

RED
ELÉCTRICA
CORPORACIÓN

Financial results

January - December 2014

Profit for the year totalled €17.8 million, partially due to positive one off events such as the agreement reached with the Plurinational State of Bolivia on TDE compensation, the acquisition of rights to use and manage ADIF's fibre optic network, and the impact of tax reform (Law 27/2014). Stripping out these effects, net profit grew 5.4 %, mainly due to new assets commissioned and improvements in financial and operational efficiency, exceeding the target set for 2014.

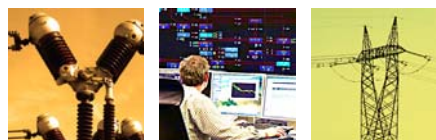
The Group's investments rose to €57.6 million. Of that amount, the development of the Spanish transmission grid accounted for €492.6 million and the agreement entered into with ADIF for €433.7 million.

The dividend for 2014 that will be proposed to the General Meeting of Shareholders will be €3 per share, a year-on-year increase of 18%.

25th February 2015

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1. Red Eléctrica: Financial highlights

Income statement

(in thousands of euros)	January - December			October - December		
	2014	2013	Δ %	2014	2013	Δ %
Net revenue	1,846,714	1,758,266	5.0	472,396	456,056	3.6
Gross operating result (EBITDA)	1,385,393	1,301,877	6.4	368,509	340,778	8.1
Net operating result (EBIT)	949,199	898,723	5.6	247,183	238,586	3.6
Profit before taxes	853,496	733,013	16.4	260,116	201,230	29.3
Profit for the year	717,821	529,139	35.7	303,058	139,698	116.9

PRO FORMA stripping out one-off events in 2014	January - December		
(in millions of euros)	2014	2013	Δ %
Net revenue	1,839.3	1,758.3	4.6
Gross operating result (EBITDA)	1,379.9	1,301.9	6.0
Profit before taxes	801.2	733.0	9.3
Profit for the year	557.9	529.1	5.4

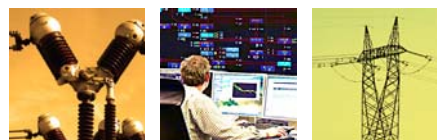
Balance sheet

(in thousands of euros)	December 2014	December 2013	Δ %
Non current assets	9,138,164	8,614,471	6.1
Equity	2,552,452	2,224,648	14.7
Net financial debt*	5,408,548	4,541,198	19.1

(*) Includes exchange rate derivatives.

Other financial figures

(in thousands of euros)	January - December			October - December		
	2014	2013	Δ %	2014	2013	Δ %
Operating cash flow after taxes	1,009,164	974,295	3.6	161,347	213,830	(24.5)
Investments	957,570	596,005	60.7	589,749	216,559	-
Dividends paid	343,782	319,031	7.8	-	-	-



2. Earnings performance

Revenue for 2014 amounted to €1,846.7 million, registering 5.0% growth. This increase is due to revenue associated with the commissioning of new transmission facilities during 2013, and the increase in income from the provision of system operation services set out in the 2014 Tariff Order. It is important to note that last quarter, for the first time revenue associated with the rights to use and manage ADIF's fibre optic network was included.

Gross operating result (EBITDA) registered a 6.4% year-on-year increase to €1,385.4 million. This growth was also driven by the following trends in operating costs:

- **Costs of supplies and other operating expenses** fell 2.8% compared to 2013. In quarterly terms, these costs decreased by 17.3%, mainly due recognition in the fourth quarter of 2013 of the construction works linked to a power line concession in Peru, and the reduction of costs associated with taxes, duties and other operating expenses. Without taking this behaviour into consideration, the EBITDA margin would have stood at about 74%, in line with that obtained in 2014.
- With regard to **payroll expenses**, it is important to mention that the Group's **average headcount** at 31 December 2014 reached 1,737, reflecting a 1.1% increase on the previous year, with a **final headcount** of 1,742 people.

Personnel expenses increased by 4.5% due to the increase in headcount and the salary increase built into the new collective agreement, which sets this variation on the basis of company productivity and GDP performance.

Operating expenses

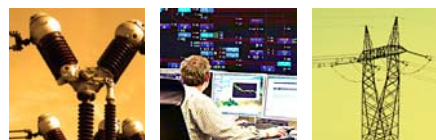
(in thousands of euros)	January - December			October - December		
	2014	2013	Δ %	2014	2013	Δ %
Supplies and other operating expenses	353,352	363,428	(2.8)	78,061	94,407	(17.3)
Personnel expenses	132,967	127,263	4.5	34,977	33,390	4.8
Operating expenses	486,319	490,691	(0.9)	113,038	127,797	(11.5)

The **net financial result** was €-95.7 million and includes compensation of €52.3 million for the disposal of TDE. Finance costs totalled €160.2 million, reflecting a year-on-year reduction of €23.4 million. This improvement is mainly due to the lower average interest rate, which stood at 3.49% in 2014, 35 basis points below the average rate last year. Likewise, the average gross debt balance was €5,047 million, down €127 million from the average debt balance in 2013.

