RED ELÉCTRICA DE ESPAÑA

Strong growth & low risk

2005 results and 2006-2010 strategic plan

February 14, 2006

2005 highlights

2006-2010 Strategic Plan

Delivering ahead of targets

	05-09 Targets	2005 Results	
EPS growth	>15% CAGR	20%	✓
DPS growth	>12% CAGR	14%*	✓
Avg. annual CAPEX 05-09 (€mm)	380	465	✓

REE results confirm growth momentum fuelled by investments

* This amount corresponds to the interim dividend growth paid on January 2, 2006

Focus on core business

February	**Acquisition of 75% of Redalta**	❑ Implied enterprise value: €739mm ❑ 92% ownership of Spanish transmission network ❑ Consolidation from February 15
June	**Divestment of 100% of Albura**	❑ Divestment of loss making telecom division to T-Online International ❑ Enterprise value: €61.5mm ❑ Deconsolidation from June 30
October	**Secured competitive long term financing**	❑ Strong financial condition (AA-/A2 ratings) ❑ Debt refinancing: average maturity increased to 9 years ❑ Hedged to potential interest rate hikes

Consolidated financial results

Key figures (€mm)	2005	2004	Δ (%)
Turnover	860.2	738.8	+16.4
Gross operating profit (EBITDA)	591.1	496.4	+19.1
Net operating profit (EBIT)	339.3	307.2	+10.5
Profit before tax on continuing activities	269.2	240.5	+12.0
Profit for the year on continuing activities	176.7	159.3	+10.9
Profit attributable to parent company	162.4	135.8	+19.6

Delivering double digit growth in continuing activities

Note: The amounts shown above were calculated and classified in accordance to IFRS. Redalta included as of Feb 15th, 2005. Telecoms subsidiary results classified as non-continuing activity.

Capital expenditure and capital structure

Capex

€mm	2005	2004
Transmission in Spain	712.6	243.4
Investment in transmission	420.2	243.4
Acquisition of Viesgo	45.1	-
Acquisition of 75% of Redalta*	247.3	-
International regulated activities	7.2	7.3
Other	35.7	23.9
Total	755.5	274.6

Financial ratios

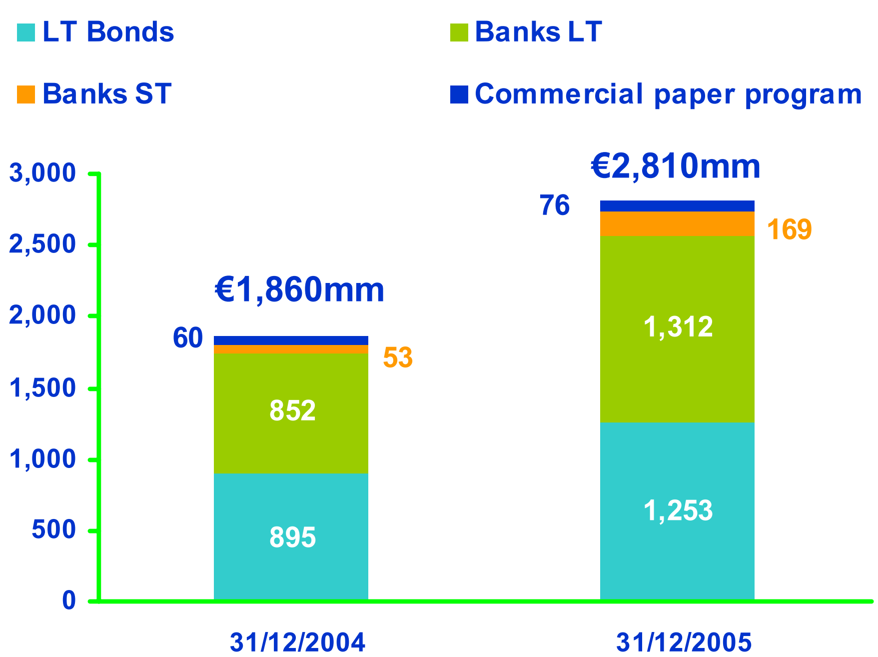
€mm	2005	2004
Net Debt	2,791.1	1,845.8
Leverage (D/D+E)	74.4%	67.8%
EBITDA / Gross Interest	5.5x	6.5x
Net Debt / EBITDA	4.7x	3.7x
Credit ratings	AA-/A2	AA-/A2

