

ANNUAL REPORT
2007



RED ELÉCTRICA DE ESPAÑA

4	RED ELÉCTRICA IN FIGURES
6	KEY FIGURES
8	LETTER FROM THE PRESIDENT
12	THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT
14	MOST IMPORTANT EVENTS IN 2007
16	BUSINESS ACTIVITIES
18	ELECTRICAL SYSTEM OPERATION
24	TRANSMISSION GRID MANAGEMENT
32	INTERNATIONAL ACTIVITY
34	BUSINESS MANAGEMENT
36	HUMAN RESOURCES
42	EXCELLENCE IN BUSINESS MANAGEMENT
44	ENVIRONMENTAL RESPONSIBILITY AND SUSTAINABILITY
48	TECHNOLOGICAL DEVELOPMENT AND INNOVATION
50	CREATING VALUE AND PROFITS
54	STOCK MARKET EVOLUTION
61	CONSOLIDATED ANNUAL ACCOUNTS

A highly profitable,
solid solvent
company, offering
value to society and
contributing to the
wellbeing of citizens

Serving society

Since its foundation in 1985, Red Eléctrica activities have been steered by a clear guideline: to provide maximum quality and efficiency of service to citizens and the electrical system.

The mission of Red Eléctrica is to ensure the overall working of the electrical system, guaranteeing the continuation and safety of the supply at all times. To do so, it operates the system in real time, maintaining the electricity generation and the consumption in our country constantly balanced; and transports the electrical energy in the form of high voltage from production centres to distribution centres.

With the coming into effect of Law 17/2007, of 4th of July, which modifies the Electrical Sector Law, to adapt it to the European regulation, the role of Red Eléctrica as the key piece in the electrical supply process is strengthened, as this is the definitive consolidation of its position as the unique TSO (Transmission System Operator) in the Spanish electrical system.

... **1,031** million euros in turnover.

... **723** million euros in gross operating profit.

... **243** million euros profit after tax.

... **622** million euros cash-flow before tax.

... **608** million euros invested in the transmission grid.

... **5,849** million euros in market capitalisation at the close of the financial year.

... **33,669** kilometres of high voltage electrical cables.

... **3,042** busbars in electrical substations and more than 58,000 MVA of transformation capacity.

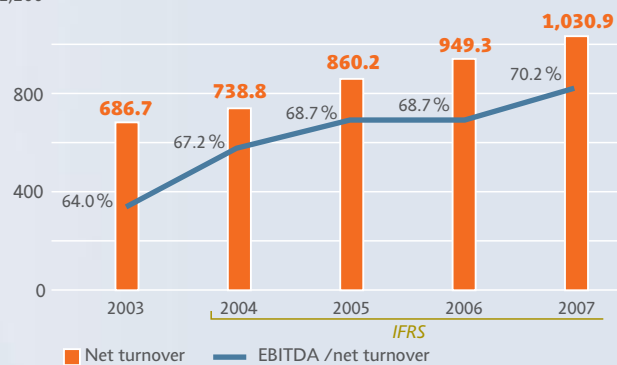
... **1,468** employees in the Group.

Key figures

Net turnover

millions euros

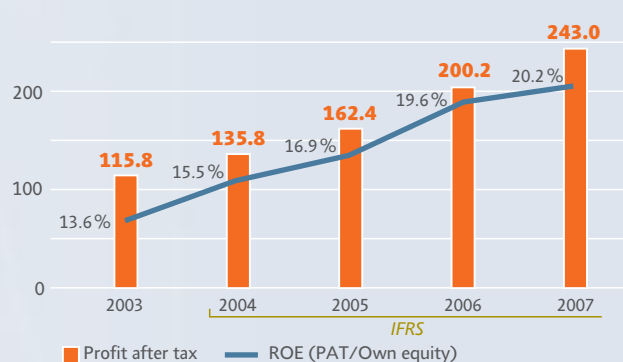
1,200



Profit after tax

millions euros

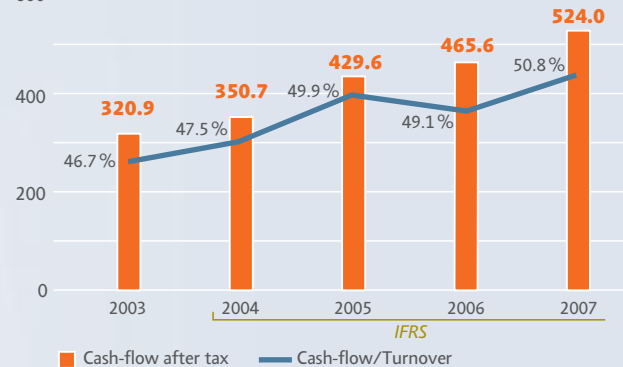
300



Cash-flow after tax

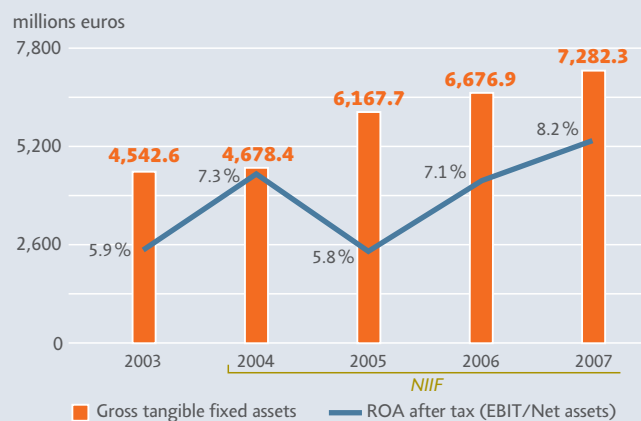
millions euros

600

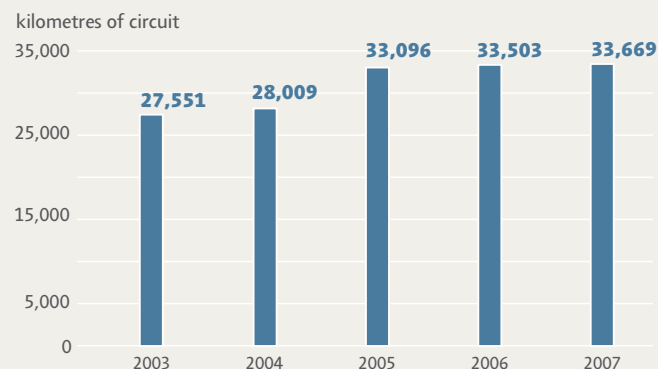


IFRS (International Financial Reporting Standards)

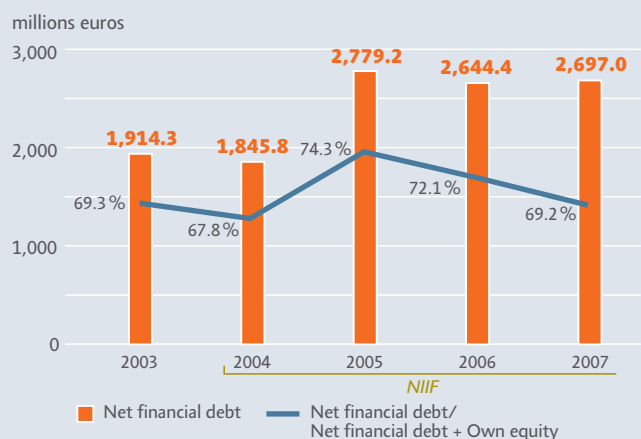
Gross tangible fixed assets



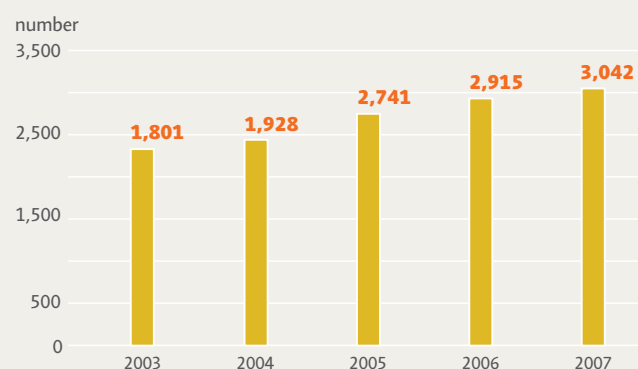
High voltage lines



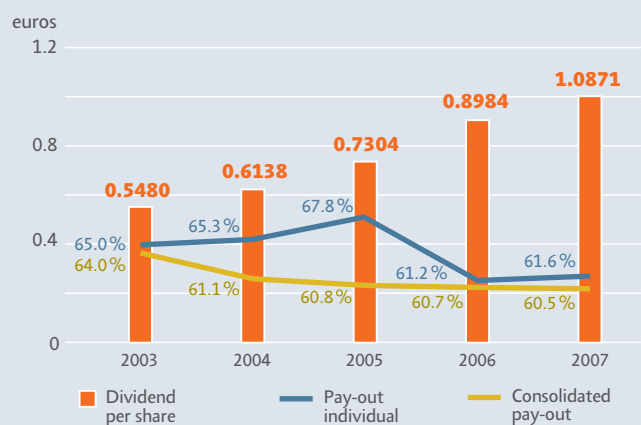
Net financial debt



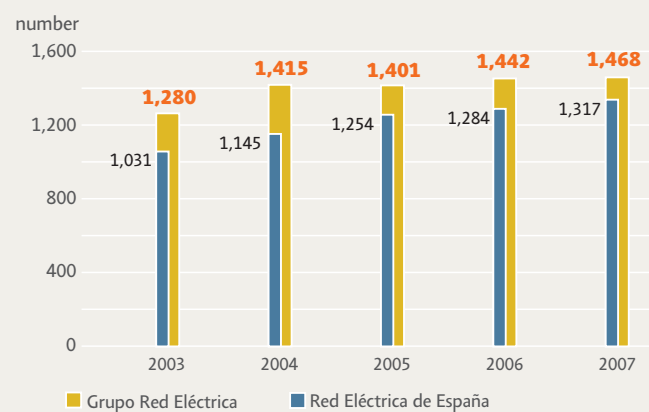
Busbars in substations



Dividends per share



Workforce



Letter from the president

Dear shareholders:

2007 was a key year for Red Eléctrica de España, due to events which took place providing a new dimension to the company as well as guaranteeing its consolidation and growth during the next few years.

On the one hand, the approval of Law 17/2007, of 4th July, which modifies the previous Electrical Sector law to bring it into line with the European regulation. This law has strengthened the value of Red Eléctrica as the cornerstone in the electrical supply process, on endorsing its functions as a transmission system operator and moreover assigning them, in their condition of system operator, the function of unique carrier; an activity which will be carried out in an exclusive regime. This means the definitive consolidation of our position as the Spanish TSO: transmission system operator.

In turn, the entry into force of the law introduces a series of corporate changes into the company, requiring adjustments to our charter and organic framework. Along these lines, in December 2007 the Red Eléctrica de España subsidiary TSO, was set up, and the assets and functions associated with this activity were transferred there, so as to reinforce, in accordance with the law, the independence in transmission and operation activities of the system in Spain from the rest of the company's activities.

On the other hand, in 2007 the Ministry of Industry, Tourism and Commerce published the design proposals for the electricity and gas sector for the 2008-2016 period. This design proposal contemplates a major construction programme for new transmission system installations, with the aim of guaranteeing a safe efficient electrical supply, offering quality to the consumer, requiring an investment figure of more than 8,000 million euros. This grid design programme will lead us to enhance, yet even further, our present major rhythm of annual investment in the transmission system, which has reached a new investment high this year with 608 million euros, 19% more than the previous year.



Our aim is to build an environmentally sustainable electrical infrastructure system, enabling us to attend the growing demand and the development of a competitive electrical market, capable of integrating to the full the growing offer of renewable energies. The main initiatives are geared towards strengthening the grid in areas of high consumption growth, strengthening international connections and supporting the evacuation of energy from the new generation capacity, mainly combined cycles and wind farms.

In addition to investing in new grid infrastructures, we are also making an important effort in the integration and improvement of the assets acquired from electrical companies, to tailor them to the quality standard of our traditional assets and well as maintaining active levels of efficiency and quality of service rendered by our installations. This is the challenge we have taken on and we are able to forge ahead. However, to embark on this important investment cycle which will be our growth motor over the next few years, commensurate retribution is required from the transmission assets.

For this reason the recent approval of the new retribution model offers us stability and sufficient remuneration to face up to the numerous investments included in the electrical infrastructure programme with enough profitability.

In the sector of the Iberian Electricity Market, noteworthy was the first session of the daily electricity market that was held last June 30th, this means an important advance for the integration of the Spanish and Portuguese electrical markets. Along the same lines the strategic collaboration agreement we

have reached with Redes Energéticas Nacionais (REN) stands out. In addition to taking advantage of business synergies, this agreement will enable the coordinated development of investments, especially on interconnections between electrical systems from both countries and reinforce the coordination of the two companies in their responsibilities as operators in the Iberian system. The strategic alliance, which anticipates mixed participation by the shareholders of both companies, has come to bear this year with the purchase by Red Eléctrica of 5% of the share capital of REN.

During 2007 the company's economic and financial key figures have clearly confirmed the objectives set out by us. Turnover reached 1,030.9 million euros, 8.6 % more than in 2006, and the gross operating profit was 723.3 million euros, 11 % higher than the results from the previous year. On doing so the EBITDA margin over the turnover was positioned at 70.2%, 1.5 points more than the previous year despite the increase in operating costs, mainly due to the renewal and improvement of the assets acquired from the electrical companies. In its own right, the profits before tax have reached 243 million euros, 21.4% higher than the previous year, endorsing the excellent evolution and strong growth rate of the company.

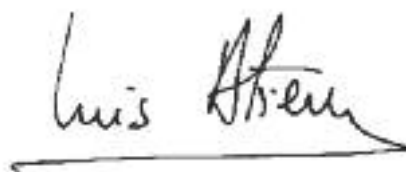
On the financial front the significant ability to generate cash flow has permitted the funding of the sizeable effort carried out during the year without causing an increase in financial requirements. Thereby, the net financial debt has been held at levels similar to those of 2006, ending the year with a minimum increase of 2%. As a result of this stability the structure did not register significant variations either. 99 % of the debt is long term, 73 % of a fixed nature with an average cost situated at 4.2 %. This data constitutes an extremely competitive financial structure and is thus acknowledged by the credit rating agencies, which have once again confirmed the solvency and financial robustness of the company.

In the market sector shares have had very positive behaviour during 2007. After reaching record heights of 45.14 euros, they closed the year at 43.24 euros, meaning an increase of 33.1%, outperforming in terms of revaluation most of the world stock market averages. For its part, shareholder repayment in dividends has increased by 21%. This growth, which is in line with the increase in profits per share, reflects the commitment acquired with the market on maintaining an attractive policy of dividends for our shareholders.

At Red Eléctrica we pay special attention to the commitment to human and occupational rights. Hence our human resources management policy is geared toward the creation of stable quality employment; towards equal opportunities, encouraging participation and representativeness of women; improvement in the work, family life balance, even beyond the legislation in force; and the commitment to training and the professional development of the employees.

In addition, we have once again obtained magnificent recognition in the area of business excellence and corporate responsibility, on having improved our rating in the Dow Jones Sustainability Index and renewed our recognition on European Excellence in business management. These facts position us as one on the most accredited companies in the world in these areas and specifically, situate us as the best IBEX-35 company in transparency and information on social responsibility and sustainable development.

All these achievements are fruit of the important effort we dedicate to making the development of electrical infrastructures compatible with the safe-keeping of the natural and social ecosystem where the projects are put in place. Perhaps the clearest exponent of our commitment to sustainability has been the implementation of the special regime control centre (CECRE), the first centre of its kind worldwide designed to integrate the maximum generation of renewable energies into the electrical system in safe conditions. In addition, we continue to carry out intensive work in the fostering of strategies on demand management and we are driving different initiatives supporting energy efficiency, in order to make citizens aware about consuming energy responsibly, so that we all can try to combat, as far as possible, the consequences of climate change.

A handwritten signature in black ink, reading "Luis Atienza". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Luis Atienza Serna
President of Red Eléctrica de España

The board of directors and senior management

BOARD OF DIRECTORS

Executive President

Luis Atienza Serna

Proprietary directors

Juan Gurbindo Gutiérrez (SEPI)

Manuel Alves Torres (SEPI)

Rafael Suñol Trepas (SEPI)

Independent directors

Pedro Rivero Torre

Antonio Garamendi Lecanda

José Riva Francos

José Manuel Serra Peris

María de los Ángeles Amador Millán

Martín Gallego Málaga

Francisco Javier Salas Collantes

Non-voting secretary

Rafael García de Diego Barber

Non-voting assistant secretary

Fernando Frías Montejo

Auditing Committee

President

Francisco Javier Salas Collantes
(Independent)

Members

Manuel Alves Torres
(Proprietary)

Pedro Rivero Torre
(Independent)

Appointments and Remuneration Committee and Corporate Governance

President

María de los Ángeles Amador Millán
(Independent)

Members

Luis Atienza Serna (Executive)

Antonio Garamendi Lecanda (Independent)

Juan Gurbindo Gutiérrez (Proprietary)

SENIOR MANAGEMENT

President

Luis Atienza Serna

General Director of Transmissions

Carlos Collantes Pérez-Ardá

General Director of Operations

Alberto Carbajo Josa

General Director of Administration and Finance

Esther Rituerto Martínez

Management Committee

President

Luis Atienza Serna

General Manager of Operations

Alberto Carbajo Josa

General Manager of Transmissions

Carlos Collantes Pérez-Ardá

General Manager of Administration and Finance

Esther Rituerto Martínez

Manager of Corporate Responsibility and RR.II.

Antonio Calvo Roy

Director of Human Resources

José García Moreno

Deputy Manager

Javier de Quinto Romero

Most important events in 2007

Approval of the Law 17/2007, of 4th July

This Act, which amends the Electricity Sector Act 54/1997, of November 27 to adapt it to the European Parliament Directive on common rules for the internal electricity market, establishes a series of provisions affecting the Electrical Grid, which includes the following:

Consolidation of the TSO model (Transmission System Operator): This law has come to strengthen the functions of the transmission system operator, assigning them in their condition of system operator the function of the unique carrier, an activity which will be carried out in an exclusive regime.

Increase from 3 % to 5 % in share constraints: Any individual or company can participate in the share capital of Red Eléctrica de España, S.A., as long as direct or indirect participation does not exceed 5% or is no more than 3% of voting shares. With respect to those who carry out activities in the electricity sector or companies who participate in this with more than 5%, their voting shares will be limited to 1%.

Strategic alliance agreement

Red Eléctrica and Redes Energéticas Nacionales (REN) have reached an agreement to drive a strategic alliance in order to take advantages of business synergies in all sectors of the activity.

In the framework of this alliance both companies agree to acquire overlapping shares in the respective corporate capital. Additionally, both companies promote the reciprocal representation in the respective boards of directors to foster and strengthen and give stability to the strategic alliance. In this sense, Red Eléctrica has acquired during 2007 a 5 % share in the REN corporate capital.

Collaboration agreement with CSIC

Red Eléctrica and The Scientific Research Council (CSIC) have signed a collaboration agreement to carry out different activities related with scientific research and technological development.

This agreement serves to endorse the close collaboration between Red Eléctrica and the CSIC, through different agreements on environmental projects.



Noteworthy are those to protect birdlife, those earmarked to determine electrical installation lines causing the least environmental impact and those signed with the Biological Station of Doñana.

Inauguration of the Special Regime Control Centre (CECRE)

The President of the Government José Luis Rodríguez Zapatero inaugurated the Special Regime Control Centre (CECRE), belonging to Red Eléctrica: the first centre of its kind on a global scale dedicated to the control and supervision of renewable energy.

CECRE's aim is to integrate into the electricity system the largest amount possible of renewable energy safely, especially wind energy. With this, Spain has become the first country in the world which has all its wind farms of more than 10 MW connected to the control centre.

First day of the Iberian Electricity Market

The first session of the Iberian Electricity Market (MIBEL) was held on June 30th. Its implementation has been possi-

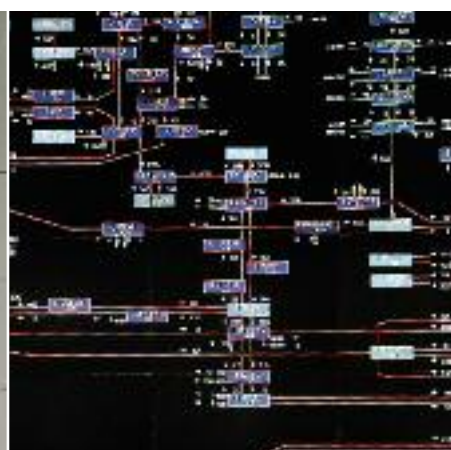
ble thanks to the impetus of the Governments from Spain and Portugal and the close collaboration of all the bodies and companies implicated in both countries, among which stand out Red Eléctrica in their role as the Spanish electrical system operator.

Credit ratings

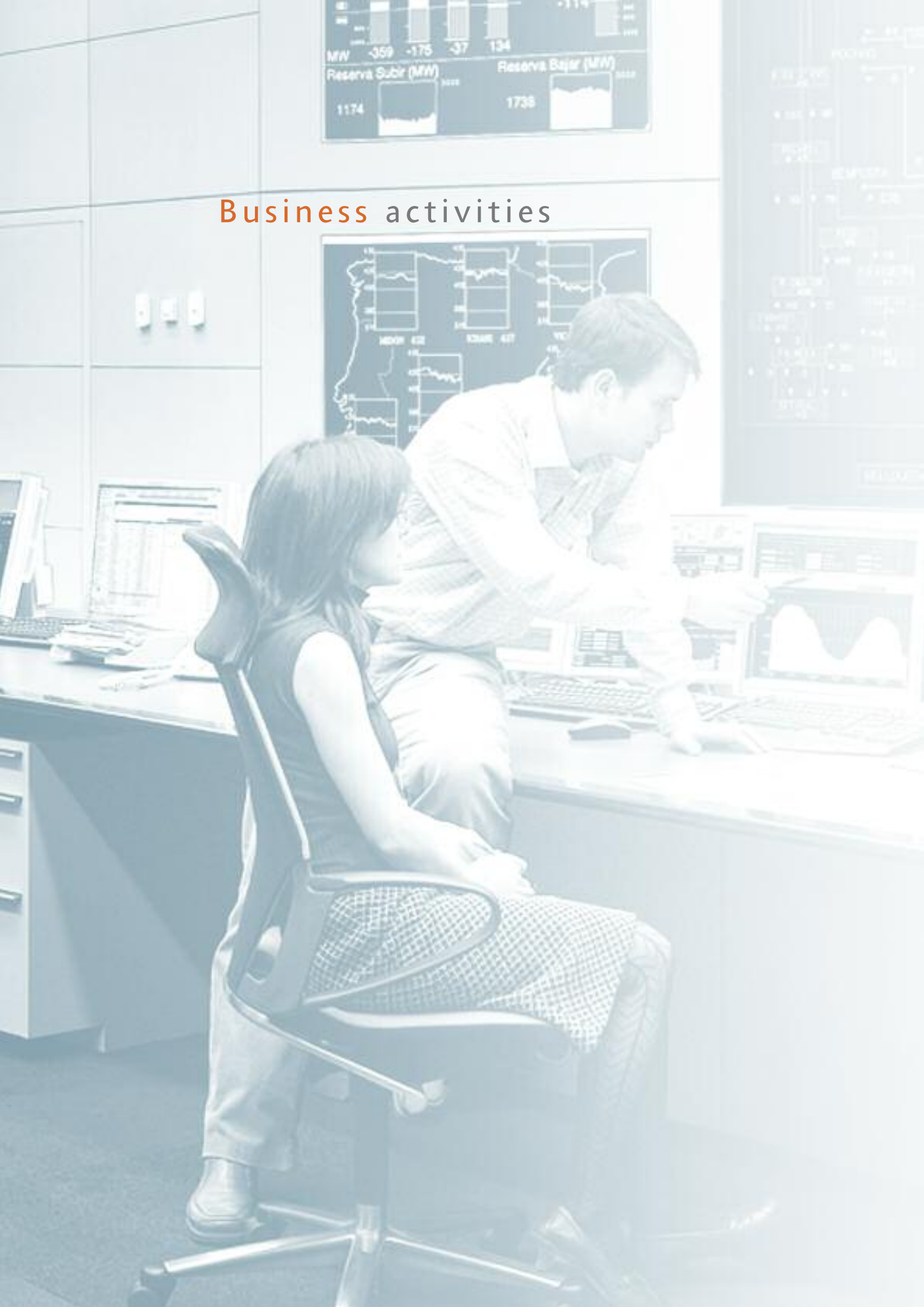
Once again the credit rating agencies have confirmed the high level of solvency and financial robustness of Red Eléctrica, by maintaining their credit ratings: AA /A-1+ (Standard & Poor's) and A2 (Moody's), and granting them, a stable outlook. With these credit ratings Red Eléctrica continues to be for yet another year, among the Spanish companies with the highest level of solvency.

