RED ELÉCTRICA
CORPORACIÓN

ANNUAL ACCOUNTS
2012

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

RED ELÉCTRICA CORPORACIÓN, S.A.

Audit Report, Annual Accounts and
Directors' Report as at 31 December 2012

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AUDIT REPORT ON THE ANNUAL ACCOUNTS

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

We have audited the annual accounts of Red Eléctrica Corporación, S.A. consisting of the balance sheet at 31 December 2012, the income statement, the statement of changes in equity, the cash flow statement and related notes for the year then ended. The company's directors are responsible for the preparation of these annual accounts in accordance with the financial reporting framework applicable to the entity (identified in Note 2.a to the accounts) and, in particular, with the accounting principles and criteria included therein. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work performed in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying annual accounts for 2012 present fairly, in all material respects, the financial position of Red Eléctrica Corporación, S.A. at 31 December 2012 and the results of its operations and cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

The accompanying Directors' Report for 2012 contains the information that the Company's directors consider relevant to the Company's position, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the directors' report coincides with that of the annual accounts for 2012. Our work as auditors is limited to checking the Directors' Report within the scope already mentioned in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Francisco J. Martínez Pérez
Audit Partner

26 February 2013

RED ELÉCTRICA CORPORACIÓN, S.A.
BALANCE SHEET
AT 31 DECEMBER 2012 AND 2011
THOUSAND EURO

	31 DECEMBER 2010	31 DECEMBER 2011
NON-CURRENT ASSETS	**1.613.527**	**1.616.317**
Property, plant and equipment (Note 5)	**50.428**	**51.630**
Land and buildings	47.973	48.997
Other installations, machinery, tooling, furnishings and other fixed assets	713	941
Fixed assets in course of construction and advance payments	1.742	1.692
Investment properties (Note 6)	**2.604**	**2.695**
Land	629	629
Buildings	1.975	2.066
Long-term investments in Group companies and associates	**1.504.596**	**1.504.596**
Equity instruments (note 7)	1.079.596	1.079.596
Loans to companies	425.000	425.000
Long-term investments (Note 10)	**54.869**	**56.337**
Equity instruments	54.869	56.337
Deferred tax assets (Note 16)	**1.030**	**1.059**
CURRENT ASSETS	**386.077**	**190.667**
Non-current assets held for sale (11)	**-**	**-**
Trade and other receivables (Note 12)	**1.138**	**587**
Trade receivables, Group companies and associates	-	392
Sundry receivables	1.008	3
Loans to employees	2	2
Other receivables from public institutions	128	190
Short-term investments in Group companies and associates (Note 22)	**384.906**	**190.027**
Loans to companies	384.906	190.027
Prepayments and accrued income, short term	**18**	**23**
Cash and cash equivalents	**15**	**30**
Cash at bank and in hand	15	30
TOTAL ASSETS	**1.999.604**	**1.806.984**
EQUITY (Note 13)	**1.839.647**	**1.667.530**
Shareholders' funds	**1.838.419**	**1.667.530**
Capital	270.540	270.540
Reserves	1.222.284	1.075.922
(Treasury shares)	(14.698)	(28.684)
Profit/(loss) for the year	451.509	440.684
(Interim dividend)	(91.216)	(90.932)
Value adjustments	**1.228**	**-**
NON-CURRENT LIABILITIES	**7.741**	**7.916**
Long-term provisions (Note 14)	**3.168**	**3.469**
Long-term payables (Note 15)	**2**	**2**
Other liabilities	2	2
Long-term payables to Group companies and associates (Note 22)	**1.546**	**1.546**
Deferred tax liabilities (Note 16)	**2.907**	**2.777**
Prepayments and accrued income, long term (Note 17)	**118**	**122**
CURRENT LIABILITIES	**152.216**	**131.538**
Short-term payables (Note 18)	**91.271**	**111.087**
Debentures and other marketable securities	-	4.774
Bank loans	18	14.911
Other short-term creditors	91.253	91.402
Short-term payables with Group companies and associates (Note 22)	**52.282**	**18.783**
Trade and other payables (Note 19)	**8.663**	**1.668**
Sundry payables	207	326
Accrued wages and salaries	1.088	1.290
Current tax liabilities	7.234	-
Other taxes and social security payable	134	52
TOTAL EQUITY AND LIABILITIES	**1.999.604**	**1.806.984**

Notes 1 to 30 are an integral part of these consolidated annual accounts.

RED ELÉCTRICA CORPORACIÓN, S.A.
INCOME STATEMENT
2012 AND 2011
THOUSAND EURO

	2012	2011
Revenue (Note 21-a)	**461.474**	**459.782**
Financial income from equity instruments	439.871	445.014
In Group companies and associates	435.359	440.528
In third parties	4.512	4.486
Financial income from securities and other financial instruments, Group companies and associates	21.603	14.768
Raw materials and consumables	**(4)**	**(1)**
Consumption of raw materials and other consumables	(4)	(1)
Other operating income	**10.046**	**9.810**
Sundry and other income	10.046	9.810
Staff costs (Note 21.b)	**(4.599)**	**(2.819)**
Wages, salaries and similar remuneration	(4.361)	(2.642)
Staff welfare costs	(49)	(54)
Provisions	(189)	(123)
Other operating expenses	**(3.365)**	**(3.566)**
External services	(2.960)	(3.179)
Taxes	(405)	(387)
Fixed asset amortisation/ depreciation (Notes 5 and 6)	**(1.343)**	**(1.304)**
Impairment and profit/(loss) on fixed asset disposals (Note 10)	**(2.697)**	**(12.549)**
Impairment and losses	(2.697)	(12.549)
OPERATING PROFIT/(LOSS)	**459.512**	**449.353**
Financial income	**27**	**11**
On marketable securities and other financial instruments	27	11
Third parties	27	11
Financial expenses	**(827)**	**(1.897)**
On payables to Group companies and associates	(508)	(1.101)
On payables to third parties	(314)	(785)
Due to restatement of provisions	(5)	(11)
NET FINANCIAL INCOME/(EXPENSE)	**(800)**	**(1.886)**
PROFIT/(LOSS) BEFORE TAX	**458.712**	**447.467**
Corporate income tax (Note 16)	**(7.203)**	**(6.783)**
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS	**451.509**	**440.684**
PROFIT/(LOSS) FOR THE YEAR	**451.509**	**440.684**

Notes 1 to 30 are an integral part of these consolidated annual accounts.

RED ELÉCTRICA CORPORACIÓN, S.A.
TOTAL STATEMENT OF CHANGES IN EQUITY
At 31 DECEMBER 2011
THOUSAND EURO

	Share capital	Reserves	(Treasury shares)	Profit and loss account brought forward	Profit/(loss) for the year	(Interim dividend)	**Subtotal Equity**	Value change adjustments	**Total equity**
Balance at 31 December 2010	270.540	957.977	(23.297)	-	369.977	(79.173)	**1.496.024**	-	**1.496.024**
Total recognised income and expense	-	-	-	-	440.684	-	**440.684**	-	**440.684**
Operations with shareholders or owners									
(-) Dividend payment	-	-	-	(253.252)	-	(11.759)	**(265.011)**	-	**(265.011)**
Transactions with treasury shares (net)	-	760	(5.387)	-	-	-	**(4.627)**	-	**(4.627)**
Other changes in equity									
Transfer to prior-year results	-	-	-	369.977	(369.977)	-	**-**	-	**-**
2010 profit transferred to reserves	-	117.185	-	(116.725)	-	-	**460**	-	**460**
Balance at 31 December 2011	270.540	1.075.922	(28.684)	-	440.684	(90.932)	**1.667.530**	-	**1.667.530**
Total recognised income and expense	-	(6)	-	-	451.509	-	**451.503**	1.228	**452.731**
Operations with shareholders or owners									
(-) Dividend payment	-	-	-	(298.707)	-	(284)	**(298.991)**	-	**(298.991)**
Transactions with treasury shares (net)	-	3.361	13.986	-	-	-	**17.347**	-	**17.347**
Other changes in equity									
Transfer to prior-year results	-	-	-	440.684	(440.684)	-	**-**	-	**-**
2011 profit transferred to reserves	-	143.007	-	(141.977)	-	-	**1.030**	-	**1.030**
Balance at 31 December 2012	270.540	1.222.284	(14.698)	-	451.509	(91.216)	**1.838.419**	1.228	**1.839.647**

