Consolidated Annual Accounts 2010

RED ELÉCTRICA CORPORACIÓN

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"This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

REPORT OF THE AUDITORS ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Red Eléctrica Corporación, S.A.

We have audited the consolidated annual accounts of Red Eléctrica Corporación, S.A. (the parent company) and subsidiaries (the Group) consisting of the consolidated balance sheet at 31 December 2010, the consolidated income statement, the consolidated statement of other comprehensive income, , the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As is explained in Note 2.a of the accompanying notes to the annual accounts, the Company's directors are responsible for the preparation of these consolidated annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2010 present fairly, in all material respects, the consolidated financial position of Red Eléctrica Corporación, S.A. and subsidiaries at 31 December 2010 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2010 contains the explanations that the Parent Company's Directors consider appropriate regarding the Group's situation , the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2010. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of Red Eléctrica Corporación, S.A. and subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Francisco J. Martínez Pérez
Partner - Auditor

25 February 2011

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Consolidated Balance **Sheet**

Red Eléctrica Group · Consolidated Balance Sheet

at 31 december 2010 and 2009

thousand euro

ASSETS	31/12/2010	31/12/2009
Intangible assets (Nota 5)	2,943	1,984
Property, plant and equipment (Note 6)	7,607,912	5,620,188
Investment properties (Note 7)	2,126	2,158
Investments carried under the equity method (Note 8)	5,757	5,046
Non-current financial assets (Note 17)	78,969	83,312
Deferred tax assets (Note 21)	61,384	64,734
Other non-current assets (Note 9)	49,482	-
NON-CURRENT ASSETS	**7,808,573**	**5,777,422**
Non-current assets held for sale	601	601
Inventories (Note 10)	43,788	43,997
Trade and other receivables (Note 11)	412,464	364,779
Receivables for sales and services rendered	30,680	24,295
Other receivables	370,716	310,649
Current tax assets	11,068	29,835
Other current financial assets (Note 17)	186	766
Cash and cash equivalents	18,286	14,068
CURRENT ASSETS	**475,325**	**424,211**
TOTAL ASSETS	**8,283,898**	**6,201,633**

Red Eléctrica Group · Consolidated Balance Sheet

at 31 december 2010 and 2009

thousand euro

LIABILITIES	31/12/2010	31/12/2009
Equity	**1,629,666**	**1,458,684**
Share capital	270,540	270,540
Reserves	1,071,446	938,547
Treasury shares (-)	(23,297)	(11,789)
Profit for year attributed to the Parent Company	390,150	330,402
Interim dividend (-)	(79,173)	(69,016)
Adjustments due to changes in value	**(6,837)**	**(19,519)**
Available-for-sale financial assets	-	(13,105)
Hedging transactions	(312)	711
Differences on conversion	(6,525)	(7,125)
EQUITY ATTRIBUTED TO THE PARENT COMPANY	**1,622,829**	**1,439,165**
Minority interests	**1,725**	**61**
TOTAL EQUITY (Note 12)	**1,624,554**	**1,439,226**
Subsidies and other (Note 13)	368,761	321,177
Non-current provisions (Note 14)	75,752	53,272
Non-current financial liabilities (Note 17)	3,727,980	2,978,948
Bank borrowings and bonds or other marketable securities	3,695,289	2,919,513
Other non-current liabilities	32,691	59,435
Deferred tax assets (Note 21)	338,426	230,498
Other non-current liabilities (Note 15)	81,601	85,758
NON-CURRENT LIABILITIES	**4,592,520**	**3,669,653**
Current provisions	1,864	1,738
Current financial liabilities (Note 17)	1,839,677	885,062
Bank borrowings and bonds or other marketable securities	1,070,927	176,840
Other current financial liabilities	768,750	708,222
Trade and other payables (Note 19)	225,283	205,954
Trade payables	209,101	180,586
Other payables	16,142	25,343
Current income tax liabilities	40	25
CURRENT LIABILITIES	**2,066,824**	**1,092,754**
TOTAL LIABILITIES	**8,283,898**	**6,201,633**

(Notes 1 to 32 form an integral part of the consolidated financial statements)

Red Eléctrica Group · Consolidated Income Statement

2010 and 2009

thousand euro

CONSOLIDATED INCOME STATEMENT	2010	2009
Net revenue (Note 22-a)	1,397,252	1,200,115
Work performed by the company on its own assets	18,044	16,240
Supplies (Note 22-c)	(45,022)	(47,217)
Other operating revenues (Note 22-b)	15,256	12,818
Personnel costs (Note 22-d)	(112,709)	(104,236)
Other operating expenses (Note 22-c)	(270,922)	(232,133)
Asset depreciation (Notes 5, 6 and 7)	(305,064)	(264,727)
Non-financial asset and other subsidies attributed (Note 13)	10,364	9,273
Impairment and profit/ loss on fixed asset disposals (Note 6)	(18,658)	(45,282)
OPERATING PROFIT	**688,541**	**544,851**
Financial income	5,027	6,526
Financial expense (Notw 22-f)	(104,341)	(91,177)
Differences on exchange	101	110
Impairment and profit/loss on disposal of financial instruments	(29,883)	-
FINANCIAL INCOME/EXPENSE	**(129,096)**	**(84,541)**
Results of companies carried under the equity method (Note 8)	1,003	806
PROFIT BEFORE TAXES	**560,448**	**461,116**
Corporate income tax (Note 21)	(170,300)	(130,707)
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**390,148**	**330,409**
A) CONSOLIDATED RESULTS FOR THE PERIOD ATTRIBUTED TO PARENT COMPANY	**390,150**	**330,402**
B) RESULTS FOR THE PERIOD ATTRIBUTED TO MINORITY INTERESTS	**(2)**	**7**
EARNINGS PER SHARE		
Basic profit per share (Note 30)	**2,90**	**2,45**
Diluted profit per share (Note 30)	**2,90**	**2,45**

(Notes 1 to 32 form an integral part of the consolidated financial statements)

Red Eléctrica Group
Consolidated Statement of Overall Results

2010 and 2009

thousand euro

CONSOLIDATED STATEMENT OF OVERALL RESULTS	2010	2009
CONSOLIDATED RESULTS FOR THE YEAR	**390,148**	**330,409**
REVENUES AND EXPENSES ATTRIBUTED DIRECTLY TO EQUITY	**(8,775)**	**(58,937)**
- Due to the valuation of Financial Instruments	(11,214)	4,406
a) Available-for-sale financial assets (Note 17)	(11,214)	4,406
- Cash-flow hedges (Note 18)	(1,627)	(83,533)
- Conversion differences (Note 12)	741	(3,074)
- Other revenues and expenses attributed directly to equity	(436)	(1,995)
- Tax effect	3,761	25,259
TRANSFERS TO THE INCOME STATEMENT	**21,071**	**(78)**
- Measurement of financial instruments (Note 17)	29,935	-
- Cash-flow hedges (Note 18)	166	(112)
- Tax effect	(9,030)	34
TOTAL OVERALL RESULTS FOR THE YEAR	**402,444**	**271,394**
A) CONSOLIDATED OVERALL RESULTS FOR THE YEAR ATTRIBUTED TO PARENT COMPANY	**402,533**	**271,394**
B) OVERALL RESULTS FOR THE YEAR ATTRIBUTED TO MINORITY INTERESTS	**(89)**	**-**

(Notes 1 to 32 form an integral part of the consolidated financial statements)

Red Eléctrica Group
Consolidated Statement of Changes in Equity
at 31 december 2010 and 2009
thousand euro

EQUITY

	Current period						
	Equity attributed to the parent company						
	Share capital	Reserves[1]	Treasury shares	Profit for year attributed to the Parent Company	Adjustments due to changes in value	Minority interests	Total equity
Balances at 1 January 2010	**270,540**	**869,531**	**(11,789)**	**330,402**	**(19,519)**	**61**	**1,439,226**
I. Total recognised revenues/(expenses)	-	(299)	-	390,150	12,682	(89)	**402,444**
II. Transactions with shareholders or owners	-	(8,576)	(11,508)	(199,768)	-	-	**(219,852)**
- Payment of dividends (Note 12)	-	(10,157)	-	(199,768)	-	-	(209,925)
- Trading in treasury shares (Note 12)	-	1,581	(11,508)	-	-	-	(9,927)
III. Other changes in equity	-	131,617	-	(130,634)	-	1,753	**2,736**
- Transfers among equity headings	-	130,634	-	(130,634)	-	-	-
- Other changes	-	983	-	-	-	1,753	2,736
Balances at 31.12.10	**270,540**	**992,273**	**(23,297)**	**390,150**	**(6,837)**	**1,725**	**1,624,554**

	Current period						
	Equity attributed to the parent company						
	Share capital	Reserves[1]	Treasury shares	Profit for year attributed to the Parent Company	Adjustments due to changes in value	Minority interests	Total equity
Balances at 1 January 2009	**270,540**	**763,922**	**(22,185)**	**286,119**	**38,100**	**61**	**1,336,557**
I. Total recognised revenues/(expenses)	-	(1,389)	-	330,402	(57,619)	-	**271,394**
II. Transactions with shareholders or owners	-	(6,917)	10,396	(172,813)	-	-	**(169,334)**
- Payment of dividends (Note 12)	-	(8,613)	-	(172,813)	-	-	(181,426)
- Trading in treasury shares	-	1,696	10,396	-	-	-	12,092
III. Other changes in equity	-	113,915	-	(113,306)	-	-	**609**
- Transfers among equity headings	-	113,306	-	(113,306)	-	-	-
- Other changes	-	609	-	-	-	-	609
Balances at 31.12.09	**270,540**	**869,531**	**(11,789)**	**330,402**	**(19,519)**	**61**	**1,439,226**

(1) Includes the following balance sheet headings: Reserves and interim dividends.
(Notes 1 to 32 form an integral part of the consolidated financial statements)

Red Eléctrica Group · Consolidated Cash Flow Statement

2010 and 2009

thousand euro

CONSOLIDATED CASH FLOW STATEMENT	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	**824,678**	**670,563**
Profit before taxes	**560,448**	**461,116**
Adjustments to results:	**459,757**	**386,817**
Asset depreciation/amortisation	305,064	264,727
Other adjustments to results (net)	154,693	122,090
Shareholdings consolidated using the equity method (results)	(1,003)	(806)
Results on disposal/impairment of non-current assets and financial instruments	48,593	45,282
Accrual of financial income	(5,027)	(6,526)
Accrual of financial expense	104,341	91,177
Transfer to provision/ excess provision for liabilities and charges	22,209	6,646
Attribution of subsidies and other	(14,420)	(13,683)
Changes in current capital	**(51,408)**	**52,250**
Other cash flows from operating activities:	**(144,119)**	**(229,620)**
Payment of interest	(100,207)	(88,934)
Collection of dividends	5,237	4,964
Collection of interest	568	2,120
Corporate income tax refunded/(paid)	(48,953)	(144,527)
Other payments received /(made) for operating activities	(764)	(3,243)
CASH FLOWS FROM INVESTMENT ACTIVITIES	**(2,249,299)**	**(705,660)**
Payments for investments	**(2,308,614)**	**(755,680)**
Property, plant and equipment, intangible assets and investment property	(2,306,745)	(754,737)
Other financial assets	(1,869)	(943)
Divestments	**1,471**	**342**
Other financial assets	1,471	342
Other cash flows from investment activities:	**57,844**	**49,678**
Other income from investing activities	57,844	49,678
CASH FLOWS FROM FINANCING ACTIVITIES	**1,428,303**	**33,543**
Payments received/(made) for equity instruments	**(9,927)**	**12,092**
Acquisition	(134,623)	(106,523)
Disposal	124,696	118,615
Payments received/(made) for financial liability instruments	**1,637,007**	**193,653**
Issue and placements	3,418,068	1,283,078
Redemption and write-off	(1,781,061)	(1,089,425)
Dividend payments and yields from other equity instruments	**(198,777)**	**(172,202)**
EFFECT OF EXCHANGE RATE VARIATIONS ON CASH OR CASH EQUIVALENTS	**536**	**(243)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,218**	**(1,797)**
Cash and cash equivalents at the start of the period	**14,068**	**15,865**
Cash and cash equivalents at the end of the period	**18,286**	**14,068**

(Notes 1 to 32 form an integral part of the consolidated financial statements)

Consolidated Report 2010

1. Activities of Group Companies

Red Eléctrica Corporación, S.A. (hereinafter the Parent Company or the Company) and its subsidiaries comprise the Red Electrica Group (hereinafter the Group or Red Electrica Group). The Group's primary activity consists of the transmission of electricity, the operation of the system and the management of the electricity transmission grid in Spain. These regulated activities are carried out by Red Eléctrica de España S.A.U. (hereinafter REE)

Schedule I provides details of the Parent Company's activities and domicile and its subsidiaries, as well as the Parent Company's direct or indirect stakes in dependent companies.

2. Basis of Presentation of the Consolidated Financial Statements

a) General information

The consolidated financial statements have been prepared by the Directors of the Parent Company to present fairly the consolidated equity and the consolidated financial position at 31 December 2010, the consolidated results of operations, and changes in consolidated equity and consolidated cash flows of the Group for the year then ended.

The historic cost approach has been applied when preparing these Consolidated Financial Statements, adjusted by the available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through changes in profit and loss and the taking into consideration of the recognition criteria for business combinations.

The consolidated financial statements are expressed in thousands of euro and have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with EC Regulation 1606/2002 of the European Parliament and Council and the interpretations (IFRIC) endorsed by the European Union.

All mandatory accounting principles which would have a significant effect on the preparation of these consolidated financial statements have been applied.

These consolidated financial statements, prepared by the Directors of the Company at the Board meeting held on 24 February 2011, have been prepared on the basis of the individual accounting records of the Company and other companies which comprise the Red Eléctrica Group (Schedule 1). The companies prepare their financial statements in accordance with the accounting principles in effect in the country where they operate. Therefore the consolidated financial statements include certain adjustments and reclassifications made to bring the accounting principles followed by the Group companies in preparing their financial statements into line with EU- IFRS. Similarly, the accounting policies of the consolidated companies are changed when it is necessary to ensure consistency with the accounting policies adopted by the Company.

The consolidated financial statements for 2009 were approved by the General Shareholders' Meeting of 20 May 2010. The Consolidated Financial Statements for 2010 are pending approval by shareholders at the Annual General Meeting. Nonetheless, the Company's Board of Directors considers that those consolidated financial statements will be approved without changes.

b) New EU-IFRS and IFRIC interpretations

The adoption of the new standards or amendments to existing standards and interpretations (IFRS 1, IFRS 2, IFRS 5, IFRS 3, IFRS 8, IAS 27, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38, IAS 39, IFRIC 12, IFRIC 15, IFRIC 16, IFRIC 17, IFRIC 18 and IFRIC 9) approved and published and which enter into force for years commencing in 2010 did not have any significant impact on these Consolidated Financial Statements.

The Group does not expect the new accounting standards, amendments to existing standards and interpretations (IAS 24, IAS32, IFRIC 14 and IFRIC 19) that enter into force no later than 1 January 2011 to have any significant impact on the Consolidated Financial Statements. In 2010 the Group chose not to apply any of these standards early.

c) Accounting estimates and assumptions

The preparation of the consolidated financial statements under IFRS requires Group management to make judgements, estimates and assumptions that affect the application of standards and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The consolidated financial statements for 2010 include the estimates of management of the Group and consolidated companies on the value of assets, liabilities, income, expenses and commitments recognised, which were subsequently ratified by the Board of Directors. These estimates mainly comprise:

- Estimated recovery of assets. The calculation of impairment of assets is based on discounted cash flows according to the financial projections used by the Group. The discount rate used is the weighted average cost of capital, taking into account the country- risk premium.
- Estimates of the useful lives of property, plant and equipment.

- Assumptions used in actuarial calculations.
- As a general rule, liabilities are accounted for when an obligation is likely to give rise to an indemnity or payment. The Group assesses and estimates the necessary amounts to be paid in the future, including additional amounts relating to income taxes, contractual obligations, the settlement of outstanding litigations or other liabilities. Those estimates are subject to interpretations of current events and circumstances, projections of future events and estimates of the financial effects of those events.

In addition, the Company has arranged insurance policies to cover possible third- party claims which may be filed in the ordinary course of its activities.

Although estimates were based on the best information available at 31 December 2010, future events may require these estimates to be modified (increased or decreased) in subsequent years. Any change in accounting estimates would be recognised prospectively in the corresponding consolidated income statement in accordance with IFRS.

d) Consolidation principles

Consolidation of the results generated by entities for which control was acquired during the year is carried out taking into consideration only those results relating to the period between the date of acquisition and the close of that year and are excluded from consolidation at the time such control ceases.

Details of the type of companies consolidated and the respective methods of consolidation are as follows:

- **Group companies**

  Subsidiaries are entities controlled by the Parent Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the Parent Company owns, directly or indirectly through subsidiaries, more than 50% of the voting rights. Control also exists when the Parent Company owns half or less of the voting rights of an entity where there is power over more than half of the voting rights by virtue of an agreement with other investors or where it has power to cast the majority of votes at the meetings of the Board of Directors and control of the entity is by that Board.

  The financial statements of subsidiaries are fully consolidated.

  The Group recognises any non-controlling stake in each business combination at the proportional part of the non-controlling stake in the identifiable net assets of the investee.

