Red Eléctrica Corporación, S.A. and subsidiaries

Condensed Consolidated Interim Financial Statements

30 June 2018

Consolidated Interim Directors' Report

2018

(With Limited Review Report thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Limited Review Report on the Condensed Interim Consolidated Financial Statements

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Red Eléctrica Corporación, S.A. commissioned by the Company management

REPORT ON THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Red Eléctrica Corporación, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the statement of financial position at 30 June 2018, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the explanatory notes for the six-month period then ended (all condensed and consolidated). Pursuant to article 12 of Royal Decree 1362/2007 the Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of review

We conducted our limited review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2018 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, pursuant to article 12 of Royal Decree 1362/2007.

Emphasis of matter

We draw your attention to the accompanying note 2.a, which states that these interim financial statements do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2017. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2018 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2018. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Red Eléctrica Corporación, S.A. and subsidiaries.

Paragraph on other matters

This report has been prepared at the request of Company management in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Eduardo González Fernández
31 July 2018

Red Eléctrica Group

Notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2018

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 30 JUNE 2018 AND 31 DECEMBER 2017
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

ASSETS	**30/06/2018**	**31/12/2017**
Intangible assets (note 5)	176.741	154.939
Property, plant and equipment (note 5)	8.664.822	8.747.376
Investment property (note 5)	2.292	2.385
Equity-accounted investees (note 6)	188.824	172.727
Non-current financial assets (note 11)	89.542	95.265
Non-current derivatives (note 11)	9.086	12.970
Deferred tax assets (note 13)	21.976	27.824
Other non-current assets (note 11)	3.137	752
NON-CURRENT ASSETS	**9.156.420**	**9.214.238**
Inventories (note 7)	48.283	39.753
Trade and other receivables (note 8)	1.094.649	1.013.355
Trade receivables	23.749	14.940
Other receivables	1.069.768	994.627
Current tax assets	1.132	3.788
Current financial assets (note 11)	84.583	80.668
Cash and cash equivalents	900.452	569.869
CURRENT ASSETS	**2.127.967**	**1.703.645**
TOTAL ASSETS	**11.284.387**	**10.917.883**

EQUITY AND LIABILITIES	**30/06/2018**	**31/12/2017**
Capital and reserves	**3.177.952**	**3.157.494**
Capital	270.540	270.540
Reserves	2.592.704	2.384.396
Own shares	(42.265)	(29.769)
Profit attributable to the Parent	356.973	669.836
Interim dividend	-	(137.509)
Valuation adjustments	**(57.933)**	**(64.104)**
Financial assets at fair value through other comprehensive income	13.061	15.435
Hedging transactions	(71.342)	(77.241)
Translation differences	348	(2.298)
EQUITY ATTRIBUTABLE TO THE PARENT	**3.120.019**	**3.093.390**
Non-controlling interests	**339**	**59**
TOTAL EQUITY (note 9)	**3.120.358**	**3.093.449**
Grants and other	599.669	597.122
Non-current provisions	103.815	100.982
Non-current financial liabilities (note 11)	4.983.266	4.630.915
Loans and borrowings, bonds and other marketable securities	4.983.097	4.630.691
Other non-current financial liabilities	169	224
Deferred tax liabilities (note 13)	468.862	472.475
Non-current derivatives	49.483	61.437
Other non-current liabilities	85.047	87.019
NON-CURRENT LIABILITIES	**6.290.142**	**5.949.950**
Current financial liabilities (note 11)	1.328.619	1.471.957
Loans and borrowings, bonds and other marketable securities	460.732	824.497
Other current financial liabilities	867.887	647.460
Trade and other payables (note 12)	545.268	402.527
Suppliers	397.765	343.694
Other payables	84.327	47.974
Current tax liabilities	63.176	10.859
CURRENT LIABILITIES	**1.873.887**	**1.874.484**
TOTAL EQUITY AND LIABILITIES	**11.284.387**	**10.917.883**

The Group applied IFRS 15 and IFRS 9 on 1 January 2018; given the transition method selected, the comparative information has not been restated.

Notes 1 to 20 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED INCOME STATEMENTS
AT 30 JUNE 2018 AND 2017
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

CONSOLIDATED INCOME STATEMENTS	**30/06/2018**	**30/06/2017**
Revenue (note 14-a)	990.317	987.295
Self-constructed assets (note 5)	32.067	27.689
Share of profit/(loss) of equity-accounted investees (with a similar activity to that of the Group) (note 6)	4.346	-
Supplies (note 14-c)	(19.003)	(23.792)
Other operating income (note 14-b)	5.370	10.963
Personnel expenses (note 14-d)	(74.472)	(72.824)
Other operating expenses (note 14-c)	(161.819)	(159.628)
Amortisation and depreciation (note 5)	(247.354)	(257.946)
Non-financial and other capital grants	11.556	11.682
Impairment and gains/(losses) on disposal of fixed assets	(23)	23
RESULTS FROM OPERATING ACTIVITIES	**540.985**	**523.462**
Finance income	7.021	5.849
Finance costs	(72.101)	(75.881)
Exchange gains/(losses)	(169)	78
NET FINANCE COST	**(65.249)**	**(69.954)**
Share of profit/(loss) of equity-accounted investees	-	384
PROFIT BEFORE INCOME TAX	**475.736**	**453.892**
Income tax	(118.793)	(113.811)
CONSOLIDATED PROFIT FOR THE PERIOD	**356.943**	**340.081**
A) CONSOLIDATED PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT	**356.973**	**340.081**
B) PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (note 2-e)	**(30)**	**-**

EARNINGS PER SHARE

Basic earnings per share (note 19)	**0,66**	**0,63**
Diluted earnings per share (note 19)	**0,66**	**0,63**

Notes 1 to 20 and Appendix I form an integral part of these condensed consolidated interim financial statements.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	30/06/2018	30/06/2017
A) CONSOLIDATED PROFIT FOR THE PERIOD	**356.943**	**340.081**
B) OTHER COMPREHENSIVE INCOME - ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:	**(1.445)**	**481**
1. Revaluation/(reversal) of PPE and intangible assets	-	-
2. Actuarial gains and losses	1.237	641
3. Share in other comprehensive income from investments in joint ventures and associates	-	-
4. Equity instruments through other comprehensive income	(3.503)	-
5. Other income and expense that will not be reclassified to profit or loss	-	-
6. Tax effect	821	(160)
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT COULD SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:	**8.544**	**9.187**
1. Hedging transactions:	**(1.514)**	**15.977**
a) Revaluation gains/(losses)	(3.638)	15.674
b) Amounts transferred to the income statement	2.124	303
c) Amounts transferred to initial value of hedged items	-	-
d) Other reclassifications	-	-
2. Translation differences:	**(1.189)**	**(5.004)**
a) Revaluation gains/(losses)	(1.189)	(5.004)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
3. Share in other comprehensive income from investments in joint ventures and associates:	**11.751**	**(1.706)**
a) Revaluation gains/(losses)	11.751	(1.706)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
4. Debt instruments at fair value through other comprehensive income	-	-
a) Revaluation gains/(losses)	-	-
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
5. Other income and expense that could subsequently be reclassified to profit or loss	-	**1.522**
a) Revaluation gains/(losses)	-	1.522
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
6. Tax effect	**(504)**	**(1.602)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (A + B + C)	**364.042**	**349.749**
a) Attributable to the Parent	364.072	349.749
b) Attributable to non-controlling interests	(30)	-

Notes 1 to 20 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AT 30 JUNE 2018 AND 2017
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	30/06/2018						
	Capital and reserves						
EQUITY	**Subscribed capital**	**Reserves (1)**	**Own shares**	**Profit attributable to the Parent**	**Valuation adjustments**	**Non-controlling interests**	**Total equity**
Balances at 31 December 2017	**270.540**	**2.246.887**	**(29.769)**	**669.836**	**(64.104)**	**59**	**3.093.449**
Adjustments due to first application of IFRS 9, net of tax (note 2)	-	34.551	-	-	-	-	34.551
Balances at 1 January 2018	**270.540**	**2.281.438**	**(29.769)**	**669.836**	**(64.104)**	**59**	**3.128.000**
I. Other consolidated comprehensive income	-	928	-	356.973	6.171	(30)	364.042
II. Transactions with shareholders or owners	-	(221.993)	(12.496)	(137.509)	-	-	(371.998)
- Distribution of dividends	-	(221.714)	-	(137.509)	-	-	(359.223)
- Transactions with own shares	-	(279)	(12.496)	-	-	-	(12.775)
III. Other changes in equity	-	532.331	-	(532.327)	-	310	314
Balances at 30 June 2018	**270.540**	**2.592.704**	**(42.265)**	**356.973**	**(57.933)**	339	**3.120.358**

	30/06/2017						
	Capital and reserves						
EQUITY	**Subscribed capital**	**Reserves (1)**	**Own shares**	**Profit attributable to the Parent**	**Valuation adjustments**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2017	**270.540**	**2.094.489**	**(36.739)**	**636.920**	**(62.156)**	**17.495**	**2.920.549**
I. Other consolidated comprehensive income	-	481	-	340.081	9.187	-	349.749
II. Transactions with shareholders or owners	-	(206.793)	6.825	(128.417)	-	-	(328.385)
- Distribution of dividends	-	(207.323)	-	(128.417)	-	-	(335.740)
- Transactions with own shares	-	530	6.825	-	-	-	7.355
III. Other changes in equity	-	498.788	-	(508.503)	-	(17.495)	(27.210)
Balances at 30 June 2017	**270.540**	**2.386.965**	**(29.914)**	**340.081**	**(52.969)**	**-**	**2.914.703**

(1) These include other reserves, prior periods' profit and loss and interim dividends.

