



**Annual
report**

(summary document)

2008



RED ELÉCTRICA CORPORACIÓN

Important note

This report is a summarised version of our activities in the 2008 fiscal year. The complete version of the corporate responsibility report, as well as legal information (consolidated annual accounts and corporate governance reports) are published solely in electronic PDF format and are available on the corporate website: www.ree.es.

With this new format we pursue two objectives. On the one hand, to improve communication with our stakeholders showing in a simple summarised form the key commitments and results of Red Eléctrica's corporate responsibility within the economic, social and environmental scope, and on the other hand, applying our policy of reducing environmental impacts, by not publishing the complete documents on paper.

Should you not be able to access the electronic version for any reason, you may request a printed copy of the PDF document to be sent to you via the **Digame** information service:

Global help desk

www.ree.es
digame@ree.es,
Telephone: +34 91 728 62 15
Fax: +34 91 650 45 42

Scope of the summary document:
Activity in Spain



The edition in electronic format has represented a saving of **21 tonnes of paper**, with an estimated environmental impact reduction of

 **294 trees**

 **38 tonnes of CO₂ equivalent**

 **1 million litres of water**



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Letter from the President

Dear Reader

Corporate Responsibility is, in my opinion, a key management element in the functioning of companies in this century and essential to confront the challenge of sustainable development.

Regarding this challenge, energy is one of the most important matters, not only in relation to economic aspects but also to the environment and security of supply. This is set out clearly in the 20-20-20 objectives of the European Union, that is to say, 20% greater energy efficiency, 20% of primary energy from renewable sources and 20% reduction in emissions, all this for the year 2020.

Also, let us not forget, electricity has become the fundamental way of incorporating renewable energies into our energy model, and the growth of these alternative energies is going to play a key role in both the process of economic recovery and in the struggle against climatic change

Our company, as system and transmission grid operator, has an important responsibility in the achievement of these targets, contributing solutions for the integration of renewable energies. In this sense, I would like to indicate the important

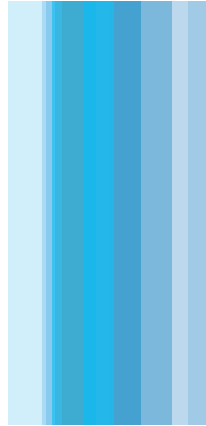
investment effort carried out during this fiscal year, through which we have put in service more than 600 kilometres of lines and 120 busbars in substations which have represented an investment of 614 million euros, which has today allowed hundreds of producers of renewable energies to be connected to an extensive and robust meshed grid.

Similarly, through the Centre for the control of renewable energies, our CECRE, a technological tool designed to manage this energy under secure conditions, it has been possible to integrate more than 30,000 GWh of wind energy production into the system, which covered 11% of the demand for 2008. This centre, the first of its kind in the world, allows us to safely manage the extraordinary variability of wind power energy contribution, which at one point this year reached a level which covered 43% of the demand, and on other occasions it has only provided less than 1%.

This increasing influential role of renewable energies provides significantly positive effects in the reduction of contaminating emissions and diminishes our energy dependency. Nevertheless, to advance towards an energy sustainable model, the development of the international interconnections is also essential. Therefore following the commitment of our governments we have signed an agreement with RTE, our French counterpart, to construct a new interconnection line with



During 2008, we have put in service more than 600 kilometres of lines and 120 busbars in substations which have represented an investment of 614 million euros.



France that will allow us to reinforce the security of both systems and to integrate a significant volume of renewable energy.

Our responsibility to advance in all these areas is necessarily linked to the creation of sustainable value in the long term. In this way, the 2008 fiscal year has concluded with some highly satisfactory economic results, confirming the expectations of growth in benefits and ratios of profitability. Net profit has increased 17.7% and the dividend received by the shareholders has increased by the same percentage. Regarding the behaviour of the share price within the context of a world financial crisis, it has registered a fall significantly lower than that of the stock exchange indexes of reference.

We have also taken new steps regarding social and environmental aspects. We have created employment and promoted the recruitment of women and their presence both on the Board of Directors and in managerial positions. Also, in the realm of social dialogue, I wish to emphasise the signing of the IX Collective Bargaining Agreement for a term of six years, in the framework of which, amongst other matters, puts forward new proposals and measures to ensure effective equal opportunity between men and women, as well as conciliatory measures to ensure that the already well-established measures will be extended and improved.

Regarding the environmental aspect, I would like to point out the important effort we are dedicating to make compatible the necessary

development of an electricity grid that structures the Spanish electricity system as a whole, respecting the natural and social ecosystem, looking for and agreeing on the routes with the least social and environmental impact.

These efforts and our commitment to transparency allow us to be in the main sustainability indexes and to occupy a leadership position with respect to corporate responsibility within the companies of the Ibex 35.

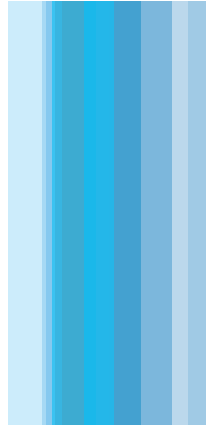
Looking to the future

Our challenge over the few next years is to contribute to the conversion of energy into a vector of economic recovery. Through the consolidation of our role as Spanish TSO, we will work to extend and to develop the transmission grid, improve the security of supply and support the promotion of green energies. Over the next five years we will invest 4 billion euros in grid reinforcement and meshing in order to effectively contribute to the principal objective of energy planning 2008-2016: to achieve a secure, efficient and sustainable electricity supply.

Also, this important investment cycle will be supported by our business strengths, such as the regulatory stability provided by the new remuneration framework, leadership regarding the integration of renewable



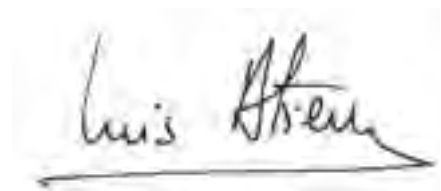
Our challenge over the few next years is to contribute to the conversion of energy into a vector of economic recovery.



energies and our ongoing clear orientation towards achieving quality of service. All this, along with our solid financial position, will allow us to maintain an attractive return on investment for the shareholders and to create value for the rest of the stakeholders.

But I am also convinced that to look to the future means making efforts in research, development and innovation geared towards energy efficiency and savings, principally developing demand-side management tools and promoting of renewable energies.

Finally, I would like to show once again our commitment to the ten principles of the United Nations Global Compact and our responsibility to keep advancing in the collective challenge of constructing a sustainable energy model and a more united and just society.

A handwritten signature in black ink, reading "Luis Atienza Serna". The signature is written in a cursive style and is positioned above a horizontal line.

Luis Atienza Serna
President



Electricity has become the fundamental way of incorporating renewable energies into our energy model.



Key figures

(Consolidated figures)

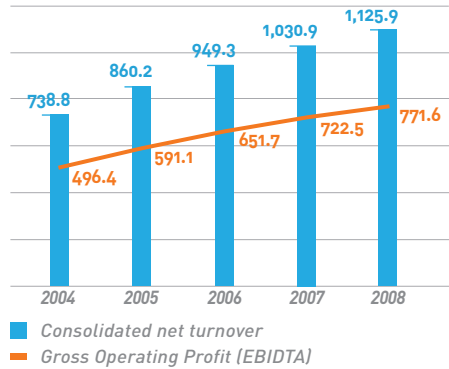


A solid, solvent company with a high profitability which provides value to society and contributes to the well-being of the citizens.



