

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

Amsterdam, The Netherlands

Annual report for the year 2006

1059205



Address:

Amsteldijk 166, 6th floor
1079 LH Amsterdam

**Chamber of Commerce
File number**

**Amsterdam
34.19.33.52**

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

Contents

	Page
Management report	
1. Management report	2
Financial statements	
2. Balance sheet as at 31 December 2006	5
3. Profit and loss account for the year 2006	6
4. General notes	7
5. Notes to the balance sheet as at 31 December 2006	9
6. Notes to the profit and loss account for the year 2006	16
Other information	
7. Other information	18
8. Auditors report	20

Management report

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

1. Management report

The Managing Directors of Red Eléctrica de España Finance B.V. (the "Company") herewith submit their annual report and the financial statements of the Company for the year ended 31 December 2006.

General

The Company is a private company with limited liability, a wholly-owned subsidiary of Red Eléctrica de España S.A., Madrid, Spain, incorporated under the laws of the Netherlands on 23 July 2003, having its corporate seat at Amsterdam, with offices at Amsteldijk 166, 6th floor, Amsterdam.

Summary of activities

The principal business activity of the Company is to finance companies within the Red Eléctrica de España S.A. group.

Future outlook

The Company will continue its financing activities during the year 2007. The Managing Directors expect virtually no change in the nature and size of business of the Company.

Income and result

The interest income amounts to EUR 1,246,215 (2005: 1,005,757) and the net result for the year amounts to EUR 795,998 (2005: EUR 653,390).

Financial Risks

By careful management of the financial risk, the Company has achieved a balance position where interest expense from its borrowings are matched with interest income from loans to the group companies. That is, the financial risk of the Company mirrors that of the parent company and group as a whole and therefore the future return can be estimated with high degree of certainty. From the perspective of currency risk, the US dollar exposure on the Company's borrowings is matched with the US dollar exposure on the loans to group companies.

The company runs only limited cashflow risk. The interest payment dates and redemption dates of the Company's borrowings and its loans to group companies are matched.

The management is of the opinion that the Company is capable to fulfill its obligations on short term as well as for the long term.

Subsequent events

To date no subsequent events have been identified.

Amsterdam, 5 February 2007

Ms. T. Quirós Alvarez (Director A)
Title: Managing Director

Mr. M.F. Elias (Director B)
Title: Managing Director

Mr. R. García de Diego Barber (Director A)
Title: Managing Director

Ms. M.F. Stijger (Director B)
Title: Managing Director

Financial statements

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

2. BALANCE SHEET AS AT 31 DECEMBER 2006
(before appropriation of result)

	Notes	2006		2005	
		EUR	EUR	EUR	EUR
ASSETS					
Fixed assets	5.1				
Financial fixed assets		1,261,168,452		1,312,058,381	
			1,261,168,452		1,312,058,381
Current assets	5.2				
Short-term loans		2,610,850		1,029,523	
Current account		1,000		2,000	
Receivable corporate income tax		-		7,814	
Receivables from group companies		17,494,684		18,581,768	
Other receivables		11,837		31,159	
Cash at bank		2,610,446		1,733,471	
			22,728,817		21,385,735
Total assets			<u>1,283,897,269</u>		<u>1,333,444,116</u>
SHAREHOLDER'S EQUITY AND LIABILITIES					
Shareholder's equity	5.3				
Paid up share capital		18,000		18,000	
Share premium		1,982,000		1,982,000	
Other reserves		123,607		123,607	
Undistributed result		795,998		653,390	
			2,919,605		2,776,997
Long-term liabilities	5.4				
Notes		1,229,650,721		1,273,836,570	
Loans from Group Companies		26,812,885		32,848,233	
Deferred income		4,731,695		5,404,424	
			1,261,195,301		1,312,089,227
Short-term liabilities	5.5				
Short-term loan		2,610,850		1,029,523	
Taxation		112,689		-	
Payables to group companies		17,033,110		17,455,723	
Other payables		25,714		92,646	
			19,782,363		18,577,892
Total shareholder's equity and liabilities			<u>1,283,897,269</u>		<u>1,333,444,116</u>

