



INDEPENDENT
AUDITORS'
REPORT



CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION



CONSOLIDATED
ANNUAL ACCOUNTS

CONSOLIDATED
DIRECTORS'
REPORT



CONSOLIDATED DIRECTORS' REPORT



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1. Company position

1.1. ORGANISATIONAL STRUCTURE

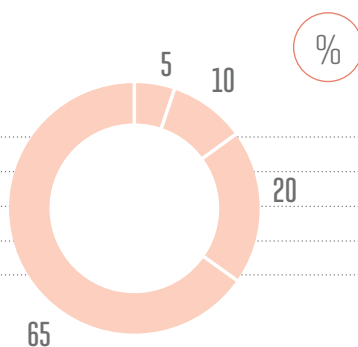
Corporate bodies

The board of directors and the shareholders are responsible for governing and managing the Red Eléctrica Group [hereinafter the Red Eléctrica Group] and its Parent, Red Eléctrica Corporación, S.A. [hereinafter REC].

The shareholders' general meeting is governed by the articles of association and the general meeting regulations, in accordance with the Spanish Companies Act. The ownership structure at the date of the 2015 shareholders' ordinary general meeting was as follows:

OWNERSHIP STRUCTURE

- 65 Foreign institutions
 - 20 SEPI
 - 10 Minority Shareholders
 - 5 Spanish Institutions
- 2015 shareholders' meeting data.



The board of directors has formed two permanent committees: the Audit Committee and the Appointments and Remuneration Committee, which are regulated by the articles of association and the regulations of the board of directors, as well as by all applicable corporate governance legislation.

The composition and powers of the board of directors and the various committees are as follows:

BOARD OF DIRECTORS

Separation of the positions of Chairman of the Board and Chief Executive Office

58.33%
INDEPENDENT MEMBERS

41.66%
WOMEN (50% external directors)

LEAD
INDEPENDENT DIRECTOR



Powers

- Approval of the general strategies and policies of both the Company and the Group.
- Group risk control.
- Effective supervision of the management team.
- Annual assessment of the quality and efficiency of the Board and functioning of its Committees.

APPOINTMENTS AND REMUNERATION COMMITTEE

100%
INDEPENDENT MEMBERS

100%
WOMEN

CHAIRPERSON:
INDEPENDENT DIRECTOR



Powers relating to:

- Appointment and removal of directors.
- Board and senior management remuneration policy.
- Compliance with director duties.
- Management of the Board assessment process.
- Information, supervision and proposals in relation to corporate governance and responsibility.
- Preparation of the gender diversity report that is submitted to the Board for approval.

AUDIT COMMITTEE

60%
INDEPENDENT MEMBERS

20%
WOMEN

40%
NOMINEE

CHAIRPERSON:
INDEPENDENT DIRECTOR



Powers relating to:

- Supervision of the process to prepare the Company's financial and economic information.
- Supervision of internal control and risk management systems.
- External auditor independence.
- Compliance with legal provisions and internal regulations.
- Powers regarding shareholder relations.





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In July 2015, REC's board of directors proposed to the shareholders – at a specially convened extraordinary general meeting – that the positions of Chairman of the Board and Chief Executive be separated, also proposing the appointment of Juan Lasala Bernad as Executive Director. The two motions were passed, with votes in favour from 99% of the shareholders, compared to the required quorum of 58%.

A transitional period was established that will end, at the latest, on the date of the shareholders' ordinary general meeting in 2016, resulting in full segregation of duties between the positions of Chairman of the Board and Managing Director. After the meeting, the Chairman of the Board of Directors will only have the responsibilities inherent in that position.

The position of Coordinating Independent Director – created in 2013 – has been maintained, with the primary task of organising the common positions of executive directors, in particular independent directors, and acting as a liaison between holders of such positions and the Chairman of the Board, the Board itself and its committees.

The Annual Corporate Governance Report, which is attached hereto, contains detailed information regarding the composition and operation of the governing bodies of the Parent.

Composition of the Red Eléctrica Group

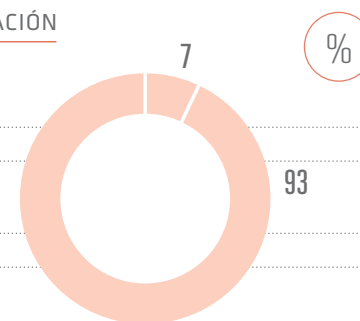
The Red Eléctrica Group's principal activity is electricity transmission and system operation in Spain via Red Eléctrica de España S.A.U. (REE), which generates 93% of the consolidated revenues and 94% of the Group's total assets (95% and 94%, respectively, in 2014). Other activities together account for the remaining 7% of revenues and 6% of total assets (5% and 6%, respectively, in 2014). It was therefore not considered relevant to provide information by segment of activity or geographic area. The Group is present in six countries (Spain, Peru, Chile, the Netherlands, Luxembourg and France).

RED ELÉCTRICA CORPORACIÓN (REC)

93 **Red Eléctrica de España (REE)**
Electrical activity in Spain
(Consolidated turnover)

7 **Other activities**

Red Eléctrica Internacional (REI)
(Consolidated turnover)
Electrical activities outside system:
in Peru through REDESUR, REA,
TESUR Y TESUR 2.
REINTEL
Telecommunication activities.
BV Y REF
Financing activities.
REDCOR
Risk reinsurance activities among
the different Group companies.





