THE VALUE OF CONNECTED ENERGY

CONSOLIDATED
ANNUAL ACCOUNTS
2014

RED
ELÉCTRICA
CORPORACIÓN

CONTENTS

THE VALUE OF CONNECTED ENERGY

INDEPENDENT
AUDIT
REPORT
2014

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

Independent Auditors' Report on the Consolidated 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 consolidated annual accounts

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

Directors' responsibility for the consolidated annual accounts

The Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they present fairly the consolidated equity, consolidated financial position and consolidated financial performance of Red Eléctrica Corporación, S.A. and subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions in the financial reporting framework applicable to the Group in Spain, and for such internal control that they determine is necessary to enable the preparation of consolidated 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 consolidated annual accounts taken as a whole, 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 consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated annual accounts taken as a whole.

We consider that the audit evidence we have obtained provides a sufficient and adequate basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and consolidated financial position of Red Eléctrica Corporación, S.A. and subsidiaries at 31 December 2014 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other applicable provisions of the financial reporting framework.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2014 contains such explanations as the Directors of Red Eléctrica Corporación, S.A. consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2014. Our work as auditors is limited to the verification of the consolidated 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 Red Eléctrica Corporación, S.A. and subsidiaries.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Ana Fernández Poderós

25 February 2015

THE VALUE OF CONNECTED ENERGY

CONSOLIDATED
BALANCE SHEET
2014

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

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014 AND 2013

In thousands of Euros

ASSETS	31/12/2014	31/12/2013
Intangible assets (note 5)	109,069	86,693
Property, plant and equipment (note 6)	8,923,262	8,426,782
Investment property (note 7)	2,517	2,561
Non-current financial assets (note 16)	71,998	63,532
Deferred tax assets (note 20)	30,938	34,586
Other non-current assets	380	317
NON-CURRENT ASSETS	**9,138,164**	**8,614,471**
Inventories (note 9)	46,445	44,980
Trade and other receivables (note 10)	1,072,690	544,535
Trade receivables	28,400	20,987
Other receivables	1,003,501	521,788
Current tax assets	40,789	1,760
Other current financial assets (note 16)	1,304	1,018
Cash and cash equivalents	299,368	214,861
CURRENT ASSETS	**1,419,807**	**805,394**
TOTAL ASSETS	**10,557,971**	**9,419,865**

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014 AND 2013 (CONT.)

In thousands of Euros

EQUITY AND LIABILITIES	31/12/2014	31/12/2013
Capital and reserves	**2,589,360**	**2,248,628**
Capital	270,540	270,540
Reserves	1,723,852	1,548,523
Own shares (-)	(10,390)	(1,707)
Profit attributable to the Parent	717,821	529,139
Interim dividend (-)	(112,463)	(97,867)
Valuation adjustments	**(59,894)**	**(42,041)**
Available-for-sale financial assets	7,950	4,648
Hedging transactions	(69,273)	(46,290)
Translation differences and other	1,429	(399)
EQUITY ATTRIBUTABLE TO THE PARENT	2,529,466	2,206,587
Non-controlling interests	**22,986**	**18,061**
TOTAL EQUITY (note 11)	2,552,452	2,224,648
Grants and other (note 12)	482,442	418,297
Non-current provisions (note 13)	105,522	84,151
Non-current financial liabilities (note 16)	5,037,125	4,662,995
Loans and borrowings, bonds and other marketable securities	4,955,001	4,552,158
Other non-current financial liabilities	82,124	110,837
Deferred tax liabilities (note 20)	482,584	598,855
Other non-current liabilities (note 14)	70,726	72,978
NON-CURRENT LIABILITIES	**6,178,399**	**5,837,276**

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014 AND 2013 (CONT.)

In thousands of Euros

	31/12/2014	31/12/2013
Current provisions	-	10
Current financial liabilities (note 16)	1,549,431	991,904
Loans and borrowings, bonds and other marketable securities	844,057	245,268
Other current financial liabilities	705,374	746,636
Trade and other payables (note 18)	277,689	366,027
Suppliers	200,128	201,220
Other payables	57,445	142,030
Current tax liabilities	20,116	22,777
CURRENT LIABILITIES	**1,827,120**	**1,357,941**
TOTAL EQUITY AND LIABILITIES	**10,557,971**	**9,419,865**

Notes 1 to 32 and Appendices I and II form an integral part of these consolidated annual accounts.

RED ELÉCTRICA GROUP

CONSOLIDATED INCOME STATEMENT 2014 AND 2013

In thousands of Euros

CONSOLIDATED INCOME STATEMENT	2014	2013
Revenues (note 21-a)	1,846,714	1,758,266
Self-constructed assets	17,710	19,647
Supplies (note 21-b)	(59,711)	(67,025)
Other operating income	7,288	14,655
Personnel expenses (note 21-c)	(132,967)	(127,263)
Other operating expenses (note 21-b)	(293,641)	(296,403)
Depreciation and amortisation (notes 5, 6 and 7)	(440,699)	(416,565)
Non-financial and other capital grants (note 12)	13,651	13,200
Impairment and gains/(losses) on disposal of fixed assets (notes 6 and 21-d)	(9,146)	211
RESULTS FROM OPERATING ACTIVITIES	**949,199**	**898,723**
Finance income	11,973	13,825
Finance costs (note 21-e)	(160,240)	(183,592)
Exchange gains	253	427
Impairment and gains/(losses) on disposal of financial instruments (note 21-f)	52,311	3,219
NET FINANCE COST	**(95,703)**	**(166,121)**
Share in profit of equity-accounted investees	-	411
PROFIT BEFORE INCOME TAX	**853,496**	**733,013**
Income tax (note 20)	(134,434)	(203,215)
CONSOLIDATED PROFIT FOR THE YEAR	**719,062**	**529,798**
A) CONSOLIDATED PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	**717,821**	**529,139**
B) PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**1,241**	**659**
EARNINGS PER SHARE IN EUROS		
Basic earnings per share in Euros (note 30)	**5.31**	**3.92**
Diluted earnings per share in Euros (note 30)	**5.31**	**3.92**

Notes 1 to 32 and Appendices I and II form an integral part of these consolidated annual accounts.

GRUPO RED ELÉCTRICA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2014 AND 2013

In thousands of Euros

	2014			2013		
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Total Group	Attributable to the Parent	Non-controlling interests	Total Group	Attributable to the Parent	Non-controlling interests
CONSOLIDATED PROFIT FOR THE YEAR	**719,062**	**717,821**	**1,241**	**529,798**	**529,139**	**659**
ITEMS THAT COULD BE RECLASSIFIED TO PROFIT OR LOSS	**(15,532)**	**(17,853)**	**2,321**	**(2,735)**	**(1,904)**	**(831)**
Translation differences	6,347	3,252	3,095	(1,546)	(359)	(1,187)
Cash flow hedges	(27,115)	(27,115)	-	(7,168)	(7,168)	-
Available-for-sale financial assets	4,486	4,486	-	4,886	4,886	-
Other items that could be reclassified to profit or loss	(816)	(816)	-	(77)	(77)	-
Tax effect of items that could be reclassified to profit or loss	1,566	2,340	(774)	1,170	814	356
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(13,170)**	**(13,170)**	**-**	**(1,648)**	**(1,648)**	**-**
Actuarial gains and losses and other adjustments	(17,051)	(17,051)	-	(2,354)	(2,354)	-
Tax effect of items that will not be reclassified to profit or loss	3,881	3,881	-	706	706	-
TOTAL OTHER COMPREHENSIVE INCOME	**690,360**	**686,798**	**3,562**	**525,415**	**525,587**	**(172)**
A) TOTAL OTHER COMPREHENSIVE INCOME	**690,360**	**686,798**	**3,562**	**525,415**	**525,587**	**(172)**

Notes 1 to 32 and Appendices I and II form an integral part of these consolidated annual accounts.

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2014 AND 2013

In thousands of Euros

	Current period								
	Equity attributable to the Parent								
EQUITY	Subscribed capital	Reserves	Interim dividend	Own shares	Profit attributable to the Parent	Valuation adjustments	Equity attributable to the Parent	Non-controlling interests	Total equity
Balances at 1 January 2014	**270,540**	**1,548,523**	**(97,867)**	**(1,707)**	**529,139**	**(42,041)**	**2,206,587**	**18,061**	**2,224,648**
I. Comprehensive income for the year	**-**	**(13,170)**	**-**	**-**	**717,821**	**(17,853)**	**686,798**	**3,562**	**690,360**
II. Transactions with shareholders or owners	**-**	**3,142**	**(14,596)**	**(8,683)**	**(343,856)**	**-**	**(363,993)**	**-**	**(363,993)**
- Distribution of dividends (note 12)	-	-	(14,596)	-	(343,856)	-	(358,452)	-	(358,452)
- Transactions with own shares (note 12)	-	3,142	-	(8,683)	-	-	(5,541)	-	(5,541)
III. Other changes in equity	**-**	**185,357**	**-**	**-**	**(185,283)**	**-**	**74**	**1,363**	**1,437**
- Transfers between equity line items	-	185,283	-	-	(185,283)	-	-	-	-
- Other changes	-	74	-	-	-	-	74	1,363	1,437
Balances at 31 December 2014	**270,540**	**1,723,852**	**(112,463)**	**(10,390)**	**717,821**	**(59,894)**	**2,529,466**	**22,986**	**2,552,452**

	Prior period								
	Equity attributable to the Parent								
EQUITY	Subscribed capital	Reserves	Interim dividend	Own shares	Profit attributable to the Parent	Valuation adjustments	Equity attributable to the Parent	Non-controlling interests	Total equity
Balances at 1 January 2013	**270,540**	**1,370,426**	**(91,216)**	**(14,698)**	**492,288**	**(40,177)**	**1,987,163**	**4,382**	**1,991,545**
I. Comprehensive income for the year	**-**	**(1,688)**	**-**	**-**	**529,139**	**(1,864)**	**525,587**	**(172)**	**525,415**
II. Transactions with shareholders or owners	**-**	**6,528**	**(6,651)**	**12,991**	**(319,646)**	**-**	**(306,778)**	**-**	**(306,778)**
- Distribution of dividends (note 12)	-	-	(6,651)	-	(319,646)	-	(326,297)	-	(326,297)
- Transactions with own shares (note 12)	-	6,528	-	12,991	-	-	19,519	-	19,519
III. Other changes in equity	**-**	**173,257**	**-**	**-**	**(172,642)**	**-**	**615**	**13,851**	**14,466**
- Transfers between equity line items	-	172,642	-	-	(172,642)	-	-	-	-
- Other changes	-	615	-	-	-	-	615	13,851	14,466
Balances at 31 December 2013	**270,540**	**1,548,523**	**(97,867)**	**(1,707)**	**529,139**	**(42,041)**	**2,206,587**	**18,061**	**2,224,648**

Notes 1 to 32 and Appendices I and II form an integral part of these consolidated annual accounts.

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS 2014 AND 2013

In thousands of Euros

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES	**511,985**	**1,191,850**
Profit before tax	**853,496**	**733,013**
Adjustments for:	**538,303**	**583,337**
Depreciation and amortisation	440,699	416,565
Other adjustments (net)	97,604	166,772
Share in profit of equity-accounted investees	-	(411)
Gains/losses on disposal/impairment of non-current assets and financial instruments	(52,311)	(3,430)
Accrued finance income	(11,973)	(13,825)
Accrued finance costs	160,240	183,592
Charge to/surplus provisions for liabilities and charges	19,497	18,225
Capital and other grants taken to income	(17,849)	(17,379)
Changes in operating assets and liabilities	**(497,681)**	**208,878**
Changes in inventories, receivables, prepayments for current assets and other current assets	(493,291)	115,425
Changes in trade payables, current revenue received in advance and other current liabilities	(4,390)	93,453
Other cash flows used in operating activities	**(382,133)**	**(333,378)**
Interest paid	(159,738)	(174,915)
Dividends received	4,566	5,313
Interest received	7,407	11,381
Income tax received/(paid)	(227,442)	(166,536)
Other proceeds from and payments for operating activities	(6,926)	(8,621)

RED ELÉCTRICA GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS 2014 AND 2013 (CONT.)

In thousands of Euros

	2014	2013
CASH FLOWS USED IN INVESTING ACTIVITIES	**(1,049,095)**	**(555,312)**
Payments for investments	**(1,109,640)**	**(584,437)**
Property, plant and equipment, intangible assets and investment property	(1,104,920)	(578,608)
Other financial assets	(4,720)	(566)
Other investments in subsidiaries	-	(5,263)
Proceeds from sale of investments	**29,636**	**838**
Other financial assets	739	838
Other assets	28,897	-
Other cash flows from investing activities	**30,909**	**28,287**
Other proceeds from investing activities	30,909	28,287
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**621,398**	**(461,386)**
Proceeds from and payments for equity instruments	**(5,541)**	**19,519**
Acquisition	(107,416)	(125,602)
Disposal	101,875	145,121
Proceeds from and payments for financial liability instruments	**969,359**	**(164,580)**
Issue and drawdowns	1,943,673	1,585,044
Redemption and repayment	(974,314)	(1,749,624)
Dividends and interest on other equity instruments paid	**(343,782)**	**(319,031)**
Other cash flows from financing activities	**1,362**	**2,706**
EFFECT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS	**219**	**(605)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**84,507**	**174,547**
Cash and cash equivalents at beginning of year	**214,861**	**40,314**
Cash and cash equivalents at year end	**299,368**	**214,861**

Notes 1 to 32 and Appendices I and II form an integral part of these consolidated annual accounts.

THE VALUE OF CONNECTED ENERGY

CONSOLIDATED
BALANCE SHEET
2014

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

1. ACTIVITIES OF THE GROUP COMPANIES

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

The Group's principal activity is electricity transmission, system operation and transmission grid management for the Spanish electricity system. These regulated activities are carried out through Red Eléctrica de España, S.A.U. (hereinafter REE).

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

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

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

2. BASIS OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

a) General Information

The accompanying consolidated annual accounts have been prepared by the directors of the Parent to present fairly the Group's consolidated equity and consolidated financial position at 31 December 2014, as well as the consolidated results of its operations and changes in consolidated equity and consolidated cash flows for the year then ended.

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

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

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

The accompanying consolidated annual accounts, authorised for issue by the Company's directors at their board meeting held on 24 February 2015, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its annual accounts applying the accounting principles and criteria in force in its country of operations. Accordingly, the adjustments and reclassifications necessary to harmonise these principles and criteria with IFRS-EU have been made on consolidation. The accounting policies of the consolidated companies are changed when necessary to ensure their consistency with the principles adopted by the Company.

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

b) New IFRS-EU and IFRIC interpretations

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

The following amendments were applied for the first time in 2014:

>> IFRS 10 "Consolidated Financial Statements", mandatory for annual periods beginning on or after 1 January 2014.
>> IFRS 11 "Joint Arrangements", mandatory for annual periods beginning on or after 1 January 2014.
>> IFRS 12 "Disclosure of Interests in Other Entities", mandatory for annual periods beginning on or after 1 January 2014.
>> IAS 27 "Separate Financial Statements", mandatory for annual periods beginning on or after 1 January 2014.
>> IAS 28 "Investments in Associates and Joint Ventures", mandatory for annual periods beginning on or after 1 January 2014.
>> IAS 36 "Impairment of Assets", mandatory for annual periods beginning on or after 1 January 2014.
>> IAS 39 "Financial Instruments: Recognition and Measurement", mandatory for annual periods beginning on or after 1 January 2014.
>> IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities", mandatory for annual periods beginning on or after 1 January 2014.

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

The European Union has approved the following standards, application of which is not mandatory for 2014:

>> Annual improvements to International Financial Reporting Standards, 2011-2013 Cycle - mandatory application for all annual periods beginning on or after 1 January 2015.
>> IAS 19 "Employee Benefits", mandatory for annual periods beginning on or after 1 February 2015.
>> Annual improvements to International Financial Reporting Standards, 2010-2012 Cycle - mandatory application for all annual periods beginning on or after 1 February 2015.
>> IFRIC 21 "Levies", mandatory for annual periods beginning on or after 17 June 2014.

The Company is currently analysing the impact of applying these standards, amendments and interpretations. Based on the analyses performed to date, their application is not expected to have a material impact on the consolidated annual accounts in the initial application period.