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

3. PROFIT AND LOSS ACCOUNT FOR THE YEAR 2006

		2006		2005	
	Notes	EUR	EUR	EUR	EUR
Financial income and expenses					
Interest income and similar income	6.1	64,725,472		48,366,976	
Interest expense and similar expenses	6.2	63,479,257		47,361,219	
		<hr/>	1,246,215	<hr/>	1,005,757
General and administrative expenses	6.3		(70,352)		(101,388)
			<hr/>		<hr/>
Result on ordinary activities before tax			1,175,863		904,369
Corporate income tax	6.4		379,865		250,979
Result after taxation			<hr/> <hr/>		<hr/> <hr/>
			795,998		653,390

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

4. General notes

4.1 General

The Company is a private company with limited liability, a wholly-owned subsidiary of Red Eléctrica de España, S.A., Madrid, Spain, incorporated under the laws of the Netherlands on 23 July 2003, having its corporate seat at Amsterdam, with offices at Amsteldijk 166, 6th floor, Amsterdam.

The principal business activity of the Company is to act as a finance company.

The financial statements have been prepared in conformity with generally accepted accounting principles in the Netherlands.

Valuation

All assets and liabilities are stated at face value, unless stated otherwise.

Deferred income and expenses

The deferred income and expenses related to the loans to Red Eléctrica de España S.A. and to the Senior Guaranteed Notes consist of the difference between the face value and the amount received respectively paid on the loan and Notes.

The deferred income and expenses related to tranche A, B, C and D of the loans to Red Eléctrica de España S.A. and the USPP Notes consist of the capitalized costs related to these loans and notes and are stated at face value, unless stated otherwise. For the amortization periods we refer to the notes to the balance sheet. The deferred income and expenses are amortized on a straight-line basis over the term of the related loan.

Income and expenses

Income and expenses are attributed to the period to which they relate.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are converted into euros at the balance sheet date closing rate. Transactions made during the year under review are accounted for at the rate prevailing at the transaction date. The exchange differences are reflected in the financial result for the period. The following exchange rate prevailing at balance sheet date is used:

EUR 1 = USD 1.317 (2005: EUR 1 = USD 1.1797)

4.2 Corporate income tax

Tax is calculated on net income at the prevailing rate during the financial year. The taxation charge the Company is liable to in the Netherlands complies with general requirements for financing companies in the Netherlands regarding a minimum net spread on the basis of a special ruling with the tax authorities.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

4. General notes (continued)

4.3 Financial Instruments

Financial risk factors

The Company's activities expose it, in general, to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company does not use any derivative financial instruments to cover certain risk exposures.

Market risk

a) Foreign exchange risk

The Company's currency risk mainly relates to positions in US dollars. All external US dollar loans have been onlent as US dollar loans to group companies. Therefore the sole currency risk the Company has is the US dollar risk on the interest spread between borrowings and loans receivable and the currency risk on its US dollar bank account.

b) Price risk

The Company is not exposed to price risk.

Credit risk

The Company has significant concentrations of credit risk. All of the proceeds of borrowings are lent to group companies, which is the main object of the Company.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash in order to ensure payment of short-term liabilities.

Cash flow and fair value interest rate risk

The Company's income and operating cash flows are largely independent on changes in market interest rates. The interest rates of the loans to group companies are fixed at the date of issuance of the loans. One loan to group companies is based on Libor plus a fixed spread. This loan exposes the company to cash flow interest rate risk, but only on the interest spread since the Company has borrowed this funds at Libor plus a fixed spread also. Borrowings and loans receivable that are issued at fixed rates expose the Company to fair value interest rate risk in case of advanced prepayment of these loans.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