RED ELÉCTRICA CORPORACIÓN, S.A.
STATEMENT OF RECOGNISED INCOME AND EXPENSES
At 31 DECEMBER 2011
THOUSAND EURO

	2012	2011
Profit/(loss) recognised in the income statement	**451.509**	**440.684**
On measurement of financial instruments	(1.469)	(12.549)
On actuarial gains and losses and other adjustments	(9)	-
Tax effect	1.356	5.311
Income and expenses allocated directly to equity	**(122)**	**(7.238)**
On measurement of financial instruments	2.697	12.549
Tax effect	(1.353)	(5.311)
Transfers to the income statement	**1.344**	**7.238**
Total recognised income and expense	**452.731**	**440.684**

RED ELÉCTRICA CORPORACIÓN, S.A.
CASH FLOW STATEMENT
AT 31 DECEMBER 2012 AND 2011
THOUSAND EURO

CASH FLOW STATEMENT	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	**270.562**	**802.350**
Profit/(loss) for the year before tax	**458.712**	**447.467**
Adjustments to results	**(456.449)**	**(443.924)**
Fixed asset depreciation	1.343	1.304
Value adjustments for impairment	2.697	12.549
Change in provisions	189	123
Financial income	(461.501)	(459.793)
Financial expenses	827	1.897
Other income and expenses	(4)	(4)
Changes in working capital	**(163.055)**	**356.764**
Debtors and other receivables	(940)	7.296
Other current assets	397	(357)
Other current assets Group companies and associates	(161.837)	349.402
Creditors and other payables	(675)	423
Other cash flows from operating activities	**431.354**	**442.043**
Interest payments	(330)	(858)
Dividend receipts	439.871	445.014
Interest receipts	28	11
Corporate income tax expense/(income)	(7.710)	(2.124)
Other payments (receipts)	(505)	-
CASH FLOWS FROM INVESTING ACTIVITIES	**(50)**	**(426.692)**
Payments on investments	**(50)**	**(426.692)**
Group companies and associates	-	(425.000)
Property, plant and equipment, intangible assets and investment property	(50)	(1.692)
CASH FLOWS FROM FINANCING ACTIVITIES	**(270.527)**	**(375.688)**
Collections and payments equity instruments	**17.348**	**(4.627)**
Acquisition and disposal of own equity instruments	17.348	(4.627)
Receipts and payments on financial liability instruments	**9.802**	**(118.269)**
Debentures and other marketable securities	(4.758)	(42.673)
Bank loans	(14.893)	14.910
Amounts payable to Group companies and associates	29.453	(90.506)
Dividend payments and return on other equity instruments	**(297.677)**	**(252.792)**
Dividends	(297.677)	(252.792)
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**(15)**	**(30)**
Cash and cash equivalents at beginning of the year	**30**	**60**
Cash and cash equivalents at end of the year	**15**	**30**

RED ELÉCTRICA
CORPORACIÓN

Notes to the accounts
FY 2012

CONTENTS

1. ACTIVITIES

Red Eléctrica Corporación, S.A. ("the Company") was incorporated in 1985. Its registered office is in Alcobendas (Madrid). Its main activities are:

- Management of its corporate group, consisting of equity holdings in the companies making up the Group.
- Provision of assistance and support services to Group companies.
- Exploitation of property owned by the Company.

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) True and fair view

The annual accounts have been prepared by the Directors at a meeting of the Board of Directors held on 26 February 2013 to present fairly the Company's equity and financial position, the results of its operations, changes in equity and cash flows for the years ended 31 December 2012 and 2011.

These annual accounts are expressed in thousand euro and have been drawn up based on the Company's accounting records and are presented in accordance with current mercantile legislation and the standards laid down in the Spanish Chart of Accounts approved through Royal Decree 1514/2007 and the amendments included therein through Royal Decree 1159/2010.

The Company files separately its consolidated accounts prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with EC Regulation 1606/2002 of the European Parliament and Council and the interpretations (IFRIC) endorsed by the European Union.

The annual accounts for 2011 were approved by the General Shareholders' Meeting of 19 April 2012. The annual accounts for 2012 have yet to be approved by shareholders in General Meeting. Nonetheless, the Company's Board of Directors considers that those annual accounts will be approved without changes.

b) Compulsory accounting principles

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

c) Accounting estimates and assumptions

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

Although estimates were based on the best information available at 31 December 2012, future events may require these estimates to be modified (increased or decreased) in subsequent years. Any change in accounting estimates would be recognised prospectively in the corresponding consolidated income statement in accordance with Spanish accounting legislation.

3. PROPOSED DISTRIBUTION OF RESULTS

The proposed distribution of results for the year ended 31 December 2012, prepared by the Directors and pending approval by the General Shareholders' Meeting is as follows (€ '000):

Profit for the year	451.509

Total	451.509
	======
DISTRIBUTION	
To voluntary reserves	131.863
To dividends:	
Interim dividend	91.216
Complementary dividend	228.430

Total	451.509
	======

This proposal involves a complementary dividend of € 1.6887 per share. The total dividend for the year therefore amounts to € 2.3651 per share, calculated based on all shares.

The interim dividend is explained in Note 13.

4. ACCOUNTING PRINCIPLES

The main accounting principles used in the preparation of these annual accounts are as follows:

a) Property, plant and equipment

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

- Financial expense on external financing accrued only during the construction period.
- Operating costs, directly related to the construction of property, plant and equipment in projects controlled or managed by the Company.

It is the Company's policy to transfer work in progress to property, plant and equipment in operation once assets are in condition for use.

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

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

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

	Annual rate
Constructions	2%-10%
Other facilities	4%-25%

b) Investment property

The Company measure investment property at acquisition cost. The market value of the Company`s investment property is broken down in Note 6 to the accounts.

Constructions are depreciated on a straight-line basis over their estimated useful life, which reflects the period in which the Company expects to use the assets (2% p.a.).

c) Financial assets

The Company classifies its financial assets in the following categories:

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

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

Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

- Financial assets available for sale: these are investments which the Company intends to hold for an unspecified period of time and which may be sold, on the basis of specific liquidity needs or changes in interest rates. They are classified as non-current assets unless their liquidation is planned in less than one year and this is feasible. These financial assets are stated at fair value, which is understood to be their quoted price at the year end for those securities quoted on an active market. The gains or losses resulting from fluctuations in fair value at the year end are recognised directly in equity and accumulated to the time of settlement or adjustment of value owing to impairment, at which time they are taken to the income statement. Potential impairment is calculated using the expected future cash flow discount method. In addition, a significant or prolonged decline in the fair value of the asset to below cost is considered evidence that the asset has become impaired. Dividends from shareholdings classed as available for sale are taken to the consolidated income statement at the time the Company becomes entitled to receive them.

- Investments in the equity of group companies and associates: Investments are stated at cost less, where appropriate, accumulated value adjustments for impairment. If there is objective evidence that the carrying value is not recoverable, the relevant value adjustments are reflected for the difference between the carrying value and recoverable amount, understood as the higher of fair value less costs to sell and the present value of cash flows from the investment Unless better evidence is available of the recoverable amount, when estimating the impairment of these investments, the investee's equity is taken into account, adjusted for any latent capital gains existing at the valuation date. The value adjustment and, if appropriate, its reversal, are reflected in the income statement for the year in which they arise

d) Non-current assets held for sale

Assets are classified as held for sale if they are expected to be sold within a year. They are recognised at net book value less selling costs.

e) Cash and cash equivalents

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

f) Asset impairment

The Company analyses the recoverability of assets at the year end each year and whenever some event or change in circumstances indicates that the carrying value may not be recoverable. If the recoverable amount of an asset is less that its carrying value an impairment loss is recognised. The impairment loss is therefore the difference between the carrying value of an asset and its recoverable value.

g) Shareholders' funds

Share capital consists of ordinary shares.

