

RED
ELÉCTRICA
CORPORACIÓN

Financial results

January - September 2014

Profit for the first nine months of 2014 rose 6.5% year-on-year to reach €415 million.

EBITDA totalled €1,017 million, up 5.8% year-on-year.

The Red Eléctrica Group invested a total of €368 million in the period, of which €345 million was earmarked for development of the national transmission grid.

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1. Red Eléctrica: Financial highlights

Income statement

(in thousand of euros)	January - September			July - September		
	2014	2013	Δ %	2014	2013	Δ %
Net revenue	1,374,318	1,302,210	5.5	447,846	445,847	0.4
Gross operating result (EBITDA)	1,016,884	961,099	5.8	322,215	315,858	2.0
Net operating result (EBIT)	702,016	660,137	6.3	216,723	215,117	0.7
Profit before taxes	593,380	531,783	11.6	178,478	169,509	5.3
Profit for the period	414,763	389,441	6.5	124,791	117,466	6.2

Balance sheet

(in thousands of euros)	September 2014	December 2013	Δ %
Non-current assets	8,676,600	8,614,471	0.7
Equity	2,375,781	2,224,648	6.8
Net financial debt*	4,950,664	4,541,198	9.0

(*) Includes exchange rate derivatives.

Other financial figures

(in thousands of euros)	January - September		
	2014	2013	Δ %
Operating cash flow after taxes	847,817	760,465	11.5
Investments	367,821	379,489	(3.1)
Dividends paid	343,782	319,031	7.8



2. Earnings performance

Revenue for the first nine months of 2014 amounted to €1,374.3 million, up 5.5% year-on-year. Transmission revenue in Spain climbed 4.0% in respect of September 2013, and included income from facilities started up in 2013. Income from the provision of system operation services amounted to €42.0 million, up 40.7% on the previous year in accordance with the remuneration of the system operator set out in the 2014 Tariff Order.

Turning to operating expenses:

- **Supply costs and other operating expenses** grew at a rate of 2.3% up to October, reflecting the seasonal nature of the scheduled maintenance work. Nevertheless, this expense item was down 7.7% on the third quarter of 2013.
- **Personnel expenses** rose by 4.4% compared with the same period of the previous year.

Final headcount was 1,738 employees at 30 September 2014, while average headcount stood at 1,742 employees, up 1.8% year-on-year.

Our **gross operating result (EBITDA)** was €1,016.9 million, representing year-on-year growth of 5.8%, with an EBITDA margin over turnover of 74.0%, similar to the figure at 30 September 2013.

Operating expenses

(in thousands of euros)	January - September			July - September		
	2014	2013	Δ %	2014	2013	Δ %
Supplies and other operating expenses	275,291	269,021	2.3	97,115	105,232	(7.7)
Personnel expenses	97,990	93,873	4.4	32,814	31,462	4.3
Operating expenses	373,281	362,894	2.9	129,929	136,694	(4.9)

Net operating result (EBIT) came in at €702.0 million, up 6.3% year-on-year, due to a 4.5% increase in amortisation and depreciation of non-current assets, which was outpaced by the growth in EBITDA.

Net financial result in like-for-like terms stood at -€108.6 million, compared to -€128.8 million in the same period of the previous year. This improvement is chiefly a result of the drop in finance costs due to a lower average gross debt balance and a lower average interest rate. The 2013 financial result included €3.2 million from valuing the company's existing stake in Redesur at fair value.

Lastly, **profit for the period** rose 6.5% compared to the same period of 2013. The effective tax rate stood at 29.9%. The tax rate in the first nine months of 2013 was 26.7%, mainly due to the application of Law 16/2012, which permitted an asset revaluation.



3. Cash flow and balance sheet performance

Cash flows

(in thousands of euros)	January - September		
	2014	2013	Δ %
Profit before taxes	593,380	531,783	11.6
Taxes paid on earnings	(56,983)	(67,439)	(15.5)
Provision for amortisation/depreciation of non-current assets	324,919	311,065	4.5
Other adjustments	(13,499)	(14,944)	(9.7)
After-tax cash flows from operations	847,817	760,465	11.5
Changes to working capital	(421,280)	69,946	-
Changes to other non-current assets and liabilities	19,719	14,460	36.4
Changes to suppliers of PP&E	(140,289)	(72,569)	93.3
Investment	(367,821)	(379,489)	(3.1)
Free cash flow	(61,854)	392,813	-
Dividends paid	(343,782)	(319,031)	7.8
Variation in net financial debt (*)	405,636	(73,782)	-

(*) The difference between this figure and the change in Net Financial Debt shown on page 2 is due to items that do not involve cash movements.

