



RED
ELÉCTRICA
CORPORACIÓN

Financial Results **January - March 2020**

29 April 2020

To facilitate understanding of the information provided in this document, certain alternative performance measures have been included. Their definition and reconciliation with the items presented in the financial statements can be found at www.ree.es.



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1. Red Eléctrica Group report on COVID-19

The appearance of the coronavirus COVID-19 at the beginning of the year in China and its rapid spread to a large number of countries around the world prompted the World Health Organisation (WHO) to classify the viral outbreak as a pandemic in mid-March.

In Spain, the health situation resulting from the COVID-19 pandemic has forced the Government to take exceptional measures, which were reflected in the publication of Royal Decree 463/2020, which declared a state of emergency throughout the country, and that has been subject to subsequent extensions, currently scheduled to end on 9 May. As indicated in the aforementioned Royal Decree, under these circumstances, the need to guarantee the energy supply in general, and electricity in particular, has become a priority objective.

Considering the complexity of this health crisis and the extensive globalisation of the markets, together with the current lack of effective medical treatment against the virus, at this time it is impossible to exactly predict all of the consequences that this crisis will have for the Group's activities. The consequences will depend largely on the time frame for the spread of the pandemic, as well as on the capacity to exit the pandemic and restore global economic activity to a normal situation.

The Red Eléctrica Group, and more specifically Red Eléctrica de España, as the company that owns the electricity transmission infrastructure and is responsible for managing the system, is fully committed to the objectives of the Spanish government in the current situation, and consequently has taken a series of extraordinary measures in order to comply with its obligations established under Law 24/2013, to guarantee the continuity and safety of the supply, measures that are being made compatible with the priority of guaranteeing the health of its workers and the government's health policy to stop the spread of the virus.

In this context, Red Eléctrica has followed the action protocols adapted to the recommendations issued by the Ministry of Health and competent authorities in Spain and in each market in which it operates, prioritizing the health and safety of all its workers, customers and suppliers.

Flexibility and teleworking measures have been implemented for all staff whose physical presence in the workplaces is not strictly necessary to guarantee the security of the electricity supply and telecommunications. The implementation of this measure has only been possible as a result of the important efforts by the company in recent years to train and provide all staff with the necessary computer and communications resources to face a situation like the this one.

In addition, Red Eléctrica de España has spared no effort or resources in implementing the measures required to guarantee the operation of the electricity system at such critical times as these, such as, for example, the installation of a third electricity control centre in record time.

In addition to these measures, from an operational point of view to guarantee the availability of the network, there are staff reserves consisting of more than 400 trained technicians who are available to intervene in the event of any breakdown or unforeseen event that may occur on the network. If necessary, Red Eléctrica also has 300 people from contracted companies available to resolve incidents or support its own personnel in resolving malfunctions or unforeseen situations.

The operation with mass teleworking, the computer and telecommunication systems have responded correctly, and the ordinary operation of the different companies of the Group has not been affected. In addition, a daily control of staff and their status with respect to COVID-19 is also being done.



To date, there have been no incidents that pose a risk to the coverage of electricity demand and the correct operation of the system, nor have there been any incidents in the transmission grid that condition the operation of the Spanish electricity system. In addition, both the international electricity infrastructure business and the telecommunications business continue to provide essential services without incident.

It should be noted that 80% of the Group's staff in both Spain and South America are teleworking and carrying out their activities normally. The remaining 20% of the workforce provides services in person both at the control centres of the electrical and telecommunications systems where the Group operates and at the work centres that cover the different needs of the networks. In regard to this latter group that cannot work remotely, activities are being carried out applying the most stringent hygiene and distancing measures recommended by the health authorities. A series of other additional operational measures have also been implemented during this time, in addition to the personal and hygienic measures in buildings and vehicles, which began with the segregation of teams working in different locations to form independent and autonomous teams.

In addition, in our commitment to try to go a little further in this crisis and materialize our commitment to society, we are being very active, we have participated in the acquisition of health equipment, we are collaborating with the Red Cross and several associations to send food and care to disadvantaged groups, we have supported the launch of innovation projects to alleviate the effects of the COVID-19 and we continue to move forward in many other initiatives

In the economic and financial area, the Group is in a strong financial position to face these difficult times. Its liquidity has been strengthened by two bond issues in 2020 amounting to €1.1 billion, €700 million in January and €400 million in April. Loan and credit operations have also been signed in recent weeks for an amount of €375 million. Following these operations, the Group's liquidity position as of mid-April amounted to €3 billion, €1,011 million in cash and €1,987 million in available credit, and guarantees that it will be able to meet operational cash requirements, debt maturities in the coming 3 years and adverse situations in the financial markets that may arise in the coming months as a result of the evolution of the current crisis. The Group faces the following debt maturities over the next three years: €836 million in 2020, €167 million in 2021 and €930 million in 2022.

