



LETTER FROM THE
CHAIRMAN AND THE CHIEF
EXECUTIVE OFFICER



KEY PERFORMANCE
INDICATORS



01. THE COMPANY



02. STRATEGY



03. CORPORATE
GOVERNANCE



04. MANAGEMENT
APPROACH



05. SUSTAINABLE
ENERGY



06. CREATION
OF VALUE



07. EMPLOYEES



08. SOCIETY



09. DIALOGUE
WITH
STAKEHOLDERS



10. THE
ENVIRONMENT



ANNEXES

CREATION OF VALUE

06

Connected to
solid growth
and a clear
orientation
towards
efficiency
and financial
soundness





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CORNERSTONES FOR ATTAINING THE CREATION OF VALUE

Financial soundness, solvency and solid growth

FINANCIAL RESULTS



SHAREHOLDER RETURN

Maximising returns for shareholders and investors, offering an attractive dividend yield, and contributing to the increase in the share price through efficient business management.

5.3% increase in the share price
7% increase in the dividend

FINANCIAL STRATEGY

A financial policy adapted to the new remuneration model, maintaining a diversified financial debt and a comfortable position of liquidity to cover upcoming maturities.

€4,905.9m of net financial debt,
9.3% less than 2014

€
606
m
IN NET PROFIT

8.3% higher than 2014 in recurring terms

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Evolution of results [G4-DMA, G4-9]

During 2015, has managed to show stable growth. The Company achieved solid results and a significant strengthening of its core solvency ratios whilst maintaining a clear focus on operational efficiency and the permanent creation of value.

Net revenue in 2015 amounted to 1,938.9 million euros, an increase of 5% year-on-year. This increase reflects the growth in the revenue associated with new transmission facilities commissioned in 2014, and that associated with the provision of telecommunications services. For this concept 83.5 million euros were registered as they include revenue during 2015 associated with the rights to use and manage the dark fibre optic network of ADIF while revenues for 2014 included only a month and a half as the acquisition of said agreement was formalised in November 2014.

Gross operating result (EBITDA) totalled 1,458.4 million euros,

representing growth of 5.3% year-on-year. More than half of the growth in EBITDA is due to the telecommunications business, the rest comes from the traditional activities of Red Eléctrica.

For its part, **net profit** totalled 606 million euros, 15.6% below that of the previous year. If we strip out

non-recurring items included in 2014, such as compensation for TDE and the impact of the implementation of the tax reform, set out in Law 27/2014 on corporation tax for a total of 106.1 million euros, the profits for the year would have increased by 8.3%.

KEY FINANCIAL INDICATORS

€m

	2015	2014	Δ%
Net Revenue	1,938.9	1,846.7	5.0
Gross operating result (EBITDA)	1,458.4	1,385.4	5.3
Profit before tax	829.7	853.5	(2.8)
Profit for the period	606.0	717.8	(15.6)
Recurring profit for the period ⁽¹⁾	606.0	559.5	8.3
Non-current assets	9,156.5	9,138.2	0.2
Net equity	2,760.6	2,552.5	8.2
Net financial debt	4,905.8	5,408.5	(9.3)
Operating Cash flow after tax	1,134.9	1,009.1	12.5
Investments ⁽²⁾	447.8	957.6	(53.2)

⁽¹⁾ Earnings for 2014 include non-recurring gains from the compensation for TDE (€52 million) and from application of Corporate Income Tax Law 27/2014 (€106 million). Stripping out these items would have increased profits by 8.3% year-on-year. ⁽²⁾ Investment in 2014 included the acquisition of the rights to use ADIF's dark fibre optic network for €434 million.

EBITDA
2015

€
1,458.4
m

+5.3%

Compared
to 2014



In the Consolidated Annual Accounts Report.



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Operating cash flow after tax was 1,134.9 million euros, an increase of 12.5% compared to that generated in the same period last year. The strong cash generation and positive behaviour of working capital has allowed investments and dividends to be paid, and to reduce the **net financial debt** of the Red Eléctrica Group, which

at the close of the fiscal year was 4,905.9 million euros.

Investments made by the Group during 2015 reached 447.8 million euros, of which 410.7 million euros were earmarked for the development of the national transmission grid, and 12 million euros to energy storage in the Canary Islands. Investments

in 2015 were 53.2% lower than during the preceding year, given that in 2014 the acquisition of rights of use and management of ADIF's dark fibre optic network were also incorporated, a transaction that amounted to 433.7 million euros.

