



RED
ELÉCTRICA
CORPORACIÓN

Financial results January-June 2018

1 August 2018

Profit for the first half of 2018 was €357.0 million, a 5.0% rise year-on-year, which is in keeping with the growth target of the 2014-2019 Strategic Plan.

EBITDA was €776.8 million, up 0.9% on the first six months of 2017.

Investments for the Red Eléctrica Group totalled €183.0 million, of which €154.0 million was earmarked for developing the national transmission grid.

On 2 July, Red Eléctrica paid €0.6639 per share as a final dividend. The Company therefore paid a total of €0.9188 per share with a charge to profit for 2017, up 7% on the previous year.

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

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



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1. Red Eléctrica: Financial highlights

Income statement

| <i>(in thousands of euros)</i> | January-June | | | April-June | | |
|--|----------------|---------|-----|----------------|---------|-----|
| | 2018 | 2017 | Δ % | 2018 | 2017 | Δ % |
| Revenue | 990,317 | 987,295 | 0.3 | 493,320 | 490,799 | 0.5 |
| Gross operating profit (EBITDA) | 776,806 | 769,703 | 0.9 | 374,392 | 368,927 | 1.5 |
| Results from operating activities (EBIT) | 540,985 | 523,462 | 3.3 | 256,254 | 246,566 | 3.9 |
| Profit before income tax | 475,736 | 453,892 | 4.8 | 224,809 | 213,337 | 5.4 |
| Consolidated profit for the period | 356,973 | 340,081 | 5.0 | 167,888 | 158,287 | 6.1 |

Balance sheet

| <i>(in thousands of euros)</i> | June 2018 | December 2017 | Δ % |
|--------------------------------|------------------|---------------|-------|
| Non-current assets | 9,156,420 | 9,214,238 | (0.6) |
| Equity | 3,120,358 | 3,093,449 | 0.9 |
| Net financial debt (*) | 4,491,225 | 4,791,798 | (6.3) |

(*) Includes exchange rate derivatives.

Other financial figures

| <i>(in thousands of euros)</i> | January-June | | | April-June | | |
|---------------------------------|----------------|---------|-------|----------------|---------|-----|
| | 2018 | 2017 | Δ % | 2018 | 2017 | Δ % |
| Operating cash flow after taxes | 644,606 | 642,986 | 0.3 | 279,314 | 276,673 | 1.0 |
| Investments | 182,967 | 198,161 | (7.7) | 111,622 | 110,516 | 1.0 |
| Dividends paid | 137,509 | 128,417 | 7.0 | - | - | - |



2. Profit performance

Revenue for the first six months of 2018 was €990.3 million, up 0.3% year-on-year. This performance is a result of increased remuneration from system operations, which reached €32.9 million, and from the telecommunications business, which contributed €45.0 million.

The profit from the Chilean company TEN, in which the Red Eléctrica Group has a 50% interest, was included as of this quarter in gross operating profit (EBITDA) as **Profit of equity - accounted investees**, which totalled €4.3 million in the first six months of the year.

EBITDA amounted to €776.8 million, showing growth of 0.9% year-on-year, the fruit of the consolidation of efficiency measures implemented by Red Eléctrica.

Operating costs performed as follows:

- **Supply costs and other operating expenses** dropped 1.4% compared to the first half of last year, highlighting the efforts made by Red Eléctrica to improve efficiency.
- **Staff costs** rose 2.3% to June. The increase in costs is due in part to the 1.4% rise in the Group's average workforce compared to last year.

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

| <i>(in thousands of euros)</i> | January-June | | | April-June | | |
|---------------------------------------|----------------|---------|-------|----------------|----------------|------------|
| | 2018 | 2017 | Δ % | 2018 | 2017 | Δ % |
| Supplies and other operating expenses | 180,822 | 183,420 | (1.4) | 104,542 | 104,487 | 0.1 |
| Personnel expenses | 74,472 | 72,824 | 2.3 | 38,069 | 37,027 | 2.8 |
| Operating expenses | 255,294 | 256,244 | (0.4) | 142,611 | 141,514 | 0.8 |

Operating profit (EBIT) stood at €541.0 million, up 3.3% on the first half of last year. This figure shows the €10.6 million reduction in provisions for the depreciation and amortisation of fixed assets owing mainly to adjustments made in the estimation of the useful life of certain transmission assets.

Financial loss was -€65.2 million, compared to -€70 million in the same period last year. The improvement seen is mainly owing to lower average interest rates.

Finally, **profit for the period** amounted to €357.0 million, a rise of 5.0% year-on-year. The average tax rate was 25% compared to 25.1% in the same period last year.



