitate the relationship between shareholders and the Corporation.

The Corporation has been using this form of communications since its incorporation with the stock markets in 1999. Content of the webpage is updated regularly, extending beyond the requirements of applicable legislation in accordance with Law 26/2003 dated July 17.

To this effect, the web page of the Corporation (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, and in accordance with the Rules for the General Meeting of Shareholders:

1. Articles of Association.
2. Rules 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 participations, both direct and indirect, and their representation on the board, as well as all private pacts between shareholders which have been reported to the Corporation and the market.
7. Share holdings 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. Relevant facts reported to the CNMV.
10. Resolutions adopted during the last General Meeting.
11. Current notice for the next General Meeting.
12. Information required to be placed at the disposal of shareholders with the notice of General Meeting.
13. Responses to proposals and suggestions made by shareholders.
14. Channel communications between the corporation and shareholders and pertinent explanations regarding exercising the right to information, indicating e-mail and postal addresses where shareholders may address their questions.
15. Means and procedures to confer representation in the General meeting, as well as means and procedures to cast votes from a distance, with forms approved for same.

With regard to publication 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 Corporate Registry and legal provisions regarding publication of corporate resolutions as may apply, the Corporation will provide the text of the resolutions approved and reported to the CNMV as timely communication of relevant acts, which transmission will be the same day that the meeting was held or the following work day. The text of the resolutions will also be available through the Corporate web page, after they have been reported to the CNMV.

Especially important throughout the 2004 financial year was the maximization of the contents of the corporate web page as a communications instrument with shareholders and investors, and its adaptation to the requirements of Order ECO/3772/2003 dated December 26 and CNMV Circular 1/2004. Although the greatest part of the contents required by the Order and the circular were already available through the corporate web page, the information contained in the webpage has been adapted to the terms of said norms. Specifically, adaptations made and published in the web page during the first quarter of 2004 were as follows:

- a) Inclusion of the quorum necessary and result of the votes on each of the proposals made to the General meetings held in the past year.
- b) Addition of information relating to attendance and procedures to confer representation in the General Meetings, in accordance with the Articles of Association and Regulation of the General Meeting of Shareholders.
- c) Creation of a specific section relating to electronic voting, stating that this is still pending development of regulations for same.
- d) Creation of a section relating to emissions in circulation.
- e) Creation of a section relating to the rating granted by credit qualification bodies.
- f) Amplification of information relating to shareholders, with greater detail on significant participations, treasury stock and private agreements.







# Degree of follow up on Recommendations regarding Corporate Governance

Indicate the degree of the corporation's compliance with recommendations regarding corporate governance, or if applicable, the failure to accept said recommendations.

In the event it does not comply with any of same, explain the recommendations, norms, practices or criteria applied by the corporation.

With regard to the only document referred to in ORDER ECO/3722/2003 dated December 26, if this is not prepared then use the recommendations of the Aldama and Olivencia reports to complete this section.

## I. RECOMMENDATIONS FROM THE OLIVENCIA REPORT

### **I. FUNCTIONS OF THE BOARD OF ADMINISTRATORS**

#### **Recommendation I**

*"The Board of Directors should expressly assume as its core mission general supervisory functions, exercising all powers that cannot be delegated and establishing a formal catalogue of matters reserved for it."*

#### **Followed.**

The Corporation acts through a reduced, active and efficient Board of Directors which governs and represents the Company with the support of an Audit and a Nominations and Remuneration Committee.

In accordance with the Articles of Association and the Regulations for the Board of Directors, the criteria followed at all times by the Board is to defend the long term viability and value of the company as well as to protect and foment the general interests of the Corporation. The Board specifically has all powers to administer and represent the Corporation, before the Courts and extrajudicially, exercising said powers either directly or through their delegation, substitution or power of attorney as allowed Law, the Articles of Association and the Regulations for the Board.

The Board's policy is to delegate ordinary company management to the executive bodies and the administrative staff and to concentrate its activities on the general functions of supervision and approval of basic action directives.

The rules regarding organization and functioning of the Board are contained in articles 19 to 29, both inclusive, of the Articles of Association, and in the Regulations for the Board of Directors. In this sense the Board of Directors in its meeting of November 18, 2003 approved the modification of the Regulations for the Board of Directors dated June 8, 1999.

The main purpose of the Rules, as indicated in article 22 of the Statutes, is to establish basic rules of organization and functioning, standards of conduct of its members and a supervision and control regimen, in order to achieve a greater professionalism and effectiveness in its activities by fomenting the active participation of its members, placing the interests of the corporation before their own and the shareholders with respect to the law, the Statutes and the principles of Corporate Governance.

The Regulations for the Board of Directors was reported to the CNMV, and is available on the corporate web page ([www.ree.es](http://www.ree.es)) and recorded with the Companies' Register.

## **2. INDEPENDENT DIRECTORS**

### **Recommendation 2**

*“The Board of Directors should be formed of a reasonable number of independent Directors whose profiles respond to people of professional prestige with no association to the management team or significant shareholders.”*

### **Followed.**

In accordance with the provisions of article 7 of the Regulations for the Board of Directors and as indicated in the foregoing section B.1.4, the Board in exercising its powers to make proposals to the General Meeting and to elect members to cover vacancies, will procure that the number of external or non-executive directors represents a broad majority over executive Directors on the Board. In any event, composition of the board will be determined in a way that best represents corporate stock.

The board is comprised of five independent external Directors, five external nominee directors, and one executive director.

Pursuant to article 7.2 of the Regulations for the Board of Directors, independent external directors are understood as directors who are neither nominee nor executive, of recognized professional prestige, who fulfil the requirements of impartiality and objective criteria. The Board of Directors, upon receiving the report of the Nominations and Remuneration committee, will make a single and motivated assessment which will be included in the Annual Report, when a candidate for independent external Director presents the following conditions:

- Have or have had within the past three years a significant work, business or contractual relationship, either direct or indirect, with the Corporation, its administrators, nominee directors or corporations of the group whose share holdings are represented by said directors, credit entities with an outstanding position in financing the corporation, or organizations receiving significant subsidies from the corporation, or with significant shareholders of the last or their parent corporation.
- Be or have been in the past three years or for a significant period of time a Director or Manager of another corporation with nominee directors in the Corporation, or from competitive corporations or from the group.
- Have a close relationship, by family or affinity, with the executive or nominee directors, or members of the Senior Management of the corporation.

In addition and has been stated in this Report, the Board of Directors during its meeting of May 27, 2004 approved the “Statute for the Independent Director of Red Eléctrica de España” for the purpose of strengthening and maximizing the role of said directors on the Board of Directors.

## **3. COMPOSITION OF THE BOARD**

### **Recommendation 3**

*“On the Board of Directors the external directors (nominee and independent) should constitute the majority over executives, and the proportion between nominee and independents should be established considering the ratio existing between capital integrated by significant packages and the rest.”*

### **As follows**

As stated in Recommendation 2, the Board of Directors is comprised of five external independent Directors, five external nominee Directors and one executive Director.

As a result, external directors, both nominee and independent, 10, constitute a broad majority over executives, 1.

The proportion between nominee and independent directors is established taking into account the existing ratio between capital integrated in significant packages and the rest, responding appropriately to the current share structure of the shareholders of the Corporation and the recommendations of Corporate Governance – 59.5% free float and 40.5% nominees.

#### **4. NUMBER OF DIRECTORS**

##### **Recommendation 4**

*“The Board of Directors should adjust its size to achieve a more effective and participative functioning. In theory, the correct size could oscillate between 5 and 15 members”.*

##### **Followed.**

As stated above (section B.I. of the report), the Board of Directors, in accordance with best practices in this area, is of an adequate size, 11 members, thus achieving a more effective and participative functioning.