5. Notes to the balance sheet as at 31 December 2006

5.1. Fixed assets

5.1.1 Financial fixed assets

	2006	2005
5.1.1.1 Loans to Group Companies	EUR	EUR
Red Eléctrica de España, S.A.	800,000,000	800,000,000
Red Eléctrica de España, S.A. II	50,000,000	50,000,000
Red Eléctrica Internacional, S.A. Tranche A (USD 11,646,327)	8,843,073	9,872,279
Red Eléctrica Internacional, S.A. Tranche B (USD 10,809,100)	8,207,365	10,260,857
Red Eléctrica Internacional, S.A. Tranche C (USD 12,857,143)	9,762,447	12,715,097
Red Eléctrica de España, S.A., Tranche A (USD 70,000,000)	53,151,101	59,337,120
Red Eléctrica de España, S.A., Tranche B (USD 180,000,000)	136,674,260	152,581,165
Red Eléctrica de España, S.A., Tranche C (USD 150,000,000)	113,895,216	127,150,971
Red Eléctrica de España, S.A., Tranche D (USD 100,000,000)	75,930,144	84,767,314
Total loans	<u>1,256,463,606</u>	<u>1,306,684,803</u>

Red Eléctrica de España, S.A.

This represents a loan of EUR 800,000,000 to Red Eléctrica de España, S.A. granted on 18 September 2003, bearing an interest rate of 4.85% per annum. The loan will be repayable on 18 September 2013.

Red Eléctrica de España, S.A. II

On 22 March 2004 an additional loan of EUR 50,000,000 was granted to Red Eléctrica de España, S.A., bearing an interest rate of 3.95% per annum. The loan will be repayable on 22 March 2011.

Both above-mentioned loans are pursuant to its EUR 1,500,000,000 EURO Medium Term Note Programme ("EMTN") guaranteed by Red Eléctrica de España, S.A.

Red Eléctrica Internacional, S.A. Tranche A

On 20 July 2004 the Company granted a loan to Red Eléctrica Internacional, S.A. of USD 11,646,327, bearing an interest rate until 15 April 2005 of 5.58% per annum. From 15 April 2005 an interest rate of Libor + 3.1% per annum is applicable. The final maturity date is 20 July 2012 with the possibility to extend this date, but not exceeding 20 July 2015.

Red Eléctrica Internacional, S.A. Tranche B

On 20 July 2004 the Company granted a loan to Red Eléctrica Internacional, S.A., of USD 15,000,000, bearing an interest rate of 6.2% per annum. The final maturity date is 15 June 2014. On 15 June and 15 December of each year the borrower shall repay the principal amount outstanding on each repayment date in the amounts stated in the agreement. As per 31 December 2006 the loan is divided into a long-term loan of USD 10,809,100 (2005: USD 12,104,733) and a short-term loan of USD 1,295,633 (2005: USD 1,214,527). Part of the loan in the amount of USD 2,911,613 has a duration of more than 5 years.

Red Eléctrica Internacional, S.A. Tranche C

On 20 July 2004 the Company granted a loan to Red Eléctrica Internacional, S.A. of USD 15,000,000, bearing an interest rate of 8.25% per annum. The final maturity date is 15 December 2013. The borrower shall repay the principal amount outstanding on 15 December each year in the amounts stated in the agreement. The first payment will take place on 15 December 2007. As per 31 December 2006 the loan is divided into a long-term loan of USD 12,857,143 and a short-term loan of USD 2,142,857. Part of the loan in the amount of USD 2,142,858 has a duration of more than 5 years.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

5. Notes to the balance sheet as at 31 December 2006

5.1.1 Financial fixed assets (continued)

~~Red Eléctrica de España, S.A., Tranche A, B, C and D~~

On 19 October 2005 the Company granted a loan of USD 500,000,000 to Red Eléctrica de España, S.A. divided into four tranches with the following conditions:

	amount in USD	interest	maturity date
Tranche A	70,000,000	4.91%	19 October 2015
Tranche B	180,000,000	5.16%	19 October 2020
Tranche C	150,000,000	5.40%	19 October 2025
Tranche D	100,000,000	5.50%	19 October 2035

The loan of USD 500,000,000 is guaranteed by Red Eléctrica de España, S.A.

