Red Eléctrica Corporación, S.A.

Annual Accounts

31 December 2019

Directors' Report

2019

(With Independent Auditor's 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

Independent Auditor's Report on the Annual Accounts

(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.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Red Eléctrica Corporación, S.A. (the "Company"), which comprise the balance sheet at 31 December 2019, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Current and non-current investments in Group companies and associates: Euros 3,295,291 thousand. See notes 4 d), 4 e), 8 and 21 to the annual accounts.	
Key audit matter	*How the matter was addressed in our audit*
• As mentioned in notes 8 and 21 to the annual accounts, the Company holds investments in Group companies and has extended loans to these companies, Euros 2,531,544 thousand of which are recognised in the balance sheet under non-current investments in Group companies and associates and Euros 763,747 thousand under current investments in Group companies and associates. As required by the applicable financial reporting framework, each year the Company assesses whether there are indications that these investments may be impaired, and if this is the case, calculates the recoverable amount of the investments. • The Company calculates the recoverable amount by applying valuation techniques that often require the exercising of judgement by the Directors and the use of assumptions and estimates. • Due to the uncertainty associated with these estimates, this has been considered a key audit matter.	• Our audit procedures included the following: - evaluating the design and implementation of the key controls related to the process of measuring investments; - assessing the criteria used by the Company's Directors and Management in determining whether there are indications that the investments may be impaired; - evaluating the main assumptions considered when analysing impairment of investments in Group companies, with the assistance of our valuation specialists where necessary. • We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Other Information: Directors’ Report

Other information solely comprises the 2019 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility as regards the content of the directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that the aforementioned information has been provided in the directors' report, and if not, to report on this matter.
b) A general level applicable to the rest of the information included in the directors' report, which consists of assessing and reporting on the consistency of this information with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the specific information mentioned in section a) above has been provided in the directors' report, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2019, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Audit Committee of Red Eléctrica Corporación, S.A. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's Audit Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit Committee of the entity, we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the Company's Audit Committee dated 25 February 2020.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 22 March 2019 for a period of one year, from the year commenced 1 January 2019.

Previously, we were appointed for a period of three years, by consensus of the shareholders at their general meeting, and have been auditing the annual accounts since the year ended 31 December 2013.

KPMG Auditores, S.L.

On the Spanish Official Register of
Auditors (“ROAC”) with No. S0702

Eduardo González Fernández

On the Spanish Official Register of
Auditors (“ROAC”) with No. 20.435

(Signed on original in Spanish)

Grupo Red Eléctrica

Annual Accounts

2019

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

Red Eléctrica Corporación, S.A.
Balance Sheet at 31 December 2019

Thousands of Euros	Note	31.12.2019	31.12.2018
Non-current assets		2,613,657	2,118,605
Property, plant and equipment	5	**71,205**	**62,773**
Land and buildings		65,709	58,068
Other installations, machinery, equipment, furniture and other items		892	210
Under construction and advances		4,604	4,495
Investment property	6	**1,346**	**1,655**
Land		558	558
Buildings		788	1,097
Non-current investments in Group companies and associates		**2,531,544**	**2,038,325**
Equity instruments	8	1,818,405	1,233,003
Loans to companies	21	687,739	787,758
Non-current interest on loans to companies	21	25,400	17,564
Non-current investments	12	**7,043**	**13,257**
Equity instruments		2,542	6,734
Loans to third parties		25	28
Derivatives	11	4,462	6,482
Other financial assets		14	13
Deferred tax assets	17	**2,519**	**2,595**
Current assets		915,777	933,772
Trade and other receivables	13	**608**	**1,578**
Trade receivables from Group companies and associates	21	16	-
Other receivables		89	281
Personnel		4	3
Public entities, other		499	1,294
Current investments in Group companies and associates	21	**763,747**	**363,017**
Equity instruments	8	(750)	-
Loans to companies		764,497	363,017
Current investments		**1**	**56**
Other financial assets		1	56
Prepayments for current assets		**1,506**	**717**
Cash and cash equivalents		**149,915**	**568,404**
Cash		149,915	568,404
Total assets		**3,529,434**	**3,052,377**
Equity	14	2,735,386	2,709,048
Capital and reserves		**2,716,387**	**2,690,049**
Capital		270,540	270,540
Reserves		2,058,684	1,942,465
(Own shares)		(36,504)	(21,303)
Profit for the year		570,669	645,597
(Interim dividend)		(147,002)	(147,250)
Valuation adjustments		**18,999**	**18,999**
Non-current liabilities		609,136	80,533
Non-current provisions	15	**4,605**	**5,097**
Non-current payables	16	**601,156**	**72,015**
Loans and borrowings		601,140	71,999
Other liabilities		16	16
Group companies and associates, non-current	21	**1,565**	**1,565**
Deferred tax liabilities	17	**1,810**	**1,856**
Current liabilities		184,912	262,796
Current payables	16	**160,261**	**255,579**
Loans and borrowings		2,116	101,857
Other current payables		158,145	153,722
Group companies and associates, current	21	**303**	**2,526**
Trade and other payables	18	**24,348**	**4,691**
Payables to Group companies	21	87	-
Other payables		10,777	4,248
Personnel		682	350
Current tax liabilities		12,704	-
Public entities, other		98	93
Total equity and liabilities		**3,529,434**	**3,052,377**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.
Income Statement. 2019

Thousands of Euros	Note	2019	2018
Revenue	**20.a**	**581,810**	**651,268**
Finance income on investments in equity instruments		565,103	634,245
Group companies and associates		565,103	634,245
Finance income on securities and other financial instruments of Group companies and associates		16,707	17,023
Other operating income		**10,141**	**10,364**
Lease income	7	10,141	10,354
Non-trading and other operating income		-	10
Personnel expenses	**20.b**	**(4,625)**	**(4,023)**
Salaries and wages		(4,363)	(3,726)
Employee benefits expense		(104)	(97)
Other items and employee benefits		(158)	(200)
Other operating expenses		**(12,664)**	**(6,071)**
External services		(12,118)	(5,643)
Taxes		(546)	(428)
Depreciation and amortisation	**5 and 6**	**(1,449)**	**(1,616)**
Impairment and losses on disposal of fixed assets	**20.d**	**(111)**	(686)
Impairment and losses		(128)	(615)
Gains/(losses) on disposal and other		17	(71)
Results from operating activities		**573,102**	**649,236**
Finance income	**20.c**	**3,433**	**2,228**
Marketable securities and other financial instruments		3,433	2,228
Other		3,433	2,228
Finance costs	**20.c**	**(7,555)**	**(4,829)**
Other		(7,554)	(4,827)
Provision adjustments		(1)	(2)
Change in fair value of financial instruments	**11**	**499**	(307)
Trading portfolio and other		499	(307)
Exchange losses		**(149)**	**(78)**
Net finance cost		**(3,772)**	**(2,986)**
Profit before tax		**569,330**	**646,250**
Income tax	**17**	**1,339**	**(653)**
Profit from continuing operations		**570,669**	**645,597**
Profit for the year		**570,669**	**645,597**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.
Statement of Total Changes in Equity at 31 December 2019

Thousands of Euros	Subscribed capital	Reserves	(Own shares)	Prior years' profit and loss	Profit for the year	(Interim dividend)	Subtotal capital and reserves	Valuation adjustments	Total equity
Balance at 31 December 2017	270,540	1,808,365	(29,769)	-	627,283	(137,509)	2,538,910	17,870	2,556,780
Total recognised income and expense	-	4	-	-	645,597	-	645,601	1,129	646,730
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(496,731)	-	(9,741)	(506,472)	-	(506,472)
Transactions with own shares (net)	-	1,951	8,466	-	-	-	10,417	-	10,417
Other changes in equity									
Distribution of prior year's profit	-	-	-	627,283	(627,283)	-	-	-	-
2017 profit transferred to reserves	-	132,145	-	(130,552)	-	-	1,593	-	1,593
Balance at 31 December 2018	270,540	1,942,465	(21,303)	-	645,597	(147,250)	2,690,049	18,999	2,709,048
Total recognised income and expense	-	14	-	-	570,669	-	570,683	-	570,683
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(531,634)	-	248	(531,386)	-	(531,386)
Transactions with own shares (net)	-	1,449	(15,201)	-	-	-	(13,752)	-	(13,752)
Other changes in equity									
Distribution of prior year's profit	-	-	-	645,597	(645,597)	-	-	-	-
2018 profit transferred to reserves	-	114,756	-	(113,963)	-	-	793	-	793
Balance at 31 December 2019	**270,540**	**2,058,684**	**(36,504)**	**-**	**570,669**	**(147,002)**	**2,716,387**	**18,999**	**2,735,386**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.
Statement of Recognised Income and Expense. 2019

Thousands of Euros	2019	2018
Profit for the year	**570,669**	**645,597**
Measurement of financial instruments	-	-
Cash flow hedges	-	-
Grants, donations and bequests received	-	-
Actuarial gains and losses and other adjustments	19	6
Tax effect	(5)	1,127
Income and expense recognised directly in equity	**14**	**1,133**
Measurement of financial instruments	-	-
Cash flow hedges	-	-
Grants, donations and bequests received	-	-
Tax effect	-	-
Amounts transferred to the income statement	**-**	**-**
Total recognised income and expense	**570,683**	**646,730**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.
Statement of Cash Flows. 2019

