

**RED**  
**ELÉCTRICA**  
CORPORACIÓN

# Financial results

## January - December 2008

The financial and economic figures for 2008 confirm the fulfilment of the Red Eléctrica Group's targets.

Profit for 2008 totalled €286.1 million, 17.7% up on 2007.

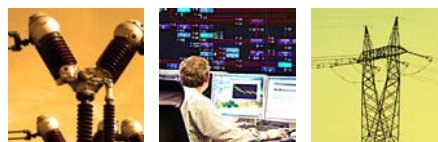
Investments in the domestic transport network totalled €13.7 million, above the figure for 2007. The Group's total investments amounted to €35.1 million.

A dividend of 1.28 Euros per share for 2008 will be proposed to the Annual General Meeting, representing an increase of 17.7% on the 2007 dividend and a Group pay-out of 60.5%.

February, 27th of 2008

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## 1. Red Eléctrica: Financial Highlights

### Income Statement

(in thousands of euros)	January - December			October - December		
	2008	2007	Δ %	2008	2007	Δ %
Net Sales	1,125,884	1,030,910	9.2	288,748	269,465	7.2
Gross operating profit (EBITDA)	771,637	722,501	6.8	194,018	176,431	10.0
Net operating profit (EBIT)	524,555	468,126	12.1	129,608	100,018	29.6
Profit before taxes	415,039	361,598	14.8	102,533	75,352	36.1
Profit attributed to the parent company	286,119	243,049	17.7	69,937	51,741	35.2

### Balance Sheet

(in thousands of euros)	December 2008	December 2007	Δ %
Total non-current assets	5,363,682	4,959,363	8.2
Equity	1,336,557	1,202,828	11.1
Net financial debt*	2,928,542	2,697,044	8.6

(\*) Includes exchange rate derivatives.

### Other financial figures

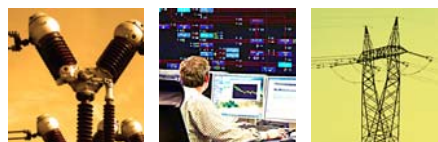
(in thousands of euros)	January - December			October - December		
	2008	2007	Δ %	2008	2007	Δ %
Cash flow from operations	545,856	522,061	4.6	119,462	108,942	9.7
Capital expenditures(*)	635,086	727,765	(12.7)	245,939	317,588	(22.6)
Dividends paid	146,938	120,991	21.4	-	-	-

(\*) Investment in 2007 includes the acquisition of 5% stake in REN.

### Explanatory note to the financial statements:

*The financial statements for 2008 have been drawn up in accordance with the formats laid down in Circular Letter 1/2008 of the National Securities Market Commission (CNMV). These formats include some changes with regard to those used previously. The changes made, among others, in the income statement include in Net operating profit, the items "Capital grants taken to income" (previously in "Other earnings") and "Net asset impairment/disposal result."*

*For comparative purposes, the relevant changes have been made to the figures reported in 2007.*



## 2. Evolution of results

**Net Sales** for 2008 totalled €1,125.9 million, having risen by 9.2% due basically to the growth in the productive asset base when additional facilities were put into service in 2007.

**EBITDA** amounted to €771.6 million, having increased by 6.8% with respect to 2007. Setting aside the effect of non-recurring provisions for the year, referred to below, the increase in recurring EBITDA would total 7.8%. This growth in EBITDA is explained by the increase in turnover and by the following factors:

- **Supply costs and other operating expenses** rose by 16.2% on the previous year due mainly to an increase in transport network maintenance, renewal and improvement costs. A provision of €11 million was also recognised for the penalty imposed by the Catalonia Regional Government as a result of the penalty proceeding instigated due to the interruption of the electricity supply in Barcelona in July of the previous year. Setting aside this non-recurring cost, supply and other operating costs would have risen by 11.7%.
- **Staff costs** increased by 1.4% on 2007. In the final quarter, staff costs fell by 13.4% on the same period of 2007 due to the moderation of the inflation rate and to the adjustment of excess provisions.

