

RED
ELÉCTRICA
CORPORACIÓN

Financial results

January - December 2016

Profit for the year was €636.9 million, a 5.1% increase on 2015.

EBITDA was €1,486.0 million in 2016, up 1.9% on the previous year.

Investments for the Red Eléctrica Group totalled €643.1 million, of which €398.5 was earmarked for developing the national transmission grid. This amount includes €199.8 million for the acquisition of 50% of the Chilean company TEN.

The dividend for the 2016 financial year proposed to the General Shareholders' Meeting will amount to €0.8587 per share, 7% more than was paid last year, taking into account the share split and in line with that announced in Red Eléctrica's strategic plan.

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23rd February 2017



1. Red Eléctrica: Financial highlights

Income statement

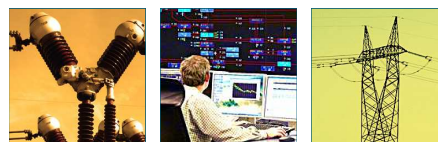
(in thousands of euros)	January - December			October - December		
	2016	2015	Δ %	2016	2015	Δ %
Revenue	1,932,343	1,938,939	(0.3)	487,025	482,607	0.9
Gross operating profit (EBITDA)	1,486,049	1,458,427	1.9	372,988	369,973	0.8
Net operating profit (EBIT)	1,003,288	989,018	1.4	251,678	250,772	0.4
Profit before tax	850,788	829,722	2.5	215,414	210,538	2.3
Profit for the period	636,920	606,013	5.1	165,633	157,239	5.3

Balance Sheet

(in thousands of euros)	December 2016	December 2015	Δ %
Non-current assets	9,256,765	9,156,541	1.1
Equity	2,920,549	2,760,613	5.8
Net financial debt	4,949,456	4,905,873	0.9

Other financial figures

(in thousands of euros)	January - December			October - December		
	2016	2015	Δ %	2016	2015	Δ %
Operating cash flow after taxes	1,146,939	1,134,939	1.1	198,928	204,447	(2.7)
Investments	643,100	447,818	43.6	185,028	119,484	54.9
Dividends paid	432,834	404,825	6.9	-	-	-



2. Profit performance

Revenue for 2016 was €1,932.3 million, compared to €1,938.9 million in the previous year. This figure includes the revenue for transmission in Spain that includes the assets commissioned in 2015. It includes further revenues such as those from the telecommunications services provided, amounting to €86.0 million, and regulated revenue from system operation in the amount of €56.0 million as well as revenues from international transmission activity, amounting to €19.8 million.

EBITDA amounted to €1,486.0 million, showing growth of 1.9% year-on-year.

Operating costs were as follows:

- **Supply costs and other operating expenses** fell 3.0% in 2016, continuing to reflect the efficiency measures implemented by Red Eléctrica over the year. The increase of over 20% undergone by this item in the fourth quarter is mainly owing to the inclusion of the costs corresponding to new investment projects in Peru in application of accounting standard IFRIC 12, an expense that has a balancing entry of a similar amount in the Group's revenues. Excluding this effect, the supply costs and other operating expenses would have fallen by about 6% in the annual calculation.
- **Personnel expenses** rose 3.9% year-on-year. More than half of this increase is owing to the change in wages and salaries, which takes into account the increase in the workforce. The rest is due to greater Social Security expenditure and other similar expenses.

The **final workforce** was 1,773 employees at 31 December 2016, while the average workforce stood at 1,765 employees, a rise of 0.6% compared to 2015.

Operating expenses

(in thousands of euros)	January - December			October - December		
	2016	2015	Δ %	2016	2015	Δ %
Supplies and other operating expenses	362,811	374,102	(3.0)	100,753	83,542	20.6
Personnel expenses	145,145	139,635	3.9	39,029	37,157	5.0
Operating expenses	507,956	513,737	(1.1)	139,782	120,699	15.8

Net operating profit (EBIT) stood at €1,003.3 million, a 1.4% rise year-on-year. This is thanks to a 3.0% rise in the provision for amortisation and depreciation of non-current assets as a result of new assets to be commissioned in the year.

Financial profit (loss) was €-151.3 million, compared to €-159.3 million last year. The improvement seen is mainly due to paying less interest thanks to a fall in the company's cost of finance.

