



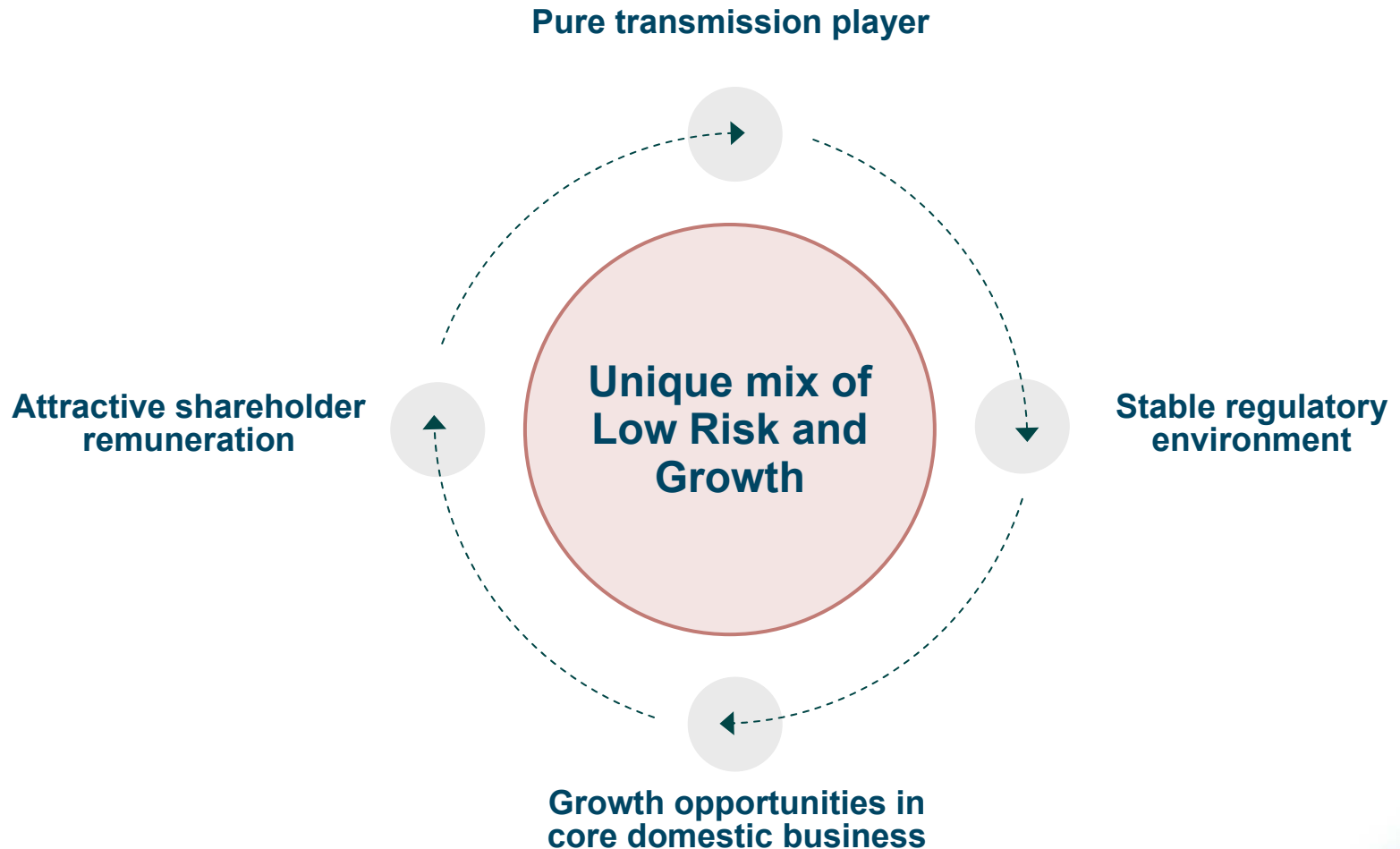
RED ELÉCTRICA
DE ESPAÑA

Red Eléctrica 2005-2009
Extracting growth from core business

February 16, 2005



REE key investment highlights





2004 Consolidated financial results

Profit and Loss Account

€mm	2004	2003	Δ 04/03
Adjusted turnover	766.2	686.7	11.6%
EBITDA	478.9	439.8	8.9%
EBIT	272.7	246.4	10.7%
Net Income	132.4	115.8	14.3%
Cash-flow*	348.8	320.9	8.7%