The Group has made an initial estimate of the potential quantitative impact of situation resulting from the management of the COVID-19 on its results, concluding that given the sectors in which it operates and despite the uncertainties that still persist, the effect on the expected results for 2020 is not expected to be very significant. Work is currently underway to estimate the consequences that COVID 19 could have in the medium and long term, as well as the implications for the Group. The impact of this estimate has not been considered.

The Board of Directors formulated the Group's annual accounts for 2019 at the February meeting which is included for approval on the agenda of the Ordinary General Meeting of Shareholders, called for May.

The Group's management and directors will continue to evaluate the situation, closely monitoring any incidents that may occur in the essential infrastructures it manages, as well as other external factors and the impact they may have on the financial statements.



2. Highlights of the first quarter

Electrical System

The arrival of COVID-19 in the Spanish electricity sector resulted in a drop in **electricity demand**. In the month of March, the demand corrected for the effects of labour and temperature decreased by 6.3% with respect to the same month last year, and in the **composition** of the demand, industrial and services demand dropped and household demand increased.

The Spanish electricity system, despite these extraordinary circumstances, has continued to operate with no significant incidents.

Our activities are aimed at facilitating the energy transition and enabling adequate **integration of renewable energy sources**, with the ultimate goal of driving progress towards a low-carbon economy. This has led to an increase in the weight of electricity from **renewable** sources during this time, accounting for 50% of the generation in Spain during the month of March and almost 45% for the whole of the first quarter of 2020.

The challenges faced in the **operation of the electricity system** during this first part of the year were met while maintaining high standards of service quality, which reached 99.1% availability on the Peninsula, 98.1% in the Balearic Islands and 98.6% in the Canary Islands.

Regulatory aspects

During this quarter, the circulars approved by the CNMC in December went into effect, establishing the methodology for calculating the remuneration of the electricity transmission activity and the remuneration methodology for the Spanish electricity system operator. The methodology for calculating the financial remuneration of the electricity transmission activity was approved, and it dropped from 6.5% to 5.58%, with an impact on this year of a decrease of 50 basis points, and the standard facilities and operation and maintenance unit benchmarks were approved, leading to a reduction in Operation and Maintenance revenues for the year.

First quarter results

Turnover totalled €500.5 million in this first quarter of the year, with virtually no change compared to the same period of the previous year. However, its composition did change due to the incorporation of Hispasat, which was not part of the Group in the first quarter of 2019, into the Red Eléctrica Group in this quarter. In comparative terms, this has led to an additional increase in revenues for the Group of more than 40 million euros.

EBITDA was €402.0 million, 1.0% lower than in the first three months of 2019.

The increase in depreciation and amortisation, due to the incorporation of new businesses, and higher financial expenses, as a result of the higher debt volume, meant that the first quarter results were €172.6 million, 9.7% lower than last year.

The Group's total **investments** amount to €457.1 million, in comparison with the €71.8 million invested in the same period in 2019. This is because this quarter includes €374.3 million for the acquisition of 50% of the capital of the Brazilian electricity transmission company **Argo**. €64.1 million were allocated to the development of the Spanish **transmission network**.

The agenda of the General Shareholders Meeting, which is scheduled to be held exclusively by telematic means on May 14, includes the distribution of a **gross dividend of €1.0519** per share against 2019 results, in line with the announcement in Red Eléctrica's strategic plan.



3. Red Eléctrica: Highlights

Income statement

	January - March		
<i>(in thousands of euros)</i>	2020	2019	Δ %
Revenues	500,473	499,738	0.1
Gross operating result (EBITDA)	401,969	405,897	(1.0)
Net operating profit (EBIT)	274,803	289,031	(4.9)
Profit before tax	231,218	253,928	(8.9)
Profit for the year	172,575	191,026	(9.7)

Income statement by segment

	Operation & Management of Electrical Infrastructure		Telecom. (fibre + satellites)	Other businesses, Corp. and Adjustments	Total
<i>(in thousands of euros)</i>	Spain	Abroad			
Revenues	419,211	12,744	74,980	(6,461)	500,473
Gross operating profit (EBITDA)	332,532	11,288	58,062	88	401,969
Net operating profit (EBIT)	244,168	7,202	22,905	528	274,803
Profit before tax	213,947	631	15,438	1,202	231,218
Profit for the year	160,462	330	11,694	88	172,575

Balance sheet

<i>(in thousands of euros)</i>	March 2020	December 2019	Δ %
Non-current assets	11,156,822	10,875,152	2.6
Equity	3,733,685	3,614,435	3.3
Net financial debt*	6,376,353	6,025,575	5.8

(*) Includes exchange rate derivatives.