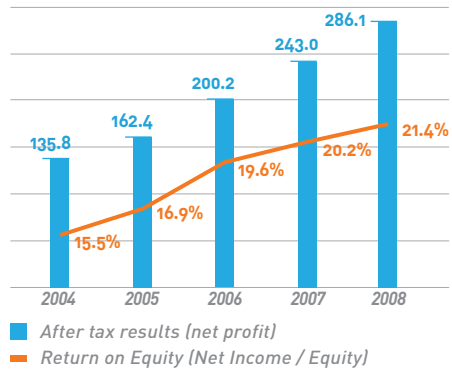
* Consolidated net turnover

(millions of euros)



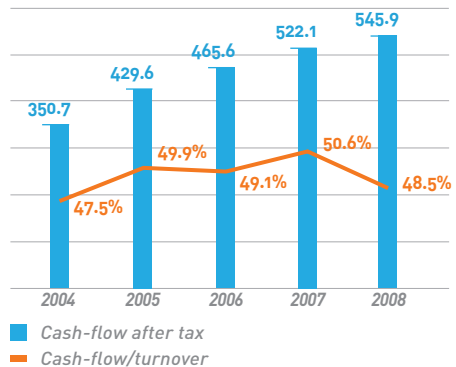
* After tax results

(millions of euros)



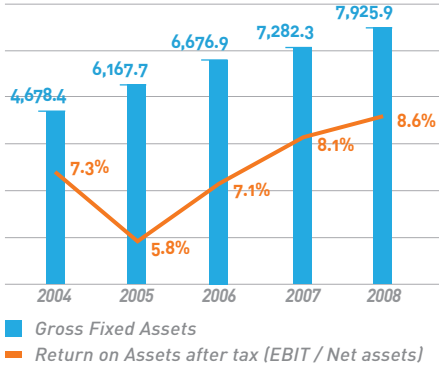
* Cash-flow after tax

(millions of euros)



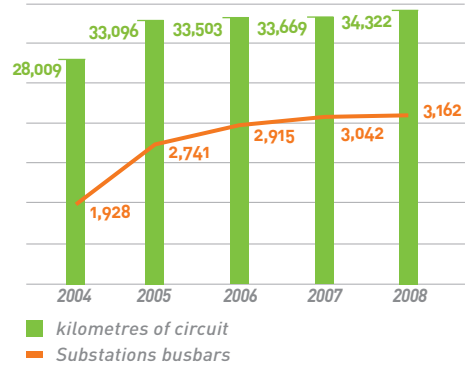
*** Gross Fixed Assets**

(millions of euros)



*** Transmission Grid**

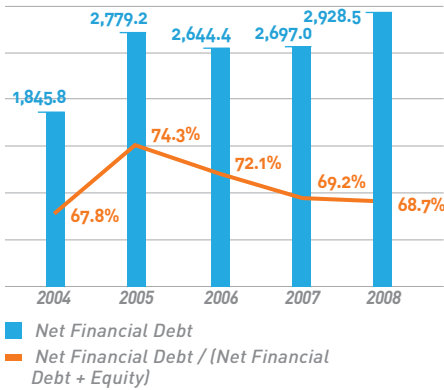
(km)



The 2004 and 2005 data includes the acquisition of assets from electricity companies.

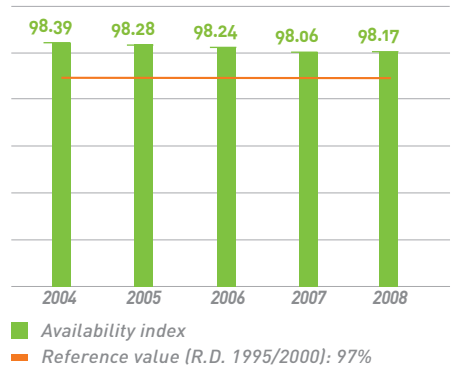
*** Net Financial Debt**

(millions of euros)



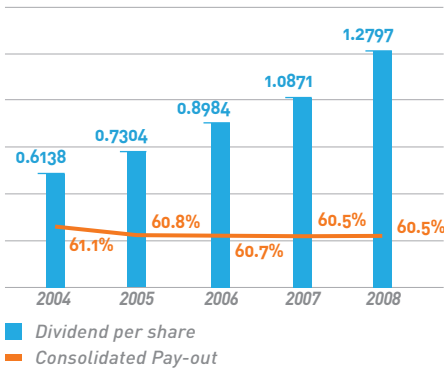
*** Grid availability**

(percentage)



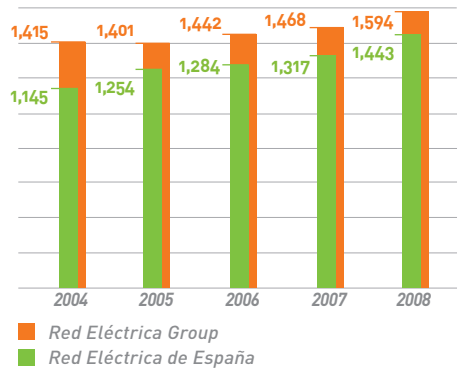
*** Dividend per share**

(euros)



*** Workforce**

(number)



Strategic Plan 2009-2013

This plan will be carried out with a focus on efficiency and profitability, maintaining the guarantee of supply and working towards a sustainable energy model.

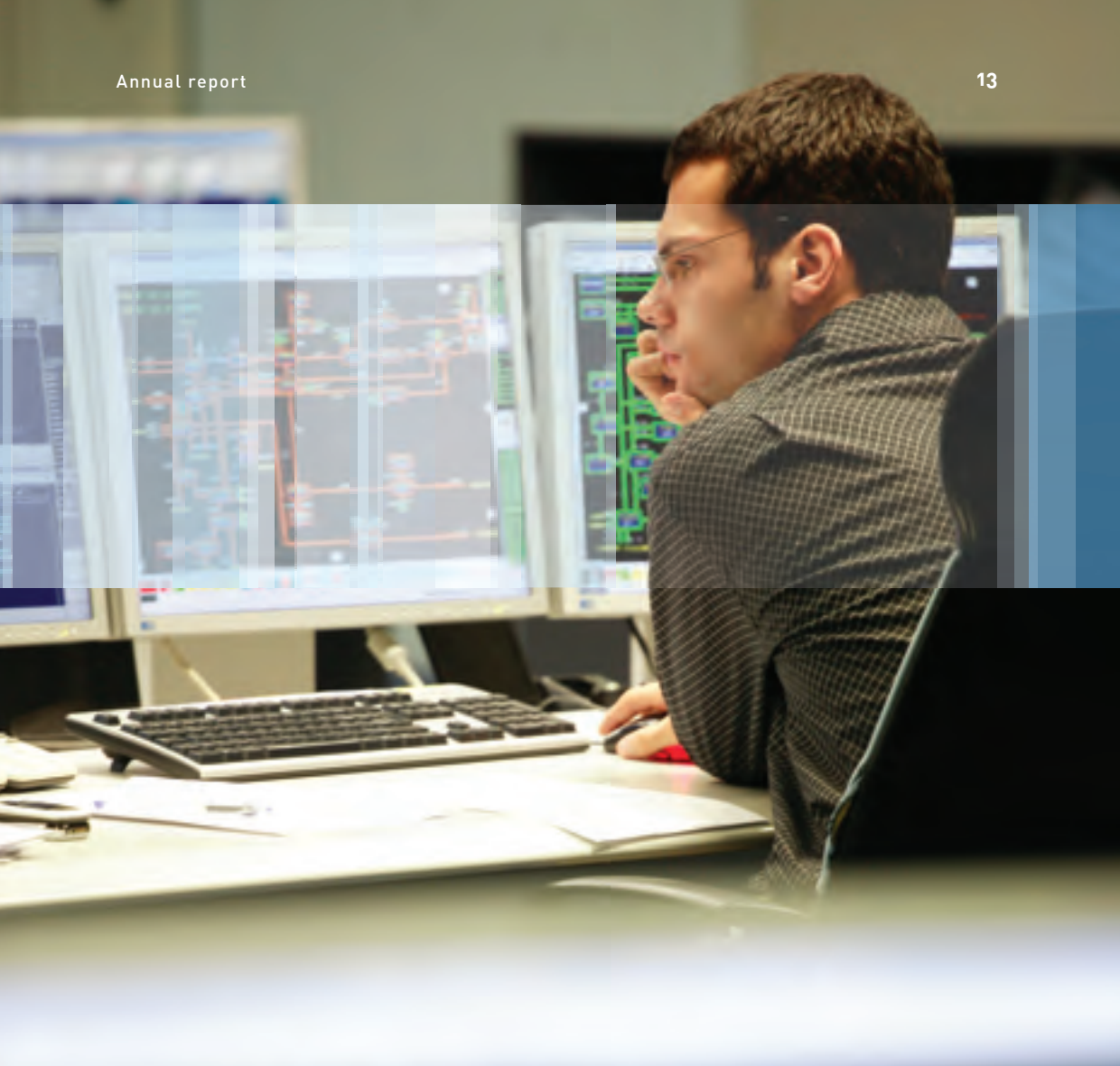


The principal objective of our strategy is to consolidate our role as Spanish TSO: the sole transmission agent and operator of the system.

