RED ELÉCTRICA
CORPORACIÓN

CONSOLIDATED ANNUAL ACCOUNTS
2012

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

RED ELÉCTRICA CORPORACIÓN, S.A.
AND SUBSIDIARIES

Audit report, consolidated annual accounts and directors' report at 31 December 2012

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

REPORT OF THE AUDITORS ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Red Eléctrica Corporación, S.A. (the parent company) and subsidiaries (the Group) consisting of the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As is explained in Note 2.a of the accompanying notes to the annual accounts, the Company's directors are responsible for the preparation of these consolidated annual accounts in accordance with International Financial Reporting Standards as endorsed by the European Union and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Red Eléctrica Corporación, S.A. and subsidiaries at 31 December 2012 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2012 contains the explanations that the Parent Company's Directors consider appropriate regarding the Group's situation , the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2012. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of Red Eléctrica Corporación, S.A. and subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Francisco J. Martínez Pérez
Partner - Auditor

27 February 2013

RED ELÉCTRICA
CORPORACIÓN

CONSOLIDATED BALANCE SHEET
2012

RED ELÉCTRICA GROUP
CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2012 AND 2011
THOUSAND EURO

ASSETS	31/12/2012	31/12/2011
Intangible assets (Note 5)	23.359	4.830
Property, plant and equipment (Note 6)	8.265.640	8.068.413
Investment properties (Note 7)	2.604	2.695
Investments carried under the equity method (Note 8)	4.774	4.663
Non-current financial assets (Note 17)	58.919	91.904
Deferred tax assets (Note 21)	115.466	127.144
Other non-current assets (Note 9)	16.923	33.200
NON-CURRENT ASSETS	**8.487.685**	**8.332.849**
Non-current assets held for sale	-	-
Inventories (Note 10)	52.747	44.378
Trade and other receivables (Note 11)	633.315	368.070
Receivables for sales and services rendered	12.759	22.775
Other receivables	620.410	343.832
Current tax assets	146	1.463
Other current financial assets (Note 17)	1.130	837
Cash and cash equivalents	40.314	19.343
CURRENT ASSETS	**727.506**	**432.628**
TOTAL ASSETS	**9.215.191**	**8.765.477**

LIABILITIES	31/12/2012	31/12/2011
Equity	**2.027.340**	**1.820.185**
Share capital	270.540	270.540
Reserves	1.370.426	1.208.913
Treasury shares (-)	(14.698)	(28.684)
Profit for the year attributed to the parent company	492.288	460.348
Interim dividend (-)	(91.216)	(90.932)
Adjustments due to changes in value	**(40.177)**	**(8.312)**
Hedging operations	(41.273)	(2.717)
Other adjustments due to changes in value	627	644
Exchange differences	(759)	(6.239)
EQUITY ATTRIBUTED TO THE PARENT COMPANY	**1.987.163**	**1.811.873**
Minority shareholdings	**4.382**	**1.674**
TOTAL EQUITY (Note 12)	**1.991.545**	**1.813.547**
Subsidies and other (Note 13)	403.210	400.894
Non-current provisions (Note 14)	65.434	67.426
Non-current financial liabilities (Note 17)	3.990.860	3.831.476
Bank borrowings and debentures or other marketable securities	3.903.963	3.776.873
Other non-current financial liabilities	86.897	54.603
Deferred tax assets (Note 21)	651.102	607.616
Other non-current liabilities (Note 15)	75.268	77.540
NON-CURRENT LIABILITIES	**5.185.874**	**4.984.952**
Current provisions	10	1.948
Current financial liabilities (Note 17)	1.763.611	1.693.612
Bank borrowings and debentures or other marketable securities	1.057.992	971.283
Other current liabilities	705.619	722.329
Trade and other payables (Note 19)	274.151	271.418
Trade payables	241.091	251.915
Other payables	25.447	18.982
Current income tax liabilities	7.613	521
CURENT LIABILITIES	**2.037.772**	**1.966.978**
TOTAL LIABILITIES	**9.215.191**	**8.765.477**

Notes 1 to 33 and ppendixes I and II form an integral part of the consolidated financial statements.

RED ELÉCTRICA
CORPORACIÓN

CONSOLIDATED INCOME STATEMENT
2012

RED ELÉCTRICA GROUP
CONSOLIDATED INCOME STATEMENT
2012 and 2011
THOUSAND EURO

CONSOLIDATED INCOME STATEMENT	2012	2011
Net revenue (Note 22-a)	1.755.256	1.637.336
Work performed on the Company's own assets	18.995	18.077
Raw materials and consumables (Note 22-c)	(69.597)	(42.649)
Other operating revenues (Note 22-b)	13.499	10.043
Personnel costs (Note 22-d)	(129.148)	(128.846)
Other operating expenses (Note 22-c)	(289.855)	(278.741)
Asset depreciation/amortisation (Notes 5, 6 and 7)	(405.496)	(382.681)
Non-financial asset and other subsidies attributed (Note 13)	12.626	11.407
Impairment and profit/ loss on fixed asset disposals	(46.392)	(139)
OPERATING PROFIT	**859.888**	**843.807**
Financial income	8.356	6.699
Financial expense (Note 22-f)	(172.829)	(155.301)
Exchange differences	(200)	19
Impairment and gain/loss on disposals of financial instruments	(15.999)	(12.474)
FINANCIAL INCOME/EXPENSE	**(180.672)**	**(161.057)**
Results of companies carried under the equity method (Note 8)	1.298	925
PROFIT BEFORE TAXES	**680.514**	**683.675**
Corporate income tax (Note 21)	(188.368)	(223.421)
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**492.146**	**460.254**
A) CONSOLIDATED PROFIT OR LOSS FOR THE PERIOD ATTRIBUTED TO PARENT COMPANY	**492.288**	**460.348**
B) PROFIT OR LOSS FOR THE YEAR ATTRIBUTED TO NON-CONTROLLING INTERESTS	**(142)**	**(94)**
EARNINGS PER SHARE IN EURO		
Basic earnings per share in euro (Note 31)	**3,66**	**3,42**
Diluted earnings per share in euro (Note 31)	**3,66**	**3,42**

Notes 1 to 33 and ppendixes I and II form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE RESULTS
2012

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENT OF COMPRHENSIVE RESULTS
2012 and 2011
THOUSAND EURO

CONSOLIDATED STATEMENT OF COMPREHENSIVE RESULTS	2012	2011
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**492.146**	**460.254**
REVENUES AND EXPENSES ATTRIBUTED DIRECTLY TO EQUITY	**(44.610)**	**(15.929)**
- Measurement of financial instruments	(1.469)	(12.549)
a) Available-for-sale financial assets (Note 17)	(1.469)	(12.549)
- Cash-flow hedges (Note 18)	(55.424)	(3.874)
- Conversion differences (Note 12)	(1.614)	555
- Actuarial Gains and Losses and other adjustments	(6.907)	587
- Revenues and expenses attributed directly to equity	405	(808)
- Tax effect	20.399	160
TRANSFERS TO THE INCOME STATEMENT	**7.942**	**14.349**
- Measurement of financial instruments (Note 17)	2.697	12.549
- Cash-flow hedges (Note 18)	344	438
- Conversion differences	9.083	(75)
- Companies carried under the equity method	-	-
- Revenues and expenses attributed directly to equity	-	-
- Tax effect	(4.182)	1.437
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TOTAL COMPREHENSIVE RESULTS FOR THE YEAR	**455.478**	**458.674**
A) CONSOLIDATED OVERALL RESULTS FOR THE YEAR ATTRIBUTED TO PARENT COMPANY	**455.905**	**458.725**
B) COMPREHENSIVE RESULTS ATTRIBUTED TO NON-CONTROLLING INTERESTS	**(427)**	**(51)**

Notes 1 to 33 and ppendixes I and II form an integral part of the consolidated financial statements.

RED ELÉCTRICA
CORPORACIÓN

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
2012

RED ELÉCTRICA GROUP
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
AT 31 DECEMBER 2012 AND 2011
THOUSAND EURO

	Current period								
	Equity attributed to the parent company								
EQUITY	Share capital	Reserves	Interim dividend on account	Treasury shares	Profit or loss for the year attributed to the parent company	Adjustments due to changes in value	Equity attributed to the parent company	Minority shareholdings	Total equity
Balances at 1 January 2012	**270.540**	**1.208.913**	**(90.932)**	**(28.684)**	**460.348**	**(8.312)**	**1.811.873**	**1.674**	**1.813.547**
I. Comprehensive results for the year	**-**	**(4.518)**	**-**	**-**	**492.288**	**(31.865)**	**455.905**	**(427)**	**455.478**
II. Transactions with shareholders or owners	**-**	**3.361**	**(284)**	**13.986**	**(298.707)**	**-**	**(281.644)**	**-**	**(281.644)**
- Payment of dividends (Note 12)	-	-	(284)	-	(298.707)	-	(298.991)	-	(298.991)
- Trading in treasury shares (Note 12)	-	3.361	-	13.986	-	-	17.347	-	17.347
III. Other changes in equity	**-**	**162.670**	**-**	**-**	**(161.641)**	**-**	**1.029**	**3.135**	**4.164**
- Transfers between equity items	-	161.641	-	-	(161.641)	-	-	-	-
- Other changes	-	1.029	-	-	-	-	1.029	3.135	4.164
Balances at 31 December 2012	**270.540**	**1.370.426**	**(91.216)**	**(14.698)**	**492.288**	**(40.177)**	**1.987.163**	**4.382**	**1.991.545**

	Previous period								
	Equity attributed to the parent company								
EQUITY	Share capital	Reserves	Interim dividend on account	Treasury shares	Profit or loss for the year attributed to the parent company	Adjustments due to changes in value	Equity attributed to the parent company	Minority shareholdings	Total equity
Balances at 1 January 2011	**270.540**	**1.071.446**	**(79.173)**	**(23.297)**	**390.150**	**(6.837)**	**1.622.829**	**1.725**	**1.624.554**
I. Comprehensive results for the year	**-**	**(148)**	**-**	**-**	**460.348**	**(1.475)**	**458.725**	**(51)**	**458.674**
II. Transactions with shareholders or owners	**-**	**760**	**(11.759)**	**(5.387)**	**(253.252)**	**-**	**(269.638)**	**-**	**(269.638)**
- Payment of dividends (Note 12)	-	-	(11.759)	-	(253.252)	-	(265.011)	-	(265.011)
- Trading in treasury shares (Note 12)	-	760	-	(5.387)	-	-	(4.627)	-	(4.627)
III. Other changes in equity	**-**	**136.855**	**-**	**-**	**(136.898)**	**-**	**(43)**	**-**	**(43)**
- Transfers between equity items	-	136.898	-	-	(136.898)	-	-	-	-
- Other changes	-	(43)	-	-	-	-	(43)	-	(43)
Balances at 31 December 2011	**270.540**	**1.208.913**	**(90.932)**	**(28.684)**	**460.348**	**(8.312)**	**1.811.873**	**1.674**	**1.813.547**

Notes 1 to 33 and ppendixes I and II form an integral part of the consolidated financial statements.

RED ELÉCTRICA
CORPORACIÓN

CONSOLIDATED CASH FLOW STATEMENT
2012

RED ELÉCTRICA GROUP
CONSOLIDATED CASH FLOW STATEMENT
2012 and 2011
THOUSAND EURO

CONSOLIDATED CASH FLOW STATEMENT	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	**798.771**	**1.205.946**
Profit before taxes	**680.514**	**683.675**
Adjustments to results:	**618.770**	**522.571**
Asset depreciation/amortisation	405.496	382.681
Other adjustments to results (net)	213.274	139.890
Shareholdings consolidated using the equity method (results)	(1.298)	(925)
Results on disposal/impairment of non-current assets and financial instruments	62.391	12.613
Accrual of financial income	(8.356)	(6.699)
Accrual of financial expense	172.829	155.301
Transfer to provision/ excess provision for liabilities and charges	2.611	(6.314)
Attribution of subsidies and other	(14.903)	(14.086)
Changes in current assets	**(244.236)**	**121.012**
Change in inventories, receivables, prepaid expenses and other current assets current	(256.430)	48.621
Change in trade payables, current prepayments and other current liabilities	12.194	72.391
Other cash flows from operating activities:	**(256.277)**	**(121.312)**
Payment of interest	(152.162)	(122.967)
Collection of dividends	5.592	5.395
Collection of interest	1.746	2.213
Corporate income tax payments received/(made)	(109.051)	(3.892)
Other income/(expenses) from operating activities	(2.402)	(2.061)
CASH FLOWS FROM INVESTING ACTIVITIES	**(723.602)**	**(889.167)**
Payments for investments	**(739.244)**	**(933.297)**
Property, plant and equipment, intangible assets and investment properties	(738.214)	(932.476)
Other financial assets	(1.030)	(821)
Collections from divestments:	**701**	**590**
Other financial assets	576	590
Other cash flows from investment activities:	**14.941**	**43.540**
Other income from investing activities	14.941	43.540
CASH FLOWS FROM FINACING ACTIVITIES	**(54.315)**	**(316.381)**
Payments received/(made) for equity instruments:	**17.348**	**(4.627)**
Acquisition	(125.330)	(167.035)
Disposal	142.678	162.408
Payments received/(made) for financial liability instruments	**222.879**	**(58.962)**
Issue and draw downs	1.808.226	1.401.564
Repayment and amortisation	(1.585.347)	(1.460.526)
Payments of dividends and remuneration for other eequity instruments	**(297.677)**	**(252.792)**
EFFECT OF EXCHANGE RATE VARIATIONS ON CASH OR CASH EQUIVALENTS	**117**	**659**
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	**20.971**	**1.057**
Cash and cash equivalents at the beginning of the period	**19.343**	**18.286**
Cash and cash equivalents at the end of the period	**40.314**	**19.343**

Notes 1 to 33 and ppendixes I and II form an integral part of the consolidated financial statements.

