INDEPENDENT AUDITORS' REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED DIRECTORS' REPORT

CONSOLIDATED **ANNUAL ACCOUNTS**

Contents of Consolidated Annual Accounts

1. Activities of the Group Companies

Red Eléctrica Corporación, S.A. (hereinafter the Parent or the Company) is the Parent of a Group formed by subsidiaries. The Group is also involved in joint operations along with other operators. The Parent and its subsidiaries form the Red Eléctrica Group (hereinafter the Group or Red Eléctrica Group). The Company's registered office is located in Alcobendas (Madrid) and its shares are traded on the Spanish automated quotation system as part of the selective IBEX-35 index.

The Group's principal activity is electricity transmission, system operation and management of the transmission network for the Spanish electricity system. These regulated activities are carried out through Red Eléctrica de España, S.A.U. (hereinafter REE). Moreover, the Group constructs energy storage facilities in non-mainland and isolated systems through Red Eléctrica Infraestructuras en Canarias S.A.U. (hereinafter REINCAN).

The Group also conducts electricity transmission activities outside Spain through Red Eléctrica Internacional S.A.U. (hereinafter REI) and its investees, and provides telecommunications services to third parties through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

In addition the Group carries out activities through its subsidiaries aimed at financing its operations and covering risks by reinsuring its assets and activities.

Appendix I provides details of the activities and registered offices of the Parent and its subsidiaries, as well as the direct and indirect investments held by the Parent in the subsidiaries.

2. Basis of presentation of the Consolidated Annual Accounts

A) GENERAL INFORMATION

The accompanying consolidated annual accounts have been prepared by the directors of the Parent to give a true and fair view of the consolidated equity and consolidated financial position of the Company and its subsidiaries at 31 December 2015, as well as the consolidated results of operations and consolidated cash flows and changes in consolidated equity for the year then ended.

The accompanying consolidated annual accounts, authorised for issue by the Company's directors at their board meeting held on 23 February 2016, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its annual accounts applying the accounting principles and criteria in force in its country of operations. Accordingly, the adjustments and reclassifications necessary to harmonise these principles and criteria with IFRS-EU have been made on consolidation. The accounting policies of the consolidated companies are changed when necessary to ensure their consistency with the principles adopted by the Company.

The consolidated annual accounts for 2014 were approved by the shareholders at their general meeting held on 15 April 2015. The consolidated annual accounts for 2015 are currently pending approval by the shareholders. However, the directors of the Company consider that these consolidated annual accounts will be approved with no changes.

These consolidated annual accounts have been prepared on the historical cost basis, except in the case of available-for-sale financial assets and derivative financial instruments at fair value through profit or loss, and with respect to the recognition criteria for business combinations.

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Parent's functional and presentation currency, rounded off to the nearest thousand. The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework.

The Group has not omitted any mandatory accounting principle with a material effect on the consolidated annual accounts.

B) NEW IFRS-EU AND IFRIC

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU).

The following amendments have been applied for the first time in 2015:

> Annual improvements to International Financial Reporting Standards, Cycle 2011-2013 - mandatory application for all annual periods beginning on or after 1 January 2015.

> IFRIC 21 Levies - mandatory application for all annual periods beginning on or after 17 June 2014.

The application of these standards and interpretations did not have a significant impact on these consolidated annual accounts.

The standards approved by the European Union for which application is not mandatory in 2015 are as follows:

> IAS 19 Employee Benefits - mandatory application for all annual periods beginning on or after 1 February 2015.

> Annual improvements to International Financial Reporting Standards, Cycle 2010-2012 - mandatory application for all annual periods beginning on or after 1 February 2015.

> Amendments to IAS 16 and IAS 38, clarification of acceptable methods of depreciation and amortisation. Amendment effective for annual periods beginning on or after 1 January 2016.

> Annual improvements to International Financial Reporting Standards, Cycle 2012-2014 - mandatory application for all annual periods beginning on or after 1 January 2016.

> Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - mandatory application for all annual periods beginning on or after 1 January 2016.

> Amendment to IAS 27 Equity Method in Separate Financial Statements. This amendment allows investors to use the equity method in their separate financial statements. This standard is applicable for all annual periods beginning on or after 1 January 2016.

> Amendments to IAS 16 and IAS 41 Bearer Plants - mandatory application for all annual periods beginning on or after 1 January 2016.

> Amendments to IAS 34 and IFRS 7 in order to ensure consistency between international accounting standards in view of the amendments introduced to IAS 1, applicable for all annual periods beginning on or after 1 January 2016.

The Company is currently studying the impact of applying these standards, amendments and interpretations. Based on its analyses to date, the Company estimates that first-time application will not have a significant impact on the consolidated annual accounts.

At 31 December 2015 the IASB and the IFRS Interpretations Committee published the following standards, amendments and interpretations, which are pending adoption by the European Union:

> IFRS 9 Financial Instruments. Available standard, pending adoption by the EU. Effective for annual periods beginning on or after 1 January 2018.

> Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39. Effective in conjunction with the adoption of IFRS 9. Pending adoption by the EU.

> IFRS 14 Regulatory Deferral Accounts. Standard effective for annual periods beginning on or after 1 January 2016.

> IFRS 15 Revenue from Contracts with Customers. Standard effective for annual periods beginning on or after 1 January 2018.

> Amendments to IAS 28 and IFRS 10 regarding sale or contribution of assets between an investor and its associate or joint venture. Amendments effective for annual periods beginning on or after 1 January 2016.

> Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities. Clarifications on the consolidation exception for investment entities. Amendments effective for annual periods beginning on or after 1 January 2016.

> Amendments to IAS 1 Disclosure Initiative. Clarifications regarding disclosures (materiality, aggregation of items, order of notes, etc.). This standard is applicable for all annual periods beginning on or after 1 January 2016.

The Company is currently analysing the impact of the new standards, amendments and interpretations on the Group's consolidated annual accounts, should they be adopted by the European Union. The Company does not expect any major impact from applying these standards.

C) ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated annual accounts in accordance with IFRS-EU requires Group 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 judgements are assessed continually and are based on past experience and other factors, including expectations of future events that are considered reasonable given the circumstances. Actual results could differ from these estimates.

The consolidated annual accounts for 2015 occasionally include estimates calculated by management of the Group and of the consolidated companies, and subsequently endorsed by their directors, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein.

These estimates are essentially as follows:

> Estimated asset recovery, calculated by determining the recoverable amount thereof. The recoverable amount is the higher of fair value less costs to sell and value in use. Asset impairment is generally calculated using discounted cash flows based on financial projections used by the Group. The discount rate applied is the weighted average cost of capital, taking into account the country risk premium (see note 6).

> Estimated useful lives of property, plant and equipment (see note 4).

> The assumptions used in the actuarial calculations of liabilities and obligations to employees (see note 12).

> Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Group assesses and estimates amounts to be settled in the future, including additional amounts for income tax, contractual obligations, pending lawsuit settlements and other liabilities. These estimates are subject to the interpretation of existing facts and circumstances, projected future events and the estimated financial effect of those events (see note 12).

In the absence of International Financial Reporting Standards (IFRSs) that give guidance on the accounting treatment for a particular situation, in accordance with IAS 8, management uses its best judgement based on the economic substance of the transaction and considering the most recent pronouncements of other standard-setting bodies that use the same conceptual framework as IFRS. Accordingly, as tax credits for investments are not within the scope of IAS 12 and IAS 20, after analysing the related facts and circumstances, Group management has considered that credits for investments granted to the Group by public entities are similar to capital grants. Therefore, in these cases management has taken into account IAS 20 on grants (see note 4-j).

To facilitate comprehension of the consolidated annual accounts, details of the different estimates and assumptions are provided in each separate note.

The Company has taken out insurance policies to cover the risk of possible claims that might be lodged by third parties in relation to its activities.

Although estimates are based on the best information available at 31 December 2015, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding consolidated income statement as a change in accounting estimates, as required by IFRS.

D) CONSOLIDATION PRINCIPLES

The types of companies included in the consolidated group and the consolidation method used in each case are as follows:

Subsidiaries

Subsidiaries are entities, including structured entities, over which the Company, either directly or indirectly through subsidiaries, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group takes control, until the date that control ceases.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and events in similar circumstances.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

Joint arrangements

Joint arrangements are those in which there is a contractual agreement to share the control over an economic activity, in such a way that decisions about the relevant activities require the unanimous consent of the Group and the remaining venturers or operators. The existence of joint control is assessed considering the definition of control over subsidiaries.

The Group assesses all the facts and circumstances relating to each joint arrangement for the purpose of its classification as a joint venture or joint operation, including whether the arrangement contains rights over the assets and obligations for liabilities.

For joint operations, the Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and the expenses, including its share of any expenses incurred jointly, in the consolidated annual accounts.

The Group's acquisition of an initial and subsequent share in a joint operation which constitutes a business is recognised following the same criteria used for business combinations, at the percentage of ownership of each individual asset and liability. However, in subsequent acquisitions of additional shares in a joint operation, the previous share in each asset and liability is not subject to revaluation.

In sales or contributions by the Group to the joint operation, it recognises the resulting gains and losses only to the extent of the other parties' interests in the joint operation. When such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets transferred, such losses are recognised in full.

In purchases by the Group from a joint operation, it only recognises the resulting gains and losses when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

Associates

Associates are entities over which the Company, either directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. However, if on the acquisition date all or part of the investment qualifies for recognition as non-current assets or disposal groups held for sale, it is recognised at fair value less costs of disposal.

Investments in associates are initially recognised at cost of acquisition, including any cost directly attributable to the acquisition and any consideration receivable or payable contingent on future events or on compliance with certain conditions. Any excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable net assets at the acquisition date is recognised as goodwill under associates in the consolidated statement of financial position. Any excess of the Group's share of the net fair value of the associate's identifiable net assets over the cost of the investment at the acquisition date (bargain purchase) is recognised as income in the period in which the investment is acquired.

Appendix I provides details of the Company's subsidiaries, joint arrangements and associates, as well as the consolidation or measurement method used in preparing the accompanying consolidated annual accounts and other relevant information.

The financial statements of the subsidiaries, joint arrangements and associates used in the consolidation process have the same reporting date and refer to the same period as those of the Parent.

The operations of the Company and its subsidiaries have been consolidated applying the following basic principles:

> The accounting principles and criteria used by the Group companies have been harmonised with those applied by the Parent.

> Translation of foreign operations:
- Balances in the financial statements of foreign companies have been translated using the closing exchange rate for assets and liabilities, the average exchange rate for income and expenses and the historical exchange rate for capital and reserves.
- All resulting exchange differences are recognised as translation differences in other comprehensive income.
- These criteria are also applicable when translating the financial statements of equity-accounted companies, with translation differences attributable to the Group recognised in other comprehensive income.

> All balances and transactions between fully consolidated companies have been eliminated on consolidation.

> Margins on invoices between Group companies for capitalisable goods or services were eliminated at the transaction date.

E) NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Company. Non-controlling interests' share in consolidated profit or loss for the year and in consolidated comprehensive income for the year is disclosed separately.

Transactions with non-controlling interests are recognised as transactions with equity holders of the Group. As such, the difference between the consideration paid in the acquisition of a non-controlling interest and the corresponding proportion of the carrying amount of the subsidiary's net assets is recognised in equity. Similarly, the gains or losses on disposal of non-controlling interests are also recognised in the Group's equity.

F) COMPARATIVE INFORMATION

Group management has included comparative information for 2014 in the accompanying consolidated annual accounts. As required by IFRS-EU, these consolidated annual accounts for 2015 include comparative figures for the prior year. As permitted by the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information on average payment periods to suppliers which must be disclosed in the notes to the annual accounts, no comparative information for 2014 is provided in note 18.

G) CHANGES IN THE CONSOLIDATED GROUP

The changes in the consolidated Group in 2015 are as follows:

Transmisora Eléctrica del Sur 2, S.A. (hereinafter TESUR2) was incorporated on 13 March 2015, with the principal activity of electricity transmission and the operation and maintenance of electricity transmission networks. Upon its incorporation, this company was 25% owned by REI, whilst the remaining 75% interest was held by Red Eléctrica del Sur, S.A. (hereinafter REDESUR).

On 29 June 2015, Red Eléctrica Corporación S.A., as sole shareholder, incorporated Red Eléctrica Infraestructuras de Telecomunicación S.A.U. (hereinafter REINTEL) following the partial spin-off of REI. The company's statutory activity comprises grid operations and the provision of telecommunications services to third parties.

An agreement was signed on 3 July for the sale of the shares in TESUR by REI (55% interest) and AC Capitales (45%) to REDESUR, which is now the sole shareholder of TESUR.

On 17 September 2015, the Company, as sole shareholder, incorporated Red Eléctrica de Infraestructuras en Canarias S.A.U. (REINCAN), whose statutory activity comprises the construction of energy storage facilities in non-mainland and isolated systems.

On 19 November 2015 REI, as sole shareholder, incorporated Red Eléctrica Chile SpA (hereinafter RECH), whose principal activity comprises the acquisition, holding, administration and management of the Group's investments in Chile.

There were no changes in the consolidated Group in 2014.

3. Industry regulations

SPANISH ELECTRICITY SECTOR

The new legislative framework for the electricity sector continued to be applied and implemented throughout 2015. This framework arose from the electricity sector regulatory reform, which commenced in 2013 with the approval of Royal Decree-Law 9/2013 of 12 July 2013, adopting urgent measures to ensure the financial stability of the electricity system, and was consolidated with the publication of Electricity Industry Law 24/2013 of 26 December 2013, which repeals Law 54/1997, with the exception of certain additional provisions.

Electricity Industry Law 24/2013 of 26 December 2013 has a two-fold objective. On the one hand, it aims to compile into a single piece of legislation all the legal provisions published across the various facets of the regulation to adapt to the fundamental changes that have occurred in the electricity sector since Law 54/1997 came into force. On the other, it intends to provide measures to guarantee the long-term financial sustainability of the electricity sector, with a view to preventing the recurrence of the structural imbalance seen in recent years between revenues and costs.