This consolidation will imply the carrying out of the following measures:

- Execution of an important investment for the execution of the entire Infrastructure Plan 2008-2016.
- Acquisition of the transmission assets from the electricity companies, in accordance with the established law 17/2007.
- Maintenance of high levels of operative and financial efficiency.

4 billion
euros in
investment in
the transmission
grid in the period
2009-2013



“ Contributing to achieving a secure, efficient and environmentally sustainable electricity supply





Amongst the business strengths that Red Eléctrica shows, the following are noteworthy:

- * Regulatory stability.
- * Leadership in the integration of renewable energies.
- * Quality of service and security of supply.
- * An investment mandate derived from energy planning.
- * A solid financial position.

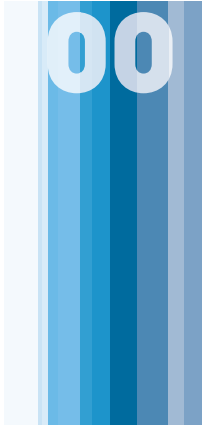
“
A strategic plan consistent with our business strengths.
”

* Regulatory stability

The new remunerative framework provides stability, transparency and sufficient remuneration to face the strong investment cycle foreseen. Additionally, it introduces incentives for the efficient operation of the electricity facilities.



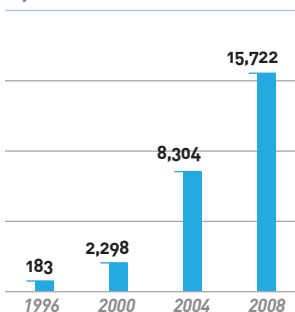
7.7% *(IRR nominal after tax)*
profitability
for new investments



* Leadership in the integration of renewable energies

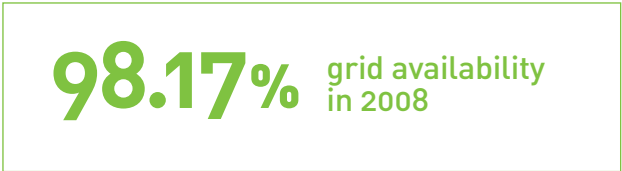
Red Eléctrica has put into operation CECRE, the world's first control centre for the integration of renewable energies into the electricity system, under secure conditions. Also, it is making a significant investment in electricity infrastructures for the evacuation of energy derived from these sources.

Evolution of installed wind power energy in Spain (MW)



*** Clear orientation towards quality of service**

The excellent behaviour of the transmission grid and the high level of response regarding system operation and grid restoration has positioned Red Eléctrica at the forefront of service quality.

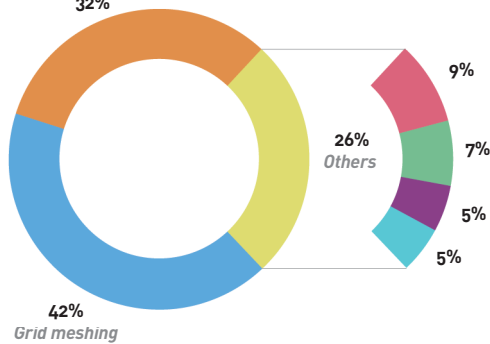


*** Strong investment cycle in the transmission grid**

Over the next five years Red Eléctrica will invest 4 billion euros in the expansion and improvement of the transmission grid, with the objective of achieving improved security in the grid and guaranteeing the supply of the electricity demand.

Investments 2009-2013

Distribution support
32%



- Strengthening of the interconnections
- Evacuation of renewables
- Evacuation of combined cycle
- Powering of the High Velocity Trains



* **Solid financial position**

Red Eléctrica continues to maintain a solid and efficient capital structure.

The financial strength of the company provides sufficient flexibility to face the strong investment cycle foreseen for the forthcoming years and maintain an attractive return for the shareholders.

The financial objectives will be the following:

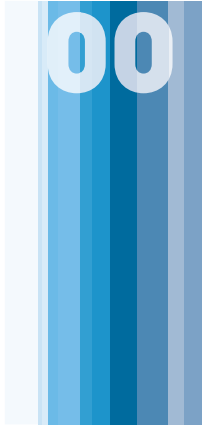


Annual growth in net income per share

in excess of **15%**



dividend growth in line with the increase in net income per share.



Company profile

01

Red Eléctrica is the sole transmission agent and operator of the Spanish electricity system. Its mission is to ensure the global functioning of the system guaranteeing at all times the continuity and security of supply.

This mission is tackled with a clear orientation towards sustainable development, structured on the following principles:

- To adopt best practices of good governance.
- To offer a safe and efficient service to society.
- To create value for all our stakeholders.
- To generate a quality and stable employment.
- To promote dialogue, integration and social development.
- To protect and conserve the natural environment.

34,300
kilometres
of electricity
lines

1,594
employees
in the Group

Law 17/2007, of 4 July, modified the Electrical Sector Law 54/1997 to comply with European regulations; this reinforced the role of Red Eléctrica as a cornerstone in the process of electricity supply, now that this law confirms its functions as operator and manager of the transmission grid, attributing it, in addition, in its capacity as grid manager, the function of



“

A corporate project oriented towards excellence and sustainable development.

”

sole transmission agent, an activity which it carries out in a regime of exclusivity.

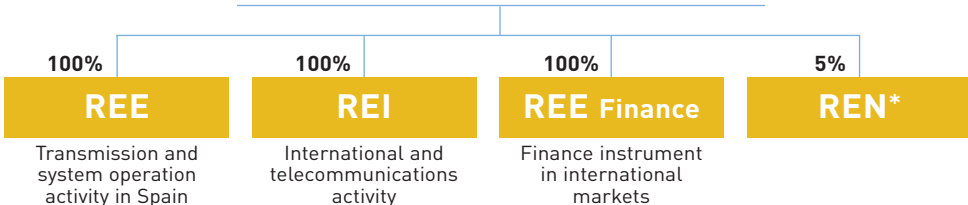
This represents the definitive consolidation of its position as Spanish TSO (*Transmission System Operator*).

This law, on the other hand, has introduced a series of corporate changes in the company. In particular, the organisational structure of the company has been transformed into a holding structure, so as to reinforce the separation and transparency of the regulated activities in Spain -transmission and the operation of the system- from the rest of the activities.

Key factors of our business management

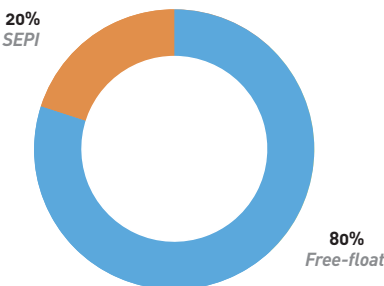
- Independence from the other electricity system agents.
- Transparency as system manager.
- Neutrality in decision making.
- Commitment to sustainable development.
- Excellence in business management.
- Organisation focused on people.

Red Eléctrica Corporation



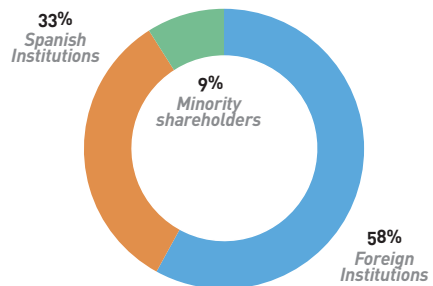
() Portuguese transmission and system operator with whom a strategic alliance is maintained through crossed shareholder participation.*

Shareholder structure (31.12.08)



SEPI (State Owned Industrial Holding Company)

Free-float structure



Core Activities

Operator of the electricity system

Red Eléctrica operates the Spanish electricity system, ensuring at all times the continuity and security of the electricity supply, as well as the correct coordination of the production and transmission systems. It exercises these functions under the principles of transparency, objectivity and independence.