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

In the event that the Company's acquires treasury shares, the price paid, including any directly attributable incremental cost, is deducted from equity until the treasury shares are redeemed, reissued or sold. When treasury shares are subsequently sold, any amount received is taken to equity net of directly attributable incremental costs.

h) Employee benefits

- Pension commitments

  The Company has defined contribution plans establishing the pension amounts employees receive upon retirement, based on their remuneration. In these pension plans the Company pays set contributions to an external entity and has no legal or implicit obligation to make further contributions if the fund lacks sufficient assets to satisfy payments to employees for services rendered in the current and prior years. Contributions to these plans are recorded in the income statement as staff costs.

- Other long-term employee benefits

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

  Long-term compensation programs are also included and measured on an annual basis.

i) Provisions

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

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

j) Borrowings

Loans, obligations and similar are initially reflected at the amount of cash received, net of the costs incurred in the transaction. In subsequent periods, these financing obligations are valued at amortised cost, using the effective interest rate method.

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

k) Trade payables

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

l) Income and expense

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

Interest income is recognised using the effective interest rate method.

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

m) Tax situation

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

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

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

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

Deferred tax assets are recognised insofar as it is probable that there will be future tax profits against which to offset the temporary differences.

n) Insurance

The Company has taken out a number of insurance policies to cover risks arising from its business activity. These risks mainly comprise damages to the Group companies' electricity plants and potential claims for third party damages which could arise from the Company's activities. Insurance premium expenses are recognised in the income statement on an accruals basis. Income to be recovered from insurance companies deriving from claims is reflected in the consolidated income statement using the matching principle.

o) Share-based payments

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

5. PROPERTY, PLANT AND EQUIPMENT

The movement in 2012 and 2011 in property, plant and equipment and the relevant accumulated depreciation and impairment is as follows (thousand euro):

	31 December 2010	Additions	Disposals	Transfers	31 December 2011	Additions	Disposals	Transfers	31 December 2012
Cost									
Land and buildings	60.476	-	-	-	60.476	-	-	-	60.476
Other fixtures, machinery, tools furnishings and other fixed assets	14.018	-	-	-	14.018	-	-	-	14.018
Fixed assets in course of construction and adva	-	1.692	-	-	1.692	50	-	-	1.742
Total cost	74.494	1.692	-	-	76.186	50	-	-	76.236
Accumulated depreciation									
Buildings	(10.452)	(1.027)	-	-	(11.479)	(1.024)	-	-	(12.503)
Other fixtures, machinery, tools furnishings and other fixed assets	(12.832)	(245)	-	-	(13.077)	(228)	-	-	(13.305)
Total accumulated depreciation	(23.284)	(1.272)	-	-	(24.556)	(1.252)	-	-	(25.808)
Fixed asset impairment	-	-	-	-	-	-	-	-	-
Carrying value	51.210	420	-	-	51.630	(1.202)	-	-	50.428

Additions to fixed assets under construction and advances for 2012 and 2011 relate to progress in the construction of a building in the Balearic Isles.

During 2012 and 2011 the Company has not capitalised any amount as an addition to PPE.

At 31 December 2012, property plant and equipment amounting to € 13,009 thousand has been fully depreciated (2011: € 10,966thousand), of which € 632 thousand (2011: €307 thousand) relates to constructions.

6. INVESTMENT PROPERTY

Movements in 2012 and 2011 in investment property owned by the Group are described below (thousand euro):

	31 December 2010	Additions	Transfers	31 December 2011	Additions	Transfers	31 December 2012
Investment property	2.309	-	601	2.910	-		2.910
Total cost	2.309	-	601	2.910	-	-	2.910
Accumulated depreciation	(183)	(32)	-	(215)	(91)	-	(306)
Total accumulated depreciation	(183)	(32)	-	(215)	(91)	-	(306)
Net value	2.126	(32)	601	2.695	(91)	-	2.604

The Company has estimated that investment properties have a market value of approximately € 3 million and do not generate any significant operating revenues or expenses.

Transfers in 2011 relate to assets held for sale reclassified in this heading since the ceased meeting the requirements to be classified as held for sale (Note 11).

7. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

None of the Group companies in which the Company has an interest is listed on a stock exchange at 31 December 2012 or 2011.

Shareholdings in Group companies and associates at 31 December 2012 are as follows (thousand euro):

Company - Address - Main activity	Percentage shareholding * Direct	 Indirect	Carrying value	Equity of investee companies ** Share capital	 hare premium Issue	 Reserves	 Other Items	 Profits/(loss) for year ***	Results from operations	Dividends received
A) Companies consolidated using the full consolidation method										
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - Transmission and operation of Spanish electricity system; management of transmission network	100%	-	1.014.326	800.006	54.319	156.322	(73.243)	444.310	829.887	434.525
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - International shareholdings. Consulting, engineering and telecom construction services. - Electrical activities outside the Spanish energy system	100%	-	60.010	60.010	-	10.791	-	29.012	15.570	-
Red Eléctrica de España Finance, B.V. (RBV) - Claude Debussylaan, 24. Amsterdam (The Netherlands). - Financing activities.	100%	-	2.000	18	-	1.982	-	855	(73)	834
Red Eléctrica Financiaciones (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - Financing activities.	100%	-	60	60	-	949	-	1.144	(171)	-
Redcor Reaseguros, S.A (REDCOR) - 23, Avenue Monterey. (Luxembourg). - Reinsurance	100%	-	3.200	3.200	-	-	7.390	6.600	8.651	-
Red Eléctrica Andina, S.A. (REA) - Av. Alfonso Ugarte Nº 536 Cercado. Arequipa (Perú). - Line maintenance and sub-station maintenance	-	100%(1)	31	37	-	280	-	289	456	-
Transmisora Eléctrica del Sur , S.A. (TESUR) - Juan de la Fuente, 453. Lima (Peru) - Electrical energy transmission and operation and maintenance of electricity transmission networks.	-	55%(1)	6.040	10.331	-	(21)	(238)	(320)	(516)	-
B) Proportionately consolidated companies										
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Coeur Défense B 100, Esplanade du Général de Gaulle –Paris La Défense Cedex - Study and execution of increase in Spain-France interconnection capacity	-	50%(2)	1.000	2.000	-	166	2.196	3.705	5.402	-
C) Companies carried using the equity method										
Red Eléctrica del Sur, S.A. (REDESUR). - Juan de la Fuente, 453. Lima (Peru) - Electrical energy transmission and operation and maintenance of electricity transmission	-	33.75%(1)	3.667	9.872	3	1.922	(1.398)	3.845	6.173	-

(1) Holding through Red Eléctrica Internacional, S.A.U.
(2) Holding through Red Eléctrica de España, S.A.U.

* Equivalent to voting rights
**Per audited financial statements in line with Company's accounting policies and stated in euro at year end exchange rate.
***Per audited financial statements in line with Company's accounting policies and stated in euro at average exchange rate.

On 1 May 2012 Transportadora de Electricidad S.A. (TDE) was nationalised by the Bolivian Government and ceased to form part of the consolidation group as from that date. The consideration for the transaction has yet to be determined. Red Eléctrica Internacional's holding in TDE was 99.94%.

The Company wholly owns REE, a company which fulfils the functions of carrier, transmission grid manager and transmission operator in the Spanish electricity system, to which all the provisions of Law 54/1997 and related regulations governing the system operator and network manager (previously pertaining to Red Eléctrica de España, S.A.) are applicable. The Company may not sell the shares of this company, which carries on regulated activities in Spain, to any third party.

8. FINANCIAL RISK MANAGEMENT POLICY

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

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

- Risk management should be fundamentally proactive and also directed towards the middle and long-term, taking into account possible scenarios in an ever-increasing global environment.

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

- Financial risk management should seek to avoid undesired variations in the Company's base value and not to generate extraordinary profits.

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

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

The Company's main area of exposure is credit risk since debt operations are carried out with other Group companies which assume market and liquidity risks. The credit risk is supported through policies containing requirements in relation to the credit standing of the counterparty and additional guarantees are called for, where necessary. At 31 December 2012 the Company estimates that there is not risk relating to the collection of receivables.

The Company is exposed to price risk relating to its investments in capital instruments and classified as available-for-sale on the balance sheet. Available-for-sale investments that are listed mainly relate to the 5% stake the Company holds in REN. At 31 December 2012 a 10% appreciation in the listed price of shares in REN would have generated an increase in equity of approximately €4 million (€ 4 million in 2011) and a 10% decline in the value would have caused a drop in this value of approximately € 4 million (€ 4 million in 2011).

9. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by category

At 31 December 2012 and 2011 the carrying value of each financial instrument category, except for shareholding is Group companies, are as follows (thousand euro):

	Categories of financial instruments 31/12/2012		
	Available-for-sale financial assets	Loans and receivables	Total
Loans to Group companies and associates	-	425.000	425.000
Equity instruments	54.869	-	54.869
Non-current	54.869	425.000	479.869
Investments in Group companies and associates	-	384.906	384.906
Trade and other receivables	-	1.138	1.138
Current	-	386.044	386.044
Total	54.869	811.044	865.913

	Categories of financial instruments 31/12/2011		
	Available-for-sale financial assets	Loans and receivables	Total
Loans to Group companies and associates	-	425.000	425.000
Equity instruments	56.337	-	56.337
Non-current	56.337	425.000	481.337
Investments in Group companies and associates	-	190.027	190.027
Trade and other receivables	-	587	587
Current	-	190.614	190.614
Total	56.337	615.614	671.951

Categories of financial instruments 31/12/2012	Creditors and payables
Amounts payable to Group companies and associates	1.546
Other financial liabilities	2

Non-current	1.548
	=======
Debentures and other marketable securities	-
Bank loans	18
Amounts payable to Group companies and ass	52.282
Short-term payables	91.253
Trade and other receivables	8.663

Current	152.216
	=======
Total	153.764
	=======

Categories of financial instruments 31/12/2011	Creditors and payables
Amounts payable to Group companies and associates	1.546
Other financial liabilities	2

Non-current	1.548
	=======
Debentures and other marketable securities	4.774
Bank loans	14.911
Amounts payable to Group companies and ass	18.783
Short-term payables	91.402
Trade and other receivables	1.668

Current	131.538
	=======
Total	133.086
	=======

b) Analysis by maturity date

	Maturities of financial assets		
	2013	Subsequent years	Total
Available for sale assets	-	54.869	54.869
Loans to Group companies and associates	384.906	425.000	809.906
Trade and other receivables	1.138	-	1.138
	------------	------------	------------
	386.044	479.869	865.913
	=======	=======	=======

	Maturities of financial liabilities		
	2013	Subsequent years	Total
Bank loans	18	-	18
Amounts payable to Group companies and associates	52.282	1.546	53.828
Trade and other receivables	99.916	-	99.916
Other financial liabilities	-	2	2
	------------	------------	------------
	152.216	1.548	153.764
	=======	=======	=======

10. LONG TERM INVESTMENTS

Long term investments consist of equity instruments classed as available for sale and relate mainly to the parent company's 5% shareholding in Redes Energéticas Nacionais, SGPS, S.A. (REN), the holding company that comprises the operation and exploitation of the electricity transmission assets and various gas infrastructures in Portugal.

The value of this shareholding is based on the listed price of the share. During 2012 there has been objective evidence of the impairment of the investment in REN and the accumulated loss, measured as the difference between the acquisition price and fair value, has been eliminated from equity and recognised in the income statement. At 31 December, since the fair value of this equity instrument has increased, the value adjustment has been recorded directly against equity.

At 31 December 2012, the Company has quantified the impairment of its holding in REN and has recorded € 2,697 thousand in the income statement (€ 12,549 thousand at 31 December 2011). The Company has also quantified the increase in the value adjustment at € 1,228 thousand, which has been recorded under Equity at 31 December 2012.

11. NON-CURRENT ASSETS HELD FOR SALE

Set out below is an analysis of this heading showing movements during 2012 and 2011 (thousand euro):

	31 December 2010	Disposals	Transfers	31 December 2011	Disposals	Transfers	31 December 2012
Non-current assets held for sale	601	-	(601)	-	-		-
	======	======	========	======	======	========	======
Total cost	601	-	(601)	-	-	-	-
	======	======	========	======	======	========	======

Transfers at 31 December 2011 include assets reclassified as investment properties as they no longer meet the requirements to be classified under this heading.

12. TRADE AND OTHER RECEIVABLES

The details of this heading at 31 December 2012 and 2011 are as follows (thousand euro):

	31 December 2012	31 December 2011
Trade receivables, group companies and associates	-	392
Sundry receivables	1.008	3
Accrued wages and salaries	2	2
Other receivables from public institutions	128	190
	---------	---------
	1.138	587
	======	======

13. EQUITY

a) Capital risk management

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

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

In view of the Company's activity and the investee companies' capacity to generate funds, capital risk is not significant.

b) Equity

- Share capital

At 31 December 2012 the share capital of the Company comprises €135,270,000 fully subscribed and paid- in bearer shares, with a par value of €2 each which carry equal voting and dividend rights. The Parent Company's shares have been listed on the four Spanish stock exchanges.

As head of the Red Eléctrica Group, the Company is subject to the shareholder restrictions laid down in Law 17/2007 and Royal Decree Law 13/2012.

In accordance with those provisions, any natural or legal person may be a company shareholder, provided that the sum of direct or indirect stakes in the Company's capital does not exceed 5% and they do not give rise to voting rights exceeding 3%. These shares cannot be syndicated for any purpose. In the case of entities that carry out activities in the Electricity Sector and those natural or legal persons that hold a direct or indirect stake exceeding 5%, they cannot exercise voting rights exceeding 1% with respect to the parent company. These shareholding limitations with respect to the Parent Company are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI) , (Government Industrial Investment Company) which will, in any event, hold a shareholding of at least 10%. At 31 December 2012 and 2011 SEPI held 20% of the Company's share capital.

- Reserves

This heading includes:

- Legal reserve

Companies in Spain are obliged to transfer 10% of profits each year to the legal reserve until this reserve reaches an amount of at least 20% of share capital. This reserve may not be distributed to shareholders and may only be used to cover any losses should no other sufficient reserves be available. Under certain conditions it may be used to increase share capital. At 31 December 2012 and 2011, the legal reserve amounts to 20% of share capital(€ 54,199 thousand).

- Other reserves

This item includes, essentially, the Company's Voluntary Reserves and the reserve resulting from the first application of new accounting regulations, which at 31 December 2012 amounts respectively to € 883.644 and € 19,895 thousand (€ 737,282 and € 19,895 thousand at 31 December 2011). Both reserves are unrestricted.

In addition, at 31 December 2012 and 2011 this heading records reserves resulting from legal regulations amounting to € 264,546 thousand, including the tangible asset restatement reserve generated in 1996 in the parent company for € 247,022 thousand. This reserve may be used, without being taxed, to offset tax losses, increase share capital or, following 10 years after its recording, appropriated to unrestricted reserves, in accordance with Royal Decree -Law 2607/1996.

- **Treasury shares**

Treasury shares held by the Company at 31 December 2012 represent 0.31% of the Company's share capital (2011: 0.6%) and total 414,857 shares, with an overall par value of € 829,714 thousand (834,774 shares with an overall par value of 1,670 thousand in 2011) and an average acquisition price of € 35.43 (34.36 per share in 2011).

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

These shares are carried by reducing equity at 31 December 2012 by € 14,698 thousand (€ 28,684 thousand in 2011).

- **Results for the year**

Profits for the year amounted to € 452,509 thousand (€ 440,684 thousand in 2011).

- **Interim dividend and proposed distribution of Company dividend**

The interim dividend approved by the Board of Directors during 2012 is recorded as a reduction in equity at 31 December 2012 in the amount of € 91,216 thousand (€ 90,932 thousand at 31 December 2011).

On 20 December 2012 the Board of Directors of the Company agreed to pay an interim dividend against 2012 profits amounting to a gross amount of €0.6764 per share, which was payable as from 2 January 2013.

The cash forecast for the period 30 November 2012 to 2 January 2013 envisaged sufficient liquidity for the dividend to be paid. In compliance with Article 277.a) of the Spanish Companies Act 2010, the following provisional liquidity statement was drawn up:

Liquidity Statement	Thousand Euros
Funds available at 30/11/12	
Long-term credit available	-
Short -term credit available	25.601
Cash at bank and in hand	23
Estimated receipts:	
Current operations	837
Financial operations	101.720
Estimated payments:	
Current operations	(24.514)
Financial operations	-

Estimated funds available at 02/01/13	**103.667**
	=======

No restriction on the availability of funds is envisaged in the cash projection. Additionally, as reflected in these accounts and as expected at the time of the dividend payment, profits made in 2012 allow the payment of the interim dividend.

c) Value change adjustments

This heading includes at 31 December 2012 and 2011 variations in value produced by the available-for-sale financial assets. The variations are due to fluctuations in the share price of the Company's 5% holding in REN.