Law 24/2013 also reviews the set of provisions that made up Law 54/1997, in particular those concerning the remit of the General State Administration, the regulation of access and connection to the networks, the penalty system, and the nomenclature used for the tariffs applied to vulnerable consumers and those still availing of the regulated tariff.

With respect to regulation of the activities conducted by Red Eléctrica de España, S.A.U., the new Law 24/2013 maintains the firm's appointment as the sole transmission agent and system operator, as well as assigning it the role of transmission network manager. Furthermore, Law 24/2013 upholds the current corporate structure for these activities since it does not repeal the twenty-third additional provision of Law 54/1997, which specifically mentioned the Group's Parent, Red Eléctrica Corporación, S.A., and assigned to the subsidiary Red Eléctrica de España, S.A.U. the functions of sole transmission agent, system operator and transmission network manager, the latter activity being conducted through a specific organisational unit that is sufficiently segregated from the transmission activity for accounting and functional purposes.

Other relevant aspects of the regulation pursuant to Law 24/2013 of the activities performed by the Company are as follows:

> This Law acknowledges the natural monopoly in the transmission activity, arising from the economic efficiency afforded by a sole grid. Transmission is liberalised by granting widespread third-party access to the network, which is made available to the different electricity system agents and consumers in exchange for payment of an access charge.

  Remuneration for this activity has been set by the government on the basis of the general principles laid down in the Law, as developed in Royal Decree 1047/2013 of 27 December 2013, which sets out the new remuneration system for the transmission activity, and repeals both Royal Decree 2819/1998 and Royal Decree 325/2008.

> As electricity system operator and transmission network manager, REE's main function is to guarantee the continuity and security of the electricity supply, as well as to ensure the correct coordination of the production and transmission system, exercising its duties in cooperation with the operators and agents of the Spanish electricity market (Mercado Ibérico de la Energía Eléctrica) while observing the principles of transparency, objectivity and independence. REE has also been entrusted with developing and expanding the high-voltage transmission network so as to guarantee the maintenance and improvement of a grid based on standardised and consistent criteria, managing the transit of electricity between external systems that use the Spanish electricity system networks, and refusing access to the transmission network in the event of insufficient capacity.

  REE is also responsible for the functions of settlement, notification of payments and receipts, and management of guarantees relating to security of supply and the effective diversion of units generated and consumed, as well as for short-term energy exchanges aimed at maintaining the quality and security of supply.

  Furthermore, REE manages the technical and economic dispatch for electricity supply from non-mainland electricity systems (Balearics, Canaries, Ceuta and Melilla), and is responsible for the settlements of payments and receipts arising from the economic dispatch of electricity generated by these systems.

As regards the remuneration framework for transmission activities, the methodology established by Royal Decree-Law 9/2013 of 12 July 2013, adopting urgent measures to ensure the financial stability of the electricity system, was applied from the second half of 2013 up to 2015. This legislation contains a number of wide-reaching urgent measures aimed at guaranteeing the financial stability of the electricity sector, having an impact on all electricity industry activities across the board. This Royal Decree-Law stipulates that the method to be used to calculate the remuneration for the transmission activity must take into account the costs that would necessarily be incurred by an efficient, well-managed company in conducting this activity; and must also determine what would be suitable remuneration for a low-risk activity that enables a reasonable profit to be obtained from the functions performed, for which it specifies a rate of return on assets that is linked to government bonds plus a spread. On the basis of these premises, Royal Decree-Law 9/2013 determines the specific method for calculating the transmission activity remuneration for the second half of 2013 and for 2014 and 2015.

In late 2015 a Ministerial Order was published, applicable from 1 January 2016 onwards, which establishes the reference unit values for investment in and operation and maintenance of each item of property, plant and equipment at the electricity transmission facilities to be applied during the first regulatory period, and the regulatory useful life of these facilities. Approval of this Order enforces the new remuneration methodology introduced in late 2013 through Royal Decree 1047/2013 of 27 December 2013 and the amendments set forth in Royal Decree 1073/2015 of 27 November 2015. With the entry into force of this new methodology in 2016, the transitional period and regime established in Royal Decree-Law 9/2013 are considered to be terminated.

In 2015 the certification process for REE as transmission network manager for the Spanish electricity system, as provided in article 31.1 of Law 24/2013 of 26 December 2013, was completed following publication in the Official Journal of the European Union of 12 February 2015 of the Notification of the Spanish Government pursuant to article 10(2) of Directive 2009/72/EC of the European Parliament and of the Council ('Electricity Directive') concerning common rules for the internal market in electricity regarding the designation of Red Eléctrica de España S.A.U. as transmission system operator in Spain.

Regarding REE's remit in the non-mainland electricity systems, in 2015 the Chira-Soria 200 MW reversible hydroelectric power plant project in Gran Canaria was transferred to the system operator, as stipulated in Order IET/728/2014 of 28 April 2014. Pursuant to this provision, on 23 January 2015 REE signed a sale-purchase agreement with UNELCO for the transfer of this power plant project. The transfer was carried out on 17 July 2015 following approval by the Gran Canaria Island Water Council of the agreement whereby Red Eléctrica de España, S.A.U. assumes the position of concession holder in the administrative concession for the water in the reservoirs and dam basin in Chira for hydroelectric purposes (Chira-Soria).

INTERNATIONAL ELECTRICITY SECTOR

The Red Eléctrica Group has built electricity transmission facilities through REI. At international level, it now operates and maintains these facilities in Peru. This country has liberalised its electricity industry and applies a regulation model entailing regulated tariffs for the transmission activity.

Regulation of the electricity industry in Peru is mostly set out in the Electricity Concessions Law, Decree Law No. 25844, enacted on 19 November 1992, as well as the pertinent regulations, Supreme Decree No. 009-93-EM, enacted on 25 February 1993, and the various amendments and/or extensions thereto, including Law No. 28832, 'Law for the Efficient Development of Electricity Generation'.

Under the Electricity Concessions Law, the National Interconnected System (SEIN) is divided into three major segments: generation, transmission and distribution. Pursuant to this law and the Law for the Efficient Development of Electricity Generation, the operations of generation power plants and transmission systems are subject to the provisions of the System Economic Operation Committee of the National Interconnected System (COES-SINAC), which coordinates operations at minimum cost, so as to ensure the security of electricity supply and enhance the use of energy resources, as well as plan development of the National Interconnected System (SEIN) and administrate the short-term market.

The concession arrangements signed in Peru comply with Supreme Decree No. 059-96-PCM (Public Works Concessions Law), Legislative Decree No. 1012 (Framework Law on Public-Private Partnerships) and Law No. 28832. The overall legal framework enables the State to provide special guarantees to concession holders and sets out the special tariff conditions, as the tariff regime may differ from that set out in the Electricity Concessions Law. Under these conditions, the values for investment and operation and maintenance stipulated in our concession arrangements are adjusted each year or when appropriate (according to the tariff regime) in line with the variation in the Finished Goods Less Food and Energy index (Series ID: WPSSOP3500) published by the Bureau of Labor Statistics of the United States Government.

The 'Procedures for Setting Regulated Prices' were approved through OSINERGMIN (Peruvian Supervisory Body for Energy and Mining Investment) Resolution No. 080-2012-OS/CD and amendments thereto. These rules contain information relating to the bodies involved in setting regulated prices, their competences and obligations, the price-setting deadlines, the administrative appeals that may be filed, the terms for filing and resolving such appeals, as well as the body responsible for their resolution.

The rules on 'Tariffs and Remuneration for Secondary Transmission Systems (STS) and Complementary Transmission Systems (CTS)' were approved through OSINERGMIN Resolution No. 050-2011-OS/CD and amendments. These rules set forth the criteria and methodology for determining the tolls and remuneration for the STS and/or CTS services.

Lastly, the 'Annual Revenue Settlement Procedures for the Electricity Transmission Service' for the 'Concession Arrangement Model', 'Guaranteed Transmission System (GTS)' and 'Complementary Transmission System (CTS)' were approved through OSINERGMIN Resolutions Nos. 335-2004-OS/CD, 200-2010-OS/CD and 004-2015-OS/CD, respectively. These rules provide for annual updates to remuneration, mainly in respect of the differences arising between the amounts stipulated in the concession arrangements (in US Dollars) and the tariff regime in Peru established in local currency (in Sols).

TELECOMMUNICATIONS

The telecommunications sector in Spain is regulated at European level by Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks, and within Spain by Telecommunications Law 9/2014, which was subject to reform in May 2014. This ex-ante regulation is centred on the development of competition in the market and ensuring access to networks.

As regards competition, in accordance with the European Commission Recommendation of 9 October 2014, the Spanish National Markets and Competition Commission (hereinafter CNMC) periodically defines the various telecommunications markets and assesses the existence of operators with sufficient market power. These tasks, which are considered in the Telecommunications Law, may lead to the implementation of specific regulations for that market.

To this end, and in order to authorise the acquisition by REINTEL of the rights to use and manage the operation of ADIF's fibre optic cables, the CNMC analysed the dark fibre backbone network lease activity, concluding that the environment is sufficiently competitive and this activity may therefore be conducted on a free competition basis.

The regulation also stipulates that access to infrastructure that may be used to host public communications networks must be guaranteed. In accordance with Directive 2014/61/EU and Law 9/2014, REINTEL is obliged to meet all access requests under fair and reasonable terms and conditions. This obligation is fulfilled in view of the nature of the dark fibre business.

4. Significant accounting principles

The accounting principles used in preparing the accompanying consolidated annual accounts have been applied consistently to the reported periods presented and are as follows:

A) BUSINESS COMBINATIONS

The Group has applied IFRS 3 Business Combinations, revised in 2008, to transactions carried out on or after 1 January 2010.

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree. The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree. The consideration transferred excludes any payment that does not form part of the exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

For business combinations achieved in stages, the excess of the consideration given, plus the value assigned to non-controlling interests and the fair value of the previously held interest in the acquiree, over the net value of the assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall, after assessing the consideration given, the value assigned to non-controlling interests and to the previously held interest, and after identifying and measuring the net assets acquired, is recognised in profit or loss. The Group recognises the difference between the fair value of the previously held interest in the acquiree and the carrying amount in consolidated profit or loss, in accordance with its classification. The Group also reclassifies amounts deferred in other comprehensive income relating to the previously held interest to consolidated profit or loss or reserves, based on the nature of each item.

B) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily comprise technical electricity facilities and are measured at cost of production or acquisition, as appropriate, less accumulated depreciation and impairment. This cost includes the following items, where applicable:

> Borrowing costs directly attributable to property, plant and equipment under construction accrued on external financing solely during the construction period. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods, unless the delay is necessary in order to bring the asset to a working condition.

> Operating costs directly related with property, plant and equipment under construction for projects executed under the supervision and management of Group companies.

The Group companies transfer work in progress to property, plant and equipment in use once these items come into service and provided that the assets are in working condition.

Subsequent to initial recognition of the asset, only those costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Repair and maintenance costs are recognised in consolidated profit or loss as incurred.

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a straight-line basis over its useful life, which is the period during which the companies expect to use the asset.

Property, plant and equipment are depreciated applying the following rates:

Annual depreciation rate	
Buildings	2% - 10%
Technical telecommunication electricity facilities	5%
Technical electricity facilities	2.5% - 8.33%
Other installations, machinery, equipment, furniture and other items	4% - 25%

The Group periodically assesses the depreciation criteria taking into account the useful life of its assets. There have been no significant changes in the depreciation criteria compared to the prior year.

Property, plant and equipment primarily comprise technical electricity facilities. The majority of undepreciated property, plant and equipment will be depreciated at a rate of 2.5%.

The Group reviews the residual values and useful lives of assets and adjusts them, if necessary, at the end of each reporting period. The Group will perform complementary analyses of these factors in view of the entry into force of the new remuneration regime applicable to electricity transmission assets in Spain (see note 3).

The Group measures and determines impairment to be recognised or reversed in respect of the value of its cash generating units (CGUs) based on the criteria in section h) of this note.

C) INTANGIBLE ASSETS

Intangible assets are recognised at acquisition cost, which is periodically reviewed and adjusted in the event of a decline in value. Intangible assets include the following:

Administrative concessions

The Group operates various assets under service concession contracts awarded by different public entities. Based on
the characteristics of the contracts, the Group analyses whether they fall within the scope of IFRIC 12, Service Concession Arrangements.

For concession arrangements subject to IFRIC 12, construction and other services rendered are recognised using the criteria applicable to income and expenses.

The consideration received by the Group is recognised at the fair value of the service rendered, as a financial asset or intangible asset, based on the contract clauses.
The Group recognises the consideration received for construction contracts as an intangible asset to the extent that it is entitled to pass on to users the cost of access to or use of the public service, or it has no unconditional contractual right to receive cash or another financial asset.

The contractual obligations assumed by the Group to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

Concession arrangements not subject to IFRIC 12 are recognised using general criteria.

Administrative concessions have a finite useful life and the associated cost is recognised as an intangible asset. Details of the useful and residual lives of these concessions are provided in note 5.

Computer software

Computer software licences are capitalised at cost of acquisition or cost of preparation for use.

Computer software maintenance costs are charged as expenses when incurred. Computer software is amortised on a straight-line basis over a period of three to five years from the date on which each program comes into use.

Development expenses

Development expenses directly attributable to the design and execution of tests for new or improved computer programs that are identifiable, unique and likely to be controlled by the Group, are recognised as intangible assets when it is probable that the project will be successful, based on its economic and commercial feasibility, and the associated costs can be estimated reliably. Costs that do not meet these criteria are charged as expenses when incurred. Development expenses are capitalised and amortised, from the date the associated asset comes into service, on a straight-line basis over a period of no more than five years. Computer software maintenance costs are charged as expenses when incurred.

Intangible assets under development

Administrative concessions at the construction stage are recognised as intangible assets under development and measured in line with the amount to be disbursed until completion of the works, in accordance with IFRIC 12.

D) INVESTMENT PROPERTY

The Group companies measure their investment property at cost of acquisition. The market value of the Group's investment property is disclosed in note 7 to the accompanying consolidated annual accounts.

