

1. Letter from the Chairman

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José Carvalho Netto **Chairman**

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The economic recovery has found its feet in 2014, and stronger foundations have been laid in the Spanish and Portuguese economies for growth in 2015 of around 2.5% and 1.6%, respectively, according to forecasts made by international institutions.

Within this economic scenario, the demand for electricity has fallen less than in previous years, which therefore seems to confirm a certain decoupling between the trend in the demand for electricity on the Iberian Peninsula and GDP, which in 2014 did in fact grow in both Spain and Portugal (by 1.4% and 0.9%, respectively). This situation is common to other European countries, where the demand for electricity is also recovering, albeit to a lesser extent than GDP.

As regards prices in 2014, our market continued to record similar figures to all the other European markets. Specifically, the average price in Spain was 42.13 €/MWh, while in Portugal it was 41.86 €/MWh, with the same price being recorded in both countries over 94.3% of hours. These figures represented a year-on-year fall in the daily market price both in Spain (-5%) and in Portugal (-4%). In terms of energy, the spot market maintained its levels of liquidity, with a trading volume (259 TWh) equal to more than 80% of the electricity consumed in the two countries.

On a European level, May 2014 witnessed the actual coupling of the daily markets in north-west and south-west Europe; a key milestone in the creation of the single electricity market. This meant that OMIE was the first market operator outside the north-west region to integrate its market with the new European mechanism. Today, this process now involves 19 countries, following the incorporation of Italy and Slovenia in February 2015.

This year will also be a very important one for the Iberian Electricity Market, with the commissioning of the new interconnection between Spain and France and, therefore, a greater convergence of prices and lower volatility between the Iberian Peninsula and the rest of the EU. Although the interconnection capacity with the rest of Europe is still insufficient, the recent agreement between the Spanish, French and Portuguese governments is a reason for optimism regarding greater energy integration over the coming years.

Likewise, this year will see further work on the European-wide implementation of a continuous trading platform for the interconnections on the intraday horizon that will be compatible with auctions in those markets with greater liquidity, as in our case.

Our company's progress in such a complex environment has been possible thanks to the dedication and professionalism of the team that makes up the Iberian Market Operator, as well as to the ongoing support provided by our board of directors and shareholders; these factors enable us to face new challenges with confidence and continue improving our management of the Iberian Electricity Spot Market, furthering its effective integration in the European market.