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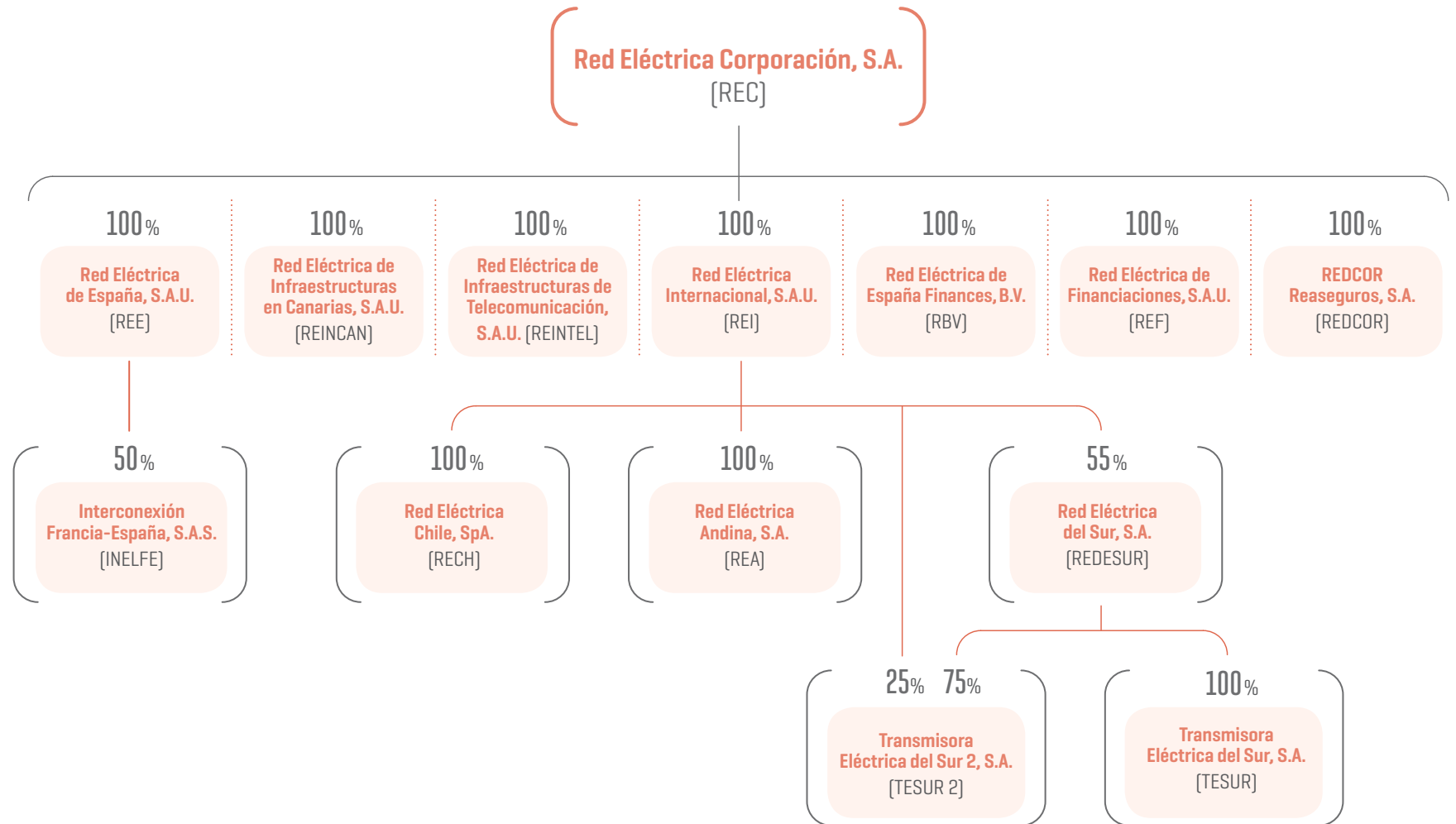
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During 2015, there were changes in the consolidated Group, as described in [note 2f](#). At 31 December 2015, the composition of the Group was as follows [\[for more information on the activities of each company, see Appendix I to the notes to the consolidated annual accounts\]](#):

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1.2. ACTIVITIES AND BUSSINES PERFORMANCE

The Group carries out the aforementioned activities in Spain and abroad, most notably electricity transmission in Spain and Peru and rendering telecommunications services to third parties.

Role of transmission agent and system operator for the Spanish electricity system

The mission of Red Eléctrica de España, S.A.U. (hereinafter REE), as transmission agent and system operator for the Spanish electricity system, is that of ensuring that the Spanish electricity system functions correctly and guaranteeing the continuity and security of the electricity supply at all times. To this end, it oversees and coordinates the generation and transmission system and manages the development of the transmission network. The Company seeks to fulfil its mission while adhering to the principles of neutrality, transparency, independence and economic efficiency, so as to offer a secure, efficient and high quality electricity service to society as a whole.

The recent approval of the Plan for 2015-2020 provides the required certainty to implement the Investment Plan.

Reference unit values for investment (remuneration standards) were approved by the Ministry of Industry, Energy and Tourism on 11 December 2015 (Order IET/2659/2015). As a result, the new remuneration framework for transmission provided in Royal Decree 1047/2013 will be applied from 1 January 2016.

In 2015, 414 km of new lines came into service, bringing the total for the national transmission network to approximately 43,000 km at year end. Transformation capacity was also increased by 605 MVA to a national total of 84,544 MVA.

The most significant initiatives in terms of development and renewal of the transmission network, by major works or axes, were as follows:

- > Asturias-Galicia Link: the purpose of this axis is to ensure security and quality of supply throughout the north axis, connecting the north of Galicia and the west of Asturias to address forecast consumption in the region and facilitate evacuation of energy generated by new facilities by incorporating 361 km of lines, 46 substation bays and 3 transformers. A large portion of this axis entered into service before 2011. In 2015, work continued on the Boimente-Pesoz line, which is expected to start operating in 2016.
- > Torrent Axis: the purpose of this axis is to connect Ibiza and Mallorca and, in the future, to increase the voltage on Ibiza from 66 kV to 132 kV. The axis has a 3.7 km line, 23 substation bays, 2 transformers and 6 reactors. In 2015, the Torrent substation entered into service.
- > Baix Llobregat Axis: the purpose of this axis is to power the high-speed train between Madrid and Barcelona, improve Barcelona's electricity supply, reinforce the mesh of the 220 kV network in the Baix Llobregat area of the province of Barcelona and support the power supply for the high-speed train between Barcelona and the border with France. The axis has an 18.8 km line and 8 substation bays. In 2015, the Nudo Vario-Zal line entered into service.

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> Aragón-Levante line: this line was created to connect the Aragón, Fuendetodos, Muniesa, Mezquita and Morella substations, enabling wind power generated by the new facility to be evacuated and reinforcing the mesh of the transmission network with 414 km of lines, 31 substation bays and a transformer. In 2015, the Morella substation entered into service.