Thousands of Euros	2019	2018
Cash flows from operating activities	**582,219**	**605,632**
Profit for the year before tax	**569,330**	**646,250**
Adjustments for:	**(576,234)**	**(645,420)**
Depreciation and amortisation	1,449	1,616
Change in provisions	244	560
(Gains)/losses on disposals of fixed assets	(17)	71
Finance income	(585,243)	(653,496)
Finance costs	7,555	4,829
Exchange losses	149	78
Fair value measurement of financial instruments	(499)	307
Other income and expenses (impairment)	128	615
Changes in operating assets and liabilities	**7,828**	**(45,793)**
Trade and other receivables	(171)	3,073
Other current assets	(734)	(701)
Other current assets – Group companies and associates	1,426	(47,858)
Trade and other payables	7,307	(307)
Other cash flows from operating activities	**581,295**	**650,595**
Interest paid	(6,429)	(3,140)
Dividends received	565,103	634,245
Interest received	6,626	6,617
Income tax paid/received	16,244	13,591
Other amounts paid/received	(249)	(718)
Cash flows used in investing activities	**(882,992)**	**(156,051)**
Payments for investments	**(1,379,062)**	**(156,052)**
Group companies and associates	(1,361,187)	(132,023)
Property, plant and equipment, intangible assets and investment property	(8,836)	(2,645)
Other financial assets	(9,038)	(21,384)
Other assets	(1)	-
Proceeds from sale of investments	**496,070**	**1**
Group companies and associates	495,880	-
Property, plant and equipment, intangible assets and investment property	188	-
Other assets	2	1
Cash flows used in financing activities	**(117,663)**	**(333,464)**
Proceeds from and payments for equity instruments	**(13,752)**	**10,417**
Acquisition and sale of own equity instruments	(13,752)	10,417
Proceeds from and payments for financial liability instruments	**426,930**	**151,257**
Loans and borrowings	426,930	151,257
Dividends and interest on other equity instruments paid	**(530,841)**	**(495,138)**
Dividends	(530,841)	(495,138)
Effect of exchange rate fluctuations	**(53)**	**-**
Net increase/(decrease) in cash and cash equivalents	**(418,489)**	**116,117**
Cash and cash equivalents at beginning of year	568,404	452,287
Cash and cash equivalents at year end	149,915	568,404

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Contents

1. Company Activity

Red Eléctrica Corporación, S.A. (hereinafter the Company) was incorporated in 1985 and its registered office is located in Alcobendas (Madrid). The Company's principal activities are as follows:

- Managing the corporate Group, which comprises investments in the share capital of its Group companies and investees.
- Rendering assistance and support services to its investees.
- Operating the buildings owned by the Company.

2. Basis of Presentation of the Annual Accounts

a) True and fair view

The accompanying annual accounts were authorised for issue by the Company's directors at their board meeting held on 25 February 2020 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2019, as well as the results of its operations, changes in equity and cash flows for the year then ended.

The figures disclosed in the annual accounts are expressed in thousands of Euros, the Company's functional and presentation currency, rounded off to the nearest thousand. The annual accounts have been prepared on the basis of the accounting records of the Company in accordance with prevailing legislation and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the amendments thereto contained in Royal Decree-Law 1159/2010.

The Company holds investments in subsidiaries. Consequently, in accordance with prevailing legislation, the Company is the parent of a group of companies. Pursuant to generally accepted accounting principles in Spain, annual accounts must be prepared to give a true and fair view of the financial position of the Company, the results of operations and changes in its equity and cash flows. Details of investments in Group companies are provided in note 8.

The Company files separate consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) through Regulation (EC) No 1606/2002/EC of the European Parliament and of the Council, and the related interpretations (IFRIC) adopted by the European Union.

The annual accounts for 2018 were approved by the shareholders at their general meeting held on 22 March 2019. The annual accounts for 2019 are currently pending approval by the shareholders. However, the board of directors of the Company consider that these annual accounts will be approved with no changes.

b) Mandatory accounting principles

The Company has not omitted any mandatory accounting principle with a significant effect on the annual accounts.

c) Estimates and assumptions

The preparation of the annual accounts requires Company 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.

The annual accounts for 2019 occasionally include estimates calculated by management of the Company, and subsequently endorsed by its directors, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein. These estimates are essentially as follows:

- Estimated recoverability of assets. Asset impairment testing has brought to light insignificant impairment, as defined by prevailing legislation, reflecting adjustments to the carrying amount of facilities included under property, plant and equipment that are not expected to generate sufficient cash flows in the future to enable the recovery of their value.
- Estimates and assumptions used to assess the recoverability of investments in Group companies and associates.
- Estimated useful lives of property, plant and equipment.
- Assumptions used in the actuarial calculations.
- Assumptions and estimates used in measuring the fair value of derivative financial instruments.
- Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Company assesses and estimates amounts to be settled in the future, including additional amounts for income tax, contractual obligations, pending lawsuit settlements and other liabilities. These estimates are subject to the interpretation of existing facts and circumstances, projected future events and the estimated financial effect of those events.

To facilitate comprehension of the annual accounts, details of the different estimates and assumptions are provided in each separate note.

The Company has taken out insurance policies to cover the risk of possible claims that might be lodged by third parties in relation to its activities.

Although estimates are based on the best information available at 31 December 2019, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding income statement as a change in accounting estimates, as required by the Spanish General Chart of Accounts.

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2019 include comparative figures for the prior year, which formed part of the annual accounts for 2018.

3. Proposed Distribution of Profit

The proposed distribution of profit for the year ended 31 December 2019, prepared by the directors and pending approval by the shareholders at the general meeting, is as follows:

Thousands of Euros

Profit for the year	570,669
Total	**570,669**

Distribution	
Voluntary reserves	2,057
Dividends:	
Interim dividend	147,002
Supplementary dividend	421,610
Total	**570,669**

This proposed distribution entails a supplementary dividend of Euros 0.7792 per share, which would result in a total dividend for the year of Euros 1.0519 per share, calculated on the basis of total shares.

The interim dividend for the year is explained in note 14.

4. Significant Accounting Policies

The accounting principles used in preparing the accompanying annual accounts are as follows:

a) Property, plant and equipment

Property, plant and equipment primarily comprise land and buildings and are measured at cost of construction or acquisition, as appropriate, less accumulated depreciation and impairment. Cost of construction includes the following items, where applicable:

- Borrowing costs accrued on external financing during the construction period.
- Operating expenses directly related to property, plant and equipment constructed for projects executed under the supervision and management of the Company.

The Company transfers work in progress to property, plant and equipment in use provided that the assets are in working condition.

Costs incurred to enlarge or improve items of property, plant and equipment which increase capacity or productivity or extend the useful life of the asset are capitalised as an increase in the cost of the related asset.

Repair and maintenance costs on property, plant and equipment that do not increase productivity or capacity and which do not lengthen the useful life of the assets are charged as expenses when incurred.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets, which is the period during which the Company expects to use the assets, applying the following rates:

	Annual depreciation rate
Buildings	2%-10%
Other installations	4%-25%

The Company periodically assesses the depreciation criteria taking into account the useful life of its assets. There have been no significant changes in the depreciation criteria compared to the prior year.

The Company reviews the residual values and useful lives of assets and adjusts them, if necessary, at the end of each reporting period.

b) Investment property

The Company measures its investment property at cost of acquisition. The market value of the Company's investment property is disclosed in note 6.

Investment property, except land, is depreciated on a straight-line basis over the estimated useful life, which is the period during which the Company expects to use the assets (annual depreciation rate of 2%).

c) Leases

The Company classifies leases on the basis of whether substantially all the risks and rewards incidental to ownership of the leased asset are transferred.

Leases under which the lessor maintains a significant part of the risks and rewards of ownership are classified as operating leases.

Leases under which the significant risks and rewards of ownership of the goods are transferred to the Company are classified as finance leases. Assets recognised as finance leases are presented in the balance sheet based on the nature of the leased asset.

d) Financial assets

The Company classifies its financial assets into the following categories:

- **Loans and receivables**: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not intended for trading in the near term. These assets are classified as current, except those maturing in over 12 months after the reporting date, which are classified as non-current.

  Loans are initially recognised at fair value, including transaction costs incurred in arranging the loan, and are subsequently measured at amortised cost, which is basically the amount granted, less repayments of the principal, plus accrued interest receivable.

  Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

- **Available-for-sale financial assets:** investments that the Company intends to hold for an unspecified period of time which are likely to be disposed of to meet one-off liquidity needs or in response to interest rate fluctuations. They are classified as non-current, unless they are expected to be disposed of in less than one year and such disposal is feasible. These financial assets are measured at fair value, which is the quoted price at the reporting date in the case of securities quoted in an active market. Any gains or losses arising from changes in the fair value of these assets at the reporting date are recognised directly in equity until the assets are disposed of or impaired, whereupon the accumulated gains and losses are recognised in profit or loss. Impairment, where applicable, is calculated on the basis of discounted expected future cash flows. A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. Dividends from equity investments classified as available-for-sale are recognised in the income statement when the Company's right to receive payment is established.

  In the case of share capital increases by a subsidiary that are fully subscribed through a non-monetary contribution consisting of a portfolio of securities classified under available-for sale financial assets, the Company adopts the response to query 1, published in the Spanish Accounting and Auditing Institute's Official Gazette (BOICAC) no. 77/2009, and any gains or losses arising from changes in the fair value at the date of the non-monetary contribution therefore continue to be recognised in the Company's equity. As provided for in Recognition and Measurement Standard 9.2.5.3. of the Spanish General Chart of Accounts, when an investment was made in a Group company, jointly controlled entity or associate before it was classified as such, and valuation adjustments for the investment were recognised directly in equity prior to this classification, these adjustments shall be maintained after classification until disposal or derecognition of the investment, at which point they shall be recognised in the income statement.

- **Equity investments in Group companies and associates:** these investments are measured at cost less any accumulated impairment. If there is objective evidence that the carrying amount is not recoverable, the amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount, the latter of which is understood as the higher of the fair value less costs to sell and the present value of estimated future cash flows from the investment. Unless better evidence of the recoverable amount is available, when estimating impairment of such investments, the investee’s equity is taken into consideration, corrected for any net unrealised gains existing at the measurement date. Impairment losses are recognised and reversed in the corresponding income statement. The Company has not identified any indications of impairment of investments in Group companies in its analysis.