The **average headcount** of the Red Eléctrica Group at 31 December 2008 was 1,521 persons, having grown by 4.5% with respect to 2007. At the year end, the **final headcount** stood at 1,594 persons, which is 8.6% higher than in December 2007.

### Operating expenses

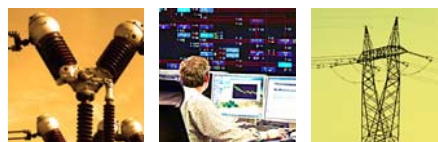
(in thousands of euros)	January - December			October - December		
	2008	2007	Δ %	2008	2007	Δ %
Supply cost and other operating expenses	286,491	246,570	16.2	98,578	89,868	9.7
Staff costs	93,927	92,655	1.4	20,398	23,566	(13.4)
<b>Operating expenses</b>	<b>380,418</b>	<b>339,225</b>	<b>12.1</b>	<b>118,976</b>	<b>113,434</b>	<b>4.9</b>

Amortisation charges for the year increased by 1.5% due basically to the transport assets that became operational.

As a result, **EBIT** rose by 12.1% on 2007. The quarterly increase of 29.6% is explained by the fact that asset impairment of €12.3 million was recognised in 2007.

**Financial results** totalled €-110.1 million as compared with €-107.2 million in 2007. Financial income amounted to €5.4 million, including the dividend of €4.4 million paid out by REN in the second half. Financial expense totalled €117.2 million as compared with €111.4 million in 2007 due to the rise in average debt and, to a lesser extent, to rate increases.

Finally, **Results for the year** rose by 17.7% on 2007. The effective tax rate was 31.1% as compared with 32.8% in 2007. The 2.5% reduction in the tax rate in Spain in 2008 was partially offset by the non-deductibility of certain costs.



### 3. Cash flow and balance sheet

#### Cash flow

(in thousands of euros)	January - December			October - December		
	2008	2007	Δ %	2008	2007	Δ %
Results before taxes	415,039	361,598	14.8	102,533	75,352	36.1
Income taxes paid	(102,352)	(98,102)	4.3	(41,839)	(42,373)	(1.3)
Amortization & depreciation of non-current assets	255,221	251,463	1.5	66,241	67,302	(1.6)
Other adjustments	(22,052)	7,102	-	(7,473)	8,661	-
<b>Cash flow from operations after taxes</b>	<b>545,856</b>	<b>522,061</b>	<b>4.6</b>	<b>119,462</b>	<b>108,942</b>	<b>9.7</b>
Changes in working capital and other long-term assets and liabilities	4,517	274,966	-	231,136	286,968	(19.5)
Capital expenditures	(635,086)	(727,765)	(12.7)	(245,939)	(317,588)	(22.6)
<b>Free cash flow</b>	<b>(84,713)</b>	<b>69,262</b>	<b>-</b>	<b>104,659</b>	<b>78,322</b>	<b>33.6</b>
Dividends paid	(146,938)	(120,991)	21.4	-	-	-
<b>Change in net financial debt</b>	<b>231,651</b>	<b>51,729</b>	<b>-</b>	<b>(104,659)</b>	<b>(78,322)</b>	<b>(33.6)</b>

(\*) The difference with the variation in the Net financial debt of page 2 relates to items entailing no movement in cash.

**Cash flow after from operations after taxes** amounted to €545.9 million, representing a 4.6% increase on 2007. This is due partly to the surrender of the right relating to the supply of electricity to personnel, included in other adjustments. Setting aside this effect, operating cash flow after taxes would have risen by 8.0%.

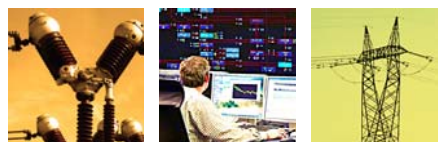
**Capital expenditures** made by the Group during 2008 totalled €635.1 million, which is 1% up on 2007 investments, excluding the payment made to acquire 5% of REN in the first half of the previous year. Investments during the year relate mainly to the development of the domestic transport network, in the amount of €613.7 million.

**Dividends paid** at 31 December 2008 totalled €146.9 million, representing a rise of 21.4% on the 2007 pay-out.

**Net financial debt** at 31 December 2008 stood at €2,928.5 million, having risen by €231.5 million on 31 December 2007.