Notes to the Consolidated Annual Accounts
FY 2012

CONTENTS

1. ACTIVITIES OF GROUP COMPANIES

Red Eléctrica Corporación, S.A. (hereinafter the Parent Company or the Company) and its subsidiaries comprise the Red Eléctrica Group (hereinafter the Group or Red Eléctrica Group). The Group's primary activity consists of the transmission of electricity, the operation of the system and the management of the electricity transmission grid in Spain. These regulated activities are carried out by Red Eléctrica de España S.A.U. (hereinafter REE)

Schedule I provides details of the Parent Company's activities and domicile and its subsidiaries, as well as the Parent Company's direct or indirect stakes in dependent companies.

2. BASIS OF PRESENTATION OF CONSOLIDATED ANNUAL ACCOUNTS

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 2012, the consolidated results of operations, and changes in consolidated equity and consolidated cash flows of the Group for the year then ended.

The historic cost approach has been applied when preparing these Consolidated Financial Statements, adjusted by the available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through changes in profit and loss and the taking into consideration of the recognition criteria for business combinations.

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 26 February 2013, have been prepared on the basis of the individual accounting records of the Company and other companies which comprise the Red Eléctrica Group (Schedule 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 2011 were approved by the General Shareholders' Meeting of 19 April 2012. The consolidated annual accounts for 2012 have yet to be approved by shareholders in General Meeting. Nonetheless, the Company's Board of Directors considers that those consolidated financial statements will be approved without changes.

b) New EU-IFRS standards and IFRIC interpretations

The consolidated annual accounts have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union.

In 2012 the following amendment was applied for the first time:

- IFRS 7 (Amendment) “Financial Instruments: Disclosures – Transfers of financial assets"

  The amendment of IFRS 7 requires additional disclosure of the exposure to risks arising from financial assets transferred to third parties. The application of this amendment has no significant effect on these consolidated annual accounts.

EU IFRS that are not mandatory in 2012 are as follows:

- IAS 1 (amendment) "Presentation of financial statements " is mandatory for all years starting on or after 1 July 2012.
- IAS 19 (amendment) "Employee remuneration " is mandatory for all years starting on or after 1 January 2013. Early application is permitted.
- IFRS 1 (amendment) “Severe hyperinflation and removal of fixed dates for first-time adopters” is mandatory for all years commencing as from 1 January 2013.
- IAS 12 (amendment) “Deferred tax: Recovery of underlying assets" is mandatory for all years starting on or after 1 January 2013.
- IFRS 10 "Consolidated financial statements" is mandatory for all years starting on or after 1 January 2014.
- IFRS 11 "Consolidated financial statements" is mandatory for all years starting on or after 1 January 2014.
- IFRS 12 "Disclosure of holdings in other entities" is mandatory for all years starting on or after 1 January 2014.
- IAS 27 "Separate financial statements" is mandatory for all years starting on or after 1 January 2014.
- IAS 28 (amendment) "Investment in associates and joint ventures " is mandatory for all years starting on or after 1 January 2014.
- IAS 13 "Fair value measurement" is mandatory for all years starting on or after 1 January 2013.
- IFRIC 20 "Stripping costs in the production phase of a surface mine” is mandatory for all years commencing as from 1 January 2013.
- IAS 32 (amendment) and IFRS 7 (amendment) “Offsetting financial assets and financial liabilities” is mandatory for all the periods beginning on or after 1 January 2014 and 1 January 2013, respectively

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

As at 31 December 2012, the IASB and IFRIC had published the standards, amendments and interpretations described below, which are pending adoption by the European Union.

- IFRS 9 “Financial instruments” applicable for years starting on or after 1 January 2015.
- IFRS 9 (amendment) and IFRS 7 (amendment) "Mandatory effective date and transition disclosures” applicable for years starting on or after 1 January 2015.
- IFRS 1 (amendment) “Public loans” applicable for years starting on or after 1 January 2013.
- IFRS 1 “First-time adoption of IFRS” applicable for years starting on or after 1 January 2013.
- IAS 1 “Presentation of financial statements” applicable for years starting on or after 1 January 2013.
- IAS 16 "Property, plant and equipment" applicable for years starting on or after 1 January 2013.
- IAS 32 “Financial instruments: Presentation" applicable for years starting on or after 1 January 2013.
- IAS 34 “Interim financing reporting" applicable for years starting on or after 1 January 2013.
- IFRS 10 (Amendment), IFRS 11 (Amendment) and IFRS 12 (Amendment) "Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition Guide (amendments of IFRS 10, IFRS 11 and IFRS 12) applicable to all years beginning on and after 01 January 2013.
- IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 27 (Amendment) “Investment entities” applicable for years starting on or after 1 January 2014.

The Company is analysing the impact that the standards and interpretations may have on the Group's consolidated annual accounts should they be adopted by the European Union.

c) Accounting estimates and assumptions

The preparation of the consolidated 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. Estimates and judgements are continually evaluated and are based on past experience and other factors, including expectations relating to future events that are considered to be reasonable under current circumstances. Actual results may differ from these estimates.

The consolidated financial statements for 2012 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.
- The assumptions used in 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.

To better understand the Consolidated Annual Accounts the various estimates and assumptions are detailed in each of the notes to the annual accounts.

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 2012, future events may require these estimates to be modified (increased or decreased) in subsequent years. Any change in accounting estimates would be recognised prospectively in the corresponding consolidated income statement in accordance with IFRS.

d) Consolidation principles

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

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

- Group companies

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

The Group recognises any non-controlling stake in each business combination at the proportional part of the non-controlling stake in the identifiable net assets of the investee.

- Jointly-controlled entities

Jointly controlled entities are considered to be those that the parent company manages together with other companies. Joint management is understood to be that for which there is a contractual agreement to share control of an economic activity, requiring strategic decisions in both financial and operational areas of the activity, and there is unanimous consent among the parties sharing control.

The financial statements of jointly controlled entities are consolidated using the proportional method.

The Group consolidated multi-group companies using the proportional method, incorporating assets, liabilities, revenues, expenses and cash flows on a line-by-line basis in accordance with the stake held in the jointly controlled company. The Group recognizes its share in the profits or loss deriving from the sale of Group assets to jointly controlled entities in its consolidated financial statements in the proportion corresponding to other participants. The Group does not recognise its share of the profits or losses of a jointly controlled entity deriving from the purchase by the Group of assets from the jointly controlled entity until the assets are sold to an independent third party. However, a loss is recognised immediately on a transaction if it reveals a reduction in the net realizable value of current assets or any impairment loss.

- Associates

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

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

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

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

The financial year end closing dates of the financial statements of the subsidiaries and associates used in the consolidation process 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 rate at the date of the balance sheet for assets and liabilities and the average exchange rate for the period for income and expenses, and the historic exchange rate for capital and reserves.
- 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) Comparability of information

Group management presents comparative information for 2011 in the accompanying consolidated annual accounts. As required by IFRS-EU, the present consolidated annual accounts for 2012 reflect for comparative purposes the corresponding previous year's figures.

f) Changes in the scope of consolidation

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

3. INDUSTRY REGULATION

Electricity sector in Spain

The electricity sector is regulated by Law 54/1997, of 27 November 1997, on the Electricity Sector, as partly amended by Law 17/2007, of 4 July 2007, by virtue of which Red Eléctrica de España S.A.U. was created.

During the year, Royal Decree-Law 3/2012 which transposed directives in the field of domestic markets for electricity and gas and electronic communications, and whereby measures are taken for the correction of the variances due to misalignments between costs and revenues in the electricity and gas industries, has introduced amendments to Law 54/1997 to adapt it to the provisions of Directive 2009/72/EC, on common rules for the internal power market.

The following should be noted with respect to REE's activities:

– The Law on the Electricity Sector recognises that electricity transmission is a natural monopoly due to the economies of scale provided by the single grid. The deregulation of transmission is arranged through generalised third-party access to the grid, which is available to the various parties to the electricity system and consumers in exchange for the payment of access tariffs. The compensation for this activity is set by law and fundamentally by Royal Decrees 2819/1998 and 325/2008.

  In accordance with the provisions of the present Law, REE is the sole carrier in the Spanish electricity sector and owns virtually all the transport facilities.

  In addition during 2012 two regulations have been published aimed at correcting the imbalance between revenues and costs in the electricity sector, which establish measures that alter the methodology for the remuneration of the transport activity carried out by the Company:

  - Royal Decree-Law No. 13/2012, already mentioned above, which determines, with effect on the remuneration to be received from 1 January 2012, the accrual and the collection of the remuneration corresponding to the entry into service in the year "n" will commence on 1 January of the year "n+2 ".

  - Royal Decree-Law No. 20/2012 on measures to ensure budgetary stability and foment competitiveness, which establishes as a criterion for the transport activity that the remuneration with respect to the investment will relate to undepreciated assets in service, taking as a basis for their financial remuneration the net value of the same.

– In the performance of its Spanish electricity system operator activities, the REE'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. REE is also responsible for the short-term energy exchanges that are intended to maintain supply quality and security conditions.

  In addition, REE has also been allocated the operation of electrical systems the Balearic Islands, Canary Islands, Ceuta and Melilla, as well as being responsible for the assessment of payments and receipts relating to power generated in these systems.

– In its capacity as manager of the transmission grid, REE 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.

<u>International electricity sector</u>

The Red Eléctrica Group, through REI, has investments in the electricity sector internationally, in Peru.

This country has deregulated its electricity industry and uses a regulation model supported by regulated tariffs for transmission.

4. ACCOUNTING PRINCIPLES

The main accounting principles used in the preparation of these consolidated financial statements, applied uniformly to the years presented, are as follows:

a) Property, plant and equipment

Property, plant and equipment mainly comprise electricity plants which are measured, as appropriate, at production or acquisition cost, less accumulated depreciation and any impairment losses. Cost includes, where applicable, the following items:

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

There have been no significant changes in the depreciation policy for assets compared with last year.

Most of the plant, machinery and equipment relates to electricity installations that are mainly depreciated at a rate of 2.5%.

The residual value and useful life of assets is examined and adjusted, if necessary, at the date of each balance sheet.

When an asset's carrying amount exceeds its estimated recoverable amount, the carrying amount is written down immediately to the recoverable amount.

b) Intangible assets

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

- Computer applications

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

  Expenses associated with software maintenance are recognised when 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 directly attributable to the design and testing of new or improved software that can be identified and are unique and may be controlled by the company are recognised as intangible assets when it is likely that the project will be successful, taking into consideration its technical and commercial viability and the costs may be reliably estimated. The expenses that do not comply with these criteria are recognised as an expense at the time they are incurred. Development costs are capitalised and amortised on a straight-line basis over a period not exceeding five years from commencement of the project. The costs relating to the maintenance of computer programs are recognized as an expense when incurred.

- Intangible assets in progress

  The administrative concessions are recognised as intangible assets in progress are valued at the payments that will be made until fulfilment thereof under IFRIC 12.

c) Investment property

Group companies measure investment property at acquisition cost. The market value of the Group's investment property is broken down in Note 7 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. Investment properties are amortised over 50 years.

d) Financial assets

The Group classifies financial assets, except those investments accounted for using the equity method, in the following three categories:

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

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

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

When the receipt of cash or cash equivalents relating to Loans and receivables from ordinary activities is delayed, these are measured at fair value of the balancing entry calculated by discounting all future collections at an interest rate allocated for the restatement.

At the year end the Company evaluates the possible existence of impairment losses. Impairment losses are calculated as the difference between the carrying value for the asset and the present value of future estimated cash flows discounted at the original effective interest rate for the financial instrument. The carrying value is reduced and the loss is recognised in the Consolidated Income Statement.

- Financial assets available for sale: these are investments which the Company intends to hold for an unspecified period of time and which may be sold, on the basis of specific liquidity needs or changes in interest rates. They are classified as non-current assets unless their liquidation is planned in less than one year and this is feasible. These financial assets are stated at fair value, which is understood to be their quoted price at the year end for those securities quoted on an active market. The gains or losses resulting from fluctuations in fair value at the year end are recognised directly in equity and accumulated to the time of settlement or adjustment of value owing to impairment, at which time they are taken to the income statement. The calculation of possible impairment is done using the method of discounting expected future cash flows. A significant or prolonged fall in the listed value of securities below their cost is also considered to be evidence that the asset is impaired.

  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.

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

The fair value appraisals are classified using a fair value hierarchy that reflects the relevance of the variables used to obtain the valuations. This hierarchy consists of three levels:

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

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

f) Asset impairment

Group companies analyse the recoverability of assets at the year end each year and whenever some event or change in circumstances indicates that the carrying value may not be recoverable. If the recoverable amount of an asset is less that its carrying value, an impairment loss is recognised immediately in the consolidated income statement. The impairment loss is therefore the difference between the carrying value of an asset and its recoverable value. The recoverable amount is the fair value of an asset, less the higher of costs incurred for its sale or its value in use. The calculation of the recoverable value is based on expected cash flows. Impairment is calculated for individual assets if the recoverable value of the individual asset cannot be determined the recoverable value of the Cash Generating Unit (CGU) to which the asset pertains will be determined. Possible reversals are recognised in the consolidated income statement. Losses from impairment recognised in goodwill are not reversed in subsequent years.

g) Share capital, treasury shares and dividends

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

Treasury shares are measured at acquisition cost and are presented by reducing equity. Any gain or loss obtained on the purchase, sale, issue or redemption of treasury shares is recognised directly in 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.

h) Grants

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

The Group recognises subsidies under non-financial subsidies in the income statement for each year over the term in which depreciation of the related asset is charged.

i) Non-current advances

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

j) Provisions

- Employee benefits
    - Pension commitments

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

- Other long-term employee benefits

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

Long-term compensation programs are also included and measured on an annual basis. In 2011, this heading also included length of service awards at the Bolivian company TDE. These commitments are measured annually by qualified independent actuaries. Changes in the value of length of service awards at the Bolivian company TDE due to changes in the actuarial assumptions used are charged or credited to the consolidated income statement as soon as they arise.

- Other provisions

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

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

k) Borrowings

Borrowings, obligations and similar items are recognised initially at fair value, net of the transaction costs incurred. In subsequent periods, these financing obligations are valued at amortised cost, using the effective interest rate method, except for those transactions for which hedging has been arranged.