Changes in shareholders

During 2007 changes have taken place in the Red Eléctrica shareholders. On the one hand, Iberdrola have made a departure from the shares of the company on selling their 3% stake and on the other hand, Endesa and Unión Fenosa have reduced their stake to 1%. All in all, the share capital is as follows: 20 % SEPI and 80 % free-float.



Business activities





36,669 kilometres
of high voltage lines

608 million euros
investment in the
transmission grid

Our challenge is to build an
electrical grid infrastructure
compatible with our environment,
which will make the development of
renewable energies possible and
which guarantees a safe, quality and
efficient supply to the consumer

Electricity system operation

Red Eléctrica operates both the mainland electrical system and the insular and extra peninsular system, ensuring at all times the continuity and safety of the electrical supply.

As a system operator, Red Eléctrica guarantees the constant balance between the production and the electrical consumption in Spain. To do this, it predicts electricity demand and operates generation and electricity transmission facilities in real time in a coordinated fashion, ensuring that the production programmed in the electricity power stations coincides at all times with the real demand for electricity from the consumer.

Behaviour of the electricity system

During 2007 the key figures in the Spanish electricity system are as follows:

Peninsular system

- The annual demand for electric energy reached 261.063 GWh, with a growth of 2.9% with respect to the previous year. After discounting the influence of labour and temperature, the demand growth in 2007 was 4.2%.
- The demand for electrical energy both monthly daily and hourly has exceeded its respective maximum historic levels.
 - Monthly demand reached 24,075 GWh during the month of January.

- The maximum daily energy demand was registered on the 18th of December with 902 GWh.

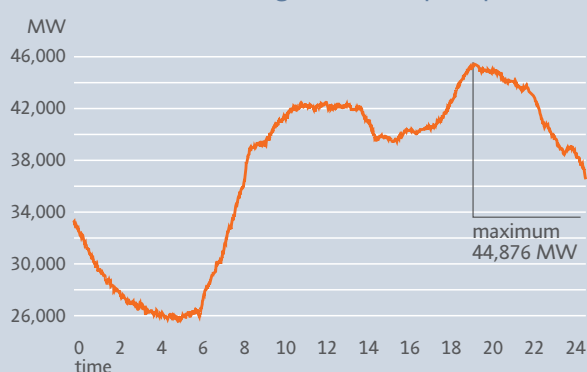
- The hourly average maximum energy demand rose to 44,876 MW, on the 17th of December (19.00-20.00 h), 3.5 % higher than the maximum registered in 2005.

- Installed power capacity has had a net growth of 6,806 MW, meaning an increase of 8.6 % with respect to 2006. This increase comes mainly from the incorporation of 5,458 MW from combined cycles and 1,853 MW from new wind farms. With regard to drop out, noteworthy is the closures of the two fuel gas units and a coal one, which have entailed a decrease respectively of 753 MW and 67 MW of the total power.
- With respect to covering the demand, the power stations belonging to the ordinary regime have covered 79% of the demand while the power from the special regime covered the remaining 21 %.

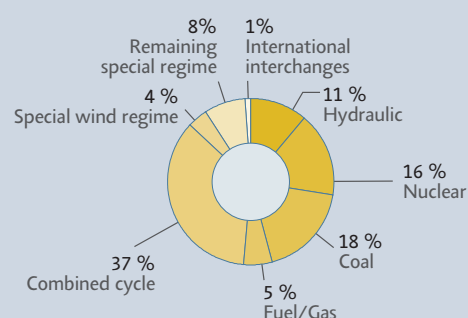
Wind energy has continued to be on the up, providing 10% of the demand this year. Noteworthy is the 19th March when wind production records were broken with a daily rate of 169,194 MWh and an hourly rate of 8,298 MWh, covering 23.2 % of the energy demand for that day.

17th of December 2007 (19-20 h)

was the date of the average maximum peak power load



Coverage of maximum hourly demand



Red Eléctrica guarantees a constant balance between production and electrical consumption in our country, 24 hours a day, 365 days a year.

- With respect to international interchanges, for the fourth year running the net annual balance showed exports of 5,754 GWh. This figure represents an increase of 76 % compared to 2006. This significant increase is mainly due to the significant increase of exports to Portugal and Morocco (with increases compared to 2006 of 37 % and 73 % respectively), which has thoroughly compensated the increase in the importing balance with France (with an increase of 24 % compared to 2006).

One of the outstanding events of the year took place on June 30th when the first session of the Iberian Electricity Market (MIBEL) was held. This milestone meant an important advance for the integration of the Spanish and Portuguese markets. This integration will become strengthened with the implementation of overt auctions for the coordinated management of the exchange capacity between both electricity systems.

Non-mainland systems

- Annual energy demand reached 15,527 GWh, 2.6 % more than the previous year. 50.3% of this demand was

covered by fuel units, 25.4% with combined cycle units, 18.9% with coal power stations, 4.4% by power obtained from the special regime and the remaining 0.9% by auxiliary units.

Adjustment services

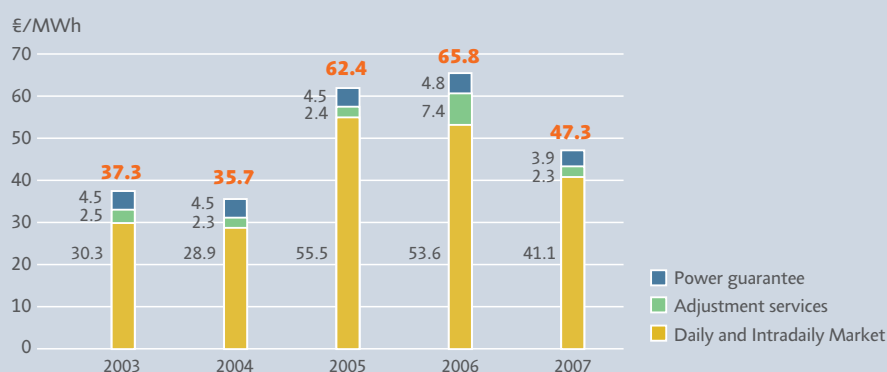
Within its function as a system operator, Red Eléctrica manages regulation services which are designed to match the production programmes from the daily and interdaily markets to the quality and safety standards of the system. Regulation service or regulation markets are understood as: The solution for technical restrictions, allocating complementary services and deviation management.

During 2007 the energy managed in the entire range of adjustment services was distributed in the following fashion:

- The volume of energy programmed using constraints reached 10,700 GWh, less than the 15,438 GWh from the previous year. In this section the amount of energy having to be removed from the market; 2,602 GWh, as a result of the congestion in the Levante area is somewhat significant.



Average end price of power in the production market



- The management of complementary services for secondary and tertiary regulation and power programmed for emergencies reached a total of 7,219 GWh, 21.8% less than the previous year.
- Deviation management registered 1,223 GWh, as opposed to the 29,000 GWh managed by this procedure in 2006.

The decrease in the volume of energy managed by these services compared to 2006 can be explained by an exceptional fact which took place during a large part of last year; that the daily and the intraday market did not generate enough compared to the demand forecast, which meant that this energy had to be programmed within the adjustment services managed by Red Eléctrica.

Demand management

At Red Eléctrica we continue to make an important effort in promoting strategies directed towards the management of demand, aimed at improving energy efficiency, encourag-

ing responsible energy consumption and providing the additional tools at the demand level to help guarantee the balance between generation and consumption.

In this sense, Red Eléctrica carried out several initiatives to drive management strategies for demand, centred on the following lines of action:

- The improvement of the knowledge of the electric demand schedule, with special incidence in the analysis of electricity use.
- Manageable demand power evaluation and drawing up proposals which enable this power to be deployed in each segment of consumption.
- The promotion of management demand and participation in forums and national and international programmes, aimed at creating a favourable environment for managing demand in the electricity sector.





Specifically, during this year, the geographical distribution of the national demand has been analysed, covering the evolution of the scheduling profiles during the 1995-2006 period and broken down by autonomous regions. Similarly, a first segmentation of the demand curve has taken place in the industrial, commercial and residential sector.

In the industrial sector, characterisation has been carried out on the scheduling demand of large industrial consumers, which represent 17% of the national consumption and who participate in the system operation through an interruptions service. The study of the demand curves and the interruption potential offered by the system are among the aspects analysed.

In the residential sector, demand type profiles for the sector have been drawn up, broken down into the different electrical uses in the home, as well as their projections for 2010-2015. In addition, the surveys carried out by Red Eléctrica in conjunction with 2,000 homes, in order to become aware of

willingness of the residential consumers to manage their demand in certain cases.

In the area of proposed provisions, the Directive ITC/2370/2007 of 26th July 2007 was published, aimed at regulating the conditions for service interruption management offered to consumers who purchase energy in the production market, establishing the requirements to participate as a supplier, as well as its retributive regime. The Directive called for Red Eléctrica to draw up several regulatory proposals to govern the specifications of the management system of this service, the contracts to sign with the consumers and the operation procedures needed for its application.

Red Eléctrica has also carried out the general design of three demonstration campaigns, in collaboration with potential demand aggregators, in order to mobilize a larger volume of interruption energy, as well as highlighting the emergency generation provided by some of them.

CECRE: Special Regime Control Centre

Red Eléctrica, as an electrical operator has put into operation a renewable energy control centre (CECRE). This is the first centre in the world earmarked for the supervision and control of these sources of energy.

CECRE's aim is to integrate into the electricity system the largest amount possible of renewable energy safely, especially wind energy.

Over the last few years a huge increase has taken place in wind energy generation in our country, enabling this source of energy to play an increasingly important role in electrical demand coverage. This fact, linked to the singularities its management presents for carrying out safe operations on the electrical system, has driven Red Eléctrica to create this control centre.

Among the singularities presented by wind energy, noteworthy is the variability of its production, which makes its operation especially complex, given that it is very difficult to know beforehand and with accuracy the amount of wind energy that is available on the system at any time. Another of the singularities is the sudden loss of wind generation

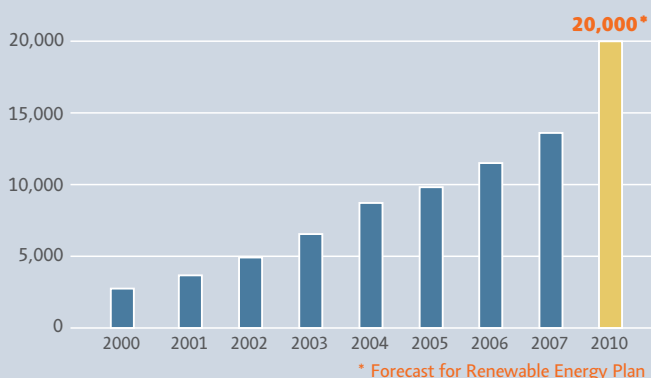
which can be caused on occasion by the instant disconnection of some type of wind turbines when faced with voltage gaps (abrupt fall in voltage which is re-established after a short period of time).

Hence one of the CECRE characteristics is its capacity to anticipate possible incidents in the electric system caused by losses in wind power generation. To do so, it makes diagnosis and evaluation in real time about the effects caused by hypothetical losses in voltage, with the aim of preventing the operation measurements that must be applied in each case to get back to the system in a safe way.

The CECRE is an operative unit integrated into the Electricity Control Centre (CECOEL). From here, the generation of the renewable energy producers installed in our country is managed and controlled. This centre is, in addition, the unique interlocutor in real time between the CECOEL and each one of the generation control centres to which the wind farms are connected.

With the CECRE, Spain has become the first country in the world to have all wind farms of more than 10 MW connected to the control centre.

Evolution of wind power installed in Spain (MW)





The Control Centre for the Special Regime aims to integrate into the electricity system the largest amount possible of renewable energy safely, especially wind energy.



Transmission grid management

Red Eléctrica is the unique operator and carrier in the Spanish electricity system. In conducting its business it is responsible for developing, extending and maintaining the transmission grid consistently and coherently. In addition, it is responsible for managing the movement of power among external systems and guaranteeing the access to third parties to the grid under equal conditions.

Planning of the transmission grid

In 2007 The Ministry of Industry, Tourism and Commerce published the planning proposal for the electricity and gas sectors for the period 2008-2016, to be approved shortly by the Council of Ministers. The task of Red Eléctrica, as a grid transmission operator, has been to identify the future development needs of the grid. To do so, the following demand and coverage provision analysis has been drawn up, as well as the technical studies of the suitability of the transmission grid.

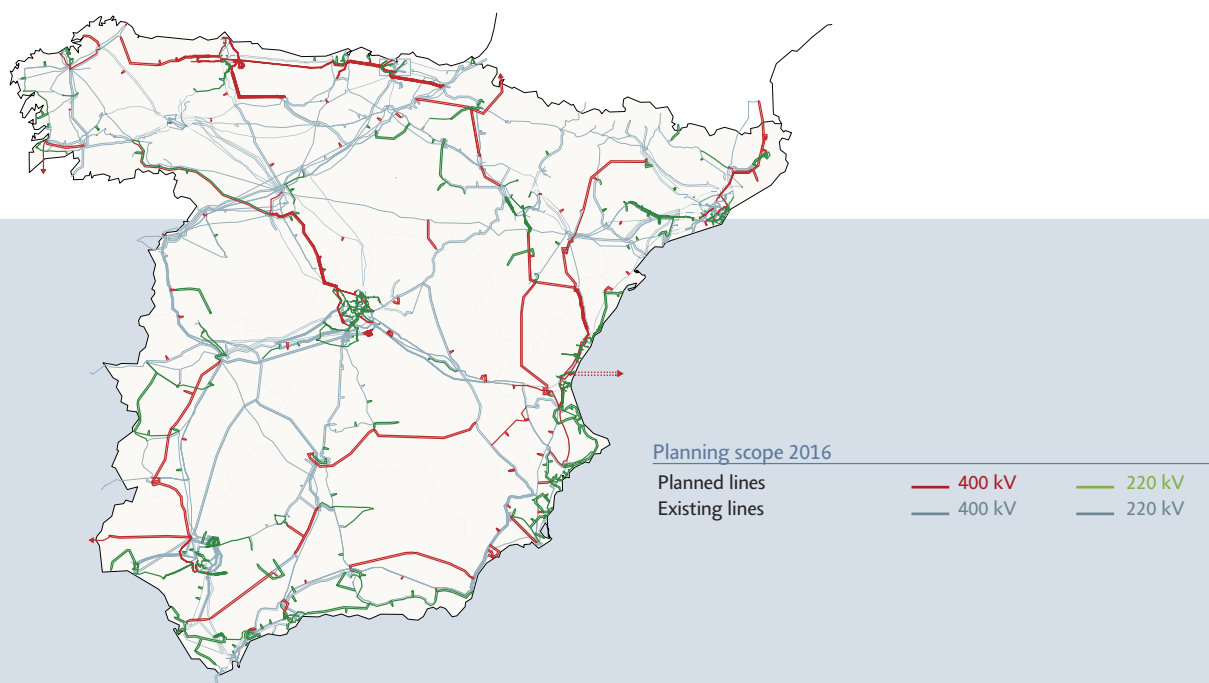
This planning proposal contemplates a significant programme to construct new grid installations for electricity

transmission to guarantee an efficient and quality supply to the consumer. The programme has been drawn up to provide for the increase in demand that may occur in the period and will enable the evacuation of power both from combined cycle power stations and the numerous special regime installations, mainly wind based, scheduled for this period.

Forecast of electricity demand and coverage thereof

Among its functions as a system operator, Red Eléctrica has the task of carrying out the evolution forecast for the electricity demand and coverage for the next few years. In addition to these technical studies, they have also participated in two related projects:

- In the MIBEL area, a project is being developed, in close collaboration with the Portuguese operator, to provide possible coverage for the demand with the aim of evaluating long term the characteristics and the needs of the Iberian electrical system, where the generation of a large amount of renewable energy is foreseen.



- On the other hand, Red Eléctrica have collaborated with the Ministry of Industry, Tourism and Commerce on a study of the potential of the energy sector in 2030 which will serve as a roadmap for policies and energy plans in Spain.

Access to the transmission grid

During 2007 Red Eléctrica have continued to manage the procedures for accessing and connecting to the transmission grid with full transparency and equality of conditions for all agents who are contemplating the incorporation of their installations into the electrical system.

This year has seen 182 access requests being made. An important feature in the ordinary regime generation is the all time record for the number of MW managed. Similarly, the request for solar generation access is also unique, as well as the wind energy generation, due to the retribution advantages linked to this type of energy. In the case of demand installations, the high level of grid distribution support needs have continued, as have the number of consumers directly connected to the transmission grid.

Strengthening of international interconnection

Regarding the interconnection with France, Red Eléctrica and Réseau de Transport d'Electricité (RTE) have signed, within the framework of the Franco-Hispano summit held

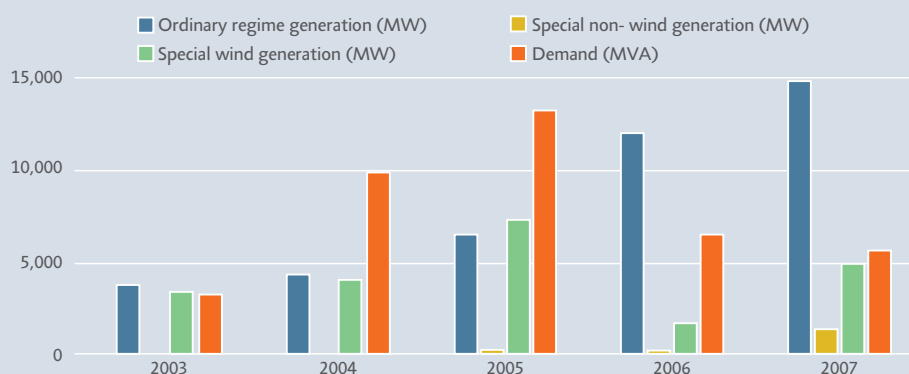
at the beginning of 2008, an agreement to build a new line to the east of the Pyrenees, between the Santa Llogaia substation (Spain) and Baixas (France), in order to increase the electricity interconnection capacity between the two countries.

The construction of this new interconnection will strengthen the safety of the two electricity systems as well as favouring the integration of a greater volume of renewable energy, especially wind energy from the Iberian system, which will contribute to reaching the European objective of meeting 20% of the demand with renewable energies.

In order to give this new initiative a firm basis, Red Eléctrica and RTE have made a commitment to building a joint venture where each company holds a 50% stake in the other. This company will take charge of carrying out prior technical, environmental and financial studies and will fund the costs associated with the construction of the line.

With regards to the interconnection with Portugal, 2007 has seen the progress of reinforcement work on the Duero and Tajo axes, as well as the studies of two new interconnections, from Galicia and Andalusia, with the aim of reaching commercial interchange capacity of 3,000 MW with the neighbouring country.

Request for access to the transmission grid



Development of the transmission grid

The investment effort by Red Eléctrica during 2007 has centred on the development and structural consolidation of the transmission grid, with a view to attending increases in demand in some areas of the Peninsula and to facilitate the evacuation from the newly installed generation. The key actions were the following:

- An improvement in the 220 kV grid in the Madrid and Valencia regions.
- Strengthening of the transmission grid in eastern Andalusia to cover the growing demand in this area.
- The evacuation of new installed combined cycle generation capacity power stations and different wind farm installations.
- Electrical backup supply for high speed trains.
- The start of an interconnection with the mainland and the Balearic Islands.

2007 has exceeded previous years in terms of investment, reaching a figure of 607.0 million euros, 19.1 % more than the previous year.

This year 166 km of lines and 127 busbars in substations have been put into service. In addition, the transmission capacity has increased by 545 km on the existing lines and transformation capacity has increased by 1,950 MVA.

In terms of geographical areas the most relevant actions have been:

NORTHERN AREA

Building work has continued on the Northern Axis to increase energy evacuation capacity and consolidate the grid in Asturias, Cantabria, The Basque Country and Navarre.

CATALONIA

The major part of the work has been focused on strengthening the grid around Barcelona, the construction of a line which provides service to the high-speed train and the development of new installations for the evacuation of energy generation and the improvement of the interconnection with France.

CENTRAL AREA and EXTREMADURA

In this area noteworthy is the work for the construction of the Castilla and León axis for interconnection with the Region of Madrid, alongside the strengthening of the support network for the distribution in this community. Similarly, important engineering work and impact studies on the interconnection axis of Extremadura with eastern Andalusia and those from the Transmanchego axis.

GALICIA

Work on the Mesón-Puentes axis is on-going and has advanced significantly, as too has that relative to the first phase of the project which will enable wind energy in Galicia to be evacuated and then transferred to the centre of the Mainland.

LEVANTE

Some of the grid strengthening actions have finished in this area, including those which permit the evacuation of the installed generation in Murcia. Similarly, work prior to the construction of the future Peninsula-Balearic interconnection continues to take place.

ANDALUSIA

In this area work has continued on improving the transmission grid around the Costa del Sol. In addition, work has been carried out to facilitate evacuation from the wind farms installed in the region and to meet the increased electricity demand around the Seville industrial belt.

Facilities put into operation

Busbar connections

Facility	400 kV	220 kV
Alcocero de Mola		1
Arcos	1	
Arroyo la Vega		1
Ayora	5	
Boimente ⁽¹⁾	1	
Bolarque		1
Brovaes	4	
Cantalar		6
El Espartal		1
Escatrón	2	
Espluga	1	
Galapagar	2	
Gaussa	7	
Gazules		6
Grijota	2	
Guadame	2	
Güñes	1	
Huéneja	5	
Jordana	4	9
Jose María Oriol	3	
Jose María Oriol ⁽¹⁾	2	1
Juiá		1
La Serna		1
Morvedre	7	1
Mudarra		1
Nueva Casares		3
Oncala		1
Palafox		6
Palau		1
Quintos		3
Rubió		1
Sabón		1
San Cugat		4
San Miguel de Salinas		10
Sil		1
Suido		3
Tordesillas	4	
Torrearenillas		1
Trives	1	1
Vitoria		1
Zamudio		6
Total number of facilities in use	54	73

(1) Pending start up proceedings

Increase in the capacity of facilities in use

	MVA/line
274.67 km of 400 kV lines	1,293
270.96 km of 220 kV lines	1,671

Transmission grid property of Red Eléctrica

	2003	2004	2005	2006	2007
km circuit	27,551	28,009	33,096	33,503	33,669
400 kV	16,308	16,548	16,808	17,005	17,134
220 kV and less	11,243	11,461	16,288	16,498	16,535
Number of Busbars	1,801	1,928	2,741	2,915	3,042
400 kV	680	740	877	950	1,004
220 kV and less	1,121	1,188	1,865	1,966	2,039
Transformation capacity (MVA)	32,566	37,216	54,272	56,072	58,022

Transformers

Facility	MVA Transformer
J.M.Oriol ⁽¹⁾	150
Don Rodrigo	600
Mesón	600
Loeches	600
	1,950

(1) Replacement of a faulty 300 MVA trafo, thus increasing capacity by 150 MVA

400 kV Lines

	km circuit
E/S Brovaes L/Bienvenida-Balboa	1.4
E/S Gaussa L/Eliana-La Plana	0.4
E/S Gaussa-Morvedre	16.4
E/S Huéneja L/Caparacena-Litoral	0.8
E/S en Jordana L/Pinar-Tajo 1	0.1
E/S Ayora L/Benejama-Cofrentes	0.3
E/S Segovia L/Tordesillas-Segovia ⁽¹⁾	8.6
L/Nueva Escombreras-El Palmar	101.0

Total number of facilities in use

129.0

(1) Pending start up proceedings.

220 kV Lines

	km circuit
E/S Begues L/Castellet-Viladecans	1.2
E/S en Albarrec L/Torre del Segre-Mangraners (aerial) ⁽¹⁾	0.2
E/S en Albarrec L/Torre del Segre-Mangraners (under.) ⁽¹⁾	0.3
L/Vicálvaro-La Estrella	4.7
E/S Albal L/Catadau-Fuente San Luis	3.0
E/S Zamudio L/Güñes-Gatica (aerial)	3.0
E/S Zamudio L/Güñes-Gatica (underground)	0.1
L/El Palmar-El Palmar 1 (aerial)	0.4
L/El Palmar-El Palmar 1 (underground)	0.3
L/Palafox-La Estrella (underground)	4.5
E/S Subirats L/Begues-Bellicens (aerial)	6.0
E/S Subirats L/Begues-Bellicens (underground)	0.2
E/S Jordana L/Algeciras-Los Ramos	0.3
E/S San Cugat L/Can Jordi-San Andreu (aerial)	1.7
E/S San Cugat L/Can Jordi-San Andreu (underground)	0.1
E/S Villares del Saz L/Huelves-Olmedilla	5.1
E/S Parla L/Aceca-Villaverde (aerial)	0.5
E/S Parla L/Aceca-Villaverde (underground)	4.9
E/S San Miguel de Salinas L/Rojales-Campoamor	0.1
E/S Gazules L/Pinar-Alcores	0.3

Total number of facilities in use

37.0

(1) Pending start up proceedings.