Delivering double digit growth in core business

* Net Income + Depreciation + Provisions



2004 Consolidated financial results

Capital Expenditure

€mm	2004	2003
Spanish Transmission		
Acquisition of transmission networks	-	535.2
Investment in transmission grid	243.4	215.3
International regulated activities	7.3	2.0
Telecommunications - Albura	6.6	10.8
Other	23.9	15.0
Total	281.2	778.3

Capital Structure

€mm	2004	2003
Net Debt	1,922.5	1,914.0
Leverage (D/D+E)	68.2%	69.3%
EBITDA / Gross Interest	5.9x	5.9x
Credit ratings	A2/AA-	A2/AA-

□ Debt profile as of Dec. 2004:

- 53% commercial paper/bonds and 47% bank financing
- 69% fixed and 31% floating
- >6 years of avg. maturity

Acceleration of core investment capex



Key strategic focus 2005-2009

- ❑ **Enhance REE's role in the Spanish electricity sector**
- ❑ **Operating excellence**
- ❑ **Additional value creation opportunities**
- ❑ **Efficient capital structure**



Enhance REE's role in the Spanish electricity sector

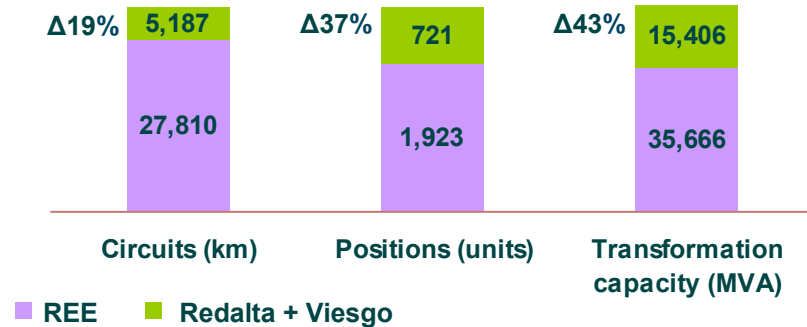
- **Consolidation of the Spanish TSO**
- **Upgraded investment plan**
- **Proactive and cooperative role with regulator**



Consolidation of the Spanish TSO

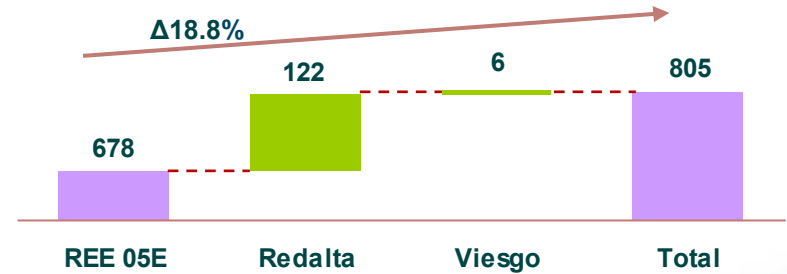
- Acquisition of transmission assets
 - Acquisition of Viesgo's assets for €45.6mm
 - Effective date January 1, 2005
 - Agreement to early exercise the option to acquire the remaining 75% of Redalta
 - Expected closing June 2005, subject to regulatory approval
 - Effective date February 15, 2005
 - Expected acquisition of Hidrocantábrico's assets during 2005

REE operational data (220 kV + 400 kV)



Source: REE (Dec 31, 2004)

Transmission revenues



Source: CNE Report 7/2004 (December 20, 2004) and R.D. 2392/04

Note: Redalta owns 100% of Inalta, which acquired Iberdola's transmission assets in 2002



