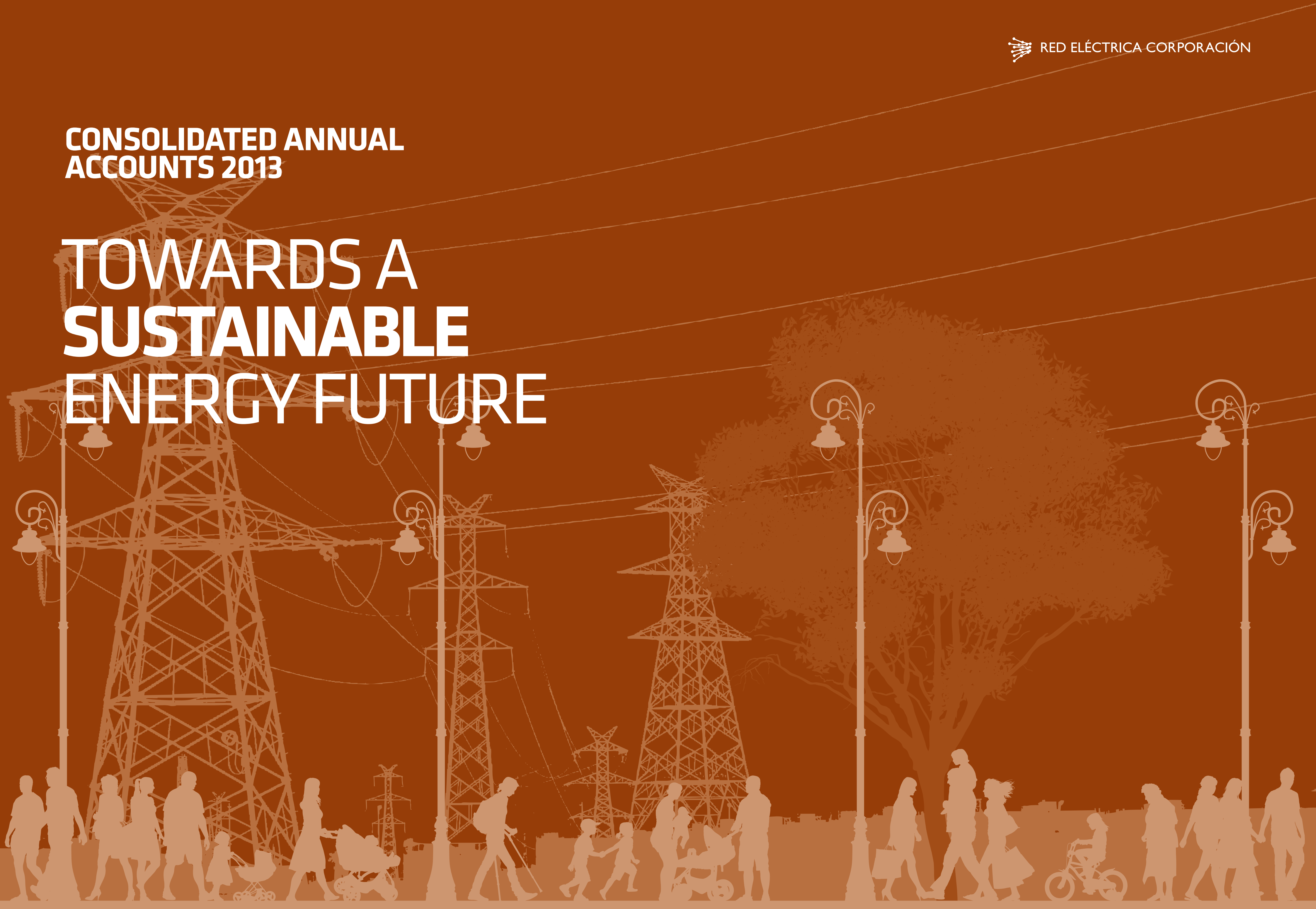
RED ELÉCTRICA CORPORACIÓN

CONSOLIDATED ANNUAL ACCOUNTS 2013

TOWARDS A **SUSTAINABLE** ENERGY FUTURE



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INDEPENDENT **AUDIT REPORT**

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Independent Auditors' Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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

We have audited the consolidated annual accounts of Red Eléctrica Corporación, S.A. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position at 31 December 2013 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes. As specified in note 2, the Directors are responsible for the preparation of these consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on these consolidated annual accounts taken as a whole, based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain, which requires examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual accounts and evaluating whether their overall presentation, the accounting principles and criteria used and the accounting estimates made comply with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of Red Eléctrica Corporación, S.A. and subsidiaries at 31 December 2013 and their financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other applicable provisions of the financial reporting framework.

The accompanying consolidated directors' report for 2013 contains such explanations as the Directors of the Company consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2013. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Red Eléctrica Corporación, S.A. and subsidiaries.

KPMG Auditores, S.L.

(Signed on the original in Spanish)

Ana Fernández Poderós

26 February 2014

CONSOLIDATED **BALANCE SHEET**

Note: Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012
IN THOUSANDS OF EUROS

ASSETS	31/12/2013	31/12/2012
Intangible assets (note 5)	86,693	23,359
Property, plant and equipment (note 6)	8,426,782	8,265,640
Investment property (note 7)	2,561	2,604
Equity-accounted investees	-	4,774
Non-current financial assets (Note 17)	63,532	58,919
Deferred tax assets (Note 21)	34,586	1,928
Other non-current assets (Note 9)	317	16,923
NON-CURRENT ASSETS	**8,614,471**	**8,374,147**
Inventories (Note 10)	44,980	52,747
Trade and other receivables (Note 11)	544,535	633,315
Trade receivables	20,987	12,759
Other receivables	521,788	620,410
Current tax assets	1,760	146
Other current financial assets (Note 17)	1,018	1,130
Cash and cash equivalents	214,861	40,314
CURRENT ASSETS	**805,394**	**727,506**
TOTAL ASSETS	**9,419,865**	**9,101,653**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012 (CONT.)

EQUITY AND LIABILITIES	31/12/2013	31/12/2012
Capital and reserves	**2,248,628**	**2,027,340**
Capital	270,540	270,540
Reserves	1,548,523	1,370,426
Own shares (-)	(1,707)	(14,698)
Profit for the year attributable to the Parent	529,139	492,288
Interim dividend (-)	(97,867)	(91,216)
Valuation adjustments	**(42,041)**	**(40,177)**
Available-for-sale financial assets	4,648	1,228
Hedging transactions	(46,290)	(41,273)
Other valuation adjustments	611	627
Translation differences	(1,010)	(759)
EQUITY ATTRIBUTABLE TO THE PARENT	**2,206,587**	**1,987,163**
Non-controlling interests	**18,061**	**4,382**
TOTAL EQUITY (Note 12)	**2,224,648**	**1,991,545**
Grants and other (Note 13)	418,297	403,210
Non-current provisions (Note 14)	84,151	65,434
Non-current financial liabilities (Note 17)	4,662,995	3,990,860
Loans and borrowings, bonds and other marketable securities	4,552,158	3,903,963
Other non-current financial liabilities	110,837	86,897
Deferred tax liabilities (Note 21)	598,855	537,564
Other non-current liabilities (Note 15)	72,978	75,268
NON-CURRENT LIABILITIES	**5,837,276**	**5,072,336**
Current provisions	10	10
Current financial liabilities (Note 17)	991,904	1,763,611
Loans and borrowings, bonds and other marketable securities	245,268	1,057,992
Other current financial liabilities	746,636	705,619
Trade and other payables (Note 19)	366,027	274,151
Suppliers	201,220	241,091
Other payables	142,030	25,447
Current tax liabilities	22,777	7,613
CURRENT LIABILITIES	**1,357,941**	**2,037,772**
TOTAL LIABILITIES	**9,419,865**	**9,101,653**

Notes 1 to 33 and Appendices I and II form an integral part of these consolidated annual accounts.

CONSOLIDATED INCOME STATEMENT 2013 AND 2012
IN THOUSANDS OF EUROS

CONSOLIDATED INCOME STATEMENT	2013	2012
Revenue (Note 22-a)	1,758,266	1,755,256
Self-constructed assets	19,647	18,995
Supplies (Note 22-c)	(67,025)	(69,597)
Other operating income (Note 22-b)	14,655	13,499
Personnel expenses (Note 22-d)	(127,263)	(129,148)
Other operating expenses (Note 22-c)	(296,403)	(289,855)
Amortisation and depreciation (notes 5, 6 and 7)	(416,565)	(405,496)
Non-financial and other capital grants (note 13)	13,200	12,626
Impairment and gains/(losses) on disposal of fixed assets (notes 6 and 22-e)	211	(46,392)
RESULTS FROM OPERATING ACTIVITIES	**898,723**	**859,888**
Finance income	13,825	8,356
Finance costs (note 22-f)	(183,592)	(172,829)
Exchange gains/(losses)	427	(200)
Impairment and gains/(losses) on disposal of financial instruments (notes 8 and 22-g)	3,219	(15,999)
NET FINANCE COSTS	**(166,121)**	**(180,672)**
Share in profits of equity-accounted investees	411	1,298
PROFIT BEFORE TAX	**733,013**	**680,514**
Income tax (note 21)	(203,215)	(188,368)
CONSOLIDATED PROFIT FOR THE YEAR	**529,798**	**492,146**
A) CONSOLIDATED PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	**529,139**	**492,288**
B) PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**659**	**(142)**
EARNINGS PER SHARE IN EUROS		
Basic earnings per share in Euros (Note 31)	**3.92**	**3.66**
Diluted earnings per share in Euros (Note 31)	**3.92**	**3.66**

Notes 1 to 33 and Appendices I and II form an integral part of these consolidated annual accounts.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE RESULTS 2013 AND 2012
IN THOUSANDS OF EUROS

	2.013			2012 (*)		
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**Total Group**	**Attributable to the Parent**	**Non-controlling interests**	**Total Group**	**Attributable to the Parent**	**Non-controlling interests**
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**529,798**	**529,139**	**659**	**492,146**	**492,288**	**(142)**
ITEMS THAT COULD BE RECLASSIFIED TO PROFIT OR LOSS	**(2,735)**	**(1,904)**	**(831)**	**(31,833)**	**(31,548)**	**(285)**
Translation differences	(1,546)	(359)	(1,187)	7,469	7,848	(379)
Cash flow hedges	(7,168)	(7,168)	-	(55,080)	(55,080)	-
Available-for-sale financial assets	4,886	4,886	-	1,228	1,228	-
Other items that could be reclassified to profit or loss	(77)	(77)	-	405	425	(20)
Tax effect of items that could be reclassified to profit or loss	1,170	814	356	14,145	14,031	114
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(1,648)**	**(1,648)**	**-**	**(4,835)**	**(4,835)**	**-**
Actuarial gains and losses and other adjustments	(2,354)	(2,354)	-	(6,907)	(6,907)	-
Tax effect of items that will not be reclassified to profit or loss	706	706	-	2,072	2,072	-
TOTAL OTHER COMPREHENSIVE INCOME	**525,415**	**525,587**	**(172)**	**455,478**	**455,905**	**(427)**
A) TOTAL OTHER COMPREHENSIVE INCOME	**525,415**	**525,587**	**(172)**	**455,478**	**455,905**	**(427)**

(*) Restated.
Notes 1 to 33 and Appendices I and II form an integral part of these consolidated annual accounts.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2013 AND 2012
IN THOUSANDS OF EUROS

	Current period								
	Equity attributable to the Parent								
EQUITY	**Subscribed capital**	**Reserves**	**Interim dividend**	**Own shares**	**Profit/(loss) for the year attributable to the Parent**	**Valuation adjustments**	**Equity attributable to the Parent**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2013	**270,540**	**1,370,426**	**(91,216)**	**(14,698)**	**492,288**	**(40,177)**	**1,987,163**	**4,382**	**1,991,545**
I. Comprehensive income for the year	**-**	**(1,688)**	**-**	**-**	**529,139**	**(1,864)**	**525,587**	**(172)**	**525,415**
II. Transactions with shareholders or owners	**-**	**6,528**	**(6,651)**	**12,991**	**(319,646)**	**-**	**(306,778)**	**-**	**(306,778)**
- Distribution of dividends (note 12)	-	-	(6,651)	-	(319,646)	-	(326,297)	-	(326,297)
- Transactions with own shares (note 12)	-	6,528	-	12,991	-	-	19,519	-	19,519
III. Other changes in equity	**-**	**173,257**	**-**	**-**	**(172,642)**	**-**	**615**	**13,851**	**14,466**
- Transfers between equity line items	-	172,642	-	-	(172,642)	-	-	-	-
- Other changes	-	615	-	-	-	-	615	13,851	14,466
Balances at 31 December 2013	**270,540**	**1,548,523**	**(97,867)**	**(1,707)**	**529,139**	**(42,041)**	**2,206,587**	**18,061**	**2,224,648**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2013 AND 2012 (CONT.)

	Current period								
	Equity attributable to the Parent								
EQUITY	**Subscribed capital**	**Reserves**	**Interim dividend**	**Own shares**	**Profit/(loss) for the year attributable to the Parent**	**Valuation adjustments**	**Equity attributable to the Parent**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2013	**270,540**	**1,208,913**	**(90,932)**	**(28,684)**	**460,348**	**(8,312)**	**1,811,873**	**1,674**	**1,813,547**
I. Comprehensive income for the year	**-**	**(4,518)**	**-**	**-**	**492,288**	**(31,865)**	**455,905**	**(427)**	**455,478**
II. Transactions with shareholders or owners	**-**	**3,361**	**(284)**	**13,986**	**(298,707)**	**-**	**(281,644)**	**-**	**(281,644)**
- Distribution of dividends (note 12)	-	-	(284)	-	(298,707)	-	(298,991)	-	(298,991)
- Transactions with own shares (note 12)	-	3,361	-	13,986	-	-	17,347	-	17,347
III. Other changes in equity	**-**	**162,670**	**-**	**-**	**(161,641)**	**-**	**1,029**	**3,135**	**4,164**
- Transfers between equity line items	-	161,641	-	-	(161,641)	-	-	-	-
- Other changes	-	1,029	-	-	-	-	1,029	3,135	4,164
Balances at 31 December 2013	**270,540**	**1,370,426**	**(91,216)**	**(14,698)**	**492,288**	**(40,177)**	**1,987,163**	**4,382**	**1,991,545**

Notes 1 to 33 and Appendices I and II form an integral part of these consolidated annual accounts.

CONSOLIDATED STATEMENTS OF CASH FLOWS 2013 AND 2012
IN THOUSANDS OF EUROS

CONSOLIDATED STATEMENT OF CASH FLOWS	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES	**1,191,850**	**798,771**
Profit before tax	**733,013**	**680,514**
Adjustments for:	**583,337**	**618,770**
Amortisation and depreciation	416,565	405,496
Other adjustments to results (net)	166,772	213,274
Share in profits of equity-accounted investees	(411)	(1,298)
Gains/losses on disposal/impairment of non-current assets and financial instruments	(3,430)	62,391
Accrued finance income	(13,825)	(8,356)
Accrued finance costs	183,592	172,829
Charge to/surplus provisions for liabilities and charges	18,225	2,611
Capital and other grants taken to income	(17,379)	(14,903)
Changes in operating assets and liabilities	**208,878**	**(244,236)**
Changes in inventories, receivables, current prepayments and other current assets	115,425	(256,430)
Changes in trade payables, current revenue received in advance and other current liabilities	93,453	12,194
Other cash flows used in operating activities:	**(333,378)**	**(256,277)**
Interest paid	(174,915)	(152,162)
Dividends received	5,313	5,592
Interest received	11,381	1,746
Income tax received/(paid)	(166,536)	(109,051)
Other income/(expenses) from operating activities	(8,621)	(2,402)

CONSOLIDATED STATEMENTS OF CASH FLOWS 2013 AND 2012 (CONT.)		
CASH FLOWS USED IN INVESTING ACTIVITIES	**(555,312)**	**(723,602)**
Payments for investments	**(584,437)**	**(739,244)**
Property, plant and equipment, intangible assets and investment property	(578,608)	(738,214)
Other financial assets	(566)	(1,030)
Other investments in subsidiaries	(5,263)	-
Proceeds from sale of investments	**838**	**701**
Property, plant and equipment, intangible assets and investment property	-	125
Other financial assets	838	576
Other cash flows from investing activities	**28,287**	**14,941**
Other proceeds from investing activities	28,287	14,941
CASH FLOWS USED IN FINANCING ACTIVITIES	**(461,386)**	**(54,315)**
Proceeds from and payments for equity instruments	**19,519**	**17,348**
Acquisition	(125,602)	(125,330)
Disposal	145,121	142,678
Proceeds from and payments for financial liability instruments	**(164,580)**	**222,879**
Issue and drawdowns	1,585,044	1,808,226
Redemption and repayment of:	(1,749,624)	(1,585,347)
Dividends and interest on other equity instruments paid	**(319,031)**	**(297,677)**
Other cash flows from financing activities	**2,706**	**3,135**
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS	**(605)**	**117**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**174,547**	**20,971**
Cash and cash equivalents at the beginning of the period	**40,314**	**19,343**
Cash and cash equivalents at the end of the period	**214,861**	**40,314**

Notes 1 to 33 and Appendices I and II form an integral part of these consolidated annual accounts.

RED ELÉCTRICA CORPORACIÓN

CONSOLIDATED
REPORT 2013

Note: Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

1. ACTIVITIES OF THE GROUP COMPANIES

Red Eléctrica Corporación, S.A. (hereinafter the Parent or the Company) and its subsidiaries comprise the Red Eléctrica Group (hereinafter the Group or Red Eléctrica Group). The Company's registered offices are located in Alcobendas (Madrid) and its shares are traded on the Spanish automated quotation system as part of the selective IBEX 35 index.

The Group's principal activity is electricity transmission, system operation and transmission grid management for the Spanish electricity system. These regulated activities are carried out through Red Eléctrica de España, S.A.U. (hereinafter REE).

The Group also conducts electricity transmission activities outside Spain and renders telecommunications services to third parties through Red Eléctrica Internacional, S.A. (hereinafter REI) and its investees.

Appendix I provides details of the activities and registered offices of the Parent and its subsidiaries, as well as the direct and indirect investments held by the Parent in the subsidiaries.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

a) General Information

The accompanying consolidated annual accounts have been prepared by the directors of the Parent to present fairly the Group's consolidated equity and consolidated financial position at 31 December 2013, as well as the consolidated results of its operations and changes in consolidated equity and consolidated cash flows for the year then ended.

These consolidated annual accounts have been prepared on the historical cost basis, amended in the case of available-for-sale financial assets and derivative financial instruments at fair value through profit or loss, and with respect to the recognition criteria for business combinations.

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Parent's functional and presentation currency, rounded off to the nearest thousand. The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework.

The Group has not omitted any mandatory accounting principle with a material effect on the consolidated annual accounts.

The accompanying consolidated annual accounts, authorised for issue by the Company's directors at their board meeting held on 25 February 2014, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its annual accounts applying the accounting principles and criteria in force in its country of operations. Accordingly, the adjustments and reclassifications necessary to harmonise these principles and criteria with IFRS-EU have been made on consolidation. The accounting policies of the consolidated companies are changed when necessary to ensure their consistency with the principles adopted by the Company.