At 31 December 2014, the IASB and the IFRS Interpretations Committee had published the following standards, amendments and interpretations, which are pending approval by the European Union:

>> IFRS 9 “Financial Instruments”, available standard pending adoption by the EU. Effective for annual periods beginning on or after 1 January 2018.
>> Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39. Effective in conjunction with the adoption of IFRS 9. Pending adoption by the EU.
>> IFRS 14 "Regulatory Deferral Accounts". Effective for annual periods beginning on or after 1 January 2016.

- IFRS 15 "Revenue from Contracts with Customers". Effective for annual periods beginning on or after 1 January 2017.
- Annual improvements to International Financial Reporting Standards, 2012-2014 Cycle. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 11 in relation to the accounting of acquisitions of interests in joint ventures. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38, clarification of acceptable methods of depreciation and amortisation. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 28 and IFRS 10 regarding sale or contribution of assets between an investor and its associate or joint venture. Effective for annual periods beginning on or after 1 January 2016.
- The Company is analysing the impact these new standards, amendments and interpretations could have on the Group's consolidated annual accounts if adopted by the European Union.

c) Estimates and assumptions

The preparation of the consolidated annual accounts in accordance with IFRS-EU requires Group management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and judgements are assessed continually and are based on past experience and other factors, including expectations of future events that are considered reasonable given the circumstances. Actual results could differ from these estimates.

The consolidated annual accounts for 2014 occasionally include estimates calculated by management of the Group and of the consolidated companies, and subsequently endorsed by their directors, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein.

These estimates are essentially as follows:

- Estimated asset recovery, calculated by determining the recoverable amount thereof. The recoverable amount is the higher of fair value less costs to sell and value in use. Asset impairment is generally calculated using discounted cash flows based on financial projections used by the Group. The discount rate applied is the weighted average cost of capital, taking into account the country risk premium (Note 6).
- Estimated useful lives of property, plant and equipment (Note 4).
- The assumptions used in the actuarial calculations of liabilities and obligations to employees (Note 13).
- Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Group assesses and estimates amounts to be settled in the future, including additional amounts for income tax, contractual obligations, pending lawsuit settlements and other liabilities. These estimates are subject to the interpretation of existing facts and circumstances, projected future events and the estimated financial effect of those events (Note 12).

In the absence of International Financial Reporting Standards (IFRSs) that give guidance on the accounting treatment for a particular situation, in accordance with IAS 8, management uses its best judgement based on the economic substance of the transaction and considering the most recent pronouncements of other standard-setting bodies that use the same conceptual framework as IFRS. Accordingly, as tax credits for investments are not within the scope of IAS 12 and IAS 20, after analysing the related conditions and characteristics, Group management has considered that credits for investments granted to the Group by public entities are similar to capital grants. Therefore, in these cases management has taken into account IAS 20 on grants and the response to the query submitted to the ICAC (Spanish Accounting and Auditing Institute) on 21 October 2008, on the recognition criteria for credits and deductions from tax payable that have the nature of a grant (Ref: 636-08) (see note 4-j).

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

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

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

d) Consolidation principles

The profit or loss of entities of which control has been acquired in a given period is consolidated taking into consideration only the results arising in the period from the acquisition date to the corresponding year end. Consolidation ceases when such control is lost.

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

>> **Group entities**

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

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

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

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

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

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

>> **Joint arrangements**

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

For joint operations, the Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and the expenses, including its share of any expenses incurred jointly, in the consolidated annual accounts. In sales or contributions by the Group to the joint operation, it recognises the resulting gains and losses only to the extent of the other parties' interests in the joint operation. When such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets transferred, such losses are recognised in full.

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

>> **Associates**

Associates are entities over which the Parent has the capacity to exercise significant influence, but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This usually occurs when a direct or indirect investment of 20% or more of the voting rights of the investee is held.

Associates are accounted for in the consolidated annual accounts using the equity method from the date that significant influence commences until the date that significant influence ceases.

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

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

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

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

- The accounting principles and criteria used by the Group companies have been harmonised with those applied by the Parent.
- Balances in the financial statements of foreign companies have been translated using the closing exchange rate for assets and liabilities, the average exchange rate for income and expenses and the historical exchange rate for capital and reserves.
- Any exchange differences arising on the translation to Euros have been recognised separately as translation differences under equity in the corresponding consolidated statement of financial position.
- All balances and transactions between fully consolidated companies have been eliminated on consolidation.
- Margins on invoices between Group companies for capitalisable goods or services were eliminated at the transaction date.

e) Comparative information

Group management has included comparative information for 2013 in the accompanying consolidated annual accounts. As required by IFRS-EU, these consolidated annual accounts for 2014 include comparative figures for the prior year.

f) Changes in the consolidated Group

There were no changes in the consolidated Group in 2014.

On 9 May 2013 Red Eléctrica Internacional (REI) increased its investment in Red Eléctrica del SUR, S.A. (REDESUR) from 33.75% to 55%. Its financial statements are now fully consolidated rather than equity-accounted.

3. INDUSTRY REGULATIONS

a) Spanish electricity sector

The new legislative framework for the Spanish electricity sector was applied for the first time in 2014. This framework arose from the electricity sector regulatory reform, which commenced in 2013 with the approval of Royal Decree-Law 9/2013 of 12 July 2013, adopting urgent measures to ensure the financial stability of the electricity system, and was consolidated with the publication of Electricity Industry Law 24/2013 of 26 December 2013, which repeals Law 54/1997, with the exception of certain additional provisions. Regulatory development of this law was ongoing throughout 2014.

In 2013 Royal Decree-Law 9/2013 of 12 July 2013, adopting urgent measures to ensure the financial stability of the electricity system, was published. This legislation contains a number of wide-reaching urgent measures aimed at guaranteeing the financial stability of the electricity sector, having an impact on all electricity industry activities across the board.

In relation to REE's electricity transmission activity, Royal Decree-Law 9/2013 stipulates that the method to be used to calculate the remuneration for the transmission activity must take into account the costs that would necessarily be incurred by an efficient, well-managed company in conducting this activity; and must also determine what would be suitable remuneration for a low-risk activity that enables a reasonable profit to be obtained from the functions performed, for which it specifies a rate of return on assets that is linked to government bonds plus a spread. On the basis of these premises, Royal Decree-Law 9/2013 determines the specific method for calculating the transmission activity remuneration for the second half of 2013 and subsequent years until all aspects of Royal Decree 1047/2013 have been developed. This Royal Decree will regulate the remuneration system for the transmission activity. Certain provisions had still to be developed at 31 December 2014.

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

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

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

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

>> This Law acknowledges the natural monopoly in the transmission activity, arising from the economic efficiency afforded by a sole grid. Transmission is deregulated by granting widespread third-party access to the grid, which is made available to the different electricity system agents and consumers in exchange for payment of an access charge. Remuneration for this activity has been set by the government on the basis of the general principles laid down in the Law, as developed in Royal Decree 1047/2013 of 27 December 2013, which sets out the new remuneration system for the transmission activity, and repeals both Royal Decree 2819/1998 and Royal Decree 325/2008.

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

In 2014 further steps were taken to obtain certification for REE as transmission grid manager, as required by Directive 2009/72/EC, following the approval of Ministry of Industry, Energy and Tourism Order IET/2209/2014 of 20 November 2014, which authorises and appoints REE as electricity transmission grid manager under an ownership unbundling model. To complete the process, there only remains for this appointment to be published in the "Official Journal of the European Union", in accordance with article 31.1 of Law 24/2013 of 26 December 2013.

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

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

In 2014 there was a new development in REE's functions in non-mainland electricity systems, following the approval of Ministry of Industry, Energy and Tourism Order IET/728/2014 of 28 April 2014, which resolved to accept the resignation submitted by Unión Eléctrica de Canarias Generación S.A. (UNELCO) with respect to execution of the Chira-Soria 200 MW reversible hydroelectric power plant in Gran Canaria, and ordered that the project and, where applicable, the plant facilities be transferred to the system operator.

b) International electricity sector

The Red Eléctrica Group has built electricity transmission facilities through REI. At international level, it now operates and maintains these facilities in Peru.

This country has deregulated its electricity industry and applies a regulation model entailing regulated tariffs for the transmission activity.

4. SIGNIFICANT ACCOUNTING PRINCIPLES

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

a) Business combinations

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

The Group applies the acquisition method for business combinations.

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

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

b) Property, plant and equipment

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

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

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

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

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

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

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

There have been no significant changes in the depreciation criteria compared to the prior year.

Property, plant and equipment primarily comprise technical electricity facilities. Items pending depreciation are mostly depreciated at a rate of 2.5%.

The Group reviews the residual values and useful lives of assets and adjusts them, if necessary, at the end of each reporting period.

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

c) Intangible assets

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

>> **Administrative concessions**

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

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

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

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

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

Administrative concessions have a finite useful life and the associated cost is recognised as an intangible asset.

>> **Computer software**

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

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

>> **Development expenses**

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

>> **Intangible assets under development**

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

d) Investment property

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

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

e) Leases

The Group has rights to use certain assets through lease contracts.

Leases in which, upon inception, the Group transfers to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases, otherwise they are classified as operating leases. Initial direct costs incurred are added to the asset's carrying amount.

f) Financial assets

The Group classifies financial assets, excluding equity-accounted investments, into three 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 and receivables are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

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

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

>> **Available-for-sale financial assets:** The Group classifies in this category non-derivative financial instruments that are designated as such or which do not qualify for recognition in the aforementioned categories. These are basically investments that the Company intends to hold for an unspecified period of time which are likely to be disposed of to meet one-off liquidity needs or in response to interest rate fluctuations. They are classified as non-current, unless they are expected to be disposed of in less than one year and such disposal is feasible. These financial assets are initially recognised at fair value plus transaction costs directly attributable to the acquisition. They are subsequently measured at fair value, which is the quoted price at the reporting date in the case of securities quoted in an active market. Any gains or losses arising from changes in the fair value of these assets at the reporting date are recognised directly in equity until the assets are disposed of or impaired, whereupon the accumulated gains and losses are recognised in profit or loss. Impairment, where applicable, is calculated on the basis of discounted expected future cash flows. A significant or prolonged decline in the quotation of listed securities below their cost is also objective evidence of impairment.

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

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

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

- Level 1: measurement is based on quoted prices for identical instruments in active markets.
- Level 2: measurement is based on inputs that are observable for the asset or liability.
- Level 3: measurement is based on inputs derived from unobservable market data.

g) Inventories

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

h) Impairment

The Group companies analyse the recoverability of their assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount of the assets is the higher of their fair value less costs of disposal and their value in use. Value in use is calculated on the basis of expected future cash flows. Impairment is calculated for individual assets. Where the recoverable amount of an individual asset cannot be determined, the recoverable amount of the cash-generating unit (CGU) to which that asset belongs is calculated. Any reversals are recognised in the consolidated income statement. Impairment losses on goodwill are not reversed in subsequent years.

i) Share capital, own shares and dividends

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

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

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

j) Grants

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

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

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

k) Non-current revenue received in advance

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

l) Provisions

>> Employee benefits

> Pension obligations

The Group has defined contribution plans, whereby the benefit receivable by an employee upon retirement – usually based on one or more factors such as age, years of service or remuneration – is determined by the contributions made. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions are recognised under employee benefits when accrued.

> Other long-term employee benefits

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

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

>> **Other provisions**

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

Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax risk-free discount rate that reflects assessments of the time value of money. The increase in the provision due to the passage of time is recognised as an interest expense in the income statement

m) Financial debt

Loans, payment obligations and similar commitments are initially recognised at fair value less any transaction costs incurred. Such debt is subsequently measured at amortised cost, using the effective interest method, except in the case of transactions for which hedges have been arranged.

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

n) Transactions in currency other than the Euro

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

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

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

o) Derivative financial instruments and hedging transactions

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

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

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

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

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

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

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

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

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

Details of the fair value of the hedging derivatives used are disclosed in note 17. Details of changes in equity are provided in note 11.

p) Trade payables

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

q) Income and expenses

Revenue is measured at the fair value of the consideration received or receivable. Income and expenses are recognised on an accruals basis, irrespective of payments and receipts.

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

Interest income is recognised using the effective interest method.

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

r) Taxation

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

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

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

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

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

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

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

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

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.
- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.
- Temporary differences arising from the elimination of profits and losses on transactions between tax group companies are recognised by the company that generates the profit or loss, using the applicable tax rate.
- The Parent of the Group records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to Group companies and associates.
- The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables (receivables) to/from Group companies and associates.

s) Earnings per share

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

According to the consolidated annual accounts of the Red Eléctrica Group at 31 December 2014 and 2013, basic earnings per share are the same as diluted earnings per share, as no transactions that could have resulted in a change in those figures were conducted during those years.

t) Insurance

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

u) Environmental issues

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

v) Non-current assets held for sale

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

w) Share-based payments

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

x) Contingent assets and liabilities

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

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

5. INTANGIBLE ASSETS

Movement in intangible assets and details of accumulated amortisation during 2014 and 2013 are as follows:

RED ELÉCTRICA GROUP

MOVEMENT IN INTANGIBLE ASSETS IN 2014 AND 2013

(expressed in thousands of Euros)

	31 December 2012	Additions	Exchange rate fluctuations	Disposals and changes in consolidated group	Disposals, reductions and write-downs	31 December 2013	Additions	Exchange rate fluctuations	Transfers	31 December 2014
Cost										
Administrative concessions	-	391	47,454	(3,389)	-	44,456	12	6,040	62,395	112,903
Development expenses and computer software	15,568	2,126	-	(4)	(43)	17,647	7	1	-	17,655
Intangible assets under development	22,481	19,316	-	(973)	-	40,824	16,023	5,548	(62,395)	-
Total Cost	38,049	21,833	47,454	(4,366)	(43)	102,927	16,042	11,589	-	130,558
Accumulated amortisation										
Administrative concessions		(1,846)	-	1,231	-	(615)	(3,948)	(421)	-	(4,984)
Development expenses and computer software	(14,690)	(975)	-	2	43	(15,621)	(882)	(2)	-	(16,505)
Total accumulated amortisation	(14,690)	(2,821)	-	1,233	43	(16,236)	(4,830)	(423)	-	(21,489)
Carrying amount	23,359	19,012	47,454	(3,133)	-	86,691	11,212	11,166	-	109,069

Operating expenses of Euros 1,754 thousand incurred directly in connection with intangible assets were capitalised in 2014 (Euros 2,650 thousand in 2013).

During 2014, the companies capitalised borrowing costs of Euros 975 thousand as an increase in intangible assets (Euros 1,417 thousand in 2013).

The Company had fully amortised intangible assets amounting to Euros 18,105 thousand at 31 December 2014 (Euros 15,788 thousand at 31 December 2013).

Intangible assets under development in 2013 consisted entirely of the work carried out by TESUR for the construction of the concession facilities formed by the Tintaya-Socabaya transmission line and related substations. After entering into service in 2014 these assets were transferred to administrative concessions. Changes in the consolidated Group in 2013 are due to the incorporation of REDESUR as a Group company, which had previously been accounted for using the equity method.

