Red Eléctrica Corporación, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements

30 June 2019

Consolidated Interim Directors' Report

30 June 2019

(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, 259C
28046 Madrid

Limited Review on the Condensed Consolidated Interim 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 Company management:

REPORT ON THE CONDENSED CONSOLIDATED INTERIM 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 2019, 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.

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

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 2019 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 2018. 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 2019 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 consolidated 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 consolidated 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 2019. 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 Royal Legislative Decree 4/2015 of 23 October 2015, which approved 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
30 July 2019

Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report for the six-month period ended 30 June 2019

(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 2019 and 31 December 2018

Thousands of Euros

Assets	Note	30/06/2019	31/12/2018
Intangible assets	5	**252,674**	**242,559**
Property, plant and equipment	5	**8,638,616**	**8,711,332**
Investment property	5	**1,600**	**1,654**
Equity-accounted investees	6	**192,954**	**198,377**
Non-current financial assets	11	**99,952**	**109,911**
Non-current derivatives	11	**15,767**	**11,020**
Deferred tax assets	13	**33,326**	**27,984**
Other non-current assets	11	**701**	**677**
Total non-current assets		9,235,590	9,303,514
Inventories	7	**38,715**	**34,641**
Trade and other receivables	8	**1,210,870**	**1,102,560**
Other current financial assets	11	**41,334**	**54,213**
Cash and cash equivalents		**853,620**	**767,152**
Total current assets		2,144,539	1,958,566
Total assets		**11,380,129**	**11,262,080**
Equity and liabilities			
Capital and reserves		**3,379,267**	**3,404,605**
Capital		270,540	270,540
Reserves		2,770,549	2,598,060
Own shares and equity holdings (-)		(24,021)	(21,303)
Profit for the period attributable to the Parent		362,199	704,558
Interim dividend (-)		-	(147,250)
Valuation adjustments		**(74,639)**	**(44,071)**
Financial assets at fair value through other comprehensive income		14,429	15,063
Hedging transactions		(92,966)	(62,237)
Translation differences		3,898	3,103
Equity attributable to the Parent		3,304,628	3,360,534
Non-controlling interests		**838**	**832**
Total equity	9	3,305,466	3,361,366
Grants and other		**635,085**	**631,410**
Non-current provisions		**131,693**	**127,541**
Non-current financial liabilities	11	**4,407,076**	**4,981,234**
Loans and borrowings, bonds and other marketable securities		4,396,749	4,980,757
Other non-current financial liabilities		10,327	477
Deferred tax liabilities	13	**465,180**	**473,125**
Non-current derivatives	11	**65,203**	**39,944**
Other non-current liabilities		**84,031**	**83,068**
Total non-current liabilities		5,788,268	6,336,322
Current financial liabilities	11	**1,807,322**	**1,196,870**
Loans and borrowings, bonds and other marketable securities		1,006,188	562,328
Other current financial liabilities		801,134	634,542
Trade and other payables	12	**474,747**	**367,522**
Suppliers		345,385	313,759
Other payables		67,022	50,278
Current tax liabilities		62,340	3,485
Current derivatives	11	**4,326**	**-**
Total current liabilities		2,286,395	1,564,392
Total equity and liabilities		**11,380,129**	**11,262,080**

The Group has applied IFRS 16 at 1 January 2019. 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 2019 and 2018

Thousands of Euros	Note	30/06/2019	30/06/2018
Revenue	14.a	993,074	990,317
Self-constructed assets	5	25,663	32,067
Share of profit/(loss) of equity-accounted investees (with a similar activity to that of the Group)	6	3,639	4,346
Supplies	14.c	(13,923)	(19,003)
Other operating income		7,779	5,370
Personnel expenses	14.d	(77,023)	(74,472)
Other operating expenses	14.c	(159,848)	(161,819)
Amortisation and depreciation	5	(246,757)	(247,354)
Non-financial and other capital grants		12,104	11,556
Impairment and gains/(losses) on disposal of fixed assets		(1)	(23)
Results from operating activities		**544,707**	**540,985**
Finance income		6,667	7,021
Finance costs		(71,004)	(72,101)
Exchange differences		511	(169)
Net finance cost		**(63,826)**	**(65,249)**
Profit before tax		**480,881**	**475,736**
Income tax		(118,685)	(118,793)
Consolidated profit for the period		**362,196**	**356,943**
A) Consolidated profit for the period attributable to the Parent		**362,199**	**356,973**
B) Consolidated loss for the period attributable to non-controlling interests	**2.e**	**(3)**	**(30)**
Earnings per share in Euros			
Basic earnings per share in Euros	**19**	**0.67**	**0.66**
Diluted earnings per share in Euros	**19**	**0.67**	**0.66**

The Group has applied IFRS 16 at 1 January 2019. 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 Statements of Comprehensive Income at 30 June 2019 and 2018

Thousands of Euros	30/06/2019	30/06/2018
A) Consolidated profit for the period	**362,196**	**356,943**
B) Other comprehensive income – Items that will not be reclassified to profit or loss:	**(2,985)**	**(1,445)**
1. Revaluation/(reversal) of PPE and intangible assets	-	-
2. Actuarial gains and losses	(3,135)	1,237
3. Share in other comprehensive income from investments in joint ventures and associates	-	-
4. Equity instruments through other comprehensive income	(634)	(3,503)
5. Other income and expense that will not be reclassified to profit or loss	-	-
6. Tax effect	784	821
C) Other comprehensive income– Items that could subsequently be reclassified to profit or loss:	**(29,924)**	**8,544**
1. Cash flow hedges:	**(25,759)**	**(1,514)**
a) Revaluation gains/(losses)	(28,113)	(3,638)
b) Amounts transferred to the income statement	2,354	2,124
c) Amounts transferred to initial value of hedged items	-	-
d) Other reclassifications	-	-
2. Translation differences:	**1,073**	**(1,189)**
a) Revaluation gains/(losses)	1,073	(1,189)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
3. Share in other comprehensive income from investments in joint ventures and associates:	**(11,410)**	**11,751**
a) Revaluation gains/(losses)	(11,410)	11,751
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:	**-**	**-**
a) Revaluation gains/(losses)	-	-
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
6. Tax effect	**6,172**	**(504)**
Total comprehensive income for the period (A + B + C)	**329,287**	**364,042**
a) Attributable to the Parent	**329,281**	**364,072**
b) Attributable to non-controlling interests	**6**	**(30)**