The consolidated annual accounts for 2012 were approved by the shareholders at their general meeting held on 18 April 2013. The consolidated annual accounts for 2013 are currently pending approval by the shareholders. However, the directors of the Company consider that these consolidated annual accounts will be approved with no changes.

b) New IFRS-EU and IFRIC interpretations

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The following amendments were applied for the first time in 2013:

- >> IAS 1 (Amendment) "Presentation of Financial Statements", mandatory for annual periods beginning on or after 1 July 2013.
- >> IAS 19 (Amendment) "Employee Benefits", mandatory for annual periods beginning on or after 1 January 2013.
- >> IFRS 1 (Amendment) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters", mandatory for annual periods beginning on or after 1 January 2013.
- >> IAS 12 (Amendment) "Income Taxes: Recovery of Underlying Assets", mandatory for annual periods beginning on or after 1 January 2013.
- >> IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", mandatory for annual periods beginning on or after 1 January 2013.
- >> IFRS 13 "Fair Value Measurement", mandatory for annual periods beginning on or after 1 January 2013. This standard is to be applied prospectively from 1 January 2013. Pursuant to the transitional provisions, the Group has not prepared the disclosures required by IFRS 13 for the 2012 comparative period.
- >> IFRS 7 (Amendment) "Offsetting Financial Assets and Financial Liabilities", mandatory for annual periods beginning on or after 1 January 2013. This standard is to be applied retrospectively.
- >> IAS 16 "Property, Plant and Equipment", mandatory for annual periods beginning on or after 1 January 2013.
- >> IAS 32 "Financial Instruments: Presentation", mandatory for annual periods beginning on or after 1 January 2013.
- >> IAS 34 "Interim Financial Reporting", mandatory for annual periods beginning on or after 1 January 2013.

The application of these standards and interpretations has not had a significant impact on the accompanying consolidated annual accounts, except with regard to the restatement of the consolidated statement of comprehensive income, insofar as IAS 1 amends the presentation criteria for items of other comprehensive income, requiring these items to be grouped into those that will not and those that will be subsequently reclassified to profit or loss.

The European Union has approved the following standards, application of which is not mandatory for 2013:

- >> IFRS 10 "Consolidated Financial Statements", mandatory for annual periods beginning on or after 1 January 2014.
- >> IFRS 11 "Joint Arrangements", mandatory for annual periods beginning on or after 1 January 2014.
- >> IFRS 12 "Disclosure of Interests in Other Entities", mandatory for annual periods beginning on or after 1 January 2014.
- >> IAS 27 "Separate Financial Statements", mandatory for annual periods beginning on or after 1 January 2014.
- >> IAS 28 "Investments in Associates and Joint Ventures", mandatory for annual periods beginning on or after 1 January 2014.
- >> IAS 36 "Impairment of Assets", mandatory for annual periods beginning on or after 1 January 2014.

- IAS 39 "Financial Instruments: Recognition and Measurement", mandatory for annual periods beginning on or after 1 January 2014.
- IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities", mandatory for annual periods beginning on or after 1 January 2014.

The Company is currently analysing the impact of applying these standards, amendments and interpretations. Based on the analyses performed to date, their application is not expected to have a material impact on the consolidated annual accounts in the initial application period.

At 31 December 2013, the IASB and the IFRS Interpretations Committee had published the following standards, amendments and interpretations, which are pending approval by the European Union:

- IFRS 9 "Financial Instruments", available standard pending adoption by the EU.
- Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39. Effective in conjunction with the adoption of IFRS 9. Pending adoption by the EU.
- IFRIC 21 "Levies". Effective for annual periods beginning on or after 1 January 2014.
- Annual improvements 2010-2012 and 2011-2013 cycles, pending adoption by the EU.

The Company is analysing the impact these new standards, amendments and interpretations could have on the Group's consolidated annual accounts if adopted by the European Union.

c) Estimates and assumptions

The preparation of the consolidated annual accounts in accordance with IFRS-EU requires Group management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and judgements are assessed continually and are based on past experience and other factors, including expectations of future events that are considered reasonable given the circumstances. Actual results could differ from these estimates.

The consolidated annual accounts for 2013 occasionally include estimates calculated by management of the Group and of the consolidated companies, and subsequently endorsed by their directors, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein.

These estimates are essentially as follows:

- Estimated asset recovery, calculated by determining the recoverable amount thereof. The recoverable amount is the higher of fair value less costs to sell and value in use. Asset impairment is generally calculated using discounted cash flows based on financial projections used by the Group. The discount rate applied is the weighted average cost of capital, taking into account the country risk premium.
- Estimated useful lives of property, plant and equipment.
- The assumptions used in the actuarial calculations of liabilities and obligations to employees.
- Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Group assesses and estimates amounts to be settled in the future, including additional amounts for income tax, contractual obligations, pending lawsuit settlements and other liabilities. These estimates are subject to the interpretation of existing facts and circumstances, projected future events and the estimated financial effect of those events.

To facilitate comprehension of the consolidated annual accounts, details of the different estimates and assumptions are provided in each separate note.

The Company has taken out insurance policies to cover the risk of possible claims that might be lodged by third parties in relation to its activities.

Although estimates are based on the best information available at 31 December 2013, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding consolidated income statement as a change in accounting estimates, as required by IFRS.

d) Consolidation principles

The profit or loss of entities of which control has been acquired in a given period is consolidated taking into consideration only the results arising in the period from the acquisition date to the corresponding year end. Consolidation ceases when such control is lost. The types of companies included in the consolidated group and the consolidation method used in each case are as follows:

>> Group entities

Subsidiaries are those entities over which the Parent has the capacity to exercise control, which is the power to govern the investee's financial and operating policies so as to obtain benefits from its activities. Control is presumed to exist when the Parent directly or indirectly holds more than 50% of the voting rights of the investee or, where a lower percentage is held, when agreements with other shareholders grant the Company control, or when it has the power to appoint or remove the majority of the members of the board of directors, or the power to cast the majority of votes at meetings of the board of directors, provided control of the entity is by that board.

The financial statements of the subsidiaries are fully consolidated with those of the Parent.

For each business combination, the Group recognises any non-controlling interest in the acquiree at the proportional part of the identifiable net assets of that acquiree.

>> Jointly controlled entities

Jointly controlled entities are those over which the Parent and other companies have joint control. Joint control is the contractually agreed sharing of the control over an economic activity, in such a way that strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

The financial statements of jointly controlled entities are proportionally consolidated with those of the Parent.

The Group proportionately consolidates jointly controlled entities by integrating, line by line, its share of the assets, liabilities, income, expenses and cash flows of the jointly controlled entity. The Group recognises its share in the profit or loss on the sale of Group assets to jointly controlled entities in the amount of the portion corresponding to other venturers. The Group does not recognise its share in the profit or loss of the jointly controlled entity arising from the purchase of assets by the Group until the assets are sold on to an independent third party. However, a loss is immediately recognised on the transaction where this indicates a reduction in the net realisable value of the current assets or an impairment loss.

>> Associates

Associates are entities over which the Parent has the capacity to exercise significant influence, but not control or joint control. This usually occurs when a direct or indirect investment of 20% or more of the voting rights of the investee is held.

Associates are accounted for using the equity method, i.e. at the percentage of the net assets that represents the Group's share of the equity, after considering any dividends received and any other asset and liability eliminations (gains or losses arising on transactions with an associate are eliminated to the extent of the Group's percentage ownership of the associate's capital) less any impairment on the individual investments.

Any excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable net assets at the acquisition date is recognised as goodwill under associates in the consolidated statement of financial position. Any excess of the Group's share of the net fair value of the associate's identifiable net assets over the cost of the investment at the acquisition date (bargain purchase) is recognised as income in the period in which the investment is acquired.

Appendix I provides details of the Company's subsidiaries, jointly controlled entities and associates, as well as the consolidation or measurement method used in preparing the accompanying consolidated annual accounts and other relevant information.

The financial statements of the subsidiaries, jointly controlled entities and associates used in the consolidation process have the same reporting date and refer to the same period as those of the Parent.

The operations of the Company and its subsidiaries have been consolidated applying the following basic principles:

- The accounting principles and criteria used by the Group companies have been harmonised with those applied by the Parent.
- Balances in the financial statements of foreign companies have been translated using the closing exchange rate for assets and liabilities, the average exchange rate for income and expenses and the historical exchange rate for capital and reserves.
- Any exchange differences arising on the translation to Euros have been recognised separately as translation differences under equity in the corresponding consolidated statement of financial position.
- All balances and transactions between fully consolidated companies have been eliminated on consolidation.
- Margins on invoices between Group companies for capitalisable goods or services were eliminated at the transaction date.

e) Comparative information

Group management has included comparative information for 2012 in the accompanying consolidated annual accounts. As required by IFRS-EU, these consolidated annual accounts for 2013 include comparative figures for the prior year.

The consolidated statement of comprehensive income for 2012 has been restated pursuant to IAS 1, insofar as this standard has amended the presentation criteria for items of other comprehensive income, requiring these items to be grouped into those that will not and those that will be subsequently reclassified to profit or loss.

The consolidated statement of financial position for 2012 has been restated, having offset deferred tax assets and deferred tax liabilities arising from the Spanish tax group in an amount of Euros 113,538 thousand as permitted by IAS 12.71.

f) Changes in the consolidated Group

On 9 May 2013 Red Eléctrica Internacional (REI) increased its investment in Red Eléctrica del SUR, S.A. (REDESUR) from 33.75% to 55%. Its financial statements are now fully consolidated rather than equity-accounted.

On 1 May 2012 the Bolivian government nationalised Transportadora de Electricidad S.A. (hereinafter TDE) through Supreme Decree 1214, and this company therefore left the consolidated group on that date. The transaction value has yet to be determined. Red Eléctrica Internacional's investment in TDE was 99.94%.

3. INDUSTRY REGULATIONS

Spanish electricity sector

In 2013 the first steps towards reforming electricity sector regulations were taken, and this process was consolidated through the publication of Electricity Industry Law 24/2013 of 26 December 2013, which repeals Law 54/1997, with the exception of certain additional provisions.

Electricity Industry Law 24/2013 of 26 December 2013 has a twofold objective. On the one hand, it aims to compile into a single piece of legislation all the legal provisions published across the various facets of the Regulation to adapt to the fundamental changes occurring in the electricity sector since Law 54/1997 came into force. On the other, it intends to provide measures to guarantee the long-term financial sustainability of the electricity sector, with a view to preventing the recurrence of the structural imbalance seen in recent years between revenues and costs.

Law 24/2013 also reviews the set of provisions that made up Law 54/1997, in particular those concerning the remit of the General State Administration, the regulation of access and connection to the grids, the penalty system, and the nomenclature used for the tariffs applied to vulnerable consumers and those still availing of the regulated tariff.

With respect to the Group's activity, the new Electricity Industry Law maintains the appointment of the subsidiary Red Eléctrica de España, S.A.U. (REE) as the sole transmission agent and system operator, as well as assigning the role of transmission grid manager to this entity. Furthermore, Law 24/2013 upholds the current corporate structure for these activities since it does not repeal the twenty-third additional provision of Law 54/1997, which specifically mentioned the Group's Parent, Red Eléctrica Corporación, S.A. (REC), and assigned to the subsidiary Red Eléctrica de España, S.A.U. (REE) the functions of sole transmission agent, system operator and transmission grid manager, the latter two activities being conducted through a specific organisational unit that is sufficiently segregated from the transmission activity for accounting and functional purposes.

The following aspects should also be noted:

>> The Electricity Industry Law acknowledges the natural monopoly in the transmission activity, arising from the economic efficiency afforded by a sole grid. Transmission is deregulated by granting widespread third-party access to the grid, which is made available to the different electricity system agents and consumers in exchange for payment of an access charge.

The remuneration for this activity is set by the government based on the general principles defined in the Law.

In 2013 Royal Decree-Law 9/2013 of 12 July 2013, adopting urgent measures to ensure the financial stability of the electricity supply, was published. This legislation contains a number of wide-reaching urgent measures aimed at guaranteeing the financial stability of the electricity sector, having an impact on all electricity industry activities across the board.

This Royal Decree-Law stipulates the method to be used to calculate the remuneration for the transmission activity, taking into account the costs that would necessarily be incurred by an efficient, well-managed company in conducting this activity. It also determines what would be suitable remuneration for a low-risk activity that enables a reasonable profit to be obtained from the functions performed, for which it specifies a rate of return on assets that is linked to 10-year government bonds plus a spread. On the basis of these premises, Royal Decree-Law 9/2013 determines a specific temporary method for calculating the transmission activity remuneration for the second half of 2013 and to 2014.

December 2013 saw the approval of Royal Decree 1047/2013 of 27 December 2013, which sets out the new remuneration system for the transmission activity, and repeals both Royal Decree 2819/1998 and Royal Decree 325/2008. This Royal Decree is expected to be applicable from 2015 onwards.

>> As electricity system operator and transmission grid manager, REE's main function is to guarantee the continuity and security of the electricity supply, as well as ensuring the correct coordination of the production and transmission system, exercising its duties in cooperation with the operators and agents of the Spanish electricity market (Mercado Ibérico de la Energía Eléctrica) while observing the principles of transparency, objectivity and independence. REE has also been entrusted with developing and expanding the high-voltage transmission grid so as to guarantee the maintenance and improvement of a grid based on standardised and consistent criteria, managing the transit of electricity between external systems that use the Spanish electricity system grids, and refusing access to the transmission grid in the event of insufficient capacity.

REE is also responsible for the functions of settlement, notification of payments and receipts, and management of guarantees relating to security of supply and the effective diversion of units generated and consumed, as well as for short-term energy exchanges aimed at maintaining the quality and security of supply.

Furthermore, REE manages the technical and economic dispatch for electricity supply from non-mainland electricity systems (Balearics, Canaries, Ceuta and Melilla), and is responsible for the settlements of payments and receipts arising from the economic dispatch of electricity generated by these systems.

International electricity sector
Through REI, the Red Eléctrica Group holds investments in the international electricity sector, specifically in Peru.

This country has deregulated its electricity industry and applies a regulation model entailing regulated tariffs for the transmission activity.

4. SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting principles used in preparing the accompanying consolidated annual accounts have been applied consistently to the reported periods presented and are as follows:

a) Business combinations
The Group has applied IFRS 3 "Business Combinations", revised in 2008, to transactions carried out as of 1 January 2010.

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree. The consideration given in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree. The consideration given excludes any payment that does not form part of the exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

In step acquisitions, the excess of the consideration given, plus the value assigned to non-controlling interests and the fair value of the previously held interest in the acquiree, over the net value of the assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall, after assessing the consideration given, the value assigned to non-controlling interests and to the previously held interest, and after identifying and measuring the net assets acquired, is recognised in profit or loss. The Group recognises the difference between the fair value of the previously held interest in the acquiree and the carrying amount in consolidated profit or loss, in accordance with its classification. The Group also reclassifies amounts deferred in other comprehensive income relating to the previously held interest to consolidated profit or loss or reserves, based on the nature of each item.

b) Property, plant and equipment
Property, plant and equipment primarily comprise technical electricity facilities and are measured at cost of production or acquisition, as appropriate, less accumulated depreciation and impairment. This cost includes the following items, where applicable:

>> Borrowing costs accrued on external financing during the construction period.

>> Operating costs directly related with property, plant and equipment under construction for projects executed under the supervision and management of Group companies.

The Group companies transfer work in progress to operating property, plant and equipment once these items come into service and provided that the assets are in working condition.

Repair and maintenance costs on property, plant and equipment that do not increase productivity or capacity and which do not lengthen the useful life of the assets are charged as expenses when incurred.

Other property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets, which is the period during which the companies expect to use the assets, applying the following rates:

	Annual depreciation rate
Buildings	2% - 10%
Technical electricity facilities	2.5% - 7.14%
Other installations, machinery, equipment, furniture and other items	4% - 25%

There have been no significant changes in the depreciation criteria compared to the prior year.

Property, plant and equipment primarily comprise technical electricity facilities, which are mostly depreciated at a rate of 2.5%.

The Group reviews the residual values and useful lives of assets and adjusts them, if necessary, at the end of each reporting period.

When the carrying amount of a cash-generating unit (CGU) exceeds its estimated recoverable amount, it is immediately written down to the latter (see section g of this note).

c) Intangible assets

Intangible assets are recognised at acquisition cost, which is periodically reviewed and adjusted in the event of a decline in value. Intangible assets comprise the following:

Administrative concessions

The Group operates various assets under service concession contracts awarded by different public entities. Based on the characteristics of the contracts, the Group analyses whether they fall within the scope of IFRIC 12, Service Concession Arrangements.

For concession contracts subject to IFRIC 12, construction services and other services rendered are recognised using the criteria applicable to income and expenses.

The consideration received by the Group is recognised at the fair value of the service rendered, as a financial asset or intangible asset, based on the contract clauses.

The Group recognises the consideration received in respect of construction contracts as an intangible asset to the extent that it is entitled to pass on to users the cost of access to or use of the public service. The contractual obligations assumed by the Group to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

Concession contracts not subject to IFRIC 12 are recognised using general criteria.

Administrative concessions have a finite useful life and the associated cost is recognised as an intangible asset.

- **Computer software.** Computer software licences are capitalised at cost of acquisition or cost of preparation for use.

  Computer software maintenance costs are charged as expenses when incurred. Computer software is amortised on a straight-line basis over a period of three to five years from the date on which each program comes into use.

- **Development expenses.** Development expenses directly attributable to the design and execution of tests for new or improved computer programs that are identifiable, unique and likely to be controlled by the Group, are recognised as intangible assets when it is probable that the project will be successful, based on its economic and commercial feasibility, and the associated costs can be estimated reliably. Costs that do not meet these criteria are charged as expenses when incurred. Development expenses are capitalised and amortised, from the date the associated asset comes into service, on a straight-line basis over a period of no more than five years. Computer software maintenance costs are charged as expenses when incurred.

- **Intangible assets under development.** Administrative concessions at the construction stage are recognised as intangible assets under development and measured in line with the amount to be disbursed until completion of the works, in accordance with IFRIC 12.

d) Investment property

The Group companies measure their investment property at cost of acquisition. The market value of the Group's investment property is disclosed in note 7 to the accompanying consolidated annual accounts.

Investment property is depreciated on a straight-line basis over the estimated useful life, which is the period during which the companies expect to use the assets. Investment property is depreciated over a period of 50 years.

e) Financial assets

The Group classifies financial assets, excluding equity-accounted investments, into three categories:

- Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not intended for trading in the near term. These assets are classified as current, except those maturing in over 12 months after the reporting date, which are classified as non-current.

  Loans are initially recognised at fair value, including transaction costs incurred in arranging the loan, and are subsequently measured at amortised cost, which is basically the amount granted, less repayments of the principal, plus accrued interest receivable.

  Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Current prepayments, generally arising from long-term contracts or commitments, are considered as receivables and recognised in profit or loss over the term of the contract or commitment.

Loans and receivables arising from ordinary activities, for which the inflow of cash or cash equivalents is deferred, are measured at the fair value of the consideration, determined by discounting all future receipts using an imputed rate of interest.

The Company tests the assets for impairment at each reporting date. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recognised in consolidated profit or loss.

>> Available-for-sale financial assets: investments that the Company intends to hold for an unspecified period of time which are likely to be disposed of to meet one-off liquidity needs or in response to interest rate fluctuations. They are classified as non-current, unless they are expected to be disposed of in less than one year and such disposal is feasible. These financial assets are measured at fair value, which is the quoted price at the reporting date in the case of securities quoted in an active market. Any gains or losses arising from changes in the fair value of these assets at the reporting date are recognised directly in equity until the assets are disposed of or impaired, whereupon the accumulated gains and losses are recognised in profit or loss. Impairment, where applicable, is calculated on the basis of discounted expected future cash flows. A significant or prolonged decline in the quotation of listed securities below their cost is also objective evidence of impairment.

Dividends from equity investments classified as available-for-sale are recognised in the consolidated income statement when the Company's right to receive payment is established.

>> Cash and cash equivalents: including cash on hand, demand deposits in financial institutions and other short-term investments with a maturity of three months or less.