- **Cash and cash equivalents:** these include cash on hand, demand deposits in financial institutions and other short-term, highly liquid investments.

e) Impairment

The Company analyses the recoverability of its assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised immediately in the income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount.

Recoverable amount is the higher of:

- Fair value less costs to sell
- Value in use

Recoverable amount is calculated on the basis of expected cash flows. Impairment is calculated for individual assets. Where the recoverable amount of an individual asset cannot be determined, the recoverable amount of the cash-generating unit (CGU) to which that asset belongs is calculated. Any reversals are recognised in the income statement.

In its analysis, the Company identified indications of impairment of certain buildings classified as investment property (see note 6).

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used. For held-to-maturity debt instruments the Company uses the market value, providing this is sufficiently reliable to be considered representative of the recoverable amount.

The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

The Company has not identified any indications of impairment of loans extended to Group companies in its analysis.

f) Capital and reserves

Share capital is represented by ordinary shares.

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, based on the consensus of the board of directors. Supplementary dividends are not deducted from equity until approved by the shareholders at their general meeting.

Own shares are measured at cost of acquisition and recognised as a reduction in equity. Any gains or losses on the purchase, sale, issue or redemption of own shares are recognised directly in equity.

g) Provisions

- <u>Employee benefits</u>
  - Pension obligations

    The Company has defined contribution plans, whereby the benefit receivable by an employee upon retirement – based on one or more factors such as age, fund returns, years of service or remuneration – is determined by the contributions made. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

  - Other long-term employee benefits

    Other long-term employee benefits include defined benefit plans for benefits other than pensions (such as health insurance) for the Company's serving personnel. The expected costs of these benefits are recognised over the working life of the employees. These obligations are measured each year by independent qualified actuaries. Changes in actuarial assumptions are recognised, net of taxes, in reserves under equity in the year in which they arise, while the past service cost is recorded in the income statement.

This item also includes deferred remuneration schemes, which are measured each year.

- Other provisions

  The Company makes provision for present obligations (legal or constructive) arising as a result of a past event whenever it is probable that an outflow of resources will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provision is made when the liability or obligation is recognised. No provision is made for proceedings with a probability of occurrence of less than 50% as it is considered that their future resolution will not have a significant impact on the Company's financial statements.

Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax interest rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

h) Financial debt

Loans, payment obligations and similar commitments are initially recognised at the cash amount received, less transaction costs. Such debt is subsequently measured at amortised cost, using the effective interest method.

Financial debt is classified under current liabilities unless the debt falls due more than 12 months after the reporting date, in which case it is classified under non-current liabilities.

i) Transactions in currency other than the Euro

Transactions in currency other than the Euro are translated by applying the exchange rate in force at the transaction date. Exchange gains and losses arising during the year due to balances being translated at the exchange rate at the transaction date rather than the exchange rate prevailing on the date of collection or payment are recognised as income or expenses in the income statement.

Fixed income securities and balances receivable and payable in currencies other than the Euro at 31 December each year are translated at the closing exchange rate. Any exchange differences arising are recognised under exchange gains/losses in profit or loss.

Transactions conducted in foreign currencies for which the Company has chosen to mitigate currency risk by arranging financial derivatives or other hedging instruments are recorded using the criteria for derivative financial instruments and hedging transactions.

j) Derivative financial instruments and hedging transactions

Derivative financial instruments are initially recognised in the balance sheet at their fair value on the date the arrangement is executed (acquisition cost) and this fair value is subsequently adjusted as necessary. The criterion used to recognise the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the hedged item.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, whether that price is directly observable or estimated using another valuation technique.

The Company documents the relationship between the hedging instruments and the hedged assets or liabilities, its risk management objectives and its hedging strategy at the inception of the hedge. The Company also documents its assessment, at inception and on an ongoing basis, of whether the hedging derivatives used are highly effective in offsetting changes in the hedged item's fair value or cash flows.

Details of the fair value of the derivatives used to hedge currency risk are disclosed in note 11.

k) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. However, trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

l) Income and expenses

Income and expenses are recognised on an accruals basis, irrespective of payments and receipts.

Interest income is recognised using the effective interest method. Dividends are recognised when the right to receive payment is established.

The Company, as the Parent of the Red Eléctrica Group, has adopted the Spanish Accounting and Auditing Institute's (ICAC) response to the query (Ref: 546/09) of 23 July 2009, regarding the classification for accounting purposes of a holding company's income and expenses in individual accounts and the method for determining revenues, and classifies dividends from investments held in investees and interest on loans extended to these companies as revenues.

m) Taxation

The income tax expense or tax income for the year comprises current tax and deferred tax. Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised in the same year, directly in equity, or from a business combination.

Current tax is the estimated tax payable for the year using the enacted tax rates applicable to the current year and to any adjustment to tax payable in respect of previous years.

Tax credits and deductions arising from economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised.

Deferred taxes and the income tax expense are calculated and recognised using the liability method, based on temporary differences arising between the balances recognised in the financial information and those used for tax purposes. This method entails calculating deferred tax assets and liabilities on the basis of the differences between the carrying amount of the assets and liabilities and their tax base, applying the tax rates that are objectively expected to apply to the years when the assets are realised and the liabilities settled.

Deferred tax assets are recognised provided that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised.

As the parent of the tax group, the Company records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables from (payables to) Group companies and associates.

n) Insurance

The Company has taken out various insurance policies to cover the risks to which it is exposed through its activities. These risks mainly comprise damage that could be caused to its facilities and possible claims that might be lodged by third parties due to the Company's activities. Insurance premium expenses are recognised in the income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the income statement applying the matching of income and expenses principle.

o) Share-based payments

The Company has implemented share purchase schemes whereby employees can opt to receive part of their annual remuneration in the form of shares in the Company. This remuneration is measured based on the closing quotation of these Company shares at the delivery date. The costs incurred on such schemes are recognised under personnel expenses in the income statement. All shares delivered as payment are taken from the own shares held by the Company.

p) Transactions between Group companies

Transactions between Group companies are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

5. Property, Plant and Equipment

Movement in property, plant and equipment and details of accumulated depreciation and impairment during 2019 and 2018 are as follows:

Thousands of Euros	31 December 2017	Additions	Disposals	Transfers	31 December 2018	Additions	Disposals	Transfers	31 December 2019
Cost									
Land and buildings	78,285	-	-	-	78,285	-	-	9,038	87,323
Other installations, machinery, equipment, furniture and other items	14,944	-	-	-	14,944	-	-	705	15,649
Under construction and advances	1,522	2,973	-	-	4,495	9,852	-	(9,743)	4,604
Total cost	**94,751**	**2,973**	**-**	**-**	**97,724**	**9,852**	**-**	**-**	**107,576**
Accumulated depreciation									
Buildings	(18,841)	(1,376)	-	-	(20,217)	(1,397)	-	-	(21,614)
Other installations, machinery, equipment, furniture and other items	(14,538)	(196)	-	-	(14,734)	(23)	-	-	(14,757)
Total accumulated depreciation	**(33,379)**	**(1,572)**	**-**	**-**	**(34,951)**	**(1,420)**	**-**	**-**	**(36,371)**
Carrying amount	**61,372**	**1,401**	**-**	**-**	**62,773**	**8,432**	**-**	**-**	**71,205**

Additions to property, plant and equipment under construction in 2019 and 2018 mainly reflect the adaptation of the buildings in Tres Cantos and the headquarters in Alcobendas (Madrid).

In 2019 transfers from property, plant and equipment under construction to land and buildings and other installations, machinery, equipment, furniture and other items primarily related to the foregoing buildings in Tres Cantos.

At 31 December 2019 the Company has fully depreciated property, plant and equipment with a cost of Euros 15,548 thousand (Euros 15,544 thousand in 2018), Euros 14,683 thousand of which are other installations (Euros 14,680 thousand in 2018).

Law 16/2012, which introduced several tax measures to consolidate public finances and boost economic activity, provided for the revaluation of property, plant and equipment and/or investment property using the ratios set forth in this Law, with a credit to a revaluation reserve under equity. According to the Spanish Accounting and Auditing Institute Resolution of 31 January 2013, any revaluation of balances should be recognised in the annual accounts for 2013. Pursuant to this Law, the Company revalued its property, plant and equipment on 1 January 2013, making a single tax payment of 5% of the revalued amount.

The amount resulting from the revaluation, net of the single tax payment of 5%, was credited to reserves (see note 14). The balancing entries were recognised under the pertinent revalued asset items, with no changes to the accumulated depreciation recorded at that date (Euros 6,304 thousand under land and buildings and Euros 56 thousand under other installations).

The net increase in value deriving from the revaluation is depreciated over the remaining useful life of the revalued assets. The revaluation has led to an increase of Euros 177 thousand in the depreciation charge for 2019 (Euros 177 thousand in 2018).

6. Investment Property

Movement in investment property in 2019 and 2018 is as follows:

Thousands of Euros	31 December 2017	Additions	Disposals	31 December 2018	Additions	Disposals	31 December 2019
Investment property	2,910	-	(71)	2,839	-	(441)	2,398
Total cost	**2,910**	**-**	**(71)**	**2,839**	**-**	**(441)**	**2,398**
Accumulated depreciation	(525)	(44)	-	(569)	(29)	99	(499)
Total accumulated depreciation	**(525)**	**(44)**	**-**	**(569)**	**(29)**	**99**	**(499)**
Impairment of investment property	-	(615)	-	(615)	(128)	190	(553)
Total impairment	**-**	**(615)**	**-**	**(615)**	**(128)**	**190**	**(553)**
Carrying amount	**2,385**	**(659)**	**(71)**	**1,655**	**(157)**	**(152)**	**1,346**

Investment property disposals in 2019 reflect the sale of various premises (see note 20-d). Disposals in 2018 related to land in Extremadura.