14. PROVISIONS

Set out below is an analysis of this heading showing movements during 2012 and 2011 (thousand euro):

	31 December 2010	Additions	Applications	Reversals	31 December 2011	Additions	Applications	Reversals	31 December 2012
Long-term employee benefit commitments	335	134	-	-	469	204	(505)	-	168
Other provisions	3.000	-	-	-	3.000	-	-	-	3.000
	------------	------------	------------	------------	------------	------------	------------	------------	------------
	3.335	134	-	-	3.469	204	(505)	-	3.168
	======	======	======	======	======	======	======	======	======

The heading Employee benefit commitments includes future commitments (medical insurance) assumed by the Company with staff when they retire, calculated on the basis of actuarial studies using the following assumptions for 2012:

	Actuarial assumptions
Discount rate	3,50%
Cost growth	4,00%
Survival table	PERM/F 2000 new business

The effect of a one percent increase and the effect of a one percent decrease on the fluctuation trend assumed with regard to medical insurance costs is as follows (thousand euro):

	+1%	-1%
Cost of services for the current year	-	-
Interest expense on net post-employment health cost	1	-
Accumulated post-employment medical benefit commitments	14	(9)

The effect of a half-percentage point decrease in the discount rate used in the actuarial assumption - from 3.5% to 3% - with respect to the medical insurance costs would be as follows (EUR '000):

	Discount rate		
	3.5%	3%	Sensitivity
Cost of services for the current year	1,5	1,0	-0,5
Interest expense on net post-employment health cost	1,0	1,7	0,7
Accumulated post-employment medical benefit commitments	35,0	41,0	6,0

These accruals are recognised under Staff costs or Finance costs, in accordance with their nature. The amount of staff costs and financial expenses recognized in 2012 in the income statement stands at € 1.5 thousand and € 1 thousand respectively (€ 1 thousand and €1 thousand in 2011). Variations in the calculation of the present value of these obligations, due to the actuarial gains and losses are charged to equity. A reserve of €.10 thousand has been recorded in 2012 for this item under Equity. Other provisions records the amounts provided each year by the Company to cover the possible unfavourable outcome of third-party claims.

15. LONG TERM PAYABLES

This heading at 31 December 2012 and 2011 records € 2 thousand for long-term guarantee deposits.

16. TAX SITUATION

The Company has been taxed under the tax consolidation system since 2002. The Tax Group is Number 57/02.

Due to the different treatment provided under tax legislation for certain operations, the accounting results differ from the tax base. Set out below is a reconciliation of the accounting profits for 2012 2011 and the tax profits that the Company expects to declare following the pertinent approval of the annual accounts (thousand euro).

	2012	2011
Accounting results for the year before taxes	458.712	447.467
Permanent differences	(1.551)	291
	----------	----------
Accounting base for tax	457.161	447.758
Temporary differences:		
Arising in the year	(355)	194
Prior-year reversals	(29)	283
	----------	----------
Tax base	456.777	448.235
	=======	=======

The corporate income tax expense for the year is calculated, in thousand euro, as follows:

	2012	2011
Accounting results for the year before taxes	458.712	447.467
Permanent differences	(1.551)	291
	----------	----------
Accounting base for tax	457.161	447.758
Tax rate	30%	30%
Tax at current rate	137.148	134.327
Deductions	(130.628)	(132.185)
	----------	----------
Expense for the year	6.520	2.142
Foreign corporate income tax	683	676
Corporate income tax adjustments	-	3.965
	======	======
Corporate income tax	7.203	6.783
	======	======
Effective tax rate	1,57%	1,52%
Current corporate income tax	7.042	2.961
Deferred corporate income tax	161	3.822
	======	======
	7.203	6.783
	======	======

The heading Permanent differences corresponds in 2012 and 2011 mainly to dividends to non-resident entities in Spanish territory.

Deductions mainly relate to internal double taxation due to dividends.

The income qualifying for the deduction as provided in Article 42 of Royal Legislative Decree 4/2004 and the years in which the requisite re-investments were made are as follows:

Year of application of deduction	Income qualifying for deduction (€ '000)	Year of reinvestment
2007	453	2007
2008	29	2008

Adjustments to corporate income tax at 31 December 2011include the non-consideration of some deferred taxes associated with international investments in which evidence emerged that raised reasonable doubts as to recoverability.

The temporary differences relating to the recognition of expenses and revenues for accounting and tax purposes, at 31 December 2012 and 2011, the accumulated tax effect, assets and liabilities, are as follows (thousand euro):

	2012		2011	
	Income statement	Income and expense allocated to equity	Income statement	Income and expense allocated to equity
Deferred tax assets:				
Arising in prior years	1.058	1	4.965	1
Arising in the year	-	2	58	-
Prior-year reversals	(93)	-	-	-
	----------	----------	----------	----------
	(93)	2	58	-
Adjustment, prior years	62	-	(3.965)	-
	----------	----------	----------	----------
	1.027	3	1.058	1
	======	======	======	======
Deferred tax liabilities:				
Arising in prior years	(2.777)	-	(2.862)	-
Arising in the year	(107)	-	-	-
Prior-year reversals	84	-	85	-
	----------	----------	----------	----------
	(23)	-	85	-
Adjustment, prior years	(107)	-	-	-
	----------	----------	----------	----------
	(2.907)	-	(2.777)	-
	=======	=======	=======	=======

Deferred tax assets are generated mainly by the provisions for liabilities and charges.

The deferred tax liabilities arise from the free depreciation of certain fixed assets.

The Company's accounts for 2006 included the disclosures provided in Article 93 of Legislative Royal Decree 4/2004 concerning the merger and absorption of REDALTA and INALTA. The accounts for 2008 included disclosures concerning the contribution of the line of business which encompassed the functions of systems operator, transmission network manager and carrier for the Spanish electrical power system to Red Eléctrica de España, S.A.U.

The Company is open to inspection for the last four years of the main taxes to which it is subject. Due to the possible different interpretations to which tax legislation lends itself, the results of future inspection action that may be taken by the tax authorities for the years open to inspection may give rise to tax liabilities, whose amount cannot be currently quantified in an objective manner. However, the Company's Directors estimate that any liabilities that may arise in this respect will not have a significant effect on the Company's future results.

17. PREPAYMENTS AND ACCRUED INCOME, LONG TERM

This heading includes items arising from long-term leases which at 31 December 2012 amounted to € 118 thousand (€ 122 thousand at 31 December 2011).

18. SHORT-TERM LIABILITIES

As at 31 December 2012 and 2011, this heading breaks down as follows:

	31 December 2012	31 December 2011
Debentures and other marketable securities	-	4.774
Bank loans	18	14.911
Other short-term creditors	91.253	91.402
	------------	------------
	91.271	111.087
	======	======

At 31 December 2011 Debentures and other marketable securities related to a promissory note programme registered with the Spanish Securities and Exchange Commission up to a maximum limit of €250 million. The program expired in 2012 and has not been renewed. The fair value of these debts was € 4,744 thousand and the average interest rate during the period was 1.54 %.

In addition, amounts owed to credit institutions at 31 December 2012 includes loans totalling € 5 thousand (€ 14,910 thousand at 31 December 2011) whose fair value is € 5 thousand (€14,906 thousand at 31 December 2011) and accrued unpaid interest amounts to 0 (€ 1 thousand at 31 December 2011). The average interest rate on bank loans during 2011 was1.21% (1.67% in 2011).

Other short-term liabilities breaks down as follows (thousand euro):

	31 December 2012	31 December 2011
Dividends	91.216	90.932
Fixed-asset suppliers and other payables	37	470
	------------	------------
	91.253	91.402
	======	======

19. TRADE AND OTHER PAYABLES

Details of trade and other payables in the accompanying balance sheet at 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Sundry payables	207	326
Accrued wages and salaries	1.088	1.290
Taxes and social security payable	7.368	52
	------------	------------
	8.663	1.668
	======	======

At 31 December 2012 amounts due to public administrations includes € 7,234 thousand corresponding to corporate income tax payable by the Company as head of the tax group.