> Santa Ponsa Axis: the purpose of this axis is to reinforce the interconnection of the Balearic Islands and the mainland, and the transmission network on Mallorca. The axis has a 4.7 km line, 39 substation bays, 4 transformers and 2 reactors. In 2015, the 132 kV facility for the Santa Ponsa substation came into service. As a result the axis is fully operational.

Actions to reinforce international and inter-island interconnections included the following:

> Interconnections with France: REE is planning three new interconnections with France in order to increase the transmission capacity to Europe through this country. One of the interconnections will link Spain and France through the Bay of Biscay and the other two through the central Pyrenees. All of these facilities are expected to enter into service after 2020.

These projects are being carried out in conjunction with Réseau de Transport d'Électricité (RTE) through the French company INELFE, in which the Spanish and French transmission system operators each have a 50% stake, and have been classified as a priority by the European Union.

> Inter-island interconnections: the main goal of the Mallorca-Ibiza interconnection is to put an end to the present isolation of Ibiza in electricity terms, as well as to enable system cost savings and encourage competition in energy generation on the islands. This new link reinforces the electrical integration of the Balearic Islands and the Spanish mainland and is essential to guarantee a reliable supply of energy to the archipelago. In 2015, cable 1 of the Mallorca-Ibiza link was laid (125.6 km). Other inter-island interconnection projects are also underway to connect Mallorca-Menorca, Ibiza-Formentera and Lanzarote-Fuerteventura.

> Other facilities that entered into service in 2015 include: the Morella-Mudéjar line (51 km), the Plasencia input/output line (29.9 km), the Penagos-Güeñes line (21.9 km), and a number of 400, 220, 132 and 66 kV substations.

The most notable events in 2015 were as follows:

> Mainland energy demand closed the year at 248,025 GWh, up 1.8% on 2014. Corrected for the effect of working patterns and temperatures, the rise in demand attributable primarily to the economic activity was 1.6%, confirming a change of trend from the prior year, when there was a drop of 0.1%.

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- > Maximum instantaneous power was recorded on Wednesday 4 February at 19:56 hours, at a rate of 40,726 MW. This is up 4.6 % on the maximum for the prior year, but 10.4% lower than the record of 45,450 MW reached on 17 December 2007. Peak demand in terms of time was also posted on 4 February [between 20:00 and 21:00 hours] at 40,324 MWh, 10.1% below the record reached in 2007.
- > Installed capacity on the mainland has increased slightly on the prior year, ending 2015 at 100,966 MW, up 394 MW [0.4%] on December 2014. The largest changes were recorded in fuel gas, with a 506 MW drop in capacity as a result of the closure of the Foix plant; and in hydro, with a 868 MW increase, primarily as a result of the La Muela II plant entering into service. The capacity of other technologies either did not vary or changed only insignificantly.
- > In 2015 the auctions for the rendering of the 2016 interruptibility service were successfully completed. Specifically, the country's major industrial players competed to be assigned the service in auctions that awarded 2,890 MW of interruptible resources for 2016.
- > In 2015, renewable energy's percentage contribution to total energy generation in the electricity system declined to 36.9% [42.8% in 2014].
- > Electricity exchanges through the mainland-Balearic Islands link resulted in a net balance of exports to the islands of 1,333 GWh [2.7% more than in 2014], covering 23% of their demand.

- > At the 2015 year end, total annual demand for electricity in non-mainland systems had increased by 2.0% on the prior year. By systems, demand rose by 3.7% in the Balearics, 1% in the Canary Islands and 1.7% in Melilla, but declined by 3.2% in Ceuta.
- > Once again, international electricity exchanges resulted in a net export balance, reaching 133 GWh in 2015, despite dropping by approximately 96% on the prior year.
- > Exports amounted to 15,089 GWh [15,716 GWh in 2014] and imports totalled 14,955 GWh [12,310 GWh in 2014].

Telecommunications business

The Group's telecommunications business primarily operates in Spain, doing so through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. [REINTEL].

REINTEL is the RED ELÉCTRICA Group company responsible for operating telecommunications networks and rendering telecommunications services to third parties.

REINTEL was incorporated on 29 June 2015 through a partial spin-off of the telecommunications business previously operated by Red Eléctrica Internacional, S.A.U. [REI].

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REINTEL is a neutral provider of telecommunications infrastructure. Its principal activity is leasing dark fibre and associated infrastructure, enabling telecommunications operators to render services to their customers. REINTEL has a fibre optic network in excess of 33,000 km rolled out over the electricity transmission grid and the railway network.

No significant events were recorded in 2015 that could influence the performance of the business. However, 2015 is the first year to reflect the impact of the twelve months of activity since the award of the 20-year concession of the rights to use and operate the fibre optic network not used for railway services, and related infrastructure, owned by Adif-Alta Velocidad. This transaction was executed on 20 November 2014.

International business

The Red Eléctrica Group's international business has mainly been carried out through its subsidiaries REDESUR and TESUR, which manage transmission infrastructure in Peru.

In 2015, REDESUR and TESUR's management excellence and their commitment to satisfying stakeholders allowed them to offer a transmission service with maximum availability, while supporting development in their operating environment.

For REDESUR, consolidation of the Integrated Management System (IMS) has allowed the company to continue delivering excellent operating standards, with a network availability factor of 99.83% in 2015 and an average of 99.79% for the past five years.

In addition, TESUR is in the initial operating stage of the 30-year concession awarded in 2010, after the 220 kV Tintaya-Socabaya transmission line started operating commercially in mid-2014. In this period, the availability factor for TESUR's network was 99.84%.

REA renders maintenance services for the REDESUR and TESUR facilities. Furthermore, in 2015 REA completed all of the tasks required to implement the special projects undertaken by REDESUR and pending actions relating to TESUR facilities. The company also carried out facilities maintenance and supervised work for other clients, consolidating its position in southern Peru as a leading provider of such services.

In 2015, new projects contributed to expanding the Red Eléctrica Group's international business, enabling controlled low-risk diversification.

On 12 February 2015, Red Eléctrica Internacional S.A.U., in consortium with AC Captales, was awarded the concession of the 115km/220kV Azángaro-Juliaca-Puno line and associated substations in Peru. This project involves the design, construction, operation and maintenance of the line for 30 years and the expected investment is USD 70 million. To carry out the project and commercially operate this concession, the company Transmisora Eléctrica del Sur 2 has been incorporated.

