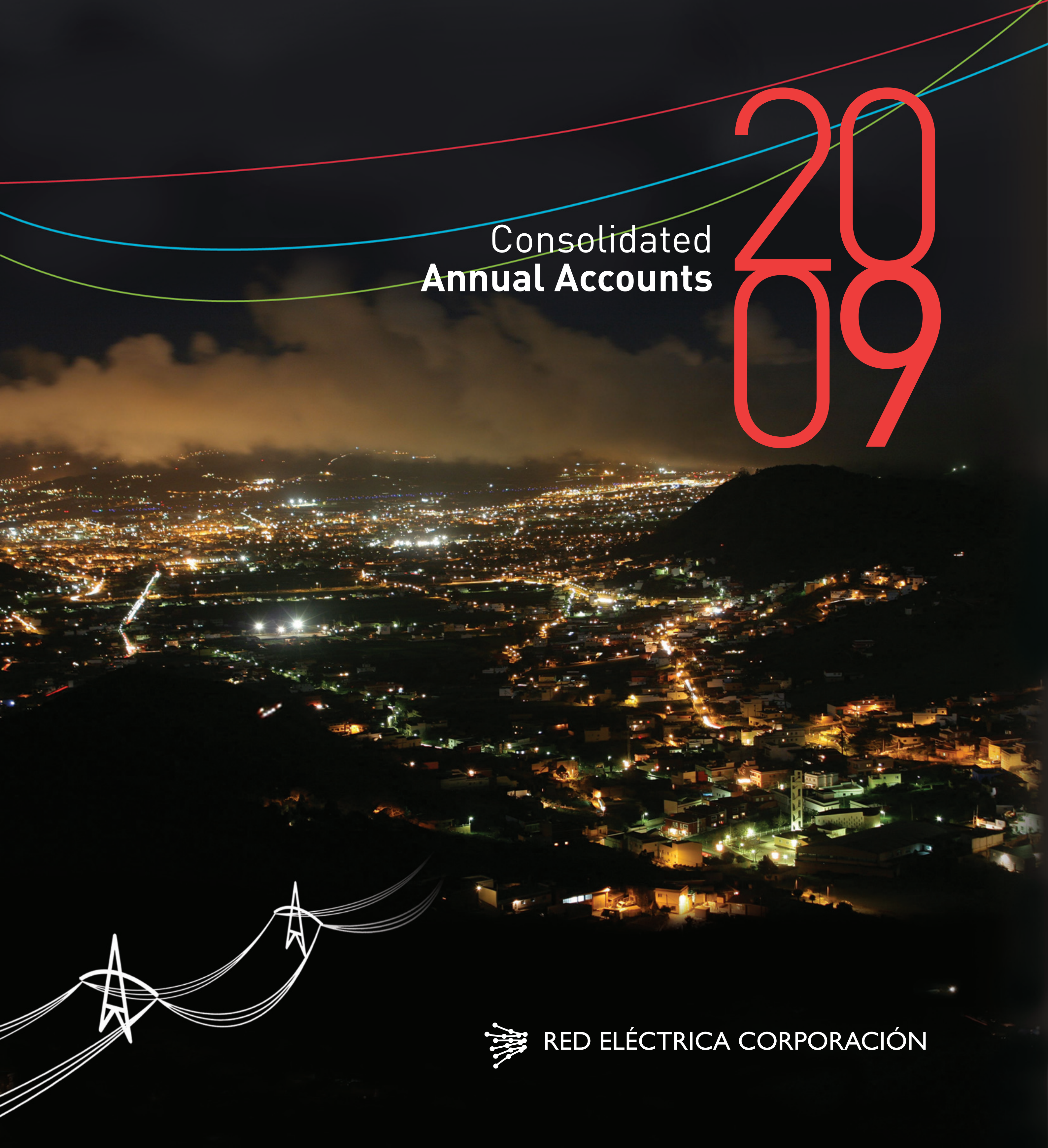

Consolidated **Annual Accounts** 2009

RED ELÉCTRICA CORPORACIÓN

Content

Audit Report

PRICEWATERHOUSECOOPERS

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INFORME DE AUDITORÍA DE CUENTAS ANUALES CONSOLIDADAS

A los señores Accionistas de Red Eléctrica Corporación, S.A.

Hemos auditado las cuentas anuales consolidadas de Red Eléctrica Corporación, S.A. (la sociedad dominante) y sus sociedades dependientes (el Grupo) que comprenden el balance de situación consolidado al 31 de diciembre de 2009, la cuenta de resultados consolidada, el estado consolidado de resultados global, el estado de cambios en el patrimonio neto consolidado, el estado de flujos de efectivo consolidado y la memoria consolidada correspondientes al ejercicio anual terminado en dicha fecha, cuya formulación es responsabilidad de los Administradores de la sociedad dominante. Nuestra responsabilidad es expresar una opinión sobre las citadas cuentas anuales consolidadas en su conjunto, basada en el trabajo realizado de acuerdo con normas de auditoría generalmente aceptadas en España, que requieren el examen, mediante la realización de pruebas selectivas, de la evidencia justificativa de las cuentas anuales consolidadas y la evaluación de su presentación, de los principios contables aplicados y de las estimaciones realizadas.

De acuerdo con la legislación mercantil, los Administradores presentan, a efectos comparativos, con cada una de las partidas del balance de situación consolidado, de la cuenta de resultados consolidada, del estado consolidado de resultados global, del estado de cambios en el patrimonio neto consolidado, del estado de flujos de efectivo consolidado y de la memoria de las cuentas anuales consolidada, además de las cifras del ejercicio 2009, las correspondientes al ejercicio anterior. Nuestra opinión se refiere exclusivamente a las cuentas anuales consolidadas del ejercicio 2009. Con fecha 25 de febrero de 2009 emitimos nuestro informe de auditoría acerca de las cuentas anuales consolidadas del ejercicio 2008 en el que expresamos una opinión favorable.

En nuestra opinión, las cuentas anuales consolidadas del ejercicio 2009 adjuntas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio consolidado y de la situación financiera consolidada de Red Eléctrica Corporación, S.A. y sus sociedades dependientes al 31 de diciembre de 2009 y de los resultados consolidados de sus operaciones, de los cambios en el patrimonio neto consolidado y de sus flujos de efectivo consolidados correspondientes al ejercicio anual terminado en dicha fecha y contienen la información necesaria y suficiente para su interpretación y comprensión adecuada, de conformidad con las Normas Internacionales de Información Financiera adoptadas por la Unión Europea que guardan uniformidad con las aplicadas en el ejercicio anterior.

El informe de gestión consolidado adjunto del ejercicio 2009 contiene las explicaciones que los Administradores de Red Eléctrica Corporación, S.A. consideran oportunas sobre la situación del Grupo, la evolución de sus negocios y sobre otros asuntos y no forma parte integrante de las cuentas anuales consolidadas. Hemos verificado que la información contable que contiene el citado informe de gestión consolidado concuerda con la de las cuentas anuales consolidadas del ejercicio 2009. Nuestro trabajo como auditores se limita a la verificación del informe de gestión consolidado con el alcance mencionado en este mismo párrafo, y no incluye la revisión de información distinta de la obtenida a partir de los registros contables de Red Eléctrica Corporación, S.A. y sus sociedades dependientes.

PricewaterhouseCoopers Auditores, S.L.

Francisco J. Martínez Pérez
Socio - Auditor de Cuentas

24 de febrero de 2010

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79031290

Free translation of the auditor's report on the consolidated annual accounts originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Red Eléctrica Corporación, S.A. (Parent Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2009, the consolidated income statement, the consolidated statement of overall result, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the Parent Company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed 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.

For comparative purposes and in accordance with Spanish Corporate Law, the Parent Company's Directors have presented for each item in the consolidated balance sheet, the consolidated income statement, the consolidated statement of overall result, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts, the corresponding amounts for the previous year as well as the amounts for 2009. Our opinion refers solely to the 2009 consolidated annual accounts. On 25 February 2009 we issued our audit report on the consolidated annual accounts for 2008, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for 2009 present fairly, in all material respects, the consolidated financial position of Red Eléctrica Corporación, S.A. and its subsidiaries at 31 December 2009 and the consolidated results of its operations, changes in consolidated net 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 as adopted by the European Union, applied on a basis consistent with the preceding year.

The accompanying consolidated Directors' Report for 2009 contains the information that the Parent Company's Directors considers relevant to the Group's position, the evolution of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned consolidated Directors' Report agrees with that of the consolidated annual accounts for 2009. 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 its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by Francisco J. Martínez Pérez
Partner

24 February 2010

01

Consolidated
Financial Statements
2009

Red Eléctrica Group

Consolidated balance sheet
at 31 december 2009 and 2008 (thousands of euros)

ASSETS	31/12/2009	31/12/2008
Intangible assets (note 5)	1,984	2,873
Property, plant and equipment (note 6)	5,620,188	5,174,033
Real estate investments (note 7)	2,158	2,456
Investments carried under the equity method (note 8)	5,046	4,941
Non-current financila assets (note 16)	83,312	128,370
Deferred tax assets (note 19)	64,734	51,009
Other non-current assets	-	-
NON-CURRENT ASSETS	**5,777,422**	**5,363,682**
Non-current aqssets held for sale	601	601
Inventories (note 9)	43,997	43,780
Trade and other receivables (note 10)	364,779	389,154
Trade receivables for sales and services rendered	24,295	13,191
Other receivables	310,649	375,963
Deferred tax assets	29,835	-
Other current financial assets (note 16)	766	173
Cash and cash equivalents	14,068	15,865
CURRENT ASSETS	**424,211**	**449,573**
TOTAL ASSETS	**6,201,633**	**5,813,255**

LIABILITIES	31/12/2009	31/12/2008
Equity	1,458,684	1,298,396
Capital	270,540	270,540
Reserves	938,547	824,325
Treasury shares (-)	(11,789)	(22,185)
Profit for year attributed to the parent company	330,402	286,119
Interim dividend (-)	(69,016)	(60,403)
Adjustments due to changes in value	(19,519)	38,100
Financial assets available for sale	(13,105)	(16,189)
Hedging transactions	711	59,262
Differences on exchange	(7,125)	(4,973)
EQUITY ATTRIBUTED TO THE PARENT COMPANY	**1,439,165**	**1,336,496**
Minority shareholdings	61	61
TOTAL EQUITY NETO (note 11)	**1,439,226**	**1,336,557**
Subsidies and other (note 12)	321,177	280,776
Non-current provisions (note 13)	53,272	45,830
Non-current financial liabilities (note 16)	2,978,948	2,826,932
Bank borrowings, debentures and other marketable securities	2,919,513	2,812,845
Other non-current financial liabilities	59,435	14,087
Deferred tax liabilities (note 19)	230,498	163,284
Other non-current liabilities (note 14)	85,758	90,188
NON-CURRENT LIABILITIES	**3,669,653**	**3,407,010**
Current provisions	1,738	2,430
Current financial liabilities (note 16)	885,062	775,413
Bank borrowings, debentures and other marketable securities	176,840	101,664
Other current financial liabilities	708,222	673,749
Trade and other payables (note 18)	205,954	291,845
Suppliers	180,586	190,682
Other payables	25,343	36,375
Current tax liabilities	25	64,788
CURRENT LIABILITIES	**1,092,754**	**1,069,688**
TOTAL LIABILITIES	**6,201,633**	**5,813,255**

Notes 1 through 30 form an integral part of these consolidated annual accounts.

Red Eléctrica Group

Consolidated income statement
at 31 december 2009 and 2008 (thousands of euros)

INCOME STATEMENT	31/12/2009	31/12/2008
Net revenues (note 20-a)	1,200,115	1,125,884
Work performed for the Company's own assets	16,240	5,486
Supplies (note 20-c)	(47,217)	(62,130)
Other operating revenues (note 20-b)	12,818	20,685
Personn el expenses (note 20-d)	(104,236)	(93,927)
Other operating expenses (note 20-c)	(232,133)	(224,361)
Asset amortization/depreciation (notes 5, 6 and 7)	(264,727)	(255,221)
Attribution of subsidies for non-financial assets and other (note 12)	9,273	8,146
Impairment and gain/loss on disposals of assets (note 20-e)	(45,282)	(7)
OPERATING PROFIT	**544,851**	**524,555**
Financial income	6,526	5,375
Financial expense (note 20-f)	(91,177)	(117,213)
Differences on exchange	110	1,657
Impairment and gain/loss on disposals of financial instruments	-	98
FINANCIAL INCOME/(EXPENSE)	**(84,541)**	**(110,083)**
Profits from companies carried under the equity method (note 8)	806	567
PROFIT BEFORE TAXES	**461,116**	**415,039**
Corporate income tax (note 19)	(130,707)	(128,914)
CONSOLIDATED PROFIT FOR THE YEAR	**330,409**	**286,125**
A) CONSOLIDATED PROFIT/LOSS ATTRIBUTED TO THE PARENT COMPANY	**330,402**	**286,119**
B) CONSOLIDATED PROFIT/LOSS ATTRIBUTED TO MINORITY INTERESTS	**7**	**6**
EARNINGS PER SHARE		
Basic earnings per share (note 28)	**2,45**	**2,12**
Diluted earninsg per share (note 28)	**2,45**	**2,12**

Notes 1 through 30 form an integral part of these consolidated annual accounts.