The fair value measurements of financial assets and financial liabilities are classified on the basis of a hierarchy that reflects the relevance of the inputs used in measuring the fair value. The hierarchy comprises three levels:

>> **Level 1:** measurement is based on quoted prices for identical instruments in active markets.

>> **Level 2:** measurement is based on inputs that are observable for the asset or liability.

>> **Level 3:** measurement is based on inputs derived from unobservable market data.

f) Inventories

Inventories of materials and spare parts are measured at cost of acquisition, which is calculated as the lower of weighted average price and net realisable value. The Group companies assess the net realisable value of inventories at the end of each reporting period, recognising impairment in the consolidated income statement when cost exceeds market value or when it is uncertain whether the inventories will be used. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the previously recognised impairment is reversed and recognised as income.

g) Impairment

The Group companies analyse the recoverability of their assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. Value in use is calculated on the basis of expected cash flows. Impairment is calculated for individual assets. Where the recoverable amount of an individual asset cannot be determined, the recoverable amount of the cash-generating unit (CGU) to which that asset belongs is calculated. Any reversals are recognised in the consolidated income statement. Impairment losses on goodwill are not reversed in subsequent years.

h) Share capital, own shares and dividends

The share capital of the Company is represented by ordinary shares. The cost of issuing new shares, net of taxes, is deducted from equity.

Own shares are measured at cost of acquisition and recognised as a reduction in equity. Any gains or losses on the purchase, sale, issue or redemption of own shares are recognised directly in equity.

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, based on the consensus of the board of directors. Complementary dividends are not deducted from equity until approved by the pertinent board of directors.

i) Grants

Non-refundable capital grants awarded by different official bodies to finance the Group's fixed assets are recognised once the corresponding investments have been made.

The Group recognises these grants under non-financial and other capital grants each year during the period in which depreciation is charged on the assets for which the grants were received.

j) Non-current revenue received in advance

Non-current revenue received in advance, generally arising from long-term contracts or commitments, is recognised under revenue or other gains, as appropriate, over the term of the contract or commitment.

k) Provisions

>> Employee benefits

> Pension obligations.

The Group has defined contribution plans, whereby the benefit receivable by an employee upon retirement – usually based on one or more factors such as age, years of service or remuneration – is determined by the contributions made. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions are recognised under employee benefits when accrued.

> Other long-term employee benefit.

Other long-term employee benefits include defined benefit plans for benefits other than pensions (such as medical insurance) for certain serving and retired personnel of the Parent and REE. The expected costs of these benefits are recognised under provisions over the working life of the employees. These obligations are measured each year by independent qualified actuaries. Changes in actuarial assumptions are recognised, net of taxes, in reserves under equity in the year in which they arise, while the past service cost is recorded in the income statement.

This item also includes deferred remuneration schemes, which are measured each year.

>> Other provisions

The Group makes provision for present obligations (legal or constructive) arising as a result of a past event whenever it is probable that an outflow of resources will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provision is made when the liability or obligation is recognised.

Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax risk-free discount rate that reflects assessments of the time value of money. The increase in the provision due to the passage of time is recognised as an interest expense.

l) Financial debt

Loans, payment obligations and similar commitments are initially recognised at fair value less any transaction costs incurred. Such debt is subsequently measured at amortised cost, using the effective interest method, except in the case of transactions for which hedges have been arranged.

Financial debt is classified under current liabilities unless the debt falls due more than 12 months after the reporting date, in which case it is classified as non-current.

m) Foreign currency transactions

Transactions in currencies other than the Euro are translated by applying the exchange rate in force at the transaction date. Exchange gains and losses arising during the year due to balances being translated at the exchange rate at the transaction date rather than the exchange rate prevailing on the date of collection or payment are recognised as income or expenses in the consolidated income statement.

Fixed income securities and balances receivable and payable in currencies other than the Euro at 31 December each year are translated at the closing exchange rate. Any exchange differences arising are recognised under exchange gains/losses in consolidated profit or loss.

Transactions conducted in foreign currencies for which the Group has chosen to mitigate currency risk by arranging financial derivatives or other hedging instruments are recorded using the criteria for derivative financial instruments and hedging transactions.

n) Derivative financial instruments and hedging transactions
Derivative financial instruments are initially recognised in the consolidated statement of financial position at their fair value on the date the arrangement is executed (acquisition cost) and this fair value is subsequently adjusted as necessary. The criterion used to recognise the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the hedged item.

The total fair value of the derivatives is recognised under non-current assets or liabilities if the residual maturity of the hedged item is more than 12 months, and under current assets or liabilities if the residual maturity is less than 12 months.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, whether that price is directly observable or estimated using another valuation technique.

A hedging instrument is considered highly effective when the changes in fair value or in the cash flows of the hedged items are offset by the changes in fair value or in the cash flows of the hedging instrument with an effectiveness ranging from 80% to 125%.

The Group documents the relationship between the hedging instruments and the hedged assets or liabilities, its risk management objectives and its hedging strategy at the inception of the hedge. The Group also documents its assessment, at inception and on an ongoing basis, of whether the hedging derivatives used are highly effective in offsetting changes in the hedged item's fair value or cash flows.

Details of the fair value of the hedging derivatives used and the impact of adopting IFRS 13 are disclosed in note 18. Details of changes in equity are provided in note 12.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

When a hedging instrument expires or is sold, or when it no longer qualifies for hedge accounting, any cumulative gain or loss recorded in equity at that time remains in equity and is reclassified to the consolidated income statement in the same period or periods during which the cash flows of the hedged item affect profit or loss. When the forecast transaction is no longer expected to occur, any cumulative gain or loss recognised in equity is immediately reclassified to the consolidated income statement.

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

>> The fair market value of derivatives quoted on an organised market is their quoted value at the reporting date.

>> The Company calculates the fair value of derivatives that are not traded on organised markets using valuation techniques, including recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analyses using the market interest rates and exchange rates in force at the reporting date, and option pricing models enhanced to reflect the particular circumstances of the issuer.

o) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

p) Income and expenses

Revenue is measured at the fair value of the consideration received or receivable. Income and expenses are recognised on an accruals basis, irrespective of payments and receipts.

Revenue and expenses from construction contracts are recognised using the percentage of completion method, whereby revenue is recognised in proportion to the work carried out in reaching the stage of completion of the contract at the end of the accounting period.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment is established.

q) Taxation

The income tax expense or tax income for the year comprises current tax and deferred tax. Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Current tax is the estimated tax payable for the year using the enacted tax rates applicable to the current year and to any adjustment to tax payable in respect of previous years.

Tax credits and deductions arising from economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised.

Deferred taxes and the income tax expense are calculated and recognised using the liability method, based on temporary differences arising between the balances recognised in the financial information and those used for tax purposes. This method entails calculating deferred tax assets and liabilities on the basis of the differences between the carrying amount of the assets and liabilities and their tax base, applying the tax rates that are objectively expected to apply to the years when the assets are realised and the liabilities settled.

Deferred tax assets are recognised provided that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are recognised in respect of the temporary differences that arise from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will reverse in the foreseeable future.

The Red Eléctrica Corporación, S.A. Group files consolidated tax returns alongside Red Eléctrica Corporación, S.A., Red Eléctrica de España, S.A.U., Red Eléctrica Financiaciones, S.A.U. and Red Eléctrica Internacional, S.A.U.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

>> Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.
>> Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.

r) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares.

According to the consolidated annual accounts of the Red Eléctrica Group at 31 December 2013 and 2012, basic earnings per share are the same as diluted earnings per share, as no transactions that could have resulted in a change in those figures were conducted during those years.

s) Insurance

The Red Eléctrica Group companies have taken out various insurance policies to cover the risks to which the companies are exposed through their activities. These risks mainly comprise damage that could be caused to the Group companies' facilities and possible claims that might be lodged by third parties due to the companies' activities. Insurance premium expenses and income are recognised in the consolidated income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the consolidated income statement applying the matching of income and expenses principle.

t) Environmental issues

Costs derived from business activities intended to protect and improve the environment are charged as expenses in the year in which they are incurred. Property, plant and equipment acquired to minimise environmental impact and to protect and improve the environment are recognised as an increase in property, plant and equipment.

u) Non-current assets held for sale

Non-current assets are classified as held for sale when the carrying amount will be recovered principally through a sale transaction, provided that the sale is considered highly probable. These assets are recognised at the lower of the carrying amount and the fair value less costs to sell, provided that their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

v) Share-based payment

The Parent, REE and REI have implemented share purchase schemes whereby their employees can opt to receive part of their annual remuneration in the form of shares in the Company. This remuneration is measured based on the closing quotation of these Company shares at the delivery date. The costs incurred on such schemes are recognised under personnel expenses in the consolidated income statement. All shares delivered as payment are taken from the own shares held the Parent.

w) Contingent assets and liabilities

Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Contingent liabilities are not recognised in financial statements. Contingent liabilities are assessed continually and if it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

5. INTANGIBLE ASSETS

Movement in intangible assets and details of accumulated amortisation during 2013 and 2012 are as follows:

MOVEMENT IN INTANGIBLE ASSETS IN 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

	31 december 2011	Additions	Exchange rate fluctuations	Disposals, reductions and changes in consolidated group	31 December 2012	Additions	Changes in consolidated group	Exchange rate fluctuations	Disposals, reductions and write-downs	31 december 2013
Cost	–	–	–	–	–	391	47,454	(3,389)	-	44,456
Development expenses and computer software	17,311	184	-	(1,927)	15,568	2,126	-	(4)	(43)	17,647
Intangible assets under development	2,902	19,634	(55)	-	22,481	19,316	-	(973)	-	40,824
Total cost	20,213	19,818	(55)	(1,927)	38,049	21,833	47,454	(4,366)	(43)	102,927
Accumulated amortisation Administrative concessions	-	-	-	-	-	(1,846)	-	1,231	-	(615)
Development expenses and computer software	(15,383)	(841)	-	1,534	(14,690)	(975)	-	2	43	(15,620)
Total accumulated amortisation	(15,383)	(841)	-	1,534	(14,690)	(2,821)	-	1,233	43	(16,235)
Carrying amount	4,830	18,977	(55)	(393)	23,359	19,012	47,454	(3,133)	-	86,693

Operating expenses of Euros 2,650 thousand incurred directly in connection with intangible assets were capitalised in 2013 (Euros 1,903 thousand in 2012). Intangible assets under development comprise the work carried out by TESUR for the concession of the Tintaya-Socabaya transmission line and related substations. Changes in the consolidated Group in 2013 reflect the inclusion of REDESUR as a Group company. This company had previously been accounted for using the equity method.

Details of service concession contracts awarded by different public entities and under operation at 31 December 2013 are as follows:

Subsidiary	Grantor	Activity	Country	Concession term	Remaining period	Tariff review frequency	Renewal options
REDESUR	Republic of Peru	Electricity transmission	Peru	30 years	18 years	Annual	Not stipulated in contract

6. PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment and details of accumulated depreciation and impairment during 2013 and 2012 are as follows:

DETAILS OF MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT FOR 2012 AND 2013
(EXPRESSED IN THOUSANDS OF EUROS)

	31 december 2011	Additions	Exchange rate fluctuations	Disposals, reductions, write-downs and changes in consolidated group	Transfers	31 december 2012	Additions	Changes in consolidated group	Exchange rate fluctuations	Disposals, reductions and write-downss	Transfers	31 december 2013
Cost												
Land and buildings	77,437	-	(252)	(7,848)	8	69,345	15	263	(21)	-	-	69,602
Technical electricity facilities	10,746,483	-	(6,016)	(186,421)	638,494	11,192,540	-	-	-	–	480,795	11,673,335
Other installations, machinery, equipment, furniture and other items	137,624	589	(51)	(2,512)	6,611	142,261	169	397	(221)	(74)	17,652	160,184
Technical electricity facilities under construction	772,114	642,738	(146)	(5,483)	(540,478)	868,745	548,224	-	-	-	(459,571)	957,398
Advances and under construction	93,756	42,693	(20)	(598)	(104,635)	31,196	25,764	2	3	–	(38,876)	18,089
Total cost	11,827,414	686,020	(6,486)	(202,862)	-	12,304,087	574,172	662	(239)	(74)	-	12,878,608
Accumulated depreciation												
Buildings	(18,195)	(1,244)	89	2,781	-	(16,569)	(1,200)	-	5	-	-	(17,764)
Technical electricity facilities	(3,546,031)	(392,786)	3,198	99,492	-	(3,836,136)	(402,994)	-	-	-	-	(4,239,130)
Other installations, machinery, equipment, furniture and other items	(102,211)	(10,534)	37	1,631	-	(111,077)	(9,507)	-	84	46	-	(120,454)
Total accumulated depreciation	(3,666,437)	(404,564)	3,315	103,904	-	(3,963,782)	(413,701)	-	89	46	-	(4,377,348)
Impairment	(92,564)	(46,454)	2,009	62,344	-	(74,665)	-	-	-	187	-	(74,478)
Carrying amount	8,068,413	235,002	(1,161)	(36,614)	-	8,265,640	160,471	662	(150)	159	-	8,426,782

Fully depreciated property, plant and equipment total Euros 1,327,240 thousand at 31 December 2013.

The main additions in 2013 and 2012 reflect investments in electricity transmission facilities in Spain. Disposals in 2013 totalled Euros 74 thousand.

During 2013, the companies capitalised borrowing costs of Euros 21,524 thousand as an increase in property, plant and equipment (Euros 19,111 thousand in 2012). The weighted average rate used to capitalise borrowing costs was 3.09% in 2013 (3.24% in 2012).

Operating expenses of Euros 16,997 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2013 (Euros 17,092 thousand in 2012).

At 31 December 2013 and 2012 impairment losses essentially comprise adjustments to the carrying amount of facilities, to reflect the suspension of construction for reasons beyond the Company's control. At 31 December 2012 this item also included Euros 46,454 thousand for the impairment recorded on certain transmission facilities. Impairment has been recognised on the facilities that are not expected to generate sufficient cash flows in the future.

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

7. INVESTMENT PROPERTY

Movement in the Group's investment property in 2013 and 2012 is as follows:

DETAILS OF MOVEMENT IN INVESTIMENT PORPOERTY IN 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

	31 december 2011	Additions	31 december 2012	Additions	31 december 2013
Cost					
Investment property	2,910	-	2,910	-	2,910
Total cost	2,910	-	2,910	-	2,910
Accumulated depreciation					
Investment property	(215)	(91)	(306)	(43)	(349)
Total accumulated depreciation	(215)	(91)	(306)	(43)	(349)
Carrying amount	2.695	(91)	2,604	(43)	2,561

Investment property has a market value of approximately Euros 3 million in 2013 and 2012 and does not generate or incur significant operating income or expenses.

8. BUSINESS COMBINATIONS

On 9 May 2013 the Group acquired an additional 21.25% interest in REDESUR through REI. As such, it now holds a 55% interest in this company's share capital. REDESUR has registered offices in Peru and its principal activity is energy transmission through certain facilities operated under concession. This additional interest was purchased for Euros 5,263 thousand. The acquiree generated revenue of Euros 7,968 thousand for the Group and contributed

Euros 2,330 thousand to consolidated profit between the acquisition date and 31 December 2013. Had the acquisition taken place on 1 January 2013, the Group's revenue and consolidated profit at 31 December 2013 would have amounted to Euros 11,644 thousand and Euros 3,543 thousand, respectively.

The Group has applied the acquisition method, identifying itself as the acquirer. The identifiable assets acquired and liabilities assumed were measured at fair value at the date of the business combination, in accordance with IFRS 3. Remeasurement of the assets acquired and liabilities assumed brought to light an increase of Euros 11,631 thousand in the value of the assets acquired.

The previously held investment in REDESUR was remeasured after this transaction was completed. The difference between the carrying amount of the investment at the transaction date and its fair value has given rise to a gain of Euros 3,219 thousand. This gain has been recognised under gains/losses on disposal of financial instruments in the consolidated income statement.

The Group has recognised non-controlling interests at their acquisition-date fair value of Euros 11,145 thousand.

The effect on the consolidated statement of cash flows of the payment made for this business combination, net of the cash received, amounts to Euros 2,188 thousand.

9. OTHER NON-CURRENT ASSETS

At 31 December 2013 other non-current assets amount to Euros 317 thousand (Euros 16,923 thousand in 2012). In 2012 other non-current assets essentially comprised the four-year technical assistance contract arranged with Endesa Distribución Eléctrica, S.L. in 2010 for a total amount of Euros 66,000 thousand. Under this contract, REE is entitled to request technical assistance services from Endesa Distribución Eléctrica, S.L. for the assets acquired in 2010. At 31 December 2013 the balance of Euros 16,446 thousand relating to this contract, which expires in 2014, has been recognised in other receivables under trade and other receivables (see note 11).

10. INVENTORIES

Details of inventories at 31 December 2013 and 2012 are as follows:

(THOUSANDS OF EUROS)	2013	2012
Inventories	63,009	66,745
Impairment	(18,029)	(13,998)
	44,980	52,747

The Group companies regularly test inventories for impairment based on the following assumptions:

- >> Impairment of old inventories, using inventory turnover ratios.
- >> Impairment for excess inventories, on the basis of estimated use in future years.

As a result, the Group recorded a provision totalling Euros 4,031 thousand in 2013.

11. TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 31 December 2013 and 2012 are as follows:

(THOUSANDS OF EUROS)	2013	2012
Trade receivables	20,987	12,759
Other receivables	521,788	620,410
Current tax assets	1,760	146
	544,535	633,315

At 31 December 2013 and 2012 other receivables mostly comprise amounts pending invoicing and/or collection for transmission and system operation activities. This item also includes the revenue receivable under Royal Decree-Law 13/2012, which stipulates that facilities entering into service in year "n" are to be remunerated from year "n+2" onwards. The difference in the balances between the two years reflects an additional remuneration settlement for regulated activities in Spain outstanding in 2012 compared with 2013.

There are no significant differences between the fair value and the carrying amount at 31 December 2013 and 2012.

12. EQUITY

Capital risk management

The Group's capital management is aimed at safeguarding its capacity to ensure that the Group companies continue operating as a going concern, with the aim of providing shareholder remuneration, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

The Group controls its capital structure on a gearing ratio basis, in line with sector practice. This ratio is calculated as net financial debt divided by net assets (understood to be the group's equity plus net financial debt). Net financial debt is calculated as follows:

(THOUSANDS OF EUROS)	2013	2012
Non-current payables	4,552,158	3,903,963
Current payables	154,594	975,995
Foreign currency derivatives	49,307	32,902
Cash and cash equivalents	(214,861)	(40,314)
Net financial debt	4,541,198	4,872,546
Equity	2,224,648	1,991,545
Gearing ratio	67.1%	71.0%

At 31 December 2013 and 2012, the financial covenants stipulated in the debt contracts are not significant. The impact of these covenants not being met, which is highly improbable, would not be significant on the Group's profits.

In 2013 the rating agency Fitch Ratings upgraded its outlook from negative to neutral, in light of the recent upgrading of the rating outlook for Spain. Following this announcement, the Company has maintained its long-term rating of A- and its short-term rating of F2, whilst its outlook has been upgraded from negative to stable. In addition, in 2013 the rating agency Standard & Poor's upgraded the rating outlook from negative to stable. Following this announcement the Company has maintained its long-term rating of BBB and its short-term rating of A-2, whilst its outlook has been upgraded from negative to stable.

Equity attributable to the Parent

Capital and reserves

> **Share capitall**

At 31 December 2013 and 2012 the share capital of the Parent is represented by 135,270,000 bearer shares with a par value of Euros 2 each, subscribed and fully paid, and carrying the same voting and profit-sharing rights. The Parent's shares are quoted on the four Spanish stock exchanges.

