Red Eléctrica Corporación, S.A.

Annual Accounts
31 December 2014

Directors' report
2014

(With Auditor's Report Thereon)

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of
Red Eléctrica Corporación, S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Red Eléctrica Corporación, S.A. (the "Company"), which comprise the balance sheet at 31 December 2014, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

Directors' responsibility for the annual accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they present fairly the equity, financial position and financial performance of Red Eléctrica Corporación, S.A. in accordance with the financial reporting framework applicable to the entity in Spain, specified in note 2 to the accompanying annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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N.I.F. B-78510153

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Red Eléctrica Corporación, S.A. at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein.

Report on other legal and regulatory requirements

The accompanying directors' report for 2014 contains such explanations as the Directors consider relevant to the situation of Red Eléctrica Corporación, S.A., its business performance and other matters, and is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2014. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Company.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Ana Fernández Poderós

25 February 2015

RED ELÉCTRICA CORPORACIÓN, S.A.
BALANCE SHEETS
AT 31 DECEMBER 2014 AND 2013
THOUSANDS OF EUROS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	31 DECEMBER 2014	31 DECEMBER 2013
NON-CURRENT ASSETS	**1,801,540**	**1,623,623**
Property, plant and equipment (note 5)	**59,447**	**55,483**
Land and buildings	56,453	53,091
Other installations, machinery, equipment, furniture and other items	1,208	606
Under construction and advances	1,786	1,786
Investment property (note 6)	**2,517**	**2,561**
Land	629	629
Buildings	1,888	1,932
Non-current investments in Group companies and associates	**1,674,158**	**1,504,596**
Equity instruments (note 8)	1,080,896	1,079,596
Loans to companies (note 22)	593,000	425,000
Non-current interest on loans to companies (note 22)	262	-
Non-current investments (note 11)	**64,254**	**59,755**
Equity instruments	64,241	59,755
Other financial assets	13	-
Deferred tax assets (note 16)	**1,164**	**1,228**
CURRENT ASSETS	**502,904**	**535,558**
Trade and other receivables (note 12)	**40,075**	**283**
Other receivables	84	283
Current tax assets	39,991	-
Current investments in Group companies and associates (note 22)	**462,557**	**535,204**
Loans to companies	462,557	535,204
Prepayments for current assets	**34**	**40**
Cash and cash equivalents	**238**	**31**
Cash	238	31
TOTAL ASSETS	**2,304,444**	**2,159,181**
EQUITY (note 13)	**2,134,597**	**2,030,113**
Capital and reserves	**2,126,647**	**2,025,465**
Capital	270,540	270,540
Reserves	1,513,891	1,367,317
(Own shares and equity holdings)	(10,390)	(1,707)
Profit for the year	465,069	487,182
(Interim dividend)	(112,463)	(97,867)
Valuation adjustments	**7,950**	**4,648**
NON-CURRENT LIABILITIES	**9,959**	**9,413**
Non-current provisions (note 14)	**3,169**	**3,356**
Non-current payables (note 15)	**16**	**2**
Other liabilities	16	2
Group companies and associates, non-current (note 22)	**1,546**	**1,546**
Deferred tax liabilities (note 16)	**5,118**	**4,395**
Non-current accruals (note 17)	**110**	**114**
CURRENT LIABILITIES	**159,888**	**119,655**
Current payables (note 18)	**118,861**	**97,904**
Loans and borrowings	266	13
Other current payables	118,595	97,891
Group companies and associates, current (note 22)	**20,576**	**-**
Trade and other payables (note 19)	**20,451**	**21,751**
Other payables	120	139
Personnel	226	773
Current tax liabilities	19,924	20,643
Public entities, other	181	196
TOTAL EQUITY AND LIABILITIES	**2,304,444**	**2,159,181**

The accompanying notes 1 to 30 form an integral part of these Annual Accounts.

RED ELÉCTRICA CORPORACIÓN, S.A.
INCOME STATEMENTS
FOR 2014 AND 2013
THOUSANDS OF EUROS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	2014	2013
Revenues (note 21-a)	**471,195**	**494,186**
Finance income on dividends	446,947	469,585
Group companies and associates	442,381	465,046
Other	4,566	4,539
Finance income on securities and other financial instruments of Group companies and associates	24,248	24,601
Supplies	**(2)**	**-**
Raw materials and consumables used	(2)	-
Other operating income	**10,369**	**10,343**
Non-trading and other operating income	10,369	10,343
Personnel expenses (note 21-b)	**(2,738)**	**(2,703)**
Salaries and wages	(2,550)	(2,493)
Employee benefits expense	(54)	(50)
Provisions	(134)	(160)
Other operating expenses	**(3,471)**	**(3,264)**
External services	(3,038)	(2,838)
Taxes	(433)	(426)
Amortisation and depreciation (notes 5 and 6)	**(1,401)**	**(1,392)**
RESULTS FROM OPERATING ACTIVITIES	**473,952**	**497,170**
Finance income (note 21-c)	**512**	**73**
Marketable securities and other financial instruments	512	73
Other	512	73
Finance costs (note 21-c)	**(38)**	**(594)**
Group companies and associates	-	(349)
Other	(37)	(238)
Provision adjustments	(1)	(7)
NET FINANCE INCOME/COST	**474**	**(521)**
PROFIT(LOSS) BEFORE INCOME TAX	**474,426**	**496,649**
Income tax (note 16)	**(9,357)**	**(9,467)**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**465,069**	**487,182**
PROFIT/(LOSS) FOR THE YEAR	**465,069**	**487,182**

The accompanying notes 1 to 30 form an integral part of these Annual Accounts.

RED ELÉCTRICA CORPORACIÓN, S.A.
STATEMENT OF TOTAL CHANGES IN EQUITY
31 DECEMBER 2012 AND 2013
THOUSANDS OF EUROS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Subscribed capital	Reserves	(Own shares)	Prior years' profit and loss	Profit/(loss) for the year	(Interim dividend)	**Subtotal Equity**	Valuation adjustments	**Total equity**
Balance at 31 December 2012	270,540	1,222,284	(14,698)	-	451,509	(91,216)	**1,838,419**	1,228	**1,839,647**
Total recognised income and expense	-	(15)	-	-	487,182	-	**487,167**	3,420	**490,587**
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(319,646)	-	(6,651)	**(326,297)**	-	**(326,297)**
Net transactions with own shares	-	6,528	12,991	-	-	-	**19,519**	-	**19,519**
Other changes in equity									
Transfer of prior year profit	-	-	-	451,509	(451,509)	-	**-**	-	**-**
2012 profit transferred to reserves	-	132,478	-	(131,863)	-	-	**615**	-	**615**
Balance sheet revaluation - Law 16/2012	-	6,042	-	-	-	-	**6,042**	-	**6,042**
Balance at 31 December 2013	270,540	1,367,317	(1,707)	-	487,182	(97,867)	**2,025,465**	4,648	**2,030,113**
Total recognised income and expense	-	32	-	-	465,069	-	**465,101**	3,302	**468,403**
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(343,856)	-	(14,596)	**(358,452)**	-	**(358,452)**
Net transactions with own shares	-	3,142	(8,683)	-	-	-	**(5,541)**	-	**(5,541)**
Other changes in equity									
Transfer of prior year profit	-	-	-	487,182	(487,182)	-	**-**	-	**-**
2013 profit transferred to reserves	-	143,400	-	(143,326)	-	-	**74**	-	**74**
Balance at 31 December 2014	270,540	1,513,891	(10,390)	-	465,069	(112,463)	**2,126,647**	7,950	**2,134,597**

RED ELÉCTRICA CORPORACIÓN, S.A.
STATEMENTS OF RECOGNISED INCOME AND EXPENSE
31 DECEMBER 2014 AND 2013
THOUSANDS OF EUROS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	2014	2013
Profit for the year	**465,069**	**487,182**
Measurement of financial instruments	4,486	4,886
Actuarial gains and losses and other adjustments	45	(21)
Tax effect	(1,197)	(699)
Income and expense recognised directly in equity	**3,334**	**4,166**
Measurement of financial instruments	-	-
Tax effect	-	(761)
Amounts transferred to the income statement	**-**	**(761)**
Total recognised income and expense	**468,403**	**490,587**

RED ELÉCTRICA CORPORACIÓN, S.A.
STATEMENTS OF CASH FLOWS
AT 31 DECEMBER 2014 AND 2013
THOUSANDS OF EUROS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