Red Eléctrica Group

Consolidated statement of changes in equity at 31 december 2009 and 2008 (thousands of euros)

EQUITY

Current period

	Equity						
	Share capital	Reserves [1]	Treasury shares	Profit for year attributed to the parent company	Adjustments due to changes in value	Minority shareholdings	Total equity
Balances at 1 January 2009	**270,540**	**763,922**	**(22,185)**	**286,119**	**38,100**	**61**	**1,336,557**
I. Total recognised revenues/(expenses)	-	(1,389)	-	330,402	(57,619)	-	271,394
II. Transactions with shareholders or owners	-	(6,917)	10,396	(172,813)	-	-	(169,334)
Distribution of dividends	-	(8,613)	-	(172,813)	-	-	(181,426)
Transactions involving treasury shares	-	1,696	10,396	-	-	-	12,092
III. Other changes in equity	-	113,915	-	(113,306)	-	-	609
Transfers between equity items	-	113,306	-	(113,306)	-	-	-
Other changes	-	609	-	-	-	-	609
Balances at 31 December 2008	**270,540**	**869,531**	**(11,789)**	**330,402**	**(19,519)**	**61**	**1,439,226**

Previous period

	Equity						
	Share capital	Reserves [1]	Treasury shares	Profit for year attributed to the parent company	Adjustments due to changes in value	Minority shareholdings	Total equity
Balances at 1 January 2008	**270,540**	**671,977**	**(12,331)**	**243,049**	**29,538**	**55**	**1,202,828**
I. Total recognized revenues/(expenses)	-	4,358	-	286,119	8,562	6	299,045
II. Transactions with shareholders or owners	-	(8,524)	(9,854)	(146,938)	-	-	(165,316)
Distribution of dividends	-	(8,195)	-	(146,938)	-	-	(155,133)
Transactions involving treasury shares	-	(329)	(9,854)	-	-	-	(10,183)
III. Other changes 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**

(1) Includes the following balance sheet headings: Reserves and interim dividend.
Notes 1 through 30 form an integral part of these consolidated annual accounts.

Red Eléctrica Group

Statement of overall results
at 31 december 2009 and 2008 (thousands of euros)

STATEMENT OF OVERALL RESULTS	Current period	Previous period
CONSOLIDATED PROFIT FOR THE YEAR	**330,409**	**286,125**
REVENUES AND EXPENSES TAKEN DIRECTLY TO EQUITY	**(58,937)**	**12,998**
For the measurement of financial instruments	4,406	(20,960)
a) Available-for-sale financial assets	4,406	(20,960)
For cash flow hedges	(83,533)	26,050
For differences on exchange	(3,074)	7,346
For other revenues and expenses taken directly to equity	(1,995)	3,374
For the tax effect	25,259	(2,812)
TRANSFERS TO THE INCOME STATEMENT	**(78)**	**(78)**
For cash flow hedges	(112)	(112)
Tax effect	34	34
TOTAL OVERALL RESULT FOR THE YEAR	**271,394**	**299,045**
A) CONSOLIDATED OVERALL RESULT FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY	**271,394**	**299,039**
B) OVERALL RESULT FOR THE YEAR ATTRIBUTED TO MINORITY SHAREHOLDINGS	**-**	**6**

Notes 1 through 30 form an integral part of these consolidated annual accounts.

Red Eléctrica Group

Consolidated cash flow statement at 31 december 2009 and 2008 (thousands of euros)

CONSOLIDATED CASH FLOW STATEMENT	31/12/2009	31/12/2008
CASH FLOWS FROM OPERATING ACTIVITIES	**670,563**	**402,322**
Profit before taxes	461,116	415,039
Adjustments to profits:	386,817	367,588
Asset amortization/depreciation	264,727	255,221
Other adjustments to profits (net)	122,090	112,367
Shareholdings carried under the equity method (profits)	(806)	(567)
Gains on the disposal/(impairment) of non-current assets and financinal instruments	45,282	(91)
Accrual of financial income	(6,526)	(5,375)
Accrual of financial expense	91,177	117,213
Allocation/excess provision for liabilities and charges	6,646	14,288
Attribution of capital grants and other	(13,683)	(13,101)
Changes in working capital	52,250	(143,534)
Other cash flows from operating activities:	(229,620)	(236,771)
Payment of interest	(88,934)	(117,095)
Collection of dividends	4,964	5,220
Collection of interest	2,120	1,023
Corporate income tax refunded / (paid)	(144,527)	(102,352)
Other collections / (payments) relating to operating activities	(3,243)	(23,567)
CASH FLOWS FOR INVESTMENT ACTIVITIES	**(705,660)**	**(472,699)**
Payments for investments	(755,680)	(496,390)
Property, plant and equipment, intangible assets and real estate investments	(754,737)	(496,095)
Other financial assets	(943)	(295)
Divestments	342	444
Property, plant and equipment, intangible assets and real estate investments	-	411
Other financial assets	342	33
Other cash flows from investment activities:	49,678	23,247
Other amounts received from investment activities	49,678	23,247
CASH FLOWS FOR FINANCING ACTIVITIES	**33,543**	**74,529**
Received / (paid) for equity instruments	12,092	(10,184)
Acquisition	(106,523)	(184,572)
Disposal	118,615	174,388
Received / (paid) for financial liability instruments	193,653	231,651
Issue and custody	1,283,078	1,545,807
Return and redemption	(1,089,425)	(1,314,156)
Dividend payments and yields from other equity instruments	(172,202)	(146,938)
EFFECT ON CASH OF CHANGES IN EXCHANGE RATES	**(243)**	**376**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,797)**	**4,528**
Cash and cash equivalents at the start of the period	15,865	11,337
Cash and cash equivalents at the end of the period	14,068	15,865

Notes 1 through 30 form an integral part of these consolidated annual accounts.

02

Consolidated Memory

2009

1. Group company activities

Red Eléctrica Corporación, S.A. (hereinafter the parent company or the Company) and its subsidiaries comprise the Red Eléctrica Group (hereinafter the Group or the Red Eléctrica Group). The Group carries out its regulated activities, the transmission of electricity and the operation of the Spanish electrical system transmission grid, through the company Red Eléctrica de España, S.A.U. (hereinafter REE). Through the parent and its investee companies (Exhibit I) it also acquires, holds and manages foreign securities, coordinates international exchanges, provides telecommunications services for third parties, renders consulting, engineering and construction services outside of the Spanish electrical system, recruits funding, carries out financial transactions and renders financial services to Group companies.

2. Basis of presentation of the consolidated annual accounts

a) General information

The consolidated annual accounts have been prepared by the Directors of the Parent company to present fairly the consolidated equity and the consolidated financial position at 31 December 2009, the results of its operations, and changes in consolidated equity and the Group's cash flows for the year then ended.

The historic cost approach has been applied to prepare these consolidated annual accounts, adjusted by the restatement of the financial instruments that are stated at fair value in accordance with the regulations governing financial instruments and the consideration of the recognition criteria for business combinations.

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

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

These consolidated annual accounts, prepared by the Directors of the Company at the Board meeting held on 22 March 2010, have been prepared on the basis of the individual accounting records of the Company and other companies which comprise the Red Eléctrica Group (Exhibit 1). The companies prepare their annual accounts in accordance with the accounting principles in effect in the country where they operate. Therefore the consolidated annual accounts include certain adjustments and reclassifications made to bring the accounting principles followed by the Group companies in preparing their annual accounts into line with IFRS-EU. 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 Annual Accounts for the previous year were approved by shareholders at a general meeting held on 21 May 2009. The consolidated annual accounts for 2009 have yet to be approved by shareholders at a General Meeting. Nonetheless, the Directors of the Company consider that those consolidated annual accounts will be approved without changes.

b) New IFRS-EU and IFRIC interpretations

The adoption of new standards or modifications to existing standards and interpretations (IAS 1, IAS 23, IFRS 2, IFRIC 13 and IFRS 1, International Financial Reporting Standard Improvement Project, IAS 32, IFRS 7, IFRIC 9, IFRIC 16 and IFRS 8) that have been approved and published entered into force in 2009 but did not have a significant effect on these consolidated annual accounts.

The Group does not expect new accounting standards or modifications to existing standards and interpretations (IFRS 3, IAS 27, IFRS 5, International Financial Reporting Standard Improvement Project, IFRS 1, IFRIC 17, IFRIC 18, IAS 32, IAS 39, IFRIC 15 and IFRIC 12) that enter into force after 1 January 2010 to have a significant effect on the consolidated annual accounts. The Group has chosen against the early application of these standards in 2009.

c) Accounting estimates and assumptions

The preparation of the Consolidated Annual Accounts under IFRS requires Group management to make judgments, 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 annual accounts for 2009 include the estimates of management of the group and consolidated companies on the value of assets, liabilities, income, expenses and commitments recognized, which were subsequently ratified by the board of directors. These estimates mainly comprise:

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

The Company has obtained insurance policies to cover potential third party claims that could arise during the course of its business.

Although estimates were based on the best information available at 31 December 2009, future events may require these estimates to be modified (increased or decreased) in subsequent years. Any change in accounting estimates would be recognized prospectively in the corresponding consolidated income statement in accordance with IFRS.

d) Consolidation principles

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

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

- Group companies

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

  The financial statements of subsidiaries are fully consolidated.

- **Multi-group Entities**

  Multi-group companies are those in which are jointly managed by the parent company and other companies.

  The financial statements of multigroup companies are fully consolidated.

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

- **Associated companies**

  Associated companies are entities over which the Company has significant influence but not control or joint control. Normally, significant influence generally accompanies a direct or indirect shareholding of 20% or more of the voting rights.

  Investments in associated companies are accounted for by the equity method of accounting, i.e. 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 associated company attributable to the Group on the acquisition date is considered as goodwill and recognized in the consolidated balance sheet under associated companies. 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 recognized directly in the income statement.

Information on consolidated subsidiaries and associates of Red Eléctrica, S.A., the consolidation or valuation methods applied in the preparation of the accompanying consolidated financial statements and other information are included in Appendix 1.

The financial year end closing dates of the financial statements of associates coincide with those of the Parent company.

Operations of Red Eléctrica, S.A. 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 recognized in the consolidated balance sheet at the year end as a separate component of Equity named Conversion differences.
- All significant balances and transactions between fully and proportionally consolidated companies have been eliminated in consolidation.
- Margins on sales of capitalized goods and services between Group companies are eliminated when the relevant operations are carried out.

e) Comparability of information

Group management presents comparative information from 2008 in the accompanying Consolidated Annual Accounts. In is required by IFRS-EU, these consolidated annual accounts for 2009 present, for the purposes of comparison, the figures relating to the previous year. Due to the fact that IAS 1 (Revised) “Presentation of financial statements” has been applied this year, the name and format of the consolidated annual accounts have been changed compared with those used in the consolidated annual accounts for 2008.

f) Changes in the scope of consolidation

On 17 June Red Eléctrica Corporación S.A. incorporated the wholly owned subsidiary Red Eléctrica Financiaciones, S.A.U., whose corporate purpose consists of the issue of ordinary or non-subordinated debt instruments and grants loans and credit facilities to companies pertaining to Red Eléctrica Group.

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

3. Industry regulation

Electricity sector in Spain

The regulation of the electricity sector is established by Law 54/1997 (27 November) on the Electricity Sector, partially amended by Law 17/2007 (4 July) by virtue of which REE was incorporated.

According to Additional Provision Three of that Law, REE is subject to all the provisions of the Electricity Sector Act and other legislation applicable to the operator of the transmission system and grid.

With respect to these activities, the following should be noted:

- This Act recognizes 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 generalized third-party access to the grid, which is available to the various parties to the electricity system and consumers in exchange for the payment of access tariffs. The compensation for this activity is established by the government and is set out fundamentally in Royal Decree 2819/1998 and Royal Decree 325/2008.

Furthermore, in order to effectively apply the figure of the single transmission entity, Law 17/2007 stipulates that companies that own transmission installations must transfer those facilities to REE within three years after the law enters into force.

- During the course of its business of operating the Spanish electricity system, REE has the primary duty of guaranteeing the continuity and security of electricity supplies and the proper coordination of the production and transmission systems, exercising its coordination duties with respect to operators and members of the Iberian Electricity Market and applying the principles of transparency, objectivity and independence. REE has also been assigned the duties of settlement, reporting payments made and received and the management of guarantees relating to supply and the effective deviation of generation and consumption units. REE is responsible for short-term exchanges intended to maintain quality conditions and supply security.

  REE is also responsible for operating the electrical systems in the Balearic Islands, the 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

At the international level, the Red Eléctrica Group has investments in the electricity sector in Bolivia and Peru.

Both 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 to prepare these Consolidated Annual Accounts, applied uniformly to the years being presented, were 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 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.

Group companies transfer work in progress to property, plant and equipment in operation when the asset enters service, provided that the asset is in an operational state.

Expansion or improvement expenses which lead to an increase in productivity or capacity or lengthen the useful life 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 improve its performance or lengthen its useful life are recognized 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 rate
Buildings	2%-10%
Electrical energy facilities	2.5%-7.14%
Oter installations, machinery, tooling, furnishings and other assets	4%-25%

b) Intangible assets

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

- **Computer software**

  Software licenses are capitalized based on their acquisition cost and preparation for their use. Costs associated with maintaining computer software programs are recognized as an expense when incurred. Software is amortized 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 recognized as an expense as incurred. Costs incurred in development projects (associated with the design and testing of new products or upgrades) are capitalized 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. Capitalized development costs with a finite useful life are amortized on a straight-line basis over a period not exceeding five years from commencement of the project.

c) Investment property

Investment property is measured by the Group at acquisition cost. The market value of the Group's investment property is broken down in note 7 to the accounting consolidated annual accounts.

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

d) Financial assets

The Group classifies its financial assets, excluding investments recognized using the equity method, into three categories:

- **Loans and other 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 after the balance sheet date, which are classified as non-current assets.
  Loans and receivables are initially recognized at fair value, including transaction costs incurred on inception and subsequently measured at amortized cost. Amortized cost mainly comprises the amount extended less any repaid principal, plus accrued interest receivable.
  Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Accounts Receivable are also considered to include current prepayments deriving, in general, from multi-year contracts or commitments that are attributed to the income statement over the term of those contracts or commitments.

- **Available-for-sale financial assets:** are financial investments that the company intends to hold for an undetermined length of time and may be sold in accordance with any need for liquidity or changes in interest rates. They are classified as non-current assets, unless there is the intention, when feasible, to sell the item within one year. The financial assets are measured at fair value, which is the listed price at the year-end in the case of securities listed on an active market. Any gains or losses resulting from changes in fair value at the closing date of recognized directly under equity and are accumulated up until the time of sale or impairment adjustment, which is the time at which they are taken to the income statement. The calculation of possible impairment is carried out using the discounting of future cash flows expected from the business. Dividends from shareholdings classified as available-for-sale are taken to the consolidated income statement at the time the Company's right to receive the amount concerned has been established.