The Group has applied IFRS 16 at 1 January 2019. 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 Statements of Changes in Equity at 30 June 2019 and 2018

Equity / Thousands of Euros	Note	Subscribed capital	Reserves	Own shares	Profit/(loss) attributable to the Parent	Valuation adjustments	Non-controlling interests	Total equity
Balances at 1 January 2019		270,540	2,450,810	(21,303)	704,558	(44,071)	832	3,361,366
I. Comprehensive income for the period		**-**	**(2,350)**	**-**	**362,199**	**(30,568)**	**6**	**329,287**
II. Transactions with shareholders or owners		**-**	**(235,219)**	**(2,718)**	**(147,250)**	**-**	**-**	**(385,187)**
- Distribution of dividends		-	(237,133)	-	(147,250)	-	-	(384,383)
- Transactions with own shares		-	1,914	(2,718)	-	-	-	(804)
III. Other changes in equity		**-**	**557,308**	**-**	**(557,308)**	**-**	**-**	**-**
- Transfers between equity line items		-	557,308	-	(557,308)	-	-	-
- Other changes		-	-	-	-	-	-	-
Balances at 30 June 2019		270,540	2,770,549	(24,021)	362,199	(74,639)	838	3,305,466
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. Comprehensive income for the period		**-**	**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**
- Transfers between equity line items		-	532,327	-	(532,327)	-	-	-
- Other changes		-	4	-	-	-	310	314
Balances at 30 June 2018		270,540	2,592,704	(42,265)	356,973	(57,933)	339	3,120,358

The Group has applied IFRS 16 at 1 January 2019. 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 Statements of Cash Flows at 30 June 2019 and 2018

Thousands of Euros	Note	30/06/2019	30/06/2018
Cash flows from operating activities		**539,918**	**627,632**
Profit before tax		**480,881**	**475,736**
Adjustments to profit:		**301,962**	**302,065**
Amortisation and depreciation	5	246,757	247,354
Other adjustments to profit		55,205	54,711
Equity-accounted investees		(3,639)	(4,346)
(Gains)/loss on disposal/impairment of non-current assets and financial instruments		1	23
Accrued finance income		(6,667)	(7,021)
Accrued finance costs		71,005	72,101
Charge to/surplus provisions for liabilities and charges		6,609	3,841
Capital and other grants taken to income		(12,104)	(9,886)
Changes in operating assets and liabilities		**(73,932)**	**27,431**
Changes in inventories, receivables, prepayments for current assets and other current assets		(116,600)	(95,039)
Changes in trade payables, current contract liabilities and other current liabilities		42,668	122,470
Other cash flows used in operating activities:		**(168,993)**	**(177,600)**
Interest paid		(105,021)	(116,505)
Dividends received		4,848	4,848
Interest received		898	1,267
Income tax received/(paid)		(68,112)	(67,507)
Other proceeds from and payments for operating activities		(1,606)	297
Cash flows used in investing activities		**(183,211)**	**(208,585)**
Payments for investments		**(226,737)**	**(218,673)**
Property, plant and equipment, intangible assets and investment property		(226,737)	(216,436)
Group companies, associates and business units		-	-
Other financial assets		-	(2,237)
Proceeds from sale of investments		**24,549**	**844**
Property, plant and equipment, intangible assets and investment property		-	43
Other financial assets		24,549	801
Other cash flows from investing activities		**18,977**	**9,244**
Other proceeds from investing activities		18,977	9,244
Cash flows used in financing activities		**(270,446)**	**(88,861)**
Proceeds from and payments for equity instruments		**(804)**	**(12,775)**
Acquisition		(38,665)	(29,904)
Disposal		37,861	17,129
Proceeds from and payments for financial liability instruments	**11**	**(119,069)**	**67,495**
Issue and drawdowns		568,471	1,007,473
Redemption and repayment		(687,540)	(939,978)
Dividends and interest on other equity instruments paid	**9**	**(147,250)**	**(137,509)**
Other cash flows used in financing activities		**(3,323)**	**(6,072)**
Effect of exchange rate fluctuations on cash and cash equivalents		**207**	**397**
Net increase in cash and cash equivalents		**86,468**	**330,583**
Cash and cash equivalents at beginning of period		767,152	569,869
Cash and cash equivalents at period end		853,620	900,452

The Group has applied IFRS 16 at 1 January 2019. 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.

Notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2019

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

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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.

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 activities are the management and operation of electricity infrastructure in Spain, through Red Eléctrica de España S.A.U. (hereinafter REE), and abroad, through Red Eléctrica Internacional S.A.U. (hereinafter REI) and its investees. The Group also 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). Moreover, the Group carries out activities aimed at driving and fostering technological innovation through its subsidiary Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología S.A.U. (RETIT).

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 2019, 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 30 July 2019, 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 2019 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 2018. 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 2018, 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 2018 were approved by the shareholders at their general meeting held on 22 March 2019.

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 2019. The main impacts of these standards and improvements are as follows:

- IFRS 16 Leases

IFRS 16 Leases replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 and establishes principles for the recognition of leases under a single balance sheet model for all leases. IFRS 16 entered into force on 1 January 2019 and was not adopted early.

IFRS 16 requires that lessees recognise an asset for the right to use the underlying asset and a financial liability at the present value of the remaining lease payments on the consolidated statement of financial position. This asset will be depreciated over the remaining contract term and a finance cost will be recognised by discounting the lease liability. Lessor accounting under this standard remains substantially unchanged and leases will continue to be classified as operating or finance leases, based on the degree to which they transfer substantially the risks and rewards incidental to ownership.

In applying this standard, the Group has made the following estimates:

- o The standard has been applied to leases with an underlying asset of more than US Dollars 5,000 (approximately Euros 4,400) and an estimated life of more than 12 months.
- o At the date of initial application, 1 January 2019, the Group has not reassessed whether the contracts are, or contain, a lease, and the standard has been applied to contracts that were previously classified as such.
- o The Group has applied the modified retrospective approach, whereby the comparative figures for the prior period are not restated, and the initial value of the asset is therefore equal to the lease liability at 1 January 2019 for all lease contracts.
- o A lessee incremental effective borrowing rate of between 0.60% and 7.38% has been applied, based on the country and contract term.