STATEMENT OF CASH FLOWS	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES	**523,902**	**346,256**
Profit for the year before tax	**474,426**	**496,649**
Adjustments for:	**(470,138)**	**(492,117)**
Amortisation and depreciation	1,401	1,392
Change in provisions	134	160
Finance income	(471,707)	(494,259)
Finance costs	38	594
Other income and expenses	(4)	(4)
Changes in operating assets and liabilities	**77,342**	**(118,275)**
Trade and other receivables	187	853
Other current assets	6	(22)
Other current assets Group companies and associates	76,659	(118,774)
Trade and other payables	490	(332)
Other cash flows from operating activities	**442,272**	**459,999**
Interest paid	(36)	(238)
Dividends received	446,947	469,585
Interest received	13	73
Income tax paid	(4,373)	(9,103)
Other amounts paid	(279)	(318)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(174,625)**	**(44)**
Payments for investments	**(174,639)**	**(44)**
Group companies and associates	(169,300)	-
Property, plant and equipment, intangible assets and investment property	(5,321)	(44)
Other assets	(18)	-
Proceeds from sale of investments	**14**	**-**
Other assets	14	-
CASH FLOWS USED IN FINANCING ACTIVITIES	**(349,070)**	**(346,196)**
Proceeds from and payments for equity instruments	**(5,541)**	**19,519**
Acquisition and sale of own equity instruments	(5,541)	19,519
Proceeds from and payments for financial liability instruments	**253**	**(46,684)**
Loans and borrowings	253	(6)
Group companies and associates	-	(46,678)
Dividends and interest on other equity instruments paid	**(343,782)**	**(319,031)**
Dividends	(343,782)	(319,031)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**207**	**16**
Cash and cash equivalents at beginning of year	**31**	**15**
Cash and cash equivalents at year end	**238**	**31**

RED ELÉCTRICA
CORPORACIÓN

Notes to the Annual Accounts
2014

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

CONTENT

1. ACTIVITIES OF THE COMPANY

Red Eléctrica Corporación, S.A. (hereinafter the Company) was incorporated in 1985 and its registered office is located in Alcobendas (Madrid). The Company's principal activities are as follows:

- Managing the corporate Group, which comprises investments in the share capital of its Group companies and investees.
- Rendering assistance and support services to its investees.
- Operating the buildings owned by the Company.

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) Fair presentation

The accompanying Annual Accounts were authorised for issue by the Company's directors at their board meeting held on 24 February 2015 and have been prepared to present fairly the Company's equity and financial position at 31 December 2014 and 2013, as well as the results of its operations and changes in equity and cash flows for the years then ended.

The figures disclosed in the Annual Accounts are expressed in thousands of Euros, the Company's functional and presentation currency, rounded off to the nearest thousand. The Annual Accounts have been prepared on the basis of the accounting records of the Company in accordance with prevailing legislation and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the amendments thereto contained in Royal Decree-Law 1159/2010.

The Company holds investments in subsidiaries. Consequently, in accordance with prevailing legislation, the Company is the parent of a group of companies. Pursuant to generally accepted accounting principles in Spain, Annual Accounts must be prepared to present fairly the financial position of the Company, the results of operations and changes in its equity and cash flows. Details of investments in Group companies are provided in note 8.

The Company files separate consolidated Annual Accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) through Regulation (EC) No 1606/2002/EC of the European Parliament and of the Council, and the related interpretations (IFRIC) adopted by the European Union.

The Annual Accounts for 2013 were approved by the shareholders at their general meeting held on 9 May 2014. The Annual Accounts for 2014 are currently pending approval by the shareholders. However, the board of directors of the Company consider that these Annual Accounts will be approved with no changes.

b) Obligatory accounting principles

The Company has not omitted any mandatory accounting principle with a material effect on the Annual Accounts.

c) Estimates and assumptions

The preparation of the Annual Accounts requires Company management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on past experience and other factors that are considered reasonable given the circumstances. Actual results could differ from these estimates.

Although estimates are based on the best information available at 31 December 2014, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding income statement as a change in accounting estimates, as required by the Spanish General Chart of Accounts.

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2014 include comparative figures for the prior year, which formed part of the Annual Accounts for 2013.

In 2013 the Company also availed of the balance sheet revaluation permitted by Law 16/2012 of 27 December 2012, which introduced several fiscal measures to consolidate public finances and boost economic activity. The Annual Accounts for that year reflect this revaluation, effective from 1 January 2013, for an amount of Euros 6,042 thousand net of tax, as follows:

	Thousands of Euros
Property, plant and equipment	6,360
Tax	(318)
	========
Revaluation reserve, Law 16/2012 of 27 December 2012	6,042

Consequently, the Annual Accounts for 2014 are not necessarily comparable to those of 2013.

3. PROPOSED DISTRIBUTION OF PROFITS

The proposed distribution of profit for the year ended 31 December 2014, prepared by the directors and pending approval by the shareholders at the general meeting, is as follows (in thousands of Euros):

Profit for the year	465,069

Total	465,069
	======
DISTRIBUTION	
Voluntary reserves	59,382
Dividends:	
Interim dividend	112,463
Complementary dividend	293,224

Total	465,069
	======

This proposed distribution entails a complementary dividend of Euros 2.1677 per share, which would result in a total dividend for the year of euros 3 per share, calculated on the basis of total shares.

The interim dividend for the year is explained in note 13.

4. SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting principles used in preparing the accompanying Annual Accounts are as follows:

a) Property, plant and equipment

Property, plant and equipment mainly comprise land and buildings and are measured at cost of construction or acquisition, as applicable. Cost of construction includes the following items, where applicable:

- Borrowing costs accrued on external financing during the construction period.
- Operating costs directly related with property, plant and equipment constructed for projects executed under the supervision and management of the Company.

The Company transfers work in progress to operating property, plant and equipment provided that the assets are in working condition.

Costs incurred to enlarge or improve items of property, plant and equipment which increase capacity or productivity or extend the useful life of the asset are capitalised as an increase in the cost of the related asset.

Repair and maintenance costs on property, plant and equipment that do not increase productivity or capacity and which do not lengthen the useful life of the assets are charged as expenses when incurred.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets, which is the period during which the Company expects to use the assets, applying the following rates:

	Annual depreciation rate
Buildings	2%-10%
Other installations	4%-25%

b) Investment property

The Company measures its investment property at cost of acquisition. The market value of the Company's investment property is disclosed in note 6.

Buildings are depreciated on a straight-line basis over the estimated useful life, which is the period during which the Company expects to use the assets (annual depreciation rate of 2%).

c) Financial assets

The Company classifies its financial assets into the following categories:

- Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not intended for trading in the near term. These assets are classified as current, except those maturing in over 12 months after the reporting date, which are classified as non-current.

  Loans are initially recognised at fair value, including transaction costs incurred in arranging the loan, and are subsequently measured at amortised cost, which is basically the amount granted, less repayments of the principal, plus accrued interest receivable.

  Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

- Available-for-sale financial assets: investments that the Company intends to hold for an unspecified period of time which are likely to be disposed of to meet one-off liquidity needs or in response to interest rate fluctuations. They are classified as non-current, unless they are expected to be disposed of in less than one year and such disposal is feasible. These financial assets are measured at fair value, which is the quoted price at the reporting date in the case of securities quoted in an active market. Any gains or losses arising from changes in the fair value of these assets at the reporting date are recognised directly in equity until the assets are disposed of or impaired, whereupon the accumulated gains and losses are recognised in profit or loss. Impairment, where applicable, is calculated on the basis of discounted expected future cash flows. A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. Dividends from equity investments classified as available-for-sale are recognised in the income statement when the Company's right to receive payment is established.

- Equity investments in Group companies and associates these investments are measured at cost less any accumulated impairment. If there is objective evidence that the carrying amount is not recoverable, the amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount, the latter of which is understood as the higher of the fair value less costs to sell and the present value of estimated future cash flows from the investment. Unless better evidence of the recoverable amount is available, when estimating impairment of such investments, the investee's equity is taken into consideration, corrected for any net unrealised gains existing at the measurement date. Impairment losses are recognised and reversed in the corresponding income statement.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits in financial institutions and other short-term, highly liquid investments.

e) Impairment

The Company analyses the recoverability of its assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised immediately in the income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount.

Recoverable amount is the higher of:

- Fair value less costs to sell
- Value in use

Recoverable amount is calculated on the basis of expected cash flows. Impairment is calculated for individual assets. Where the recoverable amount of an individual asset cannot be determined, the recoverable amount of the cash-generating unit (CGU) to which that asset belongs is calculated. Any reversals are recognised in the income statement.

f) Equity

The share capital of the Company is represented by ordinary shares.

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, based on the consensus of the board of directors. Complementary dividends are not deducted from equity until approved by the pertinent board of directors.