- **Cash and cash equivalents:** Cash and cash equivalents include petty cash, demand deposits at credit institutions and other short-term, highly-liquid investments that initially mature within three months.

All fair value measurements are classified using a hierarchy of fair value that reflects the relevance of the variables used to calculate those measurements. The hierarchy consists of three levels:

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

e) Inventories

The inventories of materials and spare parts are stated at acquisition cost, which is calculated using the lower of the average weighted rice method and the market value method. Group companies measure the net realizable value of inventory at the end of each year and recognize value adjustments as an expense in the income statement, when the cost exceeds their market value or when there are doubts regarding their use. When the circumstances that previously gave rise to a reduction cease to exist or when there is clear evidence of an increase in the net realizable value due to a change in financial circumstances, the amount of this provision is reversed and it is recognized as revenue in the income statement.

f) Asset impairment

Group companies analyze the potential recovery of their assets at the end of each year and whenever some event or change in circumstances indicate that the recognized amount may not be recoverable, such that if the recoverable amount of an asset is less than the carrying value, an impairment loss is deemed to exist and it is immediately recognized as such in the accounts. Accordingly, an impairment loss is the difference between an asset's carrying and recoverable value. The calculation of the recoverable value is based on expected cash flows.

g) Share capital and dividends

Share capital consists of ordinary shares. The cost of issuing new shares, net of taxes, is deducted from equity.

An interim dividend reduces equity during the year to which the dividend relates, based on the resolution adopted by the Board of Directors. The supplementary dividend is not deducted from equity until approval is obtained from shareholders at the relevant General Meeting.

h) Subsidies

Capital grants that do not have to be repaid provided by various official organizations and whose purpose is to finance the Group's assets are recognized once the investments concerned have been made and the official granting of the subsidy is recognized.

The Group follows the policy of attributing all such subsidies under the heading of Non-financial asset subsidies and other during the period over which the assets purchased using the subsidies are depreciated.

i) Non-current prepayments received

Non-current payments received deriving, in general, from multi-year contracts or commitments, are taken to the income statement under Revenues or Other Gains, as appropriate, over the term of the contract or commitment.

j) Provisions

Employee benefits

- Pension obligations

  The Group has defined contribution pension plans that establish the amount of the benefit that will be received by an employee at the time of retirement is defined, normally on the basis of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group makes fixed contributions to an independent entity and will not have any legal or implicit obligation to make additional contributions if the fund does not hold sufficient assets to pay all employees the benefits for current year and prior year services. The contributions are recognized as employee benefit expense when they are due.

- Other long-term employee benefits

  Other long-term employee benefits include defined benefit plans other than pension plans, such as medical insurance for part of active and retired personnel of the parent company and REE. The expected costs of these benefits are recognized over the employment life of employees and are stated under Provisions. These obligations are measured on an annual basis by qualified independent actuaries. Changes in actuarial assumptions are recognized net of taxes under equity as Reserves in the year they arise and the cost of past services is recognized in the income statement. Long-term compensation programs are included, which are measured on an annual basis. This section also includes length of service awards granted by the Bolivian company TDE. These obligations are measured on an annual basis by qualified independent actuaries. Changes in the measurement of length of service awards at the Bolivian company TDE deriving from changes in actuarial assumptions are charged against, or credited to, the income statement as soon as they arise.

Other provisions

The Group recognizes provisions for present legal or constructive obligations resulting from past events, provided an outflow of resources will probably be required to settle the obligation and the amount may be reliably estimated. The allocation is made at the time the obligation or liability arises.

Provisions are carried at the present value of the payments that are expected to be necessary to settle the obligation, using a rate before taxes that reflects the evaluation of the current market for the temporary value of money and the specific risks relating to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

k) Financial liabilities

Loans, obligations and similar items are initially recorded at the cash amount received, net of transaction costs. In subsequent periods these financing obligations are measured at amortized cost, using the effective interest rate method, except for those transactions for which hedging contracts have been obtained.

Financial liabilities are classified as current liabilities unless they mature in more than twelve months after the balanced sheet date, in which case they are recognized under non-current liabilities.

l) Transactions in currency other than the euro

Transactions carried out in a currency other than the euro are recognized in euro at the exchange rate in force at the time of the transaction. During the year, differences that arise between the exchange rate recorded and that which is in force at the date of collection or payment are recorded as a credit or debit in the consolidated income statement.

The conversion of fixed income securities and receivables and payables in currencies other than the euro at 31 December each year takes place at the year end exchange rate. Measurement differences are charged against, or credited to, the heading Conversion differences in the consolidated income statement, as appropriate.

Any transactions denominated in foreign currency for which the Group has decided to mitigate the exchange rate risk by obtaining financial derivatives or other hedging instruments are recognized in accordance with the principles described for financial derivatives and hedges.

m) Derivative financial instruments and hedge transactions

Financial derivatives are initially recognized at fair value at the contract date (acquisition cost) in the consolidated balance sheet and subsequently all measurement adjustments that are necessary are applied to reflect their fair value at any given moment. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged.

The total fair value of derivatives is classified as an a non-current asset or liability if the residual term of the hedged item exceeds 12 months and as a current asset or liability if the residual term of the hedged item is less than 12 months.

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

The Group designates certain derivatives as either: hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations.

The Group documents the relationship between the hedging instruments and the assets or liabilities being hedged at the start of the transaction, in addition to the risk management objective and strategy to carry out the hedging transactions. The Group also documents its evaluation from the start, and continuously thereafter, as to whether the derivatives being used in the hedging transactions are highly effective to offset changes in fair value or in cash flows from hedged items.

The fair values of several instruments used for hedging purposes are set out under Note 17. Movements in equity are shown under Note 11.

- In the case of cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement.
- In the case of hedges at fair value, changes in the fair value of the derivatives that are designated to be hedges are recognized in the consolidated income statement. In addition, changes in the fair value of the hedged item, with respect to the hedged risk, are also recognized in the consolidated income statement. Therefore, hedge accounting accelerates the recognition of the income or expense for the hedged item to offset the effect of the derivative on profit and loss.
- Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized under equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

When a hedge instrument expires, is sold, or when it no longer meets the requirements of carrying the hedge, any accumulated gain or loss in equity up until that moment remains in equity and is recognized as a gain or loss to the extent that the cash flows relating to the hedged item is finally recognized in the income statement. When the planned transaction is no longer expected to arise, the accumulated equity gain or loss is immediately transferred to the income statement.

The market value of the various derivative financial instruments is calculated using the following criteria:

- The fair market value of derivatives listed on an organized market is their listed price at the year end.
- If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using measurement techniques which include the use of recent transactions between knowledgeable willing parties relating to other instruments which are substantially identical, the analysis of discounted cash flows at interest and exchange rates in force at the presentation date and upgraded models for setting option prices to reflect the issuer's specific circumstances.

n) Trade payables

Trade payables are initially recognized at their fair value and subsequently they are stated at their amortized cost using the effective interest rate method. Trade payables falling due within one year and not bearing a contractual interest rate, whose amount is expected to be paid in the short-term, are recognized at their nominal value.

o) Income and expenses

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.

In international exchanges in which the Parent Company acts as an intermediary, acquisitions and sales of energy take place on behalf of the Electricity System, and the Company receives a margin that is recognized under Revenues in the Consolidated Income Statement for carrying out the intermediary action.

Interest income is recognized using the effective interest method.

Dividend income is recognized when the right to receive payment is established.

p) Tax situation

Corporate income tax expense or (revenue) includes both current and deferred taxes. Both current and deferred taxes are recognized as an expense or revenue and are included in the calculation of the net profit or loss for the year, unless they derive from a transaction that has been recognized in the same year and directly charged or credited to equity or to a business combination.

Current taxes represents the amount that is estimated to be payable in the year using approved tax rates for that year and any adjustment to taxes payable relating to prior years.

Deductions and tax credits for gains deriving from financial events taking place during the year reduce the accrued tax expense on those gains, unless there is any doubts as to their realization.

Deferred taxes and income tax expense are calculated and recognized in accordance with the liability method with respect to the temporary differences arising between the balances recognized for reporting purposes and those used for tax purposes. This method consists of a calculation of the deferred tax assets and liabilities based on differences between the carrying value of assets and liabilities and their tax base, using the tax rates that are objectively expected to be in force at the time the assets or liabilities are realized.

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

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

q) Earnings per share

The basic earnings per share are calculated as the quotient of net profit for the period attributable to the Parent Company and the average weighted number of ordinary shares in circulation during that period, excluding the average number of treasury shares held during the year.

In the case of the Consolidated Annual Accounts for Red Eléctrica Group at 31 December 2009 and 2008, basic earnings per share coincide with diluted earnings per share given that during these years no transactions took place that could modify these figures.

r) Insurance

Companies pertaining to Red Eléctrica Group have obtained several insurance policies to cover the risks to which they are exposed during the course of their businesses. These risks mainly relate to damages that could be caused to the facilities maintained by the Group companies and any potential third party claims that could arise during the course of their businesses. Insurance premium expenses are recognized in the Consolidated Income Statement on an accruals basis. Amounts to be recovered from insurance companies as a result of claims are recorded in the Consolidated Income Statement in accordance with the revenue and expense correlation method.

s) Environment

Expenses deriving from business actions taken to protect and improve the environment are recorded as an expense in the year incurred. When such expenses entail additions to property, plant and equipment the purpose of which is to minimize the environmental impact and protect and improve the environment, they are accounted for as an increase in the value of the assets.

t) Non-current assets held for sale

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

u) Share-based payments

The parent company REE and REI have implemented share acquisition plans whereby their employees are entitled to receive Company shares as part of their annual compensation. The measurement of this compensation is done in accordance with the closing listed price for the Company's shares on the date of delivery. The expense deriving from this plan is recorded under Personnel costs in the Consolidated Income Statement. All shares delivered originate from the parent company's treasury shares.

5. Intangible assets

Movements in intangible assets and in the related accumulated amortization in 2009 and 2008 was as follows:

Red Eléctrica Group

Movements in Intantigible assets in 2009 and 2008 (thousands of euros)

	31 December 2007	Additions	Changes in the exchange rate	Transfers	31 December 2008	Additions	Changes in the exchange rate	Disposals, eliminations reeductions and write-offs	31 December 2009
Cost									
Development expenses and computer applications	38,962	798	94	(303)	39,551	393	(53)	(25,263)	14,628
Total Cost	**38,962**	**798**	**94**	**(303)**	**39,551**	**393**	**(53)**	**(25,263)**	**14,628**
Amortización Acumulada									
Development expenses and computer applications	(34,969)	(1,622)	(87)	-	(36,678)	(1,276)	47	25,263	(12,644)
Total Accumulated amortization	**(34,969)**	**(1,622)**	**(87)**	**-**	**(36,678)**	**(1,276)**	**47**	**25,263**	**(12,644)**
Net value	**3,993**	**(824)**	**7**	**(303)**	**2,873**	**(883)**	**(6)**	**-**	**1,984**

Operating expenses directly related to intangible assets capitalized in 2009 amount to €377k (€385k in 2008).

6. Property, plant and equipment

Movements in property, plant and equipment and in the related accumulated depreciation in 2009 and 2008 were as follows:

Red Eléctrica Group

Breakdown of movements in property, plant and equipment in 2009 and 2008 (thousands of euros)

	31 December 2.007	Additions	Changes in exchange rate	Disposals, eliminations reeductions and write-offs
Cost				
Land and buildings	63.996	3	375	-
Electrical energy facilities	6.447.153	26.526	9.033	(569)
Other installations, machinery tooling, furnishings and other assets	105.316	669	121	(199)
Electrical energy facilities under construction	585.169	537.032	269	-
Prepayments and PPE under construction	80.638	70.001	61	-
Total Cost	**7.282.272**	**634.231**	**9.859**	**(768)**
Accumulated depreciation				
Buildings	(12.917)	(1.197)	(136)	-
Electgrical energy facilities	(2.377.388)	(241.227)	(4.650)	-
Other installations, machinery tooling, furnishings and other assets	(80.032)	(11.141)	(68)	155
Total Accumulated depreciation	**(2.470.337)**	**(253.565)**	**(4.854)**	**155**
Impairment	(23.399)	-	(8)	144
Net value	**4.788.536**	**380.666**	**4.997**	**(469)**

Transfers	31 December 2.008	Additions	Changes in exchange rate	Disposals, eliminations reeductions and write-offs	Transfers	31 December 2.009
364	64.738	109	(259)	(99)	11.729	76.218
388.642	6.870.785	30.940	(5.890)	(655)	462.930	7.358.110
8.700	114.607	128	(60)	(15.644)	13.792	112.823
(382.019)	740.451	584.356	(70)	(3)	(447.034)	877.700
(15.384)	135.316	142.760	(15)	-	(41.417)	236.644
303	**7.925.897**	**758.293**	**(6.294)**	**(16.401)**	**-**	**8.661.495**
-	(14.250)	(1.333)	97	165	-	(15.321)
-	(2.623.265)	(253.581)	3.132	304	-	(2.873.410)
-	(91.086)	(8.505)	54	15.524	-	(84.013)
-	**(2.728.601)**	**(263.419)**	**3.283**	**15.993**	**-**	**(2.972.744)**
-	(23.263)	(45.300)	-	-	-	(68.563)
303	**5.174.033**	**449.574**	**(3.011)**	**(408)**	**-**	**5.620.188**

The main additions in 2009 and 2008 affected transmission facilities for the grid in Spain.

In 2009 companies have capitalized financial expenses totaling €21,069k as an increase in the value of property, plant and equipment (€12,997k at 31 December 2008).

Operating expenses directly related to assets under construction recognized under Property, plant and equipment capitalized in 2009 amount to €15,863k (€5,101k in 2008).

