



RED
ELÉCTRICA
CORPORACIÓN

Financial Results **January - December 2018**

20 February 2019

The Consolidated Financial Statements included in the financial information presented in this document have been audited. This information was drawn up in accordance with International Financial Reporting Standards (IFRS). For the purpose of facilitating the understanding of the information provided in this document, certain alternative performance measures have been included, the definition of which can be found at www.ree.es.



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1. Main Highlights

Profit for the year was €704.6 million, a 5.2% increase on 2017. EBITDA was €1,539.7 million in 2018, up 1.3% on the previous year.

Investments for the Red Eléctrica Group totalled €546.6 million, of which €378.2 million was earmarked for developing the national transmission grid.

With regard to the **operation** of the electricity system, it maintained high levels of service quality with an annual availability of more than 98% both on the Iberian Peninsula and on the Canary Islands and of 96.8% on the Balearic Islands.

Our activities are aimed at facilitating the energy transition and enabling proper **integration of renewable energy sources**, with the ultimate goal of driving progress towards a low-carbon economy. In 2018 mainland production from renewable sources amounted to 40.1% and CO₂-free mainland production represented 60.7% of production.

With regard to **international activity**, in 2018, the Red Eléctrica Group, through its subsidiary, Red Eléctrica Chile, acquired the electricity transmission company, Centinela Transmisión, for \$117 million. The transaction also includes the expansion works included in the 2016-2017 Transmission System Expansion Plan and the operation of the fibre-optic network associated with the power lines. It is worth noting that the company TESUR 2 came into commercial service in June. Lastly, on 14 December 2018, Red Eléctrica Internacional reached an agreement with Bow Power to acquire 100% of CCNCM, a concessionaire of a 372km power line and 4 substations in northern Peru.

In relation to **telecommunications activity**, on 12 February we made significant progress in positioning ourselves as a global telecommunications infrastructure operator upon reaching an agreement with Aber-tis Infraestructuras, S.A. to acquire 89.68% of the shares of Hispasat, S.A. The acquisition price amounted to EUR 949 million. This acquisition will be financed with external debt and, therefore, no recourse to the shareholder.

The 2018 **dividend** proposed to the General Shareholders' Meeting will amount to €0.9831 per share, 7% more than was paid last year and in line with that announced in Red Eléctrica's strategic plan.

The solid progress of results in 2018 puts us in a good position to achieve the objectives set in the 2014-2019 Strategic Plan.



2. Red Eléctrica: Main Aggregates

Main Operating Aggregates

	January - December		
	2018	2017	Δ %
Circuits of lines in service in Spain (km)	44,069	43,792	0.6
Integration of renewables (% mainland production)	40.1%	33.7%	19.0
Optical fibre (km)	33,978	33,084	2.7
Circuits of lines in service abroad (km)	2,635	2,148	22.7

Income Statement

<i>(Thousands of Euros)</i>	January - December			October - December		
	2018	2017	Δ %	2018	2017	Δ %
Revenue	1,948,540	1,941,165	0.4	478,356	475,805	0.5
EBITDA	1,539,669	1,519,498	1.3	392,262	382,930	2.4
EBIT	1,069,793	1,031,415	3.7	277,279	263,639	5.2
Profit before tax	936,252	890,240	5.2	243,332	228,700	6.4
Profit for the year	704,558	669,836	5.2	183,857	174,299	5.5

Balance Sheet

<i>(Thousands of Euros)</i>	December 2018	December 2017	Δ %
Non-current assets	9,303,514	9,214,238	1.0
Equity	3,361,366	3,093,449	8.7
Net financial debt*	4,682,720	4,791,798	(2.3)

(*) Includes foreign currency derivatives.