The consideration paid by the Company in the acquisition of own shares, including any directly attributable incremental costs, is deducted from equity until the shares are cancelled, reissued or disposed of. If these shares are subsequently sold, any amount received, net of any incremental costs directly attributable to the transaction, is recognised in equity.

g) Employee benefits

- Pension obligations

  The Company has defined contribution plans, whereby the benefit receivable by an employee upon retirement — based on their remuneration — is determined by the contributions made. For these pension plans, the Company pays fixed contributions into a separate entity, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to these plans are recognised under personnel expenses in the income statement.

- Other long-term employee benefits

  Other long-term employee benefits include defined benefit plans for benefits other than pensions (such as medical insurance) for the Company's serving personnel. The expected costs of these benefits are recognised over the working life of the employees. These obligations are measured each year by independent qualified actuaries. Changes in actuarial assumptions are recognised, net of taxes, in reserves under equity in the year in which they arise, while the past service cost is recorded in the income statement.

  This item also includes deferred remuneration schemes, which are measured each year.

h) Provisions

The Company makes provision for present obligations (legal or constructive) arising as a result of a past event whenever it is probable that an outflow of resources will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provision is made when the liability or obligation is recognised.

Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax interest rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

i) Financial debt

Loans, payment obligations and similar commitments are initially recognised at the cash amount received, less transaction costs. Such debt is subsequently measured at amortised cost, using the effective interest method.

Financial debt is classified under current liabilities unless the debt falls due more than 12 months after the reporting date, in which case it is classified under non-current liabilities.

j) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. However, trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

k) Income and expenses

Income and expenses are recognised on an accruals basis, irrespective of payments and receipts.

Interest income is recognised using the effective interest method. Dividends are recognised when the right to receive payment is established.

The Company, as the Parent of the Red Eléctrica Group, adopted the Spanish Accounting and Auditing Institute's (ICAC) response to the query (Ref: 546/09) of 23 July 2009, regarding the classification for accounting purposes of a holding company's income and expenses in individual accounts and the method for determining revenues, and classifies dividends from investments held in subsidiaries and interest on loans extended to these companies as revenues.

l) Taxation

The income tax expense or tax income for the year comprises current tax and deferred tax. Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Current tax is the estimated tax payable for the year using the enacted tax rates applicable to the current year and to any adjustment to tax payable in respect of previous years.

Tax credits and deductions arising from economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised.

Deferred taxes and the income tax expense are calculated and recognised using the liability method, based on temporary differences arising between the balances recognised in the financial information and those used for tax purposes. This method entails calculating deferred tax assets and liabilities on the basis of the differences between the carrying amount of the assets and liabilities and their tax base, applying the tax rates that are objectively expected to apply to the years when the assets are realised and the liabilities settled.

Deferred tax assets are recognised provided that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised.

As the Parent of the Group, the Company records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables from (payables to) Group companies and associates.

m) Insurance

The Company has taken out various insurance policies to cover the risks to which it is exposed through its activities. These risks mainly comprise damage that could be caused to its facilities and possible claims that might be lodged by third parties as a result of the Company's activities. Insurance premium expenses are recognised in the income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the income statement applying the matching of income and expenses principle.

n) Share-based payment

The Company has implemented share purchase schemes whereby employees can opt to receive part of their annual remuneration in the form of shares in the Company. This remuneration is measured based on the closing quotation of these Company shares at the delivery date. The costs incurred on such schemes are recognised under personnel expenses in the income statement. All shares delivered as payment are taken from the own shares held the Company.

o) Transactions between Group companies

Transactions between Group companies are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

5. PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment and details of accumulated depreciation and impairment during 2014 and 2013, in thousands of Euros, are as follows:

	31 December 2012	Revaluation	Balance sheet revaluation per Law 16/2012 of 27 December 2012	Additions	Disposals	Transfers	31 December 2013	Additions	Disposals	Transfers	31 December 2014
Cost											
Land and buildings	60,476	6,304	66,780	-	-	-	66,780	4,545	-	-	71,325
Other installations, machinery, equipment, furniture and other items	14,018	56	14,074	-	-	-	14,074	776	-	-	14,850
Under construction and advances	1,742	-	1,742	44	-	-	1,786	-	-	-	1,786
Total cost	76,236	6,360	82,596	44	-	-	82,640	5,321	-	-	87,961
Accumulated depreciation											
Buildings	(12,503)	-	(12,503)	(1,186)	-	-	(13,689)	(1,183)	-	-	(14,872)
Other installations, machinery, equipment,								-			
furniture and other items	(13,305)	-	(13,305)	(163)	-	-	(13,468)	(174)	-	-	(13,642)
Total accumulated depreciation	(25,808)	-	(25,808)	(1,349)	-	-	(27,157)	(1,357)	-	-	(28,514)
Impairment of installations	-	-	-	-	-	-	-	-	-	-	-
Carrying amount	50,428	6,360	56,788	(1,305)	-	-	55,483	3,964	-	-	59,447

Additions to property, plant and equipment in 2014 reflect the acquisition of buildings in the Tres Cantos Technological Park from the Madrid regional government.

Additions to property, plant and equipment under construction and advances in 2013 reflected expenses incurred on a project carried out in the Balearic Islands.

In 2013 items of property, plant and equipment were revalued in accordance with Law 16/2012 of 27 December 2012, which adopted tax measures aimed at consolidating public finances and boosting economic activity. The associated effect is disclosed in the section on Revaluation.

The Company did not capitalise any amounts under property, plant and equipment in 2014 and 2013.

At 31 December 2014 the Company has fully depreciated property, plant and equipment with a cost of Euros 13,503 thousand (Euros 13,501 thousand in 2013), Euros 12,638 thousand of which are other installations (Euros 12,637 thousand in 2013).

6. INVESTMENT PROPERTY

Movement in investment property in 2014 and 2013, in thousands of Euros, is as follows:

	31 December 2012	Additions	Transfers	31 December 2013	Additions	Transfers	31 December 2014
Investment property	2,910	-	-	2,910	-	-	2,910
Total cost	2,910	-	-	2,910	-	-	2,910
Accumulated depreciation	(306)	(43)	-	(349)	(44)	-	(393)
Total accumulated depreciation	(306)	(43)	-	(349)	(44)	-	(393)
Carrying amount	2,604	(43)	-	2,561	(44)	-	2,517

Investment property has a market value of approximately Euros 3 million in 2014 and 2013 and does not generate or incur significant operating income or expenses.

7. OPERATING LEASES

The Company has leased certain assets to Group companies. The types of assets leased under operating leases, in thousands of Euros, are as follows:

	31 December 2014	31 December 2013
Cost		
Land and buildings	66,780	66,780
Other installations, machinery, equipment, furniture and other items	14,074	14,074
Total cost	80,854	80,854
Accumulated depreciation		
Buildings	(14,863)	(13,689)
Other installations, machinery, equipment, furniture and other items	(13,626)	(13,468)
Total accumulated depreciation	(28,489)	(27,157)
Carrying amount	52,365	53,697

The Company has entered into agreements with Red Eléctrica de España, S.A.U. (REE), whereby it leases to the latter certain areas inside the buildings it owns. These agreements are renewed periodically and have generated lease income of Euros 10,102 thousand in 2014.

The Company has also entered into agreements with Red Eléctrica Internacional, S.A.U. (REI), whereby it leases to the latter certain areas inside the buildings it owns. These agreements are renewed periodically and have generated lease income of Euros 215 thousand in 2014.

8. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

At 31 December 2014 and 2013, none of the Group companies in which the Company holds a direct or indirect interest is listed on the stock exchange.