Lines under construction 2008

400 kV Lines	km circuit
Pamplona-Magallón axis	120.0
Nororiental axis	161.1
Mesón-Puentes axis	129.0
Norte Occidental axis	178.0
Interconnection Francia	210.2
Asturias-Galicia axis	123.8
Tordesillas-Galapagar-S.S. Reyes axis	297.4
Several lines of access	6.8
Total	1,226.2
220 kV Lines	
South Andalusia Programme	5.9
Several lines of access	3.5
Several lines	54.0
Total	63.4
Capacity increase	426

Substations under construction 2008

	No. Busbars 400 kV	No. Busbars 220 kV	Transformation MVA
Pamplona-Magallón axis	8	5	600
North east axis	15		
North west axis	3	1	600
Interconnection France	20	5	600
Asturias-Galicia axis	18		
Tordesillas-Galapagar-S.S. axis	8	4	600
Bajo Llobregat axis	15		
Soria-Guadalajara axis	3		
AVE Córdoba-Málaga axis	8	7	600
Sagrera axis	5		
South Andalusia programme axis	3		
East Andalucía axis	5	9	600
Various Substations	26	58	1,050
Total	137	89	4,650

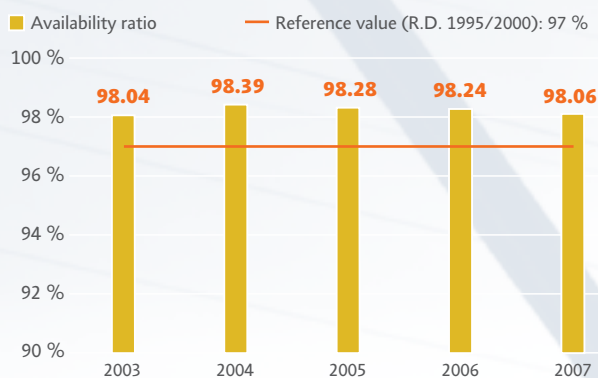
Behaviour of the transmission grid

Once again this year the quality of service indicators for the transmission grid are highly satisfactory in terms of availability and continuity of the supply. The availability rate of the grid registered 98.6%, for its part, the average interruption time was 1.10 minutes and the energy not supplied is situated at 547 MWh.

It should be pointed out that this year an exceptional event in terms of grid behaviour took place. July saw a power cut in Barcelona due to an incident produced by a 110 kV grid distribution cable falling on a Red Eléctrica facility, producing three short circuits which were quickly dealt with by the protection equipment. However, a further two sub-stations were affected and a fire broke out in one of them.

The specific causes which led to this fire, which was ultimately a 110 kV cable falling, are still pending resolution by the competent bodies in the material. However, Red Eléctrica do not hold themselves liable for this incident, given that according to the information available at present, the fire may not have necessarily taken place in their facilities.

Evolution of the availability of the transmission grid



Maintenance of Facilities

The availability ratios offered by the equipment and systems comprising the high voltage transmission grid are determined mainly by three factors.

- The application of strict quality criteria in maintenance work.
- The use of predictive maintenance.
- The execution of work in live facilities.

The continuous application of this type of action contributes to enabling Red Eléctrica to be at the international cutting edge with respect to the operating efficiency and service quality offered by its facilities.

Lines

2007 saw the programmed line inspections in the maintenance programme being carried out. To do so, in addition to field inspection, DVD recording equipment was used with a helicopter as the means of transport. Similarly, a great many lines were thermographed, in order to detect latent faults.

In addition, numerous maintenance jobs have been carried out on live facilities, among which fibre optic cable laying, the replacement and cleaning of insulation chains and the putting in place of scarecrows can be highlighted.

On the other hand anticorrosive protection work was carried out on many metal structures, almost 212,000 m². Important work was also done on felling trees and clearing streets under lines in addition to other activities on a sporadic basis.

The replacement of the 30 supports on the Almaraz-Villaviciosa line and the 10 supports on the La Mudarra-S.S. Reyes stand out among the maintenance tasks, as they had been affected by different weather conditions. Similarly, as a consequence of incidents caused by third parties, significant repair work was carried out on the different underground lines in Barcelona.

Substations

The maintenance programme for substation equipment and systems was implemented by applying different techniques depending on the characteristics of the equipment.

- Discrete and continuous measuring (monitoring) techniques were used on power and reactance transformers. On the former, 664 oil analysis were carried out, 108 insulation measurements (power factor) and the condition of the winding on 86 power machines (transformers and reactances).



- With respect to measuring transformers, the maintenance programme has included the use of measuring techniques to check accuracy on 230 live transformers, oil analysis on 116 intensity transformers and thermography on all the measuring transformers installed.
- In the maintenance of high voltage switches tele-diagnosis applications continue to be used, optimizing the operation and maximizing the maintenance cycles, which has permitted the time the machines are out of service to be decreased.
- In protection systems the maintenance programme was carried out according to plan and the revision of measuring equipment installed in the interconnections was carried out in accordance with the Measuring Point Directive.

Telecommunications equipment

During 2007, 4,824 maintenance interventions were carried out on the telecommunications network equipment, 28%

of which were of a corrective nature. The average annual availability of the essential telecommunications service was practically 100%.

The Red Eléctrica telecommunications network is formed by more than 21.300 km of Fibre Optic cable and around 19,000 pieces of equipment. This year has seen the incorporation of 1,200 km of fibre optic into the network and a total of 870 new pieces of equipment.

Integration of acquired assets.

During 2007 we have continued to place special emphasis on completing the integration of the transport assets acquired from electrical companies. Renovation and improvement programmes have been geared to increasing the quality of the equipment and systems which make up the facilities acquired, bringing them up to our regular quality standards and thus maintaining the optimal levels of the efficiency and quality of service which our facilities generally offer.



The underwater electrical link between the Mainland and the Balearic Islands will improve the quality and reliability of the supply and facilitate the creation of a competitive generation market in the Balearic Islands.

Mainland-Balearic Island underwater link

2004 saw Red Eléctrica commence the study and outline of the electrical interconnection between the Balearic Island system and the Mainland, with the aim of covering the increase in demand on the Islands and improving the quality and reliability of the supply.

This electrical link will enable a competitive generation market to be set up on the islands and represent a complementary option to the construction of power stations in the Balearic region. In addition, it is more environmentally friendly than other alternatives and will mean a cost saving for the entire electricity service.

The system start up is forecast for 2010, with the installation of underground cables and the converting station of Morvedre 400 kV, in Sagunto (Valencia) and Santa Ponsa 220 kV, in Calvià (Mallorca).

In addition, this will be the first underwater electrical interconnection using HDVC(high-voltage, direct current) in

Spain and the second on a global scale where the cables run at a maximum depth of 1,485 metres.

In 2007 once the viability studies were carried out and the technical characteristics of the project defined, contracts were awarded to the companies who were responsible both for manufacturing the cables as well as for the construction of the electrical link.

The proposal for the route of the underground cables was carried out using a detailed study of the ocean bed, determining the bathymetry and physical characteristic of the sub-floor, along a two-kilometre wide corridor.

The chosen course will avoid, in the underground and coastal stretches archaeological sites, fish farms, underwater flowering plant meadows in Sagunto. The environmental measures adopted will minimise the effect on the tourism and fishing sectors in the area.

International activity

The international activity is aimed at highlighting the value of the resources and the experience of Red Eléctrica in managing grids and electrical systems. To reach this aim Red Eléctrica International manages international investments in transmission infrastructure for the Red Eléctrica Group, leads consulting and technical assistance projects for external customers and promotes new business opportunities in the international arena.

Investment in transmission infrastructures

Red Eléctrica Internacional, develops its investment activity thorough the Peruvian company Red Eléctrica del Sur (REDESUR), in which it has a stake of 33.75 % and is also the strategic operator of the Bolivian transmission company, Transportadora de Electricidad (TDE), in which it holds a 99.94 % stake.

Red Eléctrica del Sur

During 2007, the Peruvian company REDESUR has maintained a high service quality standard with an availability rate of 99.60 %, which has enabled it to consolidate in service quality among transmission companies in Peru.

Outstanding events in the REDESUR company management include the winding up of the stockholder of REDESUR

(TAR), who have propitiated that the shareholders of REDESUR are direct shareholders of the company. This has been possible thanks to conditions negotiated for the refinancing of REDESUR in 2006.

In terms of business management, REDESUR have obtained excellent economic results during 2007: turnover was 11.93 million dollars with pre-tax profits reaching 2.85 million dollars, 5.3 % more than the previous year.

In the area of commitment to sustainable development, noteworthy is the incorporation of REDESUR in the Worldwide Agreement (Global Compact) as well as the creation of the Social Fund URALÁN who will administer company funds aimed at supporting communities in their area. Along these lines the contribution by REDESUR and the solidarity shown by its employees with the victims of the earthquake around Pisco on 15th of August 2007 stands out.

Transportadora de Electricidad

2007 was a very important business year for TDE, climaxing in the extension of the national transmission grid enlargement and the starting up of the Carrasco- Santibáñez project. This project, comprises 225 km of 230 kW transport lines, valued at more than 27 million dollars, constituting the most significant energy transport project carried out





during the year in the National Interconnected System, enabling the energy rationing suffered by the west of the country to be minimised.

Similarly, the company has continued to maintain its excellent levels of efficiency and quality of service. Total availability on the transmission grid was 99.82%, with efficiency of 96% in successful connection on the Interconnected Trunk System; the highest value registered up to the moment. These results are even more noteworthy if we consider that the electrical demand increased by 10% with respect to 2006.

The general tonic for 2007 has been one of overall improvement in key figures for TDE. The most significant being the net operating profit which reached 19.76 million dollars, meaning an increase of 13% with regards to the previous year, mainly due to the increased turnover and restriction in operating costs.

In the area of corporate responsibility, TDE has obtained certification for its Internal Social Responsibility Management System, under the SA 8000:2001 standard, which makes it one of the five companies in Bolivia having received this international recognition. In its own right the vision of the company in opening development opportunity has converted into two remarkable accomplishments: The adhesion

and the forwarding of the project of the Universidad Inter-cultural del Trópico de Cochabamba and the implementation of the internet protocol «Mi Portal TDE» (My TDE Portal) as the main support tool for the employee knowledge management model.

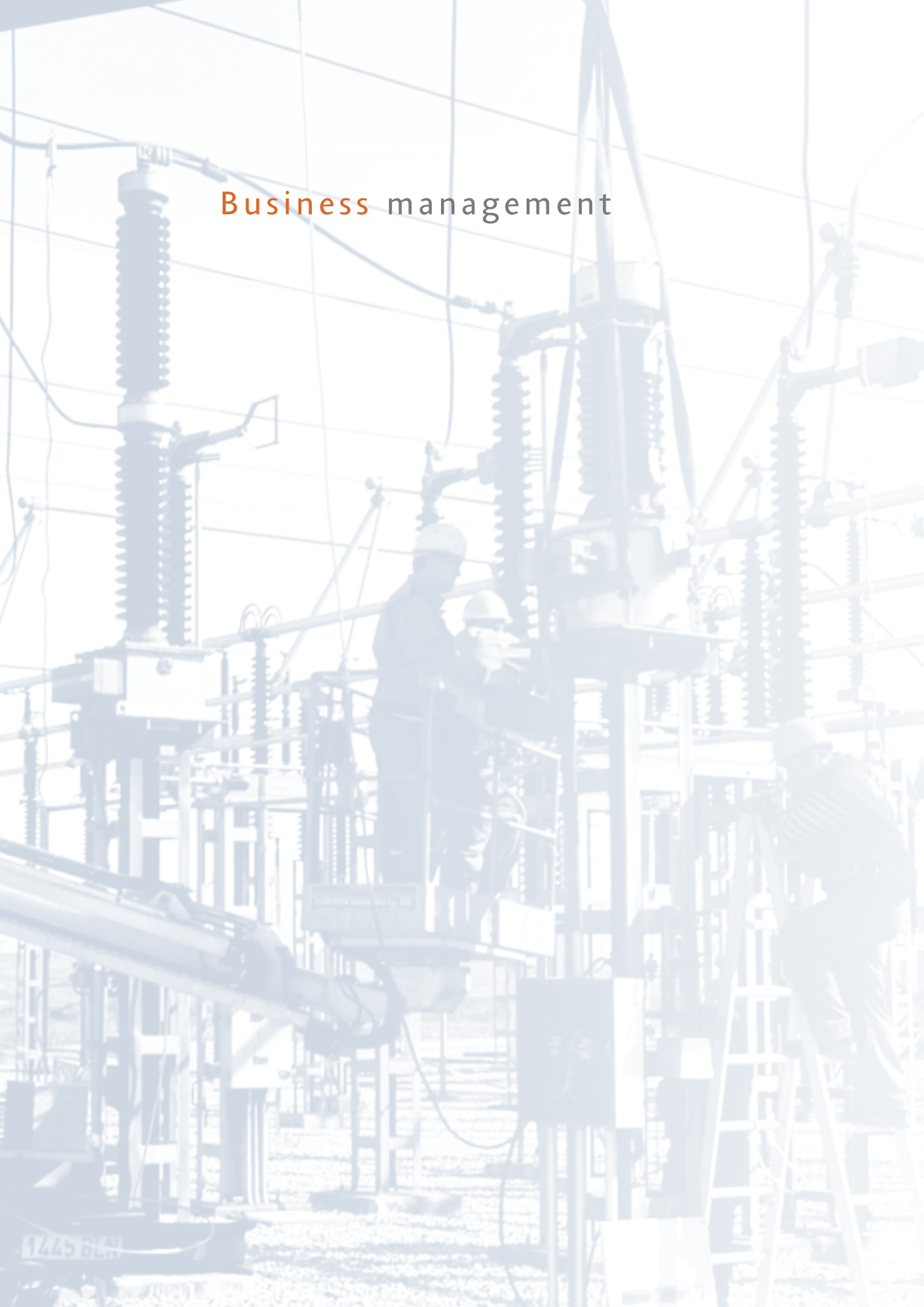
Consulting services and technical assistance

Red Eléctrica Internacional continues working to strengthen its presence in foreign markets through their participation in different international consulting projects, both in technical areas and the direct management related to the company's business: electrical energy grid transmission management and the operation of electrical systems.

In 2007 the following technical and business consultancy project stand out:

- **Argelia:**
 - Development of technical specification for contract line maintenance work with helicopters.
 - Technical assistance for maintenance of power machines.
- **Albania:**
 - Technical systems for the consolidation of the transmission and operating company.

Business management





1,031 million euros
turnover

243 million euros
profit after tax

A highly profitable solvent company
and leader in the area of business
management and sustainable
development

Human resources

Our commitment to people

In "Grupo Red Eléctrica" we pay special attention to personal development and satisfaction, given that this is the hub on which our vocation of service to society and sustainable ethical behaviour is based and which rules over how we carry out our activities.

The human resources management policy of the group is based on a commitment to professional and personal development of employees, on considering both aspects fundamental for personal satisfaction and fulfilment of their vital role.

This commitment can be understood as the implementation of tools and measures aimed at facilitating this goal, among which stand out:

- The creation of stable quality employment.
- Equal opportunities.
- The development of the work- life balance.

- The design of professional development models and the management of talent.
- The increase in internal efficiency using continuous improvement in the negotiation process.

These actions which make up the main principles of the human resources culture of the Group, have contributed to creating among employees a commitment with the company and with their business project, proof of which are the results on the survey of the social climate drawn up in 2007 and with the satisfaction levels, as well as staff turnover (2.57%) and the average number of year staff remain at the company (10.9 years).

Generating quality employment

The increase in the number of people at Red Eléctrica in 2007, means the climax in the growth process derived from the transport asset acquisition and the implementation of



The creation of stable, quality employment, equal opportunities, the work-life balance and the professional development of the employees are the pillars on which our commitment to our personnel is based.

the operation functions in the extra-peninsular systems, as well as the commitment to business excellence and quality of service of the company.

This increase in staff has been embarked on using criteria of efficiency and employment quality. During 2007, seventy people have left the company and 103 have joined meaning a total creation of 33 new jobs. 93.2% of the contracts were permanent and 6.8% temporary. Therefore when the year closed the workforce at Red Eléctrica totalled 1,317 people and 1,468 in the Group.

In general terms, 99.6% of the employees in the company have a stable quality job which influences positively their sense of belonging and commitment to the company project.

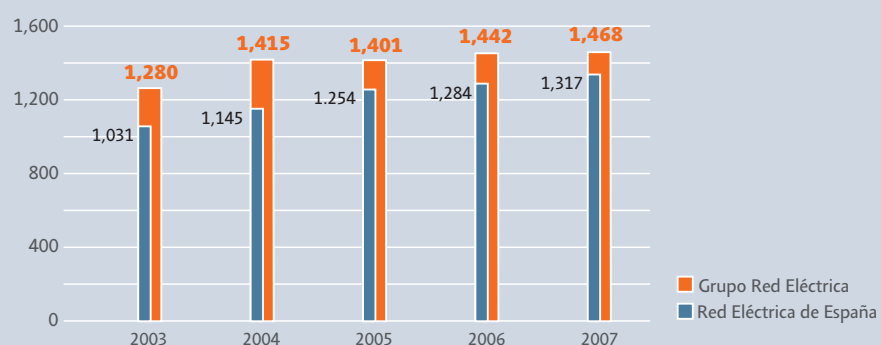
The company continues to commit itself to contracting highly qualified professionals, which enables it to manage the flexibility and mobility of staff with greater efficiency, better fitting the evolution of its business needs and projects.

In order to deepen their sense of belonging and their knowledge and abilities, those newly incorporated into the company go on to form part of the development programme which includes actions to ensure their correct training and integration. This programme has meant 18.6% dedication from a total of more than 100,000 hours of training.

Improvement in organisational efficiency

In order to optimise and upgrade the efficiency of company activities within a model of development excellence and

Evolution of the workforce
number of employees



continuous improvement during 2007 a project has been carried out entitled PROA II.

This project, a continuation of the process revision and organisation model (PROA), has gone into detail on the application of improvements in the business processes of the company. In a justified manner, it has updated the organisational model and linked the functions and responsibilities of each one of the organisational units of the company to the business process to guarantee its coherence in the operational reality of the company.

These functions and responsibilities have been defined from an added value provided by each one of the process units of the business, with the aim of contributing to the satisfaction of the needs and expectations of the interest groups and facilitate the attainment of the strategic objectives established in Red Eléctrica.

Equal opportunities

Traditionally the company, within its commitment to social responsibility and ethical management, has shown its firm application in complying with the principles of equality and non-discrimination, considering them key issues both in business success and social justice.

This sensitivity is manifest in the actions developed in the area of equal opportunities, such as the increase in the training time percentage for management given in 2007 to women employees (11% more than in 2006), the introduction of policies which improve the legislation applicable in work-life balance or the increase in employing women, meaning that Red Eléctrica boast the highest female composition in the electrical sector.

However, the company along the lines of encouraging participation, representation and equality of women, continues



to put special emphasis on improving other aspects of human resource management such as, retribution, development and promotion, in agreement with its posture on this material and in agreement with Organic Law 3/2007, of 22nd of March, on the effective equality of women and men.

Internal communication

Internal communication programmes are designed to encourage the collaboration of the employees and foster the knowledge of all the tasks developed by the company in this area.

One of the measures adopted has been the diffusion of a strategic programme for all the employees. Through the presentation of the different organisational units of the company the entire workforce receives this information directly, thus involving people in the pursuit of the strategic objectives of the company.

During 2007 there have also been different actions to drive the upstream, downstream and transversal communication aimed at improving the aspects related with job satisfaction of the employees. Among these activities the conclusion of the social climate study stands out. Started in 2006, it brings together a series of actions of a qualitative nature, together

with interviews carried out with people from different geographical areas, organisation units and functional groups, and helps gain an insight in the key issues both for the development of the business activity and for personal satisfaction. The results of the study have served as a starting point in the drafting of the internal communication programme 2007-2009 and as a driving force for the design of new practises in different units of the company in order to achieve these objectives.

Professional development of employees.

Red Eléctrica have always had a strong commitment to the continuous development of the knowledge and abilities of people as a guarantee of success for their business project.

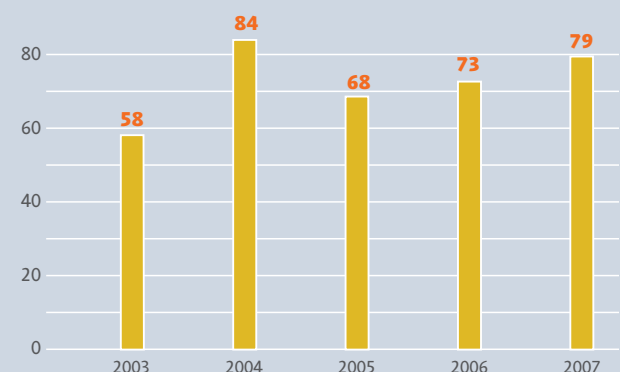
This conviction is strengthened in training programmes aimed at boasting the management of talent of those with high levels of potential, improvement in the contribution of people and the development of skills and technical business knowledge.

In 2007 a total of 102.926 hours of training were given, 11% more than in 2006, with 97% of the employees participating. Both the training action given and the development programmes are associated to each specific group, guaran-

Evolution of the net profit per employee
thousands euros



Evolution of the training hours per employee
on the Red Eléctrica workforce



teeing therefore the satisfaction of the needs and requirements of each one of them.

These training programmes, in addition to performance management, are the base on which the professional development plans and the succession plans for the future are built which are basic for the business future of the company. In this direction during 2007 a succession policy was designed to cover management positions: 95% of the positions have been covered during this year through internal promotion, with people associated to the programme «High Powered Personnel Management».

This year a series of training actions to enable the adaptation of new management responsibilities also took place. This action, together with others included in the Management Development Programme, aimed at the improvement of leadership skills and people management, have meant more than 120 training hours in the training of each manager

Managing knowledge

The Operation School, officially inaugurated in January by the Ministry of Industry, Tourism and Commerce is a key management and knowledge tool for Red Eléctrica.

This school, one of its kind in Europe, has consolidated as a reference for the training of operators and operation technicians on high voltage electricity grids. During 2007, 141 courses have offered 24,858 hours of training to more than 1,800 students.

In addition to internal recycling to retrain operators in the energy control centres of Red Eléctrica, the school continues to consolidate its training offer to the public. This offer aimed at the external public has meant a programme of more than 12,300 training hours for grant holders of the school which has enabled them to reach an optimal level of qualification as electrical systems operation technicians and obtain a qualification of academic prestige from the Universidad Pontificia de Comillas.

Similarly, during 2007 design and preparation work has been carried out on the future Maintenance School, which will start its activities next year. This school, which will complement the service offer of the Operation School, is aimed at the training and retraining of maintenance specialists and technicians in the company.

The investment in training strengthens the commitment by Red Eléctrica to permanently improve the already excellent availability and quality service offered by its electrical installations.



Management excellence

In 2007 Red Eléctrica renewed its European Excellence +500 recognition, this is the top accolade for business excellence, awarded by the European Foundation for Quality Management (EFQM), through the Management Excellence Club.

In this assessment Red Eléctrica obtained 606 points, a 10% improvement on the score obtained in 2005, enabling them to obtain the highest level «5 Star “Recognized for Excellence” », rating, awarded by the European Foundation for Quality Management (EFQM) through the Management Excellence Club.

Only three of the 20 companies who hold this recognition in Spain exceed 600 points. In addition, Red Eléctrica is the only company in the electrical sector who has reached it.

In the drive for excellence Red Eléctrica has also renewed the quality seal «Madrid Excelente», awarded by the Community of Madrid. This seal is based on the EFQM model and recognises a series of requirements classified in three modules: excellence, responsibility and customer confidence.

The key to business excellence by Red Eléctrica is also endorsed in the external certification and accreditation of their business management systems. In this sense, Red Eléctrica has maintained in 2007 their accreditation for measuring equipment from the Calibration and Testing Laboratory and for Electrical Measurement Inspection, both awarded by the National Certification Entity (ENAC).

In addition, the AENOR quality (UNE EN ISO 9001), environment (UNE EN ISO 14001) and occupational health and safety (OHSAS 18001) certificates have been upheld, after passing the corresponding follow-up audits.

On the other hand, during this year a second wave of satisfaction assessments of the different interest groups of Red Eléctrica were embarked on. Here the majority of the members of the interest group (social) were interviewed (city councils, educational centres, business bodies and groups, environmental groups, NGOs/Foundation and the public), as well as the «shareholder and investment» interest group and that of the «suppliers», both of goods and services and finance capital. Another interest group who have also held an important role in the survey programme is that of the «employees», where aspects such as evaluat-



In 2007 Red Eléctrica consolidated its position in the main Dow Jones sustainability index and has renewed its recognition for European Excellence +500, one of the highest accolades for excellence in business management.

ing their tasks; recruitment, selection and incorporation of employees and health awareness were assessed.