Details of service concession contracts awarded by different public entities and under operation at 31 December 2014 are as follows:

(In thousands of Euros)	REDESUR	TESUR
Grantor	Republic of Peru	Republic of Peru
Activity	Electricity transmission	Electricity transmission
Country	Peru	Peru
Concession period from start-up of commercial operations	30 years	30 years
Remaining useful life	17 years	30 years
Tariff review frequency	Annual	Annual
Carrying amount at 31/12/2014	50,508	62,395
Carrying amount at 31/12/2013	44,456	0
Revenue in 2014	11,624	15,229
Profit/(loss) for 2014	4,103	(709)
Renewal option	Not stipulated in contract	Not stipulated in contract

6. PROPERTY, PLANT AND EQUIPMENT

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

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT IN 2014 AND 2013

(expressed in thousands of Euros)

	31 December 2012	Additions	Changes in consolidated group	Exchange rate fluctuations	Disposals, reductions and write-downs	Transfers	31 December 2013	Additions	Exchange rate fluctuations	Disposals, reductions and write-downs	Transfers	31 December 2014
Cost												
Land and buildings	69,345	15	263	(21)	-	-	69,602	4,557	48	-	-	74,207
Rights over assets assigned for use Technical telecommunications facilities	-	-	-	-	-	-	-	431,088	-	-	-	431,088
Technical electricity facilities	11,192,540	-	-	-	-	480,795	11,673,335	510	-	-	749,488	12,423,333
Other installations, machinery, equipment, furniture and other items	142,261	169	397	(221)	(74)	17,652	160,184	824	215	(290)	6,672	167,605
Technical electricity facilities under construction	868,745	548,224	-	-	-	(459,571)	957,398	471,255	-	-	(726,604)	702,049
Advances and under construction	31,196	25,764	2	3	-	(38,876)	18,089	33,294	9	-	(29,556)	21,836
Total cost	12,304,087	574,172	662	(239)	(74)	-	12,878,608	941,528	272	(290)	-	13,820,118
Accumulated depreciation												
Buildings	(16,569)	(1,200)	-	5	-	-	(17,764)	(1,195)	(11)	-	-	(18,970)
Rights over assets assigned for use	-	-	-	-	-	-	-	(2,392)	-	-	-	(2,392)
Technical telecommunications facilities												
Technical electricity facilities	(3,836,136)	(402,994)	-	-	-	-	(4,239,130)	(420,701)	(1)	-	-	(4,659,832)
Other installations, machinery, equipment, furniture and other items	(111,077)	(9,507)	-	84	46	-	(120,454)	(11,537)	(112)	66	-	(132,037)
Total accumulated depreciation	(3,963,782)	(413,701)	-	89	46	-	(4,377,348)	(435,825)	(124)	66	-	(4,813,231)
Impairment	(74,665)	-	-	-	187	-	(74,478)	(9,147)	-	-	-	(83,625)
Carrying amount	8,265,640	160,471	662	(150)	159	-	8,426,782	496,556	148	(224)	-	8,923,262

At 31 December 2014 the Company has fully depreciated property, plant and equipment amounting to Euros 1,358,556 thousand, of which Euros 1,253,815 thousand comprise technical electricity facilities (Euros 1,327,240 thousand in 2013, of which Euros 1,229,116 thousand consisted of technical electricity facilities).

The main additions to technical electricity facilities in 2014 and 2013 reflect investments in electricity transmission facilities in Spain.

The technical telecommunication facilities consist of the concession of the rights to use and manage the operation of the fibre optic cable network and other related items owned by ADIF Alta Velocidad (ADIF), which are not used for the railway services, pursuant to the 20-year agreement entered into on 20 November 2014 by REI and ADIF. This agreement ratifies the awarding to REI of the fibre optic tender held by ADIF, approved by its board of directors on 25 April 2014. The agreement has been classified as a finance lease, given that substantially all the risks and rewards incidental to ownership of the assets were transferred. Payment was made in full in 2014. Furthermore, the Company has entered into contracts with ADIF for maintenance and other services relating to the technical facilities for the term of the agreement. REI is also under obligation to maintain the quality of the service offered to customers throughout the term of the agreement, and will therefore make the necessary investments.

In 2014 disposals of property, plant and equipment amounted to Euros 290 thousand (Euros 74 thousand in 2013).

During 2014, the companies capitalised borrowing costs of Euros 20,871 thousand related to construction as an increase in property, plant and equipment (Euros 21,524 thousand in 2013). The weighted average rate used to capitalise borrowing costs was 2.80% in 2014 (3.09% in 2013).

Operating expenses of Euros 15,956 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2014 (Euros 16,997 thousand in 2013).

Details of capital grants and other non-current revenue received in advance in relation to property, plant and equipment are provided in note 12.

At 31 December 2014 and 2013 impairment losses essentially comprise adjustments to the carrying amount of facilities for which there are doubts as to whether they will generate sufficient future income. This item also includes impairment of certain transmission facilities due to the uncertainty that has arisen in respect of the remuneration of these facilities, in view of doubts regarding the generation of the associated income. These facilities have been fully impaired as it is has been estimated that they will not generate cash flows in the future. In 2014 impairment totalling Euros 9,147 thousand was recognised.

The Group has taken out insurance policies to cover the risks to which its property, plant and equipment are exposed. The coverage of these policies is considered sufficient.

7. INVESTMENT PROPERTY

Movement in the Group's investment property in 2014 and 2013 is as follows:

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN INVESTMENT PROPERTY IN 2014 AND 2013

(expressed in thousands of Euros)

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

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

8. BUSINESS COMBINATIONS

No business combinations were carried out in 2014.

On 9 May 2013 the Group acquired an additional 21.25% interest in REDESUR through REI, giving it a 55% interest in this company's share capital. REDESUR has registered offices in Peru and its principal activity is energy transmission through certain facilities operated under concession. This additional interest was purchased for Euros 5,263 thousand. The acquiree generated revenue of Euros 7,968 thousand for the Group and contributed Euros 2,330 thousand to consolidated profit between the acquisition date and 31 December 2013. Had the acquisition taken place on 1 January 2013, the Group's revenue and consolidated profit at 31 December 2013 would have amounted to Euros 11,644 thousand and Euros 3,543 thousand, respectively.

The Group applied the acquisition method, identifying itself as the acquirer. The identifiable assets acquired and liabilities assumed were measured at fair value at the date of the business combination, in accordance with IFRS 3. Remeasurement of the assets acquired and liabilities assumed brought to light an increase of Euros 11,631 thousand in the value of the assets acquired.

The previously held investment in REDESUR was remeasured after this transaction was completed. The difference between the carrying amount of the investment at the transaction date and its fair value resulted in a gain of Euros 3,219 thousand. This gain was recognised under gains/losses on disposal of financial instruments in the consolidated income statement for 2013.

The Group also recognised the ownership interest of non-controlling interests at its acquisition-date fair value of Euros 11,145 thousand.

The effect on the consolidated statement of cash flows of the payment made for this business combination, net of the cash received, amounted to Euros 2,188 thousand.

9. INVENTORIES

No business combinations were carried out in 2014.

Thousands of Euros	2014	2013
Inventories	67,047	63,009
Impairment	(20,602)	(18,029)
	46,445	44,980

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

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

- >> Impairment of old inventories, using inventory turnover ratios.
- >> Impairment for excess inventories, on the basis of estimated use in future years.

As a result, the Group recorded a provision of Euros 2,573 thousand in 2014 (Euros 4,031 thousand in 2013).

10. TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 31 December 2014 and 2013 are as follows:

Thousands of Euros	2014	2013
Trade receivables	28,400	20,987
Other receivables	1,003,501	521,788
Current tax assets	40,789	1,760
	1,072,690	544,535

At 31 December 2014 and 2013 other receivables mostly comprise amounts pending invoicing and/or collection for transmission and system operation activities. This item also includes the revenue receivable under applicable regulations, which stipulate that facilities entering into service in year “n” are to be remunerated from year “n+2” onwards.

The higher increase in other receivables in 2014 compared to 2013 reflects the trend in settlements made by the regulator in 2014 for regulated activities as a result of changes in collections and payments, and the application in 2014 of the new financing mechanism for transitory mismatches between system revenues and costs pursuant to Electricity Industry Law 24/2013 of 26 December 2013. This new mechanism determines that those subject to the settlement system must finance, in proportion to the weight of their remuneration compared to other system costs, the transitory mismatches between system revenue and costs that are recorded in the monthly settlements on account for the yearly close.

In 2014 current tax assets comprise Euros 28,351 thousand in respect of recoverable income tax for 2013, based on the return filed by the Company in 2014, as the head of the tax group. This line item also includes Euros 11,640 thousand recoverable as a result of the amended tax return for 2012, filed by the Company in 2014, as the head of the tax group.

There are no significant differences between the fair value and the carrying amount at 31 December 2014 and 2013.

11. EQUITY

a) Capital risk management

The Group's capital management is aimed at safeguarding its capacity to ensure that the Group companies continue operating as a going concern, with the aim of providing shareholder remuneration while maintaining an optimum capital structure to reduce the cost of capital.

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

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

Thousands of Euros

	2014	2013
Non-current payables	4,955,001	4,552,158
Current payables	752,881	154,594
Foreign currency derivatives	34	49,307
Cash and cash equivalents	(299,368)	(214,861)
Net financial debt	5,408,548	4,541,198
Equity	2,552,452	2,224,648
Gearing ratio	67.9%	67.1%

At 31 December 2014, non-compliance with the covenants included in the agreements is highly improbable and should this occur the impact on the Group's profits would not be significant.

In 2014 Fitch Ratings upgraded its outlook from neutral to positive. This change is due to the improved outlook for Spain's rating. Following this announcement, the Company has maintained its long-term rating of A- and its short-term rating of F2, whilst its outlook has been upgraded from neutral to positive.

In addition, in 2014 the rating agency Standard & Poor's issued a new report maintaining its rating and outlook. The Company has maintained its long-term rating of BBB and its short-term rating of A-2, with a positive outlook.

b) Equity attributable to the Parent

>> Capital and reserves

Share capital

At 31 December 2014 and 2013 the share capital of the Parent is represented by 135,270,000 bearer shares with a par value of Euros 2 each, subscribed and fully paid, and carrying the same voting and profit-sharing rights. The Parent's shares are quoted on the four Spanish stock exchanges.

The Company is subject to the shareholder limitations stipulated in the twenty-third additional provision of Law 54/1997 of 27 November 1997 and article 30 of the Electricity Industry Law 24/2013 of 26 December 2013. 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 2014 and 2013 SEPI holds a 20% interest in the Company's share capital.

Reserves

This item includes:

> Legal reserve

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

> Other reserves

Other reserves include voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves, all of which are freely distributable. These reserves totalled Euros 1,405,107 thousand at 31 December 2014 (Euros 1,229,778 thousand in 2013).

At 31 December 2014 and 2013 other reserves also comprise 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, increase share capital or, ten years after its creation, be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996).

Own shares

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

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

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

Profit for the year attributable to the Parent

Profit for 2014 totals Euros 717,821 thousand (Euros 529,139 thousand at 31 December 2013).

Interim dividends and proposed distribution of dividends by the Parent

Interim dividends approved by the board of directors in 2014 and 2013 are recognised as a reduction in consolidated equity at 31 December 2014 and 2013, respectively.

On 23 December 2014 the Parent's board of directors agreed to pay an interim dividend of Euros 0.8323 (gross) per share with a charge to 2014 profit, payable on 2 January 2015 (interim dividend of Euros 0.7237 (gross) per share with a charge to 2013 profit). The interim dividend approved at 31 December 2014 totals Euros 112,463 thousand (Euros 97,867 thousand in 2013) (see note 16).

Details of the dividends paid during 2014 and 2013 are as follows:

	2014			2013		
	% of par value	Euros per share	Amount (thousands of Euros)	% of par value	Euros per share	Amount (thousands of Euros)
Ordinary shares	127.11%	2.5422	343,782	118.26%	2.3651	319,031
Total dividends paid	127.11%	2.5422	343,782	118.26%	2.3651	319,031
Dividends with a charge to profit	127.11%	2.5422	343,782	118.26%	2.3651	319,031

The Parent's board of directors also proposed to the shareholders at their general meeting the distribution of a supplementary dividend of Euros 2.1677 per share, which would result in a total dividend for 2014 of Euros 3 per share (Euros 2.5422 per share in 2013).

>> **Valuation adjustments**

Available-for-sale financial assets

At 31 December 2014 and 2013 this item reflects valuation adjustments to available-for-sale financial assets due to fluctuations in the listed share price of the 5% investment held by the Company in REN, the benchmark index for which is the PSI 20. At 31 December 2014 this item totals Euros 7,950 thousand (Euros 4,648 thousand in 2013).

Hedging transactions

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

At 31 December 2014 this item is negative in an amount of Euros 69,273 thousand (negative in an amount of Euros 46,290 thousand in 2013).

Translation differences and other

This line item mainly comprises the exchange gains and losses arising on foreign operations, specifically the Peruvian companies TESUR, REA and REDESUR. At 31 December 2014 this item amounts to Euros 1,429 thousand (negative in an amount of Euros 1,010 thousand in 2013).

c) Non-controlling interests

Non-controlling interests under equity in the accompanying consolidated statement of financial position reflect the non-controlling interests in TESUR and REDESUR. At 31 December 2014 these interests amount to Euros 22,986 thousand (Euros 18,061 thousand in 2013). Details of movements during 2014 are as follows:

	31 December 2013	Profit for the year	Net translation differences	Other changes in equity	31 December 2014
Non-controlling interests	18,061	1,241	2,321	1,363	22,986

12. GRANTS AND OTHER

Movement in grants and other in 2014 and 2013 is as follows:

RED ELÉCTRICA GROUP

DETAILS OF MOVEMENT IN GRANTS AND OTHER NON-CURRENT REVENUE RECEIVED IN ADVANCE IN 2014 AND 2013

(expressed in thousands of Euros)

	31 December 2012	Additions	Disposals	Applications	31 December de 2013	Additions	Disposals	Applications	31 December de 2014
Capital grants	123,492	19,993	-	(4,382)	139,103	3,456	-	(4,595)	137,964
Other grants	-	-	-	-	-	53,985	-	(5,143)	48,842
Other non-current revenue received in advance	279,718	8,294	-	(8,818)	279,194	25,498	-	(9,056)	295,636
	403,210	28,287	-	(13,200)	418,297	82,939	-	(18,794)	482,442

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

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

In 2010, the Company was awarded a grant by the European Commission for its involvement in an electricity interconnection project between Spain and France under joint development with Réseau de Transport d'Electricité (RTE), through Interconexión Eléctrica Francia-España, S.A.S (INELFE). The grant was awarded for a maximum amount of Euros 112.5 million, of which Euros 19,420 thousand were received in 2013 and recognised under additions in 2013.

13. NON-CURRENT PROVISIONS

Movement in 2014 and 2013 is as follows:

RED ELÉCTRICA GROUP

(expressed in thousands of Euros)

	31 December 2012	Additions	Applications	Transfers	Actuarial gains and losses	Reversals and translation differences	31 December 2013	Additions	Applications	Reversals and translation differences	31 December 2014
Commitments with personnel	40,523	4,773	(405)	-	2,356	2	47,249	4,516	(5,535)	17,115	63,345
Other provisions	24,911	13,420	(1,429)	-	-	-	36,902	8,368	(1,390)	(1,703)	42,177
	65,434	18,193	(1,834)	-	2,356	2	84,151	12,884	(6,925)	15,412	105,522

Commitments with personnel essentially include the future commitments – specifically medical insurance – undertaken by REE with its personnel from the date of their retirement, calculated using actuarial studies carried out by an independent expert, and the deferred remuneration schemes established by the Group.

In 2014 and 2013 additions to commitments with personnel derive mainly from the annual accrual of these commitments, as well as changes in the actuarial assumptions used. These additions have been recognised as personnel expenses or finance costs, depending on their nature, and under reserves when they derive from changes in the actuarial assumptions (mainly in the case of obligations related to medical insurance) or in profit or loss (in the case of past service obligations). The personnel expenses and finance costs recognised in this connection in the consolidated income statement for 2014 amount to Euros 1,983 thousand and Euros 901 thousand, respectively (Euros 1,296 thousand and Euros 1,309 thousand, respectively, in 2013), whilst the reserves recognised in 2014 total Euros 17,049 thousand, net of tax (Euros 2,356 thousand in 2013). Furthermore, at 31 December 2014 Euros 3,635 thousand and Euros 1 thousand have been recognised as personnel expenses and finance costs, respectively, in the income statement in connection with amounts accrued under the deferred remuneration schemes (Euros 2,050 thousand and Euros 120 thousand, respectively, in 2013).

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

(in thousands of Euros)	2014		2013	
	+1%	-1%	+1%	-1%
Current service cost	688	(487)	430	(308)
Interest cost of net post-employment medical costs	14	(10)	15	(11)
Accumulated post-employment benefit obligation for medical insurance	15,210	(10,923)	9,367	(6,802)

These provisions have been recorded on the basis of actuarial studies using the following assumptions for 2014 and 2013:

	2014	2013
	Actuarial assumptions	Actuarial assumptions
Discount rate	2.06%	3.40%
Cost increase	4.0%	4.0%
Mortality table	PERM/F 2000 new production	PERM/F 2000 new production

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

	Discount rate		
	2.06%	1.56%	Sensitivity
Current service cost	1,883	2,223	340
Interest cost of net post-employment medical costs	808	618	(190)
Accumulated post-employment benefit obligation for medical insurance	55,396	63,410	8,014

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

The main non-current provision for ongoing legal processes is a Euros 10 million provision to cover the penalty imposed by the Catalan regional government due to the disciplinary proceedings launched as a result of the power cut in Barcelona in July 2007. The Company has filed an appeal against this penalty.

14. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities basically include the income from agreements with various telecommunications operators for the use of the telecommunications network capacity that are recognised in the consolidated income statement based on the duration of the agreements, with expiry dates up to 2027, amounting to Euros 44,972 thousand at 31 December 2014 (Euros 47,345 thousand at 31 December 2013). This item also includes the non-current liabilities arising from the compensation paid by Électricité de France (hereinafter EDF) under the agreement on the adaptation of electricity supply contracts signed in 1997, which amounted to Euros 23,625 thousand at 31 December 2014 (Euros 23,625 thousand at 31 December 2013). These commitments pertain to more than one year and are therefore subject to the construction of facilities that were not completed at 31 December 2014.

15. FINANCIAL RISK MANAGEMENT POLICY

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

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

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

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

The methodology for identifying, measuring, monitoring and controlling risk, as well as the management indicators and measurement and control tools specific to each risk, are documented in the financial risk manual. The financial risks to which the Group is exposed are as follows:

a) Market risk

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

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

>> Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates. Interest rate risk management is for the most part aimed at maintaining a debt structure of approximately 75% fixed interest (protected risk) and 25% variable interest rates. The debt structure at 31 December 2014 and 2013 is as follows:

(Thousands of Euros)

	2014		2013	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Non-current issues	3,250,059	14,899	3,009,027	-
Non-current bank debt	977,044	713,028	1,177,857	414,581
Current issues	57,661	241,796	-	94,777
Current bank debt	222,323	231,106	-	59,817
Total debt	4,507,087	1,200,829	4,186,884	569,175
Percentage	79%	21%	88%	12%

The debt structure presents a low risk profile, with moderate exposure to interest rate fluctuations.

The interest rate risk to which the Group is exposed at 31 December 2014 and 2013 derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not profit for the year. A sensitivity analysis of this risk is as follows:

EFFECT OF MARKET INTEREST RATE FLUCTUATIONS ON CONSOLIDATED EQUITY

(Thousands of Euros)

	2014		2013	
	+0.10%	-0.10%	+0.10%	-0.10%
Interest rate hedges: - Cash flow hedge Interest rate swap	2,527	(2,543)	2,655	(2,672)
Interest rate and exchange rate hedges: - Cash flow hedge Cross Currency Swap	488	(498)	693	(705)

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2014 and 2013.

>> **Currency risk**

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

With a view to reducing the currency risk on issues in the US private placements (USPP) market, the Company has arranged cash flow hedges through US Dollar/Euro cross currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035 (see note 17).

In order to mitigate the currency risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of its investments in the corresponding functional currency. Consequently, at 31 December 2014 had the US Dollar strengthened/ weakened by 10% against the Euro, equity would have increased or decreased by approximately Euros 3 million (Euros 2 million at 31 December 2013).

b) Credit risk

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

In any event, credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are stipulated where required.

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

At 31 December, approximately 1% of balances are past-due (2% in 2013), although the companies do not consider there to be any risk as regards recoverability. The credit rating of the receivables is considered to be high.

c) Liquidity risk

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

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

The Group's financial debt at 31 December 2014 has an average maturity of five years.

The Group's liquidity position for 2014 was based on its robust capacity to generate cash flows, supported by undrawn credit facilities amounting to Euros 985.6 million (non-current and current balances of Euros 710.3 million and Euros 275.3 million, respectively).

d) Price risk

The Group is exposed to price risk relating to capital investments classified as available for sale in the consolidated statement of financial position. Investments available for sale on quoted markets basically comprise the 5% interest held by the Company in REN. At 31 December 2014 had the listed price of the REN shares been 10% higher, equity would have increased by approximately Euros 5 million (Euros 4 million in 2013). Had the listed price been 10% lower, equity would have been approximately Euros 5 million lower (Euros 4 million in 2013).

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

a) Financial assets

Details of the Red Eléctrica Group's current and non-current financial assets at 31 December 2014 and 2013 are as follows:

(Thosuands of Euros)

	Current period			
	Available-for-sale financial assets	Loans and receivables(1)	Hedging derivatives	Total
Equity instruments	65,102	-	-	65,102
Derivatives	-	-	-	-
Other financial assets	-	6,896	-	6,896
Non-current	65,102	6,896	-	71,998
Derivatives	-	-	620	620
Other financial assets	-	684	-	684
Current	-	684	620	1,304
Total	65,102	7,580	620	73,302

(1) Excluding trade receivables.

(Thousands of Euros)

	Prior period			
	Available-for-sale financial assets	Loans and receivables(1)	Hedging derivatives	Total
Equity instruments	60,517	-	-	60,517
Derivatives	-	-	-	-
Other financial assets	-	3,015	-	3,015
Non-current	60,517	3,015	-	63,532
Derivatives	-	-	-	-
Other financial assets	-	1,018	-	1,018
Current	-	1,018	-	1,018
Total	60,517	4,033	-	64,550

(1) Excluding trade receivables.

>> Equity instruments

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

The value of this investment is subject to the listed share price. In 2014 the fair value of this equity instrument increased and the corresponding valuation adjustment was recognised directly under equity.

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

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

From this year onwards, this item also comprises the investment in eight economic interest groups (EIGs) measured at Euros 8. These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the rewards and risks of the activity, while the Group only avails of the tax benefits pursuant to Spanish legislation. The Company recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income (see note 21 e) reflecting the difference compared to income tax payable to the taxation authorities.

>> Derivatives

Details of derivative financial instruments are provided in note 17.

>> Other financial assets

Other financial assets essentially comprise guarantees pledged and loans extended by REE to its personnel, which fall due in the long term. There are no significant differences between the fair value and the carrying amount at 31 December 2014 and 2013.

Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 31 December 2014 and 2013 are as follows:

(Thosuands of Euros)

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

	Prior period			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	59,755	762	-	60,517
Derivatives	-	-	-	-
Other financial assets	-	-	4,033	4,033

b) Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities at 31 December 2014 and 2013 are as follows:

(Thosuands of Euros)

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

(1) Excluding trade payables.

(Thousands of Euros)

	Prior period		
	Debts and payables[1]	Hedging derivatives	Total
Loans and borrowings	1,592,438	-	1,592,438
Bonds and other marketable securities	2,959,720	-	2,959,720
Derivatives	-	110,629	110,629
Other financial liabilities	208	-	208
Non-current	4,552,366	110,629	4,662,995
Loans and borrowings	73,091	-	73,091
Bonds and other marketable securities	172,177	-	172,177
Derivatives	-	-	-
Other financial liabilities	746,636	-	746,636
Current	991,904	-	991,904
Total	5,544,270	110,629	5,654,899

(1) Excluding trade payables.

>> Loans and borrowings, bonds and other marketable securities

The carrying amount and fair value of loans and borrowings and issues of bonds and other marketable securities at 31 December 2014 and 2013 are as follows:

(Thousands of Euros)

	Carrying amount		Fair value	
	2014	2013	2014	2013
Issues in Euros	3,152,791	2,692,215	3,479,949	2,838,929
Issues in US Dollars	411,590	362,282	477,355	379,826
Bank borrowings in Euros	2,107,823	1,599,196	2,112,135	1,536,275
Bank borrowings in foreign currency	35,678	53,059	43,729	57,344
Total	5,707,882	4,706,752	6,113,168	4,812,374

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

At 31 December 2014 the accrued interest payable amounts to Euros 91,176 thousand (Euros 90,674 thousand in 2013).

Issues in Euros at 31 December 2014 include:

- Eurobonds issued by Red Eléctrica Financiaciones, totalling Euros 2,910,995 thousand (Euros 2,597,438 thousand in 2013). Bonds were issued twice in 2014 for amounts of Euros 300 million and Euros 15 million (four issues were made in 2013 for amounts of Euros 400 million, Euros 300 million, Euros 45 million and Euros 55 million).

- Promissory notes amounting to Euros 241,796 thousand issued on the Euromarket by Red Eléctrica Financiaciones as part of the "Euro Commercial Paper Programme" (ECP Programme), which fall due in the short term (Euros 94,777 thousand in 2013).

Issues in US Dollars at 31 December 2014 include US Dollars 500 million issued on the US private placement (USPP) market, with an equivalent value of Euros 411,590 thousand (Euros 362,282 thousand in 2013).

Bank borrowings in Euros at 31 December 2014 include non-current loans and credit facilities totalling Euros 1,678,712 thousand (Euros 1,526,576 thousand in 2013) and syndicated credit facilities amounting to Euros 429,111 thousand (Euros 72,620 thousand in 2013).

Details of the maturities of bond issues and bank borrowings at 31 December 2014 are as follows:

The average interest rate was 3.49% in 2014 (3.84% in 2013).

At 31 December 2014 Group companies have undrawn credit facilities amounting to Euros 985.6 million, of which Euros 710.3 million expire in the long term (Euros 1,130 million at 31 December 2013) and Euros 275.3 million in the short term (Euros 66 million at 31 December 2013).

RED ELÉCTRICA GROUP

DETAILS OF MATURITY OF BOND ISSUES AND BANK BORROWINGS AT 31 DECEMBER 2014

(expressed in thousands of Euros)

	2015	2016	2017	2018	2019	Subsequent years	Valuation adjustments	Total
Issues in Euros	241,860	500,000	-	750,000	400,000	1,265,000	(4,069)	3,152,791
Issues in US Dollars	57,656	-	-	-	-	354,172	(238)	411,590
Bank borrowings in Euros	452,134	239,441	90,281	96,823	361,419	872,494	(4,769)	2,107,823
Bank borrowings in US Dollars	4,178	3,777	3,870	3,591	3,680	17,136	(554)	35,678
	755,828	743,218	94,151	850,414	765,099	2,508,802	(9,630)	5,707,882

Details of bonds and other marketable securities at 31 December 2014 and 2013 are as follows:

(Thousands of Euros)

	Current period				
	Opening outstanding balance at 31/12/2013	(+) Issues	(-) Buy-backs or redemptions	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2014
Debt securities for which a prospectus must be filed	2,692,215	994,444	(532,395)	(1,473)	3,152,791
Debt securities for which a prospectus need not be filed	-	-	-	-	-
Other debt securities issued in a non-EU member state	362,282	-	-	49,308	411,590
Total	3,054,497	994,444	(532,395)	47,835	3,564,381

	Prior period				
	Opening outstanding balance at 31/12/2012	(+) Issues	(-) Buy-backs or redemptions	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2013
Debt securities for which a prospectus must be filed	2,678,941	1,097,627	(1,081,737)	(2,616)	2,692,215
Debt securities for which a prospectus need not be filed	-	-	-	-	-
Other debt securities issued in a non-EU member state	378,653	-	-	(16,371)	362,282
Total	3,057,594	1,097,627	(1,081,737)	(18,987)	3,054,497

At 31 December 2014 and 2013 the outstanding balance of debt securities for which a prospectus had to be filed reflects issues recorded in Dublin and Luxembourg.

>> Derivatives

Details of derivative financial instruments are provided in note 17.

>> Other current financial liabilities

Details of other current financial liabilities at 31 December 2014 and 2013 are as follows:

(Thousands of Euros)	2014	2013
Dividend payable	112,463	97,867
Suppliers of fixed assets and other payables	592,911	648,769
	705,374	746,636

Suppliers of fixed assets and other payables essentially reflect payables to suppliers of fixed assets incurred on the construction of electricity facilities and balances pending settlement in relation to the Spanish electricity system for the activities carried out.

>> Fair value hierarchy levels

Details of the Group's financial liabilities measured at fair value using the inputs defined for this calculation at 31 December 2014 and 2013 are as follows:

(Thousands of Euros)	Current period			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	90,010	-	90,010
Other financial liabilities	-	-	11,122	11,122
	Prior period			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	110,629	-	110,629
Other financial liabilities	-	-	10,781	10,781

Level 2 comprises foreign currency and interest rate derivatives. Level 3 comprises security deposits pledged to the Group. There are no significant differences between the fair value and the carrying amount at 31 December 2014 and 2013. Liabilities at amortised cost are not disclosed by fair value hierarchy level.

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

			Thousands of Euros							
			2014				2013			
			Non-current		Current		Non-current		Current	
	Principal	Maturity	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Activo	Liabilities
Interest rate hedges:										
- Cash flow hedges:										
Interest rate swap	Euros 245,000 thousand	Up to 2015	-	-	-	(8,106)	-	(16,319)	-	-
Interest rate swap	Euros 75,000 thousand	Up to 2016	-	(1,665)	-	-	-	(1,961)	-	-
Interest rate swap	Euros 330,000 thousand	Up to 2020	-	(56,153)	-	-	-	(41,051)	-	-
Interest rate swap	Euros 168,000 thousand	Up to 2021	-	(793)	-	-				-
Interest rate and exchange rate hedges:										
- Cash flow hedges: (Cross currency swap)	US Dollars 500,000 thousand	Up to 2035								
Interest rate hedge	-			(23,264)	625		-	(1,992)	-	-
Exchange rate hedge	-			(29)	(5)		-	(49,306)	-	-
			-	(81,904)	620	(8,106)	-	(110,629)	-	-

Details of derivative financial instruments by expiry date at 31 December 2014, in thousands of Euros, are as follows:

			Thousands of Euros						
	Principal	Maturity	2015	2016	2017	2018	2019	2020 and thereafter	Total
Interest rate hedges:									
- Cash flow hedges:									
Interest rate swap	Euros 245,000 thousand	Up to 2015	(8,106)	-	-	-	-	-	(8,106)
Interest rate swap	Euros 75,000 thousand	Up to 2016	-	(1,665)	-	-	-	-	(1,665)
Interest rate swap	Euros 330,000 thousand	Up to 2020	-	-	-	-	-	(56,153)	(56,153)
Interest rate swap	Euros 168,000 thousand	Up to 2021	-	-	-	-	-	(793)	(793)
Interest rate and exchange rate hedges									
- Cash flow hedges: (Cross currency swap)	US Dollars 500,000 thousand	Up to 2035							
Interest rate hedge	-		625	-	-	-	-	(23,264)	(22,639)
Exchange rate hedge	-		(5)	-	-	-	-	(29)	(34)
			(7,486)	(1,665)	-	-	-	(80,239)	(89,390)

18. TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2014 and 2013 are as follows:

(Thousands of Euros)	2014	2013
Suppliers	200,128	201,220
Other payables	57,445	142,030
Current tax liabilities	20,116	22,777
	277,689	366,027

Suppliers essentially reflect payables arising from engineering, construction and maintenance work and modifications to electricity facilities, as well as balances pending settlement in relation to the Spanish electricity system for the activities carried out.

Other payables in 2014 and 2013 basically comprise balances with public entities, for the most part value added tax (VAT) on the latest regulated remuneration settlements announced by the Spanish National Markets and Competition Commission (CNMC) each year.

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

Pursuant to Law 3/2004 of 29 December 2004 on Measures to Combat Late Payments in Commercial Transactions, details of payments made and outstanding in 2014 and 2013 are as follows (in thousands of Euros):

RED ELÉCTRICA GROUP

PAYMENTS MADE AND OUTSTANDING AT 31 DECEMBER 2014 AND 2013
(expressed in thousands of Euros)

	2014		2013	
	Amount	%	Amount	%
Payments excluded from reporting requirements of Law 15/2010	-	0.00%	-	0.00%
Within maximum legal period(*)	408,122	99.96%	427,966	99.97%
Other	176	0.04%	146	0.03%
Total payments for the year(*)	408,298	100%	428,112	100%
Weighted average late payment days	25	-	47	-
Late payments exceeding the maximum legal period at the reporting date	-	-	-	-

(*) Total payments for the year in 2014 and 2013 do not include the payments made for services rendered by the Spanish electricity system operator. These payments totalled Euros 1,460,864 thousand in 2014 (Euros 1,120,280 thousand in 2013). In both years, these payments were made within the maximum legal period.

20. TAXATION

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

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

At 31 December 2014, the tax group includes the Parent, REI, REE and REF.

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

Thousands of Euros	2014	2013
Consolidated accounting profit for the period before tax	853,496	733,013
Permanent differences and consolidation adjustments	3,821	14,114
Consolidated taxable accounting income	857,317	747,127
Tax rate	30%	30%
Result of applying tax rate to profit for the year	257,195	224,138
Adjusted profit multiplied by tax rate	247	(1,918)
Tax calculated at the tax rate of each country	257,442	222,220
Deductions	(6,769)	(583)
Income due to changes in tax rates (Law 27/2014)	(106,135)	-
Income tax adjustments	(10,104)	(18,422)
Income tax	134,434	203,215
Current income tax	239,283	188,038
Deferred income tax	(104,849)	15,177
Effective tax rate	15.75%	27.72%

Permanent differences in 2014 and 2013 essentially reflect the provisions for liabilities recorded in the year and other non-deductible expenses.