In 2009 the change in Impairment mainly recognizes the measurement adjustment of cash generating units (hereinafter CGUs) at REI totaling €45.1 million. The amount of the impairment has been estimated on a value-in-use basis and calculated with the assistance of independent experts. The estimate has been carried out based on the measurement performed at 31 December 2009, reaching the conclusion that the carrying value of CGUs was higher than their recoverable value and therefore impairment was recognized. To calculate value-in-use the expected cash flow approach was used. In this connection various scenarios were used to which estimated occurrence probabilities were assigned:

a) Base value-in-use scenario applying the discounting of free cash flows method using a discount rate of 15.5% and growth in line with the market, taking into consideration flows until 2024, which is the end of the estimated projection period. The residual value has been calculated as the present value of regulated assets at the end of 2024.
b) A scenario referring to realization values using market methodologies (supported by comparable transactions and evaluations from analysts).
c) Market scenarios relating to the realization value reflected by the situation of the current market and the CGUs.

The key assumptions included in cash flows are the value of the regulated assets, inflation, residual value and the exchange rate, which is the most sensitive.

Impairment losses have been distributed on a proportional basis over the individual assets forming part of the CGUs, as follows:

	(million euro)
Electrical energy facilities	41.4
Other	3.7
Total impairment	**45.1**

7. Real estate investments

Movements in 2009 and 2008 in the real estate investments pertaining to the Group are described below:

Red Eléctrica Group
Breakdown of movements in real estate investments in 2009 and 2008 (thousands of euros)

	31 December 2.007	Additions	Change in Exchange rate	Transfers	31 December 2.008	Additions	Disposals	31 December 2.009
Cost								
Investment properties	2,846	77	24	(211)	2,736	-	(427)	2,309
Total cost	**2,846**	**77**	**24**	**(211)**	**2,736**	**-**	**(427)**	**2,309**
Accumulated depreciation								
Investment properties	(249)	(34)	(9)	12	(280)	(32)	161	(151)
Total accumulated depreciation	**(249)**	**(34)**	**(9)**	**12**	**(280)**	**(32)**	**161**	**(151)**
Net value	**2,597**	**43**	**15**	**(199)**	**2,456**	**(32)**	**(266)**	**2,158**

Real estate investments have a market value of at least €3 million and do not generate significant operating revenues or expenses.

8. Investments carried under the equity method

Movements in investments carried under the equity method in 2009 and 2008 were as follows:

Red Eléctrica Group

Movements in investments recognized through the application of the equity method in 2009 and 2008 (thousands of euros)

	31 December 2007	Equity Method	Dividends	Differences on exchange	Other	31 December 2008	Equity Method	Dividends	Differences on exchange	Other	31 December 2009
REDESUR	5,450	567	(1,068)	154	(162)	4,941	806	(370)	(252)	(79)	5,046
	5,450	**567**	**(1,068)**	**154**	**(162)**	**4,941**	**806**	**(370)**	**(252)**	**(79)**	**5,046**

The balances in 2009 and 2008 relating to assets, liabilities, ordinary revenues and profits for the year obtained by Redesur are as follows:

(thousands of euros)	2009	2008
Assets	40,535	40,725
Liabilities	25,989	26,747
Ordinary revenues	9,987	8,556
Profit for year	2,387	1,677

9. Inventories

The breakdown at 31 December 2009 and 2008 of Inventories in the accompanying Consolidated Balance Sheet is as follows:

(thousands of euros)	2009	2008
Inventories	53,147	52,612
Measurement adjustments	(9,150)	(8,832)
	43,997	**43,780**

10. Trade and other receivables

The breakdown of balances under "Trade and other receivables" in the accompanying consolidated balance sheet at 31 December 2009 and 2008 is as follows:

(thousands of euros)	2009	2008
Trade receivables for sales and services rendered	24,295	13,191
Other receivables	310,649	375,963
Current tax assets	29,835	-
	364,779	**389,154**

Other receivables in 2009 and 2008 mainly recognizes amounts yet to be invoiced and/or collected that derive from the transmission activity and the operation of the system. Current tax assets at 31 December 2009 fundamentally records corporate income tax refundable as a result of the accelerated tax depreciation of certain Group assets in accordance with Law 4/2008.

11. Equity

Capital risk management

The Group's objectives with respect to equity management are to safeguard its capacity to continue as a going concern in order to obtain yields for shareholders and to maintain an optimal capital structure at reduced cost.

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

The Group monitors capital in accordance with the leveraging ratio, in line with industry practices. This ratio is calculated as net assets (understood to be the Group's equity plus net financial debt) divided by net financial debt. Net financial debt is calculated as follows:

(thousands of euros)	2009	2008
Long-term borrowings	2,919,513	2,812,845
Short-term borrowings	151,978	78,973
Exchange rate derivative	64,784	52,589
Cash and cash equivalents	(14,068)	(15,865)
Net financial debt	**3,122,207**	**2,928,542**
Equity	**1,439,226**	**1,336,557**
Leveraging ratio	**68.4%**	**68.7%**

The credit rating granted by Moody's and Standard & Poors was maintained at A2 and AA-, respectively, in 2009.

Equity attributed to the parent company

Capital and reserves

- Share capital

At 31 December 2009 and 2008 the Parent company's share capital is represented by 135,270,000 bearer shares listed on the four Spanish stock markets, with a par value of €2 each, fully subscribed and paid in and all bearing the same financial and voting rights.

In accordance with Law 17/2007, any natural or legal person may hold a stake in the Company, provided that the sum of the direct or indirect interest does not exceed 5% of share capital and voting rights cannot exceed 3%. These shares cannot be syndicated for any purpose. In the case of parties that carry out activities in the Electricity Sector and those natural or legal persons that directly or indirectly hold a stake in those companies exceeding 5% cannot exercise voting rights exceeding 1% within the company responsible for the operation of the system. The limitations on shareholdings in the parent company within the new corporate structure are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI) which will, in any event, hold at least 10%. At 31 December 2009 SEPI holds 20% of the Company's equity.

- Reserves

This heading includes:

- Legal reserve

Companies are required to transfer 10% of profit each year to the legal reserve until it represents at least 20% of share capital. This reserve may not be distributed to shareholders and can only be used to cover a debit balance in the income statement in the event that there are no other reserves available for this purpose. Under certain circumstances these reserves may be used to increase share capital. At 31 December 2009 and 2008 the amount paid totals €54,199k.

- Other reserves

This item includes the Parent company's voluntary reserves, reserves in consolidated companies and reserves for first application, which are all freely available. At 31 December 2009 they amount to €619,802k (€501,820k in 2008).

It also records the reserves deriving from legal provisions totaling €264,546k, among which the Reserve for the restatement of property plant and equipment created by the Parent company in 1996 in the amount of €247,022k (This reserve may be used, without being subject to taxation, to eliminate losses or to increase share capital or, after 10 years have elapsed, to freely available reserves in accordance with the provisions of Royal Decree-Law 2607/1996).

- **Treasury shares**

Treasury shares held by the parent company at 31 December 2009 represent 0.25% of its share capital and 341,865 shares, with an overall par value of €684k and an average acquisition price of €34.48 per share (at 31 December 2008, 652,011 shares that represented 0.48% of its share capital, an overall par value of €1,304k and an average acquisition price of €34.03 per share).
These shares are recognized by reducing the Group's equity at 31 December 2009 by €11,789k (€22,185k in 2008).
The parent company has complied with the obligations deriving from Article 75.2 of Additional provision First of the Spanish Companies Act which stipulates, with respect to shares listed on an official secondary market, that the nominal value of the shares acquired, plus those held by the parent company and subsidiaries, may not exceed 10% of share capital. Subsidiaries do not possess any treasury shares or shares in the parent company.

- **Profit for the year attributable to the parent company**

Profits for 2009 amounted to €330,402k (€286,119k at 31 December 2008).

- **Interim dividend and proposed distribution of a dividend by the parent company**

The interim dividend approved by the Board of Directors in 2009 and 2008 reduces the Group's equity at 31 December 2009 and 2008, respectively.
On 17 December 2009 the company's Board of Directors approved the payment of an interim dividend out of 2009 profits totaling €0.5115 per share (€0.4487 per share in 2008), payable as from 4 January 2010. The interim dividend approved at 31 December 2009 totals €69,016k (€60,403k in 2008) (Note 16).

Dividends paid during 2009 and 2008 are indicated below:

	2009			2008		
	% of nominal	Euro per share	Amount (thousands of euros)	% of nominal	Euro per share	Amount (thousands of euros)
Ordinary shares	63.99%	1.2797	172,202	54.36%	1.0871	146,938
Total dividends paid	63.99%	1.2797	172,202	54.36%	1.0871	146,938
Dividends carged against profits	**63.99%**	**1.2797**	**172,202**	**54.36%**	**1.0871**	**146,938**

In addition, the parent company's Board of Directors has made a proposal to Shareholders to approve a supplementary dividend totaling 0.9666 euros per share, and the total dividend for 2009 would total €1.4781 per share (€1.2797 per share in 2008).

Adjustments due to changes in value

- Available-for-sale financial assets

This heading records changes in value caused by available-for-sale financial instruments, mainly due to the changes due to the fluctuation of value of the 5% stake the Company holds in Redes Energéticas Nacionais, SGPS, S.A. (hereinafter REN). At 31 December 2009 the loss, net of tax effect, amounts to €13,105k (€16,189k in 2008).

- Hedging operations

This heading records the changes in value associated with derivative financial instruments. At 31 December 2009 they amount to €711k (€59,262k in 2008).

- Differences on exchange

This heading records the differences on exchange associated with foreign subsidiaries, particularly the Bolivian company TDE, which at 31 December 2009 presented a loss of €7,125k (€4,973k in 2008).

Minority shareholdings

The balance included under Minority shareholdings in the Equity caption of the accompanying consolidated balance sheet records the value of the stake held by minority shareholders in the Bolivian companies TDE and Cybercia, S.A. At 31 December 2009 they amount to €61k (€61k in 2008).

12. Subsidies and other

Movements in this caption in 2009 and 2008 are as follows:

Red Eléctrica Group

Breakdown of movements in Subsidies and other non-current prepayments received in 2009 and 2008 (thousands of euros)

	31 December 2007	Additions	Applications	31 December 2008	Additions	Disposals and Applications	31 December 2009
Subsidies and other non-current prepayments received	261,953	26,970	(8,146)	280,776	49,674	(9,273)	321,177
	261,953	**26,970**	**(8,146)**	**280,776**	**49,674**	**(9,273)**	**321,177**

The heading Subsidies and Other mainly includes the amounts received by REE to construct electrical facilities and the revenues deriving from agreements relating to the construction of such facilities. Their attribution to the Income statement for the year takes place based on the useful life of the facilities concerned and is recognized under the heading Attribution of subsidies to non-financial assets and other in the Consolidated Income Statement.

13. Non-current provisions

Movements in this liability account in the consolidated balance sheet during 2009 and 2008 are as follows:

Red Eléctrica Group

Movements in provisions in 2009 and 2008 (thousands of euros)

	31 December 2007	Additions	Applications	Transfers	Reversals and differences on exchange	31 December 2008
Commitments with employees	40,454	4,953	(660)	(18,898)	(5,326)	20,524
Other provisions	22,083	13,247	(4,662)	-	(5,362)	25,306
	62,537	**18,200**	**(5,322)**	**(18,898)**	**(10,688)**	**45,830**

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

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

In 2009 and 2008 additions were mainly due to the annual accrual, as well as the evolution of the actuarial assumptions used. These additions are recorded as Personnel expenses or financial expense, in accordance with their nature and under Reserves when there are changes in the actuarial assumptions in the case of medical insurance obligations and in the Income Statement in the case of length of service awards. The amount of personnel expenses recognized in 2009 in the Consolidated Income Statement totals €1,064k (€3,191k in 2008), the amount of financial expense recorded in 2009 in the Income Statement amounts to €994k (€1,762k in 2008) and recognized reserves in 2009 amounted to €1,404k (€3,760k in 2008).

The effect of a one percentage point change in the cost of the medical insurance is set out below:

	2009		2008	
(thousands of euros)	+1%	-1%	+1%	-1%
Cost of current year services	250	(179)	252	(179)
Interest cost on net post-employment health care costs	13	(8)	12	(9)
Accumulated post-employment medical insurance benefit obligations	5,881	(4,360)	4,440	(3,316)

The Parent Company and REE reflect the amount of these actuarial studies using the following assumptions for 2009:

	Actuarial assumptions
Discount rate	4.90%
Cost growth	4.00%
Survival table	PERM/F 2000 New Bussiness

The heading Other provisions mainly records the amounts allocated in each year by Group companies to cover future unfavorable outcomes relating to third party claims.

Additions in 2008 are due to including a provision totaling €11 million to cover the fine imposed by the Catalonia authorities with respect to the interruption of electricity supplies in Barcelona in July 2007. Independent of the provision recorded, an appeal has been filed against the fine as the Company does not agree with the facts and evaluations that the regulatory body has used.

In 2009 REE received several civil lawsuits filed by Endesa Distribución Eléctrica and Banco Vitalicio de España, Compañía anónima de Seguros y Reaseguros which claim damages caused by a fire in Barcelona in July 2007 in the amount of €49,411k, plus legal interest and legal costs in the first case and €15,822k in the second case. These claims are covered by the Company´s insurance policies and are not expected to represent any financial harm for the Company apart from the deductibles payable for each policy, which have already been recognized in the Group's consolidated annual accounts.

14. Other non-current liabilities

The heading Other Non-current liabilities mainly include the revenues due for the assignment of the use of the telecommunications network deriving from the agreements signed with several telecommunications operators for a total of €61,907k at 31 December 2009 (€66,185k at 31 December 2008). This heading also includes the non-current liabilities deriving from the compensation paid by Électricité de France (hereinafter EDF), by virtue of the modification made to the electricity supply contracts dated 8 January 1997, totaling €23,625k at 31 December 2009 (€23,625k at 31 December 2008). Since these are multi-year agreements they are subject to the construction of facilities that had not been completed at 31 December 2009.

15. Financial risk management policy

The Group´s financial risk management policy is intended to establish principles and guidelines to ensure that relevant risks that could affect Red Eléctrica Group's objectives and activities are identified, analyzed, evaluated, managed and controlled and that these processes be carried out on a systematic basis in accordance with uniform criteria.