The impact of applying this standard was as follows:

Thousands of Euros

Consolidated statement of financial position	31/12/2018	01/01/2019	Change
Non-current assets	9,303,514	9,314,890	11,376
Current assets	1,958,566	1,958,566	-
Total assets	**11,262,080**	**11,273,456**	**11,376**
Equity	3,361,366	3,361,366	-
Non-current liabilities	6,336,322	6,342,703	6,381
Current liabilities	1,564,392	1,569,387	4,995
Total equity and liabilities	**11,262,080**	**11,273,456**	**11,376**

The impact of the application of IFRS 16 at 30 June 2019 has entailed increases of Euros 12,544 thousand in non-current assets, Euros 9,288 thousand in non-current liabilities and Euros 3,033 thousand in current liabilities. Moreover, the consolidated income statement for the current six-month period includes increases of Euros 2,160 thousand in amortisation and depreciation and Euros 55 thousand in finance costs as a result of applying this standard.

Property, plant and equipment also include the telecommunications facilities derived from the concession of the rights to use and manage the operation of the fibre optic cable network, pursuant to the agreement entered into with Adif in 2014, as described in note 6 to the consolidated annual accounts for 2018, which had already been classified as a finance lease at 31 December 2018.

- IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation provides requirements that add to the requirements in IAS 12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income tax. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over the accounting treatment. This interpretation is applicable for annual periods beginning on or after 1 January 2019 and has not had 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 financial statements have been prepared on a going concern basis.

These estimates are based on the best information available as described in note 2c) to the consolidated annual accounts for 2018, Estimates and assumptions, except for the new significant judgements related to lease accounting under IFRS 16, described above.

d) Consolidation principles

The same consolidation principles have been used in these consolidated interim financial statements as in the consolidated annual accounts for 2018.

e) Changes in the consolidated Group

On 11 January 2019, the Peruvian company Red Eléctrica del Norte Perú S.A.C. (REDELNOR) was incorporated. The company's statutory and principal activity is holding activities and electricity transmission and maintenance activities on the Carhuaquero-Cajamarca Norte-Caclic-Moyobamba line.

On 6 June 2019 the Spanish company Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT) was incorporated. This company's statutory and principal activity is the performance of activities aimed at driving and fostering technological innovation.

f) Comparative information

The consolidated interim financial statements for 2019 are not comparable with those for the 2018 period as a result of the application of IFRS 16 and IFRIC 23 from 1 January 2019 onwards (see note 2b). However, the entry into force of these standards and interpretations has not had a significant impact on the interim financial statements.

3. Sector Regulation

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.

As regards the regulator, Royal Decree-Law 1/2019, on urgent measures to adapt the powers of the Spanish National Markets and Competition Commission (CNMC) to the requirements of Community law in respect of Directives 2009/72/EC and 2009/73/EC on common rules for the internal market in electricity and natural gas, was published in January of this year. This Royal Decree-Law sets out a new division of responsibilities between the government and the CNMC that respects the Community framework and affords the latter the independence required to carry out its duties.

As such, Royal Decree-Law 1/2019 redefines the duties of the CNMC, by granting new powers that were previously reserved for the government, some of which directly affect REE, including determining the methodology, asset base, parameters and remuneration for transmission activities, setting the remuneration parameters and methodology for the system operator, and establishing the methodology for calculating the financial rate of return.

In order to assume these new duties, the CNMC subsequently published a plan for drafting Circulars for the implementing legislation of its new powers, including those relating to the remuneration methodology for electricity transmission activities, the remuneration methodology for the electricity system operator and the methodology for calculating the financial rate of return.

Ministry for the Ecological Transition Order (MITECO) TEC/406/2019 of 5 April 2019 established the guidelines for this Ministry's energy policy, which must be taken into account when preparing the Circulars.

The draft Circulars were published on 5 July for public consultation. As stipulated in the draft Circulars, from that date onwards they will be subject to a public consultation process and a consultation process through the Electricity Advisory Board. The submissions for this process will in principle end on 9 August 2019. The public consultation process for the draft CNMC Circular on standard facilities and benchmark unit values for operation and maintenance of transmission facilities commenced on 25 July. The submissions for this process will end on 16 September.

International electricity sector

There have been no significant legislative developments since the publication of the consolidated annual accounts at 31 December 2018.

Telecommunications

There have been no significant legislative developments since the publication of the consolidated annual accounts at 31 December 2018.

4. Significant Accounting Policies

The same accounting principles have been used in these consolidated interim financial statements as in the consolidated annual accounts for 2018, with the exception of those arising from the new IFRS-EU (see note 2b):

IFRS 16:

IFRS 16 requires companies that are lessees to recognise assets and liabilities in the statement of financial position for all leases, following the same treatment as for finance leases. Lessees may opt not to apply the general criteria to short-term leases and leases of low-value assets.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group reassesses whether a contract is, or contains, a lease if the terms and conditions of the contract are changed.

IFRS 16 modifies the recognition of the leases in which the Group is the lessee. In these cases, the Group shall initially recognise a right-of-use asset and a lease liability. The initial cost shall include:

a. the amount of the initial measurement of the lease liability, measured at the commencement date, at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.
b. any lease payments made at or before the commencement date, less any lease incentives received;
c. Unpaid lease payments comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.
d. any initial direct costs incurred by the lessee; and
e. an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee may incur the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The Group will measure the lease assets and liabilities in accordance with the accounting policies for property, plant and equipment and financial liabilities, respectively.

In the consolidated financial statements for the six-month period ended 30 June 2019, the Group has classified the right-of-use asset and the lease liability under property, plant and equipment and other current and non-current financial liabilities, respectively, in the consolidated statement of financial position.

5. Intangible Assets, Property, Plant and Equipment and Investment Property

Additions to intangible assets, property, plant and equipment and investment property, without considering the assets arising on the application of IFRS 16, totalled Euros 166,067 thousand in the first half of 2019.

As a result of first-time application of IFRS 16, assets have arisen in respect of the right to use assets under leases in an amount of Euros 11,376 thousand, of which Euros 3,794 thousand reflect motor vehicles and Euros 7,582 thousand reflect buildings. At 30 June the assets in this respect, net of depreciation/amortisation, amount to Euros 12,544 thousand (see note 2.b), of which Euros 2,603 thousand reflect motor vehicles and Euros 9,941 thousand reflect buildings.