3. Cash flow and balance sheet performance

Cash flows ⁽¹⁾

| <i>(in thousands of euros)</i> | January-June | | | April-June | | |
|---|------------------|------------------|-------------|----------------|----------------|------------|
| | 2018 | 2017 | Δ % | 2018 | 2017 | Δ % |
| Profit before income tax | 475,736 | 453,892 | 4.8 | 224,809 | 213,337 | 5.4 |
| Income tax paid | (67,507) | (61,255) | 10.2 | (65,268) | (61,153) | 6.7 |
| Depreciation and amortisation charge for non-current assets | 247,354 | 257,946 | (4.1) | 123,931 | 129,137 | (4.0) |
| Other adjustments | (10,978) | (7,597) | 44.5 | (4,157) | (4,648) | (10.6) |
| Operating cash flow after taxes | 644,606 | 642,986 | 0.3 | 279,314 | 276,673 | 1.0 |
| Changes in working capital | 27,431 | (9,558) | - | 59,979 | (52,241) | - |
| Changes in other assets and liabilities | (55,847) | (54,369) | 2.7 | (2,734) | (24,727) | (88.9) |
| Changes to asset suppliers | (32,626) | (57,120) | (42.9) | 26,673 | 11,547 | - |
| Investments | (182,967) | (198,161) | (7.7) | (111,622) | (110,516) | 1.0 |
| Free cash flow | 400,597 | 323,778 | 23.7 | 251,611 | 100,737 | - |
| Dividends paid | (137,509) | (128,417) | 7.1 | - | - | - |
| Change in net financial debt ⁽²⁾ | (263,088) | (195,361) | 34.7 | 251,611 | 100,737 | - |

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

(2) The difference between this figure and the change in net financial debt shown on page 3 is owing to items that do not involve movements of cash and, in particular, in this first half of the year as a result of the application of IFRS 9 as of 1 January 2018. The effect of this standard on the first-time application amounted to €47.1 million.

Operating cash flow after taxes was €644.6 million, in line with the previous year.

Changes to working capital meant a variation of funds of €27.4 million in the first half of the year, mainly due pending settlement in the system.

Investment by the Group during the period was €183.0 million, of which €154.0 million are allocated to the development of the national transmission grid, which represents a 6.6% increase on investments in the first six months of the previous year. Accordingly, a total of €17.4 million were allocated to international investment, compared to the €42.2 million invested in 2017, which included the acquisition of a 45% interest in the share capital of Redesur.

The **interim dividend paid out** in the first half of 2018 amounted to €137.5 million, equivalent to €0.2549 per share on the interim dividend for 2017.

The Red Eléctrica Group's **net financial debt** at 30 June 2018 was €4,491.2 million, compared to €4,791.2 million at the end of 2017.



Net financial debt (*)

| <i>(in thousands of euros)</i> | National currency | Foreign currency | Total |
|---------------------------------------|-------------------|------------------|------------------|
| Cash and cash equivalents | (884,215) | (16,237) | (900,452) |
| Long-term debenture bonds | 3,139,214 | 437,453 | 3,576,667 |
| Long-term loans | 1,698,284 | 116,726 | 1,815,010 |
| Promissory notes and short-term loans | - | - | - |
| Total net financial debt | 3,953,283 | 537,942 | 4,491,225 |

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

As regards interest rates, 91% of the Group's net debt is at a fixed rate, while the remaining 9% is at a floating rate.

In the first half of the year, the average cost of the Group's financial debt was 2.44%. The average debt balance during the period was €5,470.7 million. In the same period of the previous year, the average cost of debt was 2.83% and the average debt balance was €5,265.6 million.