Operating cash flow after taxes amounted to €847.8 million, a 11.5% increase on the same period in the previous year.

Working capital was down €421.3 million, largely due to factors at the end of 2013, which, as explained in previous reports, included settlement of a pending VAT payment and the settlement for December, and the tariff imbalances of the Spanish electricity system up to September, which are expected to reverse in future settlements. Changes in other non-current items and in suppliers of property, plant and equipment resulted in a net cash outflow of €120.6 million.

Group **investment** up to October 2014 totalled €367.8 million, down 3.1% on the same period of 2013, with investment in developing the Spanish transmission grid accounting for €345.1 million of the total.

Dividends paid at 30 September 2014 totalled €343.8 million, up 7.8% on the dividend paid at 30 September 2013.

As a result, **net financial debt** climbed €405.6 million to reach €4,950.7 million at 30 September 2014, in line with forecasts, compared to €4,541.2 million at 31 December 2013.

**Net financial debt (*)**

(in thousands of euros)	National currency	Foreign currency	Total
Cash and cash equivalents	(201,313)	(1,941)	(203,254)
Long-term debenture bonds (*)	3,322,335	-	3,322,335
Long-term loans	1,582,950	56,577	1,639,527
Promissory notes and current loans	192,056	-	192,056
Total net financial debt	4,896,028	54,636	4,950,664

(*) Debt classified by transaction source.

Of the Group's net debt, 86% is fixed rate while 14% is floating rate.

In the first nine months of 2014, the average cost of Group debt was 3.56%. Average gross debt stood at €4,938.9 million. In the same period of the previous year, the average cost of debt was 3.93% while the average gross debt was €5,260.8 million.

At 30 September 2014, the Red Eléctrica Group's equity totalled €2,375.8 million, up €151.1 million compared to year-end 2013, largely on the back of earnings for the first nine months of the year.

4. Relevant events during the quarter

- On 22 October 2014 has been published a Bolivian Supreme Decree related to the nationalization of the company Transportadora de Electricidad, TDE, which occurred on 1 May 2012.

The aforementioned Supreme Decree set the value of the shares of the nationalized company TDE at about US\$65 million. The approval of the Supreme Decree forms part of the process to reach a negotiated solution. As of today, no payment has been made, and the definitive agreement has not been signed by the involved parties.

In any case, to determine the compensation payment, about 30 million dollars, originating from the cancellation of the obligations contracted by Red Eléctrica with TDE, which are duly registered on Red Eléctrica Group's balance sheet, should be deducted from the abovementioned value (65 million dollars) established for the shares.

- On 13 October, **Mr. Juan Iranzo Martín** tendered his resignation as independent board member of Red Eléctrica Corporación, S.A.
- On 7 October, the Red Eléctrica Group arranged a **new long-term credit line** for the sum of 800 million euros and with a term of five years, which can be extended by a further two years. The cost of the line is Euribor plus 0.6%. The new financing will be used to meet corporate needs and to replace the existing syndicated loan due to mature in July 2016. This transaction marks a further step forward in the company's strategy of adapting its financial structure to the new regulatory environment.
- On 19 September 2014, the ratings agency **Standard & Poor's** issued a new report on Red Eléctrica, maintaining its long-term credit rating at BBB and its short-term rating at A-2, while reiterating its positive outlook for the company.



- At the Board meeting of Red Eléctrica Corporación, S.A. held on 29 July 2014, **Mr. Santiago Lanzuela Marina** was appointed, by co-optation, nominee director of Red Eléctrica Corporación, S.A. on behalf of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI), this until the next General Shareholders Meeting is held to fill the empty seat on the Board of Directors left by the resignation of **José Angel Partearroyo Martín**, as nominee director, which was accepted by the Board of Directors at the same meeting.



