

ANNUAL REPORT 1999



RED ELÉCTRICA DE ESPAÑA

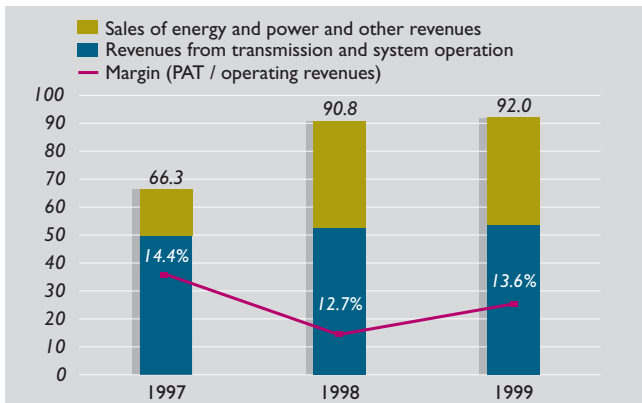
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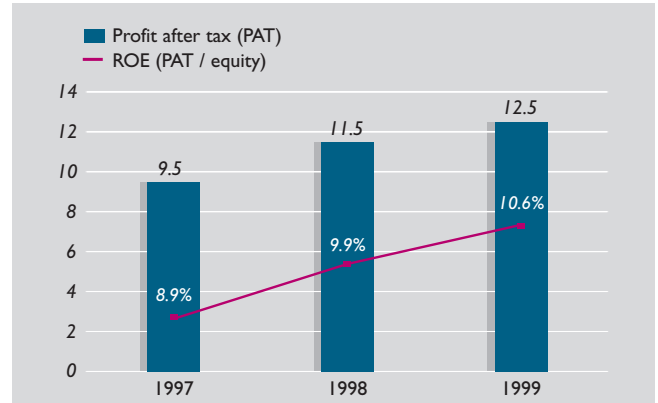
KEY INDICATORS



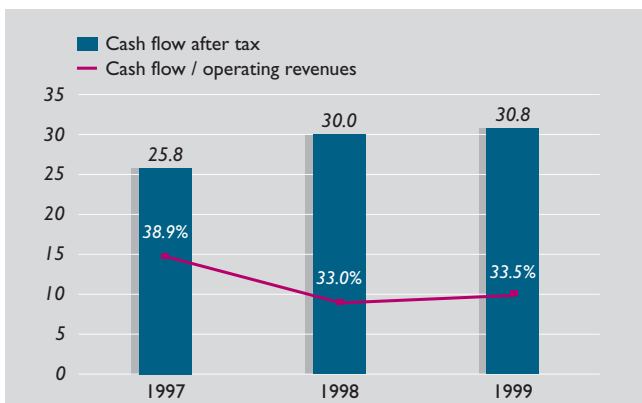
OPERATING REVENUES
BILLIONS OF PESETAS



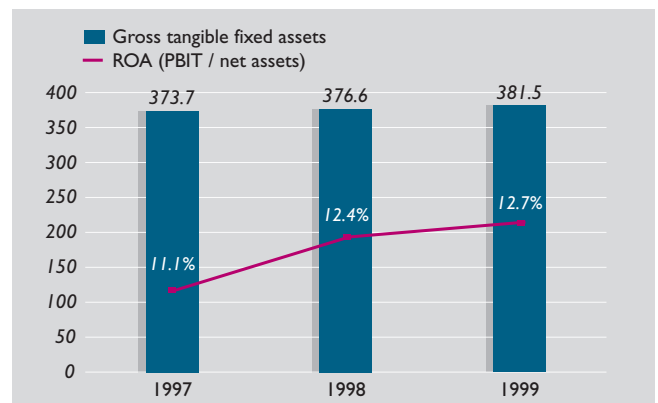
PROFIT AFTER TAX
BILLIONS OF PESETAS



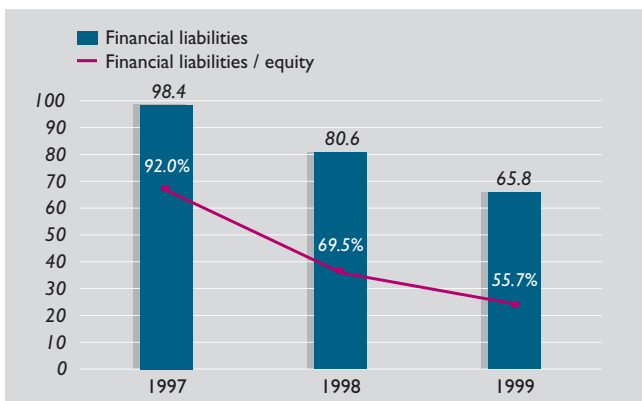
CASH-FLOW AFTER TAX
BILLIONS OF PESETAS



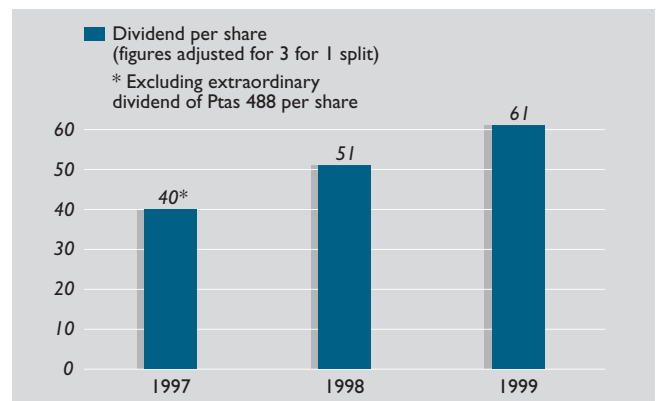
TANGIBLE FIXED ASSETS
BILLIONS OF PESETAS



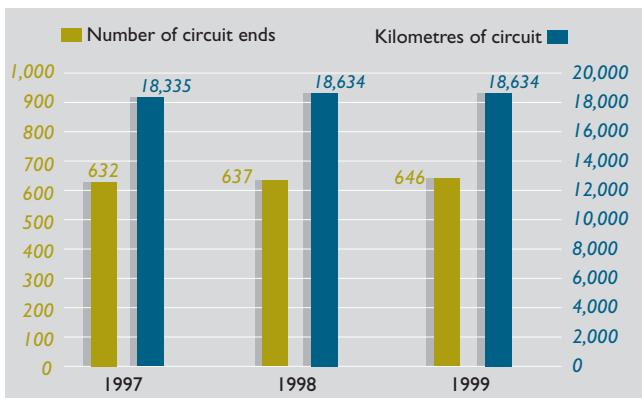
FINANCIAL LIABILITIES
BILLIONS OF PESETAS



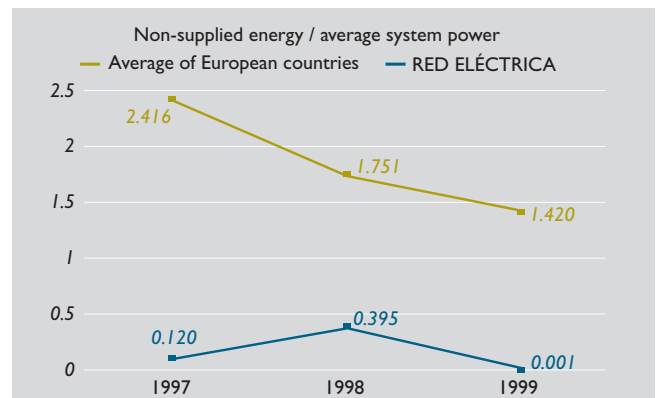
DIVIDEND PER SHARE
PESETAS



SIZE OF THE GRID
LINES AND SUBSTATIONS IN SERVICE



QUALITY OF SERVICE
AVERAGE INTERRUPTION TIME IN MINUTES



THE CHAIRMAN'S LETTER



Pedro Mielgo Álvarez
Chairman of Red Eléctrica de España

TO THE SHAREHOLDERS:

It is my pleasure to present the annual report for 1999 in which you will find extensive information on the company's financial situation and its activities as well as details of the principal events which affected RED ELÉCTRICA in 1999.

Such events included the listing on the Stock Exchange and the commencement of a strategy to create value through international activities and diversification and the constant improvement of internal efficiency. RED ELÉCTRICA has thus embarked on a new phase which is aimed at developing its full potential while it continues to play the key role in the operation of the Spanish power system with maximum liability and efficacy.

With regard to the improved internal efficacy of the company, a strict policy of improvement and reduction in operating costs, financial expenses and overheads helped the company to achieve profits which were higher than those forecast at the beginning of the year. One of the main milestones for the year was the signing of the Collective Bargaining Agreement for the three-year period 1998–2000. This agreement eliminated seniority as a component of remuneration and it introduced an important degree of flexibility in working methods and a variable remuneration scheme, linked to results, for all employees.

A start was also made on the reorganisation of the company's principal activities. In the case of design the project control systems were improved; in maintenance the regional organisation was modified to bring it in line with new requirements and in the area of system operation the functions of the control centres were restructured. All this was done with the goal of ensuring the highest degree of safety, quality and efficiency in all the company's activities in accordance with the latest technologies and procedures.

The international expansion of RED ELÉCTRICA commenced with the investment in REDESUR for the construction and operation of the transmission grid in the south of Peru. Further bids are planned in 2000, related to processes of privatisation and transmission company licences in different countries. RED ELÉCTRICA plans to present proposals in these cases with the object of successfully continuing its expansion strategy.

RED ELÉCTRICA's diversification is mainly based on the development of its telecommunications potential using the transmission capacity of our fibre optic network. In the field of consulting and advisory services, contracts were signed with customers in various countries, thus capitalising on the experience accumulated by the company in its own traditional areas of activity.

As a result of the excellent and consistent level of quality at our company and for the first time under the new legal framework, a financial incentive has been recognised for the year 2000 related to the availability of facilities, with reference to the indices achieved in the previous year.

The change in corporate culture is aimed at improving our capacity to adapt and to anticipate and at strengthening the focus on results. Various key objectives were achieved. These were the new Collective Bargaining Agreement, mentioned above, the progressive simplification of the organisation, the restructuring of operational functions, the launch of a project for management by attributes and the focus on training activities related to greater strategic awareness and added value.

The financial results were completely satisfactory and exceeded the forecasts made at the beginning of the year. Profit after tax came to Pta 12,501 million which was an increase of 8.4% on the previous year. Revenues from activities which are regulated by the government were Pta 53,590 million (1.9% greater than 1998) and cash flow was Pta 37,402 million (4.3% greater than the previous year).

The company's good performance meant that the Board of Directors was able to propose a gross dividend of 0.365 euros per share (equivalent to 61 pesetas per share) at the Annual General Meeting. This represents 65.7% of profit for the year after tax.

In July 1999 RED ELÉCTRICA was listed on the Stock Exchange. The State holding company (SEPI), which acted as the privatising agent, made an initial Public Offer of Shares equivalent to 31.5% of the share capital of RED ELÉCTRICA DE ESPAÑA and this was placed at 8 euros per share.

Following this step the major part of the company's capital is now in private hands. The company's statutes were modified to bring them into line with those of a listed company and

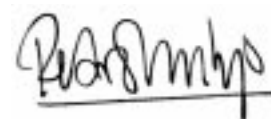
independent directors were appointed to the Board. The statutes of the Board of Directors now includes the recommendations of the code of good governance for limited liability companies and this has been carried out with maximum rigour and transparency with regard to the shareholders and to Society.

During 1999 the share price did not perform as expected. However, at the beginning of the present year the market recognised RED ELÉCTRICA's excellent combination of strength and potential and the share price rose in accordance with the real circumstances of the company.

Last year was generally overshadowed by concerns related to the so-called "Y2K Effect". RED ELÉCTRICA, in close co-operation with the government and other Spanish and European companies in this sector, conducted a programme to prevent or minimise the negative effects – in accordance with the latest procedures. The change of year occurred with no adverse effect and this was a motive for special satisfaction on the part of RED ELÉCTRICA and one of the best tests of the company's technological and professional preparation.

An ISO 14001 certificate was obtained in 1999 for the company's Environment Management System. It thus became the first electricity company to obtain this certificate for all its activities and the first Spanish company to have all its work centres certified in this manner.

In summary, the company has passed through a year rich in events of great importance which, with the efforts of the entire organisation, were managed successfully. It has continued, day by day, creating value for its shareholders and for Society, confident of their support in meeting the challenges of a promising future which is full of opportunities.



BOARD OF **D**IRECTORS AND **S**ENIOR **M**ANAGEMENT



RED ELÉCTRICA DE ESPAÑA, S.A.**Members of the Board of Directors at 31 December 1999****CHAIRMAN**

D. Pedro Mielgo Álvarez

MEMBERS

D. Pedro Rivero Torre

D. Rafael Miranda Robredo

D.^a María Luisa Huidobro y Arreba

D. Victoriano Reinoso y Reino

D. Luis Felipe Castresana Sánchez

D. Javier Herrero Sorriqueta

D. Antonio Tuñón Álvarez

D. Juan Gurbindo Gutiérrez

D. Antonio Garamendi Lecanda

D. Manuel Alves Torres

D. Joaquín Clotet i Garriga

D. Pablo Isla Álvarez de Tejera

SECRETARY (NON BOARD MEMBER)

D. Rafael García de Diego Barber

SENIOR MANAGEMENT

Chairman

D. Pedro Mielgo Álvarez

General Managers

D. Victoriano Casajús Díaz

D. Ángel Landa López de Ocariz

D. Francisco Pedrosa Ortega

SIGNIFICANT EVENTS IN 1999



1 FEBRUARY

A consortium led by RED ELÉCTRICA won a public tender for improvements to the electricity transmission systems in southern Peru.

29 MARCH

AENOR (a Spanish Standards Association) granted a certificate of registration for design, construction and maintenance of high voltage power lines and fibre optic lines under the UNE-EN-ISO 9001 standard.

5 APRIL

RED ELÉCTRICA signed a contract with the Italian company, ELIABRUZZO, for the sale of equipment and know-how for working on live power lines using helicopters.

26 APRIL

The new web pages made their debut on the Internet.

6 MAY

RED ELÉCTRICA and the Office National de l'Electricité of Morocco (ONE) signed a contract to provide the latter with technical assistance. This contract covers the definition of a renewal strategy, the preparation of technical specifications and the selection of equipment and systems for ONE's control centre.

7 MAY

An Environment Management Certificate was obtained from AENOR under the UNE-EN ISO 14001 standard. This certificate includes all the technical facilities and work centres of RED ELÉCTRICA which thus becomes the first Spanish company to obtain an overall certificate and the first electricity company with an environmental certificate for the entire range of transmission activities.

17 MAY

The Annual General Meeting approved the re-statement of share capital in euros and a 3 for 1 stock split. As a result the share capital became 270,540,000 euros, the nominal share value became 2 euros and the number of shares is now 135,270,000.

7 JUNE

RED ELÉCTRICA published the Atlas de la Demanda de Energía (Atlas of Power Demand) which was the result of the Indel project. This is an essential guide for understanding electrical power demand in Spain.

1 JULY

The book, *Aves y líneas eléctricas* (Birds and Power Lines) was published. This book was sponsored by RED ELÉCTRICA and it is a unique international work on the interaction of birds and electrical facilities.

2 JULY

The Association of European Electricity Operators (ETSO) was created in Frankfurt. The membership comprises all the operators in all the member states of the European Union. RED ELÉCTRICA is a founder fellow and a member of the management committee.

7 JULY

RED ELÉCTRICA was listed on the Stock Exchange for the first time. The opening price was 8 euros (Pta 1331).

20 SEPTEMBER

A certificate of registration for operation of the Spanish mainland power system was obtained from AENOR in accordance with the UNE-EN-ISO 9002 standard.

6 OCTOBER

RED ELÉCTRICA organised the third international conference on power lines and the environment. This conference discussed the impact of power lines on the environment and served as a venue for sharing know-how and experience. The methods of communication to be used in the case of new aspects in this sector were also discussed.

14 OCTOBER

During the meeting of the Edison Forum of the electricity sector, RED ELÉCTRICA received a prize for innovative technology under the section, Management and Power Transmission, for the underwater interconnection between Spain and Morocco which was the first of its kind between two continents.

22 NOVEMBER

An interim gross dividend of 0.15 euros per share was paid to shareholders with respect of the 1999 results.

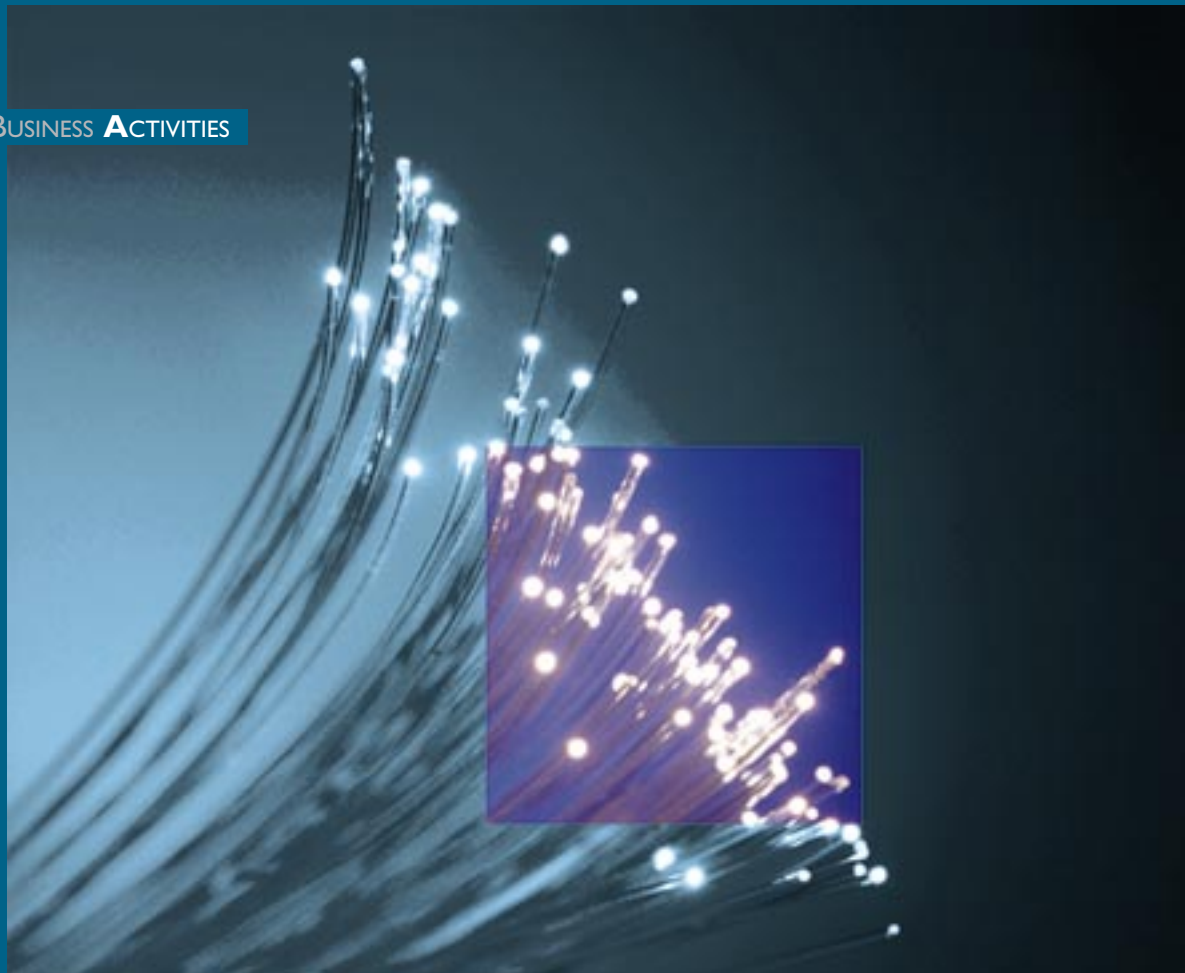
30 NOVEMBER

RED ELÉCTRICA won a tender for the development of programming and management systems for the operation of the electricity sector in Syria.

31 DECEMBER

The transition to the year 2000 took place without incident – in accordance with expectations and in accordance with the prevention plan which had been developed in close co-operation with other electricity companies and the government. RED ELÉCTRICA played a leading role in three of the six groups of the Year 2000 Emergency Committee which had been organised by the Ministry of Industry and Energy.

BUSINESS **A**CTIVITIES



DEVELOPMENT OF THE TRANSMISSION GRID



AMONG OTHER THINGS, ACTIVITIES RELATED TO THE EXPANSION and improvement plans for the power transmission network involved the commissioning of the 220 kV compound at the Balboa substation, the connection of the Elcogas 220 kV substation to the grid and the installation of two autotransformers. One of these transformers, which is installed at the Balboa substation, is 400/200 kV and has a capacity of 325 MVA. The other is located at the Cartelle substation and is 400/200 kV and 600 MVA.

TRANSMISSION NETWORK PLANNING

Activities related to the transmission grid included the following items:

- Commencement of work on the "2008 Horizon" planning.
- Evaluations aimed at defining the capacity of international interchanges with an annual horizon.
- Feasibility analysis for the connection of new generating facilities in the form of combined cycle natural gas units. By 31 December, 25 requests had been processed with a total capacity of 16,430 MW. Additional feasibility studies were carried out for new wind generators. These included the development plans for Galicia and Aragón, which were brought up-to-date, and studies of large projects in the autonomous communities of Valencia, Castilla - León and Castilla - La Mancha. The total capacity of all the new wind generators under consideration came to 16,800 MW at 31 December 1999.

NETWORK STUDIES

- A study was made of the need to compensate reactive power in the transmission grid with the goal of overcoming technical restrictions in the system.

The work started in 1998 with the participation of the electricity companies, was continued and a solution was defined which took distribution into consideration.

- Impact of wind farm output on system stability.

The first study of transitory stability incorporating a model of the wind farms was completed. The conclusions include certain questions which will require further investigation – such as measurement of wind speed in the different regions of the mainland, the definition of new criteria for the protection of wind generators and wind farms and the uncertainties related to the modelling of the wind farms.

FORECASTS

Forecasts were prepared for electrical energy demand and its coverage for the period 2000-2010. An estimate was also made of the possibility of new generation (under both the ordinary regime and the special regime) for the same period.

FACILITIES IN SERVICE - 31-DEC-99

LINES (km)	
400 kV	14,264
220 kV	4,280
110 kV and lower	75
400 kV underwater cable (km)	13
400 kV underground cable (km)	2
TOTAL	18,634
CIRCUIT ENDS	
400 kV	463
220 kV	180
110 kV and lower	3
TOTAL	646
SUBSTATIONS	
TOTAL	128
TRANSFORMERS	
Number	36
Total capacity (MVA)	17,976
REACTOR UNITS	
Number	28
Total capacity (MVA)	3,400

A report entitled "Electrical System Forecasts 2000-2010" was prepared in order to inform of the results of these forecasts. It is hoped that this will improve the transparency of the electrical energy market and provide the different companies in this sector with the opportunity to participate in the electricity supply in an efficient and competitive conditions.

FACILITIES UNDER CONSTRUCTION

- In the North Region work on improvement of the infrastructure in Asturias, Cantabria, the Basque Country and Navarre continued. The design and construction of the main north leg will increase transmission capacity and help to transfer excess power out of these areas, where a significant increase in generation is expected.

The projects for the Lada – Velilla, Soto – Penagos and Penagos – Gueñes lines have been reactivated. In addition, preparatory work (determination of alignments, environmental impact evaluations and location of substations) was carried out for improvements to the transmission infrastructure in the Basque Country.

- In Aragón and Catalonia work continued on the design of the connection between the Peñalba – Graus line and the Sallente – Sentmenat line. Design work also continued on the line between La Secuita and the Vandellós – Begues line, between Penedés and the Vandellós – Begues line and Sentmenat – Bescanó and the line between Sallente and the Sentmenat – French Frontier line. These installations will improve the supply of electrical energy to Aragón and Catalonia and will permit the construction of a new interconnection between Spain and France.

- In Galicia work is nearly completed on the extension of the Cartelle substation, with a new transformer bay of 400 / 220 kV as well as the construction of a new 220 kV compound and its connection to the Pazos – Castrelo line. This will allow the energy generated in the south of Galicia, from hydraulic, wind or cogeneration facilities, to be transferred to other areas.
- In the Central Region, contracts are being let for the installation of the future 400 kV compound at the Fuencarral substation and the completion of the Galapagar – San Sebastian de los Reyes line. This work will improve the supply of electrical energy in the north of Madrid.

Work on the project to connect the Trillo nuclear power station (the Bolarque – Trillo line and the associated line ends) also continued. This project will handle the energy produced by this power station and will reinforce the main Centre – Aragón – Levante leg.

- Once work on the extension of the Balboa substation in Extremadura was finished, evaluation of the different alternatives for the Balboa – Portuguese Frontier line was commenced.
- In Andalucía progress was made on stringing the second circuit on the Pinar – Tajo and D. Rodrigo – Pinar lines.

- In the Levante Region progress was also made on stringing the second circuit of the Romica – Rocamora section and on planning for the Olmedilla – Romica stretch. Evaluations were carried out on the infrastructure improvements needed to connect newly-requested generation (combined cycle and wind farm plants) to the transmission grid.
- Finally, attention is drawn to the preparations for design work (determination of corridors of least environmental impact and outline designs) for the facilities associated to the future main Madrid – Aragón – Lérida leg and to service the Madrid – Barcelona high-speed train.

NEW INSTALLATIONS AT SUBSTATIONS IN SERVICE

- **Balboa:** new 220 kV and 400 kV circuit breakers and a new 400/220 kV autotransformer; which will improve reliability of supply in the south part of Badajoz.
- **Rocamora:** new 400 kV circuit breakers to improve network operations in the Levante region.
- **Guillena and Sentmenat:** replacement of reactor units.

COMMUNICATIONS SYSTEMS

During 1999 the following activities were carried out:

- **Communication circuits:** commissioning of 210 circuits for telephone, telecontrol, tele-protection and management services. The total number of circuits used by RED ELÉCTRICA came to 4,808.