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



4. Significant events

- The Board of Directors of Red Eléctrica Corporación, S.A. adopted the following resolutions at its meeting held on 31 July 2018:
 - I. Accept the resignation tendered by Mr. José Folgado Blanco as Director, in the category of “other external” directors, as a consequence, accept his removal as non-executive Chairman of the Board of Directors and Chairman of the Company.
 - II. Appoint Mr. Jordi Sevilla Segura as Director, in the category of “other external” directors, in accordance with the report issued by the Appointments and Remunerations Committee and the Board of Directors.
 - III. Appoint Mr. Jordi Sevilla Segura non-executive Chairman of the Board of Directors and Chairman of the Company.
- On 12 July, the Red Eléctrica Group, through its subsidiary Red Eléctrica Chile, entered into an agreement for \$117 million with the electricity transmission company Centinela Transmisión, which includes assets in operation, to acquire three 220 kV power lines with a length of 265 km under construction in northern Chile. The transaction includes the expansion work included in the 2016-2017 Transmission System Expansion Plan and the operation of the fibre-optic network associated with the power lines.
- On 12 June, the European Cross-Border Intraday Market (XBID) was launched as a result of the joint initiative carried out between a group of 14 Transmission System Operators (TSOs), including Red Eléctrica, together with the market operators of these countries. In 2019, other European countries will also become part of the initiative in a second wave that will integrate these intraday markets. The implementation of the XBID is key to supplementing the coupling of the daily markets, thus making significant advances towards the creation of the European Internal Energy Market.
- On 8 June, Red Eléctrica Internacional, through its subsidiary Transmisora Eléctrica del Sur 2, started up the Azángaro-Juliaca-Puno 220 kilovolts (kV) power line with a length of 115 km in southern Peru. The project, awarded in an international public tender in 2015, represented a recognized investment of \$70 million and also includes the design, financing and construction of the infrastructure, as well as its operation and maintenance for 30 years.

With the entry into service of this project, the Red Eléctrica Group manages 1,314 km of power lines in southern Peru, obtaining a preferential position for future connections between Chile and Peru.

- On 5 June 2017, the rating agency Standard & Poor’s issued a new report on Red Eléctrica, maintaining the Company’s rating level and its outlook. Red Eléctrica Corporación, S.A. and its subsidiary Red Eléctrica de España, S.A.U. have a long-term rating of ‘A’ and short term rating of ‘A-2’ with a stable outlook. According to the rating agency, the financial strength of Red Eléctrica Corporación has continued to improve and the results of 2017 even place the Group above the expected rating level granted.
- The Corporate Responsibility Review 2018, prepared by the assessment agency ISS Oekom, was published on 27 April. Red Eléctrica was ranked second in the Utilities / Network Operators sector with a ‘B+’ rating for its noteworthy performance in sustainability.



Red Eléctrica Group

Consolidated income statement

| <i>(in thousands of euros)</i> | 30/06/2018 | 30/06/2017 | 2018/2017 |
|---|-------------------|-------------------|------------------|
| Revenue | 990,317 | 987,295 | 0.3% |
| Self-constructed assets | 32,067 | 27,689 | 15.8% |
| Share of profit/(loss) of equity-accounted investees (with a similar activity to that of the Group) | 4,346 | - | - |
| Supplies | (19,003) | (23,792) | (20.1%) |
| Other operating income | 5,370 | 10,963 | (51.0%) |
| Personnel expenses | (74,472) | (72,824) | 2.3% |
| Other operating expenses | (161,819) | (159,628) | 1.4% |
| Gross operating profit (EBITDA) | 776,806 | 769,703 | 0.9% |
| Amortisation and depreciation | (247,354) | (257,946) | (4.1%) |
| Non-financial and other capital grants | 11,556 | 11,682 | (1.1%) |
| Impairment and gains/(losses) on disposal of fixed assets | (23) | 23 | - |
| Results from operating activities (EBIT) | 540,985 | 523,462 | 3.3% |
| Finance income | 7,021 | 5,849 | 20.0% |
| Finance costs | (72,101) | (75,881) | (5.0%) |
| Exchange gains/(losses) | (169) | 78 | - |
| Net finance cost | (65,249) | (69,954) | (6.7%) |
| Share of profit/(loss) of equity-accounted investees | - | 384 | - |
| Profit before income tax | 475,736 | 453,892 | 4.8% |
| Income tax | (118,793) | (113,811) | 4.4% |
| Consolidated profit for the period | 356,943 | 340,081 | 5.0% |
| A) Consolidated profit for the period attributable to the Parent | 356,973 | 340,081 | 5.0% |
| B) Profit/(loss) attributable to non-controlling interests | (30) | - | - |



Red Eléctrica Group

Consolidated balance sheet

| ASSETS <i>(in thousands of euros)</i> | 30/06/2018 | 31/12/2017 |
|--|-------------------|-------------------|
| Intangible assets | 176,741 | 154,939 |
| Property, plant and equipment | 8,664,822 | 8,747,376 |
| Investment property | 2,292 | 2,385 |
| Equity-accounted investees | 188,824 | 172,727 |
| Non-current financial assets | 98,628 | 108,235 |
| Deferred tax assets | 21,976 | 27,824 |
| Other non-current assets | 3,137 | 752 |
| Non-current assets | 9,156,420 | 9,214,238 |
| Inventories | 48,283 | 39,753 |
| Trade and other receivables | 1,094,649 | 1,013,355 |
| Current financial assets | 84,583 | 80,668 |
| Cash and cash equivalents | 900,452 | 569,869 |
| Current assets | 2,127,967 | 1,703,645 |
| Total assets | 11,284,387 | 10,917,883 |