#### **5. PRESIDENT OF THE BOARD OF DIRECTORS**

##### **Recommendation 5**

*“If the Board opts for the accumulation formula with the President occupying the position of first executive of the corporation, it should adopt the precautions necessary to reduce the risk of concentration of power in one individual.”*

##### **As follows:**

As noted previously in section B.I.16 of this report, the president of the Board of Directors is also the president of the company, first executive of same and responsible for Senior Management, administration and full representation of the corporation, acting with powers delegated by the Board.

However his actions are subject to specific controls by the Board of Directors to whom he reports a posteriori or, as applicable, seeks authorization. The Audit and Nominations and Remuneration Committees also perform an effective control function of corporate management in their respective spheres of interest.

#### **6. SECRETARY OF THE BOARD**

##### **Recommendation 6**

*“The Secretary of the Board should be given greater relevance, reinforcing his independence and permanence and emphasizing his oversight function of the formal and material legality of Board activities”.*

##### **Followed.**

Pursuant to articles 26 of the Articles of Association and 11 of the Regulations for the Board, the Secretary is responsible for, among other things, overseeing the formal and material legality of actions of the Board and that its procedures and rules of government are respected and regularly reviewed.

He must also prove the statutory regularity, compliance with provisions issued by regulatory bodies and see that the Board of Directors and its Committee observe principles or criteria of Corporate Governance. The Secretary of the Board of Directors, who attends in the capacity of an expert, does not necessarily have to be a director.

## **7. COMPOSITION OF THE EXECUTIVE COMMITTEE**

### **Recommendation 7**

*“The Executive Committee, when existing, will reflect the same proportion as the Board between the different types of Directors, and the ratio between both bodies will be inspired in the principle of transparency, so that the Board has a complete knowledge of the matters dealt with and decisions adopted by the committee”.*

#### **Followed.**

As was stated previously in section B.2 of this report, article 22 of the Articles of Association foresees the possibility of creating an Executive Committee whose organization will be regulated by article 14 of the Regulations for the Board. No such committee is currently constituted as the Corporation has opted for an administrative system based on a reduced, active and efficient Board.

The Regulations for the Board of Directors in article 14 contemplates the possibility of creating said Committee, specifying its quantitative and qualitative composition, regimen of adopting resolutions and frequency of its meetings.

## **8. CONTROLLING EXECUTIVE COMMITTEES**

### **Recommendation 8**

*“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 remunerations policy (Remuneration); and to evaluate the governance system (Compliance)”.*

#### **As follows partially.**

Pursuant to the terms of current legislation and Corporate Governance practices and the terms of sections B.2.3.1., B.2.3.2. and B.2.3.3., during fiscal 2003 the Corporation created an Audit Committee composed completely of external Directors; and a Nominations and Remuneration Committee with a majority of external Directors. These two committees substitute the two previously existing committees that performed similar functions since 1999. Their composition, functioning and responsibilities are described in the new Regulations for the Board of Directors.

In this sense, the Nominations and Remuneration Committee, in accordance with the Articles of Association and Regulations for the Board, among other functions, performs all duties relating to information and determination and review of remunerations policy. The Audit Committee for its part performs functions relating to evaluating the governance system.

The Nominations and Remuneration committee is comprised of two independent external directors, one nominee external director, and one executive director.

## **9. INFORMATION TO DIRECTORS**

### **Recommendation 9**

*“It should adopt the measures necessary to assure that Directors have precise and sufficient information, with sufficient time beforehand, specifically prepared and addressed for preparing for the meetings of the Board, without which, except under exceptional circumstances, the importance or nature of the information that they provide must be waived”.*

#### **Followed.**

As indicated in section B.1.33, article 19 of the Regulations for the Board provides that the notice for each meeting of the Board of Directors must be accompanied generally by relevant information, duly summarized and prepared. When in the reasonable judgment of the President this is not advisable, then the information will not accompany the notice and will be placed at the disposal of the Directors at the site of the corporation.

Currently, according to the Regulations for the Board, notice of the meeting is given minimum three days prior to same, which requirement is currently fulfilled with greater time and allows the directors to prepare appropriately for each meeting.

## **10. FUNCTIONING OF THE BOARD OF DIRECTORS**

### **Recommendation 10**

*“To assure the adequate functioning of the Board, meetings should be held as often as necessary to fulfil its mission, with the President encouraging the intervention and free taking of positions of all directors; and with special care taken in drafting the minutes and encouraging, at least annually, the quality and effectiveness of its work”.*

#### **Followed.**

In accordance with the provisions of articles 21 of the Articles of Association and 19 of the Regulations for the Board, the board meets, normally monthly, and at least once every quarter. In addition and at the initiative of the president it meets as often as the president deems necessary for the good functioning of the Corporation and whenever requested in writing by three Directors.

Article 20 of the Regulations for the Board of Directors provides that the President will organize the debate, always seeking and promoting the participation of all directors in the deliberations of that body and submitting matters for vote when he considers them to have been sufficiently discussed.

## **11. SELECTION AND RE-ELECTION OF DIRECTORS**

### **Recommendation 11**

*“The intervention of the Board in selecting and re-electing its members should follow a formal and transparent procedure, beginning with a reasoned proposal from the Nominations Committee”.*

#### **Followed.**

The Nominations and Remuneration Committee is responsible for evaluating the qualifications of individuals who can be nominated as directors of the Corporation.

As stated in article 18 of the Regulations for the Board of Directors and paragraph B.1.14 of this Report, said Committee reports previous to all proposals formulated by the Board of Directors to the General Meeting regarding the appointment or removal of Directors, including in cases of co-option.

## **12. RESIGNATION OF DIRECTORS**

### **Recommendation 12**

*“The Corporation should include in the rules the obligation for Directors to resign in situations that may negatively affect the functioning of the Board or the credit and reputation of the Corporation”.*

#### **Followed.**

Section B.1.15 of this Report states the situations under which Directors of the Corporation must resign, as expressly provided in article 24 of the Regulations for the Board of Directors.

### **13. AGE OF THE DIRECTORS**

#### **Recommendation 13**

*“An age limit should be established for the position of Director, which may be sixty five or seventy years of age for Executive Directors and the President, and more flexible for the remaining members”.*

#### **Followed.**

As indicated in section B.1.14 of this report, Directors, regardless of any distinction, must place their position at the disposal of the Board when they reach the age of 70 years, as established in article 24 of the Regulations for the Board of Directors.

### **14. INFORMATION FACILITATED FOR DIRECTORS**

#### **Recommendation 14**

*“The right of each Director to collect and obtain information and advice necessary to comply with his supervisory function should be recognized; with adequate channels to exercise this right established, including turning to external experts under special circumstances”.*

#### **Followed.**

As established in article 26 of the Regulations for the Board of Directors, the Board is invested with the broadest powers to collect information on any aspect of the Company, to examine its books, records, documents and other history of corporate operations and to inspect all installations. Custody of the information extends to affiliated corporations, both national and alien.

To receive assistance in exercising its functions, article 27 of the Regulations for the Board of Directors indicates that external directors may request that the Board of Directors hire legal, accounting, financial and other experts at the company's expense. Paragraph B.1.32 of this report includes information on the procedure to be followed so that Directors can receive this external advice.

### **15. DIRECTORS REMUNERATION**

#### **Recommendation 15**

*“The remunerations policy for Directors, which is proposed, evaluated and revised by the Remunerations Committee, should fulfil the criteria of moderation, be in proportion with corporate profits and detailed and individualized information”.*

#### **Followed.**

Pursuant to the terms of article 20 of the Articles of Association and 28 of the Regulations for the Board of Directors, the Board will see that the remuneration to each directors is moderate based on market circumstances and to a significant degree related to performance of the company. Remuneration to directors is transparent. To this end, the Nominations and Remuneration Committee will prepare an annual memorandum on the Directors Remuneration policy.