Investment property is depreciated on a straight-line basis over the estimated useful life, which is the period during which the companies expect to use the assets. Investment property is depreciated over a period of 50 years.

E) LEASES

The Group classifies leases on the basis of whether substantially all the risks and rewards incidental to ownership of the leased asset are transferred.

Leases under which the lessor maintains a significant part of the risks and rewards of ownership are classified as operating leases.

Leases under which the significant risks and rewards of ownership of the goods are transferred to the Group are classified as finance leases. Assets recognised as finance leases are presented in the consolidated statement of financial position based on the nature of the leased asset.

F) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 'Financial Instruments: Presentation'.

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

Financial instruments are classified into the following categories: financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

Financial assets: The Group classifies financial assets, excluding equity-accounted investments, into the following categories:

> **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other financial asset categories.

  Loans and receivables are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

  Loans and receivables arising from ordinary activities, for which the inflow of cash or cash equivalents is deferred, are measured at the fair value of the consideration, determined by discounting all future receipts using an imputed rate of interest.

  The Company tests the assets for impairment at each reporting date. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the loss is recognised in consolidated profit or loss.

> **Available-for-sale financial assets:** The Group classifies in this category non-derivative financial instruments that are designated as such or which do not qualify for recognition in the aforementioned categories. These are basically 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 initially recognised at fair value plus transaction costs directly attributable to the acquisition. They are subsequently 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 quotation of listed securities below their cost is also objective evidence of impairment.

Dividends from equity investments classified as available-for-sale are recognised in the consolidated income statement when the Company's right to receive payment is established.

> **Cash and cash equivalents:** Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

Financial liabilities: Financial liabilities, which include loans, payment obligations and similar commitments, are initially recognised at fair value less any transaction costs incurred. Such debt is subsequently measured at amortised cost, using the effective interest method, except in the case of transactions for which hedges have been arranged (see section n).

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 as non-current.

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

The fair value measurements of financial assets and financial liabilities are classified on the basis of a hierarchy that reflects the relevance of the inputs used in measuring the fair value. The hierarchy comprises three levels:

> Level 1: measurement is based on quoted prices for identical instruments in active markets.

> Level 2: measurement is based on inputs that are observable for the asset or liability.

> Level 3: measurement is based on inputs derived from unobservable market data.

G) INVENTORIES

Inventories of materials and spare parts are measured at cost of acquisition, which is calculated as the lower of weighted average price and net realisable value. The Group companies assess the net realisable value of inventories at the end of each reporting period, recognising impairment in the consolidated income statement when cost exceeds market value or when it is uncertain whether the inventories will be used. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the previously recognised impairment is reversed and recognised as income.

H) IMPAIRMENT

The Group companies analyse the recoverability of their 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 in the consolidated income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount of the assets is the higher of their fair value less costs of disposal and their value in use. Value in use is calculated on the basis of expected future 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 consolidated income statement. Impairment losses on goodwill are not reversed in subsequent years.

I) SHARE CAPITAL, OWN SHARES AND DIVIDENDS

The share capital of the Company is represented by ordinary shares. The cost of issuing new shares, net of taxes, is deducted from equity.

Own shares are measured at cost of acquisition and recognised as a reduction in equity in the consolidated statement of financial position. Any gains or losses on the purchase, sale, issue or redemption of own shares are recognised directly in equity.

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. Supplementary dividends are not deducted from equity until approved by the shareholders at their general meeting.

J) GRANTS

Non-refundable government capital grants awarded by different official bodies to finance the Group's fixed assets are recognised once the corresponding investments have been made.

The Group recognises these grants under non-financial and other capital grants each year during the period in which depreciation is charged on the assets for which the grants were received.

Government assistance provided in the form of income tax deductions and considered as government capital grants is recognised applying the general criteria described in the preceding sections.

K) NON-CURRENT REVENUE RECEIVED IN ADVANCE

Non-current revenue received in advance, generally arising from long-term contracts or commitments, is recognised under revenue or other gains, as appropriate, over the term of the contract or commitment.

L) PROVISIONS

Employee benefits

> Pension obligations

The Group has defined contribution plans, whereby the benefit receivable by an employee upon retirement – usually based on one or more factors such as age, fund returns, years of service or remuneration – is determined by the contributions made. A defined contribution plan is a pension plan under which the Group 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. The contributions are recognised under employee benefits when accrued.

> Other long-term employee benefits

Other long-term employee benefits include defined benefit plans for benefits other than pensions (such as medical insurance) for certain serving and retired personnel of the Group. The expected costs of these benefits are recognised under provisions 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 and the Structural Management Plan, which are measured each year. In 2015 the Company's Appointments and Remuneration Committee approved the implementation of a Structural Management Plan (hereinafter the 'Plan') for certain members of the management team, with the aim of processing, in an orderly and efficient manner, the replacement and administration of the management positions covered in the Plan. Upon reaching the age of 62 whilst employed at the Group, the executives included in the Plan will be entitled to receive an amount equal to a maximum of 3.5 times their annual salary, depending on their category and annual fixed and variable remuneration at the date of leaving the Group. Participation in the Plan is subject to meeting certain conditions, and the Plan may be modified or withdrawn by the Group under certain circumstances, including a prolonged decline in the Group's results (see note 12).

> Other provisions

The Group 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 risk-free discount rate that reflects assessments of the time value of money. The increase in the provision due to the passage of time is recognised as an interest expense in the income statement.

M) TRANSACTIONS IN CURRENCY OTHER THAN THE EURO

Transactions in currency other than the Euro are translated by applying the exchange rate in force at the transaction date. Exchange gains and losses arising during the year due to balances being translated at the exchange rate at the transaction date rather than the exchange rate prevailing on the date of collection or payment are recognised as income or expenses in the consolidated income statement.

Fixed income securities and balances receivable and payable in currencies other than the Euro at 31 December each year are translated at the closing exchange rate. Any exchange differences arising are recognised under exchange gains/losses in consolidated profit or loss.

Transactions conducted in foreign currencies for which the Group has chosen to mitigate currency risk by arranging financial derivatives or other hedging instruments are recorded using the criteria for derivative financial instruments and hedging transactions.

N) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative financial instruments are initially recognised in the consolidated statement of financial position at their fair value on the date the arrangement is executed (acquisition cost) and this fair value is subsequently adjusted as necessary. The criterion used to recognise the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the hedged item.

The total fair value of the derivative financial instruments is recognised under non-current assets or liabilities if the residual maturity of the hedged item is more than 12 months, and under current assets or liabilities if the residual maturity is less than 12 months.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, whether that price is directly observable or estimated using another valuation technique.

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis), and the actual effectiveness is within a range of 80%-125% (retrospective analysis) and can be reliably measured.

When a hedging instrument expires or is sold, or when it no longer qualifies for hedge accounting, any cumulative gain or loss recorded in equity at that time remains in equity and is reclassified to the consolidated income statement in the same period or periods during which the cash flows of the hedged item affect profit or loss. When the forecast transaction is no longer expected to occur, any cumulative gain or loss recognised in equity is immediately reclassified to the consolidated income statement.

The market value of the different derivative financial instruments is calculated as follows:

> The fair market value of derivative financial instruments quoted on an organised market is their quoted value at the reporting date.

> The Company calculates the fair value of derivative financial instruments that are not traded on organised markets using valuation techniques, including recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analyses using the market interest rates and exchange rates in force at the reporting date, and option pricing models enhanced to reflect the particular circumstances of the issuer.

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance costs the amount that is not expected to be recovered.

Details of the fair value of the hedging derivatives used are disclosed in note 16. Details of changes in equity are provided in note 10.

O) TRADE PAYABLES

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

P) INCOME AND EXPENSES

Revenue is measured at the fair value of the consideration received or receivable. Income and expenses are recognised on an accruals basis, irrespective of payments and receipts. The majority of the Group's revenues are regulated revenues from transmission and operation activities in Spain. Details of the implementing legislation governing the calculation of these revenues are provided in note 3 to the accompanying annual accounts.

Revenue and expenses from construction contracts are recognised using the percentage of completion method, whereby revenue is recognised based on the percentage of the contract work completed at the end of the accounting period.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment is established.

Q) TAXATION

The income tax expense or tax income for the year comprises current tax and deferred tax. Current and deferred taxes 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 that is recognised in the same 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.

Deferred tax assets and liabilities are recognised in respect of the temporary differences that arise from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will reverse in the foreseeable future.

The Red Eléctrica Group, comprising Red Eléctrica Corporación, S.A., Red Eléctrica de España, S.A.U., Red Eléctrica Financiaciones, S.A.U., Red Eléctrica Internacional, S.A.U., Red Eléctrica de Infraestructuras de Telecomunicación, S.A.U. and Red Eléctrica de Infraestructuras en Canarias, S.A.U., files consolidated tax returns in Spain.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

> Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.

> Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.

> Temporary differences arising from the elimination of profits and losses on transactions between tax group companies are recognised by the company that generates the profit or loss, using the applicable tax rate.

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

> The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables to (receivables from) Group companies and associates.

R) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares.

According to the consolidated annual accounts of the Red Eléctrica Group at 31 December 2015 and 2014, basic earnings per share are the same as diluted earnings per share, as no transactions that could have resulted in a change in those figures were conducted during those years.

S) INSURANCE

The Red Eléctrica Group companies have taken out various insurance policies to cover the risks to which the companies are exposed through their activities. These risks mainly comprise damage that could be caused to the Group companies' facilities and possible claims that might be lodged by third parties due to the companies' activities. Insurance premium expenses and income are recognised in the consolidated income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the consolidated income statement applying the matching of income and expenses principle.

T) ENVIRONMENTAL ISSUES

Costs derived from business activities intended to protect and improve the environment are charged as expenses in the year in which they are incurred. Property, plant and equipment acquired to minimise environmental impact and to protect and improve the environment are recognised as an increase in property, plant and equipment.

U) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale when the carrying amount will be recovered principally through a sale transaction, provided that the sale is considered highly probable. These assets are recognised at the lower of the carrying amount and the fair value less costs to sell, provided that their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

V) SHARE-BASED PAYMENTS

The Group 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 consolidated income statement. All shares delivered as payment are taken from the own shares held by the Parent.

W) CONTINGENT ASSETS AND LIABILITIES

Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Contingent liabilities are not recognised in financial statements. Contingent liabilities are assessed continually and if it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

5. Intangible Assets

Movement in intangible assets and details of accumulated amortisation during 2015 and 2014 are as follows:

RED ELÉCTRICA GROUP
MOVEMENT IN INTANGIBLE ASSETS 2015 and 2014

(Expressed in thousands of euros)

	31 December 2013	Additions	Exchange rate fluctuations	Transfers	31 December 2014	Additions	Exchange rate fluctuations	31 December 2015
Cost								
Administrative concessions	44,456	12	6,040	62,395	112,903	418	13,006	126,327
Development expenses and computer software	17,647	7	1	-	17,655	12	1	17,668
Intangible assets under development	40,824	16,023	5,548	(62,395)	-	3,133	-	3,133
Total Cost	**102,927**	**16,042**	**11,589**	**-**	**130,558**	**3,563**	**13,007**	**147,128**
Accumulated amortisation								
Administrative concessions	(615)	(3,948)	(421)	-	(4,984)	(5,679)	(651)	(11,314)
Development expenses and computer software	(15,621)	(882)	(2)	-	(16,505)	(835)	(3)	(17,343)
Total accumulated amortisation	**(16,236)**	**(4,830)**	**(423)**	**-**	**(21,489)**	**(6,514)**	**(654)**	**(28,657)**
Carrying amount	86,691	11,212	11,166	-	109,069	(2,951)	12,353	118,471

Operating expenses of Euros 2,915 thousand incurred directly in connection with intangible assets were capitalised in 2015 (Euros 1,754 thousand in 2014).

During 2015, the companies did not capitalise any borrowing costs as an increase in intangible assets (Euros 975 thousand in 2014).

At 31 December 2015 the Company has fully amortised intangible assets amounting to Euros 18,485 thousand (Euros 18,105 thousand at 31 December 2014).

Administrative concessions reflect the technical energy facilities constructed and operated by the Group under concession in Peru.

Intangible assets under development in 2015 consist entirely of the work carried out by TESUR2 for the construction of the concession facilities formed by the Azángaro-Juliaca-Puno transmission line and related substations. After their entry into service, in 2014 TESUR transferred the Tintaya-Socabaya transmission line and related substations to administrative concessions.

Details of service concession contracts awarded by different public entities and under operation and/or construction at 31 December 2015 are as follows:

(In thousands of euros)

	REDESUR	TESUR	TESUR 2
Grantor	Peruvian State	Peruvian State	Peruvian State
Activity	Electricity transmission	Electricity transmission	Electricity transmission
Country	Peru	Peru	Peru
Concession period from start-up of commercial operations	30 years	30 years	30 years
Remaining useful life	16 years	29 years	27 months construction + 30 years operation
Tariff review frequency	Annual	Annual	Annual
Carrying amount at 31/12/2015	48,694	66,319	3,133
Carrying amount at 31/12/2014	46,735	61,184	-
Revenue in 2015	13,978	5,877	445
Profit/(loss) for 2015	3,382	(1,012)	68
Renewal options	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract

On 16 December 2015 REI was awarded a tender in Peru for the construction, operation and maintenance of the 129 km, 220 kV Montalvo-Los Héroes transmission line and the extension of the Montalvo and Los Héroes substations, under a 30-year concession. Construction is expected to take 33 months, with the required investment forecast at approximately US Dollars 40 million.