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On 16 December 2015, REI was awarded the concession of the 128km/220kV Montalvo-Los Héroes line and associated substations, also in southern Peru. This project involves the design, construction, operation and maintenance of the line for 30 years and expected investment of approximately USD 40 million.

On 19 November 2015, REI acquired 100% of Red Eléctrica Chile, SpA (RECH), whose principal activity will consist of acquiring, holding, administering and managing the Group's interests in Chile. The company's share capital amounts to US Dollars 110 million, uncalled at 31 December 2015.

On 4 December 2015 Red Eléctrica Chile, a subsidiary of REI, and the Chilean company E-CL, a subsidiary of ENGIE, signed an agreement whereby Red Eléctrica Chile will acquire 50% of the share capital of Transmisora Eléctrica del Norte (TEN), owned by E-CL, for an amount of US Dollars 218 million. This acquisition will allow the two companies to jointly invest in the construction and commercial operation of the Mejillones-Cardones transmission line in Chile, which is being developed by TEN. The project, which is already in the construction stage, forms part of Chile's backbone transmission system, comprising a 500kV line spanning a distance of 600 km, connecting the Central Interconnected System (SIC) and the Far North Interconnected System (SING). As a result of this acquisition, the Red Eléctrica Group has started operating in Chile and consolidated its position in the border regions of northern Chile and southern Peru.

From a financial management perspective, an important milestone was reached in 2015. In April the first issue of REDESUR- TESUR bonds was carried out, through a securitisation structure, for an amount of US Dollars 110 million (US Dollars 70 million at 15 years and US Dollars 40 million at 28 years). It was the first issue of bonds in Peru through a fund comprising two cross-guaranteed concessions and also the first longer-term corporate issue on the local market.

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2. Business performance

2.1. KEY FINANCIAL INDICATORS

Revenue for 2015 amounted to Euros 1,938.9 million, up by 5.0% on the prior year. This increase reflects a rise in transmission revenue as a result of the facilities that started operating in 2014. It also includes revenue from telecommunications services amounting to Euros 83.5 million and resulting from the rights to use and operate Adif's fibre optic network for the full year, whereas in the prior year the rights were only reflected for a month and a half, as the agreement was signed in November 2014.

EBITDA amounted to Euros 1,458.4 million, up 5.3% on the prior year, of which approximately 50% was generated by the telecommunications business.

With regard to operating expenses:

> **Costs of supplies and other operating expenses**

climbed by 5.9% in 2015. This item would have grown by just 1% excluding the expenses relating to the telecommunications business, reflecting the improvements achieved in terms of efficiency.

> **Personnel expenses** were 5.0% higher than in the prior year. Slightly more than half the increase is due to the trend in salaries and wages, reflecting the larger workforce. The remainder is a result of the rise in employee benefits and similar expenses.

The **headcount** was 1,763 at 31 December 2015, while the average workforce was 1,755 employees, representing an increase of around 1% on 2014.

EBIT amounted to Euros 989.0 million, 4.2% higher than in the prior year, due to an 11.1% rise in depreciation charges for non-current assets in relation to the facilities that started operating in 2014, including the new electricity interconnection with France, and the impact of amortisation of the rights to use and operate Adif's fibre optic network.

The **net finance cost** amounted to Euros 159.3 million, compared to Euros 95.7 million recognised in the same period of the prior year, which included the positive impact of Euros 52.3 million arising from the indemnity received from the Bolivian government in relation to the nationalisation of TDE. Eliminating this effect, the net finance cost would have been Euros 11.3 million lower than in the prior year, primarily due to a lower balance of capitalised borrowing costs.

As a result, **profit for the year** was Euros 606.0 million, 15.6% lower than in the previous year. Eliminating the non-recurrent items included in 2014, the aforementioned indemnity for TDE and the Euros 106.1 million impact of applying the tax reform under Income Tax Law 27/2014, the result for the year would have been 8.3% higher.

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The **investments** carried out by the Group in 2015 amounted to Euros 447.8 million, of which Euros 410.7 million was used to develop the national transmission network and Euros 12.0 million was invested in energy storage in the Canary Islands. Investments in 2015 were 53.2% lower than in the prior year, as 2014 also included the acquisition of the rights to use and manage Adif's fibre optic network, in an amount of Euros 433.7 million.

Dividends paid with a charge to the prior year's profit totalled Euros 404.8 million, equivalent to Euros 3 per share.

At the end of 2015, 89% of the Group's **financial debt** is non-current. In terms of interest, 85% is fixed-rate and the remaining 15% is variable-rate. In 2015, the average cost of the Group's financial debt was 3.20%, compared to 3.49% in the prior year.

Lastly, the Red Eléctrica Group's **equity** amounted to Euros 2,760.6 million, 8.2% higher than at the end of 2014, primarily as a result of the profit for the year less the corresponding distribution of dividends.

FINANCIAL INDICATORS

(Millions of euros)

	2014	2015	Δ%
Revenue	1,846.7	1,938.9	5.0%
EBITDA	1,385.4	1,458.4	5.3%
EBIT	949.2	989.0	4.2%
Net profit	717.8	606.0	-15.6%
ROE (PAT/Equity)	28.1%	22.0%	-28.8%
Cash flows from operating activities	512.0	1,326.1	159.0%
Distribution of dividends	343.8	404.8	17.7%
Equity	2,552.5	2,760.6	8.2%
Gearing	67.9%	64.0%	-5.7%
Investments	957.6	447.8	-53.2%
Total assets	10,558.0	10,597.9	0.4%
Debt service coverage ratio (Net debt/EBITDA)	3.90	3.36	-13.7%

2.2. ENVIRONMENTAL ISSUES AND PERSONNEL

2.2.1. ENVIRONMENTAL ISSUES

The Group carries out its activities in accordance with strict environmental criteria incorporated into and enforced through the Group's environmental policy.

The commitment to the environment originates from Group management, which defines the environmental policy (reviewed and approved in October 2014) and implements measures to comply with environmental requirements. The General Manager of Transmission at REE has been appointed as the specific representative of the Environmental Management System, which is ISO 14001 certified.