20. INFORMATION ON DELAYS IN PAYMENTS TO SUPPLIERS ADDITIONAL PROVISION THREE. "REPORTING REQUIREMENTS" ESTABLISHED BY LAW 15/2010 (5 JULY)

In accordance with Law 3/2004 (29 December), which establishes measures to fight against delays in payment for commercial transactions, detailed information regarding the payment of pending balances at the end of 2012 and 2011 is provided below:

	Payments made and pending at the balance sheet date			
	2012		2011	
	Amount	%	Amount	%
Payments not covered by disclosure requirement of Law 15/2010	-	-	16	0,25%
Within the maximum legal limit	4.804	99,36%	6.431	99,75%
Rest	31	0,64%	-	-
Total payments during the year	4.835	100%	6.447	100%
Average weighted payment period exceeded (days)	5	-	-	-
Deferrals which at the year end exceed the maximum legal limit	-	-	-	-

During 2011 the payments excluded from the disclosure requirements established by Law 15/2010 relate to those items to which Law 15/2010 is not applicable (items prior to 5 July 2010, the date that law entered into force).

21. INCOME AND EXPENSES

a) Revenue

As at 31 December 2012 and 2011, this heading breaks down as follows:

	31 December 2012	31 December 2011
Financial income from interests in equity instruments of Group companies and associates	435.359	440.528
Financial income from non-Group equity instruments	4.512	4.486
Financial income from securities and other financial instruments, Group companies and associates	21.603	14.768
	------------	------------
	461.474	459.782
	=======	=======

Financial income from equity holdings in Group and associated companies at 31 December 2012 records dividends received from REE and RBV.

Financial income from equity holdings in third parties at 31 December 2012 records dividends received from REN.

Financial Income from securities and other financial instruments of Group and associated companies at 31 December 2012 and 2011 reflects revenues derived from the loan agreement signed with REE. At 31 December 2012 and 2011 this heading also contains a loan agreement with this same company (Note 22).

b) Staff costs

Set out below is an analysis of this heading showing movements during 2012 and 2011 (thousand euro):

	31 December 2012	31 December 2011
Wages and salaries	4.361	2.642
Social Security contributions	45	37
Contributions to pension funds and similar commitments	3	17
Other social welfare charges and items	1	-
Provisions	189	123
	------------	------------
	4.599	2.819
	=======	=======

Staff costs include Board remuneration and, in 2012, expenses related to the departure of the former Executive Director (Note 23).

Current employees

The average number of employees at the Company in 2012 and 2011, by professional category, was as follows:

	31 December 2012	31 December 2011
Executive President	1	1
Skilled workers 1st class	1	1
Skilled workers 2nd class	-	-
Clerical staff	2	2
	4	4

The distribution of the Company's final headcount at 31 December 2012 and 2011 by gender and category is as follows:

	2012			2011		
	Men	Women	Total	Men	Women	Total
Executive President	1	-	1	1	-	1
Skilled workers 1st class	-	1	1	-	1	1
Clerical staff	-	2	2	-	2	2
	1	3	4	1	3	4

At 31 December 2012 there are 11 Directors, including the Executive Director, of whom 7 are men and 4 are women (8 men and 3 women in 2011).

22. TRANSACTIONS AND BALANCES WITH GROUP COMPANIES, ASSOCIATES AND RELATED ENTITIES

Balances and transactions with Group companies and associates

All transactions with Group companies and associates have been carried out at market prices.

At 31 December 2012 and 2011 the leverage ratios were as follows (Euro thousand):

	2012		2011	
	Loans and dividends	Payables	Loans and dividends	Payables
Red Eléctrica de España, S.A.U. (REE)	809.849	1.509	615.381	1.509
Red Eléctrica Internacional, S.A.U. (REI)	-	52.319	-	18.820
Red Eléctrica Financiaciones, S.A.U. (REF)	57	-	37	-
	-----------	-------------	-----------	-------------
Total Group companies	809.906	53.828	615.418	20.329
	=======	=======	=======	=======

Loans and dividends with REE basically relate to a loan dated 1July 2011 for € 425 million, of which € 425 million had been drawn down at 31 December 2012 (€ 425 million at 31 December 2011). The average interest rate for the period was 4.02% (4.01% in 2011) and the loan matures in five years. This heading also includes the short-term loan with REE for € 500 million (€ 500 million in 2011), of which € 361,984 thousand had been drawn down at 31 December 2012 (€ 178,709 thousand at 31 December 2011). The average interest rate for the period was 1.80% (1,81% in 2011).

Loans with REI basically relate to a loan for € 50 million (€ 50 million at 31 December 2011), of which € 46,160 thousand had been drawn down at 31 December 2012 (€ 16,274 miles million at 31 December 2011). The average interest rate for the period was 1.8% (1.75% in 2011).

Transactions with other companies pertaining to the Group and associates during the year are as follows (thousand euro):

	2012				2011			
	Other operating income	Financial income	Other expenses	Financial expenses	Other operating income	Financial income	Other expenses	Financial expenses
Red Eléctrica de España, S.A.U. (REE)	9.788	456.128	1.057	-	9.525	454.404	1.032	-
Red Eléctrica Internacional S.A. (REI)	216	-	-	508	249	-	-	1.101
Red Eléctrica de España Finance, B.V. (RBV)	-	834	-	-	-	892	-	-
	----------	----------	----------	----------	----------	----------	----------	----------
Total Group companies	10.004	456.962	1.057	508	9.774	455.296	1.032	1.101
	=======	=======	=======	=======	=======	=======	=======	=======

At 31 December 2012 and 2011 Other operating income with REE relates mainly to the property lease with that company.

Financial income in 2012 and 2011 relate mainly to the dividend received from REE. Financial expenses with REI relate to interest on the loan with this company.

Balances and transactions with related parties

Transactions with associated parties have been carried out under normal market conditions and are immaterial. A detail is as follows in thousand euro:

	2012				2011			
	Significant shareholders	Executives	Other related parties	Total	Significant shareholders	Executives	Other related parties	Total
Management or collaboration agreements	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-
	-------	-------	-------	-------	-------	-------	-------	-------
Total expenses	-	-	-	-	-	-	-	-
	====	====	====	====	====	====	====	====
Dividends received	-	-	4.512	4.512	-	-	4.486	4.486
Other income	-	-	21	21	-	-	19	19
	-------	-------	-------	-------	-------	-------	-------	-------
Total income	-	-	4.533	4.533	-	-	4.505	4.505
	====	====	====	====	====	====	====	====
Dividends and other profits distributed	-	-	-	-	-	-	-	-
Other operations	-	-	-	-	-	-	-	-
	-------	-------	-------	-------	-------	-------	-------	-------
Total other transactions	-	-	-	-	-	-	-	-
	====	====	====	====	====	====	====	====

23. DIRECTORS' REMUNERATION

Total remuneration paid to the Board of Directors has decreased by 5% from 2011 to 2012. The remuneration paid to the directors at 31 December 2012 and 2011 is as follows, in thousand euro:

	2012	2011
Tota Directors' remuneration for all items	1.790	1.886
Directors' remuneration by reasons of their positions as executives	610	640
	---------	---------
Total remuneration members of the Board of Directors	2.400	2.526
	======	======

The Board of Directors has agreed to a reduction of 5% in total remuneration for all items in 2012 compared with 2011, from € 1,886 thousand in 2011 to € 1,790 thousand in 2012. Of this amount approved as total emoluments in 2012, a total of € 1,729 thousand was finally distributed (€ 61 thousand less than the approved remuneration) because the calculation of said sum took into account vacancies arising during the year. Remuneration of directors by reason of their executive positions in 2012 has risen to € 610 thousand (€640 thousand in 2011).

A breakdown of this remuneration at 31 December 2012 and 2011 in accordance with the information model introduced by the National Securities Market Commission, which was approved in Circular 4/2007 of 27 December 2007 for the Annual Corporate Governance Report, is as follows, in thousand euro:

The compensation paid, by type of Director, at 31 December 2012 and 2011 is as follows, in thousand euro:

	2012	2011
Type of Director:		
Executives	767	822
External nominee	480	517
External independent (1)	1.092	1.187
Non-distributed remuneration due to Board vacancies(2)	61	-
	---------	---------
Total remuneration	2.400	2.526
	======	======

(1) Mr. José Folgado Blanco was appointed Executive President of the Company on 8 March 2012. Previously he had held the position of independent external director, with emoluments of € 39 thousand.