Consequently, **profit before tax** rose to €853.5 million, reflecting 16.4% year-on-year growth, and including the aforementioned effect of TDE. Eliminating this effect would have brought profit before tax to €801.2 million, 9.3% higher than the previous year.

Finally, **profit for the year** amounted to €717.8 million, up 35.7% year on year. In addition to the aforementioned effects, it includes a €106.1 million reduction in tax expenditure under the new corporate income tax law (Law 27/2014). This amount, which does not entail lower tax in 2014, is due to the reduction of deferred tax liabilities as a result of lowering the tax rate from 30% to 28% in 2015 and to 25% starting in 2016, and as already mentioned, it has not had any effect on tax on earnings paid by the company during 2014.

Exclusion of the impact on results of compensation for TDE, Law 27/2014 on corporate income tax, and the agreement signed with ADIF at the end of the year, would have increased the profit for the year by 5.4%, mainly due to new assets commissioned and improvements in financial and operational efficiency, exceeding the target set for 2014.



3. Cash flow and balance sheet performance

Cash flows

(in thousands of euros)	January - December			October - December		
	2014	2013	Δ %	2014	2013	Δ %
Profit before taxes	853,496	733,013	16.4	260,116	201,230	29.3
Taxes paid on earnings	(227,442)	(166,536)	36.6	(170,459)	(99,097)	72.0
Provision for amortisation/depreciation of non current assets	440,699	416,565	5.8	115,780	105,500	9.7
Other adjustments	(57,589)	(8,747)	-	(44,090)	6,197	-
After tax cash flows from operations	1,009,164	974,295	3.6	161,347	213,830	(24.5)
Changes to working capital	(497,681)	208,878	-	(76,401)	138,932	-
Changes to other non current assets and liabilities	57,087	59,422	(3.9)	37,368	44,962	(16.9)
Changes to suppliers of PP&E	(152,070)	11,568	-	(11,781)	84,180	-
Investment	(957,570)	(596,005)	60.7	(589,749)	(216,559)	-
Free cash flow	(541,069)	658,158	-	(479,215)	265,345	-
Dividends paid	(343,782)	(319,031)	7.8	-	-	-
Variation in net financial debt (*)	884,851	(339,127)	-	(479,215)	265,345	-

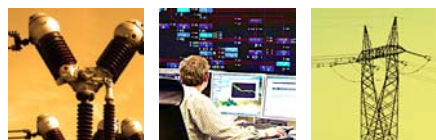
(*) The difference between this figure and the change in Net Financial Debt shown on page 2 is due to items that do not involve cash movements.

Operating cash flow after taxes amounts to €1,009.2 million, which is 3.6% higher than the previous year's figure. This improvement is mainly due to better results and is partially offset by higher tax payments than in 2013, since the 2014 tax reform has no impact on this year's cash flows.

In addition, **working capital** has experienced a negative variation of €497.7 million. The favourable conditions in 2013, which as already explained in previous communications included the collection of the tariff settlement in December of that year and an increase in VAT credit balance, were reversed in 2014. Also, temporary imbalances derived from the 2014 electricity tariff for approximately €390 million and payment of VAT for around €90 million associated with the purchase of the rights to use the fibre optic network, have been included. Both items are expected to be collected in the first few months of 2015.

The combined behaviour of the changes in other assets and long term liabilities, and the changes in suppliers of property, plant and equipment, resulted in a higher net cash outflow of €95 million in 2014, as already mentioned in previous communications.

Investments in 2014 amounted to €957.6 million and include €492.6 million spent on developing the national transmission grid, notably the significant improvement of international interconnections, with the commissioning of a new interconnection with France, which will double the existing interconnection capacity, and also with Portugal, through the 400 kV Almaraz-Guillena line. Investments in 2014 also reflect the impact of the agreement entered into for the acquisition of rights to use and manage the ADIF fibre optic network, for €433.7 million.



Dividends paid at 31 December 2014 totalled €343.8 million, 7.8% more than in 2013.

Consequently, Grupo Red Eléctrica's **net financial debt** registered €884.9 million year-on-year growth to €5,408.5 million at the close of 2014. Deducting the effect of the investment in ADIF's fibre optic network and VAT on transactions, would bring the debt to €4,883.7 million.