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

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) Derivative financial instruments and hedging transactions

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 of recognising the resulting gain or loss depends on whether the derivative has been designated as a hedging instrument, and if so, the nature of the item being 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.

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

The Group classifies some derivatives as hedging the fair value of assets or liabilities recognised as a firm commitment (fair value hedge) or as hedges of highly foreseeable transactions (cash flow hedge) or as net investment hedges on 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 their evaluation, at both inception and continuously, as to whether the derivatives used in the hedges are highly effective for offsetting the changes in the fair value or cash flows of the hedged assets.

The fair value of derivative instruments used for hedging purposes is set out in Note 18. Movements in equity are shown in Note 12.

- 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 consolidated 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 Company 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 at the market interest and exchange rates in force on the presentation date, 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. Payables falling due in less than one year and do not bear a contractual interest rate, that are expected to be paid in the short-term are measured at their nominal value.

o) Income and expense

Ordinary revenues are recognised at the fair value of the compensation received or to be received. 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.

Income and expense derived from construction contracts are recorded on a percentage of completion basis, whereby income is recognised based on the degree of completion of the project at the year end.

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

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

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 2012 and 2011, 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 income and 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) Non-current assets held for sale

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

u) Share-based payments

The Parent Company, REE 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 shares at the time of delivery. The expense deriving from this plan is reflected under Personnel costs in the consolidated income statement. All shares delivered derive from the Parent company's treasury shares.

v) Contingent assets and liabilities

Contingent assets are not recognised in the financial statements since that could entail the recognition of income that may never be realised. Contingent assets are evaluated on a continuous basis to ensure that their evolution is adequately reflected in the financial statements. If it is practically certain that profits will be made, the income and asset will be recognised in the financial statements for the period in which the changes take place.

Contingent liabilities are not recognised in the financial statements. These liabilities are continuously reappraised. If any cash outflow is considered likely, a provision is recorded in the period in which the change in probability took place.

5. INTANGIBLE ASSETS

Movements in 2012 and 2011 in intangible assets and accumulated amortisation are as follows:

RED ELÉCTRICA GROUP
Intangible asset movements
2012 and 2011:
(Expressed in thousand euro)

	31 December 2010	Additions	Variations Exchange Rate	Transfers	31 December 2011	Additions	Variations exchange rate	Disposals reductions and Changes to scope	31 December 2012
Cost									
Development expenses and computer applications	16.943	309	59	-	17.311	184	-	(1.927)	15.568
Intangible assets in preparation	-	2.560	12	330	2.902	19.634	(55)	-	22.481
Total cost	16.943	2.869	71	330	20.213	19.818	(55)	(1.927)	38.049
Accumulated amortisation									
Development expenses and computer applications	(14.000)	(1.334)	(49)	-	(15.383)	(841)	-	1.534	(14.690)
Total accumulated amortisation	(14.000)	(1.334)	(49)	-	(15.383)	(841)	-	1.534	(14.690)
Net value	2.943	1.535	22	330	4.830	18.977	(55)	(393)	23.359

Operating expenses directly related to intangible assets capitalised in 2012 amount to € 1,903 thousand (€ 1,215 thousand 2011). Intangible assets in progress relate in full to the advancement of work carried out by TESUR on the Tintaya-Socabaya transmission line and the associated substations.

6. PROPERTY, PLANT AND EQUIPMENT

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

RED ELÉCTRICA GROUP

Movements in Property, plant & equipment

2012 and 2011:

(Expressed in thousand euro)

	31 December 2010	Additions	Variations echange rate	Disposals reductions and write-downs	Transfers	31 December 2011	Additions	Variations exchange rate	Disposals Decreases Writedowns and Changes to scope	Transfers	31 December 2012
Cost											
Land and buildings	77.094	4	254	-	85	77.437	-	(252)	(7.848)	8	69.345
Plant electrical energy	9.402.985	-	6.080	(1.227)	1.338.645	10.746.483	-	(6.016)	(186.421)	638.494	11.192.540
Other facilities, machinery, tooling, furnishings and other fixed assets	125.539	274	122	(466)	12.155	137.624	589	(51)	(2.512)	6.611	142.261
Electrical energy technical installations in progress	1.060.655	671.547	78	-	(960.166)	772.114	642.738	(146)	(5.483)	(540.478)	868.745
Advances and tangible assets in progress	315.143	169.564	122	(24)	(391.049)	93.756	42.693	(20)	(598)	(104.635)	31.196
Total cost	10.981.416	841.389	6.656	(1.717)	(330)	11.827.414	686.020	(6.486)	(202.862)	-	12.304.087
Accumulated depreciation											
Buildings	(16.817)	(1.286)	(92)	-	-	(18.195)	(1.244)	89	2.781	-	(16.569)
Plant electrical energy	(3.173.165)	(370.455)	(3.340)	929	-	(3.546.031)	(392.786)	3.189	99.492	-	(3.836.136)
Other facilities, machinery, tooling, furnishings and other fixed assets	(92.995)	(9.574)	(85)	443	-	(102.211)	(10.534)	37	1.631	-	(111.077)
Total accumulated depreciation	(3.282.977)	(381.315)	(3.517)	1.372	-	(3.666.437)	(404.564)	3.315	103.904	-	(3.963.782)
Value impairment	(90.527)	-	(2.037)	-	-	(92.564)	(46.454)	2.009	62.344	-	(74.665)
Net value	7.607.912	460.074	1.102	(345)	(330)	8.068.413	235.002	(1.161)	(36.614)	-	8.265.640

The main additions in 2012 and 2011 relate to the electricity transmission grid in Spain. There have been disposals amounting to € 271 in 2012.

In 2012 companies capitalised finance expenses of € 19,111 thousand as an increase in property plant and equipment (€ 24,169 thousand in 2011). The average weighted rate used to capitalised financial expenses was 3.24%.

Operating expenses directly related to construction in progress of property, plant and equipment capitalised in 2012 amount to € 17,092 thousand (€ 16,862 thousand in 2011).

In 2012 impairment losses of € 36,454 thousand were recorded (zero in 2011). These impairments arose in certain transport facilities due to uncertainty arising from the related remuneration due to the regulations introduced in 2012. This has led to their exit from the CGU in which they were included since there is no associated income. The facilities in question have been treated as impaired in full since they are not expected to generate any further cash flows.

7. INVESTMENT PROPERTY

Movements in 2012 and 2011 in investment property owned by the Group are described below:

RED ELÉCTRICA GROUP
Movements in investment properties
2012 and 2011:
(Expressed in thousand euro)

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

Investment properties in 2012 and 2011 have a market value of approximately € 3 million and do not generate any significant operating revenues or expenses.

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Movements in 2012 and 2011 in investments accounted for using the equity method are as follows:

RED ELÉCTRICA GROUP
Movements in investments carried under the equity method
2012 and 2011:
(Expressed in thousand euro)

	31 December 2010	Equity method	Dividends	Translation differences	Other	31 December 2011	Equity method	Dividends	Translation differences	Other	31 December 2012
Redesur	5.757	925	(909)	538	(1.648)	4.663	1.298	(1.080)	(167)	60	4.774
	5.757	925	(909)	538	(1.648)	4.663	1.298	(1.080)	(167)	60	4.774

In 2011, the heading Other included USD -1,856 thousand relating to a capital reduction.

The balances recorded by REDESUR for 2012 and 2011 for assets, liabilities, ordinary revenues and results for the year are as follows:

	(Expressed in thousand euro)	
	2012	2011
Assets	39.736	39.147
Liabilities	25.591	25.329
Ordinary income	11.586	10.211
Profit/(loss) for the year	3.845	2.742

9. OTHER NON-CURRENT ASSETS

Other Non-Current Assets at 31 December 2012 includes € 16,923 thousand (€ 33,200 thousand in 2011), mainly relating to the Technical Assistance Availability Contract with Endesa Distribución Eléctrica, S.L. concluded in 2010 for four years and a total amount of € 66,000 thousand. Under this contract REE is entitled to request Endesa Distribución Eléctrica, S.L. to render technical assistance services relating to the assets acquired in 2010.

10. INVENTORIES

Details of inventories at 31 December 2012 and 2011 in the accompanying consolidated balance sheet are as follows:

	Euro thousand	
	2012	2011
Inventories	66.745	59.221
Value adjustments	(13.998)	(14.843)
	---------	---------
	52.747	44.378
	======	======

11. TRADE AND OTHER RECEIVABLES

The breakdown at 31 December 2012 and 2011 of Trade and other receivables in the accompanying consolidated balance sheet is as follows:

	Euro thousand	
	2012	2011
Trade receivables for sales and services rendered	12.759	22.775
Other receivables	620.410	343.832
Current tax assets	146	1.463
	-----------	-----------
	633.315	368.070
	=======	=======

In 2012 and 2011 other receivables mainly comprise amounts pending invoicing and / or receivable in respect of electricity transmission and system operation activities. The increase in 2012 is due primarily to the amounts receivable arising from the application of Royal Decree-law 13/2012 which establishes that the entry into service in year "n" begin to be remunerated from year "n+2 ", and also to the income pending collection on the last settlement of regulated income (settlement 10) that was collected in January 2013 in comparison with the previous year when it was collected December 2011.

There is no significant difference between the fair value and carrying value of this heading at 31 December 2012 and 2011.

12. EQUITY

Capital risk management

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

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

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

	Euro thousand	
	2012	2011
Long-term payables	3.903.963	3.776.873
Short-term payables	975.995	909.953
Exchange rate derivative	32.902	25.433
Cash and cash equivalents	(40.314)	(19.343)
Net debt	4.872.546	4.692.916
Equity	1.991.545	1.813.547
Leverage ratio	71,0%	72,1%

At 31 December 2012 and 2011 the financial covenants set out in the debt agreements are not significant. In addition, there is a low probability of non-compliance and, should that happen, the impact on the company's results would not be significant.

During 2012, the credit ratings awarded by the credit agencies Moody's and Standard & Poors have fallen from A2 to Baa2 and from AA- to BBB as a result of the decline in the levels of the rating for the Kingdom of Spain.

Equity attributed to the parent company

- **Shareholders' funds**
  - **Share capital**

    At 31 December 2012 and 2011 the share capital of the Parent Company comprises €135,270,000 fully subscribed and paid- in bearer shares, with a par value of €2 each which carry equal voting and dividend rights. The Parent Company’s shares have been listed on the four Spanish stock exchanges.

    The Company is subject to the shareholder restrictions laid down in Law 17/2007 and Royal Decree Law 13/2012. In accordance with those provisions, any natural or legal person may be a company shareholder, provided that the sum of direct or indirect stakes in the Company's capital does not exceed 5% and they do not give rise to voting rights exceeding 3%. These shares cannot be syndicated for any purpose. In the case of entities that carry out activities in the Electricity Sector and those natural or legal persons that hold a direct or indirect stake exceeding 5%, they cannot exercise voting rights exceeding 1% with respect to the parent company. These shareholding limitations with respect to the Parent Company are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI) , (Government Industrial Investment Company) which will, in any event, hold a shareholding of at least 10%. At 31 December 2012 and 2011 SEPI held 20% of the Company's share capital.

  - **Reserves**

    This heading includes:

    - Legal reserve

      Companies in Spain are obliged to transfer 10% of profits each year to the legal reserve until this reserve reaches an amount of at least 20% of share capital. This reserve 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 2012 and 2011 it amounts to €54,199k.

    - Other reserves

      This heading includes the voluntary reserves of the Parent Company, reserves in consolidated companies and first application reserves. All of these items are freely available. At 31 December 2012 they total € 1,051,681 thousand (€ 890,168 thousand in 2011).

      At 31 December 2012 and 2011, this heading also records the reserves required by law, which total €264,546 thousand and among them the Property, plant and equipment restatement reserve generated in 1996 by the parent company is notable at €247,022 thousand (This reserve may be used, without being subject to taxation, to offset losses, increase share capital or be transferred to freely available reserves after 10 years have elapsed, in accordance with the provisions of Royal Decree - Law 2607/1996).

- **Treasury shares**

  At 31 December 2012 the Parent Company holds treasury shares representing 0.31% of the Parent Company's share capital and amounting to 414,857 shares, with an overall par value of € 830 thousand and an average acquisition price of €35.43 per share (at 31 December 2011, 834,774 shares, which represented 0.62% of share capital, with an overall par value of €1,670 thousand and an average acquisition price of € 34.36 per share).

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

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

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

  Profits in 2012 amounted to € 492,288 thousand (€ 460,348 thousand at 31 December 2011).

- **Interim dividends and proposed distribution of Parent Company dividends**

  Interim dividends approved by the Board of Directors in 2012 and 2011 are recorded as a decrease in Group equity at 31 December 2012 and 2011, respectively.

  On 20 December 2012 the Board of Directors of the Parent Company agreed to pay an interim dividend against 2012 profits amounting to a gross amount of €0.6764 per share, which was payable as from 02 January 2013 (€ 0.6764 per share on account from 2011 profits). The interim dividend approved at 31 December 2012 totals €91,216 thousand (€ 90,932 thousand in 2011) (Note 17).

Dividends paid during 2012 and 2011 are as follows:

	2012			2011		
	% of par value	Euro per share	Amount in thousand euro	% of par value	Euro per share	Amount in thousand euro
Ordinary shares	110,62%	2,2124	297.677	93,76%	1,8751	252.792
	---------	---------	---------	---------	---------	---------
Total dividends paid	110,62%	2,2124	297.677	93,76%	1,8751	252.792
	======	======	======	======	======	======
Dividends charged to profits	110,62%	2,2124	297.677	93,76%	1,8751	252.792
	======	======	======	======	======	======

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 € 1.6887 per share, bringing the total dividend in 2011 to € 2.3651 per share (€ 2.2124 per share in 2011).

- **Value adjustments**
  - **Available-for-sale financial assets**

This heading includes at 31 December 2012 and 2011 variations in value produced by the available-for-sale financial assets. The variations are due to fluctuations in the share price of the Company's 5% holding in REN. At 31 December 2012 they total € 1,228 thousand (zero in 2011).

  - **Hedging transactions**

This heading includes variations resulting from derivative financial instruments.