The Company is subject to the shareholder limitations stipulated in Law 17/2007 and Royal Decree-Law 13/2012 of 30 March 2012. Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies. The shareholder limitations with regard to the Parent's share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 31 December 2013 and 2012 SEPI holds a 20% interest in the Company's share capital.

> Reservs

This item includes:

- Legal reserves

  Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 31 December 2013 and 2012 this reserve amounts to Euros 54,199 thousand.

- Other reserves

  Other reserves include voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves, all of which are freely distributable. These reserves totalled Euros 1,229,778 thousand at 31 December 2013 (Euros 1,051,681 thousand in 2012).

  At 31 December 2013 and 2012 other reserves also comprise statutory reserves totalling Euros 264,546 thousand, notably including the property, plant and equipment revaluation reserve amounting to Euros 247,022 thousand created by the Parent in 1996. This reserve may be used, free of taxation, to offset accounting losses and increase share capital or, ten years after its creation, be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996.

> Own shares

At 31 December 2013 the Parent held 38,376 own shares representing 0.03% of its share capital, with a total par value of Euros 77 thousand and an average acquisition price of Euros 44.51 per share. At 31 December 2012 the Parent held 414,857 own shares representing 0.31% of its share capital, with a total par value of Euros 830 thousand and an average acquisition price of Euros 35.43 per share.

These shares have been recognised as a reduction in equity for an amount of Euros 1,707 thousand at 31 December 2013 (Euros 14,698 thousand in 2012).

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The Group subsidiaries do not hold own shares or shares in the Parent.

> Profit for the year attributable to the Parent

Profit for 2013 totals Euros 529,139 thousand (Euros 492,288 thousand at 31 December 2012).

> Interim dividends and proposed distribution of dividends by the Parent.

Interim dividends approved by the board of directors in 2013 and 2012 are recognised as a reduction in consolidated equity at 31 December 2013 and 2012, respectively.

On 17 December 2013 the Parent's board of directors agreed to pay an interim dividend of Euros 0.7237 (gross) per share with a charge to 2013 profit, which was paid on 2 January 2014 (interim dividend of Euros 0.6764 (gross) per share with a charge to 2012 profit). The interim dividend approved at 31 December 2013 totals Euros 97,867 thousand (Euros 91,216 thousand in 2012) (see note 17).

Details of the dividends paid during 2013 and 2012 are as follows:

DIVIDENDS PAID

	2013			2012		
	% of par value	Euros per share	Amount (thousands of Euros)	% of par value	Euros per share	Amount (thousands of Euros)
Ordinary shares	118.26%	2.3651	319,031	110.62%	2.2124	297,677
Total dividends paid	118.26%	2.3651	319,031	110.62%	2.,2124	297,677
Dividends with a charge to profit	118.26%	2.3651	319,031	110.62%	2.2124	297,677

The Parent's board of directors also proposed to the shareholders at their general meeting the distribution of a complementary dividend of Euros 1.8185 per share, which would result in a total dividend for 2013 of Euros 2.5422 per share (Euros 2.3651 per share in 2012).

Valuation adjustments

> Available-for-sale financial assets

At 31 December 2013 and 2012 valuation adjustments to available-for-sale financial assets reflect the change in value due to fluctuations in the listed share price of the 5% investment held by the Company in REN. At 31 December 2013 this item totals Euros 4,648 thousand (Euros 1,228 thousand in 2012).

> Hedging transactions

This line item reflects changes in value of derivative financial instruments.

At 31 December 2013 this item is negative in an amount of Euros 46,290 thousand (negative in an amount of Euros 41,273 thousand in 2012).

> Other valuation adjustments

This item reflects Euros 611 thousand in deferred tax income for deductions and credits (Euros 627 thousand in 2012).

> Translation differences

This line item comprises exchange gains and losses arising on foreign operations, specifically the Peruvian companies TESUR and REDESUR in 2013 and TESUR in 2012. At 31 December 2013 this item is negative in an amount of Euros 1,010 thousand (negative in an amount of Euros 759 thousand in 2012).

> **Non-controlling interests**

Non-controlling interests under equity in the accompanying consolidated statement of financial position reflect the non-controlling interests in TESUR and REDESUR in 2013 and TESUR in 2012. At 31 December 2013 this item amounts to Euros 18,061 thousand (Euros 4,382 thousand in 2012).

13. GRANTS AND OTHER

Movement in 2013 and 2012 is as follows:

DETAILS OF MOVEMENT IN GRANTS AND OTHER NON-CURRENT REVENUE RECEIVED IN ADVANCE IN 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

	31 december 2011	Additions	Disposals	Applications	31 december 2012	Additions	Disposals	Applications	31 december 2013
Grants and other non-current revenue received in advance	400,894	14,970	(28)	(12,626)	403,210	28,287	-	(13,200)	418,297
	400,894	14,970	(28)	(12,626)	403,210	28,287	-	(13,200)	418,297

Grants and other non-current revenue received in advance basically include the amounts received by REE from official entities and under agreements with third parties for the construction of electricity facilities. Applications reflect the amounts taken to profit or loss on the basis of the useful life of the corresponding facilities and recognised under non-financial and other capital grants in the consolidated income statement.

Additions in 2013 essentially comprise the grant awarded by the European Commission in 2010 for the electricity interconnection project between Spain and France under joint development by REE and Réseau de Transport d'Électricité (RTE) through the French company INELFE.

14. NON-CURRENT PROVISIONS

Movement in 2013 and 2012 is as follows:

MOVEMENT IN PROVISIONS IN 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

	31 december 2011	Additions	Applications	Transfers	Actuarial gains and losses	Releases and translation differences	Changes to consolidated group	31 december 2012	Additions	Applications	Releases and translation differences	Actuarial gains and losses	31 december 2013
Commitments with personnel	33,407	3,490	(2,005)	(146)	6,898	(11)	(1,110)	40,523	4,773	(405)	2	2,358	47,249
Other provisions	34,019	3,278	(398)	-	-	(2,208)	(9,780)	24,911	13,420	(1,429)	2,356	-	36,902
	67,426	6,768	(2,403)	(146)	6,898	(2,219)	(10,890)	65,434	18,193	(1,834)	2,356	2,358	84,151

Commitments with personnel essentially include the future commitments – specifically medical insurance – undertaken by REE with its personnel from the date of their retirement, calculated using actuarial studies carried out by an independent expert, and the deferred remuneration schemes established by the Group.

In 2013 and 2012 additions to commitments with personnel derive mainly from the annual accrual of these commitments, as well as changes in the actuarial assumptions used. These additions have been recognised as personnel expenses or finance costs, depending on their nature, and under reserves when they derive from changes in the actuarial assumptions (mainly in the case of obligations related to medical insurance) or in profit or loss (in the case of past service obligations). The personnel expenses and finance costs recognised in this connection in the consolidated income statement for 2013 amount to Euros 1,296 thousand and Euros 1,309 thousand, respectively (Euros 1,163 thousand and Euros 1,042 thousand, respectively, in 2012), whilst the reserves recognised in 2013 total Euros 2,356 thousand, net of tax (Euros 6,898 thousand in 2012). Furthermore, at 31 December 2013.

Euros 2,050 thousand and Euros 120 thousand have been recognised as personnel expenses and finance costs, respectively, in the income statement in connection with amounts accrued under the deferred remuneration schemes (Euros 1,199 thousand and Euros 76 thousand, respectively, in 2012).

These provisions have been recorded on the basis of actuarial studies using the following assumptions for 2013 and 2012:

(THOUSANDS OF EUROS)	2013		2012	
	+1%	-1%	+1%	-1%
Current service cost	430	(308)	376	(271)
Interest cost of net post-employment medical costs	15	(11)	13	(9)
Accumulated post-employment benefit obligation for medical insurance	9.367	(6.802)	8.030	(5.834)

These provisions have been recorded on the basis of actuarial studies using the following assumptions for 2013 and 2012:

	2013	2012
	Actuarial assumptions	Actuarial assumptions
Discount rate	3.40%	3.50%
Cost increase	4.0%	4.0%
Mortality table	PERM/F 2000 New Production	PERM/F 2000 New Production

Conversely, the effect of a decrease of half a percentage point in the discount rate used for medical insurance costs from 3.4% to 2.90%, in thousands of Euros, is as follows:

	Discount rate		
	3.4%	2.90%	Sensitivity
Current service cost	1,232	1,439	207
Interest cost of net post-employment medical costs	1,162	997	(165)
Accumulated post-employment benefit obligation for medical insurance	37,514	42,512	4,998

Other provisions basically include the amounts recorded by the Company every year to cover the potential unfavourable rulings relating mainly to administrative disciplinary proceedings, administrative expropriation proceedings and extrajudicial claims. The provisions recognised to cover these events are measured on the basis of the potential economic content of the ongoing appeals, litigation and general legal or extrajudicial proceedings to which the Company is party. The remaining amount comprises numerous items for immaterial amounts, for which the possible outflow of resources cannot be estimated reliably.

The main non-current provision for ongoing legal processes is a Euros 10 million provision to cover the penalty imposed by the Catalan regional government due to the disciplinary proceedings launched as a result of the power cut in Barcelona in July 2007. The Company has filed an appeal against this penalty.

15.OTHER NON-CURRENT LIABILITIES

Other non-current liabilities basically include the income from agreements with various telecommunications operators for the use of the telecommunications network capacity up to 2027, amounting to Euros 47,345 thousand at 31 December 2013 (Euros 51,525 thousand at 31 December 2012). This item also includes the non-current liabilities arising from the compensation paid by Électricité de France (hereinafter EDF) under the agreement on the adaptation of electricity supply contracts signed on 8 January 1997, which amounted to Euros 23,625 thousand at 31 December 2013 (Euros 23,625 thousand at 31 December 2012). These commitments pertain to more than one year and are therefore subject to the construction of facilities that were not completed at 31 December 2013.

16.FINANCIAL RISK MANAGEMENT POLICY

The Group's financial risk management policy establishes principles and guidelines to ensure that any significant risks that could affect the objectives and activities of the Red Eléctrica Group are identified, analysed, assessed, managed and controlled, and that these processes are carried out systematically and adhering to uniform criteria.

A summary of the main guidelines that comprise this policy is as follows:

>> Risk management should be fundamentally proactive and directed towards the medium and long term, taking into account possible scenarios in an increasingly global environment.

>> Risk should generally be managed in accordance with consistent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources required to reduce it.

>> Financial risk management should be focused on avoiding undesirable variations in the Group's core value, rather than generating extraordinary profits.

The Group's finance management is responsible for managing financial risk, ensuring consistency with the Group's strategy and coordinating risk management across the various Group companies, by identifying the main financial risks and defining the initiatives to be taken, based on different financial scenarios.

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

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

Market risk

Market risk reflects variations in the financial markets in terms of prices, interest and exchange rates, credit conditions and other variables that could affect short-, medium- and long-term finance costs.

Market risk is managed on the borrowings to be arranged (the currency, maturity and interest rates), and through the use of hedging instruments that allow the financial structure to be modified. Market risk specifically includes:

> Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates. Interest rate risk management is for the most part aimed at maintaining a debt structure of approximately 75% fixed interest (protected risk) and 25% variable interest rates. The debt structure at 31 December 2013 and 2012 is as follows:

	2013		2012	
	THOUSANDS OF EUROS		THOUSANDS OF EUROS	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Non-current issues	3,009,027	-	2,212,026	-
Non-current bank borrowings	1,177,857	414,581	1,215,226	509,613
Current issues	-	94,777	799,553	78,917
Current bank borrowings	-	59,817	34,713	62,812
Total debt	4,186,884	569,175	4,261,518	651,342
Percentage	88%	12%	87%	13%

The debt structure presents a low risk profile, with moderate exposure to interest rate fluctuations.

The interest rate risk to which the Group is exposed at 31 December 2013 and 2012 derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not profit for the year. A sensitivity analysis of this risk is as follows (in thousands of Euros):

EFFECT OF MARKET INTEREST RATE FLUCTUATIONS ON CONSOLIDATED EQUITY
(EXPRESSED IN THOUSANDS OF EUROS)

	2013		2012	
	+0.10%	**-0.10%**	**+0.10%**	**-0.10%**
Interest rate hedges				
Cash flow hedges				
Interest rate swap	2,655	(2,672)	3,400	(3,424)
Interest rate and exchange rate hedges				
Cash flow hedges				
Cross currency swap	693	(705)	260	(265)

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2013 and 2012.

> **Currency risk**

Currency risk management considers transaction risk, arising on cash inflows and outflows in currencies other than the Euro, and translation risk, i.e. a company's exposure when consolidating its subsidiaries and/or assets located in countries whose functional currency is not the Euro.

With a view to reducing the currency risk on issues in the US private placements (USPP) market, the Company has arranged cash flow hedges through Dollar/Euro cross currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035 (see note 18).

In order to mitigate the currency risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of its investments in the corresponding functional currency. Consequently, at 31 December 2012 had the US Dollar strengthened/weakened by 10% against the Euro, equity would have increased or decreased by approximately Euros 2 million (Euros 1 million at 31 December 2012).

Credit risk

In light of the nature of revenues from electricity transmission and electricity system operation, and the solvency of the electricity system agents, the Group's principal activities are not significantly exposed to credit risk. For the Group's other activities, credit risk is mainly managed through instruments to reduce or limit such risk.

In any event, credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are stipulated where required.

The Group's exposure to credit risk in connection with the fair value of its derivatives is insignificant.

At 31 December, approximately 2% of balances are past-due (3% in 2012), although the companies do not consider there to be any risk as regards recoverability. The credit rating of the receivables is considered to be high.

Liquidity risk

Liquidity risk arises due to differences between amounts or the dates of collection and payment of the Group companies' assets and liabilities.

Maintaining a high volume of available funds throughout the year strengthens the Group's financial structure and provides a guarantee of additional liquidity.

Liquidity risk is mostly managed by controlling the timing of financial debt and setting maximum limits of amounts falling due for each period defined. This process is carried out at Group company level, in accordance with the practices and limits set by the Group. The limits established vary according to the geographical area, so as to ensure that the liquidity of the market in which each company operates is taken into account. Furthermore, the liquidity risk management policy entails preparing cash flow projections in the main currencies in which the Group operates, taking into consideration the level of liquid assets and funds available according to these projections, and monitoring the liquidity indicators as per the consolidated statement of financial position and comparing these with market requirements.

The Group's financial debt at 31 December 2013 has an average maturity of six years.

The Group's liquidity position for 2013 was based on its robust capacity to generate cash flows, supported by undrawn credit facilities amounting to Euros 1,196 million (current and non-current balances of Euros 66 million and Euros 1,130 million, respectively).

Price risk

The Group is exposed to price risk relating to capital investments classified as available for sale in the consolidated statement of financial position. Investments available for sale on quoted markets basically comprise the 5% interest held by the Company in REN. At 31 December 2013 had the listed price of the REN shares been 10% higher, equity would have increased by approximately Euros 4 million (Euros 4 million in 2012). Had the listed price been 10% lower, profit would have been approximately Euros 4 million lower (Euros 4 million in 2012).

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

Details of the Red Eléctrica Group's current and non-current financial assets at 31 December 2013 and 2012 are as follows:

Current period
(THOUSANDS OF EUROS)

	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivatives	Total
Equity instruments	60,517	-	-	60,517
Derivatives	-	-	-	-
Other financial assets	-	3,015	-	3,015
Non-current	60,517	3,015	-	63,532
Derivatives	-	-	-	-
Other financial assets	-	1,018	-	1,018
Current	-	1,018	-	1,018
Total	60,517	4,033	-	64,550

(1) Excluding trade receivables.

Prior period
(THOUSANDS OF EUROS)

	Available-for-sale financial assets	Loans and receivables [1]	Hedging derivatives	Total
Equity instruments	55,531	-	-	55,531
Derivatives	-	-	142	142
Other financial assets	-	3,246	-	3,246
Non-current	55,531	3,246	142	58,919
Derivatives	-	-	-	-
Other financial assets	-	1,130	-	1,130
Current	-	1,130	-	1,130
Total	55,531	4,376	142	60,049

(1) Excluding trade receivables.

> Equity instruments

Equity instruments essentially comprise the 5% interest held by the Parent in REN, a holding company that encompasses the operation and use of electricity transmission assets and gas infrastructure in Portugal. This interest was acquired in 2007 for Euros 98,822 thousand.

The value of this investment is subject to the listed share price. In 2013 the fair value of this equity instrument was increased and the corresponding valuation adjustment recognised directly under equity.

At 31 December 2013 the Company has calculated the increase resulting from the valuation adjustment recognised under equity at Euros 4,886 thousand (Euros 1,228 thousand in 2012).

During 2013 there was no objective evidence of impairment on the investment in REN. At 31 December 2012 impairment was recorded for an amount of Euros 2,697 thousand in the consolidated income statement.

> Derivados

Details of derivatives are provided in note 18.

> Other financial assets

Other financial assets essentially comprise guarantees pledged and loans extended by REE to its personnel, which fall due in the long term. There are no significant differences between the fair value and the carrying amount at 31 December 2013 and 2012.

Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 31 December 2013 and 2012 are as follows:

Current period
(THOUSANDS OF EUROS)

	Level 1	Level 2	Level 3	Total
Equity instruments	59,755	762	-	60,517
Derivatives	-	-	-	-
Other financial assets	-	-	4,033	4,033

Prior period
(THOUSANDS OF EUROS)

	Level 1	Level 2	Level 3	Total
Equity instruments	54,869	662	-	55,531
Derivatives	-	142	-	142
Other financial assets	-	-	4,376	4,376

Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities at 31 December 2013 and 2012 are as follows:

Currente period
(THOUSANDS OF EUROS)

	Debts and payables [1]	Hedging derivatives	Total
Loans and borrowings	1,592,438	-	1,592,438
Bonds and other marketable securities	2,959,720	-	2,959,720
Derivatives	-	110,629	110,629
Other financial liabilities	208	-	208
Non-current	4,552,366	110,629	4,662,995
Loans and borrowings	73,091	-	73,091
Bonds and other marketable securities	172,177	-	172,177
Derivatives	-	-	-
Other financial liabilities	746,636	-	746,636
Current	991,904	-	991,904
Total	5,544,270	110,629	5,654,899

(1) Excluding trade payables.

Prior period
(THOUSANDS OF EUROS)

	Debts and payables (1)	Hedging derivatives	Total
Loans and borrowings	1,724,839	-	1,724,839
Bonds and other marketable securities	2,179,124	-	2,179,124
Derivatives	-	86,689	86,689
Other financial liabilities	208	-	208
Non-current	3,904,171	86,689	3,990,860
Loans and borrowings	111,136	-	111,136
Bonds and other marketable securities	946,856	-	946,856
Derivatives	-	-	-
Other financial liabilities	705,619	-	705,619
Current	1,763,611	-	1,763,611
Total	5,667,782	86,689	5,754,471

(1) Excluding trade payables.

> **Loans and borrowings, bonds and other marketable securities**

The carrying amount and fair value of loans and borrowings and issues of bonds and other marketable securities at 31 December 2013 and 2012 are as follows:

	Carrying amount		Fair value	
	THOUSANDS OF EUROS		THOUSANDS OF EUROS	
	2013	2012	2013	2012
Issues in Euros	2,692,215	2,678,941	2,838,929	2,888,780
Issues in US Dollars	362,282	378,653	379,826	442,421
Bank borrowings in Euros	1,599,196	1,783,907	1,536,275	1,721,921
Bank borrowings in foreign currency	53,059	38,457	57,344	42,883
Total	4,706,752	4,879,958	4,812,374	5,096,005

The fair value of all loans and borrowings and issues of bonds and other marketable securities has been estimated using valuation techniques based on discounting future cash flows at market rates prevailing at each date.