Net financial debt (*)

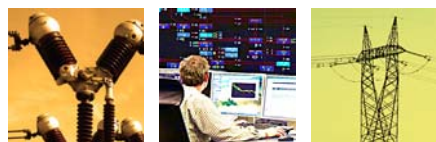
(in thousands of euros)	National currency	Foreign currency	Total
Cash and cash equivalents	(297,417)	(1,951)	(299,368)
Long term debenture bonds	3,322,619	-	3,322,619
Long term loans	1,908,384	35,678	1,944,062
Promissory notes and current loans	441,235	-	441,235
Total net financial debt	5,374,821	33,727	5,408,548

(*) The long term financial debt shown in this table includes €314.5 million classified as current liabilities on Grupo Red Eléctrica's balance sheet and originally contracted as long term.

At the close of 2014, 92% of the Group's debt is long term. As regards interest rates, 79% of the Group's debt is at a fixed rate, while the remaining 21% is at a floating rate.

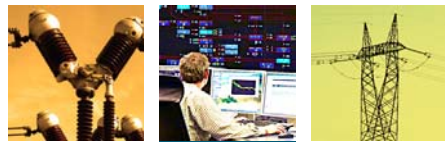
During 2014, the average cost of the Group's debt was 3.49%, compared to 3.84% in 2013. As previously mentioned, the average cost of the gross debt stood at €5,047.0 million, 2.4% less than the average balance of €5,173.9 million last year.

In addition, Grupo Red Eléctrica's **net equity** totalled €2,552.5 million, 14.7% higher than at the close of 2013. This growth is mainly due to the results for the reporting period, offset by the corresponding distribution of dividends.



4. Relevant events

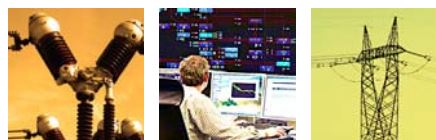
- At its meeting on 24 February, the Board of Directors resolved to propose to the shareholders at their General Shareholders' Meeting a dividend for 2014 of €3 per share, €0.8323 of which was paid out as an interim dividend on 2 January.
- On 23 January, Red Eléctrica and Endesa signed an agreement to transfer the Chira-Soria hydroelectric power station project in Gran Canaria, as stipulated by the Ministry of Industry on 28 April, 2014. Endesa transferred the facilities of the reversible 200 MW Chira-Soria hydroelectric power station in Gran Canaria to Red Eléctrica for €11.2 million for the costs incurred in the project. The total investment includes construction of a reversible pumping plant and connection between the station and the Santa Águeda substation through a 220 kV power line for an estimated total of €300 million. The project incorporates a 25-year concession of the reservoir waters for hydroelectric purposes, which may be extended to 50 years. This pumping station will not be used as a generation facility, but rather as a system operator tool for the stability and safety of the power supply. This project will provide essential infrastructure for the integration of renewable energy on the island and will contribute to a new energy model in the Canary Islands, and one which would be more environmentally sustainable and more financially efficient.
- At 31 December 2014, Red Eléctrica has commissioned 600 kilometres of new circuits and 3,250 MVA of transformer capacity. Remuneration, as well as maintenance and depreciation costs associated with these new assets will be included in the Group's turnover in 2015, although the collection of revenue, including financial compensation for the delay, will take place in 2016 pursuant to Royal Decree 1047/2013. Among the assets commissioned in 2014, a new interconnection with France that will double the interconnection capacity between the two countries is worthy of mention because of its strategic importance for the Spanish electricity system.
- The Board of Directors of Red Eléctrica Corporation, S.A., at its meeting on 23 December, 2014, agreed to set the number of members on the Board of Directors' Committees, the Audit Committee and the Governance and Corporate Responsibility Committee, at four per committee, following a proposal by the Chairman of the Board of Directors and a report by the Governance and Corporate Responsibility Committee. The Board appointed Ms Socorro Fernández Larrea as a member of the Governance and Corporate Responsibility committee and Mr. Antonio Gómez Ciria as a member of the Audit Committee. After said appointments, the Governance and Corporate Responsibility Committee is made up of Ms Carmen Gómez de Barreda Tous de Monsalve (independent director) as the Chair, and Mr. Francisco Ruiz Jiménez, Ms María José García Beato and Ms Socorro Fernández Larrea. The Audit Committee is made up of Ms Paloma Sendín de Cáceres (independent director) as Chair, and Ms M^a Ángeles Amador Millán, Mr. Fernando Fernández Méndez de Andés and Mr. Antonio Gómez Ciria.
- On 19 December 2014, the Tariff Order, which establishes transmission revenue for our company of €1.653,8 million in 2015, was approved in line with estimates by the Ministry of Industry according to the method detailed in RD 1047/2013. The amounts corresponding to the transmission grid's availability incentive for 2015 remuneration amounts to €20.9 million. In addition, this Order stipulates that the remuneration of the System Operation will be €56 million for the year, which is the same amount approved for the previous year.
- On 28 November, Red Eléctrica de España was selected to be part of the Euronext Vigeo Sustainability Indices, in recognition of the company's efforts in the field of environmental, social and corporate governance. The inclusion of Red Eléctrica in these indices confirms the company's commitment to sustainability and transparency. Furthermore, it acknowledges the company's outstanding performance in response to the major economic, environmental and social challenges, and its contribution to developing a sustainable energy future.
- On 20 November, Red Eléctrica Internacional signed a contract with ADIF for the transfer of the rights to use and manage the fibre optic network and other associated assets for a period of 20 years. The final transaction price has been set at €433.7 million, and will generate an estimated €65



