Consolidated Annual Accounts 2008

RED ELÉCTRICA CORPORACIÓN

Content

PRICEWATERHOUSECOOPERS

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A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Financial Reporting Standards adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Red Eléctrica Corporación, S.A.:

We have audited the consolidated financial statements of Red Eléctrica Corporación, S.A. (parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2008, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of Red Eléctrica Corporación, S.A. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the Directors have presented, for comparative purposes only, for each item in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash-flow statement, the corresponding amounts for the previous year as well as the amounts for 2008. Our opinion refers solely to the 2008 consolidated financial statements. On 28 March 2008 we issued our audit report on the 2007 consolidated financial statements in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated financial statements for 2008 present fairly, in all material respects, the financial position of Red Eléctrica Corporación, S.A. and its subsidiaries at 31 December 2008 and the consolidated results of their operations, changes in consolidated equity and consolidated cash flows for the year then ended and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union which are consistent with those applied in the previous year.

The accompanying Consolidated Directors' Report for 2008 contains the information that the Directors of Red Eléctrica Corporación, S.A. consider relevant to the Consolidated Group's position, the development of its business and other matters and does not form an integral part of the consolidated financial statements. We have verified that the financial information contained in the aforementioned Consolidated Directors' Report coincides with that of the consolidated financial statements for 2008. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already 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.

Francisco J. Martínez Pérez
Partner

25 February 2009

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Consolidated Financial Statements

GRUPO RED ELÉCTRICA

Consolidated balance sheet at 31 december 2008 and 2007 (in thousands of euro)

ASSETS	2008	2007
Intangible fixed assets (note 5)	2,873	3,993
Tangible fixed assets (note 6)	5,174,033	4,788,536
Investments (note 7)	2,456	2,597
Investments carried under the equity method (note 8)	4,941	5,450
Non current financial assets (note 16)	128,370	114,918
Deferred tax assets (note 19)	51,009	43,028
Other non current assets	-	841
NON CURRENT ASSETS	**5,363,682**	**4,959,363**
Non current assets held for sale	601	640
Inventories (note 9)	43,780	32,227
Trade receivables and other accounts receivable (note 10)	389,154	308,913
Trade receivables for sales and services	13,191	9,195
Other debtors	375,963	298,644
Assets that reflect current tax	-	1,074
Other current financial assets (note 16)	173	2,276
Other current assets	-	268
Cash and equivalent liquid assets	15,865	11,337
CURRENT ASSETS	**449,573**	**355,661**
TOTAL ASSETS	**5,813,255**	**5,315,024**

GRUPO RED ELÉCTRICA

Consolidated balance sheet at 31 december 2008 and 2007 (in thousands of euro)

LIABILITIES	2008	2007
Equity	**1,298,396**	**1,173,235**
Capital	270,540	270,540
Reserves	824,325	724,185
Shares and stake in own equity (-)	(22,185)	(12,331)
Profit and losses for the period attributed to the parent company	286,119	243,049
Interim dividend (-)	(60,403)	(52,208)
Adjustments for changes in value	**38,100**	**29,538**
Financial assets available for sale	(16,189)	(1,517)
Hedging transactions	59,262	41,170
Conversion differences	(4,973)	(10,115)
EQUITY ATTRIBUTED TO PARENT COMPANY	**1,336,496**	**1,202,773**
Minority interests	**61**	**55**
TOTAL EQUITY (note 11)	**1,336,557**	**1,202,828**
Subventions and other (note 12)	280,776	261,953
Non current provisions (note 13)	45,830	62,537
Non current financial liabilities (note 16)	2,826,932	2,620,223
1 and bonds and other negotiable securities	2,812,845	2,593,727
Other non current financial liabilities	14,087	26,496
Deferred tax liabilities (note 19)	163,284	154,375
Other non current liabilities (note 14)	90,188	94,911
NON CURRENT LIABILITIES	**3,407,010**	**3,193,999**
Current provisions	2,430	1,571
Current financial liabilities (note 16)	775,413	687,950
Debt with credit entities and bonds and other negotiable securities	101,664	64,944
Other current financial liabilities	673,749	623,006
Trade creditors and other accounts payable (note 18)	291,845	228,676
Suppliers	190,682	148,000
Other creditors	36,375	38,720
Current tax liabilities	64,788	41,956
CURRENT LIABILITIES	**1,069,688**	**918,197**
TOTAL LIABILITIES	**5,813,255**	**5,315,024**

FIRMA DE LOS MIEMBROS DEL CONSEJO DE ADMINISTRACION EN CUMPLIMIENTO DEL ARTICULO 171 DEL T.R. DE LA LEY DE SOCIEDADES ANONIMAS.

LUIS ATIENZA SERNA:

ANTONIO GARAMENDI LECANDA:

MANUEL ALVES TORRES:

RAFAEL SUÑOL TREPAT:

MARÍA ANGELES AMADOR MILLÁN:

FRANCISCO JAVIER SALAS COLLANTES:

MARTÍN GALLEGO MÁLAGA:

JOSÉ RODRIGUES PEREIRA DOS PENEDOS:

JOSÉ FOLGADO BLANCO:

ARANTZA MENDIZÁBAL GOROSTIAGA:

MARÍA JESÚS ÁLVAREZ GONZÁLEZ:

GRUPO RED ELÉCTRICA

Consolidated income statement at 31 december 2008 and 2007 (in thousands of euro)

INCOME STATEMENT	2008	2007
Net turnover (note 20-a)	1,125,884	1,030,910
Work done by the company for assets	5,486	5,355
Raw materials and consummables (note 20-c)	(62,130)	(61,875)
Other operating income (note 20-b)	20,685	25,461
Staff costs (note 20-d)	(93,927)	(92,655)
Other operating expenses (note 20-c)	(224,361)	(184,695)
Non current asset depreciation (notes 5, 6 and 7)	(255,221)	(251,463)
Allocation of non current non financial subventions and others (note 13)	8,146	7,351
Deterioration and net results of disposal of non current assets (note 20-e)	(7)	(10,263)
NET OPERATING PROFIT/LOSS	**524,555**	**468,126**
Financial income	5,375	3,169
Financial expenses (note 20-f)	(117,213)	(111,383)
Change in fair value of financial instruments	-	(8)
Exchange differences	1,657	1,030
Deterioration and net result of disposal of financial instruments	98	-
FINANCIAL PROFIT/LOSS	**(110,083)**	**(107,192)**
Net result of companies valued by means of the participation method (note 8)	567	664
PROFIT/LOSS BEFORE TAXES	**415,039**	**361,598**
Tax on profits (note 19)	(128,914)	(118,542)
CONSOLIDATED PROFIT/LOSS FOR THE PERIOD	**286,125**	**243,056**
A) CONSOLIDATED PROFIT/LOSS ATTRIBUTED TO THE PARENT COMPANY	**286,119**	**243,049**
B) CONSOLIDATED PROFIT/LOSS ATTRIBUTED TO MINORITY INTERESTS	**6**	**7**
EARNINGS PER SHARE		
Basic earnings per share (note 28)	**2.12**	**1.81**
Diluted earnings per share (note 28)	**2.12**	**1.81**

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GRUPO RED ELÉCTRICA

Consolidated statement of changes in equity at 31 december 2008 and 2007 (in thousands of euro)

	Current period						
	Treasury stock						
EQUITY	Share capital	Reserves [1]	Treasury stock	Profit and loss for the period attributed to the parent company	Adjustments for changes in value	Minority interests	Total Equity
Balances at 1 January 2008	270,540	671,977	(12,331)	243,049	29,538	55	1,202,828
I. Total income/(expenditure) recognized	-	4,358	-	286,119	8,562	6	299,045
II. Transactions with shareholders and owners	-	(8,524)	(9,854)	(146,938)	-	-	(165,316)
- Dividend distribution	-	(8,195)	-	(146,938)	-	-	(155,133)
- Treasury stock transactions	-	(329)	(9,854)	-	-	-	(10,183)
III. Other variations in equity	-	96,111	-	(96,111)	-	-	-
- Transfers between equity items	-	96,111	-	(96,111)	-	-	-
Balances at 31 December 2008	270,540	763,922	(22,185)	286,119	38,100	61	1,336,557

	Previous period						
	Treasury stock						
EQUITY	Share capital	Reserves [1]	Treasury stock	Profit and loss for the period attributed to the parent company	Adjustments for changes in value	Minority interests	Total Equity
Balances at 1 January 2007	270,540	595,028	(52,986)	200,154	9,237	58	1,022,031
I. Total income/(expenditure) recognized	-	1,114	-	243,049	20,301	(3)	264,461
II. Transactions with shareholders and owners	-	(3,327)	40,655	(120,992)	-	-	(83,664)
- Dividend distribution	-	(8,780)	-	(120,992)	-	-	(129,772)
- Treasury stock transactions	-	5,453	40,655	-	-	-	46,108
III. Other variations in equity	-	79,162	-	(79,162)	-	-	-
- Transfers between equity items	-	79,162	-	(79,162)	-	-	-
Balances at 31 December 2007	270,540	671,977	(12,331)	243,049	29,538	55	1,202,828

(1) Includes the following Balance Sheet items: Reserves, Profit and loss brought forward, and interim dividends.

FIRMA DE LOS MIEMBROS DEL CONSEJO DE ADMINISTRACION EN CUMPLIMIENTO DEL ARTICULO 171 DEL T.R. DE LA LEY DE SOCIEDADES ANONIMAS.

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GRUPO RED ELÉCTRICA

Consolidated income and expenditure statement at 31 december 2008 and 2007
(in thousands of euro)

INCOME AND EXPENDITURE	Current period	Previous period
PROFIT/LOSS FOR THE YEAR	**286,125**	**243,056**
INCOME AND EXPENDITURE ALLOCATED DIRECTLY TO SHAREHOLDERS' EQUITY	**12,998**	**21,487**
- For the valuation of Financial instruments	(20,960)	(2,168)
a) Financial assets held for sale	(20,960)	(2,168)
- For Cash Flow coverage	26,050	42,946
- For Conversion Differences	7,346	(10,576)
- For Remaining income and expenditure directly allocated to shareholders' equity	3,374	1,629
- For Tax purposes	(2,812)	(10,344)
TRANSFERS TO THE PROFIT AND LOSS ACCOUNT	**(78)**	**(82)**
- For Cash Flow coverage	(112)	(121)
- Tax purposes	34	39
TOTAL INCOME/(EXPENDITURE)	**299,045**	**264,461**
A) CONSOLIDATED PROFIT/LOSS FOR THE PERIOD ATTRIBUTED TO THE PARENT COMPANY	**299,039**	**264,464**
B) PROFIT/LOSS FOR THE PERIOD ATTRIBUTED TO MINORITY INTERESTS	**6**	**(3)**

FIRMA DE LOS MIEMBROS DEL CONSEJO DE ADMINISTRACION EN CUMPLIMIENTO DEL ARTICULO 171 DEL T.R. DE LA LEY DE SOCIEDADES ANONIMAS.