	2006	2005
	EUR	EUR
5.1.1.2 Deferred expenses		
<i>EMTN Senior Guaranteed Notes 4.75%</i>		
Nominal value of senior guaranteed notes issued	800,000,000	800,000,000
Net amount paid out	(793,928,000)	(793,928,000)
Total deferred expenses on senior guaranteed notes	6,072,000	6,072,000
Deferred expenses as per 31 December	4,075,703	4,682,404

The amortization period for above-mentioned deferred expenses is 10 years. The amortization method is on a straight-line basis. As per 31 December 2006 EUR 3,465,005 is long-term and EUR 610,698 is short-term.

<i>EMTN Senior Guaranteed Notes 3.85%</i>		
Nominal value of senior guaranteed notes issued	50,000,000	50,000,000
Net amount paid out	(49,804,500)	(49,804,500)
Total deferred expenses on senior guaranteed notes	195,500	195,500
Deferred expenses as per 31 December	117,866	145,796

The amortization period for above-mentioned deferred expenses is 7 years. The amortization method is on a straight-line basis. As per 31 December 2006 EUR 89,948 is long-term and EUR 27,918 is short-term.

<i>USPP Notes</i>		
Tranche A, initial amount USD 105,000, 10 year amortization (USD 92,378)	78,493	87,409
Tranche B, initial amount USD 270,000, 15 year amortization (USD 248,366)	211,035	226,315
Tranche C, initial amount USD 150,000, 20 year amortization (USD 140,986)	119,794	126,161
Tranche D, initial amount USD 125,000, 30 year amortization (USD 119,992)	101,955	105,493
Deferred expenses as per 31 December	511,277	545,378

Of the deferred expenses on the USPP notes EUR 477,170 is long-term and EUR 34,107 is short-term as per 31 December 2006

Total deferred expenses	4,704,846	5,373,578
Total financial fixed assets	1,261,168,452	1,312,058,381

As the financial risks of the Company mirrors that of the parent company and group as a whole, the fair value of the assets matches the fair value of the liabilities.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

5. Notes to the balance sheet as at 31 December 2006

5.2 Current assets

5.2.1 Short-term loans

Loan Red Eléctrica Internacional, S.A., interest 6.2% (USD 1,295,633)
 Loan Red Eléctrica Internacional, S.A., interest 8.25% (USD 2,142,857)

	2006	2005
	EUR	EUR
	983,776	1,029,523
	1,627,074	-
	<u>2,610,850</u>	<u>1,029,523</u>

5.2.2 Current account

Current account shareholder

	1,000	2,000
	<u>1,000</u>	<u>2,000</u>

5.2.3 Receivable corporate income tax

Corporate income tax 2005

	-	7,814
	<u>-</u>	<u>7,814</u>

5.2.5 Receivables from group companies

Interest loan Red Eléctrica de España, S.A., interest 4.85%
 Interest loan Red Eléctrica de España, S.A., interest 3.95%
 Interest loan Red Eléctrica Internacional, S.A., interest 8.43% (USD 711,794)
 Interest loan Red Eléctrica Internacional, S.A., interest 6.2% (USD 35,440)
 Interest loan Red Eléctrica Internacional, S.A., interest 8.25% (USD 58,438)
 Interest loan Red Eléctrica de España, S.A. Tr. A, interest 4.91% (USD 698,731)
 Interest loan Red Eléctrica de España, S.A. Tr. B, interest 5.16% (USD 1,888,220)
 Interest loan Red Eléctrica de España, S.A. Tr. C, interest 5.40% (USD 1,646,703)
 Interest loan Red Eléctrica de España, S.A. Tr. D, interest 5.50% (USD 1,118,132)
 Rechargeable expenses

	11,161,644	11,161,644
	1,542,123	1,542,123
	540,466	492,608
	26,910	31,112
	44,372	46,622
	530,547	592,295
	1,433,728	1,600,593
	1,250,344	1,395,866
	848,999	947,810
	115,551	771,095
	<u>17,494,684</u>	<u>18,581,768</u>

5.2.6 Other receivables

Interest on bank accounts

	11,837	31,159
	<u>11,837</u>	<u>31,159</u>

5.2.7 Cash at bank

ING bank - EUR current account
 ING bank - EUR deposit account
 ING bank - EUR account
 Citibank - USD account (USD 789)
 ING bank - USD current account (USD 33,355)

	198,300	2,112
	2,111,221	1,715,741
	275,000	-
	599	-
	25,326	15,618
	<u>2,610,446</u>	<u>1,733,471</u>

No restrictions on usage of cash exist.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

5. Notes to the balance sheet as at 31 December 2006

5.3 Shareholders' equity

The authorized share capital of the Company amounts to EUR 90,000, divided into 90 ordinary shares with a nominal value of EUR 1,000 each.

