



RED
ELÉCTRICA
CORPORACIÓN

Financial Results **January - June 2019**

31 July 2019

The condensed consolidated interim financial statements, forming part of the financial information presented in this document, were subject to a limited review and granted an unqualified opinion by the auditors. This information was drawn up in accordance with the International Financial Reporting Standards (IFRS).

For the purpose of facilitating the understanding of the information provided in this document, certain alternative performance measures have been included. Their definition can be found at www.ree.es.



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1. Main highlights

Our electricity transmission and system operation activities in Spain for the first half of 2019 have been aimed at facilitating the energy transition and enabling proper integration of renewable energy sources, with the ultimate goal of driving progress towards a low-carbon economy. The Company has maintained high levels of service quality with an availability of more than 98% on the Iberian Peninsula, 97.4% on the Balearic Islands and 98.8% on the Canary Islands. Mainland production from renewable sources amounted to 38.4% and CO₂-free mainland production represented 61.4% of production.

In relation to **international electricity transmission**, highlights include the formalisation of the acquisition of 100% of the Carhuaquero - Moyobamba line in Peru valued at \$205 million, which was announced in December 2018.

With regard to the **telecommunications business**, on 12 February significant progress was made to position the Company as a global operator of telecommunications infrastructure following the agreement reached with Abertis Infraestructuras, S.A. to acquire 89.68% of the shares of Hispasat, S.A.. This operation has already been authorised by the Council of Ministers and the National Markets and Competition Commission (CNMC) and is pending the final authorisations.

Profit for the first half stood at €362.2 million, up 1.5% on the same period of 2018.

EBITDA was €779.4 million, up 0.3% on the first six months of 2018.

Total **investments** of the Red Eléctrica Group reached €166.1 million, 9.2% lower than the investments in the first half of 2018. Of this amount, €133.1 million was earmarked for development of the **transmission network** in Spain.

On 1 July, Red Eléctrica paid €0.7104 per share as a **complementary dividend**. The Company therefore paid a total of €0.9831 per share with a charge to profit for 2018, up 7% on the previous year.

Finally, on 5 July the **draft circulars** were published establishing the methodology for calculation of remuneration for electricity transmission activities and remuneration for the operator of the electricity system. As from that date and upon the terms of the draft circulars, they will be subject to public notification procedures and hearings via the Electricity Advisory Board, with termination of the deadline for submissions on 9 August 2019. Additionally last 25 July was started the public procedure regarding the CNMC draft on O&M unit values of transmission assets. The allegations period related to this circular will end next 16 September.



2. Red Eléctrica: Highlights

Income statement

<i>(Thousands of euros)</i>	January - June			April - June		
	2019	2018	Δ %	2019	2018	Δ %
Revenues	993,074	990,317	0.3	493,336	493,320	0.0
EBITDA	779,361	776,806	0.3	373,463	374,392	(0.2)
EBIT	544,707	540,985	0.7	255,674	256,254	(0.2)
Profit before tax	480,881	475,736	1.1	226,953	224,809	1.0
Profit for the year	362,199	356,973	1.5	171,173	167,888	2.0

Balance sheet

<i>(Thousands of euros)</i>	June 2019	December 2018	Δ %
Non-current assets	9,235,590	9,303,514	(0.7)
Equity	3,305,466	3,361,366	(1.7)
Net financial debt*	4,485,942	4,682,720	(4.2)

(*) Includes exchange rate derivatives.

Other financial figures

<i>(Thousands of euros)</i>	January - June			April - June		
	2019	2018	Δ %	2019	2018	Δ %
Operating cash flow after taxes	647,866	644,606	0.5	279,882	279,314	0.2
Investments	166,067	182,967	(9.2)	94,236	111,622	(15.6)
Dividends paid	147,250	137,509	7.1	-	-	-

Credit rating

Agent	Credit rating	Outlook	Date
Standard & Poor's	A-	Stable	15/02/2019
Fitch Ratings	A-	Stable	08/04/2019



3. Profit performance

Revenue for the first half of 2019 amounted to €993.1 million, which is a 0.3% rise year-on-year. This figure includes the remuneration of the electricity transmission business in Spain, the regulated income related to system operations amounting to €32.9 million, the external telecommunications business in Spain, which reached €47.8 million, and the income arising from international business, which reached €21.7 million. It should also be noted that profit for the Chilean company TEN amounted to €3.6 million, which is included in EBITDA as Profit of Investees.