Significant step-up in capex program

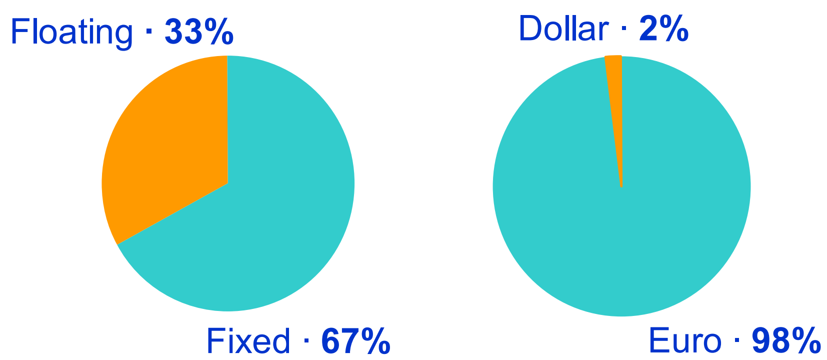
* This figure corresponds to the acquisition of 75% of Redalta shares and the shareholders' loan

Competitive long term financing

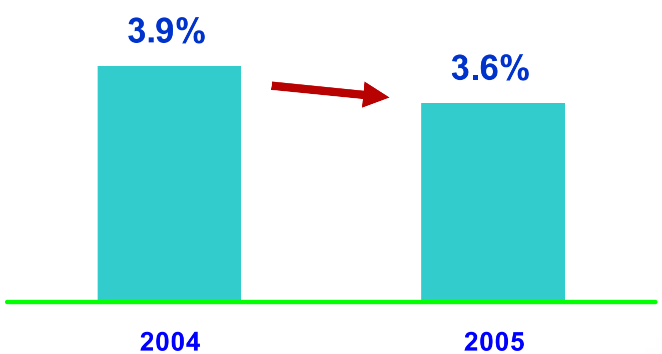
Debt by instrument (€mm)



Debt breakdown



Average cost of debt



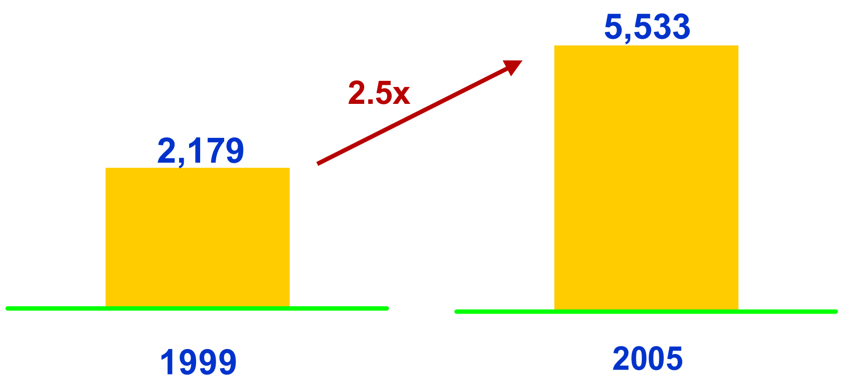
Average maturity increased from 6 years to 9 years