6. **Property,** Plant and Equipment

Movement in property, plant and equipment and details of accumulated depreciation and impairment during 2015 and 2014 are as follows:

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN PROPERTY, PLANTAND EQUIPMENT in 2015 and 2014

(Expressed in thousands of euros)

	31 December 2013	Additions	Exchange rate fluctuations	Disposals, reductions and write-downs	Transfers	31 December 2014	Additions	Exchange rate fluctuations	Disposals, reductions and write-downs	Transfers	31 December 2015
Cost											
Land and buildings	69,602	4,557	48	-	-	74,207	91	36	-	1,786	76,120
Technical telecommunications facilities	-	431,088	-	-	-	431,088	326	-	-	2,587	434,001
Technical electricity facilities	11,673,335	510	-	-	749,488	12,423,333	-	-	(4)	374,529	12,797,858
Other installations, machinery, equipment, furniture and other items	160,184	824	215	(290)	6,672	167,605	156	65	(54)	23,166	190,938
Technical electricity facilities under construction	957,398	471,255	-	-	(726,604)	702,049	397,101	-	-	(359,260)	739,890
Advances and under construction	18,089	33,294	9	-	(29,556)	21,836	46,581	6	-	(42,808)	25,615
Total Cost	12,878,608	941,528	272	(290)	-	13,820,118	444,255	107	(58)	-	14,264,422
Accumulated depreciation											
Buildings	(17,764)	(1,195)	(11)	-	-	(18,970)	(1,293)	(2)	-	-	(20,265)
Technical telecommunications facilities	-	(2,392)	-	-	-	(2,392)	(21,561)	-	-	-	(23,953)
Technical electricity facilities	(4,239,130)	(420,701)	(1)	-	-	(4,659,832)	(449,272)	-	-	-	(5,109,104)
Other installations, machinery, equipment, furniture and other items	(120,454)	(11,537)	(112)	66	-	(132,037)	(10,849)	(17)	26	-	(142,877)
Total accumulated depreciation	(4,377,348)	(435,825)	(124)	66	-	(4,813,231)	(482,975)	(19)	26	-	(5,296,199)
Impairment	(74,478)	(9,147)	-	-	-	(83,625)	-	-	-	-	(83,625)
Carrying amount	8,426,782	496,556	148	(224)	-	8,923,262	(38,720)	88	(32)	-	8,884,598

At 31 December 2015 the Company has fully depreciated property, plant and equipment amounting to Euros 1,399,721 thousand, of which Euros 1,282,531 thousand comprise technical electricity facilities (Euros 1,358,556 thousand in 2014, of which Euros 1,253,815 thousand consisted of technical electricity facilities).

The main additions to technical electricity facilities in 2015 and 2014 are investments in electricity transmission facilities in Spain.

Technical telecommunication facilities essentially consist of the concession of the rights to use and manage the operation of the fibre optic cable network and other related items, pursuant to the 20-year agreement entered into with ADIF in November 2014. The agreement has been classified as a finance lease, given that substantially all the risks and rewards incidental to ownership of the assets were transferred.

In 2015 disposals of property, plant and equipment amounted to Euros 58 thousand (Euros 290 thousand in 2014).

During 2015, the companies capitalised construction-related borrowing costs of Euros 13,475 thousand as an increase in property, plant and equipment (Euros 20,871 thousand in 2014). The weighted average rate used to capitalise borrowing costs was 2.57% in 2015 (2.80% in 2014).

Operating expenses of Euros 17,804 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2015 (Euros 15,956 thousand in 2014).

Details of capital grants and other non-current revenue received in advance in relation to property, plant and equipment are provided in note 11.

At 31 December 2015 and 2014 impairment losses essentially comprise adjustments to the carrying amount of facilities for which there are doubts as to whether they will generate sufficient future income. This item also includes impairment of certain transmission facilities due to the uncertainty that has arisen in respect of the remuneration of these facilities, in view of doubts regarding the generation of the associated income. Following an analysis of the uncertainties surrounding the generation of future revenues, no movement was recorded in impairment of property, plant and equipment in 2015 (charge of Euros 9,147 thousand in 2014).

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The cover provided by these policies is considered sufficient.

7. Investment Property

Movement in the Group's investment property in 2015 and 2014 is as follows:

RED ELÉCTRICA GROUP
DETAILS OF MOVEMENT IN INVESTMENT PROPERTY in 2015 and 2014

(Expressed in thousands of euros)

	31 December 2013	Additions	31 December 2014	Additions	31 December 2015
Cost					
Investment property	2,910	-	2,910	-	2,910
Total Cost	2,910	-	2,910	-	2,910
Accumulated depreciation					
Investment property	(349)	(44)	(393)	(44)	(437)
Total accumulated depreciation	(349)	(44)	(393)	(44)	(437)
Carrying amount	2,561	(44)	2,517	(44)	2,473

Investment property has a market value of approximately Euros 3 million in 2015 and 2014 and does not generate or incur significant operating income or expenses.

8. Inventories

Details of inventories at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	2015	2014
Inventories	63,122	67,047
Impairment	(21,367)	(20,602)
	41,755	46,445

Inventories mainly reflect the spare parts related to the technical electricity facilities.

The Group companies regularly test inventories for impairment based on the following assumptions:

> Impairment of old inventories, using inventory turnover ratios.

> Impairment for excess inventories, on the basis of estimated use in future years.

As a result, the Group recorded impairment losses of Euros 765 thousand in the consolidated income statement for 2015 (Euros 2,573 thousand in 2014).

9. Trade and other Receivables

Details of trade and other receivables at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	2015	2014
Trade receivables	14,023	28,400
Other receivables	993,784	1,003,501
Current tax assets	2,458	40,789
	1,010,265	1,072,690

At 31 December 2015 and 2014 other receivables mostly comprise amounts pending invoicing and/or collection for regulated transmission and system operation activities. Under the settlement system set up by the Spanish regulator, some of these receivables are settled in the following year. This item also includes the revenue receivable under legislation applicable to transmission activities in Spain, which stipulates that facilities entering into service in year “n” are to be remunerated from year “n+2” onwards. The balance of these two items totalled Euros 723,956 thousand at 31 December 2015 (Euros 837,415 thousand in 2014).

Other receivables at 31 December 2015 and 2014 reflect the trend in settlements made by the regulator in 2015 and 2014 for regulated activities in Spain as a result of changes in collections and payments, and the application since 2014 of the new financing mechanism for temporary imbalances between system revenues and costs pursuant to Spanish Electricity Industry Law 24/2013 of 26 December 2013. This new mechanism determines that agents subject to the settlement system must finance, in proportion to the weight of their remuneration compared to other system costs, the temporary imbalances between system revenue and costs that are recorded in the monthly settlements on account for the yearly close.

Current tax assets declined due to the settlement in 2015 of the balances recognised in 2014. These balances included 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, and a recoverable amount of Euros 11,640 thousand, based on the tax return for 2012 filed by the Company in 2014 as the head of the tax group.

There are no significant differences between the fair value and the carrying amount at 31 December 2015 and 2014.

10. Equity

CAPITAL RISK MANAGEMENT

The Group's management of its companies' capital is aimed at safeguarding 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 Group can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

The Group controls its capital structure on a gearing ratio basis, in line with sector practice. This ratio is calculated as net financial debt divided by the sum of the Group's equity and net financial debt. Net financial debt is calculated as follows:

(Thousands of euros)	2015	2014
Non-current payables	4,770,841	4,955,001
Current payables	562,658	752,881
Foreign currency derivatives	(40,765)	34
Cash and cash equivalents	(386,861)	(299,368)
Net financial debt	**4,905,873**	**5,408,548**
Equity	**2,760,613**	**2,552,452**
Gearing ratio	**64.0%**	**67.9%**

At 31 December 2015, the financial covenants stipulated in the contracts have been met.

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

On 1 April 2015 the rating agency Fitch Ratings confirmed the Company's long-term rating of A-, with a positive outlook.

Following this announcement, the Company and Red Eléctrica de España, S.A.U. maintain long-term ratings of A- and short-term ratings of F2, with a positive outlook.

EQUITY ATTRIBUTABLE TO THE PARENT

Capital and reserves

> Share capital

At 31 December 2015 and 2014 the share capital of the Parent 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 Parent's shares are quoted on the four Spanish stock exchanges.

The Company 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. The Company 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 Industry 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 2015 and 2014 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 2015 and 2014 the legal reserve amounts to 20% of share capital (Euros 54,199 thousand).

- Other reserves

Other reserves include voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves. These reserves totalled Euros 1,703,495 thousand at 31 December 2015 (Euros 1,405,107 thousand in 2014).

In addition, this item includes statutory reserves amounting to Euros 293,656 thousand (Euros 264,546 thousand in 2014), particularly the following:

- 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, it may be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996).

- As provided for by article 25 of Law 27/2014 of 27 November 2014, the tax group headed by the Company has created a capitalisation reserve of Euros 29,110 thousand, which is held by REE, as permitted by article 62.1 d) of the aforementioned Law. This reserve will be restricted for a period of five years. Each tax group company has adjusted income tax for the year in connection with this reserve. (see note 19).

> Own shares

At 31 December 2015 the Parent held 437,187 own shares representing 0.32% of its share capital, with a total par value of Euros 874 thousand and an average acquisition price of Euros 75.66 per share (at 31 December 2014 the Parent 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).

These shares have been recognised as a reduction in equity for an amount of Euros 33,076 thousand at 31 December 2015 (Euros 10,390 thousand in 2014).

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on 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 Parent.

> Profit for the year attributable to the Parent

Profit for 2015 totals Euros 606,013 thousand (Euros 717,821 thousand at 31 December 2014).

> Interim dividends and proposed distribution of dividends by the Parent

The interim dividend authorised by the board of directors in 2015 has been recognised as a Euros 120,082 thousand reduction in consolidated equity at 31 December 2015 (Euros 112,463 thousand at 31 December 2014).
(see note 15).

On 22 December 2015 the Parent's board of directors agreed to pay an interim dividend of Euros 0.8906 (gross) per share with a charge to 2015 profit, payable on 4 January 2016 (interim dividend of Euros 0.8323 (gross) per share with a charge to 2014 profit).

Details of the dividends paid during 2015 and 2014 are as follows:

	2015			2014		
	% of par value	Euros per share	Amount (thousands of Euros)	% of par value	Euros per share	Amount (thousands of Euros)
Ordinary shares	150.00%	3.0000	404,825	127.11%	2.5422	343,782
Total dividends paid	150.00%	3.0000	404,825	127.11%	2.5422	343,782
Dividends charged to profit	150.00%	3.0000	404,825	127.11%	2.5422	343,782

The Parent's board of directors also proposed to the shareholders at their general meeting the distribution of a supplementary dividend of Euros 2.3194 per share, which would result in a total dividend for 2015 of Euros 3.2100 per share (Euros 3 per share in 2014).

Valuation adjustments

> **Available-for-sale financial assets**

At 31 December 2015 and 2014 this item reflects valuation adjustments to available-for-sale financial assets due to fluctuations in the share price of the Group's 5% investment in the listed company Redes Energéticas Nacionais (hereinafter REN), the benchmark index for which is the PSI 20. At 31 December 2015 this item totals Euros 15,480 thousand (Euros 7,950 thousand in 2014).

> **Hedging transactions**

This line item reflects changes in the value of derivative financial instruments.

At 31 December 2015 this item totals Euros -48,613 thousand (Euros -69,273 thousand in 2014).

> **Translation differences and other**

This line item mainly comprises the exchange gains and losses arising from translation of the financial statements of foreign businesses, specifically the Peruvian companies TESUR, TESUR2, REA and REDESUR and the Chilean company RECH. At 31 December 2015 they amount to Euros 3,651 thousand (Euros 1,429 thousand in 2014). This increase is primarily due to the performance of the US Dollar against the Euro.

NON-CONTROLLING INTERESTS

Non-controlling interests under equity in the accompanying consolidated statement of financial position reflect the non-controlling interests in REDESUR at 31 December 2015 and in TESUR and REDESUR at 31 December 2014 (see Appendix I). In 2015 they amount to Euros 15,350 thousand (Euros 22,986 thousand in 2014). Details of movements during 2015 are as follows:

	31 December 2014	Profit for the year	Net translation differences	Dividends distributed	Other changes in equity	31 December 2015
Non-controlling interests	22,986	747	1,820	(853)	(9,350)	15,350

Other changes in equity primarily reflect the acquisition by REDESUR of the 45% non-controlling interest in TESUR.

11. Grants and other

Movement in grants and other in 2015 and 2014 is as follows:

RED ELÉCTRICA GROUP
DETAILS OF MOVEMENT IN GRANTS AND OTHER NON-CURRENT REVENUE RECEIVED IN ADVANCE
2015 and 2014

(Expressed in thousands of euros)

	31 December 2013	Additions	Disposals	Applications	31 December 2014	Additions	Disposals	Applications	31 December 2015
Capital grants	139,103	3,456	-	(4,595)	137,964	64,456	-	(7,488)	194,932
Other grants	-	53,985	-	(5,143)	48,842	11,031	-	(2,863)	57,010
Other non-current revenue received in advance	279,194	25,498	-	(9,056)	295,636	10,753	-	(9,733)	296,656
	418,297	82,939	-	(18,794)	482,442	86,240	-	(20,084)	548,598

Capital grants include the amounts received by REE from official bodies for the construction of electricity facilities, while other non-current revenue received in advance reflects amounts received under agreements with third parties. Applications reflect the amounts taken to profit or loss on the basis of the useful life of the corresponding facilities and recognised under non-financial and other capital grants in the consolidated income statement.

Other grants mainly comprise income tax deductions for investments in the Canary Islands, which by their nature are similar to capital grants (see note 2 c). Applications reflect the amounts taken to profit or loss on the basis of the useful life of the assets linked to the deductions, recognised under non-financial and other capital grants in the consolidated income statement.

In 2010, the Company was awarded a grant by the European Commission for its involvement in an electricity interconnection project between Spain and France under joint development with Réseau de Transport d'Électricité (RTE), through Interconexión Eléctrica Francia-España, S.A.S (INELFE). The grant was awarded for a maximum amount of Euros 112.5 million, of which Euros 59,297 thousand were received in 2015 and recognised under additions in 2015. Following this collection, the full amount awarded has been received.