The issued and paid-up capital amounts to EUR 18,000 (2005: EUR 18,000)

	2006	2005
	EUR	EUR
Movement during the year can be summarized as follows:		
Paid up share capital	18,000	18,000
Share premium	1,982,000	1,982,000
Other reserves		
Balance as at 1 January	123,607	123,607
Dividend payment	(653,390)	(518,778)
Appropriation of result	653,390	518,778
Balance as per 31 December	123,607	123,607
Undistributed result		
Balance as at 1 January	653,390	518,778
Appropriation of result	(653,390)	(518,778)
Result for the year	795,998	653,390
Balance as per 31 December	795,998	653,390
Total equity	2,919,605	2,776,997

5.4 Long-term liabilities

5.4.1. Notes

	2006	2005
	EUR	EUR
EMTN Senior Guaranteed Notes	800,000,000	800,000,000
EMTN Senior Guaranteed Notes II	50,000,000	50,000,000
USPP Notes, Tranche A (USD 70,000,000)	53,151,101	59,337,120
USPP Notes, Tranche B (USD 180,000,000)	136,674,260	152,581,165
USPP Notes, Tranche C (USD 150,000,000)	113,895,216	127,150,971
USPP Notes, Tranche D (USD 100,000,000)	75,930,144	84,767,314
Total Notes	1,229,650,721	1,273,836,570

EMTN Senior Guaranteed Notes

This represents Senior Guaranteed Notes of EUR 800,000,000 issued on 18 September 2003, bearing an interest rate of 4.75% per annum. The notes are repayable on 18 September 2013.

EMTN Senior Guaranteed Notes II

On 22 March 2004 additional Senior Guaranteed Notes of EUR 50,000,000 were issued, bearing an interest rate of 3.85% per annum. The notes are repayable on 22 March 2011.

The above-mentioned notes have been issued pursuant to the Company's EUR 1,500,000,000 EURO Medium Term Note ("EMTN") Programme guaranteed by Red Eléctrica de España, S.A.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

5. Notes to the balance sheet as at 31 December 2006

5.4 Long-term liabilities (continued)

~~USPP Notes, Tranche A, B, C and D~~

On 19 October 2005 USPP Notes for a total amount of USD 500,000,000 were issued. These notes are divided into four tranches with the following conditions:

	amount in USD	interest	maturity date
Tranche A	70,000,000	4.82%	19 October 2015
Tranche B	180,000,000	5.07%	19 October 2020
Tranche C	150,000,000	5.31%	19 October 2025
Tranche D	100,000,000	5.41%	19 October 2035

The loan of USD 500,000,000 is guaranteed by Red Eléctrica de España, S.A.

	2006	2005
	EUR	EUR
5.4.2 Loans from Group Companies		
Loan Transportadora de Electricidad, S.A. (USD 11,646,327)	8,843,073	9,872,279
Loan Transportadora de Electricidad, S.A. (USD 10,809,100)	8,207,365	10,260,857
Loan Transportadora de Electricidad, S.A. (USD 12,857,143)	9,762,447	12,715,097
Total loans	26,812,885	32,848,233

Loan Transportadora de Electricidad, S.A.

On 20 July 2004 the Company was granted a loan by Transportadora de Electricidad, S.A. of USD 11,646,327, bearing an interest rate until 15 April 2005 of 5.48% per annum. From 15 April 2005 an interest rate of Libor + 3% per annum will be applicable. Final maturity date is 20 July 2009 with the possibility to extend this date, but not exceeding 20 July 2015.