The average value of all the interest groups in 2007 reached a score of 7.72 from a total of 10, 2.38% higher than that of the previous year.

Corporate responsibility

In the ambit of their continuous improvement strategy, Red Eléctrica has continued to work during 2007 in the different branches of their corporate responsibility management system: structural, corporate governance, social, environmental and technical-economical, developing the 5th annual programme of corporate responsibility, with a total of 29 projects and a compliance level of 87.2%. The corporate responsibility report treats each one of these projects in detail.

One of the main priorities in this area has been the transfer of corporate values held in the area of corporate responsibility to the supplier chain, with the aim that they share the same values and contribute equally to the sustainable development in carrying out their activities.

In 2007 Red Eléctrica strengthened their position in the main Dow Jones Sustainability Index. The score for this year was

76 points out of a possible 100, thus improving their evaluation for the second year running. With this score we are closing in on the best in the sector in Europe, who has a score of 78 and on the best in the world who obtained a score of 81.

Similarly, Red Eléctrica has been considered the best company in the IBEX 35 in its field by the two national observatories for corporate responsibility (RSC observatory and RSE observatory).

During 2007 a follow-up audit was also carried out on the SA8000 Standard obtained during the 2005 campaign, for the recognition to the commitment to respect human and labour rights of employees and ethical treatment of people. The audit highlighted the efficiency of the system which was implemented, as well as the systematic improvement in the elements comprising it.

Finally, the excellent results obtained by the company in their commitment to sustainability have enabled them to be selected in the category SAM, Silver Sustainability Yearbook 2008. This distinction places Red Eléctrica in a leading position in the electricity sector, on forming part of the twelve best companies in the world.



Environmental responsibility and sustainability

Red Eléctrica understands that the development of its activities must be implemented from a position of ethical commitment to society and the environment. For this reason our challenge is to make the development of the electrical infrastructure compatible with the conservation of the environment in order to reach an efficient balance between business activity and sustainability.

To do so, we carry out environmental impact studies on all the new installation projects, beyond the legal requirements and we apply the strictest environmental control on all the activities, in accordance with the principles assumed in our environmental policy.

In addition we boast Environmental Management Systems in all our activities and installations, certified since May 1999 in accordance with the UNE-EN ISO 14.001 standard, and registered since 2001 at the Eco-Management and Eco-Audit System (EMAS).

Environmental activities

During 2007 the Ministry of Industry, Tourism and Commerce have carried out the planning of the electricity and gas sectors for the period 2007-2016. One of the main objectives of the planning is to make environmental conserva-

tion compatible with the principles of efficiency, safety and electrical quality supply.

In the wake of the approval of 9/2006 Act, of 28th of April, a new addition was the assessment of the effect of certain plans and programmes on the environment, the planning of the electrical sector must be subjected to a strategic environmental assessment process. In this sense, Red Eléctrica has collaborated, at the request of the ministry, in drawing up a report on Environmental Sustainability.

In addition, Red Eléctrica, following their policy of carrying out environmental impact studies on all the projects, received in 2007 from the Ministry of the Environment the Positive Declaration of Environmental Impact (DIA) for six new line and substation projects. During this year a total of 38 electrical installation dossiers were involved in any one of the assessment procedure stages for environmental impact (prior consultancy, public information ...).

Similarly, environmental supervision work has been carried out on the construction work at different installations, consisting of the application of preventive and corrective measures, the design of areas for the location of dangerous waste and the verification of the correct management of the waste generated.



At Red Eléctrica we are committed to working with the environment and we integrate the protection and conservation of the environment into the normal development of our business activities.

In terms of the activities directed at the protection of birdlife, during 2007 the signalling programme with scarecrow bird spirals on those lines which could present a risk to birdlife in danger of extinction was maintained. The nesting deterrent for the white stork (*Ciconia ciconia*) on electricity support lines in the regions of Castilla-La Mancha, Castilla and León, Extremadura, Galicia and Madrid continues to be monitored. In addition due to the notable increase in the stork population, new deterrent devices have been installed.

With reference to activities aimed at preventing contamination the expansion tanks and the spill holding systems on the power machines in four substations have been refitted, as well as the oil collection tanks in the auxiliary transformers on two substations.

In terms of fire prevention, noteworthy is the effort carried out to obtain collaboration agreements in preventing and tackling forest fires with different regions, with our sights set on covering the entire country in the medium term. This year has seen the signing of agreements with the regions of Andalusia and Castilla-La Mancha. In addition, within this context, a training course was given to the forest rangers of the Environmental Protection Service (SEPRONA) in the region of Valencia, this included different issues such as the identification of the different types of

electrical installations and how to act in the case of a forest fire in the vicinity of one.

During 2007 projects continued to be developed which included the compensatory measures derived from the second underwater interconnection with Morocco. The aim of these measures is to protect the fragile natural and social ecosystem of the Straits of Gibraltar Natural Park. The environmental report describes in detail the scope of each one of the compensatory measures adopted.

Finally, during 2007 the most significant environmental risks derived from the company activity have been identified and assessed and precise actions have been proposed to reduce them and the indicators designed to check their situation and monitoring.

Research projects and environmental studies.

- The project which started in 2003 «Induced Currents in the Human Body by Industrial-Frequency Electromagnetic Fields », carried out in conjunction with the Institute of Applied Magnetism «Salvador Velayos» (associated with the Universidad Complutense of Madrid, RENFE and The CSIC) and UNESA, has come to an end. As a result of this project a computer model exists which uses simulation

techniques, to check that employees carrying out their usual task are not subjected to currents higher than those laid down in the 2004/40/CEE Directive.

- The research project to ascertain the interaction between Bonelli's Eagle (*Hieraaetus fasciatus*) and the electrical power transport lines is ongoing. This project is developed in collaboration with the Animal Biology Department of the University of Barcelona.
- Another ongoing project is that of the effectiveness and the useful life of the "bird spiral" in collaboration with the Biology Station at Doñana (CSIC).
- Similarly the project to protect the Pilgrim Falcon population (*Falco peregrinus*) in the province of Valladolid, in collaboration with the Regional Wildlife Department of Valladolid, as part of the Ministry for Environment of the Autonomous Government of Castilla and León is still in force.
- In addition, the experimental project in conjunction with TECNOAMBIENTE and the Council for Scientific Research (CSIC), for the translocation and later introduction in situ of Neptune Grass (*Posidonia oceanica*, endemic to the Mediterranean Sea), and whose meadows have been declared a priority habitat by the European Union, is still in force.

Environmental costs

During 2007, the cost of environmental investments in new installations rose to 2.1 million euros. These investments have corresponded mainly to carrying out environmental impact studies on new projects, and the environmental supervision of the electricity installation under construction and the application of compensatory measures of an environmental nature.

In its own right, expenses incurred in the protection and improvement of the environment have reached the 15.4 million euros, among which can be highlighted the application of preventive and corrective measures in installations in operation.



Environmental costs

thousands of euros

	2003	2004	2005	2006	2007
Investments	1,575.4	1,704.4	2,074.9	6,293.7	2,086.6
Engineering and the cost of new facilities	1,575.4	1,704.4	2,074.9	6,293.7	2,086.6
Costs	3,956.3	4,893.2	5,879.7	9,321.6	15,359.8
Environmental management system	13.7	24.6	19.8	7.4	12.1
Preventive and corrective measures for installations in service	2,863.7	3,527.4	4,387.8	7,489.3	13,791.9
Research and Development	127.7	225.4	217.7	355.3	283.6
Training and communication	138.9	210.4	266.4	451.2	408.8
Environmental taxes and levies	13.2	2.8	21.7	16.8	37.3
Cost of personnel dedicated to environmental activities	799.2	902.6	966.3	1,001.6	826.1



Technological development and innovation

During 2007 Red Eléctric have subjected R+D+i to a process of revision and analysis to focus on it and equip it with an additional impetus. To do so, the LIDER+ project has been carried out with two main objectives: assess the business model of this activity compared to the most advanced business model for technological innovation in the world and draft the new R+D+i plan for 2008-2012. With this Plan, technological innovation reinforces its strategic activity nature for the company.

R+D+i projects underwent significant growth reaching 4.36 million euros, meaning a 15.7% increase with respect to the previous year. This investment was shared out among a total of 56 projects and represents 0.45% of the Red Eléctrica income.

During 2007 participation in several European Union Framework Projects was ongoing. The most important of which are those related with the integration of renewable energies into electricity systems, mainly in wind energy, with projects such as: IS-POWER, WIND ON THE GRID and ANEMOS PLUS, among others.

Similarly, Red Eléctrica participated in the GAD project (Active management of the Demand), promoted by the Min-

istry of Industry, Tourism and Commerce and included within the CENIT programme framework (National Strategic Consortiums for Technical Research). In addition, it forms an active part in the different technological platforms, one of which is the Spanish Platform for Electricity Grids (FUTU-RED) where it holds the vice-presidency.

Most significant research projects

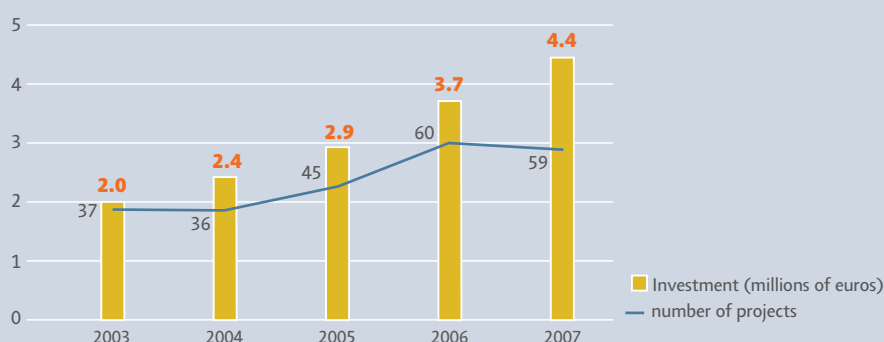
ANEMOS PLUS

Its aim is the development of advanced tools for the management of wind energy integration into the electricity system where large amounts of this type of energy will be integrated. The use of these tools is intended to mitigate the effects on the system operations presented by a huge variability of wind energy, in order to maximise both the penetration level and its capacity to participate in electrical energy markets.

ACOUSTIC SCREENING OF TRANSFORMERS

The aim of this project is to assess the different systems to reduce the noise generated by the power transformers installed in substations.

Evolution of the investment in R+D+i



Red Eléctrica plays an intense role in the field of technological innovation and considers its R+D+i activity as a basic element in its company strategy.

HIGH TEMPERATURE CABLES

This project assesses the different technological characteristics of high temperature cables, which allow greater transmission capacity while maintaining similar weight and flexure to conventional ones. In 2008 a prototype will be installed on the Atarfe-Caparacena line to check its behaviour in a real installation.

CALCULATION OF INDUCED CURRENTS

This project consisted in the development of a mathematical model to calculate the currents induced in the human body by electromagnetic fields of 50 Hz. This model has been validated on an experimental level with laboratory animals and enables us to check the compliance of the occupational directive relative to exposition to electromagnetic fields.

ACTIVE MANAGEMENT OF THE DEMAND

The aim of this project is to optimise the way to consume electrical energy in the domestic sector and therefore the cost associated with it, satisfying the needs of the consumer with the same or similar quality.

IS-POWER

The aim of this project is to propose different technical solutions which enable the integration of renewable energies and the generation distributed in isolated electricity systems.

PELÍCANO

This aim of this project is to develop an unmanned helicopter to inspect overhead lines that is capable of at least providing the same image quality and carrying it out on the same time scale as the inspection that is at present being carried out with manned helicopters.

RELIANCE

This project has identified the common technological research and development needs of the TSO in Europe up to 2030 and has established a roadmap with the milestones and projects required to achieve the desired objectives.

SUBSTATION IEC61850

The development of this pilot project will enable the viability of this technology to be assessed through the direct application of the IEC61850 in a substation, as well as the effective integration of the equipment from different suppliers.

WIND ON THE GRID

The aim of this project is the preparation of the European Electrical Grid to reach large scale integration of wind energy into the electricity system. Specifically, to develop a series of application and design services for the planning, control and operation in a competitive market.



Creating value and profits

2007 has been a year of strong growth in terms of investment, consolidation of the acquisition of assets from previous years and general improvement in the economic and financial ratios of the group.

Economical and financial management

Group investments have risen to 727.8 million euros, 37.4 % more than in the previous year. 607.6 million euros of this investment corresponded to investments in the main-land transmission grid and represents a 19.1 % growth with regards to 2006.

Turnover increased 8.6% with respect to the previous year, due mainly to the income associated with the transmission assets put into service in 2006.

Adaptation and integration projects for assets acquired in previous years, as well as the renovation work and improvements in the transmission grid have increased the operating expenses, admittedly the Group was able to reach an EBITDA/Turnover of 70.2 % as opposed to 68.7 % from the previous year.

Key figures

In 2007, **turnover** reached 1,030.9 million euros, with a growth of 8,6 % over the previous year, mainly due to the retribution associated with the installations put into service in 2006, which registered a record level.

Key figures

thousands of euros

	2003	2004	2005	2006	2007	07/06 (%)
Turnover	686,732	738,830	860,163	949,262	1,030,910	8.6
Gross operating profit (EBITDA)	439,832	496,369	591,129	651,689	723,252	11.0
Net operating profit (EBIT)	250,001	307,229	332,164	401,843	471,789	17.4
Pre/tax profits	176,126	240,453	262,044	280,857	361,598	28.7
Profits attributed by the controlling company	115,784	135,806	162,422	200,154	243,049	21.4
EBITDA/Turnover	64.0 %	67.2 %	68.7 %	68.7 %	70.2 %	2.2
Investments in the national transmission grid	215,347	243,368	420,182	510,070	607,640	19.1
ROE	13.6 %	15.5 %	16.9 %	19.6 %	20.2 %	3.2
ROA after taxes	5.9 %	7.3 %	5.8 %	7.1 %	8.2 %	14.6
Cash flow after taxes	320,876	350,700	429,641	465,647	523,995	12.5
Net financial debt	1,914,255	1,845,826	2,779,159	2,644,381	2,697,044	2.0

The **consolidated operating costs**, making a deduction for the effect of expenses associated to incidents on the transmission grid which are compensated with the insurance payments recorded in other profit earnings, increased to 307.7 million euros, as opposed to 297.6 million euros in the 2006 exercise, representing an increase of 3.4 %.

This increase was mainly caused by the effort being made on the renewal and improvement programmes to increase the quality of the assets acquired in previous exercises from electricity companies.

The **gross consolidated operating profit (EBITDA)** reached 723.3 million euros, 11.0 % greater than 2006. The EBITDA margin on the turnover was 1.5 points higher than 2006 and reached 70.2 %.

Net operating profit (EBIT) was 471.8 million euros, which means a 17.4 % improvement with regards to 2006.

Consolidated financial costs for 2007 rose to 111.4 million euros, meaning an increase of 9.1 % in terms of 2006, due mainly to the increase in interest rates on the financial markets.

Pre/tax profits rose to 361.6 million euros, 28.7 % more than in 2006. This result includes the 12.3 million euros in impairment loss as opposed to the 31.2 million euros registered in 2006. This impairment mainly corresponds to the correction of the value carried out on the electrical facilities whose construction was paralysed due to causes beyond the company's control.



Profit after tax rose to 243.0 million euros, 21.4 % higher than 2006. The tax rate was 32.8 % as opposed to 28.7 % in the previous year. In 2006, as a result of law 35/2006 coming into force, which modified the company tax rate, a positive balance of 15.6 million euros occurred.

Cash flow after tax reached 24.0 million euros, meaning an increase of 12.5 % compared to 465.6 million euros in 2006.

Equity can be situated at 1,202.8 million as opposed to 1,022.0 million euros in 2006, which represents a growth rate of 17.7 %. ROE has increased to 20.2 % as opposed to 19.6 % the previous year.

Finance

Debt has remained similar to that of previous years as the cash flow and the increase in the working capital has permitted the funding of a significant investment programme without causing an increase in financial needs.

Net financial debt at the end of 2007 was 2,697.0 million euros, with a minimum increase of 2 % as regards to the previous year. As a result of this stability, the structure of

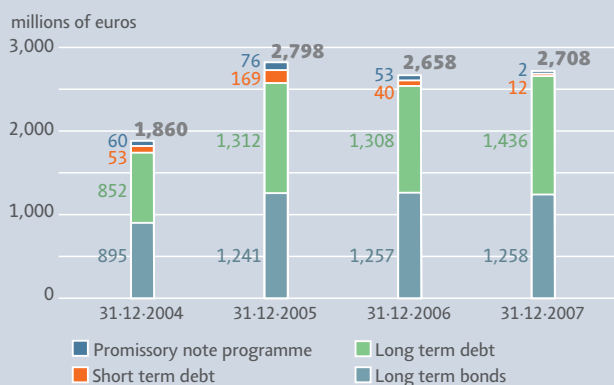
the debt in 2007 did not register significant variations and has maintained the structure developed during recent years.

The increase experienced by financial expenses has its root in the increase of the average balance registered by debt during the year, as well as the appreciation of the average cost. However, the interest rate risk management policy, aimed at maintaining an elevated proportion at a fixed rate of interest, has enabled the repercussion of the rising costs of interest registered during the year to be limited.

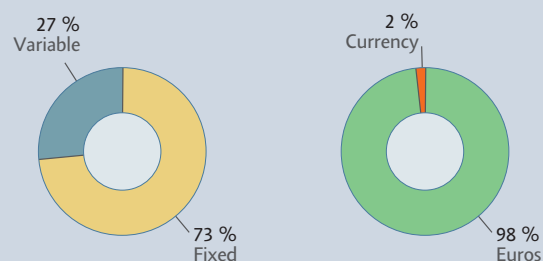
It is also worth highlighting the significant volume of funds available during the year, which have provided a guarantee of additional liquidity and have contributed significantly to reinforce the financial structure of the Group. In this sense, new long term funding of 225 million euros has been provided by the Official Credit Institute (ICO).

Red Eléctrica has maintained the credit rating awarded by Standard & Poor's y Moody's (AA-/A-1+ y A2, respectively). These ratings endorse the high level of solvency and financial strength, as well as the low risk and the strategic importance of the main activity carried out by the Group.

Debt per instrument



Structure of the debt



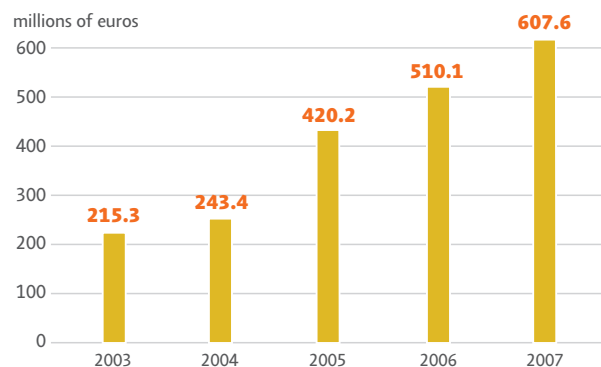
Red Eléctrica Group investments

Consolidated investment for 2007 rose to 727.8 million euros. Of these investments, 607.6 million euros, 19.1 % more than 2006, are allocated to the development and improvement of the of the national transport grid, with 166 km of lines and 127 new busbars put into service.

The most important projects developed throughout 2007 were:

- The improvement in the 220 kV grid mesh in Valencia and Madrid.
- The strengthening of the transmission grid in eastern Andalusia.
- Generation capacity evacuation of new combined cycle power stations and different wind farms.
- The start of the interconnection between the mainland and the Balearics via submarine cable.

Evolution of the investment in the transmission grid

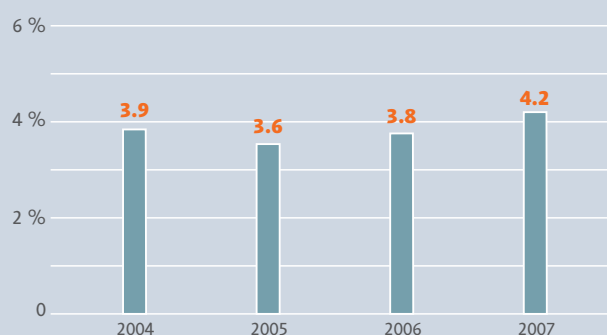


Investments

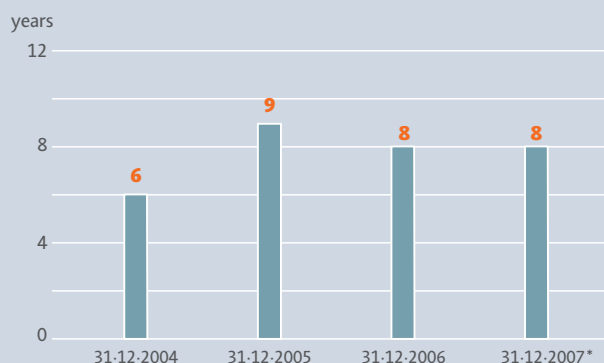
thousands of euros

	2003	2004	2005	2006	2007	07/06 (%)
Acquisition of transmission networks in Spain	535,177	-	45,098	-	-	-
Investments in the transmission grid in Spain	215,347	243,368	420,182	510,070	607,640	19.1
Investments in the international transmission grid	1,956	7,256	7,199	13,551	7,151	-47.2
Purchase of company shares	-	-	247,335	-	98,822	-
Other Investments	17,038	23,946	35,725	5,976	14,153	136.8
Total	769,518	274,570	755,539	529,597	727,766	37.4

Average cost of the debt



Average long term debt



* Includes available debt



Stock market evolution



33.1 % share revaluation

21 % increase in
dividends paid out

A safe investment which has
behaved excellently in 2007,
exceeding the majority of the
world stock market reference
shares in terms of revaluation

Stock market evolution

Shareholder structure

On the 31st of December 2007, the fully subscribed and paid up share capital of Red Eléctrica amounted to 270,540,000 euros, represented by 135,270,000 shares with a face value of 2 euros. During 2007 no changes occurred that were able to affect the number of outstanding shares or their face value.

The total share capital for Red Eléctrica is listed in the four Spanish stock exchanges and negotiated in the Spanish continuous market. Similarly, Red Eléctrica is included in the IBEX 35 and its weight in this index was 1.11% at the close of 2007.

Throughout 2007, Red Eléctrica's free-float accounted for 80 % of the share capital. The free float capital comprises 108,216,000 shares and it was estimated on 31st May 2007, the date of the last General shareholders meeting, that 13 % belongs to minority shareholders, 32 % to Spanish institutional investors and 55 % to foreign institutional investors, located for the most part in the United Kingdom, the United States of America and Germany.

The number of own shares at 31st December 2007 was 295,165, which represents 0.22 % of the total outstanding shares.

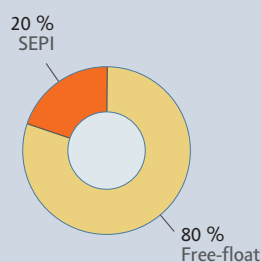
Share capital distribution

31st May 2007 (Shareholder's General Meeting)

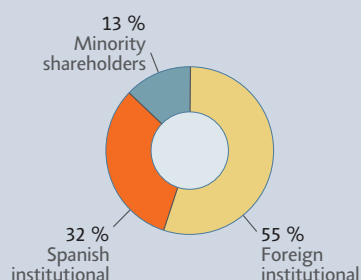
Groups (by shares)	No. of Shareholders	%	No. of Shares	%
From 1 to 1.000	34,945	89.53	7,336,529	5.42
From 1.001 to 5.000	3,335	8.54	5,948,103	4.40
From 5.001 to 25.000	534	1.37	5,414,604	4.00
From 25.001 to 80.000	108	0.28	4,783,109	3.54
More than 80,000	106	0.27	71,206,655	52.64
Electricity Shareholders*	4	0.01	13,527,000	10.00
Significant Shareholders	1	0.00	27,054.000	20.00
Total	39,033	100.00	135,270,000	100.00

* Includes the participation of Spanish electrical companies. Post meeting these companies have sold 7% of their shares in Red Eléctrica de España, S.A

Share structure
31st December 2007



Free-float structure



The stock market evolution of the company during 2007 has been very favourable. The year closed with a revaluation of 33.1 %, among the highest in the IBEX 35.

Stock market evolution

From an economic point of view, 2007 was characterised by the appreciation of raw materials, metals, fuels and even food, caused by the growing demand of the economies in developing countries. Another important aspect was the declines in the property market, which has been suffering a slow down both in the United States and in many developed countries.