- **Jointly controlled entities**

  Jointly controlled entities are considered to be those that the parent company manages together with other companies.

  The financial statements of jointly controlled entities are consolidated using the proportional method.

  The Group consolidates jointly controlled entities using the proportional method, including assets, liabilities, revenues and expenses and cash flows on a line-by-line basis due to its stake in the jointly controlled company. The Group recognizes its share in the profits or loss deriving from the sale of Group assets to jointly controlled entities in its consolidated financial statements in the proportion corresponding to other participants. The Group does not recognize its share in the profits one loss of a jointly controlled entity deriving from the purchase by the Group of assets from the jointly controlled entity until the assets are sold to an independent third party. However, a loss is recognized immediately on a transaction if it reveals a reduction in the net realizable value of current assets, or any impairment loss.

- Associates

  Associates are entities over which the Company has significant influence but not control or joint control. Usually significant influence in an investee (direct or indirect) is when a company holds an interest equal to or more than 20% of the voting rights.

  Investments in associates are accounted for by the equity method of accounting, that is, at the percentage share in the equity of the associate once dividends received from the associate and other balances have been eliminated less impairment of individual shareholdings (in the event of transactions with associates the corresponding profit and loss should be eliminated to the extent of the Group's interest in the associate).

  Any excess of cost of acquisition over the fair value of identifiable net assets of the associate attributable to the Group on the acquisition date is considered as goodwill and recognised in the consolidated balance sheet under associates. If the cost of acquisition is less than the fair value of the part of the fair value of the identifiable net assets of the associate held by the Group on the acquisition date (i.e. discount on acquisition) the difference is recognised directly in the income statement in the period of acquisition.

Information on consolidated subsidiaries and associates of the Company, the consolidation or valuation methods applied in the preparation of the accompanying consolidated financial statements and other information are included in Schedule 1.

The financial year end closing dates of the financial statements of the subsidiaries and associates used in the consolidation process coincide with those of the Parent Company.

The operations of the Company and subsidiaries have been consolidated in accordance with the following basic principles:

- The accounting principles and criteria used by the Group companies have been brought into line with those used by the Parent Company.
- The financial statements of foreign companies have been translated by applying the year-end exchange rate at the date of the balance sheet for assets and liabilities and the average exchange rate for the period for income and expenses, and the historic exchange rate for capital and reserves.
- Exchange rate differences resulting from translation to euro are recognised in the consolidated balance sheet at the year end as a separate component of Equity named Conversion differences.
- All significant balances and transactions between fully consolidated companies have been eliminated in the consolidation.
- Margins on sales of capitalised goods and services between Group companies are eliminated when the relevant operations are carried out.

e) Comparability of information

Group management presents comparative information relating to 2009 in the accompanying consolidated financial statements. As is required by IFRS-EU, these consolidated financial statements for 2010 present, for the purposes of comparison, the figures relating to the previous year.

f) Changes in the scope of consolidation

On 17 May 2010 Red Eléctrica Corporación S.A. incorporation the wholly owned subsidiary REDCOR Reaseguros S.A., domiciled in Luxembourg and whose corporate purpose consists of designing and carrying out all the general and specific activities of a captive reinsurance company in all lines of business, except direct insurance transactions.

On 14 July 2010 Red Eléctrica Internacional S.A.U (hereinafter REI) incorporated (75%) together with AC Capitales SAFI S.A., the company Transmisora Eléctrica del Sur, S.A. (hereinafter TESUR), domiciled in Lima (Peru), whose main activity is the transmission of electricity and the operation and maintenance of electricity transmission networks.

On 31 August 2010 Transportadora de Electricidad S.A. (hereinafter TDE) sold the 75% stake it held in the company Cybercia S.R.L. (hereinafter CYB) for 150 thousand USD, and at that time the company ceased to consolidate with the Group.

On 17 June 2009 Red Eléctrica Corporación S.A. incorporated the wholly owned subsidiary Red Eléctrica Financiaciones, S.A.U., whose corporate purpose consists of issuing ordinary and unsubordinated debt instruments and the granting of loans and credit facilities to companies that pertain to Red Electrica Group at any given moment.

The investee company in which REI holds a 33.75% stake, Red Eléctrica del Sur S.A.(hereinafter REDESUR), adopted a resolution at the General Meeting on 22 April 2009 to merge with Red Internacional de Comunicaciones del Sur S.A. (hereinafter REDINSUR). The merger took effect on 1 July 2009.

3. Industry Regulation

Electricity sector in Spain

The electricity sector is regulated by Law 54/1997, of 27 November 1997, on the Electricity Sector, as partly amended by Law 17/2007, of 4 July 2007, by virtue of which REE was created.

According to Additional Provision Three of that law, all provisions concerning the system operator and transmission grid manager of the Electricity Sector Law are applicable to REE.

The following should be noted with respect to these activities:

- The Law on the Electricity Sector recognises that electricity transmission is a natural monopoly due to the economies of scale provided by the single grid. The deregulation of transmission is arranged through generalised third-party access to the grid, which is available to the various parties to the electricity system and consumers in exchange for the payment of access tariffs. The compensation for this activity is set by law and fundamentally by Royal Decrees 2819/1998 and 325/2008.
  In addition, in order to bring the sole transmission operator function into effect, the Law lays down that companies owning transmission facilities should transfer these facilities to the Company within a maximum of three years after the law takes effect. In 2010 the comply with that legislation, REE concluded plant acquisition contracts with Endesa Distribución Eléctrica, S.L., Unión Fenosa Distribución S.A.U., and Hidrocantábrico Distribución Eléctrica, S.A.U.
- In the performance of its Spanish electricity system operator activities, the REE's main function is to ensure the continuity and security of electricity supply and the correct coordination of the production and transmission system, by carrying out its functions in coordination with the operators and players of the Mainland Electricity Energy Market under principles of transparency, objectivity and independence. The Company has also been assigned the functions of settlement,

communication of payments and collections and the management of guarantees related to the guarantee of supply and the effective diversion of generation and consumption units. REE is also responsible for the short-term energy exchanges that are intended to maintain supply quality and security conditions.

Furthermore, REE has also been attributed the operation of the island and off- mainland electricity systems in the Balearic Islands, Canary Islands, Ceuta and Melilla.

- In its capacity as manager of the transmission grid, REE is in charge of the development and extension of the high voltage network, and must ensure that it is maintained and improved in accordance with consistent and coherent criteria. It is also responsible for the administration of power transmission between external systems using the Spanish grid, as well as withholding access to the grid when capacity is insufficient.

International electricity sector

The Red Eléctrica Group, through REI, has investments in the electricity sector internationally, namely, in Bolivia and Peru.

Both of these countries have deregulated their electricity industry and use a regulation model supported by regulated tariffs for transmission.

4. Accounting Principles

The main accounting principles used in the preparation of these consolidated financial statements, applied uniformly to the years presented, are as follows:

a) Property, plant and equipment

Property, plant and equipment mainly comprise electricity plants which are measured, as appropriate, at production or acquisition cost. Cost includes, where applicable, the following items:

- Finance costs on external financing solely accrued during the construction period.
- Operating costs, directly related to the construction of property, plant and equipment in projects controlled or managed by Group companies.

It is the policy of Group companies to transfer work in progress to property, plant and equipment in operation once it is brought into service and provided that the assets are in condition for use.

Enlargement or improvement expenses which lead to an increase in productivity or capacity or lengthen the useful lives of the assets are stated as an increase in the carrying value of the asset.

Repair and maintenance costs of property, plant and equipment which do not increase productivity, do not improve performance or lengthen its useful life are recognised in the consolidated income statement when incurred.

Property, plant and equipment are depreciated on a straight-line basis over its estimated useful life, which reflects the period in which the companies expect to use the asset, applying the following rates:

	Annual rate
Buildings	2%-10%
Electricity plants	2.5%-7.14%
Other plant, machinery, tooling, furnishings and other assets	4%-25%

Most of the plant, machinery and equipment relates to electricity installations that are mainly depreciated at a rate of 2.5%.

The residual value and useful life of assets is examined and adjusted, if necessary, at the date of each balance sheet.

When an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount.

b) Intangible assets

Intangible assets are stated at acquisition cost and tested and adjusted on a regular basis for impairment. The assets included under this heading are as follows:

- **Computer software**

  Software licences are capitalised based on their acquisition cost and preparation for use.

  The costs relating to the maintenance of computer programs are recognized as an expense when incurred. Software is amortised on a straight-line basis over a period of between three and five years from the installation date of each program.

- **Development expenses**

  Development expenses directly attributable to the design and testing of new or improved software that can be identified and are unique and may be controlled by the company are recognised as intangible assets when it is likely that the project will be successful, taking into consideration its technical and commercial viability and the costs may be reliably estimated. The expenses that do not comply with these criteria are recognised as an expense at the time they are incurred. Development costs are capitalised and amortised on a straight-line basis over a period not exceeding five years from commencement of the project. The costs relating to the maintenance of computer programs are recognized as an expense when incurred.

c) Investment property

Group companies measure investment property at acquisition cost. The market value of the Group's investment property is broken down in Note 7 to the accompanying consolidated financial statements.

Investment property is depreciated on a straight-line basis over its estimated useful life, which reflects the period in which the companies expect to use the asset.

d) Financial assets

The Group classifies financial assets, except those investments accounted for using the equity method, in the following three categories:

- **Loans and receivables**: are non-derivative financial assets with fixed or determinable payments which are not listed on an active market and with respect to which there is no intention to trade in the short term. They are classified as current assets except for assets maturing in more than 12 months of the balance sheet date which are classified as non-current assets.

  Loans are initially recognised at fair value, including transaction costs incurred on inception and subsequently measured at amortised cost. Amortised cost mainly comprises the amount extended less any repaid principal, plus accrued interest receivable.

  Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. Furthermore, current advances generally deriving from multi-year contracts or commitments are considered accounts receivable and taken to the income statement over the period during which such contracts or commitments are in effect.

- **Available-for-sale financial assets**: these are investments which the Company intends to hold for an unspecified period of time and which may be sold, on the basis of specific liquidity needs or changes in interest rates. They are classified as non-current assets unless their liquidation is planned in less than one year and this is feasible. These financial assets are stated at fair value, which is understood to be their quoted price at the yearend for those securities quoted on an active market. The gains or losses resulting from fluctuations in fair value at the yearend are recognised directly in equity and accumulated to the time of settlement or adjustment of value owing to impairment, at which time they are taken to the income statement. The calculation of possible impairment is done using the method of discounting expected future cash flows. A significant or prolonged fall in the listed value of securities below their cost is also considered to be evidence that the asset is impaired.

Dividends from shareholdings in capital classed as available for sale are taken to the consolidated income statement at the time the Company becomes entitled to receive them.

- **Cash and cash equivalents:** El Efectivo y equivalentes de efectivo incluye el efectivo en caja, los depósitos a la vista en entidades de crédito y otras inversiones a corto plazo con vencimientos inferiores a tres meses.

The fair value appraisals are classified using a fair value hierarchy that reflects the relevance of the variables used to obtain the valuations. This hierarchy consists of three levels:

- Level 1: Measurements based on the listed price of identical instruments on an active market.
- Level 2: Measurements based on variables that are observable with respect to assets and liabilities.
- Level 3: Measurements based on variables that are not based on observable market data.

e) Inventories

Inventories of materials and replacement parts are measured at the lower of acquisition cost, which is determined using the lower of the average weighted price method and net realisable value. Group companies review the net realisable value of inventories at each year end, recognising value adjustments as an expense in the income statement when their cost exceeds market value or where doubts exist over their use. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed and is recognised as revenue in the income statement.

f) Asset impairment

Group companies analyse the recoverability of assets at the yearend each year and whenever some event or change in circumstances indicates that the carrying value may not be recoverable. If the recoverable amount of an asset is less that its carrying value, an impairment loss is recognised immediately in the income statement. The impairment loss is therefore the difference between the carrying value of an asset and its recoverable value. The recoverable amount is the fair value of an asset, less the higher of costs incurred for its sale or its value in use. The calculation of the recoverable value is based on expected cash flows. Impairment is calculated for individual assets if the recoverable value of the individual asset cannot be determined the recoverable value of the Cash Generating Unit to which the asset pertains will be determined. Possible reversals are recognised in the income statement. Losses from impairment recognised in goodwill are not reversed in subsequent years.

g) Share capital and dividends

Share capital is represented by ordinary shares. The issue costs of new shares, net of taxes, are deducted from equity.

The interim dividend reduces equity for the year to which it relates, on the basis of the resolution of the Board of Directors. Complementary dividends are not charged to equity until approved by the shareholders at their Annual General Meeting.

h) Subsidies

Outright capital grants received from government agencies to finance the acquisition of assets are recorded by the Group, once the relevant investments have been made and it is assured that the grant will be received.

The Group recognises subsidies under non-financial subsidies in the income statement for each year over the term in which depreciation of the related asset is charged.

i) Non-current advances

Non-current advances generally received in connection with multi-year contracts or commitments are taken to net revenues or other gains on a straight-line basis over the term of the contracts or commitments.

j) Provisions

- **Employee benefits**
  - Pension commitments

    The Group has defined contribution plans establishing the pension amounts employees receive upon retirement, normally based on one or more factors such as age, length of service or remuneration. Under the defined contribution plan, the Group pays set contributions to an external entity and has no legal or implicit obligation to make further contributions if the fund lacks sufficient assets to satisfy payments to employees for services rendered in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

  - Other long-term employee benefits

    Other long-term employee benefits include defined benefit plans providing benefits other than pension plans, such as medical insurance, to part of the active and retired employees of the parent company and REE. Expected costs of benefits are recognised over the term of employment of personnel and are recorded under Provisions. These commitments are measured annually by qualified independent actuaries. The changes in the actuarial assumptions are recognised, net of taxes, under equity as Reserves in the year in which they arise and the cost of past services are recognised in the income statement.

    Long-term compensation programs are also included and measured on an annual basis. This heading also includes length of service awards at the Bolivian company TDE. These commitments are measured annually by qualified independent actuaries. Changes in the value of length of service awards at the Bolivian company TDE due to changes in the actuarial assumptions used are charged or credited to the income statement as soon as they arise.

- **Other provisions**

  The Group makes provisions for the amount required to settle present contractual obligations, legal or implicit, deriving from past events provided that the Group expects that it will probably have to settle them through the outflow of resources and the amount involved can be reliably estimated. Provision is made when the liability or commitment is incurred.

  Provisions are valued at the present value of the cash outflows which are expected to be necessary to settle the obligation using a rate before taxes which reflects the current market assessment of the temporary interest rate and specific risks of the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

k) Borrowings

Borrowings, obligations and similar items are recognised initially at fair value, net of the transaction costs incurred. In subsequent periods, these financing obligations are valued at amortised cost, using the effective interest rate method, except for those transactions for which hedging has been arranged.

Borrowings are classed as current liabilities unless they mature in more than 12 months from the balance sheet date, in which case they are recognised as non-current assets.

l) Foreign currency transactions

Foreign currency transactions are translated into euro using the exchange rate prevailing at the date of the transaction. Differences between the value at which foreign currency balances were recorded and the exchange rate prevailing at the date of collection or payment are recognised in the consolidated income statement.

Fixed-income securities and credits and debits in foreign currency at 31 December are translated to euro at the closing exchange rate. Foreign exchange differences arising on translation are taken to exchange gains and losses in the consolidated income statement, as appropriate.

Operations in foreign currency which the Group has hedged using financial derivatives or other hedging instruments are stated according to the principles described in Derivative instruments and hedges.

m) Financial derivatives and hedging operations

Financial derivatives are initially recognised at fair value at the contract date (acquisition cost) in the consolidated balance sheet and subsequently the gain or loss on measurement to fair value is accounted for. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged.

The total fair value of derivatives is classified as non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months and as current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months.

A hedge is considered to be highly effective when the changes in fair value or in the cash flows for the hedged items are offset by the change in fair value or in the cash flows of the hedge instrument within a range of between 80% to 125%.

The Group classifies some derivatives as hedging the fair value of assets or liabilities recognised as a firm commitment (fair value hedge) or as hedges of highly foreseeable transactions (cash flow hedge) or as net investment hedges on foreign operations.

The Group documents the relation between the hedging instruments and the assets or liabilities hedged at inception, as well as the purpose of the risk management and the strategy to carry out hedging transactions. The Group also documents its evaluation, at the start as well as on a continuous basis, of whether or not the derivatives used in the hedging transactions are highly effective to offset changes in fair value or in the cash flows relating to the hedged items.

The fair value of the derivative instruments used for hedging purposes are shown in Note 18. Movements under equity are set out in Note 12.

- For cash flow hedges, the effective part of changes in fair value of the derivatives which are designated and classed as cash flow hedges is recognised in equity. The gain or loss on the non-effective part is recognised directly in the consolidated income statement.
- For fair value hedges, changes in the fair value of derivatives designated as hedges are recognised in the consolidated income statement. Similarly, changes in the fair value of the hedged item in relation to the risk hedged are also recognised in the consolidated income statement. Therefore hedge accounting accelerates the recognition of income and expense of the hedged item in order to offset the effect of the derivative on the income statement.
- Net investment hedges on foreign operations are recorded in a similar manner to cash flow hedges. Any gain or loss on the hedge related to the effective part of the hedge is recognised in equity. The gain or loss on the non-effective part is recognised directly in the consolidated income statement. Accumulated gains and losses in equity are included in the income statement when the foreign operation is sold.