Loan Transportadora de Electricidad, S.A., Tranche A

On 20 July 2004 the Company was granted a loan by Transportadora de Electricidad, S.A. of USD 15,000,000, bearing an interest rate of 6.1% per annum. The final maturity date is 15 June 2014.

On 15 June and 15 December each year the borrower shall repay the principal outstanding on each repayment date in the amounts stated in the agreement. As per 31 December 2006 the loan is divided into a long-term loan of USD 10,809,100 (2005: USD 12,104,733) and a short-term loan of USD 1,295,633 (2005: USD 1,214,527). Part of the loan in the amount of USD 2,911,613 has a duration of more than 5 years.

Loan Transportadora de Electricidad, S.A., Tranche B

On 20 July 2004 the Company was granted a loan by Transportadora de Electricidad, S.A. of USD 15,000,000, bearing an interest rate of 8.15% per annum. The final maturity date is 15 December 2013.

The borrower shall repay the principal outstanding on 15 December each year in the amounts stated in the agreement. The first payment will take place on 15 December 2007. As per 31 December 2006 the loan is divided into a long-term loan of USD 12,857,143 and a short-term loan of USD 2,142,857.

Part of the loan in the amount of USD 2,142,858 has a duration of more than 5 years.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

5. Notes to the balance sheet as at 31 December 2006

5.4 Long-term liabilities (continued)

	2006	2005
	EUR	EUR
5.4.3 Deferred income		
Loan to Red Eléctrica de España, S.A., 4.85%		
Nominal value of senior guaranteed notes issued	800,000,000	800,000,000
Net amount paid out	<u>(793,888,000)</u>	<u>(793,888,000)</u>
Total deferred income on senior guaranteed notes	6,112,000	6,112,000
Deferred income as per 31 December	<u>4,102,552</u>	<u>4,713,250</u>

The amortization period for above-mentioned deferred income is 10 years. The amortization method is on a straight-line basis. As per 31 December 2006 EUR 3,495,851 is long-term and EUR 606,701 is short-term.

Loan to Red Eléctrica de España, S.A. 3.95%		
Nominal value of senior guaranteed notes issued	50,000,000	50,000,000
Net amount paid out	<u>(49,804,500)</u>	<u>(49,804,500)</u>
Total deferred income on senior guaranteed notes	195,500	195,500
Deferred income as per 31 December	<u>117,866</u>	<u>145,796</u>

The amortization period for above-mentioned deferred income is 7 years. The amortization method is on a straight-line basis. As per 31 December 2006 EUR 89,949 is long-term and EUR 27,917 is short-term.

Loan to Red Eléctrica de España, S.A.		
Tranche A, initial amount USD 105,000, 10 year amortization (USD 92,378)	78,493	87,409
Tranche B, initial amount USD 270,000, 15 year amortization (USD 248,366)	211,035	226,315
Tranche C, initial amount USD 150,000, 20 year amortization (USD 140,986)	119,794	126,161
Tranche D, initial amount USD 125,000, 30 year amortization (USD 119,992)	101,955	105,493
Deferred income as per 31 December	<u>511,277</u>	<u>545,378</u>

Of the deferred income these USD loans to Red Eléctrica de España, S.A., EUR 477,170 is long-term and EUR 34,107 is short-term as per 31 December 2006

Total deferred income	<u>4,731,695</u>	<u>5,404,424</u>
-----------------------	------------------	------------------

Fair value of liabilities

The following summarises the fair value of external (non group company) debt as per 31 December 2006.