EBITDA amounted to €779.4 million, showing growth of 0.3% year-on-year, the fruit of the consolidation of efficiency measures implemented by Red Eléctrica.

Operating costs performed as follows:

- **Supply costs and other operating expenses** dropped 3.9% compared to the first half of last year, highlighting the efforts made by Red Eléctrica to improve efficiency. This change is a result of lower overhead costs as well as lower expenses arising from leases, in application of IFRS 16, and as a result of completing the construction of TESUR2 (a transmission line in southeast Peru, between the cities of Juliaca, Puno and Azángaro).
- The **final headcount** at 30 June was 1,808, while the average headcount was 1,795.3 employees.

Personnel expenses rose 3.4% year-on-year. This increase is mainly due to the increase in wages and salaries reflected due to the evolution of the average wage costs, the increase of the maximum base for Social Security payments in 2019 and higher training and indemnities.

Operating expenses

<i>(Thousands of euros)</i>	January - June			April - June		
	2019	2018	Δ %	2019	2018	Δ %
Supplies and other operating expenses	173,771	180,822	(3.9)	99,382	104,542	(4.9)
Personnel expenses	77,023	74,472	3.4	39,150	38,069	2.8
Operating expenses	250,794	255,294	(1.8)	138,532	142,611	(2.9)

Net operating profit (EBIT) stood at €544.7 million, up 0.7% year-on-year.

The **negative financial result** increased to €63.8 million, 2.2% down on the result for the first half of 2018. This decrease compared to the previous year is mainly due to lower financial expenses resulting from lower average rates (currently 2.30% compared to 2.44% in June 2018). These effects have been partially offset by a higher average gross financial debt (€5,778.8 million compared to €5,470.7 million in June 2018).

Finally, **profit** for the period amounted to €362.2 million, a rise of 1.5% year-on-year. The effective tax rate was 24.7%.



4. Cash flow and balance sheet performance

Cash flows⁽¹⁾

<i>(Thousands of euros)</i>	January - June			April - June		
	2019	2018	Δ %	2019	2018	Δ %
Profits before tax	480,881	475,736	1.1	226,953	224,809	1.0
Income tax paid	(68,112)	(67,507)	0.9	(64,852)	(65,268)	(0.6)
Depreciation and amortisation charge and other adjustments	235,097	236,377	(0.5)	117,781	119,773	(1.7)
Operating cash flow after taxes	647,866	644,606	0.5	279,882	279,314	0.2
Changes to working capital	(73,932)	27,431	-	(93,717)	59,979	-
Changes in other assets and liabilities	5,590	(55,847)	-	(3,879)	(2,734)	41.9
Changes in payables to non-current asset suppliers	(60,670)	(32,626)	86.0	13,384	26,673	(49.8)
Investments	(166,067)	(182,967)	(9.2)	(94,721)	(111,622)	(15.1)
Free cash flow	352,787	400,597	(11.9)	100,949	251,611	(59.9)
Dividends paid	(147,250)	(137,509)	7.1	-	-	-
Change in net financial debt ⁽²⁾	(205,537)	(263,088)	(21.9)	100,949	251,611	(59.9)

(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 difference between this figure and payments due to investments is included mainly under changes in other 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 €647.9 million, up 0.5% on the first half of the previous year.

Changes in working capital as at June 2019 totalled -€73.9 million, due to the transitional impact of transmission receivables.

Changes in other assets and liabilities include, among others, the repayment of a portion of the loan to TEN.

Investments by the Group during the period amounted to €166.1 million, down 9.2% on the same period of the previous year. Of this amount, €133.1 million were earmarked for development of the national transmission network. Furthermore, €16.7 million were allocated to the development of the international business in relation to the construction of Tesur 3 (transmission line in the south of Peru between Montalvo and Los Héroes), Tesur 4 (Tintaya – Azángaro line) and Redenor (transmission line in the north of Chile, in the Pozo Almonte area).

Dividends paid amounted to €147.3 million, up 7.1% on the €137.5 million paid in the previous year and in line with the shareholder remuneration policy included in the Strategic Plan.

The Red Eléctrica Group's **net financial debt** at 30 June 2019 amounted to **€4,485.9** million, compared to €4,682.7 million at the end of 2018.