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GRUPO RED ELÉCTRICA

Consolidated cash flow statement at 31 december 2008 and 2007 (in thousands of euro)

CONSOLIDATED CASH FLOW STATEMENT	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES	**402,322**	**612,469**
Profit and loss before taxes	**415,039**	**361,598**
Profit and loss adjustments:	**367,588**	**371,448**
Fixed asset depreciation	255,221	251,463
Other profit and loss adjustments (net)	112,367	119,985
Change in working capital	**(143,534)**	**90,408**
Other cash flows from operating activities:	**(236,771)**	**(210,985)**
Interest payments	(117,095)	(111,370)
Dividend expenses	5,220	-
Interest expenses	1,023	1,784
Expenses / (payments) for tax on profits	(102,352)	(98,102)
Other expenses / (payments) on operating activities	(23,567)	(3,297)
CASH FLOWS FROM INVESTING ACTIVITIES	**(472,699)**	**(590,912)**
Payments for investments	**(496,390)**	**(632,222)**
Tangible fixed assets, intangible fixed assets and fixed asset investments	(496,095)	(529,531)
Other financial assets	(295)	(102,691)
Expenses for divestitures	**444**	**2,049**
Tangible fixed assets, intangible fixed assets and fixed asset investments	411	2,049
Other financial assets	33	-
Other cash flow from investment activities	**23,247**	**39,261**
Other expenses / (payments) on investment activities	23,247	39,261
CASH FLOW FROM FINANCING ACTIVITIES	**74,529**	**(23,154)**
Expenses / (payments) for equity instruments	**(10,184)**	**46,108**
Acquisition	(184,572)	(162,044)
Disposal	174,388	208,152
Expenses / (payments) for financial liability instruments	**231,651**	**51,729**
Issue and disposal	1,545,807	738,677
Repayment and amortization	(1,314,156)	(686,948)
Payments for dividends and remuneration of other equity instruments	**(146,938)**	**(120,991)**
EFFECT OF CHANGES IN EXCHANGE RATES	**376**	**(440)**
NET INCREASE / (DECREASE) IN CASH AND EQUIVALENT	**4,528**	**(2,037)**
Cash and cash equivalents at the start of the period	**11,337**	**13,374**
Cash and cash equivalents at the end of the period	**15,865**	**11,337**

FIRMA DE LOS MIEMBROS DEL CONSEJO DE ADMINISTRACION EN CUMPLIMIENTO DEL ARTICULO 171 DEL T.R. DE LA LEY DE SOCIEDADES ANONIMAS.

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02 Consolidated Memory Exercise 2008

(1) ACTIVITIES OF GROUP COMPANIES

On 1 July 2008 the listed company Red Eléctrica de España S.A. became known as Red Eléctrica Corporación S.A. (hereinafter the Parent Company or the Company) and transferred the branch of activity of regulated business carried on in Spain to Red Eléctrica de España TSO S.L.U. (which simultaneously became known as Red Eléctrica de España S.A.U.) (hereinafter REE) and the branch of activity of telecommunications business for third parties to Red Eléctrica Internacional S.A.U. (hereinafter REI). .

Following this transfer Grupo Red Eléctrica carries on its regulated operations, the transmission of electrical energy, the operation of the system and the management of the transmission network in the Spanish electricity system by way of REE. By way of the Parent Company and the companies it has shares in (Appendix I) it also carries on activities of acquisition, holding and management of foreign securities, co-ordination of international exchanges, provision of telecommunications services for third parties, provision of consultancy, engineering and construction services outside the Spanish electricity system, securing of funds, carrying out of financial transactions and provision of financial services to the companies of the Group.

(2) BASIS OF PRESENTATION OF 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 2008, the results of the operations, and changes in consolidated equity and cash flows for the year then ended.

The consolidated financial statements are expressed in thousands of euros and have been prepared in accordance with the 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 2009, have been prepared on the basis of the individual accounting records of the Company and other companies which comprise the Red Eléctrica Group (Appendix I). 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 2007 were approved by the shareholders at their annual general meeting held on 22 May 2008. The consolidated financial statements for 2008 are pending approval at the General Shareholders' Meeting. Nonetheless, the directors of the Company consider 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 of those already in existence and interpretations (IAS 39, IFRS 7, IFRIC 11 AND IFRIC 14) approved and published, due to come into force for financial years commencing in 2008, have not had any significant impact on these consolidated financial statements.

With respect to the new accounting standards, changes to existing standards and interpretations (IAS 1, IAS 19, IAS 23, IAS 27, IAS 28, IAS 32, IAS 36, IAS 38, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 5, IFRS 8 and IFRIC 16) to be applied to the years commencing 1 January 2009, the Group does not expect them to have significant effects on the consolidated financial statements.

c) Accounting estimates and assumptions

The preparation of the 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 2008 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 material fixed assets.
- Assumptions used in the 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 2008, 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) Circular 1/2008 of 30 January of the National Securities Market Commission

The financial statements for 2008 have been prepared according to the formats laid down in Circular 1/2008 of the National Securities Market Commission (NSMC). The said formats include amendments of those which had been used in previous financial statements, the data for 2007 being adapted to these new classifications for comparative purposes. The following changes to the consolidated balance sheet and the consolidated income statement should be highlighted:

- In the consolidated balance sheet:
  - The entry "Trade and other receivables" includes "Assets for current taxes" which were in a separate section in the consolidated financial statements for 2007.
  - The entry "Subsidies and others" was contained in "Other non-current liabilities" in the consolidated financial statements for 2007.
  - The entry "Non-current provisions" contains undertakings to staff which were contained in "Other non-current liabilities" in the consolidated financial statements for 2007.
  - The entry "Other current financial liabilities" contains suppliers of fixed assets and dividends contained in "Other current liabilities" in the consolidated financial statements for 2007.

- In the consolidated income statement
  - The net operating profit contains the entries “Allocation of subsidies of non-financial fixed assets” and “Deterioration and results from disposals of fixed assets” which were not previously part of the net operating profit as they were included in the entries “Other earnings”, “Net result for deterioration of asset value” and in “Net result in disposal of non-current assets”.
  - The entry “Work carried out by the company for its assets” has been included, which appeared in the consolidated financial statements for 2007 by setting off the expenses which had given rise to them.

These reclassifications do not affect the interpretation or the understanding of the consolidated financial statements.

e) Basis of consolidation

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.

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

- Subsidiaries

  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, 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 appoint or remove the majority of the members of the Board of Directors or 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.

Multi-group entities

Multi-group entities are those controlled by the Parent Company together with other companies. The financial statements of multi-group entities are proportionally consolidated.

The Group consolidates multi-group entities by the proportional method, including line by line the assets, liabilities, income and expenses and cash flows according to its share of the jointly controlled entity. The Group recognises in its annual consolidated financial statements its share in the profits or the losses on sales of assets of the Group to the jointly controlled entities according to the part of other participants. The Group does not recognise its share in the profits or the losses of the jointly controlled entity deriving from the purchase by the Group of assets of the jointly controlled entity until the said assets are sold to an independent third party. A loss on the transaction is however immediately recognised if it shows up a reduction of the net liquid value of current assets or a loss due to impairment of value.

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 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 rates at the date of the balance sheet for assets and liabilities and the average exchange rate for the period for income and expenses.
- 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 Translation 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.

f) Changes in the consolidated Group

In 2008 REE set up Sociedad Interconexión Eléctrica Francia-España S.A.S. (hereinafter INELFE), taking a 50% share together with RTE EDF Transport S.A. Based in Paris, its object is to study and carry out the future extension of interconnection capacity between Spain and France.

(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 Red Eléctrica de España S.A.U. was set up.

According to the third additional provision of the said Law, all of the provisions of the Law on the Electricity Sector and concordant provisions concerning the system operator, transmission operator and manager of the transmission network are applicable to REE.

The following should be emphasised concerning 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. Remuneration for this activity is established by the Administrations and is dealt with basically by Royal Decrees 2819/1998 and 325/28008.
- Moreover in order to create a single transmission operator Law 17/2007 provides that companies which own transmission installations must transfer these installations to REE within a maximum period of three years from the said Law coming into force.
- In the performance of its Spanish electricity system operator activities, the Company'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. The Company is responsible for short-term exchanges designed to maintain the quality and safety of supply.

Additionally, the Company 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, the Parent Company 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 Red Eléctrica Internacional, S.A.U. (hereinafter 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 financial years under consideration are as follows:

(a) Property, plant and equipment

Property, plant and equity 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 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, applying the following rates:

	Annual coefficient
Constructions	2% - 10%
Electrical energy technical installations	2.5% - 7.14%
Other installations, machinery, tools, fittings and other fixed assets	4% - 25%

b) Intangible fixed assets

Intangible fixed assets are measured at acquisition cost, being reviewed regularly and adjusted in the event of any decrease in their value. The assets included in this section are the following:

Computer applications

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

Software maintenance costs are expensed as 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 are recognised as an expense as incurred. Costs incurred in development projects (associated with the design and testing of new products or upgrades) are capitalised when there is evidence of the project's technical success and economic feasibility and where expenditure attributable to the asset during the development can be measured reliably. Capitalised development costs with a finite useful life are amortised on a straight-line basis over a period not exceeding five years from commencement of the project.

c) Real Estate Investments

Real estate investments are measured at acquisition cost. The market value of the Group's real estate investments is broken down in note 7 to the accompanying consolidated financial statements.

Real estate investment 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 two categories:

- **Loans and receivables:** these 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 year end for those securities quoted on an active market. The gains or losses resulting from fluctuations in fair value at the year end 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. 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.

e) Inventories

Inventories of materials and replacement parts are measured at the lower of acquisition cost, which is determined using the average weighted price method, and market value.

Group companies review the net realisable value of inventories at each year end, recognising value adjustments where 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.

f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits in credit institutions and other highly liquid short-term investments.

g) Impairment of assets

Group companies analyse the recoverability of non-current assets at the year end 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. The impairment loss is therefore the difference between the carrying value of an asset and its recoverable value.

h) Share capital and dividends

Share capital consists of 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.

i) Government grants

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 grants under other gains in the income statement for each year over the term in which depreciation of the related asset is charged.

j) 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.

k) 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. Contributions are recognised as employee benefits when they accrue.

- Other long-term employee benefits

  Other long-term employee benefits include defined benefit plans for healthcare for serving and retired Parent Company and REE employees and length-of-service bonuses in the Bolivian company TDE. Expected costs of benefits are recognised over the term of employment of personnel. These commitments are measured annually by qualified independent actuaries. Changes in actuarial assumptions are debited or credited to the consolidated income statement as soon as they occur. The total cost of past services is recognised immediately.

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 as a result of the passage of time is recognised as an interest expense.

l) Borrowings

Loans, obligations and similar are initially reflected at the amount of cash received, net of the costs incurred in the transaction. 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 classed as non-current.

m) 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.

n) 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 used to recognise the resulting gain or loss depends on whether the derivative has been designated as a hedge and if so, the nature of the item 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.

The Group classifies some derivatives as fair value hedging of recognised assets or liabilities or as a firm commitment (fair value hedges) or as hedging of highly foreseeable transactions (cash flow hedges), or as hedging of net investment in 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 assessment, both at inception and on an ongoing basis, of whether the derivatives used in the hedge are highly efficient to offset changes in fair value or cash flows from the items hedged.

The fair value of various derivatives used for hedging purposes is set out in note 17. Movements in equity are set out in note 11.

- 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 Group 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, and option pricing models refined to reflect the issuer's specific circumstances

o) 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 at less than a year and without a contractual rate of interest, which are expected to be paid in the short term, are recognised at face value.

p) Income and expense

Income and expense are recorded on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

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 net turnover 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.

q) 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 temporary 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 and the amounts for tax purposes, using tax rates which are expected to be in force when these tax assets are realised and tax liabilities are settled.