The main guidelines established by this policy may be summarized as follows:

- Risk management must fundamentally be anticipatory in nature, focusing on the medium and long-term, taking into account all possible scenarios within the progressively more globalized world.
- In general, risk management must take place in accordance with coherent criteria with respect to the importance of the risk (probability/impact) and the investment and resources necessary to reduce the risk.
- Financial risk management must focus on preventing undesired changes in the fundamental value of the Group and does not have the objective of obtaining extraordinary profits.

The Group's financial management is responsible for managing financial risks, ensuring coherency with the Group's strategy and coordinating their management with other companies and identifying the main financial risks, defining action to be taken based on the establishment of various financial scenarios.

The method for identifying, measuring, monitoring and controlling these risks, as well as the management indicators and measurement and specific control tools for each risk are established in the Financial Risk Manual.

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

Market risk

This relates to changes in the situation of financial markets with respect to the prices, interest rates and exchange rates, credit conditions and other variables that may affect financial costs in the medium and long-term.

The management of these risks is carried out both through debt transactions, the currency involved, terms and interest rates as well as the use of financial hedging instruments that allow the characteristics of the financial structure to be modified. Within market risks the following are notable:

Interest rate risk

Variations in interest rates modify the fair value of those assets and liabilities which accrue interest at a fixed rate, and the future flows from assets and liabilities linked to a variable interest rate. The objective of interest rate risk management is fundamentally to maintain the debt structure between fixed and protected risk and risk indexed to a variable interest rate to approximately 70%-30%. The structure at 31 December 2009 is as follows:

	2009	
(thousands of euros)	Fixed rate	Variable rate
Long-term issues	1,259,185	-
Long-term bank borrowings	1,129,957	621,916
Short-term issues	-	117,651
Short-term bank borrowings	-	7,566
Total debt	**2,389,142**	**747,133**
Percentage	76%	24%

The structure reveals a very low risk structure, with reduced exposure to changes in interest rates. Furthermore, the impact of an increase in variable interest rates on variable rate debt is largely offset, provided that the investor process is maintained, in the consolidated income statement by the higher income deriving from the compensation received from new service launches, which are paid based on the 10 year Spanish Treasury Bond at that time.

The interest rate risk exposure faced by the Group at 31 December 2009 fundamentally affects equity for the year, as a result of changes in the fair value of derivative financial instruments and profits for the year are not affected. An analysis of the sensitivity to this risk is set out below:

Effect on Consolidated Equity (thousands of euros)	Change in market interest rates 2009 +0.10%	2009 -0.10%	2008 +0.10%	2008 -0.10%
Interest rate hedges:				
- Cash flow hedges				
Interest rate *Swap*	3,351	(3,377)	2,370	(2,384)
Interest rate and exchnage rate hedges:				
- Cash flow hedges				
Cross Currency Swap	621	(633)	(592)	603

The sensitivity of fair value as been estimated by using a measurement technique based on discounted future cash flows at market interest rates in force at 31 December 2009.

Exchange rate risk

The management of this risk concerns transaction risk, deriving from having to collect or pay cash flows in a currency other than the euro and the conversion risk, which refers to the risk faced by the Company when consolidating its subsidiaries and/or the assets located in countries whose currency is not the euro.

In order to eliminate exchange risk in the private placement market in the United States (USPP), the Company has obtained cash flow hedges using dollar/euro swaps of principle and interest (cross currency swaps) covering the total amount of the placements and the entire term up to October 2035 (Note 17).

In order to mitigate the conversion risk affecting assets located in countries whose functional currency is not the euro, the Group finances part of these investments in the functional currency and therefore at 31 December 2009 a 10% rise or fall in the dollar/euro exchange rate would have generated an increase/decrease in equity of approximately €3 million (€3 million at 31 December 2008).

Credit risk

The characteristics of revenues in electricity transmission and system operation, as well as the solvency of the agents within those systems gives rise to a risk level that it not relevant to the main activities carried out by Red Eléctrica Group. The management of this risk for the rest of the activities is carried out mainly by including controls that reduce or limit the risk.

In any case, the credit risk is supported by policies that establish requirements with respect to the credit quality of the other party and additional guarantees are required in some cases.

Furthermore, the maximum exposure to credit risk would be the fair value of the recognized derivatives.

At 31 December there is approximately 4% of outstanding balances (3% in 2008), although the companies understand that there is no risk of default.

Liquidity risk

Liquidity risk derives from the differences in the amounts or dates of receivables and payables relating to the assets and liabilities recognized by Group companies.

Maintaining a significant level of available funds during the year positively reinforces the Group's financial position and provides guarantees for additional liquidity.

This risk is managed mainly by taking action with respect to the financial debt timing structure, establishing limits on the maximum volume that can fall due in any given time horizon. This process is carried out at the Group company level, in accordance with the practices and limitations established by the Group. The limits that are established vary based on the geographic area concerned in order to take into account the liquidity in the market in which the Company operates. In addition, the liquidity management policy requires cash flow projections in the main currencies in which the Group operates, taking into consideration the level of liquid assets that are necessary to attain those projections, control over balance sheets equity indices and their comparison with market requirements and the maintenance of the debt-based financing plan.

Group debt at 31 December 2009 falls due in an average of 6 years.

The Group's liquidity position in 2010 is based on its strong capacity to generate cash, supported by the availability of short-term and long-term lines of credit in the amount of €276,035k and and €230,000, respectively, which have not been drawn down.

16. Financial assets and liabilities

Financial assets

The breakdown of the headings current and non-current Financial Assets recorded by Red Eléctrica Group at 31 December 2009 and 2008 is as follows

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

Previous period (thousands of euros)	Available for sale financial assets	Loans and receivables [1]	Hedge 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**
Other financial assets	-	173	-	173
Short-term/current	**-**	**173**	**-**	**173**
Total	**75,745**	**1,934**	**50,864**	**128,543**

(1) Excluding trade receivables.

Equity instruments

The heading Equity instruments fundamentally relates to the 5% stake the parent company holds in REN, a holding company that covers the operation of electricity transmission assets and gas infrastructures in Portugal. This shareholding was acquired in 2007 and the transaction price totaled €98,822k. The measurement adjustment for this investment totals €18,722k at 31 December 2009 (€23,128k in 2008) and was recognized directly under Group equity.

The measurement of this shareholding is subject to the shares listed price, and therefore changes that take place in the listed price generally give rise to movements in Consolidated Equity. The impairment test performed on 31 December 2009 through the discounting of future expected cash flows did not reveal any need to apply any further value reduction to the consolidated income statement.

Derivatives

Derivatives are described under Note 17.

Other financial assets

This item mainly relates to guarantees that have been provided.

The following table presents the Group's financial assets measured at fair value in accordance with the variables used to calculate fair value at 31 December 2009.

(thousands of euros)	Tier 1	Tier 2	Tier 3	Total balance
Equity instruments	80,148	-	-	80,148
Derivatives	-	982	-	982
Other financial assets			2,948	2,948

Financial liabilities

The breakdown of the headings current and non-current Financial liabilities recorded by Red Eléctrica Group at 31 December 2009 and 2008 is as follows

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

Previous period (thousands of euros)	Loans and payables[1]	Hedge derivatives	Total
Bank borrowings	1,606,879	-	1,606,879
Debentures and other marketable 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**
Bank borrowings	36,390	-	36,390
Debentures and other marketable securities	65,274	-	65,274
Derivatives	-	389	389
Other financial liabilities	673,360	-	673,360
Long-term/non-current	**775,024**	**389**	**775,413**
Total	**3,588,233**	**14,112**	**3,602,345**

(1) Excluding trade payables.

The following table presents the Group's financial liabilities measured at fair value in accordance with the variables used to calculate fair value at 31 December 2009.

(thousands of euros)	Tier 1	Tier 2	Tier 3	Total balance
Derivatives	-	60,157	-	60,157

Issue of Debentures and other marketable securities and bank loans

The analysis of the heading Debentures and other marketable securities and Bank Loans is as follows:

Current period (thousands of euros)	Opening active balance 31/12/2008	(+) Issues	(-) Repurchases or redemptions	(+/-) Adjustments due to exchange rate and other	Closing active balance 31/12/2009
Securities in a debt market that required the registration of a prospectus	48,988	399,980	(331,317)	-	117,651
Securities in a debt market that did not require the registration of a prospectus	847,143	-	-	590	847,733
Other debt securities issued outside of the European Union	358,823	-	-	(12,155)	346,668
Total	**1,254,954**	**399,980**	**(331,317)**	**(11,565)**	**1,312,052**

Previous period (thousands of euros)	Opening active balance 31/12/2007	(+) Issues	(-) Repurchases or redemptions	(+/-) Adjustments due to exchange rate and other	Closing active balance 31/12/2008
Securities in a debt market that required the registration of a prospectus	1,544	379,143	(331,699)	-	48,988
Securities in a debt market that did not require the registration of a prospectus	846,446	-	-	697	847,143
Other debt securities issued outside of the European Union	339,171	-	-	19,652	358,823
Total	**1,187,161**	**379,143**	**(331,699)**	**20,349**	**1,254,954**

The fair value of bank borrowings and issues of debentures and other marketable securities at 31 December 2009 and 2008 is as follows:

	Carrying value		Fair value	
(thousands of euros)	2009	2008	2009	2008
Issues in euro	965,391	896,131	900,621	860,046
Issues in dollars	346,668	358,823	365,974	416,612
Bank borrowings in euro	1,706,671	1,578,112	1,691,131	1,505,122
Bank borrowings in dollars	52,762	58,752	54,815	65,054
Total	**3,071,492**	**2,891,818**	**3,012,541**	**2,846,834**

The fair value of Bank Borrowings and Issues of Debentures and other marketable securities has been estimated in full using a measurement technique based on discounting future cash flows using market interest rates in force at each date.

At 31 December 2009 interest accrued and not paid on these debts totals €24,862k (€22,691k in 2008).

Issues in euro at 31 December 2009 record the issues carried out by Red Eléctrica de España Finance, BV. with respect to €847,733k in Eurobonds issued within the framework of the Eurobond Issue Program (€847,143k in 2008) and the issue of short-term promissory notes totaling €117,658k (€48,988k in 2008).

Issues in US dollars at 31 December 2009 covers €346,668k (€358,823k in 2008),$500,000k obtained in the US private placement market (USPP).

Bank borrowings in euro at 31 December 2009 includes the syndicated line of credit totaling €668,904k (€898,476k in 2008) that matures in 2012. This heading includes long-term loans and credit facilities for the amount of €1,037,767k (€679,636k in 2008).

The breakdown of Issues and Bank borrowings at 31 December 2009 is as follows:

Red Eléctrica Group

Breakdown of maturity dates of Issues and Bank Borrowings at 31 December 2008 and 2009 (thousands of euros)

	2010	2011	2012	2013	2014	2015 and subsequent years	Measurement adjustments	Total
Issues in euro	117,658	50,000	-	800,000	-	-	(2,267)	965,391
Issues in dollars	-	-	-	-	-	347,078	(410)	346,668
Bank borrowings in euro	27,486	24,336	693,735	35,824	34,321	893,486	(2,517)	1,706,671
Bank borrowings in dollars	6,835	6,990	7,154	7,326	3,323	21,234	(100)	52,762
	151,979	**81,326**	**700,889**	**843,150**	**37,644**	**1,261,798**	**(5,294)**	**3,071,492**

The average interest rate applied in 2009 was 3.49% (4.39% in 2008).

At 31 December 2009 Group companies maintain credit facilities from credit institutions with an available long-term amount totaling €230,000k (€225,000k at 31 December 2008) and €276,035k in short-term availability (€268,564k at 31 December 2008).

At 31 December 2009 the parent company had a promissory note program registered with the National Stock Market Commission with a maximum limit of €250,000k (€250,000k at 31 December 2008).

Derivatives

Derivatives are described under Note 17.

Other current financial liabilities

The breakdown of this heading at 31 December 2009 and 2008 is analyzed below:

(thousands of euros)	2009	2008
Dividend payable	69,017	60,403
Fixed asset suppliers and other payables	639,205	612,957
	708,222	**673,360**

The asset supplier balance and other payables mainly records amounts owed to asset suppliers and amounts yet to be settled with respect to the Spanish electrical system for activities carried out.

17. Derivative financial instruments

Red Eléctrica Group obtains two types of financial derivatives, in accordance with its financial risk management policy: Interest rate hedge swaps and cross currency swaps or exchange rate hedges. The first consists of a financial swap exchanging variable interest debt for fixed interest debt, where future cash flows to be covered are interest payments. The Cross Currency Swaps allow the exchange of fixed rate debt in dollars for fixed rate debt in euro, covering the payment of interest and capital in dollars, as the future cash flows. The measurement method for both instruments is described under Note 4.m) of these notes to the consolidated annual accounts. The breakdown at 31 December 2009 and 2008 of both types is set out below:

			(thousands of euros)						
			2009				2008		
	Principal hedged	Maturity date	Non-current		Current		Non-current		Current
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Liabilities
Interest rate hedge									
Cash flow hedge									
Interest rate swap	€325,000k	To 2012	387	(7,738)	182	(587)	-	(3,168)	(389)
Interest rate swap	€425,000k	To 2020	413	(14,712)	-	(358)	-	(10,555)	-
Interest rate and exchange rate hedge									
Cash flow hedge (Cross currency swap)	$500,000k	To 2035							
Interest rate hedge			-	28,022	-	-	103,452	-	-
Exchange rate hedge			-	(64,784)	-	-	(52,589)	-	-
			800	**(59,212)**	**182**	**(945)**	**50,864**	**(13,723)**	**(389)**

Set out below is an analysis of derivative financial instruments at 31 December 2009:

	Principal hedged	Maturity date	(thousands of euros) 2010	2011	2012	2013 and subsequent years	Total
Interest rate hedge							
Cash flow hedge:							
Interest rate swap	€325,000k	To 2012	(405)	(3,170)	(4,181)	-	(7,756)
Interest rate swap	€425,000k	To 2020	(358)	-	-	(14,299)	(14,657)
Interest rate and exchange rate hedge							
Cash flow hedge (Cross currency swap)	$500,000k	To 2035					
Interest rate hedge			-	-	-	28,022	28,022
Exchange rate hedge			-	-	-	(64,784)	(64,784)
			(763)	**(3,170)**	**(4,181)**	**(51,061)**	**(59,175)**

18. Trade and other payables

The breakdown of this heading at 31 December 2009 and 2008 is analyzed below:

(thousands of euros)	2009	2008
Suppliers	180,586	190,682
Other creditors	25,343	36,375
Current tax liabilities	25	64,788
	205,954	**291,845**

The heading suppliers mainly relates to payables for engineering and construction, maintenance and modification of electrical facilities.