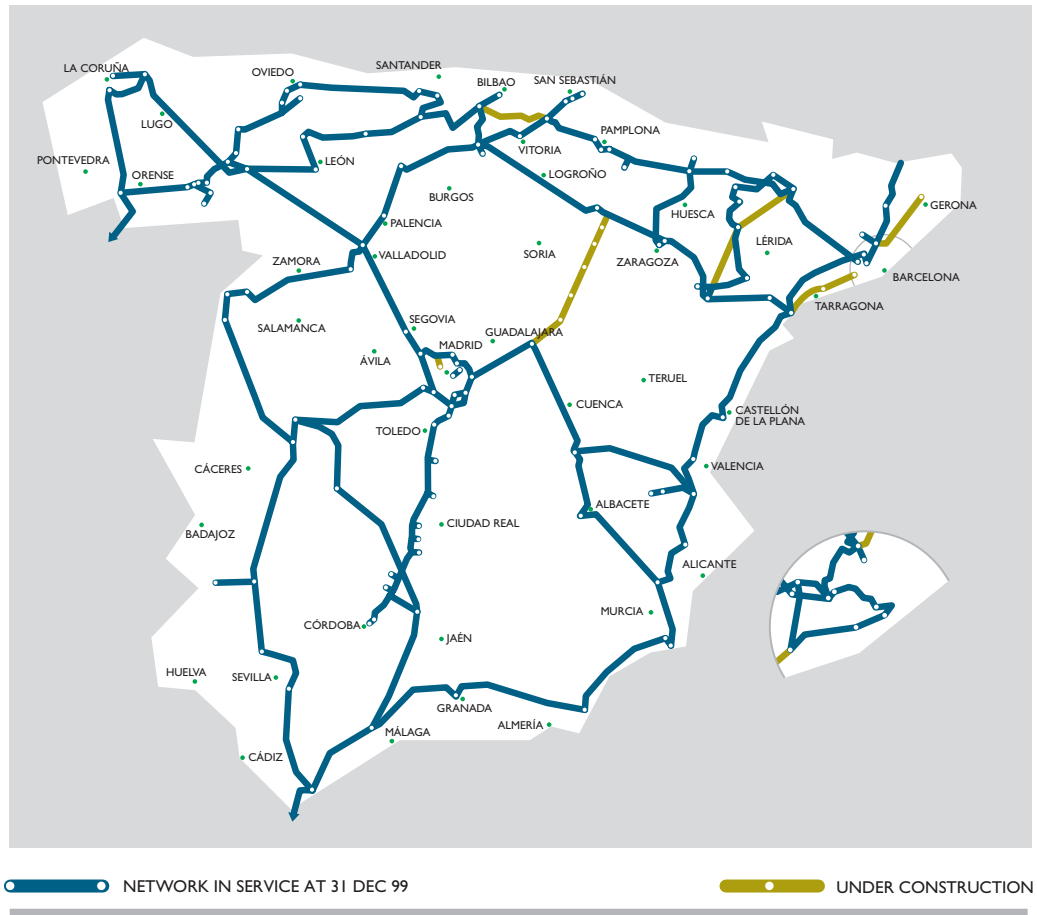
- **Mobile radio systems:** installation of a new repeater station and adjustment to the frequency plans at 15 repeaters. Certificates were obtained from the authorities for 26 repeaters. At the end of the year the total number of mobile radio repeater stations came to 108.
- **Fibre optic systems:** installation of 73.6 km of combined earth/optic cable on high voltage lines and commissioning of one new link. This brings the total length of cable to 8500 km and the number of fibre optic links to 138.
- **Carrier and remote protection systems:** installation and commissioning of six carrier wave units and 20 remote protection units. Four high frequency remote protection links have been disconnected and this means that there were 542 carrier wave units and 783 remote protection units in total at the end of the year.
- **Switching systems:** installation and commissioning of a double redundancy system for telephone communications with the Electricity Control Centre. Six new telephone concentrators were installed and commissioned in connection with the Y2K Effect. These will be reused in the network to provide advanced services.
- **Fibre optics network:** installation of multi-mode fibre optic cable at ten substations which brings the total number of substations fitted with fibre optic cable to 65.



RENEWAL AND IMPROVEMENT OF FACILITIES

The priorities of the different activities under the Renewal and Improvement Programme for installations and equipment are assigned in accordance with an analysis of their current overall condition. This takes into account technical, safety, quality and cost criteria. The objective is to ensure a level of availability and reliability which is in line with the level of service to be provided by the transmission grid.

RED ELÉCTRICA'S FIBRE OPTIC NETWORK · 31-DEC-99



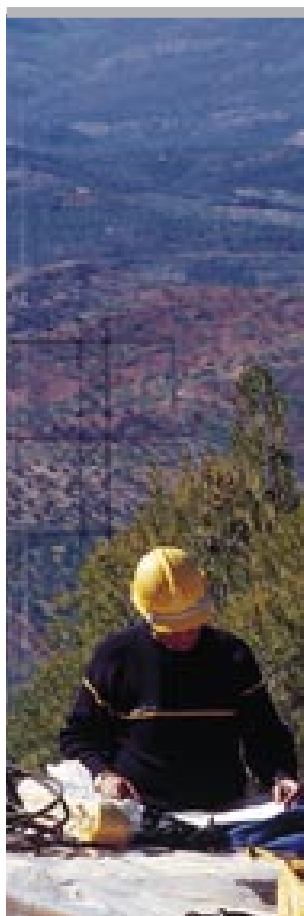
The main renewal and improvement work which was carried out on these installations during 1999 is shown below:

Lines

Work included the replacement of glass insulation by compound installation in the Mediterranean area. This will reduce the unavailability of the lines due to salt contamination. At the same time, work continued on increasing the transmission capacity of lines and the renewal of damaged conductors. Targets were met for the installation of access treads on the transmission towers.

The most important operations were as follows:

- Span adjustment on the Aldeadávila – Almaraz line.
- An increase in the transmission capacity of the Mudarra – Tordesillas and Compostilla – Montearenas lines.



- Improvement of insulation on the Mequinenza – Rubí line.
- Replacement of the earth wire on the Siero – Puente San Miguel I, the La Pobra – Pont de Suert, the Arañuelo – Morata I and the Compostilla – Mudarra lines.

Substations

With regard to substations the most significant activities were as follows:

- Replacement of high voltage equipment at 32 substations – especially the work carried out at Grijota, S. Agustín, Itxaso, Mudarra and Tordesillas.
- Adjustment and renovation of the auxiliary service installations at 21 facilities.
- Installation of three new Megaphasor units at the Benejama, Aldeadávila and Cedillo substations.
- Improvements and installation of protections and remote protections at 33 facilities, especially the work carried out at Mudarra, Tordesillas, Robla, S. Agustín and Itxaso.

Protections

With regard to protection systems, complete renewals were carried out on 21 line ends, one busbar position and two transformer bays. Partial renovations were carried out at another 25 line ends of the transmission network. In addition, protection systems were commissioned at the new transformer bays at the Romica, Rocamora and Balboa substations.

Attention should also be drawn to the completion of the updating programmes for remote protection units, oscillograph recorders and the communication adapters for the earth leakage circuit breakers.

Control systems

A new digital control system was installed at the Balboa substation, together with five Megaphasor units at a similar number of other stations. In addition, 34 remote telecontrol stations and the digital control systems at various other facilities have been enlarged.

Incorporation of remote supervision, remote loading and automatic programme loading for the digital control equipment was completed.

Fifty remote telecontrol stations were adapted for the SAP20 protocol and hardware at other remote stations was renewed.

LINES. WORK IN PROGRESS

Lines	No of circuits	Length (km)
400 kV lines		
Fuencarral – the Galapagar – San Sebastián de los Reyes line	2	9
Stringing 2nd circuit Pinar – Tajo line	1	109.5
Stringing 2nd circuit D.Rodrigo – Pinar line	1	128
Stringing 2nd circuit Olmedilla – Rocamora line (section Romica – Rocamora)	1	127.7
Stringing 2nd circuit Mesón – Cartelle line	1	110
La Secuita – the Vandellós – Begues line	2	1
Boimente – the Aluminio – Puentes García Rodríguez line	2	14
Eje Aragón – Lérida main leg	2	44
Eje Madrid – Aragón main leg	2	239
Magallón – the Serna – Peñaflor line	2	33
Lada – Vellilla	1	96
Balboa – Portuguese Frontier	1	40
TOTAL km of circuits		1,291.2

220 kV lines		
La Mudarra – La Olma	1	17.5
Bolarque – Trillo	2	60
Cartelle – the Pazos – Castrelo line	2	10
Cartelle – the Velle – Castrelo line	2	4
TOTAL km of circuits		165.5

SUBSTATIONS. WORK IN PROGRESS

Substations	Project
Cartelle	Enlargement of the 400 kV compound and new 220 kV compound.
Balboa	Enlargement of the 220 kV compound.
Fuencarral	New 400 kV compound and 400/132 kV transformer bay.
Boimente	New 400 kV substation with line ends for Puentes García Rodríguez 1 and 2, Aluminio 1 and 2 and 400/220 kV transformer bay.
Magallón	New 400 kV substation with line ends for La Serna, Peñaflor, autotransformer 1 and 400 / 220 kV transformer bay.
Various substations	Aragón – Lérida main leg: construction of a new 400 kV substation at Peñalba and extensions at Aragón.
Various substations	Madrid – Aragón main leg: construction of five new 400 kV substations - Anchuelo, Fuentes de la Alcarria, Medinaceli, Terrer and Rueda de Jalón and enlargement at Trillo.

MAINTENANCE OF THE TRANSMISSION FACILITIES



IMPROVEMENTS IN MAINTENANCE SCHEDULING AND THE USE OF PREVENTIVE and predictive maintenance techniques resulted in the highly satisfactory levels of service quality and availability of facilities being maintained.

MAINTENANCE OF LINES

During 1999 the predictive and preventive maintenance programmes and the official inspections continued. For the first time in-depth inspections were carried out using helicopters – with highly satisfactory results. Following this, work is being carried out on the preparation and the standardisation of this method in order to optimise this inspection procedure.

Work also continued under the corrosion protection programme on various sections of the power lines. These were selected because they involved a greater difficulty with regard to conservation. This work brought the total of protected steel structures to 105,000 m².

As in previous years, a great number of line adjustments were made following requests by private and official organisations. Work was also carried out at the request of third parties including the modification of a stretch of the Barcina – Itxaso line where it crosses the Gojaín industrial estate.

MAINTENANCE OF SUBSTATIONS

State-of-the-art technology related to the analysis of oil and insulation and other diagnostic techniques such as frequency response and thermal imaging, were used to evaluate the condition of the power devices (transformers and reactors), to correct any negative trends and to improve the indices of availability.

Under the programme for the prevention of structural failures in current transformers (fracturing, explosion, etc), units were replaced where these defects were detected. This work involved partial discharge measurements, the analysis of oil and thermovision inspections. With regard to circuit breakers and despatching equipment, work continued on the installation of remote diagnosis in the case of circuit breakers and with thermovision inspections to determine the appropriate type of maintenance for these elements.

Routine inspections (routing sheets) helped to detect and correct problems in other equipment which might have affected the operation of the system.



Quality control was carried out on the accuracy of the measurements from transformers and measurement converters which arrive at the despatching control centres. The equipment related to the international interconnections was verified in accordance with the regulations for points of measurement. A check was also made on the automatic transmission of readings to the measurement concentrator of the System Operator.

With regard to protection equipment, the inspection programmes were completed and hidden faults were detected which would have led to incorrect operation with the corresponding negative effect on the operation of the system. In line with the trend in recent years, the indices of correct operation improved and attained highly satisfactory values (97.01%).

Work continued on the renewal and improvement plan for these facilities. This led to greater reliability of the systems. At the same time, new generations of digital equipment were installed to provide better remote control of readings and other data on their operation, through the link to the management station (ALEF).

MAINTENANCE OF CONTROL SYSTEMS

In accordance with the annual preventive and predictive maintenance plan the monthly, half-yearly and annual procedures were applied at 106 remote telecontrol stations, 40 digital control systems and 112 GPS synchronous timing units. Following the results obtained through the use of these techniques, a benchmarking study will be carried out in 2000 on the maintenance of control systems.

The mean annual availability of control equipment and systems was 99.90%.

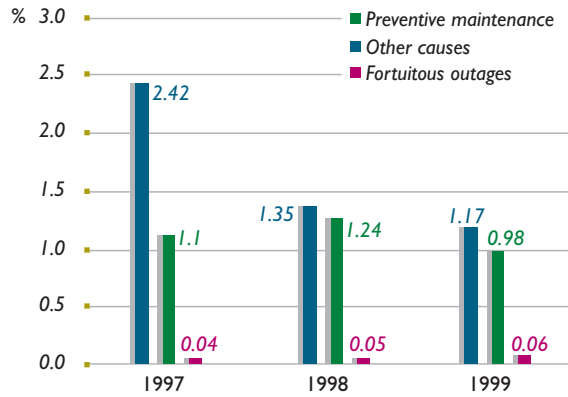
PERFORMANCE OF THE TRANSMISSION NETWORK

Co-ordination of outages for construction work and maintenance together with the use of predictive maintenance techniques and live maintenance meant that the quality indicators of the transmission service were once again very satisfactory in terms of safety and continuity of supply.

Overall availability of the network in 1999 was 97.79% - an improvement on the previous year's figure of 97.36%.

The performance of equipment at the substations and the protections maintained the high level achieved in previous years and the performance of the remote control systems was highly satisfactory.

EVOLUTION OF THE UNAVAILABILITY RATE



The positive trend can be seen in the attached chart which shows the rate of unavailability.

The average interrupt time is shown in the chart, included in the key indicators..

REORGANISATION OF REGIONS

With the goal of optimising operations and achieving greater efficiency in the maintenance of facilities, the different maintenance regions have been reorganised. The previous arrangement of eight operation and maintenance zones has been reorganised into five regions.



OPERATION OF THE **POWER SYSTEM**



THE KEY INDICATORS FOR THE MAINLAND POWER SYSTEM

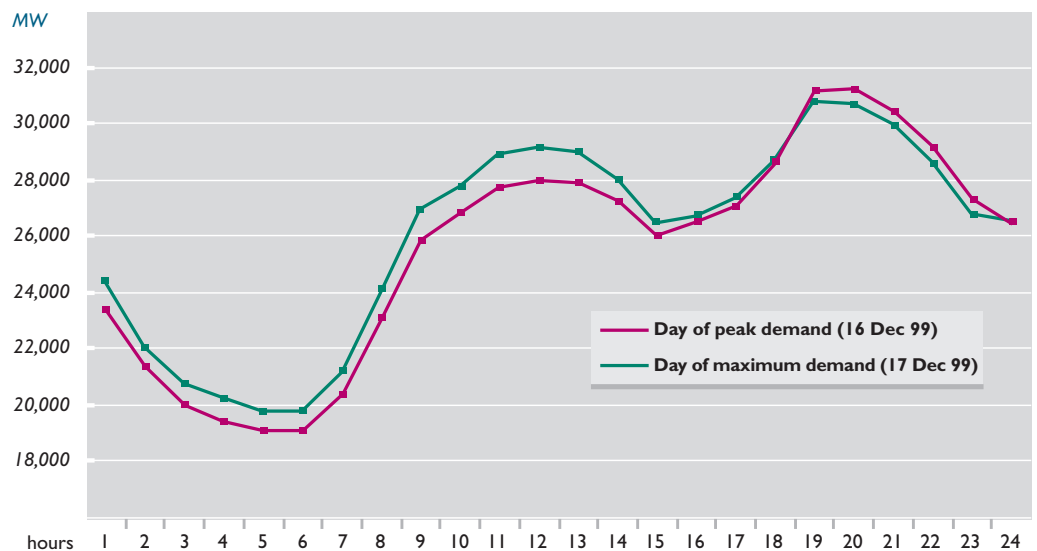
In 1999 the operation of the system was marked by a continuation of the high level of growth in consumption which had been noted in the previous year. In particular it was a very dry year and the annual available energy index recorded its ninth lowest value since 1920. The year was also characterised by the net import balance of international interchanges of electricity and by the high growth of electrical energy acquired from generating companies operating under the special regime – which was close to 22%.

Demand

Monthly, daily and hourly figures for power consumption exceeded their respective records during the month of December. The monthly figure reached 16,845 GWh, daily consumption of energy rose to 622 GWh on 17 December and the peak hourly power demand was 31,247 MW on 16 December (19:00 – 20:00 hours).

Total demand for the year came to 184,002 GWh which was an increase of 6.4% compared to the previous year. After correction for the year's labour effects and temperature, the adjusted growth in consumption during 1999 was calculated at 5.7%. This figure clearly reflects the high rate of growth recorded in the Spanish economy in recent years.

SPANISH POWER SYSTEM LOAD CURVE



Generation

Gross output by national companies grew by 4.0% over the previous year and reached 165,263 GWh.

GENERATION DETAILS IN 1999

ENERGY SOURCE	GWh	% of Total
Hydroelectric	24,171	14.6
Nuclear	58,852	35.6
Coal	72,315	43.8
Oil+Gas	9,925	6.0
TOTAL	165,263	100

This was the second year of operation of the electricity pool and the structure of generation changed significantly with regard to 1998. Among other things, this change was due to the combined effect of the growth in demand and the low level of hydraulic reserves. Hydroelectric power stations produced just over 24,100 GWh, which was a fall of 29% compared to the previous year. Nuclear power stations produced slightly less than 59,000 GWh, which was similar to 1998. Coal-fired power stations produced the greater part of generation in 1999 and grew by slightly more than 20%. Output from gas and oil power stations came to 3,090 GWh and 6,835 GWh, respectively, with growths of 29% and 110%.

International power exchanges

During the year 8,286 GWh were imported and 2,568 GWh were exported, resulting in net imports of 5,718 GWh.

The imports included 4,596 GWh under the agreement between RED ELÉCTRICA and Electricité de France and this figure represented 95.4% utilisation of the contract. Companies in the electricity sector imported 3,617 GWh, of which 2,266 GWh came through France and 1,351 GWh from Portugal.

Under the existing contracts, RED ELÉCTRICA exported 782 GWh to Morocco and 8 GWh to Andorra. Other companies in the sector exported 1,748 GWh divided between Andorra (214 GWh), Portugal (508 GWh) and Morocco (1,026 GWh).

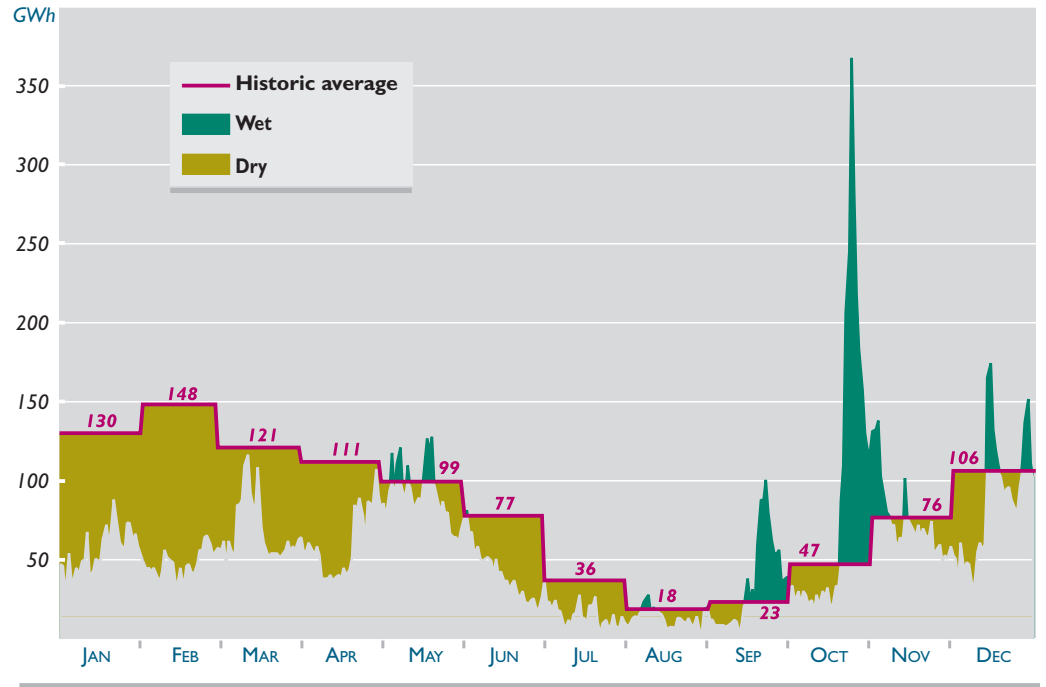
Ancillary services and the management of deviations

In 1999 the ancillary services for secondary and tertiary control and the scheduled energy for emergency purposes cost the system Pta 14,310 million. The average level of power for the allocated secondary control band was 1,146 MW and the amount electrical energy used in secondary control came to 1,912 GWh with a total cost of Pta 8,621 million.

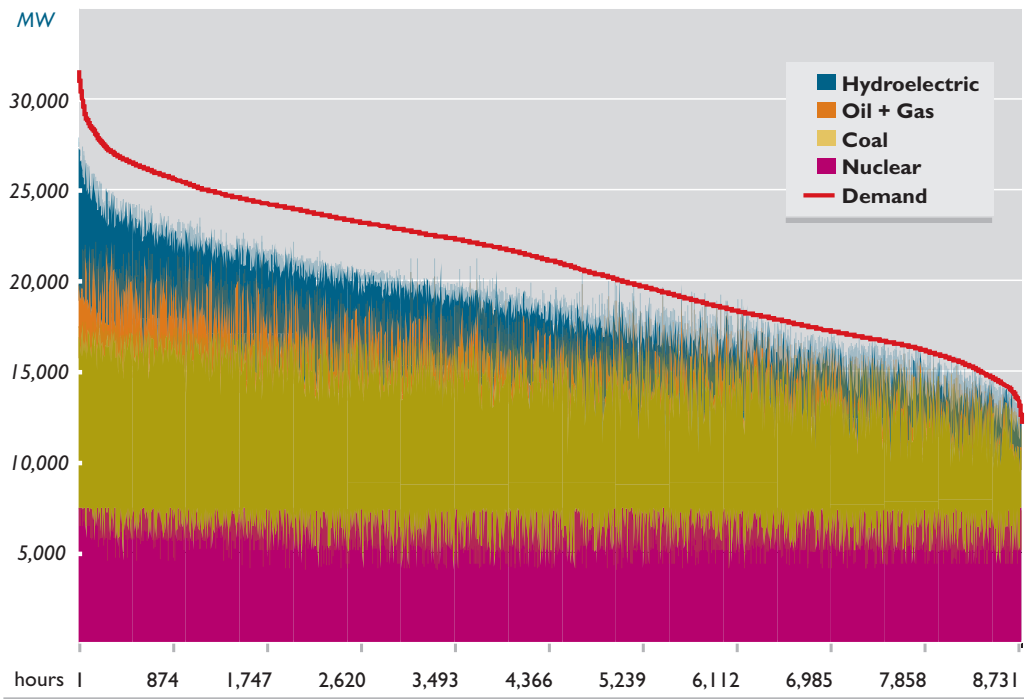
RED ELÉCTRICA ensures coverage of demand through the handling of deviations to restore any imbalance between output and consumption. In 1999 a total of 1,491 GWh was handled under this procedure, with a total cost for the system of Pta 3,347 million.



PRODUCIBLE HYDROELECTRIC POWER IN 1999 COMPARED TO THE HISTORIC AVERAGE



LOAD DURATION CURVE 1999



The affect of the processes which are handled by RED ELÉCTRICA was Pta 0.096 per kWh on the average price in the daily market which this year was Pta 4.447 kWh. In addition, Pta 0.076 per kWh must be added for technical restrictions and Pta 1.248 per kWh for power guarantee. These amounts plus the adjustment for the intra-day market (Pta -0.014 per kWh), determined the final price of electrical energy at Pta 5.853 per kWh.



REORGANISATION OF THE CONTROL CENTRES

As previously planned, work started in 1999 on the reorganisation of the power control centres. On 15 December the operation of the power system in the Southern Region, which since 1988 had been handled by the Seville centre, was taken over by the control centre at Tres Cantos (Madrid) under the restructuring plan for the power control centres. During the two months prior to the changeover, operators from the Southern Region were temporarily carrying out their tasks from Tres Cantos.

The restructuring plan for the power control centres will continue over the next two years. In 2000 the functions of the Bilbao centre will be transferred to the La Moraleja control centre (Madrid) and in 2001 the functions of the La Coruña control centre will be transferred to La Moraleja and the functions of the Barcelona centre will be transferred to Tres Cantos.

This plan will lead to safer and more reliable operation of the system. It will facilitate co-ordination of grid operations – especially in the case of incidents. It will also increase operating efficiency, reduce operating costs and provide a total mutual backup capability between the two remaining control centres.

NEW TOOLS FOR SYSTEM OPERATION

System Operator Information System (SIOS)

RED ELÉCTRICA has made significant modifications to the SIOS computer tool and new features have been incorporated. Communications via the Internet have been added. The user interfaces have been completely modified and operational and historical databases have been added. In addition, the system now has a data warehouse for the preparation of reports and the safety measures with regard to access and integrity of the system have been multiplied.