Deferred tax assets are recognised to the extent that future tax profits are expected to arise against which to offset 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.

r) 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 2008 and 2007, basic earnings per share agree with diluted earnings since there have been no operations during those years which may change this figure.

s) 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 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.

t) 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 equipment 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.

u) Non-current assets held for sale

Non-current assets are classed as assets held for sale where their value will principally be recovered by sale, provided the sale is considered highly likely. These assets are valued at the lesser of the book value and the fair value less the cost of sale if their book value is recovered mainly by way of a sale transaction and not by way of continued use.

v) Share-based payments

The Parent Company, REE and REI have implemented a share acquisition plan under which employees are able to receive shares in 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 shares at the time of delivery. The expense deriving from this plan is reflected under Staff costs in the consolidated income statement. All shares delivered derive from the Company's holding of its own shares.

(5) INTANGIBLE FIXED ASSETS

The movement in 2008 and 2007 in intangible fixed assets and the relevant accumulated depreciation is as follows:

GRUPO RED ELÉCTRICA

Movements in Intangible assets at 31 December 2008 and 2007 (in thousands of euro)

	31 December 2006	Additions	Differences on exchange	31 December 2007	Additions	Differences on exchange	Transfers	31 December 2008
Cost								
Development expenses and computer applications	37,898	1,221	(157)	38,962	798	94	(303)	39,551
Total cost	**37,898**	**1,221**	**(157)**	**38,962**	**798**	**94**	**(303)**	**39,551**
Accumulated amortisation								
Development expenses and computer applications	(32,465)	(2,644)	140	(34,969)	(1,622)	(87)	-	(36,678)
Total accumulated amortisation	**(32,465)**	**(2,644)**	**140**	**(34,969)**	**(1,622)**	**(87)**	**-**	**(36,678)**
Net value	**5,433**	**(1,423)**	**(17)**	**3,993**	**(824)**	**7**	**(303)**	**2,873**

Operating expenses directly relating to intangible fixed assets activated in 2008 amounts to 385 thousand euros (281 thousand euros in 2007).

(6) PROPERTY PLANT AND EQUIPMENT

The movement in 2008 and 2007 in property, plant and equipment and the relevant accumulated depreciation and impairment is as follows:

GRUPO RED ELÉCTRICA

Movements in property, plant and equipment at 31 December 2008 and 2007 (in thousands of euro)

	31 December 2006	Additions	Differences on exchange	Disposals reductions and write-downs	Transfers	31 December 2007	Additions	Differences on exchange	Disposals reductions and write-downs	Transfers	31 December 2008
Cost											
Land and buildings	64,698	1,104	(763)	(552)	(491)	63,996	3	375	-	364	64,738
Plant, electrical energy	6,037,631	47,724	(18,015)	(719)	380,532	6,447,153	26,526	9,033	(569)	388,642	6,870,785
Other facilities, machinery, tooling, furnishings and other fixed assets	97,804	244	(247)	(257)	7,772	105,316	669	121	(199)	8,700	114,607
Electrical energy technical installations in progress	469,069	485,145	(1,120)	-	(367,925)	585,169	537,032	269	-	(382,019)	740,451
Advances and tangible assets in progress	7,739	93,506	(123)	-	(20,484)	80,638	70,001	61	-	(15,384)	135,316
Total Cost	**6,676,941**	**627,723**	**(20,268)**	**(1,528)**	**(596)**	**7,282,272**	**634,231**	**9,859**	**(768)**	**303**	**7,925,897**
Accumulated amortisation											
Buildings	(11,987)	(1,189)	259	-	-	(12,917)	(1,197)	(136)	-		(14,250)
Plant, electrical energy	(2,150,340)	(236,335)	9,287	-	-	(2,377,388)	(241,227)	(4,650)	-	-	(2,623,265)
Other facilities, machinery, tooling, furnishings and other fixed assets	(69,212)	(11,234)	160	254	-	(80,032)	(11,141)	(68)	155	-	(91,086)
Total accumulated depreciation	**(2,231,539)**	**(248,758)**	**9,706**	**254**	**-**	**(2,470,337)**	**(253,565)**	**(4,854)**	**155**	**-**	**(2,728,601)**
Value impairment	(11,760)	(11,639)	-	-	-	(23,399)		(8)	144	-	(23,263)
Net value	**4,433,642**	**367,326**	**(10,562)**	**(1,274)**	**(596)**	**4,788,536**	**380,666**	**4,997**	**(469)**	**303**	**5,174,033**

The main additions in 2008 and 2007 relate to the electricity transmission grid in Spain.

During 2008 the companies have capitalised as an increase in the value of Property, plant and equipment finance expenses amounting to €12,997k (€9,104k at 31 December 2007).

Operating expenses directly related to construction in progress of property, plant and equipment capitalised in 2008 amount to €5,101k (€5,074k in 2007).

Impairment records the adjustments to carrying value of those facilities where construction has been interrupted mainly for reasons beyond the Company's control (note 20-e).

(7) INVESTMENT PROPERTY

Movements in 2008 and 2007 in investment property owned by the Group are described below:

GRUPO RED ELÉCTRICA

Movement in Investment properties at 31 December 2008 and 2007 (expressed in thousands of euro)

	31 December 2006	Additions	Variations Exchange rate	Transfers	31 December 2007	Additions	Variations Exchange rate	Transfers	31 December 2008
Cost									
Investment properties	2,972	-	(48)	(78)	2,846	77	24	(211)	2,736
Total Cost	**2,972**	**-**	**(48)**	**(78)**	**2,846**	**77**	**24**	**(211)**	**2,736**
Accumulated amortisation									
Investment properties	(238)	(61)	16	34	(249)	(34)	(9)	12	(280)
Total accumulated depreciation	**(238)**	**(61)**	**16**	**34**	**(249)**	**(34)**	**(9)**	**12**	**(280)**
Net value	**2,734**	**(61)**	**(32)**	**(44)**	**2,597**	**43**	**15**	**(199)**	**2,456**

Investment property has a market value of at least 3 million euros and does not generate significant operating income or expenses.

(8) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Movements in 2008 and 2007 in investments accounted for using the equity method are as follows:

GRUPO RED ELÉCTRICA

Movements in investments carried under the equity method at 31 December 2008 and 2007 (in thousands of euro)

	31 December 2006	Equity consolidation method	Exchange differences	Disposals	Others	31 December 2007	Equity consolidation method	Dividends	Exchange differences	Others	31 December 2008
Redesur, Redinsur y Tenedora de acciones de Redesur	7,204	664	(812)	(1,362)	(244)	5,450	567	(1,068)	154	(162)	4,941
	7,204	**664**	**(812)**	**(1,362)**	**(244)**	**5,450**	**567**	**(1,068)**	**154**	**(162)**	**4,941**

(9) INVENTORIES

Details of inventories at 31 December 2008 and 2007 in the accompanying consolidated balance sheet are as follows:

	Thousands of euro	
	2008	2007
Inventories	52,612	38,641
Value adjustments	(8,832)	(6,414)
	43,780	**32,227**

(10) CURRENT TRADE AND OTHER RECEIVABLES

At 31 December 2008 and 2007 the heading for trade and other receivables in the accompanying consolidated balance sheet breaks down as follows:

	Thousands of euro	
	2008	2007
Sales and service receivables	13,191	9,195
Other receivables	375,963	298,644
Current tax assets	-	1,074
	389,154	**308,913**

Other debtors in 2008 and 2007 contain principally the amounts pending invoicing and / or payment deriving from the activity of transmission and operation of the system. Also in 2008 49,299 thousand euros are included for Value Added Tax to be recovered from the public authorities. (158 thousand euros in 2007). The fair value of these assets does not differ significantly from the registered value.

The entry Assets for current taxes contains the amount to be received in the next twelve months for taxes of profits.

(11) 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:

	Thousands of euro	
	2008	2007
Long-term loans	2.812.845	2.593.727
Current payables	78.973	42.443
Exchange rate derivative	52.589	72.211
Cash and cash equivalents	(15.865)	(11.337)
Net borrowings	2.928.542	2.697.044
Equity	1.336.557	1.202.828
Leverage ratio	**68,7%**	**69,2%**

The credit rating granted by Moody's and Standard & Poors has remained consistent in 2008 at A2 and AA, respectively.

Equity attributable to the Parent company

Capital and reserves

- Share capital

At 31 December 2008 and 2007 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, listed on the four Spanish stock exchanges.

In accordance with Law 17/2007 any natural or legal person may hold shares in the company, providing the sum of his direct or indirect holding in the capital of the company does not exceed 5% of the share capital and he does not exercise voting rights above 3%. These shares may not be syndicated for any purposes. In the case of subjects with activities in the electricity sector and natural or legal persons who directly or indirectly hold shares in them with a holding in excess of 5%, they may not exercise voting rights in the company responsible for the operation of the system in excess of 1%. The limits on shareholdings in the Parent company under the new corporate structure do not apply to Sociedad Estatal de Participaciones Industriales (SEPI) which will in any event maintain a holding of no less than 10%. On 31 December 2008 SEPI holds 20% of the share capital in the company.

- Reserves

This section contains:

- 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 2008 and 2007 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 2008 and 2007 they amount to €501,820k and €405,440k, respectively.

  It also contains reserves deriving from legal provisions, amounting to €268,306k and particularly the reserve for revaluation of material assets made in 1996 in the Parent company for the sum of €247,022k (This reserve may be used, without being subject to tax, for the elimination of negative results, increases of share capital or, 10 years having elapsed since its creation, as a freely available reserve, in accordance with the provisions of Royal Decree-Law 2607/1996) and the reserve for actuarial gains in the sum of €3,760k.

- Own shares

The shares of the parent company held by the same on 31 December 2008 represent 0.48% of the parent company's share capital and amount to 652,011 shares, with an overall par value of 1,304k euros and an average acquisition price of 34.04 euros per share (on 31 December 2007, 295,165 shares, which represented 0.22% of the share capital, with an overall par value of 590k euros and an average acquisition price of 41.77 euros per share).

These shares are recorded so as to reduce the equity of the group on 31 December 2008 and 2007 by 22,185k and 12,331k euros respectively.

The parent company has complied with the obligations deriving from articles 75.2 and the Second Additional Provision of the Public Limited Companies Act which provides, in relation to shares quoted on an official secondary market, that the par value of the shares acquired, combined with that of the shares already held by the parent company and its subsidiaries, must not exceed 5% of the share capital. The subsidiaries do not hold their own shares or shares in the parent company.

- Profits from the financial year allocated to the parent company

The profit from the financial year 2008 amounts to €286,119k (€243,049k to 31 December 2007).

- Dividend on account for financial year and proposal for distribution of dividend of parent company

The dividend on account approved by the board of directors during the financial years 2008 and 2007 is recorded as reducing the Group's equity to 31 December 2008 and 2007 respectively.

On 18 December 2008 the parent company's board of directors decided to distribute a dividend on account from the profits of 2008 in the sum of 0.4487 euros per share, payable on 2 January 2009 (0.3868 euros per share on account of profits of 2007). The dividend on account approved to 31 December 2008 and 2007 amounts to €60,403k and €52,208k respectively (note 16).