The Regulations for the Board of Directors establishes that the annual memorandum prepared by said Committee, if existing, will also mention the delivery or assignment of shares, options on shares or systems referring to share value, in the case of remuneration to executive directors, as well as a breakdown of salaries in cash and in kind, bonus, pension funds, provisions for indemnifications and other compensations that may exist.

Section B.1.8 of the report lists remuneration for Directors earned in 2004 per concept of the remuneration, type of Director and for each benefit obtained by the corporation, all in accordance with the terms of CNMV Circular 1/2004 dated March 17.

## **16. GENERAL DUTIES OF THE DIRECTORS AND CONFLICTS OF INTEREST**

### **Recommendation 16**

*“Internal rules of the corporation should list the obligations flowing from the Directors’ general duties of diligence and loyalty, considering in particular any situation of conflict of interest, duty for confidentiality, exploitation of business opportunities and the use of corporate assets”.*

#### **Followed.**

Article 30 of the Regulations for the Board of Directors regarding the duty of each Director for diligence, states that in performing his functions the Director will work with the diligence of an orderly businessman and loyal representative, reporting diligently on the progress of the corporation and always obliged to:

- a) Inform himself and prepare adequately for meetings of the Board and the Committees to which he belongs.
- b) Attend meetings of the Committees which he forms part of and actively participate in the deliberations so that his criteria effectively contributes to the decision making process. In the event that he cannot attend the meetings called for justified reasons, then he will instruct the Director representing him so said representation falls on a Director of the same kind.
- c) Perform any specific assignment given him by the Board of Directors that is reasonably contained within his commitment for dedication.
- d) Promote the investigation of any irregularity in the company’s management that he may have notice and oversee any situation of risk.
- e) Cause the parties capable of sending notice to call an extraordinary meeting of the Board or to include in the agenda of the first meeting to be held the extreme items that he considers appropriate.
- f) To dispose of and collect the information necessary to effectively perform his functions, and to regularly monitor matters presented by the corporate administration; in this regard he is responsible for identifying and requesting same from the Secretary of the Board.
- g) Oppose resolutions that are contrary to Law, the Statutes or the interest of the corporation.

Article 31 of the Regulations for the Board of Directors states that Directors must comply with the duties imposed by law, the statutes and said Regulation, remaining faithful to corporate interest understood as the interest of the corporation.

The Regulations for the Board of Directors specifically lists obligations flowing from the Director’s general duties for diligence and loyalty, specifically contemplating the duty for confidentiality –article 31.1-, the obligation not to compete –article 31.2-, situations of conflict of interest –article 31.3-, the use of corporate assets - article 31.4-, Company information that is not public –article 31.5-, treatment of business opportunities, -article 31.6-, indirect operations -article 31.7-, and the use of the corporate name - article 31.8-.

With regard to conflicts of interest, the before cited article 31.3 of the Regulation establishes that the Director will abstain 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 associated with the Director or with a corporation with which he has a work or professional interest or where he holds a management position or has a significant participation.

For these effects, the following people will be considered as associated with the individual director:

- (i) Spouse of the director or people with an analogous affectionate relationship;
- (ii) Ascendants, descendants and siblings of the Director or spouse of the Director;
- (iii) Spouses of the ascendants, descendants and siblings of the director.
- (iv) Corporations in which the Director, either personally or through another person, is found in any of the situations contemplated in article 4 of Law 24/1988 regarding the Stock Exchange.

With regard to directors that are legal entities, the following individuals are considered associated with same:

- (i) Partners who with respect to the legal entity Director are in any of the situations contemplated in article 4th of Law 24/1988 dated July 28, regarding the Stock Exchange.
- (ii) Administrators by law or fact, liquidators, powers of attorney with general powers of the Director.
- (iii) Corporations forming part of the same group, as defined in article 4 of Law 24/1988 dated July 28 regarding the Stock Exchange, and its partners.
- (iv) Individuals who are considered associated with the person representation the legal entity Director, in accordance with the definitions regarding the individual Directors.

The director will report any conflict of interest that he may have with the corporation. In case of a conflict, the director affected will abstain from intervening in the operation to which the conflict refers.

Nominee directors will reveal to the Board any conflict of interest between the corporation and the shareholder nominated, when this affects matters submitted to the Board, abstaining from participation in the adoption of the corresponding resolutions.

In addition, Directors are permanently subject to compliance of the Stock Exchange Rules of Conduct, approved by the Corporation on July 22, 2003.

## **17. TRANSACTIONS WITH SHAREHOLDERS**

### **Recommendation 17**

*“The Board of Directors should promote the adoption of measures to extend the duty for loyalty to significant shareholders, especially establishing precautions for transactions between them and the Corporation”.*

### **Followed.**

As indicated in section C.5 of the report, pursuant to article 33 of the Regulations for the Board of Directors, the Board of Directors formally reserves knowledge of any relevant transaction of the company with a significant shareholder. In no event will it authorize the transaction if a report has not previously been issued by the Nominations and Remuneration Committee evaluating the operation from the perspective of equal treatment of shareholders and market conditions.

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 that they abstain from voting and will determine the content of the information to be published on the company web page.

The Report indicates that the only shareholders with a significant participation in the corporation, according to current legislation, is the State Industrial Ownership Company (SEPI).



## **18. COMMUNICATION WITH SHAREHOLDERS**

### **Recommendation 18**

*“Measures designed to make the mechanism for delegating votes more transparent and to maximize communications between the corporation and its shareholders, and in particular with institutional investors, should be discussed.”*

#### **Followed.**

As stated before in paragraph E.10 of this Report, the Articles of Association and the Regulations for the Board establish determined conditions for representing shareholders in the Meetings, although there is no specific policy established by the Corporation to delegate votes for the General Meetings of Shareholders.

Article 15 of the Articles of Association and article 10 of the Meeting Regulations state to this effect that shareholders with the right to attend may delegate to another shareholder the right to attend and represent them in the general meeting, in the manner established in articles 16 to 108 of the Corporation Law, both inclusive with regard to the provisions of the Statutes. Representation must be conferred in writing and specifically for each Meeting.

With regard to the transparency of the mechanisms to delegate votes in General meetings, please note that article 2 of the Regulation of the General Meeting of Shareholders establishes that the web page of the corporation will include, among other things, channels of communication between the corporation and shareholders and pertinent explanations on exercising the right to information, indicating the postal and e-mail addresses where shareholders can direct their questions as well as means and procedures for conferring representation for the General Meeting and means and procedures for distance voting, with forms approved for said purposes.

The Notice of General Meeting of Shareholders published on the corporate web page and reported to the Spanish National Stock Exchange Commission as a relevant fact, establishes the essential conditions, listed in the Regulation of the General Meeting of Shareholders, relating to the right for information, the right to attend and to representation in the General Meeting, with notice given greater than that legally established for notices of meetings, all for the purpose of facilitating as much as possible the shareholders' ability to plan their attendance and participation, either directly, or through timely delegation of their vote.

The Board of Directors of the Corporation approved an electronic voting procedure for the General Meeting of Shareholders for the 2004 financial year; to maximize the active role of the shareholder in accordance with the most recent practices of Corporate Governance.

The processes of electronic delegation and voting by regular mail will be implemented in a second phase, when technology and the experience of specialists of the sector allow these processes to be used with sufficient guarantees for the adequate functioning of the General Meeting.

On the other hand, repeating the statements indicated earlier in Section E.11 of this Report, relations between the Corporate and institutional investors are generic and not personal or specific; the Corporation customarily organizes informative meetings -road shows- in the main financial plazas of Spain and abroad with a greater presence of institutional investors, to report on its activities and business developments, in an attempt to draw nearer to that group of investors.