| EQUITY AND LIABILITIES <i>(in thousands of euros)</i> | 30/06/2018 | 31/12/2017 |
|--|-------------------|-------------------|
| Capital and reserves | 3,177,952 | 3,157,494 |
| Capital | 270,540 | 270,540 |
| Reserves | 2,592,704 | 2,384,396 |
| Own shares | (42,265) | (29,769) |
| Profit attributable to the Parent | 356,973 | 669,836 |
| Interim dividend | - | (137,509) |
| Valuation adjustments | (57,933) | (64,104) |
| Non-controlling interests | 339 | 59 |
| Total equity | 3,120,358 | 3,093,449 |
| Grants and other | 599,669 | 597,122 |
| Non-current provisions | 103,815 | 100,982 |
| Non-current financial liabilities | 5,032,749 | 4,692,352 |
| Deferred tax liabilities | 468,862 | 472,475 |
| Other non-current liabilities | 85,047 | 87,019 |
| Non-current liabilities | 6,290,142 | 5,949,950 |
| Current financial liabilities | 1,328,619 | 1,471,957 |
| Trade and other payables | 545,268 | 402,527 |
| Current liabilities | 1,873,887 | 1,874,484 |
| Total equity and liabilities | 11,284,387 | 10,917,883 |



Consolidated statement of cash flows

| <i>(in thousands of euros)</i> | 30/06/2018 | 30/06/2017 |
|--|------------------|------------------|
| Cash flows from operating activities | 627,632 | 592,109 |
| Profit before tax | 475,736 | 453,892 |
| Adjustments for: | 302,065 | 323,786 |
| Amortisation and depreciation | 247,354 | 257,946 |
| Other adjustments (net) | 54,711 | 65,840 |
| Changes in operating assets and liabilities | 27,431 | (9,558) |
| Other cash flows used in operating activities | (177,600) | (176,011) |
| Interest paid | (116,505) | (117,200) |
| Dividends received | 4,848 | 3,881 |
| Interest received | 1,267 | 1,844 |
| Income tax recovered/(paid) | (67,507) | (61,255) |
| Other proceeds from and payments for operating activities | 297 | (3,281) |
| Cash flows used in investing activities | (208,585) | (262,766) |
| Payments for investments | (218,673) | (270,074) |
| Property, plant and equipment, intangible assets and investment property | (216,436) | (228,944) |
| Other financial assets | (2,237) | (41,130) |
| Proceeds from sale of investments | 844 | 847 |
| Property, plant and equipment, intangible assets and investment property | 43 | 24 |
| Other financial assets | 801 | 823 |
| Other cash flows from investing activities | 9,244 | 6,461 |
| Cash flows from (used in) financing activities | (88,861) | 78,129 |
| Proceeds from and payments for equity instruments | (12,775) | 7,355 |
| Acquisition | (29,904) | (14,351) |
| Disposal | 17,129 | 21,706 |
| Proceeds from and payments for financial liability instruments | 67,495 | 210,336 |
| Issue and drawdown | 1,007,473 | 443,666 |
| Redemption and repayment | (939,978) | (233,330) |
| Dividends and interest on other equity instruments paid | (137,509) | (128,417) |
| Other cash flows used in financing activities | (6,072) | (11,145) |
| Effect of exchange rate fluctuations | 397 | (1,775) |
| Net increase in cash and cash equivalents | 330,583 | 405,697 |
| Cash and cash equivalents at beginning of period | 569,869 | 251,421 |
| Cash and cash equivalents at period end | 900,452 | 657,118 |



Financial calendar

Upcoming events

Estimated dates

| | |
|---|--------------|
| Third quarter 2018 results presentation | October 2018 |
|---|--------------|

For more information

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Red Eléctrica has a S&P rating of 'A-' and a Fitch rating of 'A'.



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Appendix

Sustainability certifications



Recognised as the global leader in the Electric Utilities sector and in the super-sector Utilities, which includes the electricity, gas and water sectors.



Silver Class distinction in the RobecoSAM Sustainability Yearbook 2017.



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



Continued inclusion in the STOXX Global ESG Leaders indices.



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



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



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



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



Included in the ECPI Indices since 2008.



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



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



Included among the ten leading companies in the ranking of the study on the status of environmental sustainability reporting of IBEX 35 companies.

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