At the close of 2015, 89% of the Group's **Financial debt** is long term. Regarding the interest rate, 85% of it is fixed rate, while the remaining 15% is variable. In 2015, the average cost of financial debt of the Group was 3.20%, compared to 3.49% the previous year. The average balance of gross debt stood at 5,418.9 million euros, compared to 5,047 million euros in 2014.

Finally, **Net Equity** of the Red Eléctrica Group reached 2,760.6 million euros, 8.2% higher than at the end of 2014. This growth is mainly due to the results of the corresponding period reduced by the distribution of dividends.

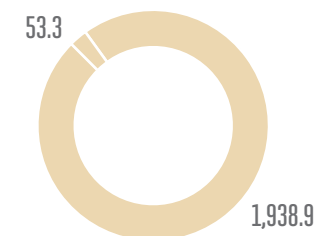
ECONOMIC VALUE GENERATED AND DISTRIBUTED (GROUP)

[G4-EC1]

	2013	2014	2015
Economic value generated [EVG]	1,805.8	1,884.1	1,992.2
Net revenue	1,758.3	1,846.7	1,938.9
Other net profits and losses [1]	47.5	37.4	53.3
Economic value distributed to stakeholders [EVD]	(1,208.0)	(1,122.3)	(1,330.2)
Employees: personnel costs	(127.3)	(133.0)	(139.6)
Company: Corporate Income Tax [2]	(203.2)	(134.4)	(223.0)
Investment in the community [3]	(4.0)	(5.7)	(6.6)
Suppliers: other operating expenses [4]	(363.4)	(347.7)	(367.5)
Shareholders: dividends [5]	(343.9)	(405.8)	(434.2)
Other Capital providers: net financial costs	(166.1)	(95.7)	(159.3)
Economic value retained [EVR]	597.8	761.9	662.1
Reserves	181.2	312.0	172.5
Amortisation and depreciation [6]	416.6	449.8	489.5

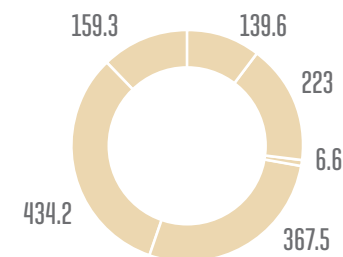
Note: Data obtained from Consolidated Annual Accounts. [1] Includes: other operating income/net results obtained via equity method/results from divestment of non-current assets (divestitures)/capital subsidies/other deferred incomes transferred to the fiscal year's results/works performed by the Company on its assets. During 2010, the Company was awarded a grant by the European Commission for the Spain-France electricity interconnection. The grant was awarded for a maximum total of 112.5 million euros, of which 59.3 million euros were received in 2015. With the aforementioned amount in 2015, the totality of the grant has now been received. More information in note 11 of the Consolidated Annual Accounts. [G4-EC4]
 [2] Costs due to Corporate Income Tax. [3] Investments in the community: data obtained by applying the LBG methodology and subsequently subjected to external verification. [4] Procurements and other operating costs [excluding investments in the community]. [5] Includes the interim dividend and complementary dividend. [6] Includes: Amortisation / Depreciations [includes mainly provisions for deterioration in asset value].

€m CREATION OF VALUE ECONOMIC VALUE GENERATED [G4-EC1]



53.3 Other net incomes and losses
1,938.9 Net revenue

ECONOMIC VALUE DISTRIBUTED



139.6 Employees: personnel costs
223 Company: Corporate Income Tax
6.6 Society: investments in the community
367.5 Suppliers: other operating expenses
434.2 Shareholders: dividends
159.3 Other Capital providers: net financial costs



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Financial strategy

The financial strategy traditionally followed by Red Eléctrica is geared towards reflecting the nature of the business it undertakes, whilst adhering to the legislation in force at each moment.

Transmission and operation of the electricity system are very capital-intensive activities, wherein investments mature over long periods. In addition, the remuneration of these assets is for periods of 40 years at rates linked to Spanish long-term government debt. Therefore, our financial debt

is primarily long-term and referenced mainly at fixed rates.

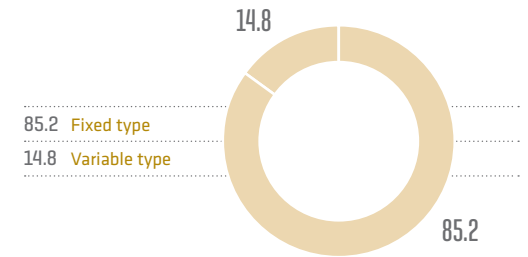
Credit rating

Red Eléctrica has been given a long-term credit rating of 'A-' by Standard & Poor's with a stable outlook and a short-term rating of 'A-2'. Meanwhile, Fitch has given Red Eléctrica a long-term rating of 'A-' with a positive outlook, and 'F2' in the short term.