Deductions in 2014 were mainly for investments in the Canary Islands and research, development and technological innovation expenditure, and in 2013 for research, development and technological innovation (note 2 c).

In the tax return for 2013, filed in July 2014, the Group applied deductions to the amount of tax payable for investments in fixed assets in the Canary Islands totalling Euros 49,805 thousand, most of which were generated and reported in prior years as available deductions.

Given the financial nature of these deductions for investments in fixed assets, the Company opted to recognise them in the income statement over several years based on the useful lives of the assets for which they were granted.

Adjustments to Group income tax in 2014 and 2013 primarily relate to the impairment of international investments. In 2013 they also pertain to the balance sheet revaluation permitted by Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity. The Group companies REC and REE have availed of this revaluation provision.

Current receivables from and payables to public entities at 31 December 2014 and 2013 are as follows:

Thousands of Euros	2014	2013
Current receivables		
VAT recoverable	95,216	5,853
Income tax recoverable	40,093	-
Other recoverable taxes	696	1,760
Current payables		
VAT payable	43,544	128,587
Other	4,420	3,844
Income tax	20,116	22,777

In 2014 the tax base was adjusted for the tax losses of the EIGs in which the Group holds an interest, totalling Euros 18,470 thousand (see note 16).

In the consolidated statement of financial position the Group has offset deferred tax assets and deferred tax liabilities arising from the Spanish tax group in an amount of Euros 114,001 thousand, as permitted by IAS 12 (Euros 97,438 thousand in 2013).

The deferred tax assets and liabilities are presented prior to offset, to facilitate comprehension.

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

Thousands of Euros	2014		2013	
	Income statement	Income and expense recognised directly in equity	Income statement	Income and expense recognised directly in equity
	Increases	Increases	Increases	Increases
Deferred tax assets:				
Originating in prior years	92,809	39,215	82,866	32,600
Movement in the year	23,524	(1,310)	9,943	6,615
Adjustments due to changes in tax rate (Law 27/2014)	(3,968)	(5,331)	-	-
Total deferred tax assets	112,365	32,574	92,809	39,215
Deferred tax liabilities:				
Originating in prior years	667,109	29,184	641,989	9,113
Movement in the year	22,238	(11,313)	25,120	20,071
Adjustments due to changes in tax rate (Law 27/2014)	(110,103)	(530)	-	-
Total deferred tax liabilities	579,244	17,341	667,109	29,184

Deferred tax assets and liabilities at 31 December 2014 and 2013 are as follows:

Thousands of Euros

	2014	2013
Retirement and commitments with personnel	18,198	16,988
Grants	895	1,128
Financial derivatives	23,770	33,189
Tax loss carryforwards	679	7,948
Balance sheet revaluation, Law 16/2012	35,751	34,589
Limit on deductible amortisation / depreciation, Law 16/2012	59,279	28,888
Other	6,367	9,294
Total deferred tax assets	144,939	132,024
Accelerated amortisation/depreciation	548,865	631,599
Non-deductible assets	27,066	35,718
Cash flow hedges	-	13,350
Other	20,654	15,626
Total deferred tax liabilities	596,585	696,293

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

31/12/14	Total	Less than 1 year	More than 1 year
Deferred tax assets	144,939	17,476	127,463
Deferred tax liabilities	596,585	26,210	570,375

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

In 2014 and 2013, deferred tax assets essentially derive from the limitation on the tax deductibility of depreciation and amortisation charges and the balance sheet revaluations, as permitted by Law 16/2012. Furthermore, in 2013 deferred tax assets primarily include credits for tax loss carryforwards pending offset in prior years deriving from accelerated depreciation, changes in value of cash flow hedges and provisions for liabilities.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the inclusion of the assets and liabilities of REDALTA and INALTA, the companies absorbed by REC in 2006, as well as changes in value of cash flow hedges. Deferred tax liabilities for accelerated depreciation as provided for in the 11th additional provision of the Spanish Income Tax Law amounted to Euros 586,223 thousand in 2014 (Euros 557,183 thousand in 2013). At 31 December 2014, the Company has made investments during the accelerated depreciation application period (between 2009 and March 2012) which are expected to result in income tax deferrals of approximately Euros 75 million over the coming years, as provided for by Royal Decree-Law 12/2012 of 30 March 2012, which introduces various tax and administrative measures aimed at reducing the public deficit.

The notes to the Company's annual accounts for 2006 contain disclosures on the merger by absorption carried out during that year, as required by article 93 of Royal Legislative Decree 4/2004. The notes to the 2008 annual accounts include disclosures on the contribution to Red Eléctrica de España, S.A.U. of the branch of activities encompassing the duties of the system operator, transmission grid manager and transmission agent of the Spanish electricity system.

Law 27/2014 of 27 November 2014, effective from 1 January 2015, which amends the Spanish Income Tax Law and reduces the tax rate from 30 per cent to 28 per cent in 2015 and to 25 per cent from 2016 onwards, has resulted in accounting income of Euros 106,135 thousand in 2014 and a reduction in equity of Euros 4,801 thousand due to the revision of the deferred tax assets and liabilities recognised by the Group based on the new tax rates.

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

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

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

21. INCOME AND EXPENSES

a) Revenue

Details of revenue in 2014 and 2013, by geographical area, are as follows:

Thousands of Euros

	Current period	Prior Period
Domestic market	1,799,881	1,713,169
International market	46,833	45,097
a) European Union	19,802	20,358
b) OECD countries	-	-
c) Other	27,031	24,739
TOTAL	1,846,714	1,758,266

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

International markets in 2014 mostly reflect revenue of REDESUR and TESUR from the rendering of transmission services since June, when their facilities came into service, the income from reinsurance services and revenue until June from the construction of the Tintaya-Socabaya line in Peru. In 2013 international markets mostly reflected income from reinsurance services, the revenue from the construction of the Tintaya-Socabaya line in Peru and the revenue generated by REDESUR since 9 May (date of incorporation into the Group).

b) Supplies and other operating expenses

Details of supplies and other operating expenses in 2014 and 2013 are as follows:

Thousands of Euros

	2014	2013
Supplies	59,711	67,025
Other operating expenses	293,641	296,403
	353,352	363,428

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

c) Personnel expenses

Details of personnel expenses in 2014 and 2013 are as follows:

Thousands of Euros

	2014	2013
Salaries and wages	101,153	99,020
Social Security	22,692	21,142
Contributions to pension funds and similar obligations	2,007	1,860
Other items and employee benefits	7,115	5,241
	132,967	127,263

Salaries and wages at 31 December 2014 include Euros 1,499 thousand in termination benefits for employees (Euros 1,065 thousand in 2013).

The Group companies have capitalised personnel expenses totalling Euros 14,119 thousand at 31 December 2014 (Euros 15,417 thousand at 31 December 2013).

>> Workforce

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

	2014	2013
Management	127	118
Senior technicians and middle management	532	509
Technicians	565	584
Specialist and administrative staff	513	507
	1,737	1,718

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

	2014			2013		
	Male	Female	Total	Male	Female	Total
Management	105	27	132	101	23	124
Senior technicians and middle management	353	175	528	343	175	518
Technicians	476	89	565	492	99	591
Specialist and administrative staff	412	105	517	409	103	512
	1,346	396	1,742	1,345	400	1,745

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

d) Impairment and gains/losses on disposal of fixed assets

In 2014 and 2013 this item included the impairment recorded on certain transmission facilities (see note 6).

e) Finance income and costs

Finance income mainly comprises the dividends received on the 5% interest in REN. In 2014 this item also includes Euros 499 thousand finance income on the investment in the EIGs (see notes 16 and 20).

Finance costs basically reflect borrowing costs on loans and borrowings, net of any amounts capitalised, as well as bonds and other marketable securities (see note 16). Capitalised borrowing costs totalled Euros 21,846 thousand in 2014 (Euros 22,941 thousand in 2013).

f) Impairment and gains/losses on disposal of financial instruments

On 1 May 2012 the Bolivian government published a Supreme Decree nationalising Transportadora de Electricidad S.A. (hereinafter TDE), a subsidiary in which the Group held 99.94% of the shares. On 13 November 2014 Red Eléctrica Internacional and the Plurinational State of Bolivia reached a final agreement on the compensation for the nationalisation of TDE. This agreement has generated a gain of Euros 52,311 thousand for the Group.

At 31 December 2013 this item included a gain of Euros 3,219 thousand on the fair value measurement of the previously held investment in REDESUR after control was taken of this company (see note 8).

22. TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

a) Balances and transactions with associates

In 2014 the Group had no associates. As indicated in note 8, REDESUR was an associate until 9 May 2013, when it became part of the Group. At 31 December 2013 there were no receivables from or payables to associates. Transactions with associates carried out at arm's length, up to the date that the Group took control of REDESUR, were as follows:

RED ELÉCTRICA GROUP

DETAILS OF BALANCES AND TRANSACTIONS WITH ASSOCIATES FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Expressed in thousands of Euros)

	2013			
	Balances		Transactions	
	Receivable	Payable	Expenses	Income
Red Eléctrica del Sur S.A. (Redesur)	-	-	2	459
Total	-	-	2	459

b) Related party transactions

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

	2014				
Expenses and income	**Significant shareholders**	**Directors and management**	**Group employees, companies or entities**	**Other related parties**	**Total**
Management or cooperation agreements	-	-	-	-	-
Other expenses	-	-	-	49	49
EXPENSES	-	-	-	49	49
Dividends received	-	-	-	4,566	4,566
Other income	-	-	-	38	38
INCOME	-	-	-	4,604	4,604
Other transactions:					
Dividends and other allocated benefits	-	-	-	-	-
Other operations	-	-	-	-	-
OTHER TRANSACTIONS	-	-	-	-	-
Expenses and income	2013				
Management or cooperation agreements	-	-	-	-	-
Other expenses	-	-	-	108	108
EXPENSES	-	-	-	108	108
Dividends received	-	-	-	4,539	4,539
Other income	-	-	-	74	74
INCOME	-	-	-	4,613	4,613
Other transactions:					
Dividends and other allocated benefits	-	-	-	-	-
Other operations	-	-	-	-	-
OTHER TRANSACTIONS	-	-	-	-	-

Dividends received in 2014 and 2013 are those received from REN.

23. REMUNERATION OF THE BOARD OF DIRECTORS

Based on the proposal from the Corporate Responsibility and Governance Committee, at its meeting on 25 February 2014 the Company's board of directors set the remuneration for the board of directors for 2014, introducing a new remuneration system. The board's remuneration was approved by the shareholders at their general meeting held on 9 May 2014.

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

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

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

(Expressed in thousands of Euros)	2014	2013
Total remuneration of the board of directors for all items	1,788	1,787
Remuneration of directors in their capacity as executive directors	599	599
Total remuneration for members of the board of directors	2,387	2,386

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

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

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

(Expressed in thousands of Euros)	2014	2013
Type of director		
Executives	746	746
External directors representing shareholders	483	498
Independent external directors	1,158	1,142
Total remuneration	2,387	2,386

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

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

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

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

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

(Expressed in thousands of Euros)	2014	2013
Remuneration:		
Fixed remuneration	1,804	940
Variable remuneration	200	739
Allowances	175	540
Membership of committees	208	167
Total remuneration	2,387	2,386

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

The annual variable remuneration of the executive director is set by the Corporate Responsibility and Governance Committee of the 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.

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

Following the scheme's conclusion in 2013, at the meeting held on 20 February 2014 the Parent's Corporate Responsibility and Governance Committee assessed the level of fulfilment of the scheme's objectives to be 106.3%. It also agreed to set remuneration of Euros 278 thousand for the executive director, to be charged to the scheme, reflecting the aforementioned percentage and the time elapsed between the appointment of the executive director in question and 31 December 2013, the end date of the scheme. This remuneration was paid in 2014 and was included in the amounts the Group accrued each year of the 2009-2013 period with a charge to the scheme.

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

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

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

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

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

24. MANAGEMENT REMUNERATION

In 2014 total remuneration accrued by senior management personnel amounted to Euros 729 thousand (Euros 685 thousand at 31 December 2013) and is recognised as personnel expenses in the consolidated income statement. These amounts include the accrued variable annual remuneration on the basis that the objectives set each year were met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the opening months of the following year.

The increase compared to 2013 is due to the higher percentage of variable remuneration assigned to senior management personnel to bring it into line with the fulfilment of the annual objectives set. There was no increase in the fixed remuneration in 2014.

The senior management personnel who have rendered services for the Group during 2014 are as follows:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager ofo Transmission
Andrés Seco García	General Manager of Operations

Euros 16 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 15 thousand in 2013).

No advances have been extended to these senior managers at 31 December 2014 and 2013.

At 31 December 2014 loans have been granted that have an outstanding balance of Euros 218 thousand. They fall due in December 2023 and have the same conditions as those applied to loans granted to personnel under the collective bargaining agreement. The average interest rate applicable in 2014 was 1.55%.

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

Following the scheme's conclusion in 2013, at the meeting held on 20 February 2014 the Parent's Corporate Responsibility and Governance Committee assessed the level of fulfilment of the scheme's objectives to be 106.3%. It also agreed to set remuneration of Euros 579 thousand for the two senior managers, to be charged to the scheme, reflecting the aforementioned percentage and the time elapsed between their appointment and 31 December 2013, the end date of the scheme. This remuneration was paid in 2014 and was included in the amounts the Group has accrued each year of the 2009-2013 period with a charge to the scheme.

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

The contracts in place with serving senior management personnel include guarantee or golden parachute clauses, in the event of dismissal. These clauses are in line with standard practices in the market, encompass cases of termination of labour relations and consider termination benefits of up to one-year's salary, except where applicable legislation provides for larger indemnities. The contracts that include these clauses have been approved by the Corporate Responsibility and Governance Committee and the Parent's board of directors has received notice thereof.

25. SEGMENT REPORTING

The principal activity of the Red Eléctrica Group is electricity transmission and operation of the electricity system in Spain, carried out through REE, which represents 95% of consolidated revenue and 94% of the Group's total assets (96% and 98%, respectively, in 2013). Other activities account for the remaining 5% of revenue and 6% of total assets (4% and 2%, respectively, in 2013). Consequently, the Group did not consider it necessary to provide information by activity or geographical segment.

26. INVESTMENTS IN JOINT VENTURES

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

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

27. GUARANTEES AND OTHER COMMITMENTS WITH THIRD PARTIES AND OTHER CONTINGENT ASSETS AND LIABILITIES

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

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

To comply with the concession arrangement entered into in Peru through its investee TESUR to design, finance, supply the goods and services required, construct, operate and maintain the 220 kV Tintaya-Socabaya transmission line and the related substations, the Company is a guarantor vis-à-vis BBVA Banco Continental of 55% (in line with its ownership interest) of the US Dollars 15 million of additional capital contributions extended to TESUR to cover any possible extra charges and delays in the project.

At 31 December 2014 the Group has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 55,311 thousand (Euros 53,240 thousand in 2013).

On 9 May 2006 REDESUR entered into a money trust contract with BBVA Banco Continental S.A. and Banco Wiese Sudameris (now Scotiabank Perú S.A.A.). The purpose of this contract is to create an administrative trust fund to ensure the total and timely repayment of the loan extended to the Company by BBVA Banco Continental S.A. Under this contract, Scotiabank Perú S.A.A. was designated as the trustee responsible for the fund, which comprises the Company's receivables from its customers and related parties. During the term of the contract, the Company undertakes to deposit these receivables in the current bank accounts of the trustee. The contract will expire once the Company has fully repaid its obligations with BBVA Banco Continental S.A. In May 2011 in addition to the refinancing of the loan agreement entered into with BBVA Banco Continental S.A., the Company signed an addendum to the money trust contract with Scotiabank Perú S.A.A.

28. ENVIRONMENTAL INFORMATION

During 2014 Group companies incurred ordinary expenses of Euros 19,852 thousand in protecting and improving the environment (Euros 21,260 thousand in 2013), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, slowing climate change, minimising pollution and safeguarding the countryside.

In 2014 the Parent also carried out environmental impact and monitoring studies in relation to its new electricity facilities. The costs incurred in these studies amounted to Euros 2,652 thousand (Euros 2,753 thousand in 2013).

The Group companies are not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. The Group companies received no environment-related grants in 2014 or 2013.

