

Red Eléctrica Corporación, S.A.

Annual Accounts
31 December 2015

Directors' Report
2015

(With Independent Auditors' Report
Thereon)

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

Independent Auditor's Report on the Annual Accounts

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

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

Report on the Annual Accounts

We have audited the accompanying annual accounts of Red Eléctrica Corporación, S.A. (the "Company"), which comprise the balance sheet at 31 December 2015, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

Directors' Responsibility for the Annual Accounts

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of Red Eléctrica Corporación, S.A. at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein.

Report on Other Legal and Regulatory Requirements

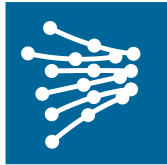
The accompanying directors' report for 2015 contains such explanations as the Directors consider relevant to the situation of the Company, its business performance and other matters, and is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2015. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Company.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Ana Fernández Poderós

24 February 2016



RED
ELÉCTRICA
CORPORACIÓN

ANNUAL ACCOUNTS 2015

This version of our Annual Accounts is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.”

RED ELÉCTRICA CORPORACIÓN, S.A.
BALANCE SHEETS
AT 31 DECEMBER 2015 AND 2014
IN THOUSANDS OF EUROS

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

	31 DECEMBER 2015	31 DECEMBER 2014
NON-CURRENT ASSETS	1,468,037	1,801,540
Property, plant and equipment (note 5)	58,505	59,447
Land and buildings	57,045	56,453
Other installations, machinery, equipment, furniture and other items	866	1,208
Under construction and advances	594	1,786
Investment property (note 6)	2,473	2,517
Land	629	629
Buildings	1,844	1,888
Non-current investments in Group companies and associates	1,400,943	1,674,158
Equity instruments (note 8)	1,232,943	1,080,896
Loans to companies (note 22)	168,000	593,000
Non-current interest on loans to companies (note 22)	-	262
Non-current investments (note 11)	4,448	64,254
Equity instruments	4,435	64,241
Other financial assets	13	13
Deferred tax assets (note 16)	1,668	1,164
CURRENT ASSETS	960,620	502,904
Trade and other receivables (note 12)	825	40,075
Trade receivables from Group companies and associates	4	-
Other receivables	821	84
Current tax assets	-	39,991
Current investments in Group companies and associates (note 22)	959,631	462,557
Loans to companies	959,631	462,557
Current investments (note 12)	12	-
Other financial assets	12	-
Prepayments for current assets	32	34
Cash and cash equivalents	120	238
Cash	120	238
TOTAL ASSETS	2,428,657	2,304,444
EQUITY (note 13)	2,283,244	2,134,597
Capital and reserves	2,268,994	2,126,647
Capital	270,540	270,540
Reserves	1,651,405	1,513,891
(Own shares and equity holdings)	(33,076)	(10,390)
Profit for the year	500,207	465,069
(Interim dividend)	(120,082)	(112,463)
Valuation adjustments	14,250	7,950
NON-CURRENT LIABILITIES	12,131	9,959
Non-current provisions (note 14)	3,320	3,169
Non-current payables (note 15)	16	16
Other liabilities	16	16
Group companies and associates, non-current (note 22)	1,546	1,546
Deferred tax liabilities (note 16)	7,249	5,118
Non-current accruals (note 17)	-	110
CURRENT LIABILITIES	133,282	159,888
Current payables (note 18)	125,209	118,861
Loans and borrowings	13	266
Other current payables	125,196	118,595
Group companies and associates, current (note 22)	1,375	20,576
Trade and other payables (note 19)	6,698	20,451
Other payables	2,483	120
Personnel	253	226
Current tax liabilities	3,778	19,924
Public entities, other	184	181
TOTAL EQUITY AND LIABILITIES	2,428,657	2,304,444

Notes 1 to 30 form an integral part of the accompanying annual accounts

RED ELÉCTRICA CORPORACIÓN, S.A.
INCOME STATEMENTS
FOR 2015 AND 2014
IN THOUSANDS OF EUROS

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

	2015	2014
Revenues (note 21-a)	507,739	471,195
Dividends	481,697	446,947
Group companies and associates	477,131	442,381
Other	4,566	4,566
Finance income on securities and other financial instruments of Group companies and associates	26,042	24,248
Supplies	-	(2)
Raw materials and other consumables used	-	(2)
Other operating income	10,327	10,369
Non-trading and other operating income	10,327	10,369
Personnel expenses (note 21-b)	(3,045)	(2,738)
Salaries and wages	(2,863)	(2,550)
Employee benefits expense	(69)	(54)
Provisions	(113)	(134)
Other operating expenses	(6,713)	(3,471)
External services	(6,112)	(3,038)
Taxes	(601)	(433)
Depreciation and amortisation (notes 5 and 6)	(1,665)	(1,401)
RESULTS FROM OPERATING ACTIVITIES	506,643	473,952
Finance income (note 21-c)	1,256	512
Marketable securities and other financial instruments	1,256	512
Other	1,256	512
Finance costs (note 21-c)	(28)	(38)
Other	(28)	(37)
Provision adjustments	-	(1)
Exchange gains/(losses)	(1)	-
NET FINANCE INCOME	1,227	474
PROFIT BEFORE INCOME TAX	507,870	474,426
Income tax (note 16)	(7,663)	(9,357)
PROFIT FROM CONTINUING OPERATIONS	500,207	465,069
PROFIT FOR THE YEAR	500,207	465,069