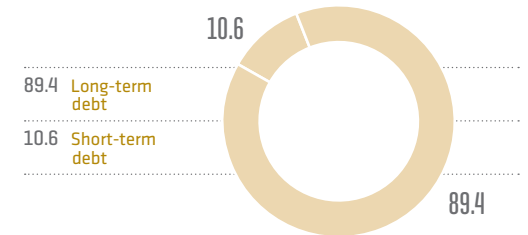
Both rating agencies indicated the predictability and recurrent earnings and strong balance sheet as strengths of the Company.

The financial debt of the Company is **mainly contracted long-term** and referenced at fixed-rates.

FINANCIAL DEBT STRUCTURE FIXED vs. VARIABLE

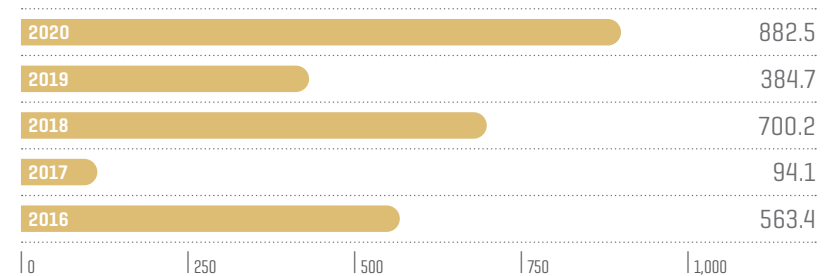


FINANCIAL DEBT STRUCTURE SHORT-TERM vs. LONG-TERM



Information on financial strategy in the 'Shareholders and Investors' section of the corporate website.

FINANCIAL DEBT MATURITY





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Shareholder return

STOCK MARKET PERFORMANCE

Gains have been seen in the most important variable income markets, reflecting a more favourable economic situation for the stock markets in developed countries than in previous years. The main European markets have registered gains of between 5 and 10% in the

year, a behaviour similar to that registered by the Japanese Nikkei. Wall Street, meanwhile, fell behind after 6 consecutive years a clear predominance in gains, both the S&P 500 and the Dow Jones closed the year with slight losses, while the Nasdaq was positive again at the close of the year. The IBEX 35 and FTSE were the main exceptions. The significant weight of mining

companies and basic resources in the latter, caused a drop close to 5% in the British index. The fall in our index, of over 7%, is possibly due to political uncertainty associated with our country at the end of the year.

The favourable reception of the **Strategic Plan 2014-2019** and the visibility of the dividend policy has allowed Red Eléctrica to maintain **a positive evolution in 2015.**



2015 **POSITIVE EVOLUTION** in the stock market



RED ELÉCTRICA
Exceeds the **IBEX 35** in 2015

IBEX 35
2015



DROP OF OVER
7%

Compared to the gains of the major European markets of between 5 and 10%



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However, 2015 has been especially turbulent from a stock market point of view. Greece's problems to meet the demands of its creditors represented the first serious obstacle of the year, although confined to European markets. The decision in May by the Federal Reserve to postpone the rate hike, which had already been announced in the previous year, spread doubts among investors, because the situation the world economy was facing was not as buoyant as initially thought.

China made this evident, as in late August it was forced to devalue its currency, causing sharp falls on stock exchanges around the world that lasted for much of the autumn. The collapse of oil prices and raw materials, the slowdown of the Chinese economy and the clear recession in other emerging countries, or equivocal action by central banks, prompted a bearish reaction in the markets during the final month of the year.