Details of investments in Group companies and associates at 31 December 2014, in thousands of Euros, are as follows:

RED ELÉCTRICA CORPORACIÓN S.A.
Details of investments at 31 December 2014
(Expressed in thousands of Euros)

Company - Registered office - Principal activity	Percentage ownership (1) Direct	Percentage ownership (1) Indirect	Carrying amount	Equity of investees (2) Share capital	Share premium	Reserves	Other items	Profit/(loss) for the year (3)	Operating profit/(loss)	Dividends received
A) Fully consolidated subsidiaries										
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission and operation of the Spanish electricity system and management of the transmission grid.	100%	-	1,014,326	800,006	54,319	373,514	(136,849)	613,460	907,357	441,750
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - International investments. Rendering of advisory, engineering, construction and telecommunications services. - Performance of electricity activities outside the Spanish electricity system.	100%	-	60,010	60,010	-	39,802	(2,781)	63,666	14,034	-
Red Eléctrica de España Finance, B.V. (RBV) - Claude Debussylaan, 24. Amsterdam (Holland). - Financing activities. - Incorporated in 2003 in the Netherlands to issue debt on behalf of the Red Eléctrica Group.	100%	-	2,000	18	1,982	-	-	213	(123)	631
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	60	60	-	3,669	-	1,815	(205)	-
Redcor Reaseguros, S.A (REDCOR) - 26, Rue Louvigny. (Luxembourg). - Reinsurance activities. - Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international markets.	100%	-	4,500	4,500	-	-	19,860	8,934	11,454	-
Red Eléctrica Andina, S.A. (REA) - Alfonso Ugarte Nº 536 Cercado. Arequipa (Peru). - Rendering of line and substation maintenance services.	-	100%(a)	31	35	-	588	-	85	168	-
Transmisora Eléctrica del Sur , S.A. (TESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission grids.	-	55%(a)	11,011	21,252	-	(22)	(1,072)	(709)	425	-
Red Eléctrica del Sur, S.A. (REDESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission grids.	-	55%(a)	8,930	10,707	-	6,023	-	4,103	6,181	-
B) Proportionately consolidated companies										
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Coeur Défense Tour B 100, Esplanade du Général De Gaulle, 92932 La Défense Cedex. Paris (France) - Study and execution of Spain-France interconnection (Sta. Llogaia-Baixas).	-	50%(b)	1,000	2,000	-	2,445	7,248	2,021	2,846	-

(1) Equivalent to voting rights.
(2) As per the audited financial statements harmonised with the Company's accounting criteria and translated to Euros at the closing exchange rate.
(3) As per the audited financial statements harmonised with the Company's accounting criteria and translated to Euros at the average exchange rate.

(a) Investment through Red Eléctrica Internacional, S.A.U.
(b) Investment through Red Eléctrica de España, S.A.U.

On 1 May 2012 the Bolivian government nationalised Transportadora de Electricidad S.A. (hereinafter TDE) through Supreme Decree 1214, and this company therefore left the consolidated group on that date. REI's investment in TDE was 99.94%. In 2014, REI has reached a final agreement with the Bolivian government on the compensation for the aforementioned nationalisation. This compensation has been recognised in the 2014 Annual Accounts of REI and, therefore, of the Group.

The Company holds all of the share capital of REE, the company that performs the functions of transmission agent, system operator and transmission grid manager of the Spanish electricity system subject to the provisions of Electricity Industry Law 24/2013 and related provisions formerly applicable to Red Eléctrica de España, S.A. as system operator and transmission grid manager. The Company may not transfer the shares of this subsidiary, which conducts regulated activities in Spain, to third parties.

9. FINANCIAL RISK MANAGEMENT POLICY

The Company’s financial risk management policy establishes principles and guidelines to ensure that any significant risks that could affect the objectives and activities of the Group are identified, analysed, assessed, managed and controlled, and that these processes are carried out systematically and adhering to uniform criteria.

A summary of the main guidelines that comprise this policy is as follows:

- Risk management should be fundamentally proactive and directed towards the medium and long term, taking into account possible scenarios in an increasingly global environment.
- Risk should generally be managed in accordance with consistent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources required to reduce it.
- Financial risk management should be focused on avoiding undesirable variations in the Company’s core value, rather than generating extraordinary profits.

The Company’s finance management is responsible for managing financial risk, ensuring consistency with the strategy and coordinating the risk management process, by identifying the main financial risks and defining the initiatives to be taken, based on different financial scenarios.

The methodology for identifying, measuring, monitoring and controlling risk, as well as the management indicators and measurement and control tools specific to each risk, are documented in the financial risk manual.

The main risk to which the Company is exposed is credit risk, as debt transactions are carried out through the other Group companies, which assume the market and liquidity risks. Credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are stipulated where required. At 31 December 2014 the Company does not consider there to be any risk as regards the recoverability of receivables.

The Company is exposed to price risk relating to capital investments classified as available-for-sale in the balance sheet. Investments available for sale on quoted markets basically comprise the 5% interest held by the Company in Redes Energéticas Nacionais, SGPS, S.A. (hereinafter REN). The Company's reference index is the PSI20.

At 31 December 2014 had the listed price of the REN shares been 10% higher, equity would have increased by approximately Euros 5 million (Euros 4 million in 2013). Had the listed price been 10% lower, equity would have been approximately Euros 5 million lower (Euros 4 million in 2013).

10. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by category

At 31 December 2014 and 2013 the carrying amounts of each category of financial instruments, except investments in Group companies, are as follows (in thousands of Euros):

- Financial assets

	Financial instruments by category 31/12/2014		
	Available-for-sale financial assets	Loans and receivables	Total
Loans to Group companies and associates	-	593,262	593,262
Equity instruments	64,241	-	64,241
Other financial assets	-	13	13
	------------	------------	------------
Non-current	64,241	593,275	657,516
	=======	=======	=======
Investments in Group companies and associates	-	462,557	462,557
Trade and other receivables	-	40,075	40,075
	------------	------------	------------
Current	-	502,632	502,632
	=======	=======	=======
Total	64,241	1,095,907	1,160,148
	=======	=======	=======

	Financial instruments by category 31/12/2013		
	Available-for-sale financial assets	Loans and receivables	Total
Loans to Group companies and associates	-	425,000	425,000
Equity instruments	59,755	-	59,755
Other financial assets	-	-	-
	------------	------------	------------
Non-current	59,755	425,000	484,755
	=======	=======	=======
Investments in Group companies and associates	-	535,204	535,204
Trade and other receivables	-	283	283
	------------	------------	------------
Current	-	535,487	535,487
	=======	=======	=======
Total	59,755	960,487	1,020,242
	=======	=======	=======

- Financial liabilities

	Financial instruments by category 31/12/2014
	Debts and payables
Payables to Group companies and associates	1,546
Other financial liabilities	16

Non-current	1,562
	=======
Loans and borrowings	266
Payables to Group companies and associates	20,576
Current payables	118,595
Trade and other payables	20,451

Current	159,888
	=======
Total	161,450
	=======

	Financial instruments by category 31/12/2013
	Debts and payables
Payables to Group companies and associates	1,546
Other financial liabilities	2

Non-current	1,548
	=======
Loans and borrowings	13
Payables to Group companies and associates	-
Current payables	97,891
Trade and other payables	21,751

Current	119,655
	=======
Total	121,203
	=======

b) Analysis by maturity

- Financial assets

	Maturity of financial assets		
	2015	Subsequent years	Total
Assets available for sale	-	64,241	64,241
Loans to Group companies and associates	462,557	593,262	1,055,819
Other financial assets	-	13	13
Trade and other receivables	40,075	-	40,075
	------------	------------	------------
	502,632	657,516	1,160,148
	=======	=======	=======

- Financial liabilities

	Maturity of financial liabilities		
	2015	Subsequent years	Total
Loans and borrowings	266	-	266
Group companies and associates	20,576	1,546	22,122
Trade and other payables	139,046	-	139,046
Other financial liabilities	-	16	16
	------------	------------	------------
	159,888	1,562	161,450
	=======	=======	=======

11. NON-CURRENT INVESTMENTS

	31 December 2014	31 December 2013
Equity instruments	64,241	59,755
Other financial assets	13	-
	---------	---------
	64,254	59,755
	======	======

Investments are equity instruments classified as available-for-sale comprise the 5% interest held by the Company in REN, a holding company that encompasses the operation and use of electricity transmission assets and gas infrastructure in Portugal.

The value of this investment is subject to the listed share price (Euros 2.406 per share at 31 December 2014 and Euros 2.238 per share at 31 December 2013). At 31 December 2014 the fair value of this equity instrument was increased with respect to the prior year and the corresponding valuation adjustment was recognised directly under equity.

At 31 December 2014 the Company has calculated the increase resulting from the valuation adjustment recognised under equity at Euros 4,486 thousand (Euros 4,886 thousand in 2013).

In 2014 and 2013 there was no objective evidence of impairment of the investment in REN.

In 2014 non-current investments also include the Euros 8 investment in eight economic interest groups (EIGs) engaged in the lease of assets managed by an unrelated company, which retains most of the rewards and risks of the activity, while the Company only avails of the tax incentives regulated in Spanish legislation. The Company recognises the tax loss carryforwards generated by these EIGs against the investments and the corresponding finance income for the difference with the balance payable to the taxation authorities (note 16 and note 21-c).

12. TRADE AND OTHER RECEIVABLES

Details at 31 December 2014 and 2013, in thousands of Euros, are as follows:

	31 December 2014	31 December 2013
Trade Receivables	84	283
Public entities, other	39,991	-
	---------	---------
	40,075	283
	======	======

In 2014 public entities, other includes Euros 28,351 thousand in respect of recoverable income tax for 2013, based on the return filed by the Company in 2014, as the head of the tax group.

This line item also includes Euros 11,640 thousand recoverable as a result of the amended tax return for 2012, filed by the Company in 2014, as the head of the tax group.

