

RED
ELÉCTRICA
CORPORACIÓN

Financial results

January – December 2013

Earnings for 2013 totalled €529.1 million, which implies a 7.5% increase over the previous year.

The 2013 financial statements were shaped by non-recurring events. The most noteworthy was Royal Decree-Law 9/2013, which cut transmission revenues, and Law 16/2012, on asset revaluation. In homogeneous terms, profit grew 8.8% and EBITDA 5.9%.

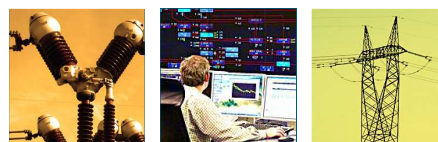
The Group invested €596 million, of which €564 euros is related to the transmission grid in Spain.

On 30 December 2013, Royal Decree 1047/2013 was approved, which establishes a clear, stable and transparent remuneration framework for the electricity transmission business.

The company is to propose a 2013 dividend of €2.5422 per share at its General Shareholders' Meeting, which represents a pay-out ratio of 65%.

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1. Red Eléctrica: Financial highlights

Income statement

(in thousands of euros)	January - December			January - December (pro-forma)		
	2013	2012	Δ %	2013	2012	Δ %
Net revenue	1,758,266	1,755,256	0.2	1,822,598	1,744,971	4.4
Gross operating result (EBITDA)	1,301,877	1,299,150	0.2	1,368,991	1,292,199	5.9
Net operating result (EBIT)	898,723	859,888	4.5	967,616	899,963	7.5
Profit before taxes	733,013	680,514	7.7	799,186	734,222	8.8
Profit for the period	529,139	492,288	7.5	558,024	513,100	8.8

Balance sheet

(in thousands of euros)	December 2013	December 2012	Δ %
Total non-current assets	8,614,471	8,374,147	2.9
Net equity	2,224,648	1,991,545	11.7
Net financial debt*	4,541,198	4,872,546	(6.8)

(*). Includes exchange rate derivatives.

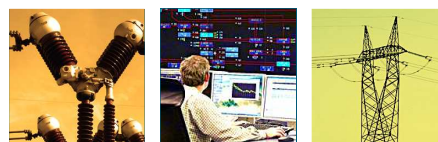
Other financial figures

(in thousands of euros)	January - December		
	2013	2012	Δ %
Operating cash flow after taxes	1,183,173	778,104	52.1
Investments	596,005	705,838	(15.6)
Dividends paid	319,031	297,677	7.2

EXPLANATORY NOTE TO THE FINANCIAL STATEMENTS

As indicated in the previous earnings release, the following effects arising from exceptional events in 2012 and 2013 must be taken into consideration for a proper understanding of trends in the company's results:

- Application of Royal Decree-Law 9/2013 and a proposal for an order to establish remuneration in the second period of 2013 for electricity transmission and distribution, the effect of which is to reduce income from electricity transmission by €72.3 million in 2013.
- Application of Law 16/2012 for the revaluation of corporate balance sheets, reducing income tax expense for 2013 by €33.9 million as a balancing entry against a receivable arising from the future deductibility of the depreciation and amortisation charge for revalued assets.
- Changes to the Group's scope of consolidation during the two years following the expropriation in 2012 of the Bolivian company Transportadora de Electricidad, S.A. (TDE), the increased stake in Red Eléctrica del Sur, S.A. (REDESUR) in 2013 and modification of the consideration of portfolio losses from foreign subsidiaries by the Spanish tax authorities in 2013.



- Impairment of Property, plant and equipment in the first half of 2012 amounting to €46.4 million.

