

RED
ELÉCTRICA
CORPORACIÓN

2013
Results

2014
Outlook



26 February 2014

2013 Results



2013 Removing uncertainty: new regulatory model (I)

Financial and operating results

- Year's results shaped by one-off events: revaluation of assets, changes in scope of consolidation and impact of application of RD-I 9/2013.
- Net profit grew 7.5%, up 8.8% in recurring terms.
- EBITDA in like-for-like terms grew 5.9%.
- Growth trend started in 2012 took hold.
- The 2013 dividend proposal submitted to the General Shareholders' Meeting was €2.5422 per share.

Investments

- Group investment totaled €596m, of which €564m was in the Spanish transmission grid.
- 776km of circuit and 2,525 MVA in transformer capacity commissioned.
- Priority projects: The Almaraz-Guillena axis, Guillena-Puebla de Guzmán axis and Grado-Salas axis.
- Significant progress in the interconnection with France through the Eastern Pyrenees.

2013 Removing uncertainty: new regulatory model (II)

Regulation

- July 2013: RD-I 9/2013. Transmission revenues fell €72.3m due to application of urgent measures to ensure financial stability in the electricity sector.
- December 2013: RD 1047/2013. Approval of new regulation for the transmission business. The principles and criteria establishing remuneration for regulated activities have been strengthened and clarified to bring them into line with European peers.

Corporate governance and responsibility

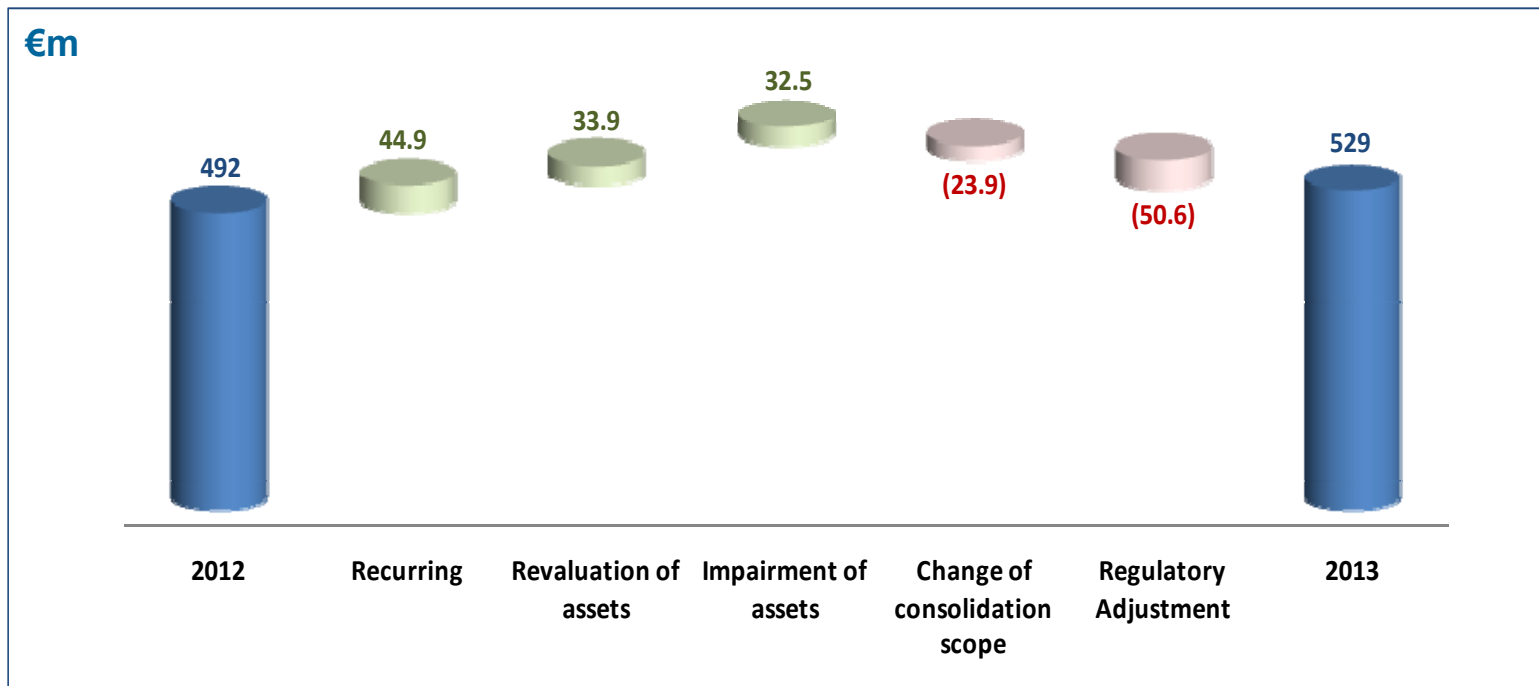
- Adopting the latest international practices and recommendations:
 - Appointment of Lead Independent Director (LID).
 - New compensation structure for the Board, variable compensation lowered.
 - Majority of independent directors on Corporate Responsibility and Governance Committee, and Audit Committee.
- Market has acknowledged socially responsible best practices: member of DJS World Index and FTSE4Good, and renews the European Seal of Excellence 500+ (EFQM).