Net financial debt (*)

<i>(Thousands of euros)</i>	National currency	Foreign currency	Total
Cash and cash equivalents	(801,256)	(52,364)	(853,620)
Long-term debenture bonds	2,865,974	436,422	3,302,396
Long-term loans	1,503,894	266,773	1,770,667
Promissory notes and current loans	266,499	-	266,499
Total net financial debt	3,835,111	650,831	4,485,942

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

At 30 June 2019, 95% of the Group's financial debt was long term. As regards interest rates, 84% of the Group's 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 half of the year was 2.30%, compared to 2.44% in the same period of the previous year. Meanwhile, the **average balance of gross debt** stood at €5.778.8 million, compared to €5,470.7 million in the first half of the previous year.

Moreover, at 30 June 2019, the Red Eléctrica Group's **Equity** stood at €3,305.5 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'.

The S&P rating is based on the stability of the cash flows arising mainly from regulated transmission activities. Fitch also highlighted the low level of business risk given TSO's natural monopoly position in Spain and the steady increase in the flow of income from contracts of the telecommunications business and the electricity transmission concessions in Peru and Chile.



5. Significant events in first half and thereafter

- On 25 July it was started the public procedure regarding the CNMC draft on O&M unit values of transmission assets. This values will be used to calculate the compensation for O&M. The allegations period related to this circular will end next 16 September.
- On 18 July the Company formalised the acquisition of 100% of CCNCM according to the agreement reached with Bow Power in December 2018, and once acquired the corresponding authorisations. Since late 2017, CCNCM has operated 372 kilometres of 220 kV and 138 kV (kilovolt) line and four substations in the regions of Cajamarca, Amazonas and San Martín in northern Peru under a 30- year concession contract with the Peruvian government.
- On 5 July, the National Markets and Competition Commission (CNMC) published the draft circulars establishing the methodology for calculation of remuneration for electricity transmission activities and remuneration for the operator of the electricity system. As from that date and upon the terms of the draft circulars, they will be subject to public notification procedures and hearings via the Electricity Advisory Board, with termination of the deadline for submissions on 9 August 2019.
- Last 12 June, Red Eléctrica Corporación entered into a credit facility agreement for €500 million with a term of 5 years, with the possibility of extension to 7 years. These funds will be used to partially finance the acquisition of the shares representing 89.68% of the company Hispasat, S.A. via Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.
- On 6 June 2019, de 2019 the credit rating agency Fitch Ratings upgraded the short-term rating of Red Eléctrica Corporación, S.A. from 'F2' to 'F1' following the update of its short-term rating methodology. Following the announcement, Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U. maintain a long-term rating of 'A-' and a short-term rating of 'F-1' with a stable outlook.
- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 27 May 2019, resolved to dismiss Juan Francisco Lasala Bernad as Chief Executive Officer as part of the process to implement the new corporate structure of Red Eléctrica Group, after the recent approval of the Strategic Plan 2018-2022. It also resolved to accept the resignation of Juan Francisco Lasala Bernad as Executive Director of the Company, to which he was elected by agreement of the Extraordinary General Shareholders' Meeting held on 17 July 2015, in accordance with the terms of section 24 of the Regulations of the Board of Directors. Following this and at the same meeting, the Board of Directors agreed to appoint Roberto García Merino as Executive Director of Red Eléctrica Corporación, S.A. until the first General Meeting is held, in order to fill the vacancy on the Board of Directors due to the resignation of Juan Francisco Lasala Bernad as Executive Director, and to appoint Mr. García Merino as Chief Executive Officer of Red Eléctrica Corporación, S.A.



Appendix 1 Consolidated financial statements

Red Eléctrica Group

Consolidated income statement

<i>(Thousands of euros)</i>	30/06/2019	30/06/2018	2019/2018
Revenue	993,074	990,317	0.3%
Work on non-current assets	25,663	32,067	(20.0%)
Profit from investees	3,639	4,346	(16.3%)
Supply costs	(13,923)	(19,003)	(26.7%)
Other operating income	7,779	5,370	44.9%
Personnel expenses	(77,023)	(74,472)	3.4%
Other operating expenses	(159,848)	(161,819)	(1.2%)
Gross profit from operations	779,361	776,806	0.3%
Depreciation and amortisation charge for non-current assets	(246,757)	(247,354)	(0.2%)
Allocation to profit or loss of grants related to non-financial assets	12,104	11,556	4.7%
Impairment of and gains/losses on disposal of non-current assets	(1)	(23)	(95.7%)
Net profit from operations	544,707	540,985	0.7%
Finance income	6,667	7,021	(5.0%)
Financial costs	(71,004)	(72,101)	(1.5%)
Exchange differences	511	(169)	-
Net finance expense	(63,826)	(65,249)	(2.2%)
Profits before tax	480,881	475,736	1.1%
Income tax expense	(118,685)	(118,793)	(0.1%)
Consolidated profit for the period	362,196	356,943	1.5%
A) Consolidated profit attributable to the parent company	362,199	356,973	1.5%
B) Consolidated profit attributable to non-controlling interests	(3)	(30)	(90.0%)