Acquisition of the remaining 75% of Redalta

Details of the agreement

- Implied FV of 75%: €739mm
- Goodwill: €195mm (Non tax deductible)
- Option to cancel O&M contract with Iberdrola in 2006
- Accretive from 2006 before operating synergies
- Expected operating annual synergies
 - O&M expenses and overheads: €8.5mm
- Financing and Balance sheet impact
 - Equity method was used to consolidate REE's 25% stake in Redalta. Full consolidation expected from 15/02/05
 - Bridge to finance the equity payment and to refinance Inalta's debt (already committed)
 - REE expects to maintain a strong rating level

Transaction multiples

	Multiple
FV/Regulated Income 05E	8x
FV/EBITDA 05E	10x

Balance Sheet highlights

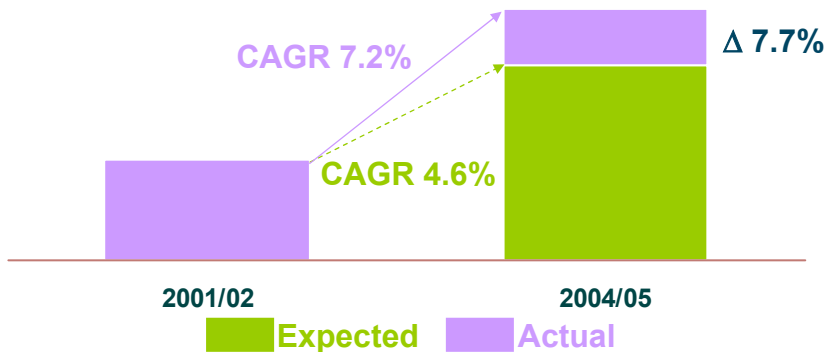
€mm	2004	2004PF*
Net Debt	1,923	2,793
Gearing	68%	76%
Net Debt/ EBITDA	4.0x	5.0x

**Including proforma consolidation of Redalta
Note: Gearing = (Net Debt) / (Net Debt + Equity).*



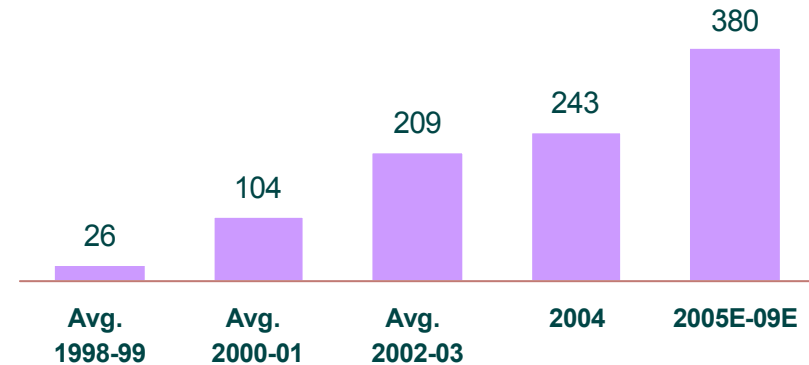
Upgraded investment plan in Spain: €1,900mm*

Winter peak demand growth (MW)

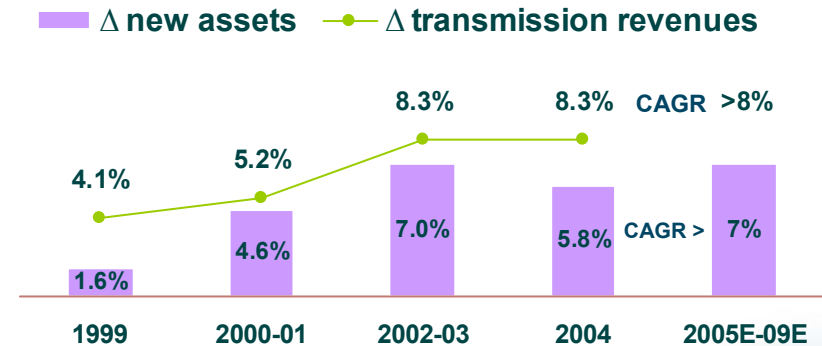


- Developing a robust transmission grid to facilitate liberalisation and guarantee security of supply
 - Higher capacity investments in CCGT and wind farms
 - Additional expansion of the high-speed rail network
 - International interconnectors
 - Additional investments to strengthen reliability of network
- Subcontracting of construction with Endesa, Unión Fenosa and Iberdrola (Turn Key projects)