At the 2019 reporting date, analysis of the market value of investment property had brought to light impairment losses of Euros 128 thousand on certain items (Euros 615 thousand in 2018), which have been recognised in the income statement (see note 20-d).

Investment property has a market value of approximately Euros 2 million in 2019 (Euros 2.6 million in 2018) and does not generate or incur significant operating income or expenses.

7. Operating Leases

The Company has leased certain assets to Group companies. The types of assets leased under operating leases are as follows:

Thousands of Euros	31 December 2019	31 December 2018
Cost		
Land and buildings	85,538	74,180
Other installations, machinery, equipment, furniture and other items	15,649	14,555
Total cost	**101,187**	**88,735**
Accumulated depreciation		
Buildings	(21,614)	(19,991)
Other installations, machinery, equipment, furniture and other items	(14,757)	(14,345)
Total accumulated depreciation	**(36,371)**	**(34,336)**
Carrying amount	**64,816**	**54,399**

The Company has entered into operating lease agreements with Red Eléctrica de España, S.A.U. (REE), Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL), Red Eléctrica Internacional, S.A.U. (REI), Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) and Red Eléctrica y de Telecomunicaciones, Innovación y Tecnológica, S.A.U. (RETIT), whereby it leases areas inside the buildings it owns to these Group companies.

These lease agreements are renewed periodically and generated lease income of Euros 9,988 thousand in 2019 (Euros 10,186 thousand in 2018). In 2019 and 2018 approximately 96% of this lease income pertains to REE and 4% to the remaining Group companies.

8. Investments in Group Companies and Associates

At 31 December 2019 and 2018, none of the Group companies in which the Company holds a direct or indirect interest are listed on the stock exchange.

Details of investments in Group companies and associates at 31 December 2019 are as follows:

Red Eléctrica Corporación, S.A.
Details of equity investments at 31 December 2019.

- Company
- Registered office
- Principal activity

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
A) Fully consolidated subsidiaries										
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission, operation of the Spanish electricity system and management of the transmission network.	100%	-	1,014,326	800,006	54,319	675,941	(124,505)	636,921	967,974	562,924
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition and holding of international equity investments. Rendering of advisory, engineering and construction services. - Performance of electricity activities outside the Spanish electricity system.	100%	-	164,042	91,412	72,630	37,751	4,905	2,473	(1,290)	-
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%	-	74,417	30,000	44,417	108,060	(557)	54,430	78,004	-
Red Eléctrica Infraestructuras de 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%	-	5,000	5,000	-	(43)	-	100	138	-
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%	-	2,000	18	1,982	3	-	165	(131)	179
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	60	60	-	10,040	(2,000)	2,433	(229)	2,000
Red Eléctrica Sistemas de Telecomunicaciones, S.A. (RESTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition, holding, management and administration of Spanish and foreign equity securities.	100%	-	549,060	549,060	-	(4)	-	(387)	(39)	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnológica, S.A.U. (RETIT) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Activities geared towards driving and accelerating technological innovation.	100%	-	4,250	250	4,000	(3)	-	(503)	(670)	-
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%	-	4,500	4,500	-	44,005	-	5,476	5,975	-
Red Eléctrica Andina, S.A.C. (REA) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Rendering of line and substation maintenance services.	-	100% (a)	1,778	1,773	-	1,113	-	679	4,259	-

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Red Eléctrica del Sur, S.A. (REDESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (a)	34,573	11,571	-	24,337	-	6,047	10,891	-
Transmisora Eléctrica del Sur , S.A.C. (TESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	32,732	34,539	-	(1,591)	-	(442)	1,527	-
Transmisora Eléctrica del Sur 2 , S.A.C. (TESUR 2) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	20,684	20,185	-	(125)	-	405	2,139	-
Transmisora Eléctrica del Sur 3 , S.A.C. (TESUR 3) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	4,469	4,451	-	(90)	-	(217)	(88)	-
Transmisora Eléctrica del Sur 4 , S.A.C. (TESUR 4) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (j)	4,039	4,761	-	100	-	(34)	(12)	-
Red Eléctrica del Norte Perú, S.A.C. (REDELNOR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (a)	31,273	31,156	-	(2)	-	(83)	(78)	-
Concesionaria Línea de Transmisión CCNCM S.A.C. (CCNCM) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (d)	30,628	24,781	-	(5,773)	-	(4,673)	4,998	-
Red Eléctrica Chile S.P.A (RECH) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago. (Chile). - Acquisition, holding, management and administration of securities.	-	100% (a)	128,792	126,193	-	(11,056)	-	(4,821)	(375)	-
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% (e)	2,073	3,116	-	(299)	-	62	(187)	-
Red Eléctrica del Norte Dos 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% (e)	25,401	28,277	-	(117)	-	(520)	2,675	-
Hispasat S.A. - Paseo de la Castellana, 39. 28046 Madrid. (Spain). - Parent of the Hispasat Group. Operation of the satellite communications system and rendering of space segment services for the geostationary orbital slots allocated to the Spanish state.	-	89,68% (f) (4)	933,000	121,946	76,265	316,807	46,597	7,251	(5,861)	-
Hispasat Canarias, S.L.U. -Calle Pacticante Ignacio Rodriguez s/n Edificio Polivalente IV, Fundación Canarias Parque Científico Tecnológico ULGPC, Planta 3, oficinas 304-305, 35017 Las Palmas de Gran Canaria. (Spain). - Sale and lease of satellites and spatial capacity	-	89.68% (g) (4)	102,003	102,003	-	205,010	(498)	6,513	14,579	-
Hispasat Brasil, Ltda. - Praia do Flamengo, 200 Rio de Janeiro. (Brazil). - Commercialisation of satellite capacity	-	89.68% (g) (4)	43,066	23,457	-	20,062	-	2,831	282	-
Hispamar Satélites, S.A. - Praia do Flamengo, 200 Rio de Janeiro. (Brazil). - Commercialisation of satellite capacity	-	72.6% (h) (4)	5,948	24,989	-	20,879	-	2,784	2,973	-
Hispamar Exterior, S.L.U. Paseo de la Castellana 39, 28046. Madrid. (Spain). - Commercialisation of satellite capacity	-	72.6% (i) (4)	27,036	800	-	4,432	67	668	1,267	-

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Hispasat de México, S.A. de C.V. - Agustín Manuel Chávez 1-001 Col. Centro de Ciudad Santa Fe, 01210 México D.F. (Mexico). - Use of radio spectrum, telecommunications networks and satellite communication.	-	89.68% (g)(4)	6,555	7,131	-	1,435	-	(339)	1,624	-
Consultek, Inc - 1036 Country Club Drive, Suite 202, Moraga, CA 94556. (United States of America) - Technical consultancy services	-	89.68% (g)(4)	16	18	-	26	-	6	10	-
Hispamar Satélites, S.A. (*) (Venezuela) - Torre Phelps, piso 10 ofic. 10. Caracas. (Venezuela). - Commercialisation and rendering of satellite telecommunications services	-	72.60% (i)(4)	-	-	-	-	-	-	-	-
Hispasat UK, LTD. (*) - 3-7 Temple Avenue, Suite 38, Temple Chambers, London, EC4Y 0HP. (England) - Commercialisation and rendering of satellite telecommunications services	-	89.68% (g)(4)	-	-	-	-	-	-	-	-
B) Proportionately consolidated companies										
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Inmueble Window, 7 C Place du Dôme, 92073 La Défense Cedex, Paris (France) - Study and execution of Spain-France interconnections	-	50% (b)	1,000	2,000	-	14,357	-	281	313	-
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% (e)	190,773	64,781	-	3,415	(30,761)	15,212	50,962	-
Hisdesat Servicios Estratégicos, S.A. - Paseo de la Castellana 143, 28046 Madrid. (Spain). - Commercialisation of spatial systems for government use.	-	38.56% (g)(4)	46,512	108,174	-	90,866	15,409	9,970	17,648	-
Grupo de Navegación Sistemas y Servicios, S.L. - Calle Isaac Newton 1, Madrid. (Spain). - Operation of satellite systems	-	12.82% (g)(4)	138	1,026	-	91	-	-	-	-

(*) Unaudited

(1) Equivalent to voting rights.
(2) As per the audited financial statements harmonised with the Company's accounting criteria and translated to Euros at the closing exchange rate.
(3) As per the audited financial statements harmonised with the Company's accounting criteria and translated to Euros at the average exchange rate.
(4) Company forming part of the Hispasat subgroup.

(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 del Norte Perú, S.A.C.
(e) Investment through Red Eléctrica Chile SpA.
(f) Investment through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.
(g) Investment through Hispasat, S.A.
(h) Investment through Hispasat, S.A. and Hispasat Brasil, Ltda.
(i) Investment through Hispamar Satélites, S.A.
(j) Investment through Red Eléctrica del Sur, S.A. and Red Eléctrica Internacional S.A.U.

The Company holds all of the share capital of REE, the company that performs the functions of transmission agent, system operator and transmission network manager of the Spanish electricity system subject to the provisions of Electricity Industry Law 24/2013 and related provisions formerly applicable to Red Eléctrica de España, S.A. as system operator, transmission network manager and transmission agent. The Company may not transfer the shares of this subsidiary, which conducts regulated activities in Spain, to third parties.

Furthermore, the Company holds all of the share capital of REINTEL, which renders telecommunications services to third parties in Spain, essentially through the rental of the dark fibre backbone network of both electricity transmission infrastructure and railway infrastructure.

In 2019 RESTEL acquired 89.68% of the share capital of Hispasat, S.A. for Euros 933 million. The company's statutory and principal activity consists of commercialising and rendering satellite telecommunications services. RESTEL was incorporated in 2018 and its statutory activity includes the acquisition, holding, management and administration of securities. In 2019 RESTEL's share capital was increased by Euros 549 million.