The impact of these effects on Group results is set out below:

(in millions of euros)	2012	Recurring	Change to consolidation scope	Revaluation of assets	Impairment of assets	Regulatory adjustment	2013
Net revenue	1,755.3	77.6	(2.4)	-	-	(72.3)	1,758.3
Gross operating result (EBITDA)	1,299.2	76.8	(1.8)	-	-	(72.3)	1,301.9
Net operating result (EBIT)	859.9	67.7	(3.0)	-	46.4	(72.3)	898.7
Profit before taxes	680.5	65.0	13.4	-	46.4	(72.3)	733.0
Income tax and non-controlling interests	(188.2)	(20.2)	(37.2)	33.9	(13.9)	21.7	(203.9)
Profit for the period attributable to the parent company	492.3	44.9	(23.9)	33.9	32.5	(50.6)	529.1

Applying each of the effects described in this table to the year concerned produces the following pro-forma income statements for 2012 and 2013:

(in millions of euros)	Pro-forma		Δ%
	2013	2012	
Net revenue	1,822.6	1,745.0	4.4%
Gross operating result (EBITDA)	1,369.0	1,292.2	5.9%
Net operating result (EBIT)	967.6	900.0	7.5%
Profit before taxes	799.2	734.2	8.8%
Profit for the period	558.0	513.1	8.8%

Recurring profit in homogeneous terms rose 8.8% compared to 2012.

To illustrate the company's trends as transparently as possible, we first look at the pro-forma income statement, then the balance sheet and cash flow statement including all the adjustments.



2. Earnings performance

Revenue for 2013, in homogeneous terms, amounted to €1,822.6 million, registering a growth of 4.4%. The increase was driven primarily from revenues on assets put into service in 2012.

Recurring gross operating result (EBITDA) totalled €1,369.0 million, up 5.9% year on year. EBITDA growth was driven by the following trends in operating costs:

- **Cost of supplies and other operating expenses** were very similar to those over the previous year. In quarterly terms, these costs fell 15.5% mainly due to the construction work related to the concession of a power line in Peru in the fourth quarter of 2012.
- **Personnel expenses** fell by 1.5% due mainly to the reduction in non-recurring indemnities paid this year compared to last.
- The Red Eléctrica Group's **average headcount** at 31 December 2013 stood at 1,718, with a **final headcount** of 1,745.

Operating expenses

(in thousands of euros)	January - December			October- December		
	2013	2012	Δ %	2013	2012	Δ %
Supplies and other operating expenses	363,428	359,452	1.1	94,407	111,732	(15.5)
Personnel expenses	127,263	129,148	(1.5)	33,390	34,356	(2.8)
Operating expenses	490,691	488,600	0.4	127,797	146,088	(12.5)

The **net operating result (EBIT)** grew 7.5%. This increase does not include the impact from the €46.4 million impairment loss on property, plant and equipment in 2012 and the effect of changes to the Group's consolidation scope.

The **net financial result** in like-for-like terms stood at -€168.4 million, compared to -€165.8 million during the same period the previous year. The higher financial expenses are due to a greater gross financial debt balance and a slight increase in average interest rates, from 3.81% in 2012 to 3.84% in 2013, given that the average interest rate in 2013 still does not reflect the drop in the average cost of debt resulting from the redemption in September of an €800 million bond issue from 2003 with a coupon of 4.75%. The 2012 figure included the effect of the expropriation of TDE (-€13.3 million). In 2013, the company recognised income of €3.2 million from the increase the value of the interest already held in REDESUR.

In all, pro-forma **profit for the year** amounted to €558.0 million, up 8.8% year on year. This adjusted figure does not take into account the revaluation of assets adopted by the company pursuant to Law 16/2012, which lowered the income tax rate for the year to 27.7%.

2013 **profit** grew 7.5% without factoring in all the non-recurring impacts.



3. Cash flow and balance sheet performance

Cash flows

(in thousands of euros)	January - December			October- December		
	2013	2012	Δ %	2013	2012	Δ %
Profit before tax	733,013	680,514	7.7	201,230	197,756	1.8
Taxes paid on earnings	(166,536)	(109,051)	52.7	(99,097)	(82,861)	19.6
Provision for amortisation/depreciation of non-current assets	416,565	405,496	2.7	105,500	104,041	1.4
Other adjustments	(8,747)	45,381	-	6,197	(4,875)	-
Changes to working capital	208,878	(244,236)	-	138,932	62,774	
After-tax cash flows from operations	1,183,173	778,104	52.1	352,762	276,835	27.4
Changes to other non-current assets and liabilities	59,422	56,909	4.4	44,962	21,575	-
Changes to suppliers and PP&E	11,568	(33,406)	-	84,180	52,983	58.9
Investments	(596,005)	(705,838)	(15.6)	(216,559)	(266,996)	(18.9)
Free cash flow	658,158	95,769	-	265,345	84,397	-
Dividend payments	(319,031)	(297,677)	7.2	-	-	-
Variation in net financial debt (*)	(339,127)	201,908	-	(265,345)	(84,397)	-