Annual Capex (€mm)



Transmission revenues growth



Note: Excludes effect from Endesa, U. Fenosa and Redalta

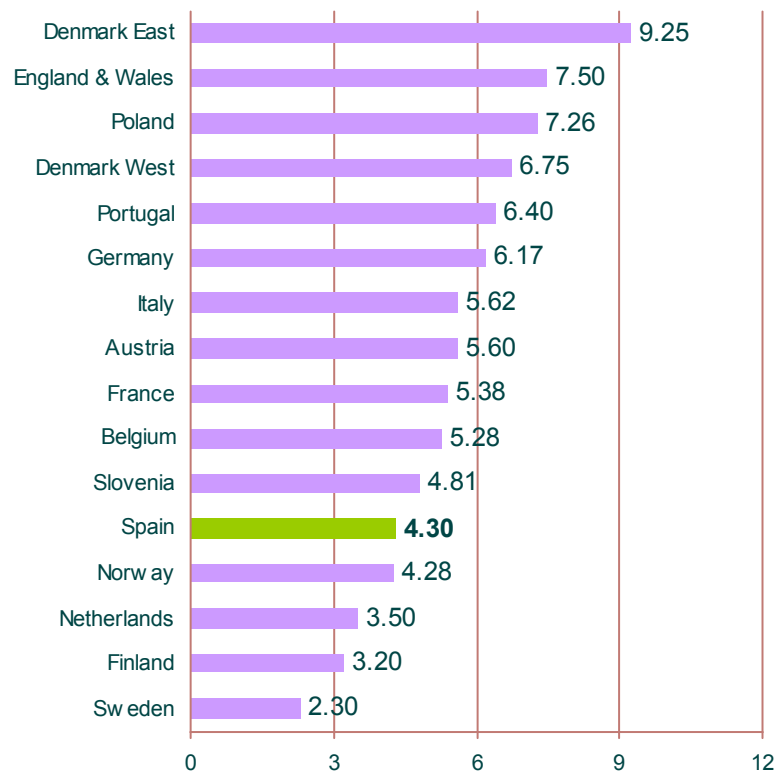
* It includes Viesgo and Hidrocantábrico transmission assets acquisitions



Proactive and cooperative role with regulator

- **Key enabler of Spanish Electricity Plan**
 - **Upgraded investment plan to fulfil additional investment needs and to facilitate market liberalisation**
 - **REE focused on security of supply in line with the EU Directives**
- **Proven regulatory support to TSO model**
 - **2003: Reduction of efficiency factors to 0.6 and remuneration based on 10 year bond + margin increase to 150bp**
 - **2005: Recognition of revenues from commissioning (+€8mm revenue impact in 2005 from assets commissioned during 2004)**

Comparison of transmission price €/MWh



Source: ETSO. Benchmarking on transmission pricing in Europe. July 2004 (2003 data)
Standard transmission tariff price per MWh



Operating excellence

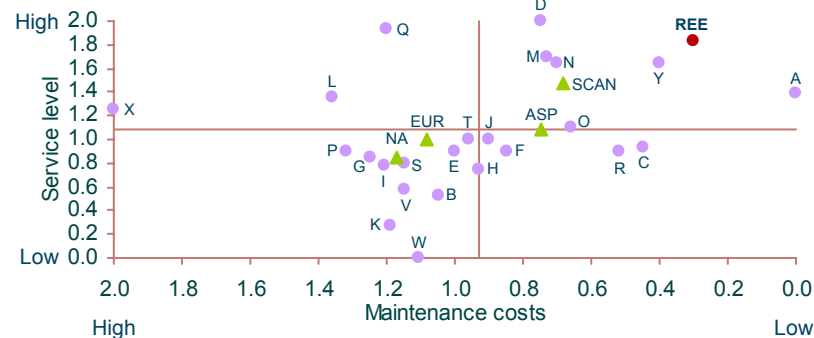
- **Focus on system reliability and security of supply**
- **Improving operating margins**