Lastly, **Profit for the year** amounted to €636.9 million, a rise of 5.1% year-on-year. The effective tax rate stood at 24.9%, in line with the 25% defined in the Corporate Income Tax Act 27/2014.



3. Cash flow and balance sheet performance

Cash flows

(in thousands of euros)	January - December			October - December		
	2016	2015	Δ %	2016	2015	Δ %
Profit before tax	850,788	829,722	2.5	215,414	210,538	2.3
Taxes paid on earnings	(190,351)	(163,112)	16.7	(142,635)	(119,438)	19.4
Provision for amortisation/depreciation of non-current assets	504,200	489,533	3.0	126,934	124,660	1.8
Other adjustments	(17,698)	(21,204)	(16.5)	(785)	(11,313)	(93.1)
Operating cash flow after taxes	1,146,939	1,134,939	1.1	198,928	204,447	(2.7)
Changes to working capital	(144,304)	196,879	-	16,247	101,625	(84.0)
Long-term changes to other non-current assets and liabilities	5,171	40,127	(87.1)	146,810	51,591	-
Changes to suppliers of PP&E	43,729	(11,072)	-	67,687	34,055	98.8
Investments	(643,100)	(447,818)	43.6	(185,028)	(119,484)	54.9
Free cash flow	408,435	913,055	(55.3)	244,644	272,234	(10.1)
Dividends paid	(432,834)	(404,825)	6.9	-	-	-
Change in net financial debt (*)	24,399	(508,230)	-	(244,644)	(272,234)	(10.1)

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

Operating cash flow after taxes was €1,146.9 million, a rise of 1.1% year-on-year. This item includes the increase of 16.7% undergone in the corporate income tax paid as a result of the application of Royal Decree Law 2/2016 that increases the instalment payments of corporate tax.

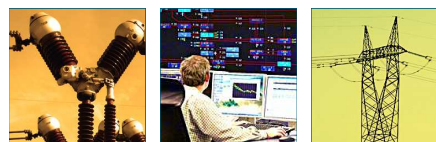
Changes to working capital were negative in the amount of €144.3 million compared to the positive variation of €196.9 million in the previous year. This behaviour is explained by the absence of atypical elements seen in 2015, such as the VAT recovery associated with the purchase of long term fibre optic network usage rights and the collection of certain pending settlement in the system.

Group **investments** in 2016 amounted to €643.1 million, up 43.6% year-on-year. €398.5 million of this amount was earmarked for the development of the national transmission network, and €199.8 million for the acquisition of 50% of the Chilean company TEN^(*). The company TEN invested a total of €273 million in Chile till to date.

Dividends paid against the results of the previous year amounted to €432.8 million, equivalent to €0.8025 per share as included in the 2014-19 Strategic Plan.

As a result, the evolution of the different headings described here has led to an increase of €24.4 million in the Group's **net financial debt** during this year.

(*) This company is included in the consolidated financial statements by the equity method.



Net financial debt (*)

(in thousands of euros)	National currency	Foreign currency	Total
Cash and cash equivalents	(216,361)	(35,060)	(251,421)
Long-term debenture bonds	2,980,784	452,502	3,433,286
Long-term loans	1,527,879	39,509	1,567,388
Promissory notes and current loans	200,064	139	200,203
Total net financial debt	4,492,366	457,090	4,949,456

(*) Debt classified according to its original contracting, without considering short-term transfers.

At 2016 year end, 96% of the Group's financial debt is long term. 84% of the Group's net debt is at a fixed rate interest, while the remaining 16% is at a floating rate.

The average cost of the Group's financial debt in 2016 was 2.94%, compared to 3.20% in the previous year. The average balance of gross debt stood at €5,462.1 million, compared to €5,418.9 million in the previous year.

Moreover, the Red Eléctrica Group's **equity** stood at €2,920.5 million, a 5.8% rise on 2015 year end. This growth is mainly due to the results from the period reduced by the corresponding distribution of dividends.