Amortisation and depreciation in the six-month period ended 30 June 2019 amounted to Euros 246,757 thousand (Euros 247,354 thousand in the six-month period ended 30 June 2018).

Operating expenses capitalised in the first half of 2019 totalled Euros 25,663 thousand (Euros 32,067 thousand in the first half of 2018).

Borrowing costs capitalised in the first half of 2019 amounted to Euros 3,485 thousand (Euros 3,001 thousand in the first half of 2018).

6. Equity-accounted Investees

Movement during the period is as follows:

Thousands of Euros	31/12/2018	Share of profit	Translation differences	Valuation adjustments	30/06/2019
Transmisora Eléctrica del Norte S.A. (TEN)	198,377	3,639	2,348	(11,410)	192,954
Total	**198,377**	**3,639**	**2,348**	**(11,410)**	**192,954**

7. Inventories

Details of inventories at 30 June 2019 and 31 December 2018 are as follows:

Thousands of Euros	30/06/2019	31/12/2018
Inventories	71,288	67,535
Impairment	(32,573)	(32,894)
Total	**38,715**	**34,641**

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 2019 and 31 December 2018 are as follows:

Thousands of Euros	30/06/2019	31/12/2018
Trade receivables	20,034	10,826
Other receivables	1,188,167	1,089,675
Current tax liabilities	2,669	2,059
Total	**1,210,870**	**1,102,560**

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 is calculated as follows:

Thousands of Euros	30/06/2019	31/12/2018
Non-current payables	4,396,749	4,980,757
Current payables	968,605	490,460
Foreign currency derivatives	(25,792)	(21,345)
Cash and cash equivalents	(853,620)	(767,152)
Net financial debt (A)	**4,485,942**	**4,682,720**
Equity (B)	3,305,466	3,361,366
Gearing ratio =A/(A+B)	**57.6%**	**58.2%**

During the first half of 2019 the rating agency Standard & Poor's issued a new report, maintaining the Company's long-term rating of 'A-', with a stable outlook. The rating agency Fitch Ratings lowered the long-term rating from 'A' to 'A-', with a stable outlook, removing the "Rating Watch Negative" status.

Equity attributable to the Parent

- Capital and reserves

o Share capital

At 30 June 2019 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 2019 and 31 December 2018 SEPI holds a 20% interest in the Company's share capital.

o 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 2019 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 2019 these reserves amount to Euros 2,716,350 thousand.

o Own shares

At 30 June 2019 the Parent holds 1,286,785 own shares representing 0.2% of its share capital, with a total par value of Euros 643 thousand and an average acquisition price of Euros 18.67 per share.

These shares have been recognised as a reduction in the Group's equity in an amount of Euros 24,021 thousand at 30 June 2019.

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 2019 and 2018, 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	54.54%	0.2727	147,250	50.98%	0.2549	137,509
Total dividends paid	54.54%	0.2727	147,250	50.98%	0.2549	137,509
Dividends charged to profit	54.54%	0.2727	147,250	50.98%	0.2549	137,509

At their general meeting held on 22 March 2019, the shareholders approved the supplementary dividend for 2018 of Euros 0.7104 per share, resulting in a total gross dividend of Euros 0.9831 per share for that year. The supplementary dividend was paid on 1 July 2019.

- 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 translation differences deriving from subsidiaries with a different functional currency to that of the Group.

At 30 June 2019 this item reflects a negative balance of Euros -74,639 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 838 thousand under non-controlling interests under equity at 30 June 2019 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 2019, there have been no significant changes in the financial risk management policy since the previous reporting date.

In 2019 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.

The Group's liquidity position for 2019 is based on its robust capacity to generate cash flows, supported by undrawn credit facilities. At 30 June 2019 these credit facilities amount to Euros 2,131 million.

11. Financial Assets and Liabilities and Derivatives

Financial assets and derivatives

Details of the Red Eléctrica Group's current and non-current financial assets at 30 June 2019 and 31 December 2018, in thousands of Euros, are as follows:

			30/06/2019		
Thousands of Euros	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging derivatives	Total
Equity instruments	81,031	-	-	-	81,031
Derivatives	-	-	-	15,767	15,767
Other financial assets	-	8,463	10,458	-	18,921
Non-current	**81,031**	**8,463**	**10,458**	**15,767**	**115,719**
Other financial assets	-	-	41,334	-	41,334
Current	**-**	**-**	**41,334**	**-**	**41,334**
Total	**81,031**	**8,463**	**51,792**	**15,767**	**157,053**

			31/12/2018		
Thousands of Euros	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging derivatives	Total
Equity instruments	81,666	-	-	-	81,666
Derivatives	-	-	-	11,020	11,020
Other financial assets		6,734	21,511	-	28,245
Non-current	**81,666**	**6,734**	**21,512**	**11,020**	**120,931**
Other financial assets	-	-	54,213	-	54,213
Current	**-**	**-**	**54,213**	**-**	**54,213**
Total	**81,666**	**6,734**	**75,725**	**11,020**	**175,144**

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 2019 this investment amounts to Euros 80,563 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 2019 this investment has been devalued and the corresponding valuation adjustment has been recognised directly in the Group's equity.

Other financial assets at fair value through profit or loss include the investment in economic interest groups (EIGs). 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 Group 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.

Other current financial assets at amortised cost primarily include the Euros 23,864 thousand loan extended to the Chilean company TEN, and the related Euros 579 thousand interest receivable thereon. These have been measured at amortised cost.

The remaining balance of other current and non-current financial assets at amortised cost primarily reflects deposits, guarantees and loans to employees.

Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 30 June 2019 and 31 December 2018 are as follows:

30/06/2019	Level 1	Level 2	Level 3	Total balance
Equity instruments	80,563	-	468	81,031
Derivatives	-	15,767	-	15,767
Other financial assets	-	8,463	-	8,463

31/12/2018	Level 1	Level 2	Level 3	Total balance
Equity instruments	81,197	-	468	81,666
Derivatives	-	11,020	-	11,020
Other financial assets	-	6,734	-	6,734

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 at 30 June 2019, in thousands of Euros, are as follows:

	30/06/2019		
Thousands of Euros	**Financial liabilities**	**Hedging derivatives**	**Total**
Loans and borrowings	1,623,137	-	1,623,137
Bonds and other marketable securities	2,773,612	-	2,773,612
Derivatives	-	65,203	65,203
Other financial liabilities	10,327	-	10,327
Non-current	**4,407,076**	**65,203**	**4,472,279**
Loans and borrowings	158,207	-	158,207
Bonds and other marketable securities	847,981	-	847,981
Derivatives	-	4,326	4,326
Other financial liabilities	801,134	-	801,134
Current	**1,807,322**	**4,326**	**1,811,648**
Total	**6,214,398**	**69,529**	**6,283,927**

	31/12/2018		
Thousands of Euros	**Financial liabilities**	**Hedging derivatives**	**Total**
Loans and borrowings	1,665,345	-	1,665,345
Bonds and other marketable securities	3,315,412	-	3,315,412
Derivatives	-	39,944	39,944
Other financial liabilities	477	-	477
Non-current	**4,981,234**	**39,944**	**5,021,178**
Loans and borrowings	215,306	-	215,306
Bonds and other marketable securities	347,022	-	347,022
Derivatives	-	-	-
Other financial liabilities	634,542	-	634,542
Current	**1,196,870**	**-**	**1,196,870**
Total	**6,178,104**	**39,944**	**6,218,049**

The Group applied IFRS 16 on 1 January 2019. Given the transition method selected, the comparative information has not been restated. At 30 June 2019 other financial liabilities include non-current and current lease payables amounting to Euros 9,288 thousand and Euros 3,033 thousand, respectively, as a result of the application of IFRS 16 (see note 2.b)). A breakdown of the fair value of financial liabilities by lease is not required in the current period.

Loans and borrowings and bonds and other marketable securities include both the principal and the accrued interest payable at the dates indicated.

The carrying amount and fair value of loans and borrowings and bonds and other marketable securities, excluding the accrued interest payable, at 30 June 2019 and 31 December 2018 are as follows:

	Carrying amount		Fair value	
Thousands of Euros	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Bonds and other marketable securities in Euros	3,132,473	3,144,659	3,366,215	3,336,928
Bonds and other marketable securities in US Dollars	436,422	458,748	535,976	511,956
Loans and borrowings in Euros	1,503,894	1,640,808	1,527,395	1,639,750
Loans and borrowings in foreign currency	266,773	227,002	266,823	226,529
Total	5,339,562	5,471,217	5,696,409	5,715,163

Movement in issues, repurchases or repayments of debt securities in the six-month periods ended 30 June 2019 and 2018, expressed in thousands of Euros, is as follows:

	30/06/2019				
Thousands of Euros	Opening outstanding balance at 31/12/2018	Issues	Repurchases or repayments	Exchange rate and other adjustments	Closing outstanding balance at 30/06/2019
Debt securities issued in an EU member state requiring a prospectus to be filed	3,144,659	513,035	(530,597)	5,376	3,132,473
Debt securities issued in an EU member state not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	458,748	986	(1,979)	4,459	462,214
Total	3,603,407	514,021	(532,576)	9,835	3,594,687

	30/06/2018				
Thousands of Euros	Opening outstanding balance at 31/12/2017	Issues	Repurchases or repayments	Exchange rate and other adjustments	Closing outstanding balance at 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

The outstanding balance at 30 June 2019 and 2018 of debt securities requiring a prospectus to be filed relates to issues registered in Dublin and Luxembourg.

Issues at 30 June 2019 include the promissory notes issued by Red Eléctrica Financiaciones on the Euromarket, with a short-term maturity, which amount to Euros 514 million, of which Euros 246 million were repaid during the period.

Repurchases or repayments at 30 June 2019 reflect the repayment of US Dollar-denominated issues totalling Euros 2 million, in addition to the repayment of the promissory note issues described above.

At 30 June 2019 the accrued interest payable on these issues amounts to Euros 26,906 thousand (Euros 27,647 thousand in the first half of 2018).

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 2019 and 31 December 2018 are as follows:

	30/06/2019			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	69,529	-	69,529

	31/12/2018			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	39,944	-	39,944

Level 2 comprises foreign currency and interest rate derivatives, which are recognised at fair value. There are no significant differences between the fair value and the carrying amount at 30 June 2019 and 31 December 2018. Liabilities at amortised cost are not disclosed by fair value hierarchy level.

12. Trade and Other Payables

Details at 30 June 2019 and 31 December 2018 are as follows:

Thousands of Euros	30/06/2019	31/12/2018
Suppliers	345,385	313,759
Other payables	67,022	50,278
Current tax liabilities	62,340	3,485
Total	**474,747**	**367,522**

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 2019 and 2018 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	30/06/2019	31/12/2018
Deferred tax assets	33,326	27,984
Deferred tax liabilities	(465,180)	(473,125)
Total	**(431,854)**	**(445,141)**

No significant movements were recorded in deferred tax assets and liabilities in the first half of 2019. At 30 June 2019 and 2018 deferred tax liabilities mainly arise from accelerated depreciation for tax purposes of certain fixed assets.

14. Income and Expenses

a) Revenue

Details at 30 June 2019 and 2018, by geographical area, are as follows:

Thousands of Euros	Current period	Prior period
Domestic market	961,739	969,347
International markets	31,335	20,970
a) European Union	9,759	10,046
a.1) Eurozone	9,759	10,046
c) Other countries	21,576	10,924
Total	**993,074**	**990,317**

Domestic market essentially includes the revenue from transmission and electricity system operation services in Spain, which represents 91% of the Group's revenues at June 2019. This item also includes the revenues from telecommunications services rendered in Spain, which represent 5% of the Group's revenues at June 2019.

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.

Both revenue from the performance obligations of transmission and system operation services and revenue from telecommunications services are recognised over time.