2005 highlights

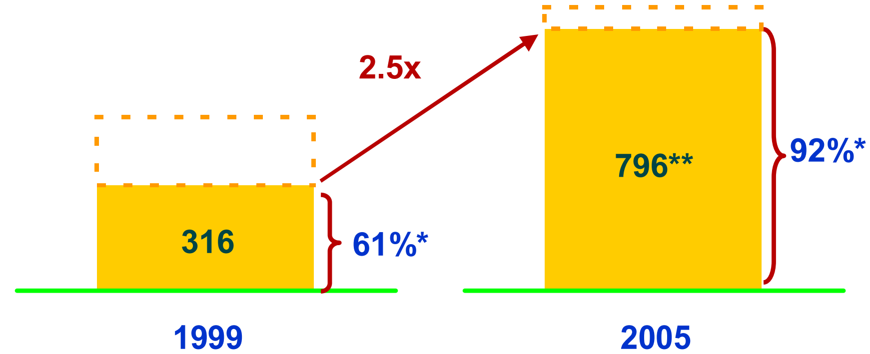
2006-2010 Strategic Plan

1999-2005: Consolidation of the Spanish TSO

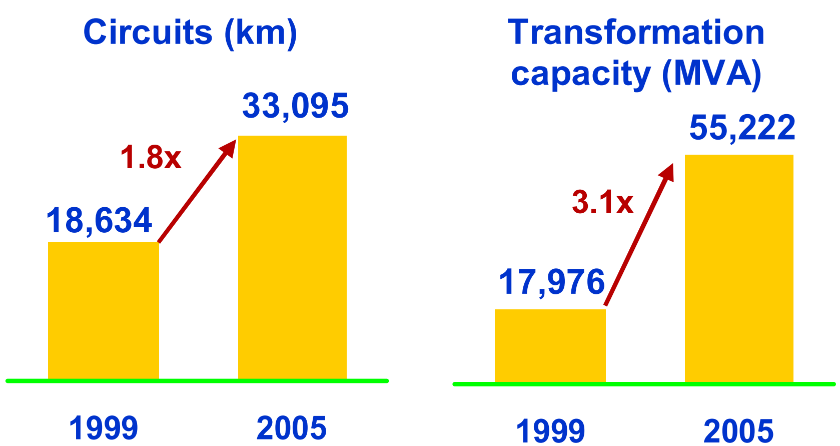
Transmission gross asset base (€mm)



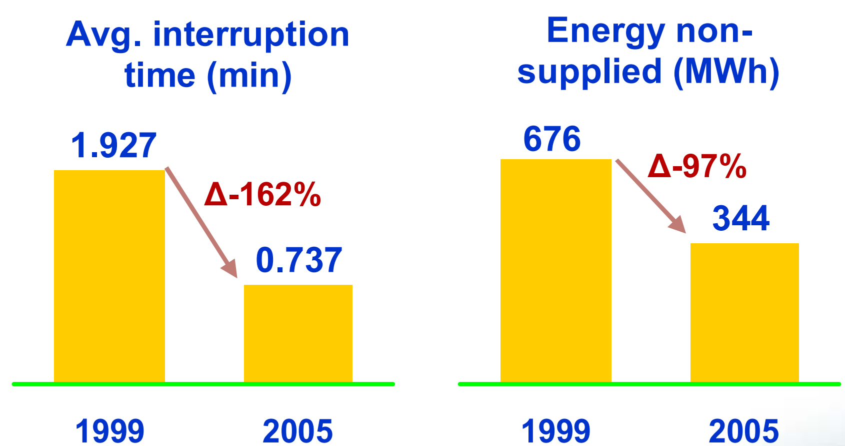
Transmission revenues (€mm)



Operating data



Quality of service



* This figure represents REE's transmission revenues as % of total mainland transmission revenues

** Includes Redalta's full year revenues.

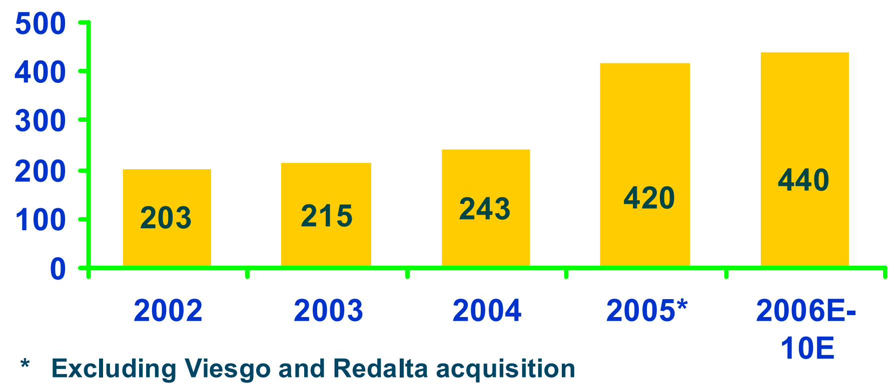
2006-2010 Strategic plan highlights

- Upgraded investment plan in Spain to €2,200mm
- EBITDA margin increase of at least 300 bps coming from organic investment and integration synergies
- Continuous focus on quality of service
- Promote stability and appropriate remuneration of transmission activity
- Focus on shareholder remuneration