These circumstances have led to the well-known crisis of the high risk mortgages, which featured in the markets during 2007, bringing about negative consequences for the financial sector. This sector has suffered huge upheavals over the last few months, with the rise in the inter-bank lending rates, reaching levels similar to those of 2002. The persistence of this panorama sparked off the fear of a possible world recession.

These worsening economic conditions have been reflected on the world market throughout the year. The main stock markets have registered more moderate increases than previous year, with earnings in general under 10%. However, the excellent behaviour of the German DAX rating is noteworthy,

with an increase of more than 22%, reflecting the improvements being felt by the German economy last year. On the other hand, the Japanese Nikkei, with a fall of 11%, has registered the negative repercussions of the depreciation of the dollar in the share prices of Japanese exporters.

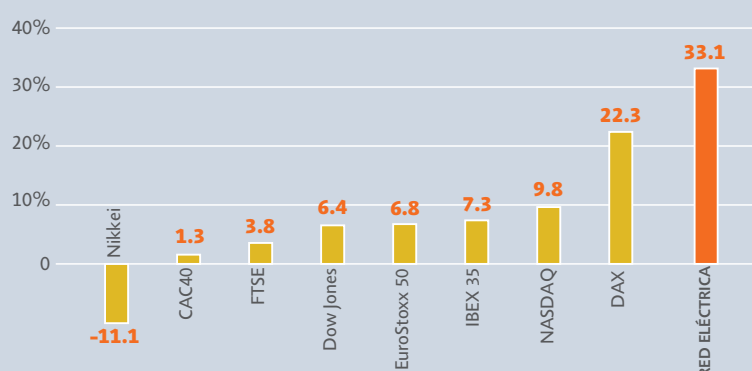
Red Eléctrica's share, after reaching record highs of 45.14 euros closed 2007 at 43.24 euros meaning an increase of 33.1%, exceeding in revaluation a large part of the world stock markets.

This positive evolution is a reflection of the increased visibility acquired by the company's investment programme, after the draft on the electrical infrastructure plan issued by Ministry of Industry, Tourism and Commerce was made public.

2007 was a year of strong market activity for Red Eléctrica. 435.8 million securities were negotiated throughout the year, representing 3.22 times the company share capital. Effective trading exceeded 15,200 million euros. The figures mean almost twice the effective trading carried out in 2006.



Evolution of the main stock markets



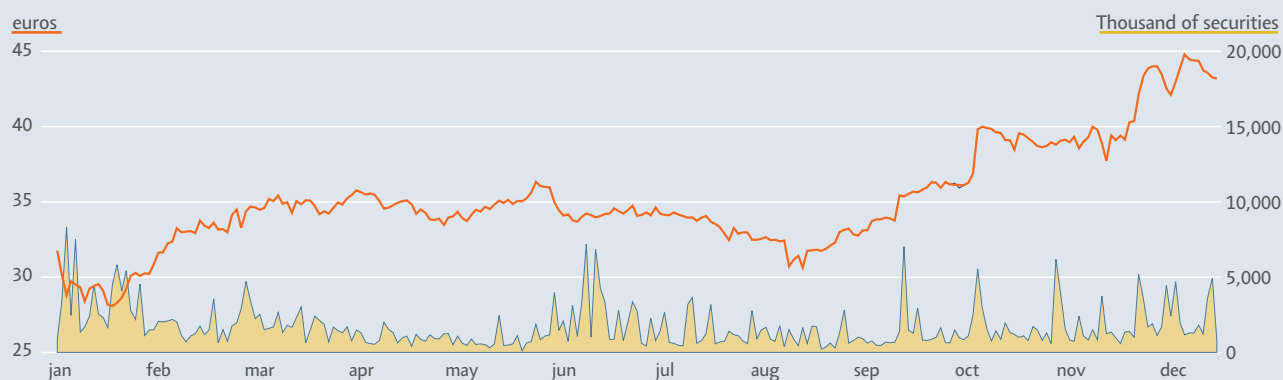
Monthly share prices evolution

	Days listed	Monthly movements (euros)				Monthly Variation %	Trading volume	
		Maximum	Minimum	Average	Close		Securities	Cash (euros)
January	22	32.46	27.81	29.36	30.87	-5.0	72,720,709	2,134,997,956
February	20	35.07	31.01	33.22	34.40	11.4	36,795,936	1,222,065,059
March	22	35.78	33.75	34.84	35.27	2.5	41,285,858	1,438,952,575
April	19	36.06	33.57	34.87	33.82	-4.1	19,024,849	663,459,775
May	22	36.42	33.26	34.65	36.36	7.5	17,848,111	618,810,846
June	21	36.36	33.40	34.33	34.78	-4.3	52,435,891	1,800,027,086
July	22	34.75	32.17	33.90	33.28	-4.3	30,399,354	1,031,132,509
August	23	33.20	30.25	32.16	33.02	-0.8	24,444,254	786,496,852
September	20	36.35	32.51	34.59	36.35	10.1	27,094,565	938,096,760
October	23	40.89	35.54	38.35	38.75	6.6	34,526,982	1,324,779,971
November	22	42.20	37.65	39.42	42.18	8.9	39,578,479	1,560,588,503
December	17	45.14	41.65	43.45	43.24	2.5	39,679,494	1,722,151,697
Annual total	253	45.14	27.81	34.97	43.24	33.1	435,834,482	15,241,559,587

Comparison Red Eléctrica - IBEX 35 - Energy sector



Daily share prices evolution and volume



Dividends paid out to Shareholders

Red Eléctrica maintain their commitment to maximise the return on the investment for shareholders, firstly, by offering an attractive earning per share and secondly, contributing to the revaluation of the share through its effective business management. 2007 saw the direct pay out to shareholders in dividends having grown 21% as regards to the previous year.

The gross dividend proposed at the General Shareholders Assembly for 2006 is 1.0871 euros per share.

On 2nd of January 2008, a gross interim dividend of 0.3868 euros per action was paid out, with 0.7003 euros per share pending distribution as part of a gross additional dividend for 2007.

Dividend per share

	2003	2004	2005	2006	2007
Dividend per share (in euros)	0.5480	0.6138	0.7304	0.8984	1.0871
Interim	0.2120	0.2375	0.2708	0.3250	0.3868
Additional	0.3360	0.3763	0.4596	0.5734	0.7003
Dividend over net profit (%)*	65.0	65.3	67.8	61.2	61.6

* Estimated on the profit of Red Eléctrica S.A.

Main market indicators

	2003	2004	2005	IFRS 2006	2007
Total number of shares	135,270,000	135,270,000	135,270,000	135,270,000	135,270,000
Number of outstanding shares	80,485,650	80,485,650	94,689,000	94,689,000	108,216,000
Face amount of share (in euros)	2	2	2	2	2
Daily trading (in securities)					
Maximum	42,935,482	6,714,657	12,587,045	13,951,206	8,353,034
Minimum	110,021	104,761	115,238	146,521	106,106
Price (in euros)					
Maximum	13.34	16.75	23.75	37.09	45.14
Minimum	9.54	12.75	15.95	24.70	27.81
Average	11.29	14.32	21.09	29.22	34.97
Close	13.00	16.50	26.16	32.49	43.24
Market capitalisation at the end of the year (in euros)	1,758,510,000	2,231,955,000	3,538,663,200	4,394,922,300	5,849,074,800
Dividend per share (BPA) (in euros)*	0.86	1.00	1.20	1.48	1.80
Net cash flow per share (in euros)	2.37	2.59	3.18	3.44	3.87
Price / BPA (PER) (No. of times)	15.19	16.43	21.79	21.96	24.06
Price / CFPA (PCF) (No. of times)	5.48	6.36	8.24	9.44	11.16
Price / Book value per share (PVC) (No. of times)	2.07	2.55	3.68	4.30	4.86

* Own shares not taken into consideration.

Communication with shareholders and investors

Red Eléctrica maintains a policy of open, fluid and close communication with shareholders and investors. Communication with them takes place with the maximum of transparency, providing them all the available information at the same time as it is being received from the rest of the agents in the stock or financial markets.

During 2007, the company management team took part in presentations and meetings with institutional shareholders in the main financial markets in Spain, Europe and the United States. A total of 218 meetings were set up with analysts and institutional investors in more than 24 important financial markets. In addition 17 trips were organised to national and international institutions and 22 presentations were made to institutional investors both for fixed and variable investments.

In the area of the General Shareholders Assembly the policy on improvement in communications started in previous years has continued. In this sense, the possibilities of participating in the shareholders meeting have increased, with the shareholders meeting being broadcast live over internet for the second year running, in addition to extending the voting system functions for the agreement proposals via electronic voting.

The main communication channels used by the company to attend and inform shareholders and investors are the following:

Shareholder 's office

Free phone: **900 100 182**

E-mail: **accionistas@ree.es**

Web site: **www.ree.es**

Section «**shareholders and investors**»

Quarterly shareholders newsletter

Investor relations unit

E-mail **relacioninversores@ree.es**

Consolidated Annual Accounts 2007

Auditors' Report Independent **63**

Consolidated Financial Statements **64**

Notes to the Consolidated Financial Statements **68**

Consolidated Directors' Report **108**

Individual Financial Statements **120**

Proposed Profits Distribution **124**





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A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Financial Reporting Standards adopted by the European Union

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Red Eléctrica de España, S.A.

We have audited the consolidated financial statements of Red Eléctrica de España, S.A. (parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2007, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of Red de España, S.A. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the Directors have presented, for comparative purposes only, for each item in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash-flow statement, the corresponding amounts for the previous year as well as the amounts for 2007. Our opinion refers solely to the 2007 consolidated financial statements. On 23 March 2007 we issued our audit report on the 2006 consolidated financial statements in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the financial position of Red Eléctrica de España, S.A. and its subsidiaries at 31 December 2007 and the consolidated results of their operations, changes in consolidated equity and consolidated cash flows for the year then ended and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union which are consistent with those applied in the previous year.

The accompanying Directors' Report for 2007 contains the information that the Directors of Red Eléctrica de España, S.A. consider relevant to the Consolidated Group's position, the development of its business and other matters and does not form an integral part of the consolidated financial statements. We have verified that the financial information contained in the aforementioned Directors' Report coincides with that of the consolidated financial statements for 2007. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of Red Eléctrica de España, S.A. and subsidiaries.

PricewaterhouseCoopers Auditores, S.L.


Francisco J. Martínez Pérez
Partner

28 March 2008

Consolidated Financial Statements

Grupo Red Eléctrica

Consolidated balance sheet at 31 december 2007 and 2006 (thousand euro)

ASSETS	2007	2006
Property, plant and equipment (note 5)	4,788,536	4,433,642
Investment property (note 6)	2,597	2,734
Intangible assets (note 7)	3,993	5,433
Non-current financial assets (note 16)	114,918	13,029
Investments carried under the equity method (note 8)	5,450	7,204
Deferred tax assets (note 20)	43,028	38,921
Other non-current assets	841	436
Non-current assets	4,959,363	4,501,399
Inventories (note 9)	32,227	28,974
Current trade and other receivables (note 10)	299,600	264,853
Current financial assets (note 16)	2,276	1,671
Current tax assets (note 20)	9,313	7,813
Other current assets	268	316
Cash and cash equivalents	11,337	13,374
Assets classified as held for sale (note 6)	640	-
Current assets	355,661	317,001
Total assets	5,315,024	4,818,400

LIABILITIES	2007	2006
Capital	270,540	270,540
Other reserves	264,546	264,546
Remaining reserves	667,687	486,887
Minority interests	55	58
Equity (note 11)	1,202,828	1,022,031
Bonds and other negotiable securities (note 14)	1,185,617	1,224,956
Bank loans and overdrafts (note 14)	1,408,110	1,277,270
Other non-current financial liabilities (note 16)	26,496	20,627
Deferred tax liabilities (note 20)	154,375	144,024
Provisions (note 12)	22,083	19,166
Other non-current liabilities (note 13)	397,318	366,207
Non-current liabilities	3,193,999	3,052,250
Bonds and other negotiable securities (note 14)	17,498	16,429
Bank loans and overdrafts (note 14)	47,446	129,377
Trade and other payables (note 18)	177,086	142,333
Provisions	1,571	1,477
Current tax liabilities (note 20)	51,590	34,628
Other current liabilities (note 19)	623,006	419,875
Current liabilities	918,197	744,119
Total liabilities	5,315,024	4,818,400

Grupo Red Eléctrica

Consolidated income statement 2007 and 2006 (thousand euro)

INCOME STATEMENT	2007	2006
Net turnover (note 21-a)	1,030,910	949,262
Other operating income (note 21-b)	25,461	4,788
Raw materials and consumables (note 21-c)	(60,951)	(36,390)
Staff costs (note 21-d)	(88,374)	(84,902)
Other operating expenses (note 21-c)	(183,794)	(181,069)
Non-current asset depreciation (notes 5, 6 and 7)	(251,463)	(249,846)
Net operating profit/(loss)	471,789	401,843
Financial income	3,169	2,549
Financial expense	(111,383)	(102,130)
Exchange differences	1,030	237
Net result due to value changes in financial instruments	(8)	2,677
Net result due to asset value impairment (note 21-e)	(12,258)	(31,193)
Profit share in companies carried under the equity method (note 8)	664	847
Net profit/(loss) on disposal of non-current assets (note 21-f)	1,244	114
Other profits or losses	7,351	5,913
Profit/(loss) before taxes from ongoing operations	361,598	280,857
Corporate income tax expense (note 20)	(118,542)	(80,699)
Profit/(loss) for the year from ongoing activities	243,056	200,158
Minority interests	(7)	(4)
Profit/loss attributed to parent company	243,049	200,154
Basic earnings per share (note 30)	1.81	1.48
Diluted earnings per share (note 30)	1.81	1.48

Consolidated Financial Statements

Grupo Red Eléctrica

Consolidated statement of changes in equity 2007 and 2006 (thousand euro)

EQUITY	Share capital	Other reserves	Remaining reserves	Minority interests	Total equity
Balances at 1 January 2006	270,540	264,546	427,693	74	962,853
Distribution of 2005 profits:					
To complementary dividend 2005	-	-	(62,043)	-	(62,043)
Interim dividend 2006	-	-	(43,428)	-	(43,428)
Movement in treasury shares	-	-	(49,163)	-	(49,163)
Translation differences	-	-	(5,611)	(12)	(5,623)
Measurement of financial derivatives	-	-	11,651	-	11,651
Profit for 2006	-	-	200,154	4	200,158
Other	-	-	7,634	(8)	7,626
Balances at 31 December 2006	270,540	264,546	486,887	58	1,022,031
Distribution of 2006 profits:					
To complementary dividend 2006	-	-	(77,564)	-	(77,564)
Interim dividend 2007	-	-	(52,208)	-	(52,208)
Movement in treasury shares	-	-	40,655	-	40,655
Translation differences	-	-	(7,139)	(20)	(7,159)
Measurement of financial derivatives	-	-	27,440	-	27,440
Profit for 2007	-	-	243,049	7	243,056
Other	-	-	6,567	10	6,577
Balances at 31 December 2007	270,540	264,546	667,687	55	1,202,828

Grupo Red Eléctrica

Consolidated cash flow statement 2007 and 2006 (thousand euro)

CASH FLOW STATEMENT	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES	612,469	601,091
Cash flows from operating activities	622,097	559,762
Profit/(loss) before taxes from ongoing operations	361,598	280,857
Non-current asset depreciation	251,463	249,846
Other results not generating cash movements	10,117	11,167
Capital grants and other deferred income released to income statement	(12,103)	(10,510)
Net profit/(loss) on disposal of non-current assets	11,022	28,402
Income taxes paid	(98,102)	(94,115)
Changes in operating working capital	91,771	151,792
Increase in inventories, debtors, receivables and other current assets	(44,225)	79,798
Reduction in trade creditors, current advances and other current liabilities	135,996	71,994
Payments of provisions	(3,297)	(16,348)
CASH FLOWS FROM INVESTING ACTIVITIES	(590,912)	(308,764)
Acquisition of property, plant and equipment and intangible assets	(529,530)	(366,563)
Sale of property, plant and equipment and intangible assets	2,049	1,017
Acquisition of other investments	(99,284)	(496)
Sale of other investments	(3,408)	856
Acquisition of investees	-	(618)
Capital grants and other advances received	39,261	57,040
CASH FLOWS FROM FINANCING ACTIVITIES	(23,154)	(297,421)
Equity movements	46,108	(47,554)
Drawdown on long-term financing facility	161,870	111,687
Repayment of long-term financing facility	(28,190)	(106,927)
Drawdown on short-term financing facility	576,807	1,065,795
Repayment on short-term financing facility	(658,758)	(1,221,791)
Dividends paid	(120,991)	(98,631)
NET CASH FLOW	(1,597)	(5,094)
Changes in exchange rate in cash and cash equivalents	(440)	(300)
CHANGE IN CASH AND OTHER LIQUID RESOURCES IN THE YEAR	(2,037)	(5,394)
Cash and cash equivalents at the beginning of the year	13,374	18,768
Cash and cash equivalents at end of the year	11,337	13,374

Notes to the Consolidated Financial Statements 2007

(1) ACTIVITIES OF GROUP COMPANIES

Red Eléctrica de España, S.A., (hereinafter the Parent company or the Company) was incorporated in 1985. The principal activities carried out by the Parent company are the transmission of electricity, operation of the system and management of the transmission grid, coordination of international electricity exchanges and the administration of international electricity agreements.

The Red Eléctrica Group, together with the Parent company as the head of the same, acquires, holds and manages foreign securities, provides consulting, engineering and construction services outside the Spanish electricity system, wins funds, carries out financial transactions and provides financial services to the Group companies through its investees (Appendix I).

In addition, in December 2007, in accordance with Law 17/2007 of 4 July 2007, which amends Law 54/1997 on the Electricity Sector, Red Eléctrica de España TSO, S.L.U. (hereinafter REE TSO) was incorporated with share capital of Euro 6 thousand and was dormant during the year. This company is wholly-owned by the Parent company (Appendix I).

(2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) General information

The consolidated financial statements have been prepared by the Directors of the Parent company to present fairly the consolidated equity and the consolidated financial position at 31 December 2007, the results of the operations, and changes in consolidated equity and cash flows of the Group for the year then ended.

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

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

These consolidated financial statements, prepared by the Directors of the Company at the Board meeting held on 27 March 2008, have been prepared on the basis of the individual accounting records of the Company and other companies which comprise the Red Eléctrica Group (Appendix 1). The companies prepare their financial statements in accordance with the accounting principles in effect in the country where they operate. Therefore the consolidated financial statements include certain adjustments and reclassifications made to bring the accounting principles followed by the Group companies in preparing their financial statements into line with EU- IFRS. Similarly, the accounting policies of the consolidated companies are changed when it is necessary to ensure consistency with the accounting policies adopted by the Company.

The consolidated financial statements for 2006 were approved by the shareholders at their annual general meeting held on 31 May 2007. The consolidated financial statements for 2007 are pending approval at the General Shareholders' Meeting. Nonetheless, the directors of the Company consider that those consolidated financial statements will be approved without changes.

b) New EU-IFRS and IFRIC interpretations

The Group has adopted the following accounting standards (EU-IFRS) that have no effect on the Group's financial position since they only entail additional disclosure:

- IFRS 7, "Financial Instruments; disclosures", which requires disclosures enabling users to assess the significance of financial instruments and the nature and scope of the risks that such financial instruments entail.
- Changes to IAS 1 "Presentation of Financial Statements" which requires new disclosures which enable users to assess the objectives, policies and procedures to manage capital.

The adoption of the remaining new standards and interpretations (IFRIC 8 and IFRIC 9), approved and published, which came into effect on 1 January 2007, has not had a significant impact on these consolidated financial statements.

With respect to the new accounting standards, changes to existing standards and interpretations (IFRIC 7, IFRIC 10, IFRIC 11, IFRS 8, IAS 1, IAS 23, IAS 27, IFRS 2, IFRS 3, IAS 32, IFRIC 12, IFRIC 13 and IFRIC 14) to be applied to the years commencing 1 January 2008, the Group does not expect them to have significant effects on the consolidated financial statements.

c) Accounting estimates and assumptions

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

The consolidated financial statements for 2007 include the estimates of management of the Group and consolidated companies on the value of assets, liabilities, income, expenses and commitments recognised, which were subsequently ratified by the Board of Directors. These estimates mainly comprise:

- Estimated recovery of assets. The calculation of impairment of assets is based on discounted cash flows according to the financial projections used by the Group. The discount rate used is the weighted average cost of capital, taking into account the country- risk premium.
- Estimates of the useful lives of property, plant and equipment.
- Assumptions used in the actuarial calculations.
- As a general rule, liabilities are accounted for when an obligation is likely to give rise to an indemnity or payment. The Group assesses and estimates the necessary amounts to be paid in the future, including additional amounts relating to income taxes, contractual obligations, the settlement of outstanding litigations or other liabilities. Those estimates are subject to interpretations of current events and circumstances, projections of future events and estimates of the financial effects of those events.

With respect to the disciplinary proceedings instigated by the Generalitat de Catalunya in relation to the power cut of 23 July 2007 which interrupted the electricity supply in Barcelona and which at the year end is in the preliminary investigation stage, the Company has not recorded any liability or provision as the circumstances required for recognition have not arisen. There are legal arguments, reasons and significant evidence, on the basis of the information available, to consider that the process will end in a firm and definitive judgement which will not have major economic consequences for Red Eléctrica de España.

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

Although estimates were based on the best information available at 31 December 2007, future events may require these estimates to be modified (increased or decreased) in subsequent years. Any change in accounting estimates would be recognised prospectively in the corresponding consolidated income statement in accordance with IFRS.

d) Basis of consolidation

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

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

Subsidiaries

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

The financial statements of subsidiaries are fully consolidated.

Associates

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

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

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

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

The financial statements of each Group company are expressed in the functional currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Parent company's functional and presentation currency.

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

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

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

e) Changes in the consolidated Group

In July 2007 the company Tenedora de acciones de Redesur, S.A. (hereinafter Tenedora) was dissolved and thereafter all shares in Red Eléctrica del Sur, S.A. (hereinafter Redesur) have been held directly by REI (note 8).

In December 2007, in accordance with Law 17/2007 of 4 July 2007, Red Eléctrica de España TSO, S.L. was incorporated with share capital of Euro 6 thousand and was dormant during the year. This company is wholly-owned by the Parent company.

(3) INDUSTRY REGULATION

Electricity sector in Spain

The electricity sector is regulated by Law 54/1997, of 27 November 1997, on the Electricity Sector, as partly amended by Law 17/2007, of 4 July 2007. This Law on the Electricity Sector recognises that electricity transmission is a natural monopoly due to the economies of scale provided by the single grid. The deregulation of transmission is arranged through generalised third-party access to the grid, which is available to the various parties to the electricity system and consumers in exchange for the payment of access tariffs. Remuneration for this activity is established by the Administrations and is determined based on the costs of investment, operation and facility maintenance, as well as other necessary costs incurred in operations.

In addition to transmission, the Parent company has been assigned the functions of system operator and transmission grid manager under the Law.

In the performance of its Spanish electricity system operator activities, the Company's main function is to ensure the continuity and security of electricity supply and the correct coordination of the production and transmission system, by carrying out its functions in coordination with the operators and players of the Mainland Electricity Energy Market under principles of transparency, objectivity and independence. The Company has also been assigned the functions of settlement, communication of payments and collections and the management of guarantees related to the guarantee of supply and the effective diversion of generation and consumption units.

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

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

Law 54/1997 deregulated intra—EU and international electricity exchanges, which may be carried out freely by agents. The Company, in its capacity as system operator, is responsible for short-term exchanges aimed at ensuring supply quality and safety, as well as the administration of long-term intra-EU and international electricity contracts concluded by the Company. Law 17/2007 authorises the Company to assign the rights under these contracts.

Law 17/2007, of 4 July 2007, whereby Law 54/1997, of 27 November 1997 on the Electricity Sector, was amended in order to adapt it to Directive 2003/54/EC, of the European Parliament and Council, of 26 June 2003, on common standards for the domestic electricity market, lays down numerous and substantial changes to Law 54/1997, affecting all activities aimed at electricity supply and the functions of the different bodies regulating the electricity sector.

Of the changes that have a direct effect on the activities carried out by the Parent company, noteworthy is the creation of the function of sole transmission operator and its assignment to Red Eléctrica, that will carry it out together with the functions of system operator and transmission grid manager. In order to bring the sole transmission operator function into effect, the Law lays down that companies owning transmission facilities should transfer these facilities to the Company within a maximum of three years.