CONTRIBUTION OF THE DIFFERENT MARKETS TO THE FINAL PRICE (PTA/kWh)

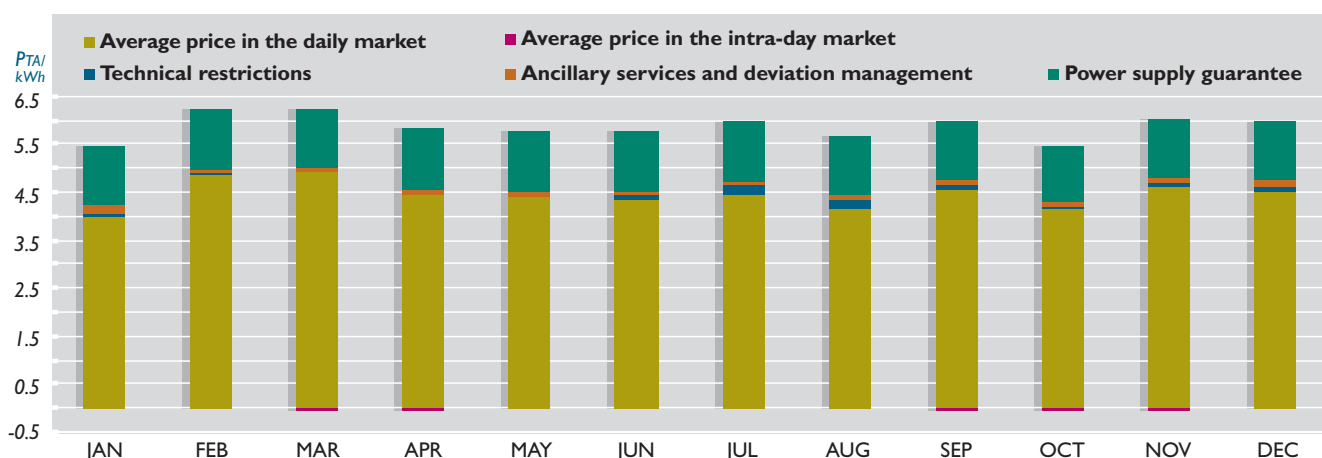
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual mean
Average price in the daily market	3.98	4.87	4.93	4.46	4.39	4.37	4.44	4.15	4.54	4.16	4.62	4.48	4.45
Average price in the intra-day market	0.00	-0.01	-0.02	-0.02	-0.01	-0.01	-0.01	-0.01	-0.02	-0.03	-0.02	-0.01	-0.01
Technical restrictions	0.04	0.02	0.01	0.00	0.02	0.08	0.20	0.18	0.10	0.03	0.09	0.14	0.076
Ancillary services and deviation management	0.22	0.09	0.06	0.09	0.09	0.07	0.07	0.10	0.09	0.08	0.08	0.12	0.096
Power supply guarantee	1.23	1.25	1.26	1.27	1.25	1.26	1.26	1.25	1.23	1.22	1.25	1.25	1.25
AVERAGE FINAL PRICE	5.47	6.22	6.23	5.79	5.74	5.78	5.96	5.67	5.94	5.47	6.01	5.96	5.85

The Power Measurement Information System (SIMEL)

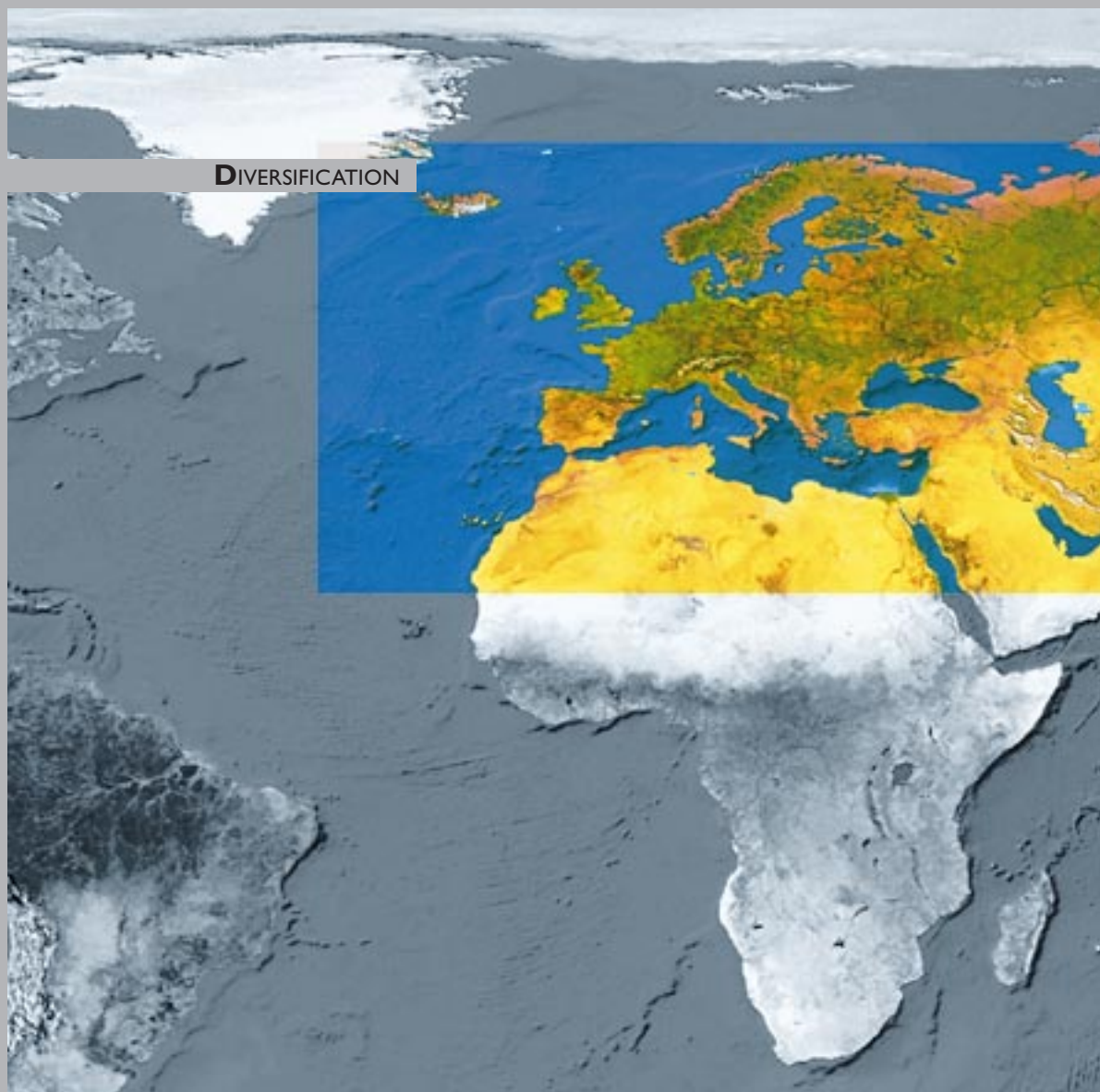
The hourly records of electrical energy exchanged between trading organisations on the electricity market and the energy exchanged through the international interconnections, were consolidated in 1999 using RED ELÉCTRICA's main concentrator. This involved the definition of 9,694 boundary points of which 6,834 were associated with qualifying customers following the deregulatory measures in April, July and October:

This year work started on the installation of new meters and recorders of active and reactive energy on an hourly basis. These devices fully comply with the measurement point regulations and they are equipped for communications. RED ELÉCTRICA has begun the verification of this equipment.

Finally, work started on the evaluation of the measures required (equipment and software) to comply with the technical aspects of the new deregulation measure planned for July 2000.

CONTRIBUTION OF THE DIFFERENT MARKET SEGMENTS TO THE FINAL PRICE

DIVERSIFICATION



RED ELÉCTRICA HAS SUCCESSFULLY DEVELOPED ACTIVITIES WHICH complement its basic functions related to the transmission of electric energy and system operation. These activities are aimed at maximising revenues based on its experience and its technical and financial capabilities.

These activities mainly comprise the provision of services based on technical capabilities and know-how developed by RED ELÉCTRICA.

The projects involve high level technical consulting where the experience of RED ELÉCTRICA can clearly differentiate it from potential competitors by capitalising on the knowledge it has acquired in its tradition role. This knowledge allows it to offer a series of services which, in general, provide a high level of added value.

At the current time the reorganisation of electricity systems is creating opportunities for this type of project all over the world and especially in areas such as Latin America, the Maghreb or Eastern Europe. The company already enjoys considerable prestige in these areas as a result of previous projects.

During 1999 the following contracts related to general consulting and technical advice were signed:

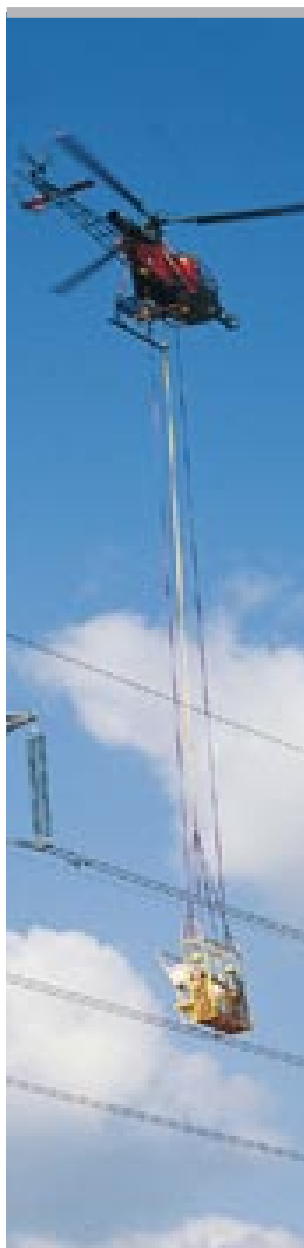
TECHNICAL ASSISTANCE RELATED TO THE RENEWAL OF THE CONTROL CENTRE OF THE OFFICE NATIONAL DE L'ELECTRICITÉ (ONE)

In January, following an international tender process in which EDF and RWE also took part, the OFFICE NATIONAL DE L'ELECTRICITÉ (ONE) of Morocco awarded RED ELÉCTRICA a contract for consulting services related to technical assistance for the renewal of its electricity control centre. The contract was signed in May and the project will finish during the first months of 2000.

The first phase of the project comprises a determination of the best technical and cost strategy for the renewal of the control centre and for developing a management system for the transmission grid. This work must be based on the following assumptions: regionalisation of grid management, renewal of the current control system and development of a transmission network based on fibre optics. These conditions were established in the tender documents.

The second phase comprises the preparation of documentation for calling international tenders for the supply and commissioning of a new control system (in accordance with the strategy defined in the previous phase).

Finally, the third phase involves assistance during the technical evaluation of the different proposals, with the goal of selecting the one most suitable for ONE.



TECHNICAL ASSISTANCE AND TRAINING FOR LIVE WORKING ON OVERHEAD POWER LINES USING HELICOPTERS

In April 1999 the Italian company, Eliabruzzo, specialised in the provision of helicopter services for the electricity sector, contracted the design of a training programme with RED ELÉCTRICA to carry out maintenance work on overhead, high voltage power lines. This contract also included supply of the nacelles and auxiliary tools specifically designed for the working procedures currently used at RED ELÉCTRICA.

The main elements of the training programme for pilots and operators are as follows:

- Procedure for work on conductors and/or earth wires using a suspended nacelle.
- Procedure for work on the earth wire using a platform attached to the helicopter.
- Procedure for cleaning insulator strings from a special-purpose nacelles.

The technology and the tools covered by the contract were developed in-house by RED ELÉCTRICA, starting in 1992. They incorporate the latest design modifications following experience acquired during their routine use in the company's maintenance activities.

The usefulness of these techniques is greatly enhanced by the ability to carry out the work on lines which are in use – without risk to the personnel involved.

OPERATION PLANNING SYSTEM IN SYRIA

In November a contract was signed with the Syrian electricity company, Public Establishment for Generation and Transmission of Electricity (PEGTE), for the development and introduction of software tools needed for the planning system related to operation of the Syrian system. This project includes the forecasting of short and medium term demand and the combined operation of generation and transmission facilities. Special attention must be paid to the optimum use of hydroelectric resources and meeting commitments made to neighbouring countries with regard to water management.

The software package consists of the following modules:

- Forecast of monthly and annual demand.
- Monthly and annual planning of hydraulic and fossil-fuel operations and the exchange programme.
- Forecast of daily and weekly demand.
- Short term hydroelectric planning and the weekly and daily exchange programmes.

The project includes the related training programme which will be carried out in two phases. The first phase will be in Madrid, involving intensive training of two Syrian engineers and the other, more extensive phase will take place in Damascus.

RED ELÉCTRICA will also be responsible for supplying the hardware platform on which the system will be implemented.

TECHNICAL ASSISTANCE FOR THE TELECONTROL SYSTEM AT AGADIR

In July 1999 the OFFICE NATIONAL DE L'ELECTRICITÉ (ONE) of Morocco requested RED ELÉCTRICA's co-operation to analyse the proposals submitted in the international tender process for the installation of a new telecontrol system in the Agadir distribution area, in accordance with tender documents which had been previously prepared by the client.

The conditions of this co-operation were determined over the following months and a contract was signed at the beginning of December.

Apart from the evaluation of the proposals, the project includes the editing of a report which will recommend the one which is most suitable for ONE's purposes.

The successful co-operation between RED ELÉCTRICA and ONE on the project for the renewal of the electricity control centre was a decisive factor in obtaining this contract.



INTERNATIONAL DEVELOPMENT



ONE OF THE OBJECTIVES OF RED ELECTRICA IS TO EXTEND THE BASIS of its business to activities where the level of revenue is not regulated by the government.

The general objective of international policy is to undertake projects in other countries, leading to growth and profitability, based on current activities in the Spanish market.

RED ELÉCTRICA's international strategy is a necessary step towards focusing the organisation's efforts on the main goal of creating value.

RED ELÉCTRICA is thus becoming involved in other countries in activities related to the operation and maintenance of transmission grids – which are its current activities in the Spanish market. The typical activities in this field include the development and management of networks and power systems together with similar or complementary activities, such as advice and consulting work, outline design and basic design of power systems, maintenance planning and similar activities.

International expansion is focused on the geographical regions which contain emerging economies, where demand for electricity is expected to grow at a high rate in the coming years and where there is a linguistic or cultural affinity or a certain degree of proximity. Such areas are Latin America, Eastern Europe and the Mediterranean countries. The criteria used to select the target markets are profitability and low risk. Where these two conditions are met, further criteria of greater affinity, lower barriers to entry and ease of penetration are applied.

With these objectives in mind, a close watch is being kept on legislative and regulatory developments in the main countries of Latin America and other regions where opportunities arise to participate – either in consulting work or in direct investments – in privatisation processes or in management contracts.





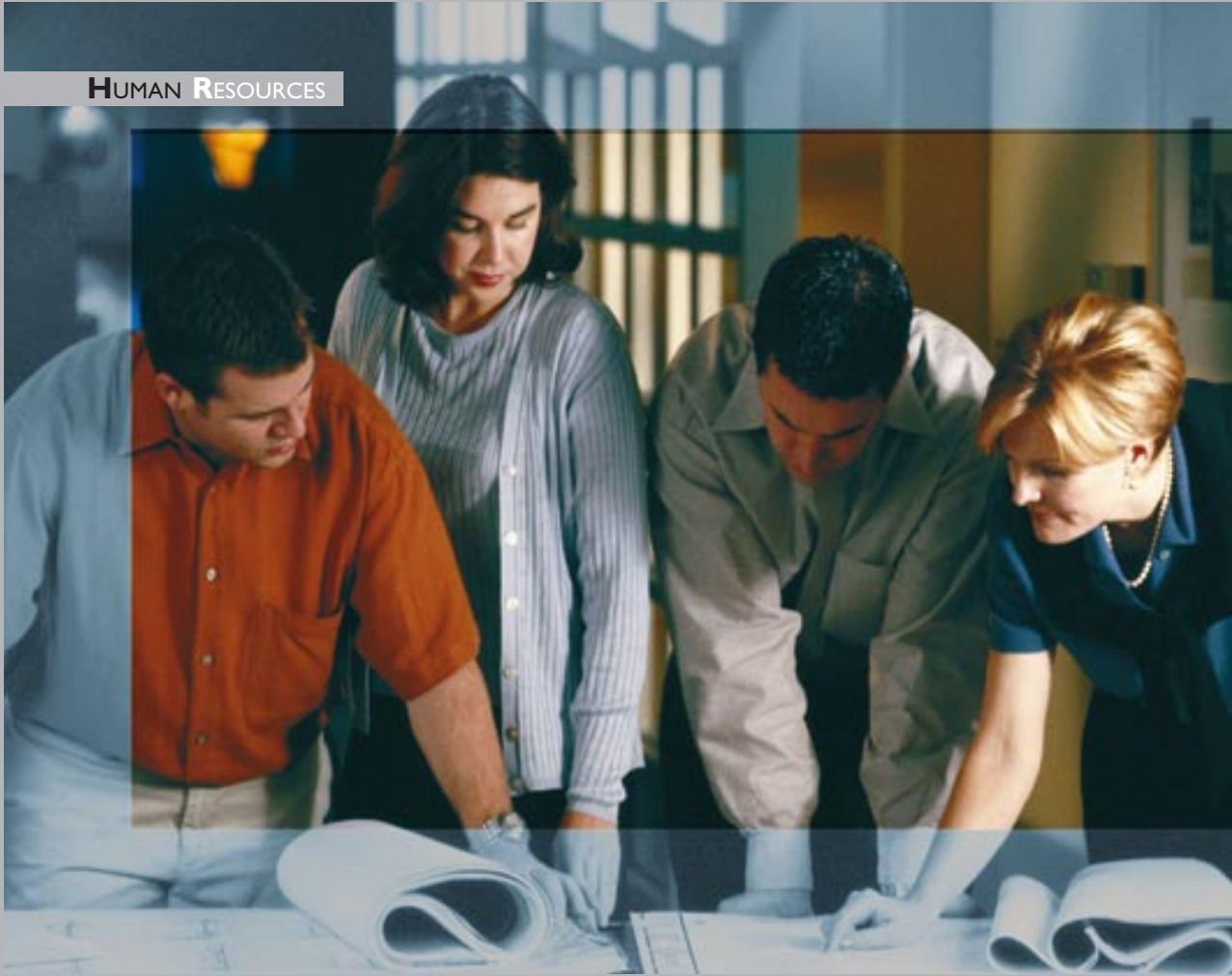
In 1999 REDESUR, a consortium led by RED ELÉCTRICA, won a public tender for a licence to improve the power transmission systems in the south of Peru. This tender was organised by the Peruvian government as part of the process of privatisation being implemented in that country. This is a BOOT-type contract (building, ownership, operation and transfer) over a period of 32 years – two years for construction and 30 years for operation of the resulting system. RED ELÉCTRICA leads the consortium and acts as the strategic operator.

The project consists of the construction of three 220 kV transmission lines with a total length of 444 km and four substations at Socabaya, Moquegua, Tacna and Puno. RED ELÉCTRICA is handling all the design work for these facilities and, in accordance with the licence programme, the first facilities to be constructed will be commissioned in September 2000.

OTHER CORPORATE ACTIVITIES



HUMAN RESOURCES

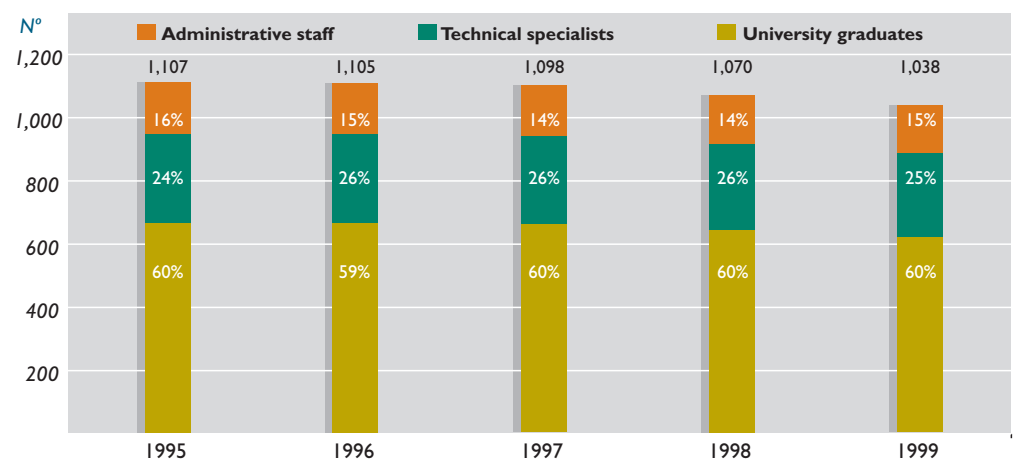


THE DEFINITIVE CONSOLIDATION OF THE FRAMEWORK IN WHICH RED ELECTRICA carries out its activities and its future strategy depends on the support of the persons who make up the company, on their appropriate level of training and on stable labour relations.

The sixth collective bargain agreement was signed in 1999. It defines the relationship between the company and its employees up to 31 December 2000. This agreement included notable improvements in flexibility, commitment and efficiency. Some of these improvements were the elimination of the concept of seniority from the remuneration system, an increase in variable remuneration linked to the achievement of results and an evaluation of employees' dedication, the introduction of flexible working hours for those persons or teams where it is required for operational purposes or market requirements and obligatory retirement at age 65.

At the end of 1999 the workforce at RED ELÉCTRICA consisted of 1,038 employees, which was a reduction of 3% compared to the previous year. This reduction affected all professional categories in the same degree.

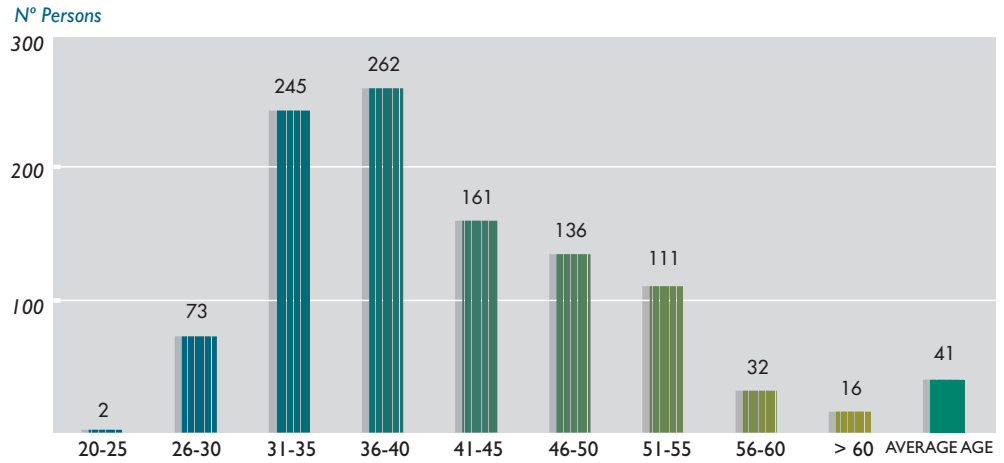
EVOLUTION OF THE WORKFORCE BY ACADEMIC LEVEL



Apart from permitting a significant reduction in the workforce, appropriate management of human resources and the reassignment of functions has allowed new tasks to be undertaken with regard to the current business strategy and has allowed increases in personnel costs to be contained.

The structure of the workforce at RED ELÉCTRICA is characterised by the high level of academic qualification. Graduates make up 60% of the total, 25% are technical specialists and 15% are administrative staff. The average age of the workforce is 41 and average length of service is 10 years. These figures indicate the considerable experience and level of stability.

DISTRIBUTION OF THE WORKFORCE BY AGE GROUP



Training activities in 1999 were focused on ensuring quality, on further development of management capability, on consolidating information systems for management purposes and on technical training related to jobs.

In 1999 investment in training came to 3.2% of personnel costs and this represented 50,000 hours of training in which 92% of the workforce participated, with an average of 49 hours per employee.

In 1999 there was a notable increase in in-house training. Company personnel provided 28% of the training. This has helped to provide a transfer of know-how and experience among the professional staff at RED ELÉCTRICA.



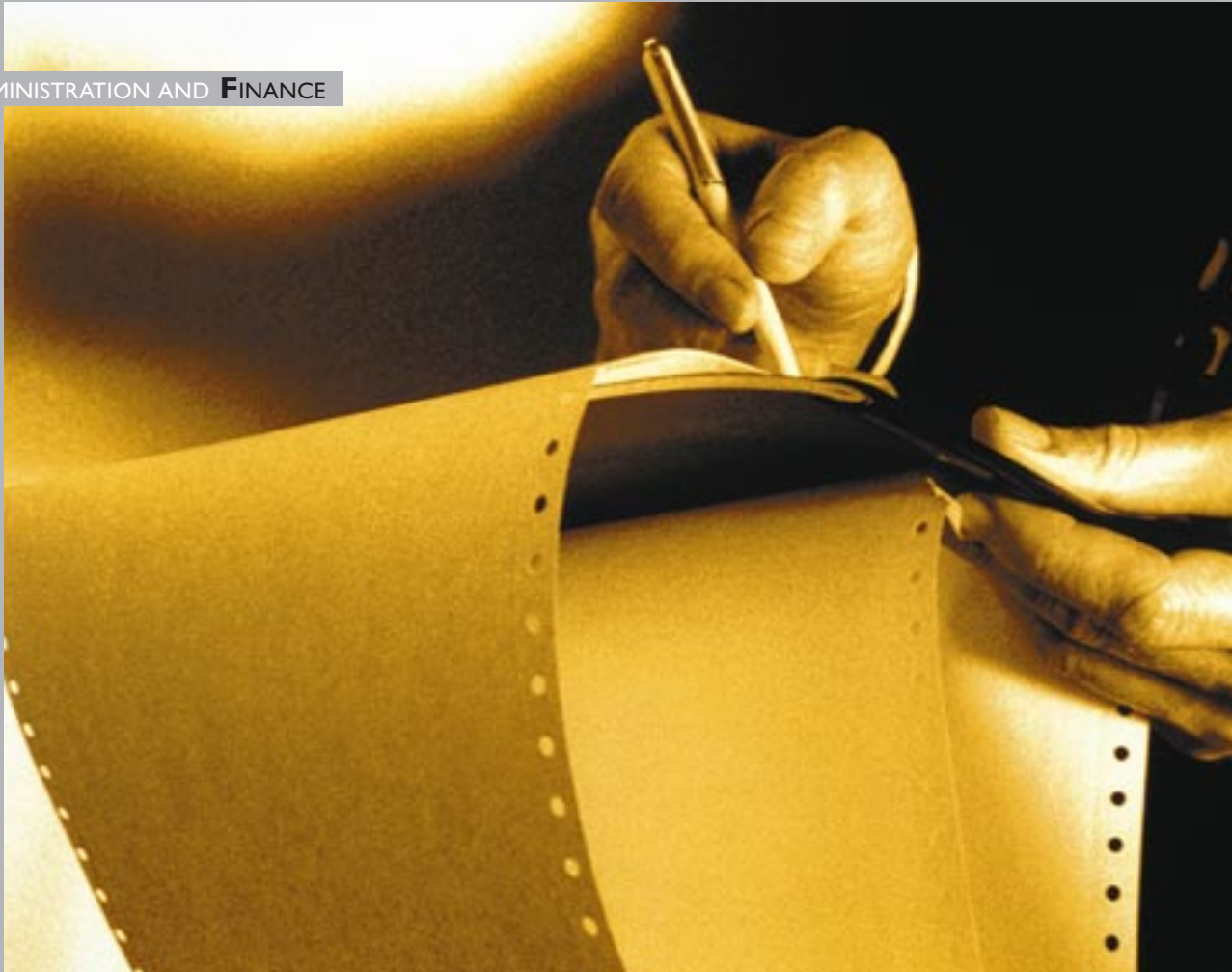
RED ELÉCTRICA actively participates in international organisations. In 1999 it obtained European Union finance for an international project on equal opportunities involving companies in the electricity sector. This project will involve the design and development of actions related to equality of opportunities in employment, training and promotion as well as raising awareness of the workforce to create a working environment with a greater level of equality.

Since 1987 RED ELÉCTRICA has been engaged in programmes of educational co-operation with various institutions related to its business activities and, in particular, with engineering faculties. These accounted for the majority of roughly 100 people who participated in these programmes during the year.



Finally, with regard to safety and health in 1999, a software tool was developed for risk evaluation of all the jobs in the company, in accordance with the Law on the Prevention of Risks in the Workplace. This software will help to detect defects and develop the appropriate corrective measures.