Red Eléctrica Corporación

million in annual turnover. With this award, Red Eléctrica Internacional doubles its current fibre optic network for commercial use, managing a network of 33,000 km in length. This operation will have positive results for the telecommunications industry by allowing for the creation of a neutral telecommunications infrastructure operator in Spain.

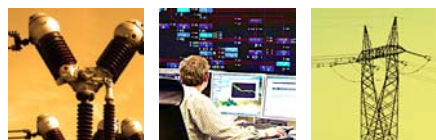
- On 13 November, Red Eléctrica Internacional and the Plurinational State of Bolivia reached a final agreement over compensation for the nationalisation of Transportadora de Electricidad (TDE), which took place on 1 May, 2012. This agreement has meant a benefit for the Group of around €52 million for the shares held by the Group.



Red Eléctrica Group

Consolidated P&L account

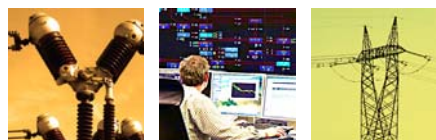
(in thousands of euros)	31/12/2014	31/12/2013	2014/2013
Revenue	1,846,714	1,758,266	5.0%
Own work capitalised	17,710	19,647	(9.9%)
Supply costs	(59,711)	(67,025)	(10.9%)
Other operating income	7,288	14,655	(50.3%)
Personnel expenses	(132,967)	(127,263)	4.5%
Other operating expenses	(293,641)	(296,403)	(0.9%)
Gross Operating Result (EBITDA)	1,385,393	1,301,877	6.4%
Amortisation/depreciation of non current assets	(440,699)	(416,565)	5.8%
Release of grants related to non financial assets	13,651	13,200	3.4%
Impairment of and gains/(losses) on disposals of fixed assets	(9,146)	211	-
Net Operating Result (EBIT)	949,199	898,723	5.6%
Finance income	11,973	13,825	(13.4%)
Finance costs	(160,240)	(183,592)	(12.7%)
Exchange differences	253	427	(40.7%)
Impairment of and gains/losses on disposal of financial instruments	52,311	3,219	-
Financial result	(95,703)	(166,121)	(42.4%)
Results of companies accounted for using the equity method	-	411	(100.0%)
Profit before tax	853,496	733,013	16.4%
Income tax expense	(134,434)	(203,215)	(33.8%)
Consolidated profit for the period	719,062	529,798	35.7%
A) Consolidated profit attributable to the parent company	717,821	529,139	35.7%
B) Consolidated profit attributable to non controlling interests	1,241	659	-



Red Eléctrica Group Consolidated Balance Sheet

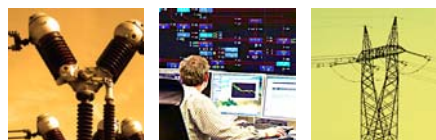
ASSETS (in thousands of euros)	31/12/2014	31/12/2013
Intangible assets	109,069	86,693
Property, plant and equipment	8,923,262	8,426,782
Investment properties	2,517	2,561
Non current financial assets	71,998	63,532
Deferred tax assets	30,938	34,586
Other non current assets	380	317
Non current assets	9,138,164	8,614,471
Inventories	46,445	44,980
Trade and other receivables	1,072,690	544,535
Other current financial assets	1,304	1,018
Cash and cash equivalents	299,368	214,861
Current assets	1,419,807	805,394
Total assets	10,557,971	9,419,865