Law 17/2007 lays down that Red Eléctrica de España, S.A. will set up within one year of its entry into force a wholly-owned subsidiary which will carry out the functions of system operator, transmission grid manager and transmission operator. This company will be set up through the contribution of all tangible assets and personnel devoted to the performance of such activities. All provisions concerning the system operator and transmission grid manager of the Electricity Sector Law will be applied to this subsidiary, REE TSO, which was incorporated in

December 2007. Similarly, this Law contains limits to the shareholdings which may be held in Red Eléctrica de España, S.A., which are set at a maximum of 5%, while voting rights are limited to 3% for all shareholders, except for companies carrying out activities in the electricity sector (or with interests in the capital of such companies of more than 5%), for which the limit to voting rights is set at 1%. The 4% limit with respect to the sum of direct or indirect holdings of operators carrying out activities in the electricity sector is maintained. These shareholding limitations with respect to the Parent company are not applicable to SEPI which will, in any event, hold a shareholding of at least 10%. At 31 December 2007 SEPI holds a significant investment in the Parent company amounting to 20% of share capital.

International electricity sector

The Red Eléctrica Group, through Red Eléctrica Internacional, S.A.U. (hereinafter REI), has investments in the electricity sector internationally, namely, in Bolivia and Peru.

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

(4) ACCOUNTING PRINCIPLES

The main accounting principles used in the preparation of these consolidated financial statements are as follows:

a) Property, plant and equipment

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

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

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

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

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

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

	Annual rate
Buildings	2%-10%
Electrical energy technical installations	2.5%-7.14%
Other installations, machinery, tooling, furnishings and other fixed assets	4%-25%

b) Investment properties

Investment property is measured at acquisition cost. The market value of the Group's investment property is broken down in note 6 to the accompanying consolidated financial statements.

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

c) Intangible assets

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

Computer applications

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

Software maintenance costs are expensed as incurred. Software is amortised on a straight-line basis over a period of between three and five years from the installation date of each program.

Development expenses

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

d) Financial assets

The Group classifies financial assets, except those investments accounted for using the equity method and those held for sale, in the following two categories:

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

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

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

Available-for-sale financial assets, are investments which the Company intends to hold for an unspecified period of time and which may be sold, on the basis of specific liquidity needs or changes in interest rates. They are classified as non-current assets unless their liquidation is planned in less than one year and this is feasible. These financial assets are stated at fair value, which is understood to be their quoted price at the year end for those securities quoted on an active market. The gains or losses resulting from fluctuations in fair value at the year end are recognised directly in equity and accumulated to the time of settlement or adjustment of value owing to impairment, at which time they are taken to the income statement. Dividends from shareholdings in capital classed as available for sale are taken to the consolidated income statement at the time the Company becomes entitled to receive them.

e) Inventories

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

Group companies review the net realisable value of inventories at each year end, recognising value adjustments where cost exceeds market or where doubts exist over their use. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

f) Cash and cash equivalents

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

g) Impairment of assets

Group companies analyse the recoverability of non-current assets at the year end each year and whenever some event or change in circumstances indicates that the carrying value may not be recoverable. If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately. The impairment loss is therefore the difference between the carrying value of an asset and its recoverable value.

h) Share capital and dividends

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

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

i) Other non-current liabilities**Employee benefits****(i) Pension commitments**

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

(ii) Other long-term employee benefits

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

Government grants and non-current advances

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

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

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

j) Provisions

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

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

k) Borrowings

Loans, obligations and similar are initially reflected at the amount of cash received, net of the costs incurred in the transaction. In subsequent periods, these financing obligations are valued at amortised cost, using the effective interest rate method, except for those transactions for which hedging has been arranged.

Borrowings are classed as current liabilities unless they mature in more than 12 months from the balance sheet date or include tacit renewal clauses.

l) Foreign currency transactions

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

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

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

m) Financial derivatives and hedging operations

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

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

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

The Group documents the relation between the hedging instruments and the assets or liabilities hedged at inception, as well as the purpose of the risk management and the strategy to carry out hedging transactions. The Group also documents its assessment, both at inception and on an on-going basis, of whether the derivatives used in the hedge are highly efficient to offset changes in fair value or cash flows from the items hedged.

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

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

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

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

- The fair value of derivatives quoted on official markets is measured at its closing quotation price.
- For derivatives not quoted on organised markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, relating to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

n) Trade payables

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

o) Income and expense

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

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

Interest income is recognised using the effective interest rate method.

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

p) Tax situation

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

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

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

Deferred tax and the corporate income tax expense are calculated and accounted for using the liability method, on 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 to the extent that future tax profits are expected to arise against which to offset temporary differences.

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

q) Earnings per share

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

In the case of the consolidated financial statements of the Red Eléctrica group at 31 December 2007 and 2006, basic earnings per share agree with diluted earnings since there have been no operations during those years which may change this figure.

r) Insurance

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

s) Environment

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

t) Assets held for sale

Current assets are classed as assets held for sale and are recognised at their carrying value less cost of sale if they are expected to be sold within one year.

u) Share-based payments

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

(5) PROPERTY, PLANT AND EQUIPMENT

The movement in 2007 and 2006 in property, plant and equipment and the relevant accumulated depreciation and impairment is as follows:

GRUPO RED ELÉCTRICA · Movements in Property, plant & equipment at 31 December 2007 and 2006 (in thousands of euros)			
	31 December 2005	Additions	Variations rate of exchange
Cost			
Land and buildings	63,999	314	(837)
Electrical energy facilities	5,636,093	16,212	(18,656)
Other facilities, machinery, tooling, furnishings and other fixed assets	90,220	2,868	(236)
Electrical energy technical installations in progress	356,278	507,630	(398)
Advances and tangible assets in progress	21,111	2,314	(527)
Total cost	6,167,701	529,338	(20,654)
Accumulated amortisation			
Buildings	(10,745)	(1,265)	262
Electrical energy facilities	(1,923,086)	(235,776)	8,407
Other facilities, machinery, tooling, furnishings and other fixed assets	(59,435)	(9,966)	146
Total accumulated depreciation	(1,993,266)	(247,007)	8,815
Value impairment	(5)	(11,756)	1
Net value	4,174,430	270,575	(11,838)

The main additions in 2007 and 2006 relate to the electricity transmission grid in Spain.

During 2007 the companies have capitalised as an increase in the value of Property, plant and equipment finance expenses amounting to Euro 9,104 thousand (Euro 7,809 thousand at 31 December 2006) at an average cost of 4.15% (2.86% in 2006).

Operating expenses directly related to construction in progress of property, plant and equipment capitalised in 2007 amount to Euro 5,355 thousand (Euro 8,656 thousand in 2006).

Impairment records the adjustments to carrying value of those facilities where construction has been interrupted mainly for reasons beyond the Company's control (note 21-e).

At 31 December 2007 the Group companies have no commitments for the acquisition of operational facilities. The companies' commitments basically relate to the agreements for the acquisition of materials and services for the construction of electricity facilities as part of the ordinary activity of the Group companies.

Disposals reductions and write-downs	Transfers	31 December 2006	Additions	Variations rate of exchange	Disposals reductions and write-downs	Transfers	31 December 2007
-	1,222	64,698	1,104	(763)	(552)	(491)	63,996
(423)	404,405	6,037,631	47,724	(18,015)	(719)	380,532	6,447,153
(3)	4,955	97,804	244	(247)	(257)	7,772	105,316
(799)	(393,642)	469,069	485,145	(1,120)	-	(367,925)	585,169
-	(15,159)	7,739	93,506	(123)	-	(20,484)	80,638
(1,225)	1,781	6,676,941	627,723	(20,268)	(1,528)	(596)	7,282,272
-	(239)	(11,987)	(1,189)	259	-	-	(12,917)
115	-	(2,150,340)	(236,335)	9,287	-	-	(2,377,388)
43	-	(69,212)	(11,234)	160	254	-	(80,032)
158	(239)	(2,231,539)	(248,758)	9,706	254	-	(2,470,337)
-	-	(11,760)	(11,639)	-	-	-	(23,399)
(1,067)	1,542	4,433,642	367,326	(10,562)	(1,274)	(596)	4,788,536

(6) INVESTMENT PROPERTY

Movements in 2007 and 2006 in investment property owned by the Group are described below:

GRUPO RED ELÉCTRICA · Movements in investment properties at 31 December 2007 and 2006 (in thousands of euros)

	31 December 2005	Additions	Variations rate of exchange	Transfers	31 December 2006	Additions	Variations rate of exchange	Transfers	31 December 2007
Cost									
Investment properties	4,160	-	(52)	(1,136)	2,972	-	(48)	(78)	2,846
Total cost	4,160	-	(52)	(1,136)	2,972	-	(48)	(78)	2,846
Accumulated amortisation									
Investment properties	(494)	(10)	27	239	(238)	(61)	16	34	(249)
Total accumulated depreciation	(494)	(10)	27	239	(238)	(61)	16	34	(249)
Net value	3,666	(10)	(25)	(897)	2,734	(61)	(32)	(44)	2,597

Transfers in 2007 relate to properties which are expected to be sold in 2008 and are classified as available for sale. Transfers for 2006 relate to investment properties owned by the Parent company for its own use.

Investment property has a market value of approximately Euro 3 million.

(7) INTANGIBLE ASSETS

Movements in 2007 and 2006 in intangible assets and accumulated amortisation are as follows:

**GRUPO RED ELÉCTRICA · Movements in Intangible assets
at 31 December 2007 and 2006 (in thousands of euros)**

	31 December 2005	Additions	Differences on exchange
Cost			
Development expenses and computer applications	38,451	259	(167)
Total cost	38,451	259	(167)
Accumulated amortisation			
Development expenses and computer applications	(29,765)	(2,829)	129
Total accumulated amortisation	(29,765)	(2,829)	129
Net value	8,686	(2,570)	(38)

(8) INVESTMENTS CARRIED UNDER THE EQUITY METHOD

Movements in 2007 and 2006 in investments carried under the equity method are as follows:

**GRUPO RED ELÉCTRICA · Movements in investments carried under the equity method
at 31 December 2007 and 2006 (in thousands of euros)**

	31 December 2005	Additions	Equity consolidation method	Dividends
Redesur, Redinsur y Tenedora de acciones de Redesur	7,142	618	847	(510)

In July 2007 the Tenedora was wound up. As a result, REI owns a direct holding in Redesur.

Disposals for 2007 relate to the capital decrease carried out in Redesur with the return of contributions to shareholders amounting to USD 6,000 thousand.

Additions for 2006 relate to the acquisition by REI of an additional 6.25% in Tenedora.

(9) INVENTORIES

Details of inventories at 31 December 2007 and 2006 in the accompanying consolidated balance sheet are as follows:

	thousands of euros	
	2007	2006
Inventories	38,641	34,756
Value adjustments	(6,414)	(5,782)
	32,227	28,974

Transfers	31 December 2006	Additions	Differences on exchange	31 December 2007
(645)	37,898	1,221	(157)	38,962
(645)	37,898	1,221	(157)	38,962
-	(32,465)	(2,644)	140	(34,969)
-	(32,465)	(2,644)	140	(34,969)
(645)	5,433	(1,423)	(17)	3,993

Exchange differences	Other	31 December 2006	Equity consolidation method	Exchange differences	Disposals	Other	31 December 2007
(753)	(140)	7,204	664	(812)	(1,362)	(244)	5,450

(10) CURRENT TRADE AND OTHER RECEIVABLES

At 31 December 2007 and 2006 this heading in the accompanying consolidated balance sheet breaks down as follows: Receivables mainly comprise amounts pending invoicing and/or receivable in respect of electricity transmission and system operation activities.

	thousands of euros	
	2007	2006
Receivables	298,137	264,326
Current receivables	-	450
Amounts due from associates	1,463	77
	299,600	264,853

(11) 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 Group could adjust the amount of the dividends payable to shareholders, reimburse capital to shareholders or issue new shares.

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

The credit rating granted by Moody's and Standard & Poors has remained consistent in 2007 at A2 and AA, respectively.

	thousands of euros	
	2007	2006
Long-term loans	2,593,727	2,502,226
Current payables	42,443	123,318
Exchange rate derivative	72,211	32,211
Cash and cash equivalents	(11,337)	(13,374)
Net borrowings	2,697,044	2,644,381
Equity	1,202,828	1,022,031
Leverage ratio	69.2%	72.1%

b) Share capital

At 31 December 2007 and 2006 the share capital of the Parent company comprises 135,270,000 fully subscribed and paid-in bearer shares, with a par value of Euro 2 each which carry equal voting and dividend rights. The Parent company's shares have been listed on the four Spanish stock exchanges since 7 July 1999 after the public offering for their sale.

At 31 December 2007 and 2006 Sociedad Estatal de Participaciones Industriales (SEPI) holds 20% of the share capital in the Parent company.

c) Other reserves

This heading comprises statutory reserves including the Euro 247,022 thousand appropriated to the 1996 revaluation reserve on revaluation of property, plant and equipment by the Parent company. 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.

d) Other reserves

- Retained earnings

This heading includes:

- Legal reserve

Companies in Spain are obliged to transfer 10% of profits each year to the legal reserve until this reserve reaches an amount of at least 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses in the event that no other reserves are available. Under certain conditions it may be used to increase share capital. At 31 December 2007 and 2006 it amounts to Euro 54,199 thousand.

- Voluntary reserves

This heading includes the voluntary reserves of the Parent company, profit for the year, reserves in consolidated companies and first application reserves. All of these items are freely available. At 31 December 2007 and 2006 they amount to Euro 648,489 thousand and Euro 519,865 thousand, respectively.

- Treasury shares

At 31 December 2007 the Parent company holds treasury shares representing 0.22% of the Parent company's share capital amounting to 295,165 shares, with an overall par value of Euro 590 thousand and an average acquisition price of Euro 41.77 per share (at 31 December 2006, 1,645,183 shares, which represented 1.22% of share capital, with an overall par value of Euro 3,290 thousand and an average acquisition price of Euro 32.20 per share).

The Parent company has complied with the requirements of Article 75.2 and Additional Provision Two of the Spanish 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 5% of the share capital. The subsidiaries do not hold treasury shares or shares in the Parent company.

These shares are recognised as a decrease in the Group's equity of Euro -12,331 thousand and Euro - 52,986 thousand, at 31 December 2007 and 2006, respectively.

- Conversion differences

This heading includes translation differences in respect of foreign subsidiaries (mainly the Bolivian company TDE), which at 31 December 2007 and 2006 amount to Euro -10,115 thousand and Euro 2,976 thousand, respectively.

- Other valuation adjustments

This heading includes variations resulting from derivative financial instruments. At 31 December 2007 and 2006 they amount to Euro 39,653 thousand and Euro 12,213 thousand, respectively.

- Interim dividends and proposed distribution of Parent company dividends

Interim dividends approved by the Board of Directors in 2007 and 2006 are recorded as a decrease in Group equity at 31 December 2007 and 2006, respectively.

On 20 December 2007 the Board of Directors of the Parent company agreed to pay an interim dividend against 2006 profits amounting to Euro 0.3868 per share, which was payable as from 2 January 2008 (Euro 0.3250 per share on account from 2006 profits). The interim dividend approved at 31 December 2007 and 2006 amounts to Euro -52,208 thousand and Euro -43,428 thousand, respectively (note 20).

The Parent company's Board of Directors has also proposed to the shareholders at their Annual General Meeting the distribution of a complementary dividend of Euro 0.7003 per share, resulting in a total dividend for 2007 of Euro 1.0871 per share (Euro 0.8984 per share in 2006).

Movements in each of the items included in Other reserves are as follows:

e) Minority interests

Minority interests recorded under equity in the accompanying consolidated balance sheet reflects the shareholding of minority shareholders in the Bolivian companies TDE and Cybercia, S.A.. At 31 December 2007 and 2006 they amount to Euro 55 thousand and Euro 58 thousand, respectively.

GRUPO RED ELÉCTRICA · Movement other reserves at 31 December 2007 and 2006 (in thousands of euros)

	31 December 2005	Additions	Disposals	31 December 2006	Additions	Disposals	31 December 2007
Legal reserve	54,199	-	-	54,199	-	-	54,199
Voluntary reserves	410,708	109,157	-	519,865	128,624	-	648,489
Treasury shares	(3,823)	(167,761)	118,598	(52,986)	(162,044)	202,699	(12,331)
Translation differences	2,635	(5,611)	-	(2,976)	(7,139)	-	(10,115)
Measurement of financial derivatives	562	11,651	-	12,213	27,440	-	39,653
Interim dividend	(36,588)	(43,428)	36,588	(43,428)	(52,208)	43,428	(52,208)
	427,693	(95,992)	155,186	486,887	(65,327)	246,127	667,687

(12) PROVISIONS

Movements in this heading in the consolidated balance sheet in 2007 and 2006 are as follows:

GRUPO RED ELÉCTRICA · Movement in provisions at 31 December 2007 and 2006 (in thousands of euros)

	31 December 2005	Additions	Applications	Reversals and differences on exchange	31 December 2006	Additions	Applications	Reversals and differences on exchange	31 December 2007
Provisions	34,618	2,186	(15,555)	(2,083)	19,166	5,628	(1,413)	(1,298)	22,083
	34,618	2,186	(15,555)	(2,083)	19,166	5,628	(1,413)	(1,298)	22,083

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

Additions in 2007 mainly result from the fact that REI has recorded a provision for Euro 4,094 thousand to cover the liabilities which may, if appropriate, result from the assessments which may presumably be raised in relation to the deduction for exports relating to the investment in TDE in 2002. Of the total amount provisioned, Euro 3,321 thousand relates to the deduction applied and Euro 773 thousand to late-payment interest.

Applications in 2006 were largely due to the payments under a voluntary redundancy plan.

(13) OTHER NON-CURRENT LIABILITIES

Details of this heading in the accompanying consolidated balance sheet in 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
Commitments with personnel	40,454	38,266
Grants	93,591	81,898
Non-current advance collections	263,061	245,831
Other non-current liabilities	212	212
	397,318	366,207

Commitments with personnel reflect future obligations (medical insurance and electricity) which are based on actuarial studies and entered into by the Parent company with its employees on their retirement, and a provision made for TDE to cover a length- of- service bonus.

Movements in obligations with personnel in 2007 and 2006 are as follows:

GRUPO RED ELÉCTRICA · Movements in Commitments with personnel at 31 December 2007 and 2006 (in thousands of euros)									
	31 December 2005	Additions	Applications	Reversals and exchange differences	31 December 2006	Additions	Applications	Reversals and exchange differences	31 December 2007
Commitments with personnel	30,831	8,437	(792)	(210)	38,266	4,208	(1,877)	(143)	40,454
	30,831	8,437	(792)	(210)	38,266	4,208	(1,877)	(143)	40,454

In 2007 and 2006 additions result mainly from the annual accrual and development of the actuarial assumptions used. These additions are recognised under Staff costs or Finance costs, in accordance with their nature. Staff costs recognised in 2007 in the consolidated income statement amount to Euro 2,328 thousand (Euro 6,170 thousand in 2006). Finance costs recognised in 2007 in the income statement amount to Euro 1,880 thousand (Euro 2,267 thousand in 2006).

Details of the actuarial assumptions used by the Parent company in 2007 to make these provisions are as follows:

	Medical insurance	Electrical energy
Discount rate	5.1%	5.1%
Cost growth	4.0%	3.3% (2008) 3.5% (from 2008)
Survival table	PERM/F 2000 New business	

Capital grants mainly include the amounts received by the Parent company for the construction of electricity plants. They are released to income for the year over the useful lives of the relevant facilities and are recorded under Other gains in the consolidated income statement.

Movements in grants in 2007 and 2006 are as follows:

**GRUPO RED ELÉCTRICA · Movements in capital grants
at 31 December 2007 and 2006 (in thousands of euros)**

	31 December 2005	Additions	Applications	31 December 2006	Additions	Disposals and applications	31 December 2007
Capital grants	84,116	1,138	(3,356)	81,898	15,289	(3,596)	93,591
	84,116	1,138	(3,356)	81,898	15,289	(3,596)	93,591

Non-current receivables mainly include revenues deriving from agreements for the construction of electricity plants amounting to Euro 168,362 thousand in 2007 (Euro 146,402 thousand in 2006). Similarly, it includes revenue deriving from the assignment of the use of telecommunication network capacity deriving from the agreements signed with various telecommunication operators amounting to Euro 69,834 thousand at 31 December 2007 (Euro 73,889 thousand at 31 December 2006) (note 26).

At 31 December 2007 and 2006 this heading also includes the portion attributable to the Parent company of the compensation paid by EDF on the adaptation of the electricity supply contracts signed on 8 January 1997 which amounts to Euro 23,625 thousand.

(14) BONDS AND OTHER MARKETABLE SECURITIES ISSUED AND BANK LOANS

Details of bonds and other marketable securities and bank loans at 31 December 2007 and 2006 are as follows:

	Face value (Thousands of euros)		Fair value (Thousands of euros)	
	2007	2006	2007	2006
Issues in dollars	339,171	379,140	347,834	380,893
Issues in euro	847,990	898,985	855,766	930,665
Euro bank loans	1,386,775	1,281,736	1,399,042	1,298,992
Bank loans in foreign currency	62,234	65,683	62,109	62,461
Total	2,636,170	2,625,544	2,664,751	2,673,012

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

At 31 December 2007 accrued interest payable on these loans amounts to Euro 22,501 thousand (Euro 22,488 thousand in 2006).

At 31 December 2007 issues in euro comprise Eurobonds of Euro 846,446 thousand issued by Red Eléctrica de España Finance, BV in relation to the Eurobond framework programme (Euro 845,816 thousand in 2006) and Euro 339,171 thousand (USD 500,000 thousand covered in euro) obtained in private placement issues in the United States (USPP). At 31 December 2007 this heading also includes issues of short-term promissory notes amounting to Euro 1,544 thousand (Euro 53,169 thousand in 2006).

At 31 December 2007 bank loans include a new syndicated credit facility, which at 31 December is drawn down in an amount of Euro 898,049 thousand (Euro 817,622 thousand in 2006). The limit amounts to Euro 900,000 thousand and the credit facility matures in 2012. Similarly, this heading includes long-term loans and credit facilities amounting to Euro 510,057 thousand (Euro 464,114 thousand in 2006).

Details of maturity of these issues and bank loans at 31 December 2007 are as follows:

	Thousands of euros					2013 and later
	2008	2009	2010	2011	2012	
USD issues	-	-	-	-	-	339,171
Euro issues	1,544	-	-	-	-	846,446
Euro bank payables	34,181	23,528	19,926	24,336	923,735	361,069
USD bank loans	5,932	6,069	6,214	6,365	6,525	30,343
Swiss franc bank loans	786	-	-	-	-	-
	42,443	29,597	26,140	30,701	930,260	1,577,029

The average interest rate in 2007 was 4.22% (3.88% in 2006).

At 31 December 2007 Group companies have contracted credit facilities with a long-term credit limit available for draw down of Euro 225,000 thousand (Euro 80,000 thousand at 31 December 2006) and a short-term limit of Euro 246,001 thousand (Euro 289,663 thousand at 31 December 2006).

At 31 December 2007 the Parent company has a Spanish Securities and Exchange Commission registered programme to issue promissory notes up to a maximum limit of Euro 250,000 thousand (Euro 250,000 thousand at 31 December 2006).

(15) FINANCIAL RISK MANAGEMENT POLICY

The Group's financial risk management policy establishes principles and guidelines to ensure that the relevant risks which

could affect the aims and activities of the Red Eléctrica Group, are identified, analysed, evaluated, managed and controlled and that these processes are carried out systematically and consistently.

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

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

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

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

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

- **Market risk**

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

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

(i) Interest rate risk

Interest rate variations change the fair value of assets and liabilities which accrue interest at a fixed rate and the future flows of assets and liabilities linked to a variable interest rate. The management of interest rates mainly aims to maintain the structure of the debt ratio between the fixed and hedged rate and risks linked to variable interest rates at approximately 70%-30%. The structure at 31 December 2007 is as follows:

	Thousands of euros	
	Fixed rate	Variable rate
Long term issues	1,257,828	-
Long term bank loans	720,599	715,810
Short term issues	-	1,544
Short term bank loans	-	12,600
Total payable	1,978,427	729,954
Percentage	73%	27%

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

The interest rate risk to which the Group is exposed at 31 December 2007 mainly affects equity for the year as a result of changes in the fair value of derivative financial instruments while profit for the year remains unchanged. Set out below is a sensitivity analysis of that risk:

The sensitivity of fair value has been estimated using a valuation technique based on discounted future cash flows at market interest rates prevailing at 31 December 2007.

Impact on consolidated net worth (thousand euro)	Variation in market rates			
	2007		2006	
	+0.10%	-0.10%	+0.10%	-0.10%
INTEREST RATE HEDGE				
- cash flow coverage				
interest rate Swaps	2,009	(2,023)	1,518	(2,023)
INTEREST RATE AND EXCHANGE RATE HEDGE				
- cash flow coverage				
Cross Currency Swap	511	(521)	650	(665)

(ii) Exchange rate risks

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

In order to eliminate the exchange risk in USPPs , the Company has arranged cash flow hedges through cross currency swaps for the principal and interest covering the amount and entire duration of the same to October 2005 (note 17).