The dividends paid during 2008 and 2007 are set out below:

	2008			2007		
	% of nominal	Euro per share	Amount (thousands of euro)	% of nominal	Euro per share	Amount (thousands of euro)
Ordinary shares	54.36%	1.0871	146,938	44.92%	0.8984	120,991
Total dividends paid	54.36%	1.0871	146,938	44.92%	0.8984	120,991
Dividends charged to profit/loss	54.36%	1.0871	146,938	44.92%	0.8984	120,991

The board of directors of the parent company has also proposed to the shareholders' general meeting a supplementary dividend in the sum of 0.8310 euros per share, the total dividend for 2008 amounting to 1.2797 euros per share (1.0871 euros per share in 2007).

Adjustments for change of value

- Financial assets available for sale

This section contains the variations in the value of financial instruments available for sale, mainly due to variations caused by fluctuations in the quoted price of the 5% share the company has in Redes Energéticas Nacionales SGPS, S.A. (hereinafter REN). To 31 December 2008 and 2007 the negative amount was €16,189k and €1,517k respectively.

- Hedging operations

This section contains the variations of value of derivative financial instruments. To 31 December 2008 and 2007 they amount to €59,262k and €41,170k respectively.

- Translation differences

This section contains the exchange rate differences of the foreign subsidiaries, principally the Bolivian company TDE the negative amount of which to 31 December 2008 and 2007 amounts to €4,973k and €10,115k respectively.

Minority interests

Minority interests recorded under equity in the accompanying consolidated balance sheet reflects the shareholding of minority shareholders in the Bolivian companies TDE and Cybercia, S.A.. At 31 December 2008 and 2007 they amount to €61k and €55k, respectively

(12) SUBSIDIES AND OTHERS

The section subsidies and others includes basically the amounts received by REE for the construction of electrical installations and income deriving from agreements relating to the construction of electrical installations. Their inclusion in the income statement is based on the useful life of the installations and they are recorded in the section Allocation of subsidies of non-financial fixed assets and others from the consolidated income statement.

The movement of Subsidies and others inn 2008 and 2007 has been the following:

GRUPO RED ELÉCTRICA

Movement in grants at 31 December 2008 and 2007
(in thousands of euro)

	31 December 2006	Additions	Applications	31 December 2007	Additions	Applications	31 December 2008
Grants	228,300	41,004	(7,351)	261,953	26,970	(8,146)	280,776
	228,300	**41,004**	**(7,351)**	**261,953**	**26,970**	**(8,146)**	**280,776**

(13) NON-CURRENT PROVISIONS

Details of this heading in the accompanying consolidated balance sheet in 2008 and 2007 are as follows:

GRUPO RED ELÉCTRICA

Movement in non current provisions at 31 December 2008 and 2007 (thousands of euro)

	31 December 2006	Additions	Applications	Reverses and differences on exchange	31 December 2007	Additions	Applications	Transfers	Reverses and differences on exchange	31 December 2008
Commitments with personnel	38,266	4,208	(1,877)	(143)	40,454	4,953	(660)	(18,898)	(5,326)	20,524
Other provisions	19,166	5,628	(1,413)	(1,298)	22,083	13,247	(4,662)	-	(5,362)	25,306
	57,432	9,836	(3,290)	(1,441)	62,537	18,200	(5,322)	(18,898)	(10,688)	45,830

Commitments with personnel reflect future obligations, mainly medical insurance, assumed mainly by REE with its staff at the time they retire, based on actuarial studies, and the provision in the Bolivian company TDE to cover bonuses for length of service.

In 2008 and 2007 additions result mainly from the annual accrual and development of the actuarial assumptions used. These additions are recognised under Staff costs or Finance costs, in accordance with their nature, and under reserves where there are changes in actuarial assumptions.

Staff costs recognised in 2008 in the consolidated income statement amount to €3,191k (€2,328k in 2007), finance costs recognised in 2008 in the income statement amount to €1,762k (€1,880k in 2007), and reserves recognised in 2008 amount to €3,760k net of taxes.

The parent company and REE record these provisions according to actuarial studies using the following assumptions for 2008:

	Actuarial hypotheses
Discount rate	5,8%
Cost growth	3-4%
Survival table	PERM/F 2000 New business

Moreover in accordance with the new Collective Bargaining Agreement signed in 2008 the company has acquired the right to supply the electrical energy of active employees at the time of their retirement, non-active employees being offered the possibility of the same operation. This acquisition is reflected in the short term transfer and subsequent application in the sum of €17,984k.

The other provisions section contains mainly the amounts set aside in each financial year by the companies of the Group to cover possible unfavourable results in claims by third parties.

The additions in 2008 are due to the inclusion of a provision of 11 million euros to cover the penalty imposed by the Generalitat of Catalunya, due to the penalty proceedings brought in relation to the interruption of the electricity supply in Barcelona in July 2007. apart from the provision, an appeal has been lodged against the penalty due to disagreement with the assumptions and evaluations the body in charge of the proceedings used for the imposition of the penalty.

Additions in 2007 were due principally to the recording in REI of a provision in the sum of €4,094k to cover liabilities which were foreseeably going to occur due to the deduction for export activity on account of the investment in TDE in 2002. This liability has materialised in 2008 in the form of a ruling issued by the public authorities which has now been paid. Despite this the ruling has been appealed against due to disagreement with the assumptions made by the public authority.

(14) OTHER NON-CURRENT LIABILITIES

The section other non-current liabilities basically includes income from assignment of use of capacity of the telecommunications network deriving from agreements signed with various telecommunications operators, in the sum of €66,185k to 31 December 2008 (€69,831k to 31 December 2007) and the income from the parent company's part of the compensation paid by Électricité de France (hereinafter EDF) by virtue of the agreement of adaptation of electrical energy supply contracts signed on 8 January 1997, in the sum of €23,625k to 31 December 2008 and 2007 (note 25).

(15) 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.
- 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.
- 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 risk

  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 risk and risks linked to variable interest rates at approximately 70%-30%. The structure at 31 December 2008 is as follows:

	Thousands of euro	
	Fixed rate	Variable rate
Long term issues	1,258,555	48,988
Long term bank loans	849,435	787,429
Total payable	**2,107,990**	**836,417**
Pecentage	72%	28%

  The structure reflects a very low risk profile with reduced exposure to interest rate variations. The impact of the rise in variable interest rates on the rest of the debt has been offset in the consolidated income statement by the increase in income deriving from the remuneration of new investments, which takes into account Spanish Treasury 10 year bond levels at the time of their entry into service.

The interest rate risk to which the Group is exposed at 31 December 2008 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 an sensitivity analysis of that risk:

Impact on consolidated net worth (thousand euro)	Variation in market rates 2008		2007	
	+0.10%	-0.10%	+0.10%	-0.10%
Interest rate hedging:				
- cash flow coverage				
interest rate swaps	2,370	(2,384)	2,009	(2,023)
Interest rate and exchange rate hedges:				
- cash flow coverage				
Cross Currency Swap	(592)	603	511	(521)

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 2008.

Exchange rate risks

Exchange risk management comprises translation risks derived from collection and payment of cash in currencies other than the euro and conversion 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.

In order to eliminate the exchange risk in USPPs, the Company has arranged cash flow hedges through dollar/euro cross currency swaps for the principal and interest covering the amount and entire duration of the same to October 2035 (note 17).

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 2007 any increase or decrease in the dollar/euro exchange rate of 10% with respect to the December closing would have generated an increase or decrease in equity of approximately €3 million (€3 million at 31 December 2007).

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.

Maximum exposure to credit risk on the date of presentation of the information is the fair value of the derivatives recognised in the balance sheet.

At 31 December approximately 3% of balances are past due although the companies consider that there is no recoverability risk.

Liquidity risk

Liquidity risks arise due to differences between amounts or 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 level of the various companies of the Group according to the practices and limits set by the same. The limits vary according to the geographical area so as to take into account the liquidity of the market in which the company is operating. Liquidity management policy also involves making cash flow projections in the main operating currencies, also taking into account the level of liquid assets necessary to reach those projections; monitoring balance sheet liquidity indices and comparing them with the needs of the market; and using debt to maintaining finance plans.

Group borrowings have an average maturity of 7 years at 31 December 2008.

The Group's liquidity position for 2009 is based on its strong capacity to generate cash, supported by short-term credit lines not drawn down amounting to €268,564k.

(16) FINANCIAL ASSETS AND LIABILITIES

Financial assets

The details of the section Financial assets, both current and non-current, of Grupo Red Eléctrica to 31 December 2008 and 2007 is as follows:

	2008			
	Financial assets held for sale	Loans and items receivable	Hedging derivatives	Total
Equity instruments	75,745	-	-	75,745
Derivatives	-	-	50,864	50,864
Other financial assets	-	1,761	-	1,761
Long term/ non current	75,745	1,761	50,864	128,370
Otros activos financieros	-	173	-	173
Corto plazo/corrientes	-	173	-	173
Total	**75,745**	**1,934**	**50,864**	**128,543**

	2007			
	Financial assets held for sale	Loans and items receivable	Hedging derivatives	Total
Equity instruments	96,701	-	-	96,701
Derivatives	-	-	17,343	17,343
Other financial assets	-	874	-	874
Long term/ non current	96,701	874	17,343	114,918
Derivatives	-	-	1,285	1,285
Other financial assets	-	991	-	991
Short term/ current	-	991	1,285	2,276
Total	**96,701**	**1,865**	**18,628**	**117,194**

Long-term securities

The Long-term securities portfolio mainly relates 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 amounted to €98,822k. The provision for the impairment of that investment amounts to €23,128k at 31 December 2008 (€2,168k in 2007) and is recorded directly in the Group's equity.

The valuation of this shareholding is subject to the quotation price of the share and therefore any variations in the price generate movements in Consolidated equity.

Derivatives

Details for Derivatives are given in note 17.

Financial liabilities

The detail of the section Financial liabilities, both current and non-current, of Grupo Red Eléctrica to 31 December 2008 and 2007 is as follows:

	2008		
	Debt and items payable	Hedging derivatives	Total
Loans from credit entities	1,606,879	-	1,606,879
Bonds and other negotiable securities	1,205,966	-	1,205,966
Derivatives	-	13,723	13,723
Other financial liabilities	364	-	364
Long term/ non current	2,813,209	13,723	2,826,932
Loans from credit entities	36,390	-	36,390
Bonds and other negotiable securities	65,274	-	65,274
Derivatives	-	389	389
Other financial liabilities	673,360	-	673,360
Short term/ current	775,024	389	775,413
Total	**3,588,233**	**14,112**	**3,602,345**

	2007		
	Debt and items payable	Hedging derivatives	Total
Loans from credit entities	1,408,110	-	1,408,110
Bonds and other negotiable securities	1,185,617	-	1,185,617
Derivatives	-	26,496	26,496
Long term/ non current	2,593,727	26,496	2,620,223
Loans from credit entities	47,446	-	47,446
Bonds and other negotiable securities	17,498	-	17,498
Other financial liabilities	623,006	-	623,006
Short term/ current	687,950	-	687,950
Total	**3,281,677**	**26,496**	**3,308,173**

Issuing of debentures and other negotiable securities and debts with credit institutions

The details of Debentures and other negotiable securities and debts with credit institutions to 31 December 2008 and 2007 are as follows:

	Book value Thousands of euro		Reasonable value Thousands of euro	
	2008	2007	2008	2007
USD issues	358,823	339,171	416,612	347,834
Euro issues	896,131	847,990	860,046	855,766
Euro bank payables	1,578,112	1,386,775	1,505,122	1,399,042
Bank loans in foreign currency	58,752	62,234	65,054	62,109
Total	**2,891,818**	**2,636,170**	**2,846,834**	**2,664,751**

The fair value of the debts with credit institutions and of the issues of debentures and other negotiable securities has been estimated using a valuation technique based on the discounting of future cash flows at the market interest rates applicable on each date.