Notes 1 to 30 form an integral part of the accompanying annual accounts

RED ELÉCTRICA CORPORACIÓN, S.A.
 STATEMENTS OF TOTAL CHANGES IN EQUITY
 31 DECEMBER 2015 AND 2014
 IN THOUSANDS OF EUROS
 (Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Subscribed capital	Reserves	(Own shares)	Prior years' profit and loss	Profit for the year	(Interim dividend)	Subtotal Equity	Valuation adjustments	Total equity
Balance at 31 December 2013	270,540	1,367,317	(1,707)	-	487,182	(97,867)	2,025,465	4,648	2,030,113
Total recognised income and expense	-	32	-	-	465,069	-	465,101	3,302	468,403
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(343,856)	-	(14,596)	(358,452)	-	(358,452)
Net transactions with own shares	-	3,142	(8,683)	-	-	-	(5,541)	-	(5,541)
Other changes in equity									
Distribution of prior year's profit	-	-	-	487,182	(487,182)	-	-	-	-
2013 profit transferred to reserves	-	143,400	-	(143,326)	-	-	74	-	74
Balance at 31 December 2014	270,540	1,513,891	(10,390)	-	465,069	(112,463)	2,126,647	7,950	2,134,597
Total recognised income and expense	-	(28)	-	-	500,207	-	500,179	6,300	506,479
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(405,687)	-	(7,619)	(413,306)	-	(413,306)
Net transactions with own shares	-	2,890	(22,686)	-	-	-	(19,796)	-	(19,796)
Other changes in equity									
Distribution of prior year's profit	-	-	-	465,069	(465,069)	-	-	-	-
2014 profit transferred to reserves	-	60,245	-	(59,382)	-	-	863	-	863
Other movements in 2015	-	74,407	-	-	-	-	74,407	-	74,407
Balance at 31 December 2015	270,540	1,651,405	(33,076)	-	500,207	(120,082)	2,268,994	14,250	2,283,244

Notes 1 to 30 form an integral part of the accompanying annual accounts

RED ELÉCTRICA CORPORACIÓN, S.A.
STATEMENTS OF RECOGNISED INCOME AND EXPENSE
31 DECEMBER 2015 AND 2014
IN THOUSANDS OF EUROS

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

	<u>2015</u>	<u>2014</u>
Profit for the year	500,207	465,069
	=====	=====
Measurement of financial instruments	8,400	4,486
Cash flow hedges	-	-
Grants, donations and bequests received	-	-
Actuarial gains and losses and other adjustments	(37)	45
Tax effect	(2,091)	(1,197)
	-----	-----
Income and expense recognised directly in equity	6,272	3,334
	=====	=====
Measurement of financial instruments	-	-
Cash flow hedges	-	-
Grants, donations and bequests received	-	-
Tax effect	-	-
	-----	-----
Amounts transferred to the income statement	-	-
	=====	=====
	=====	=====
Total recognised income and expense	506,479	468,403
	=====	=====

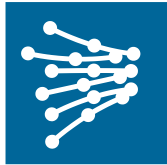
Notes 1 to 30 form an integral part of the accompanying annual accounts

RED ELÉCTRICA CORPORACIÓN, S.A.
STATEMENTS OF CASH FLOWS
AT 31 DECEMBER 2015 AND 2014
IN THOUSANDS OF EUROS

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

STATEMENTS OF CASH FLOWS	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES	439,559	523,902
Profit for the year before tax	507,870	474,426
Adjustments for:	(507,299)	(470,138)
Depreciation and amortisation	1,665	1,401
Change in provisions	113	134
Finance income	(508,995)	(471,707)
Finance costs	28	38
Other income and expense	(110)	(4)
Changes in operating assets and liabilities	(43,342)	77,342
Trade and other receivables	(736)	187
Other current assets	(14)	6
Other current assets – Group companies and associates	(40,170)	76,659
Trade and other payables	(2,422)	490
Other cash flows from operating activities	482,330	442,272
Interest paid	(28)	(36)
Dividends received	481,697	446,947
Interest received	222	13
Income tax (paid) received	439	(4,373)
Other amounts paid/received	-	(279)
CASH FLOWS USED IN INVESTING ACTIVITIES	(14,803)	(174,625)
Payments for investments	(14,803)	(174,639)
Group companies and associates	(5,000)	(169,300)
Property, plant and equipment, intangible assets and investment property	(679)	(5,321)
Other assets	(9,124)	(18)
Proceeds from sale of investments	-	14
Other assets	-	14
CASH FLOWS USED IN FINANCING ACTIVITIES	(424,874)	(349,070)
Proceeds from and payments for equity instruments	(19,796)	(5,541)
Acquisition and sale of own equity instruments	(19,796)	(5,541)
Grants, donations and bequests received	-	-
Contribution of branch of activity	-	-
Proceeds from and payments for financial liability instruments	(253)	253
Bonds and other marketable securities	-	-
Loans and borrowings	(253)	253
Group companies and associates	-	-
Redemption and repayment of borrowings	-	-
Dividends and interest on other equity instruments paid	(404,825)	(343,782)
Dividends	(404,825)	(343,782)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(118)	207
Cash and cash equivalents at beginning of year	238	31
Cash and cash equivalents at year end	120	238

Notes 1 to 30 form an integral part of the accompanying annual accounts



RED
ELÉCTRICA
CORPORACIÓN

Notes to the Annual Accounts 2015

(Free translation from the original in Spanish.
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1. ACTIVITIES OF THE COMPANY

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

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

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) True and fair view

The accompanying annual accounts were authorised for issue by the Company's directors at their board meeting held on 23 February 2016 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2015 and 2014, as well as the results of its operations and changes in equity and cash flows for the years then ended.

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

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

The Company files separate consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) through Regulation (EC) 1606/2002 of the European Parliament and of the Council, and the related interpretations (IFRIC) adopted by the European Union.

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



b) Mandatory accounting principles

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

c) Estimates and assumptions

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

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

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2015 include comparative figures for the prior year, which formed part of the annual accounts for 2014. 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 20.

3. PROPOSED DISTRIBUTION OF PROFITS

The proposed distribution of profit for the year ended 31 December 2015, prepared by the directors and pending approval by the shareholders at the general meeting, is as follows (in thousands of Euros):

Income Statement (Profit)	500,207

Total	500,207
	=====
DISTRIBUTION	
To reserves	66,380
To dividends:	
To interim dividend	120,082
To complementary dividend	313,745

Total remuneration	500,207
	=====



This proposed distribution entails a supplementary dividend of Euros 2.3194 per share, which would result in a total dividend for the year of Euros 3.2100 per share, calculated on the basis of total shares.

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

4. SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting principles used in preparing the accompanying annual accounts are as follows:

a) Property, plant and equipment

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

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

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

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

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

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

	<u>Annual depreciation rate</u>
Buildings	2%-10%
Other installations	4%-25%

b) Investment property

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

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



c) Leases

The Company 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 Company are classified as finance leases. Assets recognised as finance leases are presented in the balance sheet based on the nature of the leased asset.

d) Financial assets

The Company classifies its financial assets into the following categories:

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

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

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

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

In the case of share capital increases by a subsidiary that are fully subscribed through a non-monetary contribution consisting of a portfolio of securities classified under available-for sale financial assets, the Company adopts the response to query 1, published in the Spanish Accounting and Auditing Institute's Official Gazette (BOICAC) no. 77/2009, and any gains or losses arising from changes in the fair value at the date of the non-monetary contribution therefore continue to be recognised in the Company's equity. As provided for in Recognition and Measurement Standard 9.2.5.3. of the Spanish General Chart of Accounts, when an investment was made in a group company, jointly controlled entity or associate before it was classified as such, and valuation



adjustments for the investment were recognised directly in equity prior to this classification, these adjustments shall be maintained after classification, either until disposal or derecognition of the investment, at which point they shall be recognised in the income statement.