12. Non-current Provisions

Movement in 2015 and 2014 is as follows:

RED ELÉCTRICA GROUP
MOVEMENT IN PROVISIONS 2015 and 2014

(Expressed in thosands of euros)

	31 December 2013	Additions	Applications	Reversals	Actuarial gains and losses	31 December 2014	Additions	Applications	Reversals	Actuarial gains and losses	31 December 2015
Provisions for employee benefits	51,702	6,518	(6,925)	(577)	17,049	67,767	6,310	(940)	-	(16,242)	56,895
Other provisions	32,449	6,366	-	(1,060)	-	37,755	1,125	(11,244)	(3)	-	27,633
	84,151	12,884	(6,925)	(1,637)	17,049	105,522	7,435	(12,184)	(3)	(16,242)	84,528

Provisions for employee benefits comprise defined benefit plans, which essentially include the future commitments – specifically medical insurance – undertaken by the Group vis-à-vis its personnel from the date of their retirement, calculated using actuarial studies carried out by an independent expert. In 2015 and 2014 additions derive mainly from the annual accrual of these commitments, as well as changes in the actuarial assumptions used. These additions have been recognised as personnel expenses or finance costs, depending on their nature, and under reserves when they derive from changes in the actuarial assumptions (mainly in the case of obligations related to medical insurance) or in profit or loss (in the case of past service obligations). The personnel expenses and finance costs recognised in this connection in the consolidated income statement for 2015 amount to Euros 1,380 thousand and Euros 1,461 thousand, respectively (Euros 1,983 thousand and Euros 901 thousand, respectively, in 2014), whilst the reserves recognised in 2015 totalled Euros -16,242 thousand, net of tax (Euros 17,049 thousand in 2014).

The assumptions made with regard to 2015 and 2014 were as follows:

	2015 Actuarial assumptions	2014 Actuarial assumptions
Discount rate	2.33%	2.06%
Cost increase	3.0%	4.0%
Mortality table	PERM/F 2000 new production	PERM/F 2000 new production

Details of the effect of an increase/decrease of one percentage point in the cost of medical insurance are as follows:

(In thousands of Euros)	2015 +1%	2015 -1%	2014 +1%	2014 -1%
Current service cost	436	(314)	688	(487)
Interest cost of net post-employment medical costs	10	(7)	14	(10)
Accumulated post-employment benefit obligation for medical insurance	10,165	(7,437)	15,210	(10,923)

Conversely, the effect of a decrease of half a percentage point in the discount rate used for medical insurance costs from 2.33% to 1.83%, in thousands of Euros, is as follows:

			Discount rate
(Thousands of Euros)	2.33%	1.83%	Sensitivity
Current service cost	1,280	1,479	200
Interest cost of net post-employment medical costs	1,318	1,040	(278)
Accumulated post-employment benefit obligation for medical insurance	41,956	47,372	5,416

Provisions for employee benefits also include deferred remuneration schemes and the Structural Management Plan (see note 4-l). At 31 December 2015 Euros 3,469 thousand and Euros 1 thousand have been recognised as personnel expenses and finance costs, respectively, in the income statement (Euros 3,635 thousand and Euros 1 thousand, respectively, in 2014).

Other provisions basically include the amounts recorded by the Group every year to cover the potential unfavourable rulings relating mainly to administrative proceedings, administrative disciplinary proceedings, judicial reviews of expropriation proceedings and out-of-court claims. The provisions recognised to cover these events are measured on the basis of the potential economic content of the ongoing appeals, litigation and general legal or out-of-court proceedings to which the Company is party. The remaining amount comprises numerous items for immaterial amounts, for which the possible outflow of resources cannot be estimated reliably.

In 2015, applications mainly relate to payment of the Euros 10 million penalty imposed by the Catalan regional government due to the disciplinary proceedings instituted as a result of the power cut in Barcelona in July 2007 (also the main legal proceedings included under this item in 2014).

13. Other non-current Liabilities

Other non-current liabilities basically include the revenues received in advance from agreements with various telecommunications operators for the use of the telecommunications network capacity, recognised in the consolidated income statement based on the duration of the agreements, with expiry dates up to 2035, and amounting to Euros 42,467 thousand at 31 December 2015 (Euros 44,972 thousand at 31 December 2014).

This item also includes the non-current liabilities arising from the compensation paid by Électricité de France (hereinafter EDF) under the agreement signed in 1997 for the adaptation of electricity supply contracts, which amounted to Euros 23,625 thousand at 31 December 2015 (Euros 23,625 thousand at 31 December 2014). These commitments pertain to more than one year and are therefore subject to the construction of facilities that were not completed at 31 December 2015.

14. Financial Risk Management Policy

The Group's financial risk management policy establishes principles and guidelines to ensure that any significant risks that could affect the objectives and activities of the Red Eléctrica 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 Group's core value, rather than generating extraordinary profits.

The Group's finance management is responsible for managing financial risk, ensuring consistency with the Group's strategy and coordinating risk management across the various Group companies, 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 financial risks to which the Group is exposed are as follows:

MARKET RISK

Market risk reflects variations in the financial markets in terms of prices, interest and exchange rates, credit conditions and other variables that could affect short-, medium- and long-term finance costs.

Market risk is managed on the borrowings to be arranged (the currency, maturity and interest rates), and through the use of hedging instruments that allow the financial structure to be modified. Market risk specifically includes:

> **Interest rate risk**

Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates. The debt structure at 31 December 2015 and 2014 is as follows:

(Thousands of euros)	2015		2014	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Non-current issues	3,112,780	14,905	3,250,059	14,899
Non-current bank borrowings	1,020,333	582,058	977,044	713,028
Current issues	323,585	-	57,661	241,796
Current bank borrowings	52,582	186,491	222,323	231,106
Total debt	4,509,280	783,454	4,507,087	1,200,829
Percentage	**85%**	**15%**	**79%**	**21%**

The debt structure is low risk with moderate exposure to fluctuations in interest rates, as a result of the debt policy implemented, which aims to bring the cost of debt into line with the financial rate of return applied to the Group's regulated assets, among other objectives.

The interest rate risk to which the Group is exposed at 31 December 2015 and 2014 derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not profit for the year. A sensitivity analysis of this risk is as follows (in thousands of Euros):

	Effect on consolidated equity of market interest rate fluctuations (in thousands of Euros)			
	2015		2014	
	+0.10%	-0.10%	+0.10%	-0.10%
Interest rate hedges:				
- Cash flow hedges				
Interest rate swap	6,002	(6,061)	2,527	(2,543)
Interest rate and exchange rate hedges:				
- Cash flow hedges				
Cross Currency Swap	(94)	93	488	(498)

This rise or decline of 0.10% in interest rates on debt in 2015 would have decreased or increased profit by Euros 1,314 thousand.

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2015 and 2014.

> Currency risk

Currency risk management considers transaction risk, arising on cash inflows and outflows in currencies other than the Euro, and translation risk, i.e. a company's exposure when consolidating its subsidiaries and/or assets located in countries whose functional currency is not the Euro.

With a view to reducing the currency risk on issues in the US private placements (USPP) market, the Company has arranged cash flow hedges through US Dollar/Euro cross currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035 (see note 16).

In order to mitigate the translation risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of its investments in the corresponding functional currency. Consequently, at 31 December 2015 had the US Dollar strengthened/weakened by 10% against the Euro, equity would have increased or decreased by approximately Euros 2 million (Euros 3 million at 31 December 2014).

CREDIT RISK

In light of the nature of revenues from electricity transmission and electricity system operation, and the solvency of the electricity system agents, the Group's principal activities are not significantly exposed to credit risk. For the Group's other activities, credit risk is mainly managed through instruments to reduce or limit such risk.

In any event, credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are requested when necessary.

At year end the Group's exposure to credit risk in connection with the fair value of its derivatives is insignificant.

At 31 December, less than 1% of balances are past-due (1% in 2014), although the companies do not consider there to be any risk as regards recoverability. The credit quality of the receivables is considered to be high.

LIQUIDITY RISK

Liquidity risk arises due to differences between amounts or the dates of collection and payment of the Group companies' assets and liabilities.

Liquidity risk is mostly managed by controlling the timing of financial debt and maintaining a considerable volume of available capital during the year, setting maximum limits of amounts falling due for each period defined. This process is carried out at Group company level, in accordance with the practices and limits set by the Group. The limits established vary according to the geographical area, so as to ensure that the liquidity of the market in which each company operates is taken into account. Furthermore, the liquidity risk management policy entails preparing cash flow projections in the main currencies in which the Group operates, taking into consideration the level of liquid assets and funds available according to these projections, and monitoring the liquidity indicators as per the consolidated statement of financial position and comparing these with market requirements.

The Group's financial debt at 31 December 2015 has an average maturity of six years.

The Group's liquidity position for 2015 was based on its robust capacity to generate cash flows, supported by undrawn credit facilities amounting to Euros 1,924.6 million (non-current and current balances of Euros 1,312.8 million and Euros 611.8 million, respectively).

PRICE RISK

The Group is exposed to price risk relating to capital investments classified as available for sale in the consolidated statement of financial position. Investments available for sale on quoted markets basically comprise the 5% interest held by the Group in REN. At 31 December 2015 had the listed price of the REN shares been 10% higher, equity would have increased by approximately Euros 6 million (Euros 5 million in 2014). Had the listed price been 10% lower, equity would have been approximately Euros 6 million lower (Euros 5 million in 2014).

15. Financial Assets and Financial Liabilities

FINANCIAL ASSETS

Details of the Red Eléctrica Group's current and non-current financial assets at 31 December 2015 and 2014 are as follows:

(In thosands of euros)

	Current period				Prior period			
	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivates	Total	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivates	Total
Equity instruments	78,845	-	-	78,845	65,102	-	-	65,102
Derivatives	-	-	35,655	35,655	-	-	-	-
Other financial assets	-	5,486	-	5,486	-	6,896	-	6,896
Non-current	78,845	5,486	35,655	119,986	65,102	6,896	-	71,998
Derivatives	-	-	-	-	-	-	620	620
Other financial assets	-	2,522	-	2,522	-	684	-	684
Current	-	2,522	-	2,522	-	684	620	1,304
Total	78,845	8,008	35,655	122,508	65,102	7,580	620	73,302

(1) Excluding trade receivables

> **Equity instruments**

Equity instruments essentially comprise the 5% interest held by the Group in REN, a holding company that encompasses the operation and use of electricity transmission assets and various gas infrastructure in Portugal. This interest was acquired in 2007 for Euros 98,822 thousand. On 19 November 2015 the Parent contributed the interest it held in REN to REI.

The value of this investment is subject to the listed share price. In 2015 the fair value of this equity instrument increased and the corresponding valuation adjustment was recognised directly under equity.

At 31 December 2015 and 2014 the Company has calculated the increase resulting from the valuation adjustment recognised under equity at Euros 10,039 thousand (Euros 4,486 thousand in 2014).

In 2015 and 2014 there was no objective evidence of impairment of the investment in REN.

This item also comprises the investment in economic interest groups (EIGs) measured at Euros 4,435 thousand (Euros 8 in 2014). These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the rewards and risks of the activity, while the Group only avails of the tax benefits pursuant to Spanish legislation. The Company recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income (see note 20-e) reflecting the difference compared to income tax payable to the taxation authorities.

> **Derivatives**

Details of derivative financial instruments are provided in note 16.

> **Other financial assets**

Other financial assets essentially comprise security deposits and loans extended by REE to its personnel, which fall due in the long term. There are no significant differences between the fair value and the carrying amount at 31 December 2015 and 2014.

FAIR VALUE HIERARCHY LEVELS

Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 31 December 2015 and 2014 are as follows:

(In thousands of euros)				Current period
	Level 1	Level 2	Level 3	Total balance
Equity instruments	74,279	4,566	-	78,845
Derivatives	-	35,655	-	35,655
Other financial assets	-	-	8,008	8,008

				Prior period
	Level 1	Level 2	Level 3	Total balance
Equity instruments	64,240	862	-	65,102
Derivatives	-	620	-	620
Other financial assets	-	-	7,580	7,580

Level 1 equity instruments reflect the 5% interest held by the Group in the listed company REN.

FINANCIAL LIABILITIES

Details of the Red Eléctrica Group's current and non-current financial liabilities at 31 December 2015 and 2014 are as follows:

(In thousands of euros)			Current Period
	Debts and payables (1)	Hedging derivates	Total
Loans and borrowings	1,602,391	-	1,602,391
Bonds and other marketable securities	3,168,450	-	3,168,450
Derivatives	-	56,048	56,048
Other financial liabilities	224	-	224
Non-current	4,771,065	56,048	4,827,113
Loans and borrowings	247,287	-	247,287
Bonds and other marketable securities	400,869	-	400,869
Derivatives	-	671	671
Other financial liabilities	664,501	-	664,501
Current	1,312,657	671	1,313,328
Total	**6,083,722**	**56,719**	**6,140,441**

(In thousands of euros)			Prior period
	Debts and payables (1)	Hedging derivates	Total
Loans and borrowings	1,690,072	-	1,690,072
Bonds and other marketable securities	3,264,929	-	3,264,929
Derivatives	-	81,904	81,904
Other financial liabilities	220	-	220
Non-current	4,955,221	81,904	5,037,125
Loans and borrowings	463,492	-	463,492
Bonds and other marketable securities	380,565	-	380,565
Derivatives	-	8,106	8,106
Other financial liabilities	697,268	-	697,268
Current	1,541,325	8,106	1,549,431
Total	**6,496,546**	**90,010**	**6,586,556**

(1) Excluding trade payables

> Loans and borrowings, bonds and other marketable securities

The carrying amount and fair value of loans and borrowings and issues of bonds and other marketable securities at 31 December 2015 and 2014 are as follows:

(Thousands of euros)	Carrying amount		Fair value	
	2015	2014	2015	2014
Issues in Euros	2,998,351	3,152,791	3,256,816	3,479,949
Issues in US Dollars	493,684	411,590	590,287	477,355
Bank borrowings in Euros	1,841,464	2,107,823	1,825,363	2,112,135
Bank borrowings in foreign currency	-	35,678	-	43,729
Total	5,333,499	5,707,882	5,672,466	6,113,168

The fair value of all loans and borrowings and issues of bonds and other marketable securities has been estimated using valuation techniques based on discounting future cash flows at market rates prevailing at each date.

At 31 December 2015 the accrued interest payable amounts to Euros 85,498 thousand (Euros 91,176 thousand in 2014).