LIABILITIES (in thousands of euros)	31/12/2014	31/12/2013
Equity	2,589,360	2,248,628
Share capital	270,540	270,540
Reserves	1,723,852	1,548,523
Treasury shares and own equity instruments (-)	(10,390)	(1,707)
Profit attributable to the Parent company	717,821	529,139
Interim dividend	(112,463)	(97,867)
Valuation adjustments	(59,894)	(42,041)
Non controlling interests	22,986	18,061
Equity	2,552,452	2,224,648
Subsidies and others	482,442	418,297
Non current provisions	105,522	84,151
Non current financial liabilities	5,037,125	4,662,995
Deferred tax liabilities	482,584	598,855
Other non current liabilities	70,726	72,978
Non current liabilities	6,178,399	5,837,276
Current provisions	-	10
Current financial liabilities	1,549,431	991,904
Trade and other payables	277,689	366,027
Current liabilities	1,827,120	1,357,941
Total equity and liabilities	10,557,971	9,419,865



Consolidated Cash Flow statement

(in thousands of euros)	31/12/2014	31/12/2013
CASH FLOWS FROM OPERATING ACTIVITIES	511,985	1,191,850
Profit before tax	853,496	733,013
Adjustments to profit	538,303	583,337
Depreciation/amortisation	440,699	416,565
Other adjustments to result (net)	97,604	166,772
Changes in working capital	(497,681)	208,878
Other cash flows from operating activities	(382,133)	(333,378)
Interest payable	(159,738)	(174,915)
Collection of dividends	4,566	5,313
Collection of interest	7,407	11,381
Corporate income tax received (paid)	(227,442)	(166,536)
Other collections/(payments) on operating activities	(6,926)	(8,621)
CASH FLOWS FROM INVESTING ACTIVITIES	(1,049,095)	(555,312)
Payments from investments	(1,109,640)	(584,437)
Property, plant and equipment, intangible assets and property investment	(1,104,920)	(578,608)
Other financial assets	(4,720)	(5,829)
Proceeds from disposals	29,636	838
Other financial assets	29,636	838
Other cash flows from investing activities	30,909	28,287
CASH FLOWS FROM FINANCING ACTIVITIES	621,398	(461,386)
Proceeds from/(payments for) equity instruments	(5,541)	19,519
Acquisitions	(107,416)	(125,602)
Disposal	101,875	145,121
Proceeds from/(payments for) financial liabilities	969,359	(164,580)
Issue and placements	1,943,673	1,585,044
Redemption and write-off	(974,314)	(1,749,624)
Dividend payments	(343,782)	(319,031)
Other cash flows from financing activities	1,362	2,706
Effect of variations in exchange rates	219	(605)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	84,507	174,547
Cash and cash equivalents at beginning of period	214,861	40,314
Cash and cash equivalents at end of period	299,368	214,861



Financial calendar

Upcoming events

Estimated dates

1Q15 Earnings presentation	April 2015
General Shareholders' Meeting	April 2015

For more information,

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Red Eléctrica has the following credit ratings: BBB from S&P and A- from Fitch.



Disclaimer

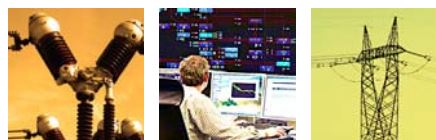
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APPENDIX

Corporate responsibility certifications



Included in the FTSE4Good index since 2008. (*)



The company was awarded the "RobecoSAM Bronze Class" distinction in the Sustainability Yearbook 2015, making it one of the top 13 companies in the industry.



Included for the first time in the Euronext Vigeo Sustainability Indices (Eurozone 120, 120 Europe, Global 120).



Included in the MSCI ESG Indices (MSCI Global Sustainability Indexes, MSCI Socially Responsible Indices, MSCI Global Climate Index and MSCI Global Environmental Index) in 2014.



Again granted Prime status and was ranked as one of the most sustainable companies in the industry in 2014.



Included in the Natural Capital Efficiency Leader Index in 2014.



Included in the Ethibel Excellence Index since 2009.



Included in the Kempen SNS SRI Index since 2004.



Included in the ESG STOXX Leaders Index since 2011.



Included in the ECPI Index since 2008.



Awarded the Best in Class distinction in 2009.

(*) FTSE Group confirms that Red Eléctrica Corporación has been independently assessed according to the FTSE4Good criteria, and it satisfies the requirements to become a constituent of the FTSE4Good indices, the global index created by the FTSE Group. FTSE4Good is a stock market index designed to facilitate investment in companies that comply with the social responsibility standards recognized around the world. Companies included in the FTSE4Good index have met strict environmental, social and corporate governance criteria, and they are positioned to take advantage of the benefits of responsible business practice.