Upgraded €2,200mm investment plan in Spain

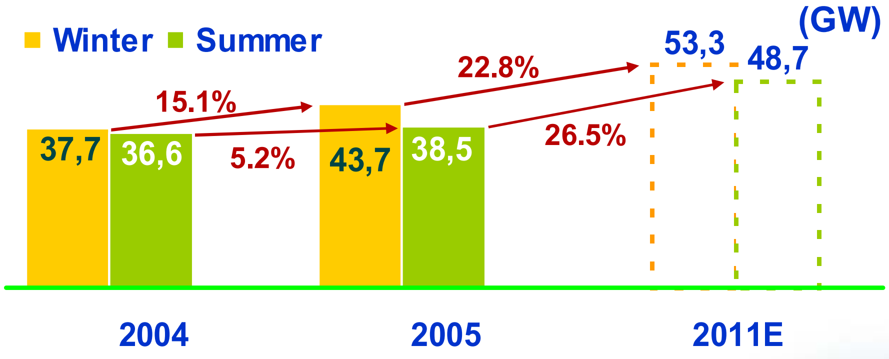
- Upgrade of 5Y investment plan from 1.9bn to 2.2bn
  - Higher capacity investments in CCGT and wind farms
  - Expansion of the high-speed rail network
  - International interconnections
  - Additional investments to strengthen reliability of network
- Supported by revision of the energy infrastructure plan for 2005-2011
  - Expected 1Q 2006

Annual capex (€mm)