Sole transmission operator and grid manager

Red Eléctrica, in its role as manager of the grid, is the sole transmission agent and carries out this function under a regime of exclusivity. Its responsibility is the transmission of electricity from the generation units to the areas of consumption. In addition, it has the responsibility of developing, extending and maintaining the transmission grid under homogenous and coherent criteria.

“Managing a meshed, robust and reliable transmission grid which offers a high quality service to the electricity system and society as a whole.”

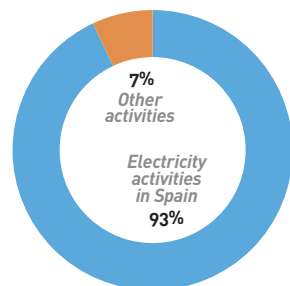
Other activities: international business

The investment in transmission grids is channelled through the subsidiary companies integrated in Red Eléctrica Internacional (REI): the Bolivian company Transportadora de Electricidad (TDE) and the Peruvian company (REDESUR).



“Ensuring the correct functioning of the electricity system, 24 hours a day, every day of the year.”

Consolidated net turnover distribution 2008



Corporate governance

02

The implementation of the best principles and practices of corporate governance constitutes for Red Eléctrica a high level strategic objective and an inescapable requirement for the management its business project.

Rules of governance applied by the Company

The rules of corporate governance of the Company are permanently updated in line with best practices and recommendations of good governance, in order to improve the shareholders' right to information and to offer a greater informative transparency to the markets.

Rules of governance of the Company

- Articles of association.
- Regulation governing the Board of Directors.
- Regulation governing the General Shareholders' Assembly.
- Internal regulation governing conduct in the Securities Market.

63%
independent
Board members

27%
women on
the Board

92 out of 100
Risk evaluation
in the sustainability
indexes DJSI



RED ELÉCTRICA DE ESPAÑA

“
Constant
adaptation of the
rules of governance of
the Company to the
best practices and
recommendations of
good governance.
”

The Ethical Code

In 2007, an Ethical Code was implemented which contains the key principles which should serve to guide the members of the Board of Directors, the managerial bodies and the employees of the Red Eléctrica Group and can be invoked by the stakeholders.

“

The Ethical Code has been implemented and widely promoted, and its principles and recommendations disseminated to the whole organisation.

”

The Code establishes the management procedure of enquiries and claims, which is available on the corporate website (www.ree.es).

In order to monitor its complete fulfilment an **Ethical manager** has been appointed, responsible for administering the system and dealing with non-compliances and reported claims. During the 2008 no claims of any type were reported.



Governance structure of the organisation

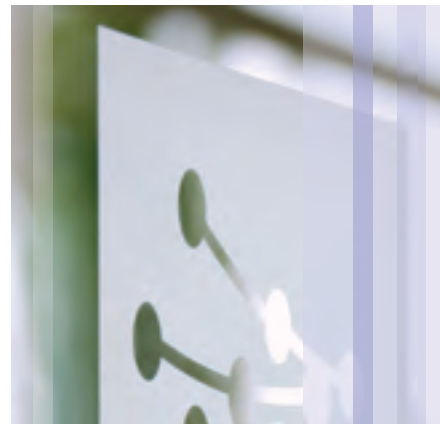
General Shareholders' Assembly

Following best practices of corporate governance, Shareholders' rights to information and attendance to the Assembly have been extended beyond the legal requirement, by facilitating attendance requests, access to information and promoting their participation in the assembly through electronic means.

Improved corporate governance practices related to the General Shareholders' Assembly:

- All the relative information regarding the Assembly, made available to the shareholders via the Company website.
- No minimum number of shares required to be able to attend the Assembly.
- Separate voting on each one of the matters submitted for approval in the Assembly.
- Promoting the participation of shareholders in the Assembly via the implementation of an electronic voting system.
- Live broadcast of the Assembly via Internet.

02



Board of Directors

The Board is composed of eleven members, with the following breakdown: seven external independent members -63%-, three external proprietary members and an executive member.

The Board of Directors maintains two commissions: one an **Audit Commission** and the other the **Appointment, Remuneration and Corporate Governance Commission**.

Corporate governance best practices in relation to the Board of Directors:

- Board composed of eleven members of which three are women, with a majority of independent board members.
- Annual self-evaluation of all Board members.
- Maximum transparency and publication of individualised Board member remuneration.
- Board member profiles: recognised professionals of distinction with extensive professional background.
- Existence of a commission for matters related to corporate governance.
- Strict regulation regarding the responsibility of the Board members, as well as of the duties of diligence and loyalty.



Risk management

The Risk Policy of the Red Eléctrica Group aims to establish the principles and directives to ensure the relevant risks which could affect the aims and activities of the Group are identified, analysed, assessed, managed and controlled, and these processes are carried out in a systematic fashion and with uniform criteria and within the fixed levels of risk.

Therefore, the Red Eléctrica Group establishes a Comprehensive Risk Management System, which in 2008 has identified risks according to the following breakdown:

- 75% correspond to operational risks.
- 10% to regulatory risk.
- 15% to business risk, market risk or credit risk.

Challenges 2009-2011

- * Improvement in the methodology of the evaluation of risks with the incorporation of the statistical processing of series of historical data.
- * Extending the degree of coverage of comprehensive risk management to 100%.
- * Deployment throughout the entire organisation of the IT tool which supports the comprehensive risk management system.
- * Extension of the temporary horizon of evaluation of risks with an impact on Company strategy.



Key Risks of the Red Eléctrica Group

Regulatory, as the main business activities of the Group are subject to regulation.

Operational, fundamentally derived from the activities assigned in the electricity system, of caring for the natural environmental and the coverage of financial needs within a complicated market.

Market, as the majority of the income, as well as determined expenses could be influenced by the evolution of variables such as inflation or interest rates.

Business and credit (or counterpart), although to a smaller degree due to the reduced weight of the Group subsidiaries and by the existing regulation on the invoicing and receiving of funds for transmission and operation activities.

Management approach

03

The challenge of the Red Eléctrica Group is to consolidate itself as a type of company which is responsible, efficient and sustainable becoming a reference in the sector in which it operates.

The quest for excellence

The quest for excellence and responsibility in the execution of its activities has become one of the basic strategies of the Red Eléctrica Group acting as the cornerstone of its business management orientation towards sustainable development.

In 1999, Red Eléctrica set out on the quest for management excellence with the adoption of the European model of the *EFQM, European Foundation for Quality Management*, the main reference for European organisations looking to achieve excellence in its business management. In 2003, Red Eléctrica became **the first Spanish electricity company to be awarded the European Seal of Excellence + 500 points**, granted by the Club for Excellence in Management, following the directives of the EFQM European model.



Presence in the key sustainability indexes.

 Dow Jones Sustainability Indexes
Member 2008/09





“ Adopting commitments, policies and actions of outstanding value in the scope of corporate responsibility.

”



Management certificate tools

Quality
ISO
9001

Occupational
health
and safety
OHSAS
18001

Environmental
ISO
14001

Corporate
Responsibility
SA8000

After obtaining more than 600 points in the latest evaluation carried out in 2007, Red Eléctrica consolidated its position as leader amongst the 20 companies within Spain which currently possess this recognition.

These results enable Red Eléctrica to access the **European recognition «Recognised for Excellence 5 Stars»**, awarded by the EFQM.

Corporate Responsibility

The corporate responsibility of the Red Eléctrica Group is approved by the Board of Directors, in accordance with that established in the regulation governing the Board.

In order to guarantee the fulfilment of the principles established in said policy, Red Eléctrica counts on a management system, whose most relevant elements are:

- The integration of corporate responsibility in the business plan.
- A organisational structure responsible for the coordination and pursuit of the activities within this scope.
- The involvement of stakeholders.
- An evaluation system for the acquired commitments.



Commitment to external initiatives

The commitment of the Red Eléctrica Group with sustainable development has taken it to adopt and to assume the main international agreements in social and environmental matters. Noteworthy amongst them is the commitment of all the companies of the Group with the ten principles of the United Nations Global Compact and the annual drafting of the corresponding progress reports.