	Fair value	Face value
	2006	2006
EMTN Senior Guaranteed notes (in EUR)		
EMTN Senior Guaranteed Notes	833,257,641	800,000,000
EMTN Senior Guaranteed Notes II	49,678,873	50,000,000
	Fair value	Face value
	2006	2006
USPP Notes (in EUR)		
Tranche A	52,578,263	53,151,101
Tranche B	136,635,473	136,674,260
Tranche C	116,488,619	113,895,216
Tranche D	78,975,773	75,930,144

The fair values of these debt instruments are based on the net present value of the anticipated future cash flows associated with these instruments.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.**5.5 Short-term liabilities (continued)**

	2006	2005
5.5.1 Short-term loan	EUR	EUR
Loan Transportadora de Electricidad, S.A., interest 6.1% (USD 1,295,633)	983,776	1,029,523
Loan Transportadora de Electricidad, S.A., interest 8.15% (USD 2,142,857)	1,627,074	-
	<u>2,610,850</u>	<u>1,029,523</u>
5.5.2 Taxation		
Corporate income tax 2006	112,689	-
	<u>112,689</u>	<u>-</u>
	2006	2005
5.5.3 Payables to group companies	EUR	EUR
Payable interest notes	10,931,507	10,931,507
Payable interest notes II	1,503,083	1,503,082
Interest loan Transportadora de Electricidad, S.A., interest 8.33% (USD 703,351)	534,056	485,451
Interest loan Transportadora de Electricidad, S.A., interest 6.1% (USD 34,869)	26,476	30,609
Interest loan Transportadora de Electricidad, S.A., interest 8.15% (USD 57,729)	43,834	46,057
USPP Notes, Tranche A, interest 4.82% (USD 685,923)	520,822	581,438
USPP Notes, Tranche B, interest 5.07% (USD 1,855,286)	1,408,721	1,572,676
USPP Notes, Tranche C, interest 5.31% (USD 1,619,258)	1,229,505	1,372,602
USPP Notes, Tranche D, interest 5.41% (USD 1,099,835)	835,106	932,301
	<u>17,033,110</u>	<u>17,455,723</u>
5.5.4 Other payables		
Administrative, accounting and management fees	12,100	12,479
Audit fees	10,114	8,000
Tax advisory fees	3,500	15,361
Other	-	56,806
	<u>25,714</u>	<u>92,646</u>

5.6 Related parties

The Company is a 100% subsidiary of Red Eléctrica de España S.A., Madrid, Spain. The Company supplies and obtains short and long term financing to and from Red Eléctrica group companies.

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

6. Notes to the profit and loss account for the year 2006

	2006	2005
	EUR	EUR
6.1 Interest income and similar income		
Interest on bank	25,902	32,148
Interest loan Red Eléctrica de España, S.A., 4.85%	38,800,000	38,800,000
Interest loan Red Eléctrica de España, S.A., 3.95%	1,975,000	1,975,000
Interest loan Red Eléctrica Internacional, S.A., 8.43%	706,121	624,372
Interest loan Red Eléctrica Internacional, S.A., 6.20%	640,110	718,329
Interest loan Red Eléctrica Internacional, S.A., 8.25%	985,245	1,015,756
Interest loan Red Eléctrica de España, S.A. Tranche A, interest 4.91%	2,731,370	592,295
Interest loan Red Eléctrica de España, S.A. Tranche B, interest 5.16%	7,381,136	1,600,593
Interest loan Red Eléctrica de España, S.A. Tranche C, interest 5.40%	6,437,037	1,395,866
Interest loan Red Eléctrica de España, S.A. Tranche D, interest 5.50%	4,370,828	947,810
Amortization Loan Red Eléctrica de España, S.A., 4.85%	610,698	610,698
Amortization Loan Red Eléctrica de España, S.A., 3.95%	27,918	27,906
Amortization Loan Red Eléctrica de España, S.A. Tranche A	8,917	1,809
Amortization Loan Red Eléctrica de España, S.A. Tranche B	15,284	3,101
Amortization Loan Red Eléctrica de España, S.A. Tranche C	6,368	1,292
Amortization Loan Red Eléctrica de España, S.A. Tranche D	3,538	718
Foreign exchange result	-	578
Other	-	18,705
	<u>64,725,472</u>	<u>48,366,976</u>

