

**RED**  
**ELÉCTRICA**  
CORPORACIÓN

**RESULTS PRESENTATION**  
**FIRST HALF 2019**

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July 2019

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- 1. Red Electrica in the Energy Transition.**
  2. Normative progress and CNMC Circular proposal.
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# 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

CO<sub>2</sub>-free generation

61.4 %

CO<sub>2</sub>-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.



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# Normative progress

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- 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

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## 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

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## 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.**



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# 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

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

**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

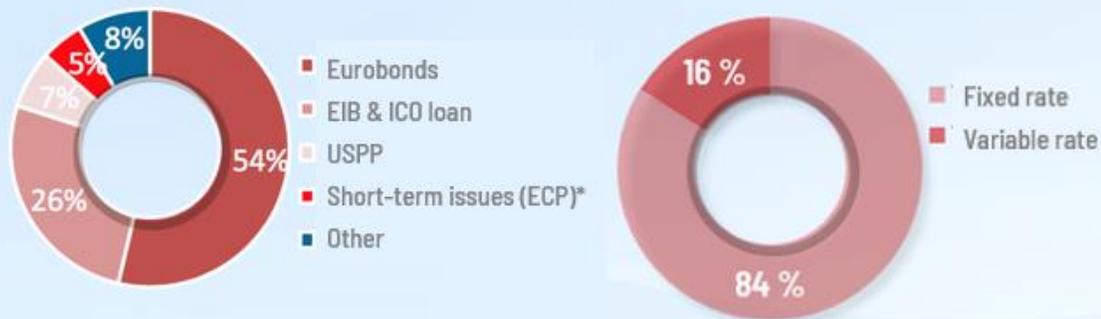
## Balance Sheet Strength

### 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



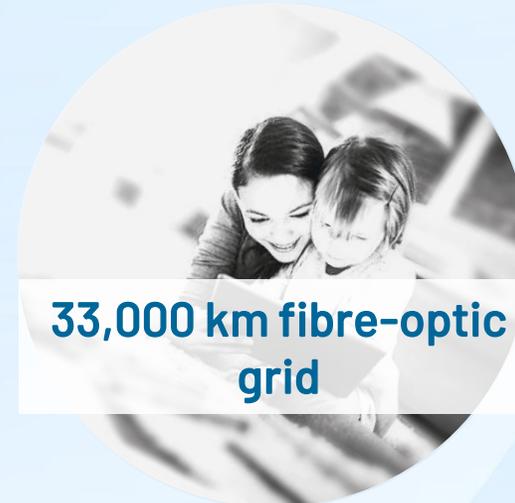
€139.8m in investments  
during H1 2019

## 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.**

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# Our commitment to the future. 2022 Horizon

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## Creating value for our stakeholders

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

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- ✓ **Commitment to efficiency.**

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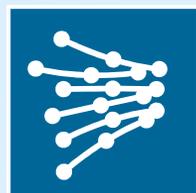
- ✓ **Financial discipline.**

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- ✓ **Sustainable net profits.**

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- ✓ **Stable dividend policy.**



**RED**  
**ELÉCTRICA**  
CORPORACIÓN

*Comprometidos con la energía inteligente*

**Thank you for your attention.**

[www.ree.es](http://www.ree.es)