

RED
ELÉCTRICA
CORPORACIÓN

RESULTS PRESENTATION
FIRST HALF 2019

July 2019

Contents

- 1. Red Electrica in the Energy Transition.**
 2. Normative progress and CNMC Circular proposal.
 3. Results for H1 2019.
 4. Our commitment to the future. 2022 Horizon.
-

Red Eléctrica in the Energy Transition

EU Clean Energy Package. 2030 Targets



-40%

GHG
Emissions



32%

Share of
renewable energy
over final energy



-32.5%

Energy
Efficiency

Plan Nacional de Energía y Clima (PNIEC) 2021-2030 Targets

- 21 % reduction in greenhouse gas (GHG) emissions compared to 1990.
- 42 % of the final energy consumption for the EU as a whole produced from renewable sources.
- 74 % of electricity generation from renewable sources.
- 39.6 % improvement in energy efficiency compared to the benchmark trend scenario.

Red Eléctrica compromised with energy transition challenge.

Red Electrica in the Energy Transition

Quality Standards

98.24 %

Transmission grid availability

23.26 MWh

Energy not supplied

0.046 min

Average interruption time

Integration of renewables

38.4 %

Generation using renewable sources

48,973 GWh

CO₂-free generation

61.4 %

CO₂-free generation

Request for access

28.5 GW

Wind and photovoltaic generation in service

56.1 GW

Wind and photovoltaic generation with access permit

Note: Cumulative data as of 30/06/2019, except for the request for access data, which is referred to 30/05/2019.



Contents

1. Red Electrica in the Energy Transition.
 - 2. Normative progress and CNMC Circular proposal.**
 3. Results for H1 2019.
 4. Our commitment to the future. 2022 Horizon.
-

Normative progress

- Draft version of the '**Plan Nacional Integrado de Energía y Clima**' (PNIEC) for 2021-2030 sent to the European Commission. Roadmap for the Energy Transition.
- Launching on 1 March of the new **Infrastructure planning for the electrical transmission grid for 2021-2026**.
- **Independent regulator:**
 - Royal Decree-Law 1/2019 of 11 January, on urgent measures to adapt National Commission on Markets and Competition (CNMC) competences to the requirements derived from EU law.
 - Ministerial Order TEC/406/2019 of 5 April, which establishes energy policy guidelines for the National Commission on Markets and Competition.

CNMC Circular Proposal

Calendar for regulatory development of the methodology for electricity transmission activities and operation of the system

5 July 2019

- Publication by the CNMC of draft Circulars to establish the calculation methodology for: (i) compensation for electricity transmission activities; (ii) financial compensation rate; and (iii) compensation for the electrical system operator.
- Initiation of the public consultation procedure.

25 July 2019

- Publication by the CNMC of draft Circulars related to O&M unitary values.
- Report from the Ministry for the Ecological Transition on the draft Circulars.

9 August/16 September 2019

- Deadline for submittal of public comments.
- Period for adapting the Circulars to the energy policy guidelines established by the Ministry for the Ecological Transition (Cooperation Committee).

October 2019

- Approval of the methodology Circulars.

Start of administrative processing of the regulatory Circulars that will regulate compensation for electrical transmission activities and for operation of the electrical system, in application of Royal Decree-Law 1/2019.

CNMC Circular Proposal

Proposal on compensation for electricity transmission activities

- Regulatory period: 2020-2025 (6 years).
- Investments compensation based on net asset value.
- Model based on benchmark unitary values for investment and for operations and maintenance.
- Financial rate of return:
 - Model of weighted average cost of capital (WACC) for calculating the compensation rate for regulated activities in the energy industry.
 - Financial compensation rate proposed for the regulatory period is 5.58 % (pre-tax nominal rate). Annual variations will be 50 basis points as a maximum; financial compensation rate for 2020: 6 % and for 2021-2025: 5.58 %.
- Extension of useful life:
 - 15% added to the annual amount for maintenance of any facility with its useful life ending during the first 5 years. This incentive will be increased each year by 1 %, 2 %, or 3 % as applicable, up to a permissible maximum of 100 %.
 - Plans for renewal and improvement of facilities that have exhausted their useful life, with a compensation mechanism already established for them.
- Adjustment of the compensation for O&M.