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

e) Cash and cash equivalents

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

f) Impairment

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

Recoverable amount is the higher of:

- Fair value less costs to sell
- Value in use

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

g) Equity

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

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, based on the consensus of the board of directors. Supplementary dividends are not deducted from equity until approved by the shareholders at their general meeting.



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

h) Employee benefits

- Pension obligations

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

- Other long-term employee benefits

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

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

i) Provisions

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

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

j) Financial debt

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

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



k) Trade payables

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

l) Income and expenses

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

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

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

m) 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.

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



n) Insurance

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

o) Share-based payments

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

p) Transactions between Group companies

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

5. PROPERTY, PLANT AND EQUIPMENT

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



	31 December <u>2013</u>				31 December <u>2014</u>				31 December <u>2015</u>
	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>		<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>		
Cost									
Land and buildings	66,780	4,545	-	-	71,325	85	-	1,786	73,196
Other installations, machinery, equipment, furniture and other items	14,074	776	-	-	14,850	-	-	-	14,850
Under construction and advances	1,786	-	-	-	1,786	594	-	(1,786)	594
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total cost	82,640	5,321	-	-	87,961	679	-	-	88,640
Accumulated depreciation									
Buildings	(13,689)	(1,183)	-	-	(14,872)	(1,279)	-	-	(16,151)
Other installations, machinery, equipment, furniture and other items	(13,468)	(174)	-	-	(13,642)	(342)	-	-	(13,984)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total accumulated depreciation	(27,157)	(1,357)	-	-	(28,514)	(1,621)	-	-	(30,135)
Impairment of facilities	-	-	-	-	-	-	-	-	-
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Carrying amount	55,483	3,964	-	-	59,447	(942)	-	-	58,505
	=====	=====	=====	=====	=====	=====	=====	=====	=====



Additions to property, plant and equipment in 2015 reflect the expenses incurred in adapting the building in Tres Cantos, acquired from the Madrid regional government in 2014, which were capitalised as an increase in the value of property, plant and equipment.

Additions to property, plant and equipment under construction and advances in 2015 basically comprise work in progress on the property, plant and equipment mentioned above.

Transfers from property, plant and equipment under construction to land and buildings during 2015 comprise buildings.

At 31 December 2015 the Company has fully depreciated property, plant and equipment with a cost of Euros 13,611 thousand (Euros 13,503 thousand in 2014), Euros 12,746 thousand of which are other installations (Euros 12,638 thousand in 2014).

Law 16/2012, which introduced several tax measures to consolidate public finances and boost economic activity, provided for the revaluation of property, plant and equipment and/or investment property using the ratios set forth in this Law, with a credit to a revaluation reserve under equity. According to the Spanish Accounting and Auditing Institute Resolution of 31 January 2013, any revaluation of balances should be recognised in the annual accounts for 2013. Pursuant to this Law, the Company revalued its property, plant and equipment on 1 January 2013, making a single tax payment of 5% of the revalued amount.

The amount resulting from the revaluation, net of the single 5% tax payment, was credited to reserves (see note 16). The balancing entries were recognised under the pertinent revalued asset items, with no changes to the accumulated depreciation recorded at that date (Euros 6,304 thousand under land and buildings; Euros 56 thousand under other installations).

The net increase in value deriving from the revaluation is depreciated over the remaining useful life of the revalued assets. The revaluation has led to an increase of Euros 191 thousand in the depreciation charge for 2015 (Euros 192 thousand in 2014).

6. INVESTMENT PROPERTY

Movement in investment property in 2015 and 2014, in thousands of Euros, is as follows:



	31 December <u>2013</u>			31 December <u>2014</u>			31 December <u>2015</u>		
	<u>Additions</u>	<u>Transfers</u>		<u>Additions</u>	<u>Transfers</u>		<u>Additions</u>	<u>Transfers</u>	
Investment property	2,910	-	-	2,910	-	-			2,910
Total cost	2,910	-	-	2,910	-	-			2,910
Accumulated depreciation	(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.

7. OPERATING LEASES

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

	31 December <u>2015</u>	31 December <u>2015</u>
Cost		
Land and buildings	73,196	66,780
Other installations, machinery, equipment, furniture and other items	14,850	14,074
Total cost	88,046	80,854
Accumulated depreciation		
Buildings	(16,151)	(16,039)
Other installations, machinery, equipment, furniture and other items	(13,984)	(13,774)
Total accumulated depreciation	(30,135)	(29,813)
Carrying amount	=====	=====
	57,911	51,041
	=====	=====

The Company has entered into operating lease agreements with Red Eléctrica de España, S.A.U. (REE), Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) and Red Eléctrica Internacional, S.A.U., (REI) whereby it leases, to these Group companies certain areas inside the buildings it owns.



These agreements are renewed periodically and in 2015 generated income of Euros 9,933 thousand vis-à-vis REE (Euros 10,102 thousand in 2014), Euros 257 thousand vis-à-vis REINTEL and Euros 5 thousand vis-à-vis REI (Euros 215 thousand in 2014).

8. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

At 31 December 2015 and 2014, none of the Group companies in which the Company holds a direct or indirect interest is listed on the stock exchange.