13. EQUITY

a) Capital risk management

The Group's aim when managing the capital of its subsidiaries and investees is to safeguard their capacity to continue operating as a going concern, so as to provide shareholder remuneration, while maintaining an optimum capital structure to reduce the cost of capital.

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

Given the Company's activity and its investees' capacity to generate funds, the Company is not significantly exposed to capital risk.

b) Equity

- **Capital**

  At 31 December 2014 the Company's share capital is represented by 135,270,000 bearer shares with a par value of Euros 2 each, subscribed and fully paid, and carrying the same voting and profit-sharing rights. The Company's shares are quoted on the four Spanish stock exchanges.

The Company, as Parent of the Red Eléctrica Group, is subject to the shareholder limitations stipulated in the twenty-third additional provision of Law 54/1997 of 27 November 1997 and article 30 of the Electricity Industry Law 24/2013 of 26 December 2013.

Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of the Electricity Sector Law 24/2013 of 26 December 2013. The shareholder limitations with regard to the Parent's share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 31 December 2014 and 2013 SEPI holds a 20% interest in the Company's share capital.

- **Reserves**

  This item includes:

  - Legal reserve

    Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 31 December 2014 and 2013 the legal reserve amounts to 20% of share capital (Euros 54,199 thousand).

  - Revaluation reserve, Law 16/2012 of 27 December 2012

    In accordance with Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, the Company revalued its property, plant and equipment. The associated revaluation reserve amounted to Euros 6,042 thousand, net of the 5% capital gains tax.

    The revaluation is open to inspection by the Spanish taxation authorities for a three-year period from the date of filing of the 2012 income tax return. Once the balance has been inspected and agreed, or the three-year period has elapsed, it may be used to offset losses or increase the Company's capital. Once a period of ten years has elapsed this balance may be released to freely distributable reserves.

The balance of this account will only be distributable, either directly or indirectly, to the extent that gains have been realised.

- Other reserves

  Other reserves primarily include voluntary reserves of the Company and first-time application reserves, amounting to Euros 1,169,209 thousand and Euros 19,895 thousand, respectively, at 31 December 2014 (Euros 1,022,635 thousand and Euros 19,895 thousand, respectively, in 2013). Both of these reserves are freely distributable.

  At 31 December 2014 and 2013 this item also comprises statutory reserves totalling Euros 264,546 thousand, notably including the property, plant and equipment revaluation reserve amounting to Euros 247,022 thousand created by the Parent in 1996. This reserve may be used, free of taxation, to offset accounting losses and increase share capital or, ten years after its creation, be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996.

- **Own shares and equity holdings**

  At 31 December 2014 the Company held 147,203 own shares representing 0.11% of its share capital, with a total par value of Euros 294 thousand and an average acquisition price of Euros 70.59 per share (in 2013, 38,376 shares representing 0.03% of capital, with a total par value of Euros 77 thousand and an average acquisition price of Euros 44.51 per share).

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

  These shares have been recognised as a reduction in equity for an amount of Euros 10,390 thousand at 31 December 2014 (Euros 1,707 thousand in 2013).

- **Profit for the year**

  Profit for the year totals Euros 465,069 thousand (Euros 487,182 thousand in 2013).

- **Interim dividends and proposed distribution of dividends by the Company**

The interim dividend authorised by the board of directors in 2014 has been recognised as a Euros 112,463 thousand reduction in equity at 31 December 2014 (Euros 97,867 thousand at 31 December 2013).

On 23 December 2014 the Company's board of directors agreed to pay an interim dividend of Euros 0.8323 (gross) per share with a charge to 2014 profit, which was paid on 2 January 2015.

The cash flow forecast for the period from 30 November 2014 to 2 January 2015 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement	Thousands of Euros
Funds available at 30-11-14:	
Non-current loans available	0
Current loans available	25,000
Current investments and cash	38
Forecast receipts:	
Current transactions	5,539
Financial transactions	328,228
Forecast payments:	
Current transactions	(68,145)
Financial transactions	(166,742)

Forecast availability of funds at 02-01-15	**123,918**
	========

Based on the cash flow forecast at the approval date, no limitation on the availability of funds was or is expected to arise. Furthermore, as reflected in the accompanying Annual Accounts, and as foreseen at the distribution date, profit for 2014 allows for the distribution of this interim dividend.

c) Valuation adjustments

At 31 December 2014 and 2013 this item reflects valuation adjustments to available-for-sale financial assets due to fluctuations in the listed share price of the 5% investment held by the Company in REN.

14. PROVISIONS

Movement in 2014 and 2013, in thousands of Euros, is as follows:

	31 December 2012	Additions	Applications	Actuarial gains and losses	Reversals	31 December 2013	Additions	Applications	Actuarial gains and losses	Reversals	31 December 2014
Long-term employee benefits	168	167	-	21	-	356	135	(278)	(44)	-	169
Other provisions	3,000	-	-		-	3,000	-	-	-	-	3,000
	3,168	167	-	21	-	3,356	135	(278)	(44)	-	3,169

Long-term employee benefits include future commitments (medical insurance) undertaken by the Company on behalf of its employees for their retirement, calculated based on actuarial studies. The following assumptions were used for 2014 and 2013:

	Actuarial assumptions	
	2014	2013
Discount rate	2.06%	3.40%
Cost increase	4.00%	4.00%
Mortality table	PERM/F 2000 new production	PERM/F 2000 new production

The effect of a percentage increase or decrease in the assumed medical insurance cost trend rates, in thousands of Euros, is as follows:

	+1%	-1%
Current service cost	-	-
Interest cost of net post-employment medical costs	-	-
Accumulated post-employment benefit obligation for medical insurance	8	(6)

Conversely, the effect of a decrease of half a percentage point in the discount rate used for medical insurance costs from 2.06% to 1.56%, in thousands of Euros, is as follows:

	Discount rate		
	2.06%	1.56%	Sensitivity
Current service cost	0.8	1.0	0.2
Interest cost of net post-employment medical costs	1.2	0.9	(0.3)
Accumulated post-employment benefit obligation for medical insurance	17	21	4

The accrued amounts are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2014 amount to Euros 0.8 thousand and Euros 1.2 thousand, respectively (Euros 2.3 thousand and Euros 1.2 thousand, respectively, in 2013). Any variations in the calculation of the present value of these obligations due to actuarial gains and losses are recognised in equity as reserves. In 2014 reserves of Euros -44 thousand were recognised in equity in this respect (Euros 21 thousand in 2013).

Other provisions reflect the amounts recorded by the Company every year to cover potential unfavourable rulings handed down in relation to third-party claims.

15. NON-CURRENT PAYABLES

At 31 December 2014 non-current payables comprise non-current guarantees received amounting to Euros 16 thousand (Euros 2 thousand in 2013).

16. TAXATION

The Company has filed consolidated tax returns since 2002. The Company is the parent of tax group no. 57/02.

Due to the treatment permitted by fiscal legislation of certain transactions, accounting profit differs from taxable income. A reconciliation of accounting profit for 2014 and 2013 with the taxable income that the Company expects to declare after approval of the Annual Accounts is as follows (in thousands of Euros):

	2014	2013
Accounting profit for the year before tax	474,426	496,649
Permanent differences	198	(2,265)
	----------	----------
Taxable accounting income	474,624	494,384
Temporary differences:		
Originating in current year	112	284
Reversals during the year	226	283
	----------	----------
	338	567
EIG charges	(18,470)	-
	----------	----------
Taxable income	456,492	494,951
	======	======

The income tax expense for the year is calculated as follows (in thousands of Euros):

	2014	2013
Accounting profit for the year before tax	474,426	496,649
Permanent differences	198	(2,265)
	----------	----------
Taxable accounting income	474,624	494,384
Tax rate	30%	30%
Tax resulting from applicable tax rate	142,387	148,315
Deductions	(132,731)	(139,539)
	----------	----------
Expense for the year	9,656	8,776
Foreign income tax	9	691
Income due to changes in tax rate (Law 27/2014)	(483)	-
Expense due to changes in tax rate (Law 27/2014)	175	-
	======	======
Income tax	9,357	9,467
	======	======
Effective tax rate	1.97%	1.91%
Current income tax	9,766	9,637
Deferred income tax	(101)	(170)
Income due to changes in tax rate (Law 27/2014)	(308)	-
	======	======
Expense for the year	9,357	9,467
	======	======

In 2014 and 2013 permanent differences mainly arise on dividends of entities not resident in Spain.

Deductions mainly comprise those for internal double taxation of dividends.

Temporary differences in the recognition of income and expenses for accounting and tax purposes at 31 December 2014 and 2013, and the corresponding accumulated tax effect (assets and liabilities), are as follows (in thousands of Euros):

In 2014 and 2013, deferred tax assets essentially derive from the limitation on the tax deductibility of depreciation and amortisation charges, the balance sheet revaluations, as permitted by Law 16/2012, and the provisions for liabilities.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the tax amortisation of goodwill arising on foreign investments.