Issues in Euros at 31 December 2015 include:

- Eurobonds issued by Red Eléctrica Financiaciones (hereinafter REF), totalling Euros 2,998,351 thousand (Euros 2,910,995 thousand in 2014). Bonds were issued twice in 2015 for amounts of Euros 500 million and Euros 75 million. The Euros 500 million issue was part of a bond exchange, through early redemption of outstanding issues totalling Euros 446 million (two issues of Euros 300 million and Euros 15 million in 2014).
- Promissory notes issued on the Euromarket by REF as part of the "Euro Commercial Paper Programme" (ECP Programme), with no outstanding balance at 31 December 2015 (Euros 241,796 thousand in 2014).

Issuance in US Dollars at 31 December 2015 amounts to Euros 493,684 thousand (Euros 411,590 thousand in 2014), comprising a US Dollars 500 million issue on the US private placement (USPP) market, of which US Dollars 70 million were redeemed in 2015, as well as two US Dollar bond issues in Peru for a total of US Dollars 110 million (US Dollars 70 million and US Dollars 40 million).

Bank borrowings in Euros at 31 December 2015 include non-current loans and credit facilities totalling Euros 1,606,864 thousand (Euros 1,678,712 thousand in 2014) and syndicated credit facilities amounting to Euros 234,600 thousand (Euros 429,111 thousand in 2014).

Details of the maturities of bond issues and bank borrowings at 31 December 2015 are as follows:

RED ELÉCTRICA GROUP
DETAILS OF MATURITY OF BOND ISSUES AND BANK BORROWINGS at 31 December 2015

(Expressed in thousands of euros)

	2016	2017	2018	2019	2020	Subsequent years	Valuation adjustments	Total
Issues in Euros	320,400	-	599,400	284,100	550,000	1,290,000	(45,549)	2,998,351
Issues in US Dollars	3,603	3,790	3,986	4,193	169,745	308,952	(585)	493,684
Bank borrowings in Euros	239,441	90,281	96,823	96,419	179,793	1,142,701	(3,994)	1,841,464
	563,444	94,071	700,209	384,712	899,538	2,741,653	(50,128)	5,333,499

The average interest rate was 3.20% in 2015 (3.49% in 2014).

At 31 December 2015 Group companies have undrawn credit facilities amounting to Euros 1,924.6 million, of which Euros 1,312.8 million expire in the long term (Euros 710.3 million at 31 December 2014) and Euros 611.8 million in the short term (Euros 275.3 million at 31 December 2014).

Details of bonds and other marketable securities at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	Current period				
	Opening outstanding balance at 31/12/2014	(+) Issues	(-) Repurchases or repayments	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2015
Debt securities requiring a prospectus to be filed	3,152,791	828,912	(987,098)	3,746	2,998,351
Debt securities not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	411,590	102,698	(59,347)	38,743	493,684
Total	3,564,381	931,610	(1,046,445)	42,489	3,492,035

(Thousands of euros)

	Prior period				
	Opening outstanding balance at 31/12/2014	(+) Issues	(-) Repurchases or repayments	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2015
Debt securities requiring a prospectus to be filed	2,692,215	994,444	(532,395)	(1,473)	3,152,791
Debt securities not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	362,282	-	-	49,308	411,590
Total	3,054,497	994,444	(532,395)	47,835	3,564,381

The outstanding balance at 31 December 2015 and 2014 of debt securities requiring a prospectus to be filed relates to issues registered in Dublin and Luxembourg.

> Derivatives

Details of derivative financial instruments are provided in note 16.

> Other current financial liabilities

Details of other current financial liabilities at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	2015	2014
Dividend payable	120,082	112,463
Suppliers of fixed assets and other payables	545,090	592,11
	665,172	705,374

Suppliers of fixed assets essentially reflect balances incurred on the construction of electricity facilities.

Other payables basically comprise items pending settlement with respect to the Spanish electricity system and security deposits received.

FAIR VALUE HIERARCHY LEVELS

Details of the Group's financial liabilities measured at fair value using the inputs defined for this calculation at 31 December 2015 and 2014 are as follows:

(In thousands of euros)

				Current period
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	56,719	-	56,719
Other financial liabilities	-	-	41,217	41,217

				Prior period
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	90,010	-	90,010
Other financial liabilities	-	-	11,122	11,122

Level 2 comprises foreign currency and interest rate derivatives. Level 3 comprises security deposits pledged to the Group. There are no significant differences between the fair value and the carrying amount at 31 December 2015 and 2014. Liabilities at amortised cost are not disclosed by fair value hierarchy level.

16. Derivative Financial Instruments

In line with its financial risk management policy, the Red Eléctrica Group has arranged two types of derivative financial instruments: interest rate swaps and cross currency swaps. Interest rate swaps consist of exchanging debt at variable interest rates for debt at fixed rates, in a swap where the future cash flows to be hedged are the interest payments. Similarly, cross currency swaps allow fixed-rate debt in US Dollars to be exchanged for fixed-rate debt in Euros, thereby hedging the interest and capital to be paid in US Dollars.

The adoption of IFRS 13 (see note 4-o), on derivative financial instruments and hedging transactions entails an adjustment to the valuation techniques used to calculate the fair value of derivative financial instruments. The Group has incorporated a credit risk adjustment to reflect own and counterparty risk in the fair value of derivative financial instruments using generally accepted measurement models.

To eliminate the credit risk from the cross currency swaps arranged to hedge the exchange rate for USPP issuance, pledge agreements with collateral swaps were entered into with the counterparties in 2015.

When determining the credit risk adjustment for other derivatives, the Group applied a technique based on calculating total expected exposure (which considers current and potential exposure) through the use of simulations, adjusted for the probability of default over time and for loss given default allocable to the Company and to each counterparty.

The total expected exposure of derivative financial instruments is determined using observable market inputs, such as interest rate curves, exchange rates and volatilities based on market conditions at the measurement date.

The inputs used to determine own and counterparty credit risk (probability of default) are mostly based on own credit spreads and those of comparable companies currently traded on the market (credit default swap curves, IRR of debt issues, etc.). In the absence of own credit spreads or those of comparable companies, and with a view to maximising the use of relevant observable inputs, the benchmark quotations used are the most appropriate according to each case at hand (quoted credit spread indexes). For counterparties with available credit information, the credit spreads used were based on the credit default swaps quoted on the market.

Furthermore, adjustments of fair value for credit risk take into account credit enhancements for guarantees and collateral when determining the loss given default to be used for each position. Loss given default is considered to be constant over time. A minimum recovery rate of 40% has been used in cases where there is no credit enhancement for guarantees or collateral.

Based on the hierarchy levels detailed in note 4, the Company has considered that the majority of the inputs used to determine the fair value of derivative financial instruments are categorised within Level 2, including the data used to calculate the own and counterparty credit risk adjustment.

The Company has observed that the impact of using Level 3 inputs for the overall measurement of derivative financial instruments is not significant. Consequently, the Company has determined that the entire derivative financial instrument portfolio can be categorised within level 2.

As regards observable inputs, the Group uses mid-market prices obtained from reputable external information sources in the financial markets.

Details of hedges at 31 December 2015 and 2014 in thousands of Euros are as follows:

(Thousands of euros)			**2015**				**2014**			
			Non-current		**Current**		**Non-current**		**Current**	
	Principal	**Maturuty**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate hedges:										
- Cash flow hedges:										
Interest rate swap	Euros 245,000 thousand	Up to 2015	-	-	-	-	-	-	-	(8,106)
Interest rate swap	Euros 75,000 thousand	Up to 2016	-	-	-	(671)	-	(1,665)	-	-
Interest rate swap	Euros 330,000 thousand	Up to 2020	-	(48,036)	-	-	-	(56,153)	-	-
Interest rate swap	Euros 81,480 thousand	Up to 2021	-	(1,048)	-	-	-	(793)	-	-
Interest rate swap	Euros 160,000 thousand	Up to 2023	326	(1,440)	-	-	-	-	-	-
Interest rate swap	Euros 140,000 thousand	Up to 2025	-	(3,136)	-	-	-	-	-	-
Interest rate swap	Euros 300,000 thousand	Up to 2026	4,519	(2,388)	-	-	-	-	-	-
Interest rate and exchange rate hedges:										
- Cash flow hedges:										
(Cross currency swap)	US Dollars 430,000 thousand (*)	Up to 2035								
Interest rate hedge			(9,955)	-	-	-	-	(23,264)	625	-
Exchange rate hedge			40,765	-	-	-	-	(29)	(5)	-
			35,655	(56,048)	-	(671)	-	(81,904)	620	(8,106)

(*) US Dollars 500,000 thousand in 2014. US Dollars 70,000 thousand were redeemed in 2015.

Details of derivative financial instruments by expiry date at 31 December 2015, in thousands of Euros, are as follows:

(Thousands of euros)	Principal	Maturity	2016	2017	2018	2019	2020	2021 and thereafter	Total
Interest rate hedges:									
- Cash flow hedges:									
Interest rate swap	Euros 75,000 thousand	Up to 2016	(671)	-	-	-	-	-	(671)
Interest rate swap	Euros 330,000 thousand	Up to 2020	-	-	-	-	(48,036)	-	(48,036)
Interest rate swap	Euros 81,480 thousand	Up to 2021	-	-	-	-	-	(1,048)	(1,048)
Interest rate swap	Euros 160,000 thousand	Up to 2023						(1,114)	(1,114)
Interest rate swap	Euros 140,000 thousand	Up to 2025						(3,136)	(3,136)
Interest rate swap	Euros 300,000 thousand	Up to 2026						2,131	2,131
Interest rate and exchange rate hedges									
- Cash flow hedges:									
(Cross currency swap)	US Dollars 430,000 thousand	Up to 2035							
Interest rate hedge			-	-	-	-	(2,205)	(7,750)	(9,955)
Exchange rate hedge			-	-	-	-	17,065	23,700	40,765
			(671)	-	-	-	(33,176)	12,783	(21,064)

17. Trade and other payables

Details of trade and other payables at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	2015	2014
Suppliers	402,334	200,128
Other payables	74,672	57,445
Current tax liabilities	6,276	20,116
	483,282	277,689

Suppliers essentially reflect payables arising from repairs and maintenance work and modifications to electricity facilities, as well as balances pending settlement vis-à-vis Spanish electricity system agents.

Other payables in 2015 and 2014 basically comprise balances with public entities, for the most part value added tax (VAT) on the latest regulated remuneration settlements announced by the Spanish National Markets and Competition Commission (CNMC) each year.

18. Late payments to suppliers. "Reporting Requirement", third additional provision of law 15/2010 of 5 july 2010

The Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016, concerning the information that must be disclosed in the notes to the annual accounts in relation to the average payment period for suppliers in commercial transactions, clarifies and systematises the information that trading companies must include in the notes to individual and consolidated annual accounts, in compliance with the reporting requirement of the third additional provision of Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004, establishing measures to combat late payments in commercial transactions.

The scope of this resolution also extends to trading companies that prepare consolidated annual accounts, although only with respect to fully consolidated subsidiaries or equity-accounted investees registered in Spain, irrespective of the financial reporting framework under which the accounts are prepared.

In accordance with the resolution, which applies to annual accounts for years beginning on or after 1 January 2015, the information concerning late payments to suppliers for 2015 is as follows:

(In days)

	2015
Average supplier payment period	50.1
Transactions paid ratio	51.1
Transactions payable ratio	15.9

(Thousands of Euros)

	2015
Total payments made	404,854
Total payments outstanding	12,794

Availing of the sole additional provision of the Spanish Accounting and Auditing Institute resolution of 29 January 2016, the Company has opted not to include information for 2014. This sole additional provision stipulates that comparative information relating to this new obligation shall not be disclosed in the annual accounts for the first year to which the resolution applies, and the annual accounts shall be classified as initial accounts for this sole purpose with regard to application of the principle of uniformity and the comparability requirement.

However, if the same criteria had been applied to 2014, the results would not have been significantly different from those for 2015.

19. Taxation

The tax group headed by Red Eléctrica Corporación, S.A. has filed consolidated tax returns in Spain since 2002.

Companies that do not form part of the tax group are subject to the legislation applicable in their respective countries.

At 31 December 2015, the tax group includes the Parent, REE, REI, REF, REINTEL and REINCAN.

A reconciliation of the prevailing tax rate in Spain with the effective tax rate applicable to the Group is as follows:

(Thousands of euros)

	2015	2014
Consolidated accounting profit for the year before tax	829,722	853,496
Permanent differences and consolidation adjustments	(26,906)	3,821
Consolidated taxable accounting income	802,816	857,317
Tax rate	28%	30%
Profit multiplied by tax rate	224,788	257,195
Effect of applying different tax rates	643	247
Tax calculated at the tax rate of each country	225,431	257,442
Deductions	(2,392)	(6,769)
Income due to changes in tax rate (Law 27/2014)	(3,001)	(106,135)
Income tax adjustments	2,924	(10,104)
Income tax	222,962	134,434
Current income tax	208,296	239,283
Deferred income tax	14,666	(104,849)
Effective tax rate	**26.87%**	**15.75%**

The effective rate of income tax is primarily influenced by permanent differences, deductions and changes in the tax rate. The difference between the effective rates for 2015 and 2014 is primarily due to the impact of the reduction in the tax rate for 2014.

Permanent differences in 2015 essentially reflect the capitalisation reserve adjustment, as a result of the increase in equity, in accordance with article 25 of Income Tax Law 27/2014 of 27 November 2014. In 2014, permanent differences primarily arose from provisions for liabilities recorded in the year and other non-deductible expenses (see note 10).

Deductions mainly comprise those for research, development and technological innovation expenditure, as well as international double taxation relief.

Given the financial nature of the deduction for investments in fixed assets in the Canary Islands, it is treated as a grant, and its impact on the income statement is deferred over several years based on the useful lives of the assets for which it was awarded (see note 4-j).

Deductions recognised as grants in 2015 amount to Euros 2,863 thousand (Euros 5,142 thousand in 2014) and the amount still to be recognised at 31 December 2015 is Euros 57,010 thousand (Euros 48,842 thousand in 2014).