In order to mitigate the translation risk of the assets located in countries whose functional currency is not the euro, the Group finances part of such investments in the functional currency. Therefore at 31 December 2007 any increase or decrease in the dollar/ euro exchange rate of 10% with respect to the December closing would have generated an increase or decrease in equity of approximately Euro 3 million (Euro 4 million at 31 December 2006).

- Credit risk

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

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

At 31 December approximately 1% of balances are past due although the companies consider that there is no recoverability risk.

- Liquidity risk

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

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

These risks are mainly managed by the controlling of the temporary financial debt structure, setting maximum net volume limits for each defined period.

Group borrowings have an average maturity of 7 years at 31 December 2007.

The Group's liquidity position for 2008 is based on its strong capacity to generate cash, supported by short-term credit lines not drawn down amounting to Euro 471,001 thousand.

(16) OTHER FINANCIAL ASSETS AND LIABILITIES

The breakdown of Other financial assets and Other financial liabilities, both current and non-current, of the Red Eléctrica Group at 31 December 2007 and 2006 is as follows:

	thousands of euros	
	2007	2006
OTHER NON-CURRENT FINANCIAL ASSETS:		
Long-term securities portfolio	96,701	53
Financial instruments at fair value (note 17)	17,343	11,718
Long term loans	874	1,258
Total non-current financial assets	114,918	13,029
CURRENT FINANCIAL ASSETS:		
Short-term equity investments	-	618
Other short-term loans	991	1,053
Financial instruments at fair value (note 17)	1,285	-
Total current financial assets	2,276	1,671
OTHER NON-CURRENT FINANCIAL LIABILITIES:		
Financial instruments at fair value (note 17)	(26,496)	(20,627)
Total non-current financial liabilities	(26,496)	(20,627)

The Long-term securities portfolio mainly relates to the 5% shareholding that the Parent company has in Redes Energéticas Nacionais, SGPS, S.A. (hereinafter REN), the holding company that comprises the operation and exploitation

of the electricity transmission assets and various gas infrastructures in Portugal. This shareholding was acquired in 2007 and the transaction price was linked to market value deriving from a public share offering on the stock market and amounted to Euro 98,822 thousand. The provision for the impairment of that investment amounts to Euro 2,168 thousand at 31 December 2007 and is recorded directly in the Group's equity.

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

(17) DERIVATIVE FINANCIAL INSTRUMENTS

The Red Eléctrica Group contracts derivatives in compliance with its financial risk management policy. Details of the derivatives contracted by the Group at 31 December 2007 and 2006 are as follows:

	Principal covered	Maturity date	thousands of euros				
			2007		2006		
			Current Asset	Non-current Asset	Liability	Non-current Asset	Liability
INTEREST RATE COVERAGE:							
- Cash flow coverage							
Interest rate swap	350,000 euros	To 2012	1,285	10,772	-	10,494	-
Interest rate swap	200,000 euros	To 2015	-	6,571	-	1,185	-
- Fair value hedges							
Interest rate swap	3,005 euros	To 2008	-	-	-	39	(35)
INTEREST RATE AND EXCHANGE RATE COVER:							
- Cash-flow hedging (Cross currency swap)	USD 500,000	To 2035					
Interest rate hedging			-	-	45,715	-	11,619
Exchange rate hedging			-	-	(72,211)	-	(32,211)
			1,285	17,343	(26,496)	11,718	(20,627)

At 31 December 2007 interest rate hedges cover debts for a nominal amount of Euro 553,005 thousand (Euro 428,005 thousand at 31 December 2006) and interest rate and exchange rate hedges for a nominal amount of USD 500,000 thousand (USD 500,000 thousand in 2006).

The breakdown of non-current derivative financial instruments by maturity at 31 December 2007 is as follows:

	thousands of euros					
	2009	2010	2011	2012	2013 and subsequent years	Total
INTEREST RATE COVERAGE:						
- Cash flow coverage						
Interest rate swap	-	2,564	4,484	3,724	-	10,772
Interest rate swap	-	-	-	-	6,571	6,571
	-	2,564	4,484	3,724	6,571	17,343
INTEREST RATE AND EXCHANGE RATE COVER:						
- Cash-flow hedging (Cross currency swap)						
Interest rate hedging	-	-	-	-	45,715	45,715
Exchange rate hedging	-	-	-	-	(72,211)	(72,211)
	-	-	-	-	(26,496)	(26,496)

(18) TRADE AND OTHER PAYABLES

Details of trade and other payables in the accompanying consolidated balance sheet at 31 December 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
Trade payables	5,334	5,178
Creditors for services rendered	83,963	64,022
Current advances	29,086	23,489
Bills payable	58,703	49,644
	177,086	142,333

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

Bills payable mainly record the balance reflected by the Parent company at 31 December 2007 and 2006 in relation to amounts payable to creditors on confirming for the services provided.

(19) OTHER CURRENT LIABILITIES

Details of this heading in the accompanying consolidated balance sheet at 31 December 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
Dividends payable	52,208	43,428
Fixed-asset suppliers and other payables	570,798	376,447
	623,006	419,875

The increase in the Fixed asset creditor balance and other payables is mainly due to the increase in investments for the construction of property, plant and equipment and balance payable to the Spanish electricity system deriving from the system of payment for power capacity.

(20) TAX SITUATION

The tax group of which Red Eléctrica de España, S.A. is the Parent company has filed consolidated tax returns in Spain since 2002. The tax payable is distributed among the companies forming the tax group based on the agreements established between the Group companies, adapted to the Resolutions of the Spanish Institute of Accountants and Auditors (ICAC) of 9 October 1997 and 15 March 2002.

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

At 31 December 2007 the tax group is made up of REI and REE TSO in addition to the Parent company.

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

	thousands of euros	
	2007	2006
Consolidated accounting results for the year before taxes	361,598	280,857
Permanent differences and consolidation adjustments	(193)	2,392
Consolidated tax base for accounting purposes	361,405	283,249
Tax at current rate in each country	120,576	98,175
Deductions	(1,884)	(1,834)
Corporate income tax	118,692	96,341
Changes in tax rate (Law 35/2006)	(150)	(15,642)
Corporate income tax	118,542	80,699

Law 35/2006, of 28 November 2006, which came into effect on 1 January 2007, which amends the Corporate Income Tax Act and reduces the general tax rate from 35% to 32.5% in 2007 and 30% as from 2008, triggered net accounting income in 2006 of Euro 15,642 thousand which relates to the tax effect on results that that restatement has had on the balance of deferred tax assets and liabilities reflected by the Group companies.

Current balances payable to and receivable from public bodies at 31 December 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
CURRENT DEBTOR BALANCES		
VAT refundable	158	273
Taxes refundable	1,074	1,030
Incorrectly paid taxes refundable	8,081	6,510
Total Current tax assets	9,313	7,813
CURRENT CREDITOR BALANCES		
VAT payable	7,132	262
Other taxes payable	2,502	3,173
Corporate income tax payable	41,956	31,193
Total Current tax liabilities	51,590	34,628

Balances receivable from the Treasury for income record in 2007 and 2006 the amounts refundable to the Parent company in respect of environmental taxes paid and against which appeals have been filed, the outcome of which has been favourable to Red Eléctrica.

Deferred tax assets and liabilities at 31 December 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
DEFERRED TAX ASSETS		
Retirements and commitments with employees	17,610	18,117
Capital grants	3,995	3,646
Other	21,423	17,158
Total deferred tax assets	43,028	38,921
DEFERRED TAX LIABILITIES		
Accelerated depreciation	48,440	47,068
Non-deductible assets	72,165	77,819
Other	33,770	19,137
Total deferred tax liabilities	154,375	144,024

In 2006 tax losses from Red de Alta Tensión, S.A. (hereinafter Redalta) and Infraestructuras de Alta Tensión, S.A. (hereinafter Inalta), which were acquired by the Parent company effective 1 January 2006, were applied.

Additionally, the Group companies' tax returns for the last four tax years for the principal taxes to which they are subject are open to inspection, except for corporate income tax in the Parent company and its tax group for which returns are open to inspection since 2002. Because of the different interpretations which may be afforded to tax regulations, additional liabilities could arise as a result of the inspection of the years open to inspection. Nonetheless, the directors do not expect that these liabilities should they arise would significantly affect the Group's consolidated financial statements.

(21) INCOME AND EXPENSES

a) Net turnover

Details of this heading in the consolidated income statement for 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
Transmission services rendered in Spain	938,300	856,473
Transmission services rendered in Bolivia	20,364	19,896
System operation services	35,685	36,532
Other services rendered and sales	36,561	36,361
	1,030,910	949,262

Income from transmission services rendered is fixed annually by Royal Decree (for 2007, Royal Decree 1634/2006 of 29 December 2006 whereby electricity rates were established).

Income from transmission services in Bolivia is set annually by the *Superintendencia de Electricidad*.

Income from system operation services rendered, set annually by Royal Decree (for 2007, Royal Decree 1634/2006, of 29 December 2006), corresponds exclusively to Spain.

Other services and sales mainly include those services and sales deriving from the Group's different activities such as the assignment of the use and maintenance of telecommunication networks, international consulting work, engineering, construction and maintenance work and changes to electrical facilities requested by third parties, and net income recognised due to the contribution of energy and power under import and export contracts between EDF and the Parent company.

b) Other operating revenue

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

c) Materials consumed and other operating expenses

Details of this heading in the accompanying consolidated income statement for 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
Supplies	60,951	36,390
Other operating costs	183,794	181,069
	244,745	217,459

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

d) Staff costs

Details of staff costs in the consolidated income statement for 2007 and 2006 are as follows:

	thousands of euros	
	2007	2006
Wages and salaries	60,775	58,671
Social Security contributions	14,178	12,367
Contributions to pension funds and similar commitments	1,086	1,035
Other items and welfare expenses	12,335	12,829
	88,374	84,902

Group companies have capitalised staff costs amounting to Euro 4,281 thousand at 31 December 2007 and Euro 7,608 thousand at 31 December 2006.

The pension plans adopted by Group companies are voluntary defined contribution pension plans. These pension plans have been inscribed in the Pension fund in accordance with prevailing legislation.

Current employees

The average headcount of the Group in 2007 and 2006, distributed by professional category, is as follows:

	2007	2006
Management team	123	120
Senior qualified staff	397	390
Qualified staff	490	484
Clerical and technical personnel	445	432
	1,456	1,426

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

	2007			2006		
	Male	Female	Total	Male	Female	Total
Management team	110	17	127	103	14	117
Senior qualified staff	276	121	397	268	125	393
Qualified staff	431	67	498	424	67	491
Clerical and technical personnel	339	107	446	332	109	441
	1,156	312	1,468	1,127	315	1,442

e) Net loss on asset impairment

In 2007 and 2006 this heading mainly records the value adjustment on certain electrical installations of the Parent company, the construction of which has been brought to a standstill for reasons beyond the Company's control. In 2006 this item also reflected the impairment of goodwill relating to TDE.

f) Net profit/(loss) on disposal of non-current assets

In 2007 the net profit on asset disposals amounts to Euro 1,244 thousand (Euro 114 thousand in 2006).

(22) BALANCES AND TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

Balances and transactions with associates

All transactions with associates have been carried out at market prices. The principal transactions carried out by Group companies with companies consolidated under the equity method in 2007 and 2006 are as follows:

GRUPO RED ELÉCTRICA · Transactions with companies consolidated under the equity method during the years ended 31 December 2007 and 2006 (thousand euro)

	2007				2006			
	Balances		Transactions		Balances		Transactions	
	Debtor	Creditor	Expenses	Income	Debtor	Creditor	Expenses	Income
Red Eléctrica del Sur S.A. (Redesur)	1,463	171	11	738	77	227	11	709
Red Internacional de Comunicaciones del Sur, S.A. (Redinsur)	-	-	-	-	-	-	5	-
Total	1,463	171	11	738	77	227	16	709

Balances and transactions with related parties

Related-party transactions are immaterial and have been completed under arm's length conditions.

(23) REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

In 2007 and 2006 the members of the Board of Directors of the Parent company and Group companies accrued total remuneration of Euro 2,479 thousand and Euro 2,374 thousand, respectively. The aforementioned amounts include estimated performance linked bonuses and the salaries of directors who are also employees of the Group. A breakdown of remuneration in accordance with the information model introduced by the National Securities Market Commission, which was approved in Circular 4/2007 of 27 December 2007 for the Annual Corporate Governance Report, is as follows:

- Remuneration from the Parent company:

	thousands of euros	
	2007	2006
Salary item:		
Fixed remuneration	391	396
Variable remuneration	1,269	1,232
Per diem expenses	808	746
Contributions life insurance and pension plans	11	-
Total remuneration	2,479	2,374

Total remuneration by type of Director is as follows:

	thousands of euros	
	For parent company	
	2007	2006
Type of Director:		
Executive	772	755
Eternal domanial	517	490
External independent	1,190	1,129
Total remuneration	2,479	2,374

Total remuneration accrued by the members of the Board of Directors of Red Eléctrica de España, S.A. in 2007, by Director, is as follows:

	thousands of euros For the parent company				Total
	Fixed remuneration	Variable remuneration	Per diems	Life insurance and Pension plans	
D. Luis M ^a Atienza Serna	391	289	81	11	772
D. Pedro Rivero Torre	-	98	90	-	188
D. Juan Gurbindo Gutiérrez (1)	-	98	81	-	179
D. Antonio Garamendi Lecanda	-	98	91	-	189
D. Manuel Alves Torres (1)	-	98	81	-	179
D. José Riva Francos	-	98	54	-	152
D. José Manuel Serra Peris	-	98	58	-	156
D. Rafael Suñol Trepas	-	98	61	-	159
D ^a . de los Ángeles Amador Millán	-	98	72	-	170
D. Francisco Javier Salas Collantes	-	98	81	-	179
D. Martín Gallego Málaga	-	98	58	-	156
Total remuneration accrued	391	1,269	808	11	2,479

(1) Amounts received by Sociedad de Participaciones Industriales (SEPI)

The Company has also established a three year performance- linked remuneration plan for Managers, including the executive director, and which will be paid, if appropriate, at the end of 2008.

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

At 31 December 2007 and 2006 no loans, advances or guarantees to members of the Board of Directors of the Parent company are reflected in the consolidated balance sheet. Nor are there at that date any pension commitments with members of the Board of Directors.

In 2007 and 2006 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 at 31 December 2007 in the share capital of companies with a similar or complementary activity to that of Red Eléctrica de España, S.A., as well as the posts they hold and functions they perform and where applicable, the direct or indirect performance of identical, similar or comple-

mentary activities to that of the Parent company are included in Appendix II, in accordance with the correspondence received from the directors of the Parent company.

(24) MANAGEMENT REMUNERATION

In 2007 short-term senior management remuneration and life insurance and pension plan contributions amounted to Euro 872 thousand and Euro 27 thousand, respectively (Euro 1,357 thousand and Euro 29 thousand in 2006) and are reflected as Staff costs in the consolidated income statement. The Company has also established a three year performance-linked remuneration plan for these managers, which will be paid, if appropriate, at the end of 2008.

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

Name	Position
Carlos Collantes Pérez-Ardá	General Manager, Transport
Esther M ^a Rituerto Martínez	General Manager, Administration and Finance
Alberto Carbajo Josa	General Manager, Operations

At 31 December 2007 and 2006 no loans or advances have been granted to these managers.

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

(25) SEGMENT REPORTING

The Red Eléctrica Group's core activity is the transmission of electricity and operation of the electricity system in Spain as TSO which accounts for 96% of the Group's consolidated turnover and total assets. Other activities, consulting activities and electricity transmission services outside Spain, account for the remaining 4% of such turnover and total assets. It has therefore not been considered relevant to provide information by activity or geographical segment.

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

At 31 December 2007 the principal long-term contracts and commitments to which Group companies are party are as follows:

- Contracts between EDF and the Parent company for the import and export of electricity until 2010. The power quotas established in these two contracts range from 550 to 300 MW until maturity.
- Contracts signed with different telecommunication operators for the assignment of use of capacity, management and maintenance of the telecommunication network, maturing in the period 2016 to 2027.

At 31 December 2007 the Group has bank guarantees in favour of third parties amounting to Euro 11,171 thousand (Euro 9,656 thousand in 2006).

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

(27) ENVIRONMENTAL INFORMATION

During 2007 Group companies incurred ordinary expenses of Euro 15,388 thousand to protect and improve the environment (Euro 9,323 thousand in 2006). These expenses relate mainly to the application of preventive and corrective measures at facilities in operation. They also include the maintenance of environmental management systems, sundry environmental communication and training activities, environmental research projects and expenses relating to the organisational unit especially devoted to these tasks.

Similarly, in 2007 environmental impact studies and environmental supervision have been conducted at the newly constructed electrical facilities valued at Euro 2,087 thousand (Euro 6,305 thousand in 2006 which mainly included the environmental actions deriving from the construction of the second electricity interconnection between Spain and Morocco).

Group companies are involved in no litigations relating to environmental protection or improvements which may give rise to significant contingencies. Similarly, in 2007 and 2006 the Group companies have received no significant environmental grants.

(28) OTHER INFORMATION

The Group's auditor has been PricewaterhouseCoopers Auditores, S.L. since 2006. Remuneration accrued in respect of items related to the audit of the accounts of the Group companies in 2007 amounts to approximately Euro 102 thousand (Euro 98 thousand in 2006). Remuneration accrued by companies directly and indirectly related to the auditors for professional services other than the audit of the accounts, which do not affect the Group companies' strategy or general planning amount to approximately Euro 8 thousand in 2007 (Euro 77 thousand in 2006).

(29) EVENTS AFTER 31 DECEMBER 2007

There have been other significant events after the year end to the date of preparation of these Consolidated Financial Statements.

(30) EARNINGS PER SHARE

Details of earnings per share for 2007 and 2006 are as follows:

	2007	2006
Net profit (thousands of euros)	243,049	200,154
Number of shares (shares)	135,270,000	135,270,000
Average number of own shares (shares)	856,824	271,860
Basic profit per share (euro)	1.81	1.48
Diluted profit per share (euro)	1.81	1.48

At 31 December 2007 and 2006 the Group has not performed any operations which would result in any differences arising between basic earnings per share and diluted earnings per share.

(31) SHARE -BASED PAYMENTS

The Parent 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 expense deriving from this plan is reflected under Staff costs in the consolidated income statement. All shares delivered relate to the Parent company's treasury shares. Such remuneration is valued at the quotation price of the Company's share at the share delivery date. This programme amounts to Euro 990 thousand in 2007 (Euro 370 thousand in 2006).

Appendix I

GRUPO RED ELÉCTRICA · Breakdown of shareholdings
at 31 December 2007 (thousand euro)

Company - Registered offices - Main activity	Percentage ownership held by parent company		Net book value in holding company
	Direct	Indirect	

A) FULLY CONSOLIDATED COMPANIES

Red Eléctrica Internacional, S.A.U. (REI)	100%	-	56,300
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid)			
- International holdings. Rendering of consultancy, engineering and construction services. Electrical activities outside Spanish electrical system.			
Transportadora de Electricidad, S.A. (TDE)	-	99.94% (1)	70,469
- C/ Colombia, N° 00655, casilla, N° 640. Cochabamba (Bolivia)			
- Transmission of electrical energy			
Cybercia, S.R.L. (CYBERCIA)	-	75% (2)	21
- C/ Colombia, N° 00655, casilla, N° 640. Cochabamba (Bolivia)			
- Business and services in general			
Red Eléctrica de España Finance, B.V. (RBV)	100%	-	2,000
- Claude Debussylaan, 24. Amsterdam (Holland)			
- Financing activities			
Red Eléctrica Andina, S.A.C. (REA)	-	100% (1)	3
- Juan de la Fuente, 453. Lima (Perú).			
- International holdings. Rendering of consultancy, engineering and construction services. Electrical activities outside Spanish electrical system.			
Red Eléctrica de España TSO, S.L. (REE TSO)	100%	-	6
- Paseo Conde de los Gaitanes, 177. Alcobendas (Madrid)			
- Legal compliance activities imposed on Red Eléctrica de España, S.A. under Law 17/2007			
B) COMPANIES CONSOLIDATED BY EQUITY METHOD			
Red Eléctrica del Sur, S.A. (REDESUR)	-	33.75% (1)	4,878
- Juan de la Fuente, 453. Lima (Perú).			
- Transmission of electrical energy			
Red Internacional de Comunicaciones del Sur, S.A. (REDINSUR)	-	27.64% (3)	47
- Juan de la Fuente, 453. Lima (Perú).			
- Telecommunications			

(1) Holding through Red Eléctrica Internacional

(2) Holding through TDE

(3) Holding through Redesur

This Appendix is an integral part of Note 1 to the consolidated Financial Statements

Appendix II

GRUPO RED ELÉCTRICA · Information on Members of the Board of Directors at 31 December 2007

Members of the Board of Directors	Direct or indirect holdings of the Parent Company's Directors in the capital of companies engaging in activities which are identical, analogous or complementary to those making up the Parent Company's objects	Positions and duties discharged by the Directors in companies outside the Red Eléctrica Group engaging in activities which are identical, analogous or complementary to those making up the Parent Company's objects
D. Luis M ^a Atienza Serna	-----	Director of Redes Energéticas Nacionales, SGPS, S.A. (REN)
D. Pedro Rivero Torre	-----	Director of Operador del Mercado Ibérico de Energía - Polo Español, S.A. Chairman of Unesa
D. Juan Gurbindo Gutiérrez	-----	-----
D. Antonio Garamendi Lecanda	-----	-----
D. Manuel Alves Torres	-----	-----
D. José Riva Francos	853 shares in Iberdrola, S.A.	-----
D. José Manuel Serra Peris	3,932 shares in Iberdrola, S.A.	-----
	3,254 shares in Gas Natural, S.A.	-----
D. Rafael Suñol Trepas	-----	-----
D ^a . María de los Ángeles Amador Millán	-----	-----
D. Francisco Javier Salas Collantes	-----	-----
D. Martín Gallego Málaga	-----	-----

None of the members of the Board of Directors 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.

Consolidated Directors' Report

2007 Financial Year

EVOLUTION OF BUSINESS. MOST SIGNIFICANT EVENTS

In 2007, GRUPO RED ELÉCTRICA consolidated its basic strategy as a Spanish TSO (Transmission System Operator). Law 17/2007 confirmed the role of Red Eléctrica de España, S.A. (hereinafter RED ELÉCTRICA or the Company) as a system operator and manager of the transmission network, naming the group as the only transmission operator in Spain.

In addition to the satisfactory economic results obtained in 2007, GRUPO RED ELÉCTRICA, made some significant achievements in the company's different business activities.

Business in Spain

Today, RED ELÉCTRICA owns practically all of the transmission network on the peninsula, with approximately 34,000 km of high voltage lines plus 3,000 substation positions and a transformation capacity of more than 58,000 MVA, which is also one of the fastest-growing. In 2007, the investment efforts of RED ELÉCTRICA focused on its development programme and the structural reinforcement of the transmission network in order to satisfy increased demand and the evacuation needs of the recently installed generating capacity. The Group invested 609.7 million euros in the development of the national transmission, a 19% increase over 2006.

The most significant actions during the financial year included:

- Improving the 220 kV grid in the communities of Valencia and Madrid.
- Reinforcing the transmission network in eastern Andalusia.
- Evacuating the generation capacity of new combined cycle power plants and wind farms.
- Initiating the interconnection between the peninsula and the Balearic Islands via an underwater cable.

Thanks to the maintenance policies and techniques continuously applied by RED ELÉCTRICA, its operating efficiency and service quality rates, which reflect the availability rates of its facilities, are among some of the highest in the world.

In terms of the continuity and security of the electricity supply, while in 2007 there were incidents caused by third parties and meteorological phenomena which affected the company's transmission network, RED ELÉCTRICA made it a priority to restore the service as quickly as possible, bolstering the distribution network and minimising the impact on the total availability of the company's transmission network, which in 2007 was 98.06% (98.24% in 2006), with an average interruption time of 1.10 minutes (1.817 minutes in 2006).

RED ELÉCTRICA, as the operator of the electricity system, guarantees the continuity of the electricity supply by imposing strict standards of efficiency and transparency on agents.

With regard to the key indicators of system performance, in 2007 the annual demand for electricity was 2.9% higher than 2006. As for the satisfaction of that demand, RED ELÉCTRICA made considerable efforts to integrate renewable energies, enabling it to cover 10% of demand with wind power. In order to integrate the maximum production of renewable energies, especially wind power, into the electrical system under safe conditions, RED ELÉCTRICA, as the electricity system operator, has implemented a Renewable Energy Control Centre (CECRE), a pioneer initiative world-wide for the supervision and control of these energy sources which makes it possible to anticipate possible problems affecting the electrical system due to sudden losses of wind power generation.