The notes to the Company's Annual Accounts for 2006 contain disclosures on the merger by absorption of Red de Alta Tensión, S.A.U. (REDALTA) and Infraestructuras de Alta Tensión S.A.U. (INALTA), as required by article 93 of Royal Legislative Decree 4/2004. The notes to the 2008 Annual Accounts include disclosures on the contribution to Red Eléctrica de España, S.A.U. of the branch of activities encompassing the duties of the system operator, transmission grid manager and transmission agent of the Spanish electricity system.

Law 27/2014 of 27 November 2014, effective from 1 January 2015, which amends the Spanish Income Tax Law and reduces the tax rate from 30 per cent to 28 per cent in 2015 and to 25 per cent from 2016 onwards, has resulted in accounting income of Euros 308 thousand in 2014 and an increase in equity of Euros 529 thousand due to the revision of the deferred tax assets and liabilities recognised by the Company based on the new tax rates.

The Company has not recognised the tax effect of the tax rate reform introduced by Law 27/2014 on the deferred tax assets arising from the right to deduct 2% and 3% from the gross tax payable due to the inclusion in the tax base of depreciation and amortisation not deducted in the tax periods commencing in 2013 and 2014, and the amortisation of the net increase in value resulting from the balance sheet revaluations carried out pursuant to Law 16/2012. For these purposes the Company has considered the deduction for the reversal of the temporary measures pursuant to the thirty-seventh transitional provision as an adjustment to the tax rate applicable to the deductible temporary difference associated with these items.

The inspection of all the main taxes for 2008, 2009 and 2010 was completed on 18 March 2014. The Company has signed the tax assessments in acceptance. These reflect the correct filing of all taxes in the tax inspectors' view and are definitive, insofar as the inspectors have verified and examined all components of the tax obligation.

In 2014 the tax base was adjusted for the charges of the EIGs in which the Company holds an interest, totalling Euros 18,470 thousand.

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise as a result of future inspections, which cannot be objectively quantified at present. Nevertheless, the Company's board of directors does not expect that any additional liabilities that could arise in the event of inspection would significantly affect the Company's future results.

17. NON-CURRENT ACCRUALS

Non-current accruals include amounts accrued for long-term leases of premises, totalling Euros 110 thousand at 31 December 2014 (Euros 114 thousand at 31 December 2013).

18. CURRENT PAYABLES

Details at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Loans and borrowings	266	13
Other current payables	118,595	97,891
	------------	------------
	118,861	97,904
	======	======

Details of other current payables are as follows (in thousands of Euros):

	31 December 2014	31 December 2013
Dividends	112,463	97,867
Suppliers of fixed assets and other payables	6,132	24
	------------	------------
	118,595	97,891
	======	======

19. TRADE AND OTHER PAYABLES

Details at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Other payables	120	139
Personnel	226	773
Public entities	20,105	20,839
	------------	------------
	20,451	21,751
	======	======

Public entities include Euros 19,924 thousand at 31 December 2014 (Euros 20,643 thousand in 2013), reflecting the income tax payable recognised by the Company, as parent of the tax group.

20. LATE PAYMENTS TO SUPPLIERS. "REPORTING REQUIREMENT", THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010

Pursuant to Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004 containing measures to combat late payments in commercial transactions, details of payments made and outstanding in 2014 and 2013 are as follows (in thousands of Euros):

	Payments made and outstanding at the reporting date			
	2014		2013	
	Amount	%	Amount	%
Within maximum legal period	2,185	100.00%	4,752	100.00%
Other	-	-	-	-
	-----------	-----------	-----------	-----------
Total payments for the year	2,185	100%	4,752	100%
	======	======	======	======
Weighted average late payment days	-	-	-	-
	======	======	======	======
Late payments exceeding the maximum legal period at the reporting date	-	-	-	-

21. INCOME AND EXPENSES

a) Revenue

Details at 31 December 2014 and 2013 are as follows (in thousands of Euros):

	31 December 2014	31 December 2013
Finance income on investments in equity instruments of Group companies and associates	442,381	465,046
Finance income on investments in equity instruments of third parties	4,566	4,539
Finance income on securities and other financial instruments of Group companies and associates	24,248	24,601
	------------	------------
	471,195	494,186
	=======	=======

At 31 December 2014 and 2013 finance income on investments in equity instruments of Group companies and associates reflects the dividends received from REE and RBV.

At 31 December 2014 and 2013 finance income on investments in equity instruments of third parties reflects the dividends received from REN.

At 31 December 2014 finance income on securities and other financial instruments of Group companies and associates comprises income from loan contracts entered into with REE and REI, as well as the credit facilities arranged with these Group companies. At 31 December 2013 this item included income from the loan contract entered into with REE and the credit facility arranged with this Group company (see note 22).

b) Personnel expenses

In 2014 and 2013 this item comprises the following (in thousands of Euros):

	31 December 2014	31 December 2013
Salaries and wages	2,550	2,493
Social Security	51	48
Contributions to pension funds and similar obligations	3	2
Provisions	134	160
	2,738	2,703

Personnel expenses also include the remuneration of the board of directors (see note 23).

Workforce

The average headcount of the Company in 2014 and 2013, distributed by professional category, is as follows:

	31 December 2014	31 December 2013
Executive chairman	1	1
Senior technicians	1	1
Technicians	-	-
Specialist and administrative staff	2	2
	--------	--------
	4	4
	====	====

This distribution of the Company's employees at 31 December 2014 and 2013, by gender and category, is as follows:

	2014			2013		
	Male	Female	Total	Male	Female	Total
Executive chairman	1	-	1	1	-	1
Senior technicians	-	1	1	-	1	1
Specialist and administrative staff	-	2	2	-	2	2
	--------	--------	--------	--------	--------	--------
	1	3	4	1	3	4
	====	====	====	====	====	====

At 31 December 2014 the board of directors, including the executive director, comprises 10 members (11 members at 31 December 2013), of which 5 are male and 5 are female (7 male and 4 female members in 2013).

c) Finance income and costs

In 2014 finance income essentially includes Euros 499 thousand from the investment in the EIGs (see note 11).

22. BALANCES AND TRANSACTIONS WITH GROUP COMPANIES, ASSOCIATES AND RELATED PARTIES

Balances and transactions with Group companies and associates

All transactions with Group companies and associates have been carried out at market prices.

Details of receivables from and payables to Group companies and associates in 2014 and 2013 are as follows (in thousands of Euros):

	2014		2013	
	Loans and dividends	Payables	Loans and dividends	Payables
Red Eléctrica de España, S.A.U. (REE)	796,377	8,478	959,619	1,509
Red Eléctrica Internacional, S.A.U. (REI)	259,372	13,644	501	37
Red Eléctrica Financiaciones, S.A.U. (REF)	70	-	84	-
	-----------	-------------	-----------	-------------
Total Group companies	1,055,819	22,122	960,204	1,546
	=======	=======	=======	=======

Loans and dividends receivable from REE primarily include the Euros 425 million loan arranged with that company on 1 July 2011, of which Euros 425 million had been drawn down at 31 December 2014 (Euros 425 million at 31 December 2013). The loan falls due in 2016 and its average interest rate for the period was 4.01% (4.01% in 2013). This item also includes the current credit facility arranged with REE for an amount of Euros 650 million (Euros 650 million in 2013). Euros 362,145 thousand had been drawn down at 31 December 2014 (Euros 504,104 thousand at 31 December 2013). The average interest rate for the period was 1.66% (1.83% in 2013).

Loans and dividends receivable from REI primarily include the Euros 168 million loan arranged with that company in 2014. The loan falls due in 2022 and its average interest rate for the period was 3.80%. This item also includes the current credit facility arranged in 2014 for an amount of Euros 100 million, of which Euros 91,077 thousand have been drawn down at 31 December 2014. The average interest rate for the period was 0.89%.

Transactions with Group companies and associates are as follows (in thousands of Euros):

	2014				2013			
	Other operating income	Finance income	Other expenses	Finance costs	Other operating income	Finance income	Other expenses	Finance costs
Red Eléctrica de España, S.A.U. (REE)	10,102	465,421	1,091	-	10,072	488,792	1,087	-
Red Eléctrica Internacional S.A. (REI)	215	577	-	-	215	-	-	349
Red Eléctrica de España Finance, B.V. (RBV)	-	631	-	-	-	855	-	-
	----------	----------	----------	----------	----------	----------	----------	----------
Total Group companies	10,317	466,629	1,091	-	10,287	489,647	1,087	349
	=======	=======	=======	=======	=======	=======	=======	=======

At 31 December 2014 and 2013 other operating income from REE and REI mainly derives from the property lease agreements entered into with these companies.