At 31 December 2012 this heading reflects a negative balance of € -41,273 thousand (negative balance of € - 2,717 thousand in 2011).

  - **Other value adjustments**

This heading includes € 627 thousand in deferred tax assets deriving from deductions and credits (€ 644 thousand in 2011).

  - **Translation differences**

This heading includes translation differences in respect of foreign subsidiaries (the Peruvian company TESUR in 2012 and 2011 and the Bolivian company TDE in 2011) which at 31 December 2012 amount to €-759 thousand (€-6,239 thousand in 2011).

Minority shareholdings

Minority interests recorded under equity in the accompanying consolidated balance sheet reflects the shareholding of minority shareholders in the companies TESUR in 2012 and TDE and TESUR in 2011. At 31 December 2012 this balance totals € 4,382 thousand (€ 1,674 thousand in 2011).

13. SUBSIDIES AND OTHER

Movements in this heading in 2012 and 2011 were as follows:

RED ELÉCTRICA GROUP
Movements in Grants and other non-current advances
2012 and 2011:
(Expressed in thousand euro)

	31 December 2010	Additions	Disposals	Applications	31 December 2011	Additions	Disposals	Applications	31 December 2012
Grants and other non-current advances	368.761	43.540	-	(11.407)	400.894	14.970	(28)	(12.626)	403.210
	368.761	43.540	-	(11.407)	400.894	14.970	(28)	(12.626)	403.210

The heading Subsidies and other non-current advance payments received mainly includes the amounts received by REE to build electricity facilities and revenue deriving from the agreements relating to the building of electricity facilities. They are released to income for the year over the useful lives of the relevant facilities and are recorded under Non-financial asset subsidies and Other in the consolidated income statement.

14. NON-CURRENT PROVISIONS

Movements in this heading in the consolidated balance sheet in 2012 and 2011 are as follows:

RED ELÉCTRICA GROUP
Movement in provisions
2012 and 2011:
(Expressed in thousand euro)

	31 December 2010	Additions	Applications	Reversals and differences on conversion	31 December 2011	Additions	Applications	Transfers	Profit & loss actuarial	Reversals and differences on conversion	Changes to scope	31 December 2012
Commitments with employees	30.967	3.054	(646)	32	33.407	3.490	(2.005)	(146)	6.898	(11)	(1.110)	40.523
Other provisions	44.785	13.535	(1.040)	(23.261)	34.019	3.278	(398)	-	-	(2.208)	(9.780)	24.911
	75.752	16.589	(1.686)	(23.229)	67.426	6.768	(2.403)	(146)	6.898	(2.219)	(10.890)	65.434

The heading Commitments with personnel mainly records future commitments, primarily consisting of medical insurance of € 33 million, assumed by REE with respect to its employees at the time of retirement, calculated based on independent actuarial studies and long-term compensation plans.

In 2012 and 2011 additions in Commitments with personnel result mainly from the annual accrual and development of the actuarial assumptions used. These additions are recorded as Personnel expenses or Financial expense, based on their nature, and under Reserves when there are changes in actuarial assumptions in the case of the obligations deriving from medical insurance and the income statement in the case of obligations deriving from length of service or past service awards. Personnel expenses recognised in 2012 in the consolidated income statement total € 1,163 thousand (€ 1,214 thousand in 2011), the amount of financial expenses recognised in 2012 in the income statement totals € 1,042 thousand (€ 1,273 thousand in 2011) and the amount of Reserves recognised in 2012 totalled € 6,898 thousand net of taxes (€ -587 thousand in 2011). In addition, at 31 December 2012 and 2011, Personnel expenses totalling € 1,199 thousand (€ 1,074 thousand in 2011) and Financial expenses € 76 thousand (€ 80 thousand in 2011) relating to the accrual of long-term compensation for executives were recognised in the income statement.

The effect that a one percentage point change in the cost of medical insurance is as follows:

	2012		2011	
(in thousand euro)	+1%	-1%	+1%	-1%
Cost of services for the current year	376	(271)	272	(195)
Interest expense on net post-employment health cost	13	(9)	13	(8)
Accumulated post-employment medical benefit commitments	8.030	(5.834)	5.633	(4.108)

These provisions are stated in accordance with actuarial studies using the following assumptions for 2012 and 2011:

	2012 Actuarial assumptions	2011 Actuarial assumptions
Discount rate	3,50%	4,50%
Cost growth	4,0%	4,0%
Survival table	PERM/F 2000 new business	PERM/F 2000 new business

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

	Discount rate		
	3,5	3	Sensitivity
Cost of services for the current year	1.080	1.256	176
Interest expense on net post-employment health cost	912	787	(125)
Accumulated post-employment medical benefit commitments	33.039	37.403	4.364

The heading Other provisions includes the amounts apportioned each year by the Company to cover any unfavourable results mainly concerning administrative penalties, administrative litigation proceedings concerning expropriation procedures and out-of-court claims. The amounts allocated to cover these events are valued based on the potential economic content of the appeals, litigation, and legal or out-of-court actions in general that are under way involving the Company.

The main legal proceedings included under this heading relate to the inclusion of a € 10 million provision for covering the fine imposed by the Catalonian regional government under penalty proceedings related to the power failure in Barcelona in July 2007. The possibility of whether any resources will need to be disbursed in this respect will be known once the ruling on the proceedings is issued. The remainder comprises multiple non-significant items. Any estimate of cash outflows in relation to these items is uncertain.

In 2011 additions fundamentally consisted of the €10 million provision to cover contingent tax risks for the international business relating to 2007-2012.

Reversals in 2011 relate mainly to provisions recorded in 2010 in relation to notifications of penalty proceedings received by the Company by various regional governments. Rulings favourable to the Company were received during in 2011 in relation to these proceedings.

15. OTHER NON-CURRENT LIABILITIES

Other Non-current liabilities mainly includes revenues from the agreements concluded with several telecommunications operators for the assignment of the use of the telecommunications network, which end between 2016 and 2027 and total € 51,525 thousand at 31 December 2012 (€ 53,793 thousand at 31 December 2011). This heading also includes non-current liabilities deriving from the compensation paid by Électricité de France (hereinafter EDF), by virtue of the agreement to adapt electricity supply contracts concluded on 8 January 1997, totalling €23,625 thousand at 31 December 2012 (€23,625 thousand at 31 December 2011), and since they are multi-year agreements they are subject to the condition that a facility be completed, which had not been completed at 31 December 2012.

16. 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:

- 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 75%-25%. The structure at 31 December 2012 and 2011 is as follows:

	2012 Euro thousand		2011 Euro thousand	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Long-term issuances	2.212.026	-	2.603.209	-
Long-term bank loans	1.215.226	509.613	887.826	311.271
Short-term issuances	799.553	78.917	-	4.758
Short-term bank loans	34.713	62.812	201.997	703.198
Total debt	4.261.518	651.342	3.693.032	1.019.227
%	87%	13%	78%	22%

The structure reflects a low risk profile with moderate exposure to interest rate variations. In addition, the impact of the rise in variable interest rates on borrowings is largely offset, provided the investment process continues, in the consolidated income statement by the increase in revenues deriving from the redistribution of the new points of service which is based on the base level of 10-year Spanish Treasury Bonds at that time.

The interest rate risk to which the Group is exposed at 31 December 2012 and 2011 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:

Effect on consolidated equity (in thousand euro)	Change in market interest rates			
	2012		2011	
	+0.10%	-0,10%	+0.10%	-0,10%
Interest rate coverage: - Cash flow coverage Interest rate swap	3.400	(3.424)	3.730	(3.759)
Interest rate and exchange rate cover: - Cash flow coverage *Cross Currency Swap*	260	(266)	(182)	185

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 2012 and 2011.

- <u>Exchange rate risk</u>

  Exchange risk management 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 derived from Private Placements in the United States (USPP) , 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 18).

  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 2012 any increase or decrease in the dollar/ euro exchange rate of 10% with respect to the year end closing would have generated an increase or decrease in equity of approximately €1 million (€1 million at 31 December 2011).

<u>Credit risk</u>

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.

In addition, at the closing there is little exposure to credit risk relating to the fair value of the recognised derivatives.

At 31 December approximately 3% of balances are past due (4% in 2011) although the companies consider that there is no recoverability risk. The receivables are considered to be of high credit quality.

<u>Liquidity risk</u>

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. This process is also carried out at the level of several group companies, in accordance with the practices and limits established by the Group. The established limits vary based on geographic areas for the purpose of taking into account the liquidity of the market in which the Company operates. The liquidity management policy includes the realisation of cash flow projections in the main currencies in which it operates, taking into consideration the level of liquid assets contained in those projections, the control of balance sheet liquidity indexes and their comparison with market requirements and the maintaining of the financing plans using debt.

Group borrowings have an average maturity of 5 years at 31 December 2012.

The Group's liquidity position for 2012 is based on its strong capacity to generate cash, supported by credit lines amounting to € 1,201 thousand (€ 46 million in the short-term and € 1,155 million in the long-term).

Price risk

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

17. FINANCIAL ASSETS AND LIABILITIES

Financial assets

The breakdown of the heading Financial assets, both current and non-current, of the Red Eléctrica Group at 31 December 2012 and 2011 is as follows:

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	Current period (thousand euro)			
	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivatives	Total
Equity instruments	55.531	-	-	55.531
Derivatives	-	-	142	142
Other financial assets	-	3.246	-	3.246
Non-current	55.531	3.246	142	58.919
Derivatives	-	-	-	-
Other financial assets	-	1.130	-	1.130
Current	-	1.130	-	1.130
Total	55.531	4.376	142	60.049

	Previous period (thousand euro)			
	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivatives	Total
Equity instruments	56.852	-	-	56.852
Derivatives	-	-	32.185	32.185
Other financial assets	-	2.867	-	2.867
Non-current	56.852	2.867	32.185	91.904
Derivatives	-	-	36	36
Other financial assets	-	801	-	801
Current	-	801	36	837
Total	56.852	3.668	32.221	92.741

(1) Excluding trade debtors

- **Equity instruments**

  Equity instruments mainly relate to the 5% shareholding that the Parent Company has in REN, the holding company that comprises the operation and exploitation of the electricity transmission assets and various gas infrastructures in Portugal. This shareholding was acquired in 2007 and the transaction price totalled €98,822 thousand.

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

  At 31 December 2012, the Company has quantified the impairment of its holding in REN and has recorded € 2,697 thousand in the income statement (€ 12,459 thousand at 31 December 2011). The Company has also quantified the increase in the value adjustment at € 1,228 thousand, which has been recorded under Equity at 31 December 2012.

- **Derivatives**

  A breakdown of derivatives is set out in note 18.

- **Other financial assets**

  This heading mainly relates to guarantees provided and other surety granted by REE to personnel, maturing in the long-term. There are no significant differences between the fair value and carrying value of this heading at 31 December 2012 and 2011.

The following table shows the Group's financial assets at fair value in accordance with the variables used to calculate fair value at 31 December 2012 and 2011:

	Current year (thousand euro)			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	54.869	662	-	55.531
Derivatives	-	142	-	142
Other financial assets	-	-	4.376	4.376

	Previous year (thousand euro)			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	56.390	462	-	56.852
Derivatives	-	32.221	-	32.221
Other financial assets	-	-	3.668	3.668

Financial liabilities

The breakdown of the heading Financial liabilities, both current and non-current, of the Red Eléctrica Group at 31 December 2012 and 2011 is as follows:

	Current year (thousand euro)		
	Creditors and payables (1)	Hedging derivatives	Total
Bank loans	1.724.839	-	1.724.839
Debentures and other marketable securities	2.179.124	-	2.179.124
Derivatives	-	86.689	86.689
Other financial liabilities	208	-	208
Non-current	3.904.171	86.689	3.990.860
Bank loans	111.136	-	111.136
Debentures and other marketable securities	946.856	-	946.856
Derivatives	-	-	-
Other financial liabilities	705.619	-	705.619
Current	1.763.611	-	1.763.611
Total	5.667.782	86.689	5.754.471

	Previous year (thousand euro)		
	Creditors and payables (1)	Hedging derivatives	Total
Bank loans	1.199.096	-	1.199.096
Debentures and other marketable securities	2.577.777	-	2.577.777
Derivatives	-	54.395	54.395
Other financial liabilities	208	-	208
Non-current	3.777.081	54.395	3.831.476
Bank loans	912.830	-	912.830
Debentures and other marketable securities	58.453	-	58.453
Derivatives	-	1.482	1.482
Other financial liabilities	720.847	-	720.847
Current	1.692.130	1.482	1.693.612
Total	5.469.211	55.877	5.525.088

(1) Excluding trade creditors

- **Bank loans and other marketable securities**

The fair value of bank borrowings and the issue of bonds and other marketable securities at 31 December 2012 and 2011 is as follows:

	Carrying value Thousand euro		Fair value Thousand euro	
	2012	2011	2012	2011
Issues in euro	2.678.941	2.196.447	2.888.780	2.302.515
Issues in dollars	378.653	386.088	442.421	446.008
Euro bank loans	1.783.907	2.058.689	1.721.921	1.966.399
Bank loans in foreign currency	38.457	45.602	42.883	55.422
Total	4.879.958	4.686.826	5.096.005	4.770.344

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 2012 accrued interest payable on these debts amounts to € 81,997 thousand (€ 61,330 thousand in 2011).

Issues in euro at 31 December 2012 reflect:

- Issues of Eurobonds within the framework of the Eurobond Issue Program carried out by Red Eléctrica de España Finance, B.V., with a balance of € 799,553 thousand (€ 798,936 thousand in 2011).
- Issues of Eurobonds by Red Eléctrica Financiaciones with a balance of € 1,800,471 thousand (€ 1,392,753 thousand in 2011). In 2012 two bond issues were carried out for € 150 million and € 250 million.
- Issues of promissory notes on the Euro market by Red Eléctrica Financiaciones within the Euro Commercial Paper Programme with short term maturities, in the amount of € 78,917 thousand. In 2001 issues totalling € 4,758 thousand were carried out by Red Eléctrica Corporación under the promissory note programme registered with the National Securities Market Commission, with a ceiling of € 250,000 thousand. This programme finalised in 2012 and has not been renewed.