ADMINISTRATION AND FINANCE



RESULTS

Profit after tax for the year came to Pta 12,501 million which was 8.4% greater than 1998. The figures for the last three years are shown in Table I.

I • RESULTS (millions of pesetas)

	1999	1998	1997	99/98 (%)
Profit before tax	19,087	17,394	14,003	9.7
Profit after tax	12,501	11,536	9,540	8.4

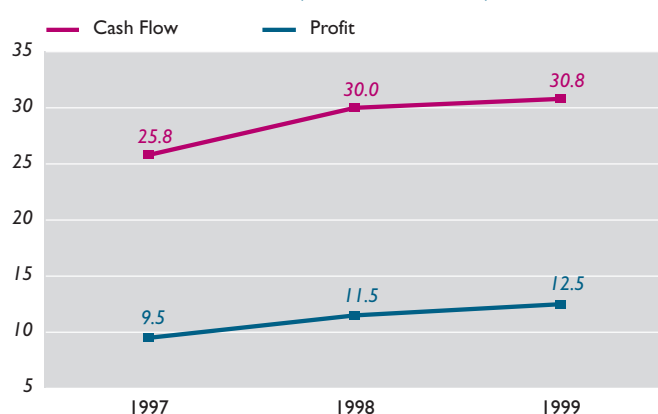
REVENUES

Turnover in 1999 came to Pta 90,368 million. The increase compared to the previous year was essentially due to greater revenues from transmission activities.

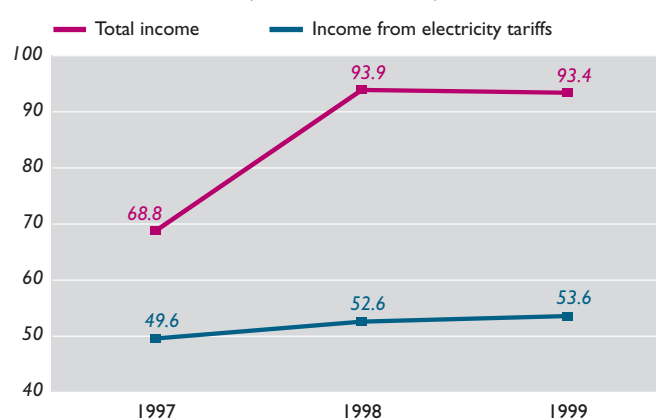
The principal items were as follows:

- Income related to transmission and operation of the system came to Pta 53,590 million. This was 1.9% higher than in 1998. The level of remuneration for these services is fixed annually by the Ministry of Industry and Energy.
- Income from the sale of electrical energy and power derivatives was Pta 34,811 million. This revenue was mainly related to the export and import contracts with EDF (France) and ONE (Morocco).
- Income from other activities was Pta 1,982 million. Special attention is drawn to the income generated by diversification activities in the form of telecommunications, consulting work, engineering design and other activities carried out for third parties.

EVOLUTION OF PROFIT AND CASH-FLOW AFTER TAX (BILLIONS OF PESETAS)



EVOLUTION OF INCOME (BILLIONS OF PESETAS)



The figure for adjusted turnover net of energy and power purchases in international interchanges, which is a more uniform measure of the level of activity, came to Pta 56,731 million in 1999. This was an increase of 1.4% on 1998.

Other income, which came to Pta 1,652 million, included the following items:

- The work carried out by the company on its fixed assets, which came to Pta 952 million.
- R&D expenses of Pta 89 million capitalised as intangible fixed assets.
- Additional operating income, which came to Pta 611 million.

The above income figures were supplemented by Pta 263 million of financial income and Pta 1,116 million of extraordinary income.

Table 2 shows the development of income in recent years.

2 • TOTAL INCOME (millions of pesetas)

	1999	1998	1997	99/98 (%)
TURNOVER	90,368	89,247	63,107	1.3
Income from transmission and system operation	53,590	52,611	49,624	1.9
Sales of energy and power (*)	34,796	34,346	12,228	1.3
Income from services and other sales	1,982	2,290	1,215	(13.4)
OTHER INCOME	1,652	1,581	3,240	4.5
INCOME FROM OPERATIONS	92,020	90,828	66,347	1.3
FINANCIAL INCOME	263	605	653	(56.5)
ORDINARY INCOME	92,283	91,433	67,000	0.9
EXTRAORDINARY INCOME	1,116	2,424	1,777	(54.0)
TOTAL	93,399	93,857	68,777	(0.5)

(*) In 1997 the figures include short term international power exchanges, and in 1998 and 1999 they include the pending settlement of this item for previous years.

EXPENSES

Total expenses before tax came to Pta 74,312 million. The breakdown of expenses is as follows:

- Salaries and wages in 1999 came to Pta 9,164 million.
- Purchases and external work, supplies and services came to Pta 42,610 million. This includes Pta 33,637 million for purchases of electrical energy and power derivatives under the international agreements for the interchange of energy.
- Provision for depreciation in 1999 came to Pta 16,668 million.

- Financial expenses related to external sources of finance came to Pta 3,760 million for all concepts and this included capitalised financial expenses related to investments in progress.

The above figures do not include Pta 668 million for other operating expenses and Pta 1,442 million of extraordinary expenses.

Table 3 contains the details of expenses in recent years.

3 • TOTAL EXPENSES (millions of pesetas)

	1999	1998	1997	99/98 (%)
SALARIES AND WAGES	9,164	8,877	8,521	3.2
PURCHASES	35,547	35,274	11,875	0.8
Purchase of energy and power	33,637	33,284	10,397	1.1
Other purchases (*)	1,910	1,990	1,478	(4.0)
EXTERNAL WORK SUPPLIES & SERVICES	7,063	6,814	8,791	3.7
PROVISION FOR DEPRECIATION OF FIXED ASSETS	16,668	16,397	15,720	1.7
OTHER EXPENSES	668	389	485	71.7
OPERATING EXPENSES	69,110	67,751	45,392	2.0
FINANCIAL EXPENSES	3,760	6,609	8,577	(43.1)
ORDINARY EXPENSES	72,870	74,360	53,969	(2.0)
EXTRAORDINARY EXPENSES	1,442	2,103	805	(31.4)
TOTAL	74,312	76,463	54,774	(2.8)

(*) Includes variations in trading provisions

FINANCING

Cash flow after tax was Pta 30,816 million which was 2.7% greater than the previous year and represented 33.5% of RED ELÉCTRICA's revenues.

In 1999 there was an important reduction in financial expenses due to lower funding requirements and due to the reduction in debt servicing costs. However, it was necessary to maintain a high level of short term liquidity and flexibility at the beginning of the year in order to meet the scheduled payment under the supply contract with EDF.

The short term financing strategy of RED ELÉCTRICA in 1999 was based on the company's promissory note programme of Pta 28,000 million (which was restated in euros at its renewal for the year 2000) and bank loans.



The most important aspects of debt restructuring during the year were two early repayments related to a loan from the European Investment Bank and the May 95 bond issue, of Pta 1,514 million and Pta 5,000 million, respectively.

In line with the company's strategy of maintaining a high level of liquidity in 1999, a new line of finance was opened with the European Investment Bank with a value of Pta 8,500 million. This was granted on the basis of the investments made for the Spain – Morocco interconnection. At the end of the year no withdrawals had been made against this facility and the entire amount was available.

4 · OUTSIDE FINANCING (millions of pesetas)

	1999	1998	1997	99/98 (%)
Debt on acquisition of fixed assets	0	0	8,974	-
Credits facilities and loans	36,617	41,277	27,859	(11.3)
Bond issues	21,018	26,018	18,517	(19.2)
LONG TERM FUNDS	57,635	67,295	55,350	(14.4)
SHORT TERM FUNDS	8,193	13,331	43,094	(38.5)
TOTAL FUNDS	65,828	80,626	98,444	(18.4)
LONG TERM CREDITORS	7,624	7,322	6,911	4.1
SHORT TERM CREDITORS	23,006	25,466	29,355	(9.7)
TOTAL	96,458	113,414	134,710	(15.0)

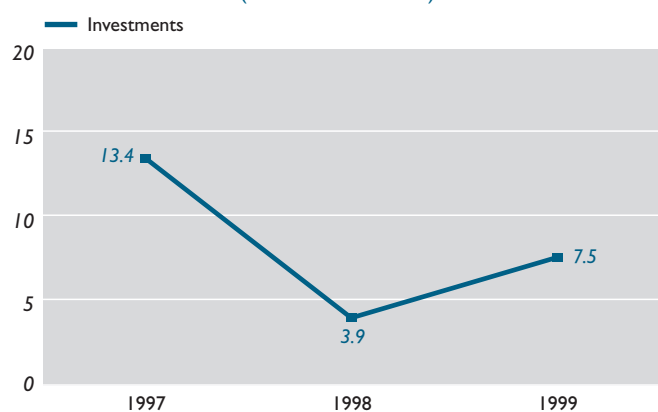
5 · SHAREHOLDERS' EQUITY (millions of pesetas)

	1999	1998	1997	99/98 (%)
Share capital (*)	45,014	45,090	45,090	(0.2)
Revaluation reserve	41,101	41,101	41,101	-
Reserves	22,879	18,339	14,272	24.8
Net profit for year	12,501	11,536	9,540	8.4
Interim dividend	(3,376)	0	(3,000)	-
TOTAL	118,119	116,066	107,003	1.8

(*) Restated in euros during 1999



INVESTMENTS
(BILLIONS OF PESETAS)



INVESTMENTS

Investments by RED ELÉCTRICA in 1999 came to Pta 7,459 million. Of this amount 76.9% was used for investment in transmission facilities.

The investment in power lines rose to Pta 2,437 million and to Pta 3,300 million for substations. The remaining amount of investment, Pta 1,722 million, was used for financial investments including the acquisition of 30% of the share capital of REDESUR for Pta 915 million (associated with the concession to improve the electrical transmission systems in southern Peru) and miscellaneous infrastructure

projects, equipment and R&D projects.

The breakdown of these investments and their principal components is shown in Table 6.

6 • INVESTMENTS (millions of pesetas)

	1999	1998	1997
Lines	2,437	1,725	10,140
Substations	3,300	1,278	1,974
SUBTOTAL GRID INVESTMENTS	5,737	3,003	12,114
Financial investments (REDESUR)	915	-	-
Other projects	807	880	1,309
SUBTOTAL OTHER INVESTMENTS	1,722	880	1,309
TOTAL	7,459	3,883	13,423

PARTICIPATION IN INTERNATIONAL ORGANISATIONS



RED ELECTRICA'S PARTICIPATION IN INTERNATIONAL ORGANISATION is aimed at reinforcing its position of leadership with regard to transmission and operation activities through the technical and commercial opportunities which typically arise in these forums. RED ELÉCTRICA is present in the following international organisations:

- **EURELECTRIC** (EUROPEAN GROUPING OF THE ELECTRICITY SUPPLY INDUSTRY)/**UNIPED** (INTERNATIONAL UNION OF PRODUCERS AND DISTRIBUTORS OF ELECTRICAL ENERGY). RED ELÉCTRICA is a founder member and a member of the executive committee of EURELECTRIC. It is also chairman of the Industry Observatory. This organisation has developed various initiatives related to the development of the internal electricity market.
- **UCTE** (UNION FOR THE COORDINATION OF TRANSMISSION OF ELECTRICITY). This organisation unites 18 countries of continental Europe which are electrically interconnected. RED ELÉCTRICA holds the office of chairman and secretary of the Spanish Committee.
- **IESOE** (SOUTH EAST EUROPEAN POWER INTERCONNECTION). This organisation consists of the following companies: Electricité de France, Rede Eléctrica Nacional de Portugal and the Spanish utilities companies. Its objective is to examine the operation of the network of interconnections between member countries and to prepare common recommendations to improve operations. RED ELÉCTRICA is the chairman and the secretary and chairs the Spanish Delegation.
- **CIGRE** (INTERNATIONAL CONFERENCE ON LARGE POWER NETWORKS). This organisation consist of electricity companies and manufacturers of electrical capital goods world-wide. RED ELÉCTRICA holds the post of permanent secretary of the Spanish Committee.
- **OME** (MEDITERRANEAN ENERGY OBSERVATORY). This organisation consists of electricity, gas and oil companies from the countries of the Mediterranean rim. It sponsors and promotes co-operation with regard to energy matters in these countries.
- **ETSO** (EUROPEAN TRANSMISSION SYSTEM OPERATORS). The operators in all the member states of the European Union are members of this association. RED ELÉCTRICA is a founding member and participates actively in the association where it forms a part of the management committee.
- **AIE** (INTERNATIONAL ENERGY AGENCY). This agency groups 17 countries of the OECD. RED ELÉCTRICA represents Spain on the executive committee which directs the EGRIMEN agreement on research and development policy in matters of energy efficiency through demand management.
- **INTERNATIONAL ASSOCIATION OF LIVE MAINTENANCE OPERATIONS**. This consists of companies from Hungary, France, Italy, Portugal, Germany, Bulgaria, Poland and Spain. It was created in 1990 and its goal is to achieve uniform criteria for live maintenance operations and issue standards in the form of recommendations. RED ELÉCTRICA occupies the chair since 1998.

CO-OPERATION AND **S**SPONSORSHIP



THE RELEVANCE OF OUR PRESENCE IN SOCIETY, WHERE WE ASSUME the responsibility of guaranteeing essential services must be reflected in the form of participation in activities and projects of general interest – provided our contributions are as positive as possible.

In 1999 our efforts took the form of the following activities:

- **Scientific co-operation** with universities on technical, scientific and information aspects of electrical activities. These included the following:
 - Sponsorship of the Chair of Social Research on Energy and the Environment at the Autonomous University of Madrid.
 - Academic support agreement for the Chair of Industrial Economics and the Board of Governors of the Carlos III University Foundation, to train experts in the field of the economics of deregulated industrial sectors.
 - Co-operative agreement with the Comillas Pontifical University and EES – UETP (Electric Energy Systems – University Enterprise Training Partnership).
 - Sponsorship of the ninth national meeting of Research Groups for Electric Engineering – organised by the Polytechnic University of Catalonia.
- **Environmental co-operation** in the following activities which are associated with the principles of RED ELÉCTRICA's environmental policy:
 - Organisation of the third conference on Power Lines and the Environment – an international forum for debate which each year brings together companies, organisations, associations, government departments and other interested parties from the electricity sector.
 - Sponsorship of the book, *Aves y líneas eléctricas. Colisión, electrocución y nidificación* (Birds and power lines – collision, electrocution and nesting), edited by the Doñana Biological Station (CSIC) with contributions from internationally recognised authors, which explains the relationship between electrical facilities and birdlife.
 - A co-operation agreement with the Official College of Physics for the publication of a special edition of *Física y Sociedad* (Physics and Society) dedicated to electromagnetic fields.
- **Social co-operation** with aid organisations and associations of groups of people with limited social integration.
- **Cultural co-operation** through participation in the organisation of events, conferences and publications on matters of general interest for society.

RESEARCH, **D**EVELOPMENT AND **I**NNOVATION



DURING 1999 SPECIAL ATTENTION WAS PAID TO THE PREPARATION and approval of the Research, Development and Innovation Plan. The goal of this document is to encourage technical innovation and to bring this into line with other corporate strategies and to increase the focus on results. The plan defines the following specific objectives:

- To define the organisation of technical innovation activities at the company.
- To determine the mechanisms for monitoring and supervising these activities.
- To establish the indicators for activities related to technical innovation and to define the criteria for their improvement.

In addition, during 1999 work was carried out on numerous research and development projects including the following:

PRINCIPAL PROJECTS COMPLETED:

- **Integral control and protection system (SICPRO)**

This project involved the development of an integrated control and protection system and the construction and trial installation of a prototype in order to analyse its behaviour in the field.

- **Microcuts and distribution voltage gaps**

The goal was to increase understanding and to improve the quality of electrical service with regard to voltage gaps, microcuts and outages of a very short duration anywhere in the country

- **SACPA**

The purpose of the project is to evaluate the potential application of superconductivity in power systems and specifically in transmission networks.

- **The biological effects of electromagnetic fields**

The objective was to evaluate the nature and to classify the biological effects of industrial frequency magnetic fields by analysing the molecular bases.

PRINCIPAL PROJECTS IN PROGRESS:

- **An analysis of earthing methods**

Analysis and evaluation of the most suitable earthing systems for the different types of support on the high voltage lines.

- **Minimisation of transmission losses in regional power systems**

Demonstration of the industrial viability of an automatic and distributed system for voltage control and the handling of reactive power, which significantly decreases energy losses in the transmission network and improves the safety of the system.

- **Power transformers**

A study of the application of different measurement and monitoring techniques in power transformers to evaluate their status with greater accuracy and to predict possible failures in a more reliable fashion.

- **Fault prevention in current transformers**

Evaluation and analysis of the application of different measurement and diagnostic systems used at RED ELÉCTRICA for current transformers.

- **Resistant measurement device for the earthing of support structures**

Development of equipment which can measure the resistance of the earthing of high voltage line support structures.

- **Measurement device for leakage current and the corona effect**

Development of a measurement device for leakage current, to be installed on support structures with contamination problems in the insulation.

- **Diagnosis of compound insulation**

Design, trials and testing, both in the laboratory and in the field, to evaluate the behaviour over time of the compound insulators installed by RED ELÉCTRICA.

- **Corrosion of anchors**

Development of equipment to measure the corrosion of anchors at the support structures for high voltage power lines and to define a system of measurement and interpretation of the results.

- **Long term power demand research (INDEL)**

The objectives are to understand the nation's demand for electricity, to explain how this varies with time, to determine the significant consumer segments and to analyse the external factors which influence demand.

- **Long term dynamic simulation (DINALAR)**

Development of information, tools and databases necessary for the evaluation of long term stability of the Spanish power system.





- **Superconductor fault current limiting device for high voltage "ByFault" systems**

Development of two prototypes of limiting devices for short circuit current, one is purely resistive and the other inductive hybrid, based on superconducting ceramic materials (YBCO), in the range of 17 MVA or higher.

- **Fotored**

Analysis of the advantages and disadvantages (with proposed solutions) of the large-scale use of photovoltaic power, especially for systems installed in office buildings.

- **Trafelas**

Development of a piezoelectric sensor for measuring voltage in high voltage networks. It is based on a generator of pressure waves in the primary high voltage circuit. These waves are transmitted through a dielectric medium to another sensor which converts the waves back into voltage.

- **Electronet**

The creation of a standard format for databases of electric power systems – whether generation or transmission.

- **Inter-area fluctuations in the UCTE/CENTREL interconnected system**

Related study and proposal for methods of controlling fluctuations which appear in the UCTE/CENTREL synchronous system and the construction of a detailed model of the power system for simulation purposes.

- **Pilotless helicopter**

Development of a prototype of a pilotless aerial vehicle for tracking and obtaining images of power lines. These will be used subsequently for visual inspection – using computer-aided vision techniques.

- **New technologies in electricity systems (NUTEC)**

Progress on understanding FACTS devices at the experimental level and on identification analysis of potential applications in the Spanish power system.

QUALITY



ONE OF RED ELECTRICA'S BASIC GOALS IS TO OBTAIN QUALITY certificates for all its basic activities.

In 1999 the quality policy resulted in the following certificates under the ISO 9000 standard:

- Design, construction and maintenance of high voltage and fibre optic lines.
- Design, construction and maintenance of high voltage substations.
- Operation of the Mainland Power System.

Actually RED ELÉCTRICA is the only company in this sector which has certificates for all the activities which it carries out for the national power system.

In the field of Quality Assurance, quality plans associated with the company's diversification activities and its customers in South America and North Africa, have also been designed and implemented.

The company has also continued to support the quality improvement of its suppliers under the ATYCA Programme. This was developed at the request of the Ministry of Industry and Energy. During this period eight suppliers prepared assurance systems and obtained ISO 9001 certificates.

In order to ensure the effective implementation of projects and other activities related to quality, 29 courses were delivered during 1999 at the different work centres of RED ELÉCTRICA. The total number of training hours came to 2,175 and involved 427 persons.

Lastly, RED ELÉCTRICA actively participated in the principal national organisations related to quality. This included various working groups of the Spanish Quality Association, where it acts as co-ordinator of two groups, in the development of a methodology for process management of the Quality Management Club and in the organisation of the first Exchange Forum for experiences related to the monitoring of customer satisfaction in the energy sector.

THE ENVIRONMENT





IN MAY 1999, RED ELECTRICA OBTAINED A CERTIFICATE FROM AENOR for its Environmental Management System in accordance with the UNE-EN ISO 14001 code. It thus becomes the first Spanish company to obtain this certificate for all its activities and work centres. It is also the first company in the electricity sector to achieve overall certification of all the transmission activities.

In 1999 a favourable declaration was obtained with regard to the environmental impact of the 220 kV Bolarque – Trillo NPS line. This is the first RED ELÉCTRICA line which was submitted to the environmental impact evaluation procedure under the provisions of Law 54/1997, dated 27 November, on the Electricity Sector.

In addition, the environmental impact evaluations for five lines and seven substations on the Madrid-Aragón main leg have been completed. Of these, three must be submitted to the environmental impact procedure and this is still in progress.

With regard to the new facilities on the north main leg, environmental impact evaluations have been completed for two lines. Also with regard to this leg, a start has been made on obtaining approval from the Basque government for the three lines which will link a similar number of new power stations in the Basque country and procedures with the Ministry of the Environment have been commenced for the approval of the three lines which, due to their characteristics, must be submitted to an environmental impact evaluation procedure.

Environmental impact evaluations have also been started on two new lines in the autonomous communities of Galicia and Murcia.

In addition, the mechanisms for prevention and control of various activities which might affect the environment have been analysed and perfected. These include the dissuatory measures related to nesting by storks on power line support towers and the software tools which facilitate the environmental impact evaluations. Potentially dangerous spans have been fitted with spiral

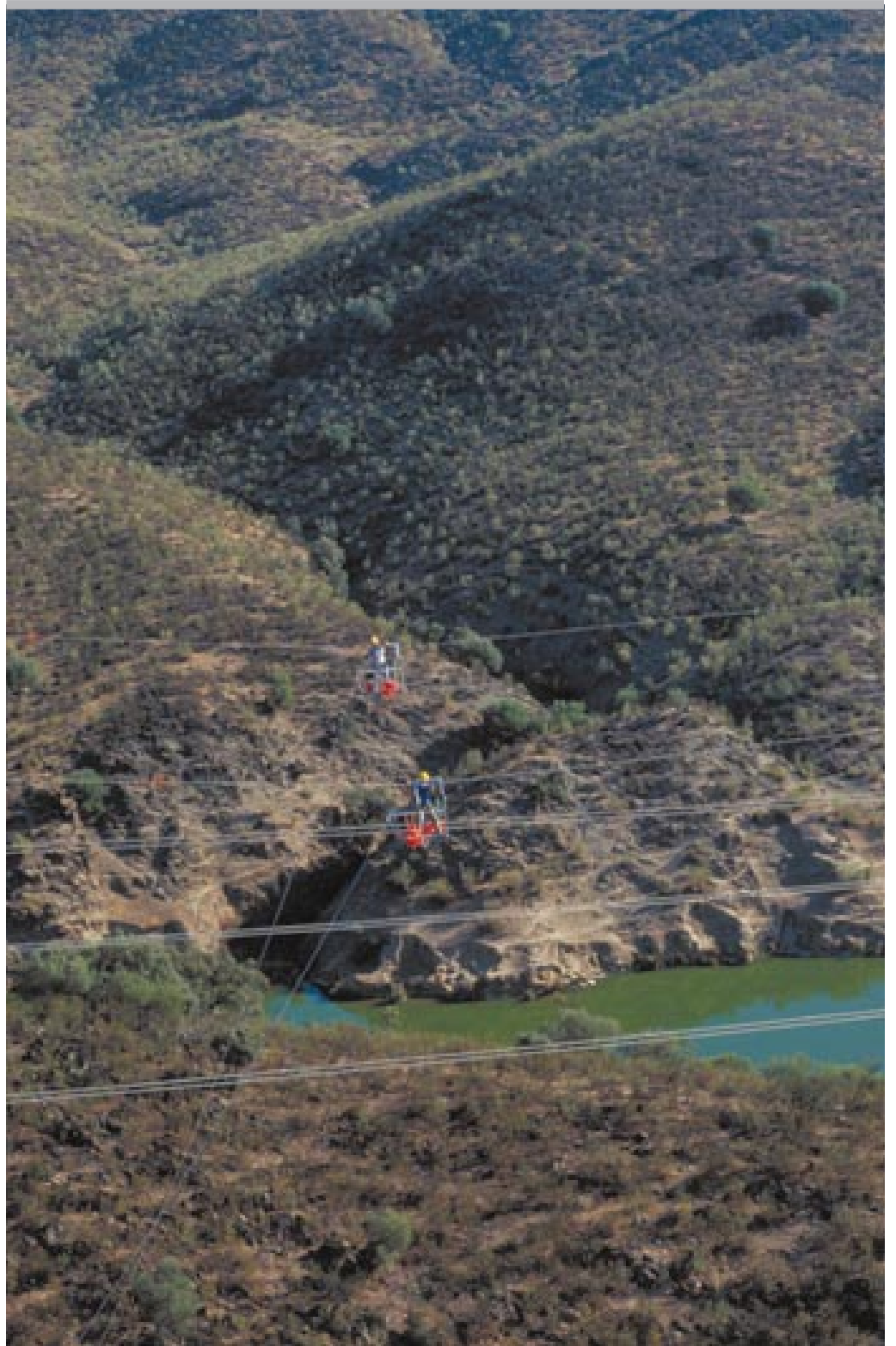


birdsavers to reduce collisions by birds in Castilla-León, Extremadura and Aragón. Landscape restoration projects were also carried out and a manual was prepared for the treatment of vegetation in the right-of-ways under the power lines.

In addition, work started on "Effectiveness of marking on the 400 kV Valdecaballeros – Guillena power line". The main goal is to estimate the frequency of birds crossing the line, to check the condition of the spiral birdsavers installed in 1990 on four stretches of this line, to estimate the accident rate for birds and to compare the results with those of the evaluation carried out in 1989 – 1991. The results will be used to decide whether or not to replace the damaged devices or to remove marking on one or more stretches.

Research projects in co-operation with other organisations and universities continued. Specifically in 1999 the analysis of the biological effect of electromagnetic fields was concluded and tracking was carried out on the efficiency of dissuatory measures with regard to nesting of white storks on power line support structures. These actions confirmed the efficiency of the dissuatory devices which had attained the best results in the testing carried out during 1998.

In line with previous years, work continued on the external distribution of information on birds and power lines or electromagnetic fields, through publications, books and bulletins. In addition, a video has been produced on the Environmental Management System. The company has participated in debates and has organised the Third Conference on Power Lines and the Environment.