29. OTHER INFORMATION

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

The total fees accrued for the audit services rendered to the Group companies in 2014 were Euros 191 thousand (Euros 176 thousand in 2013). Fees were also accrued for other assurance services performed by KPMG in Group companies totalling Euros 45 thousand (Euros 44 thousand in 2013).

Furthermore, in 2014 other companies directly or indirectly related to the main auditor accrued fees of Euros 57 thousand for labour advisory professional services (Euros 128 thousand in 2013 for services commissioned prior to the appointment of KPMG as auditor of the Company's annual accounts).

30. EARNINGS PER SHARE

Details of earnings per share in 2014 and 2013 are as follows:

	2014	2013
Net profit (thousands of Euros)	717,821	529,139
Number of shares	135,270,000	135,270,000
Average number of own shares	96,171	362,295
Basic earnings per share (Euros)	5.31	3.92
Diluted earnings per share (Euros)	5.31	3.92

At 31 December 2014 and 2013 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

31. SHARE-BASED PAYMENT

Details of share-based payment at 31 December 2014 and 2013 are as follows:

RED ELÉCTRICA GROUP

SHARE-BASED PAYMENT AT 31 DECEMBER DE 2014 AND 2013

	2014			2013		
	Number of shares	Average price (Euros)	Amount in thousands of Euros	Number of shares	Average price (Euros)	Amount in thousands of Euros
Management	597	60.20	36	838	42.81	36
Employees	18,379	66.59	1,224	24,047	44.58	1,072
TOTAL	18,976	66.39	1,260	24,885	44.52	1,108

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

32. EVENTS AFTER 31 DECEMBER 2014

No significant events have occurred between the reporting date and the date on which these consolidated annual accounts were authorised for issue.

APPENDIX I

RED ELÉCTRICA GROUP

DETAILS OF INVESTMENTS AT 31 DECEMBER 2014 AND 2013

(Expressed in thousands of Euros)

Company - Registered office - Principal activity	2014 Percentage ownership*		2013 Percentage ownership*	
	Direct	Indirect	Direct	Indirect
Red Eléctrica Corporación S.A., Parent, incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Management of the business Group; rendering assistance or support services to investees and operation of the property owned by the Company.				
A) Fully consolidated companies				
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission and operation of the Spanish electricity system and management of the transmission grid.	100%	-	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - International investments. Rendering of advisory, engineering, construction and telecommunications services. - Performance of electricity activities outside the Spanish electricity system.	100%	-	100%	-
Red Eléctrica de España Finance, B.V. (RBV) - Claude Debussylaan, 24. Amsterdam (Holland). - Financing activities. - Incorporated in 2003 in the Netherlands (EC member state) to issue debt on behalf of the Red Eléctrica Group for amounts exceeding the limits laid down in Spanish law.	100%	-	100%	-

Red Eléctrica Financiaciones (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	100%	-
Redcor Reaseguros, S.A (REDCOR) - 23, Avenue Monterey. (Luxembourg). - Reinsurance activities. - Incorporated in 2010 in Luxembourg (EC member state) to reinsure the risks of the Group companies, thereby guaranteeing better access to international markets.	100%	-	100%	-
Red Eléctrica Andina, S.A. (REA) - Av. Alfonso Ugarte Nº 536 Cercado. Arequipa (Peru). - Rendering of line and substation maintenance services.	-	100%(1)	-	100%(1)
Transmisora Eléctrica del Sur , S.A. (TESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission grids.	-	55%(1)	-	55%(1)
Red Eléctrica del Sur, S.A. (REDESUR)** - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission grids.	-	55%(1)	-	55%(1)
B) Proportionately consolidated companies				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Ampère, 34 Rue Henri Régnault, 92068 La Défense Cedex. Paris (France). - Study and execution of the project to increase the Spain-France interconnection capacity.	-	50%(2)	-	50%(2)

* Equivalent to voting rights.
** The Group has held a 55% interest since 9 May 2013. In 2013 and 2012 the Group held a 33.75% interest and this company was therefore equity-accounted.
(1) Investment through Red Eléctrica Internacional.
(2) Investment through Red Eléctrica de España.

APPENDIX II

RED ELÉCTRICA CORPORACIÓN, S.A.

INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2014

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

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

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

THE VALUE OF CONNECTED ENERGY

CONSOLIDATED
DIRECTORS' REPORT
2014

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

1. COMPANY POSITION

1.1. Organisational structure

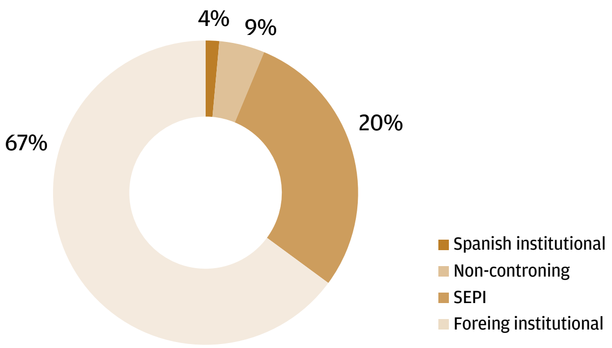
>> Corporate bodies

The board of directors and the shareholders are responsible for governing and managing the Group and its Parent, Red Eléctrica Corporación, S.A. (hereinafter REC).

The shareholders' general meeting is governed by the articles of association and the general meeting regulations, in accordance with the Spanish Companies Act. The ownership structure at the date of the 2014 shareholders' general meeting was as follows:

OWNERSHIP STRUCTURE

Shareholders' General Meeting 2014



The board of directors has formed two permanent committees: the Audit Committee and the Corporate Responsibility and Governance Committee, which are regulated by the articles of association and the regulations of the board of directors, as well as by all applicable corporate governance legislation.

The composition and powers of the board of directors and the various committees are as follows:

BOARD OF DIRECTORS

>> 63.63% independent members >> 45.45% women >> Coordinating independent director

Powers

> Approval of the general strategies and policies of both the Company and the Group.
> Group risk control.
> Effective supervision of the management team.
> Annual assessment of the quality and efficiency of the Board and functioning of its Committees.

CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE

>> 75% independient members
>> 75% women
>> Chairperson: Independent Director

Powers relating to:

> Appointment and removal of directors.
> Board and senior management remuneration policy.
> Compliance with director duties.
> Management of the Board assessment process.
> Information, supervision and proposals in relation to Corporate Governance and Responsibility.
> Preparation of the gender diversity report that is submitted to the Board for approval.

AUDIT COMMITTEE

>> 75% independent members
>> 50% women
>> Chairperson: Independent Director

Powers relating to:

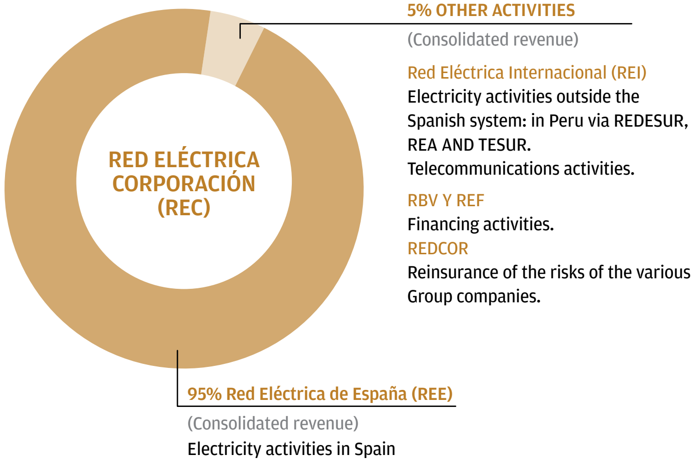
> Supervision of the process to prepare the Company's financial and economic information.
> Supervision of internal control and risk management systems.
> External auditor independence.
> Compliance with legal provisions and internal regulations.
> Powers regarding shareholder relations.

In May 2013, with the authorisation of the shareholders' general meeting, the board of directors introduced the position of Coordinating Independent Director. Broad powers are attached to this office, to counterbalance those attributed to the Chairman of the Board and chief executive, and they entail specific responsibilities and dedication in addition to those of ordinary director. The main task of the Coordinating Independent Director is to organise the common positions of independent directors and act as a liaison between holders of such positions and the Chairman of the Board, the Board itself and its committees.

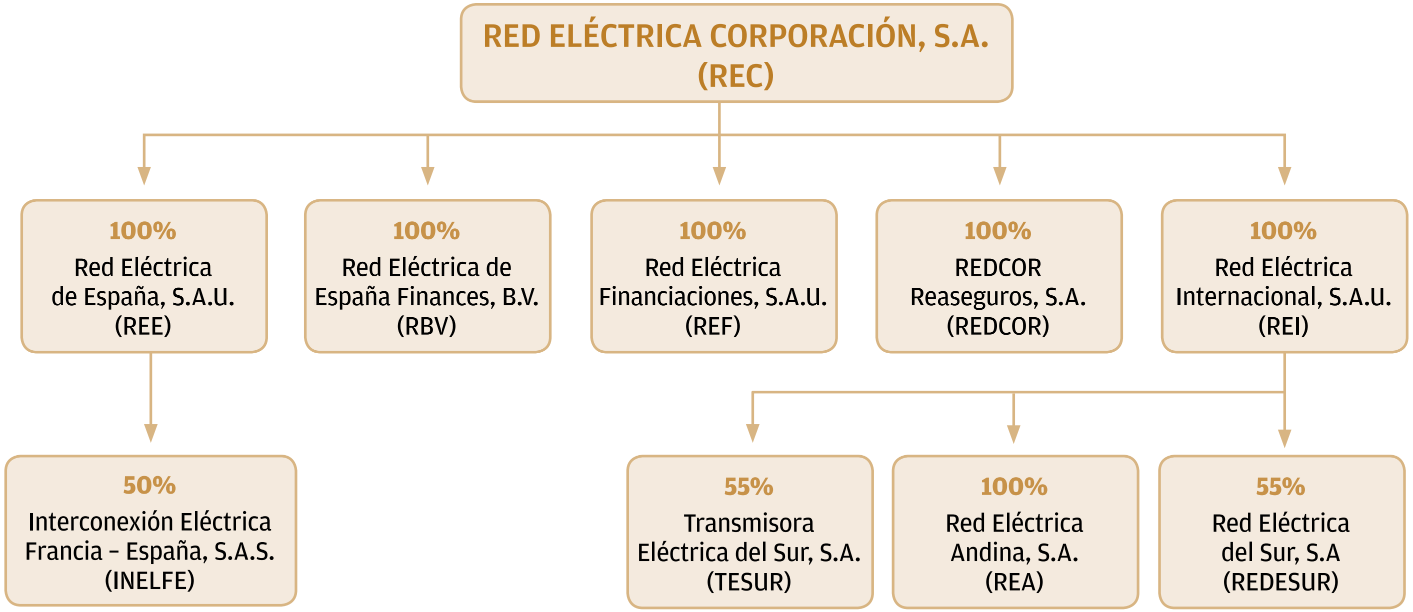
The Corporate Governance Report, which is attached hereto, contains detailed information regarding the composition and operation of the governing bodies of the Group and the Parent.

>> Composition of the RED ELÉCTRICA Group

The RED ELÉCTRICA Group's principal activity is electricity transmission and system operation in Spain via Red Eléctrica de España S.A.U. (REE), which generates 95% of the consolidated revenues and 94% of the Group's total assets (96% and 98%, respectively, in 2013). Other activities together account for the remaining 5% of revenues and 6% of total assets (4% and 2%, respectively, in 2013). It was therefore not considered relevant to provide information by segment of activity or geographic area. The Group is present in five countries (Spain, Peru, the Netherlands, Luxembourg and France).



There have been no changes to the consolidated group in 2014 and, at 31 December 2014, the composition of the Group was as follows (for more information on the activities of each company, see Appendix I to the notes to the consolidated annual accounts):



1.2 Activities and business performance

The Group carries out the aforementioned activities in Spain and abroad, most notably electricity transmission in Spain and Peru and rendering telecommunications services to third parties.

>> **Role of transmission agent and system operator for the Spanish electricity system**

The mission of Red Eléctrica de España, as transmission agent and system operator for the Spanish electricity system, is that of ensuring that the Spanish electricity system functions correctly and guaranteeing the continuity and security of the electricity supply at all times. To this end, it oversees and coordinates the generation and transmission system and manages the development of the transmission grid. The Company seeks to fulfil its mission while adhering to the principles of neutrality, transparency, independence and economic efficiency, so as to offer a secure, efficient and high quality electricity service to society as a whole.

In 2014, 600 km of new lines and 95 new substation bays came into service, and transformation capacity was increased by 3,250 MVA, with a total investment in the transmission grid of Euros 493 million.

The most significant initiatives in terms of development and renewal of the transmission grid, by major works or axes, were as follows:

>> Bescanó-La Farga-Santa-Llogaia axis: this axis aims to reinforce the mesh of the 400 kV grid in Catalonia, allow for continuity in the new interconnection with France and support the supply to the high-speed train line between Barcelona and the French border. The axis has a 164 km line, 25 substation bays and 2 transformers. In 2014 the Bescanó-La Farga-Santa Llogaia line and the Santa Llogaia 400/220 kV conventional substation were brought into service.

>> Almaraz-Guillena axis: this axis aims to connect the Almaraz, San Serván, Brovales and Guillena substations, providing a north-south link with a region that has a generation shortfall, as well as supporting the expansion of the interconnection with Portugal and the region's distribution grid, allowing for the evacuation of newly generated renewable energy. In 2014, the Brovales-Guillena and Mérida-San Serván lines and the Almaraz ET substation were brought into service.

>> San Martín axis: this axis aims to facilitate the evacuation of energy produced by the Es Murterar thermal power station, which has 20 bays, a 12 km line and 2 transformers. In 2014, the San Martín, E/S San Martín and SE Alcudia substations were brought into service and construction of the San Martín de Alcudia line commenced.

>> Aragón-Levante line: this line was created to connect the Aragón, Fuendetodos, Muniesa, Mezquita and Morella substations, enabling wind power generated by the new facility in the Maestrazgo region to be evacuated to Castellón. In 2014, authorisation was obtained for the Mezquita-Morella line and construction of the Morella substation commenced.

Actions to reinforce international and inter-island interconnections included the following:

>> Interconnection with Portugal: the Puebla de Guzmán-Portuguese border line that came into service in 2014 has increased the interconnection capacity between Spain and Portugal and brought greater operating security.

>> Interconnection with France: this new line extends between the two transformers located in Santa Llogaia (Spain) and Baixas (France) and came into service in December 2014. This infrastructure has doubled the current capacity for electricity exchange between these two countries bringing it to 2,800 MW, while heightening the security of the two electricity systems and opening the door for integration of a greater volume of renewable energy.

This project is being carried out in conjunction with Réseau de Transport d'Électricité (RTE) through the French company INELFE, in which the Spanish and French transmission system operators each have a 50% stake, and has been classified as a priority by the European Union. It characteristics make this project a technical challenge of the highest degree.

In 2014, both transmission system operators – REE and RTE – conducted studies for a new west-side interconnection that would increase the exchange capacity to European Union recommended levels.

>> Inter-island interconnections: the main goal of the Mallorca-Ibiza interconnection is to put an end to the present isolation of Ibiza in electricity terms, as well as to enable system cost savings and encourage competition in energy generation on the islands. Although this is the main project, other inter-island interconnection projects are also underway to connect Mallorca-Menorca, Ibiza-Formentera and Lanzarote-Fuerteventura.

In 2014 the entry into service of the Vilanova-Valldigna-Gandía (31.3 km) and the Costa de la Luz-Onuba (25.7 km) lines, amongst others, is also noteworthy, as well as various 400 kV and 220 kV substations. Initiatives conducted at several facilities under construction, including the Boimente-Pesoz line, should also be highlighted.

In 2014 implementation of the MAR (network asset enhancement) Plan in non-mainland systems gathered momentum, with a considerable volume of maintenance and renovation works being carried out on the transmission grid. As a result, 53% of bays have already been integrated in the Balearic Island electricity system and 50% in the Canary Island system.

The most notable events in 2014 were as follows:

>> Mainland energy demand amounted to 243,395 GWh, down 1.2% on 2013. Having corrected for the effect of working patterns and temperatures, demand attributable primarily to the economic activity has brought the rate of decline down to 0.2%, a notably lower drop than the prior year's 2.2%.