Other Financial Aggregates

<i>(Thousands of Euros)</i>	January - December			October - December		
	2018	2017	Δ %	2018	2017	Δ %
Operating cash flow after taxes	1,218,928	1,187,927	2.6	238,108	223,952	6.3
Investments	546,594	510,247	7.1	142,524	214,283	(33.5)
Dividends paid	495,138	463,189	6.9	-	-	-

Credit Rating

Agent	Credit rating	Outlook	Date
Standard & Poor's	A-	Stable	15/02/2019
Fitch Ratings	A	Negative Watch	14/02/2019



3. Earnings Performance

Revenue for 2018 was €1,948.5 million, compared to €1,941.2 million in the previous year, representing an increase of 0.4%. This figure includes remuneration of the transmission activity in Spain. It also includes revenues such as those from the external telecommunications activity, amounting to €88.7 million, and regulated revenue from system operation in the amount of €65.8 million as well as revenues from overseas transmission activity, amounting to €22.9 million.

Profit for the Chilean company TEN, amounted to €7.0 million in 2018, which is included in EBITDA as Profit of equity – accounted Investees.

EBITDA amounted to €1,539.7 million, showing growth of 1.3% year-on-year.

Operating costs performed as follows:

- **Procurement costs and other operating expenses** fell 8.3% compared to 2017, demonstrating the efforts that Red Eléctrica has been making in relation to efficiency, particularly in maintenance expenses, and a lower claim rate (in the last quarter of 2017, extensive damage was caused mainly due to weather-related causes, compared to 2018 where there were fewer incidents). Likewise, fewer expenses were recognised due to the completion of TESUR 2.
- The **final headcount** at 31 December 2018 was 1,799, while the average headcount was 1,805 employees.

Personnel expenses rose 2.1% year-on-year. The increase is due in part to the 2.1% rise in average salary costs and a 0.2% increase in the Group's average workforce compared to the same period of last year.

Operating Expenses

(Thousands of Euros)	January - December			October - December		
	2018	2017	Δ %	2018	2017	Δ %
Procurements and other operating expenses	338,712	369,181	(8.3)	66,989	91,445	(26.7)
Personnel expenses	151,848	148,693	2.1	40,286	39,614	1.7
Operating expenses	490,560	517,874	(5.3)	107,275	131,059	(18.1)

EBIT stood at €1,069.8 million, up 3.7% year-on-year. Its performance reflects the decrease in the non-current asset depreciation charge owing fundamentally to adjustments in the estimated useful technical life of certain transmission assets.

Financial loss was €133.5 million, compared to €142.6 million last year. The improvement seen is mainly due to paying less interest thanks to a drop in the company's cost of finance.

Lastly, **Profit for the year** amounted to €704.6 million, a 5.2% increase year-on-year. The effective tax rate stood at 24.8%, in line with the 25% defined in the Spanish Law 27/2014, of 27 November, on Corporate Income Tax (*Ley 27/2014, de 27 de noviembre, del Impuesto sobre Sociedades*).



4. Cash Flow and Balance Sheet Performance

Cash Flows⁽¹⁾

<i>(Thousands of Euros)</i>	January - December			October – December		
	2018	2017	Δ %	2018	2017	Δ %
Profit before tax	936,252	890,240	5.2	243,332	228,700	6.4
Income taxes paid	(205,570)	(196,419)	4.7	(136,007)	(125,333)	8.5
Depreciation and amortisation charge and other adjustments	488,246	494,106	(1.2)	130,782	120,585	8.5
Operating cash flow after taxes	1,218,928	1,187,927	2.6	238,108	223,952	6.3
Changes in working capital	(112,540)	(30,319)	-	21,962	(33,161)	-
Changes in other assets and liabilities	30,208	(40,014)	-	67,923	6,380	-
Changes in payables to non-current asset suppliers	(10,792)	(2,091)	-	8,590	82,678	(89.6)
Investments	(546,594)	(510,247)	7.1	(142,524)	(214,283)	(33.5)
Unrestricted cash flow	579,209	605,256	(4.3)	194,059	65,567	-
Dividends paid	(495,138)	(463,189)	6.9	-	-	-
Changes in net financial debt⁽²⁾	(84,071)	(142,067)	(40.8)	(194,059)	(65,567)	-

(1) This table is solely for the purpose of simplifying the consolidated cash flows table. It includes investments made by the Group in this period, the difference between it and the investment payments is mainly recognised under changes to other assets and liabilities.