(2) This amount of € 61 thousand corresponds to independent nominee directorships that have become vacant in 2012.

Total remuneration in thousand euro accrued by the members of the Company's Board of Directors in 2012, by Director, is as follows:

	Fixed remuneration	Variable remuneration	Allowance for Board meeting attendance	Committees	Life insurance and pension plan contributions	Other remuneration	Total	Directorship during 2012
Mr. José Folgado Blanco (1)	325	245	71	9	-	-	650	To 8 March independent director, thereafter Executive Director
Ms. María de los Angeles Amador Millán	-	82	71	29	-	-	182	All FY 2012
Mr. Miguel Boyer Salvador	-	82	71	-	-	-	153	All FY 2012
Mr. Rui Manuel Janes Cartaxo	-	82	71	-	-	-	153	All FY 2012
Mr. Fernando Fernández Méndez de Andé	-	57	40	20	-	-	117	From 19 April 2012
Ms. Paloma Sendín de Cáceres	-	57	40	20	-	-	117	From 19 April 2012
Ms. Carmen Gómez de Barreda	-	57	40	20	-	-	117	From 19 April 2012
Mr. Juan Emilio Iranzo Martín	-	57	40	20	-	-	117	From 19 April 2012
Ms. María José García Beato	-	7	5	-	-	-	12	From 29 November 2012
Mr.Alfredo Parra García-Moliner(2)	-	57	40	18	-	-	115	From 19 April 2012
Mr. Francisco Ruíz Jiménez(2)	-	57	40	-	-	-	97	From 19 April 2012
						-		
Mr. Luis Mª Atienza Serna(3)	77	55	15	5	4	-	156	To 08 March 2012
Mr. Francisco Javier Salas Collantes(3)	-	34	40	-	-	-	74	To 31 May 2012
Mr. Antonio Garamendi Lecanda(3)	-	24	31	9	-	-	64	To 19 April 2012
Mr. Rafael Suñol Trepat(3)	-	13	10	-	-	-	23	To 27 February 2012
Ms. Arantza Mendizábal Gorostiaga(3)	-	24	31	9	-	-	64	To 19 April 2012
Ms. María Jesús Álvarez(2) (3)	-	24	31	9	-	-	64	To 19 April 2012
Mr. Manuel Alves Torres(2) (3)	-	24	31	9	-	-	64	To 19 April 2012
Non-distributed remuneration due to Board vacancies	-	-	-	-	-	61	61	
	----------	----------	----------	----------	----------	----------	----------	
Total remuneration accrued	402	1.038	718	177	4	61	2.400	
	======	======	======	======	======	======	======	

(1) Received by Mr. José Folgado Blanco for time spend on committees relates to the perioud during which he worked as an external independent director.
(2) Amounts received by Sociedad de Participaciones Industriales (SEPI)
(3) At 31 December 2012 they are no longer part of the Company's Board of Directors.

The compensation paid at 31 December 2012 and 2011 is as follows, in thousand euro:

	2012	2011
Remuneration item:		
Fixed remuneration	402	404
Variable compensation	1.038	1.286
Per diems (1)	895	819
Life insurance and pension plan contributions	4	17
Non-distributed remuneration due to Board vacancies	61	-
	---------	---------
Total remuneration	2.400	2.526
	======	======

(1) The change is due to the fact that in 2012, 14 Board meetings were held against 11 meetings in 2011.

The variable annual compensation for the CDEO is established by the Corporate Governance and Responsibility Committee at the start of each year, using pre-determined objective policies that can be quantified. The objectives are aligned with the strategies and actions established in the Company's Strategic Plan and the measurement of compliance is also determined by the Corporate Governance and Responsibility Committee.

In 2009 an executive compensation plan was established ("25th Extraordinary Plan 2009-2013"), associated with the Company's 25th anniversary, as a management tool and a mechanism to provide incentives to meet the five-year Strategic Plan and it includes the CEO. Compliance with this program will be evaluated when it expires in 2014. Based on whether or not the established objectives are met, the overall value over the five years with 100% compliance could reach a maximum of 1.8 times annual fixed compensation. As is the case with annual objectives, this programme takes into account pre-determined objective policies that may be quantified, aligned with the medium and long-term view of the Company's Strategic Plan and the setting of the amount is the purview of the Corporate Governance and Responsibility Committee. At 31 December 2011 the Company has recorded an accrual in proportion to the period elapsed, with the assumption that in 2013 the objectives established in the plan will be reached. This accrual will not be individually attributed to compensation until compliance with the programme is evaluated in 2014 or, if the executives covered by that plan cease to be associated with the company, for the reasons stated therein.

The agreement with the current executive director has been proposed by the Corporate Government and Responsibility Committee and approved by the Board of Directors. In line with market practice, the agreement envisages a compensation of one year's emoluments in the event of the termination of the mercantile relationship due to dismissal or changes in control.

In 2012 expenses were recognised in relation to the departure of the former executive director in the amount of € 2.3 million. This included the accrued portion of the executive compensation plan ("25th Anniversary Extraordinary Plan 2009-2013") referred to above.

At 31 December 2012 and 2011 no loans, advances or guarantees to members of the Board of Directors of the Parent company are reflected in the balance sheet. Nor are there at that date any pension commitments with members of the Board of Directors.

In 2012 and 2011 the members of the Board of Directors have performed no extraordinary operations or transactions under conditions other than market, directly or through intermediaries, with the Company or Group companies.

Details of the interests held by the members of the Parent Company and related parties, for the purposes of Article 231 of the Capital Companies Act, at 31 December 2012 in the share capital of companies with a similar or complementary activity to that of the Company, as well as the posts they hold and functions they perform and where applicable, the direct or indirect performance of identical, similar or complementary activities to that of the Parent Company are included in Appendix I, in accordance with the correspondence received from the directors of the Company.

24. DIRECTORS' REMUNERATION

The Executive Director is the only executive.

25. SEGMENT REPORTING

The Company does not consider it necessary to provide information on the distribution of revenue by business category or geographical market because these categories and markets do not differ considerably among themselves from the viewpoint of the services rendered by the Company. Following the contribution of a line of business made in 2008 under Law 17/2007, the Company's business activities are no longer regulated energy activities and therefore the Company is not subject to the separate reporting requirements laid down in Spanish accounting legitimisation (Royal Decree 437/1998).

26. GUARANTEES AND OTHER OBLIGATIONS WITH THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

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

REF up to the amount of €2,500 million and the Euro Commercial Paper Programme for an amount of up to € 1,000 million, carried out by REF.

There are no commitments to purchase buildings at 31 December 2012 and 2011.

At 31 December 2012 the Group has bank guarantees in favour of third parties amounting to € 354 thousand (€ 343 thousand in 2011).

27. ENVIRONMENTAL INFORMATION

At 31 December 2012 and 2011, there are no assets devoted to the protection and improvement of the environment and nor have environmental costs been incurred during the year.

The Company is involved in no litigations relating to environmental protection or improvements which may give rise to significant contingencies. There have been no grants of this type during the year.

28. OTHER INFORMATION

The auditor of the Company's accounts is PricewaterhouseCoopers Auditores, S.L. The fees accruing from the audit in 2012 totalled approximately € 58 thousand (€ 57 thousand in 2011). This figure includes the audit of Group companies. In 2012 and 2011 no fees have accrued to firms that are directly or indirectly related to the audit firm for professional services other than audit services.

29. SHARE -BASED PAYMENTS

In 2012, the number of shares delivered was 346 (284 shares in 2011). The fair value of the shares was € 38.58 (€ 42.20 in 2011). The expense for the year amounted to € 13 thousand (€ 12 thousand in 2011). The valuation of such share-based remuneration is based on the closing price of the Company’s shares.

These shares are delivered under authorisations by the Company's shareholders. The related expense is recognised in Staff costs on the income statement.

30. EVENTS SUBSEQUENT TO 31 DECEMBER 2012

Together with REE, the Company has secured the issue of bonds in the euromarket on 25 January 2013 by REF, within the framework of the program to issue Guaranteed Euro Medium Term Note Programme (EMTN Programme).