Other financial aggregates

	January - March		
<i>(in thousands of euros)</i>	2020	2019	Δ %
Operating cash flow after taxes	366,862	367,984	(0.3)
Investments	457,112	71,831	536.4
Dividends paid	147,002	147,250	(0.2)

Credit rating

Agency	Credit rating	Outlook	Date
Standard & Poor's	A-	Stable	06/03/2020
Fitch Ratings	A-	Stable	06/04/2020



4. Profit performance

Revenue for the first three months of 2020 totalled €500.5 million, representing a 0.1% increase year-on-year. Both the calculation of the remuneration for the transmission activity in Spain and the operation of the system incorporate the methodology contained in the circulars published by the CNMC at the end of 2019. Revenue also includes Hispasat, with turnover of €40.6 million, for the first time in a complete quarter, since it was not part of the Red Eléctrica Group in the first quarter of the previous year. In addition, international activity developed positively and incorporates 50% of the results of the Chilean company TEN and the Brazilian company ARGO (5 days), which together amounted to €1.8 million, and that are included in the Gross operating profit (EBITDA) as Results of Subsidiary Companies with activities similar to those of the Group.

Gross operating profit (EBITDA) totalled €402.0 million, which represents a decrease of 1.0% over the same period in the previous year and includes the significant efforts being made by the Red Eléctrica Group in terms of efficiency.

Operating costs performed as follows:

- Procurement costs and other operating expenses increase by only 0.7%. This means that the higher costs associated with Hispasat, €6.3 million, were practically offset by the other areas of the Red Eléctrica Group.
- The Group's final workforce stood at 2,065 employees, with an average of 2,063 employees, both figures 15% higher than those presented in the first quarter of last year. This increase was due mainly to the incorporation of Hispasat, with a staff of 200 people, into the Group's perimeter.

Personnel expenses increased 17.1% year-on-year. This increase is mostly explained by the increase in the average workforce. It also includes the increased costs associated with social security, other staff costs and those related to the implementation of a voluntary departure plan that was launched in early 2020.

Operating expenses

<i>(in thousands of euros)</i>	January - March		
	2020	2019	Δ %
Procurements and other operating expenses	74,882	74,389	0.7
Personnel expenses	44,347	37,873	17.1
Operating expenses	119,229	112,262	6.2

Net operating profit (EBIT) totalled €274.8 million, up 4.9% year-on-year. This was the result of higher provisions for the amortisation of fixed assets, which increased from €122.9 million in the first quarter of 2019 to €134.9 million this year. The higher amount allocated for the depreciation associated with Hispasat, €29.5 million, was partially offset by the lower provision for transmission assets in Spain, due to the adjustment of the useful life of older assets and the end of the life of certain assets.

The **financial result** totalled €-42.8 million, compared to €-35.1 million in the first quarter of 2019. The larger financial debt, with an average value of €6,817 million for the quarter, compared with €5.787 billion the previous year, was the main cause. It also reflects the negative impact of exchange rate differences.

Lastly, **Profit for the year** totalled €172.6 million, 9.7% lower than the first quarter of 2019. The effective tax rate stood at 25.45%, in line with the 25% defined in the Spanish Law 27/2014, of 27 November, on Corporation Tax (*Law 27/2014, de 27th November, del Impuesto sobre Sociedades*).



5. Cash flow and balance sheet performance

Cash flow ⁽¹⁾

<i>(in thousands of euros)</i>	January - March		
	2020	2019	Δ %
Profits before tax	231,218	253,928	(8.9)
Taxes paid on earnings	4,174	(3,260)	-
Depreciation and amortisation charge and other adjustments	131,470	117,316	12.1
Operating cash flow after taxes	366,862	367,984	(0.3)
Changes to working capital	(23,592)	19,785	-
Changes in other assets and liabilities	(15,177)	9,954	-
Changes to suppliers of PP&E	(57,631)	(74,054)	(22.2)
Investments	(457,112)	(71,831)	-
Unrestricted cash flow	(186,650)	251,838	-
Dividends paid	(147,002)	(147,250)	(0.2)
Change in net financial debt ⁽²⁾	333,652	104,588	-

(1) This table is solely for the purpose of simplifying the consolidated cash flows table. It includes investments made by the Group in this period, the different with investment payments is fundamentally contained in Changes to assets and liabilities.