When a hedging instrument matures or is sold or when the requirements for its accounting as a hedge are not met, the gain or loss accumulated to such time in equity continues to be recorded in equity and is recognised as and when changes in the cash flows from the hedged item are recognised in the consolidated income statement. When the forecast transaction is not expected to arise, the accumulated gain or loss in equity is recognised in the consolidated income statement.

The market price of different financial derivative instruments is calculated as follows:

- The fair value of derivatives quoted on official markets is measured at its closing quotation price.

For derivatives not quoted on organised markets, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, relating to other instruments that are substantially the same, discounted cash flow analysis at the market interest and exchange rates in force on the presentation date, and option pricing models refined to reflect the issuer's specific circumstances.

n) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Payables falling due in less than one year and do not bear a contractual interest rate, that are expected to be paid in the short-term are measured at their nominal value.

o) Income and expense

Ordinary revenues are recognised at the fair value of the compensation received or to be received. Income and expenses are recorded on an accruals basis, i.e. when the actual flow of goods or services takes place regardless of the time the monetary or financial flow deriving there from takes place.

Where the Parent Company acts as an intermediary in international exchange, purchases and sales of electricity are made on account of the system and the Company receives a margin for the intermediation activity which is recorded under services rendered in the consolidated income statement.

Interest income is recognised using the effective interest rate method.

Income from dividends is recognised when the collection right is established.

p) Tax situation

Income tax expense /(income) for the year comprises current and deferred tax. Income tax, both current and deferred, is recognised in the income statement and in determining net profit or loss for the year, except if it relates to items recognised directly in equity or a business combination.

Current tax is the estimated tax payable on taxable income for the year using tax rates prevailing at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deductions and credits relating to economic events arising in the year are recorded as a reduction in the accrued income tax expense unless there are doubts as to their realisation.

Deferred tax and the corporate income tax expense are calculated and accounted for using the liability method, on timing differences between assets and liabilities for financial reporting purposes and the amounts used for tax purposes. This method comprises the determination of deferred tax assets and liabilities for differences between the carrying value of assets and liabilities at the amounts for tax purposes, using tax rates which are expected to come into effect when these tax assets are realised and tax liabilities are settled.

Deferred tax assets are recognised insofar as future tax profits will probably arise against which to offset the temporary differences.

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

q) Earnings per share

Earnings per share are calculated on the net profit attributable to the Parent company and a weighted average number of ordinary shares outstanding during the year, excluding the average number of Parent Company shares held.

In the case of the consolidated financial statements of the Red Eléctrica group at 31 December 2010 and 2009, basic earnings per share agree with diluted earnings since there have been no operations during those years which may change this figure.

r) Insurance

The Red Eléctrica Group has contracted various insurance policies to cover the risks to which companies are subject through their activities. These risks mainly comprise damages to the Group companies' electricity plants and potential claims for third party damages which could arise from the Group's activities. Insurance premium income and expenses are recognised in the consolidated income statement on an accruals basis. Income to be recovered from insurance companies deriving from claims is reflected in the consolidated income statement using the matching principle.

s) Environment

Expenses deriving from business actions taken to protect and improve the environment are recorded as an expense in the year incurred. When they relate to acquisitions of property, plant and equity the purpose of which is to minimise the environmental impact and protect and improve the environment, they are recorded as an increase in the value of fixed assets.

t) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their value will be recovered mainly through their sale, provided that their sale is considered to be highly likely. These assets are measured at the lower of their carrying value and their fair value, less selling costs if the carrying value will be recovered mainly through a sales transaction instead of through continued use.

u) Share-based payments

The Parent Company, REE and REI have implemented a share acquisition plan under which managers are able to receive shares from the Company as part of their ordinary annual remuneration. The valuation of such share-based remuneration is based on the closing price of the Company's share at the time of delivery. The expense deriving from this plan is reflected under Personnel costs in the consolidated income statement. All shares delivered derive from the Parent company's treasury shares.

5. Intangible Assets

Movements in 2010 and 2009 in intangible assets and accumulated amortisation are as follows:

Grupo Red Eléctrica

Movements in Intangible Assets 2010 and 2009 (thousand euro)

	31 December 2008	Additions	Changes in exchange rate	Disposals reductions and write-offs	31 December 2009	Additions	Changes in scope	Changes in exchange rate	31 December 2010
COST									
Development expenses and software	39,551	393	(53)	(25,263)	14,628	2,276	(76)	115	16,943
Total Cost	**39,551**	**393**	**(53)**	**(25,263)**	**14,628**	**2,276**	**(76)**	**115**	**16,943**
ACCUMULATED AMORTISATION									
Development expenses and software	(36,678)	(1,276)	47	25,263	(12,644)	(1,329)	74	(101)	(14,000)
Total accumulated amortisation	**(36,678)**	**(1,276)**	**47**	**25,263**	**(12,644)**	**(1,329)**	**74**	**(101)**	**(14,000)**
Net value	**2,873**	**(883)**	**(6)**	**-**	**1,984**	**947**	**(2)**	**14**	**2,943**

Operating expenses directly related to intangible assets capitalised in 2010 amount to €418 thousand (€377 thousand 2009).

6. Property, Plant and Equipment

The movement in 2010 and 2009 in property, plant and equipment and the relevant accumulated depreciation and impairment is as follows:

Grupo Red Eléctrica

Movements in property, plant and equipment 2010 and 2009 (thousand euro)

COST	31 December 2008	Additions	Changes in exchange rate	Disposals reductions and write-offs	Transfers	31 December 2009	Additions	Changes in scope	Changes in exchange rate	Disposals reductions and write-offs	Transfers	31 December 2010
Land and buildings	64,738	109	(259)	(99)	11,729	76,218	-	-	539	-	337	77,094
Electricity plant	6,870,785	30,940	(5,890)	(655)	462,930	7,358,110	1,440,777	-	13,449	(750)	591,399	9,402,985
Other plant, machinery, tooling, furnishings and other assets	114,607	128	(60)	(15,644)	13,792	112,823	135	(19)	211	(130)	12,519	125,539
Electricity plants in progress	740,451	584,356	(70)	(3)	(447,034)	877,700	709,179	-	173	(54)	(526,343)	1,060,655
Prepayments and property, plant and equipment under construction	135,316	142,760	(15)	-	(41,417)	236,644	156,463	-	-	(52)	(77,912)	315,143
Total Cost	**7,925,897**	**758,293**	**(6,294)**	**(16,401)**	**-**	**8,661,495**	**2,306,554**	**(19)**	**14,372**	**(986)**	**-**	**10,981,416**
ACCUMULATED DEPRECIATION												
Buildings	(14,250)	(1,333)	97	165	-	(15,321)	(1,312)	-	(184)	-	-	(16,817)
Electricity plant	(2,623,265)	(253,581)	3,132	304	-	(2,873,410)	(293,412)	-	(6,902)	559	-	(3,173,165)
Other plant, machinery, tooling, furnishings and other assets	(91,086)	(8,505)	54	15,524	-	(84,013)	(8,979)	15	(144)	126	-	(92,995)
Total accumulated depreciation	**(2,728,601)**	**(263,419)**	**3,283**	**15,993**	**-**	**(2,972,744)**	**(303,703)**	**15**	**(7,230)**	**685**	**-**	**(3,282,977)**
Value impairment	**(23,263)**	**(45,300)**	**-**	**-**	**-**	**(68,563)**	**(18,625)**	**-**	**(3,339)**	**-**	**-**	**(90,527)**
Net value	**5,174,033**	**449,574**	**(3,011)**	**(408)**	**-**	**5,620,188**	**1,984,226**	**(4)**	**3,803**	**(301)**	**-**	**7,607,912**

The main additions in 2010 and 2009 relate to the electricity transmission grid in Spain. Additions during the year include the acquisition by REE, in accordance with Transitional Provision Nine of Law 17/2007 (4 July), of certain assets forming part of the transmission grid from Endesa Distribución Eléctrica, S.L. for €1,412,128 thousand, from Unión Fenosa Distribución, S.A.U. for €46,922 thousand and from Hidrocantábrico Distribución Eléctrica, S.A.U. for €57,804 thousand. The transfer affects both island energy transmission grids (Canary and Balearic Islands) and assets forming part of the transmission grid in mainland Spain.

In 2010 companies capitalised finance expenses of €25,121 thousand as an increase in property plant and equipment (€21,069 thousand in 2009).

Operating expenses directly related to construction in progress of property, plant and equipment capitalised in 2010 amount to €17,626 thousand (€15,863 thousand in 2009).

In 2010 the change in the heading Impairment mainly records the value adjustment applied to REI's cash generating units (hereinafter CGUs) totalling €13.9 million (€45.1 million in 2009) and the impairment of REE´s plant, property and equipment totalling €4.7 million due to the stoppage of construction work beyond the control of REE (€0.2 million in 2009). REI's CGU impairment has been estimated based on their value-in-use and was calculated with the assistance of independent experts. The estimate was based on the measurement carried out on 31 December 2010, reaching the conclusion that the carrying value of the CGUs exceeded their recoverable amount and therefore an impairment loss was recognised. To calculate value-in-use the effective cash flow method was used and various scenarios were examined to which probabilities were assigned:

a) The value-in-use in the base scenario calculated using the discounted cash flow method using a discount rate: 16.28% and growth in line with market development, taking into consideration flows up until 2024, which is the end of the estimated projection period. The residual value has been calculated as the present value of the regulatory asset updated until the end of 2024.

b) A scenario relating to the realisable value, using market methods. (Supported by comparable transactions and measurements prepared by analysts.

c) Market scenarios relating to the realisable value that reflect the current situation of the market and the CGUs. In 2010 new market scenarios have arisen that allow the estimates made to be more precisely quantified.

The key assumptions included in the cash flows are the value of the regulatory asset, inflation, residual value and the exchange rate, and the latter is the most sensitive.

Impairment losses for the year have been distributed proportionally over the individual assets that form part of REI's CGUs, as follows:

(million euro)	31 December 2009	31 December 2010
Electricity plants	41.4	12.7
Other	3.7	1.2
Total Impairment	**45.1**	**13.9**

7. Investment Property

Movements in 2010 and 2009 in investment property owned by the Group are described below:

Grupo Red Eléctrica
Movements in investment property 2010 and 2009 (thousand euro)

COST	31 December 2008	Altas	Bajas	31 December 2009	Altas	Bajas	31 December 2010
Investment property	2,736	-	(427)	2,309	-	-	2,309
Total Cost	**2,736**	**-**	**(427)**	**2,309**	**-**	**-**	**2,309**
ACCUMULATED DEPRECIATION							
Investment property	(280)	(32)	161	(151)	(32)	-	(183)
Total accumulated depreciation	**(280)**	**(32)**	**161**	**(151)**	**(32)**	-	(183)
Net Value	**2,456**	**(32)**	**(266)**	**2,158**	**(32)**	**-**	**2,126**

Investment property have a market value of at least €3 million and do not generate any significant operating revenues or expenses.

8. Investments Accounted for Using the Equity Method

Movements in 2010 and 2009 in investments accounted for using the equity method are as follows:

Grupo Red Eléctrica
Movements in investments recognised using the equity method 2010 and 2009 (thousand euro)

	31 December 2008	Equity method	Dividends	Differences on exchange	Other	31 December 2009	Equity method	Dividends	Differences on exchange	Other	31 December 2010
REDESUR	4,941	806	(370)	(252)	(79)	5,046	1,003	(778)	389	97	5,757
	4,941	**806**	**(370)**	**(252)**	**(79)**	**5,046**	**1,003**	**(778)**	**389**	**97**	**5,757**

The balances recorded by REDESUR for 2010 and 2009 for assets, liabilities, ordinary revenues and results for the year are as follows:

(thousand euro)	2010	2009
Assets	41,856	40,535
Liabilities	25,167	25,989
Ordinary revenues	10,514	9,987
Profit for year	2,971	2,387

9. Other Non-Current Assets

At 31 December 2010 other non-current assets totalled €49,482 thousand and relate to the 4-year Technical Assistance Availability agreement concluded with Endesa Distribución Eléctrica, S.L. for a total of €66,000 thousand.

10. Inventories

Details of inventories at 31 December 2010 and 2009 in the accompanying consolidated balance sheet are as follows:

(thousand euro)	2010	2009
Inventories	55,900	53,147
Value adjustments	(12,112)	(9,150)
	43,788	**43,997**

11. Trade and other Receivables

The breakdown at 31 December 2010 and 2009 of Trade and other receivables in the accompanying consolidated balance sheet is as follows:

(thousand euro)	2010	2009
Receivables for sales and services rendered	30,680	24,295
Other receivables	370,716	310,649
Current tax assets	11,068	29,835
	412,464	**364,779**

In 2010 and 2009 other receivables mainly comprise amounts pending invoicing and / or receivable in respect of electricity transmission and system operation activities. This heading also includes prepayments to creditors, trade receivables and VAT amounts refundable to the Group. At 31 December 2010 the balance under Other receivables includes €66 million in VAT refundable to the Group, mainly due to the input VAT paid on the acquisition of transmission assets (Note 21).

At 31 December 2010 and 2009 current tax assets mainly consist of corporate income tax refundable as a result of the accelerated depreciation of certain Group assets in accordance with the provisions of Law 4/2008 (Note 21).

12. Equity

Capital risk management

The Group's objectives in relation to capital management are to safeguard its capacity to continue as a going concern, secure a return for shareholders, maintain an optimal capital structure and reduce costs.

In order to maintain or adjust the capital structure, the Group could adjust the amount of the dividends payable to shareholders, reimburse capital to shareholders or issue new shares.

The Group monitors capital in accordance with the financial leverage ratio in line with general practice in the sector. This ratio is calculated as net financial debt divided between net assets (understood as the Group's equity plus net financial debt). The net financial debt is calculated as follows:

(thousand euro)	2010	2009
Long-term borrowings	3,695,291	2,919,513
Short-term borrowings	1,041,931	151,978
Deriving from exchange rate	37,665	64,784
Cash and equivalents	(18,286)	(14,068)
Net financial debt	**4,756,601**	**3,122,207**
Equity	**1,624,554**	**1,439,226**
Leveraging ratio	**74.5%**	**68.4%**

The credit rating granted by Moody's and Standard & Poors has remained consistent in 2010 at A2 and AA, respectively.

Equity attributed to the parent company

Equity

- **Share capital**

  At 31 December 2010 and 2009 the share capital of the Parent Company comprises €135,270,000 fully subscribed and paid- in bearer shares, with a par value of €2 each which carry equal voting and dividend rights. The Parent Company's shares have been listed on the four Spanish stock exchanges.

  In accordance with Law 17/2007 any natural or legal person may be a company shareholder, provided that the sum of direct or indirect stakes in the Company's capital does not exceed 5% and they do not give rise to voting rights exceeding 3%. These shares cannot be syndicated for any purpose. In the case of entities that carry out activities in the Electricity Sector and those natural or legal persons that hold a direct or indirect stake exceeding 5%, they cannot exercise voting rights exceeding 1% with respect to the company responsible for operating the system. These shareholding limitations with respect to the Parent Company are not applicable to SEPI, (Government Industrial Investment Company) which will, in any event, hold a shareholding of at least 10%. At 31 December 2010 SEPI held 20% of share capital.

- **Reserves**

  This heading includes:

  - Legal reserve

    Companies in Spain are obliged to transfer 10% of profits each year to the legal reserve until this reserve reaches an amount of at least 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses in the event that no other reserves are available. Under certain conditions it may be used to increase share capital. At 31 December 2010 and 2009 it amounts to €54,199k.

  - Other reserves

    This heading includes the voluntary reserves of the Parent Company, reserves in consolidated companies and first application reserves. All of these items are freely available. At 31 December 2010 these reserves total €752,701 (€619,802 thousand in 2009).

    The heading also records the reserves required by law, which total €264,546 thousand and among them the Property, plant and equipment restatement reserve generated in 1996 by the parent company is notable at €247,022 thousand (This reserve may be used, without being subject to taxation, to offset losses, increase share capital or be transferred to freely available reserves after 10 years have elapsed, in accordance with the provisions of Royal Decree - Law 2607/1996).

- **Treasury shares**

At 31 December 2010 the Parent Company holds treasury shares representing 0.49% of the Parent Company's share capital and amounting to 667,511 shares, with an overall par value of €1,335 thousand and an average acquisition price of €34.90 per share (at 31 December 2009, 341,865 shares, which represented 0.25% of share capital, with an overall par value of €684 thousand and an average acquisition price of €34.48 per share).

Such shares are carried by reducing the Group's equity at 31 December 2010 by €23,297 thousand (€11,789 thousand in 2009).

The Parent Company has complied with the requirements of Article 146 of the Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries must not exceed 10% of the share capital. The subsidiaries do not hold treasury shares or shares in the Parent Company.

- **Results for the year attributable to the parent**

Profits in 2010 totalled €390,150 thousand (€330,402 thousand at 31 December 2009).

- **Interim dividends and proposed distribution of Parent Company dividends -**

Interim dividends approved by the Board of Directors in 2010 and 2009 are recorded as a decrease in Group equity at 31 December 2010 and 2009, respectively.