Most relevant activities in the 2008 fiscal year

- Development of more than thirty corporate responsibility projects.
- Awareness campaigns regarding the Ethical Code and corporate responsibility.
- Setting up dialogue platforms for Stakeholders.
- Dissemination, promotion and development of corporate responsibility in collaboration with diverse organisations and companies.
- Designing of a new multi-year corporate responsibility plan (2009-2012).



Recognitions in 2008

First place in the study "Corporate Social Responsibility in the Annual Reports of Ibx 35 companies" from the ORSC.

First place in the study "Responsibility: Culture, Policies and Practices of Ibx 35 companies" from the ORSE.

Winner of the VII edition of the Spanish Corporate Sustainable Development Reports Award of the ICJCE and AECA.

European Environmental Prize 2007-2008, Spanish section, in the category "Product for sustainable development" (for the implementation of CECRE).

Technical and economic responsibility

04

The responsibility of Red Eléctrica is to provide a quality service to society, through the efficient management of the operation of the electricity system and a sustainable development of the transmission grid

The commitment we assume in the performance of these functions drives us to:

- * Permanently create value for our customers, shareholders, employees, suppliers and society in general.
- * Contribute to the guarantee of a safe, efficient and quality electricity supply.
- * Work towards achieving a sustainable energy model.

286.1
million
euros in
net profit

614
million euros in
investment for the
extension and
improvement of
the grid

98.17%
transmission
grid
availability



“ Our challenge is to construct a network of electricity infrastructures respectful of the environment and which facilitates the development of renewable energies.

”



* Creating value for our stakeholders

The dividend per share, 1.2797 euros increased **17.7%** in 2008.

The business management of Red Eléctrica maintains a clear orientation towards efficiency and creation of value.

In 2008, the company obtained some highly satisfactory economic results, confirming its expectations of growth in benefits and profitability ratios.

The fiscal year results were 286.1 million euros, 17.7% more than in 2007.

For its part, the economic profitability for the fiscal year reached 8.6% after tax (8.1% in 2007) and the Return on Equity reached 21.4% (20.2% in 2007).



Credit ratings:

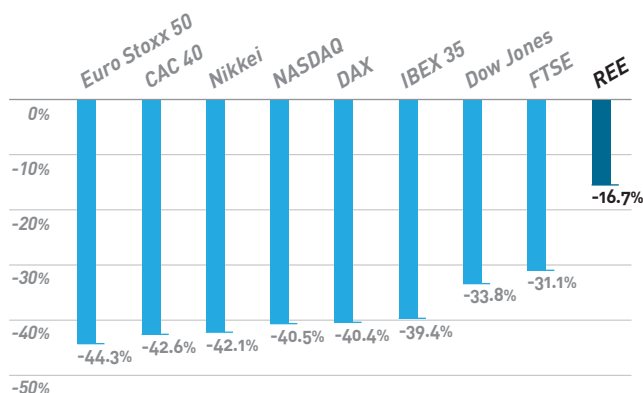
AA-/A-1+
(Standard & Poor's)

A2 *(Moody's)*

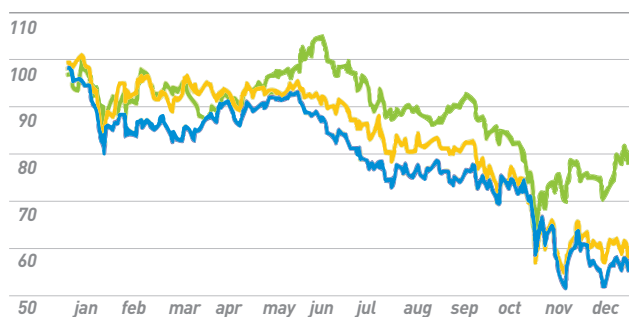
Economic value generated (millions of euros)*	2006	2007	2008
Economic value generated (VEG)	960.9	1.065.6	1.160.7
Net turnover	949.3	1.030.9	1.125.9
Other net income and losses	11.7	40.1	34.8
Economic value distributed to stakeholders (VED)	(600.7)	(705.8)	(792.2)
Shareholders: Dividends	(121.0)	(146.9)	(172.8)
Employees: Personnel costs	(84.9)	(92.6)	(93.9)
Suppliers: Other operating expenses	(215.7)	(243.9)	(283.8)
Other capital providers: Net financial costs	(96.7)	(107.2)	(110.1)
Company:			
Tax on profits	(80.7)	(118.5)	(128.9)
Investments in the community	(1.8)	(2.7)	(2.7)
Retained economic value (VER)	360.2	359.8	368.5
Reserves	79.2	96.1	113.3
Repayments and depreciations	281.0	263.7	255.2

(*) GRI Indicator

Stock market evolution



* Evolution of the key stock market indexes. (2008)

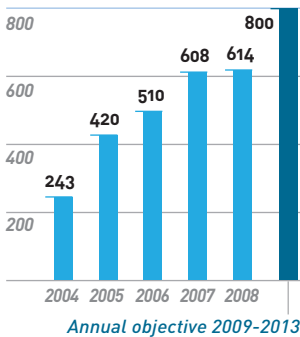


* Comparison of Red Eléctrica, IBEX 35 and the Energy Sector (2008)

■ REE
 ■ Energy sector
 ■ IBEX 35

* Contributing to guarantee the quality and security of electricity supply

Investment in the transmission grid
(millions of euros)



653km
of new lines
and 120 busbars
in substations
commissioned
in 2008

Transmission grid development

In May 2008, the Cabinet approved the “2008-2016 Planning for the gas and electricity sectors” document. This planning contemplates an ambitious construction programme of new facilities of the electricity transmission grid. Its objective is to guarantee a secure, efficient and environmentally sustainable supply.

In order to effectuate this planning, we are carrying out a significant investment effort in the Spanish peninsula transmission grid, which in 2008 reached **614 million de euros**.

The investments have been mainly concentrated in the reinforcement and meshing of the grid, with the aim of guaranteeing the security of supply, and in the construction of new facilities to evacuate the installed renewable and combined cycle energies.

Transmission grid	2006	2007	2008
km of circuit	33,502	33,669	34,322
400 kV	17,004	17,134	17,686
220 kV and less	16,498	16,535	16,636
Number of busbars	2,915	3,042	3,162
400 kV	950	1,004	1,055
220 kV and less	1,965	2,038	2,107
Transformers (MVA)	56,072	58,522	62,122

Service quality

For yet another year, the service quality indicators of the transmission grid have been highly satisfactory which places us at the vanguard regarding quality and security of supply.

Quality indicators (2008)

Grid availability ratio (GAR) %	98.17
Average Interruption time (MIT) min.	1.152
Energy not supplied (ENS) MWh	576

Strengthening of the international connections

French Interconnection

At the beginning of 2008, Red Eléctrica and its French counterpart Réseau de Transport d'Electricité (RTE) signed an agreement to construct a new interconnection, which will allow the strengthening of the security of both electricity systems and will favour the integration of a greater volume of production from renewable energy.

In order to carry out the project, Red Eléctrica and RTE have formed a company INELFE, each with a 50% stake.

Portuguese Interconnection

During 2008, reinforcement works of the Duero and Andalusia axes have continued progressing, as well as the studies of two new interconnections from north-western Spain, with the aim of reaching a commercial exchange capacity of 3,000 MW with our neighbouring country.



The new interconnection with France will double our exchange capacity with Europe to 2,800 MW (6% of the maximum peninsular demand).



* Working towards achieving a sustainable energy model

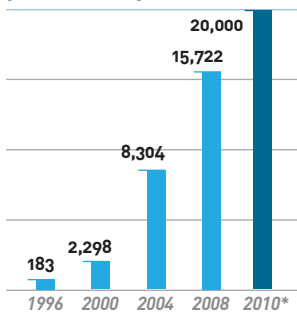
Our firm backing for renewable energies

To achieve a secure and efficient electricity supply, respectful of the environment, we resolutely back the development of renewable energies by means of investment in electricity infrastructures, which facilitate its evacuation and through the implementation of tools and mechanisms that make the maximum integration of renewable energies into the system, under secure conditions, possible.