At 31 December 2013 the accrued interest payable amounts to Euros 90,674 thousand (Euros 81,997 thousand in 2012).

Issues in Euros at 31 December 2013 include:

- Eurobonds issued by Red Eléctrica Financiaciones, totalling Euros 2,597,438 thousand (Euros 1,800,471 thousand in 2012). Four sets of bonds were issued in 2013 for amounts of Euros 400 million, Euros 300 million, Euros 45 million and Euros 55 million (two issues for amounts of Euros 150 million and Euros 250 million in 2012).

- At 31 December 2012 issues in Euros included Eurobonds issued by Red Eléctrica de España Finance, B.V. as part of the Eurobond Issue programme. These amounted to Euros 799,553 thousand and were redeemed in September 2013.

- Promissory notes amounting to Euros 94,777 thousand issued on the Euromarket by Red Eléctrica Financiaciones as part of the "Euro Commercial Paper Programme" (ECP Programme), which fall due in the short term (Euros 78,917 thousand in 2012).

Issues in US Dollars at 31 December 2013 include US Dollars 500,000 thousand issued on the US private placement (USPP) market, with an equivalent value of Euros 362,282 thousand (Euros 378,653 thousand in 2012).

Bank borrowings in Euros at 31 December 2013 include non-current loans and credit facilities totalling Euros 1,526,576 thousand (Euros 1,711,810 thousand in 2012) and syndicated credit facilities amounting to Euros 72,620 thousand (Euros 72,097 thousand in 2012).

Details of the maturities of bond issues and bank borrowings at 31 December 2013 are as follows:

DETAILS OF MATURITY OF BOND ISSUES AND BANK BORROWINGS
(EXPRESSED IN THOUSANDS OF EUROS)

	Thousands of euros							
	2014	**2015**	**2016**	**2017**	**2018**	**Subsequent years**	**Valuation adjustments**	**Total**
Issues in Euros	94,811	-	500,000	-	750,000	1,350,000	(2,596)	2,692,215
Issues in Dollars	-	50,757	-	-	-	311,797	(272)	362,282
Bank borrowings in Euros	47,698	347,654	299,321	74,321	68,071	765,786	(3,655)	1,599,196
Bank borrowings in Dollars	14,318	11,544	3,088	3,001	3,096	18,672	(660)	53,059
	156,827	409,955	802,409	77,322	821,167	2,446,255	(7,183)	4,706,752

The average interest rate was 3.84% in 2013 (3.81% in 2012).

At 31 December 2013 Group companies have undrawn credit facilities amounting to Euros 1,196 million, of which Euros 1,130 thousand mature in the long term (Euros 1,155 million at 31 December 2012) and Euros 66 million in the short term (Euros 46 million at 31 December 2012).

Details of bonds and other marketable securities at 31 December 2013 and 2012 are as follows:

Current period
(THOUSANDS OF EUROS)

	Opening outstanding balance. 31/12/2012	(+) Issues	(-) Repurchases and redemptions	(+/-) Exchange rate adjustments and other	Closing outstanding balance. 31/12/2013
Debt securities that require the filing of an informative prospectus	78,917	-	(78,923)	6	-
Debt securities that do not require the filing of an informative prospectus (*)	2,600,024	1,097,627	(1,002,814)	(2,622)	2,692,215
Other debt securities issues in a non-EU Member State	378,653	-	-	(16,371)	362,282
Total	3,057,594	1,097,627	(1,081,737)	(18,987)	3,054,497

Prior period
(THOUSANDS OF EUROS)

	Opening outstanding balance. 31/12/2012	(+) Issues	(-) Repurchases and redemptions	(+/-) Exchange rate adjustments and other	Closing outstanding balance. 31/12/2013
Debt securities that require the filing of an informative prospectus	4,758	461,994	(387,830)	(5)	78,917
Debt securities that do not require the filing of an informative prospectus (*)	2,191,689	400,000	-	8,335	2,600,024
Other debt securities issues in a non-EU Member State	386,088	-	-	(7,435)	378,653
Total	2,582,535	861,994	(387,830)	895	3,057,594

(*) Issues with informative prospectuses filed in Dublin and Luxembourg.

> **Derivatives**

Details of derivatives are provided in note 18.

> **Other current financial liabilities**

Details of other current financial liabilities at 31 December 2013 and 2012 are as follows:

THOUSANDS OF EUROS		
	2013	**2012**
Dividend payable	97,867	91,216
Suppliers of fixed assets and other payables	648,769	614,403
	746,636	705,619

Suppliers of fixed assets and other payables essentially reflect payables to suppliers of fixed assets incurred on the construction of electricity facilities and balances pending settlement in relation to the Spanish electricity system for the activities carried out.

Fair value hierarchy levels

Details of the Group's financial liabilities measured at fair value using the inputs defined for this calculation at 31 December 2013 and 2012 are as follows:

Current period (IN THOUSANDS OF EUROS)				
	Level 1	**Level 2**	**Level 3**	**Total**
Derivatives	-	110,629	-	110,629
Other financial liabilities	-	-	10,781	10,781

Prior period (IN THOUSANDS OF EUROS)				
	Level 1	**Level 2**	**Level 3**	**Total**
Derivatives	-	86,689	-	86,689
Other financial liabilities	-	-	11,960	11,960

Level 2 comprises foreign currency and interest rate derivatives. Level 3 comprises security deposits pledged to the Group. There are no significant differences between the fair value and the carrying amount at 31 December 2013 and 2012. Liabilities at amortised cost are not disclosed by fair value hierarchy level.

18. DERIVATIVE FINANCIAL INSTRUMENTS

In line with its financial risk management policy, the Red Eléctrica Group has arranged two types of derivative financial instruments: interest rate hedge swaps and cross currency swaps. Interest rate hedges consist of exchanging debt at variable interest rates for debt at fixed rates through a swap, where the future cash flows to be hedged are the interest payments. Similarly, cross currency swaps allow fixed-rate debt in US Dollars to be exchanged for fixed-rate debt in Euros, thereby hedging the interest and capital to be paid in US Dollars.

The adoption of IFRS 13, referred to in note 4.n) on derivative financial instruments and hedging transactions, entails an adjustment to the valuation techniques used to calculate the fair value of derivatives. The Group has incorporated a credit risk adjustment to reflect own and counterparty risk in the fair value of derivatives using generally accepted measurement models.

When determining the credit risk adjustment, the Group applied a technique based on calculating total expected exposure (which considers current and potential exposure) through the use of simulations, adjusted for the probability of default over time and for loss given default allocable to the Company and to each counterparty.

The total expected exposure of derivatives is determined using observable market inputs, such as interest rate curves, exchange rates and volatilities based on market conditions at the measurement date.

The inputs used to determine own and counterparty credit risk (probability of default) are mostly based on own credit spreads and those of comparable companies currently traded on the market (credit default swap curves, IRR of debt issues, etc.). In the absence of own credit spreads or those of comparable companies, and with a view to maximising the use of relevant observable inputs, the benchmark quotations used are the most appropriate according to each case at hand (quoted credit spread indexes). For counterparties with available credit information, the credit spreads used were based on the credit default swaps quoted on the market.

Furthermore, adjustments of fair value for credit risk take into account credit enhancements for guarantees and collateral when determining the loss given default to be used for each position. Loss given default is considered to be constant over time. A minimum recovery rate of 40% has been used in cases where there is no credit enhancement for guarantees or collateral.

Based on the hierarchy levels detailed in note 4, the Company has considered that the majority of the inputs used to determine the fair value of derivative financial instruments are categorised within level 2, including the data used to calculate the own and counterparty credit risk adjustment.

The Company has observed that the impact of using Level 3 inputs for the overall measurement of derivative financial instruments is not significant. Consequently, the Company has determined that the entire derivative financial instrument portfolio can be categorised within level 2.

As regards observable inputs, the Group uses mid-market prices obtained from external information sources in the financial markets.

Details of hedges at 31 December 2013 and 2012 in thousands of Euros are as follows:

			THOUSANDS OF EUROS				THOUSANDS OF EUROS			
			2013				2012			
			Non-current		Current		Non-current		Current	
	Principal	Maturity	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate hedges:										
- Cash flow hedges:										
Interest rate swap	Euros 245,000 thousand	Up to 2015	-	(16,319)	-	-	-	-	-	-
Interest rate swap	Euros 75,000 thousand	Up to 2016	-	(1,961)	-	-	-	(2,289)	-	-
Interest rate swap	Euros 330,000 thousand	Up to 2020	-	(41,051)	-	-	-	(78,333)	-	-
Exchange rate and interest rate hedges										
- Cash flow hedges: (Cross currency swap)	US Dollars 500,000 thousand	Up to 2035								
Interest rate hedge			-	(1,992)	-	-	6,722	20,254	-	-
Exchange rate hedge			-	(49,306)	-	-	(6,580)	(26,321)	-	-
			-	(110,629)	-	-	142	(86,689)	-	-

Details of derivative financial instruments by expiry date at 31 December 2013, in thousands of Euros, are as follows:

THOUSANDS OF EUROS	Principal	Maturity	2014	2015	2016	2017	2018	2019 and thereafter	Total
Interest rate hedges:									
- Cash flow hedges:									
Interest rate swap	Euros 245,000 thousand	Up to 2015		(16,319)	-	-	-	-	(16,319)
Interest rate swap	Euros 75,000 thousand	Up to 2016	-	-	(1,961)	-	-	-	(1,961)
Interest rate swap	Euros 330,000 thousand	Up to 2020	-	-	-	-	-	(41,051)	(41,051)
Exchange rate and interest rate hedges									
- Cash flow hedges: (Cross currency swap)	US Dollars 500,000 thousand	Up to 2035							
Interest rate hedge			-	789	-	-	-	(2,781)	(1,992)
Exchange rate hedge			-	(6,903)	-	-	-	(42,403)	(49,306)
			-	(22,433)	(1,961)	-	-	(86,235)	(110,629)

19. TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2013 and 2012 are as follows:

THOUSANDS OF EUROS

	2013	2012
Suppliers	201,220	241,091
Other payables	142,030	25,447
Current tax liabilities	22,777	7,613
	366,027	274,151

Suppliers essentially reflect payables arising from engineering, construction and maintenance work and modifications to electricity facilities, as well as balances pending settlement in relation to the Spanish electricity system for the activities carried out.

Other payables in 2013 and 2012 basically comprise balances with public entities, for the most part value added tax (VAT) on the latest regulated remuneration settlements announced by the National Commission for Markets and Competition (CNMC) in 2013.

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20. LATE PAYMENTS TO SUPPLIERS. "REPORTING REQUIREMENT", THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010

Pursuant to Law 3/2004 of 29 December 2004 containing measures to combat late payments in commercial transactions, details of payments made and outstanding in 2013 and 2012 are as follows (in thousands of Euros):

PAYMENTS MADE AND OUTSTANDING AT 31 DECEMBER 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

	Payments made and outstanding at the reporting date			
	2013		2012	
	Amount	%	Amount	%
Within maximum legal period (*)	427,966	99.97%	446,876	99.99%
Other	146	0.03%	31	0.01%
Total payments for the year (*)	428,112	100%	446,907	100%
Weighted average late payment days	47	-	5	-
Late payments exceeding the maximum legal period at the reporting date	-	-	-	-

(*) Total payments for the year in 2013 and 2012 do not include the payments made for services rendered by the Spanish electricity system operator. These payments totalled Euros 1,120,280 thousand in 2013 (Euros 961,760 thousand in 2012). In both years, these payments were made within the maximum legal period.

21. TAXATION

The tax group headed by Red Eléctrica Corporación, S.A. has filed consolidated tax returns in Spain since 2002.

Companies that do not form part of the tax group are subject to the legislation applicable in their respective countries.

At 31 December 2013, the tax group includes the Parent, REI, REE and REF.

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

THOUSANDS OF EUROS	2013	2012
Consolidated accounting profit for the period before tax	733,013	680,514
Permanent differences and consolidation adjustments	14,114	4,006
Consolidated taxable accounting income	747,127	684,520
Tax rate	30%	30%
Result of applying tax rate to profit for the year	224,138	205,356
Effect of applying different tax rates	(1,918)	1,199
Tax calculated at the tax rate of each country	222,220	206,555
Deductions	(583)	(2,690)
Income tax adjustments	(18,422)	(15,497)
Income tax	203,215	188,368
Current income tax	188,038	114,766
Deferred income tax	15,177	73,602
Effective tax rate	27.72%	27.68%

Permanent differences in 2013 and 2012 essentially reflect the provisions for liabilities recorded in the year and other non-deductible expenses.

Deductions in 2013 mainly comprised those for research, development and technological innovation expenditure, whereas in 2012 they included international double taxation relief.

Adjustments to income tax primarily relate to the balance sheet revaluation permitted by Law 16/2012 of 27 December 2012, which introduced several measures to consolidate public finances and boost economic activity. The Group companies REC and REE have availed of this revaluation provision. The balance sheet revaluation has entailed an increase of Euros 136 million in the tax base of property, plant and equipment. As a result, the Group has recognised a deferred tax asset of Euros 33.9 million with a credit to income tax for 2013, net of the single tax charge of Euros 6.8 million. At 31 December 2013 this item also includes Euros 15.5 million for the impairment of international investments.

Current receivables from and payables to public entities at 31 December 2013 and 2012 are as follows:

THOUSANDS OF EUROS		
	2013	**2012**
Current receivables		
VAT recoverable	5,853	7,946
Other recoverable taxes	1,760	146
Current payables		
VAT payable	128,587	10,721
Other	3,844	4,008
Income tax	22,777	7,613

In the consolidated statement of financial position the Group has offset deferred tax assets and deferred tax liabilities arising from the Spanish tax group in an amount of Euros 97,438 million, as permitted by IAS 12.71 (Euros 113,538 thousand in 2012).

The deferred tax assets and liabilities are presented prior to offset, to facilitate comprehension.

Temporary differences in the recognition of income and expenses for accounting and tax purposes at 31 December 2013 and 2012, and the corresponding accumulated tax effect (assets and liabilities) are as follows:

	THOUSANDS OF EUROS		THOUSANDS OF EUROS	
	2013		2012	
	Profit or loss	Income and expense recognised directly in equity	Profit or loss	Income and expense recognised directly in equity
	Increases	Increases	Increases	Increases
Deferred tax assets:				
Originating in prior years	82,866	32,600	115,564	11,580
Movement in the year	9,943	6,615	(32,698)	21,020
Total deferred tax assets	92,809	39,215	82,866	32,600
Deferred tax liabilities:				
Originating in prior years	641,989	9,113	600,286	7,330
Movement in the year	25,120	20,071	41,703	1,783
Total deferred tax liabilities	667,109	29,184	641,989	9,113

Deferred tax assets and liabilities at 31 December 2013 and 2012 are as follows:

	THOUSANDS OF EUROS	
	2013	**2012**
Retirement and commitments with personnel	16,988	15,458
Grants	1,128	1,726
Financial derivatives	33,189	25,964
Tax loss carryforwards	7,948	67,017
Balance sheet revaluation, Law 16/2012	34,589	-
Limitation on deductible amortisation/depreciation, Law 16/2012	28,888	-
Other	9,294	5,301
Total deferred tax assets	132,024	115,466
Accelerated amortisation/depreciation	631,599	587,376
Non-deductible assets	35,718	46,565
Cash flow hedges	13,350	8,275
Other	15,626	8,886
Total deferred tax liabilities	696,293	651,102

The deferred tax assets and liabilities are expected to be recovered and settled as follows:

31/12/13	TOTAL	WITHIN 1 YEAR	AFTER 1 YEAR
Deferred tax assets	132,024	9,747	122,277
Deferred tax liabilities	696,293	24,981	671,312

The recovery/settlement of the Group's deferred tax assets/liabilities is dependent on certain assumptions which could change.

In 2013, deferred tax assets essentially derive from the limitation on the tax deductibility of depreciation and amortisation charges and the balance sheet revaluations, as permitted by Law 16/2012. Furthermore, in 2013 and 2012, deferred tax assets include credits for tax loss carryforwards pending offset in prior years deriving from accelerated depreciation, changes in value of cash flow hedges and provisions for liabilities.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the inclusion of the assets and liabilities of the companies absorbed by REC in 2006, as well as changes in value of cash flow hedges. Deferred tax liabilities for accelerated depreciation as provided for in the 11th additional provision of the Spanish Income Tax Law amounted to Euros 559,790 thousand in 2013 (Euros 530,541 thousand in 2012). At 31 December, the Group has made investments during the accelerated depreciation application period (between 2009 and March 2012) which are expected to result in income tax deferrals of approximately Euros 140,000 thousand over the coming years, as provided for by Royal Decree-Law 12/2012 of 30 March 2012, which introduces various tax and administrative measures aimed at reducing the public deficit.

The notes to the Company's annual accounts for 2006 contain disclosures on the merger by absorption carried out during that year, as required by article 93 of Royal Legislative Decree 4/2004. The notes to the 2008 annual accounts include disclosures on the contribution to Red Eléctrica de España, S.A.U. of the branch of activities encompassing the duties of the system operator, transmission grid manager and transmission agent of the Spanish electricity system.

At 31 December 2013, the Spanish taxation authorities are in the process of inspecting the main taxes applicable to REC and REE for 2008, 2009 and 2010. Taxes for the other years open are pending inspection.

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise as a result of ongoing and future inspections, which cannot be objectively quantified at present. Nevertheless, the directors do not expect that any additional liabilities that could arise in the event of inspection would significantly affect the Group's consolidated annual accounts.

22. INCOME AND EXPENSES

a) Revenue

Details of revenue in 2013 and 2012, by geographical area, are as follows:

THOUSANDS OF EUROS	Current period	Prior period
Domestic market	1,713,169	1,707,402
International markets	45,097	47,854
a) European Union	20,358	19,082
b) OECD countries	-	-
c) Other	24,739	28,772
TOTAL	1,758,266	1,755,256

Domestic market essentially includes the revenue from transmission and electricity system operation services in Spain, which is set by the Ministry of Industry, Energy and Tourism.

International markets in 2013 mostly reflect income from reinsurance services, the revenue from the construction of the Tintaya-Socabaya line in Peru and the revenue generated by REDESUR since 9 May (date of incorporation into the Group). In 2012 revenue basically included income from reinsurance services and the revenue from the construction of the Tintaya-Socabaya line in Peru.

b) Other operating income

Other operating income mostly includes insurance payouts for accidents and breakdowns covered by the policies arranged.

c) Supplies and other operating expenses

Details of supplies and other operating expenses in 2013 and 2012 are as follows:

THOUSANDS OF EUROS		
	2013	**2012**
Supplies	67,025	69,597
Other operating expenses	296,403	289,855
	363,428	359,452

Supplies and other operating expenses mainly comprise repair and maintenance costs incurred at technical electricity facilities as well as IT, advisory, leasing and other services.

d) Personnel expenses

Details of personnel expenses in 2013 and 2012 are as follows:

THOUSANDS OF EUROS		
	2013	**2012**
Salaries and wages	99,020	102,000
Social Security	21,142	20,031
Contributions to pension funds and similar obligations	1,860	1,818
Other items and employee benefits	5,241	5,299
	127,263	129,148

Salaries and wages at 31 December 2013 include Euros 1,065 thousand in termination benefits for employees (Euros 7,991 thousand in 2012).

The Group companies have capitalised personnel expenses totalling Euros 15,417 thousand at 31 December 2013 (Euros 15,491 thousand at 31 December 2012).

> Workforce

The average headcount of the Group in 2013 and 2012, distributed by professional category, is as follows:

AVERAGE NUMBER OF EMPLOYEES	2013	2012
Management	118	113
Senior technicians and middle management	509	526
Technicians	584	583
Specialist and administrative staff	507	517
	1,718	1,739

The decline in the average headcount derives from the departure of TDE from the consolidated Group in May 2012.