6.2 Interest expense and similar expenses

Interest Senior Guaranteed Notes, 4.75%	38,000,000	38,000,000
Interest Senior Guaranteed Notes II, 3.85%	1,925,000	1,925,000
Interest loan Transportadora de Electricidad, S.A., 8.33%	697,303	614,813
Interest loan Transportadora de Electricidad, S.A., 6.10%	629,785	706,743
Interest loan Transportadora de Electricidad, S.A., 8.15%	973,302	1,003,547
USPP Notes, Tranche A, interest 4.82%	2,681,304	581,438
USPP Notes, Tranche B, interest 5.07%	7,252,395	1,572,676
USPP Notes, Tranche C, interest 5.31%	6,329,753	1,372,602
USPP Notes, Tranche D, interest 5.41%	4,299,305	932,301
Amortization Senior Guaranteed Notes, 4.75%	606,701	606,701
Amortization Senior Guaranteed Notes, 3.85%	27,917	27,906
Amortization USPP Notes, Tranche A	8,917	1,809
Amortization USPP Notes, Tranche B	15,284	3,101
Amortization USPP Notes, Tranche C	6,368	1,292
Amortization USPP Notes, Tranche D	3,538	718
Foreign exchange result	9,994	-
Interest on corporate income tax	1,287	7,909
Bank charges	11,104	2,663
	<u>63,479,257</u>	<u>47,361,219</u>

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

6. Notes to the profit and loss account for the year 2006

	2006	2005
	EUR	EUR
6.3 General and administrative expenses		
Administrative and accounting fees	42,588	37,620
Domiciliation and management fees	7,863	7,739
Legal fees	-	19,104
Audit fees	12,409	8,213
Tax advisory fees	7,287	23,644
Travel expenses	-	2,389
Other expenses	205	2,679
	<u>70,352</u>	<u>101,388</u>
6.4 Corporate income tax		
Corporate income tax 2003	(2)	-
Corporate income tax 2004	(131)	-
Corporate income tax 2005	32,874	250,979
Corporate income tax 2006	347,124	-
	<u>379,865</u>	<u>250,979</u>

Director and employees

The Company has four Managing Directors (2005: four) and no employees during 2006 (2005: nil), none of whom received any remuneration (2005: nil).

Amsterdam, 5 February 2007

Ms. T. Quirós Alvarez (Director A)
Title: Managing Director

Mr. M.F. Elias (Director B)
Title: Managing Director

Mr. R. García de Diego Barber (Director A)
Title: Managing Director

Ms. M.F. Stijger (Director B)
Title: Managing Director

Other information

RED ELÉCTRICA DE ESPAÑA FINANCE B.V.

7. Other information

Distribution of profits, according to article 16 of the Articles of Association

The distributable profits shall be at the disposal of the general meeting of shareholders for distribution of dividend or in order to be added to the reserves or for such other purposes within the Company's objectives as the meeting shall decide.

The Company may make distributions to shareholders and other persons entitled to distributable profits only to the extent that the shareholder's equity exceeds the sum of the paid and called up part of the share capital and the legal reserves. In calculating the appropriation of profits, the shares held by the Company in its own share capital shall not be taken into account.

Distribution of profits shall take place after the adoption of the annual accounts which show that the distribution is permitted.

Proposed appropriation of the result

In anticipation of the adoption of the annual accounts by the Annual General Meeting of shareholders, the management proposes to declare a dividend payable amounting to EUR 919,605.

The result after tax for the financial year ended 31 December 2006 amounts to EUR 795,998 and is included in the item Undistributed result in Shareholders' equity (note 5.3).

Post-balance sheet events

To date, no major post-balance sheet date events have occurred.

To: Shareholder(s) of Red Eléctrica de España Finance B.V.

PricewaterhouseCoopers
Accountants N.V.
Velperweg 35
6824 BE Arnhem
P.O. Box 5381
6802 EJ Arnhem
The Netherlands
Telephone +31 (26) 371 25 00
Facsimile +31 (26) 371 25 90
www.pwc.com/nl

514

Auditor's report

Report on the company financial statements

We have audited the accompanying company financial statements 2006 of Red Eléctrica de España Finance B.V., Amsterdam, which comprise the balance sheet as at 31 December 2006 and the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Red Eléctrica de España Finance B.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the director's report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Arnhem, 6 February 2007

PricewaterhouseCoopers Accountants N.V.

J. van Hoof 