

RED
ELÉCTRICA
CORPORACIÓN

Financial results

January - June 2014

Profit for the first six months of 2014 rose 6.6% year-on-year to €290.0 million

EBITDA was 7.7% higher year-on-year, at €694.7 million.

The Red Eléctrica Group invested a total of €249.0 million, of which €230.1 was earmarked for developing the national transmission grid.

These results enable Red Eléctrica to confirm that it is on the right track to meet the objective set at the start of the year to achieve an increase in profits of between 4% and 5% in 2014.

30 July 2014

Index

1. Red Eléctrica: Financial highlights	2
2. Earnings performance.....	3
3. Cash flow and balance sheet performance	4
4. Relevant events during the quarter	5
Consolidated income statement	6
Consolidated balance sheet.....	7
Consolidated cash flow statement	8
Financial calendar	9
Appendix	10

The Consolidated Condensed Interim Financial Statements forming part of the financial information presented in this document were subjected to a limited review by the auditors. This information was drawn up in accordance with the International Financial Reporting Standards (IFRS).



1. Red Eléctrica: Financial highlights

Income statement

(in thousands of euros)	January - June		
	2014	2013	Δ %
Net revenue	926,472	856,363	8.2
Gross operating result (EBITDA)	694,669	645,241	7.7
Net operating result (EBIT)	485,293	445,020	9.0
Profit before taxes	414,902	362,274	14.5
Profit for the period	289,972	271,975	6.6

Balance sheet

(in thousands of euros)	June 2014	December 2013	Δ %
Non-current assets	8,661,018	8,614,471	0.5
Equity	2,262,436	2,224,648	1.7
Net financial debt*	4,833,171	4,541,198	6.4

(*) Includes exchange rate derivatives.

Other financial figures

(in thousands of euros)	January - June		
	2014	2013	Δ %
Operating cash flow after taxes	563,114	512,164	9.9
Investments	249,023	229,680	8.4
Dividends paid	97,867	91,216	7.3



2. Earnings performance

Revenue for the first six months of 2014 amounted to €926.5 million, up 8.2% year-on-year. Transmission revenue in Spain was up 6.4% on June 2013, and includes income from facilities commissioned in 2013. Income from the provision of system operation services amounted to €28.0 million, up 40.7% on the previous year in accordance with the system operator remuneration set out in the 2014 Tariff Order. In addition, the results for the first half of the year include consolidation effects relating to Redesur and the enhanced scope of investment by Transmisora Eléctrica del Sur, S.A.

Turning to operating expenses.

- **Costs of supplies and other operating expenses** increased by 8.8% in the first half of the year, due equally to increased maintenance activity on the transmission grid and the increased scope of investment in Transmisora Eléctrica del Sur, S.A.
- **Personnel expenses** rose by 4.4% compared with the same period in the previous year.

The **final headcount** was 1,742 employees at 30 June 2014, while the average headcount was 1,745 employees, up 2.1% on the first six months of 2013.

Our **gross operating result (EBITDA)** was €694.7 million, up 7.7% year-on-year, with an EBITDA margin over turnover similar to that in the first six months of 2013. However, this margin would stand at 75.9% if we excluded investment in Transmisora Eléctrica del Sur, S.A.

Operating expenses

(in thousands of euros)	January - June		
	2014	2013	Δ %
Supplies and other operating expenses	178,176	163,789	8.8
Personnel expenses	65,176	62,411	4.4
Operating expenses	243,352	226,200	7.6

The **Net Operating Result (EBIT)** stood at €485.3 million, up 9.0% year-on-year, due to a 4.3% increase in amortisation and depreciation of non-current assets, which was lower than the increase in EBITDA.

The **net financial result** in like-for-like terms stood at -€70.4 million, compared to -€83.2 million in the same period of the previous year. This improvement is mainly due to a reduction in finance costs as a result of a lower average gross debt balance and a reduction in the average interest rate. The 2013 financial result included €3.2 million from valuing our existing stake in Redesur at fair value.

Finally, **profit for the period** rose 6.6% compared to the same period of 2013. The effective tax rate was 30.0%. The tax rate in the first half of 2013 was 24.9%, mainly due to the application of Law 16/2012, which permitted an asset revaluation.



3. Cash flow and balance sheet performance

Cash flows

(in thousands of euros)	January - June		
	2014	2013	Δ %
Profit before taxes	414,902	362,274	14.5
Taxes paid on earnings	(56,731)	(48,706)	16.5
Provision for amortisation/depreciation of non-current assets	216,003	207,022	4.3
Other adjustments	(11,060)	(8,426)	31.3
After-tax cash flows from operations	563,114	512,164	9.9
Changes to working capital	(320,189)	17,080	-
Changes to other non-current assets and liabilities (1)	(29,243)	136,191	-
Changes to suppliers of PP&E	(157,227)	(89,893)	74.9
Investment	(249,023)	(229,680)	8.4
Free cash flow	(192,568)	345,861	-
Dividends paid	(97,867)	(91,216)	7.3
Variation in net financial debt (2)	290,435	(254,645)	-

(1) In the first half of 2013, this includes temporary financial investment with maturities of more than 3 months at the time contracts were drawn up, in the amount of €124.8 million.