#### Net financial debt

(in thousands of euros)	National currency	Foreign currency	Total
Cash and cash equivalents	(7,542)	(8,323)	(15,865)
Long-term debenture loans	1,258,555	-	1,258,555
Long-term credits	1,554,547	52,332	1,606,879
Promissory notes and short-term credits	72,553	6,420	78,973
<b>Total net financial debt</b>	<b>2,878,113</b>	<b>50,429</b>	<b>2,928,542</b>



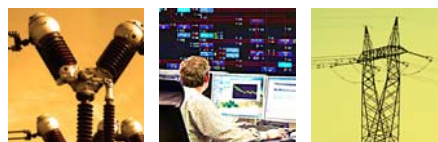
As regards interest rates, 72% of the Group's net borrowings accrue interest at fixed rates and 28% at variable rates.

In 2008 the average cost of the Group's borrowings was 4.39% and the average balance was €2,911.1 million, as compared with 4.22% and €2,756.4 million, respectively, in 2007.

At 31 December 2008, the Red Eléctrica Group's equity amounted to €1,336.6 million, having increased by 11.1% on year-end 2007 due to profits for the year, which were partially offset by the supplementary dividend pay-out of €94.7 million in 2007 and the 2008 interim dividend of €60.4 million.

#### 4. Relevant events during the period

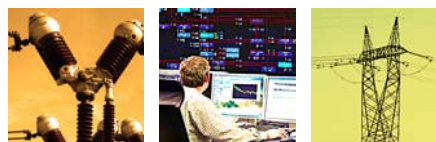
- **Interim dividend:** On 19 December 2008, an interim dividend payable out of 2008 profits was announced in the amount of 0.4487 euros per share, representing an increase of 16% on the previous year. This dividend was paid on 2 January 2009.
- **Incorporation of INELFE:** Red Eléctrica de España, S.A.U. and RTE EDF Transport S.A. set up the company Interconexión Eléctrica Francia-España, S.A.S. (INELFE). Each of the shareholders acquired a 50% interest in the company, which is domiciled in Paris and is engaged in the study and execution of the future extension of the Spain-France interconnection capacity. This is a further step in the fulfilment of the objective of increasing the Spanish electricity system's interconnection capacity.
- **Award for Sustainability Reporting by Spanish Companies:** Red Eléctrica was the winner of the Seventh Award for Sustainability Reporting by Spanish Companies granted by the Spanish Institute of Chartered Accountants (ICJCE) and the Spanish Association of Accounting and Business Administration (AECA). According to the jury, Red Eléctrica de España's report stands out above the rest of the corporate social responsibility reports submitted because it clearly reflects the main impacts of sustainability on the organisation, in a sector that has a high impact on the environment.
- **GS Sustain:** In December 2008, Red Eléctrica became a member of GS Sustain, as one of the world's seven leading utilities companies that are relevant in terms of return on equity, industry positioning, and quality of management in relation to environmental and social responsibility and corporate governance.