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The involvement of all of the organisational units and the commitment of all of the Group's employees are essential to the implementation of this system. A specific environmental department therefore exists to provide technical support.

The main environmental challenges facing the Group are as follows:

- > Ensuring that facilities are compatible with the environment, selecting layouts and locations to minimise environmental impact. Its application of preventative and corrective measures and strict environmental criteria in all stages of activity means that the potential impact on the environment is immaterial.
- > Ensuring the protection and conservation of biodiversity, to which end a specific strategy has been implemented covering the following areas of action: protection of fauna and flora (particularly birdlife), fire prevention and development of conservation projects.
- > Contributing to the fight against climate change, which has led the Group to define its climate change strategy (reviewed and approved in May 2014) and action plan to reduce emissions (approved in May 2015). Various measures have been implemented concerning energy savings and energy efficiency, primarily in relation to sustainable transport and reducing electricity consumption.

Ordinary expenses incurred by the Group in 2015 in relation to the protection and improvement of the environment amounted to Euros 18,957 thousand. In addition, investment in environmental actions totalled approximately Euros 3,857 thousand in 2015.

2.2.2. PERSONNEL

The Human Resources master plan (2014-2018), linked to the Strategic Plan and the Corporate Responsibility Plan, enables corporate targets to be achieved in a setting of commitment and good social relations. All of the actions and projects contained in the plan are founded on the principles of efficiency, equal opportunities, achieving full potential and work-life balance, respect for diversity, and fair and individual treatment of all of the professionals within the Group.

The Human Resources master plan is based on four pillars: strategic business partners, management excellence, talent management and leadership in health and safety. The effectiveness of the plan is monitored through human resources scorecards and regular climate and satisfaction surveys. The plan is reviewed and updated annually to include proposed improvements and suggestions.

Stable, high quality employment

A highly qualified, motivated and committed team is key to the Group fulfilling its responsibilities and addressing the challenges and key actions of the coming years.

At the end of 2015, the Group's workforce comprised 1,763 professionals, having grown by 1.2%.

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Variations in the average and final headcount in 2014 and 2015 were as follows:

	2014	2015	Δ%
Average headcount	1,737	1,755	1.0%
% Men	77.1%	77.9%	1.1%
% Women	22.9%	22.1%	-3.6%
Final headcount	1,742	1,763	1.2%

We have continued to work on enhancing our global remuneration and incentives package so that it attracts and motivates people. Fair, internally equitable and externally competitive, it recognises and respects diversity and encourages professional development and the desire to excel. A remuneration package has been implemented for the management team comprising deferred variable remuneration and remuneration tied to management objectives.

In 2015, as part of the integral talent management model, we have worked to increase the internal employability of our personnel during their tenure, through integration, development and mobility programmes.

Red Eléctrica is placed 21st in the 2015 MercoTalent ranking.

Diversity and integration

During 2015, we have continued to undertake actions to increase representation of women in positions traditionally occupied by men

The equality grant received by the company from the Ministry of Health, Social Services and Equality was renewed in 2015.

The Group took a significant step forward in 2015 with its strategy for integration of disabled professionals, by approving a Management Model. The Model and Action Plan for its roll-out were approved in early 2015.

In 2015, a Workforce Ageing Management Plan was approved, along with an associated Action Plan, allowing for integral, sustainable and comprehensive management of workforce ageing, as part of the Group's strategy.

Talent management

In 2015, the Global Knowledge Management Model designed in 2014 was developed, accompanied by the methodological and practical support of a White Paper. The model was finalised with the design and approval of an associated action plan that will be implemented from 2016 onwards.

The Group's Corporate Academy [ECRE] has continued to consolidate its position as a unified channel for management of knowledge and in-company business training, drawing on in-house instructors and experts from across the various company units.

All employees are assessed annually in terms of skills, commitment and contribution. In 2015, assessment of all employees' digital skills was included in the model, supporting the digital transformation in the company. The multi-level assessment of the management team has also been extended to include lateral assessment by processes.

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Dialogue and transparency

Providing information and promoting internal dialogue are the key objectives of internal communication, supporting fulfilment of targets through the company's professionals.

Face to face communication has been a key tool in publicising strategies, policies and objectives. In 2015, the focus was on the code of ethics, healthy working conditions and corporate responsibility.

The new miRED intranet was the main addition to internal channels, focusing on shared communication between all of the organisation's units and collaborative spaces to connect people and promote dialogue.

The 2015 edition of the climate survey saw a very significant increase in participation [91%], providing detailed feedback on key issues relating to human resource management.

Health and safety

The Red Eléctrica Group aims to cut down on occupational accidents and ensure continuous, ongoing improvement to levels of health and safety among its employees and the employees of suppliers collaborating or working at the company's facilities.

Although levels of inspection and control of activities at facilities improved in 2015, regrettably there were two fatal accidents during work carried out by employees of suppliers.

Work-life balance

Developments in recent years in the work-life balance model have enabled REE to enhance its HR management strategy. The challenge lies in being able to assess, on a case-by-case basis, the dual demands placed on people [work-personal life] in order to manage the work-life balance more flexibly, based on a mutual commitment between the company and its people, with a view to enhancing wellbeing and quality of life.

3. Liquidity and capital

The RED ELÉCTRICA Group's liquidity policy has been designed to ensure payment obligations are met, by diversifying how financing requirements are covered and when debt matures.

The Group's liquidity position is essentially based on robust cash flow generation, primarily through regulated activities. Coupled with appropriate management of collection and payment periods and current financial capacity through short and long-term credit facilities, this allows the Group to prudently manage its liquidity risk.

The undrawn balance on credit facilities at 31 December 2015 amounts to Euros 1,924.6 million.

The average maturity of the debt drawn down at the end of the year is 6 years.

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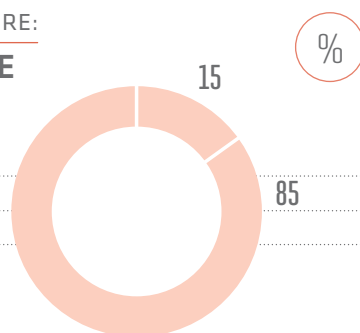
The Group's traditional financial strategy has aimed to reflect the nature of its businesses, at all times adhering to legislation in force. The activities conducted by the Group are very capital-intensive, wherein investments mature over long periods. In addition, these assets are remunerated over long periods of time, meaning that financial debt is primarily long-term and fixed-rate.