* Excluding Viesgo and Redalta acquisition

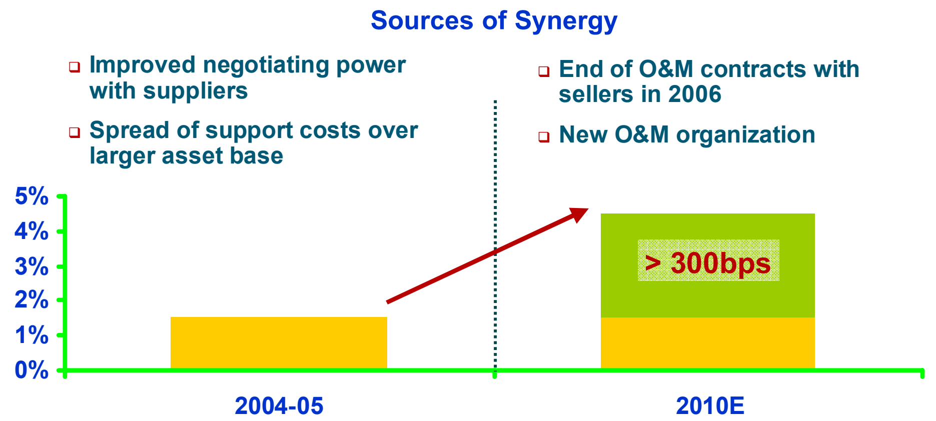
Winter/Summer peak demand growth



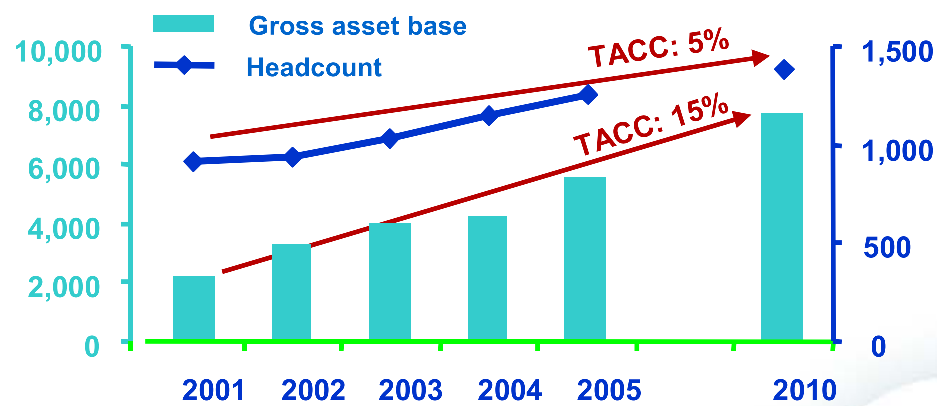
Increase in scale and integration synergies will deliver margin expansion

- Efficiency improvements due to integration of acquired assets and larger asset base
  - 4 yr O&M contracts will expire end of 2006:
    - Endesa: €102.5mm (€25.6mm per year)
    - U. Fenosa: €35.6mm (€8.9mm per year)
- Expected increase in operating margins due to larger in scale and strict control of fixed costs
  - EBITDA margin increase of at least 300bps during 2006-2010

EBITDA margin (%)

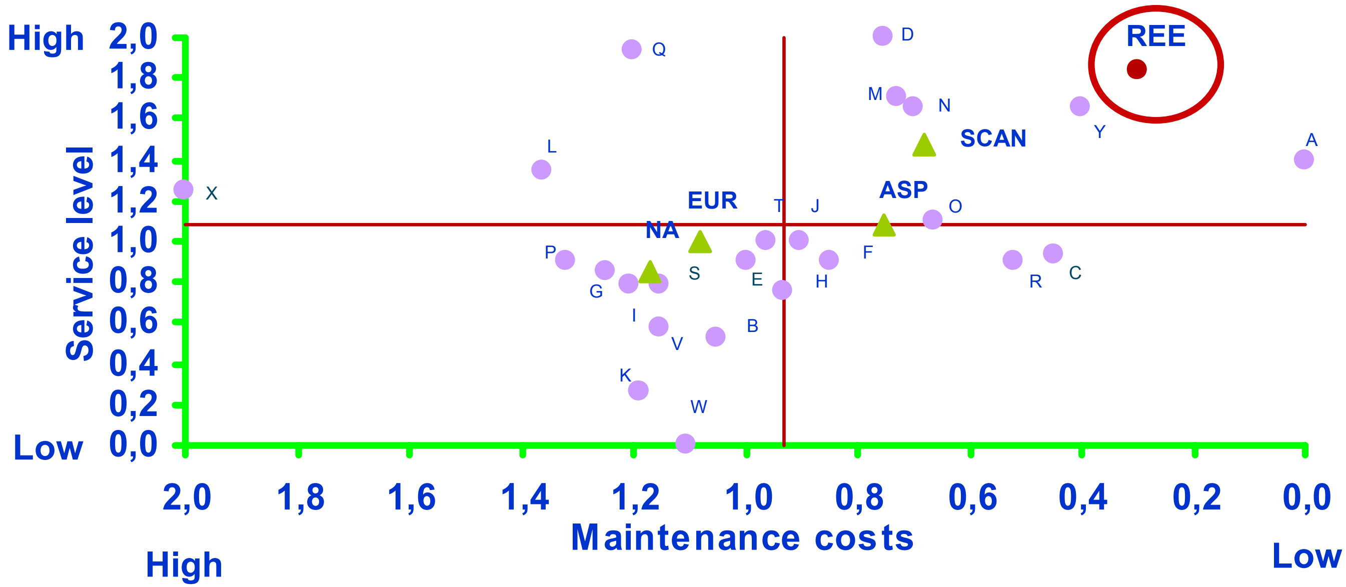


Gross asset base and headcount*



* Gross asset base corresponds to the transmission activity and headcount to Red Eléctrica de España

Continuous focus on quality of service



- Best in class in the last independent survey among 25 Transmission companies
- Strong focus on system reliability and security of supply
  - Ambitious targets in quality of service
  - World class performance

Source: UMS Group benchmarking 2003 (2002 data). Europe includes Belgium, Czech Republic, Finland, Germany, Holland, Ireland, Island, Italy, Norway, Portugal, Spain and UK.