2013 Results: Main figures (proforma)

€M	2012	2013	Δ%
Net revenue	1,745	1,823	4.4
EBITDA	1,292	1,369	5.9
EBIT	900	968	7.5
Profit before tax	734	799	8.8
Results for the year	513	558	8.8

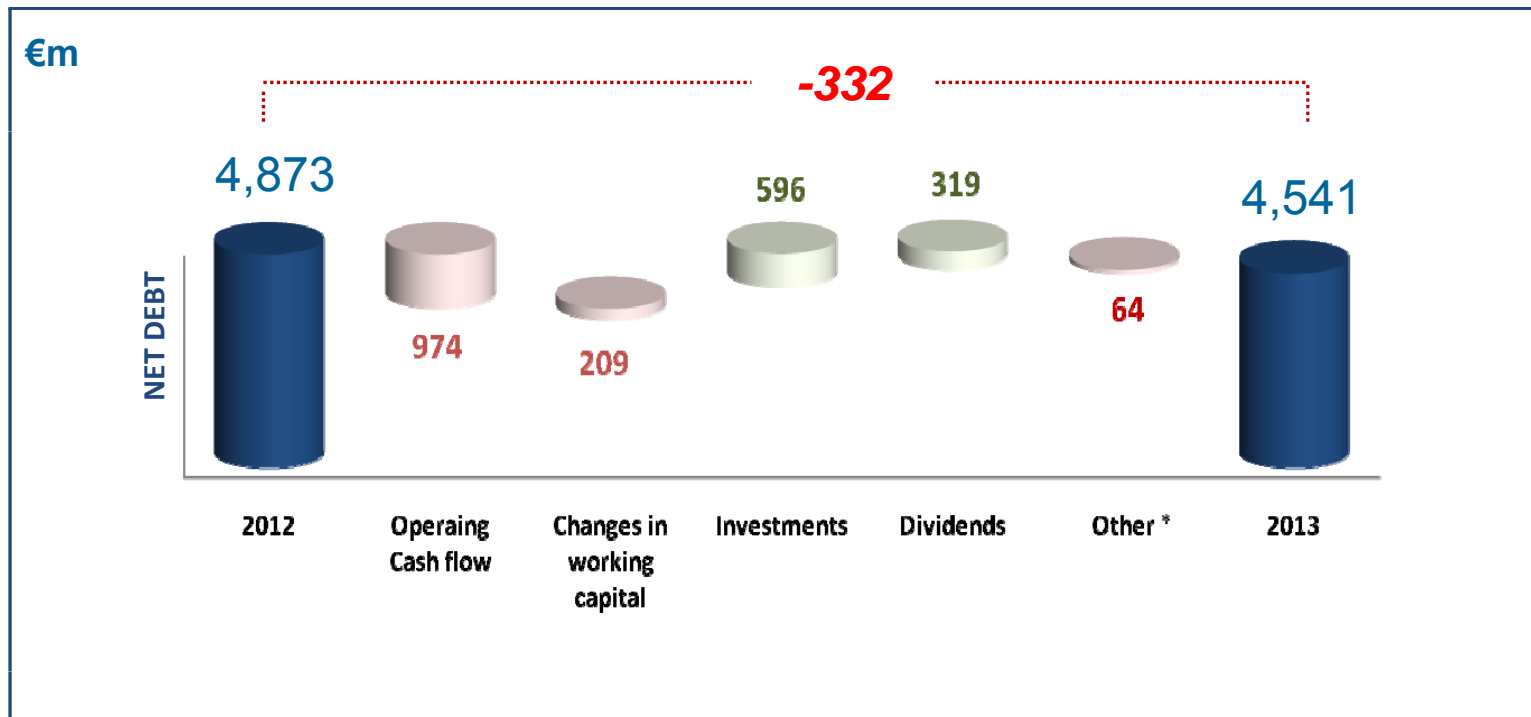
Company's recurring net profit increased by 8.8 %