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 2019 and 2018 are as follows:

Thousands of Euros	30/06/2019	30/06/2018
Salaries, wages and other remuneration	59,350	57,750
Social Security	13,318	12,427
Contributions to pension funds and similar obligations	1,017	1,061
Other items and employee benefits	3,338	3,034
Total	**77,023**	**74,272**

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 2019 and 2018 is as follows:

	Red Eléctrica Group		Red Eléctrica Corporación S.A.	
	Current period	Prior period	Current period	Prior period
Male	1,362	1,371	2	2
Female	433	439	5	5
Total	**1,795**	**1,810**	**7**	**7**

e) Income tax

The tax rate was 24.7%, compared to 25.0% 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:

Thousands of Euros	Directors and management (30/06/2019)	Other related parties (30/06/2019)	Total (30/06/2019)
Expenses and income:			
Leases	-	48	48
Other expenses	-	292	292
Total expenses	**-**	**340**	**340**
Finance income	-	731	731
Total income	**-**	**731**	**731**
Other transactions:			
Financing agreements, loans and capital contributions (lender)	136	24,443	24,579
Balances at period end:			
Loans and credit facilities extended	136	24,443	24,579
Suppliers and trade payables	-	200	200

Thousands of Euros	Directors and management (31/12/2018)	Other related parties (31/12/2018)	Total (31/12/2018)
Expenses and income:			
Leases	-	47	47
Other expenses	-	448	448
Total expenses	**-**	**495**	**495**
Finance income	-	2,550	2,550
Total income	**-**	**2,550**	**2,550**
Other transactions:			
Financing agreements, loans and capital contributions (lender)	148	42,263	42,411
Balances at period end:			
Loans and credit facilities extended	148	42,263	42,263
Suppliers and trade payables	-	47	47

Expenses, income and balances with other related parties 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 the proposal of the board of directors and as required by the articles of association, the remuneration of the board of directors for 2019, the annual remuneration report and the remuneration policy for directors for 2019, 2020 and 2021 were approved by the shareholders at their general meeting on 22 March 2019.

The approved remuneration of the board of directors for 2019, including the remuneration of the board members, the chairman and the managing director, was unchanged vis-à-vis 2018.

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 and no termination benefit. In 2019 both remuneration components are under the same terms as in 2018.

At its meeting held on 31 July 2018, the board of directors adopted, among others, the following agreements:

- To accept Mr. José Folgado Blanco's resignation from the position of director and non-executive chairman of the board of directors of the Company.
- To appoint Mr. Jordi Sevilla Segura as a director of the Company, in the category of "other external directors", until the next general shareholders' meeting, and to also appoint him non-executive chairman of the board of directors of the Company.

Subsequently, at their general meeting held on 22 March 2019, the shareholders ratified the appointment of Mr. Jordi Sevilla Segura as a director of the Company.

After Mr. José Folgado Blanco ceased to perform executive duties in 2016, the labour contract approved in 2012 was deemed to have been terminated. At that point, the chairman had accrued an indemnity corresponding to one year's remuneration as executive chairman, as stipulated in the contract. This indemnity, amounting to Euros 718 thousand, was settled when he ceased to be a director of the Company.

The remuneration allocated to the managing director 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 form part of the remuneration for this position. A portion of the annual variable remuneration is paid through the delivery of Company shares.

Moreover, 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.

Pursuant to the remunerations policy and in line with standard market practices, the managing director's contract provides for a termination benefit equal to one year's salary in the event that labour relations are terminated due to dismissal or changes of control.

As regards the managing director, at its meeting held on 27 May 2019, the board of directors adopted, among others, the following agreements:

- To dismiss Mr. Juan Francisco Lasala Bernad as managing director and to accept his resignation from the position of executive director of the Company.
- To appoint Mr. Roberto García Merino as executive director and, subsequently, as managing director of the Company, until the following general meeting.

In line with market practices in such cases, as a result of the appointment of the new 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 Red Eléctrica de España, S.A.U. up to the date he was appointed managing director (15 years), plus the period in which he rendered services – if any – following his termination as managing director, would be taken into consideration, in accordance with employment legislation in force. Both the economic regime and the suspension of the employment relationship of the new managing director are in line with those applied to the previous managing director.

In line with standard market practices, Mr. Juan Francisco Lasala Bernad was entitled to a settlement in respect of his labour relations and an indemnity as managing director equal to one year's salary in the event that labour relations were terminated due to dismissal or changes of control. The amount associated with his termination as managing director totalled Euros 1,671 thousand, which was settled when his relationship with the Company was terminated.

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 2019.

Reasonable and duly supported expenses incurred as a result of their attendance at meetings and other tasks directly related to carrying out their duties, such as travel expenses, accommodation, meals and any other such costs that may be incurred will also be paid or reimbursed to the directors.

The total amounts accrued by the members of the Parent's board of directors at 30 June 2019 and 2018 are as follows:

Thousands of Euros	30/06/2019	30/06/2018
Total remuneration of the board of directors	1.261	1.254
Directors' remuneration in respect of executive duties (1)	413	419
Total	**1,674**	**1,673**

(1) This includes fixed and variable remuneration accrued during the year and does not include the indemnity amounting to Euros 818 thousand for the termination of the managing director.

Similar amounts of expenses have accrued at 30 June 2019 and 2018 because, as mentioned above, the remuneration of the members of the board of directors did not change in 2019 vis-à-vis 2018.

The remuneration accrued by the members of the Company's board of directors at 30 June 2019 and 2018, broken down by components, is as follows:

Thousands of Euros	30/06/2019	30/06/2018
Fixed remuneration	1,180	1,184
Variable remuneration	148	150
Allowances	108	108
Committee work (1)	168	161
Other remuneration	70	70
Total (2)	**1,674**	**1,673**

(1) Includes the remuneration of the chairs of the committees and the coordinating independent director.

(2) Does not include the indemnity amounting to Euros 818 thousand for the termination of the managing 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, which at 30 June 2019 only applies to the managing director.

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 interim statement of financial position includes a provision for accrual of this plan at 30 June 2019.

At 30 June 2019 and 2018 no loans or advances have been granted to the members of the board of directors, nor have any guarantees been extended 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 2019 and 2018 the Group has taken out public liability insurance to cover claims from third parties in respect of possible damage and 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 141 thousand, inclusive of tax, in 2019 (Euros 142 thousand at 31 December 2018). 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.

In 2019 and 2018 the members of the board of directors did not engage 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

Total remuneration accrued by senior management personnel up to 30 June 2019 amounted to Euros 332 thousand (Euros 331 thousand up to 30 June 2018) and is recognised as personnel expenses in the consolidated income statement. These amounts include the variable annual remuneration accrued on a straight-line basis, on the assumption that the objectives set each period will be 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 2019 and 2018, the senior management personnel who have rendered services for the Group are as follows:

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

Euros 9 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 9 thousand in 2018).