SHAREHOLDERS AND STOCK MARKET INFORMATION



1999 WITNESSED AN IMPORTANT MOMENT IN THE HISTORY OF RED ELÉCTRICA following the initial public offer (IPO) of shares by the Sociedad Estatal de Participaciones Industriales (State holding company). This meant that the company started to be quoted on the Stock Exchange and it involved a decisive change in shareholders and in business organisation. Being quoted on the Stock Exchange implies the inescapable responsibility of being answerable to shareholders and on refocusing management, organisation and activities in general on the creation of value.

As part of the changes associated with the listing on the Stock Exchange, the Annual General Meeting of Shareholders in May 1999 approved the restatement of the share capital in euros and a three-for-one stock split. As a result of these operations the share capital of RED ELÉCTRICA became 270,540,000 euros, the nominal value of the shares became two euros and the number of shares 135,270,000.

Following the sale of shares the structure of ownership of the company changed; 31.5% is now freely traded and the rest is held by electricity companies and the Sociedad Estatal de Participaciones Industriales – in accordance with the provisions of Law 54/97 on the Electricity Sector.

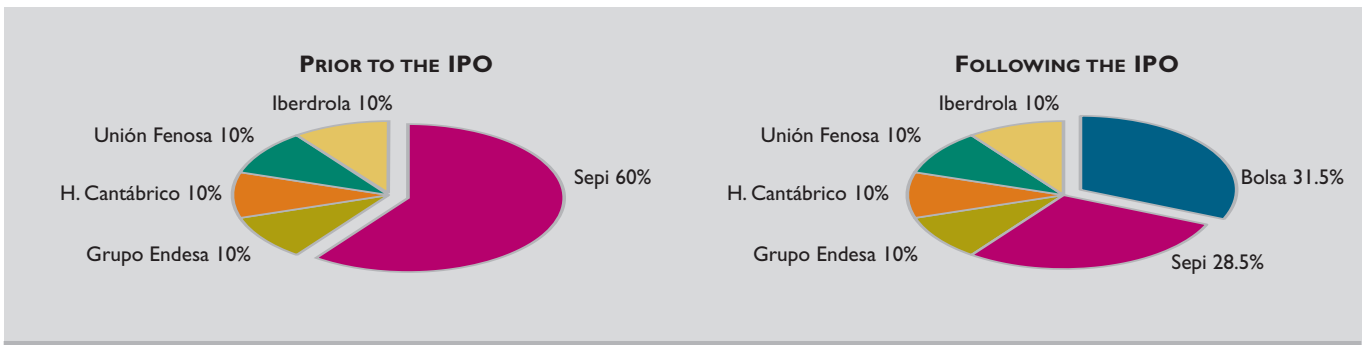
The IPO was conducted with the intention of acquiring a wide and diversified range of shareholders in order to favour appropriate development of the share value following this event. A summary of the transaction is shown below:

DETAILS OF THE IPO (thousands of shares)

	Demand	Allocation	%
Individual Spanish shareholders	173,575	21,305	50.0
General	172,511	21,005	49.3
Employees	1,063	300	0.7
Institutions	160,247	21,305	50.0
Spanish	119,820	8,194	19.2
International	40,426	13,111	30.8
Total	333,822	42,610	100.0

In 1999 new statutes were approved by the Board of Directors to bring it into line with the new corporate situation and to incorporate the principles and recommendations of the Code of Good Governance (the Olivencia report). The basic tasks of the Board of Directors were defined as the general supervision of the management of the company and the creation of shareholder value.

DETAILS OF RED ELÉCTRICA'S SHAREHOLDERS

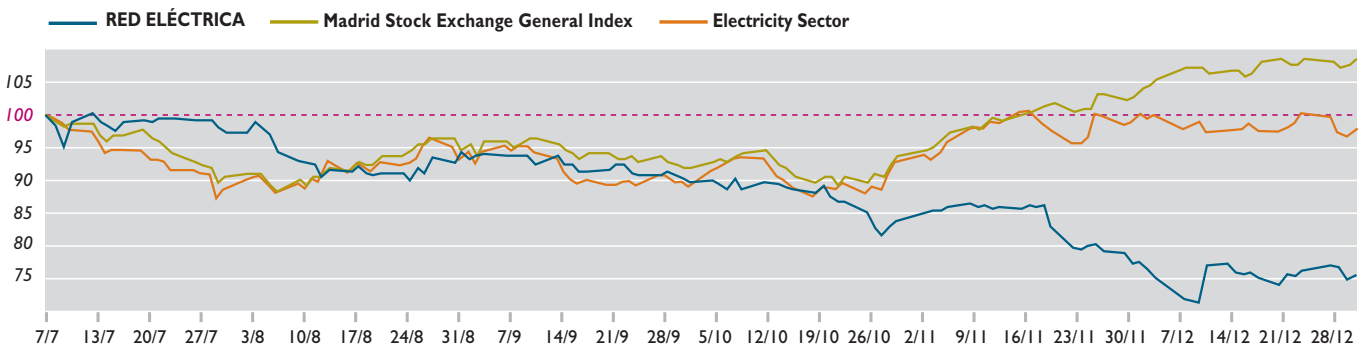


Listing on the Stock Exchange and the Code of Good Governance resulted in changes in the Board of Directors. Four new directors joined the board and now the ratio of directors nominated by substantial shareholders to independent directors suitably reflects the relationship between the large shareholders and the rest.

In order to keep the market regularly informed with the appropriate degree of transparency regarding the company's activities, projects and strategies, an Investor Relations office has been created. This office has facilitated the flow of information and gained the confidence of those involved with regard to the relative increase in the share price and the appropriate assessment of its value.

Furthermore, discussions have been held with investors in the stock exchanges at Barcelona, Bilbao, Madrid and Valencia. The principal European financial centres have been visited together with New York. At these meetings presentations were made and discussions held with investors. Since the listing on the Stock Exchange, the company has started to provide the main national and international analysts with information.

COMPARISON RED ELÉCTRICA - THE ELECTRICITY SECTOR - IGBM

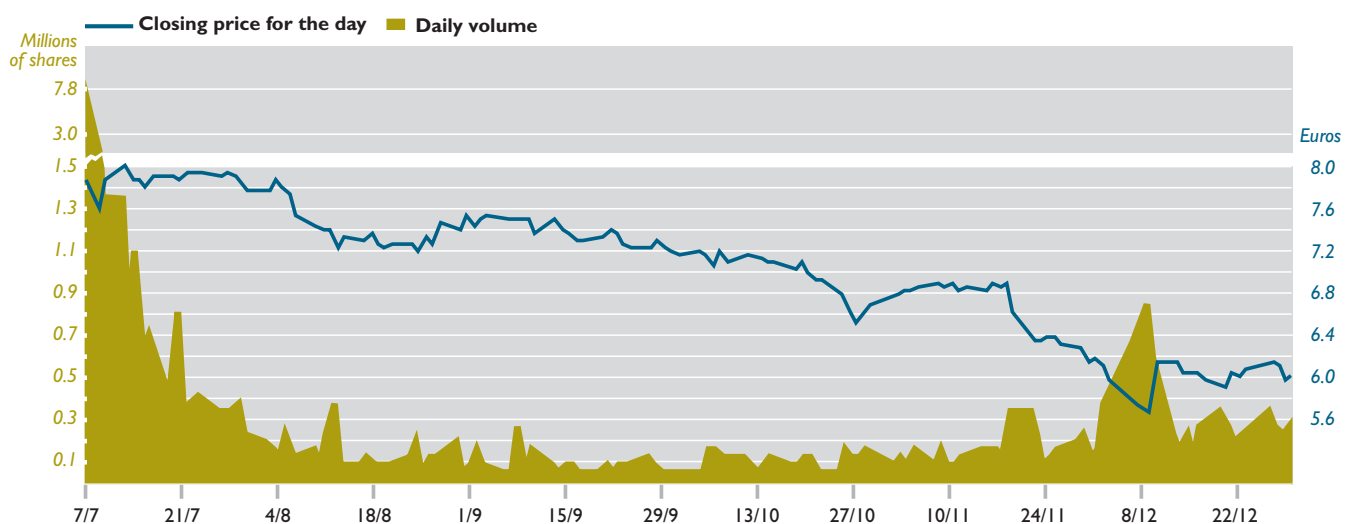


SHARE PRICE MOVEMENT BY MONTH

	Date	Monthly movements (Euros)				Variation	Volume	
		Opening	Maximum	Minimum	Closing	% month	Shares	Euros
July	07/31	8.00	8.12	7.53	7.78	-2.75	19,931,058	157,066,134
Aug	01/31	7.79	7.90	7.20	7.54	-3.08	2,574,404	18,864,309
Sep	01/30	7.50	7.60	7.20	7.21	-4.38	1,503,749	11,137,588
Oct	01/31	7.21	7.28	6.51	6.70	-7.07	1,679,596	11,678,378
Nov	01/30	7.00	7.04	6.11	6.17	-7.91	2,902,759	19,085,906
Dec	01/31	6.29	6.30	5.65	6.00	-2.76	5,190,866	31,060,828
TOTAL		8.00	8.12	5.65	6.00	-25.00	33,782,432	248,893,143
					Monthly average		5,630,405	41,482,191

SHARE PRICE MOVEMENTS

At the end of 1999 the market indices rose. However, these new maximums disguise the fact that growth was limited to a number of shares which are mainly related to new technologies and where capital values are generally high. The Madrid Stock Exchange closed the year with an increase of 16.22% in the general index. However, there was considerable difference between the different sectors. Some rose by 86.6% (communications) and others fell by 27.2% (trading and service companies) or 26.3% (the construction sector). The electric sector fell by 12.1%.

RED ELÉCTRICA DAILY MOVEMENT AND VOLUME




In Europe developments in the debt markets resulted in utility companies suffering significant falls. Only those companies which are affected by mergers and/or diversification in technical areas managed to avoid this trend.

RED ELÉCTRICA closed 1999 with the share price at 6 euros. The performance was not in line with the expectations generated by the company's forecasts prior or subsequent to the IPO. The share price has followed the same trend as other companies with a low market capitalisation. These have been ignored by the market with regard to both price and volume. However, from February 2000 onwards and following the statements sent to the CNMV regarding the renegotiation of the contract for the use of the company's fibre optic network, the share price and volume have risen sharply as a result of the market's evaluation of the company's telecommunications potential.

DIVIDEND POLICY

RED ELÉCTRICA generally pays an interim dividend at the end of the year and a final dividend following the approval of the recommendations of the Board of Directors at the Annual General Meeting.

On 22 November 1999 a gross interim dividend of 0.15 euros per share was paid for 1999.

In the annual accounts for 1999 the Board of Directors has recommended to the Annual General Meeting a total dividend of 0.365 euros per share (equivalent to approximately 61 pesetas per share). This represents 65.7% of net profits and it is 18.5% higher than the dividend in the previous year. Consequently the amount of 0.215 euros per share will be paid as the gross final dividend for the year.

STATUTORY INFORMATION



RED ELÉCTRICA DE ESPAÑA, S.A. · BALANCE SHEETS

31 DECEMBER 1999 AND 1998 (Expressed in millions of Pesetas)

ASSETS	1999	1998
INTANGIBLE ASSETS	1,590	1,785
Research and development expenses	3,017	2,934
Software	997	832
Accumulated amortisation	(2,424)	(1,981)
TANGIBLE ASSETS (note 5)	220,360	230,505
Land and buildings	5,878	5,879
Plant and machinery	348,382	346,104
Other installations, equipment and furniture	10,728	11,683
Plant and machinery under construction	16,290	12,787
Advances and other assets under construction	172	116
Provisions	(3,380)	(3,187)
Depreciation of plant and machinery	(148,815)	(133,644)
Other depreciation	(8,895)	(9,233)
INVESTMENTS (note 6)	3,800	2,561
Investments in associated companies	915	-
Long-term investment portfolio	5	5
Other loans	1,139	1,287
Long-term guarantee deposits	10	10
Long-term balances recoverable from public entities (note 20)	1,731	1,259
LONG-TERM TRADE DEBTORS (note 7)	968	968
Long-term trade debtors	968	968
TOTAL FIXED ASSETS	226,718	235,819
DEFERRED EXPENSES (note 8)	2,222	817
STOCKS	568	618
Raw materials and other supplies	1,066	1,165
Provisions	(498)	(547)
DEBTORS (note 7)	17,508	25,312
Trade debtors	2,924	6,331
Sundry debtors	14,172	18,726
Personnel	324	259
Public entities	234	142
Provisions	(146)	(146)
SHORT-TERM INVESTMENTS (note 6)	2,985	1,608
Short-term investment portfolio	2,001	-
Other loans	984	1,608
CASH AND BANKS	87	36
PREPAID EXPENSES (note 19)	152	263
TOTAL CURRENT ASSETS	21,300	27,837
TOTAL ASSETS	250,240	264,473

SHAREHOLDERS' EQUITY AND LIABILITIES	1999	1998
SHARE CAPITAL	45,014	45,090
1996 REVALUATION RESERVE	41,101	41,101
RESERVES	22,879	18,339
Legal reserve	9,018	9,018
Other reserves	13,861	9,321
PROFIT FOR THE YEAR	12,501	11,536
INTERIM DIVIDEND (note 3)	(3,376)	-
TOTAL SHAREHOLDER'S EQUITY (note 9)	118,119	116,066
Capital grants	11,031	10,823
Exchange gains	13	16
Other deferred income	20,578	21,565
TOTAL DEFERRED INCOME (note 10)	31,622	32,404
Provisions for pensions and other liabilities	3,085	1,922
Provisions for taxes	39	39
Other provisions	917	628
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (note 11)	4,041	2,589
BONDS ISSUED (note 12)	21,018	26,018
LOANS (note 13)	36,617	41,277
OTHER CREDITORS (note 14)	7,624	7,322
TOTAL LONG-TERM LIABILITIES	65,259	74,617
BONDS ISSUED (note 15)	430	791
Interest payable	430	791
LOANS (note 16)	9,349	14,985
Loans and other debt	8,193	13,331
Interest payable	1,156	1,654
TRADE CREDITORS (note 17)	7,240	8,674
For purchases and services received	7,240	8,674
OTHER CREDITORS (note 18)	7,558	9,057
Public entities	3,673	5,653
Others	3,593	3,126
Wages and salaries payable	3	3
Short-term guarantee deposits received	289	275
ACCRUALS (note 19)	6,622	5,290
TOTAL CURRENT LIABILITIES	31,199	38,797
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	250,240	264,473

**RED ELÉCTRICA DE ESPAÑA, S.A. · PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED
31 December 1999 and 1998 (Expressed in millions of Pesetas)**

EXPENSES	1999	1998
COST OF MATERIALS CONSUMED	35,596	35,173
Purchases of energy and power	33,637	33,284
Purchases of energy and power	1,959	1,889
PERSONNEL EXPENSES (note 22)	9,164	8,877
Wages and salaries	6,521	6,409
Social Security	1,612	1,536
Pensions and similar obligations	164	150
Other social charges	867	782
AMORTISATION AND DEPRECIATION	16,668	16,397
CHANGES IN TRADE PROVISIONS	(49)	101
OTHER OPERATING EXPENSES	7,731	7,203
External services	7,063	6,814
Local taxes	208	206
Other administrative expenses	191	170
Provision for liabilities and charges (note 11)	269	13
TOTAL OPERATING EXPENSES	69,110	67,751
OPERATING PROFIT	22,910	23,077
FINANCIAL AND RELATED EXPENSES	3,754	6,571
On debt with third parties	3,754	6,571
EXCHANGE LOSSES	6	38
TOTAL FINANCIAL EXPENSES	3,760	6,609
PROFIT ON ORDINARY ACTIVITIES	19,413	17,073
VARIATION IN PROVISIONS FOR TANGIBLE ASSETS (note 5)	193	230
LOSSES ON TANGIBLE ASSETS	4	32
EXTRAORDINARY EXPENSES (note 11)	1,163	1,816
PRIOR YEARS' ITEMS	82	25
TOTAL EXTRAORDINARY EXPENSES (note 23)	1,442	2,103
NET EXTRAORDINARY INCOME	-	321
PROFIT BEFORE TAX	19,087	17,394
INCOME TAX (note 20)	(6,586)	(5,858)
PROFIT FOR THE YEAR	12,501	11,536

INCOME	1999	1998
NET SALES (note 21)	90,368	89,247
Services rendered (transport and system operation)	53,590	52,611
Other service income	1,964	2,257
Sales of energy and power	34,811	34,349
Sales of by-products	3	30
SELF-CONSTRUCTED ASSETS	1,041	1,345
OTHER OPERATING INCOME	611	236
Other income	529	125
Grants	34	37
Surplus provision for liabilities	48	74
TOTAL OPERATING INCOME	92,020	90,828
INVESTMENT INCOME	121	406
OTHER INTEREST AND SIMILAR INCOME	139	139
Other interest	139	139
EXCHANGE GAINS	3	60
TOTAL FINANCIAL INCOME	263	605
NET FINANCIAL EXPENSES	3,497	6,004
PROFIT ON DISPOSAL OF TANGIBLE ASSETS	21	7
CAPITAL GRANTS TAKEN TO INCOME	665	728
EXTRAORDINARY INCOME	318	1,485
PRIOR YEARS' ITEMS	112	204
TOTAL EXTRAORDINARY INCOME (note 23)	1,116	2,424
NET EXTRAORDINARY LOSSES	326	-

NOTES TO THE ANNUAL ACCOUNTS

31 DECEMBER 1999 AND 1998

(1) NATURE AND PRINCIPAL ACTIVITIES

Red Eléctrica de España, S.A. (hereinafter "the Company") was incorporated on 29 January 1985 basically as a result of the contribution of a part of the assets forming the high voltage grid in service at 15 February 1984.

The principal activities carried out by the Company are the transmission of electrical energy, operation of the system and management of the transmission network, co-ordination of international exchanges of electrical power and administration of international energy agreements. The Company has diversified activities, the most significant of which is the utilisation of surplus communication capacity from the Company's network (the main domestic grid) for telecommunications activities. The Company also applies the technological capabilities, experience and know-how obtained from consultancy and engineering services rendered both within Spain and internationally.

The Company has also taken measures to internationalise its statutory activities, either directly or through shareholdings in subsidiaries and associated companies.

The Company's main activity is the transmission of electrical energy in Spain. In accordance with Law 54 of 27 November 1997 (the Electricity Sector Law), remuneration for this activity is established on the basis of the cost of investment, operation and maintenance of installations. Royal Decree 2819 of 23 December 1998 regulates the financial framework for the transmission activity, which is based on the transmission revenues recognised by the Company in 1998, adjusted annually on the basis of the consumer price index plus increments in consideration of new capital assets brought into operation. The calculation system incorporates efficiency indices and incentives for availability of installations.

Law 54 of 1997 represents a significant step towards the deregulation of the sector, as it provided for the creation of a free market for electricity generation. Within this framework, the Company has been assigned the functions of System Operator, which is responsible for guaranteeing the quality and safety of power supplies and the co-ordination of the production and transmission systems. The System Operator is also required to act as the Manager of the Transmission Network. In this capacity, the Company is responsible for the development and extension of the high voltage grid and for ensuring that it is maintained and improved in accordance with uniform and coherent criteria. The Manager of the Transmission Network is also responsible for the administration of power transmissions between external systems using the Spanish grid. Remuneration of the System Operator is based on recognised permanent operating costs of the system (see note 21).

The Company is also responsible for co-ordinating with foreign operators, the information relating to international exchanges in progress and measurement of energy flows through international electricity connections. The Company will continue to manage agreements for the long-term exchange of power with other EU and international electricity systems entered into prior to the enactment of the Law 54 of 1997 (see note 29).

As of 7 July 1999 the Company's shares have been listed on the four Spanish stock exchanges (see note 9 (a)).

(2) BASIS OF PRESENTATION

The accompanying annual accounts have been prepared by the board of directors of the Company in the format established by prevailing Spanish legislation to present fairly the shareholders' equity, financial position, results of operations and changes in financial position for 1998 and 1999, and the proposed distribution of profit for the latter year.

The annual accounts have been prepared on the basis of the accounting records of the Company and are expressed in millions of Pesetas.

The annual accounts for 1999 have been prepared in accordance with the Spanish Chart of Accounts adapted to companies operating in the electricity sector, which came into force in 1998.

The directors consider that the 1999 annual accounts will be approved by the shareholders at their annual general meeting without significant changes. The 1998 annual accounts were approved at the annual general meeting held on 17 May 1999.

(3) DISTRIBUTION OF EARNINGS

The directors will propose to the shareholders at their annual general meeting that the profit for the year ended 31 December 1999 be distributed as follows:

	Millions of Pesetas
BASIS OF DISTRIBUTION	
Profit for the year	12,501
Total	12,501
DISTRIBUTION	
To voluntary reserves	4,286
To dividends	
- Interim dividend	3,376
- Supplementary dividend	4,839
Total	12,501

At the board meeting held on 26 October 1999 the directors agreed to distribute an interim dividend of Euros 0.15 per share (approximately Ptas. 25 per share) on account of 1999 profits. Accordingly, a total amount of Ptas. 3,376 million (Euros 20.29 million) was distributed on 22 November 1999. This amount does not exceed the limits established by article 216 (b) of the Spanish Companies Act.

On the basis of the forecast cash and bank balances for the period from 30 September to 22 November 1999, liquidity was sufficient to distribute this dividend. In accordance with the requirements of article 216 (a) of the Spanish Companies Act, the following forecast of cash and bank balances was prepared:

	Millions of Pesetas
BALANCE OF CASH IN HAND AND AT BANKS AT 30.09.99	
Short-term loans	9,969
Cash and banks	91
FORECAST COLLECTIONS	
Ordinary activities	18,130
Financial operations	68
FORECAST PAYMENTS	
Ordinary activities	(10,011)
Financial operations	(5,812)
Balance of cash in hand and at banks at 22.11.99	12,435
Proposed dividend on account of 1999 profits	3,376

On the basis of the projected cash and bank balances one year from the agreement date, management did not foresee any limitations to cash flows available. As reflected in these annual accounts and as expected at the date of the distribution, the profit generated in 1999 has permitted payment of this interim dividend.

The distribution of the profit for the year ended 31 December 1998, carried out in 1999, is shown in details and movement in shareholders' equity in Appendix I to note 9.

(4) ACCOUNTING PRINCIPLES

The accompanying annual accounts have been prepared in accordance with accounting principles established in the Spanish Chart of Accounts and rules for its adaptation to the electricity sector. The most significant accounting principles applied are as follows:

a) Intangible assets

Intangible assets, principally comprising software and costs incurred in research and development projects which are expected to benefit the Company's operations over a number of years, are stated at cost of production or acquisition, less accumulated amortisation. Research and development costs are expensed during the year and capitalised as self-constructed assets. Costs capitalised as such have amounted to Ptas. 89 million and Ptas. 133 million in 1999 and 1998, respectively.

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

b) Tangible assets

Tangible assets are stated at the value assigned on contribution, or at the cost of acquisition or production, less accumulated depreciation.

In 1996 the Company revalued its tangible fixed assets as permitted by Royal Decree 7 dated 7 June 1996 and Royal Decree 2607 dated 20 December 1996. The revaluation was carried out on the basis of the maximum rates established by that legislation, reduced by 40% in order to take into consideration the structure of the Company's financing.

The cost of tangible assets directly constructed by the Company is recorded in accordance with the policy explained in section (c) below.

Repairs and maintenance costs of tangible assets are expensed when incurred.

Depreciation is provided on a straight line basis over the estimated useful lives of the relevant assets, applying the following annual rates:

	Annual rate
Buildings	2%-10%
Plant and machinery	
• In operation when acquired by the Company	
Power lines and substations	5%
Control and communication systems (supervisory control centres)	14.28%
• Built and brought into service by the Company	
Power lines and substations	2.5%
Control and communication systems (supervisory control centres)	7.14%
Other installations, machinery, equipment, furniture and other tangible assets	4%-25%

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

c) Tangible assets under construction

The Company capitalises the following items during the period of construction of the related assets:

- Direct costs related to the construction of assets in projects directly controlled or supervised by the Company. In 1999 and 1998 the Company capitalised Ptas. 688 million and Ptas. 670 million in this regard, respectively.
- Financial costs on external financing. In 1998 the Company adapted its procedure for the capitalisation of financial expenses to the requirements of Royal Decree 437 dated 20 March 1998, which establishes the rules for the adaptation of the Spanish General Chart of Accounts to companies operating in the electricity sector. Under the new criteria, financial expenses on specific borrowings arranged to fund projects are capitalised first. Self-financing is then assigned proportionally to the net book values of fixed assets under construction, less the amount of any specific borrowings in each case. The remaining cost of fixed assets under construction after deduction of specific borrowings and self-financing is considered to be funded out of general borrowings and the related financial expenses are assigned on a proportional basis. In 1999 and 1998 the Company has capitalised financial expenses for Ptas. 264 million and Ptas. 542 million, respectively.

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

In 1996 the Company voluntarily revalued the cost of tangible assets under construction as permitted by Royal Decree 7 dated 7 June 1996 and Royal Decree 2607 dated 20 December 1996. This revaluation was carried out on the basis of the maximum rates established by that legislation, reduced by 40% in order to take into consideration the structure of the Company's financing.

Provision is made against the value of assets under construction when there is evidence that their net book value may be affected by circumstances other than usage, obsolescence or normal service. Such circumstances mainly relate to the capitalisation of financial expenses when the accumulated balance for a specific asset represents a significant portion of the total cost of a project due to delays in bringing the asset into operation for reasons not attributable to the Company.

d) Investments in associated companies

Investments in associated companies are stated at the lower of cost and market value. Market is determined as the underlying net book value of the shareholding, adjusted to take into account any latent unrecorded goodwill at the year end. Any negative differences between cost and market at 31 December are recorded under provisions for decline in value of investments.

e) Stocks

Stocks of spare parts and other consumables are stated at cost of acquisition.

Provision is made where cost exceeds market value or when it appears doubtful that items will be used.

f) Foreign exchange transactions

Foreign exchange transactions are translated into Pesetas at the rates of exchange prevailing at the transaction date. Exchange gains or losses arising on settlement of these transactions are taken to income or expensed when incurred.

Unhedged balances receivable and payable in foreign currency at the year end are expressed in Pesetas at the rates of exchange prevailing at 31 December. Unrealised foreign exchange losses, determined for groups of currencies with similar maturity or market trends, are charged to expenses while unrealised exchange gains, similarly determined, are deferred. In 1998, however, unrealised gains arising on EMU currencies were taken to profit and loss as they were considered to be realised at 31 December 1998, in accordance with criteria regarding the introduction of the Euro established by Royal Decree 2814 dated 23 December 1998.