This distribution of the Group's employees at 31 December, by gender and category, is as follows:

FINAL WORKFORCE BY GENDER	2013			2012		
	Male	Female	Total	Male	Female	Total
Management	101	23	124	90	21	111
Senior technicians	343	175	518	341	166	507
Technicians	492	99	591	487	88	575
Specialist and administrative staff	409	103	512	403	105	508
	1,345	400	1,745	1,321	380	1,701

At 31 December 2013 and 2012 the Group's board of directors, including the executive director, comprises 11 members, of which 7 are male and 4 are female.

e) Impairment and gains/losses on disposal of fixed assets
In 2012 this item included the impairment recorded on certain transmission facilities (see note 6).

f) Finance costs
This item basically includes borrowing costs, net of any amounts capitalised, on loans and borrowings, bonds and other marketable securities (see note 17). Capitalised borrowing costs totalled Euros 22,941 thousand in 2013 (Euros 19,111 thousand in 2012).

g) Impairment and gains/losses on disposal of financial instruments
At 31 December 2013 this item includes a gain of Euros 3,219 thousand on the fair value measurement of the previously held investment in REDESUR after control was taken of this company (see note 8).

At 31 December 2012 this item mostly reflected a prudent estimate of the result of the nationalisation of TDE by the Bolivian government, as well as impairment of Euros 2,697 thousand on the investment held by the Company in REN.

23. TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

a) Balances and transactions with associates

All transactions with associates have been carried out at market prices. The main transactions carried out by Group companies with equity-accounted investees in 2013 and 2012 were as follows:

DETAILS OF BALANCES AND TRANSACTIONS WITH ASSOCIATES IN THE YEARS ENDED 31 DECEMBER 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

	2013				2012			
	Balances		Transactions		Balances		Transactions	
	Receivable	Payable	Expense	Income	Receivable	Payable	Expense	Income
Red Eléctrica del Sur S.A. (Redesur)	-	-	2	459	82	67	23	1,373
Total	-	-	2	459	82	67	23	1,373

As indicated in note 8, REDESUR was an associate until 9 May 2013, when it became part of the Group. Consequently, there are no receivable or payable balances at 31 December 2013. The transactions reflect the operations carried out until control was taken of REDESUR.

b) Related party transactions

Related party transactions are carried out under normal market conditions. Details in thousands of Euros are as follows:

RELATED PARTY TRANSACTIONS

	2013					2012				
INCOME AND EXPENSES:	**Significant shareholders**	**Directors and management**	**Group employees, companies or entities**	**Other related parties**	**Total**	**Significant shareholders**	**Directors and management**	**Group employees, companies or entities**	**Other related parties**	**Total**
Management or cooperation agreements	-	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	108	108	-	-	-	67	67
EXPENSES	-	-	-	108	108	-	-	-	67	67
Dividends received	-	-	-	4,539	4,539	-	-	-	4,512	4,512
Other income	-	-	-	74	74	-	-	-	43	43
INCOME	-	-	-	4,613	4,613	-	-	-	4,555	4,555
OTHER TRANSACTIONS:										
Dividends and other allocated benefits	-	-	-	-	-	-	-	-	-	-
Other operations	-	-	-	-	-	-	-	-	173	173
OTHER TRANSACTIONS	-	-	-	-	-				173	173

24. REMUNERATION OF THE BOARD OF DIRECTORS

Details of remuneration of the board of directors in 2013 and 2012, in thousands of Euros, are as follows:

IN THOUSANDS OF EUROS	2013	2012
Total remuneration of the board of directors for all items	1,787	1,790
Remuneration of directors in their capacity as board members	579	610
Total remuneration for members of the board of directors	2,366	2,400

A breakdown of this remuneration by type of director at 31 December 2013 and 2012, in thousands of Euros, is as follows:

IN THOUSANDS OF EUROS	2013	2012
Type of director (1):		
Executives (2)	726	767
External directors representing shareholders	498	480
Independent external directors (2)	1,142	1,092
Amount not distributed due to empty positions on board (3)	-	61
Total remuneration	2,366	2,400

(1) Variations in remuneration between the two years are mainly due to the newly approved remuneration model.
(2) Prior to his appointment as the Company's executive chairman on 8 March 2012, Mr. José Folgado Blanco was an independent external director, accruing remuneration of Euros 39 thousand for this position.
(3) The balance of Euros 61 thousand corresponds to the positions for independent directors and directors representing shareholders, which were not filled in 2012.

In view of investors' preference for a greater proportion of fixed remuneration for the board of directors, as opposed to variable remuneration, and with the aim of safeguarding the independence and commitment of the board members in the long term, the Company's board of directors has adopted a new remuneration model for 2013, which was approved by the shareholders at their general meeting held on 18 April 2013. The new model retains a similar level of total remuneration for the board members to that paid in 2012.

The remuneration accrued by individual members of the Company's board of directors in 2013, in thousands of Euros, is as follows:

IN THOUSANDS OF EUROS	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Membership of committees	Contributions to life insurance and pension plans	Total
Mr. José Folgado Blanco	449,08	228,08 (1)	49,08	-	-	726,24
Ms. María de los Ángeles Amador Millán	49,08	49,08	49,08	27,90	-	175,14
Mr. Miguel Boyer Salvador	49,08	49,08	49,08	-	-	147,24
Mr. Rui Manuel Janes Cartaxo	49,08	49,08	49,08	-	-	147,24
Mr. Fernando Fernández Méndez de Andés	49,08	49,08	49,08	27,90	-	175,14
Ms. Paloma Sendín de Cáceres	49,08	49,08	49,08	27,90	-	175,14
Ms. Carmen Gómez de Barreda	49,08	49,08	49,08	27,90	-	175,14
Mr. Juan Emilio Iranzo Martín	49,08	49,08	49,08	27,90	-	175,14
Ms. María José García Beato	49,08	49,08	49,08	-	-	147,24
Mr. Alfredo Parra García-Moliner(2)	49,08	49,08	49,08	27,90	-	175,14
Mr. Francisco Ruíz Jiménez(2)	49,08	49,08	49,08	-	-	147,24
Total remuneration accrued	939,88	718,88	539,88	167,40	0,00	2,366,04

(1) Variable remuneration of the chairman includes his annual variable remuneration as executive director of the Company and the variable remuneration paid to members of the board of directors.
2) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).

Remuneration by item at 31 December 2013 and 2012, in thousands of Euros, is as follows:

IN THOUSANDS OF EUROS	2013	2012
Remuneration:		
Fixed remuneration (1)	940	402
Variable remuneration (1)	719	1,038
Allowances (1)	707	895
Contributions to life insurance and pension plans	-	4
Remuneration not distributed due to empty positions on board	-	61
Total remuneration	2,366	2,400

(1) The variation between the two years derives from the implementation in 2013 of the new remuneration model referred to above, which increases the proportion of fixed remuneration for the board of directors with respect to variable remuneration.

The annual variable remuneration of the executive director is set by the Corporate Responsibility and Governance Committee of the Parent at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company's strategic plan and the degree of compliance is assessed by the Committee.

In 2009 a management remuneration scheme was set up ("25th Anniversary Extraordinary Plan" 2009-2013), which includes the executive director, to celebrate the Company's 25th anniversary. This scheme was devised as a management tool to encourage personnel to meet the five-year strategic plan. Adherence to this scheme was to be assessed at the end of its term in 2014. Depending on the targets met, the total amount for the five-year period with 100% compliance would be 1.8 times the annual fixed remuneration. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Company's strategic plan. These targets are set and assessed by the Corporate Responsibility and Governance Committee.

Following the scheme's conclusion in 2013, at the meeting held on 20 February 2014 the Corporate Responsibility and Governance Committee assessed the degree of compliance and agreed to set remuneration for the executive director included in the scheme at Euros 278 thousand, reflecting a degree of compliance of 106.3% during the period between the appointment of the executive director in question and 31 December 2013, the end date of the scheme. This remuneration will be paid in 2014 and has been included within the amounts the Group has accrued every year since 2009 with a charge to the scheme.

The executive director contract was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's board of directors. In line with standard market practices, this contract considers termination benefits equivalent to one year's salary in the event that labour relations are terminated due to dismissal or changes of control.

During 2012 expenses relating to the departure of the previous executive director were recognised for an amount of Euros 2.3 million.

At 31 December 2013 and 2012 no loans or advances have been granted to the members of the board of directors, nor have any guarantees been pledged on their behalf. The Group has no pension obligations with the members of the board of directors at those dates.

In 2013 and 2012 the members of the board of directors did not engage in transactions with the Company or Group companies, either directly or through intermediaries, other than ordinary operations under market conditions.

Details of investments held by the members of the board of directors of the Company and their related parties, as defined in article 231 of the Spanish Companies Act, in the share capital of companies with identical, similar or complementary statutory activities to that of the Company at 31 December 2013, as well as the positions they hold and duties they carry out, and any activities they perform, on their own account or on behalf of third parties, that are identical, similar or complementary to the statutory activity of the Company, are included in Appendix II, based on the information received from the Company's directors.

25. MANAGEMENT REMUNERATION

The senior management personnel who have rendered services for the Group during 2013 are as follows:

Name(1)	Position
Carlos Collantes Pérez-Ardá	General Manager of Transmissions
Andrés Seco García	General Manager of Operations

(1) During 2012 Ms. Esther Rituerto Martínez (General Manager of Administration and Finance at REE) and Mr. Alberto Carbajo Josa (General Manager of Operations at REE) ceased to render services at the Company.

In 2013 total remuneration of senior management personnel amounted to Euros 664 thousand (Euros 1,023 thousand at 31 December 2012).

This amount includes remuneration of Euros 649 thousand for 2013 (Euros 996 thousand in 2012) and contributions to life insurance and pension plans of Euros 15 thousand (Euros 27 thousand in 2012).

No loans or advances have been extended to senior management personnel at 31 December 2013 and 2012.

The contracts in place with serving senior management personnel include guarantee and/or golden parachute clauses, in the event of dismissal. These clauses are in line with standard practices in the market, encompass cases of termination of labour relations and consider termination benefits of up to one-year's salary, except where applicable legislation provides for larger indemnities. The contracts that include these clauses have been approved by the Corporate Responsibility and Governance Committee and the Parent's board of directors has received notice thereof.

In 2009 a management remuneration scheme was set up ("25th Anniversary Extraordinary Plan" 2009-2013) to celebrate the Company's 25th anniversary. This scheme was devised as a management tool to encourage personnel to meet the five-year strategic plan. Adherence to this scheme was to be assessed at the end of its term in 2014. Depending on the targets met, the total amount for the five-year period with 100% compliance would be 1.8 times the annual fixed remuneration. This scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Company's strategic plan.

These targets are set and assessed by the Corporate Responsibility and Governance Committee.

Following the scheme's conclusion in 2013, at the meeting held on 20 February 2014 the Corporate Responsibility and Governance Committee assessed the degree of compliance and agreed to set remuneration for the two members of senior management personnel under the scheme at Euros 579 thousand, reflecting a degree of compliance of 106.3% during the period between the appointment of these directors and 31 December 2013, the end date of the scheme. This remuneration will be paid in 2014 and has been included within the amounts the Group has accrued every year since 2009 with a charge to the scheme.

During 2012 expenses relating to the departure of two senior managers were recognised for an amount of Euros 2.2 million.

26. ISEGMENT REPORTING

The principal activity of the Red Eléctrica Group is electricity transmission and operation of the electricity system in Spain, carried out through REE, which represents 96% of consolidated revenue and 98% of the Group's total assets (94% and 98%, respectively, in 2012). Other activities account for the remaining 4% of revenue and 2% of total assets (6% and 2%, respectively, in 2012). Consequently, the Group did not consider it necessary to provide information by activity or geographical segment.

27. INVESTMENTS IN JOINTLY VENTURES

Together with Réseau de Transport d'Électricité (RTE), REE holds a 50% investment in Interconexión Eléctrica Francia-España, S.A.S (INELFE), with registered offices in Paris. The statutory activity of this joint venture is the study and execution of a new interconnection between Spain and France aimed at increasing the electricity exchange capacity between the two countries. The joint venture is proportionately consolidated.

Details of the most relevant economic indicators in the local accounts during 2013 and 2012 are as follows:

	Current period (IN THOUSANDS OF EUROS)			
	Total assets	**Total liabilities**	**Revenue**	**Profit for the year**
INELFE	615,993	604,300	183,456	3,624
	Prior period (IN THOUSANDS OF EUROS)			
	Total assets	**Total liabilities**	**Revenue**	**Profit for the year**
INELFE	416,278	408,209	185,756	3,705

28. GUARANTEES AND OTHER COMMITMENTS WITH THIRD PARTIES AND OTHER CONTINGENT ASSETS AND LIABILITIES

The Company, together with REE, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 500 million by the Group company RBV, and the Eurobonds programme of REF for an amount of up to Euros 3,500 million at 31 December 2013 (up to Euros 2,500 million at 31 December 2012).

Furthermore, at 31 December 2013 the Company and REE have jointly and severally guaranteed the Euro Commercial Paper Programme (ECP programme) carried out by REF for an amount of up to Euros 1,000 million (up to Euros 1,000 million in 2012).

At 31 December 2013, in order to comply with the concession arrangement entered into through its 55%-investee TESUR to design, finance, supply goods and services, construct, operate and maintain the 220 kV Tintaya-Socabaya transmission line in Peru and the related substations, REI is the guarantor vis-a-vis BBV Banco Continental for all repayments of the loan extended to TESUR to finance construction up to an amount of US Dollars 15 million, as well as any further amounts that TESUR may require to complete the construction and commercial operation of the facilities.

At 31 December 2013 the Group has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 53,240 thousand (Euros 48,611 thousand in 2012).

On 9 May 2006 REDESUR entered into a money trust contract with BBVA Banco Continental S.A. and Banco Wiese Sudameris (currently Scotiabank Perú S.A.A.). The purpose of this contract is to create an administrative trust fund to ensure the total and timely repayment of the loan extended to the Company by BBVA Banco Continental S.A. Scotiabank Perú S.A.A. was designated as the trustee responsible for the fund, which comprises the Company's receivables from its customers and related parties. During the term of the contract, the Company undertakes to deposit these receivables in the current bank accounts of the trustee. The contract will expire once the Company has fully repaid its obligations with BBVA Banco Continental S.A. In May 2011 in addition to the refinancing of the loan agreement entered into with BBVA Banco Continental S.A., the Company signed an addendum to the money trust contract with Scotiabank Perú S.A.A.

At 31 December 2013, certain contingent assets have arisen in connection with the value of TDE in its nationalisation by the Bolivian government through Supreme Decree 1214, and the Company has extended guarantees to the International Finance Corporation (IFC) and the Corporación Andina de Fomento (CAF) in relation to the loan agreements arranged by TDE with these entities. The risk of any breaches incurred due to the nationalisation of this company has been appropriately reflected in the Company's financial statements.

29. ENVIRONMENTAL INFORMATION

During 2013 Group companies incurred ordinary expenses of Euros 21,260 thousand in protecting and improving the environment (Euros 16,640 thousand in 2012), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, slowing climate change, minimising pollution and safeguarding the countryside.

In 2013 the Parent also carried out environmental impact and monitoring studies in relation to its new electricity facilities. The costs incurred in these studies amounted to Euros 2,753 thousand (Euros 5,156 thousand in 2012).

The Group companies are not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. The Group companies received no environment-related grants in 2013 or 2012.

30. OTHER INFORMATION

The total fees accrued in connection with the audit of the annual accounts of the Group companies amounted to Euros 220 thousand in 2013.

The main auditor of the annual accounts of the Group companies is currently KPMG Auditores, S.L., except in the case of Group company INELFE, which continues to be audited by PricewaterhouseCoopers Auditores, S.L.

In 2012 the auditor of the Group companies' annual accounts was PricewaterhouseCoopers Auditores, S.L. and the fees accrued for the audit totalled Euros 219 thousand.

Furthermore, in 2013 the fees accrued by other companies directly or indirectly related to the main auditor in respect of professional services other than the audit of the annual accounts totalled Euros 128 thousand (specifically advisory services on labour issues contracted prior to the appointment of KPMG as auditor of the Company's annual accounts).

In 2012, the fees paid to other companies directly or indirectly related to the auditor that rendered services to the Group companies (PricewaterhouseCoopers Auditores, S.L.) in respect of professional services other than the audit of the annual accounts amounted to Euros 86 thousand.

31. EARNINGS PER SHARE

Details of earnings per share in 2013 and 2012 are as follows:

	2013	**2012**
Net profit (THOUSANDS OF EUROS)	529,139	492,288
Number of shares	135,270,000	135,270,000
Average number of own shares	362,295	681,517
Basic earnings per share (EUROS)	3.92	3.66
Diluted earnings per share (EUROS)	3.92	3.66

At 31 December 2013 and 2012 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

32. SHARE-BASED PAYMENT

Details of share-based payment at 31 December 2013 and 2012 are as follows:

SHARE-BASED PAYMENT AT 31 DECEMBER 2013 AND 2012

	2013			2012		
	Number of shares	Average price (Euros)	Amount in thousands of Euros	Number of shares	Average price (Euros)	Amount in thousands of Euros
Management	838	42.81	36	1,570	38.16	60
Employees	24,047	44.58	1,072	27,663	36.96	1,022
TOTAL	24,885	44.52	1,108	29,233	37.03	1,082

These shares have been valued at the listed price on the delivery date. All shares delivered were approved by the Parent's shareholders at the their general meeting, and the related costs incurred have been recognised under personnel expenses in the consolidated income statement.

33. EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred between the reporting date and the date on which these annual accounts were authorised for issue.

APPENDIX I

DETAILS OF INVESTMENTS AT 31 DECEMBER 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

Company - Registered offices - Principal activity	2013 Percentage ownership*		2012 Percentage ownership*	
	Direct	**Indirect**	**Direct**	**Indirect**
A) Fully consolidated companies				
Red Eléctrica de España, S.A.U. (REE)	100%	-	100%	-
- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid (Spain).				
- Transmission and operation of the Spanish electricity system and management of the transmission grid.				
Red Eléctrica Internacional, S.A.U. (REI)	100%	-	100%	-
- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid (Spain).				
- International investments. Rendering of advisory, engineering, construction and telecommunications services.				
- Performance of electricity activities outside the Spanish electricity system.				
Red Eléctrica de España Finance, B.V. (RBV)	100%	-	100%	-
- Claude Debussylaan, 24. Amsterdam (Netherlands).				
- Financing activities.				
- Incorporated in 2003 in the Netherlands to issue debt on behalf of the Red Eléctrica Group.				
Red Eléctrica Financiaciones (REF)	100%	-	100%	-
- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid (Spain).				
- Financing activities.				
Redcor Reaseguros, S.A (REDCOR)	100%	-	100%	-
- 26, Rue Louvigny (Luxembourg).				
- Reinsurance activities.				
- Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international markets.				

APPENDIX I (cont.)

DETAILS OF INVESTIMENTS AT 31 DECEMBER 2013 AND 2012
(EXPRESSED IN THOUSANDS OF EUROS)

Company - Registered offices - Principal activity	2013 Percentage ownership* Direct	 Indirect	2012 Percentage ownership* Direct	 Indirect
Red Eléctrica Andina, S.A. (REA)	-	100%(1)	-	100%(1)
- Av. Alfonso Ugarte Nº 536 Cercado. Arequipa (Peru).				
- Rendering of line and substation maintenance services.				
Transmisora Eléctrica del Sur, S.A. (TESUR)	-	55%(1)	-	55%(1)
- Juan de la Fuente, 453. Lima (Peru).				
- Electricity transmission and operation and maintenance of electricity transmission grids.				
Red Eléctrica del Sur, S.A. (REDESUR)**	-	55%(1)	-	33,75%(1)
- Juan de la Fuente, 453. Lima (Peru).				
- Electricity transmission and operation and maintenance of electricity transmission grids.				
B) Proportionately consolidated companies				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE)	-	50%(2)	-	50%(2)
- Tour Coeur Défense Tour B100, Explanade du General de Gaulle. La Défense Cedex. Paris (France).				
- Study and execution of the project to increase the Spain - France interconnection capacity.				