To 31 December 2008 the interest accrued and not paid on these debts amounted to €22,691k (€22,501k in 2007).

Issues in euros to 31 December 2008 includes issues carried out by Red Eléctrica de España Finance BV of €847,143k of eurobonds in the Eurobonds Issue programme (€846,446k in 2007) and issues of short-term maturity promissory notes for €48,988k (€1,544k in 2007).

Issues in US dollars to 31 December 2008 contains €358,823k (€339,171k in 2007), 500,000k dollars hedged in euros obtained in the United States private placements (USPP) market.

Bank debts in euros to 31 December 2008 contains the syndicated line of credit, fully drawn down for the sum of €898,476k (€889,049k in 2007) falling due in 2012. This section also contains long-term loans and credit policies for €679,636k (€497,726k in 2007).

The details of maturity dates of the issues and of the bank debts to 31 December 2008 are as follows:

	Thousands of euro						
	2009	2010	2011	2012	2013	2014 and after	TOTAL
USD issues	-	-	-	-	-	358,823	358,823
Euro issues	48,988	-	49,832	-	797,311	-	896,131
Euro bank payables	23,565	19,926	24,336	923,735	21,608	564,942	1,578,112
USD bank loans	6,420	6,573	6,733	6,902	7,080	25,044	58,752
	78,973	**26,499**	**80,901**	**930,637**	**825,999**	**948,809**	**2,891,818**

The average rate of interest in 2008 was 4.39% (4.22% in 2007).

To 31 December 2008 the companies of the Group have current facilities with credit institutions with an amount pending draw-down of €225,000k long-term (€225,000k to 31 December 2007) and €268,564k short-term (€246,001k to 31 December 2007).

To 31 December 2008 the parent company has a promissory note issue programme registered with National Securities Market Commission with a maximum limit of €250,000k (€250,000k to 31 December 2007).

Derivatives

The details for derivates are given in note 17.

Other current financial liabilities

The detail for this section of the attached consolidated balance sheet to 31 December 2008 and 2007 is as follows:

	Thousands of euro	
	2008	2007
Dividend payable	60,403	52,208
Fixed asset suppliers and other debt	612,957	570,798
	673,360	**623,006**

The balance for fixed asset suppliers and other debts basically contains balances pending settlement for activities carried out in the Spanish electricity system.

(17) DERIVATIVE FINANCIAL INSTRUMENTS

Grupo Red Eléctrica, in accordance with its financial risk management policy, holds derivative financial instruments the details of which to 31 December 2008 and 2007 are given below:

			Thousands of euro			Thousands of euro		
			2008			2007		
			Current	Non current		Current	Non current	
	Principal covered	Maturity date	Liability	Asset	Liability	Asset	Asset	Liability
Interest rate coverage:								
- Cash flow coverage								
Interest rate swap	325,000 thousand euro	To 2012	(389)	-	(3,168)	1,285	10,772	-
Interest rate swap	425,000 thousand euro	To 2015	-	-	(10,555)	-	6,571	-
Interest rate and exchange rate cover:								
- Cash flow coverage (Cross currency swap)	500,000 dollars	To 2035						
Interest rate coverage			-	103,453	-	-	-	45,715
Exchange rate coverage			-	(52,589)	-	-	-	(72,211)
			(389)	**50,864**	**(13,723)**	**1,285**	**17,343**	**(26,496)**

The details of derivative financial instruments by maturity date to 31 December 2008 are the following:

			Thousands of euro					
	Principal covered	Maturity date	2009	2010	2011	2012	2013 and after	Total
Interest rate coverage:								
- Cash flow coverage								
Interest rate swap	325,000 thousand euros	To 2012	(389)	36	(1,467)	(1,737)	-	(3,557)
Interest rate swap	425,000 thousand euros	To 2015	-	(402)	-	-	(10,153)	(10,555)
			(389)	**(366)**	**(1,467)**	**(1,737)**	**(10,153)**	**(14,112)**
Interest rate and exchange rate cover:								
- Cash flow coverage (Cross currency swap)	500,000 thousand USD	To 2035						
Interest rate coverage			-	-	-	-	103,453	103,453
Exchange rate coverage			-	-	-	-	(52,589)	(52,589)
			-	**-**	**-**	**-**	**50,864**	**50,864**

(18) TRADE AND OTHER PAYABLES

The details of this section of the accompanying consolidated balance sheet at 31 December 2007 and 2006 are as follows:

	Thousands of euro	
	2008	2007
Trade payables	190,682	148,000
Other payables	36,375	38,720
Current advances	64,788	41,956
	291,845	**228,676**

Creditors for services relate mainly to amounts payable for engineering, construction and maintenance work and changes to electricity facilities.

Other creditors relates mainly to advances on income for engineering and construction work and changes to electrical installations requested by third parties.

(19) TAX SITUATION

The tax group of which Red Eléctrica de España, S.A. is the Parent Company has filed consolidated tax returns in Spain since 2002. The tax payable is distributed among the companies forming the tax group based on the agreements established between the Group companies, adapted to the Resolutions of the Spanish Institute of Accountants and Auditors (ICAC) of 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 2008 the tax group is made up of REI and REE 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:

	Thousands of euro	
	2008	2007
Consolidated accounting results for the year before taxes	415,039	361,598
Permanent differences and consolidation adjustments	10,037	(193)
Consolidated tax base for accounting purposes	425,076	361,405
Tax at current rate in each country	130,347	120,576
Deductions	(1,433)	(1,884)
Corporate income tax	128,914	118,692
Changes in tax rate (Law 35/2006)	-	(150)
Corporate income tax	128,914	118,542

Of the tax on profits €128,175k is for current tax and €739k for deferred tax.

Law 35/2006, of 28 November 2006, which came into effect on 1 January 2007, which amends the Corporate Income Tax Act and reduces the general tax rate from 35% to 32.5% in 2007 and 30% as from 2008, triggered net accounting income in 2007 of €150k which relates to the tax effect on results that that restatement has had on the balance of deferred tax assets and liabilities reflected by the Group companies.

Current balances payable to and receivable from public bodies at 31 December 2008 and 2007 are as follows:

	Thousands of euro	
	2008	2007
Current debtor balances		
VAT refundable	49,299	158
Taxes refundable	-	1,074
Incorrectly paid taxes refundable	364	8,081
Current creditor balances		
VAT payable	1,532	7,132
Other taxes payable	1,386	2,502
Corporate income tax payable	64,788	41,956

Deferred tax assets and liabilities at 31 December 2008 and 2007 are as follows:

	Thousands of euro	
	2008	2007
Deferred tax assets		
Retirements and commitments with employees	10,015	17,610
Capital grants	2,956	3,995
Other	38,038	21,423
Total deferred tax assets	**51,009**	**43,028**
Deferred tax liabilities		
Accelerated depreciation	49,568	48,440
Non-deductible assets	66,946	72,165
Other	46,770	33,770
Total deferred tax liabilities	**163,284**	**154,375**

The Balance section, for deferred tax assets and liabilities, basically records the tax effect of financial derivatives.

Temporary differences in the recognition of expenses and income for accounting and tax purposes, to 31 December 2008, and their accumulative tax effect, for assets and liabilities, are as follows:

Thousands of euro

	Profit and loss acount	Income and expenditure directly allocated to shareholders' equity
	Increases	Increases
Deferred tax assets:		
Incurred in previous periods	27,515	15,513
Movements for the period	(6,000)	13,981
Total deferred tax assets	**21,515**	**29,494**
Deferred tax liabilities:		
Incurred in previous periods	123,308	31,067
Movements for the period	(5,261)	14,170
Total deferred tax liabilities	**118,047**	**45,237**

Additionally, the Group companies' tax returns for the last four tax years for the principal taxes to which they are subject are open to inspection, except for corporate income tax in the Parent Company and its tax group for which returns are open to inspection from 2003. Because of the different interpretations which may be afforded to tax regulations, additional liabilities could arise as a result of the inspection of the years open to inspection. Nonetheless, the directors do not expect that these liabilities should they arise would significantly affect the Group's consolidated financial statements.

(20) INCOME AND EXPENSES

a) Net turnover

Details of this heading in the consolidated income statement for 2008 and 2007, distributed over geographical zones, are as follows:

Thousands of euro

	2008	2007
Domestic market	1,101,339	1,009,480
Foreign market	24,545	21,430
	1,125,884	**1,030,910**

The section Internal market includes principally income from transmission services and operation of the Spanish electricity system which is set by ministerial order.

The section External market includes principally income from the provision of transmission services in Bolivia which is set annually by the Electricity Inspectorate.

b) Other operating revenue

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 2008 and 2007 are as follows:

	Thousands of euro	
	2008	2007
Supplies	62,130	61,875
Other operating costs	224,361	184,695
	286,491	**246,570**

Materials and other operating expenses mainly reflect expenses deriving from the repair and upkeep of electricity facilities. In addition, this heading records, inter alia, IT, advisory, rental and other services.

In 2008 the provision of 11 million euros is included to cover the penalty imposed by the Generalitat of Catalonia (note 13).

d) Staff costs

Details of staff costs in the consolidated income statement for 2008 and 2007 are as follows:

Thousands of euro

	2008	2007
Wages and salaries	69,772	65,056
Social Security	16,130	14,178
Contributions to pension funds and similar commitments	1,201	1,086
Other items and welfare expenses	6,824	12,335
	93,927	92,655

Group companies have capitalised staff costs amounting to €5,067k at 31 December 2008 and €4,281k at 31 December 2007.

Current employees

The average headcount of the Group in 2008 and 2007, distributed by professional category , is as follows:

	2008	2007
Management team	129	123
Senior qualified staff	433	397
Qualified staff	509	490
Clerical and technical personnel	450	446
	1,521	1,456

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

	2008			2007		
	Male	Female	Total	Male	Female	Total
Management team	110	19	129	110	17	127
Senior qualified staff	321	146	467	276	121	397
Qualified staff	454	87	541	431	67	498
Clerical and technical personnell	347	110	457	339	107	446
	1,232	362	1,594	1,156	312	1,468

As of 31 December there are 11 directors including the managing director, of whom 8 are men and 3 are women (11 directors in 2007, 10 men and one woman).

e) Impairment and disposal of fixed assets

In 2007 this heading mainly records the value adjustment on certain electrical installations of the Parent Company, the construction of which was brought to a standstill for reasons beyond the Company's control.

f) Financial expenses

This section contains the financial expenses associated, net of financial capitalisation, with the financial debt of the Group. Capitalisation of financial expenses in 2008 was €12,997k (€ 9,104k in 2007).