>> Maximum instantaneous power was recorded on Wednesday 4 February at 8.18 pm, at a rate of 38,948 MW. This is down 3.3% on the maximum for the prior year. Peak demand in terms of time was also posted on 4 February (between 8 and 9 pm) at 38,666 MWh.

>> In 2014 the first auctions for the rendering of the interruptibility service were successfully completed. Specifically, the country's major industrial players competed to be assigned the service in auctions that awarded 3,020 MW of interruptible resources for 2015.

>> The CECRE (Renewable Energy Control Centre), a pioneer and benchmark worldwide in the supervision and control of renewable energies, has enabled energy production from renewable sources to record new all-time highs in 2014, in terms of daily and monthly wind power generation. In 2014, the production of energy from renewable sources represented 43% of total energy generated by the Spanish mainland electricity system.

For another year running, the key role played by wind power, which contributed 20% of annual energy production, positioned this technology as the second-ranking producer amongst the different types of energy available to meet demand, behind only nuclear energy. Furthermore, in January, February and November wind power technology made the largest contribution to total energy production in the Spanish mainland system, generating 29.2%, 27.8% and 25.8%, respectively.

>> Moreover, in 2014 the system of cross-border balancing energy exchanges was established, enabling the exchange of surplus energy between neighbouring electricity systems using available interconnection capacity. This mechanism fosters competition amongst generation resources, optimises the use of international interconnections and favours the integration of renewable energy. It also represents another step towards the internal electricity market.

>> Within the Balearic Islands system, the positive effects of the HVDC link-up that connects Mallorca with the mainland electricity system continued to emerge in 2014. This infrastructure substantially improves the quality and security of electricity supply on the islands of Mallorca and Menorca, preventing frequency limits being exceeded and avoiding power outages caused by generation losses. In addition, the electricity transmitted from the mainland covered 27% of the demand in the Balearic Islands, reaching peaks of 35% of hourly consumption. This represented a saving of 23% in the costs of covering the Balearic Islands electricity system and prevented around 340,000 tonnes of CO_2 being emitted into the atmosphere in Balearic Islands territory.

>> In the Canary Islands electricity system, renewable power generation – wind and photovoltaic – accounted for 8% of the total in 2014, reaching levels of 32% in Tenerife and 35% in La Palma during the year, which are particularly promising levels for small isolated electricity systems.

In mid-2014 the Gorona del Viento hydro-wind plant was brought into service on the island of El Hierro, comprising an upper and a lower reservoir, a wind farm and a turbine pumping system, which operated under test conditions in the second half of the year.

>> International electricity exchanges resulted in a net export balance, reaching 3,406 GWh in 2014, 49.4% less than in 2013.

>> Exports amounted to 15,716 GWh (16,936 GWh in 2013) and imports totalled 12,310 GWh (10,204 GWh in 2013).

>> **Telecommunications business**

The telecommunications business focuses on the commercial operation of the surplus fibre optic network and associated infrastructure not used in electricity system operations. Since 20 November 2014, and for a period of 20 years, the Company has held the rights to use and manage the operation of ADIF's fibre optic network and other related items that are not used for railway services. At present, the Company is positioned as a neutral supplier of telecommunications infrastructure, its main customers being telecommunications operators and other private firms. It has a fibre optic network in excess of 32,000 Km rolled out over the electricity transmission grid and the railway network.

>>**International business**

The Group's international business is mainly carried out through its subsidiaries REDESUR, TESUR and REA, which manage transmission infrastructure in Peru.

In 2014, REDESUR's management excellence and its commitment to satisfying stakeholders allowed it to offer a transmission service with maximum availability, while improving financial results and supporting development in its operating environment.

The management process of REDESUR in 2014 included the full consolidation of its results for the year as a whole in Red Eléctrica Group following REI's purchase (in a joint transaction with its consortium partner AC Capitales) of the investments in Cobra Peru and Abengoa Peru in May 2013, whereby REI's stake increased from 33.75% to 55% of REDESUR's capital.

For REDESUR, consolidation of the Integrated Management System (IMS) has allowed the company to continue delivering excellent operating standards, with an availability factor for the grid of 99.87% in 2014 and an average of 99.75% for the past five years.

In 2014, TESUR's construction period for the 220 kV transmission line between Tintaya and Socabaya in the south of Peru drew to a close. The concession for this line was awarded to the subsidiary TESUR in 2010. The facilities were brought into service satisfactorily, meeting the deadlines undertaken with the Peruvian State and Regulator. TESUR has therefore now commenced its 30-year operation period for this concession.

The project entailed the construction of a dual-circuit 205 km 220 kV line and also includes the extension of the Socabaya substation (220 kV), the extension of the existing Tintaya substation (138 kV) and the construction of the new Tintaya substation (220 kV).

REA has continued to render facilities maintenance services to REDESUR. In 2014, REA was involved in the supervision of the TESUR facilities and helped to bring these into service, and collaborated in the implementation of the special projects undertaken by REDESUR. The company also carried out maintenance work on its facilities and supervised work for other clients, consolidating its position in southern Peru as a leading provider of such services.

2. BUSINESS PERFORMANCE

2.1 Key financial indicators

Revenue for 2014 amounted to Euros 1,846.7 million, up by 5.0%. This increase is due to the revenues from the new transmission facilities which started operating in 2013 and the rise in revenues from system operation services rendered, in accordance with the 2014 Tolls Order. From 20 November 2014 revenues associated with the rights to use and operate ADIF's fibre optic network have been included.

EBITDA amounted to Euros 1,385.4 million, up 6.4% on the prior year. EBITDA was favourably affected by the trend in operating expenses:

- Costs of supplies and other operating expenses fell by 2.8% on 2013.
- Personnel expenses rose by 4.5%. The Group's average headcount at 31 December 2014 was 1,737 employees, 1.1% higher than in the prior year. The year-end headcount was 1,742 employees.

The net finance cost was Euros 95.7 million, and includes the Euros 52.3 million compensation for the nationalisation of TDE. Finance costs amounted to Euros 160.2 million, Euros 23.4 million less than in the prior year. This improvement is primarily a result of the lower average interest rate on debt, which was 3.49% in 2014, 35 basis points less year-on-year. In addition, the average balance of gross financial debt was Euros 5,047 million, Euros 127 million less than the average for 2013.

As a result, profit before tax was Euros 853.5 million, 16.4% higher than in the previous year. Profit for the year was Euros 717.8 million, up 35.7% year-on-year. In addition to the above effects, profit for the year also reflected Euros 106.1 million less of tax expense, in accordance with the new Corporate Income Tax Law 27/2014. This amount, which does not entail lower income tax payments in 2014, is a result of a decrease in deferred tax liabilities as a consequence of the reduction in the tax rate from 30% to 28% in 2015 and to 25% from 2016.

If the impact on profit of the compensation received for the nationalisation of TDE, the reduction in tax rates stipulated in Corporate Income Tax Law 27/2014 and the contract with ADIF at year end are eliminated, profit for the year would have risen by 5.4%.

Investments in 2014 amounted to Euros 957.6 million and included Euros 492.6 million to develop the transmission network in Spain and the impact of the agreement signed to acquire the rights to use and operate ADIF's fibre optic network, in an amount of Euros 433.7 million

The dividends paid at 31 December 2014 amounted to Euros 343.8 million, 7.8% more than in 2013.

As a result, in 2014 the RED ELÉCTRICA Group's net financial debt rose by Euros 867.4 million compared to the prior year, up to Euros 5,408.5 million at 31 December.

In terms of debt structure, 79% bears interest at a fixed rate and the remaining 21% has a floating rate.

The RED ELÉCTRICA Group's equity stood at Euros 2,552.5 million, up 14.7% on the 2013 year end. This growth was primarily a result of the profits for the year, reduced by the corresponding distribution of dividends.

FINANCIAL INDICATORS
(millions of Euros)

	2013	2014	Δ%
Revenue	1,758.3	1,846.7	5.0%
(EBITDA)	1,301.9	1,385.4	6.4%
(EBIT)	898.7	949.2	5.6%
Net profit	529.1	717.8	35.7%
ROE (PAT/Equity)	23.8%	28.1%	18.2%
Cash flows from operating activities	1,191.9	512.0	-57.0%
Distribution of dividends	319.0	343.8	7.8%
Equity	2,224.6	2,552.5	14.7%
Gearing	67.1%	67.9%	1.2%
Investments	596.0	957.6	60.7%
Total assets	9,419.9	10,558.0	12.1%
Debt service coverage ratio (Net debt/EBITDA)	3.49	3.90	12.0%

2.2 Environmental issues and personnel

2.2.1 ENVIRONMENTAL ISSUES
The RED ELÉCTRICA Group carries out its activities in accordance with strict environmental criteria incorporated into and enforced through the Company's environmental policy.

The commitment to the environment originates from Group management, which defines the environmental policy (reviewed and approved in 2014 by the Steering Committee) and implements measures to comply with environmental requirements. The Company Chairman, who has ultimate responsibility for environmental issues, has appointed the General Manager of Transmission as the specific representative of the Environmental Management System, which is ISO 14001 certified.

The involvement of all of the organisational units and the commitment of all of the Group's employees are essential to the implementation of this system. A specific environmental department therefore exists within the Group's organisational structure to provide technical support.

The main environmental challenges facing the RED ELÉCTRICA Group are as follows:

- Ensuring that facilities are compatible with the environment, selecting layouts and locations to minimise environmental impact. Its application of preventative and corrective measures and strict environmental criteria in all stages of activity means that the potential impact on the environment is immaterial.

- Ensuring the protection and conservation of biodiversity, to which end the Group has implemented a specific strategy covering the following areas of action: protection of fauna and flora (particularly birdlife), fire prevention and development of conservation projects. In 2014, REE received the European Business Award for the Environment (EBAE), in the special Business and Biodiversity category, for its "Birds and power lines: Mapping of bird flight paths’" project (an award that it also received in the Spanish section of these awards).

- Contributing to the fight against climate change, which has led the RED ELÉCTRICA Group to define its climate change strategy (reviewed and approved in May 2014) and action plan to reduce emissions. Various measures have been implemented concerning energy savings and energy efficiency, primarily in relation to sustainable transport and reducing electricity consumption.

Ordinary expenses incurred by the RED ELÉCTRICA Group in 2014 in relation to the protection and improvement of the environment amounted to Euros 20 million. In addition, investment in environmental actions totalled approximately Euros 3 million in 2014.

2.2.2 PERSONNEL
All of the actions and projects are informed by the principles of efficiency and quality, equal opportunities, talent management, fair and equitable remuneration, a healthy company, understood to refer to physical, psychological and social wellbeing, dialogue and transparency; all of which underpin the Group’s Human Resources Master Plan and corporate policies.

All of the actions and projects included in the plan are aimed at achieving the following objectives:

- Creation of stable employment: a highly qualified, motivated and committed team is key to RED ELÉCTRICA fulfilling its responsibilities and responding to the energy-related challenges of the coming years.

A Mobility Model has been set in place at Red Eléctrica de España, boosting the abilities of its people by enhancing their multidisciplinary skills and employability, as well as development of the leadership model, thereby catering to the company's short- and mid-term needs. Furthermore, the signing of the 10th Collective Bargaining Agreement represents another step towards stable, quality employment, introducing measures such as increased efficiency and striking a better work/life balance, key to attracting and retaining talent at the Group. In fact, Red Eléctrica de España placed 22nd in the international Merco Personas index, which selects the 100 best companies to work for in the country, assessing the quality of their labour policies, their internal reputation and the brand as an employee, and was named the leading company in the energy sector in the 2014 ranking of the top 100 best companies to work for.

- Remuneration: we work with a global remuneration and incentives package that attracts and motivates people. Fair, internally equitable and externally competitive, it recognises and respects diversity and encourages professional development and the desire to excel.

- Talent Management: design of the "Global Talent Management Model", helping to bring the training and development systems into line with one another, as well as managing know-how within the Group in the mid- to long-term, thus enabling the Group to hold on to its position as a national and international benchmark. 2014 saw the consolidation of RED ELÉCTRICA's Corporate Academy (ECRE) for the management of in-company business training, drawing on in-house instructors and experts from across the various company units.

The RED ELÉCTRICA Group aims to recognise potential, both in technical positions and departmental heads, launching international and cross-departmental mobility projects. To this end, Talent Panels were set up as an instrument to enable validation and consensus.

A multidisciplinary working group was assembled in 2014 with a view to launching and developing a global knowledge management model.

The project will yield a host of benefits, such as cost-cutting by preventing the loss of key expertise, improving business results via the capacity to extrapolate and manage the know-how associated with the company's best practices, and boosting employee morale.

Working in tandem with the education sector, 110 recent graduates were able to perform work experience at the company, thanks to the PRACTICA+2014 scholarship program.

- Diversity and equality: commitment to diversity and equality is intrinsic to the RED ELÉCTRICA Group's culture, and is enshrined within the company's code of ethics and internal policies. The goal is to foster a working environment in which all employees, regardless of gender, age or ability, can access and develop their professional career.

- Promoting integration: the RED ELÉCTRICA Group has designed a Management Model and a Global Disability Plan with a view to raising awareness among employees, going beyond its statutory obligations and integrating disability within the company's various processes and disabled persons within its workforce, taking part in job forums targeting this segment and initiatives seeking to integrate university students within the business world.

- Gender equality and equal opportunities: the Group has had an Equality Plan in place since 2009, bringing together initiatives aimed at promoting a level playing field for men and women in the areas of employment (recruitment, promotion and hiring), training and development, remuneration and awareness-raising activities.

- Work/life balance: developments in recent years in the work/life balance model have enabled the RED ELÉCTRICA Group to enhance its HR management strategy.

The challenge lies in being able to assess, on a case-by-case basis, the dual demands placed on people (work-personal life) in order to manage the work/life balance more flexibly, based on a mutual commitment between the company and its people, with a view to enhancing wellbeing and quality of life.

>> Health and safety: 2014 saw the design of the healthy company model that sets out the general principles and guidelines to promote and safeguard the health, safety and wellbeing of employees, with the drawing up of an action plan for the next three years. The RED ELÉCTRICA Group aims to cut down on occupational accidents and ensure continuous, ongoing improvement to levels of health and safety among its employees and the employees of suppliers collaborating or working at the Group's facilities.

The challenge lies in fostering and developing a healthy working environment and, by extension, a better quality of life.

>> Dialogue and transparency: the RED ELÉCTRICA Group is working on initiatives to promote a transparent, collaborative culture, encouraging two-way communication, facilitating the exchange of information and giving voice to the various segments.

>> Social dialogue: the RED ELÉCTRICA Group safeguards its employees' rights to trade union membership, association and collective bargaining within the framework of the labour legislation in force and the collective bargaining agreement. Collective bargaining is also a guiding HR principle.

Variations in average and final headcount in 2013 and 2014 were as follows:

	2013	2014	Δ%
Average headcount	1,718	1,737	1.1%
% Male	77.4%	77.1%	-0.3%
% Female	22.6%	22.9%	1.2%
Year end headcount	1,745	1,742	-0.2%

3. LIQUIDITY AND CAPITAL

The RED ELÉCTRICA Group has a liquidity policy to ensure payment obligations are met, by diversifying how financing requirements are covered and when debt matures.

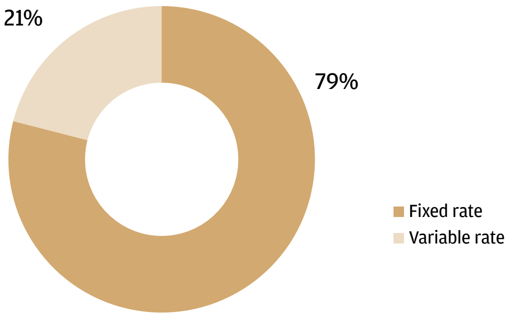
The Group's liquidity position is essentially based on robust cash flow generation, primarily through regulated activities. Coupled with appropriate management of collection and payment periods and current financial capacity through short and long-term credit facilities, this allows the Group to prudently manage its liquidity risk.

The undrawn balance on credit facilities at 31 December 2014 amounts to Euros 985.6 million.

The average maturity of the debt drawn down at the end of the year is 5 years.

The Group's traditional financial strategy has aimed to reflect the nature of its business, at all times adhering to legislation in force. Transmission and operation of the electricity system are very capital-intensive activities, wherein investments mature over long periods. In addition, the remuneration of these assets is for 40-year periods at rates linked to Spanish long-term government debt. Therefore, our financial debt is primarily long-term and fixed rate.