Issues in US dollars at 31 December 2012 includes € 378,653 thousand (€ 386,088 thousand in 2011), relating to an issue of USD 500,000 thousand made on the private placement market in the US (USPP).

At 31 December 2012 long-term bank borrowings and credit facilities in euro total € 1,711,810 thousand (€ 1,208,933 thousand in 2011), as well as the syndicated line of credit totalling € 72,097 thousand (€ 849,756 thousand in 2011).

Details of maturity of these issues and bank loans at 31 December 2012 are as follows:

RED ELÉCTRICA GROUP

Maturities of securities issued and bank borrowings

at 31 December 2011

(Expressed in thousand euro)

	Thousand euro							
	2013	2014	2015	2016	2017	Subsequent years	Valuation adjustment	Total
Issues in euro	878.923	-	-	500.000	-	1.300.000	18	2.678.941
Issues in dollars	-	-	53.054	-	-	325.906	(307)	378.653
Euro bank loans	86.898	47.655	447.655	299.321	74.321	833.855	(5.798)	1.783.907
Bank loans in dollars	11.630	2.180	10.194	1.308	1.371	12.193	(419)	38.457
	---------	---------	---------	---------	---------	---------	---------	---------
	977.451	49.835	510.903	800.629	75.692	2.471.954	(6.506)	4.879.958
	======	======	======	======	======	======	======	======

The average interest rate in 2012 was 3.81% (3.66% in 2011).

At 31 December 2012 Group companies have obtained credit facilities that have yet to be drawn down from credit institutions totalling € 1,201million, € 1,155 million in the long-term (€ 950 million at 31 December 2011) and € 46 million in the short-term (€ 245 million at 31 December 2011). In 2011 REE had been granted credit lines which were awaiting confirmation in the amount of € 425,000 thousand. These lines were formalised and € 150 million was drawn down during 2012.

- **Derivatives**

A breakdown of derivatives is set out in note 18.

- **Other current financial liabilities**

Details of this heading in the accompanying consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Thousand euro 2012	2011
Dividends payable	91.216	90.933
Fixed-asset suppliers and other payables	625.003	631.396
	----------	----------
	716.219	722.329
	=======	=======

The balance of asset suppliers and other debts mainly includes the balances due to asset suppliers and items pending settlement with the Spanish electricity system for activities that have been carried out.

- **Fair value hierarchy**

The following table shows the Group's financial liabilities at fair value in accordance with the variables used to calculate fair value at 31 December 2012 and 2011:

	Current year (thousand euro)			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	86.689	-	86.689
Other financial liabilities	-	-	11.960	11.960

	Previous year (thousand euro)			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	55.877	-	55.877
Other financial liabilities	-	-	10.121	10.121

Tier 3 contains guarantees granted to the Group. There are no significant differences between the fair value and carrying value of this heading at 31 December 2012 and 2011. Liabilities at amortised cost have not been broken down by fair value hierarchical levels.

- **Debentures and other marketable securities**

The breakdown of this heading at 31 December 2012 and 2011 is as follows:

	Current year (thousand euro)				
	Opening balance 31/12/2011	(+) Issues	(-) Repurchases or refunds	(+/-) Exchange and other adjustments	Closing balance 31/12/2012
Securities traded on market requiring brochure registration	4.758	461.994	(387.830)	(5)	78.917
Securities traded on market not requiring brochure registration	2.191.689	400.000	-	8.335	2.600.024
Other debt securities issud outside an EU Member State	386.088	-	-	(7.435)	378.653
Total	2.582.535	861.994	(387.830)	895	3.057.594

	Previous year (thousand euro)				
	Opening balance 31/12/2010	(+) Issues	(-) Repurchases or refunds	(+/-) Exchange and other adjustments	Closing balance 31/12/2011
Securities traded on market requiring brochure registration	47.431	58.345	(101.018)	-	4.758
Securities traded on market not requiring brochure registration	1.343.985	900.000	(50.000)	(2.296)	2.191.689
Other debt securities issud outside an EU Member State	373.820	-	-	12.268	386.088
Total	1.765.236	958.345	(151.018)	9.972	2.582.535

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Red Eléctrica Group contracts two types of derivatives in compliance with its financial risk management policy: Interest rate swaps and Cross currency swaps or exchange rate hedges. Interest rate swaps consist of a financial swap that exchanges variable interest rate debt for fixed interest rate debt, for which the future cash flows to be hedged are the interest payments. Similarly, the cross currency swap allow for the exchange of fixed rate debt in dollars for fixed rate debt in euro and the future cash flows to be hedged are the payment of interest and capital in dollars. The measurement method for both instruments are analysed in Note 4m) of these notes to the consolidated financial statements. The breakdown at 31 December 2012 and 2011 of both types in euro is indicated below:

	Principal	Maturity date	Thousand euro 2012 Non Current Assets	Liabilities	Current Assets	Liabilities	Thousand euro 2011 Non Current Assets	Liabilities	Current Assets	Liabilities
Interest rate coverage:										
- Cash flow coverage:										
Interest rate swaps	€ 175,000 thousand	To 2012	-	-	-	-	-	-	36	(1.482)
Interest rate swaps	€ 75,000 thousand	To 2016	-	(2.289)	-	-	164	-	-	-
Interest rate swaps	€ 575,000 thousand	To 2020	-	(78.333)	-	-	-	(54.395)	-	-
Interest rate and exchange rate cover:										
- Cash flow coverage: (Cross currency swap)	USD 500,000 thousand	To 2035								
Interest rate hedging			6.722	20.254	-	-	57.454	-	-	-
Exchange rate hedging			(6.580)	(26.321)	-	-	(25.433)	-	-	-
			-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------
			142	(86.689)	-	-	32.185	(54.395)	36	(1.482)
			======	======	======	======	======	======	======	======

The breakdown of derivative financial instruments by maturity at 31 December 2012 is as follows, in thousand euro:

	Principal	Maturity date	Thousand euro 2013	2014	2015	2016 and later	Total
Interest rate coverage:							
- Cash flow coverage:							
Interest rate swaps	€ 75,000 thousand	To 2016	-	-	-	(2.289)	(2.289)
Interest rate swaps	€ 575,000 thousand	To 2020	-	-	(24.821)	(53.512)	(78.333)
Interest rate and exchange rate cover:							
- Cash flow coverage: (Cross currency swap)	USD 500,000 thousand	To 2035	-	-	1.680	25.296	26.976
Interest rate hedging			-	-	(4.606)	(28.295)	(32.901)
Exchange rate hedging			-----------	-----------	-----------	-----------	-----------
			-	-	(27.747)	(58.800)	(86.547)
			======	======	======	======	======

19. TRADE AND OTHER PAYABLES

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

	Thousand euro 2012	2011
Trade payables	241.091	251.915
Other creditors	25.447	18.982
Current tax liabilities	7.613	521
	----------	----------
	274.151	271.418
	======	======

The heading Suppliers mainly relates to debts deriving from engineering, construction, maintenance and modification work performed on the electric facilities and items yet to be settled in the Spanish electrical system for activities carried out.

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

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

RED ELÉCTRICA GROUP
Balances settled and pending at 31 December 2012 and 2011
(Expressed in thousand euro)

	Payments made and pending at the balance sheet date			
	2012		2011	
	Amount	%	Amount	%
Payments not covered by disclosure requirement Law 15/2010	-	0,00%	75.970	19,86%
Within legal deadline (*)	446.876	99,99%	306.501	80,12%
Rest	31	0,01%	88	0,02%
Total payments for year (*)	446.907	100%	382.559	100%
Average weighted term delayed payments (days)	5	-	63	-
Deferrals which at the year end exceed the maximum legal limit	-	-	92	-

(*) Total payments in 2012 and 2011 do not include the payments made for the services rendered by the Spanish electricity system operator. These payments amounted to € 961,760 thousand in 2012 (€ 626,598 thousand in 2011). However, these payments have been made within the legal deadline except for € 512 thousand in 2011 which exceeded the deadline by 97 days.

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

21. TAX SITUATION

Red Eléctrica Corporación, S.A. is the dominant company in the tax group which has applied the tax consolidation system in Spain since 2002.

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

At 31 December 2012 the tax group is made up of REI, REE and REF 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:

	Thousand euro 2012	Thousand euro 2011
Consolidated accounting results for the year before taxes	680.514	683.675
Permanent differences and consolidation adjustments	4.006	12.389
Consolidated tax base for accounting purposes	684.520	696.064
	=======	=======
Tax rate	30%	30%
Results adjusted to tax rate	205.356	208.819
Effect of differences in tax rates	1.199	375
Tax at current rate in each country	206.555	209.194
Deductions	(2.690)	(1.013)
Corporate income tax adjustments	(15.497)	15.240
	----------	----------
Corporate income tax	188.368	223.421
Current-year corporate income tax	113.967	22.566
Deferred income tax	74.401	200.855
	=======	=======
Effective tax rate	27,68%	32,68%
	-------------	-------------

Deductions mainly relate to international double taxation.

The effective tax rate in 2012 has decreased in comparison with 2011 due mainly to the adjustment to corporate income tax which in 2012 and 2011 included tax fluctuations relating to international investments.

Current balances payable to and receivable from public institutions at 31 December 2012 and 2011 are as follows:

	Thousand euro	
	2012	2011
Current debtor balances		
VAT refundable	7.946	4.147
Taxes refundable	146	1.463
Current creditor balances		
VAT payable	10.721	3.412
Other taxes payable	4.008	7.808
Corporate income tax payable	7.613	521

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

	Thousand euro 2012		Thousand euro 2011	
	Income statement	Income and expense Allocated directly to Equity	Income statement	Income and expense Allocated directly to Equity
	Increases	Increases	Increases	Increases
Deferred tax assets:				
Arising in prior years	115.564	11.580	38.616	22.768
Movements for the year	(32.698)	21.020	76.948	(11.188)
Total deferred tax assets	82.866	32.600	115.564	11.580
	=======	=======	=======	=======
Deferred tax liabilities:				
Arising in prior years	600.286	7.330	322.482	15.944
Movements for the year	41.703	1.783	277.804	(8.614)
Total deferred tax liabilities	641.989	9.113	600.286	7.330
	=======	=======	=======	=======

Deferred tax assets and liabilities at 31 December 2012 and 2011 are as follows:

	Thousand euro	
	2012	2011
Deferred tax assets		
Retirements and commitments with employees	15.458	11.799
Grants	1.726	1.844
Financial derivatives	25.964	7.630
PPE impairment	-	16.088
Credits for tax losses pending offset	67.017	-
Unrestricted amortisation/ depreciation	-	90.116
Rest	5.301	(333)
	---------	---------
Total deferred tax assets	115.466	127.144
	======	======
Deferred tax liabilities		
Accelerated depreciation	587.376	538.404
Non-deductible assets	46.565	56.508
Cash flow hedges	8.275	6.465
Rest	8.886	6.239
	---------	---------
Total deferred tax liabilities	651.102	607.616
	======	======

Deferred tax assets mainly originate from credits for tax loss carryforwards pending application derived from free depreciation, variations in cash flow hedges, employee commitment provisions and provisions for liabilities and charges.

In 2012 tax losses reported in 2011 were offset subject to the limits established by Royal Decree Law 20/2012, on measures to ensure fiscal stability and the promotion of competitiveness.

The deferred tax liabilities are mainly derived from free depreciation and accelerated depreciation of certain fixed assets and from the integration into the Company of assets and liabilities from REDALTA and INALTA, absorbed by the Company in 2006, as well as from variations in the value of cash flow hedges and capital grants received. The deferred tax liability for freedom of depreciation regulated in Additional Provision 11 of the Corporate Income Tax Act amounts to € 530,541 thousand in 2012 (€ 488,732 thousand in 2011). At 31 December the Company has made investments in the periods in which free depreciation was applicable (2009 to March 2012). It expects that this will entail the deferral of approximately € 200 million in corporation tax payable in forthcoming years in accordance with the provisions laid down in Royal Decree Law 12/2012 which introduced tax and administrative measures aimed at reducing the public deficit.

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

Group companies are open to inspection for all taxes that have not become statute-barred. Due to the possible different interpretations to which tax legislation lends itself, the results of future inspection action that may be taken by the tax authorities for the years open to inspection may give rise to tax liabilities, whose amount cannot be currently quantified in an objective manner. However, the Company's Directors estimate that any liabilities that may arise in which respect will not have a significant effect on the Group's Consolidated Financial Statements.

22 INCOME AND EXPENSE

a) Revenue

Details of this heading in the consolidated income statement for 2012 and 2011 are as follows:

	Thousand euro	
	Current period	Previous period
Domestic market	1.707.402	1.591.605
Export market	47.854	45.731
a) European Union	19.082	16.128
b) OECD member states	-	-
c) Other	28.772	29.603
	--------------	--------------
TOTAL	1.755.256	1.637.336
	========	========

The heading Domestic market mainly includes revenues from transmission and operating the Spanish electricity grid, which are set by the Ministry of Industry, Tourism and Commerce.

Export markets in 2012 included income from reinsurance services and income associated with the construction of the Tintaya-Socabaya line in Peru. In 2011 it mainly included income from transmission services in Bolivia set annually by the local electricity authority and income from reinsurance services.

b) Other operating income

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

c) Supplies and other operating expenses

Details of this heading in the accompanying consolidated income statement for 2012 and 2011 are as follows:

	2012	2011
Raw materials and consumables	69.597	42.649
Other operating expenses	289.855	278.741
	------------	------------
	359.452	321.390
	=======	=======

Materials consumed and other operating expenses mainly comprise repair and maintenance expenses incurred in electricity plants as well as IT and advisory services, rental costs and other services.

d) Staff costs

Details of staff costs in the consolidated income statement for 2012 and 2011 are as follows:

	Thousand euro	
	2012	2011
Wages and salaries	102.000	102.160
Social Security contributions	20.031	19.475
Contributions to pension funds and similar commitments	1.818	1.747
Other social welfare charges and items	5.299	5.464
	----------	----------
	129.148	128.846
	======	======

At 31 December 2012 Wages and salaries amounted to € 9,991 thousand (2011: 10,008) thousand in severance payments.