Other creditors fundamentally includes the advance payments made for engineering and construction, and the modification of electrical facilities requested by third parties.

Current tax liability in 2008 mainly includes corporate income tax payable. In 2009, as a result of the accelerated tax depreciation of certain assets held by the Group in accordance with Law 4/2008, the balance was negative.

19. Tax situation

The tax group led by Red Eléctrica Corporación, S.A. is taxed on a consolidated basis in Spain since 2002. The tax group distributes tax charges in accordance with the agreements reached by Group companies, which adapt to the terms of the Resolutions adopted by the Accounting and Audit Institute (ICAC) on 9 October 1997 and 15 March 2002.

Those companies that do not pertain to the Tax Group are subject to the legislation in force in the country of origin.

At 31 December 2009, REI, REE and REF form part of the Group together with the parent company.

The reconciliation of the tax rate in force in Spain and the effective rate applied to the group is as follows:

(thousands of euros)	2009	2008
Consolidated book profit for the year, before taxes	461,116	415,039
Permanent differences and consolidation adjustments	(3,374)	10,037
Consolidated corporate income tax base	457,742	425,076
Tax rate	**30%**	**30%**
Adjusted profits due to tax rate change	137,323	127,523
Effect of applying difference tax rates	1,721	2,824
Tax calculation at rates in force in each country	139,043	130,347
Deductions	(8,336)	(1,433)
Corporate income tax	**130,707**	**128,914**
Current corporate income tax	50,593	128,175
Deferred corporate income tax	80,114	739
Effective tax rate	**28.35%**	**31.06%**

Amounts receivable from and payable to Public Administrations at 31 December 2009 and 2008 are as follows:

(thousands of euros)	2009	2008
Current tax refundable		
VAT refundable	5,546	49,299
Taxes refundable	29,842	364
Current tax payable		
VAT payable	11,778	1,532
Other taxes payable	5,733	1,386
Corporate income tax payable	25	64,788

Receivables due to the refund of taxes and corporate income tax payable record the impact of accelerated tax depreciation in 2009 affecting certain assets in accordance with the provisions of Law 4/2008.

Deferred tax assets and liabilities at 31 December 2009 and 2008 are as follows:

(thousands of euros)	2009	2008
Deferred tax assets		
Retirement and commitnments with employees	10,573	10,015
Subsidies	1,851	2,956
Financial derivatives	19,539	15,938
Asset impairment	11,275	-
Other	21,496	22,100
Total deferred tax assets	**64,734**	**51,009**
Deferred tax liabilities		
Accelerated depreciation	142,083	49,568
Non-dedeuctible assets	61,727	66,946
Cash flow hedge	21,118	42,579
Other	5,570	4,191
Total deferred tax liabilities	**230,498**	**163,284**

Temporary differences in the recognition of expenses and income for accounting and tax purposes at 31 December 2009 and 2008, and the accumulated tax effect, are as follows:

(thousands of euros)	2009		2008	
	Income statement	Revenues and expenses taken directly to equity	Income statement	Revenues and expenses taken directly to equity
	Increases	Increases	Increases	Increases
Deferred tax assets				
Originating in prior years	21,515	29,494	27,515	15,513
Movements during the year	9,715	4,010	(6,000)	13,981
Total deferred tax assets	**31,230**	**33,504**	**21,515**	**29,494**
Deferred tax liabilities				
Originating in prior years	118,047	45,237	123,308	31,067
Movements during the year	89,829	(22,615)	(5,261)	14,170
Total deferred tax liabilities	**207,876**	**22,622**	**118,047**	**45,237**

The tax returns prepared over the past four years by group companies for the main taxes to which they are liable are open to inspection, with the exception of corporate income tax for the parent company and its tax group, which are open to inspection starting in 2003. Due to the different interpretations to which tax legislation lends itself, additional liabilities could arise as a result of a tax inspection of any year open to such inspection. The Directors consider, however, that any additional assessments that might be made would not significantly affect the Group's consolidated annual accounts.

20. Income and Expense

a) Net revenues

The breakdown of this Consolidated Income Statement heading for 2009 and 2008, distributed by geographic area, is as follows:

(thousands of euros)	2009	2008
Internal Market	1,172,099	1,101,339
External Market	28,016	24,545
	1,200,115	**1,125,884**

The Internal Market mainly includes revenues for transmission services and the operation of the Spanish electrical system, which are established by the Ministry of Industry, Tourism and Commerce.

The External Market mainly includes the revenues for rendering transmission services in Bolivia, which are established on an annual basis by the Electricity Supervisory Board.

b) Other operating income

This heading of the accompanying Consolidated Income Statement mainly includes the revenues deriving from insurance company claims covered by the policies obtained and the engineering and construction work performed for third parties.

c) Supplies and other operating expenses

Set out below is an analysis of these headings in the accompany Consolidated Income Statement for 2009 and 2008:

(thousands of euros)	2009	2008
Supplies	47,217	62,130
Other operating expenses	232,133	224,361
	279,350	**286,491**

The headings Supplies and Other operating expenses mainly records the expenses deriving from the repair and maintenance of electrical facilities, as well as computer, advisory, lease and other services.

d) Personnel expenses

Set out below is an analysis of these headings in the accompany Consolidated Income Statement for 2009 and 2008:

(thousands of euros)	2009	2008
Wages and salaries	77,604	69,772
Social security	17,334	16,130
Constributions to pension funds and similar obligations	1,280	1,201
Other social welfare expenses	8,018	6,824
	104,236	**93,927**

Group companies have capitalized personnel expenses totaling €14,742k at 31 December 2009 and €5,067k at 31 December 2008.

Employees

The average number of employees at the Group in 2009 and 2008, by category, was as follows:

	2009	2008
Executive team	130	129
Skilled technicians	479	433
Unskilled technicians	568	509
Specialists and administrative staff	464	450
	1,641	**1,521**

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

	2009			2008		
	Men	Women	Total	Men	Women	Total
Executive team	112	19	131	110	19	129
Skilled technicians	333	155	488	321	146	467
Unskilled technicians	483	105	588	454	87	541
Specialists and administrative staff	370	102	472	347	110	457
	1,298	**381**	**1,679**	**1,232**	**362**	**1,594**

At 31 December 2009 there are 10 Directors, including the Executive Director, 7 men and 3 women (11 Directors in 2008, 8 men and 3 women).

e) Impairment and gains/(losses) on disposals of assets

In 2009 Impairment and gains/(losses) on disposals of assets recorded mostly the measurement adjustment affecting REI's CGUs (Note 6).

f) Financial expenses

This heading includes the financial expenses associated with the Group's financial debt, net of financial capitalization. The capitalization of financial expenses in 2009 totaled €21,069k (€12,997k in 2008).

21. Balances and transactions with associated companies and related parties

a) Balances and transactions with associated companies

All transactions with associated parties were carried out under market conditions. The main transactions carried out by Group companies with companies consolidated using the equity method in 2009 and 2008 were as follows:

	2009				2008			
	Balances		Transactions		Balances		Transactions	
	Receivable	Payable	Expense	Revenue	Receivable	Payable	Expense	Revenue
Red Eléctrica del Sur, S.A. (Redesur)	80	120	8	832	71	154	6	641
Total	**80**	**120**	**8**	**832**	**71**	**154**	**6**	**641**

b) Balances and transactions with related parties

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

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

	2008				
EXPENSES AND REVENUES	Significant shareholders	Directors and Executives	Group companies or related parties	Other related parties	Total
Management or collaboration agreements	-	-	-	63	63
Other expenses	-	-	-	603	603
EXPENSES	**-**	**-**	**-**	**666**	**666**
Dividends received	-	-	-	4,352	4,352
REVENUES	**-**	**-**	**-**	**4,352**	**4,352**

22. Directors' compensation

In accordance with the model information report implemented by the National Stock market Commission, which was approved by Circular 4/2007 (27 December) with respect to the Annual Corporate Governance Report, the breakdown of this compensation at 31 December 2009 and 2008, in thousand euro, was as follows:

Compensation	2009	2008
Fixed salary	387	388
Variable salary	1,286	1,253
Per diems	808	833
Constributions to life insurance and pension plans	12	12
Total Compensation	**2,493**	**2,486**

Directors' Compensation at 31 December 2008 and 2008 was, in thousand euro as follows:

Type of Director	2009	2008
Executive	789	782
Institutional outside Director	518	516
Independent outside Director	1,186	1,188
Total Compensation	**2,493**	**2,486**

The individual amounts received by the members of the Board of Directors in 2009, in thousand euro, were as follows:

(thousands of euros)	Fixed salary	Variable salary	Diets for attending Board and committee meetings	Contributions to life insurance and pension plans	Total
Mr. Luis Mª Atienza Serna	387	306	84	12	789
Mr. Antonio Garamendi Lecanda	-	98	85	-	183
Mr. Manuel Alves Torres(1)	-	98	84	-	182
Mr. Rafael Suñol Trepat	-	98	56	-	154
Mrs. María de los Ángeles Amador Millán	-	98	84	-	182
Mr. Francisco Javier Salas Collantes	-	98	84	-	182
Mr. Martín Gallego Málaga	-	98	56	-	154
Mr. José Folgado Blanco	-	98	56	-	154
Mrs. Arantza Mendizábal Gorostiaga	-	98	84	-	182
Mr. José Rodrigues Pereira Dos Penedos(2)	-	98	51	-	149
Mrs. María Jesús Álvarez(1)	-	98	84	-	182
Total accrued compensation	**387**	**1,286**	**808**	**12**	**2,493**

(1) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).
(2) Resigned from the Board in 2009.

Due the position held on the Board of Directors of REN, the Executive Director received €30k in 2009 (€30k in 2008). At the request of the Executive Director, this amount has been deducted from his fixed annual salary.

In 2009 the decision was taken to establish an Executive Compensation Plan (25th Anniversary Extraordinary Plan 2009-2013), associated with the Company's 25th anniversary, to serve as a management tool and to drive compliance with the five year Strategic Plan. Compliance with this program, which includes the Executive Director, will be evaluated at the end of the planned period in 2014. Based on compliance with the established objectives, the global value over the five years could reach a maximum of 1.8 times fixed annual salaries.

There are golden parachute clauses for the Executive Director relating to dismissal or changes in control. This contract has been proposed to the Company's Nomination, Compensation and Corporate Governance Committee and approved by the Board of Directors. These clauses are in line with normal market practices and cover cases of termination and provide for severance payments totaling one year's compensation, unless a higher payment is required by law.

At 31 December 2009 and 2008 the balance sheet did not record any loans, pre-payments or guarantees granted by the Company to the members of the Board of Directors. At those dates there were no pension commitments towards Board members.

In 2009 and 2008 the members of the Board of Directors have not directly or indirectly carried out any transactions with the parent company or group companies that fall outside the normal course of business or that are not in accordance with normal market conditions.

At 31 December 2009 shareholdings held by the members of the Company's Board of Directors in companies with the same, similar or complementary corporate purpose, the positions held and any duties exercised and any such activities carried out on their own behalf or on the behalf of third parties are set out in Exhibit II, in accordance with the reports received from Company Directors.

23. Executive compensation

In 2009 compensation and contributions to life insurance and pension plans for top executives totaled €962k and €31k, respectively (€930k and €29k, respectively, in 2008).

Top executives that have rendered their services in 2009 and 2008 are as follows:

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

At 31 December 2009 and 2008 no loans or pre-payments have been granted to these executives.

There are golden parachute clauses for two of these executives relating to dismissal. These clauses are in line with normal market practices and cover cases of termination and provide for severance payments totaling two years' compensation, unless a higher payment is required by law. The contracts containing these clauses have been approved by the Nomination, Compensation and Corporate Governance Committee and reported to the Board of Directors.

In 2009 the decision was taken to establish an Executive Compensation Plan (25th Anniversary Extraordinary Plan 2009-2013), associated with the Company's 25th anniversary, to serve as a management tool and to drive compliance with the five year Strategic Plan. Compliance with this program, which includes these executives, will be evaluated at the end of the planned period in 2014. Based on compliance with the established objectives, the global value over the five years could reach a maximum of 1.8 times fixed annual salaries.

24. Segment information

Red Eléctrica Group is primarily engaged in the transmission of electricity and the operation of the electrical system in Spain, through REE, which represents 96% of consolidated revenues and 95% of the Group's total assets. All other activities give rise to the remaining 4% of revenues and 5% of total assets. It has not been considered to be relevant to provide information by segment of activity or geography.

25. Guarantees and other commitments entered into with third parties and other contingent liabilities

Together with REE the Company guarantees the €1,500 million eurobond program established in Holland and covering the private issue of bonds by the Group company RBV in the United States for a total of $500 million and the eurobond program totaling up to €2,500 million carried out by the company REF.

REI secures a loan granted by the International Finance Corporation (hereinafter IFC) to the Bolivian Company TDE. Among the commitments acquired by REI with the IFC is to maintain a minimum stake in TDE and the effective control of that company, in addition to being jointly and severally liable for the payments due IFC.

At 31 December 2009 the main long-term contracts and commitments held by Group companies are as follows:

- Contracts for the import and export of electricity concluded with EDF (See Note 30).
- Contracts concluded with several telecommunications operators assigning the use, management and maintenance of the telecommunications network capacity with terms that end between 2016 and 2027.