At 30 June 2019 loans have been granted to these senior managers that have an outstanding balance of Euros 136 thousand. They fall due in 2024 and have the same conditions as those applied to loans granted to personnel under the collective bargaining agreement. The equivalent interest rate applicable to these loans is 0.76%. No advances have been extended to these senior managers at 30 June 2019 and 2018.

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 interim statement of financial position includes a provision for accrual of this plan up to 30 June 2019.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses, in the event of dismissal. In the event the employment relationship were 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 2019 are included in the Structural Management Plan implemented by the Company in 2015.

At 30 June 2019 and 2018 the Group has taken out public 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 141 thousand, inclusive of tax, in 2019 (Euros 142 thousand in 2018). 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 91% of consolidated revenues and represents 84% of the Group's total assets. Other activities together represent the remaining 9% of revenues and 16% 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 2019 and 2018 are as follows:

	Current period	Prior period
Net profit attributable to the Parent (thousands of Euros)	362,199	356,973
Number of shares	541,080,000	541,080,000
Average number of own shares	1,298,014	2,366,088
Basic earnings per share (Euros)	0.67	0.66
Diluted earnings per share (Euros)	0.67	0.66

At 30 June 2019 and 2018 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 2019

Pursuant to the agreement reached with Bow Power in December 2018, the entire interest in CCNCM was acquired on 18 July 2019, once the pertinent authorisation had been obtained. CCNCM has operated a 220 kV and 138 kV circuit spanning 372km and four substations in the regions of Cajamarca, Amazonas and San Martín in northern Peru since late 2017 under a 30-year concession awarded by the Peruvian government.

Appendix I: Red Eléctrica Group Details of equity investments at 30 June 2019

- Company - Registered office - Principal activity Thousands of Euros	2019 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 companies		
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 y de Telecomunicaciones, Innovación y Tecnología, S.A.U (RETIT) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Activities aimed at driving and fostering technological innovation.	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 equity securities of entities located in Spain and abroad.	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 Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Rendering of line and substation maintenance services.	-	100%(a)

- Company - Registered office - Principal activity **Thousands of Euros**	**2019** **Percentage ownership (1)** **Direct**	 **Indirect**
Red Eléctrica del Sur, S.A. (REDESUR) -Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(a)
Red Eléctrica del Norte de Perú S.A.C (REDELNOR) -Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Holding activities and electricity transmission and maintenance activities on the Carhuaquero-Cajamarca Norte-Caclic-Moyobamba line.	-	100%(a)
Transmisora Eléctrica del Sur , S.A. (TESUR) -Av. Javier Prado Este Of. 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. (TESUR 2) -Av. Javier Prado Este Of. 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. (TESUR 3) -Av. Javier Prado Este Of. 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. (TESUR 4) -Av. Javier Prado Este Of. 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)
Red Eléctrica del Norte 2 S.A. (REDENOR 2) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(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.

Consolidated Interim Directors' Report for the six-month period ended 30 June 2019

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

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1. Significant events during the period

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 Group's principal activities are the management and operation of electricity infrastructure in Spain, through Red Eléctrica de España S.A.U. (hereinafter REE), and abroad, through Red Eléctrica Internacional S.A.U. (hereinafter REI) and its investees. The Group also provides telecommunications services to third parties in Spain through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

Activity in Spain

The investments carried out by the Red Eléctrica Group in Spain up to June 2019 amounted to Euros 149.3 million, of which Euros 133.1 million was used to develop the national transmission network.

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 a secure, efficient and high quality electricity service to society as a whole.

REE's activities are focused on facilitating the energy transition and enabling an appropriate integration of renewable energy sources, with the ultimate aim of driving progress towards a decarbonised economy. During the first half of 2019, domestic production from renewable sources stood at 38.4% and domestic CO_2-free generation represented 61.4% of output.

Efforts to bolster the transmission network continued during the first half of 2019, with the entry into service of facilities to assist with renewable energy evacuation and the mesh of the network, primarily aimed at guaranteeing security of supply and service quality and adapting to the energy transition. The most notable facilities that entered into service during the first half of 2019 were the various transformers with a combined capacity of 975 MVA. In the Balearic Islands, 22 substation bays came into service at the Son Moix substation.

- **Mainland electricity system**

  The most notable events in the first half of 2019 were as follows:

  Mainland energy demand amounted to 123,527 GWh, down 2.2% on the first half of 2018. Adjusted for calendar and temperature effects, the decline was 2.3%.

  Demand for hourly average power and daily electricity peaked on 10 and 11 January at 40,112 MW and 823 GWh, respectively, down 1.2% and 1.6% on the maximum levels recorded in the first half of 2018.

  Notably, 39.9% of demand was covered with renewable power generation, 6 percentage points down on the same period in 2018.

  Maximum instantaneous power and daily electricity from wind power were recorded on 6 March and 23 January, respectively, at 16,911 MW and 372 GWh, up 2.8% and 8.1% on the maximum levels recorded in the first half of 2018.

  As in the prior year, international electricity exchanges resulted in a net import balance, reaching 5,026 GWh in the first half of 2019, 16.8% less than in the same period in 2018.

  The performance of REE's mainland transmission grid has once again been excellent, with provisional total availability of the grid to June at 98.27%, similar to that 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 2019 of 21.41 MWh and 0.045 minutes, respectively, highlighting the continuing high degree of the security and quality of supply provided by Red Eléctrica facilities.

- **Non-mainland electricity systems**

  Within the Balearic Islands system, demand to June 2019 was down 0.4% on the same period of the prior year. The contribution in terms of temperatures has had a negative impact of 1.4% 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 29% of the demand in the Balearic Islands system (19.4% in 2018).

  Demand in the Canary Islands system was up 0.4% in the first half of 2019 compared to the same period of the prior year. Moreover, accumulated renewable power generation (wind, photovoltaic, other renewables and wind-hydro power) accounted for 13.7% of total output in the first half of 2019 (10.8% in 2018).

- **Other activities in Spain**

  The telecommunications activities conducted by the Red Eléctrica Group are centred on the commercial operation of the surplus capacity of the fibre optic networks and infrastructure associated with the electricity transmission network and the railway network owned by Adif-Alta Velocidad, to which the Group 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 2019, REINTEL continued to implement its commercial plan as a telecommunications infrastructure supplier, expanding its customer portfolio and undertaking investments where requested by customers, thereby generating greater revenues.