Details of investments in Group companies and associates at 31 December 2015, in thousands of Euros, are as follows:



RED ELÉCTRICA CORPORACIÓN S.A.
Details of investments at 31 December 2015
(Expressed in thousands of Euros)

Company - Registered office - Principal activity	Percentage ownership (1)		Carrying amount	Equity of investees (2)					Profit/(loss) for the year	Operating profit/(loss)	Dividends received
	Direct	Indirect		Subscribed share capital	Share premium	Reserves	Other items				
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%	-	1,014,326	800,006	54,319	557,497	(99,043)	548,198	928,107	476,918	
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%	-	132,640	60,010	72,630	26,872	1,230	3,481	1,391	-	
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%	-	74,417	30,000	44,417	(63)	(787)	18,151	36,048	-	
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) - Juan de Quesada, 9. Las Palmas de Gran Canaria (Spain) - Construction of energy storage facilities in non-mainland and isolated systems.	100%	-	5,000	5,000	-	-	-	(92)	(128)	-	
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%	-	2,000	18	1,982	-	-	214	(155)	213	
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	60	60	-	5,484	-	2,272	(205)	-	
Redcor Reaseguros, S.A (REDCOR) - 26, Rue Louvigny. (Luxembourg). - Reinsurance activities. - Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international reinsurance markets.	100%	-	4,500	4,500	-	-	28,795	5,215	6,417	-	
Red Eléctrica Andina, S.A. (REA) - Av. Alfonso Ugarte Nº 536 Cercado. Arequipa (Peru). - Rendering of line and substation maintenance services.	-	100%(a)	31	34	-	666	-	316	434	-	
Red Eléctrica del Sur, S.A. (REDESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	55%(a)	8,930	11,940	-	9,392	-	3,382	7,259	1,303	
Transmisora Eléctrica del Sur, S.A. (TESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	55%(d)	32,386	35,641	-	(25)	(2,054)	(1,012)	2,338	-	
Transmisora Eléctrica del Sur 2, S.A. (TESUR 2) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	66.25%(c)	4,576	4,593	-	(178)	-	70	(34)	-	
Red Eléctrica Chile, SpA (RECH) - Avenida El Golf nº40, piso 20. Comuna de Las Condes, Santiago (Chile) - Acquisition, holding, management and administration of securities.	-	100%(a)	711	-	-	-	-	(28)	(37)	-	
B) Proportionately consolidated companies											
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Initiale, 1 Terrasse Bellini – 92919 Paris La Défense Cedex. Paris (France). - Study and execution of Spain-France interconnections.	-	50%(b)	1,000	2,000	-	2,445	9,269	2,736	3,970	-	

(1) Equivalent to voting rights.

(2) As per the financial statements harmonised with the Company's accounting criteria and translated to Euros at the closing exchange rate.

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

(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 Red Eléctrica del Sur, S.A.

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



Transmisora Eléctrica del Sur 2, S.A. (TESUR2) was incorporated in 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. (REDESUR).

An agreement was signed in July 2015 for the sale of the shares in Transmisora Eléctrica del Sur, S.A. (TESUR) by REI (55% interest) and AC Capitales (45%) to REDESUR, which is now the sole shareholder of TESUR. REI holds 55% of the shares in REDESUR.

In July 2015, the Company incorporated REINTEL following the spin-off, through a split-off, of the Telecommunications line of business from REI, with retrospective effect from 1 January 2015. The carrying amount of the investment in REINTEL at the date of its incorporation was Euros 74,417 thousand (see note 13).

In 2015, REI increased its capital through a non-monetary contribution valued at Euros 10 thousand, with a share premium of Euros 72,630 thousand. The capital increase was subscribed with the contribution of REC's investment in the share capital of Redes Energéticas Nacionais, SGPS, S.A. (hereinafter REN). The value of the investment at the date of its contribution was Euros 72,640 thousand (see note 11).

In September 2015, the Company 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.

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

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

9. FINANCIAL RISK MANAGEMENT POLICY

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

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

- Risk management should be fundamentally proactive and directed towards the medium and long term, taking into account possible scenarios in an increasingly global environment.



- Risk should generally be managed in accordance with consistent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources required to reduce it.
- Financial risk management should be focused on avoiding undesirable variations in the Company's core value, rather than generating extraordinary profits.

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

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

The main risk to which the Company is exposed is credit risk, as debt transactions are carried out with the other Group companies, which assume the market and liquidity risks. Credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are requested when necessary. At 31 December 2015 the Company does not consider there to be any risk as regards the recoverability of receivables.

In 2014, the Company was exposed to price risk relating to capital investments classified as available for sale in the balance sheet. Investments available for sale on quoted markets basically comprised the 5% interest held by the Company in REN.

In 2015 the Company made a non-monetary contribution consisting of this investment in REN, in order to subscribe a share capital increase through a non-monetary contribution carried out by the Group company REI (see note 11).

10. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by category

At 31 December 2015 and 2014 the carrying amounts of each category of financial instruments, except investments in Group companies, are as follows (in thousands of Euros):



- Financial assets

Financial instruments by category			
31/12/2015			
	<u>Available-for-sale financial assets</u>	<u>Loans and receivables</u>	<u>Total</u>
Loans to Group companies and associates	-	168,000	168,000
Equity instruments	4,435	-	4,435
Other financial assets	-	13	13
	-----	-----	-----
Non-current	4,435	168,013	172,448
	=====	=====	=====
Loans to Group companies and associates	-	959,631	959,631
Other financial assets	-	12	12
Trade and other receivables	-	825	825
	-----	-----	-----
Current	-	960,468	960,468
	=====	=====	=====
Total	4,435	1,128,481	1,132,916
	=====	=====	=====

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



- Financial liabilities

Financial instruments by category
31/12/2015

	<u>Debts and payables</u>
Group companies and associates	1,546
Other financial liabilities	16

Non-current	1,562
	=====
Loans and borrowings	13
Group companies and associates	1,375
Current payables	125,196
Trade and other payables	6,698

Current	133,282
	=====
Total	134,844
	=====

Financial instruments by category
31/12/2014

	<u>Debts and payables</u>
Group companies and associates	1,546
Other financial liabilities	16

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

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



b) Analysis by maturity

- Financial assets

	Maturity of financial assets		
	2016	Subsequent years	Total
Equity instruments	-	4,435	4,435
Loans to Group companies and associates	959,631	168,000	1,127,631
Other financial assets	12	13	25
Trade and other receivables	825	-	825
	-----	-----	-----
	960,468	172,448	1,132,916
	=====	=====	=====

- Financial liabilities

	Maturity of financial liabilities		
	2016	Subsequent years	Total
Loans and borrowings	13	-	13
Group companies and associates	1,375	1,546	2,921
Trade and other payables	131,894	-	131,894
Other financial liabilities	-	16	16
	-----	-----	-----
	133,282	1,562	134,844
	=====	=====	=====

11. NON-CURRENT INVESTMENTS

Details of non-current investments at 31 December 2015 and 2014 are as follows (in thousands of Euros):

	31 December 2015	31 December 2014
Equity instruments	4,435	64,241
Other financial assets	13	13
	-----	-----
	4,448	64,254
	=====	=====

Equity instruments in 2015 reflect the Euros 4,435 thousand investment (Euros 8 in 2014) in 11 economic interest groups (EIGs) engaged in the lease of assets managed by an unrelated company, which retains most of the rewards and risks of the activity, while the Company only avails of the tax incentives regulated in Spanish legislation. The Company recognises the finance income generated due



to the difference between income tax payable to the taxation authorities in respect of recognised tax losses incurred by the EIGs and the investments in those EIGs (see notes 16 and 21-c).