In 2014 and 2013 finance income primarily reflects the dividends received from REE and RBV, and interest earned on the loans and credit facilities extended to REE and REI.

Related party balances and transactions

Related party transactions are carried out under normal market conditions and their amounts are immaterial. Details in thousands of Euros are as follows:

	2014				2013			
	Significant shareholders	Management	Other related parties	Total	Significant shareholders	Management	Other related parties	Total
Management or cooperation agreements	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-	-	-
Dividends received	-	-	4,566	4,566	-	-	4,539	4,539
Other income	-	-	27	27	-	-	31	31
Total income	-	-	4,593	4,593	-	-	4,570	4,570
Dividends and other allocated benefits	-	-	-	-	-	-	-	-
Other operations	-	-	-	-	-	-	-	-
Total other transactions	-	-	-	-	-	-	-	-

The dividends received in 2014 and 2013 are from REN.

23. REMUNERATION OF THE BOARD OF DIRECTORS

The board of directors of the Company, at a meeting held on 25 February 2014 and as proposed by the Corporate Responsibility and Governance Committee, defined the remuneration of the board members for 2014 introducing a new remuneration scheme. The remuneration of the board members was approved by the shareholders at their annual general meeting on 9 May 2014.

In response to investors' and advisors' preferences and in compliance with international Corporate Governance best practices, it was deemed appropriate to eliminate the variable annual remuneration of the board of directors under the new remuneration scheme. The corresponding amount has been included in the fixed portion of annual remuneration. Consequently, the board of directors' remuneration consists solely of fixed components.

In light of the gradual increase in the tasks, functions and responsibilities attributed to the board committees (Audit Committee, Corporate Responsibility and Governance Committee), the new scheme includes specific annual remuneration for the chairpersons. Moreover, given the assistance and dedication to the Company's governing bodies required of the Coordinating Independent Director, specific annual remuneration has been established for this position.

Details of the remuneration accrued by the board of directors in 2014 and 2013, in thousands of Euros, are as follows:

	31 December 2014	31 December 2013
Total remuneration of the board of directors for all items	1,788	1,787
Remuneration of directors in their capacity as executive directors	599	599
	------------	------------
Total remuneration for members of the board of directors	2,387	2,386
	=======	=======

(1) At 31 December it includes variable and fixed annual remuneration.

In 2014 the remuneration of the board of directors should have been higher than in 2013 due to the new remuneration agreed for the committee chairpersons and the position of Coordinating Independent Director. However, this new remuneration has been offset by the lower amount paid to directors as a result of the changes in the board's composition, inasmuch as the new members have not earned remuneration for the full year.

A breakdown of this remuneration by type of director at 31 December 2014 and 2013, in thousands of Euros, is as follows:

	2014	2013
Type of director:		
Executives	746	746
External directors representing shareholders	483	498
Independent external directors	1,158	1,142
	---------	---------
Total remuneration	2,387	2,386
	======	======

The remuneration accrued by individual members of the Company's board of directors in 2014, in thousands of Euros, is as follows:

	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Membership of committees	Chairperson of committee or board	Coordinating independent director	Total
Mr. José Folgado Blanco	530	200	16	0	0	0	746
Ms. María de los Angeles Amador Millán	131	0	16	28	0	0	175
Mr. Miguel Boyer Salvador	46	0	7	0	0	0	53
Mr. Rui Manuel Janes Cartaxo	46	0	7	0	0	0	53
Mr. Fernando Fernández Méndez de Andés	131	0	16	28	0	0	175
Ms. Paloma Sendín de Cáceres	131	0	16	28	15	0	190
Ms. Carmen Gómez de Barreda	131	0	16	28	0	15	190
Mr. Juan Emilio Iranzo Martín	108	0	12	23	12	0	155
Ms. María José García Beato	131	0	16	5	0	0	152
Ms. Socorro Fernandez Larrea	84	0	11	0	0	0	95
Mr. Antonio Gómez Ciria	84	0	11	0	0	0	95
Mr. Santiago Lanzuela Marina	55	0	6	0	0	0	61
Mr. Alfredo Parra García-Moliner(1)	10	0	0	2	0	0	12
Mr. Francisco Ruíz Jiménez(1)	131	0	16	24	0	0	171
Mr. Jose Ángel Partearroyo Martín(1)	55	0	9	0	0	0	64
	----------	----------	----------	----------	----------	----------	------------
Total remuneration accrued	1,804	200	175	166	27	15	2,387
	======	======	======	======	======	======	=======

(1) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).

The Executive Director's remuneration includes the fixed and variable components corresponding to the role as the Company's Chief Executive and the fixed remuneration for being a member of the board of directors.

Remuneration by item at 31 December 2014 and 2013, in thousands of Euros, is as follows:

	2014	2013
Remuneration:		
Fixed remuneration	1,804	940
Variable remuneration	200	739
Allowances	175	540
Membership of committees	208	167
	---------	---------
Total remuneration	2,387	2,386
	======	======

(1) The variations between the two years are due to the implementation in 2014 of the new remuneration scheme referred to above, which increases the proportion of fixed remuneration for the board of directors with respect to variable remuneration and allowances.

The annual variable remuneration of the executive director is set by the Corporate Responsibility and Governance Committee of the Company at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company's strategic plan and the degree of compliance is assessed by the Committee.

In 2014 as a result of the conclusion of the "25th Anniversary Extraordinary Plan" 2009-2013 (the directors' remuneration scheme that included the executive director), an assessment has been made of the fulfilment of the schemes' objectives based on the minimum and maximum limits (70%-110%) defined therein.

Following the scheme's conclusion in 2013, at the meeting held on 20 February 2014 the Corporate Responsibility and Governance Committee assessed the degree of compliance with the scheme, setting it at 106.3%, and agreed to set remuneration for the executive director included in the scheme at Euros 278 thousand, reflecting the aforementioned degree of compliance during the period between the appointment of the executive director in question and 31 December 2013, the end date of the scheme. This amount was paid in 2014 and was included in the amounts the Company has accrued each year of the 2009-2013 period with a charge to the scheme.

As already mentioned, during 2014 the Company's Corporate Responsibility and Governance Committee considered various long-term incentive systems to be used as a management tool and mechanism for compliance with the new Strategic Plan. As a result of this work, at its session held on 17 February 2015 the aforementioned Committee approved a directors' remuneration scheme for 2014-2019. This scheme includes the executive director and remuneration is based on reaching the targets set out in the Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% compliance would be 1.8 times the annual fixed remuneration for the executive director. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Company's strategic plan. These targets are set and assessed by the Corporate Responsibility and Governance Committee. The Company's financial statements include a provision for accrual of this plan in 2014.

The executive director contract was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's board of directors. In line with standard market practices, this contract considers termination benefits equivalent to one year's salary in the event that labour relations are terminated due to dismissal or changes of control.

At 31 December 2014 and 2013 no loans or advances have been granted to the members of the board of directors, nor have any guarantees been pledged on their behalf. The Group has no pension obligations with the members of the board of directors at those dates.

In 2014 and 2013 the members of the board of directors did not engage in transactions with the Company or Group companies, either directly or through intermediaries, other than ordinary operations under market conditions.

Details of investments held by the members of the board of directors of the Company and their related parties, as defined in article 231 of the Spanish Companies Act, in the share capital of companies with identical, similar or complementary statutory activities to that of the Company at 31 December 2014, as well as the positions they hold and duties they carry out, and any activities they perform, on their own account or on behalf of third parties, that are identical, similar or complementary to the statutory activity of the Company, are included in Appendix I, based on the information received from the Company's directors.

24. MANAGEMENT REMUNERATION

The Company has no management personnel besides the executive director.

25. SEGMENT REPORTING

The Company does not consider it relevant to disclose the distribution of revenue by category of activity and geographical market, insofar as these categories and markets are not structured very differently in terms of the rendering of services as part of the Company's ordinary activities. Following the contribution of the branch of activities in 2008 pursuant to Law 17/2007, these activities are not regulated electricity activities. As such, the Company is not subject to the requirement to give separate disclosures by activity provided for in Royal Decree 437/1998 of 20 March 1998, which approves the standards adapting the Spanish General Chart of Accounts to electricity sector companies.

26. GUARANTEES AND OTHER COMMITMENTS WITH THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

The Company, together with REE, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 500 million by the Group company RBV, and the Eurobonds programme of REF for an amount of up to Euros 3,500 million at 31 December 2014 and 2013.

Furthermore, at 31 December 2014 and 2013 the Company and REE have jointly and severally guaranteed the Euro Commercial Paper Programme (ECP programme) carried out by REF for an amount of up to Euros 1,000 million.