GROSS
DIVIDEND
2015

€
3.21

PER SHARE

+7%
Compared to 2014

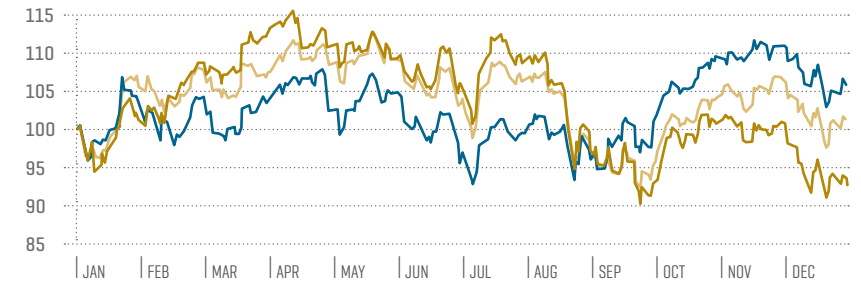


RED ELECTRICA'S SHARE

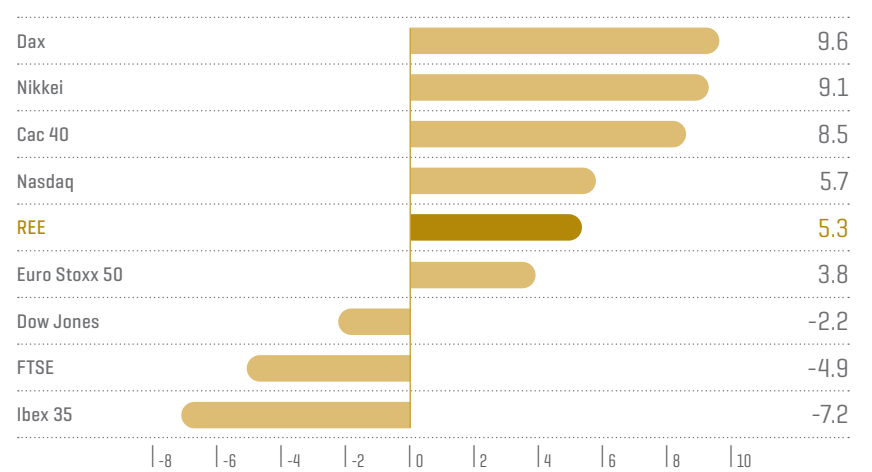
has appreciated in value more than 58% in the last two years.

VALUE
COMPARISON

Red Eléctrica Energy sector IBEX 35



EVOLUTION OF RED ELÉCTRICA AND THE MAIN STOCK MARKET INDEXES 2015



RED ELÉCTRICA SHARES

Red Eléctrica again surpassed the IBEX 35 in 2015 and in addition to the extraordinary rise registered in 2014, over 50%, we have to add an increase in the share price of more than 5% over the last year, and a return of over 9% if we include the dividends paid out by the Company. The favourable reception of the Strategic Plan 2014-2019, and the visibility of the dividend policy has allowed our Company to avoid negative values in 2015.

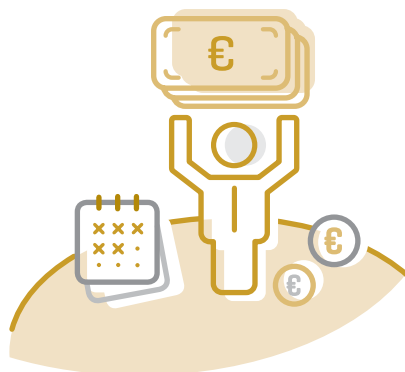
In 2015 as a whole, 248.2 million shares were traded, representing 1.84 times the capital of the Company. Purchases made in cash totalled 18.537 million euros, up 22% on the previous year which totalled 15.184 million euros. Meanwhile, the number of shares traded in 2014 was 241.5 million.

DISTRIBUTION OF DIVIDENDS

Red Eléctrica maintains its commitment to maximising the share value for its shareholder, offering on one hand, an attractive dividend yield and, on the other, contributing to the increase in the

share price through the efficient management of its business.

The direct shareholder return in the form of dividends increased by 7% over the previous year. The gross dividend proposed at the General Shareholder's Meeting with a charge to 2015 profit, is 3.21 euros per share. On 4 January 2016, a gross interim dividend payout of 0.8906 euros per share was made, with 2.3194 euros per share pending distribution, as part of a gross complementary dividend.



In the 'Shareholders and Investors' section of the corporate website.

In 2015,
Red Eléctrica's share
price rose by 5.3% and
shareholder returns
exceeded 9% if we
include dividends paid out
by the Company.

MAIN STOCK MARKET INDICATORS

€

	2011	2012	2013	2014	2015
Total number of shares (thousands)	135,270	135,270	135,270	135,270	135,270
N° of shares in circulation (thousands)	108,216	108,216	108,216	108,216	108,216
Face value of the share (in €)	2	2	2	2	2
Share price (in €)					
Maximum	43.89	39.75	48.50	74.95	81.77
Minimum	30.24	29.00	36.99	47.40	67.95
Year end	33.06	37.30	48.50	73.21	77.11
Market capitalisation at close of fiscal year (in €m)	4,472.0	5,045.6	6,560.6	9,903.1	10,430.7
Earnings per share (EPS) (in €)	3.42	3.66	3.92	5.31	4.49
Share price/EPS (N° of times)	9.66	10.19	12.37	13.78	17.17
Dividend per share (in €)	2.2124	2.3651	2.5422	3.0	3.21