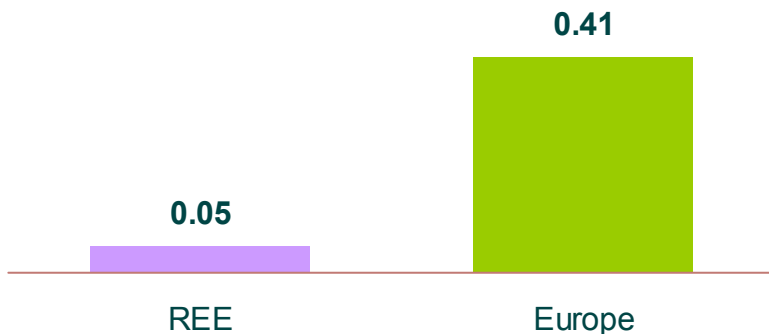
Operating excellence

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

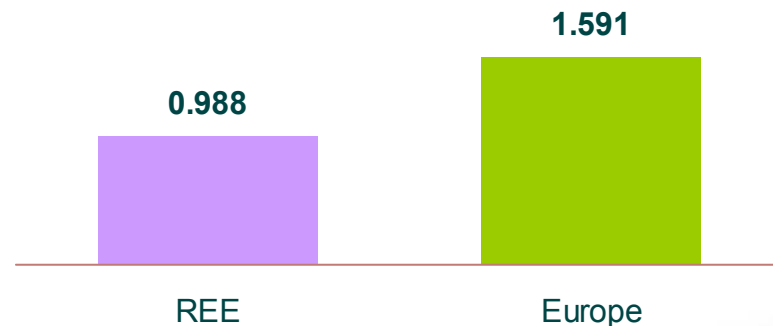
Quality of service



O&M cost €/MWh



% Network unavailability



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

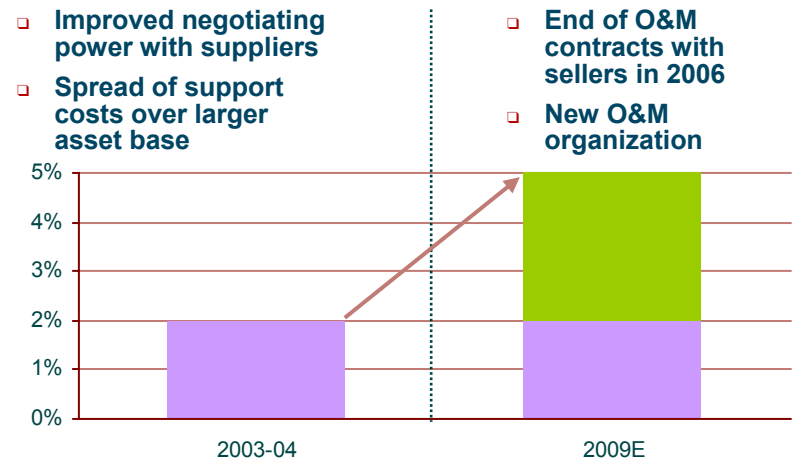


Improving operating margins

- Efficiency improvements due to integration of acquired assets and larger asset base
- Significant increase in operating margins
 - Minimum impact on overhead costs and efficiencies in procurement, engineering and R&D
 - Ability to apply O&M best practices once O&M contracts expire

EBITDA margin increase*

Sources of Synergy



* Transmission business: Does not include operating synergies from Inalta's transaction



Additional value creation opportunities

- **International organic growth**
- **Looking for strategic partnership to extract full value from Albura**



International organic growth

- **Disciplined approach to new investments with strong focus in long term value creation**
 - Leverage REE's skills to integrate and improve system operation and transmission companies in new geographies
- **Organic growth opportunities in Bolivia**
 - Capex of €60mm for 2005-2009
 - Commission up to 476km of new lines (+24%)
 - Capex financed through TDE balance sheet without recourse to REE
 - \$2.6mm of dividends in 2005E