* Equivalent to voting rights.
** The Group has held a 55% interest since 9 May 2013. In 2013 and 2012 the Group held a 33.75% interest, and as such this company was accounted for using the equity method.
(1) Investment through Red Eléctrica Internacional.
(2) Investment through Red Eléctrica de España.

APPENDIX II

INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2013

Board member	Direct and indirect interests held by the members of the board of directors in the share capital of companies with identical, similar or complementary statutory activities to that of the Company	Positions and duties of the members of the board of directors at companies outside the Red Eléctrica Group with identical, similar or complementary statutory activities to that of the Company
D. José Folgado Blanco	---------------	Joint director of Red Eléctrica Internacional, S.A.U. Director of Redes Energéticas Nacionais, SGPS, S.A. (REN) Board chairman of Red Eléctrica del Sur, S.A. (REDESUR)
D. Alfredo Parra García-Moliner	---------------	---------------
D. Francisco Ruiz Jiménez	---------------	---------------
D. Fernándo Fernández Méndez de Andés	---------------	---------------
D. Juan Iranzo Martín	---------------	---------------
Dña. Paloma Sendín de Cáceres	---------------	---------------
Dña. Carmen de Barreda Tous de Monsalve	---------------	---------------
Dña. María de los Ángeles Amador Millán	---------------	---------------
D. Miguel Boyer Salvador	---------------	---------------
Dña. María José García Beato	---------------	---------------
D. Rui Manuel Janes Cartaxo	19,162 shares in Redes Energéticas Nacionais, SGPS, S.A. (REN)	Chairman and CEO of Redes Energéticas Nacionais, SGPS, S.A. (REN)

The members of the board of directors have declared that they have no conflicts of interest as defined in article 229 of the Spanish Companies Act. None of the members of the board of directors or their related parties has carried out, on their own account or on behalf of third parties, any other activities that are identical, similar or complementary to the statutory activity of the Company.

RED ELÉCTRICA CORPORACIÓN

CONSOLIDATED **DIRECTORS' REPORT** 2013

Note: Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

1. COMPANY POSITION

1.1 ORGANISATIONAL STRUCTURE

The board of directors and the shareholders are responsible for governing and managing the Group and its Parent, Red Eléctrica Corporación, S.A. (hereinafter REC).

The shareholders' general meeting is governed by the articles of association and the general meeting regulations, in accordance with the Spanish Companies Act.

The board of directors has formed two permanent committees: the Audit Committee and the Corporate Responsibility and Governance Committee, which are regulated by the articles of association and the regulations of the board of directors, as well as by all applicable corporate governance legislation.

In May 2013, with authorisation from the shareholders, the board of directors established the position of Coordinating Independent Director. The position carries extensive powers which counterbalance those of the chair of the board of directors and the CEO, accompanied by additional responsibilities and duties beyond those of a normal director.

The corporate governance report that accompanies the annual accounts provides detailed information on the structure and functions of the governing bodies of the Group and the Parent.

1.2 ACTIVITIES AND BUSINESS PERFORMANCE

As described in the notes to the Group annual accounts, the Group's principal activity is electricity transmission, system operation and transmission grid management in Spain. The Group carries out other activities in Spain and abroad, including electricity transmission in other countries and rendering telecommunications services to third parties.

Activity in Spain

Difficult conditions continued into 2013, a year marked by legislative changes introduced by the regulator to guarantee the financial sustainability of the electricity system and attempt to redress the cost-revenue imbalances affecting electricity supply.

In the first half of the year Royal Decree-Laws 2/2013 and 9/2013 were published, with a direct impact on how the remuneration for electricity transmission is set. These laws establish the definitive remuneration for 2013 and the basis for remuneration in 2014. These measures have led to a reduction in the Group's revenue, which was duly reported to the markets before the summer.

The second half of the year saw the publication of the new Electricity Industry Law (Law 24/2013) at the end of December and, more significantly, the publication of Royal Decree 1047/2013, which sets forth the new method for calculating the remuneration of electricity transmission activities, and will foreseeably enter into force in 2015. The Royal Decree establishes a single system for remunerating electricity transmission activities, introducing tools to encourage efficiency in infrastructure construction and in grid operation and maintenance. It also sets out a clear, stable, transparent method that reinforces and clarifies the principles and criteria for establishing remuneration of regulated activities, in line with those applied to comparable companies in other European countries.

The electricity sector is also in the midst of a transition to a new energy model characterised by more complex management due to the prevalence of renewable energies and the need to guarantee an appropriate quality and security of electricity supply at the lowest possible cost, in order to ensure the sustainability of the system.

At RED ELÉCTRICA we are responding to challenges in areas such as offsetting the lower manageability of renewable power, reinforcing interconnections, bolstering technological innovation, promoting ongoing improvement in our activities as the transmission system operator (TSO) for the Spanish electricity system, in all cases applying efficiency and quality standards, to contribute to efficient and sustainable management of the energy model.

As the transmission agent and system operator for the Spanish electricity system, RED ELÉCTRICA must help to make energy policy objectives viable with regard to providing a secure, efficient and sustainable electricity supply. We are therefore developing an increasingly meshed and robust transmission grid that provides better interconnections with our neighbouring countries, so as to offer a higher transmission capacity and the highest quality of service to all consumers.

Investment in the Spanish transmission grid in 2013 totalled Euros 564 million, increasing the grid by 776km of new lines to 42,008km of circuits. During the year, 162 substation circuit ends were started up (146 new circuit ends and 16 fully renovated) and transformation capacity has been increased by 2,525 MVA. The most significant action taken during the year in relation to the transmission grid in Spain was as follows:

>> Asturias-Galicia link: The objective of reinforcing this link is to connect the north of Galicia and the west of Asturias in order to cover the forecast electricity consumption in the region and facilitate the evacuation of new energy generated by combined cycle and wind facilities. The aim is to join up the Cantabria axis by linking it with the Soto-Penagos line so that regions generating surpluses, such as Galicia and Asturias, can evacuate their electricity to regions with shortfalls. The goal is also to reinforce the 400/220kW transformation facilities in Asturias and provide for the possible future supply of the Cantabria high-speed train. In 2013 the Grado substation started operating, together with two associated lines: Grado-Salas line and Grado security system.

>> Catalonia: The aim of reinforcing this axis is to extend the interconnection with France and improve Gerona's electricity supply. To this end, the mesh of the 400kW grid in Catalonia is being reinforced to support the supply to the high-speed train line between Barcelona and the French border. In 2013 civil engineering work started on the route of the Bescanó-Ramis-Santa Llogaia line and the Santa Llogaia substation.

>> Central Spain and Extremadura: The aim of reinforcing this axis is to ensure the quality of supply to cover forecast demand in the autonomous regions of Extremadura and Andalusia by establishing connections between the central and southern regions of the Iberian Peninsula. The axis will provide a north-south link with a region that has a generation shortfall, as well as supporting the expansion of the interconnection with Portugal and the region's distribution grid, allowing for the evacuation of newly generated renewable energy. In 2013 the Almaraz-San Serván, San Serván-Brovales and Brovales-Balboa lines all started operating, as well as the Brovales, San Serván and Almaraz substations.

- Andalusia: Grid support work has continued to reinforce the mesh of the transmission grid to make the electricity system more reliable and secure and improve the quality of supply, especially in areas with limited capacity to meet current and future demand. In this region the connection with Portugal is also being completed, facilitating the evacuation of new renewable energy generated, especially wind power. In 2013 the Aljarafe-Rocío line started operating, along with new circuit ends in the Guillena substation.

Actions to reinforce international interconnections included the following:

- Interconnection with Portugal: The purpose of this project is to increase the interconnection capacity between Spain and Portugal and increase its operational security. In 2013 the Puebla de Guzmán substation started operating and work commenced on a new northern interconnection project (Galicia-Oporto). With these interconnections, the objective of an international exchange capacity of 3,000MW with this neighbouring country is maintained.

- New interconnection with France: The interconnection work between Spain and France that started in 2008 continued throughout 2013, with the connection scheduled to operate commercially from 2015. The interconnection will double the current electricity exchange capacity between the two countries, reinforcing the security of both electricity systems and favouring the inclusion of a higher volume of renewable power. This project is being carried out in conjunction with Réseau de Transport d'Électricité (RTE) through the French company INELFE, in which the Spanish and French transmission system operators each have a 50% stake.

  The European Union has classified this connection as a priority and its characteristics make it a significant technological challenge. In 2013 the tunnel work was practically completed and progress has been made with the trenches where the line will be buried, as well as with the manufacturing of the cable, which is almost finished. Engineering work and assembly of the transformers at either end of the interconnection has been completed for the substations.

  This infrastructure will double the current electricity exchange capacity between Spain and France to 2,800MW. However, this is still not sufficient to reach the minimum interconnection level of 10% of installed capacity recommended by the European Union. A new interconnection is therefore being studied to cross the Bay of Biscay, with a time horizon of 2020.

In addition, the most notable events in 2013 were as follows:

- The performance of the mainland transmission grid has once again been excellent with total availability of the grid in 2013 at 98.13%. Service quality indicators for the year again reflect the significant security and quality of supply provided by RED ELÉCTRICA's infrastructure.

- Mainland energy demand amounted to 246,206GWh, down 2.2% on 2012. Adjusted for calendar effects and temperatures, the decline was 2.1%.

- Annual demand for hourly average power and daily electricity peaked on 27 February and 23 February, at 39,963MW and 808GWh, respectively, 7.3% and 7.1% lower than the maximums recorded in 2007.

- Notably, 42% of demand was covered with renewable power generation. For yet another year, wind power played a significant role, contributing 21% of annual power generation. This is the first time that this technology has made the largest contribution to meeting demand, with a level similar to that of nuclear generation.

  Furthermore, in 2013 wind generation exceeded previous maximum levels. On 25 December 2013 at 2.56am its contribution covered 68.5% of demand, while on 6 February at 3.49pm, instantaneous wind power generation amounted to 17,056MW.

  We must also highlight the unusual operating conditions in the Iberian Peninsula's electricity system in Holy Week 2013 when demand was extremely low, hydroelectric generation was high, with overspills at some reservoirs, and wind power generation was also high. In this context, to guarantee the security of the system's supply it proved necessary to issue orders to reduce generation to unprecedented levels. These reductions affected nuclear generation, among other segments, in what was an exceptional situation that had not arisen since 1997.

- In 2013, the electricity system of the Balearic Islands benefited from the positive impact of their new link to the Iberian Peninsula. This infrastructure substantially improved the quality and security of electricity supply on the islands of Mallorca and Menorca, as its rapid response has prevented frequency limits being exceeded and avoided power outages caused by generation losses.

  In addition, the electricity transmitted from the mainland covered 22% of the demand in the Balearic Islands, reaching peaks of 35% of hourly consumption. This represented a saving of 18% in the costs of covering the Balearic electricity system and prevented around 250,000 tonnes of CO_2 being emitted into the atmosphere.

- In the Canary Islands' electricity system, renewable power generation, including wind and photovoltaic, accounted for 7% of the total in 2013, reaching levels of 30% in Tenerife and 32% in La Palma during the year, which are particularly promising levels for small isolated electricity systems.

- International electricity exchanges resulted in a net export balance for the tenth consecutive year, reaching 6,958GWh in 2013, 37.9% less than in 2012. Exports amounted to 16,913GWh (18,986GWh in 2012) and imports totalled 9,955GWh (7,786GWh in 2012).

The telecommunications business entails commercial use by third parties of the dark fibre surplus from the Group's electricity transmission assets not used in the electricity business, and rendering of maintenance services related to the fibre.

International Electricity Activities

The Group's international activities are mainly carried out through its subsidiaries REDESUR, TESUR and REA, which manage transmission infrastructure in Peru.

In 2013, REDESUR's management excellence and its commitment to satisfying stakeholders allowed it to offer a transmission service with maximum availability, while improving financial results and supporting development in its operating environment.

REDESUR's management practices in 2013 included the acquisition by RED ELÉCTRICA INTERNACIONAL (in conjunction with its partner AC Capitales) of the shareholdings of Cobra Perú and Abengoa Perú in the company. This not only made for a sound, stable share capital structure, but also enabled an overall analysis of the company›s performance, while representing a step towards the shared objective of increasing our presence in Peru.

For REDESUR, consolidation of the Integrated Management System (IMS) has allowed the company to continue delivering excellent operating standards, with an availability factor for the grid of 99.77% and an average of 99.72% for the past five years.

This favourable technical management data has been complemented by the satisfactory completion of the follow-up audits carried out by the Spanish Association for Standardisation and Certification (AENOR) with regard to the ISO 9001, ISO 14001 and OHSAS 18001 standards. This result certifies REDESUR's full compliance with the quality, environment and occupational health and safety systems laid out in the standards, and reflects its commitment to excellence. In addition to these achievements, AENOR's renewal of the Social Responsibility Management certification is evidence of the consolidation of REDESUR's socially responsible framework of action, and with it REDESUR's excellence in its commitment to satisfying its stakeholders.

In 2013, TESUR continued to build the 200kW transmission line between Tintaya and Socabaya in Peru, which will start operating commercially in the first half of 2014.

Also in 2013, REA focused its efforts on supervising the project for the Tintaya-Socabaya 200kW transmission line and associated substations, and on implementing the special projects undertaken by REDESUR. The company also carried out maintenance work on its facilities and supervised work for other clients, consolidating its position in southern Peru as a leading provider of such services.

2. BUSINESS PERFORMANCE

2.1 KEY FINANCIAL INDICATORS

To correctly understand the Company's business performance, the impact of one-off events in 2012 and 2013 must be taken into account:

>> Application of Royal Decree-Law 9/2013 and the draft order establishing the remuneration for the transmission and distribution of electricity in Spain for the second period of 2013, which reduced transmission revenue by Euros 72.3 million in 2013.

>> Application of Law 16/2012 which allowed for restatement of Spanish companies' balance sheets, reducing the income tax expense for 2013 by Euros 33.9 million as consideration for a receivable arising from the future deductibility of the amortisation/depreciation of revalued assets.

>> The changes in the consolidated Group in these two years as a result of the expropriation of the Bolivian company Transportadora de Electricidad, S.A. (TDE) in 2012 and the increase in the shareholding in REDESUR in 2013, as well as the changes to the tax treatment of losses on investments in foreign subsidiaries by the Spanish taxation authorities in 2013.

>> Impairment of assets due to the regulatory changes made in the first half of 2012, in an amount of Euros 46.4 million.

The impact of the above on the Group's results was as follows:

(IN MILLIONS OF EUROS)	2012	Recurring	Change in consolidated group	Balance sheet restate.	Asset impair.	Regulatory adjust.	2013
Revenue	1,755,3	77.6	-2.4	-	-	-72.3	1,758.3
EBITDA	1,299.2	76.8	-1.8	-	-	-72.3	1,301.9
EBIT	859.9	67.7	-3.0	-	46.4	-72.3	898.7
Profit before tax	680.5	65.0	13.4	-	46.4	-72.3	733.0
Income tax and non-controlling interests	-188.2	-20.2	-37.2	33.9	-13.9	21.7	-203.9
Profit for the year - Parent	492.3	44.9	-23.9	33.9	32.5	-50.6	529.1

Applying each of the effects described in the table to the corresponding years the following pro forma income statements are obtained for 2012 and 2013:

(IN MILLIONS OF EUROS)	Pro forma		
	2013	2012	D%
Revenue	1,822.6	1,745.0	4.4%
EBITDA	1,369.0	1,292.2	5.9%
EBIT	967.6	900.0	7.5%
Profit before tax	799.2	734.2	8.8%
Profit for the year - Parent	558.0	513.1	8.8%

Growth in recurring profit would therefore have been 8.8% like-for-like on 2012.

Having factored in the one-off events in 2013 and 2012, the performance of key indicators would have been as follows:

Revenue for 2013 of Euros 1,758.3 million, 0.2% more than in 2012, due on the one hand to the accrual of the revenue associated with facilities that came into service in 2012, and on the other to the aforementioned measures set forth in Royal Decree-Law 9/2013, which reduced remuneration by Euros 72.3 million.

EBITDA of Euros 1,301.9 million, in line with the prior year, due on the one hand to the above-mentioned impact on revenue, and on the other to the trend in operating costs:

>> **Costs of supplies and other operating expenses**, amounting to Euros 363.4 million, are in line with the prior year.

>> **Personnel expenses** declined by 1.5% on 2012 to Euros 127.3 million, primarily due to payments of indemnities in 2012.

EBIT rose by 4.5% on 2012, due to the recognition in the prior year of asset impairment totalling Euros 46.4 million.

Net finance costs amounted to Euros -166.1 million, compared to Euros -180.7 million recognised in the same period of the prior year.

Finance costs net of capitalisation amounted to Euros 183.6 million, compared to Euros 172.8 million in 2012. The increase was due to higher interest rates and to higher average drawdowns on financial debt.

Finance income amounted to Euros 13.8 million and included Euros 4.5 million received in dividends from REN.

In addition, a gain of Euros 3.2 million was recognised on the revaluation of the previously held investment in REDESUR.

In all, **profit for the year** amounted to Euros 529.1 million, representing growth of 7.5%

The Group's **investments** during the year amounted to Euros 596.0 million. Development of the transmission grid in Spain accounted for most of the investment in the period, at Euros 564.2 million.

The **dividends paid** at 31 December 2013 amount to Euros 319.0 million, 7.2% more than in 2012.

The Group's **net financial debt** at 31 December 2013 amounted to Euros 4,541.2 million, 6.8% less than at the end of 2012.

Of the financial debt, 88% bears interest at a fixed rate and the remaining 12% has a floating rate.

In 2013 the average cost of the Group's gross financial debt was 3.84%, compared to 3.81% in 2012. The average balance of gross financial debt was Euros 5,173.9 million, up 5.8% on the Euros 4,890.5 million average for the prior year.

At 31 December 2013, the RED ELÉCTRICA Group's **equity** stood at Euros 2,224.6 million, up 11.7% on the end of 2012. This growth was primarily a result of the profits for the year, partially reduced by the corresponding distribution of dividends.

The following table provides a summary of the Group's key financial indicators:

FINANCIAL INDICATORS
(IN MILLIONS OF EUROS)

	2012	2013	D%
Revenue	1,755.3	1,758.3	0.2%
EBITDA	1,299.1	1,301.9	0.2%
EBIT	859.9	898.7	4.5%
Net profit	492.3	529.1	7.5%
RoE (PAT/Equity)	24.7%	23.8%	-3.8%
Cash flows from operating activities	798.8	1,191.9	49.2%
Distribution of dividends	297.7	319.0	7.2%
Equity	1,991.5	2,224.6	11.7%
Leverage ratio	71.0%	67.1%	-5.5%
Investment	705.8	596.0	-15.6%
Total assets	9,101.7	9,419.9	3.5%
Debt coverage ratio (net debt/EBITDA)	3.75	3.49	-6.9%

2.2 ENVIRONMENTAL ISSUES AND PERSONNEL

2.2.1 Environmental Issues

The RED ELÉCTRICA Group carries out its activities in accordance with strict environmental criteria assumed and enforced through the Company's environmental policy.

The commitment to the environment originates from Group management, which defines the environmental policy and implements measures to comply with environmental requirements.