On 16 December 2010 the Board of Directors of the Parent Company agreed to pay an interim dividend against 2010 profits amounting to a gross amount of €0.5882 per share, which was payable as from 3 January 2011 (€0.5115 per share on account from 2009 profits). The interim dividend approved at 31 December 2010 totals €79,173 thousand (€69,016 thousand in 2009) (Note 17).

Dividends paid during 2010 and 2009 are as follows:

	2010			2009		
	% of nominal	Euros per share	Amount (thousand euro)	% of nominal	Euros per share	Amount (thousand euro)
Ordinary shares	**73.91%**	**1.4781**	**198,777**	**63.99%**	**1.2797**	**172,202**
Total dividends paid	73.91%	1.4781	198,777	63.99%	1.2797	172,202
Dividends charged against results	**73.91%**	**1.4781**	**198,777**	**63.99%**	**1.2797**	**172,202**

The Parent Company's Board of Directors has also proposed to the shareholders at their Annual General Meeting the distribution of a complementary dividend of €1.2869 per share, bringing the total dividend in 2010 to €1.8751 per share (€1.4781 per share in 2009).

Adjustments due to changes in value

- **Available-for-sale financial assets**

  This heading records the changes in value deriving from available-for-sale financial instruments, mainly due to variations in the listed price of the shares relating to the 5% stake held by the Company in Redes Energéticas Nacionais, SGPS, S.A. (hereinafter REN). At 31 December 2010 there is objective evidence of the impairment of the investment in REN and the accumulated loss, measured at the difference between the acquisition price and fair value, has been eliminated from equity and recognised in the income statement, which showed a balance of zero at 31 December 2010.

- **Hedging operations**

  This heading includes variations resulting from derivative financial instruments. At 31 December 2010 this heading reflects a negative balance of -€312 thousand (positive balance of €711 thousand in 2009).

- **Differences on conversion**

  This heading includes translation differences in respect of foreign subsidiaries (mainly the Bolivian company TDE), which at 31 December 2010 amount to €-6,525 thousand (€7,125 thousand in 2009).

Minority interests

Minority interests recorded under equity in the accompanying consolidated balance sheet reflects the shareholding of minority shareholders in the companies TESUR and TDE. At 31 December 2010 this balance totals €1,725 thousand (€61 thousand 2009).

13. Subsidies and Other

Movements in subsidies in 2010 and 2009 are as follows:

Grupo Red Eléctrica

Movements in subsidies and other non-current early payments received 2010 and 2009 (thousand euro)

	31 December 2008	Additions	Disposals and Applications	31 December 2009	Additions	Disposals and Applications	31 December 2010
Subsidies and other non-current early payments received	280,776	49,674	(9,273)	321,177	57,966	(10,382)	368,761
	280,776	**49,674**	**(9,273)**	**321,177**	**57,966**	**(10,382)**	**368,761**

The heading Subsidies and other mainly includes the amounts received by REE to build electricity facilities and revenue deriving from the agreements relating to the building of electricity facilities. They are released to income for the year over the useful lives of the relevant facilities and are recorded under Non-financial asset subsidies and Other in the consolidated income statement.

In 2010 REE received a grant from the European Commission for REE's participation in the electricity connection project between Spain and France, which it is carrying out together with Réseau de Transport d'Électricité (RTE), through INELFE. The grant is for a maximum amount of €112.5 million, of which €33,750 thousand was received in 2010.

14. Non-Current Provisions

Movements in this heading in the consolidated balance sheet in 2010 and 2009 are as follows:

Grupo Red Eléctrica

Movement in provisions 2010 and 2009 (thousand euro)

	31 December 2008	Additions	Applications	Transfers	Reversals and differences on exchange	31 December 2009
Commitments with personnel	20,524	3,248	(637)	(381)	3,343	26,097
Other provisions	25,306	7,037	(5,168)	-	-	27,175
	45,830	**10,285**	**(5,805)**	**(381)**	**3,343**	**53,272**

	Additions	Applications	Transfers	Changes in scope	Reversals and differences on exchange	31 December 2010
Commitments with personnel	5,658	(548)	(248)	(56)	64	30,967
Other provisions	25,175	(85)	-	-	(7,480)	44,785
	30,833	**(633)**	**(248)**	**(56)**	**(7,416)**	**75,752**

The heading Commitments with personnel mainly records future commitments, primarily consisting of medical insurance, assumed by REE with respect to its employees at the time of retirement, calculated based on independent actuarial studies.

In 2010 and 2009 additions result mainly from the annual accrual and development of the actuarial assumptions used. These additions are recorded as Personnel expenses or Financial expense, based on their nature, and under Reserves when there are changes in actuarial assumptions in the case of the obligations deriving from medical insurance and the income statement in the case of obligations deriving from length of service or past service awards. Personnel expenses recognised in 2010 in the consolidated income statement total €2,395 thousand (€1,064 thousand in 2009), the amount of financial expenses recognised in 2010 in the income statement totals €1,126 thousand (€994 thousand in 2009) and the amount of Reserves recognised in 2010 totalled €666 thousand net of taxes (€1,404 thousand in 2009).

The effect that a one percentage point change in the cost of medical insurance is as follows:

(thousand euro)	2010		2009	
	+1%	-1%	+1%	-1%
Cost of current year services	273	(195)	250	(179)
Interest expense on post-employment health costs - net	13	(8)	13	(8)
Accumulated obligations for post-employment benefits deriving from medical insurance	5,356	(3,880)	5,881	(4,360)

Details of the actuarial assumptions used by the Parent Company and REE in 2010 to make these provisions are as follows:

	Actuarial assumptions
Discount rate	4.56%
Growth cost	4.0%
Survival table	PERM/F 2000 New production

The heading Other provisions mainly records the amounts provided each year by Group companies to cover the possible unfavourable outcome of third-party claims.

The heading Other provisions mainly records the amounts provided each year by the Company to cover the possible unfavourable outcome of third-party claims.

Additions in 2010 mainly relate to the provisions made for the reported penalty procedures received by the Company initiated by several Autonomous Regions. The Company has filed allegations against these procedures and evaluations used by the inspectors in those case files.

In 2009 the Company was the subject of lawsuits by Endesa Distribución Eléctrica and Banco Vitalicio de España Compañía anónima de Seguros y Reaseguros, claiming damages for the fire in Barcelona in July 2007 totalling €49,411 thousand and €15,822 thousand, respectively. The claims and the amounts are covered by the Company´s insurance policies and they are not expected to result in any financial harm for the Company.

15. Other Non-Current Liabilities

Other non-current liabilities mainly includes revenues from the agreements concluded with several telecommunications operators for the assignment of the use of the telecommunications network, which end between 2016 and 2027 and total €57,850 thousand at 31 December 2010 (€61,907 thousand at 31 December 2009). This heading also includes non-current liabilities deriving from the compensation paid by Électricité de France (hereinafter EDF), by virtue of the agreement to adapt electricity supply contracts concluded on 8 January 1997, totalling €23,625 thousand at 31 December 2010 (€23,625 thousand at 31 December 2009), and since they are multi-year agreements they are subject to the condition that a facility be completed, which had not been completed at 31 December 2010.

16. Financial Risk Management Policy

The Group's financial risk management policy establishes principles and guidelines to ensure that the relevant risks which could affect the aims and activities of the Red Eléctrica Group, are identified, analysed, evaluated, managed and controlled and that these processes are carried out systematically and consistently.

The main guidelines which comprise this policy may be summarised as follows:

- Risk management should be fundamentally proactive and also directed towards the middle and long-term, taking into account possible scenarios in an ever-increasing global environment.
- Risks should generally be managed in accordance with coherent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources required to reduce it.
- Financial risk management should seek to avoid undesired variations in the Group's base value and not to generate extraordinary profits.

The Group's financial managers are responsible for managing financial risks to ensure consistency with the Group's strategy and to coordinate the management of risk across the various Group companies, identifying the main financial risks and defining the actions to be taken, based on establishing different financial scenarios.

The methodology for identifying, measuring, monitoring and controlling risks as well as management indicators and measure and control tools specific to each risk, is documented in the financial risk manual.

The financial risks to which the Group is exposed are as follows:

Market risk

Market risks reflect market variations such as prices, interest and exchange rates, credit facility conditions and other variables which affect short, middle and long-term financial costs.

Management of these risks is carried out both on liability operations, currency, maturity and interest rates and through the use of hedging instruments which allows the aforementioned financial structure to be modified. Particularly noteworthy market risks are:

- Interest rate risks

  Interest rate variations change the fair value of assets and liabilities which accrue interest at a fixed rate and the future flows of assets and liabilities linked to a variable interest rate. The management of interest rates mainly aims to maintain the structure of the debt ratio between the fixed and hedged rate and risks linked to variable interest rates at approximately 70%-30%. The structure at 31 December 2010 is as follows:

(thousand euro)	2010	
	Fixed rate	Variable rate
Long-term issues	1,755,474	-
Long-term bank borrowings	1,260,973	798,375
Short-term issues	-	47,431
Short-term bank borrowings (*)	-	912,634
Total debt	3,016,447	1,758,440
Porcentage	63%	37%

(*) This item includes the bridge loan obtained to finance the acquisition of transmission assets totalling 897,639 thousand euro, initially maturing in July 2011, extendable for 12 months at the choice of REE.

The structure reflects a low risk profile with moderate exposure to interest rate variations. In addition, the impact of the rise in variable interest rates on borrowings is largely offset, provided the investment process continues, in the consolidated income statement by the increase in revenues deriving from the redistribution of the new points of service which is based on the base level of 10-year Spanish Treasury Bonds at that time.

The interest rate risk to which the Group is exposed at 31 December 2010 mainly affects equity for the year as a result of changes in the fair value of derivative financial instruments while profit for the year remains unchanged. Set out below is a sensitivity analysis of that risk:

Effect on consolidated equity (thousand euro)	Change in market interest rates			
	2010		2009	
Interest rate hedges	+0,10%	-0,10%	+0,10%	-0,10%
Cash flow hedges. Interest rate *Swap*	4,767	(4,807)	3,351	(3,377)
Interest rate and exchange rate hedges				
Cash flow hedge. *Cross Currency Swap*	282	(289)	621	(633)

The sensitivity of fair value has been estimated using a valuation technique based on discounted future cash flows at market interest rates prevailing at 31 December 2010.

- Exchange rate risks

Exchange risk management comprises translation risks which the company is subject to on consolidation of its subsidiaries and / or assets located in countries where the functional currency is not the euro and to transaction risks derived from collection and payment of cash in currencies in other than the euro.

In order to eliminate the exchange risk in Private Placements in the United States (USPP), the Company has arranged cash flow hedges through cross currency swaps for the principal and interest covering the amount and entire duration of the same to October 2005 (Note 18).

In order to mitigate the translation risk of the assets located in countries whose functional currency is not the euro, the Group finances part of such investments in the functional currency. Therefore at 31 December 2010 any increase or decrease in the dollar/ euro exchange rate of 10% with respect to the yearend closing would have generated an increase or decrease in equity of approximately €1 million (€3 million at 31 December 2009).

Credit risk

The characteristics of income from electricity transmission and electrical systems operation and the solvency of the electrical system agents mean that the level of risk is not relevant to the Group's principal activities. Credit risk management for the Group's other activities is mainly carried out through the control instruments to reduce or delimit such risk.

In any event, the credit risk is supported through policies containing requirements in relation to the credit standing of the counterparty and additional guarantees are called for, where necessary.

In addition, at the closing there is little exposure to credit risk relating to the fair value of the recognised derivatives.

At 31 December approximately 3% of balances are past due (4% in 2009) although the companies consider that there is no recoverability risk. The receivables are considered to be of high credit quality.

Liquidity risk

Liquidity risks arise due to differences between amounts and the collection and payment dates of the different assets and liabilities of the Group companies.

Maintaining a significant volume of funds available during the year contributes positively to the strengthening of the Group's financial structure and contributes an additional guarantee of liquidity.

These risks are mainly managed by the controlling of the temporary financial debt structure, setting maximum net volume limits for each defined period. This process is also carried out at the level of several group companies, in accordance with the practices and limits established by the Group. The established limits vary based on geographic areas for the purpose of taking into account the liquidity of the market in which the Company operates. The liquidity management policy includes the realisation of cash flow projections in the main currencies in which it operates, taking into consideration the level of liquid assets that are necessary to attain those projections, the control of balance sheet liquidity indexes and their comparison with market requirements and the maintaining of the financing plans using debt.

Group borrowings have an average maturity of 5 years at 31 December 2010.

The Group's liquidity position for 2010 is based on its strong capacity to generate cash, supported by short-term credit lines not drawn down amounting to €293,606 thousand and long-term availability is €400,000 thousand. REE has been granted lines of credit pending formalisation totalling €425,000 thousand.

Price risk

The Group is exposed to the price risk relating to its investments in capital instruments and classified as available-for-sale on the balance sheet. Available-for-sale investments that are listed mainly relate to the 5% stake the Company holds in REN. At 31 December 2010 the listed price of shares in REN had risen by 10%, thereby generating an increase in equity of approximately €5 million and a 10% decline in the value would have caused a drop in this value of approximately €5 million.

17. Financial Assets and Liabilities

Financial assets

The breakdown of the heading Financial assets, both current and non-current, of the Red Eléctrica Group at 31 December 2010 and 2009 is as follows:

	Current period (thousand euro)			
	Available-for-sale financial assets	Loans and receivables (1)	Hedge derivatives	Total
Equity instruments	69,300	-	-	69,300
Derivatives	-	-	7,035	7,035
Other financial assets	-	2,634	-	2,634
Long-term/non-current	**69,300**	**2,634**	**7,035**	**78,969**
Derivatives	-	-	98	98
Other financial assets	-	88	-	88
Short-term/current	**-**	**88**	**98**	**186**
Total	**69,300**	**2,722**	**7,133**	**79,155**

	Previous period (thousand euro)			
	Available-for-sale financial assets	Loans and receivables (1)	Hedge derivatives	Total
Equity instruments	80,148	-	-	80,148
Derivatives	-	-	800	800
Other financial assets	-	2,364	-	2,364
Long-term/non-current	**80,148**	**2,364**	**800**	**83,312**
Derivatives	-	-	182	182
Other financial assets	-	584	-	584
Short-term/current	**-**	**584**	**182**	**766**
Total	**80,148**	**2,948**	**982**	**84,078**

(1) Excluding trade receivables.

- **Equity instruments**

  Equities mainly relate to the 5% shareholding that the Parent Company has in REN, the holding company that comprises the operation and exploitation of the electricity transmission assets and various gas infrastructures in Portugal. This shareholding was acquired in 2007 and the transaction price totalled €98,822 thousand. The value of this shareholding is based on the listed price of the share. The impairment test carried out at 31 December 2010 as a result of a prolonged and significant decline below the acquisition price (more than 20%) of the listed price of the shares has revealed the need to record an impairment loss in the consolidated income statement.

The value adjustment for this investment totals €29,935 thousand at 31 December 2010, recognised as an impairment loss affecting the shareholding in the profit and loss account (€18,722 thousand in 2009 recognised directly under Group equity).

- **Derivatives**

  A breakdown of derivatives is set out in note 18.

- **Other financial assets**

  This heading mainly relates to guarantees provided and other surety granted by REE to personnel, maturing in the long-term.

The following table shows the Group's financial assets at fair value in accordance with the variables used to calculate fair value at 31 December 2010:

	Current period (thousand euro)			
	Level 1	**Level 2**	**Level 3**	**Total balance**
Equity instruments	69,300	-	-	69,300
Derivatives	-	7,133	-	7,133
Other financial assets	-	-	2,722	2,722

	Preceding period (thousand euro)			
	Level 1	**Level 2**	**Level 3**	**Total balance**
Equity instruments	80,148	-	-	80,148
Derivatives	-	982	-	982
Other financial assets	-	-	2,948	2,948

Financial liabilities

The breakdown of the heading Financial liabilities, both current and non-current, of the Red Eléctrica Group at 31 December 2010 and 2009 is as follows:

	Current period (thousand euro)		
	Loans and payables [1]	**Hedge derivatives**	**Total**
Bank borrowings	2,027,478	-	2,027,478
Bonds and other negotiable securities	1,667,811	-	1,667,811
Derivatives	-	32,483	32,483
Other financial liabilities	208	-	208
Long-term/non-current	**3,695,497**	**32,483**	**3,727,980**
Bank borrowings	952,919	-	952,919
Bonds and other negotiable securities	118,008	-	118,008
Derivatives	-	1,276	1,276
Other financial liabilities	767,474	-	767,474
Short-term/current	**1,838,401**	**1,276**	**1,839,677**
Total	**5,533,898**	**33,759**	**5,567,657**

	Preceding period (thousand euro)		
	Loans and payables [1]	Hedge derivatives	Total
Bank borrowings	1,725,112	-	1,725,112
Bonds and other negotiable securities	1,194,401	-	1,194,401
Derivatives	-	59,212	59,212
Other financial liabilities	223	-	223
Long-term/non-current	**2,919,736**	**59,212**	**2,978,948**
Bank borrowings	42,832	-	42,832
Bonds and other negotiable securities	134,008	-	134,008
Derivatives	-	945	945
Other financial liabilities	707,277	-	707,277
Short-term/current	**884,117**	**945**	**885,062**
Total	**3,803,853**	**60,157**	**3,864,010**

(1) Excluding trade payables.