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 a reduction in the income tax expense for 2015 of Euros 3,001 thousand (Euros 106,135 thousand in 2014), reflecting the Company's adjustment of deferred tax assets and liabilities to the new tax rates.

In 2014, the Group did not recognise 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 revaluations carried out pursuant to Law 16/2012. For these purposes the Company 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.

Adjustments to income tax at Group level primarily reflect deductions in 2015 and impairment of international investments in 2014.

Current receivables from and payables to public entities at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	2015	2014
Current receivables		
Recoverable VAT	2,873	95,216
Recoverable income tax	1,494	40,093
Other recoverable taxes	1,283	696
Current payables		
VAT payable	60,063	43,544
Other taxes payable	4,362	4,420
Income tax payable	6,276	20,116

In 2015 and 2014, adjustments were made to taxable income to reflect recognition of the EIGs in which the Group has interests, amounting to Euros 34,798 thousand and Euros 18,470 thousand, respectively.

In the consolidated statement of financial position the Group has offset deferred tax assets and deferred tax liabilities arising from the Spanish tax group in an amount of Euros 92,264 thousand, as permitted by IAS 12 (Euros 114,001 thousand in 2014).

Temporary differences in the recognition of income and expenses for accounting and tax purposes in the Red Eléctrica Group at 31 December 2015 and 2014, and the corresponding cumulative tax effect (assets and liabilities) are as follows:

(Thousands of euros)

	2015		2014	
	Income statement	Income and expense recognised directly in equity	Income statement	Income and expense recognised directly in equity
	Increases	Increases	Increases	Increases
Deferred tax assets:				
Originating in prior years	112,365	32,574	92,809	39,215
Movement in the year	(11,410)	(10,957)	23,524	(1,310)
Adjustments due to change in tax rate (Law 27/2014)	(197)	-	(3,968)	(5,331)
Total deferred tax assets	**100,758**	**21,617**	**112,365**	**32,574**
Deferred tax liabilities:				
Originating in prior years	579,244	17,341	667,109	29,184
Movement in the year	6,257	4,906	22,238	(11,313)
Adjustments due to change in tax rate (Law 27/2014)	(3,198)	-	(110,103)	(530)
Total deferred tax liabilities	**582,303**	**22,247**	**579,244**	**17,341**

Deferred tax assets and liabilities at 31 December 2015 and 2014 are as follows:

(Thousands of euros)

	2015	2014
Retirement and commitments whith personnel	15,251	18,198
Grants	838	895
Financial derivatives	16,204	23,770
Tax loss carryforwards	994	679
Balance revaluations, Law 16/2012	31,308	35,751
Limit on deductible amortisation/depreciation, Law 16/2012	50,147	59,279
Other	7,633	6,367
Total deferred tax assets	**122,375**	**144,939**
Accelerated depreciation	553,580	548,865
Non-deductible assets	23,027	27,066
Other	27,943	20,654
Total deferred tax liabilities	**604,550**	**596,585**

The deferred tax assets and liabilities are expected to be recovered and settled as follows:

31/12/15	Total	Less than 1 year	More than 1 year
Deferred tax assets	122,375	9,631	112,744
Deferred tax liabilities	604,550	23,609	580,941

The recovery/settlement of the Group's deferred tax assets/liabilities is dependent on certain assumptions, which could change.

In 2015, deferred tax assets primarily comprise reversals of tax advances in 2013 and 2014 as a result of applying the limitation on the tax deductibility of depreciation and amortisation charges stipulated in article 7 of Law 16/2012 of 27 December 2012, which introduced several fiscal measures to consolidate public finances and boost economic activity, and as a result of the first-time amortisation in 2015 of the net increase in value resulting from the revaluations applied to the balance sheet at 31 December 2012, pursuant to article 9 of the same Law. In 2014 and 2015 this item also primarily comprises amounts relating to changes in value of cash flow hedges and long-term employee benefits.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the inclusion of the assets and liabilities of REDALTA and INALTA, the companies absorbed by REC in 2006. In 2015, deferred tax liabilities for accelerated depreciation as provided for in the 11th additional provision of Royal Legislative Decree 4/2004, and the 34th transitional provision of Income Tax Law 27/2014, amounted to Euros 495,641 thousand. At 31 December 2015, the Company has made investments during the accelerated depreciation application period (between 2009 and March 2012) which are expected to result in income tax deferrals of approximately Euros 45,000 thousand over the coming years, as provided for by Royal Decree-Law 12/2012 of 30 March 2012, which introduced various tax and administrative measures aimed at reducing the public deficit.

The notes to REC's annual accounts for 2006 contain disclosures on the merger by absorption of REDALTA and INALTA, as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts include disclosures on REC's contribution to REE of the branch of activities encompassing the duties of the system operator, transmission network manager and transmission agent of the Spanish electricity system.

The notes to the annual accounts of REC and REINTEL for 2015 also include the disclosures stipulated in article 86 of Law 27/2014, regarding the spin-off of the telecommunications services business from REI to REINTEL in 2015, and regarding the non-monetary contribution of shares in REN.

In 2014 the inspection of the main applicable taxes in Spain for 2008, 2009 and 2010 was completed. The Company has signed the tax assessments in acceptance. These reflect the correct filing of all taxes in the tax inspectors' view.

In addition, inspections in Peru have resulted in tax assessments that have been appealed. The Group considers it reasonably probable that these appeals will be successful.

In general, Group companies in Spain have open to inspection by the taxation authorities all main applicable taxes since 2012, except income tax, which is open to inspection since 2011. However, this period may be different for Group companies that are subject to other tax legislation.

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of future inspections, which cannot be objectively quantified at present. Nevertheless, any additional liabilities that could arise therefrom are not expected to have a significant impact on the Company's future consolidated profits.

20. Income and Expenses

A) REVENUE

Details of revenue in 2015 and 2014, by geographical area, are as follows:

(Thousands of euros)	Current period	Prior period
Domestic market	1,898,275	1,799,881
International market	40,664	46,833
a) European Union	20,013	19,802
b) OECD countries	-	-
c) Other countries	20,651	27,031
TOTAL	1,938,939	1,846,714

Domestic market essentially includes the revenue from transmission and electricity system operation services in Spain, which is set each year by the Ministry of Industry, Energy and Tourism.

International markets in 2015 mostly reflect revenue of REDESUR and TESUR from the rendering of transmission services, revenue from the construction of the Azángaro-Juliaca-Puno transmission line in Peru and income from reinsurance services. International markets in 2014 reflected revenue of REDESUR and TESUR from the rendering of transmission services since June, when their facilities came into service, the income from reinsurance services and revenue until June from the construction of the Tintaya-Socabaya line in Peru.

B) SUPPLIES AND OTHER OPERATING EXPENSES

Details of supplies and other operating expenses in 2015 and 2014 are as follows:

(Thousands of euros)	2015	2014
Supplies	47,865	59,711
Other operating expenses	326,237	293,641
	374,102	353,352

Supplies and other operating expenses mainly comprise repair and maintenance costs incurred at technical electricity facilities as well as IT, advisory, leasing and other services.

C) PERSONNEL EXPENSES

Details of personnel expenses in 2015 and 2014 are as follows:

(Thousands of euros)	2015	2014
Salaries and wages	107,177	101,153
Social Security	23,316	22,692
Contributions to pension funds and similar obligations	2,093	2,007
Other items and employee benefits	7,049	7,115
	139,635	132,967

The Group companies have capitalised personnel expenses totalling Euros 15,816 thousand at 31 December 2015 (Euros 14,119 thousand at 31 December 2014).

> Workforce

The average headcount of the Group in 2015 and 2014, distributed by professional category, is as follows:

	2015	2014
Management	128	127
Senior technicians and middle management	524	532
Technicians	575	565
Spacialist and administrative staff	528	513
	1,755	1,737

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

	2015			2014		
	Male	Female	Total	Male	Female	Total
Management	106	25	131	105	27	132
Senior technicians and middle managemet	347	184	531	353	175	528
Technicians	483	91	574	476	89	565
Specialist and administrative staff	420	107	527	412	105	517
	1,356	407	1,763	1,346	396	1,742

In 2015, the Company's governing bodies appointed a managing director. At 31 December 2015, the board of directors, including the executive director and the managing director, comprises 12 members (10 at 31 December 2014), of which 7 are men and 5 are women (5 men and 5 women in 2014).

D) IMPAIRMENT AND GAINS/LOSSES ON DISPOSAL OF FIXED ASSETS

In 2014 this item included the impairment recorded on certain transmission facilities (see note 6).

E) FINANCE INCOME AND COSTS

Finance income mainly comprises the dividends received on the Company's 5% interest in REN, amounting to Euros 4,566 thousand. This item also includes Euros 1,255 thousand finance income (Euros 499 thousand in 2014) on the investment in the EIGs (see notes 15 and 19).

Finance costs basically reflect borrowing costs on loans and borrowings, net of any amounts capitalised, as well as bonds and other marketable securities for an amount of Euros 180,932 thousand (see note 15).). Capitalised borrowing costs totalled Euros 13,475 thousand in 2015 (Euros 21,846 thousand in 2014).

F) IMPAIRMENT AND GAINS/LOSSES ON DISPOSAL OF FINANCIAL INSTRUMENTS

At 31 December 2015 this item includes a loss of Euros 730 thousand following the decision to dispose of interests in a number of entities.

At 31 December 2014 it reflected the result of the final agreement of 13 November 2014 between Red Eléctrica Internacional and the Plurinational State of Bolivia on the compensation for the nationalisation of Transportadora de Electricidad, S.A. (TDE), following a Supreme Decree nationalising the company, published by the Bolivian Government on 1 May 2012. The Group's interest in the subsidiary amounted to 99.94% of its shares. This agreement generated a gain of Euros 52,311 thousand for the Group.

21. Transactions with associates and related parties

A) BALANCES AND TRANSACTIONS WITH ASSOCIATES

In 2015 and 2014 the Group had no associates.

B) RELATED PARTY TRANSACTIONS

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

					2015
EXPENSES AND INCOME:	**Significant shareholders**	**Directors and management**	**Group employees, companies or entities**	**Other related parties**	**Total**
Management or cooperation agreements	-	-	-	-	-
Other expenses	-	-	-	9	9
EXPENSES	**-**	**-**	**-**	**9**	**9**
Dividends received	-	-	-	-	-
Other income	-	-	-	2	2
INCOME	**-**	**-**	**-**	**2**	**2**
OTHER TRANSACTIONS:					
Other transactions	-	-	-	-	-
OTHER TRANSACTIONS	**-**	**-**	**-**	**-**	**-**

					2014
EXPENSES AND INCOME:	**Significant shareholders**	**Directors and management**	**Group employees, companies or entities**	**Other related parties**	**Total**
Management or cooperation agreements	-	-	-	-	-
Other expenses	-	-	-	49	49
EXPENSES	**-**	**-**	**-**	**49**	**49**
Dividends received	-	-	-	4,566	4,566
Other income	-	-	-	38	38
INCOME	**-**	**-**	**-**	**4,604**	**4,604**
OTHER TRANSACTIONS:					
Other transactions	-	-	-	-	-
OTHER TRANSACTIONS	**-**	**-**	**-**	**-**	**-**

Dividends received in 2014 were those received from REN, which, as of 2015, is no longer a related party.

22. Remuneration of the board of directors

At their meeting on 23 December 2014, the Company's directors approved the remuneration of the board of directors for 2015, as required by the articles of association and the regulations of the board of directors, based on a proposal from the Appointments and Remuneration Committee (formerly the Corporate Responsibility and Governance Committee). Both the remuneration policy for directors and the annual remuneration report were subsequently submitted for approval by the shareholders at their general meeting on 15 April 2015.

The individual remuneration of the members of the board of directors was identical in all items and amounts in 2015 and 2014.

Until 2015, the Company's chairman was both its chief executive and chairman of the board of directors.

At the chairman's proposal, the board of directors decided to propose to the shareholders at their general meeting that the two positions be separated.

On 17 July 2015, at their extraordinary general meeting, the shareholders approved the appointment of Mr. Juan Lasala Bernad as executive director of the Company for a period of four years, as stipulated in the articles of association. As a result of this appointment, the number of directors has increased to 12. This is within the limit established in article 20 of the Company's articles of association, which stipulates a minimum of 9 and a maximum of 13 board members.

At its meeting on 28 July 2015, the board of directors unanimously approved the appointment and agreed to jointly and unselectively delegate all of the board of directors' powers that may be delegated pursuant to the law and the articles of association.

The Company has established a transitional period of six to nine months ending on the date of the shareholders' general meeting for 2016, with full segregation of duties between the chairman of the board and the managing director.

The remuneration of the board of directors includes fixed annual remuneration, allowances for attending board meetings, remuneration for work on the board of directors' committees and specific annual remuneration both for the chairs of the committees and the coordinating independent director.

The total amounts accrued by the members of the Parent's board of directors in 2015 and 2014 were Euros 2,653 thousand and Euros 2,387 thousand, respectively. Details are as follows:

	2015	2014
Total remuneration for members of the board of directors	1,916	1,788
Directors' remuneration in respect of executive duties (1)	737	599
Total	2,653	2,387

(1) At 31 December this includes fixed and variable annual remuneration accrued during the year.

The increase on the prior year is primarily due (in an amount of Euros 244 thousand) to the aforementioned segregation of duties, whereby the remuneration for the new managing director, as both a member of the board and the Company's chief executive, was included from 28 July. To a lesser degree, the rise is also attributable to the increase in the number of members of the board's two committees from four to five, with the aim of increasing directors' involvement in the board's committees.