(21) BALANCES AND TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

a) Balances and transactions with associates

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 2008 and 2007 are as follows:

(in thousands of euro)

	2008				2007			
	Balances		Transactions		Balances		Transactions	
	Debtor	Creditor	Expenses	Income	Debtor	Creditor	Expenses	Income
Red Eléctrica del Sur S.A. (Redesur)	71	154	6	641	1,463	171	11	738

b) Balances and transactions with related parties

Related-party transactions have been completed under arm's length conditions, the details being as follows:

2008					
INCOME AND EXPENDITURE	Significant shareholders	Board members and directors	Individuals, companies and entities in the Group	Other related parties	Total
Management or collaboration agreements	-	-	-	63	63
Other expenses	-	-	-	603	603
EXPENSES	-	-	-	666	666
Dividends received	-	-	-	4,352	4,352
INCOME	-	-	-	4,352	4,352

2007					
INCOME AND EXPENDITURE	Significant shareholders	Board members and directors	Individuals, companies and entities in the Group	Other related parties	Total
Management or collaboration agreements	-	-	-	94	94
Other expenses	-	-	-	519	519
EXPENSES	-	-	-	613	613
Dividends received	-	-	-	-	-
INCOME	-	-	-	-	-

(22) REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

In 2008 and 2007 the members of the Board of Directors of the Parent Company accrued total remuneration of €2,486k and €2,479k, respectively. The aforementioned amounts include estimated performance linked bonuses and the salaries of directors who are also employees. A breakdown of remuneration in accordance with the information model introduced by the National Securities Market Commission, which was approved in Circular 1/2004 of 17 March 2004 for the Annual Corporate Governance Report, is as follows:

Remuneration from the Parent Company:

	Thousands of euro	
	2008	2007
Salary item:		
Fixed remuneration	388	391
Variable remuneration	1,253	1,269
Per diem expenses	833	808
Contributions life insurance and pension plans	12	11
Total remuneration	**2,486**	**2,479**

Total remuneration by type of Director is as follows:

	Thousands of euro	
	For parent company	
	2008	2007
Type of Director:		
Executive	782	772
Eternal domanial	516	517
External independent	1,188	1,190
Total remuneration	**2,486**	**2,479**

Total remuneration earned by the members of the Board of Directors of Red Eléctrica Corporación, S.A. in 2008, by Director, is as follows.

	Thousands of euro				
	Fixed remuneration	Variable remuneration	Expenses for attending Board of Directors Meetings and Commissions	Life assurance and pension plan allocations	Total
D. Luis Mª Atienza Serna	388	297	85	12	782
D. Pedro Rivero Torre[2]	-	37	36	-	73
D. Juan Gurbindo Gutiérrez[1][2]	-	37	41	-	78
D. Antonio Garamendi Lecanda	-	96	91	-	187
D. Manuel Alves Torres[1]	-	96	85	-	181
D. José Riva Francos[2]	-	37	25	-	62
D. José Manuel Serra Peris[2]	-	37	28	-	65
D. Rafael Suñol Trepat	-	96	62	-	158
Dña. María de los Ángeles Amador Millán	-	96	85	-	181
D. Francisco Javier Salas Collantes	-	96	85	-	181
D. Martín Gallego Málaga	-	96	61	-	157
D. José Folgado Blanco[3]	-	58	30	-	88
Dña. Arantza Mendizábal Gorostiaga[3]	-	58	48	-	106
D. José Rodrigues Pereira Dos Penedos[3]	-	58	30	-	88
Dña. María Jesús Álvarez[1][3]	-	58	41	-	99
Total remuneration accrued	**388**	**1,253**	**833**	**12**	**2,486**

(1) Amounts received by Sociedad de Participaciones Industriales (SEPI)
(2) Stepped down from their position as Board Members in 2008
(3) Joined the Board of Directors in 2008

Additionally in 2008 the managing director has received remuneration of 30k euros for his position as a member of the board of directors of REN. This amount has been deducted from the managing director's fixed annual remuneration at his own request.

The Company has also established a three year performance- linked remuneration plan for Managers (2006-2008), including the executive director, which on 31 December is pending evaluation and approval, and which will be paid, if appropriate, in the course of 2009.

The Executive director contract contains clauses regarding guarantees or safeguards in respect of dismissal. This contract was proposed by the Committee of Appointments, Remuneration and Corporate Governance of 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 2008 and 2007 no loans, advances or guarantees to members of the Board of Directors of the Parent company are reflected in the consolidated balance sheet. Nor are there at that date any pension commitments with members of the Board of Directors.

In 2008 and 2007 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 directors of the Parent Company at 31 December 2007 in the share capital of companies with the same or similar or complementary activity to that of the company as well as the posts they hold and functions they perform and where applicable the performance, on that date, on an employed or self-employed basis, 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 Parent Company.

(23) MANAGEMENT REMUNERATION

In 2008 senior management remuneration and life assurance and pension plan contributions amounted to €930k and €29k, respectively (€872k and €27k in 2007).

The Company has also established a three year performance-linked remuneration plan for these managers (2006-2008), which on 31 December is pending evaluation and approval and which will be paid, if appropriate, during 2009.

Senior managers who have provided their services in 2007 are as follows:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager for Transport
Esther Mª Rituerto Martínez	General Manager for Finance and Admin.
Alberto Carbajo Josa	General Operations Manager

At 31 December 2007 and 2006 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. These contracts containing such clauses are approved by the Committee of Appointments, Remuneration and Corporate Governance and the Board of Directors has been informed of them.

(24) SEGMENT REPORTING

The Red Eléctrica Group's core activity is the transmission of electricity and operation of the electricity system in Spain by way of REE, which accounts for 93% of the Group's consolidated turnover and 95% of total assets. Other activities account for the remaining 7% of turnover and 5% of total assets. It has therefore not been considered relevant to provide information by activity or geographical segment.

(25) GUARANTEES AND OTHER OBLIGATIONS WITH THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

The company guarantees, jointly and severally with REE, the eurobonds programme established in Holland for up to 1,500 million euros and the private issue of bonds in the United States of America by the group company RBV for 500 million US dollars. REI is also guarantor of the loan of the Bolivian company TDE with the International Finance Corporation (hereinafter IFC). REI's undertakings to the IFC include retaining a minimum shareholding in TDE and the effective control of the said company and subsidiary liability for the payments to IFC.

At 31 December 2008 the principal long-term contracts and commitments to which Group companies are party are as follows:

- Contracts between EDF and the Parent Company for the import and export of electricity until 2010. The power quotas established in these two contracts range from 550 to 300 MW until maturity.
- 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.
- Undertakings to acquire constructions for €13,500k.

The companies' undertakings are basically under contracts to acquire materials and services to be used in the construction of electrical energy technical installations in the course of their ordinary activity. Additionally, to establish the single transmission operator, companies which own transmission installations must transfer them to REE within three years of Law 17/2007 of 4 July coming into force. This Law provides that the sale price shall be agreed by the parties and based on market rates.

At 31 December 2008 the Group has bank guarantees in favour of third parties amounting to €17,514k (€11,171k in 2007).

(26) ENVIRONMENTAL INFORMATION

During 2008 Group companies incurred ordinary expenses of €17,252k to protect and improve the environment (€15,388k in 2007). 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 2008 environmental impact studies and environmental supervision have been conducted at the newly constructed electrical facilities valued at €5,084k (€2,087k in 2007 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 2008 and 2007 the Group companies have received no significant environmental grants.

(27) OTHER INFORMATION

The Group's auditor has been PricewaterhouseCoopers Auditores, S.L. since 2006. Remuneration accrued in respect of items related to the audit of the accounts of the Group companies in 2008 amounts to approximately €138k (€102k in 2007). There has been no remuneration accrued in 2008 by companies directly or indirectly related to the auditors for professional services other than the audit of the accounts (€8k in 2007).

(28) EARNINGS PER SHARE

Details of earnings per share for 2008 and 2007 are as follows:

	2008	2007
Net profit (thousands of euro)	286,119	243,049
Number of shares (shares)	135,270,000	135,270,000
Average number of own shares (shares)	568,257	856,824
Basic profit per share (euro)	2.12	1.81
Diluted profit per share (euro)	2.12	1.81

At 31 December 2008 and 2007 the Group has not performed any operations which would result in any differences arising between basic earnings per share and diluted earnings per share.

(29) SHARE -BASED PAYMENTS

In 2008 the Group has awarded shares to its managers in the amount of €709k (€285k in 2007). It has also awarded shares to employees in the amount of €4,060k (€705k in 2007).

All of these awards of shares have been made with the authorisation of the Shareholders' General Meeting of the Parent company.

(30) EVENTS AFTER 31 DECEMBER 2008

There have been no other significant events after the year end to the date of preparation of these Consolidated Financial Statements.

Appendix I

GRUPO RED ELÉCTRICA

Breakdown of shareholdings at 31 December 2008 (in thousands of euro)

Company. - Domicile. - Main activity.	Percentage interest held by parent company Direct	Percentage interest held by parent company Indirect	Net book value of company holding the interest
Red Eléctrica Corporación, S.A., parent company, incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - Control of the business group, rendering of assistance and support to owned companies, use of Company propert, and international trade of electrical energy in the long term.			
A) Companies consolidated by the Global Integration Method			
Red Eléctrica de España, S.A.U. (REE)	100%	-	1,014,326
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - Management of the transport and operations of the Spanish electrical system and control of the transport network.			
Red Eléctrica Internacional, S.A.U. (REI)	100%	-	60,010
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - International holdings. Rendering of consultancy, engineering and construction services. Electrical activities outside Spanish electrical system.			
Red Eléctrica de España Finance, B.V. (RBV)	100%	-	2,000
- Claude Debussylaan, 24. Amsterdan (Holand). - Financing activities.			
Red Eléctrica Andina, S.A.C. (REA)	-	100% [1]	31
- Juan de la Fuente, 453. Lima (Peru). - International holdings. Rendering of consultancy, engineering and construction services. Electrical activities outside Spanish electrical system.			

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Company. - Domicile. - Main activity.	Percentage interest held by parent company Direct	 Indirect	Net book value of company holding the interest
Transportadora de Electricidad, S.A. (TDE) - C/ Colombia, Nº 00655, casilla, Nº 640. Cochabamba (Bolivia). - Electrical energy transport.	-	99.94% (1)	64,674
Cybercia, S.R.L. (CYBERCIA) - C/ Colombia, Nº 00655, casilla, Nº 640. Cochabamba (Bolivia). - Business and services in general.	-	75% (2)	60
B) Companies consolidated by the Proportional Method			
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Initiale,1. Terrasse Bellini, TSA 41000, 92919 La Défense Cedex. Paris (France). - Analysis and execution of extending the Spain - France interconnection capacity.	-	50% (3)	2,000
C) Companies consolidated by the Equity Method			
Red Eléctrica del Sur, S.A. (REDESUR) - Juan de la Fuente, 453. Lima (Peru). - Electrical energy transport.	-	33.75% (1)	4,719
Red Internacional de Comunicaciones del Sur, S.A. (REDINSUR) - Juan de la Fuente, 453. Lima (Peru). - Telecomunications.	-	33.74% (4)	40

(1) Holding through REI
(2) Holding through TDE
(3) Holding through REE
(4) Holding through REDESUR
This Appendix is an integral part of Note 1 to the consolidated Financial Statements

Appendix II

GRUPO RED ELÉCTRICA CORPORACIÓN, S.A.