The following table shows the Group's financial liabilities at fair value in accordance with the variables used to calculate fair value at 31 December 2010.

	Current period (thousand euro)			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	33,759	-	33,759
Other financial liabilities	-	-	4,245	4,245

	Preceding period (thousand euro)			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	60,157	-	60,157

- Issue of bonds and other marketable and bank borrowings

Details of bonds and other marketable securities and bank loans at 31 December 2010 and 2009 are as follows:

	Current period (thousand euro)				
	Opening balance 31/12/2009	(+) Issues	(-) Repurchases or redemptions	(+/-) Exchange rate adjustments and others	Closing balance 31/12/2010
Securities in a debt market that required the registration of a prospectus	117,651	251,931	(322,151)	-	47,431
Securities in a debt market that did not require the registration of a prospectus	847,733	500,000	-	(3,748)	1,343,985
Other securities representing debt issued outside of a member state of the European Union	346,668	-	-	27,152	373,820
Total	**1,312,052**	**751,931**	**(322,151)**	**23,404**	**1,765,236**

	Previous period (thousand euro)				
	Opening balance 31/12/2008	(+) Issues	(-) Repurchases or redemptions	(+/-) Exchange rate adjustments and others	Closing balance 31/12/2009
Securities in a debt market that required the registration of a prospectus	48,988	399,980	(331,317)	-	117,651
Securities in a debt market that did not require the registration of a prospectus	847,143	-	-	590	847,733
Other securities representing debt issued outside of a member state of the European Union	358,823	-	-	(12,155)	346,668
Total	**1,254,954**	**399,980**	**(331,317)**	**(11,565)**	**1,312,052**

The fair value of bank borrowings and the issue of bonds and other marketable securities at 31 December 2010 and 2009 is as follows:

(thousand euro)	Carrying value		Fair value	
	2010	2009	2010	2009
Issues in euro	1,391,416	965,391	1,442,838	900,621
Issues in dollars	373,820	346,668	403,889	365,974
Bank borrowings in euro	2,922,438	1,706,671	2,889,052	1,691,131
Bank borrowings in foreign currency	49,546	52,762	51,106	54,815
Total	**4,737,220**	**3,071,492**	**4,786,885**	**3,012,541**

The fair value of bank loans and bonds and other marketable securities has been estimated in full using a valuation technique based on the discounting of future cash flows at the market interest rates in force at each date.

At 31 December 2010 accrued interest payable on these debts amounts to €28,996 thousand (€24,862 thousand in 2009).

Issues in euro at 31 December 2010 include issues of Eurobonds within the framework of the Eurobond Issue Program carried out by Red Eléctrica de España Finance, B.V., with a balance of €848,331 thousand (€847,733 thousand in 2009) and by Red Eléctrica Financiaciones in the amount of €495,654 thousand. There are also issues of short-term promissory notes amounting to €47,431 thousand (€117,658 thousand in 2009).

Issues in US dollars at 31 December 2010 includes €373,820 thousand (€346,668 thousand in 2009), relating to an issue of $500,000 thousand obtained on the private placement market in the US (USPP).

Bank borrowings in euro at 31 December 2010 include the syndicated line of credit totalling €799,333 thousand (€668,904 thousand in 2009) that falls due in 2012. This heading also includes long-term loans and credit facilities totalling €1,225,466 thousand (€1,037,767 thousand in 2009) and the bridge loan obtained to finance the acquisition of the transmission assets (Note 6) totalling €897,639 thousand, initially falling due in July 2011 and may be extended by 12 months if desired by REE.

Details of maturity of these issues and bank loans at 31 December 2010 are as follows:

Grupo Red Eléctrica

Detalle de vencimientos de Emisiones y Deudas bancarias al 31 de diciembre de 2010 (expresado en miles de euros)

	2011	2012	2013	2014	2015	Subsequent years	Value adjustments	Total
Issues in euro	97,431	-	800,000	-	-	500,000	(6,015)	1,391,416
Issues in dollars	-	-	-	-	52,388	321,807	(375)	373,820
Bank borrowings in euro (*)	939,331	823,735	35,824	47,655	247,655	832,498	(4,260)	2,922,438
Bank borrowings in dollars	7,537	7,713	7,898	3,582	2,674	20,219	(77)	49,546
	1,044,299	**831,448**	**843,722**	**51,237**	**302,717**	**1,674,524**	**(10,727)**	**4,737,220**

(*) This item includes the bridge loan obtained to finance the acquisition of transmission assets totalling 897,639 thousand euro, initially maturing in July 2011, extendable for 12 months at the choice of REE.

The average interest rate in 2010 was 3.24% (3.49% in 2009).

At 31 December 2010 Group companies have contracted credit facilities with a long-term credit limit available for draw down of €400,000 thousand (€230,000 thousand at 31 December 2009) and a short-term limit of €293,606 thousand (€276,035 thousand at 31 December 2009). REE has been granted lines of credit pending formalisation totalling €425,000 thousand.

At 31 December 2010 the Parent company has a Spanish Securities and Exchange Commission-registered programme to issue promissory notes up to a maximum limit of €250,000 thousand (€250,000 thousand at 31 December 2009).

- **Derivatives**

  A breakdown of derivatives is set out in note 18.

- **Other current financial liabilities**

  Details of this heading in the accompanying consolidated balance sheet at 31 December 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Dividend payable	79,174	69,017
Fixed asset suppliers and other payables	689,576	639,205
	768,750	**708,222**

The balance of asset suppliers and other debts mainly includes the balances due to asset suppliers and items pending settlement with the Spanish electricity system for activities that have been carried out.

18. Derivative Financial Instruments

The Red Eléctrica Group contracts two types of derivatives in compliance with its financial risk management policy: Interest rate swaps and Cross currency swaps or exchange rate hedges. Interest rate swaps consist of a financial swap that exchanges variable interest rate debt for fixed interest rate debt, for which the future cash flows to be hedged are the interest payments. Similarly, cross currency swaps allow for the exchange of fixed rate debt in dollars for fixed rate debt in euro and the future cash flows to be hedged are the payment of interest and capital in dollars. The measurement method for both instruments are analysed in Note 4m) of these notes to the consolidated financial statements. The breakdown at 31 December 2010 and 2009 of both types in euro is indicated below:

			Thousand euro							
			2010				2009			
			Non-current		Current		Non-current		Current	
	Principal	Maturity date	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate hedges										
Cash flow hedges										
Interest rate *Swap*	325,000 thousand euro	Up to 2012	193	(4,347)	98	(1,276)	387	(7,738)	182	(587)
Interest rate *Swap*	675,000 thousand euro	Up to 2020	6,381	(25,283)	-	-	413	(14,712)	-	(358)
Interest rate and exchange rate hedges										
Cash flow hedges										
(*Cross currency swap*)	500,000 thousand euro	Up to 2035								
Interest rate hedges			471	34,802	-	-	-	28,022	-	-
Exchange rate hedges			(10)	(37,655)	-	-	-	(64,784)	-	-
			7,035	**(32,483)**	**98**	**(1,276)**	**800**	**(59,212)**	**182**	**(945)**

The breakdown of derivative financial instruments by maturity at 31 December 2010 is as follows, in thousand euro:

			Thousand euro				
	Principal	Maturity date	2011	2012	2013	2014 and subsequent	Total
Interest rate hedges							
Cash flow hedges							
Interest rate *Swap*	325,000 thousand euro	Up to 2012	(1,178)	(4,154)	-	-	(5,332)
Interest rate *Swap*	675,000 thousand euro	Up to 2020	-	-	-	(18,902)	(18,902)
Interest rate and exchange rate hedges							
Cash flow hedges							
(*Cross currency swap*)	500,000 thousand dollars	Up to 2035					
Interest rate hedges			-	-	-	35,273	35,273
Exchange rate hedges			-	-	-	(37,665)	(37,665)
			(1,178)	**(4,154)**	**-**	**(21,294)**	**(26,626)**

19. Trade and Other Payables

Details of trade and other payables in the accompanying consolidated balance sheet at 31 December 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Suppliers	209,101	180,586
Other creditors	16,142	25,343
Current tax liabilities	40	25
	225,283	**205,954**

The heading Suppliers relates mainly to amounts payable for engineering, construction and maintenance work and changes to electricity facilities.

In 2010 and 2009, as a result of the accelerated depreciation for tax purposes of certain Group assets allowed by Law 4/2008, the corporate income tax balance is largely receivable (Note 21).

20. Information Regarding the Deferral of Payment to Suppliers Additional Provision Three. "Reporting Requirements" Established by Law 15/2010 (5 July)

In accordance with Law 3/2004 (29 December), which establishes measures to fight against delays in payment for commercial transactions, detailed information regarding the payment of pending balances at the end of 2010 is provided below:

Grupo Red Eléctrica

Balances realised and pending payment at 31 December 2010 (thousand euro)

	Amount	%
Within the legal deadline	155,379	99.85%
Other	232	0.15%
TOTAL PAYMENTS DURING THE YEAR	**155,611**	**100%**
APP (days) exceeded	84	

21. Tax Situation

The Tax Group of which Red Eléctrica Corporación, S.A. is the Parent company is taxed under the Tax Consolidation System in Spain since 2002. The Tax Group distributes the tax load in accordance with the agreements established between Group companies, which adapts to the stipulations of the Resolutions issued by the Audit and Accounting Institute (ICAC) on 9 October 1997 and 15 March 2002.

Legislation applicable in their respective countries is applied to companies that do not form part of the tax group.

At 31 December 2010 the tax group is made up of REI, REE and REF in addition to the Parent Company.

A reconciliation of the statutory tax rate prevailing in Spain to the effective tax rate applicable to the Group is as follows:

(thousand euro)	2010	2009
Consolidated book profit for the year before taxes	560,448	461,116
Permanent differences and consolidation adjustments	12,863	(3,374)
Consolidated tax base	573,311	457,742
Tax rate	**30%**	**30%**
Adusted profit by tax rate	171,993	137,323
Effect of the application of various tax rates	-95	1,721
Tax calculated at the rate in force in each country	171,898	139,043
Deductions	(1,598)	(8,336)
Corporate income tax	**170,300**	**130,707**
Current income tax	63,080	50,593
Deferred income tax	107,220	80,114
Effective tax rate	**30.39%**	**28.35%**

Current balances payable to and receivable from public institutions at 31 December 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Current receivables		
VAT refundable	65,908	5,546
Taxes refundable	11,068	29,842
Current tax payable		
VAT payable	1,351	11,778
Other taxes payable	6,155	5,733
Corporate income tax payable	40	25

Deferred tax assets and liabilities at 31 December 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Deferred tax assets		
Retirement and commitments with personnel	11,537	10,573
Subsidies	1,844	1,851
Financial derivatives	11,392	19,539
Fixed asset impairment	15,579	11,275
Other	21,031	21,496
Total deferred tax assets	**61,384**	**64,734**
Deferred tax liabilities		
Accelerated depreciation	262,756	142,083
Non-deductible assets	56,508	61,727
Cash flow hedges	14,611	21,118
Other	4,551	5,570
Total deferred tax liabilities	**338,426**	**230,498**

The timing differences relating to the recognition of expenses and revenues for accounting and tax purposes, at 31 December 2010 and 2009, the accumulated tax effect, assets and liabilities, are as follows:

(thousand euro)	2010		2009	
	Income statement Increases	Revenues and expenses directly attributable to equity Increases	Income statement Increases	Revenues and expenses directly attributable to equity Increases
Deferred tax assets				
Originating in prior years	31,230	33,504	21,515	29,494
Movements during the year	7,386	(10,736)	9,715	4,010
Total deferred tax assets	**38,616**	**22,768**	**31,230**	**33,504**
Deferred tax liabilities				
Originating in prior years	207,876	22,622	118,047	45,237
Movements during the year	114,606	(6,678)	89,829	(22,615)
Total deferred tax liabilities	**322,482**	**15,944**	**207,876**	**22,622**

Group companies are open to inspection for all taxes that have not become statute-barred. Due to the possible different interpretations to which tax legislation lends itself, the results of future inspection action that may be taken by the tax authorities for the years open to inspection may give rise to tax liabilities, whose amount cannot be currently quantified in an objective manner. However, the Company's Directors estimate that any liabilities that may arise in which respect will not have a significant effect on the Group's Consolidated Financial Statements.

22. Revenues and Expenses

a) Net revenue

Details of this heading in the consolidated income statement for 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Domestic market	1,358,291	1,172,099
Export market	38,961	28,016
TOTAL	**1,397,252**	**1,200,115**

The heading Domestic market mainly includes revenues from transmission and operating the Spanish electricity grid, which are set by the Ministry of Industry, Tourism and Commerce.

The heading Foreign market mainly includes revenues from the rendering of transmission services in Bolivia, which are set annually by the Electricity Regulator.

b) Other operating revenues

This heading in the accompanying consolidated income statement mainly includes income from insurance company indemnities for claims and faults covered by the policies arranged.

c) Materials consumed and other operating expenses

Details of this heading in the accompanying consolidated income statement for 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Supplies	45,022	47,217
Other operating expenses	270,922	232,133
	315,944	**279,350**

Materials consumed and other operating expenses mainly comprise repair and maintenance expenses incurred in electricity plants as well as IT and advisory services, rental costs and other services.

d) Personnel expenses

Details of staff costs in the consolidated income statement for 2010 and 2009 are as follows:

(thousand euro)	2010	2009
Wages and salaries	83,803	77,604
Social security	18,027	17,334
Contributions to pension funds and similar obligations	1,357	1,280
Other items and social charges	9,522	8,018
	112,709	**104,236**

Group companies have capitalised personnel costs amounting to €15,769 thousand at 31 December 2010 and €14,742 thousand at 31 December 2009.

- **Current employees**

  The average number of employees at the Group in 2010 and 2009, by professional category, was as follows:

(thousand euro)	2010	2009
Exectutive team	129	130
Senior technicians	529	479
Middle technicians	571	568
Specialists and administrative staff	466	464
	1,695	**1,641**

The distribution of the Group's final headcount at 31 December by gender and category is as follows:

(thousand euro)	2010			2009		
	Men	Women	Total	Men	Women	Total
Exectutive team	113	20	133	112	19	131
Senior technicians	365	166	531	333	155	488
Middle technicians	501	99	600	483	105	588
Specialists and administrative staff	397	102	499	370	102	472
	1,376	**387**	**1,763**	**1,298**	**381**	**1,679**

At 31 December 2010 there are 11 Directors, including the Executive Director, of which 8 are men and 3 are women (10 Directors in 2009, 7 men and 3 women).

e) Impairment and profit/ (loss) on fixed asset disposals

In 2010 impairment and gains and losses on the disposal of fixed assets mainly records the value adjustment made to REI's CGUs (Note 6) and the impairment of technical installations maintained by REE.

f) Financial expense

This heading records the financial expenses, net of financial capitalisation, associated with the Group's financial debts. The capitalisation of financial expense in 2010 totalled €25,121 thousand (€21,069 thousand in 2009).

23. Transactions with Associates and Related Parties

a) Transactions with associated companies

All transactions with associates have been carried out at market prices. The principal transactions carried out by Group companies with companies consolidated under the equity method in 2010 and 2009 are as follows:

Grupo Red Eléctrica

Breakdown of transactions with companies consolidated under the equity method in the years ended 31 December 2010 and 2009 (thousand euro)

	2010				2009			
	Balances		Transactions		Balances		Transactions	
	Receivables	Payables	Expenses	Revenues	Receivables	Payables	Expenses	Revenues
Red Eléctrica del Sur, S.A. (Redesur)	80	106	-	1,001	80	120	8	832
Total	**80**	**106**	**-**	**1,001**	**80**	**120**	**8**	**832**

b) Related party transactions

Transactions with associates have been carried out under normal market conditions, as follows:

EXPENSES AND REVENUES	2010				
	Significant shareholders	Directors and executives	Group persons, companies or entities	Other related parties	Total
Management or collaboration agreements	-	-	-	-	-
Other expenses	-	-	-	1,655	1,655
EXPENSES	**-**	**-**	**-**	**1,655**	**1,655**
Dividends received	-	-	-	4,459	4,459
Other revenues	-	-	-	5	5
REVENUES	**-**	**-**	**-**	**4,464**	**4,464**
OTHER TRANSACTIONS					
Dividends and other distributed profits	-	-	-	-	-
Other transactions	-	-	-	3,968	3,968
OTHER TRANSACTIONS	**-**	**-**	**-**	**3,968**	**3,968**

EXPENSES AND REVENUES	2009				
	Significant shareholders	Directors and executives	Group persons, companies or entities	Other related parties	Total
Management or collaboration agreements	-	-	-	-	-
Other expenses	-	-	-	3,997	3,997
EXPENSES	**-**	**-**	**-**	**3,997**	**3,997**
Dividends received	-	-	-	4,406	4,406
REVENUES	**-**	**-**	**-**	**4,406**	**4,406**
OTHER TRANSACTIONS					
Dividends and other distributed profits	-	-	-	-	-
Other transactions	-	-	-	3,273	3,273
OTHER TRANSACTIONS	**-**	**-**	**-**	**3,273**	**3,273**

24. Remuneration of Members of the Board of Directors

A breakdown of remuneration in accordance with the information model introduced by the National Securities Market Commission, which was approved in Circular 4/2007 of 27 December 2007 for the Annual Corporate Governance Report, is as follows, in thousand euro:

(thousand euro)	2010	2009
Compensation item		
Fixed compensation	388	387
Variable compensation	1,193	1,286
Per diems(*)	902	808
Life insurance premiums and pension plan contributions	12	12
Total Compensation	**2,495**	**2,493**

(*) The change is due to the fact that in 2010 13 Board meetings were held compared with 11 in 2009.