Methodology provides continuity as applied during the first regulatory period.

CNMC Circular Proposal

Proposed compensation for electricity system operator

- This is the first time a methodology is being established for compensation of the electricity system operator.
- It incorporates a system for recognising costs plus an additional margin, compensation for investments based on amortisation and financial compensation (5.58 %), as well as additional compensation for incentives.
- The regulatory parameters are established for 3-year periods, with the first period being 2020-2022.

A clear and transparent methodology for compensation is being established for the first time.

CNMC Circular Proposal

Main allegations to proposed Circulars

Incentives for extension of transmission grid useful life's

- It does not include a real incentive to maintain facilities in service. It only includes a concept that is insufficient to cover the additional cost of maintenance incurred to maintain in service those facilities that have ended their useful life.
- Implementation of mechanism of gradual absorption.
- Rigid mechanism for investments in REPEX.

Compensation for transmission grid's O&M

- It should generate a sufficient compensation to ensure current levels of availability, on a base of recurrent costs with gradual mechanism of efficient management.
- The Circular proposed does not recognised as incentive the incorporation of new technologies and innovation as required for operation and maintenance of transmission grids.

Other aspects

- Financial return.
- Limits to the investments.
- Incentive for availability.
- Subsidies.
- Operation of the System.

The public consultation process allows identification of alternatives to improve the CNMC's proposal.



Contents

1. Red Electrica in the Energy Transition.
 2. Normative progress and CNMC Circular proposal.
 - 3. Results for H1 2019.**
 4. Our commitment to the future. 2022 Horizon.
-

Results for H1 2019. Significant Events

Financial Results

Net Profit

€362m, 1.5% higher than first-half profits in 2018, in line with the forecast.

Dividend

charged to 2018 in the amount of €0.7104 per share, 7% higher than the prior year.

Investments

Group Investments €166.1m. **Transmission grid investments** €133.1m in Spain.

Acquisition CCNCM in the northern region of Peru, valued at \$205m, and **incorporation of REDELNOR** for that acquisition.

On 14 February, **Spain and Morocco** signed a **Memorandum of Understanding (MOU)** to construct a third electrical interconnection cable between the two countries.

Telecommunications

Positioning as a global telecommunications operator: Agreement on acquisition of **Hispasat**.

The Council of Ministers and the CNMC have **authorised** Red Eléctrica Sistemas de Telecomunicación to acquire all of the shares held by Abertis in **Hispasat**.

Innovation

Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. Creation of a technology company to promote innovation in electricity and telecommunications.

Corporate Governance

Appointment of Roberto Garcia Merino as the Group's new CEO at an extraordinary meeting of the Board of Directors.

Sustainability

REE leads the ranking of IBEX 35 companies in **best practices for transparency in fiscal responsibility**.

Red Eléctrica is in the top 1% of companies **with the highest ranking on the subject of human rights** according to **Vigeo Eiris**.

Renewed inclusion in the **FTSE4Good** and **Europe120, Eurozone120 and World120** indexes.

Results for H1 2019. Financial Results

Key Economic Figures

| | | |
|--|--|---|
| €993.1m Revenues +0.3% | €779.4m EBITDA +0.3% | €362.2m Net Profit +1.5% |
| €4.485.9m Net Financial Debt -4.2% | €166.1m Total Investment -9.2% | €133.1m Trans. Grid Inv. -13.6% |
| 2.30 % Cost of Debt 2.44% in H1 2018 | 2.9 x Cost of Debt 2.9x in H1 2018 | 27.2 % FFO/Debt 26.5% in H1 2018 |

Profits for the financial year have increased by 1.5%, which is in line with the company's strategic targets.