Furthermore, in 2014 investments in equity instruments classified as available for sale comprised the 5% interest held by the Company in REN, a holding company that encompasses the operation and use of electricity transmission assets and various gas infrastructure in Portugal. The value of this investment is subject to the listed share price (Euros 2.406 per share at 31 December 2014).

In 2015 the Company made a non-monetary contribution consisting of this investment in REN, in order to subscribe a share capital increase through a non-monetary contribution carried out by the Group company REI. The value of the investment at the date of its contribution was Euros 72,640 thousand.

12. TRADE AND OTHER RECEIVABLES

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

	31 December <u>2015</u>	31 December <u>2014</u>
Trade receivables from Group companies and associa	4	-
Other receivables	821	84
Public entities, other	-	39,991
	-----	-----
	825	40,075
	=====	=====

Other receivables in 2015 essentially reflect the outstanding amount in connection with the own shares sold in 2015.

Public entities, other in 2014 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. These balances were settled in 2015.

13. EQUITY

a) 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 Company can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.



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

b) Capital and reserves

- Capital

At 31 December 2015 and 2014 the Company's share capital is represented by 135,270,000 bearer shares with a par value of Euros 2 each, subscribed and fully paid, and carrying the same voting and profit-sharing rights. The Company's shares are quoted on the four Spanish stock exchanges.

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

Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of the Electricity 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).

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

In accordance with Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, the Company revalued its property, plant and equipment. The associated revaluation reserve amounted to Euros 6,042 thousand, net of the 5% capital gains tax. There were no movements in the revaluation reserve during 2015.

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



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

- **Other reserves**

Other reserves primarily include voluntary reserves of the Company and first-time application reserves, amounting to Euros 1,232,316 thousand and Euros 19,895 thousand, respectively, at 31 December 2015 (Euros 1,169,209 thousand and Euros 19,895 thousand, respectively, at 31 December 2014). Both of these reserves are freely distributable.

At 31 December 2015 and 2014 this item also comprises statutory reserves totalling Euros 264,546 thousand, notably including the property, plant and equipment revaluation reserve amounting to Euros 247,022 thousand created by the Parent in 1996. This reserve may be used, free of taxation, to offset accounting losses and increase share capital or, ten years after its creation, it may be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996.

Moreover, following the spin-off of the Telecommunications activity from REI to REINTEL, through a split-off, a reserve was generated in an amount of Euros 74,407 thousand in 2015, reflecting the difference between the value of the net assets spun off to REINTEL (Euros 74,417 thousand) and the value of the Company's investment in this business through REI.

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 16).

- **Own shares**

At 31 December 2015 the Company 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 (in 2014, 147,203 shares representing 0.11% of 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 Company has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The Group subsidiaries do not hold own shares or shares in the Company.

- **Profit for the year**

Profit for the year totals Euros 500,207 thousand (Euros 465,069 thousand in 2014).

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

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

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



The cash flow forecast for the period from 30 November 2015 to 4 January 2016 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

<u>Liquidity statement</u>	Thousands of Euros
Available funds at 30/11/15:	
Non-current credit facilities available	-
Current credit facilities available	50,000
Current investments and cash	237
Forecast collections:	
Current transactions	2,604
Financial transactions	131,618
Forecast payments:	
Current transactions	(30,564)
Financial transactions	(2,100)

Forecast available funds at 04/01/16	151,795
	=====

Based on the cash flow forecast at the approval date, no limitation on the availability of funds was or is expected to arise. Furthermore, as reflected in the accompanying annual accounts, and as foreseen at the distribution date, profit for 2015 allows for the distribution of this interim dividend.

c) Valuation adjustments

At 31 December 2015 this item reflects valuation adjustments to available-for-sale financial assets due to fluctuations in the listed share price of the 5% investment held by the Company in REN until the subscription of the capital increase, with a non-monetary contribution from the Group company REI (see note 11). At 31 December 2014 the valuation adjustments to available-for-sale financial assets were due to fluctuations in the listed share price during the year.

14. PROVISIONS

Movement in 2015 and 2014, in thousands of Euros, is as follows:

	31 December 2013	Additions	Applications	Actuarial gains and losses	Reversals	31 December 2014	Additions	Applications	Actuarial gains and losses	Reversals	31 December 2015
Provisions for employee benefits	356	135	(278)	(44)	-	169	113	-	38	-	320
Other provisions	3,000	-	-	-	-	3,000	-	-	-	-	3,000
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	3,356	135	(278)	(44)	-	3,169	113	-	38	-	3,320
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====



Provisions for employee benefits include future commitments (medical insurance) undertaken by the Company on behalf of its employees for their retirement, calculated based on actuarial studies. The following assumptions were used for 2015 and 2014:

	Actuarial assumptions	
	2015	2014
Discount rate	2.33%	2.06%
Cost increase	3.00%	4.00%
Mortality table	PERM/F 2000 new production	PERM/F 2000 new production

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

	<u>+1%</u>	<u>-1%</u>
Current service cost	1	(1)
Interest cost of net post-employment medical costs	-	-
Accumulated post-employment benefit obligation for medical insurance	24	(17)

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:

	<u>Discount rate</u>		<u>Sensitivity</u>
	<u>2.33%</u>	<u>1.83%</u>	
Current service cost	3.8	4.4	0.6
Interest cost of net post-employment medical costs	0.5	0.5	-
Accumulated post-employment benefit obligation for medical insurance	59	70	11

The accrued amounts are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2015 amount to Euros 3.8 thousand and Euros 0.5 thousand, respectively (Euros 0.8 thousand and Euros 1.2 thousand, respectively, in 2014). Any variations in the calculation of the present value of these obligations due to actuarial gains and losses are recognised in equity as reserves. In 2015 reserves of Euros 38 thousand were recognised in equity in this respect (Euros -44 thousand in 2014).