The compensation paid, by type of Director, at 31 December 2010 and 2009 is as follows, in thousand euro:

(thousand euro)	2010	2009
Type of Director		
Executives	796	789
Investor appointed Directors	535	518
Independent Directors	1,164	1,186
Total Compensation	**2,495**	**2,493**

Total remuneration accrued by the members of the Company's Board of Directors in 2010, by Director, is as follows:

	Fixed compensation	Variable compensation	Per diems for attending	Board and Commission meetings	Life insurance preiums and pension plan contributions	Total
Mr. Luis Mª Atienza Serna	388	301	66	29	12	796
Mr. Antonio Garamendi Lecanda	-	93	66	29	-	188
Mr. Manuel Alves Torres(1)	-	93	66	29	-	188
Mr. Rafael Suñol Trepat	-	93	66	-	-	159
Mrs. María de los Ángeles Amador Millán	-	93	66	29	-	188
Mr. Francisco Javier Salas Collantes	-	93	66	29	-	188
Mr. Martín Gallego Málaga(2)	-	38	25	-	-	63
Mr. José Folgado Blanco	-	93	66	-	-	159
Mrs. Arantza Mendizábal Gorostiaga	-	93	66	29	-	188
Mrs. María Jesús Álvarez(1)	-	93	66	29	-	188
Mr. Miguel Boyer Salvador	-	55	40	-	-	95
Mr. Rui Manuel Janes Cartaxo	-	55	40	-	-	95
Total accrued compensation	**388**	**1,193**	**699**	**203**	**12**	**2,495**

1) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI)
(2) Left the Director position in May 2010

As a member of the Board of Directors of REN, the Executive Director received compensation totalling €29 thousand in 2010 (€30 thousand in 2009) That amount has been deducted, at the request of the Executive Director himself, from his annual fixed remuneration.

The variable annual compensation for the CEO is established using pre-determined objective and quantifiable criteria by the Corporate Governance and Responsibility Committee at the start of each year. The targets are in line with the strategies and action established in the Company's Strategic Plan and the evaluation of compliance is also carried out by the Corporate Governance and Responsibility Committee.

In 2009 the decision was taken to establish an executive compensation plan ("25th Anniversary Extraordinary Plan 2009-2013"), associated with the Company's 25th anniversary, as a management tool and a mechanism to provide incentives to meet the five-year Strategic Plan. Compliance with this program, which includes the Executive Director, will be evaluated at the end of the period in 2014. Based on whether or not the established objectives are met, the overall value over the five years could reach a maximum of 1.8 times annual fixed compensation. In 2010 the Company liquidated a long-term compensation plan totalling €429 thousand.

The Executive director contract contains clauses regarding guarantees and safeguards in respect of dismissal or changes in control. This agreement have been proposed by the Appointments, Remuneration and Corporate Governance Committee at the Company and approved by the Board of Directors. These clauses follow usual market practice and include clauses regarding termination of employment and indemnities of one year unless applicable legislation requires a greater indemnity to be paid.

At 31 December 2010 and 2009 no loans, advances or guarantees to members of the Board of Directors of the Parent company are reflected in the balance sheet. Nor are there at that date any pension commitments with members of the Board of Directors.

In 2010 and 2009 the members of the Board of Directors have performed no extraordinary operations or transactions under conditions other than market, directly or through intermediaries, with the Company or Group companies.

Details of the interests held by the members of the Parent Company and related parties, for the purposes of Article 231 of the Capital Companies Act, at 31 December 2010 in the share capital of companies with a similar or complementary activity to that of the Company, as well as the posts they hold and functions they perform and where applicable, the direct or indirect performance of identical, similar or complementary activities to that of the Parent Company are included in Appendix II, in accordance with the correspondence received from the directors of the Company.

25. Management Remuneration

In 2010 senior management remuneration and life insurance and pension plan contributions amounted to €957 thousand and €30 thousand, respectively (€962 thousand and €31 thousand, respectively, in 2009).

Senior managers who have provided their services in 2010 and 2009 are as follows:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transmissions
Esther Mª Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations

At 31 December 2010 and 2009 no loans or advances have been granted to these managers.

There are guarantee or safeguard clauses for two of these managers in the event of dismissal. The clauses of the contracts follow usual market practice and include clauses regarding termination of employment and indemnities of up to two years unless the applicable legislation requires a greater indemnity to be paid. The contracts containing such clauses are approved by the Committee of Appointments, Remuneration Corporate Governance and reported to the Board of Directors.

In 2009 an executive compensation plan was established ("25th Anniversary Extraordinary Plan 2009-2013"), associated with the Company's 25th anniversary, as a management tool and a mechanism to provide incentives to meet the five-year Strategic Plan. Compliance with this program, which includes these executives, will be evaluated at the end of the period in 2014. Based on whether or not the established objectives are met, the overall value over the five years could reach a maximum of 1.8 times annual fixed compensation. In 2010 the Company liquidated a long-term compensation plan totalling €689 thousand.

26. Segment Reporting

The Red Eléctrica Group's core activity is the transmission of electricity and operation of the electricity system in Spain through REE which accounts for 92% of the Group's consolidated revenues and 97% of total assets. All other activities taken together make up the remaining 8% of revenues and 3% of total assets. It has therefore not been considered relevant to provide information by activity or geographical segment.

27. Guarantees and other Obligations with Third Parties and other Contingent Liabilities

The Company secures, jointly and severally with REE, the Eurobond program established in Holland up to €1,500 million, with respect to the private issue of bonds in the United States totalling $500 million carried out by RBV Group, and the Eurobond program carried out by REF up to the amount of €2,500 million.

Additionally, REI secures the loan that the Bolivian company TDE has with International Finance Corporation (hereinafter IFC) and Corporación Andina de Fomento (CAF). The commitments entered into by REI with IFC and CAF include maintaining both a minimum shareholding in TDE and effective control of that company and being secondarily liable for the payments to be made to IFC and CAF.

At 31 December 2010 the principal long-term contracts and commitments to which Group companies are party are as follows:

- Contracts signed with different telecommunication operators for the assignment of use of capacity, management and maintenance of the telecommunication network, maturing in the period 2016 to 2027.
- Agreements relating to the supply of equipment and materials and the rendering of services associated with the construction of electricity facilities.

Contracts for the import and export of electricity concluded with EDF, the main long-term contracts and commitments that the Company had concluded at 31 December 2009, have been cancelled over the course of 2010.

In addition, and in accordance with the provisions of Transitional Provision Nine of Law 17/2007 (4 July), which requires distribution companies to sell their transmission networks and facilities to REE, the company designated by law as the monopoly transmission grid operator, in 2010 REE concluded acquisition contracts with Endesa Distribución Eléctrica, S.L., Unión Fenosa Distribución, S.A.U., and Hidrocantábrico Distribución Eléctrica, S.A.U.

Together with the asset acquisition contract, the Company and Endesa Distribución Eléctrica S.L. concluded a Technical Assistance Availability Contract.

At 31 December 2010 the Group has bank guarantees in favour of third parties deriving from its normal course of business amounting to €36,286 thousand (€32,673 thousand in 2009).

28. Environmental Information

During 2010 Group companies incurred ordinary expenses of €18,909k to protect and improve the environment (€13,679k in 2009). These expenses relate mainly to the application of preventive and corrective measures at facilities in operation. They also include the maintenance of environmental management systems, sundry environmental communication and training activities, environmental research projects and expenses relating to the organisational unit especially devoted to these tasks.

Similarly, in 2010 environmental impact studies and environmental supervision have been conducted at the newly constructed electrical facilities valued at €6.399k (€4,451k in 2009 which mainly included the environmental actions deriving from the construction of the second electricity interconnection between Spain and Morocco).

Group companies are involved in no litigations relating to environmental protection or improvements which may give rise to significant contingencies. Similarly, in 2010 and 2009 the Group companies have received no significant environmental grants.

29. Other Information

The auditor of the Group of companies has been PricewaterhouseCoopers Auditores, S.L. since 2006. The fees accruing from the audit of the Group companies in 2010 totalled approximately €207 thousand (€183 thousand in 2009). The fees that accrued in 2010 include those relating to the audit of REDCOR and TESUR, which were included in the scope of consolidation in 2010 (Note 2).

In 2010 and 2009 no fees accrued to firms that are directly or indirectly related to the audit firm for any professional services other than audit services.

30. Earnings per Share

Details of earnings per share for 2010 and 2009 are as follows:

	2010	2009
Net profit (thousand euro)	390,150	330,402
Number of shares (shares)	135,270,000	135,270,000
Average number of treasury shares (shares)	693,936	666,754
Basic earnings per share (euro)	2.90	2.45
Diluted earnings per share (euro)	2.90	2.45

At 31 December 2010 and 2009 the Group has not performed any operations which would result in any differences arising between basic earnings per share and diluted earnings per share.

31. Share-Based Payments

Share-based payments at 31 December 2010 and 2009 are as follows:

Grupo Red Eléctrica
Share-based payments
at 31 December 2010 and 2009

	2010			2009		
–	Number of shares	Average price (euros)	Amount (in thousand euro)	Number of shares	Average price (euros)	Amount (in thousand euro)
Management	1,208	39.63	48	1,581	30.29	48
Employees	65,538	37.15	2,435	51,817	31.75	1,645
TOTAL	**66,746**	**37.19**	**2,482**	**53,398**	**31.71**	**1,693**

These shares have been valued at the listed price on the date of delivery. All of these deliveries have been made by virtue of the authorisation granted to the parent company by shareholders at a General Meeting.

32. Events Subsequent to 31 December 2010

Together with REE, the Company has secured the issue of bonds in the euromarket on 18 February 2011 by REF, within the framework of the program to issue Euro Medium Term Notes (EMTN Program).

This issue, totalling €600 million and maturing in 7 years, bearing a annual yield of 4.75% and at an issue price of 99.861%.

Schedule I

Grupo Red Eléctrica

Breakdown of shareholdings at 31 December 2010 and 2009 (thousand euro)

	2010		2009	
	Percentage shareholding*		Percentage shareholding*	
	Direct	Indirect	Direct	Indirect
Company Domicile • Main activity				
Red Eléctrica Corporación S.A., parent company, incorporated in 1985. Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). • Management of the business group, rendering of assistance services or support for investees and the operation of the properties owned by the Company. • Management of long-term international energy contracts. Activity cancelled over the course of 2010.				
A) Fully consolidated companies				
Red Eléctrica de España, S.A.U. (REE) Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). • Transmission activities and operation of the Spanish electrical system and management of the transmission network.	100%	-	100%	-
Red Eléctrica Internacional, S.A.U. (REI) Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). • International shareholdings. Rendering of consulting, engineering, construction and telecommunications services. • Rendering of electricity activities outside the Spanish electrical system.	100%	-	100%	-
Red Eléctrica de España Finance, B.V. (RBV) Claude Debussylaan, 24. Amsterdam (Holland). • Financing activities.	100%	-	100%	-
Red Eléctrica Financiaciones (REF) Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). • Financing activities.	100%	-	100%	-
Redcor Reaseguros, S.A (REDCOR) 23, Avenue Monterey. (Luxembourg). • Reinsurance activities.	100%	-	-	-
Red Eléctrica Andina, S.A. (REA) Urbanización Independencia Americana, D-8. Yanahuara. Arequipa (Perú). • Rendering of line and sub-station maintenance services.	-	100%[1]	-	100%[1]
Transportadora de Electricidad, S.A. (TDE) C/ Colombia, Nº 00655, casilla, Nº 640. Cochabamba (Bolivia). • Electricity transmission services.	-	99.94%[1]	-	99.94%[1]

	2010		2009	
	Percentage shareholding*		Percentage shareholding*	
	Direct	Indirect	Direct	Indirect
Company Domicile • Main activity				
Transmisora Eléctrica del Sur, S.A. (TESUR) Juan de la Fuente, 453. Lima (Perú). • Transmision of electricity and the operation and maintenance of electricity transmission networks.	-	55%(1)	-	-
Cybercia, S.A. C/ Colombia, Nº 00655, casilla, Nº 640. Cochabamba (Bolivia) • Service and commercial activities.	-	-	-	75%(3)

B) Companies consolidated using the proportional method

Interconexión Eléctrica Francia-España, S.A.S. (INELFE) Tour Ampère, 34 Rue Henri Régnault, 92068 La Défense Cedex. París (Francia). • Analysis and execution of the expansion of the connection capacity between Spain and France.	-	50%(2)	-	50%(2)

C) Companies carried under the equity method

Red Eléctrica del Sur, S.A. (REDESUR) Juan de la Fuente, 453. Lima (Perú). • Transmission of electricity and the operation and maintenance of electricity transmission networks.	-	33.75%(1)	-	33.75%(1)

** Equivalent to voting rights*
(1) Shareholding through Red Eléctrica Internacional
(2) Shareholding through Red Eléctrica de España
(3) Shareholding through Transportadora de Electricidad

Schedule II

Red Eléctrica Corporación, S.A.

Information relating to Members of the Board of Directors at 31 December 2010

Members of the Board of Directors	Position on the Board of Directors	Direct or indirect shareholdings held by the Members of the Board of Directors and related parties in companies with the same, similar or supplementary corporate purpose as the Company	Positions and duties of the Members of the Board of Directors and related parties in companies outside Red Eléctrica Group with the same, similar or supplementary corporate purpose as the Company
Mr. Luis Mª Atienza Serna	Chairman	----	Director of REN-Redes Energéticas Nacionais, SGPS, S.A.
Mr. José Folgado Blanco		----	----
Mrs. Arantza Mendizábal Gorostiaga		----	----
Mr. Antonio Garamendi Lecanda		----	----
Mr. Manuel Alves Torres		----	----
Mrs. María Jesús Álvarez González		----	----
Mr. Rafael Suñol Trepat		----	----
Mrs. María de los Ángeles Amador Millán		----	----
Mr. Francisco Javier Salas Collantes		----	----
Mr. Miguel Boyer Salvador		----	----
Mr. Rui Manuel Janes Cartaxo		19,162 acciones de REN-Redes Energéticas Nacionais, SGPS, S.A.	Chairman REN-Redes Energéticas Nacionais, SGPS, S.A.

The members of the Board of Directors have reported that they are not in any conflict of interest situation for the purposes of Article 229 of the Spanish Companies Act. None of members of the Board of Directors or related parties have exercised, on their own behalf or on behalf of a third party, the same, similar or complementary activity constituting the Company's corporate purpose.

Consolidated Directors' **Report**

Business Trends. Most Significant Events

In 2010, RED ELÉCTRICA GROUP obtained satisfactory financial results and attained significant achievements is the various Group activities.

Activities in Spain

In order to collaborate with the attainment of a sustainable energy model, RED ELÉCTRICA GROUP has been building and developing a meshed, robust and reliable transmission network, taking all action with maximum respect for the environment and choosing those locations and routes that have the lowest socio-environmental impact possible.

The asset acquisition contracts concluded in 2010 with Endesa Distribución Eléctrica, S.L., Unión Fenosa Distribución, S.A.U. and Hidrocantábrico Distribución Eléctrica, S.A.U., in accordance with Law 17/2007, have consolidated the single transmission and electricity operator model and provided it with independence and neutrality that encourages competition, the integration of renewable energies and the improvement of the quality and supply of electricity.

The transactions affect both the electricity grids on the islands and mainland Spain, consolidating a tension border between transmission and distribution, which will facilitate the management and development of these assets.

The investments in the national transmission network totalled €2,306 million (of which €1,421 million was used to acquire assets, €865 million to make investments in expanding and improving the mainland transmission grid and €20 million to other investments), increasing lines by 839 km to 38,393 km of circuits. During the year 164 substation positions were launched and the transformation capacity increased by 2,000 MVA. The most significant actions taken during the year were as follows:

- The development of the network in the Northwest of Spain and advancements in the work on the connection with France.
- The reinforcement of the transmission network in the north zone.
- The connection between the north-western zone with the plains, to facilitate the evacuation of wind generated energy from Galicia and the improvement of the connection with Asturias.
- The development of the central electricity axis, which will reinforce the connection between the Central Mediterranean Coast and the centre of the country.
- The advancement of work connecting the mainland with the Balearic Islands.

As regards the reinforcement of the connections, the following should be noted:

- The new connection with France.
  The construction of this new connection, classified as a priority for the European Union, will allow the connection capacity between the two countries to be doubled and will facilitate the integration of a higher volume of renewable energy production, particularly wind energy from the Spanish system.

- The expansion of the connection with Portugal.
  In 2010 progress has been made with the work to reinforce the Duero river valley and Andalusia axis, as well as the studies of the new connections between north-eastern Spain, with the objective of reaching a commercial exchange capacity with the neighbouring country to 3,000 MW.

- The connection with the Balearic Islands
  The electrical connection between mainland Spain and the Balearic Islands is fundamental to ensure and improve the reliability of the supply of electricity to the Balearic system while allowing its integration into the Iberian electricity market, which will make it possible to establish a competitive generation market on the islands.
  This electricity connection, which is planned to be completed in 2011 is the first submarine connection of continuous current that exists in Spain and the second in the world.

