



Letter from the Chairman and the CEO (G4-1)

2015 was characterised by a series of important milestones that lead to a bright future for company growth and brings with it major challenges for Red Eléctrica along the way. Firstly, the Transmission Grid Planning 2015-2020 was approved, which provides a period of certainty for the

undertaking of the investment plan for the further development of the transmission grid. Secondly, the regulatory reform was completed with the approval of the unit values concerning investment in transmission facilities, as well as their operation and maintenance, and the establishing of their

regulatory useful life, which is an important milestone for the stability of the remuneration framework. In addition, work has continued on the deployment and implementation of the new Strategic Plan; a plan which emphasises the promotion of new business activities that aim to expand the business base.

From the point of view of the management structure of the organisation, another significant event was the separation of the positions of Executive Chairman and Chief Executive Officer (CEO), which helps maintain the proper balance of powers on the Board of Directors and improves the corporate governance structure of the Company, responding to the commitment made to shareholders, and in line with best international practices in this field.



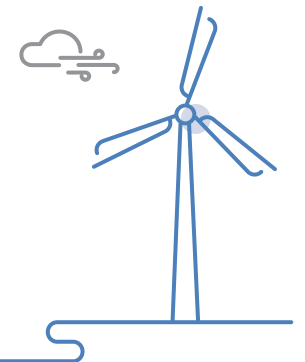
José Folgado
Chairman of
Red Eléctrica
Corporación

Juan Lasala
Chief Executive
Officer



IN 2015

The laying and installation of the first cable of the Majorca-Ibiza link was carried out. The commissioning of the second cable, scheduled for the first months of 2016, will complete the full integration of the Balearic Islands' electricity system with the peninsular system and that of Europe.



KEY PERFORMANCE
INDICATORS



01. THE COMPANY



02. STRATEGY



03. CORPORATE
GOVERNANCE



04. MANAGEMENT
APPROACH



05. SUSTAINABLE
ENERGY



06. CREATION
OF VALUE



07. EMPLOYEES



08. SOCIETY



09. DIALOGUE
WITH
STAKEHOLDERS



10. THE
ENVIRONMENT



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Electricity infrastructure planning

In October 2015, the Transmission Grid Planning 2015-2020 was approved; said planning sets out the new electricity infrastructure projects that need to be undertaken nationwide under the principles of transparency, respect for the environment and with minimal cost for the electricity system as a whole, and that has a budget of 4,554 million euros.

An important point of this planning is the relevance taken on by interconnections between systems, specifically the links between island systems and the connections between the Spanish Peninsula and the non-peninsular systems. These projects will not only pose a great challenge for the Company, but will also improve the guarantee and security of supply in isolated systems and increase competitiveness in the electricity markets. In this regard, noteworthy is the completion of the installation of the first interconnection cable between Ibiza and Mallorca in 2015.

It is estimated that the second cable be brought into service in the first months of 2016.

With respect to international interconnections, it should be noted that in 2015 the Spain-France interconnection via the eastern Pyrenees, a high-profile project because of its influence on the safety and quality of supply, was brought into brought into commercial operation. But nevertheless, the need to increase interconnection capacity with the European system remains a priority for the Spanish electricity system, as endorsed in June 2015 with the creation of a high-level group, composed of the European Commission, France, Portugal and Spain, to boost key energy infrastructure projects in southwest Europe.

Significant progress of the Strategic Plan

The new Strategic Plan, in addition to continuing to develop our role as TSO and strengthening efficiency criteria, attaches great importance to expanding the business base as an alternative way for growth and the creation of value.



DRIVING INTERNAL PROMOTION

80% of the directors appointed in 2015 in the Group were internal promotions.

In 2015, a number of important steps were taken in this area. Firstly, the new dimension undertaken by the telecommunications business following the purchase of ADIF's dark fibre network has made it necessary to create REINTEL, whereby the Company now positions itself as the first neutral supplier of telecommunications networks in Spain. Secondly, the expansion of international business has allowed our presence in Peru to be consolidated through the awarding of two new projects in the region and has enabled our entry into Chile through the acquisition of 50% of the Chilean company TEN.

Additionally, the subsidiary REINCAN was created to promote energy storage projects in the Canary Islands to be used as system operator tools in order to guarantee supply on the islands and also improve system security and optimise the integration of renewable energies. The construction project for the Chira-Soria pumped-storage hydro power station, a 320 million euro investment, responds to these objectives.



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Focusing on the creation of value, significant progress was made in achieving the objectives of the Strategic Plan. The Company achieved solid results and a significant strengthening of its core solvency ratios. Profit for the year reached 606 million euros, up 8.3% compared to 2014 in like-for-like terms and shareholder remuneration in the form of dividends increased by 7% with respect to 2014.

Commitment to corporate responsibility

In the area of corporate responsibility, in 2015 the Company has again been included in the Dow Jones Sustainability Indexes (DJSI World and DJSI Europe) and renewed the European Seal of Excellence 500+ according to the EFQM model, achieving a score of over 700 points, which places the Company among the best rated both worldwide and nationally.

Corporate responsibility for Red Eléctrica is part of its corporate culture and a key tool for creating value. Therefore, it has been included within the management objectives and the long-term goals of the management team, in compliance with the corporate responsibility programme.



SUSTAINABLE COMMITMENT

Red Eléctrica, fully aware of its responsibility towards sustainability, joins the commitment to the achievement of the UN Sustainable Development Goals, aimed at eradicating poverty, protecting the planet and ensuring the prosperity of all people.



A key aspect in this area is gender equality and equal opportunities. In 2015, noteworthy is the increase in the number of women in the workforce and in management positions, as well as the establishment of a Women's Leadership Observatory that aims to propose actions to increase the presence of women in management positions. In this regard, women covered 31% of internal promotions to management positions in 2015. Moreover, 42% of the Board of Directors are women, which positions the Company as leader in gender diversity among IBEX 35 companies.

Also, the healthy workplace model implemented by Red Eléctrica represents a strategic commitment to the management, promotion and monitoring of the health and well-being of the workforce. During 2015, several initiatives were carried out in this field related to the promotion of health, the work-life balance and the prevention of work-related risks.

These commitments undertaken by the Company contribute to improving the involvement of workers in the business project, as reflected in the climate survey, with a satisfaction level of employees of 9.4 out of 10.

The activities carried out by the Company for the integration of renewable energy and the improvement of energy efficiency are essential for achieving European sustainability objectives. Therefore, among the actions carried out, noteworthy, once again, was the work of our control centre for renewable energies, which, on average over the past three years, has allowed 40% of the electricity demand to be covered using renewables.

Finally, in line with its strategy to combat climate change, in 2015 Red Eléctrica launched a new Action Plan on climate change which includes the goals to be achieved in this area. Specifically, in the commitment to reduce the carbon footprint, the goal has been set for 2020 to reduce or offset the Company's emissions by 21% compared to the values in 2010.

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02. STRATEGY

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