In no case does the Corporation provide institutional shareholders with information that may place them in a situation of privilege or advantage over other shareholders, in accordance with the terms established for said effect in article 36 of the Regulations for the Board of Directors. The corporation does not have any information to the contrary; that is, that flows from the institutional investor outside the specific information that can be transmitted by said investors to the markets.

## **19. TRANSPARENCY WITH THE MARKETS**

### **Recommendation 19**

*“The Board of Directors, beyond the requirements imposed by current standards, should take responsibility for providing the markets with fast, precise and dependable information, especially with reference to share structure, substantial modifications to the rules of governance, associated operations with a special relief or treasury stock”.*

#### **Followed.**

Pursuant to article 37 of the Regulations for the Board, the Board of Directors oversees strict compliance with current instructions regarding relevant information, in accordance with the terms of the Company's Rules of Conduct in the Stock Exchange.

The Board of Directors will adopt specific measures to assure that quarterly, semester, annual and any other kind of financial information which prudence requires be placed at the disposal of the markets, to be prepared following the same principles, criteria and professional practices used in preparing annual accounts, and that have the same dependability as the last. As such, said information will be revised by the Audit Committee for said effects.

During the 2004 financial year nineteen (19) relevant facts were reported to the Spanish National Stock Exchange Commission, which facts were immediately incorporated into the web page of the corporation, as well as another series of communications of interest regarding other matters of importance to the markets.

## **20. FINANCIAL INFORMATION**

### **Recommendation 20**

*“All periodic financial information in addition to annual information offered to the markets should be prepared in accordance with the same principles and professional practices as annual accounts, and verified by the Audit Committee prior to reporting same”.*

#### **Followed.**

Article 37.2 of the Regulations for the Board of Directors establishes that the Board of Directors will adopt specific measures to assure that quarterly, semester, annual and any other kind of financial information which prudence requires be placed at the disposal of the markets, and that this information is prepared following the same principles, criteria and professional practices used in preparing annual accounts, and that have the same dependability as the last. As such, said information will be revised by the Audit Committee for said effects.

The corporation followed this procedure throughout the 2004 financial year; with the information reviewed by the Audit Committee prior to approval in the session of the Board of Directors immediately following said meeting and with periodic information then communicated to the markets well in advance of the regulation period established for said effect.

## **21. EXTERNAL AUDITORS**

### **Recommendation 21**

*“The Board of Directors and the Audit Committee should supervise situations that may place the independence of the external auditors of the corporation at risk, specifically verifying the percentage represented by fees paid for all concepts over total income of the auditing firm, and also publicly report the amounts corresponding to professional services other than those performed in the audit”.*

### **Followed.**

Remuneration paid to the external auditors of the Corporation and companies of its group during the year do not represent a significant percentage of the total income of the auditing firm.

The amount of fees corresponding to professional services paid for matters other than the audit, paid to companies related either directly or indirectly to the auditing firm were also verified, showing that these were not significant and do not affect either the Corporation's strategy or general planning.

Article 38 of the Regulations for the Board of Directors, in accordance with best practices in these matters, provides that relations with external auditors of the company will be channelled through the Audit Committee.

As established in the foregoing article, the Board of Directors will abstain from hiring any auditing firms whose anticipated fees for all concepts would surpass ten per cent of their total fees during the last fiscal period, and will publicly report on an annual basis global fees paid by the Company to the auditing firm for services other than for the audit.

In this sense, section B.1.29 of this Report indicates the amount of fees received by the auditing firm for work other than auditing, and the percentage of same with respect to the total amount billed to the Corporation.

We again demonstrate the procedure approved during the 2004 financial year by the Audit Committee to regulate its relations with the external auditors, which deals with the foregoing aspects.

## **22. AUDIT PROVISOS**

### **Recommendation 22**

*“The Board of Directors should prevent presentation of the accounts prepared by it to the General Meeting with reservations and provisos in the audit report, and when this is not possible, both the board as well as the auditors should clearly explain to the shareholders and markets the content and scope of the discrepancies”.*

### **Followed.**

Article 38 of the Regulations for the Board of Directors states that the Board of Directors will prepare the final accounts, procuring that there are no provisos 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 constitution the Corporation has not been the object of audit provisos in its Annual Financial Statements, demonstrating the maximum correctness, dependability and sufficiency of the Annual Financial Statements of the corporation and its consolidated Group throughout the life of the corporation, guaranteeing at all times the maximum informational transparency.

## **23. ANNUAL CORPORATE GOVERNANCE REPORT.**

### **Recommendation 23**

*“The Board of Directors should include in its public annual report information on rules of governance, with the reasoning for those that do not adapt to the recommendations of this Code”.*

### **Followed.**

Since fiscal 2000, even before it was required by law, the corporation has prepared a report on the degree of compliance during the year with current rules of corporate governance, which once approved by the Board of Directors, is sent to the Spanish National Stock Exchange Commission.

## II. RECOMMENDATIONS FROM THE ALDAMA REPORT

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

Relevant information for investors that affects the Corporation transmits a faithful image of same from a quantitative and qualitative perspective, is correct and is broadcast to the markets equally, symmetrically and in real time.

The Corporation regularly communicates with the markets through the CNMV, reporting relevant information regarding the adoption of a resolution corresponding to the signature of an agreement or contract as soon as it is known. Relevant 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 entry of the Corporation to the Exchange in 1999, RED ELÉCTRICA has published through the corporate web page 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 incorporated into the web page once they have been 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 web page are as follows:

- *General information.* Organization, shareholders, Board of Directors, business activities and strategy.
- *Economic Information:* Principal Figures, Annual Financial Statements, Management Report, Consolidated Financial Statements, Consolidated Management Report, Consolidated Annual Report and Projected Earnings.
- *Shareholders and investors:* Current shareholders, Relevant Facts and other communications to the CNMV, stock exchange information in real time, dividends, emissions, rating, shareholders, Annual Report, shareholders bulletin, presentations to investors, Board of Directors, Audit Committee, Nominations and Remuneration Committee, Corporate Governance Report, Articles of Association, Regulations for the Board of Directors, Independent Director Statute, Internal Rules of Conduct in the Stock Exchange, Notifications of the last General Meetings of Shareholders, Agenda and documentation relating to the development of the General Meetings of Shareholders, communications channels between the Corporation and shareholders and Shareholders Office.

Efforts of the company to respond to expectations of its shareholders and investors in the area of informative transparency, beyond requirements established by law, has led to its public recognition by the markets, institutions and specialists of the sector, represented by AECA, which in 2002 distinguished the company with the "Award for the Company with Best Financial Information on the Internet", revalidated with the corresponding "Honourable Mention" in 2003. It also stands out for its excellent position in studies and classifications recently published by different communications media.

From the regulations perspective, the Rules of the General Meeting and Regulations for the Board of Directors dedicate special attention to the principles of transparency and information as key tools for diffusion to shareholders and investors of both the Corporate Governance practices applied by the Corporation as well as information that may be of interest.

In particular, article 2 of the Rules for the Meeting establishes the contents of the Corporate webpage 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 corporation. The Regulations for the Board of Directors for its part dedicates a complete chapter to relations between the Board and its shareholders, markets and auditors (articles 35 to 38, both inclusive), for the purpose of facilitating and improving the flow of corporate information in favour of third parties.

During 2004 the Corporation, in its permanent concern to remain a leader in complying with the most recent standards and recommendations in the area of Corporate Governance, approved the Annual Corporate Governance Report for fiscal 2003, adopted a Statute for Independent Directors, modified its Articles of Association and Rules for the General Meeting to allow the delegation of votes and distance voting, maximized the shareholders' right to information, and adopted its web page to the requirements deriving from CNMV Circular 1/2004 dated March 17.