A clear and adequate regulatory framework is needed to promote investments in new infrastructure

1997 | 1999 | 2001 | 2003 | 2005 | 2007 | 2009 | 2011

Energy Infrastructure Investment

- Growing perception of large need for new investment

2002-2011 Energy Infrastructure Plan

- Approved by Ministry and Parliament
- Investments of €2.7bn in transmission
- Expected revision of 2005-11 investment plan

Transmission Regulation

1998-2002 period

- Efficiency factors (X and Y) set at 1.0
- Remuneration rate: 3-month euribor + 100 bps

2003-2006 period

- Efficiency factors (X and Y) set at 0.6
- Remuneration rate: 10-yr T Bond + 150 bps

2007-2010 Upcoming revision

- A supportive regulatory framework is needed to fulfil significant investment plan

REE has developed a robust transmission grid key for the development of competition and guarantee security of supply

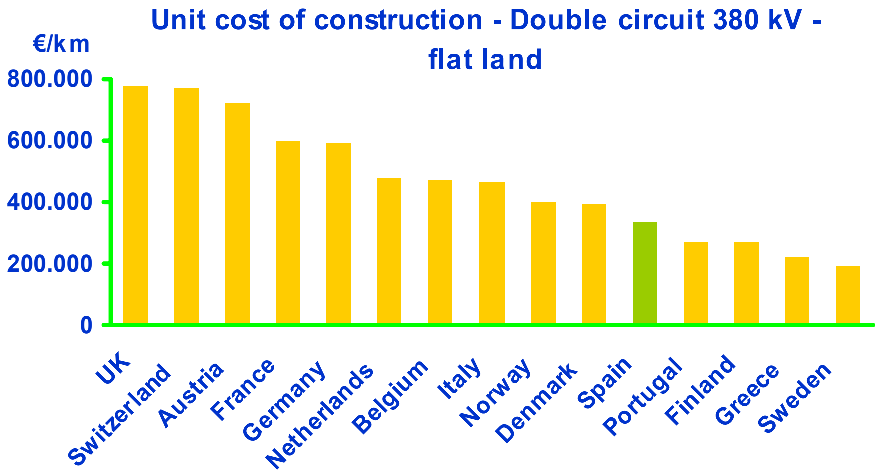
- 2,233 km of circuits commissioned over 1999-2004 that represents 55% of the total km of circuits commissioned in Europe*

*Source: UCTE. Europe includes Belgium, France, Germany, Greece, Holland, Italy, Poland, Portugal, Spain and Switzerland.

Investments in transmission generate significant benefits for the system

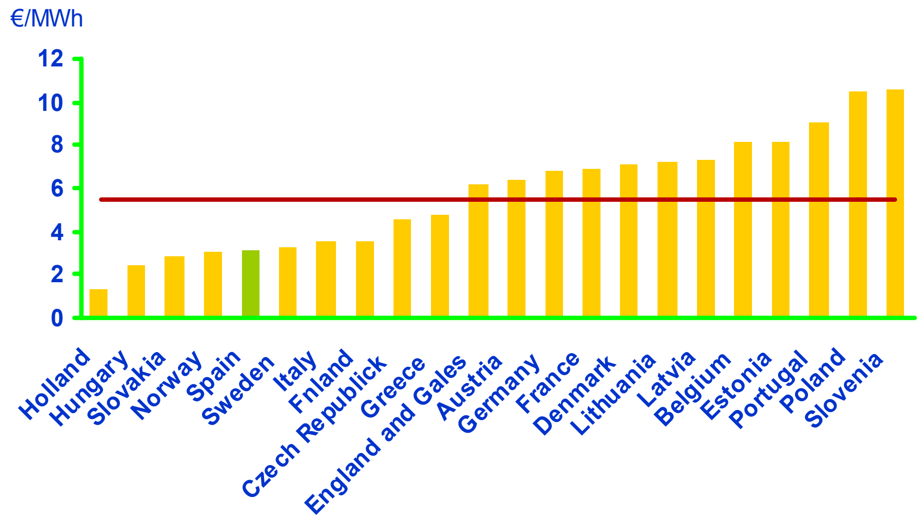
- Transmission remuneration represents only 5.3% of total tariff in Spain
- Transmission tariffs and cost are in all indicators below European peers
- €10mm of investment in transmission could generate €125mm* of annual saving to the system