In 1998 the Company recognised net exchange gains of Ptas. 22 million in respect of the implementation of the Euro, mainly relating to loans.

The Company has contracted exchange rate insurance in respect of certain operations. The related amounts are stated at the insured rates of exchange.

g) Interest rate hedging operations

Profit or loss on over-the-counter operations to hedge interest rates on financial debt is calculated and taken to profit and loss simultaneously with the income and expense on the transactions covered. The income or expense recognised represents the net difference between the transactions covered and the corresponding hedging operations. The average interest rates on financial debt are calculated by applying this criteria (see note 25).

h) Bonds issued

Bonds issued are stated at their face value. The redemption premium, representing the difference between face value and the value at which the bonds were issued, is recorded under Deferred expenses and charged to expenses over the period to maturity of the debt using the interest method.

When interest rate swaps are contracted to hedge the related interest rate risk and redemption premiums, where applicable, the amounts receivable by the Company in the long term in respect of the latter are recorded under deferred income and taken to income over the period to maturity using the interest method (see notes 7, 10 and 25).

i) Current/long-term

Assets and liabilities are classified as current if maturing within twelve months and long-term if maturing more than twelve months from the balance sheet date.

j) Income taxes

Income taxes are calculated on the basis of the profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria and taking into consideration any applicable credits and deductions. The effects of timing differences, where applicable, are included in deferred tax assets or liabilities.

As permitted by the rules for adaptation to the new mercantile legislation, the Company has not recorded the deferred tax liability related to timing differences which existed at 31 December 1989 (see note 9(f)). The effect of these timing differences is recognised as an increase in the income tax expense in the year in which they crystallise.

k) Deferred income

Capital grants, transfers of non-returnable tangible assets and other deferred income are stated at the amounts originally received or awarded, or at the replacement cost of the relevant assets.

Grants and deferred income used to finance fixed assets are recognised in proportion to the value of the assets funded over their estimated useful lives.

Deferred income generated on financial derivatives contracted for hedging purposes, agreements for the transfer of the rights to use fixed assets (see note 29(d)) and, in general, on any agreement or commitment with a duration of more than one year, are taken to income over the term of the related agreement or commitment.

l) Pension plan

With effect from 2 November 1990, the voluntary defined contribution pension plan adopted by the Company on 31 December 1985 was integrated into a pension fund, in accordance with current legislation. Contributions made by the Company are equivalent to 3% of the base salary established in the fund and are recorded on an accruals basis.

m) Provisions for liabilities and charges

These provisions are made to cover the estimated amount of probable or known liabilities and charges arising from the Company's obligations.

The Company has decided to restructure its personnel through redundancies, relocating employees and offers of early retirement (see notes 11 and 23). The cost of redundancies and relocations are expensed in the year the decision is taken on the basis of estimated indemnities. Expenses related to early retirement are deferred on a straight line basis, using the actuarial studies prepared, over the period until each employee has complied with the established conditions.

n) Recognition of income and expenses

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

(5) TANGIBLE ASSETS

Tangible assets at 31 December 1999 and 1998 and movement during the years then ended are as follows:

RED ELÉCTRICA DE ESPAÑA, S.A. · MOVEMENT IN TANGIBLE ASSETS
31 DECEMBER 1999 AND 1998 (EXPRESSED IN MILLIONS OF PESETAS)

	31.12.1997	Additions and restatements
COST		
Land and buildings	5,815	-
Plant and machinery	335,425	8
Other installations, machinery, equipment, furniture and other tangible assets	11,368	412
Plant and machinery under construction	20,710	2,826
Advances and other assets under construction	340	180
Total Cost	373,658	3,426
ACUMULATED DEPRECIATION		
Buildings	(546)	(113)
Plant and machinery	(118,714)	(14,970)
Other installations, machinery, equipment, furniture and other tangible assets	(7,701)	(969)
Total accumulated depreciation	(126,961)	(16,052)
Provision for impairment (note 23)	(2,957)	(281)
Net book value	243,740	(12,907)

(1) See notes 4(b) and (c).

Transfers to plant and machinery during 1999 comprise two power transformers, bays at two substations, and communication and control systems amounting to Ptas. 2,136 million. Transfers in 1998 amounted to Ptas. 10,749 million and represented three power lines, bays at four substations and communication and control systems.

Disposals and write-downs	Transfers	31.12.98 (I)	Additions and restatements	Disposals and write-downs	Transfers	31.12.99 (I)
-	64	5,879	5	(6)	-	5,878
(78)	10,749	346,104	142	-	2,136	348,382
(115)	18	11,683	213	(1,408)	240	10,728
-	(10,749)	12,787	5,715	-	(2,212)	16,290
(322)	(82)	116	220	-	(164)	172
(515)	-	376,569	6,295	(1,414)	-	381,450
-	-	(659)	(111)	6	-	(764)
40	-	(133,644)	(15,171)	-	-	(148,815)
96	-	(8,574)	(942)	1,385	-	(8,131)
136	-	(142,877)	(16,224)	1,391	-	(157,710)
51	-	(3,187)	(193)	-	-	(3,380)
(328)	-	230,505	(10,122)	(23)	-	220,360

As a result of the revaluation of assets carried out as permitted by Royal Decree 7 of 7 June 1996 and Royal Decree 2607 of 20 December 1996, the depreciation charge for 1999 amounts to approximately Ptas. 3,794 million (Ptas. 3,809 million in 1998). At 31 December 1999 the revaluation of tangible fixed assets, net of depreciation, amounts to Ptas. 30,877 million (Ptas. 34,671 million in 1998).

The Company has contracted insurance policies to cover the replacement cost of tangible assets.

(6) INVESTMENTS

Details at 31 December 1999 and 1998 are as follows:

	Millions de Pesetas	
	1999	1998
Public entities	1,731	1,259
Other loans	1,139	1,287
Investments in associated companies	915	-
Long-term guarantee deposits	10	10
Other long-term investments	5	5
TOTAL LONG-TERM INVESTMENTS	3,800	2,561
Short-term investments	2,001	-
Other loans	984	1,608
TOTAL SHORT-TERM INVESTMENTS	2,985	1,608

Long-term balances with public entities reflect deferred tax assets (see note 20).

Other long-term loans have mainly been made to personnel and earn interest at market rates.

At 31 December 1999 investments in group companies reflect the shareholding in Red Eléctrica del Sur, S.A. (REDESUR), which is registered in Lima (Peru). The principal activity of this company is the transmission of electrical energy. REDESUR has been awarded a thirty-year concession to reinforce the transmission grid in the south of Peru by constructing and operating various power lines and substations. The remuneration receivable from this concession is guaranteed by the Peruvian Government. This shareholding was acquired on 5 March 1999 at a cost of Ptas. 915 million, of which Ptas. 641 million is pending payment at 31 December 1999, reflected under other creditors (see note 18). Details of the investment in REDESUR, which is not listed on the stock exchange, are as follows:

Company	% owned by Red Eléctrica de España, S.A.	Net book value of the investment	Millions de Pesetas			
			Shareholders' equity of REDESUR at 31.12.99 (*)			
			Share capital	Reserves	Loss for 1999	
				Total	Extraordinary	
REDESUR	30%	915	3.202	742	(138)	-

(*) Value in Pesetas as per audited financial statements. At 31 December 1999 the power lines and substations are under construction. In accordance with the terms of the concession, no remuneration will be received until the coming year.

Short-term investments represent the acquisition of promissory notes which mature on 7 January 2000, as well as the related interest receivable.

Other short-term loans mainly comprise short-term deposits and interest receivable on operations involving financial derivatives. Interest on these operations is accrued in line with the hedged operations (see note 25).

(7) DEBTORS

Details of debtors at 31 December are as follows:

	Millions de Pesetas	
	1999	1998
LONG-TERM TRADE DEBTORS	968	968
TOTAL LONG-TERM	968	968
DEBTORS FOR THE SALE OF ENERGY		
Domestic electricity companies	821	4,952
Foreign electricity companies	2,103	1,379
	2,924	6,331
DEBTORS FOR SERVICES RENDERED		
Domestic electricity companies	12,736	12,508
Other debtors	1,436	6,218
	14,172	18,726
PERSONNEL	324	259
TAX AUTHORITIES		
Withholdings	-	2
Deferred tax assets (note 20)	234	140
	234	142
Provision for bad debts	(146)	(146)
TOTAL SHORT-TERM	17,508	25,312

Long-term trade debtors at 31 December 1999 reflect the redemption premium on the swap operation contracted to hedge the September 1997 bond issue.

The balance receivable from domestic electricity companies for sales of energy represents mainly electricity charges invoiced or pending billing to those companies in accordance with the power supply contract between Electricité de France (EDF) and the Company (see note 29). At 31 December 1998 the balance was with domestic electricity companies, while at 31 December 1999 the balance corresponds to Compañía Operadora del Mercado Español de la Electricidad, S.A. (OMEL), in accordance with article 3 of Royal Decree 215 of 5 February 1999. The reduction in this balance compared to 1998 is mainly due to the expected decrease in collections from OMEL as a result of modifications to the indices and tariffs established in the supply agreement with EDF, as well as to certain adjustments to invoicing for 1998 arising from changes in settlement processes in the generating market.

The balance receivable in respect of sales of energy to foreign electricity companies at 31 December 1999 and 1998 relates mainly to electricity charges invoiced or pending billing in accordance with the power supply export agreements entered into by the Company (see note 29).

At 31 December 1999 and 1998 the balance receivable from domestic electricity companies for services rendered represents amounts pending collection or to be invoiced in respect of transmission and operation of the system.

At 31 December 1998 other debtors reflected mainly the short-term balance receivable in relation to the agreement to cede the use of surplus capacity from the Company's fibre optic network (see notes 10 and 29(d)). This balance was collected in 1999.

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

(8) DEFERRED EXPENSES

Details at 31 December are as follows:

	Millions de Pesetas	
	1999	1998
Deferred expenses for marketable securities	674	817
Other deferred expenses	1,548	-
	2,222	817

At 31 December 1999 other deferred expenses comprise the recognition of employees' future length of service periods as established in the collective labour agreement made in 1999. These costs are taken to personnel expenses on a straight line basis, in accordance with external studies carried out in this regard.

(9) SHAREHOLDERS' EQUITY

Details of movement in shareholders' equity during 1999 and 1998 are shown in Appendix I, which forms an integral part of this note.

a) Share capital

At 31 December 1998 share capital was represented by 45,090,000 shares of Ptas. 1,000 each, subscribed and fully paid. All shares had the same voting and profit sharing rights.

At 31 December 1999 share capital comprises 135,270,000 bearer shares of Euros 2 par value each. These shares have been wholly subscribed and paid, and have the same voting and profit sharing rights. The Company's shares have been listed on the four Spanish stock exchanges as of 7 July 1999, after the public offer for their sale. At the general and extraordinary meeting held on 17 May 1999, the shareholders agreed to restate the share capital in Euros and authorised the following operations, as a result of which the Company's share capital totals Euros 270.54 million:

- A share capital decrease of Pta. 1 per share, with reimbursement of shareholders' contributions. A reserve was simultaneously set up with a charge to voluntary reserves for the value of redeemed capital (see section (g) of this note).
- A split of the par value of the share capital on the basis of a ratio of 1 to 3, simultaneously tripling the number of shares issued. There has been no change in the value of the share capital as a result.
- Restatement of the share capital in Euros subsequent to conversion, rounding and adjustments as established in Law 46 of 17 December 1998 regarding the implementation of the Euro. As a result, a reserve was set up for differences on conversion to Euros (see section (h) of this note).

In accordance with article 1 of Royal Decree 377 of 1991 regarding the notification of significant investments in listed companies, investors must declare direct or indirect interests in share capital which exceed 5%. The Company has received notification of such interests and verified this information against the official data of the Spanish Stock Exchange Authorities. At 31 December 1999 Sociedad Estatal de Participaciones Industriales (SEPI), the State holding company, owns 28.5% of the Company's share capital, while Iberdrola, S.A., Unión Fenosa, S.A., Hidroeléctrica del Cantábrico, S.A. and Endesa, S.A. hold interests of 10% each either directly or indirectly through subsidiaries.

Law 54 of 27 November 1997 establishes that no single shareholder may own a total direct and indirect interest exceeding 10%. Also, the sum of the total interests held directly and indirectly by companies operating in the electricity sector may not exceed 40%. These shares may not be syndicated. These maximum limits for shareholdings are not applicable to Sociedad Estatal de Participaciones Industriales, which will hold an interest of at least 25% in the share capital of the Company until 31 December 2003, after which it will maintain a minimum interest of 10%.

b) Revaluation reserve

Under Royal Decree 7 dated 7 June 1996 and Royal Decree 2607 dated 20 December 1996, the Company credited to the 1996 revaluation reserve the amount of the increase in the value of tangible assets arising from the revaluations carried out in accordance with that legislation.

The balance of this reserve is Ptas. 41,101 million, net of a one-off tax charge on the revaluation, and has been inspected and agreed by the tax authorities during the year (see note 20). Accordingly, the balance on the reserve may be applied to offset prior years' losses, to increase share capital or to increase distributable reserves after 31 December 2006.

The balance of the revaluation reserve will only be distributed, either directly or indirectly, to the extent that the surplus on revaluation has been realised, that is, when the related assets have been fully depreciated, disposed of or written off.

c) Legal reserve

Companies are obliged to transfer 10% of the profits of each year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase share capital.

At 31 December 1999 and 1998 the legal reserve is equal to 20% of the share capital of the Company.

d) Investment reserve

This reserve was established in accordance with the Spanish Energy Council ruling of 11 December 1987, which required the Company to set up a provision of Ptas. 1,352 million.

The investment reserve is not distributable without the express authorisation of the Energy Council.

e) Voluntary reserve

Voluntary reserves are freely distributable, except where restricted by the Spanish Companies Act.

f) Reserve for accelerated depreciation

As permitted by Royal Decree-Law 2/1985, prior to 1990 the Company provided accelerated depreciation for tax purposes of Ptas. 4,428 million in respect of tangible assets acquired between 9 May and 31 December 1985, and set up the relevant reserve for accelerated depreciation, which at 31 December 1999 amounts to Ptas. 2,711 million (Ptas. 2,816 million in 1998). Each year the Company debits this reserve and credits extraordinary income in an amount equal to the annual depreciation charge based on the useful lives of the assets subject to accelerated depreciation. The tax payments which have deferred as a result of accelerated depreciation have been estimated at approximately Ptas. 949 million at 31 December 1999 (Ptas. 986 million in 1998), using the standard tax rate of 35%.

Subsequent to 1990 the Company made an adjustment of Ptas. 2,546 million to taxable income, as permitted by the aforementioned legislation, and recorded the related deferred tax liability. The timing difference arising in this regard at 31 December 1999 amounts to Ptas. 1,897 million (Ptas. 1,974 million in 1998).

g) Reserve for redeemed capital

This reserve was set up at the annual general meeting held on 17 May 1999 (see section (a) of this note). Distribution of the balance is subject to the requirements established by the Spanish Companies Act for share capital reductions.

h) Differences on conversion to Euros

This account represents the differences arising on conversion of the share capital of the Company to Euros (see section (a) to this note). In accordance with Law 46 of 17 December 1998 regarding the implementation of the Euro, this reserve is not distributable.

i) Own shares

The Company carries out no operations involving own shares.

(10) DEFERRED INCOME

Details at 31 December are as follows:

	Millions de Pesetas	
	1999	1998
Capital grants	11,031	10,823
Exchange gains	13	16
Other deferred income	20,578	21,565
	31,622	32,404

At 31 December 1999 and 1998 other deferred income mainly comprises the portion assigned to the Company of the compensation received from EDF pursuant to the agreement made on 8 January 1997 to amend electricity supply contracts (see note 29(a)). This caption also reflects amounts arising from the agreement to cede the use of surplus capacity from the Company's fibre optic network (see note 29(d)) and unrealised gains on operations involving financial derivatives contracted to hedge bonds issued in September 1997.

(11) PROVISIONS FOR LIABILITIES AND CHARGES

Details are as follows:

	Millions de Pesetas	
	1999	1998
Provision for pensions and other commitments	3,085	1,922
Provision for taxes	39	39
Provision for other liabilities	917	628
	4,041	2,589

The provision for pensions and other commitments at 31 December 1999 and 1998 mainly reflects the amount set aside with a charge to extraordinary expenses to cover future costs which, in accordance with the studies and analyses carried out, will arise in respect of the personnel restructuring plan the Company has decided to implement (see notes 4 and 23).

The provision for other liabilities mainly covers the possibility of unfavourable rulings in respect of claims from third parties.

(12) BONDS ISSUED

At 31 December 1999 and 1998 this balance represents bonds issued at fixed and variable rates. During 1999 unhedged and hedged debts have accrued average annual interest of 4.68% and 4.97%, respectively (7.46% for hedged debts in 1998).

In accordance with the terms of each bond issue, at 31 December 1999 and 1998 the debt matures as follows:

	Millions de Pesetas	
	1999	1998
Three years	-	5,000
Four years	5,050	-
Five years	8,468	5,050
Thereafter	7,500	15,968
	21,018	26,018

(13) LONG-TERM LOANS

Details of long-term loans are as follows:

	Millions de Pesetas	
	1999	1998
Loans and credit facilities	38,765	44,175
Less, current portion (note 16)	(2,148)	(2,898)
	36,617	41,277

In 1999 the Company has repaid in advance a portion of a syndicated loan, which amounted to Ptas. 14,000 million at the year end. At 31 December 1998 the Company drew down Ptas. 15,000 million on a syndicated credit facility with a limit of Ptas. 20,000 million, which was converted into a loan on 1 January 1999. During the year the Company has also repaid in advance sundry loans for a total of approximately Ptas. 1,500 million.

Details of foreign currency loans at 31 December are as follows:

	Millions de Pesetas	
	1999	1998
Swiss Franc	1,535	1,733
US Dollar	1,198	1,348
	2,733	3,081

At 31 December 1998 the Company had long-term loans in EMU currencies for the equivalent of Ptas. 5,670 million.

During 1999 unhedged and hedged Peseta and EMU currency loans have accrued average annual interest at rates of 4.98% and 4.44%, respectively (6.01% for hedged loans in 1998). Average interest on unhedged and hedged foreign currency loans has been 8.08% (8.42% for hedged loans in 1998).

Long-term maturities of the loans are as follows:

	Millions de Pesetas	
	1999	1998
Two years	7,199	2,312
Three years	11,807	7,727
Four years	2,477	12,652
Five years	2,487	2,689
Thereafter	12,647	15,897
	36,617	41,277

(14) OTHER LONG-TERM CREDITORS

Details of other long-term creditors at 31 December 1999 and 1998 are as follows:

	Millions de Pesetas	
	1999	1998
Deferred tax liability (note 20)	7,616	7,314
Long-term deposits received	8	8
	7,624	7,322

The long-term maturity of balances with other long-term creditors is as follows:

	Millions de Pesetas	
	1999	1998
Two years	292	284
Three years	320	274
Four years	275	303
Five years	265	257
Thereafter	6,472	6,204
	7,624	7,322

(15) BOND INTEREST PAYABLE

At 31 December 1999 and 1998 this balance comprises accrued interest payable on the bonds issued by the Company (see note 12).

(16) SHORT-TERM LOANS

Details of short-term loans are as follows:

	Millions de Pesetas	
	1999	1998
Loans (note 13)	2,148	2,898
Promissory notes and credit facilities	6,045	10,433
	8,193	13,331
Accrued interest payable	1,156	1,654
	9,349	14,985

During 1999 unhedged and hedged promissory notes and short-term loans have accrued average annual interest at rates of 3.17% and 3.18%, respectively (4.66% on hedged operations in 1998).

At 31 December 1999 and 1998 there are no promissory notes or draw-downs in foreign currency.

Promissory notes are issued by the Company through financial institutions and are recorded at their nominal value. The difference between this value and the amount actually received is recorded on an accruals basis and classified as prepaid expenses.

At 31 December 1999 and 1998 a programme to issue "highly liquid" promissory notes up to a maximum of Ptas. 28,000 million has been registered with the Spanish Stock Exchange Commission.

At 31 December 1999 the Company has unused credit facilities for Ptas. 11,130 million (Ptas. 10,067 million at 31 December 1998).

(17) TRADE CREDITORS

Details at 31 December are as follows:

	Millions de Pesetas	
	1999	1998
Suppliers of energy and power purchases	1,513	3,425
Suppliers of services rendered	5,727	5,249
	7,240	8,674

Suppliers of energy and power purchases mainly relates to the agreement with Electricité de France (EDF) to supply energy and power (see note 29(a)). The decrease in this balance as compared to the same period for 1998 is due to the elimination of certain adjustments in invoicing for the year due to changes in settlement processes in the generating market.

(18) OTHER CREDITORS

At 31 December 1999 and 1998 other creditors are as follows:

	Millions de Pesetas	
	1999	1998
Tax and Social Security authorities	3,673	5,653
Short-term guarantee deposits received	289	275
Other debts	3,596	3,129
	7,558	9,057

Balances due to the tax and Social Security authorities comprise the following:

	Millions de Pesetas	
	1999	1998
Taxes payable		
Withholdings	218	130
Income tax	2,289	4,239
VAT	707	848
Other taxes	2	3
Social Security	156	141
Deferred tax liability (note 20)	301	292
	3,673	5,653

The variation in income tax payable arises as in 1999 the Company has ceased to file tax returns under the consolidated tax regime (see note 20).

Other debts are as follows:

	Millions de Pesetas	
	1999	1998
Creditors for purchases of fixed assets and other items	2,955	3,129
Calls on share capital of associated companies (note 6)	641	641
	3,596	3,129

(19) PREPAID EXPENSES AND ACCRUALS

At 31 December 1999 prepaid expenses comprise Ptas. 152 million (Ptas. 263 million in 1998) relating mainly to financial expenses incurred in 1999 which will be recognised over the ensuing years, and prepayments on insurance policies contracted by the Company in respect of future years.

Accruals mainly reflect income of Ptas. 4,182 million (Ptas. 2,858 million in 1998) received in advance in respect of billings for guaranteed power supplies, in accordance with the power supply agreement between Office Nationale de l'Electricité de Maroc (ONE) and the Company (see note 29(c)), and income of Ptas. 2,308 million (Ptas. 2,321 million in 1998) received in advance on the power supply agreement between EDF and the Company (see note 29(b)).

(20) TAXATION

As of 1999 the Company no longer forms a part of the consolidated tax group n° 9/1986 (formed by Sociedad Estatal de Participaciones Industriales and the companies in which it has a majority shareholding).

As a consequence of the treatment permitted by fiscal legislation for certain transactions, the accounting profit differs from taxable income. A reconciliation of the accounting profit for the year with the taxable income that the Company expects to declare after approval of the 1999 annual accounts, together with that for 1998, is as follows:

	Millions de Pesetas	
	1999	1998
Profit before income tax	19,087	17,394
Permanent differences	17	(20)
Taxable accounting income	19,104	17,374
Timing differences		
Generated during the year	(256)	1.876
Reversal of prior years	558	(1.388)
TAXABLE INCOME	19,406	17,862

Details of the income tax charge for 1999 and 1998 are as follows:

	Millions de Pesetas	
	1999	1998
Accounting income at 35%	6,686	6,081
Less, deductions	(106)	(226)
Expense for the year	6,580	5,855
Prior years' adjustment	6	3
INCOME TAX CHARGE	6,586	5,858

The Company is obliged to maintain fixed assets for which credits have been taken for a period of five years.

Details of timing differences in the recognition of expenses and income for accounting and tax purposes at 31 December 1999 and 1998 and the related accumulated deferred tax assets and liabilities are as follows:

	Millions de Pesetas			
	1999		1998	
	Timing difference	Tax effect	Timing difference	Tax effect
TIMING DIFFERENCES DUE TO DEFERRED TAX ASSETS				
Generated in prior years	3,997	1,399	2,214	775
Generated during the year	1,568	549	2,139	749
Reversals of prior years	(376)	(132)	(356)	(125)
	1,192	417	1,783	624
Prior years' adjustments	426	149	-	-
	5,615	1,965	3,997	1,399
TIMING DIFFERENCES DUE TO DEFERRED TAX LIABILITIES				
Generated in prior years	(21,729)	(7,606)	(20,436)	(7,153)
Generated during the year	(1,724)	(603)	(263)	(92)
Reversals of prior years	834	292	(1,032)	(361)
	(890)	(311)	(1,295)	(453)
	(22,619)	(7,917)	(21,731)	(7,606)

Timing differences related to deferred tax assets have mainly arisen due to the provision for liabilities and charges (see notes 11 and 23).

Timing differences related to deferred tax liabilities relate principally to the accelerated depreciation of certain tangible assets.

In 1999 the tax authorities have inspected the principal taxes from 1994 to 1996, inclusive, including the one-off charge on tangible assets revalued in accordance with Royal Decree 7 of 1996. As a result of this inspection, the Company has recorded extraordinary expenses of Ptas. 72 million (see note 23).

At 31 December 1999 the tax authorities are inspecting taxes for 1997 (see note 30). The tax inspection of subsequent years is still pending. The directors do not expect that significant additional liabilities will arise in relation to the years open to inspection.

(21) NET SALES

Details are as follows:

	Millions de Pesetas	
	1999	1998
Income from services rendered (transport and system operation)	53,590	52,611
Sales of energy and power	34,811	34,349
Other income from services rendered	1,964	2,257
Sales of by-products and other income	3	30
	90,368	89,247

Income from services rendered relates to transmission activities and the operation of the system, the remuneration for which is established annually by the Ministry of Industry and Energy. In accordance with Royal Decree 2821 dated 23 December 1998, which establishes electricity tariffs for 1999, the remuneration of transmission activities was fixed at Ptas. 52,552 million, including tolls (Ptas. 51,121 million in 1998), while revenues for the operation of the system were set at 0.053% of tariffs and 0.138% of power transmission tolls (0.053% and 0.121%, respectively, in 1998). This caption also includes revenues collected during 1999 in respect of prior years' settlements.

In 1999 sales of energy and power represent income recognised in respect of energy and power contributed under the power supply contracts made by the Company with EDF (France) and ONE (Morocco). In 1998 this caption also included income generated under the power supply contract between FEDA (Forces Electriques d'Andorra) and the Company, which was cancelled by FEDA on 15 January 1999.

Other income from services rendered includes revenues generated from the diversification of the Company's activities, comprising the cession of surplus capacity in its telecommunications networks, as well as consulting, engineering, construction and maintenance work performed for third parties.