Notes 1 to 20 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS
AT 30 JUNE 2018 AND 2017
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	30/06/2018	30/06/2017
CASH FLOWS FROM OPERATING ACTIVITIES	**627.632**	**592.109**
Profit before tax	**475.736**	**453.892**
Adjustments for:	**302.065**	**323.786**
Amortisation and depreciation (note 5)	247.354	257.946
Other adjustments (net)	54.711	65.840
Equity-accounted investees (profit)	(4.346)	(384)
(Gains)/losses on disposal/impairment of non-current assets and financial instruments	23	(23)
Accrued finance income	(7.021)	(5.849)
Accrued finance costs	72.101	75.881
Charge to/surplus provisions for liabilities and charges	3.841	5.302
Capital and other grants taken to income	(9.886)	(9.087)
Changes in operating assets and liabilities	**27.431**	**(9.558)**
Other cash flows used in operating activities:	**(177.600)**	**(176.011)**
Interest paid	(116.505)	(117.200)
Interest received	1.267	1.844
Dividends received	4.848	3.881
Income tax received/(paid)	(67.507)	(61.255)
Other proceeds from and payments for operating activities	297	(3.281)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(208.585)**	**(262.766)**
Payments for investments	**(218.673)**	**(270.074)**
Property, plant and equipment, intangible assets and investment property	(216.436)	(228.944)
Other financial assets	-	(27.184)
Other assets	(2.237)	(13.946)
Proceeds from sale of investments	**844**	**847**
Property, plant and equipment, intangible assets and investment property	43	24
Other financial assets	801	823
Other cash flows from investing activities	**9.244**	**6.461**
Other proceeds from and payments for investing activities	9.244	6.461
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**(88.861)**	**78.129**
Proceeds from and payments for equity instruments	**(12.775)**	**7.355**
Acquisition	(29.904)	(14.351)
Disposal	17.129	21.706
Proceeds from and payments for financial liability instruments (note 11)	**67.495**	**210.336**
Issue and drawdowns	1.007.473	443.666
Redemption and repayment	(939.978)	(233.330)
Dividends and interest on other equity instruments paid (note 9)	**(137.509)**	**(128.417)**
Other cash flows used in financing activities	**(6.072)**	**(11.145)**
EFFECT OF EXCHANGE RATE FLUCTUATIONS	**397**	**(1.775)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**330.583**	**405.697**
Cash and cash equivalents at beginning of period	**569.869**	**251.421**
Cash and cash equivalents at period end	**900.452**	**657.118**

Notes 1 to 20 and Appendix I form an integral part of these condensed consolidated interim financial statements.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Contents

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

1. ACTIVITIES OF THE GROUP COMPANIES

Red Eléctrica Corporación, S.A. (hereinafter the Parent or the Company) is the Parent of a Group formed by subsidiaries. The Group is also involved in joint operations along with other operators. The Parent and its subsidiaries form the Red Eléctrica Group (hereinafter the Group or Red Eléctrica Group). The Company's registered office is located in Alcobendas (Madrid) and its shares are traded on the Spanish automated quotation system as part of the selective IBEX-35 index.

The Group's principal activity is electricity transmission, system operation and management of the transmission network for the Spanish electricity system. These regulated activities are carried out through Red Eléctrica de España, S.A.U. (hereinafter REE).

The Group also conducts electricity transmission activities outside Spain through Red Eléctrica Internacional, S.A.U. (hereinafter REI) and its investees, and provides telecommunications services to third parties in Spain through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

In addition the Group carries out activities through its subsidiaries aimed at financing its operations and covering risks by reinsuring its assets and activities. It also builds electricity infrastructure and facilities through its subsidiaries and/or investees, Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) and Interconexión Eléctrica Francia-España, S.A.S. (INELFE).

Appendix I provides details of the activities and registered offices of the Parent and its subsidiaries, as well as the direct and indirect investments held by the Parent in the subsidiaries.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

a) General information

The accompanying consolidated interim financial statements have been prepared by the directors of the Parent to give a true and fair view of the consolidated equity and consolidated financial position of the Company and its subsidiaries at 30 June 2018, as well as the consolidated results of operations and consolidated cash flows and changes in consolidated equity for the period then ended.

The accompanying consolidated interim financial statements, authorised for issue by the Company's directors at their board meeting held on 31 July 2018, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its financial statements applying the accounting principles and criteria in force in its country of operations. Accordingly, the adjustments and reclassifications necessary to harmonise these principles and criteria with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) have been made on consolidation. The accounting policies of the consolidated companies are changed when necessary to ensure their consistency with the principles adopted by the Company.

The consolidated interim financial statements of the Red Eléctrica Group for the six-month period ended 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and are presented in thousands of Euros (except where otherwise indicated).

Pursuant to IAS 34, the interim financial reporting is only intended to provide an update on the content of the latest consolidated annual accounts drawn up by the Group, focusing on new activities, events and circumstances occurring during the six-month period, without repeating the information previously published in the consolidated annual accounts for 2017. Therefore, to enable an adequate understanding of the information disclosed in these consolidated interim financial statements, they should be read in conjunction with the consolidated annual accounts of the Group for the year ended 31 December 2017, which were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU) in force.

The Group has not omitted any mandatory accounting principle with a material effect on the consolidated interim financial statements.

The consolidated annual accounts for 2017 were approved by the shareholders at their general meeting held on 22 March 2018.

b) New IFRS-EU and IFRIC

These consolidated interim financial statements take into account the new standards and improvements to International Financial Reporting Standards published and effective as of 1 January 2018. The main impacts of these standards and improvements are as follows:

- **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments was applied on 1 January 2018 without restating the comparative information for 2017.

The impacts of applying this new standard mainly relate to the treatment of financial liability restructuring transactions under IFRS 9. This has entailed a decrease of Euros 47.1 million in loans and borrowings, bonds and other marketable securities, an increase of Euros 35.4 million in equity and the recognition of the corresponding deferred tax for an amount of Euros 11.7 million. Furthermore, as a result of the introduction of the expected credit loss model to calculate impairment set out in IFRS 9, impairment losses on receivables have been recognised for an amount of Euros 1.1 million, which has resulted in a Euros 0.9 million reduction in equity and the recognition of the corresponding deferred tax amounting to Euros 0.3 million. A summary of these impacts is as follows:

	Thousands of Euros		
Consolidated Statement of Financial Position	31/12/2017	01/01/2018	Variation
Non-current assets	9,214,238	9,214,507	269
Current assets	1,703,645	1,702,569	(1,076)
TOTAL ASSETS	**10,917,883**	**10,917,076**	**(807)**
Equity	3,093,449	3,128,000	34,551
Non-current liabilities	5,949,950	5,914,592	(35,358)
Current liabilities	1,874,484	1,874,484	-
TOTAL EQUITY AND LIABILITIES	**10,917,883**	**10,917,076**	**(807)**

Classification of financial assets and financial liabilities:

In accordance with IFRS 9, financial assets at 1 January 2018 have been classified as financial assets at fair value through profit and loss, financial assets measured at amortised cost or financial assets at fair value through other comprehensive income, based on the asset's contractual cash flow characteristics and the business model applied by the Group.

Debt investments held as part of a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest are generally measured at amortised cost. When these debt instruments are held as part of a business model whose objective is achieved by both collecting contractual cash flows of the principal and interest and selling financial assets, they are generally measured at fair value through other comprehensive income. All other debt and equity investments are in general measured at fair value through profit or loss. However, entities may make an irrevocable election to present changes in the fair value of certain investments in equity instruments in other comprehensive income, in which case only the dividends are subsequently recognised in profit or loss.

At 31 December 2017, the Group held equity investments classified as available-for-sale financial assets with a fair value of Euros 86.5 million, mostly reflecting the Group's 5% interest in the investee Redes Energéticas Nacionais, SGPS (hereinafter REN). At the date of first application, the Group classified these investments as financial assets at fair value through other comprehensive income.

Details of the reconciliation of the classification and measurement of financial assets under IAS 39 and IFRS 9 at the date of first application are as follows:

Type of instrument (*)	**Classification at 31/12/2017 (IAS 39)**	**Classification at 1/1/2018 (IFRS 9)**	**Amount under IAS 39 (thousands of Euros)**	**Amount under IFRS 9 (thousands of Euros)**
Equity instruments	Available for sale	At fair value through other comprehensive income	85,606	83,184
Financial assets	Loans and receivables	Amortised cost	90,327	90,327

(*) Excluding trade and other receivables and cash and cash and cash equivalents

The application of IFRS 9 has had no impact on the classification of financial liabilities.