Standard cost of investments



Source: ICF Consulting, Study Contract NoTREN/CC/03-2002
Prepared for the DG TREN/European Commission

Transmission revenues / demand



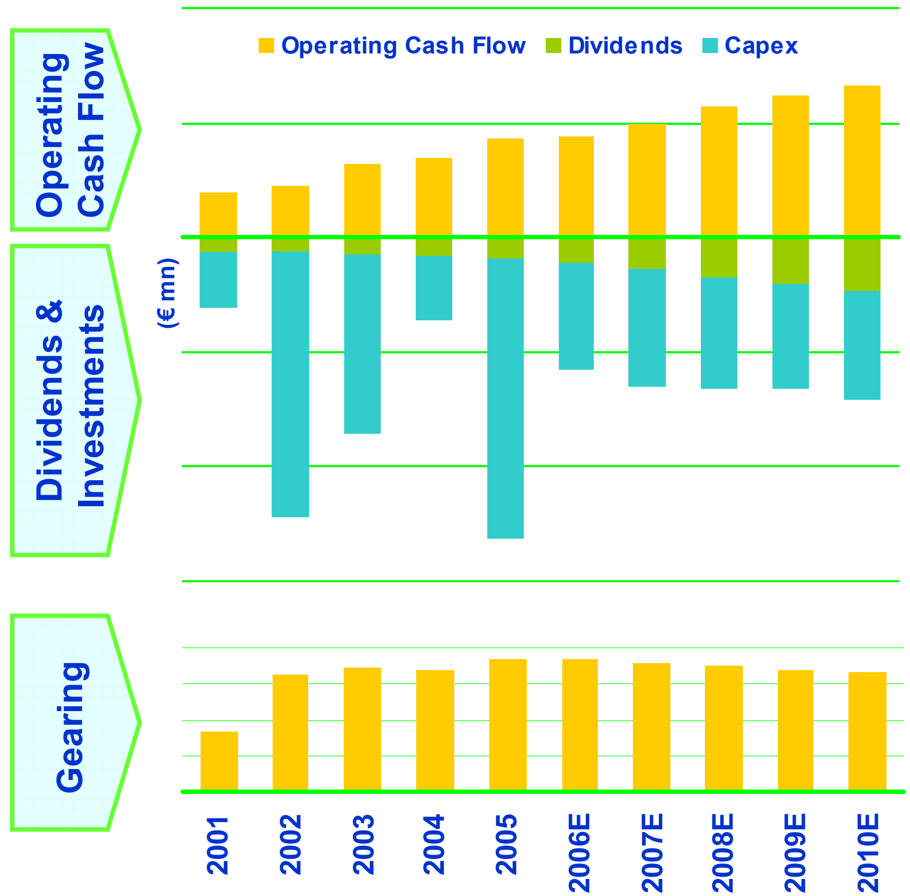
Source: Consul Firma (2003 Data)

* Figures based on main axis, excluding international interconnections. Includes savings for (i) reduction of energy not supplied and (ii) production redispatching.

Focus on shareholder remuneration

Commitment to maintain an optimal capital structure in line with sector's best practices

- Operating cash-flow will help finance strong capex program while increasing shareholder remuneration
- Capital structure consistent with a solid financial condition



Commitment to maintain an efficient capital structure

2006-2010 targets

EPS growth > 15% CAGR

DPS growth in line with EPS growth

Efficient capital structure

High return for shareholders with strong growth at a low risk


RED
ELÉCTRICA
DE ESPAÑA
relacioninversores@ree.es
+34 91 4533357 / 6599111
www.ree.es

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