4. Significant events

- The Board of Directors, in its meeting held on 22 February 2017, has agreed to propose to the General Shareholders' Meeting a dividend per share of €0.8587 paid against the results for 2016, pursuant to the dividend policy communicated by the company in its strategic plan. The €0.2382 per share interim dividend paid on 5 January must be deducted from this amount.
- On 13 January, €200 million was drawn from financing from the European Investment Bank (EIB) that amounted to €450 million. The maturity of this tranche will be 13 January 2042 at a very competitive cost.
- On 19 January the Red Eléctrica Group, through Red Eléctrica Internacional, acquired 45% of the shares of Redesur. With this operation, the Red Eléctrica Group has acquired the entire share capital of the company. Redesur is the company that operates the electricity system in southern Peru on a concession basis. This operation is part of the Red Eléctrica Group's international expansion plans and reinforces the role of Red Eléctrica Internacional as an electricity transmission company in southern Peru, where it has been operating since 1999 and manages a network of 1,186 kilometres of circuit, of which 942 are in operation and 244 under construction.
- Last December the company Transmisora Eléctrica del Norte (TEN) completed a Finance Project to finance the project for the interconnection of the two main electricity systems in Chile. The financing was for a total of \$856 million in different tranches with maturities between 2034 and 2042. Finally, a loan equivalent to \$111 million has also been signed to finance the VAT for the construction period.
- On January 25, Red Eléctrica obtained the "RobecoSAM Silver Class 2017" award granted by the sustainability agency RobecoSAM. This distinction recognises Red Eléctrica's ability to permanently improve its sustainability performance, one of the company's key strategic factors in all its processes. These awards are directly linked to the results obtained in the renowned Dow Jones Sustainability Indices (DJSI). In this regard, it should be noted that Red Eléctrica reached 90 points in the last RobecoSAM Corporate Sustainability Assessment rating, being the only company in its sector to ratify its presence in this family of indices for the second year running (European and World DJSI).



Red Eléctrica Group

Consolidated Income Statement

(in thousands of euros)	31/12/2016	31/12/2015	2016/2015
Revenue	1,932,343	1,938,939	(0.3%)
Own work capitalised	40,398	20,719	95.0%
Supply costs	(49,222)	(47,865)	2.8%
Other operating income	21,264	12,506	70.0%
Personnel expenses	(145,145)	(139,635)	3.9%
Other operating expenses	(313,589)	(326,237)	(3.9%)
Gross operating profit (EBITDA)	1,486,049	1,458,427	1.9%
Amortisation/depreciation of non-current assets	(504,200)	(489,533)	3.0%
Release of grants related to non-financial assets	21,318	20,084	6.1%
Impairment and gains/losses on disposal of fixed assets	121	40	-
Net operating profit (EBIT)	1,003,288	989,018	1.4%
Finance income	10,970	8,932	22.8%
Finance costs	(162,003)	(167,457)	(3.3%)
Exchange differences	(313)	(41)	-
Impairment and gains/losses on disposal of financial instruments	-	(730)	-
Net finance expense	(151,346)	(159,296)	(5.0%)
Profit participation in companies under the participation method	(1,154)	-	-
Profit before tax	850,788	829,722	2.5%
Income tax expense	(212,181)	(222,962)	(4.8%)
Consolidated profit for the period	638,607	606,760	5.2%
A) Consolidated profit attributable to the Parent	636,920	606,013	5.1%
B) Consolidated profit attributable to non-controlling interests	1,687	747	-



Red Eléctrica Group Consolidated Balance Sheet

ASSETS (in thousands of euros)	31/12/2016	31/12/2015
Intangible assets	134,572	118,471
Property, plant and equipment	8,776,711	8,884,598
Investment property	2,429	2,473
Investments recognised under the participation method	200,757	-
Non-current financial assets	111,861	119,986
Deferred tax assets	28,903	30,111
Other non-current assets	1,532	902
Non-current assets	9,256,765	9,156,541
Inventories	39,467	41,755
Trade and other receivables	962,122	1,010,265
Other current financial assets	40,575	2,522
Cash and cash equivalents	251,421	386,861
Current assets	1,293,585	1,441,403
Total assets	10,550,350	10,597,944