(2) The difference between this figure and the change in net financial debt shown on page 3 is owing to items that do not involve movements of cash and, in particular, as a result of the application of IFRS 9 as of 1 January 2018. The effect of this standard on the first-time application amounted to €41.7 million.

Operating cash flow after taxes was €1,218.9 million, up 2.6% year-on-year.

Changes to working capital were negative in the amount of €112.5 million compared to the negative variation of €30.3 million in the previous year. This performance is due mainly to an increase in balances not yet received from the Electricity System in Spain and an increase in payments to creditors.

Group **investments** in 2018 amounted to €546.6 million, compared to €510.2 million in 2017. Of this amount, €378.2 million was earmarked for development of the national transmission network. Accordingly, the international business includes €101.2 million related to the acquisition of Centinela Transmisión, which then changed its name to Red Eléctrica del Norte 2 S.A. (Redenor 2).

Dividends paid against the previous year's profits amounted to €495.1 million which is 6.9% up on the previous year, as envisaged in the 2014-2019 Strategic Plan.

The performance of the different headings described here has led to a €84.1 million decline in the Group's **net financial debt** in 2018.



Net Financial Debt (*)

<i>(Thousands of Euros)</i>	National currency	Foreign currency	Total
Cash and cash equivalents	(752,512)	(14,640)	(767,152)
Non-current debt securities	3,144,659	437,403	3,582,062
Non-current loans	1,640,808	227,002	1,867,810
Current promissory notes and loans	-	-	-
Total net financial debt	4,032,955	649,765	4,682,720

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

At 2018 year end, 100% of the Group's financial debt was long term. As regards interest rates, 90% of the Group's net debt is at a fixed rate, while the remaining 10% is at a floating rate.

The average cost of the Group's financial debt in 2018 was 2.42%, compared to 2.78% in the previous year. The average balance of **gross debt** stood at €5,499 million, compared to €5,123 million in the previous year.

Lastly, the Red Eléctrica Group's **Total equity** stood at €3,361.4 million, up 8.7% on 2017 year end. This growth is mainly due to the results from the period less the corresponding distribution of dividends.

Credit Rating

Standard & Poor's has given Red Eléctrica a long-term credit rating 'A-' rating with a stable outlook and a short-term credit rating of 'A-2'. Fitch, on the other hand, gave Red Eléctrica a long-term rating of 'A', and since 14 February 2019 has put the credit rating under review (RWN).

The rating agencies indicate that the company's strengths include its predictability and recurring cash flows generated by transactions, as well as its financial strength.