(2) The difference between this figure and the change in net financial debt shown on page 4 is owing to items that do not involve cash movements.

Operating cash flow after taxes was €366.8 million, similar to the figure for the first quarter of last year.

Changes in working capital totalled €-23.6 million in March 2020, mainly due to higher payments to creditors for services rendered and a higher payment of VAT collected, although these items were partially offset by lower debtors.

Investment by the Group during the period was €457.1 million. This figure includes the €374.3 million allocated to the acquisition of 50% of the capital of the Brazilian electricity transmission company Argo. There are also included €64.1 million earmarked for the development of the national transmission network, 13.8% more than was invested in the first quarter of 2019. The rest of the investments, which total €18.7 million, includes international investments in Peru and Chile, €11.4 million, projects related to the System Operation, €3 million, and other investments in telecommunications, technological development and storage activities.

Dividends paid totalled €147.0 million, similar to the figure for the previous year.

The Red Eléctrica Group's **net financial debt** on 31 March 2020 was €6,376.4 million, compared to €6,025.6 billion at the end of 2019.



Net financial debt (*)

<i>(in thousands of euros)</i>	National currency	Foreign currency	Total
Cash and cash equivalents	-391,067	-45,277	-436,344
Long-term debenture bonds	3,565,277	524,544	4,089,821
Long-term loans	2,352,647	370,229	2,722,876
Promissory notes and current loans	-	-	-
Total net financial debt	5,526,857	849,496	6,376,353

(*) Debt classified according to its original contracting, without considering short-term transfers.

On 31 March 2020, 100% of the Group's financial debt was long term. As regards interest rates, 84% of the Group's net debt is at a fixed rate, while the remaining 16% is at a floating rate.

The average cost of the Group's financial debt in the first quarter of the year was 2.09%, compared to 2.32% in the same period of the previous year. Accordingly, the average balance of **gross debt** stood at €6,817 million, compared to €5,788 million in the first quarter of the previous year.

Moreover, at 31 March 2020, the Red Eléctrica Group's **equity** stood at €3,733.7 million.

Credit rating

Standard & Poor's has given Red Eléctrica a long-term credit rating of 'A-' with a stable outlook and a short-term credit rating of 'A-2'. Fitch granted the Company a long-term rating of 'A-' with a stable outlook and a short-term rating of 'F2'.



6. Significant events in the first quarter and thereafter

- On 3 April the Ordinary Shareholders Meeting of Red Eléctrica Corporación, S.A. was announced and will take place, on second call, on May 14th. Its agenda includes the following items, among others:
 - Examination and approval of the Annual Accounts of Red Eléctrica Corporación, S.A. and the consolidated Group.
 - Examination and approval of the proposal for the application of the profit for the year ended 31 December 2019, which provides for the distribution of a dividend of €1.0519 per share payable on 1 July, from which €0.2727 per share paid on account on 7 January will have to be deducted.
 - Ratification and appointment of Beatriz Corredor Sierra as a director, in the category of "other external members", and of Roberto García Merino as executive director. Re-election of Carmen Gómez de Barreda Tous de Monsalve as independent director.

In view of the state of emergency declared by Royal Decree 463/2020 and under the protection of Royal Decree Law 8/2020 in relation to COVID-19, this Ordinary Shareholders Meeting will be held exclusively by electronic means.

- Also on 3 April, Red Eléctrica Corporación, S.A. issued €400 million in bonds on the Euromarket, maturing in five years and with a disbursement date of 14 April 2020, with an annual coupon of 0.875% and an issue price of 99.606%, representing a yield of 0.956%.
- On 26 March, Red Eléctrica Internacional (REI) paid €374.3 million for 50% of the Brazilian electricity transmission company Argo. Since that day, the Company has been consolidated in the Red Eléctrica Group using the equity method through the REI subgroup.
- On 6 March and 6 April respectively, the rating agencies Standard & Poor's and Fitch issued reports on the rating of the companies in the Red Eléctrica Group. Both agencies have ratified the ratings issued previously, in the case of Standard & Poor's 'A-' in the long term and 'A-2' in the short term, and in the case of Fitch 'A-' in the long term and 'F2' in the short term. Both agencies also maintain a stable outlook.