(22) PERSONNEL EXPENSES

Details are as follows:

	Millions de Pesetas	
	1999	1998
Wages and salaries	6,521	6,409
Social Security	1,612	1,536
Pensions and similar commitments	164	150
Other social charges	867	782
	9,164	8,877

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

	1999	1998
Managers	22	22
Honours graduates	289	303
Graduates	316	324
Assistants	272	274
Administrative staff	155	156
	1,054	1,079

(23) EXTRAORDINARY INCOME AND EXPENSES

Details are as follows:

	Millions de Pesetas	
	1999	1998
Profit on tangible assets	21	7
Capital grants taken to profit and loss	665	728
Extraordinary income	318	1,485
Prior years' profit and income	112	204
TOTAL EXTRAORDINARY INCOME	1,116	2,424
Change in the provision for tangible assets (note 5)	193	230
Losses on tangible assets	4	32
Extraordinary expenses (note 11)	1,163	1,816
Prior years' losses and expenses	82	25
TOTAL EXTRAORDINARY EXPENSES	1,442	2,103

In 1998 extraordinary income mainly comprised the profit, net of related expenses, on the sale of the Company's entire shareholding in Compañía Operadora del Mercado Español de la Electricidad, S.A. This transaction was carried out in accordance with Law 54 of 1997.

(24) REMUNERATION OF AND BALANCES WITH MEMBERS OF THE BOARD OF DIRECTORS

In 1999 the members of the board of directors, including those who are employees of the Company, received Ptas. 54 million (Ptas. 45 million in 1998) in respect of salaries, allowances and other remuneration.

At 31 December 1999 loans for approximately Ptas. 1 million have been made to members of the board of directors. These loans earn interest at EURIBOR plus a differential of 0.25% and mature in more than one year. At year end no advances have been granted to these directors. At 31 December 1998 no loans or advances were granted to members of the board of directors.

(25) FINANCIAL DERIVATIVES

Hedging operations carried out by the Company using financial derivatives mainly comprise over-the-counter operations (specific bilateral transactions). For accounting purposes, these are classified as interest rate hedging operations (see note 4(g)).

At 31 December 1999 the Company has contracted operations to hedge interest and/or exchange rates risks related to borrowings, as follows:

Liability covered	Type of cover	Type of operation	Amount covered (Millions of Pesetas)	Term
Bonds	Interest rate	Swap and collar	16,500	1 month - 6 years
Long-term Peseta and EMU currency loans	Interest rate	Swap and collar	6,655	1 month - 9 years
Long-term US Dollar loans	Interest and exchange rates	Swap	1,348	4 months

(26) ENVIRONMENTAL ISSUES

During 1999 the Company incurred expenses of Ptas. 148 million (Ptas. 133 million in 1998) in respect of studies to determine the effect of transmission lines on the environment, protection of bird life, landscaping of installations, waste management, and the implementation of an environmental management system in accordance with the UNE-EN-ISO 14001 standard, certification of which was obtained in May 1999. The Company has also incurred expenses related to the organisation of the Third Conference on Power Lines and the Environment, as well as certain costs related to the creation of an environmental department to deal directly with these matters.

Studies have also been carried out in 1999 to determine the environmental impact of new electrical installations. These studies have cost approximately Ptas. 33 million (approximately Ptas. 44 million in 1998) and have been recorded as an increase in the value of the related tangible assets.

The Company has no litigation or contingencies relating to environmental protection or improvements.

(27) INFORMATION BY ACTIVITY

In accordance with Law 54 of 27 November 1997 governing the electricity sector and Royal Decree 437 dated 20 March 1998 approving rules for the adaptation of the Spanish General Chart of Accounts to companies operating in the electricity sector, the Company has prepared separate information by activity.

As a result, in 1999 and 1998 income, expenses, assets and liabilities have been split for accounting purposes between transmission activities, operation of the system, other electricity activities and other non-electricity activities.

The principal criteria used to prepare the accounting information by activity, which is disclosed in Appendices III (a) and (b) and IV (a) and (b), are as follows:

- Direct expenses and income have been assigned to the relevant activity at source.
- Personnel expenses have been assigned proportionally on the basis of the time incurred by staff in each activity.
- Amortisation and depreciation charges have been allocated in the basis of the activity in which the related asset is used.
- Financial income and expenses are allocated in accordance with financing requirements for each period, except when borrowings relate directly to a specific activity.

- General and structural costs have been assigned on the basis of the use of services by each activity, applying objective allocation criteria such as the number of employees, services and materials consumed, etc.
- The income tax expense is allocated proportionally to activities on the basis of the profit generated by each.
- Fixed assets are assigned directly to activities. Assets used jointly by the various activities have been assigned in accordance with the estimated use by each, applying objective allocation criteria.
- Current assets have been allocated to the activities generating balances, except for cash and bank balances and short-term investments, which have been assigned to activities showing net cash surpluses.
- In 1998 shareholders' equity, net of profit for the year, was allocated to the activities under the assumption that they share the same financial structure. In 1999 dividends have been considered to be distributed by the activity which generates profit, calculated on a proportional basis.
- Deferred income has been allocated directly to the activities.
- Given their financial nature, bond issues, bank loans, long-term debtor balances and deferred expenses have been assigned on the basis of the net financing requirements of each activity.
- The remaining current liabilities have been allocated directly to the activities. Liabilities pertaining to more than one activity have been split by applying objective criteria.

(28) YEAR 2000 AND EURO ISSUES

a) Year 2000

In 1998 the Company established a Year 2000 Committee and prepared various action plans, concentrating especially on the transmission network. The cost of these action plans was approximately Ptas. 300 million, which mainly reflects expenses incurred in maintenance and renewal of systems in 1999. The net book value of software and other installations with useful lives affected by the Year 2000 issue is considered to be immaterial.

The headquarters of the emergency committee for the operation of the electrical system during the transition to the year 2000 were located at the Company during the transition phase. This committee comprised representatives of the Company, the Ministry of Industry and Energy, the National Commission for Energy, the National Commission for the Electrical System, OMEL and the main Spanish electricity companies.

The transition to the year 2000 has been without incidents in relation both to operation of the electrical system and the performance of the Company's transmission grid.

b) Implementation of the Euro

In 1998 the Company created a Co-ordination Committee for the implementation of the Euro to plan and organise transition to this currency with minimum adaptation costs.

The Company has also established a plan to change bookkeeping from the Peseta to the Euro. The initial measures to adapt to the single currency were undertaken during the transition phase (see note 9(a)).

No significant expenses are expected to arise from this process.

(29) COMMITMENTS

At 31 December 1999 the Company is party to certain long-term agreements, as follows:

a) An agreement for the supply of electricity by Electricité de France (EDF) to the Company. Supply commenced in October 1994 for a period of 16 years. On 8 January 1997 the Company and EDF agreed to modify the supply agreement as the expected capacity of the international electricity connection with France had been significantly reduced as a result of the decision by French State not to authorise the construction of the Aragón-Cazaril line.

Under the revised agreement, the power to be supplied by EDF has been reduced to between 300 and 550 megawatts, depending on the year. Also, the price of energy acquired in accordance with this contract and the power available have been reduced. Both parties undertake to extend the Pyrenees electricity connection by constructing a new electricity line.

b) An agreement for the supply of energy by the Company to EDF during the winter peak period. This agreement commenced in November 1995 for a period of 15 years and establishes that the Company will provide EDF with power equal to that stipulated in the supply agreement mentioned in section a), above, for a maximum of 600 hours during the winter months, in accordance with the modifications agreed on 8 January 1997.

c) An agreement for the supply of energy by the Company to the Office Nationale de l'Electricité de Maroc (ONE). In May 1998 a modification was agreed to reduce the power supplied to 90 MW during the period from May 1998 to December 2002.

d) An agreement made in 1997 between the Company and Netco Redes, S.A. to cede the use and maintenance of the surplus capacity in the Company's fibre optic network for a period of 30 years. In 1997 the rights ceded under this agreement were transferred to Retevisión, S.A.

(30) SUBSEQUENT EVENTS

On 28 January 2000 the tax authorities concluded their inspection of the main taxes applicable to the Company in relation to 1997 (see note 20).

As a consequence of this inspection, the Company will book a net expense in the statement of profit and loss for the year ending 31 December 2000 of approximately Ptas. 4 million.

Negotiations have commenced to review the agreement made with NETCO in 1997 in order to comply with legal requirements regarding competition.

(31) STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

The statements of source and application of funds for 1999 and 1998 are disclosed in Appendix II, which forms an integral part of this note.

RED ELÉCTRICA DE ESPAÑA, S.A. · APPENDIX I
MOVEMENT IN SHAREHOLDERS' EQUITY
31 DECEMBER 1999 AND 1998 (EXPRESSED IN MILLIONS OF PESETAS)

	Share capital	Revaluation reserve	Legal reserve	Investment reserve
BALANCES AT 31 DECEMBER DE 1997	45,090	41,101	9,018	1,352
Distribution of 1997 profit				
Dividends	-	-	-	-
Voluntary reserves	-	-	-	-
Reversal of accelerated depreciation reserve	-	-	-	-
1998 profit	-	-	-	-
BALANCES AT 31 DECEMBER DE 1998	45,090	41,101	9,018	1,352
Distribution of 1998 profit				
Dividends	-	-	-	-
Voluntary reserves	-	-	-	-
Restatement of share capital in Euros				
Share capital reduction with a charge to voluntary reserves	(45)	-	-	-
Restatement to Euros (roundings and adjustment)	(31)	-	-	-
Reversal of accelerated depreciation reserve	-	-	-	-
Profit for 1999	-	-	-	-
Interim dividend	-	-	-	-
BALANCES AT 31 DE DECEMBER DE 1999	45,014	41,101	9,018	1,352

This Appendix forms an integral part of note 9 to the annual accounts.

Voluntary reserve	Reserve for accelerated depreciation	Reserve for redeemed capital	Differences on conversion to Euros	Total reserves	Profit for the year	Interim dividend	Total
980	2,922	-	-	14,272	9,540	(3,000)	107,003
-	-	-	-	-	(5,367)	3,000	(2,367)
4,173	-	-	-	4,173	(4,173)	-	-
-	(106)	-	-	(106)	-	-	(106)
-	-	-	-	-	11,536	-	11,536
5,153	2,816	-	-	18,339	11,536	-	116,066
-	-	-	-	-	(6,922)	-	(6,922)
4,614	-	-	-	4,614	(4,614)	-	-
(45)	-	45	-	-	-	-	(45)
-	-	-	31	31	-	-	-
-	(105)	-	-	(105)	-	-	(105)
-	-	-	-	-	12,501	-	12,501
-	-	-	-	-	-	(3,376)	(3,376)
9,722	2,711	45	31	22,879	12,501	(3,376)	118,119

RED ELÉCTRICA DE ESPAÑA, S.A. · APPENDIX II
STATEMENTS OF SOURCE AND APPLICATION OF FUNDS FOR THE YEARS ENDED
31 DECEMBER 1999 AND 1998 (EXPRESSED IN MILLIONS OF PESETAS)

APPLICATIONS	1999	1998
ACQUISITION OF FIXED ASSETS		
Intangible assets	249	457
Tangible assets	6,295	3,426
Investments	1,897	989
	8,441	4,872
DEFERRED EXPENSES	1,787	-
SHARE CAPITAL REDUCTION	45	-
DIVIDENDS	6,922	2,367
INTERIM DIVIDEND	3,376	-
REPAYMENT OR TRANSFER TO SHORT TERM OF LONG-TERM DEBT	9,963	13,828
PROVISION FOR LIABILITIES AND CHARGES	26	-
	30,560	21,067
INCREASE IN WORKING CAPITAL	1,061	42,060
TOTAL APPLICATIONS	31,621	63,127

CHANGES IN WORKING CAPITAL	1999		1998	
	Increases	Decreases	Increases	Decreases
STOCKS	-	50	-	51
DEBTORS	-	7,804	7,939	-
CURRENT LIABILITIES	7,598	-	33,652	-
SHORT-TERM INVESTMENTS	1,377	-	872	-
CASH AND BANKS	51	-	-	4
PREPAID EXPENSES	-	111	-	348
	9,026	7,965	42,463	403
CHANGES IN WORKING CAPITAL	-	1,061	-	42,060
	9,026	9,026	42,463	42,463

This Appendix forms an integral part of note 31 to the annual accounts.

SOURCES	1999	1998
FUNDS GENERATED ON OPERATIONS		
Profit for the year	12,501	11,536
Reversal of provision for liabilities and charges	(48)	(74)
Amortisation and depreciation	16,668	16,397
Reversal of accelerated depreciation reserve	(105)	(106)
Provision for pensions and similar commitments	1,191	1,829
Loss on disposal of fixed assets	(17)	111
Provision for liabilities and charges	337	81
Exchange gains	(3)	(22)
Deferred expenses recognised during the year	382	143
Capital grants and other deferred income recognised during the year	(1,652)	(1,685)
Provisions for tangible assets	193	281
Reversal of provision for tangible assets	-	(51)
	29,447	28,440
DEFERRED INCOME		
	873	2,304
TRANSFER TO SHORT TERM OF LONG-TERM DEBT		
	-	5,385
LONG-TERM LIABILITIES		
	603	26,206
DISPOSAL OF FIXED ASSETS		
Tangible assets	40	354
Investments	658	438
	698	792
	31,621	63,127
TOTAL SOURCES	31,621	63,127

RED ELÉCTRICA DE ESPAÑA, S.A. · APPENDIX III A
BALANCE SHEET BY ACTIVITY 31 DECEMBER 1999
(EXPRESSED IN MILLIONS OF PESETAS)

31 December 1999	Transmission	%
ASSETS		
FIXED ASSETS	221,141	98
INTANGIBLE ASSETS	738	47
TANGIBLE ASSETS	217,131	99
Plant and machinery	346,181	99
Plant and machinery under construction	16,290	100
Other tangible assets	12,718	77
Advances and other assets under construction	66	38
Depreciation of plant and machinery	(147,888)	99
Other depreciation	(6,856)	77
Provisions	(3,380)	100
INVESTMENTS	2,327	61
LONG-TERM LOANS	945	98
DEFERRED EXPENSES	1,819	82
CURRENT ASSETS	14,394	68
STOCKS	568	100
DEBTORS	13,680	78
OTHER CURRENT ASSETS	-	-
PREPAID EXPENSES	146	96
TOTAL ASSETS	237,354	95
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY	117,681	100
SHARE CAPITAL AND RESERVES	107,664	99
PROFIT/(LOSS) FOR THE YEAR	13,094	105
INTERIM DIVIDEND	(3,077)	91
DEFERRED INCOME	14,315	45
PROVISIONS FOR LIABILITIES AND CHARGES	2,776	69
LONG-TERM CREDITORS	63,743	98
CURRENT LIABILITIES	20,642	66
CURRENT LIABILITIES, EXCLUDING ACCRUALS	20,614	84
ACCRUALS	28	-
INTERACTIVITY FINANCING	18,197	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	237,354	95

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

Operation of the system	%	Other electricity activities	%	Other non-electricity activities	%	Total activities	%
4,350	2	22	0	1,205	-	226,718	100
847	53	-	-	5	-	1,590	100
3,014	1	12	-	203	-	220,360	100
2,201	1	-	-	-	-	348,382	100
-	-	-	-	-	-	16,290	100
3,521	21	39	-	328	2	16,606	100
106	62	-	-	-	-	172	100
(927)	1	-	-	-	-	(148,815)	100
(1,887)	21	(27)	-	(125)	2	(8,895)	100
-	-	-	-	-	-	(3,380)	100
471	13	10	-	992	26	3,800	100
18	2	-	-	5	-	968	100
292	13	108	5	3	-	2,222	100
339	2	3,925	18	2,642	12	21,300	100
-	-	-	-	-	-	568	100
334	2	2,942	17	552	3	17,508	100
-	983	32	2,089	68	3,072	100	
5	3	-	-	1	1	152	100
4,981	2	4,055	2	3,850	1	250,240	100
(1,860)	(2)	988	1	1,310	1	118,119	100
6	-	355	-	969	1	108,994	100
(1,866)	(15)	827	7	446	3	12,501	100
-	-	(194)	6	(105)	3	(3,376)	100
1,250	4	1,009	3	15,048	48	31,622	100
1,097	27	55	1	113	3	4,041	100
1,223	2	-	-	293	-	65,259	100
907	3	8,589	28	1,061	3	31,199	100
876	3	2,098	9	989	4	24,577	100
31	-	6,491	98	72	2	6,622	100
2,364	-	(6,586)	-	(13,975)	-	-	100
4,981	2	4,055	2	3,850	1	250,240	100

RED ELÉCTRICA DE ESPAÑA, S.A. · APPENDIX III B
BALANCE SHEET BY ACTIVITY 31 DECEMBER 1998
(EXPRESSED IN MILLIONS OF PESETAS)

31 December 1998	Transmission	%
ASSETS		
FIXED ASSETS	231,116	98
INTANGIBLE ASSETS	912	51
TANGIBLE ASSETS	227,172	99
Plant and machinery	343,917	99
Plant and machinery under construction	12,786	100
Other tangible assets	12,917	74
Advances and other assets under construction	116	100
Depreciation of plant and machinery	(132,873)	99
Other depreciation	(6,504)	70
Provisions	(3,187)	100
INVESTMENTS	2,084	81
LONG-TERM LOANS	948	98
DEFERRED EXPENSES	801	98
CURRENT ASSETS	13,733	50
STOCKS	618	100
DEBTORS	13,013	52
OTHER CURRENT ASSETS	-	-
PREPAID EXPENSES	102	39
TOTAL ASSETS	245,650	92
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDER'S EQUITY	113,490	98
SHARE CAPITAL AND RESERVES	102,446	98
PROFIT/(LOSS) FOR THE YEAR	11,044	96
DEFERRED INCOME	14,574	45
PROVISIONS FOR LIABILITIES AND CHARGES	1,685	65
LONG-TERM CREDITORS	74,460	100
CURRENT LIABILITIES	27,959	72
CURRENT LIABILITIES, EXCLUDING ACCRUALS	27,936	83
ACCRUALS	23	-
INTERACTIVITY FINANCING	13,482	-
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	245,650	92

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

Operation of the system	%	Other electricity activities	%	Other non-electricity activities	%	Total activities	%
4,375	2	30	-	298	-	235,819	100
867	49	1	-	5	-	1,785	100
3,088	1	22	-	223	-	230,505	100
2,165	1	2	-	20	-	346,104	100
1	-	-	-	-	-	12,787	100
4,282	24	38	-	325	2	17,562	100
-	-	-	-	-	-	116	100
(764)	1	(1)	-	(6)	-	(133,644)	100
(2,596)	28	(17)	-	(116)	2	(9,233)	100
-	-	-	-	-	-	(3,187)	100
402	16	7	-	68	3	2,561	100
18	2	-	-	2	-	968	100
15	2	-	-	1	-	817	100
92	-	8,039	29	5,973	21	27,837	100
-	-	-	-	-	-	618	100
88	-	6,333	25	5,878	23	25,312	100
-	-	1,550	94	94	6	1,644	100
4	2	156	59	1	-	263	100
4,482	2	8,069	3	6,272	3	264,473	100
6	-	716	1	1,854	1	116,066	100
1,938	2	13	-	133	-	104,530	100
(1,932)	(17)	703	6	1,721	15	11,536	100
1,259	4	1,222	4	15,349	47	32,404	100
795	31	46	2	63	2	2,589	100
152	-	-	-	5	-	74,617	100
658	2	9,463	24	717	2	38,797	100
626	2	4,284	13	661	2	33,507	100
32	1	5,179	98	56	1	5,290	100
1,612	-	(3,378)	-	(11,716)	-	-	-
4,482	2	8,069	3	6,272	3	264,473	100

RED ELÉCTRICA DE ESPAÑA, S.A. · APPENDIX IV A
ANALYTICAL PROFIT AND LOSS ACCOUNT
BY ACTIVITY FOR THE YEAR ENDED 31 DECEMBER 1999
(EXPRESSED IN MILLIONS OF PESETAS)

31 December 1999	Transmission	%
ITEMS		
Net sales and services rendered	52,588	58
+Other operating income	1,490	90
+Income assigned from other activities	-	-
= VALUE OF PRODUCTION	54,078	59
-Materials consumed	(1,428)	4
-External expenses	(3,792)	86
-Expenses assigned from other activities	(2,853)	85
=VALUE ADDED BY THE COMPANY	46,005	94
-Other expenses	(19)	100
-Personnel expenses	(6,830)	75
=GROSS OPERATING PROFIT/(LOSS)	39,156	99
-Amortisation and depreciation	(16,037)	96
-Bad debt write-offs and changes in trade provisions	(176)	80
=NET OPERATING PROFIT/(LOSS)	22,943	100
+Financial income	153	58
-Financial expenses	(3,555)	95
=PROFIT/(LOSS) ON ORDINARY ACTIVITIES	19,541	101
+Profit on fixed assets and extraordinary income	751	67
-Losses on fixed assets and extraordinary expenses	(935)	74
-Changes in provisions for impairment	(193)	100
=PROFIT/(LOSS) BEFORE TAX	19,164	100
-Income tax	(6,070)	92
=PROFIT/(LOSS) FOR THE YEAR	13,094	105

(*) These figures differ from those shown in the Profit and Loss Account due to assignments of income and expenses between the activities.

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

Operation of the system	%	Other electricity activities	%	Other non-electricity activities	%	Total activities (*)	%
1,020	1	34,796	39	1,964	2	90,368	100
91	6	1	-	70	4	1,652	100
-	-	-	-	-	-	-	100
1,111	1	34,797	38	2,034	2	92,020	100
(13)	-	(33,637)	95	(202)	1	(35,280)	100
(128)	3	-	-	(468)	11	(4,388)	100
(283)	8	(1)	-	(234)	7	(3,371)	100
687	1	1,159	2	1,130	3	48,981	100
-	-	-	-	-	-	(19)	100
(1,693)	18	(18)	-	(623)	7	(9,164)	100
(1,006)	(3)	1,141	3	507	1	39,798	100
(623)	4	(7)	-	(1)	-	(16,668)	100
(30)	14	-	-	(14)	6	(220)	100
(1,659)	(7)	1,134	5	492	2	22,910	100
3	1	6	2	101	39	263	100
(75)	2	(130)	3	-	-	(3,760)	100
(1,731)	(9)	1,010	5	593	3	19,413	100
135	12	213	19	17	2	1,116	100
(270)	22	(9)	1	(35)	3	(1,249)	100
-	-	-	-	-	-	(193)	100
(1,866)	(10)	1,214	7	575	3	19,087	100
-	-	(387)	6	(129)	2	(6,586)	100
(1,866)	(15)	827	7	446	3	12,501	100

RED ELÉCTRICA DE ESPAÑA, S.A. · APPENDIX IV B
ANALYTICAL PROFIT AND LOSS ACCOUNT BY ACTIVITY
FOR THE YEAR ENDED 31 DECEMBER 1998
(EXPRESSED IN MILLIONS OF PESETAS)

31 December 1998	Transmission	%
ITEMS		
Net sales and services rendered	51,569	58
+Other operating income	1,251	91
+Income assigned from other activities	138	72
=VALUE OF PRODUCTION	52,958	58
-Materials consumed	(1,485)	4
-External expenses	(4,335)	86
-Expenses assigned from other activities	(2,376)	79
=VALUE ADDED BY THE COMPANY	44,762	94
-Other expenses	(74)	100
-Personnel expenses	(6,742)	77
=GROSS OPERATING PROFIT/(LOSS)	37,946	98
-Amortisation and depreciation	(15,299)	97
-Bad debt write-offs and changes in trade provisions	43	(43)
=NET OPERATING PROFIT/(LOSS)	22,690	98
+Financial income	220	36
-Financial expenses	(6,346)	96
=PROFIT/(LOSS) ON ORDINARY ACTIVITIES	16,564	97
+Profit on fixed assets and extraordinary income	857	35
-Losses on fixed assets and extraordinary expenses	(1,347)	73
-Changes in provisions for impairment	(268)	116
=PROFIT/(LOSS) BEFORE TAX	15,806	91
-Income tax	(4,762)	81
=PROFIT/(LOSS) FOR THE YEAR	11,044	96

(*) These figures differ from those shown in the Profit and Loss Account due to assignments of income and expenses between the activities.

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

Operation of the system	%	Other electricity activities	%	Other non-electricity activities	%	Total activities (*)	%
1,046	1	34,346	38	2,257	3	89,218	100
104	7	10	1	19	1	1,384	100
33	17	2	1	20	10	193	100
1,183	1	34,358	38	2,296	3	90,795	100
(13)	-	(33,285)	95	(221)	1	(35,004)	100
(334)	7	(1)	-	(370)	7	(5,040)	100
(529)	18	(14)	-	(101)	3	(3,020)	100
307	1	1,058	2	1,604	3	47,731	100
-	-	-	-	-	-	(74)	100
(1,630)	18	(39)	-	(415)	5	(8,826)	100
(1,323)	(3)	1,019	2	1,189	3	38,831	100
(400)	3	-	-	-	-	(15,699)	100
-	-	-	-	(144)	143	(101)	100
(1,723)	(7)	1,019	4	1,045	5	23,031	100
2	-	12	2	371	62	605	100
(46)	1	(209)	3	(8)	-	(6,609)	100
(1,767)	(10)	822	5	1,408	8	17,027	100
221	9	213	9	1,157	47	2,448	100
(424)	23	(14)	1	(66)	3	(1,851)	100
38	(16)	-	-	-	-	(230)	100
(1,932)	(11)	1,021	6	2,499	14	17,394	100
-	-	(318)	6	(778)	13	(5,858)	100
(1,932)	(17)	703	6	1,721	15	11,536	100

DIRECTORS' REPORT

EVOLUTION OF BUSINESS

This has been a particularly important year for Red Eléctrica as a result of the fundamental change in the composition of its shareholders following the public offering of shares, representing the single most significant event to take place during 1999. As a result of listing on the stock exchange, the body of shareholders is now mainly comprised of private individuals.

Two years after approval of the Electricity Sector Law, the Company is recognised as a key operator in the sector and has consolidated its position in the electrical system. The Company is also highly regarded abroad and, accordingly, is well placed to develop new business opportunities.

Significant events

The most significant issues in 1999 have been the considerable growth in demand for electricity and the increment in the number of generators in the market, which has required increasingly higher quality in the operation of the electrical system.

Monthly, daily and hourly demand for electricity repeatedly broke records throughout the year. The high spots were in December with monthly demand of 16,845 GWh, daily demand of 622 GWh and hourly demand of 31,247 MW. Total demand for the year was 184,002 GWh, representing growth of 6.4% compared to the prior year.

During 1999 there has been an increase in international electricity exchanges resulting in net imports of 5,718 GWh, comprising imports of 8,286 GWh and exports of 2,586 GWh.