International activities

The Group's international business is conducted by Red Eléctrica Internacional, S.A.U. (REI), which is present in Peru and Chile and manages a network spanning around 3,400 km, of which 2,900 km are currently in operation.

Activities carried out in Peru

The Group is the main transmission agent in the south of Peru. REDESUR, TESUR and TESUR 2 are currently in operation, whilst TESUR 3 and TESUR 4 are under construction.

During the first half of the year, the average voltage levels remained within the limits set out in the Technical Standard for Quality of Electricity Services, no incidents were recorded in quality of service during the period, and grid availability stood at 100% in TESUR and TESUR 2 and 99.9% in REDESUR.

The lines under construction of TESUR 3 have a stage of completion of 99%, whilst those of TESUR 4 are at an initial stage, with a stage of completion of 27%.

Activities carried out in Chile

In Chile, the Group acquired a 50% interest in TEN in 2016. This company is responsible for the construction and maintenance of the Mejillones-Cardones line, which was brought into service in November 2017. This project constitutes the first connection between the Far North Interconnection System (SING) and the Central Interconnected System (SIC), enabling the evacuation of renewable energy from the north of the country and the creation of a single energy market in Chile.

REDENOR is engaged in the design, construction and subsequent operation and maintenance of a substation and three lines in the Far North Interconnection System close to the border with Peru. In September 2018 REDENOR 2 acquired Centinela Transmisión, held by Minera Centinela, thereby assuming the management and operation of its assets and the works to extend the facilities considered in the Transmission System Expansion Plan, which are currently 22% completed, as planned.

The accumulated availability rate to May of TEN's transmission system stands at 99.87%, in the case of lines, and 99.96%, for substations, maintaining the high availability rates of its facilities achieved in the first full year of commercial operation.

In the case of REDENOR 2, the network was managed under the transitional agreement signed with Minera Centinela, which expires in June. The processes for taking control of the operations and maintenance of the facilities began on 12 June. There were no significant incidents during the period.

Other significant events

On 12 February, the Group took a major step towards positioning itself as a global operator of telecommunications infrastructure by reaching an agreement with Abertis Infraestructuras, S.A. to acquire 89.68% of the shares in Hispasat, S.A. for Euros 949 million. This transaction has already been approved by the Council of Ministers and the Spanish National Markets and Competition Commission (CNMC) and is pending authorisation at international level in order to be carried out.

2. Business performance

Revenue for the first six months of 2019 amounted to Euros 993.1 million, up 0.3% on the same period in the prior year. This amount includes the remuneration for electricity transmission activities in Spain, regulated revenue for system operation, revenue from telecommunication activities in Spain and revenues generated through international activities. A further Euros 3.6 million should be added for the profits of the Chilean company TEN, which have been included in EBITDA as share of profit/loss of equity-accounted investees.

EBITDA amounted to Euros 779.4 million, up 0.3% on the same period of the prior year.

Operating expenses were as follows:

- The cost of supplies and other operating expenses fell 3.9% compared with the first half of the prior year, highlighting Red Eléctrica's ongoing efforts in terms of efficiency. This trend reflects a reduction in lease expenses, following the application of IFRS 16, and the completion of the construction of TESUR 2 (transmission line between the cities of Juliaca, Puno and Azángaro in southeast Peru).
- The headcount was 1,808 at 30 June, while the average workforce was 1,795.3 employees, down 0.8% on the same period of the prior year. Personnel expenses rose 3.4% on the prior period. This growth was primarily due to the increase in salaries and wages, reflecting the trend in average salary costs, the rise in maximum Social Security contribution bases in 2019 and the increase in training expenses. These expenses also include the indemnity for the departure of the Group's managing director.

EBIT totalled Euros 544.7 million, up 0.7% on the same period of the prior year.

The net finance cost stood at Euros 63.8 million, 2.2% less than in the first six months of 2018. This decline on the prior period is primarily attributable to the reduction in finance costs due to lower average rates and, to a lesser extent, an increase in capitalised borrowing costs and a decrease in other finance costs. These impacts were partially offset by a rise in the average gross financial debt.

Lastly, profit for the period totalled Euros 362.2 million, up 1.5% on the same period of the previous year. The effective tax rate was 24.7%, due to a decrease in the tax rate in Luxembourg from 26.01% to 24.94% from 1 May onwards.

The Group's investments during the period amounted to Euros 166.1 million, down 9.2% on the same period of the prior year. Of this amount, Euros 133.1 million was used to develop the national transmission network. In turn, Euros 16.7 million was earmarked for the international business, specifically for the construction of TESUR 3 and TESUR 4 in Peru and REDENOR in Chile.

Interim dividends paid during the first half of the year totalled Euros 147.3 million, up 7.1% on the Euros 137.5 million paid in the prior period and in line with the shareholder remuneration policy set out in the Strategic Plan.

The net financial debt of the Red Eléctrica Group stood at Euros 4,485.9 million at 30 June 2019, compared to Euros 4,682.7 million at the end of 2018.

At 30 June 2019, 95% of the Group's financial debt is non-current. In terms of interest, 84% of the Group's debt is fixed-rate and the remaining 16% is variable-rate.

The average cost of the Group's financial debt was 2.30% during the first half of the year, compared with 2.44% in the same period of the prior year. Average gross debt was Euros 5,778.8 million, compared with Euros 5,470.7 million in the first half of the prior year.

Lastly, at 30 June 2019, the Red Eléctrica Group's equity stood at Euros 3,305.5 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.

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 large 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 supervises this process at least twice a year and reports thereon 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 ISO 45001), 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 to which the Red Eléctrica Group is exposed and that could affect achievement of its objectives are regulatory risk, inasmuch as the Group's principal business lines are subject to regulations, operational risk, primarily relating to electricity system servicing activities, and financial risk.

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, any adverse changes in exchange rates that could affect the Group's forecast results are considered.

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 2019, the Group has a low-risk debt structure 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, 84% of the Group's borrowings have been arranged at fixed rates, whilst the remaining 16% 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.

4. Events after 30 June 2019

Pursuant to the agreement reached with Bow Power in December 2018, the entire interest in the Peruvian company CCNCM was acquired on 18 July, once the pertinent authorisation had been obtained.

CCNCM has operated a 220 kV and 138 kV circuit spanning 372km and four substations in the regions of Cajamarca, Amazonas and San Martín in northern Peru since late 2017 under a 30-year concession awarded by the Peruvian government.

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.