Moreover, in 2019 Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT) was incorporated with share capital of Euros 1,000 thousand, of which Euros 750 thousand was uncalled at 31 December 2019. This company's statutory and principal activity consists of driving and fostering technological innovation.

International activity is conducted by REI (a wholly owned subsidiary). In 2019 REI's share capital was increased by Euros 31.4 million. Details of the main transactions performed in 2019 and 2018 are as follows:

- **In Peru:**
  - In 2019 REI incorporated Red Eléctrica del Norte Perú S.A.C. (REDELNOR). The statutory activity of the new company consists of electricity transmission and maintenance activities on the Carhuaquero - Cajamarca Norte - Caclic - Moyobamba line.
  - In addition, in 2019 REDELNOR acquired the Peruvian company Concesionaria Línea de Transmisión CCNCM, S.A. (CCNCM). The company's statutory and principal activity consists of electricity transmission and maintenance activities on the Carhuaquero - Cajamarca Norte - Caclic - Moyobamba line and related substations in Peru.
  - In 2018 Red Eléctrica del Sur, S.A. (REDESUR) incorporated the Peruvian company Transmisora Eléctrica del Sur 4, S.A. (TESUR 4). The statutory activity of TESUR 4 is the construction, operation and maintenance of the Tintaya-Azángaro transmission line under concession.
- **In Chile:**
  - In 2018 Red Eléctrica de Chile SpA (RECH) incorporated the Chilean company Red Eléctrica del Norte DOS, S.A. (REDENOR 2). The statutory activity of REDENOR 2 is its involvement in electricity transmission and transportation activities.
  - Moreover, in 2018 REDENOR 2 acquired 100% of Centinela Transmisión, S.A. (which then changed its name to Katari Transmisión, S.A.), for US Dollars 117.2 million. This company's statutory and principal activity is electricity transmission. The company operates a 265 km circuit made up of three 220 kV lines in Chile's northern Antofagasta Region. At the end of 2018, this company was absorbed by REDENOR 2.

The Company performs an impairment test each year to verify the recoverability of its investments for which there are indications of impairment. When testing for impairment, the Company considers projections of future cash flows. Such tests were performed in 2019 and in all instances the value in use exceeded the carrying amount. Thus, the Company concluded that no impairment of investments exists.

The most representative assumptions included in the projections used, based on business forecasts and own past experience, are as follows:

- Regulated remuneration: estimated based on the remuneration approved in legislation for the years available, whilst the same update mechanisms as those set out in prevailing legislation have been used for subsequent years.
- Investment: the best information available on the asset investment and maintenance plans for the infrastructure throughout the estimated time period has been used.
- Operating and maintenance costs: projected in line with the growth expected to derive from the investment plan.
- Other costs: projected based on knowledge of the sector and past experience and in line with the growth expected to derive from the investment plan.

In order to calculate present value, the projected cash flows are discounted using a rate, after tax, that considers the weighted average cost of capital (WACC) of the business and the geographical area in which it is carried out.

9. Financial Risk Management Policy

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

A summary of the main guidelines that comprise this policy 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 Company's core value, rather than generating extraordinary profits.

The Company's finance management is responsible for managing financial risk, ensuring consistency with the strategy and coordinating the risk management process, 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.

The financial risks to which the Company is exposed are as follows:

Market risk

Market risk reflects variations in the financial markets in terms of prices, interest and exchange rates, credit conditions and other variables that could affect short-, medium- and long-term finance costs.

Market risk is managed on the borrowings to be arranged (the currency, maturity and interest rates), and through the use of hedging instruments that allow the financial structure to be modified. Market risk specifically includes:

- Interest rate risk

  The interest rate risk to which the Company is exposed at 31 December 2019 and 2018 mostly affects profit for the year, but not equity.

  Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates. The rise or decline of 0.10% in 2019 interest rates would have increased or decreased profit by Euros 553 thousand (Euros 868 thousand in 2018).

- Currency risk

  Management of this risk encompasses translation risk, to which the Company is exposed when consolidating its subsidiaries and/or assets located in countries where the functional currency is not the Euro, and payables denominated in currencies other than the Euro; and transaction risk, arising from cash inflows and outflows in currencies other than the Euro.

  The Company has arranged derivative financial instruments (cross-currency swaps) to reduce the currency risk on loans extended to the Group company RECH. These instruments allow variable-rate debt in Euros to be exchanged for variable-rate debt in US Dollars, thereby hedging future receipts in US Dollars.

Credit risk

The main risk to which the Company is exposed is credit risk, inasmuch as its main debt transactions are carried out by the other Group companies, which assume the market and liquidity risks. Credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are requested when necessary. At 31 December 2019 the Company does not consider there to be any risk as regards the recoverability of receivables.

10. Analysis of Financial Instruments

a) Analysis by category

At 31 December 2019 and 2018 the carrying amounts of each category of financial instruments, except investments in Group companies, are as follows:

- Financial assets

	Financial instruments by category at 31.12.2019			
Thousands of Euros	**Available-for-sale financial assets**	**Loans and receivables**	**Hedging derivatives**	**Total**
Loans to third parties	-	25	-	25
Loans to Group companies and associates	-	713,139	-	713,139
Equity instruments of a special nature	2,542	-	-	2,542
Derivative financial instruments	-	-	4,462	4,462
Other financial assets	-	14	-	14
Non-current	**2,542**	**713,178**	**4,462**	**720,182**
Loans to Group companies and associates	-	764,513	-	764,513
Other financial assets	-	1	-	1
Trade and other receivables	-	592	-	592
Current	**-**	**765,106**	**-**	**765,106**
Total	**2,542**	**1,478,284**	**4,462**	**1,485,288**

Thousands of Euros	Financial instruments by category at 31.12.2018			
	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Loans to third parties	-	28	-	28
Loans to Group companies and associates	-	805,322	-	805,322
Equity instruments of a special nature	6,734	-	-	6,734
Derivative financial instruments	-	-	6,482	6,482
Other financial assets	-	13	-	13
Non-current	**6,734**	**805,363**	**6,482**	**818,579**
Loans to Group companies and associates	-	363,017	-	363,017
Other financial assets	-	56	-	56
Trade and other receivables	-	1,578	-	1,578
Current	**-**	**364,651**	**-**	**364,651**
Total	**6,734**	**1,170,014**	**6,482**	**1,183,230**

- Financial liabilities

Thousands of Euros	Financial instruments by category at 31.12.2019		
	Debts and payables	Hedging derivatives	Total
Loans and borrowings	601,140	-	601,140
Payables to Group companies and associates	1,565	-	1,565
Other financial liabilities	16	-	16
Derivative financial instruments	-	-	-
Non-current	**602,721**	**-**	**602,721**
Loans and borrowings	2,116	-	2,116
Payables to Group companies and associates	390	-	390
Current payables	158,145	-	158,145
Trade and other payables	24,261	-	24,261
Current	**184,912**	**-**	**184,912**
Total	**787,633**	**-**	**787,633**

Thousands of Euros	Financial instruments by category at 31.12.2018		
	Debts and payables	Hedging derivatives	Total
Loans and borrowings	71,999	-	71,999
Payables to Group companies and associates	1,565	-	1,565
Other financial liabilities	16	-	16
Derivative financial instruments	-	-	-
Non-current	**73,580**	**-**	**73,580**
Loans and borrowings	101,857	-	101,857
Payables to Group companies and associates	2,526	-	2,526
Current payables	153,722	-	153,722
Trade and other payables	4,691	-	4,691
Current	**262,796**	**-**	**262,796**
Total	**336,376**	**-**	**336,376**

b) Analysis by maturity

- Financial assets

Thousands of Euros	Maturity of financial assets						
	2020	2021	2022	2023	2024	Thereafter	Total
Loans to third parties	-	-	-	-	-	25	25
Loans to Group companies and associates	764,513	158,923	100,150	70,066	384,000	-	1,477,652
Equity instruments of a special nature	-	-	-	-	-	2,542	2,542
Other financial assets	1	-	-	-	-	14	15
Trade and other receivables	592	-	-	-	-	-	592
Total	**765,106**	**158,923**	**100,150**	**70,066**	**384,000**	**2,581**	**1,480,826**

- Financial liabilities

Thousands of Euros	Maturity of financial liabilities						
	2020	2021	2022	2023	2024	Thereafter	Total
Loans and borrowings in Euros	390	-	-	-	500,000	-	500,390
Loans and borrowings in foreign currency	1,726	-	43,280	57,860	-	-	102,866
Payables to Group companies and associates	390	-	-	-	-	1,565	1,955
Trade and other payables	182,406	-	-	-	-	-	182,406
Other financial liabilities	-	-	-	-	-	16	16
Total	**184,912**	**-**	**43,280**	**57,860**	**500,000**	**1,581**	**787,633**

An analysis by maturity of derivative financial instruments is provided in note 11.

11. Derivative Financial Instruments

In line with its financial risk management policy, the Company has arranged derivative financial instruments (cross-currency swaps). These instruments allow variable-rate debt in Euros to be exchanged for variable-rate debt in US Dollars, thereby hedging future receipts in US Dollars. The Company has no formal hedging relationships reflected in the balance sheet. Variations due to exchange rate fluctuations in derivative financial instruments are offset in the income statement against the corresponding variations arising from the non-current loan extended to the Group company RECH (see note 21). However, the formal hedging relationship is disclosed in the Group's consolidated annual accounts as hedges of net investments in US Dollars.

The Company has incorporated a credit risk adjustment to reflect own and counterparty risk in the fair value of derivatives using generally accepted measurement models.