(2) 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 amounted to €563.1 million, a 9.9% increase on the same period in the previous year.

Working capital was down €320.2 million, mainly due to factors at the end of 2013, which included payment of a pending VAT payment and the settlement for December, as explained in previous communications. Meanwhile, changes to other non-current items and suppliers of property, plant and equipment resulted in negative cash flow of €186.5 million, due mainly to increased payments to suppliers of PP&E.

Group investment in the first half of 2014 totalled €249.0 million, up 8.4% compared to the same period in 2013, with investment in developing the Spanish transmission grid accounting for €230.1 million of the total.

The **interim dividend paid out** in the first half of 2014 amounted to €97.9 million, equivalent to the €0.7237 per share on the interim dividend for 2013.

As a result, **net financial debt** increased by €290.4 million to €4,833.2 million at 30 June 2014, in line with our forecasts, compared to €4,541.2 million at 31 December 2013.



Net debt

(in thousands of euros)	National currency	Foreign currency	Total
Cash and cash equivalents	(136,965)	(2,352)	(139,317)
Long-term debenture bonds	3,024,348	-	3,024,348
Long-term loans	1,690,651	52,959	1,743,610
Promissory notes and current loans	204,530	-	204,530
Total net financial debt	4,782,564	50,607	4,833,171

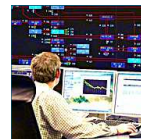
84% of the Group's net debt is fixed rate and the remaining 16% is floating rate.

In the first six months of 2014, the average cost of Group debt was 3.61%. Average gross debt stood at €4,834.7 million. In the same period in the previous year, the average cost of debt was 3.94% and the average gross debt was €5,199.2 million.

At 30 June 2014, the Red Eléctrica's Group's equity totalled €2,262.4 million, up €37.8 million compared to year-end 2013, mainly due to earnings in the first six months of the year.

4. Relevant events during the quarter

- On 24 June 2014, the ratings agency Standard & Poor's raised its outlook for Red Eléctrica from Neutral to Positive. This was the result of the recent improvement in the rating for Spain. As a result, Red Eléctrica Corporación, S.A. and its subsidiary Red Eléctrica de España, S.A.U. have kept their **long-term rating at 'BBB' and their short-term rating at 'A-2'**, with the outlook upgraded from neutral to **positive**.
- On 16 June, Red Eléctrica Corporación, S.A., through its subsidiary Red Eléctrica Financiaciones, S.A.U., carried out a **€300 million euromarket bond issue**, with a maturity of 9 years. The bond issue has an annual coupon of 2.125% and was priced at 99.587%, equating to a yield of 2.176%. This issue took advantage of favourable conditions in the debt markets. The long maturity of the bonds means that they will contribute value to the company in both the current and the following regulatory periods.
- On 6 June, the Council of Ministers amended a number of specific aspects of the Electricity Transmission Grid Development Plan, including **additional investment** estimated at **€917.5 million**. This investment includes submarine links between the peninsula and Ceuta; between Ibiza and Formentera; between Lanzarote and Fuerteventura; and between Tenerife and La Gomera.
- In Peru, the 220 kV Tintaya – Socabaya line and substations associated came into **commercial operation** on 1 June 2014, as part of the concession awarded to **Transmisora Eléctrica del Sur, S.A.** in September 2010. The facilities were commissioned successfully in accordance with the schedule agreed with the Peruvian government and regulator. Transmisora Eléctrica del Sur has now started the operational phase of the concession, which will run for 30 years.



- The **10th Collective Bargaining Agreement** came into effect on 1 May and will run for 5 years, with the agreement of all union representatives. This new agreement is built around productivity, improving flexibility and sustainability. Salary increases are **now totally independent of inflation** and based exclusively on productivity criteria.



Red Eléctrica Group

Consolidated income statement

(in thousands of euros)	30/06/2014	30/06/2013	2014/2013
Revenue	926,472	856,363	8.2%
Own work capitalised	9,101	8,295	9.7%
Supply costs	(35,667)	(26,049)	36.9%
Other operating income	2,448	6,783	(63.9%)
Personnel expenses	(65,176)	(62,411)	4.4%
Other operating expenses	(142,509)	(137,740)	3.5%
Gross Operating Result (EBITDA)	694,669	645,241	7.7%
Amortisation/depreciation of non-current assets	(216,003)	(207,022)	4.3%
Release of grants related to non-financial assets	6,627	6,589	0.6%
Impairment of and gains/(losses) on disposals of fixed assets	-	212	-
Net Operating Result (EBIT)	485,293	445,020	9.0%
Finance income	8,223	9,551	(13.9%)
Finance costs	(78,438)	(95,602)	(18.0%)
Exchange differences	(176)	(325)	(45.8%)
Impairment of and gains/losses on disposal of financial instruments	-	3,219	-
Net finance expense	(70,391)	(83,157)	(15.4%)
Results of companies accounted for using the equity method	-	411	-
Profit before tax	414,902	362,274	14.5%
Income tax expense	(124,282)	(90,224)	37.7%
Consolidated profit for the period	290,620	272,050	6.8%
A) Consolidated profit attributable to the parent company	289,972	271,975	6.6%
B) Consolidated profit attributable to non-controlling interests	648	75	-