Information of Members of the Board of Directors of the Parent Company at 31 December 2008

Members of the Board of Directors	Role in the Board of Directors	Direct or indirect holdings of the Parent Company's Directors in the capital of companies engaging in activities which are identical, analogous or complementary to those making up the Parent Company's objects	Positions and duties of Board Members in companies outside the Red Eléctrica Group engaging in activities which are identical, analogous or complementary to those making up the Parent Company's objects
Mr. Luis Mª Atienza Serna	Chairman	----------	Board Member of Redes Energéticas Nacionais, SGPS, S.A. (REN)
Mr. José Folgado Blanco	Board Member	----------	----------
Ms. Arantza Mendizábal Gorostiaga	Board Member	7,336 shares in Iberdrola, S.A. 33 shares in Endesa, S.A. 696 shares inIberdrola Renovables, S.A.	----------
Mr. Antonio Garamendi Lecanda	Board Member	----------	----------
Mr. Manuel Alves Torres	Board Member	----------	----------
Mr. José Rodrigues Pereira Dos Penedos	Board Member	75,000 shares in Redes Energéticas Nacionais, SGPS	President of the Consejo de Redes Energéticas Nacionais, SGPS (REN) President of REN-RED ELÉCTRICA Nacional S.A. Electricity Transport Operator and Technical Manager of the National Electricity System
Ms. María Jesús Álvarez González	Board Member	----------	----------
Mr. Rafael Suñol Trepat	Board Member	----------	----------
Ms. María de los Ángeles Amador Millán	Board Member	----------	----------
Mr. Martín Gallego Málaga	Board Member	----------	----------
Mr. Francisco Javier Salas Collantes	Board Member	----------	----------

None of the members of the board of directors has carried out any other activity, on an employed or self-employed basis, of the same kind as the activity which constitutes the object of the Company or analogous or complementary to it.

FIRMA DE LOS MIEMBROS DEL CONSEJO DE ADMINISTRACION EN CUMPLIMIENTO DEL ARTICULO 171 DEL T.R. DE LA LEY DE SOCIEDADES ANONIMAS.

LUIS ATIENZA SERNA:

ANTONIO GARAMENDI LECANDA:

MANUEL ALVES TORRES:

RAFAEL SUÑOL TREPAT:

MARÍA ANGELES AMADOR MILLÁN:

FRANCISCO JAVIER SALAS COLLANTES:

MARTÍN GALLEGO MÁLAGA:

JOSÉ RODRIGUES PEREIRA DOS PENEDOS:

JOSÉ FOLGADO BLANCO:

ARANTZA MENDIZÁBAL GOROSTIAGA:

MARÍA JESÚS ÁLVAREZ GONZÁLEZ:

03 Consolidated Directors' Report

EVOLUTION OF BUSINESS. MOST SIGNIFICANT EVENTS

In 2008 GRUPO RED ELÉCTRICA introduced the new corporate structure laid down by Law 17/2007 by transferring regulated activities to the company Red Eléctrica de España S.A.U. (hereinafter REE or Red Eléctrica), wholly owned subsidiary of the parent company of the Group, Red Eléctrica Corporación hereinafter REC).

In the financial year 2008 GRUPO RED ELÉCTRICA, in addition to obtaining satisfactory financial results, has made significant achievements in the various business activities of the Group.

Business in Spain

During 2008 the investment efforts of REE in the electrical energy transmission network in Spain have remained constant, which has allowed the company to exceed the investment figures reached in recent years. Investment in the national transmission network has been €613.7 million, the most significant initiatives in the financial year being the following:

- The reinforcement of the transmission network of Catalonia, Castilla-Leon, Asturias, Galicia and Andalusia.
- The improvement of the grid and extension of the 220 kV network in the regions of Valencia, Catalonia and Madrid.
- The carrying out of projects aimed at the evacuation of generating capacity of new combined cycle plants and various wind farms has continued.
- Work to connect the Iberian peninsula and the Balearic Islands by an underwater cable has gone on.

REE, as Transmitter and Operator of the electricity system, has ensured the continuity of the electricity supply according to strict standards of efficiency and transparency of dealings with other operators.

- The behaviour of the company's transmission network has been excellent: total availability of the network in 2008 reached 98.17%.
- The effort made to integrate renewable energies stands out in 2008. Wind energy exceeded previous records for instantaneous power, hourly energy and daily energy on a number of occasions. On 18 April new records were set for production of wind power: 10,879 MWh of instantaneous power, 10,727 MWh of hourly wind power production and 213,169 MWh of daily wind power production, 28.2% of electricity demand on that day.

The high variability of wind energy has caused extreme situations such as that of 24 November (4.47 hours) in which 43% of demand was covered by that energy source, while on the 27th of the same month, in the same week, at 16.22 it hardly covered 1.15% of total consumption. For the whole of the year wind energy has provided 11% of coverage of demand.

Also in the financial year 2008 REE contributed 50% together with RTE EDF Transport S.A. to the setting up of Sociedad Interconexión Eléctrica Francia-España S.A.S., based in Paris, the object of which is to study and carry out the future increase of interconnection capacity between Spain and France, which is a further step towards attaining the objective of increasing the interconnection capacity of the Spanish electricity system.

Business outside Spain

The business activities of GRUPO RED ELÉCTRICA outside Spain are handled by Red Eléctrica Internacional which, with investments in South America, Bolivia (through TDE) and Peru (through REDESUR) and consultancy and technical assistance work for third parties, is responsible for the development of the Group's international business

Both REDESUR in Peru and TDE in Bolivia have focused their activities on their electricity markets, where they have achieved excellent standards of quality in the operation and maintenance of their installations, with excellent availability rates.

PRINCIPAL ECONOMIC INDICATORS

Post-tax profits in 2008 amounted to €286.1 million, which represents an increase of 17.7% on the profits obtained in 2007.

Consolidated turnover, net of energy purchases, was €1,125.9 million with growth of 9.2%, due principally to the greater asset base to be remunerated on account of the installations brought into service in 2007.

Supplies and other operating expenses increased by 16.1%, mainly on account of the higher level of renovation, improvement and maintenance work on the network during the financial year 2008.

The gross operating profit (EBITDA) reached €771.6 million, an increase of 6.8% on 2007. The EBITDA has been affected by the making of a provision of 11 million euros to cover the penalty imposed by the Generalitat of Catalonia, due to the penalty proceedings brought in relation to the interruption of the supply of electricity in Barcelona in July last year. Apart from the provision, the penalty has been appealed against as the company does not accept the assumptions and valuations the body in charge of the proceedings used for the imposition of the penalty.

The net operating profit (EBIT) has increased by 12.1% in relation to 2007.

Tangible and intangible investments carried out during the financial year reached €635.1 million, exceeding by almost 1% those carried out in 2007.

Dividends paid in 2008 amounted to €146.9 million, 21% more than the €121.0 million paid in 2007. This sum is for payment of dividends on account and the supplementary dividend of 2007.

The net financial debt at the end of 2008 amounted to €2,929 million, higher than the figure for the previous financial year due to the significant investment effort made. The credit rating agencies Standard and Poor's and Moody's have maintained the credit ratings AA- and A2 respectively in 2008.

The shareholders' equity of GRUPO RED ELÉCTRICA reached €1,336.6 million, an increase of 11.1% in respect of the previous year, basically due to the growth in profits over the period.

STOCK MARKET DEVELOPMENTS AND SHAREHOLDER RETURNS

RED ELÉCTRICA is part of the IBEX-35 and its weighting in this index at the close of the financial year 2008 was 1.51%. The free-float capital of the company was 80% in the course of 2008.

The stock market capitalisation of the company at the end of 2008 was €4,869 million. The shares of RED ELÉCTRICA have behaved in a less negative manner than most of the world stock market indices, which have shown very significant losses.

RED ELÉCTRICA has also maintained its undertaking to maximise shareholder value, offering high dividend returns in 2008.

OWN SHARES

In 2008, with a view to securing for investors adequate levels of depth and value liquidity, acquisitions have been made of 4,908,646 securities, for an overall par value of €10 million and a cash sum of €184 million. The number of shares disposed of has risen to 4,551,800 securities, for an overall par value of €9 million and a cash sum of €175 million.

To 31 December 2008 the company's holding of its own shares represented 0.48% of the share capital and amounted to 652,011 securities, the overall par value being €1.3 million and the market value €23.5 million.

The company has complied with the obligations deriving from article 75.2 and the first additional provision of the Public Limited Companies Act which provides, in relation to shares quoted on a secondary market, that the par value of the shares acquired added to that of the shares which the company and its subsidiaries already hold must not exceed 5% of the share capital. The subsidiaries do not hold any of their own shares or shares in the company.

RISK MANAGEMENT

GRUPO RED ELÉCTRICA has a risk control system which covers all of its operations and is adapted to its risk profile. The Risk Policy and the General Procedure of Integrated Risk Management and Control are based on the integrated commercial management framework contained in the COSO II report (Committee of sponsoring organisations).

The main risks identified for the achieving of strategic objectives are regulatory, as the main business of GRUPO RED ELÉCTRICA is subject to regulation: operational, deriving basically from operations carried out for the service to electrical systems; financial and environmental.

The Risk Control System also includes financial risk management. The policies to cover each type of risk are set out in note 14 of the Notes to the Consolidated Financial Statements.

ENVIRONMENT

GRUPO RED ELÉCTRICA sets itself the task making development of electricity infrastructures compatible with the preservation of the natural environment so as to reach an effective balance between business operations and sustainability.

For this reason in 2008 it has continued its policy of carrying out environmental impact studies in all plans for new installations, whether they are subject to the legal procedure for environmental impact evaluation or not.

All activities designed to protect the environment which GRUPO RED ELÉCTRICA carries on in its various fields of operation (environmental supervision, protection of bird life, pollution prevention, power line corridors, environmental training, compensation measures, etc.) form part of the Environmental Management System and are contained in the Environmental report which is published annually.

RESEARCH, DEVELOPMENT AND INNOVATION (I+D+i)

The research, development and innovation (I+D+I) activity of GRUPO RED ELÉCTRICA is aimed, within its corporate strategy, to ensure the efficiency and safety of the infrastructures which support the electricity system.

In 2008 I+D+I projects in GRUPO RED ELÉCTRICA reached €4.2 million with more than 50 projects being carried out.

STAFF

The operations of GRUPO RED ELÉCTRICA follow on from the company's mission to serve society at large and its commitment to ethical responsibility, values on which its staff management policies are based.

The Group's commitment to employee development takes the form, among other measures, of steps aimed at:

- The creation of stable quality employment.
- The development of policies which favour equality of opportunity.
- Achieving a balance with family and private life, introducing policies which go beyond the applicable regulations in this area.

These steps contribute without doubt to creating commitment to the Group and its commercial project among employees, one of the basic pillars of its operations.

EVENTS SUBSEQUENT TO 31 DECEMBER 2008

There have been no relevant events subsequent to 31 December 2008.

FORESEEABLE DEVELOPMENT

GRUPO RED ELÉCTRICA as the TSO will keep its strategy focused on the consolidation of the Spanish TSO in order to carry out the necessary investment in the network in accordance with the Infrastructures Plan, which will make it possible to ensure the reliability and safety of the Spanish electricity system while at the same time introducing wind energy and co-generation into the operation of the system.