When determining the credit risk adjustment, the Company applied a technique based on calculating total expected exposure (which considers current and potential exposure) through the use of simulations, adjusted for the probability of default over time and for loss given default allocable to the Company and to each counterparty.

The total expected exposure of derivative financial instruments is determined using observable market inputs, such as interest rate curves, exchange rates and volatilities based on market conditions at the measurement date.

The inputs used to determine own and counterparty credit risk (probability of default) are mostly based on own credit spreads and those of comparable companies currently traded on the market (credit default swap (CDS) curves, IRR of debt issues, etc.).

Furthermore, adjustments of fair value for credit risk take into account credit enhancements for guarantees and collateral when determining the loss given default to be used for each position. Loss given default is considered to be constant over time. A minimum recovery rate of 40% has been used in cases where there is no credit enhancement for guarantees or collateral.

As regards observable inputs, the Company uses mid-market prices obtained from reputable external information sources in the financial markets.

Details of derivative financial instruments by type at 31 December 2019 and 2018 are as follows:

	31.12.2019		Non-current		Current	
Thousands of Euros	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges - Hedges of a net investment:						
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	4,462	-	-	-

	31.12.2018		Non-current		Current	
Thousands of Euros	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges - Hedges of a net investment:						
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	6,482	-	-	-

Details of these derivative financial instruments by expiry date are as follows:

Thousands of Euros	Hedged principal	Term to expiry	2020	2021	2022	2023	2024	2025 and thereafter	Total
Exchange rate hedges									
- Hedges of a net investment:									
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	-	4,462	-	-	-	-	4,462

In 2019 the Company recognised income of Euros 499 thousand (an expense of Euros 307 thousand in 2018).

12. Non-current Investments

Details of non-current investments at 31 December 2019 and 2018 are as follows:

Thousands of Euros	31 December 2019	31 December 2018
Equity instruments	2,542	6,734
Loans to third parties	25	28
Derivative financial instruments	4,462	6,482
Other financial assets	14	13
Total	**7,043**	**13,257**

Equity instruments reflect the Euros 2,542 thousand investment in economic interest groups (EIGs) (Euros 6,734 thousand in 2018) engaged in the lease of assets managed by an unrelated company, which retains most of the risks and rewards of the activity, while the Company only avails of the tax incentives regulated in Spanish legislation. The Company recognises the finance income generated due to the difference between income tax payable to the taxation authorities in respect of recognised tax losses incurred by the EIGs and the investments in those EIGs (see notes 17 and 20-c).

At 31 December 2019 derivative financial instruments reflect the value of these items. Details thereof and an analysis by maturity is provided in note 11.

13. Trade and Other Receivables

Details at 31 December 2019 and 2018 are as follows:

Thousands of Euros	31 December 2019	31 December 2018
Trade receivables from Group companies and associates	16	-
Other receivables	89	281
Personnel	4	3
Public entities, other	499	1,294
Total	**608**	**1,578**

At 31 December 2019 public entities, other include the value added tax (VAT) recoverable by the Company. At 31 December 2018 this item also reflected income tax receivable, which had been recognised by the Company, as parent of the tax group.

At 31 December 2019 other receivables essentially reflect the amount outstanding in connection with the sale of premises (see note 6). At 31 December 2018 this item primarily reflected the outstanding amount in connection with the own shares sold.

14. Equity

a) Capital risk management

The Group's management of its companies' capital is aimed at safeguarding their capacity to 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 Company can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

Given the Company's activity and its investees' capacity to generate funds, the Company is not significantly exposed to capital risk.

b) Capital and reserves

- Capital

  At 31 December 2019 and 2018 the Company's share capital is divided into 541,080,000 shares of Euros 0.50 par value each represented by book entries, all subscribed and fully paid-in, and carrying the same voting and profit-sharing rights (notwithstanding the limits stipulated in the following paragraph). The shares are quoted on the four Spanish stock exchanges and traded through the SIBE (Spanish Stock Exchange Interlinking System).

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

  Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of Electricity Industry Law 24/2013 of 26 December 2013. The shareholder limitations with regard to the Parent's share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 31 December 2019 and 2018 SEPI holds a 20% interest in the Company's share capital.

- Reserves

  This item comprises the following:

  - 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. Until this reserve exceeds this limit, it is not distributable to shareholders and may only be used to offset losses, provided no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 31 December 2019 and 2018 the legal reserve amounts to 20% of share capital (Euros 54,199 thousand).

  - Revaluation reserve under Law 16/2012 of 27 December 2012

    In accordance with Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, the Company revalued its property, plant and equipment. The associated revaluation reserve amounted to Euros 6,042 thousand, net of the 5% capital gains tax. There were no movements in the revaluation reserve during 2019.

    The revaluation is open to inspection by the Spanish taxation authorities for a three-year period from the date of filing the 2012 income tax return. Once this three-year period has elapsed, the balance may be used to offset losses or increase the Company's capital. Once a period of ten years has elapsed this balance may be released to freely distributable reserves. Nonetheless, this balance may only be distributed, indirectly or directly, when the revalued assets have been fully depreciated, transferred or derecognised.

- Other reserves

  Other reserves primarily include voluntary reserves of the Company and first-time application reserves, amounting to Euros 1,596,169 thousand and Euros 19,895 thousand, respectively, at 31 December 2019 (Euros 1,496,657 thousand and Euros 19,895 thousand, respectively, at 31 December 2018). Both of these reserves are freely distributable.

  At 31 December 2019 and 2018 this item also comprises statutory reserves totalling Euros 264,547 thousand, notably including the property, plant and equipment revaluation reserve amounting to Euros 247,022 thousand created by the Parent in 1996. This reserve may be used, free of taxation, to offset accounting losses and increase share capital or, ten years after its creation and when the associated assets have been fully depreciated, it may be transferred to freely distributable reserves. Nonetheless, this balance may only be distributed, indirectly or directly, when the revalued assets have been fully depreciated, transferred or derecognised.

  Moreover, following the spin-off of the Telecommunications activity from REI to REINTEL, through a split-off, a reserve was generated in an amount of Euros 74,407 thousand in 2015, reflecting the difference between the value of the net assets spun off to REINTEL (Euros 74,417 thousand) and the value of the Company's investment in this business through REI. There was no change in the balance of this reserve in 2019.

  As provided for by article 25 of Law 27/2014 of 27 November 2014, in 2019 the tax group headed by the Company created a capitalisation reserve of Euros 16,707 thousand, corresponding to 2018, pursuant to article 62.1 d) of the aforementioned Law. This reserve will be restricted for a period of five years. Accordingly, each tax group company adjusted income tax for the year in connection with this reserve. The capitalisation reserve for 2017, in an amount of Euros 11,312 thousand, was appropriated in 2018

- Own shares

  At 31 December 2019 the Company held 2,024,844 own shares representing 0.37% of its share capital (0.22% in 2018), with a total par value of Euros 1,012 thousand and an average acquisition price of Euros 18.03 per share. At 31 December 2018, the Company held 1,198,049 own shares, with a total par value of Euros 599 thousand and an average acquisition price of Euro 17.78 per share.

  These shares have been recognised as a reduction in equity for an amount of Euros 36,504 thousand at 31 December 2019 (Euros 21,303 thousand in 2018).

  The Company has complied with the requirements of article 509 of the Spanish Companies Act, which provides, except in the case of freely acquired own shares, that in listed companies the par value of own shares acquired directly or indirectly by the Company, plus the par value of the shares already held by the Parent and its subsidiaries, must not exceed 10% of subscribed share capital. The subsidiaries do not hold own shares or shares in the Company.

- Profit for the year

  Profit for the year totals Euros 570,669 thousand (Euros 645,597 thousand in 2018).

- Interim dividends and proposed distribution of dividends by the Company

  The interim dividend authorised by the board of directors in 2019 has been recognised as a Euros 147,002 thousand reduction in equity at 31 December 2019 (Euros 147,250 thousand at 31 December 2018).

  On 29 October 2019 the Company's board of directors agreed to pay an interim dividend of Euros 0.2727 (gross) per share with a charge to 2019 profit, which was paid on 7 January 2020.

  The cash flow forecast for the period from 30 September 2019 to 7 January 2020 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement of Red Eléctrica Corporación, S.A.	Thousands of Euros
Available funds at 30/09/2019:	
Non-current credit facilities available	822,770
Current credit facilities available	-
Current investments and cash	4,801
Forecast receipts:	
Current transactions	-
Financial transactions	166,493
Forecast payments:	
Current transactions	(148,605)
Financial transactions	(384,000)
Forecast available funds at 07/01/2020	**461,459**

Based on the cash flow forecast at the approval date, no limitation on the availability of funds was or is expected to arise. Furthermore, as reflected in the accompanying annual accounts, and as foreseen at the distribution date, profit for 2019 allows for the distribution of this interim dividend.

c) Valuation adjustments

At 31 December 2019 and 2018 this item reflects the gains arising from the increase in the fair value of the investment held by the Company in Redes Energéticas Nacionais, SGPS, S.A. (REN) until 2015, when it transferred this investment as a non-monetary contribution to subscribe the capital increase in the Group company REI.

These gains are recorded in equity until the disposal or derecognition of the investment, whereupon they are taken to profit and loss (see note 4-d).