2013 Results: Reconciliation of net profit



Reported net profit for 2013 increased by 7.5 %

2013 Balance sheet: Net debt evolution

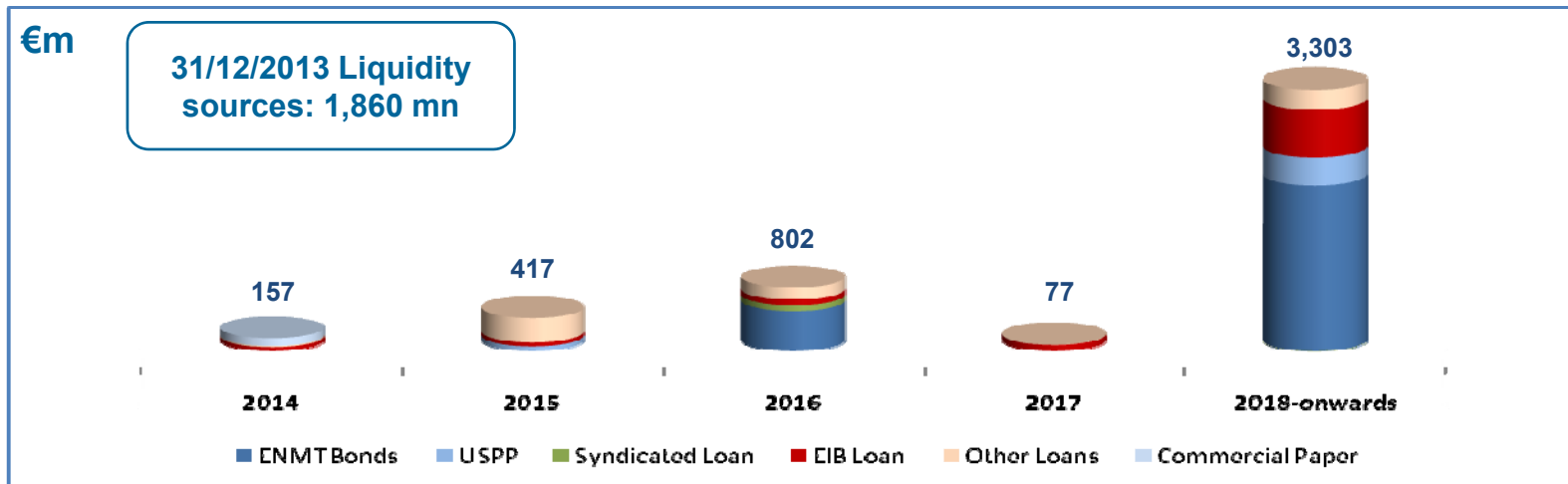


Average cost of debt 3.84 %. Average debt life 5.7 years

(*) Other includes changes to other non-current assets and liabilities, change to suppliers of PP&E and other items related to exchange rate derivatives.

Debt: Robust cash position

BREAKDOWN OF DEBT MATURITIES

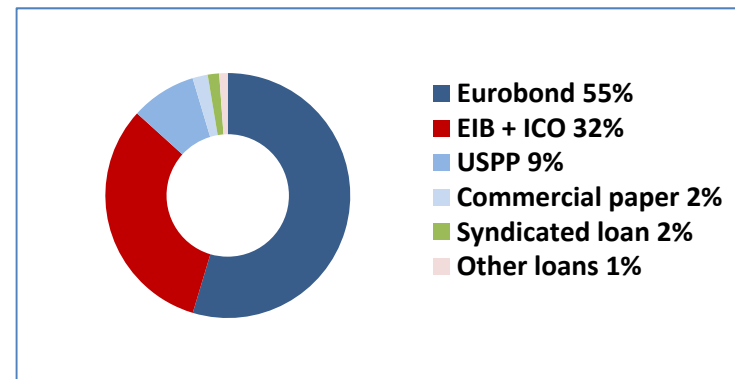


SOLVENCY RATIOS

	2012	2013
EBITDA / Interests*	7.0	6.8
FFO / Debt	21.0%	21.5%
Debt/ EBITDA	3.8	3.5