## Red Eléctrica Group

## Consolidated Income Statement

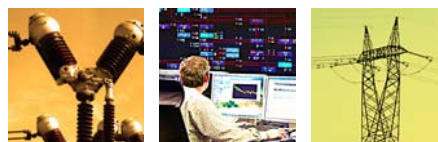
(in thousands of euros)	31/12/2008	31/12/2007	2008/2007
Net Sales	1,125,884	1,030,910	9.2%
Self constructed assets	5,486	5,355	2.4%
Supply costs	(62,130)	(61,875)	0.4%
Other operating income	20,685	25,461	(18.8%)
Staff costs	(93,927)	(92,655)	1.4%
Other operating expenses	(224,361)	(184,695)	21.5%
<b>Gross operating profit</b>	<b>771,637</b>	<b>722,501</b>	<b>6.8%</b>
Amortisation/depreciation of non-current assets	(255,221)	(251,463)	1.5%
Charges from subsidies on non-financial fixed assets	8,146	7,351	10.8%
Impairments and the effect of disposal of fixed assets	(7)	(10,263)	(99.9%)
<b>Net operating profit</b>	<b>524,555</b>	<b>468,126</b>	<b>12.1%</b>
Financial income	5,375	3,169	-
Financial expenses	(117,213)	(111,383)	5.2%
Net profit/(loss) on changes in the fair value of financial instruments	-	(8)	-
Exchange differences	1,657	1,030	-
Net asset impairment profit/(loss)	98	-	-
<b>Financial results</b>	<b>(110,083)</b>	<b>(107,192)</b>	<b>2.7%</b>
Share of profit of associates accounted for using the equity method	567	664	(14.6%)
<b>Results before taxes</b>	<b>415,039</b>	<b>361,598</b>	<b>14.8%</b>
Income tax expense	(128,914)	(118,542)	8.7%
<b>Consolidated results for the period</b>	<b>286,125</b>	<b>243,056</b>	<b>17.7%</b>
<b>A) Consolidated results attributable to the dominant company</b>	<b>286,119</b>	<b>243,049</b>	<b>17.7%</b>
<b>B) Consolidated results attributable to the minority interests</b>	<b>6</b>	<b>7</b>	<b>-</b>



## Red Eléctrica Group Consolidated Balance Sheet

Assets (in thousands of euros)	31/12/2008	31/12/2007
Intangible assets	2,873	3,993
Tangible fixed assets	5,174,033	4,788,536
Property, plant and equipment	2,456	2,597
Investments accounted by the equity method	4,941	5,450
Non-current financial assets	128,370	114,918
Deferred tax assets	51,009	43,028
Other non-current assets	-	841
<b>Total non-current assets</b>	<b>5,363,682</b>	<b>4,959,363</b>
Non-current assets available for sale	601	640
Inventories	43,780	32,227
Trade and other receivables	389,154	308,913
Current financial assets	173	2,276
Other current assets	-	268
Cash and cash equivalent	15,865	11,337
<b>Total current assets</b>	<b>449,573</b>	<b>355,661</b>
<b>Total assets</b>	<b>5,813,255</b>	<b>5,315,024</b>

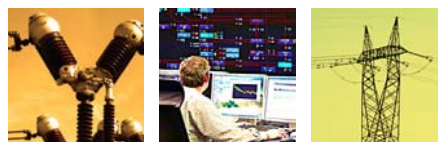
Liabilities (in thousands of euros)	31/12/2008	31/12/2007
Equity	1,298,396	1,173,235
Share capital	270,540	270,540
Other reserves	824,325	724,185
Treasury shares (-)	(22,185)	(12,331)
Results attributable to the dominant company	286,119	243,049
Advances against dividends	(60,403)	(52,208)
Valuation adjustments	38,100	29,538
Minority interests	61	55
<b>Equity</b>	<b>1,336,557</b>	<b>1,202,828</b>
Subsidies and other non-current advance collections	280,776	261,953
Provisions	45,830	62,537
Other financial liabilities	2,826,932	2,620,223
Deferred tax liabilities	163,284	154,375
Other non-current liabilities	90,188	94,911
<b>Total non-current liabilities</b>	<b>3,407,010</b>	<b>3,193,999</b>
Provisions	2,430	1,571
Current financial liabilities	775,413	687,950
Trade and other payables	291,845	228,676
<b>Current liabilities</b>	<b>1,069,688</b>	<b>918,197</b>
<b>Total liabilities</b>	<b>5,813,255</b>	<b>5,315,024</b>