(*)The difference with the variation in net financial debt on page 2 relates to items entailing no cash flows.

Operating cash flow after taxes amounted to €1,183.2 million, which is 52.1% higher than the previous year's figure. This improvement is primarily due to the positive performance of working capital driven by the settlements of transmission receivables collected in 2013 compared to the previous year, and an increase in VAT reimbursements. This cash flow enabled the company to fund its investments during the year, pay dividends and reduce financial debt by €339.1 million.

Group investment in 2013 totalled €596.0 million. Development of the Spanish transmission grid accounted for the bulk of capital expenditure during the period (€564.2 million).

Dividends paid at 31 December 2013 totalled €319.0 million, 7.2% more than in 2012.

Therefore, Red Eléctrica's **net financial debt** at 31 December 2013 stood at €4,541.2 million, which is 6.8% less than the figure registered at the close of 2012. Nevertheless, by excluding the aforementioned temporary effects, net financial debt would have come in at around €4.8 billion.

**Net financial debt**

(in thousands of euros)	National currency	Foreign currency	Total
Cash and cash equivalents	(213,716)	(1,145)	(214,861)
Long-term debenture bonds	3,009,027	-	3,009,027
Long-term loans	1,599,196	53,059	1,652,255
Commercial paper and current loans	94,777	-	94,777
Total net financial debt	4,489,284	51,914	4,541,198

The debt structure remained steady during the period, with non-current debt representing 97% of the total. Of the Group's debt, 88% is fixed rate and 12% is floating rate.

The average cost of the Group's debt in 2013 was 3.84% compared to 3.81% in 2012, while the average gross debt balance was €5,173.9 million, 5.8% higher than the average debt balance of €4,890.5 million in 2012.

Further, the Red Eléctrica Group's **net equity** totalled €2,224.6 million, up 11.7% compared to year-end 2012. This increase is due mainly to earnings for the year, offset by the corresponding dividend payment.

4. Relevant events

- At its meeting on 25 February, the Board of Directors resolved to propose to the shareholders at their General Shareholders' Meeting the distribution of a dividend for 2013 of €2.5422 per share, €0.7237 of which was paid out as an interim dividend on 2 January.
- On 31 January, a Ministerial Order on Tariffs was approved, which sets our company's transmission revenues at €1,622 million for 2014. These revenues arise from the application of the methodology laid out in Royal Decree-Law 9/2013. Likewise, this Order establishes that the remuneration for system operation will total €56 million this year. The amount to be paid for the transmission grid availability incentive in 2013 and 2014 amounts to €12.4 million and €13.8 million, respectively.
- At 31 December 2013, Red Eléctrica had brought into service 776 kilometres of new circuits and 2,525 MVA of transmission capacity. The remuneration, maintenance costs and depreciation charges related to these new assets will be taken to the Group's revenue for 2014, although collections, including interest for delayed payments, will take place in 2015 pursuant to Royal Decree 1047/2013.
- On 27 December 2013, Royal Decree 1047/2013 was approved, establishing a method for calculating electricity transmission remuneration, which will come into effect in 2015. This Royal Decree establishes a single remuneration system for all facilities and introduces tools to boost efficiency both in the construction of infrastructure and in the operation and maintenance of grids. The most noteworthy aspects are the following:
 - Transmission activity will be remunerated in regulatory periods that last six years, the first of which will end in 2019.
 - Remuneration of investment shall be made for all assets in service according to their net value. All the assets currently in operation are assigned a useful life and a return on investment.
 - The financial remuneration rate will be benchmarked to the yield of Spanish 10-year government bonds plus a spread that may be revised in each regulatory period. In the first regulatory period, this spread will amount to 200 basis points and the remuneration rate is set at 6.5% before taxes.
 - Remuneration for new facilities will be received as of 1 January of year 'n+2', with 'n' being the year they come into service and, financial compensation has been established in order to miti-



gate the negative impact of this measure. Said compensation will also be valid for the assets that came into service as of 1 January 1998.