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



15. NON-CURRENT PAYABLES

At 31 December 2015 non-current payables comprise non-current security deposits received amounting to Euros 16 thousand (Euros 16 thousand in 2014).

16. TAXATION

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

a) Reconciliation of accounting profit and taxable income

Due to the treatment permitted by fiscal legislation of certain transactions, accounting profit differs from taxable income. A reconciliation of accounting profit for 2015 and 2014 with the taxable income that the Company expects to declare after approval of the annual accounts is as follows (in thousands of Euros):

	<u>2015</u>	<u>2014</u>
Accounting profit for the year before tax	507,870	474,426
Permanent differences	(480,561)	198
	-----	-----
Taxable accounting income	27,309	474,624
Temporary differences:		
Originating in current year	1,756	112
Reversals of prior years	173	226
	-----	-----
	1,929	338
EIG charges	(34,798)	(18,470)
	-----	-----
Taxable income/(Tax loss)	(5,560)	456,492
	=====	=====

Permanent differences primarily relate to dividends from REE in 2015 and dividends from entities domiciled outside Spain in 2014.

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.

b) Effective rate of income tax and reconciliation of accounting profit with the income tax expense

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



	<u>2015</u>	<u>2014</u>
Accounting profit for the year before tax	507,870	474,426
Permanent differences	(480,561)	198
	-----	-----
Taxable accounting income	27,309	474,624
Tax rate	28%	30%
Tax resulting from applicable tax rate	7,647	142,387
Deductions	(59)	(132,731)
	-----	-----
Expense for the year	7,588	9,656
Foreign income tax	1	9
Income due to changes in tax rate (Law 27/2014)	-	(483)
Expense due to changes in tax rate (Law 27/2014)	74	175
	=====	=====
Income tax	7,663	9,357
	=====	=====
Effective tax rate	1.51%	1.97%
Current income tax	8,127	9,766
Deferred income tax	(538)	(101)
Expense due to changes in tax rate (Law 27/2014)	74	(308)
	=====	=====
Income tax	7,663	9,357
	=====	=====

The effective rate of income tax is influenced by permanent differences, deductions and changes in the rate of tax. The difference between the effective tax rate and the actual tax rate is primarily due to application of the corresponding method to prevent double taxation of dividends from interests in resident entities.

As a result of the new treatment of double taxation stipulated in Income Tax Law 27/2014 of 27 November 2014, in 2015 dividends from interests in resident entities are reflected as permanent differences, while in 2014 they were recorded as deductions. The accounting effect on the income tax expense is the same in both cases.

The decrease in the effective income tax rate in 2015 compared to 2014 is primarily due to the reduction in the tax rate.

Permanent differences in 2015 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 (see note 13).

Deductions in 2015 comprise those for international double taxation.



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 an income tax expense for accounting purposes of Euros 74 thousand in 2015 (accounting income of Euros 308 thousand in 2014) due to the revision of the deferred tax assets and liabilities recognised by the Company based on the new tax rates.

In 2014, the Company 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.

c) Deferred tax assets and liabilities

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



	2015		2014	
	Income statement	Recognised income and expense	Income statement	Recognised income and expense
Deferred tax assets				
Originating in prior years	1,168	(4)	1,219	9
Originating in current year	592	8	141	-
Reversals of prior years	(33)	-	(17)	(12)
	-----	-----	-----	-----
	559	8	124	(12)
Adjustments due to change in tax rate (Law 27/2014)	(63)	-	(175)	(1)
	-----	-----	-----	-----
	1,664	4	1,168	(4)
	=====	=====	=====	=====
Deferred tax liabilities				
Originating in prior years	(2,469)	(2,649)	(2,930)	(1,465)
Originating in current year	(100)	(2,099)	(107)	(1,714)
Reversals of prior years	79	-	85	-
	-----	-----	-----	-----
	(21)	(2,099)	(22)	(1,714)
Adjustments due to change in tax rate (Law 27/2014)	(11)	-	483	530
	-----	-----	-----	-----
	(2,501)	(4,748)	(2,469)	(2,649)
	=====	=====	=====	=====

In 2015, deferred tax assets primarily comprise provisions that are not deductible in the year and 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 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.

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

The notes to the Company's annual accounts for 2006 contain disclosures on the merger by absorption of Red de Alta Tensión, S.A.U. (REDALTA) and Infraestructuras de Alta Tensión S.A.U. (INALTA), as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts include disclosures on the contribution to Red Eléctrica de España, S.A.U. of the branch of activities encompassing the duties of the system operator, transmission network manager and transmission agent of the Spanish electricity system.



In 2015, based on the closed balance sheet of REI at 31 December 2014, REI spun off the telecommunications services business to the new company REINTEL. As the sole shareholder of REI, the Company received 100% of the shares in REINTEL. This transaction was conducted under the special tax regime of Chapter VII, Title VII of Law 27/2014 of 27 November 2014 (see note 8).

In addition, in 2015, the Company subscribed the capital increase carried out by REI, by making a non-monetary contribution of the shares in REN. This transaction was conducted under the special tax regime of Chapter VII, Title VII of Income Tax Law 27/2014 of 27 November 2014. As a result of the transaction, REI has assumed responsibility for compliance with the requirements to continue availing of the tax benefits that had yet to be applied by the Company at the date of the transaction and to consolidate the benefits received by the Company (see note 11).

d) Years open to inspection

The Company has open to inspection by the taxation authorities the main applicable taxes for the last four years.

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, the Company's board of directors does not expect that any additional liabilities that could arise in the event of inspection would significantly affect the Company's future results.

17. NON-CURRENT ACCRUALS

At 31 December 2014, non-current accruals included amounts accrued for long-term leases of premises, totalling Euros 110 thousand. At 31 December 2015 the leases have been cancelled and the related impact recognised in the income statement.

