

PricewaterhouseCoopers Auditores, S.L.

RED ELECTRICA DE ESPAÑA, S.A.

Report on procedures agreed in relation to the
review of the contribution criteria for the corporate
restructuring imposed by Law 17/2007

April 14, 2008

Madrid, April 14, 2008

Red Eléctrica de España, S.A.

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For the attention of Luis Atienza Serna

REF: Report on procedures agreed in relation to the review of the contribution criteria for the corporate restructuring imposed by Law 17/2007

Gentlemen:

According to the terms of the proposal to provide professional services dated April 2, 2008, we performed a review, with the scope stipulated in the proposal and agreed with you, of the contribution criteria for the corporate restructuring imposed by Law 17/2007, whose subject-matter, scope and conclusions are set forth in this report.

1.- BACKGROUND

Law 17/2007 amending Electricity Industry Law 54/1997, introduces an amendment of the current statutory regime, which obliges Red Eléctrica de España (the “Company”) to incorporate a subsidiary, wholly owned by the current Red Eléctrica de España, S.A. (“REE HOLDING”). The new company is to be in charge of the regulated electricity activities, system operator, transmission network manager and transmitter currently pursued in Spain by Red Eléctrica de España. For such purpose, it is to receive the contribution of all the material and human resources currently assigned to the pursuit of such activities.

By virtue of the statutory mandate and for this sole purpose, in December Red Eléctrica de España incorporated “Red Eléctrica de España, TSO, S.L. Sole-Shareholder Company” (“REE TSO”) to which, by way of the appropriate capital increase with a non-cash contribution, it will contribute the line of business relating to the aforesaid regulated activity, including the human resources and balance sheet items composing it.

REE TSO is to increase capital with a non-cash contribution and Red Eléctrica de España, S.A. is to contribute the autonomous economic unit constituting the line of business relating to its functions as system operator, transmission network manager and transmitter, including the human resources and balance sheet items composing it. At the same time REE TSO will be reregistered as a corporation, will increase capital and will amend its corporate bylaws to bring them into line with the Electricity Industry Law.

In general, the balance sheet items, assets, liabilities and personnel to be contributed will include practically all the items owned by Red Eléctrica de España, with the exception of: (i) the corporate headquarters and property not used for the transferred activity; (ii) the holdings in other companies, which will remain at Red Eléctrica, as parent company; and (iii) the activity of telecommunications for third parties and international energy exchange, including the related rights and obligations, which will be contributed to the subsidiary of Red Eléctrica Internacional, S.A.U. (“REI”).

The rights and obligations relating to the activity of telecommunications for third parties and international long-term energy exchange will also be separated from REE HOLDING and will be contributed to REI.

In order to fulfill the foregoing mandate, you asked us to identify all the assets and liabilities, rights and obligations, as well as all persons assigned to the regulated activity and to the activity of telecommunications for third parties and international exchanges, so that they may either be contributed or retained by REE HOLDING, as appropriate.

The foregoing contributions are to take place as from June 30, 2008.

You defined the criteria which will lead to the identification of the assets and liabilities, rights and obligations and the personnel, having regard to the current situation and on the basis of your financial statements as of March 31, 2008, in connection with which we prepared standard form balance sheets for each contribution.

The subject-matter of the work you entrusted to us is the use of the review procedures agreed, directed toward the conceptual review of the criteria defined for the contributions.

2.- PURPOSE AND SCOPE OF OUR WORK

As requested by you, our work consisted of the development of the review procedures detailed below, which were agreed and approved by you, with a view to checking the reasonability and suitability of the criteria for separating the assets and liabilities, rights and obligations and the personnel, according to the objective set forth in the foregoing section. Our work was performed in accordance with the Guide issued by the Spanish Institute of Certified Public Accountants (*Instituto de Censores Jurados de Cuentas De España* or "ICJCE"), applicable to mandates for agreed procedures. The review procedures we carried out were as follows:

- conceptual review of the accounting adjustments to the financial statements as of December 31, 2007 and as of March 31, 2008, by reason of the incorporation of the New National Chart of Accounts;
- check of the consistency of the adjustments with those made when preparing the consolidated financial statements as of December 31, 2007, by reason of the International Financial Reporting Standards, where they are the same;
- verification that all necessary adjustments pursuant to the New National Chart of Accounts were made;
- review carried out through interviews with your managers on the contribution criteria defined for each account of the balance sheet, having regard to information as of December 31, 2007 and March 31, 2008;
- conceptual check of the contents of each account of the financial statements, on the basis of our knowledge of composition of the accounts as of December 31, 2007, which was the subject-matter of our audit of the 2007 financial statements, with a view to validating the criteria adopted for each account.

You gave us a document entitled "*Descripción económico financiera de la reestructuración societaria*" (Economic Financial Description of the Corporate Restructuring or "Corporate Restructuring Report") dated April 11, 2008, which gives a summarized description of the corporate restructuring transaction and of the contribution criteria we have been referring to, which is to serve as a proposal by your Board of Directors for the final approval of the criteria, and which is included as an exhibit to the proposal. The Corporate Restructuring Report includes detailed descriptions and explanations of the criteria used.

Because the review procedures described constitute neither an audit nor a review performed in accordance with an Auditor's Technical Standards, we do not give an audit opinion on the amounts included in the Corporate Restructuring Report.

We do not assume any liability to third parties other than the recipients of this report.

This report refers only to the contribution criteria described in the Corporate Restructuring Report and does not extend to any financial statement of Red Eléctrica de España, S.A. taken as a whole, or to any other internal document of Red Eléctrica de España, S.A.

3.- CONCLUSIONS

Having regard to the findings of the review procedures described above, we believe that the contribution criteria described in the Corporate Restructuring Report are reasonable and sufficient for the identification of the assets and liabilities, rights and obligations and of the personnel, for the purpose of the contribution in the corporate restructuring process explained under Section 1.

Because the corporate restructuring and the related contributions are to take place on June 30, 2008, please note the following:

- the criteria defined by you at this time are based on the current position of the companies involved;
- the review was performed having regard to the current situation and, accordingly, from now and until the final contributions are made, new situations not existing today, which did not form part of the subject-matter of our current review, could arise.

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Very truly yours,

PricewaterhouseCoopers Auditores, S.L.

Francisco J. Martínez
Partner