The creation of CECRE, a world pioneering control centre, whose mission is to guarantee the maximum integration of renewable energy into the electricity system under secure conditions, is a clear example of our firm backing for the development of these energy sources.

With its implementation we are the first country in the world to have all the wind farms of over 10 MW connected to a control centre. In addition, Red Eléctrica has become the World's leading transmission and system operator in the safe integration of renewable energies.

Evolution of installed wind power in Spain (MW)



[*] Forecast of the Renewable Energies Plan.



In 2008,
11%
of the electricity demand was covered by wind power energy



Promoting energy efficiency

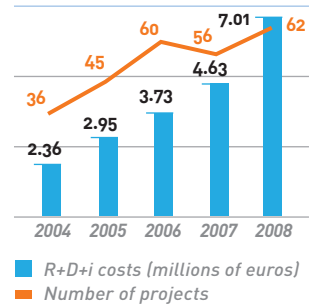
We apply and develop **demand side management** initiatives oriented to improve the efficiency of the electricity system and to encourage the responsible consumption of energy.

Boosting technological development and innovation

The activity in the field of technological innovation is oriented to guaranteeing the efficiency and security of the electricity infrastructures and to contribute to a sustainable development.

Therefore, we participate in diverse projects, principally within the European Union framework investigation programme, related to the **integration of wind power energy** into the electricity system. Additionally, we develop **environmental interest projects** with the objective of achieving a perfect coexistence between our electricity facilities and the social and natural environment.

Investment in technological development and innovation



“ In the last five years the number of R+D+I projects has practically doubled, tripling the costs associated to them. ”

Responsibility towards employees

05

For the Red Eléctrica Group one of its essential values are the employees, the base on which it builds its service to society and its commitment to sustainability which leads the execution of its activities.

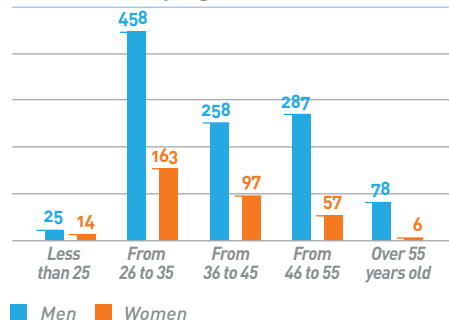
The principal cornerstones of action in this scope are:

- * The creation of stable and quality employment.
- * Social dialogue.
- * Occupational health and safety protection.
- * Professional training and development.
- * Equal opportunities and conciliation.
- * Encouraging corporate voluntary work.

SA8000
certification

8 out of 10
satisfaction
index of the
employees
*(latest social climate
survey 2006)*

Workforce by age and sex (2008)



“

The satisfaction and development of the employees represents the key objective of our human resources policy.

”



* Creating stable and quality employment

126
new posts
net employment
created

98.2%
of employees
on permanent
contracts

We want to be a point of reference in our commitment towards our employees.

A commitment which is supported by:

- **A sustainable growth in employment.** During this fiscal year the total workforce has grown 9.6%, a necessary growth to deal with the important investment forecast for the transmission grid.
- **An employment policy** which ensures transparent and non-discriminatory processes in recruitment and promotion, and with time, providing a stable relationship.
- A constant improvement in **organisational efficiency.** In 2008, the organisational structure and job definitions were reviewed to adapt them to the actual operation of the company.
- A **remuneration model** based on the criteria of equality, non-discrimination, transparency and recognition, with a fixed remuneration within wide salary bands and an outstanding remuneration which acknowledges noteworthy contributions.
- A transparent **internal communication**, oriented to increase to the commitment and the motivation of the people.

Key employment indicators*	2006	2007	2008
Total workforce	1,284	1,317	1,443
Creation of Net employment <i>(n° of jobs)</i>	30	33	126
Average age	40	39	39
Average time in the company <i>(years)</i>	10.9	10.2	10.6
Undesired turnover (%)	1.5	2,6	2,8
Total turnover (%)	4.3	5.4	4.4

() Spain data*

* Social Dialogue

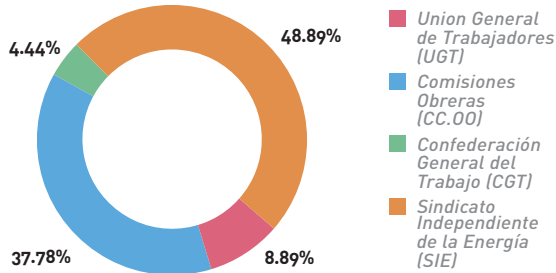
Commissions participated in by social representatives

- Job appraisal commission
- Training Commission
- Occupational Health and Safety Committee
- Social Services Commission
- Parity commission for vigilance and interpretation
- Parity commission for equality.
- Commission for professional classification
- Commission for monitoring the flexibility system.
- Conciliation round table.
- Psychosocial risk observatory.

Working relations between the company and its employees are regulated using the labour regulations currently in force, the IX Limited effectiveness Collective Bargaining Agreement has been adhered to by 100% of those affected and other agreements between the social and business representation in relation to diverse matters.

The company has worker representation in the majority of the work centres, in addition to an Inter-centre committee, empowered by the Collective Bargaining Agreement.

Union representation (31.12.08)



* Commitment to occupational health and safety

Our occupational health and safety management system is oriented to the elimination of health risks of the employees and the development of activities towards achieving a better quality of life.

The occupational health and safety management system, certified in accordance with the OHSAS 18001 international standard, is based on:

- A **policy of occupational health and safety**, based on prevention and vigilance.
- A **in-house prevention service** composed of employees qualified in the different preventive health and safety specialties.
- A **safety and vigilance committee** integrated by social representatives of the work centres.
- A **permanent medical service** for health prevention and vigilance.
- An **evaluation system of labour risks** applied to suppliers and contractors.

2,945
hours
of risk
prevention
training



Key occupational health and safety indicator

	2006	2007	2008
Accident frequency rate	7.19	4.85	4.21
Serious accident rate	5.56	0.23	0.15
Absenteeism rate	3.09	3.04	2.28
Medical examinations	835	802	1,011

Health prevention campaigns

Excess weight

Stress

Back pain

Action plan in the event of a pandemic

* Supporting continuous training and skills development

We promote the continuous development of the knowledge and skills of employees as a guarantee of the sustainability of our corporate project.

This commitment involves the following courses of action:

- The development of **knowledge, skills and competencies**. During 2008, a concerted training effort was made, oriented mainly to the development of management skills and new director management.
- Induction courses to **welcome and integrate** new employees.
- **The management and transfer of knowledge** through the creation of the **Operation and Maintenance schools**, a reference in training operators and technicians in the management of electricity systems. Also, these schools work in conjunction with universities, offering post graduate specialisation courses.
- **A system of performance management** which assesses the performance of 100% of the employees. Additionally, the system considers the professional development of the employee, which allows a programme to be designed in accordance with his/her potential and talent and define succession and career plans.

81
hours
training per
employee

4,473
euros
investment
in training
per employee

Key training indicators

	2006	2007	2008
Training hours	92,450	92,509	110,807
Hours per employee*	73	71	81
Investment per employee (euros)	3,452	4,217	4,473
Investment in training / Personnel costs (%)	5.5	6.4	6.5

(*) based on average workforce

05

* Promoting equality and conciliation

23.4%
women
 on the workforce
(22.1% in 2007)

15%
of the
managers
are women
(14.4 % in 2007)

Red Concilia Project

This project, started in 2008 has the objective of diagnosing the actual situation with respect to the existing policy and practices, as well as evaluating the demands of the employees in conciliation matters, in order to draft a comprehensive plan in this field.

In accordance with our commitment to social responsibility and ethical management, we consider that equal opportunities, diversity and conciliation, the work/life balance, are key factors in business success, as well as of social justice.

Equal opportunities

We promote equality between men and women, not just in the selection and recruitment process, but also in the aspects related to professional development and employee promotions.

The number of women in the workforce has increased 15.8% with respect to 2007, while that of the men has increased by 7.8%.