Hedge accounting and derivatives:

There have been no impacts on hedge accounting and derivatives as a result of the first application of IFRS 9.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 Revenue from Contracts with Customers and the amendments to the other IFRS affected by this standard were applied on 1 January 2018; the comparative information for 2017 has not been restated.

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and is applicable to all revenues from contracts with customers, unless these contracts are within the scope of other standards. Under the new recognition requirements, revenues from each performance obligation in the contract must be identified, classified and accrued separately. Among other matters, the standard also sets out the accounting criteria for capitalising the incremental costs of obtaining a contract with a customer.

The Group has evaluated the types of revenue and associated contracts, which are described in note 2b to the consolidated annual accounts for 2017, and has not identified any impacts as a result of the application of IFRS 15.

- **IFRS 16 Leases**

The Group is currently analysing the impact of IFRS 16 Leases, which replaces IAS 17 Leases, on its financial statements. IFRS 16 will come into force for annual periods beginning on or after 1 January 2019. This standard requires companies that are lessees to recognise assets and liabilities in the statement of financial position for all leases with a term of more than 12 months, unless the underlying asset is of low value. The volume of contracts in which the Group is the lessee is not significant and the changes introduced by IFRS 16 are therefore not expected to have a significant impact on the Group's financial statements.

c) Estimates and assumptions

The preparation of the consolidated interim financial statements in accordance with IFRS-EU requires Group management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on past experience and other factors that are considered reasonable under the circumstances. Actual results could differ from these estimates.

These estimates are based on the best information available as described in note 2c) to the consolidated annual accounts for 2017, Estimates and assumptions. The following changes to accounting estimates have been made prospectively as of 1 January 2018:

- Those relating to the method for calculating expected loss under the new expected credit loss model of impairment set out in IFRS 9, which differs from the incurred loss model under IAS 39 (see note 2b).
- The Group has reviewed the useful life assumptions of certain transmission assets in Spain following their acquisition from electricity distributors, based on the more detailed information available thereon. Furthermore, technical reports have been drawn up on these transmission facilities. This information, together with the renewal and improvement plans for these assets and the technical studies prepared, indicated that the useful life of these facilities is longer than that initially established upon their acquisition, resulting in a change in the estimates before depreciation. This has resulted in a reduction of Euros 22.5 million in depreciation during the first half of 2018.

d) Consolidation principles

The same consolidation principles have been used in these consolidated interim financial statements as in the consolidated annual accounts for 2017.

e) Changes in the consolidated Group

TESUR4 was incorporated on 9 January 2018 and is wholly owned by the Red Eléctrica Group company REDESUR. The statutory activity of the new company is the construction, operation and maintenance of the Tintaya-Azángaro (Peru) transmission line under concession.

Red Eléctrica Sistemas de Telecomunicaciones S.A.U was incorporated on 27 February 2018 and is wholly owned by Red Eléctrica Corporación S.A. Its statutory activity includes the acquisition, holding, management and administration of securities.

f) Comparative information

The consolidated financial statements for 2018 are not comparable with those for the 2017 period as a result of the application of IFRS 9 from 1 January 2018 onwards (see note 2b).

Moreover, in 2018 the Group has classified the profit/loss for the period of the equity-accounted investee Transmisora Eléctrica del Norte S.A. (hereinafter TEN), following the start of its activities, under results from operating activities, in accordance with Decision EECS/0114-06 “Change of Presentation of the Share in the Profit or Loss of Associates and Joint Ventures Accounted for Using the Equity Method” issued by the European Securities and Markets Authority (ESMA). This change has not been applied retroactively to the consolidated financial statements for the prior period as the amount is not significant.

3. INDUSTRY REGULATIONS

__Spanish electricity sector__

The regulatory framework for the electricity sector currently in force is based on Electricity Industry Law 24/2013 of 26 December 2013.

The remuneration model for the transmission activity is regulated by Royal Decree 1047/2013 of 27 December 2013 setting forth the method for calculating the remuneration for electricity transmission activities, amended by Royal Decree 1073/2015 of 27 November 2015, which amends various provisions of the Royal Decrees that regulate electricity sector remuneration.

Royal Decree 1047/2013 repealed Royal Decrees 2819/1998 and 325/2008, which previously set the remuneration for the transmission activity.

Furthermore, Royal Decree 1047/2013 provides that the opening year of the first regulatory period shall be the year following that in which the ministerial orders stipulating the benchmark unit values for mainland and non-mainland transmission facilities are approved, and that the new remuneration model for the transmission activity shall apply as of that opening year.

These unit values were approved at the end of 2015 by Ministry of Industry, Energy and Tourism Order IET/2659/2015, and therefore the first regulatory period to which the new remuneration model applies runs from 1 January 2016 to 31 December 2019.

The final remuneration for 2016 for companies that own electricity transmission facilities was stipulated in Ministry of Industry, Energy and Tourism Order IET/981/2016 of 15 June 2016 setting forth the remuneration for 2016 for companies that own electricity transmission facilities, and was calculated on the basis of the method regulated under Royal Decree 1047/2013.

Nevertheless, Ministry of Energy, Tourism and the Digital Agenda Orders ETU/1976/2016 and ETU/1282/2017 stipulate that, until the remuneration for transmission activities for 2017 and 2018 is approved pursuant to Royal Decree 1047/2013, the amount presented in the aforementioned Order IET/981/2016 will be paid on account for those periods.

At 30 June 2018 the remuneration model for the system operation activity has yet to be established.

International electricity sector

There have been no significant legislative developments since the publication of the annual accounts at 31 December 2017.

Telecommunications

The telecommunications sector in Spain is regulated by General Telecommunications Law 9/2014 of 9 May 2014 (GTL), which mainly seeks to foster competition in the market and guarantee access to the networks, and by Royal Decree 330/2016 of 9 September 2016, on measures to reduce the actual cost of deploying high-speed electronic communications networks.

There have been no significant legislative developments since the publication of the annual accounts at 31 December 2017.

4. SIGNIFICANT ACCOUNTING PRINCIPLES

The same accounting principles have been used in these consolidated interim financial statements as in the consolidated annual accounts for 2017, with the exception of those arising from the new IFRS-EU (see note 2b):

- As regards IFRS 9:

  Classification of financial assets: IFRS 9 contains a new approach for the classification and measurement of financial assets that reflects the business model under which the assets are managed and their cash flow characteristics. As mentioned in note 2b, it includes three main categories for classifying financial assets.

  Classification of financial liabilities: IFRS 9 largely maintains the existing requirements of IAS 39 as regards the classification of financial liabilities.

  Impairment. IFRS 9 introduces a new impairment model based on expected credit loss, which differs from the incurred credit loss model under IAS 39. The impairment model has a dual measurement approach in which the impairment provision will be based either on 12-month expected credit losses or on lifetime expected credit losses.

  Hedge accounting. IFRS 9 requires the Group to ensure that the hedging relationships are aligned with the Group's objectives and risk management strategy, and to apply a more qualitative and forward-looking approach to assess the effectiveness of hedges. Derivatives are classified as hedging or non-hedging derivatives.

As indicated in note 2b, application of IFRS 9 has entailed changes to the classification of financial assets, the treatment of financial liability restructuring transactions and the method for calculating impairment of receivables mentioned in note 2b to these financial statements.

Application of the new hedge accounting has not had an impact on the Group's consolidated financial statements.

- As regards IFRS 15:

  The standard provides a comprehensive framework for the recognition of revenue from contracts with customers, establishing the presentation principles for information that is helpful to users of financial statements as regards the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with its customers. The standard sets out a five-step application model: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the different performance obligations; and recognise revenue when a performance obligation is satisfied.

  Application of IFRS 15 has not had an impact on the Group's consolidated financial statements.

5. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Additions to intangible assets, property, plant and equipment and investment property totalled Euros 182,967 thousand in the first half of 2018.

Amortisation and depreciation in the six-month period ended 30 June 2018 amounted to Euros 247,354 thousand (Euros 257,946 thousand in the six-month period ended 30 June 2017).

Operating expenses capitalised in the first half of 2018 totalled Euros 32,067 thousand (Euros 27,689 thousand in the first half of 2017).

Borrowing costs capitalised in the first half of 2018 amounted to Euros 3,001 thousand (Euros 2,771 thousand in the first half of 2017).

6. EQUITY-ACCOUNTED INVESTEES

Movement during the period is as follows:

(Thousands of Euros)	31 December 2017	Share of profit of equity-accounted investees	Translation differences	Valuation adjustments	30 June 2018
Transmisora Eléctrica del Norte S.A. (TEN)	172,727	4,346	4,718	7,033	188,824
	---------------	---------------	---------------	---------------	---------------
	172,727	4,346	4,718	7,033	188,824
	=========	=========	=========	=========	=========

7. INVENTORIES

Details of inventories at 30 June 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Inventories	79,560	68,074
Impairment	(31,277)	(28,321)
	---------	---------
	48,283	39,753
	======	======

Inventories primarily comprise the equipment, materials and spare parts used in the maintenance of electricity transmission facilities.

8. TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 30 June 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Trade receivables	23,749	14,940
Other receivables	1,069,768	994,627
Current tax assets	1,132	3,788
	-----------	-----------
	1,094,649	1,013,355
	=========	=========

Other receivables mostly reflect amounts pending collection for transmission and system operation activities performed in Spain.

9. EQUITY

Capital risk management

The Group’s capital management is aimed at safeguarding its capacity to ensure that the Group companies continue operating as a going concern, so as to provide shareholder remuneration while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

The Group controls its capital structure on a gearing ratio basis, in line with sector practice. This ratio is calculated as net financial debt divided by the sum of the Group's equity and net financial debt. Net financial debt, in thousands of Euros, is calculated as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Non-current payables	4,983,097	4,630,691
Current payables	421,900	735,317
Foreign currency derivatives	(13,320)	(4,341)
Cash and cash equivalents	(900,452)	(569,869)
	--------------	--------------
Net financial debt	4,491,225	4,791,798
	--------------	--------------
Equity	3,120,358	3,093,449
	--------------	--------------
Gearing ratio	59.0%	60.8%
	=======	=======

During the first half of 2018 the rating agency Standard & Poor's maintained the Company's long-term rating of 'A-'. The rating agency Fitch Ratings also maintained the Company's classification, in this case a long-term rating of 'A' with a stable outlook.

Equity attributable to the Parent

- **Capital and reserves**
  - **Share capital**

    At 30 June 2018 the Company's share capital is divided into 541,080,000 shares of Euros 0.50 par value each represented by book entries, all subscribed and fully paid-in, and carrying the same voting and profit-sharing rights (notwithstanding the limits stipulated in the following paragraph). The shares are quoted on the four Spanish stock exchanges and traded through the SIBE (Spanish Stock Exchange Interlinking System).

    The Company is subject to the shareholder limitations stipulated in the twenty-third additional provision of Law 54/1997 of 27 November 1997 and article 30 of Electricity Industry Law 24/2013 of 26 December 2013.

    Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of Electricity Industry Law 24/2013 of 26 December 2013. The shareholder limitations with regard to the Parent's share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 30 June 2018 and 31 December 2017 SEPI holds a 20% interest in the Company's share capital.

  - **Reserves**

    This item includes:

    - **Legal reserve**

    Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 30 June 2018 the legal reserve amounts to Euros 54,199 thousand, which exceeds 20% of share capital.

    - **Other reserves**

    This heading includes voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves, all of which are freely distributable. At 30 June 2018 these reserves amount to Euros 2,538,505 thousand.

- **Own shares**

  At 30 June 2018 the Parent holds 2,400,150 own shares representing 0.4% of its share capital, with a total par value of Euros 1,200 thousand and an average acquisition price of Euros 17.61 per share.

  These shares have been recognised as a reduction in the Group's equity in an amount of Euros 42,265 thousand at 30 June 2018.

  The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The Group subsidiaries do not hold own shares or shares in the Parent.

- **Interim dividends and proposed distribution of dividends by the Parent**

  Dividends paid in the first half of 2018 and 2017, in thousands of Euros, are as follows:

	Current period			Prior period		
	% of par value	Euros per share	Amount (thousands of Euros)	% of par value	Euros per share	Amount (thousands of Euros)
Ordinary shares	50.98%	0.2549	137,509	47.64%	0.2382	128,417
	---------	---------	---------	---------	---------	---------
Total dividends paid	50.98%	0.2549	137,509	47.64%	0.2382	128,417
	=====	=====	=====	=====	=====	=====
Dividends charged to profit	50.98%	0.2549	137,509	47.64%	0.2382	128,417
	=====	=====	=====	=====	=====	=====

At their general meeting held on 22 March 2018, the shareholders approved the supplementary dividend for 2017 of Euros 0.6639 per share, resulting in a total gross dividend of Euros 0.9188 per share for that year. The supplementary dividend was paid on 2 July 2018.

- **Valuation adjustments**

  This item essentially comprises the changes in financial assets at fair value through other comprehensive income derived from equity instruments, hedging derivatives and valuation adjustments due to exchange differences at foreign subsidiaries.

  At 30 June 2018 this item reflects a negative balance of Euros -57,933 thousand, primarily comprising negative valuation adjustments to hedges, partly offset by positive valuation adjustments to financial assets at fair value through other comprehensive income arising from fluctuations in the listed share price of the Portuguese company REN.

Non-controlling interests

The balance of Euros 339 thousand under non-controlling interests under equity at 30 June 2018 in the accompanying consolidated statement of financial position reflects the non-controlling interests in the Chilean company REDENOR.

10. FINANCIAL RISK MANAGEMENT POLICY

The Group's financial risk management policy establishes principles and guidelines to ensure that any significant risks that could affect the objectives and activities of the Red Eléctrica Group are identified, analysed, assessed, managed and controlled, and that these processes are carried out systematically and adhering to uniform criteria.

The Group has maintained the principal guidelines that comprise this policy, a summary of which is as follows:

- Risk management should be fundamentally proactive and directed towards the medium and long term, taking into account possible scenarios in an increasingly global environment.
- Risk should generally be managed in accordance with consistent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources required to reduce it.
- Financial risk management should be focused on avoiding undesirable variations in the Group's core value, rather than generating extraordinary profits.

The Group's finance management is responsible for managing financial risk, ensuring consistency with the Group's strategy and coordinating risk management across the various Group companies, by identifying the main financial risks and defining the initiatives to be taken, based on different financial scenarios.

The methodology for identifying, measuring, monitoring and controlling risk, as well as the management indicators and measurement and control tools specific to each risk, are documented in the financial risk manual.

At 30 June 2018, there have been no significant changes in the financial risk management policy since the previous reporting date.

In 2018 there have been no major changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

11. FINANCIAL ASSETS AND LIABILITIES AND DERIVATIVES

Financial assets and derivatives

For presentation purposes, financial assets and derivatives at 31 December 2017 have been reclassified using the approach set out in IFRS 9 (see note 2b).

Details of the Red Eléctrica Group's current and non-current financial assets under IFRS 9 at 30 June 2018, in thousands of Euros, are as follows:

	30.06.2018				
	At fair value through profit and loss	At fair value through other comprehensive income	At amortised cost (1)	Hedging instruments	Total
Equity instruments	-	79,664	-	-	79,664
Other financial assets	-	-	9,878	-	9,878
Non-current	-	79,664	9,878	9,086	98,628
Non current derivatives	-	-	-	9,086	9,086
Short term credit	-	-	63,344	-	63,344
Other financial assets	-	-	21,239	-	21,239
Current	-	-	84,583	-	84,583
Current derivatives	-	-	-	-	-
Total (1)	-	79,664	94,461	9,086	183,211

(1) Excluding trade and other receivables and cash and cash and cash equivalents

Equity instruments essentially comprise the 5% interest held by the Parent in REN, the holding company for the operation and exploitation of electricity transmission assets and various gas infrastructure in Portugal. At 30 June 2018 this investment amounts to Euros 79,196 thousand.

This interest was acquired in 2007 for Euros 98,822 thousand. The value of the investment is subject to the listed share price. In 2018 this investment has been devalued and the corresponding valuation adjustment has been recognised directly in the Group's equity.

Current loans essentially include the Euros 57,357 thousand current loan extended in 2018 to the Chilean company TEN, and the related Euros 115 thousand interest receivable thereon. These have been measured at amortised cost.

Other current financial assets basically reflect current deposits and guarantees.

Details of the Red Eléctrica Group's current and non-current financial assets under IAS 39 at 31 December 2017, in thousands of Euros, are as follows:

	31.12.2017			
	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivatives	Total
Equity instruments	85,606	-	-	85,606
Other financial assets	-	9,659	-	9,659
Non-current	85,606	9,659	-	95,265
Non current derivatives	-	-	12,970	12,970
Short term credit	-	-	-	-
Other financial assets	-	80,668	-	80,668
Current	-	80,668	-	80,668
Current derivatives	-	-	-	-
Total (1)	85,606	90,327	12,970	188,903

(1) Excluding trade and other receivables and cash and cash and cash equivalents

Equity instruments at 31 December 2017 included investments in Economic Interest Groups (EIGs) which have been classified as other non-current assets. The amount of investments in EIGs totals Euros 2,422 thousand at 30 June 2018 (Euros 2,422 thousand at 31 December 2017). These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the risks and rewards of the activity, while the Group only avails of the tax benefits pursuant to Spanish legislation. The Company recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income reflecting the difference compared to income tax payable to the taxation authorities.

Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 30 June 2018 and 31 December 2017 are as follows:

	30.06.2018			
	Level 1	Level 2	Level 3	Total
Equity instruments	79,196	-	-	79,196
Derivatives	-	9,086	-	9,086

	31.12.2017			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	82,698	-	2,908	85,606
Derivatives	-	12,970	-	12,970

Level 1 equity instruments reflect the interest held in REN. Level 2 essentially comprises foreign currency and interest rate derivatives.

Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities under IFRS 9 at 30 June 2018, in thousands of Euros, are as follows:

	Financial liabilities	Hedging derivatives	Total
Loans and borrowings	1,682,423	-	1,682,423
Bonds and other marketable securities	3,300,674	-	3,300,674
Derivatives	-	49,483	49,483
Other financial liabilities	169	-	169
	----------	----------	----------
Non-current	4,983,266	49,483	5,032,749
	----------	----------	----------
Loans and borrowings	143,772	-	143,772
Bonds and other marketable securities	316,960	-	316,960
Derivatives	-	-	-
Other financial liabilities	867,887	-	867,887
	----------	----------	----------
Current	1,328,619	-	1,328,619
	----------	----------	----------
Total	6,311,885	49,483	6,361,368
	========	========	========

Details of the Red Eléctrica Group's current and non-current financial liabilities under IAS 39 at 31 December 2017, in thousands of Euros, are as follows:

	31.12.2017		
	Debts and payables (1)	Hedging derivatives	Total
Loans and borrowings	1,608,314	-	1,608,314
Bonds and other marketable securities	3,022,377	-	3,022,377
Derivatives	-	61,437	61,437
Other financial liabilities	224	-	224
	----------	----------	----------
Non-current	4,630,915	61,437	4,692,352
	----------	----------	----------
Loans and borrowings	143,814	-	143,814
Bonds and other marketable securities	680,683	-	680,683
Derivatives	-	-	-
Other financial liabilities	647,460	-	647,460
	----------	----------	----------
Current	1,471,957	-	1,471,957
	----------	----------	----------
Total	6,102,648	61,437	6,164,309
	========	======	========

(1) Excluding trade payables

The carrying amount and fair value of loans and borrowings and bonds and other marketable securities, excluding the accrued interest payable, at 30 June 2018 and 31 December 2017 are as follows:

	Carrying amount Thousands of Euros		Fair value Thousands of Euros	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Bonds and other marketable securities in Euros	3,139,214	3,183,842	3,383,946	3,404,668
Bonds and other marketable securities in Dollars	450,773	441,533	510,430	524,465
Loans and borrowings in Euros	1,698,284	1,638,130	1,716,339	1,665,141
Loans and borrowings in foreign currency	116,726	102,503	115,120	102,280
	-------------	-------------	-------------	-------------
Total	5,404,997	5,366,008	5,725,835	5,696,554
	=========	=========	=========	=========

Movement in issues, repurchases or repayments of debt securities in the six-month periods ended 30 June 2018 and 2017, expressed in thousands of Euros, is as follows:

	30/06/2018				
	Opening outstanding balance 31/12/2017	Issues	Repurchases or repayments	Exchange rate and other adjustments	Closing outstanding balance 30/06/2018
Debt securities issued in an EU member state requiring a prospectus to be filed	3,183,842	895,089	(899,481)	(40,236)	3,139,214
Debt securities issued in an EU member state not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	441,533	-	(1,763)	11,003	450,773
	------------	----------	----------	----------	------------
Total	3,625,375	895,089	(901,244)	(29,233)	3,589,987
	=======	======	=======	======	=======

	30/06/2017				
	Opening outstanding balance 31/12/2016	Issues	Repurchases or repayments	Exchange rate and other adjustments	Closing outstanding balance 30/06/2017
Debt securities issued in an EU member state requiring a prospectus to be filed	3,180,848	200,000	(200,070)	645	3,181,423
Debt securities issued in an EU member state not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	506,232	-	(1,915)	(36,979)	467,338
	------------	----------	----------	----------	------------
Total	3,687,080	200,000	(201,985)	(36,334)	3,648,761
	=======	======	=======	======	=======

The outstanding balance at 30 June 2018 and 2017 of debt securities requiring a prospectus to be filed relates to issues registered in Dublin and Luxembourg.

At 30 June 2018 issues reflect the Eurobonds issued by Red Eléctrica Financiaciones for a nominal amount of Euros 600 million, with a maturity of nine years and an issue price of 99.443% and the promissory notes issued on the Euromarket by Red Eléctrica Financiaciones, with a short-term maturity, which amount to Euros 300 million and have been fully repaid during the year.

Repurchases or repayments at 30 June 2018 reflect the repayment of two Eurobonds issued in 2011 and 2012 for nominal amounts of Euros 450 million and Euros 150 million, respectively, and promissory notes amounting to Euros 300 million issued by Red Eléctrica Financiaciones.

At 30 June 2018 the accrued interest payable on these issues amounts to Euros 27,647 thousand (Euros 36,086 thousand in the first half of 2017).

The fair value of all loans and borrowings and issues of bonds and other marketable securities has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date.

Details of the Group's financial liabilities measured at fair value using the inputs defined for this calculation at 30 June 2018 and 31 December 2017 are as follows:

	30.06.2018			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	49,483	-	49,483

	31.12.2017			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	61,437	-	61,437

Level 2 comprises foreign currency and interest rate derivatives, which are recognised at fair value.

12. TRADE AND OTHER PAYABLES

Details at 30 June 2018 and 31 December 2017 are as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Suppliers	397,296	343,694
Other payables	84,797	47,974
Current tax liabilities	63,176	10,859
	----------	----------
	545,269	402,527
	======	======

Suppliers essentially reflect payables arising from engineering, construction and maintenance work and modifications to electricity facilities, as well as balances pending settlement in relation to the Spanish electricity system for the activities carried out.

Other payables in 2018 and 2017 basically comprise balances vis-à-vis public entities, for the most part value added tax (VAT).

13. DEFERRED TAX ASSETS AND LIABILITIES

The balance of deferred taxes is as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Deferred tax assets	21,976	27,824
Deferred tax liabilities	(468,862)	(483,992)
	-----------	-----------
	(446,886)	(456,168)
	=======	=======

No significant movements were recorded in deferred tax assets and liabilities in the first half of 2018. At 30 June 2018 and 2017 deferred tax liabilities mainly arise from accelerated depreciation for tax purposes of certain fixed assets. At June 2018 this item also includes the deferred taxes derived from first application of IFRS 9 (see note 2b)

14. INCOME AND EXPENSES

a) Revenues

Details at 30 June 2018 and 2017, by geographical area, are as follows:

	Thousands of Euros	
	Current period	Prior period
Domestic market	969,347	965,697
International market	20,970	21,598
a) European Union	10,046	9,915
b) OECD countries	-	-
c) Other countries	10,924	11,954
	--------------	--------------
TOTAL	990,317	987,295
	========	========

Domestic market essentially includes the revenue from transmission and electricity system operation services in Spain, which is currently set by the Ministry for Ecological Transition and accounts for 93% of the Group's revenues at June 2018. This item also includes the revenues from telecommunications services rendered in Spain, which account for 4% of the Group's revenues at June 2018.

International markets primarily include revenue from reinsurance services, presented under European Union, and revenue from electricity transmission services rendered by the Group companies in Latin America, presented under other countries.

b) Other operating income

This item mostly includes insurance payouts for accidents and breakdowns covered by the policies arranged, other non-trading income, and government operating grants taken to the income statement.

c) Supplies and other operating expenses

Supplies and other operating expenses mainly comprise repair and maintenance costs incurred at technical electricity facilities, as well as IT and advisory services, leases, taxes and other services.

d) Personnel expenses

Details at 30 June 2018 and 2017 are as follows:

	Thousands of Euros	
	30 June 2018	30 June 2017
Salaries, wages and other remuneration	57,750	55,835
Social Security	12,427	12,146
Contributions to pension funds and similar obligations	1,061	1,018
Other items and employee benefits	3,034	3,825
	----------	----------
	74,272	72,824
	======	======

Workforce

The distribution by gender of the average workforce of the Parent and the Red Eléctrica Group for the six-month periods ended 30 June 2018 and 2017 is as follows:

	Red Eléctrica Group		Red Eléctrica Corporación S.A.	
	Current period	Prior period	Current period	Prior period
Male	1,371	1,364	2	2
Female	439	421	5	5
	-----------	-----------	-----------	-----------
	1,810	1,785	7	7
	=======	=======	=======	=======

e) Income tax

The tax rate was 25.0%, compared to 25.1% in the prior period.

15. TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

Related party transactions are carried out under normal market conditions. Details in thousands of Euros are as follows:

	30/06/2018				
EXPENSES AND INCOME:	Significant shareholders	Directors and senior management	Group employees, companies or entities	Other related parties	Total
Leases	-	-	20	-	20
Services received	-	-	213	-	213
Other expenses	-	-	-	-	-
	-------	-------	-------	-------	-------
EXPENSES	-	-	233	-	233
	====	====	====	=====	=====
Finance income	-	-	1,228	-	1,228
	-------	-------	-------	-------	-------
INCOME	-	-	1,228	-	1,228
	====	====	=====	=====	=====
BALANCES AT END OF PERIOD					
Loans and credit facilities extended (note 11)	-	-	57,472	-	57,472
	-------	-------	-------	-------	-------
BALANCES RECEIVABLE	-	-	57,472	-	57,472
	====	====	=====	====	=====

EXPENSES AND INCOME:	31/12/2017 Significant shareholders	Directors and senior management	Group employees, companies or entities	Other related parties	Total
Leases	-	-	85	-	85
Services received	-	-	-	100	100
Other expenses	-	-	-	15,342	15,342
	-------	-------	-------	-------	-------
EXPENSES	-	-	85	15,442	15,527
	====	====	====	=====	=====
Finance income	-	-	1,724	143	1,867
	-------	-------	-------	-------	-------
INCOME	-	-	1,724	143	1,867
	====	====	=====	=====	=====
BALANCES AT END OF PERIOD					
Loans and credit facilities extended (note 11)	-	-	54,828	-	54,828
	-------	-------	-------	-------	-------
BALANCES RECEIVABLE	-	-	54,828	-	54,828
	====	====	=====	====	=====

Expenses, income and balances with Group employees, companies or entities reflect those with the Group company TEN, as transactions with this company are not eliminated on consolidation of the Group because it is accounted for using the equity method.