- The model is based on reference unit capex costs and operation and maintenance costs.
- The useful life of facilities may be extended and remuneration set for when this occurs.
- Incentives have been established for transmission grid availability.

In order to apply this Royal Decree in 2015, the Ministry of Industry will have to set benchmark unit values for investments and operation and maintenance, after receiving proposals from the Spanish National Market and Competition Commission (CNMC). Lastly, it will also be necessary to determine the residual life of those facilities that came into service prior to 1998, which may be increased through supporting documentation of repair and maintenance work performed on them in the past.

- On 5 November and 3 December, Fitch and Standard & Poor's, respectively, upgraded the rating **outlook** for Red Eléctrica to **stable** from negative. In both cases, the upgrade was due to the improved outlook for Spain. This upgrade left Red Eléctrica's long-term rating at 'A-' (Fitch) and 'BBB' (Standard & Poor's).



Red Eléctrica Group

Consolidated income statement

(in thousands of euros)	31/12/2013	31/12/2012	2013/2012
Revenue	1,758,266	1,755,256	0.2%
Work performed on the Company's own assets	19,647	18,995	3.4%
Supply costs	(67,025)	(69,597)	(3.7%)
Other operating revenues	14,655	13,499	8.6%
Personnel costs	(127,263)	(129,148)	(1.5%)
Other operating expenses	(296,403)	(289,855)	2.3%
Gross Operating Result (EBITDA)	1,301,877	1,299,150	0.2%
Amortisation/depreciation of non-current assets	(416,565)	(405,496)	2.7%
Non-financial assets and other subsidies attributed	13,200	12,626	4.5%
Impairment and gains/losses on disposals of fixed assets	211	(46,392)	-
Net Operating Result (EBIT)	898,723	859,888	4.5%
Finance income	13,825	8,356	65.4%
Finance expense	(183,592)	(172,829)	6.2%
Exchange differences	427	(200)	-
Impairment and gains/losses on disposal of financial instruments	3,219	(15,999)	-
Net financial expense	(166,121)	(180,672)	(8.1%)
Results of companies carried under the equity method	411	1,298	(68.3%)
Profit before taxes	733,013	680,514	7.7%
Corporate Income tax	(203,215)	(188,368)	7.9%
Consolidated profit for the period	529,798	492,146	7.7%
A) Consolidated profit attributable to the parent company	529,139	492,288	7.5%
B) Consolidated profit attributable to non-controlling interests	659	(142)	-



Red Eléctrica Group Consolidated balance sheet

ASSETS (in thousands of euros)	31/12/2013	31/12/2012
Intangible assets	86,693	23,359
Property, plant and equipment	8,426,782	8,265,640
Investment properties	2,561	2,604
Investments carried under the equity method	-	4,774
Non-current financial assets	63,532	58,919
Deferred tax assets	34,586	1,928
Other non-current assets	317	16,923
Non-current assets	8,614,471	8,374,147
Inventories	44,980	52,747
Trade and other receivables	544,535	633,315
Current financial assets	1,018	1,130
Cash and cash equivalents	214,861	40,314
Current assets	805,394	727,506
Total assets	9,419,865	9,101,653