The Company has no commitments to purchase buildings at 31 December 2014 and 2013.

At 31 December 2014 the Company has extended bank guarantees to third parties in an amount of Euros 323 thousand (Euros 62 thousand in 2013).

27. ENVIRONMENTAL INFORMATION

At 31 December 2014 and 2013 the Company has no assets for the protection and improvement of the environment, nor has it incurred any environmental costs during the year.

The Company is not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. No environment-related grants were received in the year.

28. OTHER INFORMATION

KPMG Auditores, S.L. is the auditor of the Company's Annual Accounts for 2014 and 2013. The total fee accrued for audit services rendered to the Company in 2014 is Euros 42 thousand (Euros 36 thousand in 2013). During 2014 and 2013, no fees were accrued by other companies directly or indirectly related to the audit firm in respect of professional services other than the audit.

29. SHARE-BASED PAYMENT

In 2014, a total of 199 shares were delivered with a fair value of Euros 60.20 each, resulting in an expense for the year of Euros 12 thousand. This remuneration was measured based on the closing quotation of these Company shares. No shares were delivered in 2013.

The shares delivered were approved by the Company's shareholders at their general meeting, and the related costs incurred have been recognised under personnel expenses in the income statement.

30. EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred between the reporting date and the date on which these Annual Accounts were authorised for issue.

DIRECTORS OF RED ELÉCTRICA CORPORACIÓN S.A.
Information on the members of the board of directors at 31 December 2014

Board member	Direct or indirect interests held by the directors and their related parties in the share capital of companies with identical, similar or complementary statutory activities to that of the Company	Positions and duties of the members of the board of directors at companies outside the Red Eléctrica Group with identical, similar or complementary statutory activities to that of the Company
Mr. José Folgado Blanco	----------------	Board member of Redes Energéticas Nacionais, SGPS, S.A. (REN) (*)
Mr. Santiago Lanzuela Marina	----------------	----------------
Mr. Francisco Ruíz Jiménez	----------------	----------------
Mr. Fernándo Fernández Méndez de Andés	----------------	----------------
Ms. Paloma Sendín de Cáceres	----------------	----------------
Ms. Carmen de Barreda Tous de Monsalve	----------------	----------------
Ms. María de los Ángeles Amador Millán	----------------	----------------
Ms. Socorro Fernández Larrea	----------------	----------------
Ms. María José García Beato	----------------	----------------
Mr. Antonio Gómez Ciria	----------------	----------------

(*) Ceased to be a board member of REN on 22 January 2015

The members of the board of directors have declared that they have no conflicts of interest as defined in article 229 of the Spanish Companies Act. None of the members of the board of directors or their related parties has carried out, on their own account or on behalf of third parties, any other activities that are identical, similar or complementary to the statutory activity of the Company.

RED ELÉCTRICA
CORPORACIÓN

Directors' Report
2014

(Free translation from the original in Spanish. In the event of discrepancy, the Span
language version prevails.)

CONTENTS

DIRECTORS' REPORT

BUSINESS PERFORMANCE. MOST SIGNIFICANT EVENTS

Since July 2008, Red Eléctrica Corporación, S.A. (hereinafter REC) has been operating as the Parent of the RED ELÉCTRICA Group by holding interests in the share capital of the Group companies and rendering assistance and support services to these companies.

The commitments that the Company undertakes in carrying out these activities drive it towards ongoing generation of value for all its stakeholders.

KEY FINANCIAL INDICATORS

In 2014, profit after tax amounted to Euros 465 million, down 4.5% on the prior year. This profit included:

- Revenue of Euros 471.2 million. This figure reflects Euros 446.9 million corresponding to dividends from Group companies and investees, given that one of the Company's activities as Parent of the Group is holding shares in Group companies.

- EBITDA amounted to Euros 475.4 million, down 4.7% on 2013.

- EBIT was Euros 474 million, sliding 4.7% compared to 2013.

The dividends paid in 2014 amounted to Euros 343.8 million, 7.8% more than in 2013.

REC's equity totalled Euros 2,134.6 million.

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 2.07% at the end of 2014.

At 31 December 2014, 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 2014 there were no changes that affected the number of outstanding shares or their par value.

In 2014 REC's free float was 80%.

At the date of the last shareholders' meeting – 9 May 2014 – the free float comprised an estimated 108,216,000 shares, of which 11% is held by non-controlling shareholders, 5% by Spanish institutional investors and 84% by foreign institutional investors, primarily in the United States and the United Kingdom.

In stock market performance, US markets have continued to rise, reflecting the good times in the country's economy, and indexes such as the Standard & Poor’s 500 and the Dow Jones have again broken above the all-time highs set in the prior year, with gains of approximately 10%. The Nikkei climbed by 7%, primarily as a result of new fiscal measures to boost the Japanese economy.

However, in European stock markets doubts about the recovery led to major indexes closing at similar levels to the prior year. The same was true for developing countries, where stagnating exports and falling raw material prices have had a knock-on effect on stock markets.

REC's stock market performance in 2014 could be classed as extraordinary. The company's shares climbed more than 50% over the year, against a backdrop of removal of much of the regulatory uncertainty linked to its core business, teamed with improved country risk, with Spain no longer considered a high-risk investment.

The market capitalisation of the Company at the end of 2014 was Euros 9,903 million.

In total, 241.5 million shares were traded in 2014, which is 1.79 times the Company's share capital. In cash terms, Euros 15,184 million was traded, up on the Euros 13,171 million traded in the prior year.

OWN SHARES

In order to provide investors with adequate levels of liquidity the Company acquired 1,697,105 shares with a total par value of Euros 3.4 million and a cash value of Euros 107.3 million in 2014. A total of 1,588,278 shares were sold, with an overall par value of Euros 3.2 million and a cash value of Euros 101.9 million.

At 31 December 2014 the Company held 147,203 own shares, representing 0.11% of its share capital. These shares had an overall par value of Euros 294 thousand (see note 13 to the accompanying annual accounts) and a market value of Euros 10,777 thousand.

The Company 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 Company 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.

RISK MANAGEMENT

The RED ELÉCTRICA Group has implemented a Risk Control System covering all activities, which is adapted to its risk profile. The Risk Policy and Comprehensive Risk Management and Control Procedures are based on the Enterprise Risk Management Integrated Framework outlined in the Committee of Sponsoring Organizations (COSO II) report.

The main risk identified in achieving REC's objectives is credit risk, as debt transactions are carried out through Group companies, which assume the market, liquidity, regulatory, operational and environmental risks relating to the Group's activities.

The risk management policies are detailed in note 9 to the accompanying annual accounts.

ENVIRONMENTAL ISSUES

At 31 December 2014, REC has no assets for the protection and improvement of the environment. In 2014 the Company incurred no expenses in protecting and improving the environment.

REC is not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. No environment-related grants were received in the year.

RESEARCH, DEVELOPMENT AND INNOVATION (R&D&i)

REC does not carry out research, development or innovation activities (R&D&i).

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, to fulfil its mission as operator and sole transmission agent for the Spanish electricity system. The Group's objective is to consolidate its position as a sustainable, ethical and responsible company, 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 four basic strategies, which is rolled out to operations through management.

The RED ELÉCTRICA Group's performance in terms of corporate responsibility is subject to ongoing analysis and assessment. In 2014 the Group was incorporated into the following sustainability indices: FTSE4Good, Euronext Vigeo, ESI Excellence Europe, MSCI and Natural Capital Efficiency Leader.

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

In 2014 the Group retained its European Seal of Excellence 500+, which was renewed in 2013, with a rating of 650 to 700 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 2014 the corporate process management methodology was revised and the process manual was updated. During the year, a project was carried out to design, inventory and implement a scorecard for the Company's key indicators, aligned with the new process map.

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 2014 all of the certified corporate management systems underwent a third audit (quality, environment, health and safety, corporate responsibility and energy efficiency).

SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD

No significant circumstances have arisen after 31 December 2014.

DIVIDEND POLICY

The dividends paid in 2014 amounted to Euros 344 million, 7.8% more than in 2013.

The board of directors has proposed a dividend of Euros 3 per share with a charge to 2014 profit, pending approval by the shareholders at their general meeting, reflecting a year-on-year increase of 18%.

Based on the projections and estimates contained in the Group’s Strategic Plan for 2014-2019, the dividend could be around 7% higher. 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.

OUTLOOK

As the Parent of the RED ELÉCTRICA Group, REC 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 develop both their regulated businesses and their unregulated businesses, in Spain and abroad, in accordance with the above principles and 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.

REC 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.

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 our management practices.

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 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 Company considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Company 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 Company'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 Company 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 Company 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.