The involvement of all of the organisational units and the commitment of all of the Group's employees are essential to the application of this system. A specific environmental department therefore exists within the Group's organisational structure to provide technical support.

In recognition of its environmental management, the RED ELÉCTRICA Group has been included in the Natural Capital Leaders Index drawn up by the GreenBiz Group and Trucost Plc.

The index is designed to recognise organisations that demonstrate natural capital leadership and break new ground by decoupling growth from natural capital impact.

In addition, the RED ELÉCTRICA Group has been selected as a Natural Capital Efficiency Leader in the energy sector and Red Eléctrica de España (REE), a Group company, is the only Spanish company in this edition of the index.

The RED ELÉCTRICA Group mainly faces the following environmental challenges:

>> Ensuring that facilities are compatible with the environment, selecting layouts and locations to minimise environmental impact. Applying preventative and corrective measures and strict environmental criteria in all stages of activity means that the potential impact on the environment is immaterial.

>> Ensuring the protection and conservation of biodiversity, to which end the Group has implemented a specific strategy covering the following areas of action: protection of fauna and flora, fire prevention and development of conservation projects. In 2013 this commitment was reinforced by the Company chairman signing the Biodiversity Pact. As a result, the Group has joined the Spanish Business and Biodiversity Initiative (IEEB) promoted by the Ministry of Agriculture, Food and the Environment, the aim of which is to incorporate preservation and management of biodiversity into companies' business strategies. In 2013 the Group was awarded the prize for business commitment at the first edition of the Valencian Regional Government's biodiversity preservation awards. The factors taken into account were involvement and ongoing commitment to financing and support of biodiversity preservation projects in the Valencia region.

>> Contributing to the fight against climate change, which has led the Group to define its climate change strategy and action plan to reduce emissions. In this regard, the Company implemented various measures concerning energy savings and energy efficiency, primarily to reduce consumption in the Company's buildings.

>> Preventing pollution, to which end measures have been defined to prevent spills of hazardous substances and adequate waste management is conducted.

Expenses incurred by the RED ELÉCTRICA Group in 2013 in relation to the protection and improvement of the environment amounted to Euros 21 million. In addition, investment in environmental actions totalled approximately Euros 3 million in 2013.

2.2.2 PERSONNEL

The RED ELÉCTRICA Group has a human resources master plan to enable corporate targets to be achieved in a setting of commitment and good social relations. All of the actions and projects included in the plan are aimed at achieving the following objectives:

>> Creation of stable employment: A qualified, motivated and committed team is key to RED ELÉCTRICA fulfilling its responsibilities and responding to the energy-related challenges of the coming years.

In 2013, RED ELÉCTRICA received the Randstad Award for the most attractive company to work for in the energy sector. In addition, in 2013 the Group ranked 33 in the international Merco Personas index, which selects the 100 best companies to work for in the country, assessing the quality of their labour policies, their internal reputation and the brand as an employer.

>> Equal opportunities and diversity: the Group is committed to the principles of equality and non-discrimination, as set out in its code of ethics, internal policies and various collective bargaining agreements governing its labour relations.

In 2013 the Comprehensive Equality Plan was approved, which lists and defines specific actions in the various areas linked to equality. In this regard, there has been a gradual increase in the number of female employees, which has risen by approximately 6%.

Furthermore, every year the Group makes an even greater effort to integrate differently abled people into its workforce.

>> Talent management: the Group understands that talent management is key to achieving its objectives. RED ELÉCTRICA's Corporate Academy (ECRE) provides a global framework to develop increasingly specialised training, adapted to the needs of the company and its employees.

Furthermore, in 2013 the global talent management model was reviewed and a new leadership system developed, with its associated evaluation system. A new mobility model has also been designed, and the first steps of the related plan will be taken in 2014.

>> Work-life balance: The RED ELÉCTRICA Group's commitment to its employees has been demonstrated over a number of years through systematic identification, ongoing analysis and evaluation of needs from both a labour and personal perspective.

The Group now has a powerful human resources management tool aimed at finding a balance between personal lives and work, to achieve a two-way commitment between the company and its personnel.

>> Health and safety: the Group has a two-fold objective in terms of health and safety. Firstly, to reduce work-related accidents to zero; and secondly, ongoing gradual improvement in health and safety levels among the Group's own employees and employees of service providers who work with or at the Company's facilities.

To achieve these objectives, the Group has a risk prevention strategy based on the leadership of the management team, assignment of prevention duties to organisational units, involvement of all relevant personnel, training, communication and improvements to performance metrics.

The challenge is to move the Group towards a "Healthy Company Model", with a wider vision of promoting healthy practices than that offered by the traditional risk prevention model, by including management of physical, psychological and social issues.

As described in note 22.d) to the accompanying consolidated annual accounts, at the end of 2013 the Group had 1,745 employees, an increase of 2.6% on 2012. The note also provides a breakdown of the workforce by professional categories and gender.

3. LIQUIDITY AND CAPITAL

The RED ELÉCTRICA Group has a liquidity policy to ensure payment obligations are met, by diversifying how financing requirements are covered and when debt matures.

The Group's liquidity position is essentially based on robust cash flow generation, primarily through regulated activities. Coupled with appropriate management of collection and payment periods and current financial capacity through short and long-term credit facilities, this allows the Group to prudently manage its liquidity risk.

The undrawn balance on credit facilities at 31 December 2013 amounts to Euros 1,196 million.

The structure of the debt by maturity comprises 96.7% of non-current debt at 31 December 2013, with no significant changes on 2012. The average maturity of the debt drawn down at the end of the year is 5.8 years.

Cash flows from operating activities in 2013 amounted to Euros 1,191.9 million, 49.2% higher than in 2012, which was sufficient to cover the cash flows used in investing activities, pay dividends and reduce net financial debt. This increase in cash flows generated was primarily due to the improvement in working capital.

The RED ELÉCTRICA Group's capital structure policy ensures a financial structure that optimises the cost of capital through a sound financial position, which balances the generation of value for shareholders with competitive costs of financing. Capital is periodically monitored through the leverage ratio, which in 2013 stood at 67.1%, compared to 71% in 2012. This ratio is calculated as net financial debt divided by net assets (understood to be equity plus net financial debt).

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

4. RISK MANAGEMENT

The RED ELÉCTRICA Group has had a Risk Management System in place since 2002, which aims to ensure that any risks that might affect the Group's strategies and objectives are systematically identified, analysed, assessed, managed and controlled.

The Risk Management System is fully inclusive as all of the Group's units are involved, together with its various governing bodies, in accordance with the guidelines set out in the Comprehensive Risk Management and Control Policy and Procedures, in turn based on the Enterprise Risk Management Integrated Framework outlined in the Committee of Sponsoring Organizations (COSO II) report.

As already mentioned, the RED ELÉCTRICA Group's principal activity comprises regulated business in Spain and Peru.

The fact that the activities are regulated affects revenue and the conditions under which the principal activities must be carried out. In view of this, it is important to note that regulatory risks could arise from the possibility of changes to the legal framework applicable to the activity, which could affect both revenue and costs either directly or by establishing new requirements.

There are also operational risks related to possible process inadequacy or failure, which could have a social and economic impact, as well as environmental and financial risks, as described in note 16 to the accompanying consolidated annual accounts.

The Group has analysed the risks to which it is exposed and produced a risk map identifying each risk, classifying them by level (high, medium or low) according to their probability and the impact they would have if they were to materialise. According to the risk policy, any risk that exceeds tolerance levels must be automatically addressed with specific actions to make the risk manageable and ensure the costs incurred are in proportion to the prevented risk.

The Internal Audit and Risk Control Department, part of the Department of Regulation and Global Risk Control, reviews the progress and impact of the risk management plans in conjunction with the organisational units on a half-yearly basis for high-level risks and annually for other risks.

5. EVENTS AFTER 31 DECEMBER 2013

No relevant events have taken place since 31 December 2013.

6. OUTLOOK

The RED ELÉCTRICA Group's performance is primarily based on the following lines of action:

>> Operational excellence focused on efficiency, making the RED ELÉCTRICA Group an international benchmark.

Having consolidated our position as Spain's transmission system operator after acquiring almost all of the transmission assets that were not owned by the Group in 2010, one of our priorities has been to integrate, improve and renovate these assets to increase their quality and bring them into line with Group standards.

Although these initiatives have significantly improved the quality of Spain's non-mainland systems, the Company will continue working towards offering optimal quality and security of supply in these systems, and applying a proactive maintenance policy to the transmission grid in order to offer a secure and efficient electricity service.

The Group will continue to focus on ongoing improvements to operating efficiency, which is of great importance against the current economic backdrop. These improvements will be reflected in an increased EBITDA margin in coming years.

>> Market integration and the sustainability of the electricity system, which justify a significant level of investment in the Spanish transmission grid in coming years.

As well as bolstering the process of reinforcing the structure and mesh of the grid and supporting the integration of renewable power, the investment plan will include key projects such as interconnections between Spain and France and with non-mainland systems.

>> Strengthening the balance sheet, by focusing on prudent financial policies aimed at reinforcing the Group's financial position to consistently generate value.

The Group will apply a conservative financial policy, ensuring that financial debt is diversified and its liquidity position can comfortably cover upcoming maturities, improving the Company's solvency ratios.

In addition, the Group will continue to analyse opportunities to expand its business in the transmission and operations segments, both nationally and internationally, and develop its wholesale telecommunications infrastructure business.

All of these initiatives will generate long-term value and help us to fulfil our commitment to our shareholders, creating lasting, competitive advantages and improving our corporate reputation, whilst focusing on providing optimum service to society and committing to a sustainable electricity system.

Once the pending elements of the new remuneration framework in Spain are confirmed in 2014, following the publication of Law 24/2013 and Royal Decree 1047/2013 in 2013 and approval of the new Infrastructure Plan, the RED ELÉCTRICA Group will be able to draft its next strategic plan to determine developments for the coming years.

7. RESEARCH, DEVELOPMENT AND INNOVATION (R&D&i)

The research, development and innovation activities undertaken by the RED ELÉCTRICA Group are intended, within its corporate strategy, to guarantee the efficiency, security and sustainability of the infrastructure that supports the electricity system.

In 2013 the Group made significant progress towards achieving the objectives laid out in its ambitious Innovation and Technological Development Plan, the main purpose of which is to establish the action framework of the Group's technological strategy for 2012-2016.

The key initiatives through which this plan aims to achieve the technological objectives set for the coming years are:

>> Pan-European transmission grid.
>> New system operation resources.
>> New solutions for the transmission grid.
>> System operation improvements.
>> Transmission grid improvements.
>> Sustainable development.

In the international sphere, the RED ELÉCTRICA Group took an important step forward in 2013, particularly in relation to the following:

>> Participating in the R&D&i Committee and Working Groups in ENTSO-E (European Network of Transmission System Operators for Electricity).

>> Publishing the 2014-2016 Implementation Plan, which includes the technological initiatives that must be undertaken in coming years. In addition, this year a new edition of the Monitoring Report was published, evaluating compliance with the plan.

>> Defining a number of indicators to measure the contribution of R&D&i to achieving the European Union's energy policy objectives.

In 2013, the Group's R&D&i efforts amounted to approximately Euros 14 million in expenditure and investment, with more than 60 active projects.

The Group completed a number of in-house projects in 2013, such as the second and third mobile hybrid transformer units for emergencies, the AGREGA project (demand management through aggregation of consumption in medium industry), SIPSU (Universal Synchronised Testing System), CARS (Agile, Responsible, Safe Driving), a switch monitor, and a study of the behaviour of cables in corrosive environments.

Testing also started on the prototype large-scale energy storage battery produced in the ALMACENA project at the Carmona substation (Seville) and work got underway to install the prototype flywheel at the Mácher substation (Lanzarote) to stabilise the frequency of the Lanzarote-Fuerteventura electricity system.

Of the projects linked to national innovation programmes, the VERDE project has been completed (research and development of technology for mass introduction of electric vehicles in Spain), which was led by SEAT and financed by the CENIT programme. In addition, work has continued on projects associated with the INNPACTO programme: ESP-Líder (SSSC device to redirect current flows, in Torres del Segre) and PRICE (intelligent demand management).

Work has also continued on the development, installation and testing of tools and prototypes of innovative equipment that add new functions to the transmission grid and the system's operations.

In 2013, the European TWENTIES project on renewable energy, which was coordinated by REE, was completed. In particular, the power flow redirection equipment has been installed and has started operating (based on an intelligent set of series reactances) at the Magallón substation, as has the continuous temperature monitoring system for the conductors on the María-Fuendetodos line, to determine the line's maximum transmission capacity in real time.

The Group has continued to work on the European projects e-HIGHWAY 2050 (optimum planning of the long-term pan-European transmission system – 2050) and GRID+ (supporting EEGI – European Electricity Grid Initiative – in the coordinated design of a joint R&D&i road map between TSOs and DSOs).

In addition, the proposal for the BEST PATHS project (Beyond the State-of-the-art Technologies for re-Powering AC Corridors & multi-Terminal HVDC Systems) was presented to the European Union's Seventh Framework Programme for research. REE coordinates this project, which comprises five large-scale demonstrations with a total budget of Euros 62.8 million (including EU financing of Euros 35.5 million), involving almost 40 different partners, including universities, technological centres, industrial companies, electricity companies and European TSOs. The proposal is pending approval from the European Commission and the project is expected to get underway in the first quarter of 2014.

The Group has continued with its policy of contributing to sustainable development, making it possible for its facilities to coexist with society and the environment. In this regard, in 2013 the Group's achievements include the completion of a device to detect the collision of birds with pylon earth cables.

In addition, in 2013 a project was launched to develop and validate the technique to recover the underwater meadows formed by Posidonia oceanica (Neptune Grass) — an aquatic plant native to the Mediterranean which is highly protected — using laboratory germinated seeds and bundles originating from natural fragmentation. This will mitigate the impact of the planned laying of undersea electricity cables in the Balearic Islands.

8. OWN SHARES

In order to provide investors with adequate levels of liquidity the Company acquired 3,090,094 shares with a total par value of Euros 6.2 million and a cash value of Euros 125.3 million in 2013. A total of 3,466,575 shares were sold, with an overall par value of Euros 6.9 million and a cash value of Euros 142.7 million.

At 31 December 2013 the Company held 38,376 own shares, representing 0.03% of its share capital. These shares had an overall par value of Euros 77 thousand (see note 12 to the accompanying consolidated annual accounts) and a market value of Euros 1,861 thousand.

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The Company's subsidiaries do not hold own shares or shares in the Parent.

9. OTHER RELEVANT INFORMATION

9.1 STOCK MARKET PERFORMANCE AND SHAREHOLDER RETURNS

All of the shares in RED ELÉCTRICA CORPORACIÓN (REC), the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system. The Company forms part of the IBEX 35 index, of which it represented 1.52% in 2013.

In 2013 REC's free float was 80%.

At the date of the last shareholders' meeting, 18 April 2013, the free float comprised an estimated 108,216,000 shares, of which 11% is held by non-controlling shareholders, 5% by Spanish institutional investors and 84% by foreign institutional investors, primarily in the United States and the United Kingdom.

The market capitalisation of the Company at the end of 2013 was Euros 6,561 million.

In general, 2013 was a positive year in terms of stock market performance. Rises were supported by sound economic growth in the US and an increase in confidence in the Eurozone, especially in the peripheral countries.

The major US indexes, the Dow Jones and Standard & Poor's, approached all-time highs after rising approximately 30% over the course of the year.

Meanwhile, the NASDAQ technology index gained 38% in the year. The German DAX index performed similarly, reaching record levels after a 25.5% rise in 2013, making it the best performing European index. Lastly, the Japanese Nikkei index gained 56.7% as a result of very aggressive monetary and fiscal policies.

Of the European stock exchanges, following three consecutive years of losses, the Spanish stock exchange saw notable performance, rising 21% in 2013.

Increased confidence in our economy, as reflected by the decline in the risk premium to approximately 220bp (having started the year at around 400bp) and the first signs of economic growth, has boosted investor appetite for Spanish assets.

For the fourth consecutive year the Company outperformed the IBEX, rising by 30%. As previously mentioned, 2013 was marked by regulatory changes. The share price slumped to an annual low in April and slid back to similar levels in mid-July following the approval of Royal-Decree Law 9/2013. However, the price recovered in the last quarter of the year, reaching an all-time high following the publication of Royal Decree 1047/2013 on 30 December.

In total, 318.3 million shares were traded in 2013, which is 2.35 times the Company's share capital. Cash transactions amounted to Euros 13,171 million.

9.2 DIVIDEND POLICY

The dividend policy maintains growth in dividends in line with profit, with a pay-out of 65%.

Two dividend payments were made for the year, an interim dividend in January and another in the middle of the year after the annual accounts were approved by the shareholders.

The dividends paid in 2013 amounted to Euros 319 million, 7.2% more than in 2012.

9.3 CREDIT RATING

In 2013 Fitch Ratings upgraded its outlook for RED ELÉCTRICA from negative to neutral. This is a result of the recent upgrade to Spain's country rating outlook. Following this announcement, REE, its Parent Red Eléctrica Corporación (REC) and the Group company Red Eléctrica de España Finance B.V. maintain their long-term ratings of A- and short-term ratings of F2, with their outlook upgraded from negative to stable.

In addition, in 2013 the rating agency Standard & Poor's upgraded the outlook of REE's rating from negative to stable. Following this announcement, REE, its Parent Red Eléctrica Corporación (REC) and the Group company Red Eléctrica de España Finance B.V. maintain their long-term ratings of BBB and short-term ratings of A-2, with their outlook upgraded from negative to stable.

9.4 CORPORATE RESPONSIBILITY

The RED ELÉCTRICA Group has become one of the most advanced companies in the field of corporate responsibility, occupying a leading position in the rankings that evaluate both the results obtained by company management and the level of involvement and support for sustainable development in all areas of activity.

The Group's objective is to consolidate its position as a sustainable, ethical and responsible Group, managed in accordance with criteria of excellence and responsibility in its operations.

This focus on sustainable development is reflected at a strategic level, as the pursuit of excellence and responsible business practices constitutes one of the Group's four basic strategies, which is rolled out to operations through management.

Since 1999, the RED ELÉCTRICA Group has applied the EFQM Excellence Model (European Foundation for Quality Management), aiming for ongoing improvements to the Company's management and results.

In 2013 the Group again obtained the 500+ European Seal of Excellence, obtained in 2003 and renewed every two years, exceeding previous ratings on all occasions. At the last excellence evaluation based on the EFQM 2013 model, the Group obtained 678 points.

RED ELÉCTRICA is the best rated Spanish company with a seal issued by Club Excelencia en Gestión in 2013.

With regard to quality management, a process management system has been implemented based on international standards, resulting in a Corporate Quality Management System encompassing all processes. This system adopts a proprietary method and encompasses all of the Company's activities by defining, designing, controlling, monitoring, assessing and improving processes.

Scorecards have also been developed as part of this system, as a key means of monitoring and assessing the Company's core processes, by establishing indicators that allow processes to be improved and the Company's strategic objectives to be met.

Almost all of the Group's activities are certified according to international standards. In 2013 all of the certified corporate management systems underwent a second audit (quality, environment, health and safety and corporate responsibility).

The RED ELÉCTRICA Group has formed part of the Dow Jones Sustainability World index since 2006 and the FTSE4Good index since 2008.

Similarly, in 2013 the RED ELÉCTRICA Group formed part of the ECPI EMU Ethical Equity index and was included in the ECPI Global ESG Best in Class Equity index. In addition, the Group remained in the Kempen SNS SRI index and the STOXX ESG Leaders family of indexes.

ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report forms an integral part of the Directors' Report and can be accessed through the following link:

Annual Corporate Governance Report 2013.