FINANCIAL DEBT STRUCTURE:

FIXED VS. VARIABLE

85 Fixed rate

15 Variable rate



The Red Eléctrica Group's capital structure policy ensures a financial structure that optimises the cost of capital through a sound financial position, which balances the generation of value for shareholders with competitive costs of financing. Capital is periodically monitored through the gearing ratio, which in 2015 stood at 64%, compared to 67.9% in 2014. This ratio is calculated as net financial debt divided by equity plus net financial debt.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

4. Risk management

The Group has implemented a Comprehensive Risk Management System, which aims to ensure that any risks that might affect its strategies and objectives are systematically identified, analysed, assessed, managed and controlled, according to uniform criteria and within the established risk levels, in order to facilitate compliance with the strategies and objectives of the Group. The Comprehensive Risk Management Policy and General Comprehensive Risk Management and Control Procedures approved by the board of directors are based on the COSO II (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management Integrated Framework.

The main risks identified as regards the Red Eléctrica Group achieving its objectives are regulatory risk, as the Group's main business lines are subject to regulations, operational risk, mainly relating to electricity system servicing activities, financial risk and environmental risk.

The Risk Control System also includes financial risk management. The policies covering each type of risk are detailed in [note 14](#) to the accompanying annual accounts.

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5. Late payments to suppliers "Reporting requirement", third additional provision of law 15/2010 of 5 July 2010

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to annual accounts on average payment periods to suppliers in commercial transactions, the average payment period to suppliers by the Spanish Group companies was 50.06 days at the 2015 year end.

The disclosures required by this resolution are contained in [note 18](#) to the Group's consolidated annual accounts for 2015.

6. Significant events occurring after the reporting period

On 27 January, having obtained authorisation from the European Commission, the agreement signed on 4 December for the acquisition by Red Eléctrica Chile, SpA (RE Chile) of 50% of the share capital of Transmisora Eléctrica del Norte, S.A. (TEN) from the Chilean company E-CL, S.A., for an amount of US Dollars 218 million, was executed.

TEN is carrying out the Mejillones-Cardones project, comprising the construction of a 500kV transmission line over a distance of 600 km in the north of Chile, connecting the country's Central Interconnected System with its Far North Interconnected System.

7. Outlook

As the Parent of the Red Eléctrica Group, the Company will work to ensure that, through their activities, the Group companies contribute to fulfilment of the objectives laid down in the Group's Strategic Plan.

To this end, Group companies will be encouraged to conduct both their regulated and unregulated businesses, in Spain and abroad, in accordance with the principles defined, specifically focusing on the efficiency required by current conditions.

Implementation of the strategy, based on excellence, innovation and personal development, will allow the Group to maintain its current leadership in terms of the reliability and security of the electricity grids it operates and the excellent standards in other activities.

The Company remains committed to maximising value for its shareholders, offering an attractive dividend yield and contributing to a re-rating of its shares through efficient business management, analysing alternative means of generating value for shareholders.

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The Group will therefore continue to seek the generation of long-term value, creating lasting, competitive advantages and improving our corporate reputation, whilst focusing on providing optimum service to society – the differentiating feature of the Company's management.

OUTLOOK FOR REGULATED ACTIVITIES IN SPAIN

The outlook for REE's regulated activities in Spain is primarily based on the following lines of action:

- > Market integration and the sustainability of the electricity system, which justify maintaining the level of investment in the transmission network in coming years, in accordance with the new remuneration framework. The investment plan will focus on reinforcing the structure and mesh of the transmission network and developing interconnections with Europe and non-mainland systems.
- > A goal of efficiency, maintaining REE's position as an international benchmark. Accordingly, the Company will review its main operating processes, promoting streamlined and flexible organisation that optimises the Company's profitability and the efficiency of the electricity grid in the mainland and non-mainland systems.
- > Implementation of new regulated activities, such as storage of energy in the island systems as a tool to guarantee the security of the electricity system.

REE will apply a financial policy adapted to the new remuneration model for the transmission activity, ensuring that financial debt is diversified and its liquidity position can comfortably cover upcoming maturities, aiming for a financial structure that is as flexible as possible.

OUTLOOK FOR TELECOMMUNICATION ACTIVITIES

The telecommunications activities carried out by REINTEL, as telecommunications infrastructure supplier, will focus on the backbone fibre network market, specifically the lease of dark fibre optic infrastructure associated with agents in the telecommunications sector. To this end, REINTEL will continue to implement its commercial plan and undertake the investments requested by customers, in order to generate greater revenues.

Furthermore, REINTEL will make progress on interconnecting rail and electrical fibre networks with the aim of offering new solutions to its customers, such as new redundant sources and access points, whilst continuing to uphold the high standard of service quality offered to its customers.

OUTLOOK FOR THE INTERNATIONAL BUSINESS

As the Group company responsible for international activities, REI will continue to focus its efforts on strengthening its performance in countries where it is already present, specifically Peru and Chile.

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8. Research, development an innovation (R&D&i)

The new Technological Development Plan for 2016-2019 was given the green light in 2015. This Plan has been designed in line with the new Strategic Plan, setting out the targets and priorities for the medium and long term, and represents one of the pillars of the Integrated Innovation Strategy. The Plan was drawn up with the help of 245 experts from business, the scientific community and the Group.

In the international arena, the Group actively participated in the R&D&i Committee of ENTSO-E, and particularly in the publication of the R&D Application Report 2014, which set out to analyse how TSOs are applying the results obtained from the European R&D&i projects completed in recent years, and was very favourably received by the European Commission. Extensive efforts are also being made towards preparing the new R&D Monitoring Report 2015, which assesses compliance with ENTSO-E's R&D&i Plan; the Integrated Implementation Plan of R&I activities: 2016-2018, an R&D&i plan undertaken in conjunction with distributors within the framework of the European GRID+Storage project; and the new edition of the Implementation Plan 2016-2018, specifying the technological activities to be undertaken over the next three years as part of the ENTSO-E R&D&i plan.