5. Significant Events in Q4 and thereafter

- The Board of Directors, in its meeting held on 19 February, agreed to propose to the General Shareholders' Meeting a dividend per share of €0.9831 paid against 2018 profits, pursuant to the dividend policy communicated by the company in its strategic plan. The €0.2727 per share interim dividend paid on 8 January must be deducted from this amount.
- On 12 February 2019, Abertis Infraestructuras, S.A. and Red Eléctrica Corporación, S.A. reached an agreement for Red Eléctrica Corporación, through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U., a wholly-owned subsidiary of Red Eléctrica Corporación, to acquire 89.68% of the Hispasat, S.A. shares currently held by Abertis. The price for the acquisition of 89.68% of the share capital of Hispasat amounted to €949 million. This acquisition will be financed with external debt and, thus, without recourse to the shareholder. Once the corresponding authorisations have been obtained, the transaction will be paid, and it is anticipated that it will be included in the financial statements with economic effects from 1 January 2019.
- On 23 January 2019, wind production set a new record maximum producing 367,697 MWh. This represents a 0.6% increase on the previous maximum, recorded on 12 February 2016.
- On 21 December 2018, Red Eléctrica succeeded in reducing the margin on its syndicated green loan issued in December 2017, thanks to having met the criteria associated with the evolution of the ESG parameters according to the Vigeo Eiris rating.
- On 19 December, Red Eléctrica de España signed a collaboration agreement with the Spanish Federation of Municipalities and Provinces (FEMP) to provide technical assistance in the field of electric mobility. REE will make the Electric Vehicle Control Centre (CECOVEL) available to the city and town councils to facilitate intelligent management of charging points.
- Red Eléctrica Internacional reached an agreement with Bow Power to acquire 100% of CCNCM, a concessionaire of the Carhuaquero - Cajamarca Norte – Cállic – Moyobamba 220 kV power line and the 4 related substations in northern Peru. The transaction, signed on 14 December 2018, is valued at 205 million dollars (€181.36 million).
- On 27 November 2018, at the proposal of its Chairman, Red Eléctrica's Board created, the Sustainability Committee, owing to the strategic role sustainability currently plays within the Group. It is voluntary and is largely made up of independent directors.
- On 7 November 2018, Red Eléctrica signed the first multi-currency syndicated loan based on blockchain technology worldwide. BBVA, BNP and MUFG participated in the negotiations. The use of this technology ensures the transparency, traceability and immutability of the entire process.



Appendix 1

Consolidated Financial Statements

Red Eléctrica Group

Consolidated Income Statement

<i>(Thousands of Euros)</i>	31/12/2018	31/12/2017	2018/2017
Revenue	1,948,540	1,941,165	0.4%
Work on non-current assets	62,027	66,757	(7.1%)
Profit/(Loss) of investees	6,966	-	-
Procurements	(37,725)	(61,110)	(38.3%)
Other operating income	12,696	29,450	(56.9%)
Personnel expenses	(151,848)	(148,693)	2.1%
Other operating expenses	(300,987)	(308,071)	(2.3%)
Gross profit from operations	1,539,669	1,519,498	1.3%
Depreciation and amortisation charge	(480,753)	(515,151)	(6.7%)
Allocation to profit or loss of grants related to non-financial non-current assets	23,445	23,441	-
Impairment and gains or losses on disposals of non-current assets	(12,568)	3,627	-
Net profit from operations	1,069,793	1,031,415	3.7%
Finance income	10,670	9,236	15.5%
Finance costs	(144,063)	(151,738)	(5.1%)
Exchange differences	(148)	(88)	68.2%
Impairment and gains or losses on disposal of financial instruments	-	18	-
Financial loss	(133,541)	(142,572)	(6.3%)
Interest in the results of companies accounted for using the equity method	-	1,397	-
Profit before tax	936,252	890,240	5.2%
Income tax expense	(231,763)	(220,421)	5.1%
Consolidated profit for the year	704,489	669,819	5.2%
A) Consolidated profit attributable to the parent	704,558	669,836	5.2%
B) Consolidated profit attributable to non-controlling interests	(69)	(17)	-