16. REMUNERATION OF THE BOARD OF DIRECTORS

At their meeting on 16 February 2018, the Company's directors approved the remuneration of the board of directors for 2018, as required by the articles of association and the regulations of the board of directors, based on a proposal from the Appointments and Remuneration Committee. Both the proposed remuneration for the board of directors for 2018 and the annual remuneration report were subsequently submitted for the approval of the shareholders at their general meeting on 22 March 2018. The approved remuneration of the board of directors for 2018, including that of the chairman and the managing director, has not changed vis-à-vis 2017.

In line with his duties as non-executive chairman, the chairman receives fixed annual remuneration, in addition to remuneration for being a member of the board of directors. The remuneration scheme for this position consists solely of fixed amounts, with no annual or multi-year variable remuneration. In 2018 both remuneration components are under the same terms as in 2017.

After the chairman ceased to perform the executive duties in 2016, the labour contract approved in 2012 was deemed to have been terminated. The chairman had accrued an indemnity corresponding to one year's remuneration as executive chairman, as stipulated in the contract. This indemnity will be payable once the chairman ceases to be a board member of the Company.

The remuneration of the managing director was updated in 2016. This remuneration includes the fixed and variable annual and multi-year components corresponding to executive duties and the fixed remuneration for being a member of the board of directors. Employee benefits continue to form part of the remuneration for this position. A portion of the annual variable remuneration is paid through the delivery of Company shares.

Moreover, since 2017 the managing director has been included in a defined contribution benefit scheme. This scheme covers the retirement, death and permanent disability contingencies. Red Eléctrica's obligation is limited to an annual contribution equal to 20% of the managing director's fixed annual remuneration.

The annual variable remuneration of the managing director is set by the Appointments and Remuneration Committee of the Parent at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company's strategic plan and the degree of compliance is assessed by the Committee.

In 2018 the managing director's remuneration is under the same terms as in 2017.

Pursuant to the remunerations policy and in line with standard market practices, the managing director's contract, which was approved in 2015 and updated in 2016, provides for termination benefits equal to one year's salary in the event that labour relations are terminated due to dismissal or changes of control. In addition, as is customary in such cases, as a result of this appointment as managing director, the existing employment contract has been suspended. Should the employment contract be terminated, he would accrue the remuneration due at the date of suspension as an indemnity. For this purpose, his tenure at the Company on the date he was appointed managing director (14 years) would be taken into consideration, in accordance with prevailing employment legislation.

The remuneration of the board of directors includes fixed annual remuneration, allowances for attending board meetings, remuneration for work on the board of directors' committees and specific annual remuneration both for the chairs of the committees and the coordinating independent director. The components and amounts of this remuneration have not changed in 2018.

The total amounts accrued by the members of the Parent's board of directors at 30 June 2018 and 2017, in thousands of Euros, are as follows:

	30/06/2018	30/06/2017
Remuneration to Board of Directors for all concepts	1,254	1,226
Remuneration to Directors for their executive status (1)	419	419
	-------	-------
Total	1,673	1,645
	====	====

(1) Includes annual fixed and variable remuneration due for the year

The rise in total remuneration of the board of directors compared with the prior period is due to the changes made within the board and its committees in the first half of 2017, whereas there have been no such changes in 2018. Furthermore, a portion of the increase is also attributable to the remuneration paid to the coordinating independent director in the first half of 2018. No such remuneration was paid in the first half of 2017 because the positions of chair of the committee and of the coordinating independent director were held by the same director.

The remuneration accrued by the members of the Company's board of directors at 30 June 2018 and 2017, in thousands of Euros, and broken down by components, is as follows:

	30/06/2018	30/06/2017
Remuneration:		
Fixed remuneration	1,184	1,173
Variable remuneration	150	150
Allowances	108	108
Committee work(*)	161	144
Other remuneration	70	70
	-------	-------
Total remuneration	1,673	1,645
	====	====

(*) This includes the remuneration of the chairs of the committees and the coordinating independent director.

As a result of the work of the Parent's Appointments and Remuneration Committee on various long-term incentive plans to be used as a management tool and mechanism for compliance with the new Strategic Plan, in 2015 the Committee approved a directors' remuneration scheme for 2014-2019. This scheme includes the chairman and managing director, although in the case of the chairman the remuneration was only applicable up to 28 July 2015, the date on which the managing director was appointed.

Fulfilment of this remuneration scheme, which forms part of the remuneration policy, will be based on achieving the targets set out in the Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% compliance would be 1.8 times the annual fixed remuneration. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Group's strategic plan. These targets are set and assessed by the Appointments and Remuneration Committee. The consolidated statement of financial position includes a provision for accrual of this plan at June 2018.

At 30 June 2018 and 2017 no loans or advances have been extended to the members of the board of directors, nor have any guarantees been granted on their behalf. The Company has no pension or life insurance obligations with the members of the board of directors at those dates, other than those previously mentioned, nor have any loans or advances been extended to board members.

At 30 June 2018 and 2017 the Group has taken out civil liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as Group directors. These policies cover the Group's directors and senior management and the annual premiums amount to Euros 142 thousand, inclusive of tax, in 2018 (Euros 146 thousand in 2017). These premiums are calculated based on the nature of the Group's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

At 30 June 2018 and 2017 the members of the board of directors have not engaged in transactions with the Company or Group companies, either directly or through intermediaries, other than ordinary operations under market conditions.

17. REMUNERATION OF SENIOR MANAGEMENT

In the six-month period ended 30 June 2018, total remuneration accrued by senior management personnel amounted to Euros 331 thousand (Euros 326 thousand at 30 June 2017) and is recognised as personnel expenses in the consolidated income statement. These amounts include the annual variable remuneration accrued on a straight-line basis, on the assumption that the objectives set each for each period were met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the opening months of the following year.

At 30 June 2018 and 2017, the senior management personnel who have rendered services for the Group are as follows:

Name	Position
Eva Pagán Díaz	General Manager of Transmission
Miguel Duvison García	General Manager of Operations

Euros 6 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 6 thousand in 2017).

No advances or loans have been extended to these senior managers at 30 June 2018 and 2017.

As a result of the work of the Parent's Appointments and Remuneration Committee on various long-term incentive plans to be used as a management tool and mechanism for compliance with the new Strategic Plan, in 2015 the Committee approved a directors' remuneration scheme for 2014-2019, which includes the senior management personnel.

Fulfilment of this remuneration scheme will be based on achieving the targets set out in the Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% compliance would be 1.8 times the annual fixed remuneration. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Group's strategic plan. These targets are set and assessed by the Appointments and Remuneration Committee. The consolidated statement of financial position includes a provision for accrual of this plan for 2018.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses, in the event of dismissal. Were the employment relationship to be terminated, the indemnity to which senior management personnel would be entitled would be calculated in accordance with applicable legislation. The contracts for these executives have been approved by the Appointments and Remuneration Committee and the board of directors has received notice thereof.

Senior management personnel who render services in the Group as at 30 June 2018 are included in the Structural Management Plan implemented by the Company in 2015.

At 30 June 2018 and 2017 the Group has taken out civil liability insurance to cover claims from third parties in respect of possible damage and loss caused by actions or omissions in performing duties as senior management of the Group. These policies cover all the Group's directors and senior management and the annual premiums amount to Euros 142 thousand, inclusive of tax, in 2018 (Euros 146 thousand in 2017). These premiums are calculated based on the nature of the Group's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

18. SEGMENT REPORTING

The Red Eléctrica Group's principal activity is electricity transmission and system operation in Spain via Red Eléctrica de España, S.A.U., which generates 93% of consolidated revenues and represents 85% of the Group's total assets. Other activities together account for the remaining 7% of revenues and 15% of total assets. Consequently, the Group did not consider it necessary to provide information by activity or geographical segment.

19. EARNINGS PER SHARE

Details of earnings per share in the first half of 2018 and 2017 are as follows:

	Current period	Prior period
Net profit attributable to the Parent (thousands of Euros)	356,973	340,081
Number of shares	541,080,000	541,080,000
Average number of own shares	2,366,088	1,971,951
Basic earnings per share (Euros)	0.66	0.63
Diluted earnings per share (Euros)	0.66	0.63

At 30 June 2018 and 2017 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

20. EVENTS AFTER 30 JUNE 2018

On 12 July 2018 the Red Eléctrica Group, through its subsidiary Red Eléctrica Chile, signed an agreement to acquire the electricity transmission company Centinela Transmisión for US Dollars 117 million. This acquisition includes assets in use, three 220 kV lines with a length of 265 km which connect various substations, and assets under construction in northern Chile.