RED ELÉCTRICA will combine this programme of network improvement and expansion with steps aimed at optimising its operating margins and maintaining the high levels of reliability of the network.

Taking on the functions assigned by regulations and making the investments to be carried out in coming years, together with a remunerative, transparent, adequate and stable environment, will guarantee the growth of GRUPO RED ELÉCTRICA within the Spanish electricity system.

Moreover the maintenance of an efficient capital structure will allow GRUPO RED ELÉCTRICA to continue offering its shareholders high returns and solid growth in coming years.

All of this will involve the long-term creation of value, the securing of lasting competitive advantages, and the attaining of a better corporate reputation, focused on optimal service to society, the differentiating factor in the company's operations.

ARTICLE 116 BIS OF THE SECURITIES MARKET ACT FOR LISTED COMPANIES

The information required by article 116 bis of the Securities Market Act for listed companies is contained in the annual corporate governance report which is given below.

ANNUAL CORPORATE GOVERNANCE REPORT

This section gives the annual corporate governance report for the company (Red Eléctrica Corporación S.A.) for the financial year 2008, in accordance with National Securities Market Commission circular 4/2007:

Annual Corporate Governance Report

FIRMA DE LOS MIEMBROS DEL CONSEJO DE ADMINISTRACION EN CUMPLIMIENTO DEL ARTICULO 171 DEL T.R. DE LA LEY DE SOCIEDADES ANONIMAS.

LUIS ATIENZA SERNA:

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JOSÉ FOLGADO BLANCO:

ARANTZA MENDIZÁBAL GOROSTIAGA:

MARÍA JESÚS ÁLVAREZ GONZÁLEZ:

04

Individual Financial Statements Red Eléctrica Corporación S.A.

RED ELÉCTRICA CORPORACIÓN S.A.

Balance sheet at 31 december 2008 (in thousands of euro)

	2008
NON CURRENT ASSETS	**1,210,957**
Tangible fixed assets	**49,545**
Land and buildings	40,382
Other installations, equipment and furniture	920
Fixed assets in progress and advances	8,243
Investments	**2,190**
Land	629
Buildings	1,561
Non current investments in group and associated companies	**1,076,336**
Equity instruments	1,076,336
Non current financial investments	**75,694**
Equity instruments	75,694
Deferred tax assets	**7,192**
CURRENT ASSETS	**261,274**
Non current assets held for sale	**601**
Trade receivables and other accounts receivable	**5,086**
Trade receivables for sales and services	4,364
Sundry debtors	116
Other receivables with public entities	606
Current investments in group and associated companies	**249,886**
Loans to group and associated companies	189,166
Other financial assets	60,720
Accruals	**5,677**
Cash and equivalent liquid assets	**24**
Cash and banks	24
TOTAL ASSETS	**1,472,231**

RED ELÉCTRICA CORPORACIÓN S.A.

Balance at 31 december 2008 (in thousands of euro)

	2008
EQUITY	**1,192,492**
Treasury stock	**1,207,165**
Capital	270,540
Reserves	802,876
(Shares and stake in own equity)	(22,185)
Profit and losses for the period	216,337
(Interim dividend)	(60,403)
Adjustments for changes in value	**(14,673)**
Financial assets available for sale	(14,673)
NON CURRENT LIABILITIES	**5,207**
Non current provisions	**3,012**
Non current financial liabilities	**16**
Other non current	16
Borrowings from group companies and associates	**1,482**
Deferred tax liabilities	**337**
Accruals	**360**
CURRENT LIABILITIES	**274,532**
Current financial liabilities	**114,468**
Bonds and other negotiable securities	49,059
Other current debts	65,409
Current debts with group and associated companies	**80,956**
Trade creditors and other accounts payable	**70,605**
Other creditors	6,185
Personnel	1,748
Current tax liabilities	61,409
Other debts with public entities	1,263
Accruals	**8,503**
TOTAL EQUITY AND LIABILITIES	**1,472,231**

RED ELÉCTRICA CORPORACIÓN S.A.

Profit and loss accounts for the year 2008 (in thousands of euro)

	2008
Net sales	**550,351**
Work done by the company for assets	**2,363**
Raw materials and consummables	**(21,676)**
Other operating income	**12,314**
Other income	12,015
Allocation of non current non financial subventions	299
Staff costs	**(47,345)**
Wages and salaries	(35,236)
Social charges	(11,402)
Provisions	(707)
Other operating expenses	**(105,942)**
External services	(102,814)
Local taxes	(2,327)
Charges in trade provisions and bad debts written off	5
Other operating expenses	(806)
Non current asset depreciation	**(124,071)**
Allocation of non current non financial subventions and others	**4,027**
Surplus provision for liabilities	**100**
Deterioration and net results of disposal of non current assets	**219**
NET OPERATING PROFIT/LOSS	**270,340**

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Financial income	**76,682**
From equity investments	65,945
In group companies and associates	61,593
In third parties	4,352
From negociable segurities and financial instrument	4,913
From group companies and associates	4,577
From third parties	336
Financial capitalized expenses	5,824
Financial expenses	**(66,351)**
On debt with group companies and associated	(30,955)
On debt with thrid parties	(34,280)
Provision discount adjustments	(1,116)
Exchange differences	**(22)**
Deterioration and net result of disposal of financial instruments	**1,405**
Deterioration and losses	1,312
Net result of disposal and other	93
FINANCIAL PROFIT/LOSS	**11,714**
PROFIT/LOSS BEFORE TAXES	**282,054**
Taxes on profits	**(65,717)**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**216,337**
PROFIT/LOSS FOR THE YEAR	**216,337**

GRUPO RED ELÉCTRICA

Statement of changes in equity for the year 2008 (in thousands of euro)

	Share capital	Reserves	(Treasury stock)	Profit and loss for the period	(Interim dividend)	Subtotal equity	Adjustments for changes in value	Grants donations and legacies	Total Equity
Balances at 1 January 2008	270,540	711,111	(12,331)	238,682	(52,208)	1,155,794	42,220	183,367	1,381,381
Total income and expenditure recognized	-	2	-	216,337	-	216,339	2,063	4,918	223,320
Transactions with shareholders and owners									
(-) Dividend distribution	-	-	-	(146,938)	(8,195)	(155,133)	-	-	(155,133)
Transactions with treasury shares or own equity instruments (net)	-	(329)	(9,854)	-	-	(10,183)	-	-	(10,183)
Other transactions with share holders (Branch of activity transfer)	-	-	-	-	-	-	(58,956)	(188,285)	(247,241)
Other variations in equity									
2007 retained earnings	-	92,092	-	(91,744)	-	348	-	-	348
Balance at 31 December 2008	270,540	802,876	(22,185)	216,337	(60,403)	1,207,165	(14,673)	-	1,192,492

RED ELÉCTRICA CORPORACIÓN S.A.

Income and expenditure statement for year 2008 (in thousands of euro)

	2008
Profit for the period	**216,337**
For the valuation of Financial instruments	(20,961)
For Cash Flow coverage	23,965
Grants, donations and legacies	11,052
From actuarial gains and losses and other adjustments	3
Tax purposes	(4,218)
income and expenditure directly allocated to shareholders' equity	**9,841**
For Cash Flow coverage	(56)
Grants, donations and legacies	(4,027)
Tax purposes	1,225
Total amounts transferred to income statement	**(2,858)**
Total income and expenditure	**223,320**

RED ELÉCTRICA CORPORACIÓN S.A.

Cash flow statement. Year 2008 (in thousands of euro)

	2008
CASH FLOWS FROM OPERATING ACTIVITIES	**(56,305)**
Profit and loss before taxes	**282,054**
Profit and loss adjustments	**61,915**
Fixed asset depreciation	124,071
Changes in provisions	2,654
Grants release to income	(4,027)
Gains/losses from deterioration and disposal of fixed assets	(219)
Finance revenue	(65,944)
Financial expenses	(1,312)
Other income and expenses	6,692
Change in working capital	**(246,923)**
Stocks	(12,096)
Trade and other receivables	(3,355)
Other current assets	(203,017)
Trade and other accounts receivable	(28,455)
Other cash flows from operating activities	**(153,351)**
Interest payments	(61,259)
Dividend expenses	5,224
Interest expenses	336
Payments (expenses) for tax on profits	(97,465)
Other payments (expenses)	(187)

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CASH FLOWS FROM INVESTING ACTIVITIES	**(262,791)**
Payments for investments	**(263,238)**
Tangible fixed assets, intangible fixed assets and fixed asset investments	(263,644)
Other assets	406
Expenses for divestitures	**447**
Intangible fixed assets	311
Other financial assets	136
CASH FLOW FROM FINANCING ACTIVITIES	**317,583**
Expenses and payments for equity instruments	**(145)**
Acquisition and disposal from own equity instruments	(11,141)
Grants, donations and legacies received	11,052
Branch of activity transfer	(56)
Expenses and payments for financial liability instruments	**464,666**
Issue and disposal of financial liability with credit entities	496,413
Group companies and associated	(20,818)
Repayment and amortization	(10,929)
Payments for dividends and remuneration of other equity instruments	**(146,938)**
Dividends	(146,938)
NET INCREASE / (DECREASE) IN CASH AND EQUIVALENT	**(1,513)**
Cash and cash equivalents at the start of the period	**1,537**
Cash and cash equivalents at the end of the period	**24**

05 Proposed Profits Distribution

RED ELÉCTRICA CORPORACIÓN S.A.

Proposed profits distribution
Year 2008

The year 2008 profit reached Euros 216,337,081.06. The distribution of this profits, as proposed by the Board of Directors to the Annual General Meeting of Shareholders, provides for a gross dividend of Euros 1.2797 per share payable to those entitled to dividend. Accordingly, an interim dividend of Euros 0.4487 per share has already been paid out. The balance, after the said dividends have been paid, will be transferred to Voluntary Reserves.

	Amounts in euro
VOLUNTARY RESERVES	43,524,619.40
DIVIDEND:	
INTERIM DIVIDEND	60,403,091.66
EXTRA DIVIDEND (computed on the total number of shares)	112,409,370.00
Total	**216,337,081.06**

DECLARATION OF RESPONSABILITY OF THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors of RED ELÉCTRICA CORPORACIÓN S.A., declare that to the best of their knowledge, the individual annual accounts as well as the consolidated ones corresponding to 2008, formulated during the sessions of 24th February 2009, have been drawn up in accordance with the account practises in force and offer a fair view of the net worth, the financial situation and the results for RED ELÉCTRICA CORPORACIÓN, S.A., and the companies include in the overall consolidation, and that the individual and the consolidated reports include a true vision of the evolution of the state of affairs and of the position of RED ELÉCTRICA CORPORACIÓN, S.A. and of the companies involved in the overall consolidation, together with the description of the main risks and uncertainties faced by them.

Madrid, 24th February 2009

Luis Atienza Serna *Presidente*	Antonio Garamendi Lecanda *Consejero*	Manuel Alves Torres *Consejero*
Rafael Suñol Trepat *Consejero*	Mª Angeles Amador Millán *Consejera*	Francisco Javier Salas Collantes *Consejero*
Martín Gallego Málaga *Consejero*	*José Rodrigues Pereira dos Penedos* *Consejero*	*José Folgado Blanco* *Consejero*
Arantza Mendizábal Gorostiaga *Consejera*	*Mª Jesús Álvarez González* *Consejera*	