15. Non-current Provisions

Movement in 2019 and 2018 is as follows:

Thousands of Euros	31.12.2017	Additions	Applications	Actuarial gains and losses	Transfers	31.12.2018	Additions	Applications	Actuarial gains and losses	Transfers	31.12.2019
Provisions for employee benefits	435	201	-	(6)	-	630	129	(249)	(19)	(468)	23
Other provisions	3,962	386	(738)	-	857	4,467	115	-	-	-	4,582
Total	**4,397**	**587**	**(738)**	**(6)**	**857**	**5,097**	**244**	**(249)**	**(19)**	**(468)**	**4,605**

Provisions for employee benefits include future commitments (health insurance) undertaken by the Company on behalf of its employees for their retirement, calculated based on actuarial studies conducted by an independent expert. The following assumptions were used for 2019 and 2018:

	Actuarial assumptions	
	2019	2018
Discount rate	1.05%	2.04%
Cost increase	3.00%	3.00%
Mortality table	PERM/F 2000 new production	PERM/F 2000 new production

The effect of a one percentage point increase or decrease in the assumed health insurance cost trend rates is as follows:

Thousands of Euros	1%	-1%
Current service cost	1.4	(1.0)
Interest cost of net post-employment health insurance costs	-	-
Accumulated post-employment benefit obligation for health insurance	9.4	(6.5)

Conversely, the effect of a decrease of half a percentage point in the discount rate used in the actuarial assumption for health insurance costs from 1.05% to 0.55% is as follows:

	Discount rate		Sensitivity
Thousands of Euros	1.05%	0.55%	
Current service cost	3.5	4.1	0.6
Interest cost of net post-employment health insurance costs	0.9	0.5	(0.4)
Accumulated post-employment benefit obligation for health insurance	22.8	27.2	4.4

The accrued amounts are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2019 amount to Euros 3.5 thousand and Euros 0.9 thousand, respectively (Euros 4.4 thousand and Euros 1.8 thousand, respectively, in 2018). Any variations in the calculation of the present value of these obligations due to actuarial gains and losses are recognised as reserves under equity. The gross amount recognised during the year in this connection totals a negative amount of Euros 19 thousand (negative amount of Euros 6 thousand in 2018), which has been recorded under actuarial gains and losses in the statement of changes in equity.

Provisions for employee benefits also include commitments undertaken by the Company as part of the deferred remuneration scheme for employees, which at 31 December 2019 have been reclassified to current.

Other provisions reflect the amounts recorded by the Company every year to cover potential unfavourable rulings handed down in relation to third-party claims.

In 2019 and 2018, the amount shown in transfers reflects changes in the estimated settlement period from non-current to current or vice versa.

16. Non-current and Current Payables

Details at 31 December 2019 and 2018 are as follows:

Thousands of Euros	31 December 2019	31 December 2018
Loans and borrowings	601,140	71,999
Other liabilities	16	16
Non-current payables	**601,156**	**72,015**

Thousands of Euros	31 December 2019	31 December 2018
Loans and borrowings	2,116	101,857
Other current payables	158,145	153,722
Current payables	**160,261**	**255,579**

Non-current loans and borrowings at 31 December 2019 reflect long-term loans and credit facilities in Euros totalling Euros 500,000 thousand. They also include Euros 101,140 thousand drawn down from credit facilities arranged by the Company in US Dollars (Euros 71,999 at 31 December 2018).

At 31 December 2019 and 2018 other liabilities comprise non-current security deposits received amounting to Euros 16 thousand.

At 31 December 2019 the accrued interest payable amounts to Euros 623 thousand (Euros 215 thousand in 2018) and has been recognised under current loans and borrowings. This item also reflects the interest accrued but not yet payable on derivative financial instruments.

Current loans and borrowings at 31 December 2018 also included Euros 100,000 thousand drawn down from loans arranged by the Company (undrawn at 31 December 2019).

The fair value of all loans and borrowings has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date. These loans and borrowings have a fair value of Euros 604,976 thousand at 31 December 2019 (Euros 171,560 thousand in 2018) and accrued interest at an average rate of 0.97% in 2019 (0.51% in 2018).

Details of other current payables are as follows:

Thousands of Euros	31 December 2019	31 December 2018
Dividends	147,002	147,250
Suppliers of fixed assets and other payables	11,143	6,472
Total	**158,145**	**153,722**

17. Taxation

The Company files consolidated tax returns as the parent of the tax group 57/2002.

a) Reconciliation of accounting profit and the tax loss

Due to the treatment permitted by fiscal legislation of certain transactions, accounting profit differs from the tax base. A reconciliation of accounting profit for 2019 and 2018 with the tax loss that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2019	2018
Accounting profit for the year before tax	569,330	646,250
Permanent differences	(574,746)	(643,831)
Taxable accounting income/(loss)	**(5,416)**	**2,419**
Temporary differences:		
Originating in current year	115	896
Reversals during the year	(201)	(236)
Total	**(86)**	**660**
EIG charges	(77,822)	(67,045)
Tax loss	**(83,324)**	**(63,966)**

In 2019 and 2018, adjustments were made to the tax base to reflect recognition of the EIGs in which the Company has interests, amounting to Euros 77,822 thousand and Euros 67,045 thousand, respectively (see note 12).

b) Effective income tax rate and reconciliation of accounting profit with the income tax expense/income

The income tax expense/income for the year is calculated as follows:

Thousands of Euros	2019	2018
Accounting profit for the year before tax	569,330	646,250
Permanent differences	(574,746)	(643,831)
Taxable accounting income/(loss)	**(5,416)**	**2,419**
Tax rate	25%	25%
Tax at the current rate	(1,354)	605
Deductions	(96)	-
Expense for the year	**(1,450)**	**605**
Foreign income tax	110	-
Other adjustments	1	48
Income tax expense/(income)	**(1,339)**	**653**
Effective income tax rate	**-**	**0.10%**
Breakdown of income tax:		
Current income tax	(1,365)	767
Deferred income tax	25	(162)
Other adjustments	1	48
Income tax expense/(income)	**(1,339)**	**653**

The effective rate of income tax is influenced by permanent differences and by deductions in tax payable. The difference between the effective tax rate and the actual tax rate is primarily due to application of the exemption to prevent double taxation of dividends from significant interests in resident entities.

Permanent differences in 2019 and 2018 primarily arise from dividends received from subsidiaries (essentially REE) and due to the capitalisation reserve adjustment resulting from the increase in equity in accordance with article 25 of Income Tax Law 27/2014 of 27 November 2014.

As permitted by article 62.1 d) of Law 27/2014, the capitalisation reserve for 2018 was appropriated in the Company, as head of the tax group, whereas for 2019 it will be appropriated in REE, a subsidiary of the same tax group (see note 14).

c) Deferred tax assets and liabilities

Temporary differences in the recognition of income and expenses for accounting and tax purposes at 31 December 2019 and 2018, and the corresponding cumulative tax effect (assets and liabilities) are as follows:

	2019		2018	
Thousands of Euros	**Income statement**	**Income and expense recognised directly in equity**	**Income statement**	**Income and expense recognised directly in equity**
Deferred tax assets:				
Originating in prior years	2,589	6	2,473	7
Originating in current year	28	-	224	(1)
Reversals of prior years	(99)	(5)	(108)	-
Total deferred tax assets	**2,518**	**1**	**2,589**	**6**
Deferred tax liabilities:				
Originating in prior years	(1,856)	-	(2,360)	(1,128)
Originating in current year	-	-	-	-
Reversals of prior years	46	-	46	1,128
Prior year adjustments	-	-	458	-
Total deferred tax liabilities	**(1,810)**	**-**	**(1,856)**	**-**

Deferred tax assets in 2019 and 2018 include reversals of tax prepaid in 2013 and 2014 as a result of applying the limitation on the tax deductibility of depreciation and amortisation charges stipulated in article 7 of Law 16/2012 of 27 December 2012, which introduced several fiscal measures to consolidate public finances and boost economic activity, and as a result of the commencement, in 2015, of depreciation and amortisation for tax purposes of the net increase in value resulting from the revaluations applied to the balance sheet at 31 December 2012, pursuant to article 9 of the same Law, as well as adjustments to provisions.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets.

The notes to the Company's annual accounts for 2006 contain disclosures on the merger by absorption of Red de Alta Tensión, S.A.U. (REDALTA) and Infraestructuras de Alta Tensión S.A.U. (INALTA), as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts include disclosures on the contribution to REE of the branch of activities encompassing the duties of the system operator, transmission network manager and transmission agent of the Spanish electricity system. The notes to the annual accounts for 2015 include disclosures regarding the spin-off of the telecommunications services business to REINTEL, and the non-monetary contribution to REI of shares in REN.

d) Years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period has elapsed.

The Company has open to inspection by the taxation authorities all the main applicable taxes since 2016, except income tax, which is open to inspection since 2015.

In 2018 the limited administrative proceedings concerning income tax for 2011 to 2015 were completed, giving rise to the initiation of certain tax proceedings. The Company considers its conduct to have been lawful based on reasonable interpretations of the applicable legislation, and has therefore lodged the pertinent appeals, which are currently being heard at economic-administrative level. No penalties were imposed as a result of the proceedings and no significant tax liabilities arose for the Group.

Due to the different possible interpretations of tax legislation, additional tax liabilities could arise as a result of future inspections, which cannot be objectively quantified at present. Nevertheless, the Company's board of directors does not expect that any additional liabilities that could eventually arise in the event of inspection would significantly affect the Company’s future results.

18. Trade and Other Payables

Details at 31 December 2019 and 2018 are as follows:

Thousands of Euros	**31 December 2019**	**31 December 2018**
Payables to Group companies	87	-
Other payables	10,777	4,248
Personnel	682	350
Current tax liabilities	12,704	-
Public entities	98	93
Total	**24,348**	**4,691**

At 31 December 2019 current tax liabilities include Euros 12,704 thousand in respect of income tax payable, which has been recognised by the Company, as parent of the tax group.

19. Average Supplier Payment Period. “Reporting Requirement”, Third Additional Provision of Law 15/2010 of 5 July 2010

The Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016, concerning the information that must be disclosed in the notes to the annual accounts in relation to the average supplier payment period in commercial transactions, clarifies and systematises the information that trading companies must include in the notes to individual and consolidated annual accounts, in compliance with the reporting requirement of the third additional provision of Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004, establishing measures to combat late payments in commercial transactions.