In 2010 the most notable events were:

- The performance in the transmission network in Spain has been excellent with total availability of the network in 2010 at 97.89%. This reveals the high quality of the installations.

- The demand for electricity on mainland Spain totalled 259,940 GWh, 3.2% more than in 2009. Adjusting for the effects of work schedules and temperature, annual growth was 2.9% compared with the 4.8% decline recorded in 2009.

  The maximum demand for average hourly power and daily energy during the year were attained on 11 January with 44,122 MW and 12 January with 895 GWh, respectively. During the summer, 19 July brought a new record for average hourly power with a figure of 40,934 MW.

- Renewable energies. Renewable energies, favoured by the high rainfall, covered approximately 35% of demand in 2010, 6 points higher than the previous year. Wind energy, which shows 8.5% growth in generation, increased its share to 16% of demand.

- Reduction of CO_2 emissions. The increase in renewable energy together with the decline in electricity consumption and the lower production of thermal plants, contributed to a reduction of CO_2 emissions by the electricity sector, which has been estimated at 58.7 million tonnes, 20% less than in 2009.

Activities outside of Spain

RED ELÉCTRICA GROUP activities abroad are carried out by REI through its investments in Bolivia (TDE) and Peru (REDESUR, REA and TESUR) and through REC with its investments in Luxembourg (REDCOR) and Holland (RBV).

Both REDESUR and TDE have carried out their activities within the electricity systems in which they have obtained excellent quality standards with respect to the operation and maintenance of their installations and showing high levels of availability. The rest of the companies have carried out their activities with complete normality.

Main Financial Figures

In 2010 **Profits after taxes** totalled €390.2 million, which represents 18.1% growth over the figure obtained in 2009.

Revenues in 2010 totalled €1,397.3 million and grew by 16.4%, mainly due to the increase in the asset base generating revenues due to the facilities launched in 2009 and the compensation associated with transmission assets since their acquisition.

The gross operating profit (EBITDA) totals €1,001.9 million, which represents 18.5% growth compared with 2009:

The **cost of Supplies and Other operating costs**, increased by 13.1% compared with the preceding year. This increase is affected by the expenses associated with the acquired assets.

Personnel expenses exceeded 8.1% in 2010 and the average payroll increased by 3.3% during the same period. For its 25th Anniversary, in 2010 the Company gave 30 shares to employees. The average payroll at RED ELÉCTRICA GROUP at 31 December 2010 is 1,695 employees. The final number of employees was 1,763, 5% more than in December 2009.

Net operating profits (EBIT) increased by 26.4% compared with 2009. This increase is affected by the fact that in 2009 a provision was recognised for the impairment of assets totalling €45.3 million, compared with €18.6 million in 2010.

Financial income/expense totalled €-129.1 million compared with €-84.5 million recorded in 2009. Financial income amounted to €5 million and includes €4.5 million relating to the dividend paid by REN in the second quarter. Financial expense net of capitalisation totals €104.3 million compared with €91.2 million last year, mainly as a result of the financial expense associated with the acquisition of transmission assets.

Investments made by the GROUP in 2010 totalled €2,308.8 million, much higher than last year due mainly to the acquisition of transmission assets. After discounting the effect of acquiring the transmission assets, investments during the year relating to the development of the national transmission grid totalled €865.4 million, 17.8% higher than last year.

Dividends paid at 31 December 2009 total €198.8 million and are 15.5% higher than the payment made in 2009.

The **Net financial debt** carried by RED ELÉCTRICA GROUP at 31 December 2010 totalled €4,756.6 million. The rating agencies Standard & Poors and Moody's have maintained their AA- and A2 ratings, respectively, in 2010.

With regard to interest rates, 63% of the Group's debt is at a fixed rate, while 37% is at variable rates.

During the first quarter of 2010 the average cost of the Group's financial debt has been 3.24%, with an average balance of € 3,885.0 million. During the same period in 2009, the average cost of the debt was 3.49% and the average balance was € 3,153.3 million.

At 31 December 2010, the RED ELECTRICA GROUP's equity stood at € 1,624.6 million, 12.9% higher than at the end of 2009. This growth is due to the profits for the period, partially offset by the distribution of 2009 profits and the interim dividend in 2010.

Stock Market Trends and Yields for Investors

As the Group's listed company, REC forms part of the IBEX-35 and its weighting in that index at the end of 2010 was 1.36%. Throughout 2010 the Company's free-float was 80%.

At the end of 2010 the Company's market capitalisation was €4,761.5 million.

In a context in which the eurozone economies are in a significant recession, the value of REC´s shares fell by 9% in 2010, approximately half the fall in the IBEX 35 and in line with the energy sector as a whole.

Nevertheless, REC has maintained its commitment to maximise value for its shareholders and offered a high dividend yield in 2010.

Treasury Shares

In order to facilitate depth and liquidity levels to investors the Company acquired 3,831,852 shares for an overall par value of €7.7 million and a cash value of €134.6 million. The number of shares sold amounted to 3,506,206, with a overall par value of €7 million and a cash value of €124.7 million.

At 31 December 2010 the Company held 667,511 treasury shares that represented 0.49% of its share capital, whose overall par value was €1.3 million and their market value was €23.5 million.

The Company has complied with the requirements of Article 509 of the Capital Companies Act, which establishes that the par value of acquired shares listed on a secondary market, together with those already held by the Company and its subsidiaries must not exceed 10% of the share capital. Subsidiaries do not hold any shares in the Company or any treasury shares.

Risk Management

RED ELÉCTRICA GROUP has established a Risk Control System that covers all of its activities and is adequate to its risk profile. The Risk Policy and the General Integral Risk Management and Control Procedure are based on the integrated business management framework established in the COSO II Report (Committee of Sponsoring Organisations).

The main risk identified with respect to attaining REC's objectives is credit risk, given that debt transactions are carried out through GROUP companies, which assume these market and liquidity risks, as well as regulatory, operational and environmental risks that are inherent to the activities carried out by the GROUP.

The policies to hedge against risks are detailed in Note 8 of the Notes to the Financial Statements for the year.

Environment

RED ELÉCTRICA GROUP faces the challenge of making the development of its electricity infrastructure compatible with the conservation of the environment to attain an efficient balance between business activity and sustainability.

In 2010 it has continued with its policy of performing environmental impact studies for all new facilities, regardless of whether or not they are legally required to prepare environmental impact evaluations.

During 2010 among the environmental projects of note underway are those relating to protecting fowl, including a study to minimise the impact of electricity facilities on water fowl and the design of a detector of collisions between birds and electricity facilities.

All of the activities intended to protect the environment that RED ELECTRICA GROUP carries out in its various areas of operation (environmental supervision, protection of birds, contamination prevention, treatment of safety pathways, environmental training, compensatory measures, etc.) are integrated into the Environmental Management System and are included in the Environmental Report that is published each year.

Research, Development and Innovation (R&D+i)

The research, development and innovation activities taken by RED ELÉCTRICA GROUP is intended, within its corporate strategy, to guarantee the efficiency, security and sustainability of the facilities that support the electrical system.

In 2010 R&D+i projects carried out by RED ELÉCTRICA GROUP totalled approximately €5 million and involved more than 60 projects.

Among the projects under development in 2010, the following are notable: ANEMOS PLUS (operation of the system with high penetration of wind energy), OPTIMATE (platform for simulating new market mechanisms), PEGASE (definition of platforms and operating applications at the European level) and MERGE (impact of electric vehicles on the European electricity network).

In addition, the TWENTIES project led by RED ELECTRICA is also notable. This project constitutes the large initiative of the European electricity sector to implement technologies that allow renewable energies to be integrated into the system, particularly wind energy, in order to comply with European objectives regarding energy efficiency and sustainability.

Corporate Responsibility

In the area of corporate responsibility, RED ELECTRICA GROUP has become one of the most advanced companies and occupies a leadership position in the rankings that evaluate both the results obtained by company management and the level of involvement and support for sustainable development in all areas of activity. Since 2006 it forms part of the *Dow Jones Sustainability World Index* and since 2008 the FTSEE4Good. The 2009 Corporate Governance Report obtained the top position in the study "Corporate Responsibility in IBEX 35 Annual Reports".

The GROUP's excellent corporate responsibility management has allowed it to receive further recognition in 2010, such as the top position in the comparative analysis of sustainability at European companies in the sector prepared by Triodos Bank.

In 2010 it also obtained the international sustainability and development award given by AICA, in the large company category.

The Human Team

RED ELÉCTRICA GROUP's activities are based on the vocation for service to society and its commitment to ethical responsibility, values on which the human resource policies are based.

The GROUP's commitment with the development of its employees translates, among other things, into action addressing:

- The creation of quality jobs that are stable over time.
- The development of policies that favour equality of opportunities.
- The reconciliation of family and personal lives, introducing policies that exceed legislation applicable to this area. Among them, the development of the "RED CONCILIA" project is notable and has the objective to design and implement a Family Responsibility Business Model to manage and reconcile the needs of employees within the framework of company objectives and activities.

These activities undoubtedly contribute to create among employees a commitment with the GROUP and its business project, one of the basic pillars of its management.

Events Taking Place After 31 December 2010

In order to extend the average maturity date of its debt and reduce its exposure to variable rates in accordance with its risk management policy RED ELÉCTRICA GROUP, issued bonds on the euromarket on 18 February 2011 through Red Eléctrica Financiaciones, S.A.U., within the framework of the Euro Medium Term Note program (EMTN program).

This issue, totalling €600 million and maturing in 7 years, bearing a annual yield of 4.75% and at an issue price of 99.861%.

Foreseeable Development

Once the Spanish TSO has consolidated, RED ELÉCTRICA GROUP has the objective of making the necessary investments in the network in accordance with the Infrastructure Plan, which will allow it to guarantee the reliability and security of the Spanish electricity system while integrating renewable energies into the system's operations.

RED ELÉCTRICA will combine this improvement and expansion program through management oriented towards optimising its operating margins and maintaining the high level of reliability of the network.

The performance of the tasks required by regulations and the investments to be made in the coming years, together with a transparent, sufficient and stable compensation environment will secure the growth of RED ELECTRICA GROUP within the Spanish electricity system.

RED ELÉCTRICA will continue to offer shareholders high yields combined with solid growth.

This will result in the creation of long-term value, lasting competitive advantages and the attainment of a better corporate reputation, focused on optimal service to society and the commitment to a sustainable energy system.

Article 116 Bis of the Stock Market Act for Listed Companies

According to the terms of article 116 bis of the Stock Market Act, publicly listed companies must include the following information in their Director's Reports:

a) The capital structure, including the shares not traded on a regulated EC market, indicating the different classes of shares and for each class of shares the rights and obligations inherent thereto and the percentage of the share capital they represent:

Pursuant to the terms of article 5.1 of the Articles of Association, the company's share capital is two hundred seventy million five hundred forty thousand euros (270,540,000 €), represented by one hundred thirty-five million two hundred seventy thousand (135,270,000) shares, all in the same class and series, with a par value of two (2) euros each, fully subscribed and paid in and represented by account entries.

All shares pertain to the same class and series and confer the same rights upon their owners.

b) Restrictions on the transferability of the shares.

The shares representing the share capital of Red Eléctrica de España, S.A. are freely transferable and not subject to any restrictions whatsoever. The laws governing the electricity sector set certain limitations on shareholder participation in the terms set out in part d) below.

Like any other publicly listed company, the acquisition of a significant number of shares must be reported to the issuer and to the *Comisión Nacional del Mercado de Valores*, as provided for in article 53 of the Stock Market Act 24/1988 of 28 July, Royal Decree 1362/2007 of 19 October and Circular 2/2007 of the *Comisión Nacional del Mercado de Valores* dated 19 December which sets the initial threshold for notification at 3% of the share capital or voting rights.

c) Significant direct or indirect shareholdings.

On 31 December 2010 and according to the information available to the Company, at the time of this report the significant shareholders of Red Eléctrica de España., S.A. stock were as follows:

Shareholder	No. shares	% capital
Sociedad Estatal de Participaciones Industriales (SEPI)	27,054,000	20

d) Any restriction on voting rights.

Each share carries one vote. Any shareholder can attend the General Meeting without the need to own a minimum number of shares, as occurred at the Extraordinary General Meeting of Shareholders held on 17 July 2003 in which the statutory requirement to own at least 50 shares in order to attend the General Meetings was eliminated.

The passage of Law 17/2007 of 4 July, which modified Law 54/1997 of 27 November on the Electricity Sector, to adapt it to the terms of Directive 2003/54/CE of the European Parliament and the Council dated 26 June 2003 on common standards for the internal electricity market, introduced different changes into Law 54/1997 which affected restrictions on voting rights.

Specifically, section two of the third additional provision of Law 17/2007 sets new maximum limits on exercising political rights in order to guarantee the independence of companies operating in the electricity sector and which constitute a basic service, as provided for in Law 54/1997 of 27 November on the Electricity Sector.

Hence, any individual or legal entity may be a shareholder in the company as long as their direct or indirect ownership of the company's capital does not exceed five percent of the shares and their political rights do not exceed three percent. These shares may not be syndicated under any circumstances.

For those operating in the electricity sector and those individuals or legal entities holding a direct or indirect interest of more than five percent in the share capital of the former, they may not exercise political rights in the company responsible for operating the system in excess of one percent.

The special regimen for the *Sociedad Estatal de Participaciones Industriales (SEPI)* remains unchanged, with no modification, and must in all cases maintain an interest of not less than ten percent (10%).

No other additional statutory restrictions are different from the purely legal.

Moreover, the *Comisión Nacional de la Energia (CNE)* is authorized to bring legal action aimed at enforcing these legal rectrictions. Failure to comply with the limitations established equity is a very serious breach of the Electricity Industry Act, responsible individuals or legal entities that are holders of the securities or whoever is attributable excess participation.

The legal regime established by Directive 2009/72 of 13 July, which proclaims the independence required of carriers and operators of electrical systems in Europe, has come to endorse the legal limitations of ownership established by Law 17/2007.

e) Shareholders' Agreements.

At 31 December 2010, the Company had no knowledge of the existence of agreements between shareholders which would oblige them to adopt a common policy by voting in a particular way at the General Meetings or which would restrict or condition the free transferability of the shares.

f) The rules applicable to the appointment and replacement of members of the Board of Directors and amendment of the Company's Articles of Association.

1. Appointment and Replacement.

Article 19 of the Rules of the Board establishes that Directors shall be designated by the General Meeting or by the Board of Directors by co-option. The proposed appointment of a Director, including by co-option, must be approved by the Appointments, Remuneration and Corporate Governance Committee. The Board of Directors, within the scope of its authority, shall endeavour to ensure that the proposed candidates are persons of recognised solvency, competence and experience, as established in article 20 of the Rules.

According to article 21 of the Rules, the Directors' term of office shall be that established in the Articles of Associations. Proposals of the appointment or re-election of Directors presented by the Board to the General Meeting of Shareholders, as well as temporary appointments by co-option, shall be approved by the Board:

- Upon the proposal of the Appointments, Remuneration and Corporate Governance Committee in the case of independent directors.

- Following the report of the Appointments, Remuneration and Corporate Governance Committee in the case of all other directors.

According to Article 20 of the Articles of Association, the term of office of a director is four years and directors may be re-elected indefinitely. As established in Article 7 of the Rules of the Board, independent directors may not sit on the Board for more than twelve years in a row.

Article 22 of the Rules of the Board establishes that Directors shall step down when their term of office has expired or when the General Meeting so decides, making use of the authority vested in it under the law or the bylaws. The Board of Directors shall not propose the removal of independent directors before the term of office for which they were appointed has expired, without just cause and a report from the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, directors shall step down under the following circumstances:

a) When they reach the age of 70.

b) When they are affected by a situation of incompatibility of legal prohibition.

c) When they are found guilty of an offence or sanctioned by the stock market, energy and telecommunications supervisory authorities in the course of disciplinary proceedings for a serious or very serious offence.

d) When they have seriously violated their obligations as directors.

e) When they no longer hold the executive positions with which their appointments as directors were associated.

f) When remaining on the Board poses a risk to the Company's interests, particularly in relation to section 30.4 of these Rules and when two-thirds of the components of the Board consider this to be true. Should a director be charged with a crime or should there be a hearing for any of the crimes mentioned in article 124 of the Public Limited Companies Act, the Board will examine the case as quickly as possible and, based on the particular circumstances, decide whether or not the director should continue to sit on the Board. All of this will be mentioned in the Annual Corporate Governance Report.

g)In the case of a nominee director, when the shareholder whose interest that director represents on the Board disposes of its shares in the Company or reduces them to a level below that which would reasonably justify the appointment of a nominee director.

Committee members shall step down when they are no longer directors. Directors who step down before the end of their terms of office, for whatever reasons, shall explain the reason behind their decision to resign in a letter sent to all of the members of the Board, and mention shall be made of this in the Annual Corporate Governance Report.

2. Amendment of Articles of Association.

The rules governing the amendment of Articles of Association are no different than those contained in article 144 of the Public Limited Companies Act, which shall require the approval of the General Meeting of Shareholders with the quorums foreseen in article 103 of the Act. One of the powers of the General Meeting contained in article 3 of the Rules of the General Meeting of Shareholders includes the amendment of the Articles of Association, with the same majorities as those stipulated in the law.

g) The powers of the members of the Board of Directors, in particular, those relative to issuing and repurchasing shares.