Conciliation

We apply diverse conciliation measures, which signifies an improvement with respect to the current legislation, in the areas of **labour flexibility, support during maternity and paternity, social benefits and services.**

Amongst the most relevant aspects, noteworthy is the creation of a **conciliation round table with worker** representatives and the figure of a **labour and personal interlocutor** to channel the employees' specific needs in conciliation matters.



Integration of the disabled

Our commitment to the integration of the disabled is oriented towards the search for recruitment formulas and the application of alternative measures. In this way, we have signed an agreement with the Adecco Foundation to contribute to the labour integration of disabled people.

Additionally, we participate in employment fairs for disabled people, we support paralympics sports (ADOP Plan) and we promote integration projects with employees' families (Plan Familia).

05

* Supporting corporate voluntary projects

«EnREDando» is a voluntary work group which was founded in 2005 with the will to drive and promote the collaboration of a greater number of employees in solidarity activities: humanitarian, social and environmental projects.

Key activities organised in 2008

Third Solidarity Sports Week:

300 employees participated
18,135 euros raised
46,750 inhabitants of the Piura region (Peru) benefitted

Third Fair Trade campaign

3,258 euros in sales of various products

Campaigns for Donating Blood

100 employees participated

Environmental Voluntary Day

35 employees participated in the reforestation of degraded areas

Responsibility towards society

In Red Eléctrica we understand that the development of our activities must be approached from a responsible and ethical position regarding the environment and society.

Our responsibility towards society is supported by three basic pillars:

- * Transparent, open and fluid dialogue with stakeholders.
- * Social and environmental integration of our projects in the community.
- * Support of social development, especially in the communities where we carry out our business activities.



Global help desk
www.ree.es/serviciodigame
digame@ree.es,
 Telephone: +34 91 728 62 15
 Fax: +34 91 650 45 42

06

7.7 out of 10
 global
 satisfaction
 level of the
 stakeholders

2.7
 million
 euros in
 community
 investment



“

Constantly trying to improve the relationship frameworks and the dialogue platforms, with the aim reinforcing or facilitating the relations with the stakeholders.

”

* Promoting dialogue with our stakeholders

8 out of 10
satisfaction
level of
minority
shareholders
(data 2008 survey)

Shareholders and investors

The base of the confidence which we seek in the relation with our shareholders, investors and the financial community resides in the constant search for transparent, fluid and close dialogue, beyond merely fulfilling our legal obligations.

Therefore, along with the dialogue channels and traditional participation, we have been progressively incorporating new information technologies. During 2008, we have increased the mechanisms of **electronic voting** in the General Shareholders' Assembly and we have carried out **simultaneous translation in English** of the Shareholders Assembly transmitted via the Internet.

Clients, business agents and regulatory organisations

The efficient development of our activities is directly linked to satisfactory relations with clients, business agents and regulatory organisations.

Therefore, all the activities and communication systems are geared towards identifying possible anomalies, needs, requirements and expectations, which contribute to an improved efficiency of processes and the quality of the services supplied. In this way, every two years through surveys and interviews, the satisfaction and requirements of the business agents is evaluated and improvement measures are put in place.

7.6 out of 10
satisfaction
level of
the clients
(data 2008 survey)

Also we have available a **procedure to deal with formal complaints and enquiries** related to the facilities or the actions we carries out. In order to achieve an efficient management of this procedure, we have set up the **Office of Stakeholder Information and External Multiuser Attention (Dígame)**, a global help desk service for all stakeholders.

7.9 out of 10
satisfaction
level of
the suppliers
(data 2007 survey)

Suppliers

The relationship with suppliers is established with a long term vocation, based on transparency, trust and mutual benefit.

Therefore, we count on a **supplier qualification system** which ensures the transparency and fulfilment of the company standards. For each order, the system evaluates in addition to the productive and economic capacity of the supplier, other criteria such as environmental and those of occupational health and safety for those goods or services which require it.





7.3 out of 10
satisfaction
level of
the media
(data 2008 survey)

7.3 out of 10
average
satisfaction
level of social
environment
stakeholders
(data 2007 survey)

With the objective of **incorporating aspects of social responsibility in the supply chain**, we have included a new clause in the general contracting conditions relative to the fulfilment of corporate responsibility criteria by the supplier.

The media

Responding to the policy of transparency and continual improvement, we have continued strengthening communication with the media. Noteworthy this year is the development of specific communication plans to present the key projects of the Company.

Additionally, we have continued driving the *on line* channels of information, creating new contents and improving the already existing ones.

Social environment

Integrated into this category are educational and research centres, ecological groups, unions, councils, organisations and business institutions, local communities and NGOs, with whom we maintain relations in many forms, whilst maintaining the principle of transparency and mutual collaboration.

Amongst the diverse formulas used, noteworthy are the new **dialogue platforms**, an innovative tool implemented in 2008 by which it is hoped that a greater affinity with the less traditional stakeholders can be achieved.

Corporate website

We strive to develop our corporate website (www.ree.es), with the criteria of transparency and improving the quality of its contents.

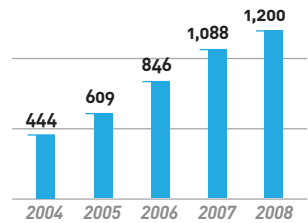
The 2008 fiscal year has been characterised by three significant efforts:

- The global web accessibility certification at AA level.
- Putting into operation the new demand curves and wind power energy production in real time, which offers new contents and functionalities.
- The extension of the educational area contents.



More than one million visits to the corporate website level AA accessibility certification

Annual evolution of the corporate website
(thousands of visits)



Principal channels of communication with interest groups

Shareholders and investors	Clients and business agents	Suppliers	The Media	Social Environment
• Global Helpdesk: Dígame service				
<ul style="list-style-type: none"> • Free telephone: 900 100 182 • Electronic mail: accionistas@ree.es and relacioninversores@ree.es • Corporate website: shareholder section • Publications: annual and quarterly reports • Satisfaction surveys 	<ul style="list-style-type: none"> • Market agents website (SIOS, SIMEL, SCECI) • Public website www.esios.ree.es. • Working groups and benchmarking studies • Satisfaction surveys and identification of requirements 	<ul style="list-style-type: none"> • Corporate website: suppliers section • Alliances and quality agreements • Publication of tenders and adjudications in the BOE and DOUE* • Satisfaction surveys 	<ul style="list-style-type: none"> • Electronic mail: gabinetedeprensa@ree.es • Corporate website: Press room • Press releases and press conferences • Training sessions • Satisfaction surveys 	<ul style="list-style-type: none"> • Dialogue platforms • Corporate website: environmental section and educational area • Diverse publications • Visits to facilities • Satisfaction surveys

(*) For significant amounts.

* Seeking the maximum social and environmental consensus in the implementation of projects

Programmes of social and environmental participation (PAS)

The aim of these programmes is to encourage the participation of all interested parties and to respond to the demands for information generated in the community to ensure that the Company's projects are executed with the maximum possible institutional and social consensus.

Additionally, in order to monitor the correct development of the projects in the community we have set up the “**Institutional Monitoring Groups**” (GIS), whose mission consists of approving the social and environmental actions considered more suitable to reduce the impact of the project.

In addition, we look for **collaboration with environmental interlocutors**, to propose studies and alternatives aimed at making the facilities and the natural environment compatible.

Sustainable development projects

We promote different initiatives oriented towards sustainable development, with the aim of encouraging new activities in those areas of high ecological value which are economically viable, they retain the population in the territory and ensure a sustainable use of its natural resources.



The Sources of Sustainable Employment (YES) in the Sierra de Gata area (Cáceres), whose aim is to analyse the potential of the area to invigorate the socioeconomic structure of the zone, is a clear exponent of this type of action.

* Supporting social development



Investment in the community reached 1% of our net profit.



300
employees
in voluntary
projects

Educational development

In this scope, we maintain collaboration agreements with different entities, principally universities, and we have developed an educational programme to facilitate, to students and secondary education teachers, didactic suggestions and resources to teachers so they may address the contents related to electrical energy and to disseminate the cultural awareness of the efficient use of electricity.

Social and cultural projects

The cooperation in this field is oriented to projects based in areas where we carry out our activities. In this line, we collaborate on diverse social and cultural initiatives destined to improve the lives of the most disadvantaged sectors.