LIABILITIES (in thousands of euros)	31/12/2013	31/12/2012
Equity	2,248,628	2,027,340
Share capital	270,540	270,540
Reserves	1,548,523	1,370,426
Treasury shares and own equity instruments (-)	(1,707)	(14,698)
Profit attributable to the parent company	529,139	492,288
Interim dividend	(97,867)	(91,216)
Adjustments due to changes in value	(42,041)	(40,177)
Non-controlling interests	18,061	4,382
Equity	2,224,648	1,991,545
Subsidies and others	418,297	403,210
Non-current provisions	84,151	65,434
Non-current financial liabilities	4,662,995	3,990,860
Deferred tax assets	598,855	537,564
Other non-current liabilities	72,978	75,268
Non-current liabilities	5,837,276	5,072,336
Current provisions	10	10
Current financial liabilities	991,904	1,763,611
Trade and other payables	366,027	274,151
Current liabilities	1,357,941	2,037,772
Total equity and liabilities	9,419,865	9,101,653



Consolidated cash flow statement

(in thousands of euros)	31/12/2013	31/12/2012
CASH FLOWS FROM OPERATING ACTIVITIES	1,191,850	798,771
Profit before taxes	733,013	680,514
Adjustments to results	583,337	618,770
Depreciation/amortization	416,565	405,496
Other adjustments to result (net)	166,772	213,274
Changes in working capital	208,878	(244,236)
Other cash flows from operating activities	(333,378)	(256,277)
Payment of interest	(174,915)	(152,162)
Collection of dividends	5,313	5,592
Collection of Interest	11,381	1,746
Corporate income tax received/ (paid)	(166,536)	(109,051)
Other income/(expenses) from operating activities	(8,621)	(2,402)
CASH FLOWS FROM INVESTING ACTIVITIES	(555,312)	(723,602)
Payments from investments	(584,437)	(739,244)
Property, plant and equipment, intangible assets and property investment	(578,608)	(738,214)
Other financial assets	(5,829)	(1,030)
Proceeds from disposals	838	701
Property, plant and equipment, intangible assets and property investment	-	125
Other financial assets	838	576
Other cash flows from investing activities	28,287	14,941
CASH FLOWS FROM FINANCING ACTIVITIES	(461,386)	(54,315)
Proceeds from/(payments for) equity instruments	19,519	17,348
Acquisitions	(125,602)	(125,330)
Disposals	145,121	142,678
Proceeds from/(payments for) financial liabilities	(164,580)	222,879
Issue and placements	1,585,044	1,808,226
Redemption and write-off	(1,749,624)	(1,585,347)
Dividend payments	(319,031)	(297,677)
Other cash flows from financing activities	2,706	3,135
Effect of variations in exchange rates	(605)	117
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	174,547	20,971
Cash and cash equivalents at beginning of period	40,314	19,343
Cash and cash equivalents at end of period	214,861	40,314



Financial calendar

Upcoming events

Estimated dates

1Q14 earnings presentation	April 2014
General Shareholders' Meeting	April 2014

For more information:

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



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APPENDIX

Corporate responsibility certifications



Red Eléctrica included in the DJSI World Index for the eighth year running, with a score of 80 points out of a 100.



Included in “The Sustainability Yearbook 2014” with Member status.



FTSE4Good

An overall score of 4.5 out of 5, and a relative score of 100 points out of 100 in 2013. (*).



Included in the Ethibel Excellence Index since 2008.

Included in the Ethibel Pioneer Index in December 2012.



Included in the Kempen SNS SRI Index since 2004.



Included in the ESG STOXX Leaders Index since 2011.



Included in the ECPI Ethical EMU Equity Index since 2011.



Awarded “Best in class” distinction in 2009.



Included since 2008. Chosen in 2011 as one of the four leading European companies in terms of sustainability, securing the maximum score (96 out of 130).



Included in the investor universe in 2010. Top-ranked in a comparative analysis of the sustainability performance of 13 European utilities.

(*)FTSE Group confirms that Red Eléctrica Corporación has been independently evaluated in accordance with FTSE4Good criteria and meets the requirements to be ranked in the FTSE4Good indices, the global index established by the FTSE Group. FTSE4Good is a global index designed to encourage investments in companies that meet globally recognised corporate responsibility standards. Companies ranked in the FTSE4Good index adhere to strict environmental, social and corporate governance criteria, and are in a position to benefit from sustainable business practices.