Within the scope of the Iberian Electricity Market (MIBEL), Redes Energéticas Nacionais, SPGS, S.A. (REN) and RED ELÉCTRICA have signed an agreement which in financial year 2007 resulted in the acquisition of 5% of REN by RED ELÉCTRICA.

In December 2007, the Company founded a wholly-owned subsidiary, Red Eléctrica de España TSO, S. L. which, pursuant to the law, is expected to assume the activities of system operator, transmission network manager and transporter in financial year 2008. The company had no business activity in 2007.

Business Outside Spain

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

The turnover from international business was 22.2 million euros with EBITDA of 13.6 million.

The consolidated profits from the GROUP's international business were 2.4 million euros, most of which were contributed by it Bolivian subsidiary TDE.

Both REDESUR in Peru and TDE in Bolivia have focused their activities on their electricity markets, where they have achieved certain standards of quality in the operation and maintenance of their installations that have resulted in availability rates in excess of 99%.

PRINCIPAL ECONOMIC INDICATORS

The positive economic-financial indicators in financial year 2007 reflect the attainment of the objectives set by GRUPO RED ELÉCTRICA and the efficient management of the company's business activities.

In 2007, after-tax profits were 243 million euro, which represents an increase of 21.4% over the year 2006.

The consolidated profits, net of energy purchases, were 1,030.9 million euro, an increase of 8.6%, due primarily to the large base of assets to be remunerated by the plants that went into service in 2006.

The gross operating profit (EBITDA) was 723.3 million euro, which represents an 11% increase over 2006, due to the increase in turnover and to:

- The evolution of personnel expenses, which rose by 4.1%.

The average number of employees working for Grupo Red Eléctrica at 31 December 2007 was 1,456 personas, which represents an increase of 2.1% over 2006. The final employee count was 1,468 people, a 1.8% increase over 31 December 2006.

- The evolution of the cost of procurements and other operating expenses. The net expenses, which include the item entitled "other operating expenses" rose by 3.4% compared to the year before.

The net operating profits (EBIT) rose by 17.4% in comparison to 2006.

The net financial costs increased by 10.9%, due primarily to the increase in market rates.

In 2007, the net result of the deterioration of asset value was -12.3 million euro. This figure includes the correction made to the value of certain plants, located primarily in the north-east, whose construction is paralysed due to causes unrelated to the company.

Finally, the effective tax rate for the financial year was 32.8% compared to 28.7% the year before. In 2006, as a consequence of the enactment of Law 35/2006, which modified the corporate income tax rate, the Group recorded net income of 15.6 million euro due to the adjustment of anticipated and deferred taxes to the new tax rates.

The Group invested a total of 727.8 million euro in 2007, which is almost 37.4% higher than the total investments in 2006. These investment efforts focused on the development of the national transmission network, as mentioned above (607.6 million euros), on financial investments in REN (98.8 million euro) and other investments in tangible and intangible assets (21.4 million euro).

In 2007, the Group paid dividends of 121 million euros, equivalent to 0.8984 euro per share, approximately 23% more than the dividends paid in 2006. This amount encompasses both the interim dividend paid in 2007 and the complementary dividend from 2006.

The net financial debt at the end of 2007 was 2,697 million euro, 2% higher than the previous year, with a leverage ratio of 69%. The debt has been maintained at levels similar to those of the year before since the ability to generate cash and the increase in working capital have made it possible to finance many of the investments without the need for external financing.

In addition, the debt structure did not vary significantly during the year: long term debt accounted for 99% of the debt compared to 96% at 31 December 2007. As for interest rates, 73% of the debt is fixed rate and 27% adjustable, maintaining a very low risk profile with reduced exposure to interest rate fluctuations. The credit rating agencies Standard and Poor's and Moody's have maintained their AA- and A2 ratings, respectively, in 2007.

The shareholders' equity of GRUPO RED ELÉCTRICA was 1,202 million euros, an increase of 17.7 compared to the year before, primarily due to increased earnings.

CAPITAL STRUCTURE AND ADDITIONAL INFORMATION FOR PUBLICLY LISTED COMPANIES

(ART 116 bis of the Stock Market Act)

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

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

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

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

b) Restrictions on the transferability of the shares.

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

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

c) Significant direct or indirect shareholdings.

On 31 December 2007 and according to the information available to the Company, at the time of this report the significant shareholders of Red Eléctrica de España, S.A. stock were as follows:

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

d) Any restriction on voting rights.

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

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

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

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

These shares may not be syndicated under any circumstances.

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

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

e) Shareholders' Agreements.

At 31 December 2007, the Company had no knowledge of the existence of agreements between shareholders which would oblige them to adopt a common policy by voting in a particular way at the General Meetings or which would restrict or condition the free transferability of the shares.

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

1. Appointment and Replacement.

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

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

- i) Upon the proposal of the Appointments, Remuneration and Corporate Governance Committee in the case of independent directors.
- ii) Following the report of the Appointments, Remuneration and Corporate Governance Committee in the case of all other directors.

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

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

Furthermore, directors shall step down under the following circumstances:

- a) When they reach the age of 70.
- b) When they are affected by a situation of incompatibility of legal prohibition.
- c) When they are found guilty of an offence or sanctioned by the stock market, energy and telecommunications supervisory authorities in the course of disciplinary proceedings for a serious or very serious offence.
- d) When they have seriously violated their obligations as directors.
- e) When they no longer hold the executive positions with which their appointments as directors were associated.
- f) When remaining on the Board poses a risk to the Company's interests, particularly in relation to section 30.4 of these Rules and when two-thirds of the components of the Board consider this to be true. Should a director be charged with a crime or should there be a hearing for any of the crimes mentioned in article 124 of the Public Limited Companies Act, the Board will examine the case as quickly as possible and, based on the particular circumstances, decide whether or not the director should continue to sit on the Board. All of this will be mentioned in the Annual Corporate Governance Report.
- g) In the case of a nominee director, when the shareholder whose interest that director represents on the Board disposes of its shares in the Company or reduces them to a level below that which would reasonably justify the appointment of a nominee director.

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

2. Amendment of Articles of Association.

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

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

At the General Meeting of Shareholders held on 31 May 2007, the Board of Directors was authorised, pursuant to the terms of article 75 and related articles of the Public Limited Companies Act, to proceed with the derivative acquisition of shares in Red Eléctrica de España, S.A., directly or indirectly, to the extent deemed appropriate under the circumstances and under the following conditions. The term of the authorisation is 18 months from the date of the General Meeting. The maximum number of shares that may be acquired may not exceed the legal limit and must comply with all other legal requirements. The price paid for the shares may not be higher than the stock market price at the time of the purchase or lower than 50% of the stock market value of the shares at that time. The shares may be acquired under a purchase-sale, swap or any other onerous business arrangement, depending on the circumstances at the time. The Board of Directors, pursuant to the terms of the third paragraph of article 75 1º of the Public Limited Companies Act, may use some or all of the treasury stock acquired and all of the shares already owned by the Company.

Furthermore, at the Ordinary General Meeting of Shareholders held on 26 May 2006, the Board of Directors was delegated with the authority, for a term of five years, to issue documented debt in the form of non-convertible bonds, bonds of any kind, promissory notes, coupons and warrants, either directly or through its subsidiaries, or any other fixed income securities in euros or other currencies, which may be subscribed in cash or in kind, represented by titles or account entries, simple or with guarantees including mortgage guarantees, with or without the inclusion of rights to the warrants, subordinated or not, with a specific or undefined term, as provided for in the applicable legislation.

Article 25 of the Articles of Association determined that the Chairman of the Board is also the President of the Company and as such is responsible for the executive management of the company and for representing the company in all matters, acting with the powers vested in him by the Board. In this regard, the Board of Directors, at its meeting held on 29 July 2004, in accordance with the proposal of the Appointments and Remuneration Committee, unanimously agreed to: "Delegate to the Chairman of the Board of Directors all of the powers of the Board of Directors which may be delegated under the law and the Articles of Association", in accordance with the terms of article 141 of the Public Limited Companies Act, article 149 of the Business Registrar Regulations, article 22 of the Articles of Association and article 5 of the Rules of the Board of Directors.

Notwithstanding the powers expressly vested in him, the Chairman is authorised to adopt the urgent measures which are deemed to be in the Company's best interest, reporting immediately to the Board of Directors and keeping the Board regularly informed, at its ordinary sessions, of the progress of the Company's business operations and requesting the pertinent approvals of the resolutions submitted to the Board. Starting in 1999, with the creation of the Audit Committee and the Appointments, Remuneration and Corporate Governance Committee, composed entirely of members of the Board of Directors specialising in their areas of competence, the basic and strategic responsibilities of the company have been more specifically controlled by persons other than just the Chairman.

The powers delegated to the Chairman notwithstanding, in reality the Board of Directors actually takes all strategic and relevant decisions affecting the Company.

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

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

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

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

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

STOCK MARKET EVOLUTION AND SHAREHOLDER YIELDS

RED ELÉCTRICA is part of IBEX-35 with a weight of 1.11% on this index at the end of financial year 2007. Throughout 2007, the Company's free-float rate was 80%.

The Company's stock market capitalisation at the end of 2007 was 5,849 million euro. RED ELÉCTRICA's shares performed very favourably in 2007, closing the year at 43.24 euro/share, an increase of 33.1% over the year before, outranking the appreciation rates of most of the world's stock market indices.

In addition, RED ELÉCTRICA has upheld its commitment to maximise value for its shareholder, offering them high profitability through dividends in 2007.

TREASURY STOCK

In 2007, in order to provide investors with adequate levels of stock liquidity, the Company acquired 4,546,806 shares for a total par value of 9 million euros and a cash value of 158 million euros. Moreover, the Company disposed of 5,896,824 shares with a total par value of 12 million and a cash value of 204 million euros.

At 31 December 2007, the Company's shares in its possession represented 0.22% of the share capital, with 295,165 shares with a total par value of 0.6 million euros and a market value of 13 million euros.

The Company has complied with its obligations pursuant to article 75.2 and the first additional provision of the Public Limited Companies Act which establishes, in relation to the shares traded on secondary markets, that the par value of the share acquired when added to those already in the hands of the company or its subsidiaries, may not exceed 5% of the share capital. The subsidiaries do not own any treasury stock.

RISK MANAGEMENT

GRUPO RED ELÉCTRICA has a Risk Control System in place that covers all of its activities and is properly suited to its risk profile. The Risk Policy and the General Procedures for Comprehensive Risk Management and Control are based on the integral business management framework contained in COSO II Report (*Committee of sponsoring organizations*).

The principal risks affecting the achievement of the strategic objectives are regulatory in nature, since most of GRUPO RED ELÉCTRICA's operations are subject to regulation. There are also operational risks associated primarily with its electricity system operations, as well as financial and environmental risks.

The Risk Control System includes financial risk management. The policies for covering each type of risk are described in Note 15 of the Notes to the Consolidated Financial Statements.

THE ENVIRONMENT

One of the challenges faced by GRUPO RED ELÉCTRICA is to make the development of electrical infrastructures compatible with environmental conservation in order to strike an effective balance between business and sustainability.

In 2007, not only did the Group continue its policy of conducting environmental impact studies for all projects involving new installations, regardless of whether an Environmental Impact Study was legally required, but also through RED ELÉCTRICA, as the manager of the transmission network, the Group collaborated with Ministry of Industry, Trade and Tourism to incorporate environmental sustainability criteria into the general planning of the transmission network, subject to strategic environmental assessment since 2006.

All of the activities carried out by GRUPO RED ELÉCTRICA which strive to protect the environment (environmental supervision, protection of avifauna, prevention of contamination, environmental training, compensatory measures, etc.) are part of the Environmental Management System and are included in the environmental report published annually.

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

As part of its corporate strategy, the research, development and innovation (R+d+i) activities of GRUPO RED ELÉCTRICA seek to guarantee the efficiency and safety of the infrastructures that support the electrical system.

In 2007, GRUPO RED ELÉCTRICA invested four million euros in more than 50 R+D+i projects. Notable among these, from a technological point of view, were the completion of the acoustical screening of substations and the European RELIANCE project focused on the long term identification of common R+D+i objectives of European TSOs. In this regard, in 2007 RED ELÉCTRICA continued to participate in the European Union's Framework Research Programme, acting as the coordinator on some projects including IS-POWER, the goal of which is to foster the integration of renewable energies in isolated electricity systems, or the WIND ON THE GRID project which promotes the wide-scale integration of wind power in the European market.

GRUPO RED ELÉCTRICA is also part of different technological platforms including the Spanish Electrical Grid Platform (FUTURED), and the GAD project (Active Demand Management) sponsored by the Ministry of Industry, Trade and Tourism as part of the CENIT Programme (Strategic National Consortia of Technical Research) whose goal is to optimise residential energy consumption.

Also in 2007, in keeping with GRUPO RED ELÉCTRICA's desire to reinforce its R+D+i activities as a basic element of its corporate strategy, the Group participated in the LIDER+ *benchmarking* project headed by the Management Excellence Club, with the goal of gearing its innovation management model towards the most modern models of reference.

THE STAFF

The operations of GRUPO RED ELÉCTRICA are guided by its vocation to serve society and a commitment to ethical responsibility, the values which underlie the Group's human resources policies.

The GROUP's commitment to its employees' development can be seen in the following actions, among others:

- The creation of stable, quality jobs. In 2007, GRUPO RED ELÉCTRICA created a net total of 26 new jobs.
- The development of policies that foster equal opportunities. At the end of the financial year, 21% of GRUPO RED ELÉCTRICA's employees were women, one of the highest rates in the electricity sector.
- Conciliation of work and family life, with policies that go beyond just complying with the laws on the subject.

- A commitment to professional development of employees and to improving the professional development and talent management models. In 2007, for example, 97% of employees participated in the training plans in place at RED ELÉCTRICA, with 102,926 hours of training, 11% more than in 2006. This is equivalent to 79 hours per employee.

Without a doubt, these actions help to strengthen the employees' commitment to the GROUP and its business project, one of the basic pillars of the Group's corporate culture.

EVENTS SUBSEQUENT TO 31 DECEMBER 2007

There were no relevant events subsequent to 31 December 31 2007.

FUTURE OUTLOOK

GRUPO RED ELÉCTRICA, as a Spanish TSO, will keep its strategy focused on service quality in order to guarantee its leadership in terms of the reliability and safety of the Spanish electricity system, making the investments required to develop the grid according to the Infrastructure Plan.

RED ELÉCTRICA will combine with programme of network improvement and expansion with a management model geared towards optimising its operating margins and maintaining service reliability levels.

Assuming the functions entrusted to the Group under the new regulations and making the investments planned for the coming years, along with a transparent, adequate and stable remunerative environment, will guarantee the growth of GRUPO RED ELÉCTRICA in the Spanish electricity sector.

Furthermore, maintaining an efficient capital structure will enable GRUPO RED ELÉCTRICA to continue offering its shareholders high yields and solid, low-risk growth in the years to come.

All of this creates long term value, a lasting competitive edge and an excellent corporate reputation focused on providing the best possible service to society, the characteristic that sets the Group apart from the rest.

Individual financial statements

Red Eléctrica de España

Balance at 31 december 2007 (in thousands of euros)

ASSETS	2007	2006
INTANGIBLE ASSETS	3,834	5,182
Research and development expenses and software	38,563	36,403
Amortisation	(34,729)	(31,221)
TANGIBLE ASSETS	4,694,768	4,331,303
Land and buildings	60,541	59,959
Plant and machinery	6,282,317	5,899,480
Other installations, equipment and furniture	103,038	95,254
Plant and machinery under construction	611,443	455,793
Advances and tangible assets under construction	80,915	7,131
Provisions	(56,221)	(42,606)
Depreciation of plant and machinery	(2,297,808)	(2,066,151)
Other depreciation	(89,457)	(77,557)
INVESTMENTS	171,542	79,004
Investments in group companies	62,006	62,000
Loans to associated companies	98,822	-
Other loans	873	1,258
Long-term guarantee deposits	840	434
Long-term balances recoverable from public entitie	21,036	19,795
Provisions	(12,035)	(4,483)
OWN SHARES	2,518	12,710
TOTAL FIXED ASSETS	4,872,662	4,428,199
DEFERRED EXPENSES	9,697	10,506
STOCKS	32,145	28,378
Raw materials and other supplies	38,559	33,978
Provisions	(6,414)	(5,600)
DEBTORS	299,178	266,165
Trade debtors	5,444	4,154
Group companies	269	272
Associated companies	59	68
Sundry debtors	284,367	252,676
Personnel	448	587
Public entities	8,650	8,477
Provisions	(59)	(69)
SHORT-TERM INVESTORS	5,779	5,876
Other loans	5,520	5,570
Short-term guarantee and deposits	259	306
CASH AND BANKS	1,537	4,619
PREPAID EXPENSES	3,838	3,506
TOTAL CURRENT ASSETS	342,477	308,544
TOTAL ASSETS	5,224,836	4,747,249

SHAREHOLDERS' EQUITY AND LIABILITIES	2007	2006
SHARE CAPITAL	270,540	270,540
REVALUATION RESERVE	247,022	247,022
RESERVES	444,194	335,109
PROFIT FOR THE YEAR	238,682	198,676
INTERIM DIVIDEND	(52,208)	(43,428)
TOTAL SHAREHOLDERS' EQUITY	1,148,230	1,007,919
Capital grants	93,591	81,898
Exchange gains	109	213
Other deferred income	266,796	249,691
TOTAL DEFERRED INCOME	360,496	331,802
Provisions for pensions and other liabilities	39,724	36,250
Provisions for taxes	165	171
Other provisions	17,825	18,995
TOTAL PROVISIONS FOR LIABILITIES AND CHARGE	57,714	55,416
BONDS	1,355,156	1,222,546
LOANS	1,261,862	1,261,862
OTHER CREDITORS	113,552	117,299
LONG-TERM CREDITORS	2,730,570	2,601,707
BONDS AND OTHER MARKETABLE SECURITIES	47,508	127,785
Non-convertible bonds	36,517	117,263
Interest payable	10,991	10,522
LOANS	26,667	22,391
Loans and other debt	26,667	22,391
TRADE CREDITORS	146,779	117,550
For purchases and services received	88,076	67,906
Bill payable	58,703	49,644
OTHER CREDITORS	677,830	459,308
Public entities	55,247	39,925
Other	620,356	418,045
Short-term guarantee deposits received	2,227	1,338
ACCRUALS	29,042	23,371
SHORT-TERM CREDITORS	927,826	750,405
TOTAL SHAREHOLDRES' EQUITY AND LIABILITIES	5,224,836	4,747,249

Red Eléctrica de España

Profit and loss accounts for the year 2007 (in thousands of euros)

DEBIT	2007	2006
EXPENSES		
MATERIALS CONSUMED	206,719	185,443
Purchases of energy and power	146,654	149,387
Maintenance and repair materials	60,065	36,056
PERSONNEL EXPENSES	85,682	80,934
Wages and salaries	64,972	60,350
Social security	13,797	13,222
Pensions and similar obligations	1,079	1,035
Other social charges	5,834	6,327
AMORTISATION AND DEPRECIATION	245,026	249,826
CHANGES IN TRADE PROVISIONS AND BAD DEBTS WRITTEN OFF	805	1,447
Change in provisions for stocks	815	1,436
Change in provision for bad debts	(10)	11
OTHER OPERATING EXPENSES	186,861	190,752
External services	178,725	177,854
Local taxes	4,117	2,969
Other operating expenses	318	1,337
Provision for liabilities and charges	3,701	8,592
TOTAL OPERATING EXPENSES	725,093	708,402
OPERATING PROFIT	473,270	392,544
FINANCIAL AND SIMILAR EXPENSES	117,519	107,341
On debt with group companies	60,033	62,269
On debt with third parties	57,486	45,072
EXCHANGE LOSSES	5	10
TOTAL FINANCIAL EXPENSES	117,524	107,351
PROFIT ON ORDINARY ACTIVITIES	360,081	288,069
CHANGES IN PROVISIONS FOR FIXED ASSETS	21,659	18,408
LOSSES ON TANGIBLE ASSETS	888	121
EXTRAORDINARY EXPENSES	180	612
PRIOR YEARS' EXPENSES AND LOSSES	4,165	825
TOTAL EXTRAORDINARY EXPENSES	26,892	19,966
PROFIT BEFORE INCOME TAX	352,484	281,751
INCOME TAX	113,694	82,956
TAXES OTHER THAN INCOME	108	119
PROFIT FOR THE YEAR	238,682	198,676

CREDIT	2007	2006
INCOME		
NET SALES	1,156,945	1,078,044
Services rendered (Transmission and system operation)	973,985	893,005
Sales of energy and power	150,302	153,115
Other service income	32,658	31,924
SELF-CONSTRUCTED ASSETS	15,413	17,578
OTHER OPERATING INCOME	26,005	5,324
Other income	23,651	2,941
Grants	1,050	300
Surplus provision for liabilities	1,304	2,083
TOTAL OPERATING INCOME	1,198,363	1,100,946
INVESTMENTS INCOME	920	653
Group companies	920	653
REVENUES FROM OTHER MARKETABLE SECURITIES AND NON-CURRENT LOANS	30	-
Group and associated companies	30	-
OTHER INTEREST AND SIMILAR INCOME	3,223	2,121
Group companies	2,625	2,121
Other interest	598	-
EXCHANGE GAINS	162	102
TOTAL FINANCIAL INCOME	4,335	2,876
NET FINANCIAL EXPENSES	113,189	104,475
PROFIT ON DISPOSAL OF TANGIBLE FIXD ASSETS	657	173
PROFIT ON OWN SHARE OPERATION	6,341	1,732
CAPITAL GRANTS TAKEN TO INCOME	3,597	3,296
EXTRAORDINARY INCOME	3,754	2,617
PRIOR YEARS' PROFIT AND INCOME	4,946	5,830
TOTAL EXTRAORDINARY INCOME	19,295	13,648
NET EXTRAORDINARY LOSS	7,597	6,318

Proposed profits distribution

Red Eléctrica de España Proposed profits distribution Year 2007

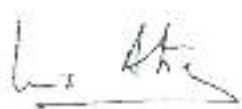
The year 2007 profit reached Euros 238,682,246.14. The distribution of this profit, as proposed by the Board of Directors to the Annual General Meeting of Shareholders, provides for a gross dividend of Euros 1.0871 per share payable to those entitled to a dividend. Accordingly, an interim dividend of Euros 0.3868 per share has already been paid out. The balance, after the said dividends have been paid, will be transferred to Voluntary Reserves.

	Amounts in euros
VOLUNTARY RESERVES	91,744,398.96
DIVIDEND:	
INTERIM DIVIDEND	52,208,266.18
EXTRA DIVIDEND	94,729,581.00
(computed on the total number of shares)	
Total	238,682,246.14

DECLARATION OF RESPONSIBILITY OF THE ANNUAL FINANCIAL REPORT

The members of the Board of Directors of RED ELECTRICA DE ESPAÑA, S.A., declare that to the best of their knowledge, the individual annual accounts as well as the consolidated ones corresponding to 2007, formulated during the session of 27th March 2008, have been drawn up in accordance with the accounting practices in force and offer a fair view of the net worth, the financial situation and the results for RED, ELECTRICA DE ESPAÑA, S.A., and the companies included in the overall consolidation, and that the individual and consolidated reports include a true vision of the evolution of the state of affairs and of the position of RED ELECTRICA DE ESPAÑA, S.A. and of the companies involved in the overall consolidation, together with the description of the main risks and uncertainties faced by them.

Madrid, 27th March 2008



Luis Atienza Serna
Presidente



Pedro Rivera Torre
Consejero



Juan Guadalupe Gutiérrez
Consejero



Antonio Garateendi Lecanda
Consejero



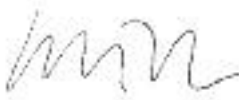
Manuel Alves Torres
Consejero



José Riva Francos
Consejero



José Manuel Serna Pared
Consejero



Rafael Sufel Trepal
Consejero



M^a Angeles Amador Millán
Consejera



Francisco Javier Solas Colantes
Consejero



Martín Salgado Málaga
Consejero

Rafael García de Diego Barber, Secretary to the Board of Directors of Red Eléctrica de España, S.A., as established in Article 109 of the Trade and Companies Register Regulations,

CERTIFIES HEREBY,

That the Annual Accounts and Directors Report of the consolidated Red Eléctrica Group, as well as the Balance Sheet, Profit and Loss Statement and Proposed Profit Distribution of Red Eléctrica de España, S.A., as stated in the present document, are a true and accurate copy of those which were inspected and approved during the meeting held by the Board of Directors of Red Eléctrica de España, S.A., on March 27th, 2008. A copy of each of these documents, signed by all the Directors, as required by Article 171.2 of the Reviewed Companies Act, is available at the Board Secretary's Office

And as evidence thereof, I hereby issue this certificate in Madrid, on the 25th of March of the year 2008.





Red Eléctrica works on selecting the most legible typographical font for their publications. The typographic font Agilita has been used for the texts in this report.



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