Red Eléctrica Group Consolidated Balance Sheet

ASSETS (Thousands of Euros)	31/12/2018	31/12/2017
Intangible assets	242,559	154,939
Property, plant and equipment	8,711,332	8,747,376
Investment property	1,654	2,385
Investments accounted for using the equity method	198,377	172,727
Non-current financial assets and derivatives	120,931	108,235
Deferred tax assets	27,984	27,824
Other non-current assets	677	752
Non-current assets	9,303,514	9,214,238
Inventories	34,641	39,753
Trade and other receivables	1,102,560	1,013,355
Current financial assets and derivatives	54,213	80,668
Cash and cash equivalents	767,152	569,869
Current assets	1,958,566	1,703,645
Total assets	11,262,080	10,917,883
LIABILITIES (Thousands of Euros)	31/12/2018	31/12/2017
Shareholders' equity	3,404,605	3,157,494
Share capital	270,540	270,540
Reserves	2,598,060	2,384,396
Treasury shares (-)	(21,303)	(29,769)
Prior years' profit /(loss)	-	-
Profit for the year attributable to the Parent	704,558	669,836
Interim dividend paid	(147,250)	(137,509)
Valuation adjustments	(44,071)	(64,104)
Minority interests	832	59
Equity	3,361,366	3,093,449
Grants and other	631,410	597,122
Non-current provisions	127,541	100,982
Non-current financial liabilities and derivatives	5,021,178	4,692,352
Deferred tax liabilities	473,125	472,475
Other non-current liabilities	83,068	87,019
Non-current liabilities	6,336,322	5,949,950
Current financial liabilities and derivatives	1,196,870	1,471,957
Trade and other payables	367,522	402,527
Other current liabilities	-	-
Current liabilities	1,564,392	1,874,484
Total liabilities	11,262,080	10,917,883



Red Eléctrica Group

Consolidated Statement of Cash Flows

<i>(Thousands of Euros)</i>	31/12/2018	31/12/2017
CASH FLOWS FROM OPERATING ACTIVITIES	1,100,025	1,153,255
Profit before tax	936,252	890,240
Adjustments for	624,907	641,492
Depreciation and amortisation	480,753	515,151
Other adjustments to profit (net)	144,154	126,341
Changes in working capital	(112,540)	(30,319)
Other cash flows from operating activities	(348,594)	(348,158)
Interest paid	(150,426)	(156,091)
Dividends received	4,848	3,881
Interest received	4,435	4,944
Income tax recovered/(paid)	(205,570)	(196,419)
Other collections/(payments) from operating activities	(1,881)	(4,473)
CASH FLOWS FROM INVESTING ACTIVITIES	(525,898)	(536,410)
Payments due to investments	(557,384)	(545,588)
Property, plant and equipment, intangible assets and investment property	(456,219)	(472,654)
Group companies, associates and business units	(101,165)	(27,184)
Other financial assets	-	(45,750)
Proceeds from disposal	4,067	882
Property, plant and equipment, intangible assets and investment property	240	24
Other assets	3,827	858
Other cash flows from investing activities	27,419	8,296
CASH FLOWS FROM FINANCING ACTIVITIES	(377,582)	(294,597)
Proceeds and payments relating to equity instruments	10,417	7,445
Acquisition	(44,675)	(32,387)
Disposal	55,092	39,832
Proceeds (payments) relating to financial liability instruments	113,211	176,381
Issuance and disposal	1,398,826	537,559
Redemption and repayment	(1,285,615)	(361,178)
Dividend payments	(495,138)	(463,189)
Other cash flows from financing activities	(6,072)	(15,234)
Effect of foreign exchange rate changes	738	(3,800)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	197,283	318,448
Cash and cash equivalents at beginning of year	569,869	251,421
Cash and cash equivalents at end of year	767,152	569,869



Financial Calendar

Upcoming events

Estimated Dates

General Shareholders' Meeting	22 March 2019
Q1 2019 results presentation	Week starting the 29 April
Final dividend payment	1 July 2019

For more information

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Appendix 2 Sustainability Certifications



DJSI once again placed the company on the DJSI World and the DJSI Europe indices.



Gold Class distinction in the RobecoSAM Sustainability Yearbook 2018.



FTSE4Good

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



Continued inclusion in the STOXX Global ESG Leaders indices.



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



Renewed presence in the Euronext-Vigeo sustainability indices (Eurozone 120 and Europe 120) following first inclusion in 2014.



Red Eléctrica Corporación confirms its presence in the Ethibel Sustainability Index Excellence Europe.



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



Included in the ECPI Indices since 2008.



Part of the “A list” of the Carbon Disclosure Project, recognised as a leading company for its efforts and actions to combat climate change.



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



Ranked fourth among the companies with the best environmental sustainability reporting worldwide, according to the State Study on Sustainability Reporting.

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