In terms of European projects, REE coordinates BEST PATHS (BEyond the State-of-the-art Technologies for re-Powering Ac corridors & multi-Terminal HVDC Systems), as part of the Seventh Framework Programme. A total of 39 partners are participating in this project, including universities, technological centres, industry, electricity companies and European TSOs. 2015 saw the completion of e-HIGHWAY 2050 (optimal long-term planning of the Pan-European Transmission System). The recently approved MIGRATE project will be launched in 2016 as part of the Horizon 2020 work programme, with the aim of improving understanding of electricity system performance with massive integration of power electronic devices (generators, loads, HVDC connections, FACTS, etc.).

Within the area of national R&D&i support projects, work was completed on ESP-Líder (SSSC device for power flow control, installed in Torres del Segre) and PRICE (Joint Smart Grid Project in the Henares Corridor), promoting residential demand management, led by Iberdrola and Gas Natural Fenosa, and recipient of the European Electricity Grid Initiative Core Label in recognition of the project's alignment with the criteria and objectives laid down in the European Electricity Grid Initiative. Both projects were carried out with the support of the INNPACTO-FEDER programme. In 2015 work began on AMCOS-Stability Facts, a pilot device that can be used to control the main parameters that contribute stability to an isolated system (frequency control, continuous voltage control and buffering of power swings), financed by the Interconecta-FEDER programme.

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Throughout 2015 advances continued to be made in proprietary R&D&i projects, such as the ALMACENA project to analyse the different operating models of an electrochemical storage system installed in Carmona (Seville), in collaboration with the Universidad de Sevilla, and research undertaken to support the PERFILA project, which seeks to improve the profiling methodology, based on a consumer panel equipped with smart meters. Specifically, the consumption profiles used during 2015 for consumers without hourly meters have for the first time incorporated information from the PERFILA project consumer panel.

Notable achievements within the Group include completion of the flywheel project to stabilise the frequency of the Lanzarote-Fuerteventura electricity system, which was installed at the Mácher (Lanzarote) substation and brought into system operations; the smart asset maintenance system (SAMS); and the installation of an automatic forest fire detection system on overhead power cables.

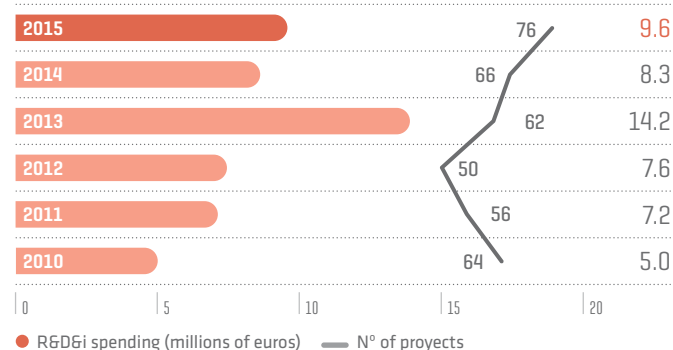
The most noteworthy of the numerous projects carried out during 2015 were aimed at preserving the environment, such as the project to plant Neptune Grass (posidonia oceanica) seeds; improving energy efficiency and cutting electricity consumption (addition of Peltier cells for the purposes of cooling the substation cabinets); and starting development of a more sustainable, safe and smart power transformer prototype, in collaboration with a globally renowned industrial partner.

Overall, work was carried out on 76 R&D&i projects during 2015, at a total cost of Euros 9.6 million, an increase of more than 16% on the prior year.

SPENDING

R&D&i

M€



9. Own shares

In order to provide investors with adequate levels of liquidity the Company acquired 2,097,449 shares with a total par value of Euros 4.2 million and a cash value of Euros 156.3 million in 2015. A total of 1,807,465 shares were sold, with an overall par value of Euros 3.6 million and a cash value of Euros 136.8 million.

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At 31 December 2015 the Company held 437,187 own shares, representing 0.32% of its share capital. These shares had an overall par value of Euros 874 thousand [see note 10 to the accompanying consolidated annual accounts] and a market value of Euros 33,711 thousand.

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The Company's subsidiaries do not hold own shares or shares in the Company.

10. Other relevant information

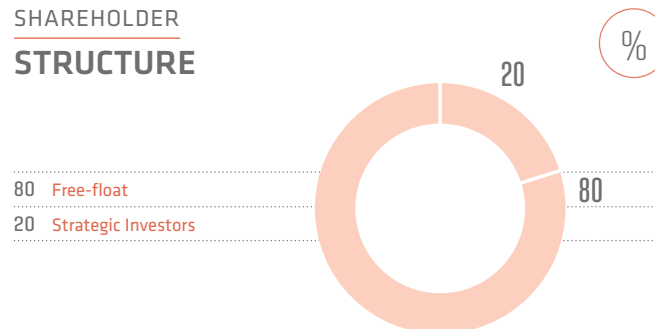
10.1. STOCK MARKET PERFORMANCE AND SHAREHOLDER RETURNS

All of the shares in REC, the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system. REC also forms part of the IBEX 35 index, of which it represented 2.18% at the end of 2015.

At 31 December 2015, the share capital of REC amounted to Euros 270,540 thousand and was represented by 135,270,000 shares with a par value of Euros 2 each, subscribed and fully paid. During 2015 there were no changes that affected the number of outstanding shares or their par value.

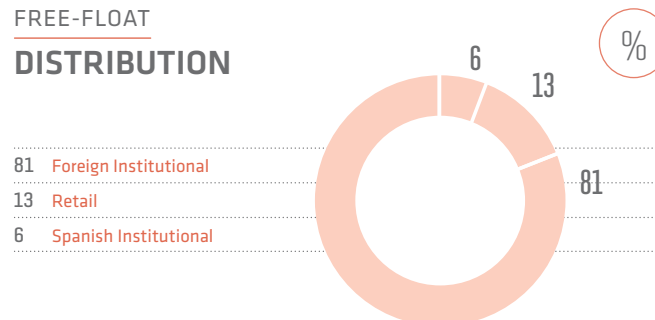
In 2015 REC's free float was 80%.

SHAREHOLDER STRUCTURE



At the date of the last shareholders' meeting –17 July 2015– the free float comprised 108,216,000 shares, of which an estimated 13% is held by non-controlling shareholders, 6% by Spanish institutional investors and 81% by foreign institutional investors, primarily in the United States and the United Kingdom.