18. CURRENT PAYABLES

Details at 31 December 2015 and 2014 are as follows:

	31 December <u>2015</u>	31 December <u>2014</u>
Loans and borrowings	13	266
Other current payables	125,196	118,595
	-----	-----
	125,209	118,861
	=====	=====

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



	31 December <u>2015</u>	31 December <u>2014</u>
Dividends	120,082	112,463
Suppliers of fixed assets and other payables	5,114	6,132
	-----	-----
	125,196	118,595
	=====	=====

19. TRADE AND OTHER PAYABLES

Details at 31 December 2015 and 2014 are as follows:

	31 December <u>2015</u>	31 December <u>2014</u>
Other payables	2,483	120
Personnel	253	226
Public entities	3,962	20,105
	-----	-----
	6,698	20,451
	=====	=====

Public entities include Euros 3,778 thousand at 31 December 2015 (Euros 19,924 thousand in 2014), reflecting the income tax payable recognised by the Company, as parent of the tax group.

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

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.

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:



	<u>2015</u> <u>Days</u>
Average supplier payment period	37.8
Transactions paid ratio	38.3
Transactions payable ratio	21.1

	<u>2015</u> <u>Thousands of</u>
Total payments made	3,293
Total payments outstanding	85

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.

21. INCOME AND EXPENSES

a) Revenues

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

	31 December <u>2015</u>	31 December <u>2014</u>
Finance income on investments in equity instruments of Group companies and associates	477,131	442,381
Finance income on investments in equity instruments of third parties	4,566	4,566
Finance income on securities and other financial instruments of Group companies and associates	26,042	24,248
	-----	-----
	507,739	471,195
	=====	=====

At 31 December 2015 and 2014 finance income on investments in equity instruments of Group companies and associates reflects the dividends received from REE and RBV.



At 31 December 2015 and 2014 finance income on investments in equity instruments of third parties reflects the dividends received from REN (see note 11).

At 31 December 2015 and 2014 finance income on securities and other financial instruments of Group companies and associates comprises income from loan contracts entered into with REE and REINTEL (REE and REI in 2014), as well as the credit facilities arranged with these Group companies (see note 22).

b) Personnel expenses

In 2015 and 2014 this item comprises the following (in thousands of Euros):

	31 December <u>2015</u>	31 December <u>2014</u>
Salaries and wages	2,863	2,550
Social Security	62	51
Contributions to pension funds and similar obligations	7	3
Other items and employee benefits	113	134
	-----	-----
	3,045	2,738
	=====	=====

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

Workforce

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

	31 December <u>2015</u>	31 December <u>2014</u>
Executive chairman	1	1
Managing director	-	-
Senior technicians	1	1
Technicians	-	-
Specialist and administrative staff	3	2
	-----	-----
	5	4
	=====	=====

This distribution of the Company's employees at 31 December 2015 and 2014, by gender and category, is as follows:



	2015			2014		
	Male	Female	Total	Male	Female	Total
Executive chairman	1	-	1	1	-	1
Managing director	1	-	1	-	-	-
Senior technicians	-	1	1	-	1	1
Specialist and administrative staff	-	4	4	-	2	2
	-----	-----	-----	-----	-----	-----
	2	5	7	1	3	4
	====	====	====	====	====	====

In July 2015, the Company's board of directors 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).

c) Finance income and costs

In 2015 and 2014 finance income essentially includes income from the investment in the EIGs (see note 11).

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

Balances and transactions with Group companies and associates

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

Details of receivables from and payables to Group companies and associates in 2015 and 2014 are as follows (in thousands of Euros):

	2015		2014	
	Loans and dividends	Payables	Loans and dividends	Payables
Red Eléctrica de España, S.A.U. (REE)	952,434	1,509	796,377	8,478
Red Eléctrica Internacional, S.A.U. (REI)	4	1,367	259,372	13,644
Red Eléctrica Financiaciones, S.A.U. (REF)	124	-	70	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	175,073	30	-	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	-	15	-	-
	-----	-----	-----	-----
Total Group companies	1,127,635	2,921	1,055,819	22,122
	=====	=====	=====	=====



Loans and dividends receivable from REE primarily include the Euros 425 million loan arranged with that company on 1 July 2011, of which Euros 425 million had been drawn down at 31 December 2015 (Euros 425 million at 31 December 2014). The loan falls due in 2016 and the average interest rate for the period was 4.01% (4.01% in 2014). This item also includes the current credit facility arranged with REE for an amount of Euros 650 million (Euros 650 million in 2014). Euros 513,038 thousand had been drawn down at 31 December 2015 (Euros 362,145 thousand at 31 December 2014). The average interest rate for the period was 0.67% (1.66% in 2014).

Loans and dividends receivable from REINTEL primarily include the Euros 168 million loan arranged with REI in 2014, which was assumed by REINTEL on 1 July 2015 (see note 8). The loan falls due in 2022 and the average interest rate for the period was 3.80%.

In 2014, this item included the current credit facility arranged with REI in 2014 for an amount of Euros 100 million, of which Euros 91,077 thousand had been drawn down at 31 December 2014. The average interest rate for the period was 0.88%.

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

	2015				2014			
	Other operating income	Finance income	Other expenses	Finance costs	Other operating income	Finance income	Other expenses	Finance costs
Red Eléctrica de España, S.A.U. (REE)	9,933	496,385	1,080	-	10,102	465,421	1,091	-
Red Eléctrica Internacional S.A. (REI)	9	-	-	-	215	577	-	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	257	6,575	-	-	-	-	-	-
Red Eléctrica de España Finance, B.V. (RBV)	-	213	-	-	-	631	-	-
Total Group companies	10,199	503,173	1,080	-	10,317	466,629	1,091	-

At 31 December 2015 and 2014 other operating income from REE, REINTEL and REI mainly derives from the property lease agreements entered into with these companies.

In 2015 and 2014 finance income primarily reflects the dividends received from REE and RBV, and interest earned on the loans and credit facilities extended to REE and REINTEL (REE and REI in 2014).

Related party balances and transactions

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



	2015				2014			
	<u>Significant</u> <u>shareholders</u>	<u>Management</u>	<u>Other</u> <u>related</u> <u>parties</u>	<u>Total</u>	<u>Significant</u> <u>shareholders</u>	<u>Management</u>	<u>Other</u> <u>related</u> <u>parties</u>	<u>Total</u>
Management or cooperation agreements	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-	-	-
	====	====	====	====	====	====	====	====
Dividends received	-	-	-	-	-	-	4,566	4,566
Other income	-	-	2	2	-	-	27	27
Total income	-	-	2	2	-	-	4,593	4,593
	====	====	====	====	====	====	====	====
Dividends and other allocated benefits	-	-	-	-	-	-	-	-
Other transactions	-	-	-	-	-	-	-	-
Total other transactions	-	-	-	-	-	-	-	-
	====	====	====	====	====	====	====	====

The dividends received in 2014 were from REN. As of 2015, REN is no longer a related party.