Appendix 1. Consolidated financial statements

Red Eléctrica Group

Consolidated income statement

<i>(in thousands of euros)</i>	31/03/2020	31/03/2019	2020/2019
Revenue	500,473	499,738	0.1%
Own work capitalised	14,002	14,181	(1.3%)
Share in the profits of companies accounted for using the equity method (with activities similar to those of the Group)	1,795	1,853	(3.1%)
Procurements	(6,171)	(6,487)	(4.9%)
Other operating income	4,928	2,388	-
Personnel expenses	(44,347)	(37,873)	17.1%
Other operating expenses	(68,711)	(67,903)	1.2%
Gross Operating Result (EBITDA)	401,969	405,897	(1.0%)
Amortisation/depreciation of non-current assets	(134,883)	(122,916)	9.7%
Release of grants related to non-financial assets	7,577	6,050	25.2%
Impairment of and gains/losses on disposals of fixed assets	140	0	-
Net Operating result (EBIT)	274,803	289,031	(4.9%)
Finance income	1,186	480	-
Financial costs	(41,494)	(35,590)	16.6%
Exchange differences	(2,498)	7	-
Net finance expense	(42,806)	(35,103)	21.9%
Share in the results of companies accounted for using the equity method	(779)	-	-
Profits before tax	231,218	253,928	(8.9%)
Income tax expense	(58,846)	(62,906)	(6.5%)
Consolidated profit for the year	172,372	191,022	(9.8%)
A) Consolidated profit attributable to the parent company	172,575	191,026	(9.7%)
B) Consolidated profit attributable to non-controlling interests	(203)	(4)	-



Red Eléctrica Group

Consolidated balance sheet

ASSETS (<i>thousands of euros</i>)	31/03/2020	31/12/2019
Non-current assets	11,156,822	10,875,152
Current assets	1,873,514	1,786,808
Total assets	13,030,336	12,661,960

LIABILITIES (<i>in thousands of euros</i>)	31/03/2020	31/12/2019
Equity	3,733,685	3,614,435
Non-current liabilities	7,434,351	6,775,351
Current liabilities	1,862,300	2,272,174
Total liabilities	13,030,336	12,661,960



Red Eléctrica Group

Consolidated Cash Flow Statement

<i>(in thousands of euros)</i>	31/03/2020	31/03/2019
CASH FLOWS FROM OPERATING ACTIVITIES	348,097	382,277
Profits before tax	231,218	253,928
Adjustments to profit	171,808	154,100
Changes in working capital	(23,592)	19,785
Other cash flows from operating activities	(31,337)	(45,536)
CASH FLOWS FROM INVESTING ACTIVITIES	(509,703)	(126,503)
Payments from investments	(514,743)	(145,885)
Proceeds from disposal	5,141	16,125
Other cash flows from investing activities	(101)	3,257
CASH FLOWS FROM FINANCING ACTIVITIES	271,613	193,039
Proceeds and payments relating to equity instruments	(4,300)	(2,814)
Proceeds and payments relating to financial liability instruments	441,426	344,424
Dividend payments	(147,002)	(147,250)
Other cash flows from financing activities	(18,511)	(1,321)
Effect of variations in exchange rates	(2,233)	198
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	107,774	449,011
Cash and cash equivalents at beginning of year	328,570	767,149
Cash and cash equivalents at end of year	436,344	1,216,160



Financial calendar

Upcoming events

Estimated dates

Additional dividend payment	1 July 2020
First six months 2020 results presentation	End of July 2020
First nine months 2020 results presentation	End of October 2020

For more information

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Appendix 2. Sustainability certifications



The Company was once again placed on the DJSI World and the DJSI Europe indices.



Silver Class distinction in the RobecoSAM Sustainability Yearbook 2019.



Included in the FTSE4Good index since 2008^(*).



Continued inclusion in the STOXX Global ESG Leaders indices.



Renewed its presence in the MSCI Global Sustainability Indexes following its inclusion in 2014.



Renewed presence in the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120 and Global 120).



The Company confirmed its presence in the Ethibel Sustainability Index Excellence Europe.



Renewed inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers.



Included in the ECPI Indices since 2008.



Ranked first in the Utilities/Network Operators sector with a B+ rating.

(*) FTSE Group confirms that Red Eléctrica Corporation has been independently assessed in accordance with FTSE4Good criteria and meets the requirements to be ranked in the FTSE4Good indices, the global index created by the FTSE Group. FTSE4Good is a stock market index designed to facilitate investment in companies that comply with the social responsibility standards recognised around the world. Companies included in the FTSE4Good index have met strict environmental, social and corporate governance criteria, and they are positioned to take advantage of the benefits of responsible business practice.