Group companies have capitalised personnel costs amounting to € 15,491 thousand at 31 December 2012 and € 15,314 thousand at 31 December 2011.

- **Current employees**

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

	2012	2011
Management team	113	118
Middle management and Skilled workers 1st class	526	559
Skilled workers 2nd class	583	596
Clerical staff	517	503
	-------	-------
	1.739	1.776
	======	======

  The decrease in the average number of employees is due to the exit of TDE from the consolidation group.

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

	2012			2011		
	Men	Women	Total	Men	Women	Total
Management team	90	21	111	99	19	118
Middle management and Skilled workers 1st class	341	166	507	391	169	560
Skilled workers 2nd class	487	88	575	508	93	601
Clerical staff	403	105	508	406	115	521
	--------	--------	--------	--------	--------	--------
	1.321	380	1.701	1.404	396	1.800
	======	====	======	======	====	======

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

e) Impairment and income/loss on fixed asset disposals

In 2012 this heading reflects impairments arising in certain transport facilities due to uncertainty arising from the related remuneration due to the regulations introduced in 2012. This has led to their exit from the CGU in which they were included since there is no associated income. The facilities in question have been treated as impaired in full since they are not expected to generate any further cash flows.

f) Financial expenses

This heading records the financial expenses, net of financial capitalisation, associated with the Group's financial debts. The capitalisation of financial expense in 2012 totalled € 19,111 thousand (€ 24,169 thousand in 2011).

g) Impairment and results on disposal of financial instruments

This heading mainly reflects a prudent estimate of the results of the Bolivian government's expropriation of TDE.

It also records the impairment of the Company's investment in REN. At 31 December 2012, the Company had quantified the impairment of its shareholding in REN at € 2,697 thousand (€ 12,549 thousand at 31 December 2011).

23. TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

a) Balances and transactions with associates

All transactions with associates have been carried out at market prices. The principal transactions carried out by Group companies with companies consolidated under the equity method in 2012 and 2011 are as follows:

RED ELÉCTRICA GROUP
Related party balances and transactions
in the years ended 31 December 2012 and 2011
(Expressed in thousand euro)

	2012				2011			
	Balances		Transactions		Balances		Transactions	
	Receivable	Payable	Expenses	Income	Receivable	Payable	Expenses	Income
Red Eléctrica del Sur S.A. (Redesur)	82	67	23	1.373	90	89	9	989
	-----	-----	-----	-------	-----	-----	-----	-------
Total	82	67	23	1.373	90	89	9	989
	====	====	====	====	====	====	====	====

b) Related-party transactions

Transactions with associated parties have been carried out under normal market conditions, as follows in thousand euro:

2012

INCOME AND EXPENSES:	Significant shareholders	Directors and officers	Persons, companies or Group entities	Other related parties	Total
Management or collaboration agreements	-	-	-	-	-
Other expenses	-	-	-	67	67
EXPENSES	-	-	-	67	67
Dividends received	-	-	-	4.512	4.512
Other income	-	-	-	43	43
INCOME	-	-	-	4.555	4.555
OTHER TRANSACTIONS:					
Dividends and other profits distributed	-	-	-	-	-
Other operations	-	-	-	173	173
OTHER TRANSACTIONS	-	-	-	173	173

2011

INCOME AND EXPENSES:	Significant shareholders	Directors and officers	Persons, companies or Group entities	Other related parties	Total
Management or collaboration agreements	-	-	-	-	-
Other expenses	-	-	-	3.719	3.719
EXPENSES	-	-	-	3.719	3.719
Dividends received	-	-	-	4.486	4.486
Other income	-	-	-	19	19
INCOME	-	-	-	4.505	4.505
OTHER TRANSACTIONS:					
Dividends and other profits distributed	-	-	-	-	-
Other operations	-	-	-	1.793	1.793
OTHER TRANSACTIONS	-	-	-	1.793	1.793

24. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25. DIRECTORS' REMUNERATION

In 2012, top level executive remuneration for all salary items totalled € 1,023 thousand (same figure at 31 December 2011).

These directors' remuneration in 2012 amounted to € 996 thousand (€ 966 thousand in 2011) and contributions to life insurance and pension plans amounted to € 27 thousand (€ 57 thousand in 2011).

Senior managers who have provided their services in 2012 and 2011 are as follows:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager, Transport
Esther Mª Rituerto Martínez(1)	General Manager, Admin. and Finance
Andrés Seco García	General Manager, Operations
Alberto Carbajo Josa(1)	General Manager, Operations

(1) Left Group in 2012.

At 31 December 2012 and 2011 no loans or advances have been granted to these managers.

Current senior management contracts contain guarantee or safeguard clauses in respect of dismissals. These clauses follow usual market practice and include clauses regarding termination of employment and indemnities of up to one year unless applicable legislation requires a greater indemnity to be paid. The contracts containing such clauses are approved by the Corporate Governance and Responsibility Committee and reported to the Board of Directors.

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

In 2012 expenses were recognised in relation to the departure of the former executive director in the amount of € 2.2 million. This included the accrued portion of the executive compensation plan ("25th Anniversary Extraordinary Plan 2009-2013") referred to above.

26. SEGMENT REPORTING

The Red Eléctrica Group’s core activity is the transmission of electricity and operation of the electricity system in Spain through REE which accounts for 94% of the Group’s consolidated revenues and 98% of total assets (93% and 98%, respectively, in 2011). All other activities taken together make up the remaining 6% of revenues and 2% of total assets (7% and 2%, respectively, in 2011. It has therefore not been considered relevant to provide information by activity or geographical segment.

27. INTERESTS IN JOINT VENTURES

REE participates in a joint venture with a 50% stake together with RTE EDF Transport in the Company Interconexión Eléctrica Francia-España, S.A.S (INELFE), domiciled in Paris and whose purpose is the study and execution of the future expansion of the connection capacity between Spain and France. The joint venture is consolidated using the proportional method.

The breakdown of the financial figures in local accounts that are most relevant in 2012 and 2011 is as follows:

	Current year (thousand euro)			
	Total assets	Total liabilities	Ordinary income	Profit/(loss) for the year
INELFE	416.278	408.209	185.756	3.705

	Previous year (thousand euro)			
	Total assets	Total liabilities	Ordinary income	Profit/(loss) for the year
INELFE	202.786	198.423	111.444	2.197

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

The Company secures, jointly and severally with REE, the Eurobond program established in Holland up to €1,500 million, with respect to the private issue of bonds in the United States totalling $500 million carried out by RBV Group, and the Eurobond program carried out by REF up to the amount of €2,500 million and the Euro Commercial Paper Programme for an amount of up to € 1,000 million, carried out by REF.

On 31 December 2012 REI, in compliance with the concession contract signed in Peru through its wholly owned subsidiary TESUR to design, finance, supply the goods and services required, build, operate and maintain the Tintaya-Socabaya 220 kV transmission line and associated substations, guarantees all payments before the BBV Banco Continental through a loan granted to TESUR up to the sum of $15 million, to be used for the construction of the aforementioned electrical facility, with respect to their 55% stake, in addition to the additional amounts that TESUR may need to achieve the construction and commercial operation of the facility.

At 31 December 2012 the Group has bank guarantees in favour of third parties deriving from its normal course of business amounting to € 48,611 thousand (€ 44,782 thousand in 2011).

On 31 December 2012, in relation to the nationalization of TDE, there are contingent assets derived from the price resulting from the nationalization of TDE by the Bolivian Government under Supreme Decree 1214, as well as guarantees of REI with the International Finance Corporation (IFC) and the Corporación Andina de Fomento (CAF) with respect to the loan contracts of TDE with these companies. Following the nationalization of TDE there have been breaches in these guarantees. The risks of these breaches have been reflected in the consolidated financial statements.

29. ENVIRONMENTAL INFORMATION

During 2012 Group companies incurred ordinary expenses of € 16,640 thousand to protect and improve the environment (€ 20,447 thousand in 2011). 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 2012 environmental impact and supervision studies have been performed in relation to new electricity installations, valued at € 5,156 (€ 7,262 thousand in 2011).

Group companies are involved in no litigations relating to environmental protection or improvements which may give rise to significant contingencies. Similarly, in 2012 and 2011 the Group companies have received no significant environmental grants.

30. OTHER INFORMATION

The auditor of the Group of companies has been PricewaterhouseCoopers Auditores, S.L. since 2006. The fees accruing from the audit of the Group companies in 2012 totalled approximately € 219 thousand (€ 227 thousand in 2011).

Furthermore, in 2012 fees accrued to firms that are directly or indirectly related to the audit firm for professional services other than audit services in the amount of € 86 thousand (€ 110 thousand in 2011).

31. EARNINGS PER SHARE

Details of earnings per share for 2012 and 2011 are as follows:

	2012	2011
Net profit (thousand euro)	492.288	460.348
No. shares (shares)	135.270.000	135.270.000
Average number of treasury shares held (shares)	681.517	543.097
Basic earnings per share (euros)	3,66	3,42
Diluted earnings per share (euros)	3,66	3,42

At 31 December 2012 and 2011 the Group has not performed any operations which would result in any differences arising between basic earnings per share and diluted earnings per share.

32. SHARE -BASED PAYMENTS

Share-based payments at 31 December 2012 and 2011 are as follows:

RED ELÉCTRICA GROUP
Share-based payments
at 31 December 2012 and 2011

	2012			2011		
	Number of shares	Average price (EUR)	Amount in thousand euro	Number of shares	Average price (EUR)	Amount in thousand euro
Address	1.570	38,16	60	1.136	42,20	48
Employees	27.663	36,96	1.022	24.688	36,18	893
	======	======	======	======	======	======
TOTAL	29.233	37,03	1.082	25.824	36,45	941

These shares have been valued at the listed price on the date of delivery. All of these deliveries have been made by virtue of the authorisation granted to the parent company by shareholders at a General Meeting.

33. EVENTS SUBSEQUENT TO 31 DECEMBER 2012

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

This issue, totalling € 400 million and maturing in 9 years, bears an annual yield of 3.875% and has an issue price of 99.858%.

On 27 December 2012 Law 16/2012 was approved in order to favour both internal financing and better access to capital markets. Article 9 of this Law offers corporate income taxpayers operating in Spain the option to restate their balance sheets.

The directors of the companies affected by this law (REC and REE) have carried out an assessment of said Law 16/2012 and its potential accounting and tax implications and impacts. At the date of preparation of these annual accounts, they do not yet have sufficient information to conclude whether the aforementioned balance sheet restatement will be proposed to the General Shareholders' Meeting for approval.

APPENDIX I

RED ELÉCTRICA GROUP
Balance sheet as at 31 December 2012 and 2011
(Expressed in thousand euro)

Company - Address - Main activity	2012 Percentage shareholding * Direct	 Indirect	2011 Percentage shareholding * Direct	 Indirect
Parent company Red Eléctrica Corporación S.A. was incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - Management of corporate group, provision of assistance and support services to subsdiaries and operation of properties owned by the company.				
A) Companies consolidated using the full consolidation method				
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - Transmission and operation of Spanish electricity system; management of transmission network	100%	-	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - International shareholdings. Consulting, engineering and telecom construction services. - Electrical activities outside the Spanish energy system	100%	-	100%	-
Red Eléctrica de España Finance, B.V. (RBV) - Claude Debussylaan, 24. Amsterdam (The Netherlands). - Financing activities. - Incorporated in 2003 in The Netherlands (EU) to issue debt securities for the Red Eléctrica Group for amounts above the limit imposed by Spanish legislation	100%	-	100%	-
Red Eléctrica Financiaciones (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain) - Financing activities.	100%	-	100%	-
Redcor Reaseguros, S.A (REDCOR) - 23, Avenue Monterey. (Luxembourg). - Reinsurance - Incorporated in 2010 in Luxembourg (EU) to reinsure Group company risks, assuring better access to international markets.	100%	-	100%	-
Red Eléctrica Andina, S.A. (REA) - Av. Alfonso Ugarte Nº 536 Cercado. Arequipa (Perú). - Line maintenance and sub-station maintenance	-	100%(1)	-	100%(1)
Transportadora de Electricidad, S.A. (TDE) ** - C/ Colombia, Nº O0655, casilla, Nº 640. Cochabamba (Bolivia). - electrical energy transport.	-	- (1)	-	99.94% (1)
Transmisora Eléctrica del Sur , S.A. (TESUR) - Juan de la Fuente, 453. Lima (Peru) - Electrical energy transmission and operation and maintenance of electricity transmission networks.	-	55%(1)	-	55%(1)
B) Proportionately consolidated companies				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Ampère, 34 Rue Henri Régnault, 92068 La Défense Cedex. Paris (France). - Study and execution of increase in Spain-France interconnection capacity	-	50%(2)	-	50%(2)
C) Companies carried using the equity method				
Red Eléctrica del Sur, S.A. (REDESUR). - Juan de la Fuente, 453. Lima (Peru) - Electrical energy transmission and operation and maintenance of electricity transmission networks.	-	33.75%(1)	-	33.75%(1)

* Equivalent to voting rights
** To 30 April holding was 99.94%. Nationalised on 1 May 2012 by Bolivian government

(1) Holding through Red Eléctrica Internacional
(2) Holding through Red Eléctrica de España

APPENDIX II

RED ELÉCTRICA CORPORACIÓN, S.A.
Information concerning members of the Board of Directors at 31 December 2012

Members of the Board of Directors	Direct or indirect shareholdings of the members of Parent Company's Board of Directors in related parties and in companies engaging in activities which are identical, analogous or complementary to those that make up the Parent Company's objects.	Positions and duties of members of the Board of Directors and assigns in companies out with the Red Eléctrica Group engaging in activities which are identical, analogous or complementary to those that make up the Parent Company's objects.
Mr. José Folgado Blanco	----------------	Individual representative of corporate director (REC) on the Board of Directors of Redes Energéticas Nacionais, SGPS, S.A. (REN) CEO of Red Eléctica del Sur, S.A. (Redesur)
Mr.Alfredo Parra García-Moliner	----------------	----------------
Mr. Francisco Ruíz Jiménez	----------------	----------------
Mr. Fernando Fernández Méndez de Andés	----------------	----------------
Mr. Juan Emilio Iranzo Martín	----------------	----------------
Ms. Paloma Sendín de Cáceres	----------------	----------------
Ms. Carmen Gómez de Barreda	----------------	----------------
Ms. María de los Angeles Amador Millán	----------------	----------------
Mr. Miguel Boyer Salvador	----------------	----------------
Ms. María José García Beato	----------------	----------------
Mr. Rui Manuel Janes Cartaxo	19,162 shares of REN-Redes Energéticas Nacionais, SGPS, S.A.	Chairman and CEO of Redes Energéticas Nacionais, SGPS, S.A. (REN)

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

RED ELÉCTRICA
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Consolidated Directors' Report
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BUSINESS TRENDS. MOST SIGNIFICANT EVENTS

In 2012, RED ELÉCTRICA GROUP obtained satisfactory financial results and attained significant achievements in the various Group activities, despite the difficult conditions in which it operated.