TDE financial highlights

€mm	2003	2004	Δ03-04 (%)
Sales	19.1	17.9	(6.3)%
EBITDA	13.3	11.8	(10.9)%
Net Income	4.8	4.6	(4.5)%
CAPEX	2.0	7.3	271.0%
Net Debt	29.7	26.0	
US\$/€	1.14	1.25	(8.4)%

Note: 2004 results impacted by US\$ depreciation vs. €



Looking for strategic partnership to extract full value from Albura

- Focus on shareholder value creation with pragmatic approach to the business
 - Limit additional investments to a minimum
- Goal is to extract full value from the assets
 - Ongoing negotiations with potential partners
 - Expected deconsolidation of the business

Albura financial highlights

€mm	2003	2004
Sales	36.1	45.7
EBITDA	(16.3)	(15.9)
Net Income	(19.8)	(25.9)
CAPEX	10.8	6.6
Net Debt	54.4	66.4



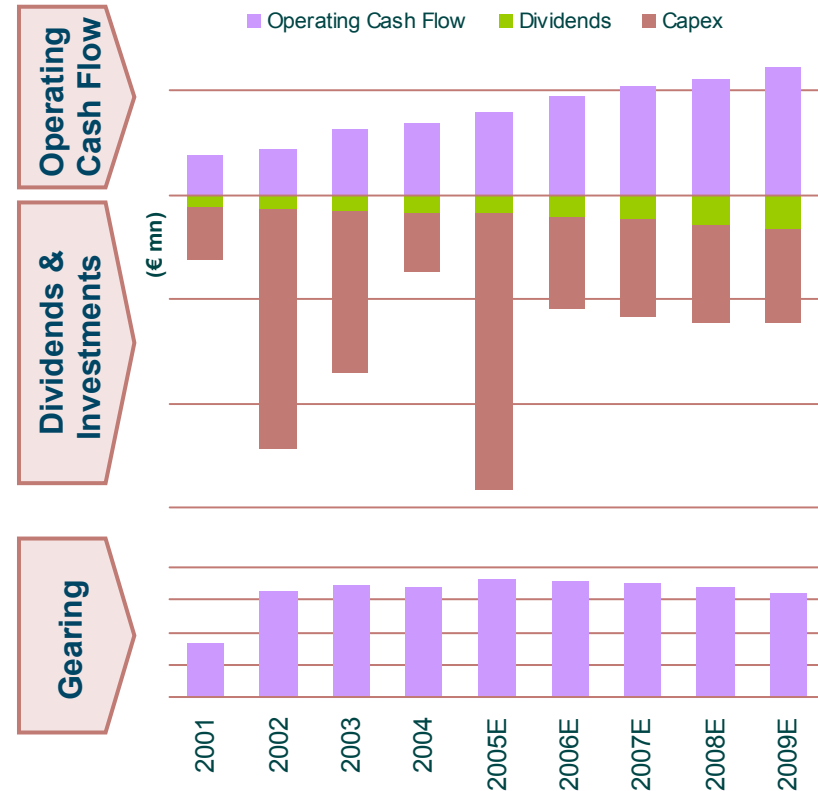
Efficient capital structure

- **Attractive shareholder remuneration**



Efficient capital structure

- Current leverage, integration of Redalta and €1,900mm investment plan will imply an efficient capital structure for 2005-09...
- ... consistent with a solid financial condition
- Commitment to maintain an optimal capital structure in line with sector best practices
 - Increasing shareholder remuneration if no attractive investment opportunities available