FREE-FLOAT DISTRIBUTION



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In stock market performance, most key equity markets climbed in 2015, reflecting a more favourable economic situation in developed countries than in prior years. The major European markets rose by 5%-10% over the course of the year, as did Japan's Nikkei. However, Wall Street has lagged somewhat, after six consecutive years in which gains clearly predominated. The S&P 500 and Dow Jones both closed the year with slight losses, although the NASDAQ Technology Sector Index ended the year higher. The FTSE and IBEX were the main exceptions. The high proportion of mining and commodity companies in the FTSE was behind the drop of approximately 5% in the British index. Meanwhile, the 7% slip in the Spanish index was possibly due to political uncertainty in Spain over the past year.

Once again, the Company outperformed the IBEX in 2015. After the outstanding rally of over 50% in 2014, the stock climbed more than 5% in 2015 – more than 9% taking into account the dividends distributed by the company. A well-received strategic plan for 2014-2019 and visibility in terms of the dividend policy have allowed our Company to avoid losing ground in 2015.

The market capitalisation of the Company at the end of 2015 was Euros 10,431 million.

In total, 248.2 million shares were traded in 2015, which is 1.84 times the Company's share capital. In cash terms, Euros 18,537 million was traded in 2015, up on the Euros 15,184 million traded in the prior year.

10.2. DIVIDEND POLICY

The dividends paid in 2015 amounted to Euros 404.8 million, 17.8% more than in 2014.

The board of directors has proposed a dividend of Euros 3.21 per share with a charge to 2015 profit, pending approval by the shareholders at their general meeting, reflecting a year-on-year increase of 7%.

Based on the projections and estimates contained in the Group's Strategic Plan for 2014-2019, the dividend could grow at a rate of approximately 7%. This increase is considered as the average annual rate for the period covered by the Strategic Plan, on the basis of the total dividend approved with a charge to 2014. This forecast is subject to fulfilment of the Plan.

The dividend will be paid in two instalments – an interim dividend in January and a supplementary dividend half way through the year following approval of the annual accounts by the shareholders at their general meeting.

10.3. CREDIT RATING

On 13 October 2015 the rating agency Standard & Poor's upgraded Red Eléctrica from BBB+ to A-. This decision is due to the improved rating for Spain. Following this announcement, REC and its subsidiary REE have long-term ratings of A- and short-term ratings of A-2, with a neutral outlook.

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On 1 April 2015 the rating agency Fitch Ratings confirmed REC's long-term rating of A-, with a positive outlook. Following this announcement, REC and REE maintain long-term ratings of A- and short-term ratings of F2, with a positive outlook.

10.4. EXCELLENCE AND CORPORATE RESPONSIBILITY

Corporate responsibility is part of the corporate culture of the Red Eléctrica Group, providing a framework for all of its activities. The Group's objective is to consolidate its position as a sustainable, ethical and responsible group of companies, managed in accordance with criteria of excellence and responsibility in its operations.

This focus on sustainable development is reflected at a strategic level, as the pursuit of excellence and responsible business practices constitutes one of the Group's three cross-business strategies, and one that is rolled out to operations through management.

The Group's performance in terms of corporate responsibility is subject to ongoing analysis and assessment. In 2015, the Group was included in the following sustainability indices: Dow Jones Sustainability Indices, FTSE4Good, Climate Disclosure Leader, Euronext Vigeo, Ethibel, MSCI and Stoxx Global ESG Leaders Indices.

Since 1999, the Company has applied the EFQM (European Foundation for Quality Management) Excellence Model, aiming for ongoing improvements to the Company's management and results.

In 2015 the Group's European Seal of Excellence 500+ was renewed, with a rating of 700 to 750 points, as awarded by Club Excelencia en Gestión (CEG), the official representative in Spain of the European Foundation for Quality Management.

The excellence management system is in turn based on a process management approach. In 2015, an alignment matrix was prepared for the purpose of linking key actions from the 2014-2019 Strategic Plan with key processes. All information relating to processes has also been updated in the PROC IT tool. A key part of the management monitoring system in the year was the sixth edition of the internal customer satisfaction survey, which measures satisfaction with processes and services.

The Company's processes integrate a Corporate Quality Management System based on international standards. Since 2000, a certified system has been in place covering all of the Company's processes, which is audited annually. In 2015 all of the certified corporate management systems underwent a fourth audit (quality, environment, health and safety, corporate responsibility and energy efficiency).

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As part of the development of corporate social responsibility best practices, major initiatives were undertaken in 2015 including, in relation to taxation, approval by the board of directors of the Group's Tax Strategy and elements of the Group's Tax Risk Management and Control Policy for inclusion in the Comprehensive Risk Management Policy. The Group also adopted the Code of Best Tax Practices launched by the Spanish taxation authorities within the framework of the Large Companies Forum, and published its total tax contributions in 2014.

11. Annual Corporate Governance Report

The Annual Corporate Governance Report forms an integral part of the Directors' Report and can be viewed at the following address:

<http://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A-78003662>

The various sections of this consolidated director's report contain certain prospective information that reflects projections and estimates based on underlying assumptions, statements referring to plans, objectives and expectations associated with future transactions, investments, synergies, products and services, as well as statements concerning results or future dividends, or estimates calculated by the directors and based on assumptions that those directors consider reasonable.

While the Group considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Parent are advised that the information and statements containing future projections are subject to risks and uncertainties, many of which are difficult to foresee and generally beyond the Group's control. As a result of such risks, actual results and developments could differ substantially from those expressed, implied or forecast in the information and statements containing future projections.

The affirmations and statements containing future projections do not provide any guarantee as to future results and have not been reviewed by auditors outside the Group or by other independent third parties. It is recommended that no decisions be made on the basis of the affirmations and statements containing future projections that refer exclusively to the information available at the date of this report. All of the affirmations and statements containing future projections that are reflected in this report are expressly subject to the warnings given. The affirmations and statements containing future projections included in this document are based on the information available at the date of this directors' report. Except as required by applicable legislation, the Group is not obligated to publicly update its statements or review the information containing future projections, even where new data is published or new events arise.



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