Activities in Spain

RED ELÉCTRICA GROUP continues to have the objective of providing a quality service to society through efficient management of the Spanish electricity system and the construction and development of a transmission grid that is robust and reliable, taking all actions with the maximum respect for the environment and choosing locations and lay-outs that have the least socio-environmental impact as possible in order to achieve a more sustainable and efficient energy model.

The activities of the RED ELÉCTRICA GROUP were carried out within the context of Spain's economic situation as a result of the financial crisis affecting the European Union. Additionally, in Spain this situation was further impacted by the structural deficit that affects electricity tariffs and which forced the Government to roll out various measures during the year on a regulatory and remuneration level for electricity supply activities, which also affected the RED ELÉCTRICA GROUP.

In line with the trajectory started in the previous year, in 2012 work continued on improving the integration of renewable energies in the electricity system, reducing atmospheric emissions and permitting demand to be covered through intermittent energy sources without the supply security and quality being affected.

Investment in the national grid in 2012 totalled €672 million, which increased it by 860 km of new lines to attain 41,229 km of circuits. During the year 188 new substation positions were started up. The most significant action taken during the year in relation to the transmission grid was as follows:

- North of Spain: In order to reinforce the Transmission Network in Asturias, Cantabria and the Basque Country, construction work continued on the axis in the region.
- Galicia: Mesh work continued in the region. In 2012 the main axis connecting Castilla and Leon was started up.
- Catalonia Work continued on reinforcing the transmission grid.
- Aragon: The transmission mesh network and distribution support in the area of Teruel was improved in order to facilitate the development of the high- speed train network. In addition, the transmission mesh network was improved in the centre and south of Aragon.

- Centre and Extremadura: Construction work on the axis for the mesh between Castilla and Leon and Madrid is well advanced. The Castilla-Leon stretch was completed and work continued in the Autonomous Region of Madrid.

- Andalusia: Support work continued on the grid in the Seville area. Following the start-up of 2 lines in 2012, the circuit runs for100 km.

- East coast: Actions continued on strengthening the grid in that area.

- Balearic Islands and Canary Islands: Mesh work continued on the transmission grid to improve supply security and quality. The electricity connection between the mainland and the Balearic Islands, which was completed in 2011, came into service under the normal operations regime in 2012. As a result, the mainland system provides an equivalent of 15% of the electricity consumed on the Islands, improving the electricity supply in the Balearic system.

  In the first few months of its full operation, the connection has already evidenced on several occasions its effectiveness in stabilising the Islands' electricity grid in the event of incidents, such as those on 30 August, 13 September and 14 November 2012. On those days, storms in Majorca affected various lines, triggering frequency fluctuations which were offset thanks to the reaction of the link with the mainland.

As regards the reinforcement of international connections, the following should be noted:

- Connection with Portugal: During 2012 work progressed on the south axis (Andalusia) which is expected to be started up in 2013. At the same time, administrative formalities continued concerning the new connection from Galicia in order to reach commercial exchange capacity of 3,000 MW.

- The new connection with France: The work which commenced in 2008 and which is set to end in late 2014 continued. This new connection will increase the electricity exchange capacity between Spain and France (3% to 6% of maximum mainland consumption), reinforce the security of both electricity systems and favour the integration of an increase in the volume of renewable energies. This project is being carried out together with Réseau de Transport d'Électricité (RTE), through the joint venture INELFE, in which the Spanish and French operators each have an equal 50% stake.

  This connection has been classified as a priority by the European Union and its characteristics make it a maximum level technological challenge. In 2012 the processing and obtainment of the necessary permits for its development continued and work on the project advanced significantly.

In 2012 the most notable events were:

- The performance of the mainland transmission grid has once again been excellent with total availability of the grid in 2012 at 97.78%. This bears out the high quality of the installations.

- Mainland energy demand amounted to 251,986 GWh, down 1.3% on 2011. After adjusting for the effects of employment and temperature and the leap-year effect of the additional day in 2012, the fall stood at 1.7%.

- Maximum annual demand for hourly average power and daily electricity was reached on 13 and 8 February, 43,010 MW and 873 GWh, which was 4.2% and 3.7% lower than the historic maximums recorded in 2007.

- Renewable energies in 2012 accounted for 32% of total net production, one point down on the previous year. Wind energy exceeded the maximum historical highs on various occasions in 2012. On 18 April, at 16.41 hours, the last record in instantaneous power was reached with 16,636 MW (up 11% on the previous record of 9 November 2010). On that same date, the maximum hourly and daily electricity peaks were reached with 16,455 MW and 334,850 MWh. Similarly, in April a new monthly wind energy production record was reached with 5,362 GWh (8.8% up on the previous maximum registered in December 2009) while in September a new coverage record of demand through wind energy was attained. On 24 September, at 3.03 hours, 64.25% of mainland demand was covered with wind energy, exceeding the previous maximum of 61.06% registered on 19 April that same year at 1.37 hours.

- With respect to international exchanges, for the ninth consecutive year the physical electricity exchange reflected an exporter balance, covered with 4.2% of total production in 2012. Exports amounted to 18,986 GWh (14,023 GWh in 2011), while imports fell to 7,786 GWh (7,932 in 2011). As a result, the net export balance amounted to 11,200 GWh, up 83.9% on 2011.

Activities outside of Spain

The RED ELÉCTRICA GROUP activities abroad are carried out by REI through the investments which at the end of 2012 it held in Peru (REDESUR, REA and TESUR) and through REC with its investments in Luxembourg (REDCOR) and the Netherlands (RBV).

The GROUP's international activity was marked by the nationalisation by the Bolivian Government on 1 May 2012 through Supreme Decree 1214 of Transportadora de Electricidad S.A. (TDE), which until that time was 99.94% owned by REI. The consideration for the transaction has yet to be determined. This nationalisation scenario had already been foreseen by the RED ELÉCTRICA GROUP and reflected in its financial statements in the past few years.

REI continues to carry out activities intended to continuously improve its international business, arranged through its commitment to make the necessary investments in Peru. In addition, during 2012 the Company continued to optimise its business management, thereby guaranteeing the optimal quality of its electricity services in that country.

In 2012, noteworthy is the fact that in TESUR work continued on the 220 kV transmission grid between Tintaya and Socabaya in Peru, with an investment of approximately €20 million in that year.

REDCOR's reinsurance activity had a very satisfactory year in terms of coverage and claims.

REF carried out two new bond issues on the Euromarket amounting to €250 million and €150 million, respectively, within the framework of the Guaranteed Euro Medium Term Note Programme (EMTN).

MAIN FINANCIAL FIGURES

In 2012 **Profits after taxes** totalled €492.3 million, which represents 6.9% growth over the figure obtained in 2011.

Revenue for 2012 amounted to € 1,755.3 million, up 7.2% due mainly to the increase in the asset base to be remunerated owing to the accrual of revenues from the facilities entering service in 2011.

The gross operating profit (EBITDA) totals €1,299.2 million, which represents 6.9% growth compared with 2011:

The **cost of Supplies and Other operating costs** increased by 11.8% compared with the preceding year.

Staff costs amounted to €129.1 million, up 0.2% on those recorded in the previous year.

Net operating profits (EBIT) increased by 1.9% compared with 2011. This increase was contingent on the recognition of impairment of property, plant and equipment amounting to €46.4 million owing to a valuation of certain auxiliary transmission assets.

Financial losses amounted to € -180.7 million compared with €-161.1 million in 2011. Financial income amounted to € 8.4 million and included €4.5 million relating to the dividend paid by REN during the second quarter. Capitalised net interest expense amounted to €172.8 million compared with €155.3 million in the previous year as a result of the increase in average rates, a rise in the average financial debt and decreases in the financial expenses capitalised deriving from the fall in work in progress.

Investments made by the Group in 2012 amounted to €705.8 million. Investments during the year in the development of the national transmission grid amounted to €671.6 million.

Dividends paid at 31 December 2012 total €297.7 million and are 17.8% higher than the payment made in 2011.

The **Net financial debt** carried by RED ELÉCTRICA GROUP at 31 December 2012 totalled €4,872.5 million. At 31 December 2012 the credit rating granted by Moody's and Standard & Poors remained consistent at Baa 2 and BBB, respectively.

With regard to interest rates, 87% of the Group's debt is at a fixed rate, while 13% is at variable rates.

During the first quarter of 2012 the average cost of the Group's financial debt has been 3.81%, with an average balance of € 4,890.5 million. During the same period in 2011, the average cost of the debt was 3.66% and the average balance was € 4,759.2 million.

In addition, at 31 December 2012 the RED ELECTRICA GROUP 's equity stood at €1,991.5 million, an increase of 9.8% with respect to the 2011 year end. This increase mainly results from profits for the period, partially offset by the distribution of results for 2011 and the interim dividends for 2012.

STOCK MARKET TRENDS AND INVESTOR YIELDS

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

At the end of 2012 the Company's market capitalisation was €5,046 million.

In general 2012 was a positive year from a stock market perspective for all major indices worldwide, except for the IBEX which posted an atypical performance with a negative balance in the last 12 months. The sovereign debt crisis had a major impact on Spain and the market posted an accumulated fall at the start of the summer of 25%. Subsequently, the decisive actions of the ECB and the economic advances of the European Union enabled a recovery and the year ended with a fall of 4.7%.

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

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

TREASURY SHARES

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

At 31 December 2012 the Company held 414,857 treasury shares that represented 0.31% of its share capital, whose overall par value was €0.8 million and their acquisition value was €14.7 million.

The Company has complied with the requirements of Article 509 of the Spanish Companies Act 2010, which establishes that the par value of acquired shares listed on a secondary market, together with those already held by the Company and its subsidiaries must not exceed 10% of the share capital. Subsidiaries do not hold any shares in the Company or any treasury shares.

RISK MANAGEMENT

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

The main risks identified with respect to the attainment of the objectives of RED ELÉCTRICA are regulatory, since the Company's core businesses are subject to regulation; operational mainly due to the electricity system services activities performed; financial and environmental.

The Risk Control System also includes financial risk management. The policies to hedge against each type of risk are detailed in Note 16 of the Notes to the Consolidated Annual Accounts for the year.

ENVIRONMENT

The RED ELÉCTRICA GROUP identifies and assesses all those aspects deriving from activities that may trigger some type of environmental impact. Its activities are therefore performed in accordance with strict environmental criteria assumed and developed through the company's environmental policy.

The challenges of this environmental policy are:

- Ensure facilities are compatible with the environment, selecting lay-outs and locations to minimise the environmental impact. In this respect, RED ELÉCTRICA GROUP has established defined preventative measures in accordance with environmental good practice and corrective measures that mitigate the environmental impacts if they arise.

- Ensure the protection and conservation of biodiversity, as a result of which the RED ELÉCTRICA GROUP has implemented a strategy for the protection of fauna and flora, fire prevention and development of conservation projects. During 2012, REE's Bosque project entailed the restoration of 18.4 hectares in Sierra de Calasparra (Murcia).

- Contribution to the fight against climate change, which has taken the RED ELÉCTRICA GROUP to define its Climate Change Strategy and Action plan to reduce emissions. In this respect, in 2012 the Project for the Management of new climate risks in electricity transmission infrastructures was finalised.

- Energy saving and efficiency, such that efficiency measures were established to reduce consumption. In 2012 two new buildings were constructed (Casaquemada and Mangraners), with energy classification B and seven building models were completed in substations, that will enable their adaptation to the environment where they are located through changes in design, materials and finishings .

- Prevention of pollution, as a result of which preventive measures have been established against leaks of hazardous substances and for adequate waste management, developed in 2012 through the implementation of a new accident evaluation and classification system.

The RED ELÉCTRICA GROUP's environmental policy is included in a Certified Environmental Management System according to Standard ISO 14001, enabling it to ensure that the development of its electricity infrastructures is compatible with the conservation of the environment as is set out in the Environmental Report which it publishes annually.

During 2012 the RED ELÉCTRICA GROUP implemented an internal assessment system to identify the facilities that may entail a high environmental risk. Of the 123 facilities analysed, only 7 of them entail some risk and the necessary measures have been identified to ensure that they are correctly adapted.

During 2012 the RED ELÉCTRICA GROUP incurred ordinary expenses for the protection and improvement of the environment totalling €17million. Similarly, investment in environmental actions amounted to €5 million in 2012.

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

The research, development and innovation activities undertaken by the RED ELÉCTRICA GROUP are intended, within its corporate strategy, to guarantee the efficiency, security and sustainability of the facilities that support the electrical system.

During 2012 the RED ELÉCTRICA GROUP started up its Innovation and Technological Development Plan, arranged as an ambitious innovation plan, the main purpose of which is to establish the action framework of the technological strategy of Red Eléctrica de España for the period 2012-2016.

The key actions with which this plan aims to develop the technological objectives set for the next few years are:

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

Moreover, the Plan aims to achieve a major qualitative leap in the dissemination, both internal and external, of the R&D activities conducted by the RED ELÉCTRICA GROUP and seeks to reach out to key players on a national and European level.