This issue, totalling €400 million and maturing in 9 years, bears interest at 3.875% a year and was completed at an issue price of 99.858%.

On 27 December 2012 Law 16/2012 was approved in order to favour both internal financing and better access to capital markets. Article 9 of this Law offers corporate income taxpayers operating in Spain the option to restate their balance sheets. The Company's directors have carried out an assessment of said Law 16/2012 and its potential accounting and tax implications and impacts. At the date of preparation of these annual accounts, they do not yet have sufficient information to conclude whether the aforementioned balance sheet restatement will be proposed to the General Shareholders' Meeting for approval.

ANEXO I

RED ELÉCTRICA CORPORACIÓN, S.A.
Información relativa a los Miembros del Consejo de Administración a 31 de diciembre de 2012

Miembros del Consejo de Administración	Participaciones, directas o indirectas, de los Miembros del Consejo de Administración en el capital de sociedades con el mismo, análogo o complementario género de actividad al que constituye el objeto de la Sociedad	Cargos y funciones de los Miembros del Consejo de Administración en sociedades ajenas al Grupo Red Eléctrica con el mismo, análogo o complementario género de actividad al que constituye el objeto de la Sociedad
D. José Folgado Blanco	----------------	Administrador Conjunto de Red Eléctrica Internacional, S.A.U. Consejero de Redes Energéticas Nacionais, SGPS, S.A. (REN) Presidente del Directorio de Red Eléctrica del Sur, S.A. (Redesur)
D. Alfredo Parra García-Moliner	----------------	----------------
D. Francisco Ruíz 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 acciones en Redes Energéticas Nacionais, SGPS, S.A. (REN)	Presidente y CEO de Redes Energéticas Nacionais, SGPS, S.A. (REN)

The members of the Board of Directors have stated that they are not in any conflict of interest situations for the purposes of Article 229 of the Capital Companies Act. None of the members of the Board of Directors or associated parties has carried out on his own or third-party account any activities of any activity analogous or complementary to the kind of activity which makes up the Company’s objects.

RED ELÉCTRICA
CORPORACIÓN

Directors' Report
FY 2012

CONTENTS

BUSINESS PERFORMANCE MAIN EVENTS

Since July 2008, REC has been the parent company of the Red Eléctrica Group. It holds shares in Group companies and provides them with assistance and support services.

The commitment assumed by the Company in carrying on these activities drives it towards the permanent creation of value, directed at all its stakeholders.

MAIN FINANCIAL FIGURES

In 2012 Profits after taxes totalled € 451.5 million, which represents 2.5% growth over the figure obtained in 2011. This includes:

- Revenue totalled € 461.5 million, which includes dividends received from Group companies since the Company, as head of the Group, has shareholdings in the companies making up the Group.

- Gross operating profits - EBITDA - stood at € 463.6 million, 0.1% higher than in 2011.

- Net operating profits (EBIT) amounted to € 459.5 million, 2.3% up on 2011.

Dividends paid in 2012 totalled € 297.7 million, 17.8% higher than in 2011. This figure includes the interim dividend paid in 2012 and the supplementary dividend from 2011.

REC's equity stands at €1,839.6 million.

STOCK MARKET TRENDS AND YIELDS FOR INVESTORS

As the Group's listed company, REC forms part of the IBEX-35 and its weighting in that index at the end of 2012 was 1.56%. Throughout 2012 the Company's free-float was 80%.

At the end of 2012 the Company's market capitalisation was €5,046 million.
In general 2012 was a positive year from a stock market perspective for all major indices worldwide, except for the IBEX which posted an atypical performance with a negative balance in the last 12 months.

The sovereign debt crisis had a major impact on Spain, with an accumulated fall at the start of the summer of 25%. Subsequently, the decisive actions of the ECB and the economic advances of the European Union enabled a recovery and the year ended with a fall of 4.7%.

The performance of the Red Eléctrica Corporación (REC) share price differed considerably from that of the IBEX. At 31 December it registered a gain of 12.8%, very much in line with the average rise on European markets. For example, the Euro Stoxx 50 increased by 13.8%. Investor preference bore out the appeal of our shares in 2012.

REC has maintained its commitment to maximise value for its shareholders and offered a high dividend yield in 2012.

TREASURY SHARES

In order to facilitate depth and liquidity levels to investors in 2012 the Company acquired 3,626,605 shares for an overall par value of €7.3 million and a cash value of €125.3 million. The number of shares sold amounted to 4,046,522, with an overall par value of €8.1 million and a cash value of €142.7 million.

At 31 December 2012 the Company held 414,857 treasury shares that represented 0.31% of its share capital, whose overall par value was € 0.8 million and their market value was € 15.5 million.

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

RISK MANAGEMENT

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

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

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

ENVIRONMENT

At 31 December 2012, REC does not own any assets devoted to environmental protection and improvement. During 2012, the Company has incurred no environmental protection and improvement expenses.

REC is involved in no litigations relating to environmental protection or improvements which may give rise to significant contingencies. There have been no grants of this type during the year.

RESEARCH, DEVELOPMENT AND INNOVATION (R&D)

REC has carried out no R&D activities.

CORPORATE RESPONSIBILITY

In the area of corporate responsibility, RED ELECTRICA GROUP has become one of the most advanced companies and occupies a leadership position in the rankings that evaluate both the results obtained by company management and the level of involvement and support for sustainable development in all areas of activity.
RED ELECTRICA GROUP's objective is to consolidate as a sustainable, ethical and responsible group, integrated into society, attentive to all its stakeholders and a point of reference in the markets in which it operates.
This orientation towards sustainable development is reflected at the strategic level and seeking excellence and responsibility when carrying out activities is a basic strategy at the GROUP and is transversally rolled out at the operating level through the management of the business.

The EFQM (European Foundation for Quality Management) excellence management model was adopted to achieve an on-going improvement in the company's management and results. This standard is the benchmark in the search for leadership, innovation and business competitiveness at both national and international level.

The effort made in the search for excellence is borne out by the recognition and awards obtained. In 2003 RED ELÉCTRICA won the Seal of European Excellence 500+, which it has renewed every two years, always improving the score obtained compared with the previous evaluation . In 2011, year of the latest evaluation, the score obtained was 650 points. In 2005 it received the Príncipe Felipe award to Business Excellence for Industrial Quality and in 2011 RED ELECTRICA presented its application for the European Award of Business Excellence EFQM. The company obtained prize recognition in one of the eight categories of the excellence model: “Assuming responsibility for a sustainable future ”. In addition, Red Electrica was recognised in two other good practice categories: “Achieving balanced results" and "Adding value for customers".

With respect to quality management, a process management system was implemented based on international standards, making it possible to achieve Corporate Quality Management System encompassing all processes. This system, through its own methodology, includes all the company's activities through process definition and design and their control, follow-up, monitoring, assessment and improvement.

Similarly, this System has been developed score sheets as a basic instrument for the follow-up and assessment of the company's key processes by establishing indicators, enabling process improvement and the attainment of the company's strategic objectives.

All RED ELECTRICA'S activities are certified on the basis of international standards and in 2012 the first integrated audit was conducted of all certified corporate management systems (quality, environment, health and safety at the workplace and corporate responsibility).

Since 2006, RED ELÉCTRICA forms part of the Dow Jones Sustainability World Indexes, and since 2008 of the FTSEE4Good. In 2012 it was ranked the leading utilities sector company.

Similarly, in 2012 RED ELÉCTRICA formed part of the ECPI Ethical Index EMU and STOXX ESG Leaders Indices.

POST-BALANCE SHEET EVENTS AT 31 DECEMBER 2012

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FORESEEABLE DEVELOPMENT

As head of the Red Eléctrica Group, REC will assure that the Group companies maintain their strategy focused on service quality in order to assure leadership in the reliability and safety of the electrical systems operated by them and in the performance of their activities.

REC will continue to offer shareholders high levels of profitability combined with solid growth.

This will result in the creation of long-term value, lasting competitive advantages and the attainment of a better corporate reputation, focused on optimal service to society which differentiates our performance from the rest.

APPENDIX : ANNUAL CORPORATE GOVERNANCE REPORT

The Corporate Governance Report forming part of the Director's Report and can access their content at the following site:

http://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A-78003662