(*) EBITDA / (Net financial costs excluding capitalisations)

DEBT STRUCTURE BY INSTRUMENT



New remuneration for electricity transmission





New framework of reference: 24/2013 Electricity sector law

- In December, the new Spanish Electricity Law was approved.
- Mechanisms have been established to prevent temporary differences between income and expenses by means of an automatic review of tolls and charges.
- The principles and criteria establishing remuneration for regulated activities have been strengthened and clarified to bring them into line with European peers.

Guaranteeing supply, quality and the economic and financial sustainability of the electricity system



New remuneration model: Transmission RD 1047/2013

- **A single methodology applicable to all electricity transmission facilities.**
- **6-year regulatory periods: first regulatory period to end on 31/12/2019.**
- **Remuneration of investment based on net value of all the assets in service.**
- **Facilities will be remunerated according to when they were brought into service (eliminating the penalty arising from the n+2 effect and compensation up to "n" for facilities commissioned from 1998).**
- **Based on reference unit capex costs and operation and maintenance costs.**
- **Financial remuneration rate: 10Y bond yield increased by a spread to be revised in each regulatory period (200 basis points during the first regulatory period).**
- **Extension of facilities' useful life taken into consideration and incentives established for efficiency and availability of the transmission network.**



New regulation to ensure stability of electricity transmission

**Transparent
stable and
predictable**

2014 tariff for Red Eléctrica totals €1,622m and approx. €1,685m 2015.

Sustainable

Revenues for 2015-2019 should register a CAGR of approximately 3%^(*).

**Incentives
for efficiency**

- Operating efficiencies and availability, as well as in complementary businesses that enable return on new investments to rise from 4.6% post tax to 6-6.5% post tax.
- Additional measures to create value: financial and process management .

() Figures taken from the Impact Assessment Report sent to the State Council about the RD establishing the methodology used to calculate electricity transmission remuneration and the regime of payments for access and connection studies for transmission networks. Forecasts have been calculated using temporary methodology as per RD-I 9/2013, of 12 July, with an hypothetical investment scenario of Euro 600m per annum.*

Next steps

- Promote a reasonable outcome for various pending remuneration and regulatory aspects:
 - Establish investment and O&M benchmark unit costs.
 - Set average residual life of facilities prior to 1998 by verifying investment in renovation and improvements carried out on assets prior to 1998.
- Analyse treatment of maintenance capex.
- Review main operating processes according to efficiency and adequate quality criteria.
- Develop a suitable remuneration model for System Operation.

2014 Outlook



2014 Outlook

Tariff

- Tariff for Red Eléctrica:
€1,622m transmission activity; €56m for system operation; and €14m for availability incentive in 2014.

Investments

- Interconnection with France and Portugal brought into service.
- Mallorca –Ibiza interconnection.
- Investment of around €550m.

Adaptation to the new environment

- Financial policy appropriate to the new remuneration framework.
- Define Strategic Plan for forthcoming years.

Net profit growth between 4 and 5%



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Presentation available at:

www.ree.es

Shareholders & investors



FTSE4Good



Dow Jones
Sustainability Indexes
Member 2012/13



Appendix



Consolidated income statement

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

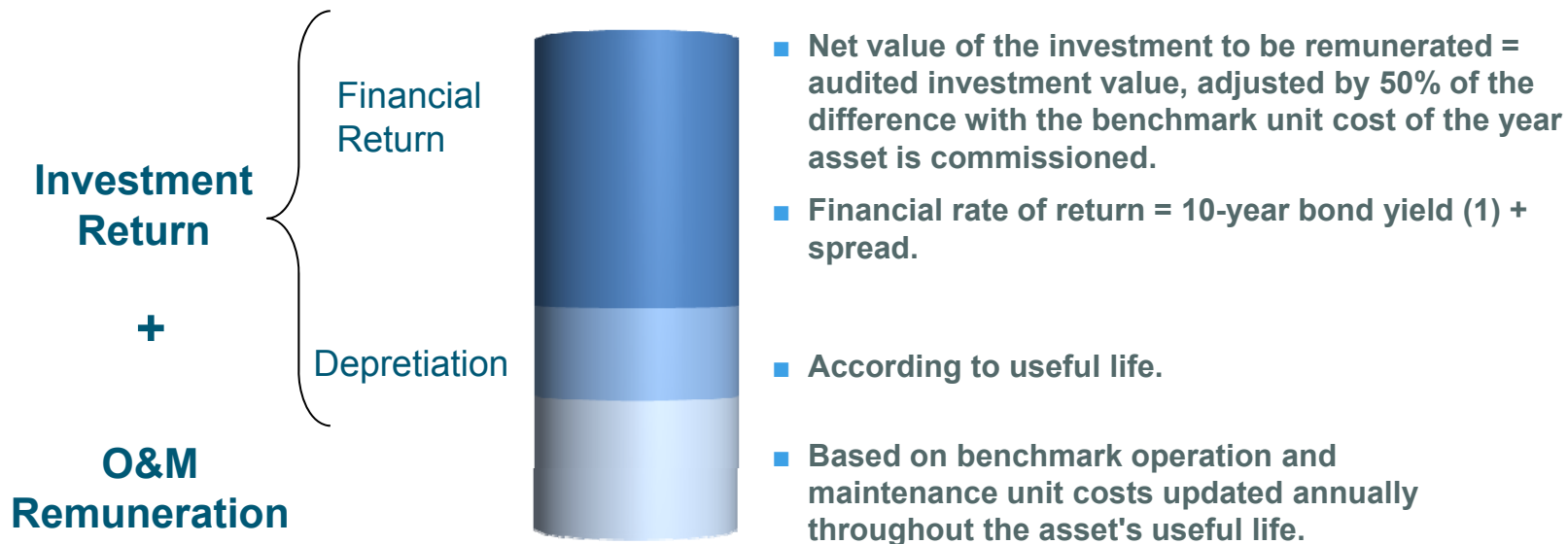
Consolidated balance sheet

Assets (in thousands of euros)	31/12/2013	31/12/2012
Intangible assets	86,693	23,359
Property, plant and equipment	8,426,782	8,265,640
Investment properties	2,561	2,604
Investments accounted for using the equity method	-	4,774
Non-current financial assets	63,532	58,919
Deferred tax assets	34,586	1,928
Other non-current assets	317	16,923
Non-current assets	8,614,471	8,374,147
Inventories	44,980	52,747
Trade and other receivables	544,535	633,315
Current financial assets	1,018	1,130
Cash and cash equivalents	214,861	40,314
Current assets	805,394	727,506
Total assets	9,419,865	9,101,653
LIABILITIES (in thousands of euros)	31/12/2013	31/12/2012
Equity	2,248,628	2,027,340
Share capital	270,540	270,540
Reserves	1,548,523	1,370,426
Treasury shares and own equity instruments (-)	(1,707)	(14,698)
Profit attributable to the parent company	529,139	492,288
Interim dividend	(97,867)	(91,216)
Adjustments due to changes in value	(42,041)	(40,177)
Non-controlling interests	18,061	4,382
Equity	2,224,648	1,991,545
Grants and other non-current advances	418,297	403,210
Non-current provisions	84,151	65,434
Non-current financial liabilities	4,662,995	3,990,860
Deferred tax liabilities	598,855	537,564
Other non-current liabilities	72,978	75,268
Non-current liabilities	5,837,276	5,072,336
Current provisions	10	10
Current financial liabilities	991,904	1,763,611
Trade and other payables	366,027	274,151
Current liabilities	1,357,941	2,037,772
Total equity and liabilities	9,419,865	9,101,653

Consolidated cash flow statement

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

General remuneration model for transmission facilities



(1) 10-year Government bond yield in secondary market over 24 months before May of the year prior to the start of the regulatory period.

- Financial expense recognized arising from delays between the commissioning of the facility and the remuneration collection on investment and O&M.
- In the 1st regulatory period, the differential will be 200 bp while the rate of return is set at 6.5% before tax.
- Once the useful life ends, the extension of useful life will be remunerated in addition to O&M retribution.

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