Red Eléctrica Group Consolidated balance sheet

ASSETS (in thousands of euros)	30/06/2014	31/12/2013
Intangible assets	99,618	86,693
Property, plant and equipment	8,447,234	8,426,782
Investment properties	2,539	2,561
Non-current financial assets	77,794	63,532
Deferred tax assets	33,440	34,586
Other non-current assets	393	317
Non-current assets	8,661,018	8,614,471
Inventories	43,759	44,980
Trade and other receivables	810,801	544,535
Current financial assets	670	1,018
Cash and cash equivalents	139,317	214,861
Current assets	994,547	805,394
Total assets	9,655,565	9,419,865

LIABILITIES (in thousands of euros)	30/06/2014	31/12/2013
Equity	2,290,413	2,248,628
Share capital	270,540	270,540
Reserves	1,732,436	1,548,523
Treasury shares and own equity instruments (-)	(2,535)	(1,707)
Profit attributable to the parent company	289,972	529,139
Interim dividend	-	(97,867)
Adjustments due to changes in value	(47,886)	(42,041)
Non-controlling interests	19,909	18,061
Equity	2,262,436	2,224,648
Grants and other non-current advances	415,126	418,297
Non-current provisions	84,266	84,151
Non-current financial liabilities	4,681,165	4,662,995
Deferred tax liabilities	604,717	598,855
Other non-current liabilities	71,769	72,978
Non-current liabilities	5,857,043	5,837,276
Current provisions	-	10
Current financial liabilities	1,194,289	991,904
Trade and other payables	341,797	366,027
Current liabilities	1,536,086	1,357,941
Total equity and liabilities	9,655,565	9,419,865



Consolidated cash flow statement

(in thousands of euros)	30/06/2014	30/06/2013
CASH FLOWS FROM OPERATING ACTIVITIES	207,563	533,891
Profit before tax	414,902	362,274
Adjustments to profit	280,610	286,809
Depreciation/amortisation	216,003	207,022
Other adjustments to result (net)	64,607	79,787
Changes in working capital	(320,189)	17,080
Other cash flows from operating activities	(167,760)	(132,272)
Interest paid	(113,800)	(90,954)
Collection of interest	3,657	2,578
Collection of dividends	4,566	5,310
Corporate income tax received/(paid)	(56,731)	(48,706)
Other collections/(payments) on operating activities	(5,452)	(500)
CASH FLOWS FROM INVESTING ACTIVITIES	(401,671)	(317,996)
Payments from investments	(406,250)	(319,573)
Property, plant and equipment, intangible assets and investment property	(403,817)	(314,026)
Other financial assets	(2,433)	(5,547)
Proceeds from disposals	201	561
Other financial assets	201	561
Other cash flows from investing activities	4,378	1,016
CASH FLOWS FROM FINANCING ACTIVITIES	118,383	426,984
Proceeds from/(payments for) equity instruments	334	3,147
Acquisitions	(37,167)	(78,449)
Disposals	37,501	81,596
Proceeds from/(payments for) financial liabilities	214,890	513,326
Issue and placements	486,873	739,510
Redemption and write-off	(271,983)	(226,184)
Dividend payments	(97,867)	(91,216)
Other cash flows from financing activities	1,026	1,727
Effect of variations in exchange rates	181	317
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(75,544)	643,196
Cash and cash equivalents at beginning of period	214,861	40,314
Cash and cash equivalents at end of period	139,317	683,510



Financial calendar Upcoming events

Estimated dates

9M14 results presentation	October 2014
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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 100.



Included as a “Member” by the “The Sustainability Yearbook 2014”.



Included in the FTSE4Good index since 2008, with an overall score of 4.5 out of 5, and a relative score of 100 points out of 100 in 2013 (*).



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



Renewal of the "Prime" status awarded by the rating agency Oekom in 2008, confirming Red Eléctrica as one of the most sustainable companies in its sector in 2014.



Recognised as a Natural Capital Efficiency Leader in the 2014 Natural Capital Leader Index, the first Spanish company selected by this index.



Included in the Ethibel Excellence index since 2009. 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.



Inclusion in ECPI indexes since 2008.



Awarded “Best in class” distinction in 2009.

(* 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.