## Consolidated Cash Flow Statement

(in thousands of euros)	31/12/2008	31/12/2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>402,322</b>	<b>612,469</b>
Profits before tax	415,039	361,598
Adjustment to the results-	367,588	371,448
Amortisation & depretiation of non-current assets	255,221	251,463
Other adjustments to the results (net)	112,367	119,985
Changes in current capital	(143,534)	90,408
Other cash flows from operations	(236,771)	(210,985)
Interest payments	(117,095)	(111,370)
Collection of dividends	5,220	-
Collection of interests	1,023	1,784
Collections/(payments) of income taxes	(102,352)	(98,102)
Other collections/(payments) from operations	(23,567)	(3,297)
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	<b>(472,699)</b>	<b>(590,912)</b>
Payments for investments	(496,390)	(632,222)
Tangible, intangible fixed assets and property investments	(496,095)	(529,531)
Other financial assets	(295)	(102,691)
Collections from divestments	444	2,049
Tangible, intangible fixed assets and property investments	411	2,049
Other financial assets	33	-
Other collections/(payments) from investment activities	23,247	39,261
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>74,529</b>	<b>(23,154)</b>
Changes in equity	(10,184)	46,108
Acquisition	(184,572)	(162,044)
Disposal	174,388	208,152
Collections/(payments) from financial liability instruments	231,651	51,729
Issue and disposal	1,545,807	738,677
Return and amortisation	(1,314,156)	(686,948)
Dividends paid	(146,938)	(120,991)
<b>Effect of foreing exchange fluctuation on cash and cash equivalents</b>	<b>376</b>	<b>(440)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENT DURING THE PERIOD</b>	<b>4,528</b>	<b>(2,037)</b>
<b>Cash and equivalent at the beginning of the period</b>	<b>11,337</b>	<b>13,374</b>
<b>Cash and equivalent at the close of the period</b>	<b>15,865</b>	<b>11,337</b>





## Financial calendar Upcoming events

### Estimated dates

1Q2009 results

April 2009

For further information:

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Red Eléctrica has the following credit ratings: AA- from S&P and A2 from Moody's.



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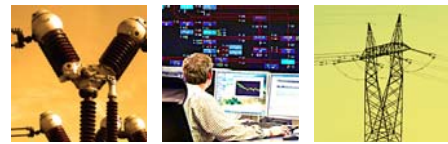
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## ANNEX I Social Responsibility -2008 Achievements



Red Eléctrica has renewed for the third consecutive year, its inclusion in the Dow Jones Sustainability Indexes (DJSI), due to its social responsibility practices. In 2008 it scored 71 points out of 100, close to the best in the sector worldwide with a score of 83. However, REE has been expelled from the European DJSI STOXX Indexes after three consecutive years.



Red Eléctrica was selected for the results obtained in the area of sustainable development in the category SAM Silver in Sustainability Yearbook 2008. This distinction arises from achieving an outstanding result in the electricity sector as being one of the twelve top companies in the world.



Red Eléctrica was selected to participate in the FTSE4Good Corporate Social Responsibility index, which includes those companies worldwide with the greatest commitment in the corporate responsibility area.



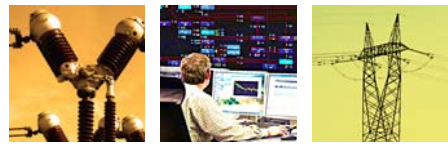
Red Eléctrica was included in the new FTSE4Good IBEX index, the first corporate responsibility index in Spain, launched on 9 April 2008.



According to the analysis of the OEKOM, the German agency specialized in evaluations related to social responsibility; REE received the qualification as PRIME (B) in recognition of excellence in corporate sustainability and responsibility, what places REE as the second most responsible company within the public supply sector.



REE renewed certification under the SA8000 norm for corporate responsibility, which demonstrates that REE has developed an efficient and active corporate social responsibility management system.



REE has been included for the third consecutive year in the ranking of the 100 best companies with the highest reputation (merco EMPRESAS). REE holds the 61<sup>st</sup> position. REE for the second consecutive year improved its points scored position in merco PERSONAS and holds position number 26.



Red Eléctrica was the second best company most valued in the study "Culture, Policies and Practice of Responsibility of the companies in the IBEX 35".



For the third consecutive year REE obtained the best score among the companies that are listed in the IBEX 35 index in the annual ranking for "Corporate Social Responsibility in the annual reports of the IBEX 35 companies".



REE is part of the initiative "Caring for Climate: the business leadership platform", included within the World Pact, the objective of which is to capture civilian support in the leadership in the battle against climate change.



REE received the European Environmental Prize 2007-08, Spanish section, granted by the Fundación Entorno-BCSD España, for its Project of the Control Centre for Special Regimes (CECRE), in the category "Product for Sustainable Development".