A breakdown of this remuneration by type of director at 31 December 2015 and 2014, in thousands of Euros, is as follows:

	2015	2014
Type of director:		
Executive directors	951	746
External proprietary directors	488	483
External independent directors	1,214	1,158
Total remuneration	**2,653**	**2,387**

The remuneration accrued by individual members of the Company's board of directors in 2015, in thousands of Euros, by components and directors, is as follows:

	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chairperson of committee or board and coordinating independent director	Other remuneration (4)	Total 2015	Total 2014
Mr. José Folgado Blanco	530	157	16	0	0	4	707	746
Mr. Juan Lasala Bernad	160	50	8	0	0	26	244	0
Ms. María de los Ángeles Amador Millán	131	0	16	15	0	0	162	175
Mr. Fernando Fernández Méndez de Andés	131	0	16	28	0	0	175	175
Ms. Paloma Sendín de Cáceres	131	0	16	28	7	0	182	190
Ms. Carmen Gómez de Barreda	131	0	16	28	15	0	190	190
Ms. María José García Beato (2)	131	0	16	28	0	0	175	152
Ms. Socorro Fernández Larrea (2)	131	0	16	28	0	0	175	95
Mr. Antonio Gómez Ciria (2)	131	0	16	28	0	0	175	95
Mr. Santiago Lanzuela Marina (2)	131	0	16	3	0	0	150	61
Mr. Francisco Ruíz Jiménez (1)	117	0	16	25	0	0	158	171
Mr. José Luis Feito Higueruela	115	0	16	16	8	0	155	0
Mr. José Ángel Partearroyo Martín (1) (2)	3	0	2	0	0	0	5	64
Other board members (3)	0	0	0	0	0	0	0	273
Total remuneration accrued	**1,973**	**207**	**186**	**227**	**30**	**30**	**2,653**	**2,387**

(1) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI). (2) The variation on 2014 is due to new appointments to the board in 2014 and 2015 or to committee work.
(3) Members who left the board in 2014. (4) Includes the cost of employee benefits forming part of the remuneration of the chairman and managing director, such as life insurance.

The executive chairman's remuneration includes the fixed and variable annual components corresponding to the role as the Company's chief executive and the fixed remuneration for being a member of the board of directors.

The executive chairman's variable remuneration is equal to 50% of his fixed remuneration as chief executive. However, from 28 July 2015, following the aforementioned segregation of duties and during the transitional period, the chairman's annual variable remuneration – in accordance with the remuneration policy for directors approved by the shareholders at their general meeting on 15 April 2015, and the agreements adopted by the board of directors at their meeting on 12 June 2015 – is 25% of his fixed remuneration, accruing at this rate from that date.

The managing director's remuneration also includes the fixed and variable annual components corresponding to executive duties and the fixed remuneration for being a member of the board of directors. In both cases, remuneration is accrued from the date of appointment to year end.

The chairman's contract was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's board of directors in March 2012.
The managing director's contract was proposed by the Appointments and Remuneration Committee and approved by the Company's board of directors on 28 July 2015. In line with standard market practices, both contracts consider termination benefits equal to one year's salary in the event that labour relations are terminated due to dismissal or changes of control.

In addition, as is customary in such cases, as a result of his appointment as managing director, Mr. Juan Lasala Bernad's existing employment contract has been suspended. Should the employment contract be terminated, he would accrue the remuneration due at the date of suspension as an indemnity. For this purpose, his tenure at the Company on the date he was appointed managing director (14 years) would be taken into consideration, in accordance with prevailing employment legislation.

Annual variable remuneration is set by the Appointments and Remuneration Committee of the Parent 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.

The Company has taken out life insurance policies for the executive directors, who are the beneficiaries in the event of disability. The beneficiaries in the event of death would be their heirs. The insured sum in each of the policies is Euros 500 thousand. The premiums paid by the Company are included in the other remuneration column and amount to Euros 5 thousand in 2015.

The Parent's Appointments and Remuneration Committee has considered various long-term incentive plans 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 committee approved a directors' remuneration scheme for 2014-2019. This scheme includes the chairman and managing director, although in the case of the chairman the remuneration is only considered up to 28 July, the date on which the managing director was appointed. The amount to which the chairman is entitled in this regard must be evaluated by the Appointments and Remuneration Committee in the first quarter of 2016.

Remuneration will be based on achieving 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. 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 Group's strategic plan. These targets are set and assessed by the Appointments and Remuneration Committee. The Company's financial statements include a provision for accrual of this plan in December 2015.

At 31 December 2015 and 2014 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 or life insurance obligations with the members of the board of directors at those dates, other than those previously mentioned, nor have any loans or advances been extended to board members.

In 2015 and 2014 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 2015, 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 II, based on the information received from the Company's directors.

23. Management remuneration

In 2015 total remuneration accrued by senior management personnel amounted to Euros 740 thousand (Euros 729 thousand in 2014) and is recognised as personnel expenses in the consolidated income statement. These amounts include the variable annual remuneration accrued on a straight-line basis, on the assumption that the objectives set each year were met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the opening months of the following year.

The senior management personnel who have rendered services for the Group during 2015 are as follows:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transmission(1)
Eva Pagán Díaz	General Manager of Transmission(2)
Andrés Seco García	General Manager of Operations(3)
Miguel Duvisón García	General Manager of Operations(4)

(1) Position held until 26 November 2015, continuing subsequently as Assistant General Manager.
(2) Position held since 26 November 2015.
(3) Left the Company on 18 November 2015.
(4) Position held since 26 November 2015.

Euros 13 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 16 thousand in 2014).

No advances have been extended to these senior managers at 31 December 2015 and 2014.

No loans have been extended to senior management personnel at 31 December 2015. At 31 December 2014 the outstanding balance of loans was Euros 218 thousand.

The Parent's Appointments and Remuneration Committee has considered various long-term incentive plans 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 committee approved a directors' remuneration scheme for 2014-2019. This scheme includes senior management personnel and remuneration is based on achieving 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 senior management personnel. 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 Appointments and Remuneration Committee. The Company's financial statements include a provision for accrual of this plan at December 2015.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses, in the event of dismissal. In the event the employment relationship were terminated, the indemnity to which these managers would be entitled would be calculated in accordance with applicable legislation. The contracts for these executives have been approved by the Appointments and Remuneration Committee and the board of directors has received notice thereof.

Senior managers who have not yet turned 60 are included in the Structural Management Plan implemented by the Company in 2015 (see note 4l).

In 2015, in accordance with the terms of the employment contract, accrued expenses of Euros 914 thousand were recognised in relation to a senior manager leaving the Company. This amount includes the accrued fixed remuneration, annual variable remuneration and long-term remuneration for 2014-2019.

24. Segment reporting

The principal activity of the Red Eléctrica Group is electricity transmission and operation of the electricity system in Spain, carried out through REE, which represents 93% of consolidated revenue and 94% of the Group's total assets (95% and 94%, respectively, in 2014). Other activities account for the remaining 7% of revenue and 6% of total assets (5% and 6%, respectively, in 2014). Consequently, the Group did not consider it necessary to provide information by activity or geographical segment.

25. Investments in joint arrangements

RTE and REE each hold a 50% investment in the INELFE joint arrangement, which has its registered office in Paris. Its statutory activity is the study and execution of interconnections between Spain and France that will increase the electricity exchange capacity between the two countries. Decisions are taken with the unanimous consent of the parties. RTE and REE both have rights to the assets and obligations for the liabilities of INELFE. The joint arrangement has therefore been classified as a joint operation.

The Group recognises the assets, including its interest in the jointly controlled assets, and the liabilities, including its share of the liabilities that have been incurred jointly in INELFE, in its consolidated annual accounts.

Due to the existence of contractual agreements under which decisions on relevant activities require the unanimous consent of both parties, the Group also has joint control of a temporary joint venture. The Group has classified the investments as joint operations because the parties have rights to the assets and obligations for the liabilities. The temporary joint venture has been formed to provide a dark fibre link, with an availability guarantee, between the Balearic Islands and the Mediterranean Coast of the Spanish mainland.

26. Guarantees and other commitments with third parties and other contingent assets and liabilities

The Company, together with REE, has jointly and severally guaranteed the private issue in the United States, by the Group company RBV, of bonds totalling US Dollars 430 million (US Dollars 500 million in 2014), and REF's Eurobonds programme for an amount of up to Euros 4,500 million at 31 December 2015 (Euros 3,500 million in 2014).

Furthermore, at 31 December 2015 and 2014 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.

On 19 February 2015, REDESUR, TESUR and Scotia Sociedad Titulizadora S.A. created a securitisation trust to hold the REDESUR-TESUR trust assets, in order to back the obligations arising from the US Dollar 110 million bond issue.

At 31 December 2015 the Company has committed to invest Euros 3,600 thousand in a property in Tenerife during 2016. In 2014 the Company had no commitments to acquire buildings.

At 31 December 2015 the Group has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 46,481 thousand (Euros 55,311 thousand in 2014).

27. Environmental information

During 2015 Group companies incurred ordinary expenses of Euros 18,957 thousand in protecting and improving the environment (Euros 19,852 thousand in 2014), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, slowing climate change, minimising pollution and safeguarding the countryside.

In 2015 the Parent also carried out environmental impact and monitoring studies in relation to its new electricity facilities. The costs incurred in these studies amounted to Euros 3,923 thousand (Euros 2,652 thousand in 2014).

The Group companies are not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. The Group companies received no environment-related grants in 2015 or 2014.

28. Other information

KPMG is the main auditor of the annual accounts of the Group companies, except in the case of INELFE, which is audited by PricewaterhouseCoopers.

The total fees accrued for the audit services rendered to the Group companies in 2015 were Euros 245 thousand (Euros 191 thousand in 2014). Fees were also accrued for other assurance services performed by KPMG in Group companies totalling Euros 63 thousand (Euros 45 thousand in 2014).

Furthermore, in 2015 other companies directly or indirectly related to the main auditor accrued fees of Euros 66 thousand for professional advisory services (Euros 57 thousand in 2014).

29. Earnings per share

Details of earnings per share in 2015 and 2014 are as follows:

	2015	2014
Net profit (thousands of Euros)	606,013	717,821
Number of shares	135,270,000	135,270,000
Average number of own shares	333,739	96,171
Basic earnings per share (Euros)	4.49	5.31
Diluted earnings per share (Euros)	4.49	5.31

At 31 December 2015 and 2014 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

30. Share-based payment

Details of share-based payment at 31 December 2015 and 2014 are as follows:

RED ELÉCTRICA GROUP
SHARE-BASED PAYMENT at 31 december 2015 and 2014

	2015			2014		
	Number of shares	Average price (euros)	Amount in thousands of euros	Number of shares	Average price (euros)	Amount in thousands of euros
Management	456	78.88	36	597	60.20	36
Employees	21,285	78.88	1,679	18,379	66.59	1,224
TOTAL	21,741	78.88	1,715	18,976	66.39	1,260

These shares have been valued at the listed price on the delivery date. All shares delivered were approved by the Parent's shareholders at the general meeting, and the related costs incurred have been recognised under personnel expenses in the consolidated income statement.

31. Events after 31 december 2015

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

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

Appendix I

RED ELÉCTRICA GROUP
DETAILS OF INVESTMENTS at 31 December 2015 and 2014

(Expressed in thousands of euros)

Company - Registered office - Principal activity	2015 Percentage ownership (1) Direct	2015 Percentage ownership (1) Indirect	2014 Percentage ownership (1) Direct	2014 Percentage ownership (1) Indirect
Red Eléctrica Corporación S.A., Parent, incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Management of the business Group; rendering of assistance or support services to investees and operation of the property owned by the Company.				
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 network.	100%	-	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - International investments. Rendering of advisory, engineering, and construction services. - Performance of electricity activities outside the Spanish electricity system.	100%	-	100%	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U.(REINTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Rendering of advisory, engineering, construction and telecommunications services.	100%	-	-	-
Red Eléctrica Infraestructuras en Canarias, S.A.U (REINCAN) - Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain). - Construction of energy storage facilities in non-mainland and isolated systems.	100%	-	-	-
Red Eléctrica de España Finance, B.V. (RBV) - Hoogoorddreef 15. Amsterdam (Netherlands). - Financing activities. - Incorporated in 2003 in the Netherlands to issue debt on behalf of the Red Eléctrica Group.	100%	-	100%	-
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	100%	-

(Continued on the next page)

Appendix I

RED ELÉCTRICA GROUP
DETAILS OF INVESTMENTS / Continuation at 31 December 2015 and 2014

(Expressed in thousands of euros)

Company - Registered office - Principal activity	2015 Percentage ownership (1) Direct	2015 Percentage ownership (1) Indirect	2014 Percentage ownership (1) Direct	2014 Percentage ownership (1) Indirect
Redcor Reaseguros, S.A (REDCOR)	100%	-	100%	-
- 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 reinsurance markets.				
Red Eléctrica Andina, S.A. (REA)	-	100% (a)	-	100% (a)
- Av. Alfonso Ugarte N° 536 Cercado. Arequipa (Peru). - Rendering of line and substation maintenance services.				
Red Eléctrica del Sur, S.A. (REDESUR)	-	55% (a)	-	55% (a)
- Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.				
Transmisora Eléctrica del Sur, S.A. (TESUR)	-	55% (d)	-	55% (d)
- Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.				
Transmisora Eléctrica del Sur 2, S.A. (TESUR 2)		66,25% (c)	-	-
- Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.				
Red Eléctrica Chile SpA (RECH)	-	100% (a)		
- Avenida El Golf nº40, piso 20. Comuna de Las Condes, Santiago (Chile). - Acquisition, holding, management and administration of securities.				
B) Proportionately consolidated companies				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE)	-	50% (b)	-	50% (b)
- Tour Initiale, 1 Terrasse Bellini – 92919 Paris La Défense Cedex. Paris (France). - Study and execution of Spain-France interconnections.				

(1) Equivalent to voting rights. (a) Investment through Red Eléctrica Internacional, S.A.U. (b) Investment through Red Eléctrica de España S.A.U. (c) 25% investment through Red Eléctrica Internacional and 75% through REDESUR.
(d) Investment in 2014 through Red Eléctrica Internacional S.A.U. and in 2015 through REDESUR.

Appendix II

RED ELÉCTRICA CORPORACIÓN, S.A.
INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS at 31 December 2015

Board member	Direct or indirect interests help by 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	-	-
Mr. Juan Lasala Bernad	-	-
Mr. Santiago Lanzuela Marina	-	-
Mr. José Luis Feito Higueruela	-	-
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	-	-
Mr. José Ángel Partearroyo Martín	-	-

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 have 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.