## **2.- PRINCIPLE OF SECURITY AND DUTY FOR LOYALTY**

The Aldama Report declares a strengthening of the principle of market security, bearing with it a strict regulation of the Directors responsibilities in general and especially their duties for diligence and loyalty. This Recommendation was in turn included by legislators in Law 26/2003. As regards the corporation, its old Regulations for the Board of Directors already developed these principles in harmony with the recommendations of the Olivencia Report.

The Rules of the Board, adapted to the requirements of the Aldama Report and Law 26/2003, presents a meticulous development of the principles and duties listed in articles 30 and 31.

Directors of the Corporation 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 same, actively participate in deliberations so that their criteria effectively contributes to the decision making process, carry out any specific charge assigned by the Board of Directors, promote the investigation of any irregularity in the company management that he 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 his functions and oppose any agreements that are contrary to law, the statutes, and the interests of the corporation.

The duty for loyalty is included in the Regulations for the Board, with a series of guidelines applicable to Directors and directed towards the corporate interest. The duty to loyalty is thus projected from a subjective as well as objective perspective, as follows:

### **Subjective framework**

The Director will abstain 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 associated to the Director or to a Corporation with which he has a work or professional association, or where he has an administrative position or significant participation.

For all effects of the foregoing, people considered associated with the Directors, both individuals and legal entities, are described in article 127 ter of the Corporation Law.

The Director will report any conflict of interest that he may have with the corporation, and in case of conflict he will abstain from intervening in the operation of the referred to conflict of interest.

Nominee directors on their part will reveal to the Board any conflict of interest between the corporation and the shareholders proposing his nomination when this affects matters submitted to the board, abstaining from participating in the adoption of the corresponding resolutions.

## Objective framework

This framework is comprised 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 in secrecy, and in all events abstain from reveal the information, data, reports or background to which he may have access as a result of his Position. Said obligations will remain even when he no longer 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 corporations 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 participation they may have in the capital of a corporation with any activity that is identical, analogous or complementary to that of the Company, or that represents to some degree a competition with same, as well as positions or functions exercised in same and activities on their own account or for others that outside same, that are analogous or complementary to the activities included in the corporate purpose.

### Use of corporate assets

Director cannot use the assets of the Company nor make use of his position in the company to obtain a patrimonial advantage, unless he has paid an appropriate compensation.

### Private Company information

The Director cannot use company information that is not available to the public for private purposes, except with the prior agreement of the Board of Directors

### Business opportunities

The Director cannot use, either directly or indirectly, for his own benefit or that of people associated with him, or a third party, any business opportunity of the Company, unless said opportunity is previously offered to him, or the company desists using same and the Director is authorized to use same, upon report from the Nominations and Remuneration committee.

### Indirect operations

Any Director who, with prior knowledge, allows or does not reveal the existence of operations performed by members of his family or corporations in which he holds an administrative position or has a significant participation or other associated parties and who has submitted to the conditions and controls set forth in the foregoing articles, violates his duty for faithfulness to the Company.

### Use of the name

Directors cannot use the name of the corporation nor invoke their quality of directors of same in performing any operations in their own behalf or for people associated with them.

On the other hand, the Corporation is especially concerned with guaranteeing the activities performed by it within the sphere of confidence required for the efficiency and progress of the corporation, all as recommended in the Aldama Report.

In this sense the Corporation has assumed the recommendations and directives contained in Corporate Responsibility of the Company, in harmony with the contents of the European Union Green Book, and the United Nations World

Compact, and the CSR (Corporate Social Responsibility) and GRI (Global Reporting Initiative) initiatives, all for the purpose of managing its businesses not just in compliance with general legal standards, but also exercising Corporate Responsibility with maximum diligence, permanently maintaining and creating value to achieve business excellence, at all times conciliating ethical, economic, corporate and environmental benefits.

Finally especially noteworthy is the work entrusted to the Nominations and Remunerations Committee by the Board of Directors with regard to fulfilling the duties of the directors and in particular their duty for loyalty. In this regard it has been expressly attributed with the functions of informing the Board of compliance, issuing the corresponding reports and proposals and measures to be adopted in case of failure to comply, as well as authorizing the Directors to use corporate assets.

No changes were made to the Rules of the Board of Directors during 2004.

### **3. GOVERNING BODIES**

#### **3.1. General Meeting of Shareholders**

Shareholders rights to receive information, participate and attend are set out in the Articles of Association and the Rules of the General Meeting of Shareholders. Modifications to said texts, agreed upon by the General Meeting of Shareholders held in May 2004, have been recorded with the Companies' Register and published on the corporate web page ([www.ree.es](http://www.ree.es)).

Shareholders rights to receive information and to attend the General Meetings were amplified, facilitating the request for and receipt of information, with no obligation to own a minimum number of shares to be allowed to attend the General Meetings.

Another act that stands out was maximization of the contents of the corporate web page as a communications instrument with shareholders and investors, and its adaptation to fulfil the requirements set in Order ECO/3772/2003 dated December 26 and CNMV Circular 1/2004 dated March 17. Although the majority of the contents required by the Order and Circular were already available in the corporate web page, the information contained in same has been adapted to the requirements of said norms.

More specifically, adaptations made and published in the web page at the beginning of 2004 consisted of the following:

- a) Inclusion of the quorum necessary and result of the votes on each of the proposals made to the General meetings held in the past year.
- b) Addition of information relating to attend and procedures to confer representation in the General Meetings, in accordance with the Articles of Association and Regulation of the General Meeting of Shareholders.
- c) Creation of a specific section relating to electronic voting, stating that this is still pending development of regulations for same.

The Rules of the Meeting also facilitate to the extent possible participation of shareholders in matters of interest to them (right to attend, notice, inclusion of points and proposals in the Agenda, questions and requests for information and voting).

The Rules of the Meeting, in line with the most well known recommendations in this sphere, comply with the regimen established by Law 26/2003 dated July 17, which incorporates the contents of the Aldama Report into Spanish Law of Corporations, setting forth the rights of shareholders and norms regarding the organization and functioning of the General Meeting.

Finally, adaptations to the Articles of Association and Rules of the General Meeting of Shareholders were approved in 2004, allowing the delegation of votes and electronic distance voting in the General Meetings, if and when status of the

technology allows its use with due guarantees. Specifically, the implementation of electronic voting is planned for the Annual General Meeting to be held in 2005. All the foregoing is set forth in detail in section E of this report, to which content express reference is made.

### 3.2. Board of Directors

The Corporation acts through a reduced, active and efficient Board of Directors comprised of eleven (11) members, instead of opting for a broader Board that functions with the support of an Executive Committee.

Its composition, organization and functions are set forth in the new Rules of the Board of Directors dated November 18, 2003, which modified the previous Rules from the year 1999 reported to the CNMV, recorded in the Companies' Register and published on the corporate web page ([www.ree.es](http://www.ree.es)).

Pursuant to the provisions of current legislation and Corporate Governance practices, the Corporation created in fiscal 2003 an Audit Committee formed complete of external Directors, and a Nominations and Remuneration Committee with a majority of external Directors, who 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 Rules of the Board of Directors.

Directors of the Corporation, professionals of recognized prestige with a broad Professional career, as stated in section B of this report, contribute to management of the corporation their experience and knowledge necessary to confront the needs of the company.

The Board is comprised of five independent external directors, five external nominee directors and one executive director, adequately reflecting the current share structure of shareholders of the corporation and the recommendations of Corporate Governance -59.5% free float and 40.5% nominee-.

In accordance with the recommendations of the Aldama Report, the mandate of independent Directors, as for all other directors, will have a period of four (4) years, and they may be re-elected indefinitely. The Rules of the Board also establish that no proposals will be made to remove a nominee or independent directors prior to completion of the Statutory period for which they were appointed, except for sufficient cause and after report from the Nominations and Remuneration Committee.

A maximum age limit of seventy (70) years was established for exercising the position of Director:

The President of the Board is the President of the Company and its governance and administrative bodies, and the person responsible for its Senior Management, administration and fully representing the same with full powers delegated by the Board in all matters.