Results for H1 2019: Corporate Debt

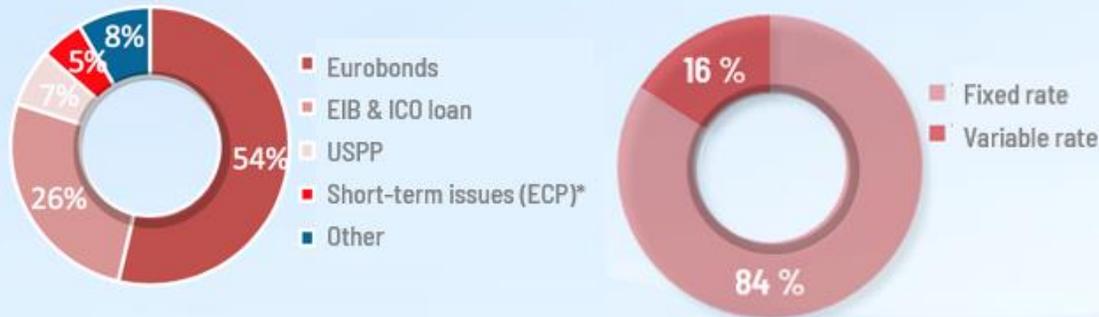
Balance Sheet Strength

Maturities (€m)



Debt Structure

Gross debt: €5.340bn as at 30/06/2019



* Euro Commercial Paper

- Average debt life: 5.0 years.
- Liquidity sources €3,169 M€.
- Rating: 'A-' Standard & Poor's and 'A-' Fitch, outlook stable.
- Financing sustainable. €800m syndicated loan and €375m bilateral loans linked to ESG criteria.
- To finance acquisition of Hispasat, REC has signed a credit facility agreement for €500m at 5 years, with an option for extension up to 7 years.

**Debt is diversified by markets and financial instruments.
Proactive management of maturities and market risks.**

Results for H1 2019: Investments

TSO in Spain Storage



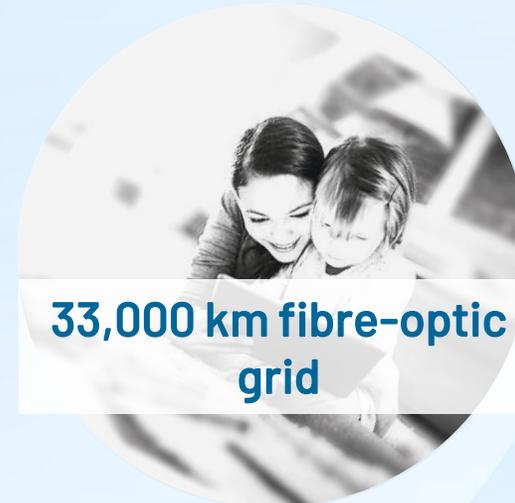
€139.8m in investments
during H1 2019

Transmission in Latin America



Acquisition of Cajamarca
for €205m

Telecommunications Business



Acquisition agreement
for HISPASAT.

Positioning of the RE Group as a manager of strategic infrastructures: Electrical Transmission, Fibre-optic, and Satellite.

Contents

1. Red Electrica in the Energy Transition.
2. Normative progress and CNMC Circular proposal.
3. Results for H1 2019.
- 4. Our commitment to the future. 2022 Horizon.**

Our commitment to the future. 2022 Horizon

Creating value for our stakeholders

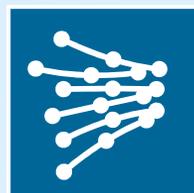
- ✓ **Strong investments. More than half in the Energy Transition in Spain.**

- ✓ **Commitment to efficiency.**

- ✓ **Financial discipline.**

- ✓ **Sustainable net profits.**

- ✓ **Stable dividend policy.**



RED
ELÉCTRICA
CORPORACIÓN

Comprometidos con la *energía inteligente*

Thank you for your attention.

www.ree.es