APPENDIX I

RED ELÉCTRICA GROUP
Details of equity investments at 30 June 2018

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

RED ELÉCTRICA GROUP
Details of equity investments at 30 June 2018
(Expressed in thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Company - Registered office - Principal activity	2018 Percentage ownership (1) Direct	 Indirect
Red Eléctrica Corporación S.A., Parent, incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Management of the business Group; rendering of assistance or support services to investees and operation of the property owned by the Company.		
A) Fully consolidated subsidiaries		
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission, operation of the Spanish electricity system and management of the transmission network.	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - International investments. Rendering of advisory, engineering and construction services. - Performance of electricity activities outside the Spanish electricity system.	100%	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Rendering of advisory, engineering, construction and telecommunications services.	100%	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) - Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain). - Construction of energy storage facilities in non-mainland and isolated systems.	100%	-
Red Eléctrica de España Finance, B.V. (RBV) - Hoogoorddreef 15. Amsterdam (Netherlands). - Financing activities. - Incorporated in 2003 in the Netherlands to issue debt to finance the Red Eléctrica Group.	100%	-
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-
Red Eléctrica Sistemas de Telecomunicaciones S.A.U. (RESTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition, holding, management and administration of securities.	100%	-
Redcor Reaseguros, S.A (REDCOR) - 26, Rue Louvigny. (Luxembourg). - Reinsurance activities. - Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international reinsurance markets.	100%	-
Red Eléctrica Andina, S.A. (REA) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Rendering of line and substation maintenance services.	-	100%(a)
Red Eléctrica del Sur, S.A. (REDESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100%(a)
Transmisora Eléctrica del Sur , S.A. (TESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100%(c)
Transmisora Eléctrica del Sur 2 , S.A. (TESUR2) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks		100%(c)

Transmisora Eléctrica del Sur 3 , S.A. (TESUR3) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100%(c)
Transmisora Eléctrica del Sur 4 , S.A. (TESUR4) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100%(c)
Red Eléctrica Chile SpA (RECH) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Acquisition, holding, management and administration of securities.	-	100%(a)
Red Eléctrica del Norte S.A. (REDENOR) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks	-	69,9% (d)

B) Proportionately consolidated companies

Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Initiale, 1 Terrasse Bellini – 92919 Paris La Défense Cedex. Paris (France). - Study and execution of Spain-France interconnections.	-	50%(b)

C) Equity-accounted investees

Transmisora Eléctrica del Norte S.A. (TEN) - Avenida Apoquindo N°3721, piso 6, Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50%(d)

(1) Equivalent to voting rights.

(a) Investment through Red Eléctrica Internacional S.A.U.
(b) Investment through Red Eléctrica de España S.A.U.
(c) Investment through Red Eléctrica del Sur, S.A.
(d) Investment through Red Eléctrica Chile SpA

Red Eléctrica Group

Consolidated Interim Directors' Report for the six-month period ended 30 June 2018

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Contents

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

CONSOLIDATED DIRECTORS' REPORT

1 SIGNIFICANT EVENTS DURING THE PERIOD

ACTIVITIES IN SPAIN

The mission of Red Eléctrica de España (hereinafter REE), as transmission agent and system operator for the Spanish electricity system, is that of ensuring that the Spanish electricity system functions correctly and guaranteeing the continuity and security of the electricity supply at all times. To this end, it oversees and coordinates the generation and transmission system and manages the development of the transmission network. The Company seeks to fulfil its mission while adhering to the principles of neutrality, transparency, independence and economic efficiency, so as to offer an efficient and high quality service to society as a whole.

The investments carried out by the Red Eléctrica Group in Spain up to June 2018 amounted to Euros 165.5 million, of which Euros 154.0 million was used to develop the national transmission network.

The most notable facilities that entered into service during the first half of 2018 were the various transformers with a combined capacity of 1,400 MVA. In the Canary Islands, the Gran Tarajal-Matas Blancas axis came into service at the start of the year. With a length of 67.9 km, this axis will contribute to the mesh of the network and evacuation of the wind power generated in southern Fuerteventura.

Mainland electricity system

The most notable events in the first half of 2018 were as follows:

Mainland energy demand amounted to 126,411 GWh, up 1.2% on the first half of 2017. Adjusted for labour and temperature effects, the increase was 1.1%.

Demand for hourly average power and daily electricity peaked on 8 February at 40,693 MW and 832 GWh, respectively, down 0.8% and 0.6% on the maximum levels recorded in the first half of 2017.

Notably, 45.8% of demand was covered with renewable power generation, 8.5 percentage points up on the same period in 2017.

Maximum instantaneous power and daily electricity from wind power were recorded on 1 March and 24 March, respectively, at 16,444 MW and 342 GWh, up 3.9% and 8.9% on the maximum levels recorded in the first half of 2017.

As in the prior year, international electricity exchanges resulted in a net import balance, reaching 6,033 GWh in the first half of 2018, 18.7% more than in the same period in 2017.

The performance of REE's mainland transmission grid has once again been excellent, with provisional total availability of the grid to June at 98.42%, practically the same as the 98.46% achieved in the same period of the prior year. The continuity of supply indicators were below the thresholds set out in Royal Decree 1955/2000, with an accumulated ENS (energy not supplied) and AIT (average interruption time) to June 2018 of 24.32 MWh and 0.050 minutes, respectively (32.26 MWh and 0.067 minutes in June 2017), highlighting the continuing high degree of the security and quality of supply provided by REE facilities.

Non-mainland electricity systems

Within the Balearic Islands system, demand to June 2018 was up 1.4% on the same period of the prior year. The contribution in terms of temperatures has had a positive impact of 0.7% on demand.

The 250 kV Morvedre-Santa-Ponsa HDVC link-up has continued to contribute towards the security and quality of supply. Electricity from the mainland covered 19.3% of the demand in the Balearic Islands system (17.6% in 2017).

Demand in the Canary Islands system was down 0.3% in the first half of 2018 compared to the same period of the prior year. Moreover, accumulated renewable power generation (wind, photovoltaic, wind-hydro power and other renewables) accounted for 10.9% of total output in the first half of 2018 (7.3% in 2017).

Other activities in Spain

The telecommunications activities conducted by the Red Eléctrica Group are based on the commercial operation of the surplus capacity of the fibre optic networks and infrastructure associated with REE's electricity transmission network and the fibre optic network owned by Adif-Alta Velocidad, to which it holds the rights of use and exploitation. These activities are carried out through the wholly-owned subsidiary Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

REINTEL is the largest neutral operator of dark fibre infrastructure in Spain. Its principal activity is the lease of dark fibre and sites. REINTEL has a fibre optic network in excess of 33,000 km rolled out over the electricity transmission network and the railway network and its main customers are telecommunications operators present in Spain.

Throughout the first half of 2018, REINTEL continued to implement its commercial plan as a telecommunications infrastructure supplier and to undertake investments where requested by customers, thereby generating greater revenues. The company has also continued to implement its plan to interconnect the electrical fibre network and the railway network and has begun to connect its network to the main neutral points, with the aim of offering new solutions to its customers and agents in the telecommunications sector.

INTERNATIONAL ACTIVITIES

The Group's international business is conducted by Red Eléctrica Internacional, S.A.U. (REI), which is present in Peru and Chile.

Activities in Peru are carried out through the subsidiaries REDESUR, TESUR, TESUR2, TESUR3, TESUR4 and REA, which manage electricity transmission infrastructure in southern Peru, while activities in Chile are channelled through Red Eléctrica Chile (RECH), which holds a 50% interest in Transportadora Eléctrica del Norte (TEN) and a 70% interest in Red Eléctrica del Norte (REDENOR).

During 2018, REDESUR and TESUR have continued to offer a transmission service with maximum availability and have improved their economic results. REDESUR has delivered excellent operating standards, with a cumulative grid availability factor of 100% in the first half of the year and an average of 99.97% for the last three years. Following their entry into service in June 2014, the facilities operated by TESUR have also presented a high availability factor, reaching 99.99% in the first half of the year, above the average of 99.87% for the last three years.

TESUR2 successfully concluded the project that it was awarded, and commercial operations commenced on 8 June 2018 for a period of 30 years.

TESUR3 and TESUR4 also continued to develop and construct the projects that they were awarded in 2015 and 2017, respectively.

In Chile, following the entry into service of its facilities towards the end of the prior year, TEN (which holds 50% interests in RECH and ENGIE) performed work relating to the commercial operation of the infrastructure during the first half of this year.

Also in Chile, REDENOR (70% owned by RECH and 30% owned by COBRA) continues to carry out development work for the construction of the project that it was awarded in the prior year.

In July 2018 the Group, through RECH, acquired 100% of the share capital of CENTINELA Transmisión, including its assets in use and projects under construction, for a total of US Dollars 117.2 million. CENTINELA Transmisión operates three 220 kV lines covering 265 km which connect various substations.