Environmental protection

We carry out environmental awareness campaigns, especially related to efficient and responsible electricity consumption. Additionally, we carry out diverse collaborations with prestigious entities in the field of environmental care and protection.

Corporate Voluntary programme

Through the corporate voluntary group «EnREDando» we manage solidarity, humanitarian and sustainable development projects, which look for the participation of company employees.

Environmental responsibility

Our environmental commitment is supported by the fact that all our activities are carried out in accordance with strict environmental criteria, in compliance with the principles taken on in our environmental policy.

This commitment is made a reality by applying the following criteria to our activities:

- * Care for the natural environment in which our facilities are installed.
- * Promote the conservation of the biodiversity.
- * Prevent the contamination and carry out constant vigilance of our activities.
- * Promote environmental dialogue and awareness.

ISO 14001
Certification
 for all our
 activities
 and facilities



A large, stylized white quotation mark icon, consisting of two thick, curved lines that form the opening of a quote.

100 % of
the projects are
submitted to
an evaluation of an
environmental nature.

A large, stylized white quotation mark icon, consisting of two thick, curved lines that form the closing of a quote.

* Caring for the natural environment where our facilities are installed

“
In 2008,
10 projects
received
environmental
authorisation.
”



The grid planning stage

During 2008, we have collaborated with the Ministry of Industry, Tourism and Commerce in the definition and calculation of indicators that allow the evaluation of the environmental effects derived from the 2008-2016 Infrastructure Plan.

Project stage

All new facility projects are submitted to an evaluation of an nvironmental nature.

This environmental evaluation allows us to establish the best locations and routes for future facilities, and define beforehand the preventive and corrective measures to be applied in the execution of the project.

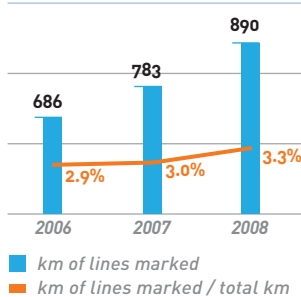
Construction and maintenance stage

In the construction works of new facilities an environmental supervision is carried out to ensure the compliance with environmental requirements and to verify the effectiveness of the corrective and preventive measures implemented.

In the maintenance stage, work criteria is established in accordance with the environmental requirements and a supervision is performed, by means of inspections and audits, to ensure that the activities are carried out in compliance with these requirements.

* Actively working on the conservation of the biodiversity

Marking of facilities with bird flight diverters



Main biodiversity conservation projects

Steppe birds: design and test measures to minimise the impact of lines on these birds and to improve their habitat.

Programme of re-introduction of the black vulture in Catalonia.

Bonelli's Eagle: study its interactions with the power lines.

Lesser Kestrel: captive breeding of this species and the introduction of specimens in various areas of the Community of Madrid in order to improve its population.

Oceanic Posidonia: study of the viability of the temporary removal of small portions of this species and its subsequent replanting in its original site (Spanish Peninsula-Balearic Islands Interconnection) after a period of time.

Protection of birdlife

- Interruption of construction works of new facilities during periods of nesting or spawning of sensitive species.
- Marking of electricity lines with bird flight diverter devices to prevent the collision of birds.
- Monitoring of nest building by birds of prey and wading birds on electricity towers.

Protection of vegetation

- Hanging of cables with helicopter and hoisting of towers with boom crane, in protected spaces.
- Over-elevation of line towers to protect woodlands.
- Restoring areas with indigenous species affected by facility construction activities.
- Interruption of works during forest fire risk season.
- Landscaping work to reduce visual impact of facilities in the natural environment.

Additionally, we collaborate with entities specialised in the definition and execution of research projects and studies focused on the conservation of the biodiversity (CSIC, SEO, Doñana 21 Foundation, ...).

* Preventing contamination and carrying out ongoing environmental vigilance

31,112
GWh
of wind power
energy integrated
in the system
during 2008

Agreement
with
Environmental
Ministry for
reducing SF6
emissions

Fight against climate change

The fight against climate change represents an important challenge for Red Eléctrica.

Consequently, we have undertaken the following commitments:

- Build a network of electricity infrastructures that is compatible with the environment and that allows the development of renewable energies.
- Contribute to sustainable energy model, integrating the maximum renewable energy into the system and driving initiatives for demand side management therefore promoting efficient electricity consumption.
- Reduce as much as possible the emissions derived from our activities (use of SF6 – sulphur hexafluoride – and fuel consumption in vehicles).
- Implement energy saving and efficiency measures.

Waste Management

We manage our waste in compliance with legal requirements and contamination prevention criteria.

The main lines of action applied to achieve optimum waste management are focused on:

- Striving to achieve maximum segregation of waste.
- Working closely with our suppliers to determine the best waste management options.
- Promoting good practices through training and awareness programmes.

Minimising the use of natural resources

The following initiatives have been implemented to reduce the consumption of natural resources and to increase energy efficiency:

- Identification and measuring of direct and indirect consumption.
- Progressive reduction in the use of paper through the use of electronic formats.
- Holding meetings via video-conference.
- Promoting sustainable mobility amongst employees.
- Employee awareness campaigns focused on efficient use of natural resources.
- Development of a project for the integration of photovoltaic solar energy in the Corporate Headquarters.
- Installation of water tanks in the new substations.

Protection against accidents

Amongst the potential environmental accidents which may occur when carrying out our activities, the most significant are fires due to line failure and oil spills. Thanks to the application of preventive and corrective measures, these accidents occur on very few occasions and their consequences are generally not significant.

Amongst the different measures that are put in place, noteworthy in 2008 were the special forest fire prevention days, held in 13 cities and designed for forestry agents, Nature



21.8%
reduction
in paper
consumption
per employee

50,000
litres
of savings in fuel
*(estimate based
on video-conferences
and company bus)*

Protection Service teams (SEPRONA),
Environmental Council technicians and firemen.

Monitoring of electric and magnetic fields

We control the values which are generated in our facilities, whose indexes are below to those recommended by the European Union.

Additionally, we also actively support research in this matter and stay on top of all the scientific advances that arise.

Actions against noise contamination

During 2008, work has been carried out on the standardisation of substation design, and in which, the requirements for the installation of acoustic screens next to transformer banks have been defined, should these be necessary.



* Promoting environmental dialogue and awareness

Conscious of the social interest of our activity, we inform and dialogue in an open and fluid manner with all environmental interlocutor.

Internal communication

- Ongoing employee environmental training and awareness programmes.
- Existence of a «Green Suggestion Box» for channelling proposals regarding sustainable practices.

External communication

- Participation in working groups, congresses and debate forums, and collaboration with prestigious companies who work in the field of protection and environmental awareness.
- Environmental qualification of suppliers.
- Specific environmental section on the website (www.ree.es).
- Public enquiries and complaints made through the new «Dígame» global help desk service or via electronic mail, mambiente@ree.es.

2,277
hours
of environmental
training
to employees

Main environmental indicators	2006	2007	2008
Km of line in SAC / total km of line (%)	12.4	14.3	13.5
Km of line in SPAs / total km of line (%)	9.3	11.6	10.8
Km of lines marked with bird flight diverters	668	783	890
Direct and indirect emissions (t CO ₂ equivalent)	63,565	84,127	91,245
Paper consumed per employee (kg)	63.0	48.0	37.5
Kg of waste generated (non hazardous)	1,169,371	2,195,197	3,286,559
Kg of waste generated (hazardous)	248,643	765,846	605,167
Oil and fuel spillages (n° of accidents)	20	16	5
Environmental Investment / total investment (%)	1.22	0.35	0.82
Environmental costs / total operating costs (%)	2.03	2.11	2.77

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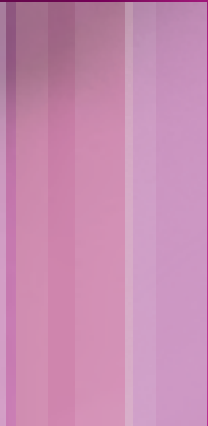


Mixed sources
Group of products coming from well-managed
forests and other controlled sources.
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FSC (Forest Stewardship Council)
standards which ensure an efficient
use and conservation of forests.



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



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