Nevertheless, his actions are subject to specific controls by the Board of Directors to whom he reports a posteriori or, as applicable, seeks authorization; the Audit and Nominations and Remuneration Committees also perform an effective corporate management control function in their respective spheres of interest.

With regard to remuneration to the Board during the 2004 financial year, pursuant to applicable legal standards and recent practices of Corporate Governance, a breakdown of same was made per concept of the remuneration, type of Director, benefit attributed to the corporation, all as set forth in CNMV Circular 1/2004 dated March 17. Said breakdown also include remuneration paid to Directors of the Corporation for their membership of other Boards of directors of other Corporations of the Group; as well as indemnification received by the outgoing president as a result of the extinguishment of his work relationship with the corporation.



Annual financial statements and economic-financial information of the corporation since 1999 was prepared under the supervision and oversight of the Audit Committee (previously known as the Audit and Compliance Committee), redounding in improved transparency and dependability.

#### **4. PROFESSIONAL SERVICE PROVIDERS**

Board relations with the company external auditors are channelled through the Audit Committee. The Board of Directors will abstain from hiring any auditing firm whose projected fees for all concepts surpass 10% of their total income during the last financial year; and will publicly report on a yearly basis the global fees paid by the Company to the auditing firm for services other than those of the audit.

In 2004, the Audit Committee approved a procedure to regulate relations with the external auditor:

The Regulations for the Board of Directors states that the Board of Directors will prepare the final accounts, procuring that there are no provisos 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 constitution, the Corporation has not been the object of audit provisos in its Annual Financial Statements, demonstrating the maximum correctness, dependability and sufficiency of the Annual Financial Statements of the corporation and its consolidated Group throughout the life of the corporation, guaranteeing at all times the maximum informational transparency.

The Corporation also frequently makes presentations to financial annalists and investment banks which are regularly attended the most well known professionals and specialists of the sector; and which report on the business developments of the Group and its most important economic-financial results.

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 Corporation of interest to them. Presentations made to analysts are regularly sent to the CNMV to be broadcast to the markets through its web page, and then published in the corporate web page.

Since 1999 the corporation has also had an "Investors 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

With regard to section A.10 of this report, the recent approval of Royal Decree Law 5/2005 dated March 11, with urgent reforms to drive productivity and improve public procurement (B.O.E. n° 62 dated March 14), hereinafter the RDL, introduced in its Title II (Energy Markets) a set of reforms that include, among other things, the amendment of Law 54/1997 dated November 27 regarding the electrical sector (hereinafter LSE).

Among the amendments to the LSE, article twenty third of the RDL establishes new maximum limits on share ownership in the corporation. As stated in paragraph III of the Statement of Reasons for the RDL, the purpose of that modification is to guarantee the corporation's independence from companies developing electrical sector activities that are freed from restrictions.

Said twenty third article modified paragraph I of article 34 of the LSE, establishing that for parties acting in the electrical sector and individuals or legal entities with a direct or indirect participation of over five per cent in the capital of said entities, the maximum percentage of share participation in the operator's corporate capital of the operator would be one per cent (1%).

For the remaining shareholders, both individuals and other legal entities, the RDL kept the maximum share ownership, both direct and indirect, at three per cent (3%) of corporate capital, set in Law 53/2002 dated December 30 regarding Fiscal, Administrative and Corporate Measures. The RDL maintains the special regimen for the State Association of Industrial Participations (SEPI), which was not modified and which in any event maintains a participation of not less than ten per cent (10%).

The RDL maintained the prohibition on syndicating shares existing under the foregoing regimen, and also re-established the joint limit of forty per cent (40%) for shareholdings of shareholders acting in the electrical sector, as set forth in the initial draft of the LSE dated November 27, 1997. The RDL also established that voting rights corresponding to shares surpassing the legally established maximum limits would be held in abeyance until said RDL –entered into effect, on March 15, 2005.

The National Energy Commissions maintains its faculties to exercise legal actions to make the foregoing legal limitations effective.

The modification of the Articles of Association that are proposed for approval by the next General Meeting of Shareholders, to comply with the mandate contained in the RDL, establishes a maximum period of June 1, 2005 for adjustment of the Articles of Association.

### **Indemnification**

The amount of 2,928 thousand euros were paid during 2004 as a result of the extinguishment of the work relationship with the foregoing President of the Corporation.

## I. ANNUAL REPORT ON ACTIVITIES OF THE AUDIT COMMITTEE, FISCAL 2004

### I. BACKGROUND AND JUSTIFICATION

The RED ELÉCTRICA DE ESPAÑA, S.A., (RED ELÉCTRICA) Audit Committee was created by resolution of the RED ELÉCTRICA Board of Directors on November 30, 1999, with the name Audit and Compliance Committee as the result of a process of adapting the corporate rules of governance to the new situation resulting from the Public Share Offering made by the State Association of Industrial Participations (SEPI), and the entry of the corporation to the stock exchanges on July 7, 1999.

The Board of Directors of RED ELÉCTRICA, in its meeting of November 18, 2003 constituted a new Audit Committee to substitute the previous Audit and Compliance Committee in its functions, pursuant to the provisions of article 23 of the Articles of Association and Chapter V, articles 15 and 16 of the new Regulations for the Board of Directors, approved in the same session, all in accordance with the provisions of article 47 of Law 44/2002 dated November 22, Reform of the Financial System.

Powers, organization and functioning of the Audit Committee are ruled by the Articles of Association and the Regulations for the Board of Directors of RED ELÉCTRICA, adapted to Laws 44/2002 and 26/2003, reported to the CNMV.

The Rules of the Corporate Board of Directors in its article 16.6.a), establishes that the functions of the Audit Committee will include the preparation of an Annual Report on its activities, without prejudice to its additional obligation to keep the Board of Directors informed of the activities developed by said Committee.

As such the 2005 Audit Committee Annual Action Plan calls for drafting of the report on activities of said committee during the 2004 financial year in the month of February, constituting the purpose of this document.

### 2. COMPOSITION

The Audit Committee is comprised of three members pursuant to the provisions of article 23.1 of the Articles of Association and article 15 of the new Regulations for the Board, appointed to said position for a period of three years.

According to the provisions of said norms, the Committee will be formed of a majority of non-executive directors appointed by the Board of Directors, although currently and during 2004 the Committee was formed only of external directors.

The President of the Committee is elected by its members from among the non-executive directors, with the Secretary of the Board of Directors acting as Secretary of the Committee.

The Corporate Audit Committee has maintained its structure and composition with no changes throughout the 2004 financial year, and is comprised of the following members:

- |   |                           |
|---|---------------------------|
| - Joaquim Clotet i Garriga (Independent director) | President                 |
| - Manuel Alves Torres (Nominee director)          | Member                    |
| - Pedro Rivero Torre (Independent director)       | Member                    |
| - Rafael García de Diego Barber                   | Secretary, not a director |

The Directors forming the Committee are individuals specially qualified to exercise their position, with ample professional experience and performing positions of maximum responsibility outside the RED ELÉCTRICA Group, in functions related to duties entrusted to same. Following is a brief summary of their Professional career:

- Pedro Rivero Torre is a Professor of Economy, Finance and Accounting of the Universidad Complutense de Madrid, Certified Account Auditor (on leave of absence) and among other positions occupies the positions of Executive Vice President-General Director of UNESA, and is a Member of the Economic and Corporate Board.
- Manuel Alves Torres is a Bachelor in Economic and Business Sciences. He currently serves as Director of Planning and Control and is a member of the Steering Committee of the State Corporate Ownership Company (SEPI in its Spanish acronym). He also serves as Director of Tragsa and Sedettur, among other companies.
- Joaquim Clotet i Garriga is a Bachelor in Economic and Business Sciences from the Universidad de Barcelona and has held, among other relevant positions, the positions of Assistance General Director of Banesto, Assistant Director of Caixa, Vice president of Planeta-Agostini, Delegate Director of Planeta Internacional, Vice president of SEPI, Director of Endesa, Iberia, Sevillana and Fecca. Since 1999 he has worked as a Consultant for Serrat, Serrat i Associats.