LIABILITIES (in thousands of euros)	31/12/2016	31/12/2015
Equity	2,965,210	2,774,745
Capital	270,540	270,540
Reserves	2,222,906	2,051,350
Treasury shares and own equity instruments (-)	(36,739)	(33,076)
Profit attributable to the Parent	636,920	606,013
Interim dividend	(128,417)	(120,082)
Valuation adjustments	(62,156)	(29,482)
Non-controlling interests	17,495	15,350
Equity	2,920,549	2,760,613
Grants and other	547,941	548,598
Non-current provisions	94,651	84,528
Non-current financial liabilities	5,034,400	4,827,113
Deferred tax liabilities	486,570	512,286
Other non-current liabilities	64,225	68,196
Non-current liabilities	6,227,787	6,040,721
Current financial liabilities	1,066,909	1,313,328
Trade and other payables	335,105	483,282
Current liabilities	1,402,014	1,796,610
Total equity and liabilities	10,550,350	10,597,944



Consolidated Cash Flow Statement

(in thousands of euros)	31/12/2016	31/12/2015
CASH FLOWS FROM OPERATING ACTIVITIES	1,007,130	1,326,140
Profit before tax	850,788	829,722
Adjustments for:	647,262	639,039
Amortisation and depreciation	504,200	489,533
Other adjustments to results (net)	143,062	149,506
Changes in working capital	(144,304)	196,879
Other cash flows from operating activities	(346,616)	(339,500)
Interest paid	(157,508)	(173,135)
Interest received	3,881	4,566
Dividends received	6,350	4,366
Income tax received/(paid)	(190,351)	(163,112)
Other collections/(payments) on operating activities	(8,988)	(12,185)
CASH FLOWS FROM INVESTING ACTIVITIES	(587,605)	(384,257)
Payments for investments	(599,048)	(469,190)
Property, plant and equipment, intangible assets and investment property	(364,355)	(458,890)
Group and associated companies and business units	(200,616)	-
Other financial assets	(34,077)	(10,300)
Proceeds from disposals	875	3,346
Property, plant and equipment, intangible assets and investment property	-	59
Other assets	875	3,287
Other cash flows from investing activities	10,568	81,587
CASH FLOWS FROM FINANCING ACTIVITIES	(555,879)	(854,594)
Proceeds from/(payments for) equity instruments	(3,188)	(19,796)
Acquisitions	(93,975)	(156,457)
Disposals	90,787	136,661
Proceeds from/(payments for) financial liabilities	(111,041)	(420,737)
Issue and placements	1,047,939	1,198,485
Redemption and repayment	(1,158,980)	(1,619,222)
Dividend payments	(432,834)	(404,825)
Other cash flows from financing activities	(8,816)	(9,236)
Effect of exchange rates fluctuations	914	204
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(135,440)	87,493
Cash and cash equivalents at beginning of period	386,861	299,368
Cash and cash equivalents at end of period	251,421	386,861



Financial calendar

Upcoming events

Estimated dates

General Shareholders' Meeting	March – April 2017
First quarter 2017 results presentation	26 th April 2017
Additional dividend payment	3 rd July 2017

For more information,

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Red Eléctrica has a S&P rating of 'A-' and a Fitch rating of 'A'.



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APPENDIX

Corporate responsibility certifications



Consolidation of its position in the Dow Jones sustainability indices (Europe and



Silver Class distinction in the RobecoSAM Sustainability Yearbook 2017.



Included in the FTSE4Good index since 2008. (*)



Renewed inclusion in the STOXX Global ESG Leaders indices



Renewed its presence in the MSCI Global Sustainability Indexes following its inclusion in 2014.



Renewed presence in the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120, Global 120) following its first inclusion in 2014.



Renewal in the Ethibel Sustainability Index (ESI) Excellence Europe effective from 21/09/2015.



Renewed inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers since 29 January 2015. Included in the Ethibel Excellence index since 2009.



Included in the ECPI Indices since 2008.



Part of the "A list" of the Carbon Disclosure Project, recognised as a leading company for its efforts and actions to combat climate change.



One of the ten companies best identifying material sustainability and corporate governance issues according to the IRR Survey 2015.



Included among the ten leading companies in the ranking of the study on the status of sustainability reporting of IBEX 35 companies.

(*) FTSE Group confirms that Red Eléctrica Corporation has been independently assessed in accordance with FTSE4Good criteria and meets the requirements to be ranked in 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.