The new installations incorporated into the transmission network during 1999 are as follows:

- In Extremadura, the Balboa substation has been extended with the installation of a 325 MVA transformer module and a turns ratio of 400/220 kV, as well as the construction of two new transformer bays and a power line to improve the quality of the electricity supplied in the south of Badajoz.
- In the East Coast region, the Rocamora substation has been extended with two new 400 kV transformer and coupling bays to strengthen the infrastructure for the transmission of power throughout the region.

The Company has also acquired the 220 kV Elcogas substation, which comprises three switching systems and other investment programmes related to the Spanish grid are currently underway.

In accordance with the restructuring plan for electricity control centres, operations in the South of Spain formerly carried out by the Seville centre were transferred to the control centre in Tres Cantos (Madrid) in 1999. The actions established in this plan will continue for a further two years.

The Company has reorganised the eight operations and maintenance zones into five regions, in order to optimise installation maintenance work and to improve efficiency.

The Year 2000 issue required considerable professional and technical effort to plan and implement numerous measures to ensure normal operations and to avoid any negative impacts. The prevention plan was carried out in close collaboration with all the companies in the electricity sector and the Spanish Government. Red Eléctrica played a key role in this respect and led three of the six groups of the Year 2000 emergency committee organised by the Ministry of Industry and Energy.

In 1999 the Company has commenced a process to achieve international expansion and the diversification of activities in line with the strategy designed for the future, which is based on extending the business both in terms of growth and profitability.

As a result of a public tender process within the context of the privatisation of the Peruvian electricity sector, in 1999 the consortium led by Red Eléctrica has been awarded the concession to improve electricity transmission systems in southern Peru. The concession has been awarded for a period of thirty years on the basis of a BOOT contract (building, ownership, operation and transfer). Red Eléctrica, as leader of the consortium, will act as the Strategic Operator of REDESUR, the subsidiary incorporated for this purpose. The project comprises the construction and operation of three 220 kV lines with a total length of 444 km and four substations at Socabaya, Moquegua, Puno and Tacna. All objectives for the year have been attained within the established calendar and the first installations will enter service in September 2000, in accordance with the agreed programme.

The Company has entered into various agreements to provide high-level consultancy and technical assistance agreements, thereby consolidating its diversification activities. The most significant of these agreements are as follows:

- Through an international tender process the Office National d'Electricité of Morocco (ONE) awarded the Company a consultancy project for the technical assistance required to renew its electricity control system.
- Eliabruzzo, an Italian company, has contracted a technical assistance and training programme for work on high-voltage overhead power lines using helicopters.
- The Syrian company Public Establishment for Generation and Transmission of Electricity (PEGTE) has contracted the development and implementation of a planning system for the operation of the Syrian network. This project includes the preparation of forecasts of the demand for electricity in the short and medium term, as well as the joint operation of its generating and transmission installations.

In addition to these projects, an agreement will be made with the European Union in February 2000 to render advisory services to the South American countries involved in the "Viability study of the implementation of an organisation to co-ordinate future regional electricity markets in South America".

Red Eléctrica is in the process of analysing investment opportunities, mainly in South America, Central America and Europe, which could materialise during the year. The Company is also preparing analyses and tenders for advisory and consultancy projects in various countries.

In 1999 the sixth collective labour agreement has been formalised to regulate employment relations between the Company and its personnel until 31 December 2000.

The prevailing collective labour agreement incorporates three measures designed to improve results and efficiency: the elimination of length-of-service bonuses, an increase in the variable portion of salaries related to objectives and performance, and flexible timetables for personnel and teams based on operational and market requirements.

The most significant matter during the year was the public offering of Red Eléctrica shares by Sociedad Estatal de Participaciones Industriales (SEPI). Listing on the stock exchange and the new make-up of the body of shareholders, now mainly private individuals, will strengthen the business aspect of the Company's activities and provide an incentive to improve returns for shareholders. The true value of the Company has not been appropriately reflected in the first months of listing on the stock exchange, as securities with relatively low market capitalisation are likely to be penalised in the short term. Nevertheless, it is understood that in the longer term profitable and financially sound companies, such as Red Eléctrica, will provide their shareholders with appropriate returns, both in terms of dividends and market quotation.

The Company has restated its share capital and the par value of its shares in Euros to facilitate quotation. Also, the par value of the shares has been split on the basis of a ratio of three to one.

Red Eléctrica has completed the adaptation of its governing bodies to the principles and recommendations set out in the Code of Conduct for boards of directors through the approval of new regulations, creation of two commissions (a compensation board and an audit and compliance committee) and the renewal of the board of directors with the appointment of independent representatives.

Analysis of results

Profit after tax for 1999 amounted to Ptas. 12,501 million, representing growth of 8.4% over the prior year, which will enable the Company to continue to raise dividends. This increase has also resulted in improved rates of profitability on both shareholders' equity and assets, with an ROE of 10.6% and an ROA of 12.7%.

These results include profit on ordinary activities for Ptas. 19,413 million, representing an increase of Ptas. 2,340 million compared to 1998.

In 1999 the ordinary income of Red Eléctrica amounted to Ptas. 92,283 million, which is Ptas. 850 million more than in the prior year. This is mainly a consequence of the increase in revenues earned from the transmission activities of Red Eléctrica. Income from the operation of the system by the Company amounted to Ptas. 53,590 million, 1.9% up on 1998.

Ordinary expenses have decreased from Ptas. 74,360 million in 1998 to Ptas. 72,870 million in 1999. This has mainly been a consequence of lower financial expenses due to the fall in interest rates and the reduction in the Company's indebtedness, as well as improved internal efficiency in accordance with the Company's plan applied in recent years to cut costs.

Net extraordinary income has been lower than in 1998 because the prior year's figures included a profit of Ptas. 1,150 million on the sale of Compañía Operadora del Mercado Español de Electricidad, which was incorporated and privatised by Red Eléctrica in accordance with the Electricity Sector Law.

Cash flow before income tax amounted to Ptas. 37,402 million, 4.3% up on the prior year. This represents 63.8% of the total income of Red Eléctrica, excluding income generated as a result of agreements for the import and export of energy. As a consequence of the funds generated, the Company has been able to finance all of its investment activities and reduce indebtedness by Ptas. 14,798 million.

During 1999 Red Eléctrica made total investments of Ptas. 7,459 million. Investment activity, which has been lower than initially forecast at the beginning of the year, has been influenced by the re-programming of the Madrid-Aragon axis and delays in the Andalucía and Galicia wind parks. The Company had also completed a part of the planned acquisitions from other electricity companies of installations pertaining to the transmission grid.

SUBSEQUENT EVENTS

Details of subsequent events are disclosed in note 30 to the annual accounts, which relates to the satisfactory conclusion of the inspection carried out by the tax authorities of the main taxes for 1997. Also, subsequent to the year end the Company commenced negotiations to review the agreement made with NETCO, the effect of which has been reflected in the quotation price of Red Eléctrica shares at the end of February 2000.

OUTLOOK FOR THE FUTURE

Expectations for the economic environment in 2000 continue to be favourable, in line with the trend observed in recent years. The outlook for Red Eléctrica is for balanced growth in key areas, with further increases in results and profitability.

Management expects to consolidate the expansion of Red Eléctrica in 2000 and efforts will mainly be concentrated on developing international activities. The current reorganisation of electrical systems has given rise to investment opportunities in the main Central and South American countries and, to a lesser extent, in other areas. There are also considerable opportunities for consultancy and management projects.

As a consequence of negotiations to revise the agreement with NETCO, the expectations associated with the telecommunications business will increase the quotation price of the Company's shares to the levels estimated by analysts and experts.

RESEARCH AND DEVELOPMENT AND ENVIRONMENTAL PROTECTION ACTIVITIES

In 1999 the Company has prepared and obtained approval for its research, development and technological innovation plan, which is designed to promote technological innovation in line with established corporate strategies and improve profitability.

The Company has undertaken approximately 30 projects in 1999 with a cost of around Ptas. 180 million. The most significant of the projects completed are the study of potential applications of superconductivity in electrical systems, the integrated control and protection system, research into microcuts and voltage gaps in transmission, and the project on the biological effects of electromagnetic fields. Other projects have commenced, including, inter alia, the development of a guidance system for aircraft to monitor and inspect power lines onboard through computer aided techniques.

The Company's commitment to carrying out its business and industrial activities within the context of maximum respect for the environment is reflected by the environmental policy approved in 1998 and implemented through the environmental management system in accordance with ISO 14001 standards.

In 1999 Red Eléctrica has been awarded ISO certification for its environmental management system. As a result, Red Eléctrica is the first Spanish company to have obtained this certification for all activities and work centres, as well as the first company in the electricity sector to have achieved global certification for all transmission activities.

Red Eléctrica considers quality certifications for all its main activities to be an essential objective. Following implementation of the Company's policy regarding quality, ISO 9000 certifications have been obtained for the following activities:

- Engineering, construction and maintenance of high voltage lines and fibre optic cables.
- Engineering, construction and maintenance of high voltage substations.
- Operation of the Spanish electrical system.

As a result, Red Eléctrica is currently the only company in the sector to have obtained certifications for all the activities carried out for the Spanish electrical system.

PROPOSED DISTRIBUTION OF PROFITS

The profit for 1999 was Pta 12,500,681,305. The proposed distribution of profits prepared by the Board of Directors and submitted to the Annual General Meeting consists of a dividend of 0.365 euros per share (equivalent to approximately 61 pesetas per share). An interim dividend of 0.15 euros per share has already been paid (equivalent to approximately 25 pesetas). The remaining amount will be transferred to voluntary reserves as follows:

	AMOUNT IN PESETAS
TO VOLUNTARY RESERVES	4,285,613,815
TO DIVIDENDS:	
INTERIM DIVIDEND	3,376,055,133
FINAL DIVIDEND	4,839,012,357
TOTAL	12,500,681,305

Rafael García de Diego Barber, Secretary of the Board of Directors of Red Eléctrica de España, S.A., by virtue of article 109 of the regulations of the Mercantile Register;

HEREBY CERTIFIES:

That the annual accounts, directors' report and proposed distribution of profits contained in the present document are a true and accurate copy of those which were inspected and approved during the meeting of the Board of Directors of Red Eléctrica de España, S.A., held on March 7th 2000. A copy of these documents, signed by all the directors in accordance with article 171.2 of the regulations arising from the Law on Companies, is held at the Secretary's Office.

And as evidence thereof, I issue this certificate in Madrid on April 10th 2000.



INDEPENDENT AUDITORS' REPORT



Audidores

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Annual Accounts

(Translation from the original in Spanish)

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

We have audited the annual accounts of Red Eléctrica de España, S.A. (the Company), which comprise the balance sheets at 31 December 1999 and 1998, the related statements of profit and loss for the years then ended and the notes thereto, the preparation of which is the responsibility of the Directors of the Company. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards, which require examining, on a test basis, evidence supporting the amounts in the annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In our opinion, these annual accounts present fairly, in all material respects, the shareholders' equity and financial position of Red Eléctrica de España, S.A. at 31 December 1999 and 1998 and the results of its operations and source and application of funds for the years then ended and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles, applied on a consistent basis.

The accompanying Directors' report for 1999 contains such explanations as the Directors consider relevant to the situation of the Company, the evolution of its business and other matters, but is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 1999. Our work as auditors is limited to the verification of the Directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

KPMG AUDITORES, S.L.

Valeriano Pérez Lozano

8 March 2000



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

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N.I.F. B-78510153



PROPOSALS MADE BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

ONE

Examination and approval of the annual accounts (balance sheet, profit and loss account and notes to the accounts) and the directors' report pertaining to Red Eléctrica de España, S.A., together with the management record and proposed distribution of profits of Red Eléctrica de España, S.A., all of which refer to the year 1999.

TWO

The determination of the number of directors. Ratification and appointment of directors.

THREE

Reappointment of the Company's auditors.

FOUR

Authorisation for purchasing derivatives of own shares in the manner provided by law.

FIVE

Authorisation of the Board of Directors of the Company, with full powers of representation, to execute the resolutions of the Annual General Meeting.

CODE OF GOOD GOVERNANCE



CODE OF GOOD GOVERNANCE

In accordance with Circular 11/1998 of the National Stock Exchange Commission (CNMV), the Board of Directors of Red Eléctrica de España, S.A. (hereinafter the Company), in its meeting on 7 March 2000, resolved to include the following information in its annual report for 1999 related to the Code of Good Governance.

I. INFORMATION ON THE RULES OF GOVERNANCE APPLIED BY THE COMPANY

The Company is governed by its statutes which were approved in deeds signed before the Madrid notary, Manuel Rodríguez Marín, on 16 March and 19 May 1999 and also by the statutes of the Board of Directors approved on 8 June 1999.

Furthermore, on 8 June 1999 the Board of Directors approved the new Standards of Internal Conduct with regard to the Stock Exchange. These standards replaced the previous ones approved in 1994 and they came into force on 7 July 1999.

The purpose of the above modifications to the statutes was to bring the Company in line with the new situation following the Initial Public Offer of its shares made by the Sociedad Estatal de Participaciones Industriales (State holding company – SEPI) and the listing of the Company on various stock exchanges as of 7 July 1999.

Moreover, the approval of the statutes of the Board of Directors was related to the adjustment of this board to meet the principles and recommendations of the report prepared by the special commission which prepared the Code of Ethics for Boards of Directors of Companies (Code of Good Governance). The purpose of this code is to determine the principles of action, the basic rules of organisation and operation and the standards of conduct for its members.

The new Standards of Internal Conduct with respect to the Stock Exchange is a modification of the previous standards to bring them in line with the Circulars of the CNMV with regard to significant and confidential events and holdings of own shares.

The basic missions of the Board of Directors were defined as the general supervision of the Company's management and the creation of shareholder value. This value should be maximised wherever possible, with due respect for the law, for contractual good faith and for the observance of ethical behaviour resulting from business dealings conducted in a responsible manner.

2. INFORMATION ON THE ACCEPTANCE OF THE RECOMMENDATIONS IN THE CODE

The degree of the Company's implementation of the recommendations in the Code of Good Governance is shown below in order:

Recommendation 1

The Board of Directors has been entrusted with the faculties defined in articles 128 and 129 of the current Company Law and in article 23 of the Statutes of the Company.

Apart from those faculties which cannot be legally delegated, article 5 of the statutes of the Board of Directors defines certain general functions with regard to supervision which the Board undertakes to exercise directly.

Recommendation 2

There are four independent directors on the Board of Directors of the Company. They comply with the conditions set for this post which are to be persons of recognised prestige in the business world and to be free of any link to the management team or the substantial shareholders.

Recommendation 3

The Board of Directors consists of an executive director and outside directors who are either representatives of substantial shareholders or independent directors.

The executive director is the Chairman of the Board of Directors of the Company.

With regard to the outside directors, the ratio of directors who represent substantial holdings to independent directors closely reflects the relationship between the size of the substantial holdings and the rest. There are four independent directors and eight directors who represent substantial holdings. The latter represent approximately 61.5% of the directors and the total of substantial holdings is 65.5%.

The composition of the Board of Directors of the Company at 31 December 1999 and the nature and the seniority of the directors, is as follows:

Director	Appointed	Type
Pedro Mielgo Álvarez	30 Sept 97	Executive
Pedro Rivero Torre	29 Jan 85	Substantial holding
Rafael Miranda Robredo	27 Jun 88	Substantial holding
María Luisa Huidobro y Arriba	25 Sept 90	Independent
Victoriano Reinoso y Reino	18 Dec 90	Substantial holding
Luis Felpe Castresana Sánchez	29 Jan 91	Substantial holding
Javier Herrero Sorriqueta	30 Nov 93	Substantial holding
Antonio Tuñón Álvarez	13 Oct 97	Substantial holding
Juan Gurbindo Gutiérrez	03 Feb 98	Substantial holding
Antonio Garamendi Lecanda	20 Jul 99	Independent
Manuel Alves Torres	26 Oct 99	Substantial holding
Joaquín Clotet i Garriga	26 Oct 99	Independent
Pablo Isla Álvarez de Tejera	30 Nov 99	Independent

Recommendation 4

The Company Statutes state that the Board of Directors shall consist of a minimum of nine and a maximum of 15 members, appointed by the Annual General Meeting.

At the present time, the Board of Directors is composed of 13 members. This number appears to be adequate and there appears to be no reason to make any alteration.

Recommendation 5

Certain faculties of the Board of Directors, defined in article 23 of the Company's Statutes, are delegated to the Chairman of the Board of Directors. The Chairman is also responsible for the duties assigned to him under Company Law, under the Regulations of the Registrar of Companies and his or her attributes as the chief representative. The Board of Directors is promptly informed regarding any corporate action of a certain significance for the Company.

Recommendations 6, 12, 14 and 23

These recommendations refer to the Secretary of the Board of Directors, to the obligation of directors to resign in circumstances which negatively affect the operation of the Board or the good name and reputation of the Company, to the directors' right to information and the obligation to include information on the rules of governance of the Company in the annual public report. In the latter case an explanation must be given regarding any rules which do not coincide with the Code of Good Governance. All these recommendations have been included in the statutes of the Board of Directors (articles 12, 24, 26, 27 and 43).

Recommendation 7

The provisions of this recommendation have been incorporated in the statutes of the Board of Directors although so far no Executive Commission has been created.

Recommendation 8

At its session on 30 November 1999 the Board of Directors agreed the creation of the Audit and Compliance Commission and the creation of the Remuneration Commission in accordance with the provisions of the statutes of the Board.

It was also agreed that these commissions would establish their own rules of operation. The members are as follows:

Audit and Compliance Commission	Manuel Alves Torres
	Joaquín Clotet i Garriga
	Pedro Rivero Torre
Remuneration Commission	Antonio Garamendi Lecanda
	Pablo Isla Álvarez de Tejera
	Pedro Mielgo Álvarez
	Pedro Rivero Torre

The Audit and Compliance Commission will play a supporting role to the Board of Directors, through its supervision of the Company's management. It will propose the appointment of the external auditor and it will be the point of contact between the Board and this auditor. It will review the Company's accounts and check the suitability and integrity of the internal control systems. It will review the periodic financial information given to the markets, it will check compliance with the Internal Rules of Conduct of the different stock exchanges and it will report any disciplinary measures affecting the company's senior management.

The Remuneration Commission will propose the method and amount of the annual remuneration of the directors of the Board. It will also propose the criteria and system of remuneration for senior management, it will periodically review the remuneration programmes and it will ensure the transparency of all remuneration.

Recommendations 9, 10 and 11

Article 18 of the statutes of the Board includes the provision that, unless it is inadvisable for reasons of security, a duly prepared summary of relevant information will be attached to the notice regarding a meeting of the Board. This will be issued at least three days in advance, as is currently the case, and it will allow the directors to prepare themselves appropriately for the sessions.

The same article of the statutes states that the meetings of the Board will be held monthly and this has been observed during the year. The possibility exists that the Chairman can call extraordinary meetings if he considers this appropriate for the operation of the Company. Article 21 of the statutes on the frequency of meetings sets the minimum at one meeting per quarter. Article 19 of the statutes was modified to include the responsibility of the Chairman of the Board to encourage the participation of all directors in the deliberations of the Board. The Board will spend at least one session each year on evaluating its operation and the quality of its work.

Directors are appointed in accordance with Company Law. For the appointment of external directors, the statutes of the Board recommend that the candidates should be persons of recognised ability, solvency and experience.

Recommendation 13

Article 24 of the Board's statutes states that, as a general rule, directors should resign when they reach the age of 70. Although the Chairman, the Vice-Chairman, the Managing Director and the Secretary of the Board shall resign at 65 years with the possibility of continuing as directors.

Recommendation 15

This recommendation has been included in article 28 of the Board's statutes. This article deals with the moderation of remuneration, the need to link a significant part of remuneration to Company performance and the need for transparency with regard to remuneration. The form of remuneration of the Board of Directors is defined in article 20 of the Company's statutes.

The Remuneration Commission must propose the system and the amount of annual remuneration for directors and the remuneration criteria for senior management. At the current time a proposal is being prepared on the remuneration of managers which will reflect the new criteria contained in the Company's statutes. It will shortly be submitted for approval by the Board of Directors.

The Company's annual report indicates the remuneration of the Board of Directors for 1999.

Recommendations 16 and 17

Both these recommendations refer to the general duties of diligence and loyalty of the directors and conflicts of interest. These concepts have been developed in detail in articles 30 to 40 of the Board's statutes which contain a specific list of the general obligations of directors, their duty to respect confidentiality, the obligation of non-competition, conflicts of interest, the use of the Company's assets, non-public information, business opportunities, indirect operations, the director's duty with regard to information, transactions with substantial shareholders and the principal of transparency.

With regard to the condition of loyalty, which is applicable to substantial shareholders, the Board of Directors, in article 39 of the Board's statutes, has formally reserved information related to any relevant transaction of the Company with the former.

Recommendations 18 and 19

These recommendations refer to communications between the Company and its shareholders, especially institutional investors, and to the supply of information to the different markets. These recommendations have been included in articles 41 (shareholders in general), 42 (institutional shareholders) and 43 (relations with stock markets) of the statutes of the Board of Directors.

The Company considers that it complies with the recommendation as, apart from the above incorporation in its statutes, it has created an "Investor Relations Office" to handle enquiries.

Moreover and as previously indicated in this report, the Company on 8 June 1999, through the Board of Directors, approved the new code of internal conduct in respect of the Stock Exchange. This code replaces the one approved in 1994 and it has been brought into line with the relevant circulars of the CNMV which apply to all the members of the Board of Directors and other persons affected by this code. For this purpose the code defines a series of obligations which must be strictly complied with and defines a specific policy with regard to shares of the company in itself. In 1999 and as stated in the annual report, there were no operations by the Company in its own shares.

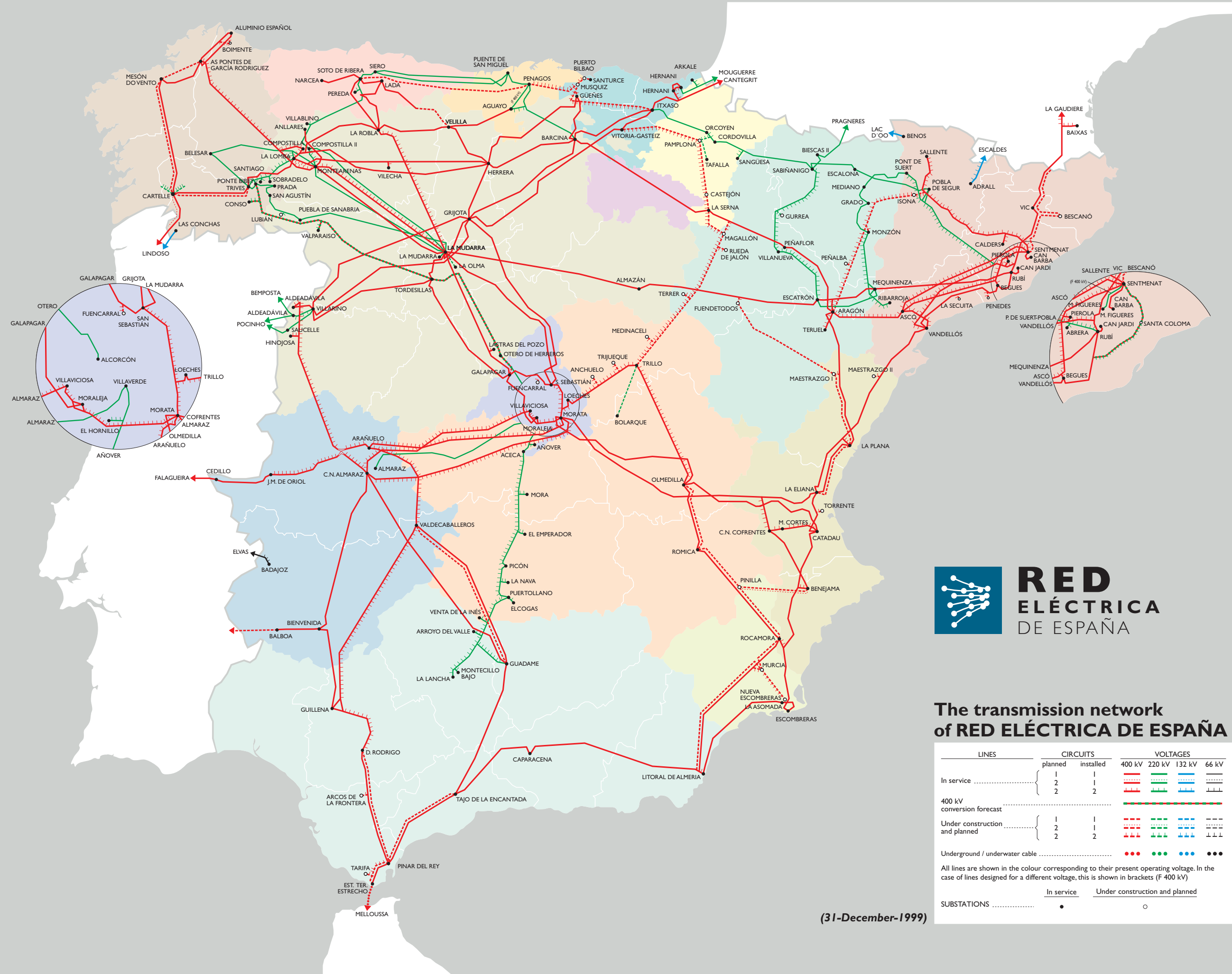
Recommendations 20 and 21

Article 43 of the statutes of the Board of Directors states that the financial information which is made available to the stock exchanges must be based on the same principles, criteria and professional procedures as those employed in the annual accounts and must be of the same order of reliability. In the latter regard it must also be checked by the Audit and Compliance Commission.

The Company habitually enforces compliance with the criteria of recommendation 21 with regard to the independence of the auditors and with regard to the absolute and relative importance of the fees paid by the Company in this respect.

Recommendation 22

The Company regularly obtains reports from the external auditors on its financial situation which are free of reservations and qualifications and this was the case in 1999.



The transmission network of RED ELÉCTRICA DE ESPAÑA

LINES	CIRCUITS		VOLTAGES			
	planned	installed	400 kV	220 kV	132 kV	66 kV
In service	1	1				
	2	1				
	2	2				
400 kV conversion forecast						
Under construction and planned	1	1				
	2	1				
	2	2				
Underground / underwater cable						
All lines are shown in the colour corresponding to their present operating voltage. In the case of lines designed for a different voltage, this is shown in brackets (F 400 kV)						
	In service	Under construction and planned				
SUBSTATIONS						

(31-December-1999)

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Dirección de Comunicación y RR.II. de RED ELÉCTRICA

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Graphic design:

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Colour separation:

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Printing:

TF Artes Gráficas