Although they do not form part of the Committee, the Director of Legal Assistance also attends the committee meetings in the person of the Secretary, as well as the Director of the Technical Department, responsible for Internal Audit services; during 2004 the General Director of Administration and Finances also attended regularly, especially due to the transcendence and complexity involved in implementing the International Standards for Financial Information (IFIS) in RED ELÉCTRICA Group.

### **3.-FUNCTIONS**

The Articles of Association (article 23) and Regulations for the Board of Directors (article 16) among others assign certain tasks to the Audit Committee, including support functions for the Board of Directors in overseeing the process of preparing economic-financial information, internal controls of the corporation, independence of the External Auditor, compliance with legal provisions and internal standards, performing the preliminary analysis of significant operations for the corporation and in all other matters required by the Board of Directors.

With regard to shareholders of the Corporation, the Committee is responsible for knowing and, if applicable, responding to the initiatives, suggestions or complaints presented by same regarding matters under their jurisdiction, and reporting as appropriate to the General Meeting on matters under their jurisdiction presented by shareholders during the meeting.

Finally and as indicated before, the committee must periodically inform the Board of Directors of its activities and prepare an annual report of same, to be incorporated into the annual report of the Corporation and its group, as well as an action plan for each financial year.

### **4.- ACTIVITIES PERFORMED DURING FISCAL 2004**

The Audit Committee reported its activities to the Board of Directors in its sessions immediately following each meeting of the Committee, and has followed, to the extent possible, the calendar pre-established in the Annual Action Plan, without prejudice to unforeseen matters of the Committee's jurisdiction which arose during the year.

The Audit Committee met on nine occasions during 2004, with a similar number of reports provided to the Board of Directors.

Meetings of the Audit Committee were also attended, when deemed appropriate, by different administrators of the Corporation in areas under their sphere of influence, who made presentations and clarifications on different matters, and especially the Plan to implement International Financial Standards (IFIS) in RED ELÉCTRICA Group, re-structuring of the

debt of determined corporations of RED ELÉCTRICA Group, proposal to renew the contract with the External Auditor of Red Eléctrica de España, S.A., and its Consolidated Group, analysis of different investment projects relating to corporations of RED ELÉCTRICA Group, or review of the 2003 Financial Statements for the Corporation and its group, which also had the attendance and collaboration of the External Auditor.

Most relevant activities performed by the Audit Committee in 2004 were:

**With regard to financial-economic information:**

- Review of Advance at the close of fiscal 2003.
- Analysis of the Budget for the 2004 financial year for RED ELÉCTRICA Group, Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A., for presentation to the Board of Directors.
- Analysis and review of the re-structuring of debt of determined corporations of RED ELÉCTRICA Group for presentation to the Board of Directors.
- Periodic review of the Plan to Implement International Norms for Financial Information (IFIS) in RED ELÉCTRICA Group and awareness of a 2004 Opening balance under the IFIS for said Group.
- Review the 2003 Financial Statements of Red Eléctrica de España, S.A. and its group, presenting same to the Board for preparation together with the opinion of the External Auditor.
- Approval of a review procedure by the Committee for economic-financial information to be sent to Market oversight bodies, after review of the temporary procedure approved in 2003.
- Reviews quarterly and semester information sent to Stock Exchange Oversight bodies..
- Review Continued Informative Prospectus of the Corporation and Reduced Prospectus on the Issuance of Payment Notes to be presented to the National Stock Exchange Commission.
- Analysis of the proposal to re-structure Syndicated Loan for the Corporation.
- Analysis of projected results and yearly results for fiscal close corresponding to the year 2004.
- Analysis of the proposed distribution of an amount to dividends corresponding to the 2004 financial year, for presentation to the Board of Directors.

**With regard to internal control systems:**

- Analysis of the Internal Corporate Audit Action Plan for 2004.
- Periodic analysis of the Work risk Prevention Report for all of the 2004 financial year.
- Analysis of the results of Internal Audit services during fiscal 2003.
- Review of the internal control process for expenses and investments..
- Analysis and follow-up on decisions of the Board of Directors corresponding to fiscals 2002-2003.
- Review of appointments made by the General Director of Administration and Finances, responsible for internal control of the corporation.
- Selection of Corporate Rules and Procedures, to be reviewed by the Committee.

**With regard to External Auditors:**

- Proposal to the Board of Directors to renew contract with the External Auditors of Red Eléctrica de España, S.A., and its Consolidated Group.
- Renewal of the current Auditors was proposed, given the complex process of implementing International Norms on Financial Information (IFIS), which circumstance discouraged changing the External Auditor for this period.
- Approval of the procedure to comply with functions assigned to the Audit Committee regarding External Auditors.
- Analysis of hiring of the External Auditor for services other than the audit.

**With regard to compliance with legal provisions and internal standards:**

- Analysis of the proposal to modify the Rules of Conduct in the Stock Exchange and review the list of subjects permanently affected by same.

#### **With regard to shareholders of the Corporation:**

- Follow up on possible initiatives, suggestions and complaints presented by shareholders during the year.
- Presence of the President of the Audit Committee at the Annual General Meeting of Shareholders to personally respond to shareholders' questions.
- Oversight of corporate actions directed towards controlling compliance with legal and statutory limits on share participation in the Annual General Meeting of Shareholders..

#### **Other activities:**

- Approval of Audit Committee Annual Action plan, corresponding to fiscals 2004 and 2005.
- Approval of annual Audit Committee Action Plan for fiscal 2003, to be attached to Annual Corporate Governance Report for the Corporation.
- Analysis of different investment projects relating to companies of RED ELÉCTRICA Group.
- Review of the process of renewing the Company insurance program until its conclusion, and analysis of proposal for presentation to the Board of Directors.
- Periodic follow up on evolution of affiliates' annual investment budgets.
- Follow up actions of the Corporate Tax Inspection corresponding to financial years 1998 to 2001.
- Analysis of the Early Retirement Plan for presentation to the Board of Directors.
- Report periodically to the Board of Directors regarding status of Committee activities.

## **II. REPORT OF ACTIVITIES OF THE NOMINATIONS AND REMUNERATION COMMITTEE FOR FISCAL 2004**

### **I. BACKGROUND**

Following the recommendations of the Aldama Report, on November 18, 2003 the Board of the Directors of the corporation constituted the Appointments and Remuneration Committee. However since 1999 the Nominations Committee had partially performed the functions of this committee.

The purpose of this report is to comply with the obligation established in the Rules of the Board of Directors of the Corporation, which in its article 18.4 (a) establishes among other functions, that the Committee will prepare an annual report of its activities, without prejudice to its duty to periodically inform the Board of Directors of activities performed by said Committee.

During 2004 the first report of activities of the Nominations and Remuneration Committee referring to 2003 and which included a summary of the 2003 Annual Corporate Governance Report for the Corporation was approved.

The 2005 Annual Nominations and Remuneration Committee Action Plan includes the preparation of a report of activities performed in the 2004 financial year; and constitute the purpose of this document.

### **2. COMPOSITION AND FUNCTIONS**

Article 24 of the Articles of Association and articles 17 and 18 of the Rules of the Board of Directors regulate the faculties, organization and functioning of the Nominations and Remuneration Committee.

Article 17 of said Rules provide that the Committee will be formed of a number of members of the Board of Directors, with a minimum of three and maximum five, with the majority external Directors and the participation of independent Directors, reasonably reflecting the composition of the Board.