Following the incorporation of these assets, the Group will manage 1,314 km of lines in Peru and 1,729 km of lines in Chile.

2 BUSINESS PERFORMANCE

Revenue for the first half of 2018 amounted to Euros 990.3 million, up 0.3% on the same period in the prior year. This increase is due to the rise in remuneration for system operation activities, which totalled Euros 32.9 million, and telecommunication activities, which amount to Euros 45.0 million.

From this year onwards, the profit/loss of the Chilean company TEN, in which the Red Eléctrica Group holds a 50% interest, will be included in EBITDA as share of profit/loss of investees. The profit of this company amounted to Euros 4.3 million in the first six months of the year.

EBITDA amounted to Euros 776.8 million, climbing 0.9% year-on-year, reflecting the consolidation of the efficiency measures implemented by Red Eléctrica.

Operating expenses were as follows:

- The cost of supplies and other operating expenses fell 1.4% compared with the first half of the prior year, highlighting Red Eléctrica's ongoing efforts in terms of efficiency.

• Personnel expenses grew by 2.3% to June. This rise is in part attributable to the 1.4% increase in the Group's average workforce compared with the same period in the prior year.

The headcount was 1,804 at 30 June, while the average workforce was 1,810 employees.

EBIT amounted to Euros 541.0 million, 3.3% higher than in the first half of the prior year, reflecting the decline in depreciation charges for non-current assets which was mainly attributable to adjustments to the estimated technical useful life of certain transmission assets.

The net finance cost amounted to Euros 65.2 million, compared to Euros 70.0 million recognised in the same period of the prior year, which can be explained by the lower average interest rates.

Lastly, profit for the period totalled Euros 357.0 million, up 5.0% on the first six months of the previous year. The effective tax rate was 25.0%, compared to 25.1% in the same period of the prior year.

The Group's investments during the period amounted to Euros 183.0 million. Of this amount, Euros 154.0 million was used to develop the national transmission network, a rise of 6.6% on the investments made in the first six months of the prior year. In turn, Euros 17.4 million was earmarked for the international business, compared with the Euros 42.2 million invested in 2017, which included the acquisition of 45% of the share capital of REDESUR.

Interim dividends paid during the first half of 2018 totalled Euros 137.5 million, equivalent to Euros 0.2549 per share, and reflected the payment on account of the dividend for 2017.

The net financial debt of the Red Eléctrica Group stood at Euros 4,491.2 million at 30 June 2018, compared to Euros 4,791.8 million at the end of 2017.

In terms of interest, 91% of the Group's debt is fixed-rate and the remaining 9% is variable-rate.

Moreover, the average cost of the Group's financial debt was 2.44% during the first half of the year, with an average debt balance of Euros 5,470.7 million. The average cost and balance of financial debt were 2.83% and Euros 5,265.6 million, respectively, in the same period of the prior year.

At 30 June 2018, the Red Eléctrica Group's equity stood at Euros 3,120.4 million.

3 MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF THE YEAR

The Red Eléctrica Group is exposed to the different risks inherent in the activities and geographical markets in which it operates, which could have an impact on its results.

The Group's risk management system works on a comprehensive and ongoing basis, and risk management is further consolidated at corporate level by business unit, subsidiary and support area. This Comprehensive Risk Management System aims to ensure that any risks, including those relating to tax, that might affect the Group's strategies and objectives are systematically identified, analysed, assessed, managed and controlled, according to uniform criteria and within the established risk levels, in order to facilitate compliance with the strategies and objectives of the Group. The Group's comprehensive risk management policy and general comprehensive risk management and control procedures are based on the COSO II (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management Integrated Framework. Both the policy and the procedures were updated in late 2016.

This process of risk identification, analysis, assessment and control sets out the actions required to reduce risk to an acceptable level. For risk monitoring purposes, the existing risk management system contains numerous management plans to mitigate these risks and a significant number of indicators to monitor changes therein. The Internal Audit and Risk Control Department reviews the progress and impact of the previously established risk management plans in conjunction with the organisational units on a half-yearly basis for high-level and other significant risks, annually for other risks, and whenever circumstances so advise in the case of specific risks. The Audit Committee oversees this process at least twice a year and reports on it to the Board of Directors.

Moreover, the Group's processes have been designed so as to incorporate elements to mitigate or reduce the associated risks. These processes have been integrated within the management systems established under international standards (including ISO 9001, ISO 14001 and OHSAS 18001), which are subject to systematic internal and external audits on the suitability of design and compliance, and incorporate the control aspects specific to the objectives to be met.

The Group has also drawn up contingency plans to manage the various crisis situations that could arise in the event of an electrical incident (in terms of guaranteeing security of supply) or non-electrical incident that could affect the environment, people, business operations, system availability, business results or any other event that could impact the Company's reputation.

The Group also has a guide for managing cyber incidents, which sets out the criteria and guidelines for managing any cyber security incident, irrespective of the area concerned.

In addition, the Group has an Internal Control over Financial Reporting (ICOFR) system, so as to ensure efficiency and security in the preparation of its economic and financial information, for which it has adopted international best practices.

The main risks associated with the activities of the Red Eléctrica Group are as follows:

REGULATORY RISKS

The fact that the activities are regulated affects revenue and the conditions under which the principal activities must be carried out. In this respect, regulatory risks could arise from the possibility of changes to the legal framework applicable to the activities in the different geographical areas in which the Group carries out its activities, which could affect both revenue and costs, either directly or because new requirements are introduced.

OPERATIONAL RISKS

The Group's activities are exposed to different operational risks, such as breakdowns in the electricity transmission network or the fibre optic network, fires at facilities, adverse meteorological conditions, accidents within the transmission network, incidents that could affect physical/logical security, as well as other events that could result in damage to the Group's facilities or harm to people and/or materials. To this end, the Group has established control systems that have worked satisfactorily in the past in resolving such events.

Furthermore, the Group has arranged corporate insurance policies to shield its equity and limit the potential impact of such events on its results.

FINANCIAL RISKS

The Group is exposed to volatility in interest and exchange rates, which could affect its financial position.

In terms of exchange rate fluctuations, although the part of the business managed in a currency other than the Euro is insignificant, the Group's forecast results are always susceptible to an adverse change in exchange rates.

Currency risk management considers transaction risk, arising on cash inflows and outflows in currencies other than the Euro, and translation risk, i.e. the Group's exposure when consolidating its subsidiaries and/or assets located in countries whose functional currency is not the Euro. With a view to reducing the currency risk on issues in the US private placements (USPP) market, the Group has arranged cash flow hedges through US Dollar/Euro cross-currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035. In order to mitigate the translation risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of its investments in the functional currency of those countries. The Group has also arranged hedges of net investments in US Dollars using cross-currency swaps up to January 2021.

At 30 June 2018, the Group has a low-risk debt structure risk with moderate exposure to fluctuations in interest rates. As a result of the debt policy implemented, which aims to bring the cost of debt into line with the financial rate of return applied to the Group's regulated assets, among other objectives, 91% of the Group's borrowings have been arranged at fixed rates, whilst the remaining 9% is subject to variable rates. The interest rate risk to which the Group is exposed derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not profit for the period.

COUNTERPARTY RISK

Counterparty risk refers to the risk of a breach by a party in a specific transaction. At the Group, this risk reflects potential increases in the cost of equipment and raw materials, which mainly affect construction and maintenance activities. This risk is for the most part managed by fostering competition and increasing homogenisation and standardisation.

4 EVENTS AFTER 30 JUNE 2018

On 12 July 2018 the Red Eléctrica Group, through its subsidiary Red Eléctrica Chile, signed an agreement to acquire the electricity transmission company Centinela Transmisión for US Dollars 117 million. This acquisition includes assets in use, three 220 kV lines with a length of 265 km which connect various substations, and assets under construction in northern Chile.

In order to facilitate comprehension of the information provided in this document, certain alternative performance measures have been included. The definition of these measures can be found at www.ree.es.

The various sections of this consolidated directors' report contain certain prospective information that reflects projections and estimates based on underlying assumptions, statements referring to plans, objectives and expectations associated with future transactions, investments, synergies, products and services, as well as statements concerning results or future dividends, or estimates calculated by the directors and based on assumptions that those directors consider reasonable.

While the Group considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Parent are advised that the information and statements containing future projections are subject to risks and uncertainties, many of which are difficult to foresee and generally beyond the Group's control. As a result of such risks, actual results and developments could differ substantially from those expressed, implied or forecast in the information and statements containing future projections.

The affirmations and statements containing future projections do not provide any guarantee as to future results and have not been reviewed by auditors outside the Group or by other independent third parties. It is recommended that no decisions be made on the basis of the affirmations and statements containing future projections that refer exclusively to the information available at the date of this report. All of the affirmations and statements containing future projections that are reflected in this report are expressly subject to the warnings given. The affirmations and statements containing future projections included in this document are based on the information available at the date of this directors' report. Except as required by applicable legislation, the Group is not obligated to publicly update its statements or review the information containing future projections, even where new data is published or new events arise.