Company commitments mainly relating to the acquisition of materials and services for the construction of electricity facilities within the course of their ordinary businesses. Furthermore, in order to effectively apply the figure of the single transmission entity, Law 17/2007 stipulates that companies that own transmission installations must transfer those facilities to REE within three years after the law enters into force. In accordance with the law, the selling price will be agreed by the parties and will be based on market prices.

At 31 December 2009 the Group has obtained bank guarantees for third parties totaling €32,673k (€17,514k in 2008).

26. Information regarding the environment

During 2009 Group companies incurred ordinary expenses to protect and improve the environment totaling €13,679k (€17,252k in 2008). These expenses mainly relate to the application of preventive and corrective measures at service facilities. They also include the maintenance of the Environmental Management System, several environmental reporting and training activities, research projects regarding the environment and expenses relating to the special unit dedicated to these tasks.

In 2009 environmental impact studies and environmental monitoring activities have taken place at newly constructed electrical facilities which have cost €4,451k (€5,084k in 2008, which included mainly the environmental action deriving from the construction of the second electrical connection between Spain and Morocco).

Group companies are not involved in any litigation regarding the protection and improvement of the environment from which relevant contingencies are deemed possible. During 2009 and 2008 Group companies have not received any significant environmentalists subsidies.

27. Other information

The auditor of the group companies since 2006 is PricewaterhouseCoopers Auditores, S.L. The compensation accrued with respect to the audit of the accounts prepared by Group companies in 2009 totals approximately €183k (€138k in 2008). In 2009 and 2008 no compensation accrued with any company directly or indirectly related to the audit firm with respect to professional services other than audit services.

28. Earnings per share

Earnings-per-share for 2009 and 2008 are as follows:

	2009	2008
Net profit (thousands of euros)	330,402	286,119
Number of shares (shares)	135,270,000	135,270,000
Average number of treasury shares (shares)	666,754	571,571
Basic earnings per share (euro)	2.45	2.12
Diluted earninsg per share (euro)	2.45	2.12

At 31 December 2009 and 2008 the Group recorded no transactions that made a distinction between basic earnings per share and diluted earnings per share.

29. Share-based payments

Share-based payments at 31 December 2008 and 2008 are as follows:

Red Eléctrica Group
Share-based payments at 31 December 2009 and 2008 (thousands of euros)

	2009			2008		
	Number of shares	Average price	Amount in thousands of euros	Number of shares	Average price	Amount in thousands of euros
Management	1,581	30.29	48	19,225	36.85	709
Employees	51,817	31.75	1,645	103,011	39.41	4,060
TOTAL	**53,398**	**31.71**	**1,693**	**122,236**	**39.01**	**4,769**

The price for the shares is the listed price on the day of delivery. All of these deliveries have taken place in accordance with the authorization granted by shareholders at a General Meeting held by the Parent Company.

30. Subsequent events after 31 december 2009

At the end of January 2010, REC and EDF concluded the agreements necessary for the early termination of the export or import of electricity that ended in March and September 2010, respectively.

The Company believes that the cancellation of these contracts will not cause any other impact on its equity than the cessation of the activity as was planned.

EXHIBIT I

Red Eléctrica Group

Breakdown of shareholdings at 31 December 2009

Company - Address - Main activity	Shareholding Direct	Shareholding Indirect
Red Eléctrica Corporación S.A., the parent company, was incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - Management of the business group, rendering of assistance and support services to investee companies, operation of the properties owned by the Company and the management of long-term international energy agreements.		
A) Companies carried using the full consolidation method		
Red Eléctrica de España, S.A.U. (REE). - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - Transmission services and operation of the Spanish electrical system and management of the transmission system.	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - International shareholdings. Rendering of consulting, engineering, construction and telecommunications services. - Rendering of electrical activities outside of the Spanish electrical system.	100%	-
Red Eléctrica de España Finance, B.V. (RBV) - Claude Debussylaan, 24. Amsterdam (Holanda). - Finance activities.	100%	-
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid). - Finance activities.	100%	-
Red Eléctrica Andina, S.A. (REA) - Urbanización Independencia Americana, D-8. Yanahuara. Arequipa (Perú). - International shareholdings. Consulting, engineering and construction. Electrical activities.	-	100%(1)
Transportadora de Electricidad, S.A. (TDE) - C/ Colombia, Nº 00655, casilla, Nº 640. Cochabamba (Bolivia). - Transmission of electricity.	-	99.94%(1)
Cybercia, S.A. - C/ Colombia, Nº 00655, casilla, Nº 640. Cochabamba (Bolivia). - Service and commerce activities.	-	75%(2)

Company - Address - Main activity	Shareholding Direct	 Indirect
B) Companies carried under the prorporational method		
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Initiale,1. Terrasse Bellini, TSA 41000, 92919 La Défense Cedex. París (Francia). - Analysis and execution of expanding the interconnection capacity between Spain and France.	-	50%[3]
C) Companies carried under the equity method		
Red Eléctrica del Sur, S.A. (REDESUR). - Juan de la Fuente, 453. Lima (Perú). - Transmission of electricity.	-	33.75%[1]

(1) Shareholding through Red Eléctrica Internacional
(2) Shareholding through Transportadora de Electricidad
(3) Shareholding through Red Eléctrica de España, SAU

EXHIBIT II

Red Eléctrica Group

Information regarding the Members of the Board of Directors at 31 December 2009

Members of Board of Directors	Position on the Board	Direct or indirect shareholdings held by Members of the Board of Directors in companies with the same, similar or complementary corporate purpose as that of the Company.	Positions and duties of Members of the Board of Directors at companies not pertaining to Red Eléctrica Group that have the same, similar or complementary corporate purpose as the Company.
Mr. Luis Mª Atienza Serna	Chairman	-	Director of Redes Energéticas Nacionais, SGPS, S.A. (REN)
Mr. José Folgado Blanco	Member	-	-
Mrs. Arantza Mendizábal Gorostiaga	Member	7,336 shares in Iberdrola, S.A. 33 shares in Endesa, S.A. 696 shares in Iberdrola Renovables, S.A.	-
Mr. Antonio Garamendi Lecanda	Member	-	-
Mr. Manuel Alves Torres	Member	-	-
Mrs. María Jesús Álvarez González	Member	-	-
Mr. Rafael Suñol Trepat	Member	-	-
Mrs. María de los Ángeles Amador Millán	Member	-	-
Mr. Martín Gallego Málaga	Member	-	-
Mr. Francisco Javier Salas Collantes	Member	-	-

None of members of the Board of Directors has exercised, on their own behalf or on behalf of a third party, the same, similar or complementary activity constituting the Company's corporate purpose.

03

Consolidated
Directors' Report
2009

Business development most significant events

In a complicated market environment, in 2009 RED ELECTRICA GROUP obtained satisfactory financial results in addition to significant achievements in the GROUP's various business activities.

Activities in Spain

In 2009 RED ELECTRICA GROUP's investments in the electricity grid in Spain was solid, which has allowed the Group to exceed the investment figures obtained over the past few years.

In 2009 RED ELECTRICA GROUP continued to pursue the objective of developing and building a networked, robust and reliable grid, taking all action with maximum respect for the environment and choosing those locations and areas that cause the lest socio-environmental impact as possible.

Investments in the national transmission network totaled €734.8 million, increasing its size by 431.5 km to a total of 34,754 km of lines. During the year a record number of over 220 substation service positions was obtained, increasing transformation capacity by 3,400 MVA. The most significant actions taken during the year were as follows:

- The reinforcement of the transmission network in Catalonia, Castilla-León, Asturias, Galicia and Andalucía.
- The improvement of the network and the extension of the 220 kW network in the regions of Valencia, Catalonia and Madrid.
- The performance of projects to evacuate generation capacity from new combined cycle plants and various wind plants.
- Work to connect the peninsula and the Balearic Islands by submarine cable.
- The launch of the 400 kW line between Guillena-Puebla de Guzmán and the 220 kW substation in Puebla de Guzmán. This will allow for a new connection with southern Portugal.
- Efforts continued to reinforce the Duero line on this connection, taking the first steps for the new connection between Aldeadávila - Lagoaça (Portugal), which will increase the capacity of exchanges with the neighboring country.

- Work has started on the connection between Spain – France through INELFE, a company owned (50% each) by Red Eléctrica de España and Réseau de Transport d'Électricité (RTE). The construction of this new connection, classified as of priority interest by the European Union, will allow the current exchange capacity between the two countries to be doubled, and encourage the integration of higher volumes of renewable energy, particularly the wind energy from the Spanish system in addition to guaranteeing the supply of electricity to the province of Gerona, which will allow the development of the high speed train.

In 2009 the most notable events, in addition to guaranteeing the continuity of the supply of electricity under strict standards of efficiency and transparency with agents, were:

- The performance of the transmission system in Spain was excellent: the **full availability of the network** in 2009 reached 98.06%, despite the cyclone Klaus, which affected primarily the north of Spain in January and damaged 17 400 kW and 220 kW lines, with some being temporarily knocked out of service. Despite the extreme situation the maximum demand affected at the worst moments of the storm only represented 2.6% of national demand and was only affected briefly. This reveals the excellent performance of the transmission protection system and the high quality of our facilities.
- **Demand** for electricity on the peninsula totaled 251,423 GWh. This demand, corrected for the effects of employment and temperature was 4.3% lower than in 2008, the first decline since demand records first started to be be kept in 1985. There are two different periods within electricity demand, a first period of sharp decline that ended in April with the largest fall (11.8%), as from which more moderate declines were recorded until December, which ended with a 2.2% decrease.
- **Integration of renewable energies**. In 2009 the increase of the weight of renewable energies is notable, as it covered 26% of demand, compared with 24% in 2008. On several occasions wind energy exceeded previoushistoric maximum installed capacity, energy per hour and energy per day. On 8 November the last daily energy record was broken at 251,543 MWh, production that allowed 44.9% of demand that day to be covered. November also saw the maximum monthly amount of wind energy cover 22.7% of demand that month, exceeding the contribution made by nuclear energy (19.5%) for the first time.
- **Reduction of CO_2 emissions**. The increase in renewable energies together with the decline in elec-

tricity consumption and lower production by coal facilities, contributed to the reduction of CO_2 emissions in the electricity sector, estimated at 73.4 million tons, 16.6% less than in 2008.

Activities outside of Spain

The activities carried out by RED ELECTRICA GROUP abroad is carried out through Red Electrica International, which has investments in Latin America, Bolivia (through TDE) and Peru (through REDESUR).

Both REDESUR in Peru and TDE in Bolivia have carried out their activities within their electricity systems, which have achieved excellent quality standards in operating and maintaining their facilities and have high availability figures.

Main financial figures

In 2009 **Profits after taxes** totaled €330.4 million, which is 15.5% more than in 2008.

Net revenues in 2009 totaled €1,200.1 million and grew by 6.6%, mainly due to the increase in the higher number of assets resulting from the facilities put into service in 2008 and the 0.2% increase in prices, once the efficiency factor is discounted.

Gross operating profit (EBITDA) increased to €845.6 million which is a 9.6% increase over 2008 as a result of containing operating costs.

Supply **costs and other operating expenses**, decreased by 2.5% compared with last year. Excluding expenses deriving from events that will be recovered from insurance policies, non-recurring provisions made last year, supplies and other operating expenses included 2.4% as a result of the increase in the number of assets.

Personnel **expenses** rose by 11.0% in 2009 and the average payroll increased by 7.9% during the same period. During the fourth quarter of 2008 excess provisions were adjusted, which gave rise to abnormally low expenses in that quarter. The **average** payroll at RED ELÉCTRICA GROUP at 31 December 2009 is 1,641 employees. The final payroll amounted to 1,679 employees, a 5.3% increase compared with December 2008.

Net **operating profit (EBIT)** increased by 3.9% compared with 2008, as a result of depreciation during the year, which grew by 3.7% due mainly to the launch of transmission assets, and the provision for asset impairment totaling €45.1 million, based on the measurement of the value of the Group's international investments.

Financial **income/expense** totaled -84.5 million euro compared with -110.1 million in 2008. Financial income amounted to €6.5 million and included €4.4 million relating to the dividend distributed by REN during the second quarter. Financial expense net of capitalization totaled €91.2 million compared with €117.2 million last year, mainly as a result of the decline in rates.

Investments **made** by the GROUP in 2009 rose to €758.6 million, 19.4% higher than in 2008. Investments for the year mainly relate to the development of the national electricity grid and totaled €734.8 million.

Dividends **paid** at 31 December 2009 amounted to €172.2 million, 17.2% higher than the payment made in 2008.

Net **Financial debt recorded by RED** ELECTRICA GROUP at 31 December 2009 totaled 3,122.2 million. The rating agencies Standard and Poor's and Moody's maintained the AA- and A2 ratings in 2009, respectively.

Based on the interest rate, 76% of the Group's net debt is at a fixed rate, while the remaining 24% is at a variable rate.

Furthermore, in 2009 the average cost of the Group's financial debt was 3.49% and the average balance was €3,153.3 million. In 2008, the average cost of debt was 4.39% and the average balance was €2,911.1 million.

At 31 December 2009, the **equity** recorded by RED ELÉCTRICA GROUP was €1,439.2 million, a 7.7% increase over 2008. This growth is a consequence of profits for the period,partially offset by the measurement of hedge derivatives, the distribution of 2008 profits and the interim dividend in 2009.

Stock market development and yields for shareholders

RED ELECTRICA forms part of the IBEX-35 and its weight in the index is 1.30% at the end of 2009. Throughout 2009 the company's free float was 80%.

The company's market cap at the end of 2009 was €5,251 million. Shares in Red Electrica rose nearly 8% in 2009.

In addition, RED ELECTRICA has maintained its commitment to maximize its share value fort shareholders and in 2009 offered high yield dividends.

Treasury shares

In order to facilitate adequate depth levels and share liquidity in 2009 the Company acquired 3,333,076 shares for an overall nominal value of €6.7 million and an effective amount of €108 million. In addition, 3,643,222 shares were sold for a total nominal amount of €7.3 million and an effective amount of €120 million.