Red Eléctrica Group

Consolidated balance sheet

ASSETS (Thousands of Euros)	30/06/2019	31/12/2018
Intangible assets	252,674	242,559
Property, plant and equipment	8,638,616	8,711,332
Investment properties	1,600	1,654
Investments accounted for using the equity method	192,954	198,377
Non-current financial assets and derivatives	115,719	120,931
Deferred tax assets	33,326	27,984
Other non-current assets	701	677
Non-current assets	9,235,590	9,303,514
Inventories	38,715	34,641
Trade and other receivables	1,210,870	1,102,560
Current financial assets and derivatives	41,334	54,213
Cash and cash equivalents	853,620	767,152
Current assets	2,144,539	1,958,566
Total assets	11,380,129	11,262,080

LIABILITIES (in thousands of euros)	30/06/2019	31/12/2018
Equity	3,379,267	3,404,605
Capital	270,540	270,540
Reserves	2,770,549	2,598,060
Treasury shares (-)	(24,021)	(21,303)
Profit attributable to the Parent	362,199	704,558
Interim dividend paid	0	(147,250)
Adjustments due to changes in value	(74,639)	(44,071)
Minority interests	838	832
Equity	3,305,466	3,361,366
Grants and other	635,085	631,410
Non-current provisions	131,693	127,541
Non-current financial liabilities and derivatives	4,472,279	5,021,178
Deferred tax liabilities	465,180	473,125
Other non-current liabilities	84,031	83,068
Non-current liabilities	5,788,268	6,336,322
Current financial liabilities and derivatives	1,811,648	1,196,870
Trade and other payables	474,747	367,522
Current liabilities	2,286,395	1,564,392
Total liabilities	11,380,129	11,262,080



Red Eléctrica Group

Consolidated Cash Flow Statement

<i>(Thousands of euros)</i>	30/06/2019	30/06/2018
CASH FLOWS FROM OPERATING ACTIVITIES	539,918	627,632
Profits before tax	480,881	475,736
Adjustments to profit	301,962	302,065
Depreciation/amortization	246,757	247,354
Other adjustments to results (net)	55,205	54,711
Changes in working capital	(73,932)	27,431
Other cash flows from operating activities	(168,993)	(177,600)
Interest paid	(105,021)	(116,505)
Collection of dividends	4,848	4,848
Collection of interest	898	1,267
Income tax recovered/(paid)	(68,112)	(67,507)
Other collections/(payments) on operating activities	(1,606)	297
CASH FLOWS FROM INVESTING ACTIVITIES	(183,211)	(208,585)
Payments from investments	(226,737)	(218,673)
Property, plant and equipment, intangible assets and investment property	(226,737)	(216,436)
Other financial assets	-	(2,237)
Proceeds from disposal	24,549	844
Property, plant and equipment, intangible assets and investment property	-	43
Other assets	24,549	801
Other cash flows from investing activities	18,977	9,244
CASH FLOWS FROM FINANCING ACTIVITIES:	(270,446)	(88,861)
Proceeds from/(payments for) equity instruments	(804)	(12,775)
Acquisitions	(38,665)	(29,904)
Disposals	37,861	17,129
Proceeds from/(payments for) financial liabilities	(119,069)	67,495
Issue and placements	568,471	1.007,473
Redemption and write-off	(687,540)	(939,978)
Dividend payments	(147,250)	(137,509)
Other cash flows from financing activities	(3,323)	(6,072)
Effect of variations in exchange rates	207	397
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,468	330,583
Cash and cash equivalents at beginning of year	767,152	569,869
Cash and cash equivalents at end of year	853,620	900,452



Financial calendar

Upcoming events

Estimated dates

First nine months 2019 results presentation	30 October 2019
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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 presence in the MSCI Global Sustainability Indices 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 second 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.