At the close of the 2004 financial year and as of the date of approval of this report, the Nominations and Remuneration Committee in compliance with said norms was comprised of four Directors, three of whom are external and one executive; two of the external directors two were independent, one of whom was the President of the Committee.

The only modification to the composition of this committee during 2004 was the incorporation of Luis M<sup>a</sup> Atienza Serna, substituting Pedro Mielgo Álvarez as a direct result of the substitution made in favour of the first as Executive President of the Corporation.

Said Committee was comprised as follows, as of the date of approval of this report:

<b>Director</b>	<b>Position</b>	<b>Type of Director</b>
Antonio Garamendi Lecanda	President	Independent
Luis M <sup>a</sup> Atienza Serna	Member	Executive
Pedro Rivero Torre	Member	Independent
Juan Gurbindo Gutiérrez	Member	Nominee

The President of the Committee is elected by members of the committee and the Committee Secretary is the Secretary of the Board of Directors, Rafael García de Diego Barber. Members of the Committee are appointed and dismissed by the Board of Directors at the proposal of the President of the Board.

Committee members carry out their functions for a period not to exceed three years. They may be re-elected and dismissed when re-elected or dismissed as Directors or when so agreed by the Board of Directors, at the report of the Nominations and Remunerations Committee. The President can be re-elected after one year has passed since his removal.

The Committee will consider suggestions made by the President, members of the Board, directors or shareholders of the corporation in matters that affect the appointment of Directors, appointment of Delegate or Executive Directors and compliance with principles of Corporate Governance, the Statutes and Regulations for the Board of Directors.

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

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

The Committee may be constituted with the attendance of the majority of its members. Decisions or recommendations will be adopted by a majority of votes, all of which will be included in the minutes at the conclusion of the meeting. To better carry out its duties, the Committee may propose to the board of Directors the possibility of request advice from independent professionals and have access to any type of corporate information or documentation required by them to perform their functions.

Pursuant to article 24 of the Articles of Association, the Nominations and Remuneration committee has the following basic responsibilities:

- *Make a proposal to the Board of Directors with the system and among of annual remuneration to be paid to the Directors.*
- *Propose and periodically revise the remuneration criteria and schemes for the President, the Board and Senior Management of the Company and its affiliates, considering the results of same and the responsibility, dedication and incompatibilities required of the Directors. Also to know and assess the policy of administrators of the company.*

- *Oversee the transparency of remunerations to the Board and to know guarantee clauses included in contracts with Senior Management.*
- *Provide reports on all proposals to be made by the Board of Directors to the General Meeting regarding the nomination or removal of Directors, including in cases of co-option.*
- *Propose to the Board of Directors a system for selecting independent expert Directors..*
- *Propose and report on any other matter related to the foregoing and requested by the President or Board of Directors."*

The foregoing basic responsibilities are described in more detail in article 18 of the Regulations for the Board of Directors.

### **3. ACTIVITIES DEVELOPED DURING FISCAL 2004**

During 2004 the Nominations and Remuneration Committee met on ten occasions, informing the Board of Directors of the activities carried out by it immediately following the conclusion of each meeting.

Most relevant activities carried out by the Nominations and Remuneration Committee in 2004 were:

#### **With regard to nominations, removals and re-elections:**

- Analysis, discussion and approval of the proposed Statute for Independent Director of the Corporation, for submission to the Board of Directors of RED ELÉCTRICA.
- Analysis and preparation of a preliminary report for submission to the Board of Directors, on the proposal to nominate Luis Ma. Atienza Serna for co-option as Director.
- Approval of the proposed agreement to delegate powers of the Board of Directors to the President of the company, for submission to the Board of Directors.
- Approval of the proposal to the Board of Directors regarding the nomination of Luis M<sup>a</sup> Atienza Serna as member of the Nominations and Remuneration Committee.
- Analysis and agreement with the reorganization of the Corporate administrative staff.
- Analysis and preparation of a preliminary report for submission to the Board of directors, regarding the proposal to nominate Rafael Suñol Trepar for co-option of Director, to cover an empty seat on the Board.

#### **With regard to remuneration**

- Approval of the degree of compliance with the general business objectives of RED ELÉCTRICA and Red Eléctrica Telecomunicaciones, S.A., corresponding to fiscal 2003.
- Approval of the degree of compliance with individual objects for 2003 for the members of the RED ELÉCTRICA and Red Eléctrica Telecomunicaciones, S.A. Steering Committees and the General Director of Red Eléctrica Internacional, S.A.
- Approval of Variable Remuneration corresponding to fiscal 2003 for all members of the RED ELÉCTRICA and Red Eléctrica Telecomunicaciones, S.A. Steering Committees and the General Director of Red Eléctrica Internacional, S.A.
- Approval of the business and administrative objectives of RED ELÉCTRICA, Red Eléctrica Telecomunicaciones, S.A. and Red Eléctrica Internacional, S.A. for 2004, as well as personal objectives of the Steering Committees of the first two corporations and the General Director of Red Eléctrica Internacional, S.A., and its corresponding weighting in the variable remuneration of said directives for the year 2004; monitor compliance with said objectives; readjust the personal objectives with the reason for the organizational changes of the administrative team of the corporation.
- Definition, for approval of the Board of Directors of RED ELÉCTRICA, of the proposal for remuneration to members and members of the Steering Committees for 2004, as well as remuneration to different members of the Board of Directors of Red Eléctrica Telecomunicaciones, S.A. for approval by the General Meeting of said affiliate.
- Analysis and agreement with the conditions of the agreements for deferred remuneration of the President and General Directors of RED ELÉCTRICA.
- Approval of the formalization of an accident insurance policy for Directors of RED ELÉCTRICA and Red Eléctrica



Telecomunicaciones, S.A.

- Request and analysis of an external consultation on remuneration to the Corporate administrative staff.
- Review of the project for a new training policy for directors.
- Analysis and agreement, for approval by the Board of Directors, with indemnification conditions and liquidating of Pedro Mielgo Álvarez, Executive President of the Corporation, upon extinguishment of his work relationship with same.
- Approval of the proposal, for approval by the Board of Directors of a remuneration scheme and contractual conditions of the executive president of the corporation, including conditions for indemnification in case of the extinguishment of his relationship as first executive of the company.
- Approval of indemnification clauses for new members of the administrative staff of the corporation in cases of extinguishment of the work relationship.
- Analysis and approval of the remunerations policy for the administrative staff for fiscal 2005.
- Preparation of a preliminary analysis of remuneration to the Board of Directors of the Corporation for fiscal 2005, in order to present it to the Board of Directors as a proposal.

#### Other Functions

- Approval of the agenda and annual work plan for the year 2004.
- Approval of the annual report of activities of the Nominations and Remuneration Committee corresponding to fiscal 2003, incorporate the Annual Corporate Governance of the Corporation.
- Analysis of a self-evolution study of the Board of Directors of the Corporation, in accordance with the most recent practices of Corporate Governance..
- Periodically provided specific information to the Board of Directors regarding activities developed by the Committee.

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If you believe that there is a principle or relevant aspect to the corporate governance practices applied by the corporation that has not been discussed in this Report, mention and explain the content of same here.

This section may include any other information, clarification or tone related with the foregoing sections of the report, to the degree that they are relevant and not repetitive.

Specifically indicate if the corporation is subject to legislation other than Spanish law in the area of corporate governance, and if so include information that must be supplied and different from that required in this report.

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This annual corporate governance report was approved by the Board or Administrative Body of the Corporation in its meeting of April 21, 2005-

Indicate the Directors or Members of the Administrative Body voting against or abstaining with regard to approval of this Report.

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**CO-ORDINACIÓN:**

Department of Communications and Institutional Relations of Red Eléctrica.

**COVER DRAWING:**

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**GRAPHIC DESIGN, TREATMENT OF IMAGE AND LAYOUT:**

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