At the General Meeting of Shareholders held on 20 May 2010, the Board of Directors was authorised, pursuant to the terms of article 75 and related articles of the Public Limited Companies Act (now covered by Article 146 and related of the Companies Act Capital), to proceed with the derivative acquisition of shares in Red Eléctrica de España, S.A., directly or indirectly, to the extent deemed appropriate under the circumstances and under the following conditions.

- The maximum number of shares to be purchased shall not exceed the legal limit and all and must comply with all other legal requirements.

- The price paid for the shares may not be higher than the stock market price at the time of the purchase or lower than 50% of the stock market value of the shares at that time.

- The shares may be acquired under a purchase-sale, swap or any other onerous business arrangement, depending on the circumstances at the time. The Board of Directors, pursuant to the terms of the third paragraph of article 75 4º of the Public Limited Companies Act (currently set out in Article 146.4 of the Companies Act Capital), the shares acquired may be partially paid.

For this purpose, equity is the amount deemed to qualify as such under the criteria for drawing up the annual accounts, reduced by the amount of benefits attributed directly itself, plus the amount of share capital not required and as in the nominal amount of share premium of the share capital that is accounted for as liabilities.

For this purpose, equity is the amount deemed to qualify as such under the criteria for drawing up the annual accounts, reduced by the amount of benefits attributed directly itself, plus the amount of share capital not required and as in the nominal amount of share premium of the share capital that is accounted for as liabilities.

The Board of Directors of the Company, in accordance with paragraph three of article 75.1 1 of the Corporations Law (now in the third paragraph of Article 146.1 a) of the Companies Act Capital), may contribute, all or part of the shares acquired under this authorization and those already owned by the Company to the date of approval of this agreement, the implementation of programs aimed remuneration direct delivery of shares to employees and directors Company executives and the companies of the Group Red Eléctrica.

And to all authorizing the Board of Directors as fully as necessary to request authorization and take as many resolutions as are necessary or desirable in order to comply with current legislation, implementation and success of this agreement.

The duration of this authorization is five (5) years from the date of holding the General Meeting held on May 20, 2010.

In this Board expressly proceeded to withdraw, and therefore, to revoke the authorization to acquire own shares granted to the Board of Directors by the Annual General Meeting held on 21 May 2009.

The Annual General Meeting held on May 20, 2010 approved the delegation to the Board of Directors for a term of five (5) years, the power to increase social capital at any time, in one or more times up to a maximum of 135,270,000 (135,270,000) euros, equivalent to half the current share capital, the amount and type of issue that the Board of Directors decided in each case, with attribution faculty of fully or partially pre-emptive rights and express permission to provide, where appropriate, new wording of Article 5 of the Bylaws and to apply, where appropriate, admission, retention and / or excluding shares in secondary markets.

In addition, the Annual General Meeting of Shareholders, May 20, 2010, delegated to the Board of Directors for a term of five (5) years and a combined limit of five million (5.000.000.000) euros, power to issue in one or several times, directly or through Red Eléctrica Group companies, debentures, bonds and other debt instruments or debt instruments of similar nature, both simple and convertible or exchangeable for shares of the society, Other Group companies or other companies unrelated to it, including, without limitation, commercial paper, asset-backed securities, preferred shares and warrants that entitle the delivery of shares of the Company or other group companies mains, newly issued or in circulation, with the express conferral of power to exclude, in whole or in part, the right of first refusal, permission for the society to guarantee newly issued debt securities (including convertible or exchangeable securities) by companies of the Group Red Eléctrica, authorization to give, where appropriate, new wording of Article 5 of the Bylaws and to apply, where appropriate, admission, retention and / or exclusion of such securities to trading.

On the other hand, Article 25 of the Bylaws of the Company determines that the Chairman of the Board of Directors is the Chairman of the Company and all its organs of government and administration, for ensuring that compliance with the resolutions of the Board of Directors it represents permanently. The power of representation of the Company, both in and outside of it, rests, in addition to the Board of Directors, the Chairman of the Company. The President of the Company has the senior management of all services of the Company and bears the signature, management, and full representation of the same in all cases in court or outside it, being empowered to adopt, for reasons of urgency, any action it deems appropriate to the interests of the Company, immediately realizing the Governing Body.

In this regard, the Board of Directors of the Company, at its meeting on 25 June 2009, agreed unanimously, in accordance with the proposal of the Committee on Governance and Corporate Responsibility "delegate to the Chairman of the Board of Directors RED ELÉCTRICA CORPORACIÓN, SA, D. Luis Maria Atienza Serna, under and in accordance with the provisions of Articles 141 of the current Corporations Law (now covered by Article 249 of the Companies Act Capital), 149 of the Mercantile Registry Regulations, 22 of Laws and Regulation 5 of the Board of Directors, all the powers of the Board legally and statutorily delegated".

Apart from having expressly delegated powers, the President is statutorily empowered to adopt, for reasons of urgency, as it considers appropriate to the interests of the Company, immediately realizing the Board of Directors and to report regularly to it, regular meetings, social management is carried out in various areas of the Company seeking, where appropriate, the relevant approvals of resolutions submitted. With the creation in 1999, of the Audit and Compensation and Corporate Governance (now called the Committee on Governance and Corporate Responsibility), composed entirely of members of the Board expertise in matters within its competence exerts a specific control on basic and strategic responsibilities of the Company, in any case, are performed exclusively by the President.

Without prejudice to the powers delegated to the Chairman, in practice, is the full Governing Body who takes strategic decisions and relevant to the Company.

h) Significant agreements signed by the Company which take effect, are modified or conclude if the control over the Company changes as a result of a takeover bid and the effects of such agreements, unless revealing this information would be seriously harmful to the Company. This exception does not apply when the Company is legally obligated to publicise this information.

There are no significant agreements signed by the Company which take effect, are modified or conclude if the control over the Company changes as a result of a takeover bid.

i) Agreements between the Company and its officers, executives or other employees who are entitled to receive an indemnity when they resign or are illegally dismissed or if the employment relationship comes to an end by reason of a takeover bid.

There are guarantee or shielding clauses for the executive director in the event of dismissal or a change of control. This contract was approved by the Appointments and Remuneration Committee and the Board of Directors was informed of the agreement. These clauses, which are consistent with common market practices, provide for indemnities of up to one year of salary if the employment relationship is terminate, unless a higher indemnity is required by law.

There are also guarantee or shielding clauses for two executive level directors in the event of dismissal. These clauses, which are consistent with common market practices, provide for indemnities of up to one year of salary if the employment relationship is terminate, unless a higher indemnity is required by law. The contracts containing these clauses have been approved by the Appointments and Remuneration Committee and they have been reported to the Company's Board of Directors.

Financial Statements
Red Eléctrica Corporación, S.A.

Red Eléctrica Corporación, S.A.
Balance Sheet

at 31 december 2010 and 2009

thousand euro

	31/12/2010	31/12/2009
NON-CURRENT ASSETS	**1,206,784**	**1,217,225**
Property, plant and equipment (Note 5)	**51,210**	**52,521**
Land and buildings	50,024	51,051
Other plant, machinery, tooling, furnishings and other assets	1,186	1,470
Assets under construction and prepayments	-	-
Investment properties (Note 6)	**2,126**	**2,158**
Land	629	629
Constructions	1,497	1,529
Long-term investments in group and associated companies (Note 7)	**1,079,596**	**1,076,396**
Equity instruments	1,079,596	1,076,396
Long-term financial instruments (Note 10)	**68,886**	**80,100**
Equity instruments	68,886	80,100
Deferred tax assets (Note 17)	**4,966**	**6,050**
CURRENT ASSETS	**542,696**	**451,476**
Non-current assets held for sale (Note 11)	**601**	**601**
Trade and other receivables (Note 12)	**17,209**	**46,182**
Receivables for sales and services rendered	6,735	16,045
Sundry receivables	756	1,543
Personnel	2	1
Other payables to public institutions	9,716	28,593
Short-term investments in group and associated companies (Note 24)	**524,768**	**376,739**
Loans to companies	524,768	376,739
Other financial assets	-	-
Short-term prepayments and accrued income (Note 13)	**58**	**27,937**
Cash and cash equivalents	**60**	**17**
Cash	60	17
TOTAL ASSETS	**1,749,480**	**1,668,701**

	31/12/2010	31/12/2009
TOTAL EQUITY (Note 14)	1,496,024	1,333,320
Equity	**1,496,024**	**1,344,909**
Share capital	270,540	270,540
Reserves	957,977	848,704
(Treasury shares)	(23,297)	(11,789)
Profit for the year	369,977	306,470
(Interim dividend)	(79,173)	(69,016)
Adjustments due to changes in value	**-**	**(11,589)**
Available-for-sale financial assets	-	(11,589)
NON-CURRENT LIABILITIES	**7,871**	**8,077**
Long-term provisions (Note 15)	**3,335**	**3,172**
Long-term borrowings (Note 16)	**2**	**16**
Other liabilities	2	16
Long-term borrowings from group and associated companies (Note 24)	**1,546**	**1,546**
Deferred tax liabilities (Note 17)	**2,862**	**3,116**
Long-term accruals and deferred income (Note 18)	**126**	**227**
CURRENT LIABILITIES	**245,585**	**327,304**
Short-term borrowings (Note 19)	**126,777**	**187,649**
Bonds and other marketable values	47,520	117,922
Bank borrowings	-	13
Other short-term borrowings	79,257	69,714
Short-term borrowings from group and associated companies (Note 24)	**117,176**	**119,496**
Trade and other payables (Note 20)	**1,632**	**11,627**
Sundry payables	306	8,790
Personnel	1,230	1,694
Current income tax liabilities	-	-
Other payables to Public Institutions	96	1,143
Short-term prepayments and accrued income (Note 21)	**-**	**8,532**
TOTAL EQUITY AND LIABILITIES	**1,749,480**	**1,668,701**

Red Eléctrica Corporación, S.A. · Income Statement

for 2010 and 2009

thousand euro

	2010	2009
Net revenue (Note 23-a)	**393,562**	**308,304**
Rendering of services	7,158	6,190
Financial income from equity instruments	381,502	298,974
Group and associated companies	377,043	294,568
Third parties	4,459	4,406
Financial income from securities and other financial instruments - group and associated companies	4,902	3,140
Work performed by the company on its own assets	**-**	**-**
Supplies	**(4)**	**(7)**
Consumption of raw materials and other consumables	(4)	(7)
Other operating revenue	**9,777**	**9,715**
Auxiliary income and other current expenses	9,777	9,715
Operating subsidies taken to results for the year	-	-
Personnel costs (Note 23-b)	**(2,875)**	**(2,797)**
Wages, salaries and similar items	(2,632)	(2,577)
Social charges	(57)	(67)
Provisions	(186)	(153)
Other operating expenses	**(4,155)**	**(4,096)**
External services	(3,780)	(3,781)
Taxes	(375)	(315)
Losses, impairment and change in provisions for commercial transactions	-	-
Other current operating expenses	-	-
Asset depreciation (Notes 5 and 6)	**(1,343)**	**(1,215)**
Non-financial assets and other subsidies attributed	**-**	**-**
Excess provisions	**-**	**-**
Impairment and profit/ loss on fixed asset disposals (Note 10)	**(27,770)**	**-**
Impairment and losses	(27,770)	-
OPERATING PROFIT	**367,192**	**309,904**
Financial income	**9**	**63**
Marketable securities and other financial instruments	9	63
Third parties	9	63
Capitalised financial expenses	-	-
Financial expenses	**(2,075)**	**(3,754)**
On borrowings from group and associated companies	(1,126)	(1,446)
On borrowings from third parties	(942)	(2,305)
On adjustments of provisions	(7)	(3)
Differences on exchange	**-**	**2**
Impairment and profit/loss on disposal of financial instruments	**-**	**-**
Impairment and losses	-	-
Gains/losses on disposals and other	-	-
FINANCIAL INCOME/EXPENSE	**(2,066)**	**(3,689)**
PROFIT BEFORE TAXES	**365,126**	**306,215**
Corporate income tax (Note 17)	4,851	255
PROFIT FOR YEAR FROM CONTINUED OPERATIONS	**369,977**	**306,470**
PROFIT FOR THE YEAR	**369,977**	**306,470**

Red Eléctrica Corporación, S.A. · Statement of Total Changes in Equity

at 31 december 2010 and 2009

thousand euro

		Share capital	Reserves	(Treasury shares)	Profit from prior years	Profit from the year	(Interim dividend)	Subtotal	Equity	Value adjustments	Total equity
Balance at 31 December 2008		**270,540**	**802,876**	**(22,185)**	**-**	**216,337**	**(60,403)**	**1,207,165**	**(14,673)**	**-**	**1,192,492**
Total recognised revenues and expenses		-	(3)	-	-	306,470	-	306,467	3,084	-	309,551
Transactions with shareholders or owners											
(-) Distribution of dividends		-	-	-	(172,812)	-	(8,613)	(181,425)	-	-	(181,425)
Transactions involving treasury shares (net)	-	1,696	10,396	-	-	-	12,092	-	-	12,092	
Other changes in equity											
Transfer of prior year profits		-	-	-	216,337	(216,337)	-	-	-	-	-
2008 results taken to reserves		-	44,135	-	(43,525)	-	-	610	-	-	610
Balance at 31 December 2009		**270,540**	**848,704**	**(11,789)**	**-**	**306,470**	**(69,016)**	**1,344,909**	**(11,589)**	**-**	**1,333,320**
Total recognised revenues and expenses		-	(1)	-	-	369,977	-	369,976	11,589	-	381,565
Transactions with shareholders or owners											
(-) Distribution of dividends		-	-	-	(199,768)	-	(10,157)	(209,925)	-	-	(209,925)
Transactions involving treasury shares (net)	-	1,581	(11,508)	-	-	-	(9,927)	-	-	(9,927)	
Other changes in equity											
Transfer of prior year profits		-	-	-	306,470	(306,470)	-	-	-	-	-
2009 results taken to reserves		-	107,693	-	(106,702)	-	-	991	-	-	991
Balance at 31 December 2010		**270,540**	**957,977**	**(23,297)**	**-**	**369,977**	**(79,173)**	**1,496,024**	**-**	**-**	**1,496,024**

Red Eléctrica Corporación, S.A.
Statement of Recognised Revenues and Expenses
at 31 december 2010 and 2009
thousand euro

	2010	2009
Resultado de la cuenta de pérdidas y ganancias	**369,977**	**306,470**
Measurement of financial instruments	(11,214)	4,405
Cash flow hedges	-	-
Subsidies and donations received	-	-
Actuarial gains and losses and other adjustments	(1)	(4)
Tax effect	3,364	(1,320)
Revenues and expenses attributed directly to equity	**(7,851)**	**3,081**
Measurement of financial instruments	27,770	-
Cash flow hedges	-	-
Subsidies and donations received	-	-
Tax effect	(8,331)	-
Transfers to the income statement	**19,439**	**-**
Total recognised revenues and expenses	**381,565**	**309,551**

Red Eléctrica Corporación, S.A.
Cash Flow Statement

at 31 december 2010 and 2009

thousand euro

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	**268,289**	**88,086**
Profit for year before taxes	**365,126**	**306,215**
Adjustments to results	**(356,327)**	**(297,335)**
Asset depreciation/amortisation	1,343	1,215
Impairment adjustments	27,770	-
Change in provisions	161	156
Attribution of subsidies	-	-
Results from disposals of assets	-	-
Financial income	(387,293)	(302,114)
Financial expenses	1,793	3,541
Other revenues and expenses	(101)	(133)
Changes in current capital	**(122,312)**	**(209,562)**
Inventories	-	-
Trade and other receivables	10,102	(12,556)
Other current assets	(113,271)	(199,296)
Trade and other payables	(19,143)	2,290
Other cash flows from operating activities	**381,802**	**288,768**
Payment of interest	(848)	(1,896)
Collection of dividends	382,391	298,974
Collection of interest	-	-
Corporate income tax paid/(refunded)	259	(8,310)
Othe payments made/received	-	-
CASH FLOWS FROM INVESTMENT ACTIVITIES	**(3,200)**	**(8,293)**
Payments for investments	**(3,200)**	**(8,357)**
Group and associated companies	(3,200)	(60)
Property, plant and equipment, intangible assets and investment property	-	(8,297)
Other assets	-	-
Divestments	**-**	**64**
Group and associated companies	-	64
Intangible assets	-	-
Other assets	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	**(265,046)**	**(79,800)**
Payments received/(made) for equity instruments	**(9,927)**	**12,092**
Acquisition and disposal of equity instruments	(9,927)	12,092
Subsidies and donations received	-	-
Contribution of a branch of activity	-	-
Payments received/(made) for financial liability instruments	**(56,342)**	80,310
Bonds and other marketable values	(70,221)	68,664
Bank borrowings	(13)	13
Group and associated companies	13,906	11,633
Return and write-off of other receivables	(14)	-
Dividend payments and yields from other equity instruments	**(198,777)**	**(172,202)**
Dividends	(198,777)	(172,202)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**43**	**(7)**
Cash and cash equivalents at the start of the year	**17**	**24**
Cash and cash equivalents at the end of the year	**60**	**17**

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