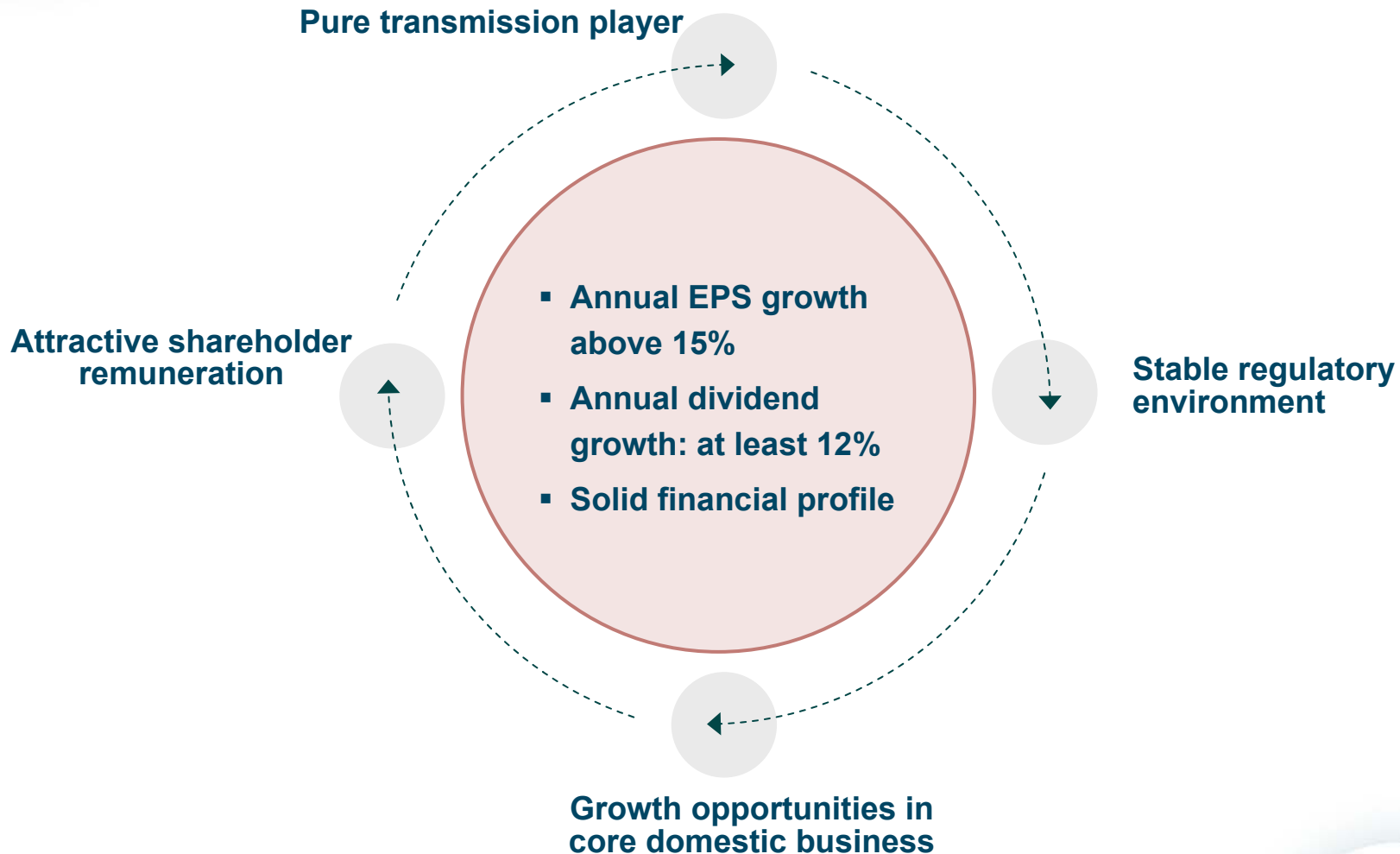


REE's 2005-2009 strategic targets





Financial targets 2005-2009



A helicopter is shown in flight, positioned to the left of a large, lattice-structured transmission tower. The helicopter's main rotor blades are extended horizontally. The tower is a complex metal structure with multiple cross-arms supporting power lines. The background is a light, overcast sky with some faint outlines of trees at the bottom. The entire image has a semi-transparent white overlay at the bottom where the contact information is located.

relacioninversores@ree.es
+34 91 4533357 / 6599111
www.ree.es