Red Eléctrica Group

Consolidated income statement

(in thousands of euros)	30/09/2014	30/09/2013	2014/2013
Revenue	1,374,318	1,302,210	5.5%
Own work capitalised	12,975	12,380	4.8%
Supply costs	(49,744)	(40,428)	23.0%
Other operating income	2,872	9,403	(69.5%)
Personnel expenses	(97,990)	(93,873)	4.4%
Other operating expenses	(225,547)	(228,593)	(1.3%)
Gross Operating Result (EBITDA)	1,016,884	961,099	5.8%
Amortisation/depreciation of non-current assets	(324,919)	(311,065)	4.5%
Release of grants related to non-financial assets	10,051	9,891	1.6%
Impairment of and gains/(losses) on disposals of fixed assets	-	212	-
Net Operating Result (EBIT)	702,016	660,137	6.3%
Finance income	10,256	12,102	(15.3%)
Finance costs	(118,853)	(144,224)	(17.6%)
Exchange differences	(39)	138	-
Impairment of and gains/losses on disposal of financial instruments	-	3,219	-
Financial result	(108,636)	(128,765)	(15.6%)
Results of companies accounted for using the equity method	-	411	-
Profit before tax	593,380	531,783	11.6%
Income tax expense	(177,665)	(141,918)	25.2%
Consolidated profit for the period	415,715	389,865	6.6%
A) Consolidated profit attributable to the parent company	414,763	389,441	6.5%
B) Consolidated profit attributable to non-controlling interests	952	424	-



Red Eléctrica Group Condensed consolidated balance sheet

(in thousands of euros)	30/09/2014	31/12/2013
Non-current assets	8,676,600	8,614,471
Current assets	1,157,748	805,394
Total assets	9,834,348	9,419,865

LIABILITIES (in thousands of euros)	30/09/2014	31/12/2013
Equity	2,375,781	2,224,648
Non-current liabilities	6,168,578	5,837,276
Current liabilities	1,289,989	1,357,941
Total liabilities	9,834,348	9,419,865

Consolidated cash flow statement

(in thousands of euros)	30/09/2014	30/09/2013
CASH FLOWS FROM OPERATING ACTIVITIES	422,027	833,335
Profit before tax	593,380	531,783
Adjustments to profit	425,582	438,595
Changes in working capital	(421,280)	69,946
Other cash flows from operating activities	(175,655)	(206,989)
CASH FLOWS FROM INVESTING ACTIVITIES	(481,517)	(445,992)
Payments from investments	(508,110)	(452,058)
Proceeds from disposals	351	737
Other cash flows from investing activities	26,243	5,329
CASH FLOWS FROM FINANCING ACTIVITIES	47,065	(213,486)
Proceeds from/(payments for) equity instruments	(4,544)	3,985
Proceeds from/(payments for) financial liabilities	394,029	99,833
Dividend payments	(343,782)	(319,031)
Other cash flows from financing activities	1,362	1,727
Effect of variations in exchange rates	818	(242)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,607)	173,615
Cash and cash equivalents at beginning of period	214,861	40,314
Cash and cash equivalents at end of period	203,254	213,929



Financial calendar

Upcoming events

Estimated dates

2014 earnings presentation	February 2015
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Red Eléctrica has the following credit ratings: BBB from S&P and A- from Fitch.



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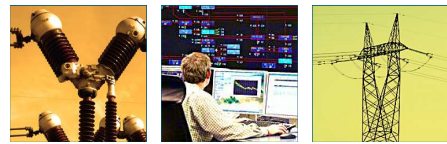
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APPENDIX

Corporate responsibility certifications



Included in the FTSE4Good index since 2008. (*)



Included in the MSCI ESG indexes (MSCI Global Sustainability Indexes, MSCI Socially Responsible Indexes, MSCI Global Climate Index and MSCI Global Environmental Index) in 2014.



Renewal of the “Prime” status awarded by the ratings agency Oekom in 2008, confirming Red Eléctrica as one of the most sustainable companies in its sector in 2014.



Included on the Natural Capital Efficiency Leader index in 2014.



Included in the Ethibel Excellence index since 2009. Included in the Ethibel Pioneer index in December 2012.



Included in the Kempen SNS SRI index since 2004.



Included in the ESG STOXX Leaders index since 2011.



Included in ECPI indexes since 2008.



Awarded “Best in class” distinction in 2009.

(*) FTSE Group confirms that Red Eléctrica Corporación has been independently evaluated in accordance with FTSE4Good criteria and meets the requirements to be ranked in the FTSE4Good indices, the global index established by the FTSE Group. FTSE4Good is a global index designed to encourage investments in companies that meet globally recognised corporate responsibility standards. Companies ranked in the FTSE4Good index adhere to strict environmental, social and corporate governance criteria, and are in a position to benefit from sustainable business practices.