During 2012 and on an international level, the RED ELÉCTRICA GROUP took an important step forward, particularly in relation to the following:

- The preparation of the Research and Innovation Roadmap 2013-2022 of ENTSO-E, which establishes the technological strategy of European TSOs to attain the objectives of the European Union's energy policy (20-20-20).
- The preparation of the Implementation Plan 2014-2016, which sets out the technological actions to be carried out in the next three years within the framework of this plan. For the first time, the Monitoring report was published this year which assesses compliance with the plan.
- Major progress has been achieved with the Indicator definition document which measures R&D's contribution to the attainment of the objectives of the EU's energy policy.

During 2012 the RED ELÉCTRICA GROUP's R&D effort amounted to €7.6 million, including expenses and investment, with 50 on-going projects. These figures once again bear out the efficiency with which the RED ELÉCTRICA GROUP undertakes and completes these projects.

During 2012 and from a technological viewpoint, noteworthy is the completion, inter alia, of project DIRECTO (a tool to design communications networks adapted to the needs of RED ELÉCTRICA), and a new dry-cleaning methodology for power isolators.

Similarly, in 2012 work continued on the facilities and testing of innovative equipment prototypes that contribute new functionalities to the transmission grid network and system operation such as tailored transformers able to support the power supply to the auxiliary services of a substation, a battery for large-scale power supply (under development at the Carmona substation), an inertia wheel as a frequency stabilizer (under development at Marcher, Lanzarote) and the new mobile hybrid politrafo transformer for 200 MVA emergencies (under development at La Plana, Castellón).
Progress on the AGREGA project for demand management through the aggregate of consumption in the industry median was significant and the project is nearing completion.

With respect to projects linked to national programmes for the promotion of innovation, the DOMOCELL project on electric vehicle charging systems was completed in 2012. Work continued on the projects VERDE (research and development of the technologies needed for the mass introduction of electric vehicles in Spain), the CENIT Programme and the projects included in the INNPACTO programme: ESP-Líder (SSSC device to redirect current flows, in Torres del Segre) and PRICE (intelligent demand management).

Of the European collaboration projects, noteworthy is the good progress of the TWENTIES project for renewable energy integration, coordinated by RED ELÉCTRICA.

In addition, work ended on the OPTIMATE project (new market mechanism simulation platform) and the PEGASE project (definition of platforms and operations applications at European level) while participation continued in GRID+ (supporting EEGI —European Electricity Grids Initiative— in the coordinated design of a joint R&D road map between TSOs and DSOs) and eHIGHWAYS (optimum planning of the long-term pan-European transmission system — 2050—). RED ELECTRICA's collaboration with the International Energy Agency (IEA) also ended in 2012, giving rise to several R&D projects carried out in the past few years.

RED ELÉCTRICA continued its policy of contributing to sustainable development, enabling the perfect co-existence of its facilities with the social and natural environment. In this respect, in 2012, of its achievements, noteworthy is the completion of research work to minimise the impact of electrical facilities on steppe birds and the development and testing of a new more efficient model of a device to discourage birds from nesting in power line towers. Moreover, work continued on both a bird collision detector for earth cables at power line towers and a woodland growth model.

CORPORATE RESPONSIBILITY

In the area of corporate responsibility, the RED ELECTRICA GROUP has become one of the most advanced companies and occupies a leadership position in the rankings that evaluate both the results obtained by company management and the level of involvement and support for sustainable development in all areas of activity.

The RED ELECTRICA GROUP's objective is to consolidate as a sustainable, ethical and responsible GROUP, integrated into society, attentive to all its stakeholders and a point of reference in the markets in which it operates. This orientation towards sustainable development is reflected at the strategic level and seeking excellence and responsibility when carrying out activities is a basic strategy at the RED ELECTRICA GROUP and is transversally rolled out at the operating level through the management of the business.

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

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

With respect to quality management, a process management system was implemented based on international standards, making it possible to achieve a Corporate Quality Management System encompassing all processes.

This system, using its own methodology, includes all the company's activities through process definition and design and their control, follow-up, monitoring, assessment and improvement. Similarly, this System has developed score sheets as a basic instrument for the follow-up and assessment of the company's key processes by establishing indicators, enabling process improvement and the attainment of the company's strategic objectives.

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

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

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

THE HUMAN TEAM

The professionals at RED ELÉCTRICA GROUP constitute one of the company's strategic assets. In accordance with the Company's values, employee management is carried out in a socially responsible manner through the application of management policies that guarantee fair and equitable treatment and promote integration into the business project and their development.

The challenges facing the RED ELÉCTRICA GROUP in this field may be structured as follows:

- Creation of stable and quality employment; the RED ELÉCTRICA GROUP attempts to have a highly qualified, motivated and committed team enabling it to respond to the major challenges which it will face in the next few years. It has therefore identified, selected and integrated the most suitable persons in a transparent and objective process, based on compliance with employment, equality and non-discrimination legislation, promotion through internal turnover and job stability.

- Organisational efficiency: in this respect, the RED ELÉCTRICA GROUP has developed an integral people management model.

- Training and development: the RED ELÉCTRICA GROUP carries out on-going training plans to cover employees' training needs and has created the RED ELÉCTRICA Corporate School (ECRE), which specifically covers training for its electricity operator and transmission activities.

- Employment rights: the GROUP maintains smooth and on-going dialogue with stakeholders.

- Health and safety: the GROUP's risk prevention policy and certified management system has been awarded OHSAS 18001.

- Non-discrimination: the RED ELÉCTRICA GROUP has established equality policies and plans that seek to ensure equal employment opportunities. In this respect, noteworthy in the past five years is the fact that the number of female employees grew by 21.7% and of female manager by 50%.

- Promoting the work / life balance: since the launch in 2008 of the Red Concilia project, the RED ELÉCTRICA GROUP has worked on ensuring that employees have an adequate work/ life balance, in a structured and reconciled manner, based on an on-going improvement management model. As a result of this work, awards have been won such as the first Premio Nacional Alares to the Work/ Life Balance, the second Randstad Awards to conciliation and the Premio de la Federación de Mujeres Progresistas.

The Group's final headcount stands at 1,701 people.

POST-BALANCE SHEET EVENTS AT 31 DECEMBER 2012

In order to extend the average maturity date of its debt and reduce its exposure to variable rates in accordance with its risk management policy RED ELÉCTRICA GROUP issued bonds on the Euromarket on 25 January 2013 through Red Eléctrica Financiaciones, S.A.U., within the framework of the Guaranteed Euro Medium Term Note program (EMTN program). This issue, totalling €400 million and maturing in 9 years, bears interest at 3.875% a year and was completed at an issue price of 99.858%.

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

FORESEEABLE DEVELOPMENT

After consolidating the TSO model in Spain in 2010, after the acquisition of the transmission assets owned by distribution companies, the RED ELÉCTRICA GROUP will continue to pursue the objective of making the investments in the grid that are necessary in accordance with the Infrastructure Plan, which will allow it to guarantee the reliability and security of the Spanish electricity system.

The RED ELÉCTRICA GROUP, with a clear focus on attaining operational efficiency, aims to secure financial strengthening in order to generate permanent value.

Similarly, an attempt should be made to build a transparent, sufficient and stable remuneration environment, enabling the functions entrusted by regulations to be performed and investments to be made in the next few years to consolidate the growth of the RED ELÉCTRICA GROUP.

This will result in the creation of long-term value, lasting competitive advantages and the attainment of a better corporate reputation, focused on optimal service to society and the commitment to a sustainable energy system.

ANNUAL CORPORATE GOVERNANCE REPORT

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

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

RED ELÉCTRICA
CORPORACIÓN

ANNUAL ACCOUNTS
2012

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

RED ELÉCTRICA CORPORACIÓN, S.A.

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

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

AUDIT REPORT ON THE ANNUAL ACCOUNTS

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

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

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

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

PricewaterhouseCoopers Auditores, S.L.

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

26 February 2013

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª. Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

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

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

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

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

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

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

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

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

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

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

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

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

RED ELÉCTRICA
CORPORACIÓN

Notes to the accounts
FY 2012

CONTENTS

1. ACTIVITIES

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

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

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) True and fair view

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

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

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

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

b) Compulsory accounting principles

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

c) Accounting estimates and assumptions

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

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

3. PROPOSED DISTRIBUTION OF RESULTS

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

Profit for the year	451.509

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

Total	451.509
	======

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

The interim dividend is explained in Note 13.

4. ACCOUNTING PRINCIPLES

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

a) Property, plant and equipment

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

- Financial expense on external financing accrued only during the construction period.

- Operating costs, directly related to the construction of property, plant and equipment in projects controlled or managed by the Company.

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

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

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

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

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

b) Investment property

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

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

c) Financial assets

The Company classifies its financial assets in the following categories:

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

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

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

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

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

d) Non-current assets held for sale

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

e) Cash and cash equivalents

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

f) Asset impairment

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

g) Shareholders' funds

Share capital consists of ordinary shares.

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

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

h) Employee benefits

- <u>Pension commitments</u>

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

- <u>Other long-term employee benefits</u>

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

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

i) Provisions

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

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

j) Borrowings

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

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

k) Trade payables

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

l) Income and expense

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

Interest income is recognised using the effective interest rate method.

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

m) Tax situation

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

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

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

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

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

n) Insurance

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

o) Share-based payments

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

5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

6. INVESTMENT PROPERTY

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

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

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

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

7. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

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

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

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

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

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

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

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

8. FINANCIAL RISK MANAGEMENT POLICY

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

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

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

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

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

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

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

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

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

9. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by category

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

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

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

Categories of financial instruments

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

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

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

Categories of financial instruments

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

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

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

b) Analysis by maturity date

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

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

10. LONG TERM INVESTMENTS

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

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

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

11. NON-CURRENT ASSETS HELD FOR SALE

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

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

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

12. TRADE AND OTHER RECEIVABLES

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

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

13. EQUITY

a) Capital risk management

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

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

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

b) Equity

- Share capital

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

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

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

- Reserves

This heading includes:

- Legal reserve

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

- Other reserves

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

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

- **Treasury shares**

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

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

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

- **Results for the year**

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

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

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

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

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

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

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

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

c) Value change adjustments

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

14. PROVISIONS

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

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

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

Actuarial assumptions

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

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

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

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

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

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

15. LONG TERM PAYABLES

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

16. TAX SITUATION

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

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

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

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

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

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

Deductions mainly relate to internal double taxation due to dividends.

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

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

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

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

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

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

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

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

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

17. PREPAYMENTS AND ACCRUED INCOME, LONG TERM

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

18. SHORT-TERM LIABILITIES

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

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

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

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

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

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

19. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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

21. INCOME AND EXPENSES

a) Revenue

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

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

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

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

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

b) Staff costs

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

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

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

Current employees

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

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

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

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

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

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

Balances and transactions with Group companies and associates

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

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

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

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

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

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

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

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

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

Balances and transactions with related parties

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

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

23. DIRECTORS' REMUNERATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24. DIRECTORS' REMUNERATION

The Executive Director is the only executive.

25. SEGMENT REPORTING

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

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

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

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

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

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

27. ENVIRONMENTAL INFORMATION

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

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

28. OTHER INFORMATION

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

29. SHARE -BASED PAYMENTS

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

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

30. EVENTS SUBSEQUENT TO 31 DECEMBER 2012

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

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

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

ANEXO I

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

Miembros del Consejo de Administración	Participaciones, directas o indirectas, de los Miembros del Consejo de Administración en el capital de sociedades con el mismo, análogo o complementario género de actividad al que constituye el objeto de la Sociedad	Cargos y funciones de los Miembros del Consejo de Administración en sociedades ajenas al Grupo Red Eléctrica con el mismo, análogo o complementario género de actividad al que constituye el objeto de la Sociedad
D. José Folgado Blanco	----------------	Administrador Conjunto de Red Eléctrica Internacional, S.A.U. Consejero de Redes Energéticas Nacionais, SGPS, S.A. (REN) Presidente del Directorio de Red Eléctrica del Sur, S.A. (Redesur)
D. Alfredo Parra García-Moliner	----------------	----------------
D. Francisco Ruíz Jiménez	----------------	----------------
D. Fernándo Fernández Méndez de Andés	----------------	----------------
D. Juan Iranzo Martín	----------------	----------------
Dña. Paloma Sendín de Cáceres	----------------	----------------
Dña. Carmen de Barreda Tous de Monsalve	----------------	----------------
Dña. María de los Ángeles Amador Millán	----------------	----------------
D. Miguel Boyer Salvador	----------------	----------------
Dña. María José García Beato	----------------	----------------
D. Rui Manuel Janes Cartaxo	19.162 acciones en Redes Energéticas Nacionais, SGPS, S.A. (REN)	Presidente y CEO de Redes Energéticas Nacionais, SGPS, S.A. (REN)

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

Directors' Report
FY 2012

CONTENTS

BUSINESS PERFORMANCE MAIN EVENTS

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

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

MAIN FINANCIAL FIGURES

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

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

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

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

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

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

STOCK MARKET TRENDS AND YIELDS FOR INVESTORS

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

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

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

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

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

TREASURY SHARES

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

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

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

RISK MANAGEMENT

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

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

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

ENVIRONMENT

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

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

RESEARCH, DEVELOPMENT AND INNOVATION (R&D)

REC has carried out no R&D activities.

CORPORATE RESPONSIBILITY

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

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

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

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

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

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

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

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

POST-BALANCE SHEET EVENTS AT 31 DECEMBER 2012

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

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

On 27 December 2012 Law 16/2012 was approved in order to favour both internal financing and better access to capital markets. Article 9 of this Law offers corporate income taxpayers operating in Spain the option to restate their balance sheets.

The Company's directors have carried out an assessment of said Law 16/2012 and its potential accounting and tax implications and impacts. At the date of preparation of these annual accounts, they do not yet have sufficient information to conclude whether the aforementioned balance sheet restatement will be proposed to the General Shareholders' Meeting for approval.

FORESEEABLE DEVELOPMENT

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

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

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

APPENDIX : ANNUAL CORPORATE GOVERNANCE REPORT

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

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