23. 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:

	<u>2015</u>	<u>2014</u>
Remuneration:		
Fixed remuneration	1,973	1,804
Variable remuneration	207	200
Allowances	186	175
Committee work	257	208
Other remuneration	30	-
	-----	-----
Total remuneration	2,653	2,387
	=====	=====

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:

	<u>2015</u>	<u>2014</u>
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:

	<u>Fixed</u>	<u>Variable</u>	<u>Allowances</u>	<u>Committee</u>	<u>Chairperson</u>	<u>Other</u>	<u>Total 2015</u>	<u>Total 2014</u>
	<u>remuneration</u>	<u>remuneration</u>	<u>for attending</u>	<u>work</u>	<u>of committee</u>	<u>remuneration</u>		
			<u>board</u>		<u>or board and</u>			
			<u>meetings</u>		<u>coordinating</u>			
					<u>independent</u>			
					<u>director</u>			
						<u>remuneration</u>		
						<u>(4)</u>		
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 Angeles 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 Fernandez 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. Jose Luis Feito Higuera	115	0	16	16	8	0	155	0
Mr. Jose Angel Partearroyo Martin ⁽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 Company 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 I, based on the information received from the Company's directors.

24. MANAGEMENT REMUNERATION

The Company has no management personnel besides the executive director and the managing director.

25. SEGMENT REPORTING

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

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

The Company, together with REE, has jointly and severally guaranteed the private issue in the United States, 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.

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 Company has extended bank guarantees to third parties in an amount of Euros 57 thousand (Euros 323 thousand in 2014).



27. ENVIRONMENTAL INFORMATION

At 31 December 2015 and 2014 the Company has no assets for the protection and improvement of the environment, nor has it incurred any environmental costs during the year.

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

28. OTHER INFORMATION

KPMG Auditores, S.L. is the auditor of the Company's annual accounts for 2015 and 2014. The total fee accrued for audit services rendered to the Company in 2015 is Euros 77 thousand (Euros 42 thousand in 2014). Furthermore, in 2015 other companies directly or indirectly related to the auditor accrued fees of Euros 15 thousand for audit-related services (Euros 0 thousand in 2014).

29. SHARE-BASED PAYMENT

In 2015, a total of 152 shares were delivered (199 shares in 2014) with a fair value of Euros 78.88 (Euros 60.20 in 2014), resulting in an expense for the year of Euros 12 thousand (Euros 12 thousand in 2014). This remuneration was measured based on the closing quotation of these Company shares.

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

30. EVENTS AFTER 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

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

Board member	Direct or indirect interests held by the directors and their related parties in the share capital of companies with identical, similar or complementary statutory activities to that of the Company	Positions and duties of the members of the board of directors at companies outside the Red Eléctrica Group with identical, similar or complementary statutory activities to that of the Company
Mr. José Folgado Blanco	-----	-----
Mr. Juan Lasala Bernad	-----	-----
Mr. Santiago Lanzuela Marina	-----	-----
Mr. José Luis Feito Higuera	-----	-----
Mr. Fernando Fernández Méndez de Andrés	-----	-----
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.



RED
ELÉCTRICA
CORPORACIÓN

Directors' Report **2015**

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



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1. BUSINESS PERFORMANCE. MOST SIGNIFICANT EVENTS

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

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

2. KEY FINANCIAL INDICATORS

In 2015, profit after tax amounted to Euros 500.2 million, an increase of 7.6% on the prior year. This profit included:

- Revenue of Euros 507.7 million. This figure reflects Euros 481.7 million corresponding to dividends from Group companies and investees, given that one of the Company's activities as Parent of the Group is holding shares in Group companies.
- EBITDA amounted to Euros 508.3 million, up 6.9% on 2014.
- EBIT was Euros 506.6 million, climbing 6.9% compared to 2014.

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

REC's equity totalled Euros 2,283.2 million.

3. STOCK MARKET PERFORMANCE AND SHAREHOLDER RETURNS

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

At 31 December 2015, the share capital of REC amounted to Euros 270.5 million and was represented by 135,270,000 shares with a par value of Euros 2 each, subscribed and fully paid. During 2015 there were no changes that affected the number of outstanding shares or their par value.

In 2015 REC's free float was 80%.

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



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

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

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

In total, 248.2 million shares were traded in 2015, which is 1.84 times the Company's share capital. In cash terms, Euros 18,537 million was traded in 2015, up 22.1% on the Euros 15,184 million traded in the prior year.

4. OWN SHARES

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

At 31 December 2015 the Company held 437,187 own shares, representing 0.32% of its share capital. These shares had an overall par value of Euros 874 thousand (see note 13 to the accompanying annual accounts) and a market value of Euros 33.7 million.

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

5. RISK MANAGEMENT

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



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

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

6. ENVIRONMENTAL ISSUES

At 31 December 2015, REC has no assets for the protection and improvement of the environment. In 2015 the Company incurred no expenses in protecting and improving the environment.

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

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

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

8. EXCELLENCE AND CORPORATE RESPONSIBILITY

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

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

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

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

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

The excellence management system is in turn based on a process management approach. In 2015, an alignment matrix was prepared for the purpose of linking key actions from the 2014-2019 Strategic Plan with key processes. All information relating to processes has also been updated in



the PROC IT tool. A key part of the management monitoring system in the year was the sixth edition of the internal customer satisfaction survey, which measures satisfaction with processes and services.

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

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

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

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to the annual accounts on average payment periods to suppliers in commercial transactions, the average payment period to suppliers was 37.8 days at the 2015 year end.

The disclosures required by this resolution are contained in note 20 to the Company's annual accounts for 2015.

10. SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD

No significant circumstances have arisen after 31 December 2015.

11. DIVIDEND POLICY

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

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

Based on the projections and estimates contained in the Group's Strategic Plan for 2014-2019, the dividend could grow at a rate of approximately 7%. This increase is considered as the average



annual rate for the period covered by the Strategic Plan, on the basis of the total dividend approved with a charge to 2014. This forecast is subject to fulfilment of the Plan.

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

12. OUTLOOK

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

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

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

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

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

13. ANNUAL CORPORATE GOVERNANCE REPORT

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

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

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

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



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