STRUCTURE OF FINANCIAL DEBT: FIXED vs. VARIABLE



The RED ELÉCTRICA Group's capital structure policy ensures a financial structure that optimises the cost of capital through a sound financial position, which balances the generation of value for shareholders with competitive costs of financing. Capital is periodically monitored through the gearing ratio, which in 2014 stood at 67.9%, compared to 67.1% in 2013. This ratio is calculated as net financial debt divided by equity plus net financial debt.

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

4. RISK MANAGEMENT

Since 2002, the RED ELÉCTRICA Group has had a Risk Management System in place, which aims to ensure that any risks that might affect the Group's 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 RED ELÉCTRICA Group.

The Risk Management System is fully inclusive as all of the Group's units are involved, together with its various governing bodies, in accordance with the guidelines set out in the Comprehensive Risk Management and Control Policy and Procedures, in turn based on the Enterprise Risk Management Integrated Framework outlined in the Committee of Sponsoring Organizations (COSO II) report.

As already mentioned, the RED ELÉCTRICA Group's principal activity comprises regulated business in Spain and Peru.

The fact that the activities are regulated affects revenue and the conditions under which the principal activities must be carried out. In view of this, it is important to note that regulatory risks could arise from the possibility of changes to the legal framework applicable to the activity, which could affect both revenue and costs either directly or by establishing new requirements.

There are also operational risks related to possible process inadequacy or failure, which could have a social and economic impact. The financial risks are described in note 15 to the accompanying consolidated annual accounts.

The Group has analysed the risks to which it is exposed and produced a risk map identifying each risk, classifying them by level (high, medium or low) according to their probability and the impact they would have if they were to materialise. According to the risk policy, any risk that exceeds tolerance levels must be automatically addressed with specific actions to make the risk manageable and ensure the costs incurred are in proportion to the prevented risk.

The Internal Audit and Risk Control Department, part of the Department of Regulation and Global Risk Control, reviews the progress and impact of the previously established risk management plans in conjunction with the organisational units on a half-yearly basis for high-level risks and annually for other risks.

5. SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 23 January 2015 the Company entered into an agreement with UNELCO for the transfer of the Chira-Soria 200 MW reversible hydroelectric power plant project in Gran Canaria. This agreement complies with the provisions of Ministry of Industry, Energy and Tourism Order IET 728/2014 (see note 3 to the accompanying consolidated annual accounts).

On 12 February 2015, Red Eléctrica Internacional S.A.U., in consortium with AC Capitales, was awarded the concession of the 115km/220kV Azángaro-Juliaca-Puno line and associated substations in Peru. This project involves the design, construction, operation and maintenance of the line for 30 years and the expected investment is USD 70 million.

No other significant circumstances have arisen after 31 December 2014.

6. OUTLOOK

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

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

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

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

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

The performance of the RED ELÉCTRICA Group's regulated activities in Spain is primarily based on the following lines of action:

- Market integration and the sustainability of the electricity system, which justify maintaining the level of investment in the transmission grid in coming years, in accordance with the new remuneration framework.

The investment plan will focus on bolstering the process of reinforcing the structure and mesh of the grid and developing interconnections, especially in non-mainland systems.

>> A goal of efficiency, maintaining the RED ELÉCTRICA Group's position as an international benchmark.

Accordingly, the Group will review its main operating processes, promoting streamlined and flexible organisation that optimises the Company's profitability and the efficiency of the electricity grid in the mainland and non-mainland systems.

>> Implementation of new regulated activities, such as storage of energy in the island systems as a tool to guarantee the security of the Spanish electricity system.

The RED ELÉCTRICA Group will apply a financial policy adapted to the new remuneration model for the transmission activity in Spain, ensuring that financial debt is diversified and its liquidity position can comfortably cover upcoming maturities, aiming for a financial structure that is as flexible as possible.

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

In 2014 the Innovation and Technological Development Plan for 2012-2016 was updated for adaptation to the current technological environment and the new strategic and financial outlook, and progress has been made towards achieving its objectives. Throughout 2015 work on a new edition of the Plan will be ongoing, with the purpose of establishing the technological strategy for 2016-2020, in line with the new Strategic Plan of the RED ELÉCTRICA Group.

Furthermore, a new computer system was launched to manage the technical progress of the R&D&i projects, enabling the active participation of employees and promoting the development of new ideas and technology.

In the international sphere RED ELÉCTRICA made efforts to prepare the "2015-2017 Implementation Plan", which includes the technological initiatives that must be undertaken in the next three years as part of the ENTSO-E R&D&i plan; and also collaborated on a joint roadmap for energy technology as part of the European Union SET-Plan "Towards an integrated Roadmap: Research & innovation challenges and needs of the EU Energy system”. A new ENTSO-E Monitoring report has also been drawn up, focused on analysing how TSOs are using the results obtained from the European R&D&i projects completed in recent years.

The European BEST PATHS (BEyond the State-of-the-art Technologies for re-Powering Ac corridors & multi-Terminal HVDC Systems) project started in October, financed by the European Union's Seventh Framework Programme for research. REE coordinates this project, which comprises five large-scale demonstrations with a total budget of Euros 62.8 million (including EU financing of Euros 35.5 million), involving 39 different partners, including universities, technological centres, industrial companies, electricity companies and European TSOs. This project is a continuation of TWENTIES, completed in 2013.

In addition, 2014 saw the completion of the European GRID+ project (which supported EEGI - European Electricity Grid Initiative - in the coordinated design of a joint R&D&i roadmap between TSOs and DSOs); and a new project is forecast to begin at the start of 2015 to extend the support given to the European Commission in the GRID+ project. Lastly, RED ELÉCTRICA has continued to work on e-HIGHWAY 2050 (optimum planning of the long-term pan-European transmission system - 2050).

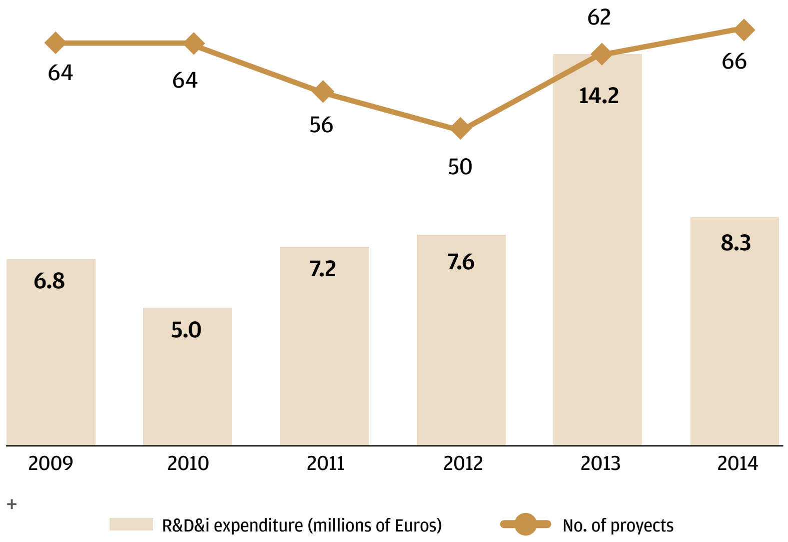
Of the projects linked to national innovation programmes, work has continued on projects associated with the INNPACTO programme: ESP-Líder (SSSC device to redirect current flows, in Torres del Segre) and PRICE (Joint Smart Grid Project in the Henares Corridor), promoting residential demand management, led by Iberdrola and Gas Natural Fenosa, and recipient of the European Electricity Grid Initiative Core Label in recognition of the project's alignment with the criteria and objectives laid down in the European Electricity Grid Initiative.

Notable events in the national sphere included the installation and start-up of a flywheel in Mácher (Lanzarote) to stabilise the frequency of the Lanzarote-Fuerteventura electricity system; and the exploitation of results from the battery installed in Carmona (Seville), as part of the ALMACENA project, with the collaboration of EPRI (Electric Power Research Institute), for the international benchmarking of the installed equipment. Both pieces of equipment completed the testing successfully and are available for the system operator. These assets mark a major milestone in the Group's objective to demonstrate useful innovative technology to improve aspects such as energy efficiency, the integration of renewable energy and system stability.

Also throughout 2014 work continued on the research undertaken to support the PERFILA project, which seeks to improve the profiling methodology, based on a consumer panel equipped with smart meters.

During the year many other projects were completed, such as the new functionalities of SAIR (Automatic Grid Inspection System), the upgrade of demand coverage calculation tools, software for the simulation of induced voltages on the shielding of buried cables, the methodology for controlled transformer energisation manoeuvres, and the study on the possible impact of geomagnetic solar storms on the Spanish electricity system.

In 2014 RED ELÉCTRICA's R&D&i efforts amounted to Euros 8.3 million, with 66 projects entailing more than 39 thousand hours of work by Group personnel, equivalent to more than 23 full-time staff. Although markedly less than in the prior year (Euros 14.2 million), when major equipment that had been worked on for years was brought into service, this investment consolidates a growing trend since 2009, namely the commitment to technological innovation and development, as shown in the chart below.



8. OWN SHARES

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

At 31 December 2014 the Company held 147,203 own shares, representing 0.11% of its share capital. These shares had an overall par value of Euros 294 thousand (see note 11 to the accompanying consolidated annual accounts) and a market value of Euros 10,777 thousand.

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

9. OTHER RELEVANT INFORMATION

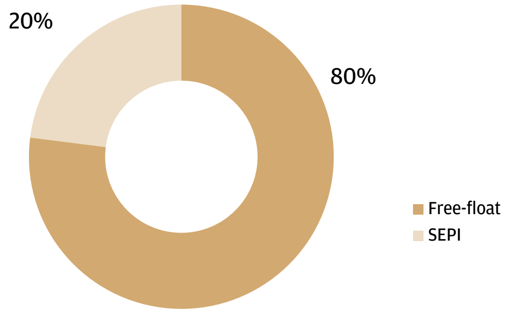
9.1 Stock market performance and shareholder returns

All of the shares in Red Eléctrica Corporación (REC), the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system. REC also forms part of the IBEX 35 index, of which it represented 2.07% at the end of 2014.

At 31 December 2014, the share capital of REC amounted to Euros 270,540 thousand and was represented by 135,270,000 shares with a par value of Euros 2 each, subscribed and fully paid. During 2014 there were no changes that affected the number of outstanding shares or their par value.

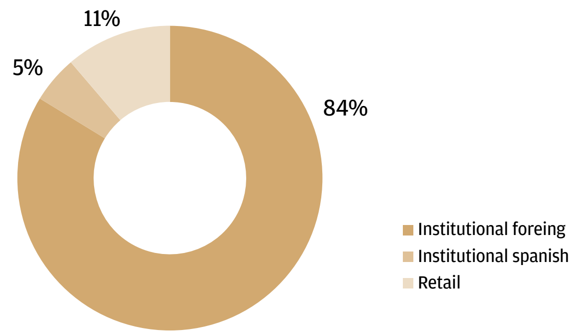
In 2014 Red Eléctrica's free float was 80%.

OWNERSHIP STRUCTURE



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

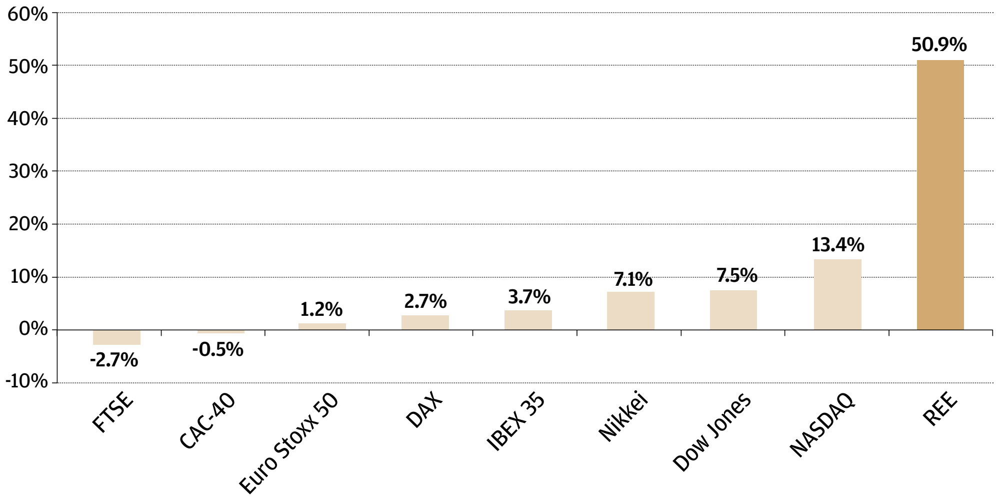
DISTRIBUTION OF THE FEE-FLOAT



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

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

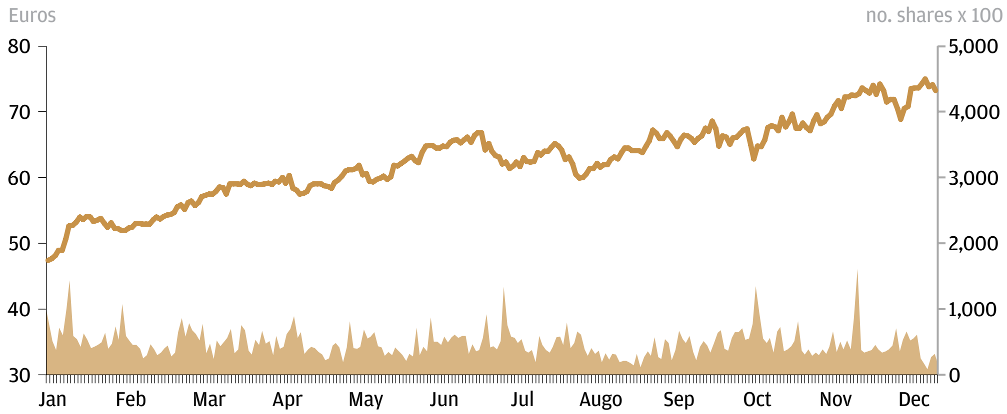
PERFORMANCE OF RED ELÉCTRICA AND MAJOR STOCK MARKET INDEXES - 2014



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

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

SHARE PERFORMACE AND DAILY VOLUME



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

9.2 Dividend policy

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

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

Based on the projections and estimates contained in the Group's Strategic Plan for 2014-2019, the dividend could be around 7% higher. This increase is considered as the average annual rate for the period covered by the Strategic Plan, on the basis of the total dividend approved with a charge to 2014.

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.

9.3 Credit rating

Red Eléctrica has been assigned a long-term credit rating of BBB by Standard & Poor's with a positive outlook, and a short-term rating of A-2.

Fitch's long-term rating for Red Eléctrica is A-, also with a positive outlook, and its short-term rating is F2.

Both rating agencies highlight the Company's predictable and recurrent revenues and strong balance sheet as its fortes.

9.4 Excellence and corporate responsibility

Corporate responsibility is part of the corporate culture of the RED ELÉCTRICA Group, providing a framework for all of its activities, to fulfil its mission as operator and sole transmission agent for the Spanish electricity system. The Group's objective is to consolidate its position as a sustainable, ethical and responsible company, managed in accordance with criteria of excellence and responsibility in its operations.

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

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

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

In 2014 the Group retained its European Seal of Excellence 500+, which was renewed in 2013, with a rating of 650 to 700 points, as awarded by Club Excelencia en Gestión (CEG), the official representative in Spain of the European Foundation for Quality Management.

The excellence management system is in turn based on a process management approach. In 2014 the corporate process management methodology was revised and the process manual was updated. During the year, a project was carried out to design, inventory and implement a scorecard for key indicators, aligned with the new process map.

The Group's processes integrate a Corporate Quality Management System based on international standards. Since 2000, a certified system has been in place covering all of the company's processes, which is audited annually. In 2014 all of the certified corporate management systems underwent a third audit (quality, environment, health and safety, corporate responsibility and energy efficiency)

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 consolidated 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 Group considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Parent 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 Group'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 Group 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 Group is not required to publicly update its statements or review the information containing future projections, even where new data is published or new events arise.

+i

Click on the symbol and regarding the 2014 Corporate Governance Report.

ACKNOWLEDGEMENTS

Published by:
Red Eléctrica
P.º Conde de los Gaitanes, 177
28109 Alcobendas - Madrid
www.ree.es

Edition and Co-ordination:
Communication and Corporate Image Department of Red Eléctrica

Graphic design and layout:
MRM Worldwide Spain, S.A.

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