At 31 December 2009 the Company's treasury shares represented 0.25% of share capital and consisted of 341,865 shares, whose overall value was €0.7 million and their market value was €13.3 million.

The Company has complied with the obligations deriving from Article 75.2 of Additional provision Two of the Spanish Companies Act which stipulates, with respect to shares listed on an official secondary market, that the nominal value of the shares acquired, plus those held by the parent company and subsidiaries, may not exceed 10% of share capital. Subsidiaries do not possess any treasury shares or shares in the company.

Risk management

RED ELECTRICA GROUP has established a Risk Control System that covers all of its activities and is adequate to its risk profile. Risk policy and the General risk procedure and Integral risk control are based on the integrated business management framework established in the COSO II report (Committee of Sponsoring Organizations).

The main risks identified with respect to attaining strategic objectives are Regulatory, as the main business operated by RED ELECTRICA GROUP are subject to supervision, Operational, fundamentally deriving from the activities carried out to service electricity systems, Financial and Environmental.

The risk control system also includes Financial Risk Management. The policies to cover each type of risk are detailed in Note 14 of the notes to the consolidated annual accounts.

Environment

RED ELECTRICA GROUP has the challenge of making the development of electricity infrastructure compatible with the conservation of the environment to attain an efficient balance for business activbity and sustainability.

For this reason, it has continued with its policy of preparing environmental impact studies for all new facility projects, whether or not they are subject to the legal requirement to evaluate environmental impact.

All of the activities intended to protect the environment carried out by RED ELECTRICA GROUP in its various areas of business (environmental supervision, protection of avian and other fauna, prevention of pollution, treatment of safety lanes, environmental training, compensatory measures, etc.) are integrated into the Environment Management System published annually in the Environmental Report.

Research, development and innovation (R&D+i)

Research, development and innovation (R&D+i) activity carried out by RED ELECTRICA GROUP is oriented, within its corporate strategy, to guarantee the efficiency, security and sustainability of the infrastructure that supports the electrical system.

In 2009 the R&D+i projects carried out by RED ELECTRICA GROUP totaled approximately €7 million and involved more than 60 projects.

Corporate responsibility

In the area of corporate responsibility, RED ELECTRICA has become one of the most advanced companies and holds a leading position in rankings that evaluates both the results of the company's management and the implication and support of sustainable development in all areas of its activity. Since 2006 it forms part of the Dow Jones Sustainability World Index, and since 2008 it also forms part of FTSEE4Good and, recently, the 2008 Corporate Responsibility annual report was deemed the best of the Ibex 35 by the Corporate Social Responsibility Observatory.

Staff

The activities carried out by the RED ELECTRICA GROUP are articulated by a vocation to serve society and its focus on ethical responsibility, values on which the human resource management policies are based.

The Group's commitment to the development of employees translates, among other things, into action intended to:

- The creation of quality employment that is stable over time.
- The development of policies that encourage equality of opportunities.
- The reconciliation of family and personal life, introducing policies that exceed applicable legislation.

These actions doubtlessly contribute to creating employee commitment to the GROUP and its business project, one of the basic pillars of its management.

Events Subsequent to 31 december 2009

At the end of January 2010, RED ELECTRICA CORPORACION and EDF have concluded the agreements necessary for the early termination of the export or import of electricity that ended in March and September 2010, respectively.

The Company believes that the cancellation of these contracts will not cause any other impact on its equity than the cessation of the activity as was planned.

Foreseeable development

RED ELECTRICA GROUP continues to focus its strategy on the consolidation of the Spanish TSO with the objective of developing the network investments that are necessary in accordance with the infrastructure plan, which will allow the reliability and security of the Spanish system to be guaranteed while integrating renewable energies into the operation of the system.

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

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

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

This will give rise to the creation ofg long-term value, lasting competitive advantages and the attainment of a better corporate reputation, focusing on optimal service to the company and the commitment to a sustainable energy system.

Article 116 bis of the stock market act for listed companies

The information required by Article 116 bis of the Stock market act for listed companies is included in the annual Corporate Governance Report presented below.

Link to Annual Corporate Governance Report.

04
Individual Financial Statements
Red Eléctrica Corporación, S.A.
2009

Red Eléctrica Corporación, S.A.

Balance sheet at 31 december 2009 and 2008 (thousands of euros)

	31/12/2009	31/12/2008
NON CURRENT ASSETS	**1,217,225**	**1,210,957**
Tangible fixed assets	52,521	49,545
Land and buildings	51,051	40,382
Other installations, equipment and furniture	1,470	920
Fixed assets in progress and advances	-	8,243
Investments	2,158	2,190
Land	629	629
Buildings	1,529	1,561
Non current investments in group and associated companies	1,076,396	1,076,336
Equity instruments	1,076,396	1,076,336
Non current financial investments	80,100	75,694
Equity instruments	80,100	75,694
Deferred tax assets	6,050	7,192
CURRENT ASSETS	**451,476**	**261,274**
Non current assets held for sale	601	601
Trade receivables and other accounts receivable	46,182	5,086
Trade receivables for sales and services	16,045	4,364
Sundry debtors	1,543	116
Personal	1	-
Other receivables with public entities	28,593	606
Current investments in group and associated companies	376,739	249,886
Loans to group and associated companies	376,739	189,166
Other financial assets	-	60,720
Accruals	27,937	5,677
Cash and equivalent liquid assets	17	24
Cash and banks	17	24
TOTAL ASSETS	**1,668,701**	**1,472,231**

	31/12/2009	31/12/2008
EQUITY	**1,333,320**	**1,192,492**
Treasury stock	1,344,909	1,207,165
Capital	270,540	270,540
Reserves	848,704	802,876
(Shares and stake in own equity)	(11,789)	(22,185)
Profit and losses for the period	306,470	216,337
(Interim dividend)	(69,016)	(60,403)
Adjustments for changes in value	(11,589)	(14,673)
Financial assets available for sale	(11,589)	(14,673)
NON CURRENT LIABILITIES	**8,077**	**5,207**
Non current provisions	3,172	3,012
Non current financial liabilities	16	16
Other non current	16	16
Borrowings from group companies and associates	1,546	1,482
Deferred tax liabilities	3,116	337
Accruals	227	360
CURRENT LIABILITIES	**327,304**	**274,532**
Current financial liabilities	187,649	114,468
Bonds and other negotiable securities	117,922	49,059
Debt with credit entities	13	-
Other current debts	69,714	65,409
Current debts with group and associated companies	119,496	80,956
Trade creditors and other accounts payable	11,627	70,605
Other creditors	8,790	6,185
Personnel	1,694	1,748
Current tax liabilities	-	61,409
Other debts with public entities	1,143	1,263
Accruals	8,532	8,503
TOTAL EQUITY AND LIABILITIES	**1,668,701**	**1,472,231**

Red Eléctrica Corporación, S.A.

Profit and loss accounts for the year 2009 and 2008 (thousands of euros)

	2009	2008
Net sales	308,304	620,873
Net Sales	6,190	550,351
Financial income from markeable securities and other financial instruments	298,974	65,945
Of Group companies and associates	294,568	61,593
Of third parties	4,406	4,352
Financial income from securities and other financial instruments Group and associates companies	3,140	4,577
Work done by the company for assets	-	2,363
Raw materials and consummables	(7)	(21,676)
Other operating income	9,715	12,314
Other income	9,715	12,015
Allocation of non current non financial subventions	-	299
Staff costs	(2,797)	(47,345)
Wages and salaries	(2,577)	(35,236)
Social charges	(67)	(11,402)
Provisions	(153)	(707)
Other operating expenses	(4,096)	(105,942)
External services	(3,781)	(102,814)
Local taxes	(315)	(2,327)
Charges in trade provisions and bad debts written off	-	5
Other operating expenses	-	(806)
Non current asset depreciation	(1,215)	(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	**309,904**	**340,862**

	2009	2008
Financial income	63	6,160
From negociable segurities and financial instrument	63	336
From third parties	63	336
Financial capitalized expenses	-	5,824
Financial expenses	(3,754)	(66,351)
On debt with group companies and associated	(1,446)	(30,955)
On debt with thrid parties	(2,305)	(34,280)
Provision discount adjustments	(3)	(1,116)
Exchange differences	2	(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	**(3,689)**	**(58,808)**
PROFIT/LOSS BEFORE TAXES	**306,215**	**282,054**
Taxes on profits	255	(65,717)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**306,470**	**216,337**
PROFIT/LOSS FOR THE YEAR	**306,470**	**216,337**

Red Eléctrica Corporación, S.A.

Statement of changes in equity for the year 2009 and 2008 (thousands of euros)

	Share capital	Reserves	(Treasury stock)
Balances at 1 January 2008	**270,540**	**711,111**	**(12,331)**
Total income and expenditure recognized	-	2	-
Transactions with shareholders and owners			
(-) Dividend distribution	-	-	-
Transactions with treasury shares or own equity instruments (net)	-	(329)	(9,854)
Other transactions with share holders (Branch of activity transfer)	-	-	-
Other variations in equity			
Appropiation of prior year profit (loss)	-	-	-
2007 retained earnings	-	92,092	-
Balances at 31 December 2008	**270,540**	**802,876**	**(22,185)**
Total income and expenditure recognized	-	(3)	-
Transactions with shareholders and owners			
(-) Dividend distribution	-	-	-
Transactions with treasury shores or own equity instruments	-	1,696	10,396
Other variations in equity			
Appropiation of prior year profit (loss)	-	-	-
2008 retained earnings	-	44,135	-
Balances at 31 December 2009	**270,540**	**848,704**	**(11,789)**

Profit and loss from the last year	Profit and loss for the period	Interim dividend	Subtotal equity	Adjustments for changes in value	Grants donations and legacies	Total Equity
-	238,682	(52,208)	1,155,794	42,220	183,367	1,381,381
-	216,337	-	216,339	2,063	4,918	223,320
(146,938)	-	(8,195)	(155,133)	-	-	(155,133)
-	-	-	(10,183)	-	-	(10,183)
-	-	-	-	(58,956)	(188,285)	(247,241)
238,682	(238,682)	-	-	-	-	-
(91,744)	-	-	348	-	-	348
-	216,337	(60,403)	1,207,165	(14,673)	-	1,192,492
-	306,470	-	306,467	3,084	-	309,551
(172,812)	-	(8,613)	(181,425)	-	-	(181,425)
-	-	-	12,092	-	-	12,092
216,337	(216,337)	-	-	-	-	-
(43,525)	-	-	610	-	-	610
-	306,470	(69,016)	1,344,909	(11,589)	-	1,333,320

Red Eléctrica Corporación, S.A.

Income and expenditure statement for year 2009 and 2008 (thousands of euros)

	2009	2008
Profit for the period	**306,470**	**216,337**
For the valuation of Financial instruments	4,405	(20,961)
For Cash Flow coverage	-	23,965
Grants, donations and legacies	-	11,052
From actuarial gains and losses and other adjustments	(4)	3
Tax purposes	(1,320)	(4,218)
Income and expenditure directly allocated to shareholders' equity	**3,081**	**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	**309,551**	**223,320**

Red Eléctrica Corporación, S.A.

Cash flow statement at 31 december 2009 and 2008 (thousands of euros)

CASH FLOW STATEMENT	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES	**88,086**	**(56,305)**
Profit and loss before taxes	306,215	282,054
Profit and loss adjustments	(297,335)	61,915
Fixed asset depreciation	1,215	124,071
Changes in provisions	156	2,654
Grants release to income	-	(4,027)
Gains/losses from deterioration and disposal of fixed assets	-	(219)
Finance revenue	(302,114)	(65,944)
Financial expenses	3,541	(1,312)
Other income and expenses	(133)	6,692
Change in working capital	(209,562)	(246,923)
Stocks	-	(12,096)
Trade and other receivables	(12,556)	(3,355)
Other current assets	(199,296)	(203,017)
Trade and other accounts receivable	2,290	(28,455)
Other cash flows from operating activities	288,768	(153,351)
Interest payments	(1,896)	(61,259)
Dividend expenses	298,974	5,224
Interest expenses	-	336
Payments (expenses) for tax on profits	(8,310)	(97,465)
Other payments (expenses)	-	(187)
CASH FLOWS FROM INVESTING ACTIVITIES	**(8,293)**	**(262,791)**
Payments for investments	(8,357)	(263,238)
Group and associates companies	(60)	-
Tangible fixed assets, intangible fixed assets and fixed asset investments	(8,297)	(263,644)
Other assets	-	406
Expenses for divestitures	64	447
Empresas de grupo y asociadas	64	-
Intangible fixed assets	-	311
Other financial assets	-	136

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	2009	2008
CASH FLOW FROM FINANCING ACTIVITIES	**(79,800)**	**317,583**
Expenses and payments for equity instruments	12,092	(145)
Acquisition and disposal from own equity instruments	12,092	(11,141)
Grants, donations and legacies received	-	11,052
Branch of activity transfer	-	(56)
Expenses and payments for financial liability instruments	80,310	464,666
Expenses and payments for financial liability instruments	68,664	-
Issue and disposal of financial liability with credit entities	13	496,413
Group companies and associated	11,633	(20,818)
Repayment and amortization	-	(10,929)
Payments for dividends and remuneration of other equity instruments	(172,202)	(146,938)
Dividends	(172,202)	(146,938)
NET INCREASE / (DECREASE) IN CASH AND EQUIVALENT	**(7)**	**(1,513)**
Cash and cash equivalents at the start of the period	24	1,537
Cash and cash equivalents at the end of the period	17	24

05
Proposed
Profits Distribution

Red Eléctrica Corporación, S.A.

Proposed profits distribution

Year 2009

The year 2009 profit reached Euros 306.469.652,23. 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 1,4781 per share payable to those entitled to dividend. Accordingly, an interim dividend of Euros 0,5115 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	**106.701.929,18**
DIVIDEND:	
INTERIM DIVIDEND	69.015.741,05
EXTRA DIVIDEND (computed on the total number of shares)	130.751.982,00
Total	**306.469.652,23**

Dividend will be paid 1/07/2010.

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