Pursuant to the resolution, the information on the average supplier payment period for 2019 and 2018 is as follows

Days	2019	2018
Average supplier payment period	43.5	49.8
Transactions paid ratio	40.2	50.6
Transactions payable ratio	51.4	20.9

Thousands of Euros	2019	2018
Total payments made	4,795	4,369
Total payments outstanding	2,015	121

20. Income and Expenses

a) Revenue

Details at 31 December 2019 and 2018 are as follows:

Thousands of Euros	31 December 2019	31 December 2018
Finance income on investments in equity instruments of Group companies and associates	565,103	634,245
Finance income on securities and other financial instruments of Group companies and associates	16,707	17,023
Total	**581,810**	**651,268**

At 31 December 2019 and 2018 finance income on investments in equity instruments of Group companies and associates reflects the dividends received from REE, REF and RBV.

At 31 December 2019 finance income on securities and other financial instruments of Group companies and associates comprises income from loan contracts entered into with REE, REINTEL, RESTEL and RECH (REE, REINTEL and RECH at 31 December 2018), as well as the credit facilities arranged with REE, RECH and REI at both 31 December 2019 and 2018 (see note 21).

Details of this item in 2019 and 2018, by geographical area, are as follows:

	2019	2,018
Domestic market	573,770	643,001
European Union	179	154
Other countries	7,861	8,113
Total	**581,810**	**651,268**

b) Personnel expenses

In 2019 and 2018 this item comprises the following:

Thousands of Euros	31 December 2019	31 December 2018
Salaries and wages	4,363	3,726
Social security	99	92
Contributions to pension funds and similar obligations	5	5
Other items and employee benefits	158	200
Total	**4,625**	**4,023**

Personnel expenses include the remuneration of the board of directors (see note 22).

Employees

Besides the chairman and CEO, the average headcount of the Company in 2019 and 2018, by professional category, is as follows:

	2019	2018
Senior technicians	1	1
Specialist and administrative staff	4	4
Total	**5**	**5**

Besides the chairman and CEO, the distribution of the Company's employees at 31 December 2019 and 2018, by gender and category, is as follows:

	2019			2018		
	Male	Female	Total	Male	Female	Total
Senior technicians	-	1	1	-	1	1
Specialist and administrative staff	-	4	4	-	4	4
Total	**-**	**5**	**5**	**-**	**5**	**5**

No employees with a disability rating of 33% or higher formed part of the workforce in 2019 or 2018.

A 31 December 2019 and 2018, there are 12 directors, of which 7 are men and 5 are women.

c) Finance income and costs

In 2019 and 2018 finance costs primarily reflect those incurred on loans and borrowings and derivative financial instruments.

In 2019 and 2018 finance income essentially comprises returns on the investments in the EIGs (see note 12).

d) Impairment and gains/(losses) on disposal of fixed assets

In 2019 and 2018 this item reflects impairment and losses on certain derecognitions or disposals of investment property (see note 6).

21. Balances and Transactions with Group Companies, Associates and Related Parties

Balances and transactions with Group companies and associates

All transactions with Group companies and associates have been carried out at market prices.

Details of receivables from and payables to Group companies and associates in 2019 and 2018 are as follows:

Thousands of Euros	2019		2018	
	Loans and dividends	Payables	Loans and dividends	Payables
Red Eléctrica de España, S.A.U. (REE)	760,624	1,528	778,057	3,722
Red Eléctrica Internacional, S.A.U. (REI)	70,601	176	66,965	338
Red Eléctrica Financiaciones, S.A.U. (REF)	16	-	79	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	102,943	30	168,686	30
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	-	2	-	1
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)	384,529	45	-	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	16	87	-	-
Red Eléctrica Chile SpA (RECH)	158,923	-	154,552	-
Red Eléctrica Andina, S.A. (REA)	-	87	-	-
Total Group companies	**1,477,652**	**1,955**	**1,168,339**	**4,091**

In 2019 and 2018 loans and dividends receivable from REE include the current credit facility arranged with REE for Euros 850 million, of which Euros 743,543 thousand had been drawn down at 31 December 2019 (Euros 351,058 thousand at 31 December 2018). The average interest rate for the period was 0.41% (0.41% in 2018). The non-current loan arranged with REE in 2016 remained in force during part of the year. This amounted to Euros 425 million and was due to mature in 2021, but was repaid early at 31 December 2019 (Euros 425 million had been drawn down in 2018). The average interest rate for the period was 0.83% (0.84% in 2018).

Loans and dividends receivable from REINTEL primarily include the loan originally arranged with REI in 2014, which was assumed by REINTEL in 2015. The loan amounts to Euros 100,150 thousand at 31 December 2019 (Euros 165,100 thousand at 31 December 2018) and falls due in 2022. The average interest rate for the period was 2.94% (2.94% in 2018).

Loans receivable from RECH essentially include the US Dollars 150 million loan arranged with this company in 2016, which falls due in 2021 and had been fully drawn down in an amount of Euros 133,523 thousand at 31 December 2019 (Euros 131,004 thousand at 31 December 2018). The average interest rate for the period was 2.55% (2.81% in 2018). With a view to reducing the currency risk on this US Dollar loan, the Company has arranged US Dollar/Euro cross-currency swaps on the principal and interest (see note 11). In 2018 this item also included the current credit facility arranged with RECH on 1 March 2017 for US Dollars 100 million, which was undrawn at 31 December 2019 (Euros 5,960 thousand drawn down at 31 December 2018). The average interest rate for the period was 5.09% (4.50% in 2018).

Loans receivable from REI primarily include the credit facility arranged with this company in 2018 for an amount of US Dollars 215 million, of which Euros 70,066 thousand had been drawn down at 31 December 2019 (Euros 66,604 thousand at 31 December 2018). This facility expires in 2023 and the average interest rate for the period was 3.39% (3.68% in 2018).

Loans receivable from RESTEL include the credit facility arranged with this company in 2019 for an amount of Euros 435 million, of which a non-current amount of Euros 384,000 thousand and a current amount of Euros 50 thousand had been drawn down at 31 December 2019. This facility expires in 2024 and the average interest rate for the period was 0.49%.

Transactions with Group companies and associates are as follows:

	2019				2018			
Thousands of Euros	**Operating income**	**Finance income**	**Operating expenses**	**Finance costs**	**Operating income**	**Finance income**	**Operating expenses**	**Finance costs**
Red Eléctrica de España, S.A.U. (REE)	9,550	564,971	1,122	-	9,769	636,688	1,109	-
Red Eléctrica Internacional, S.A. (REI)	32	2,352	-	-	42	429	-	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	378	3,969	6	-	374	3,717	12	-
Red Eléctrica de España Finance, B.V. (RBV)	-	179	-	-	-	154	-	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	11	-	-	-	11	-	-	-
Red Eléctrica Financiaciones, S.A.U. (REF)	-	2,000	-	-	-	2,167	-	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)	-	479	-	-	-	-	-	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	16	-	-	-	-	-	-	-
Red Eléctrica Chile SpA (RECH)	-	7,860	-	-	-	8,113	-	-
Red Eléctrica Andina, S.A. (REA)	-	-	87	-	-	-	-	-
Total Group companies	**9,987**	**581,810**	**1,215**	**-**	**10,196**	**651,268**	**1,121**	**-**

At 31 December 2019 and 2018 operating income from REE, REINTEL, REI, REINCAN and RETIT mainly derives from the property lease agreements entered into with these companies (see note 7).

In 2019 and 2018 finance income primarily reflects the dividends received from REE, REF and RBV, and interest earned on the loans and credit facilities extended to REE, REINTEL, RECH, REI and RESTEL.

Related party balances and transactions

In 2019 and 2018 no balances or transactions with related parties were identified.

22. 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 CEO, was unchanged vis-à-vis 2018.

The chairman receives fixed annual remuneration in respect of the non-executive chairman duties associated with position, 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 CEO 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 CEO 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 CEO's fixed annual remuneration.

The annual variable remuneration of the CEO is set by the Appointments and Remuneration Committee of the Company 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 fulfilment is assessed by the Committee.

Pursuant to the remunerations policy and in line with standard market practices, the CEO'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 CEO, 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 CEO 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 CEO of the Company, until the following general shareholders' meeting.

In line with market practices in such cases, as a result of the appointment of the new CEO, 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 CEO (15 years), plus the period in which he rendered services – if any – following his termination as CEO, 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 CEO are in line with those applied to the previous CEO.

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 CEO 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 CEO totalled Euros 1,671 thousand, including the indemnity paid, 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 Company's board of directors in 2019 and 2018 are as follows:

Thousands of Euros	**2019**	**2018**
Total remuneration of the board of directors	2,505	2,485
Directors' remuneration in respect of executive duties [1]	784	838
Total	**3,289**	**3,323**

(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 CEO.

The rise in total remuneration of the board of directors compared with the prior year is because the Chair of the Sustainability Committee only received remuneration in 2018 from November, when the Committee was set up, until year end, whereas in 2019 the Chair received remuneration during the entire year.

During certain months in 2018 the Committees had not named all of their members, whereas in 2019 all the Committees had appointed all of their members.

The year-on-year decrease in directors' remuneration in respect of executive duties is because the amount accrued for the position of executive director was lower in 2019 than in 2018.

A breakdown of remuneration by type of director at 31 December 2019 and 2018 is as follows:

Thousands of Euros

Type of director:	**2019**	**2018**
Executive directors	931	986
External proprietary directors	525	519
External independent directors	1,287	1,272
Other external directors	546	546
Total remuneration	**3,289**	**3,323**

The remuneration accrued by individual members of the Company's board of directors in 2019 and 2018, by components and director, is as follows:

Thousands of Euros	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chair of committee/board and coordinating independent director	Other remuneration [7]	Total 2019	Total 2018
Mr. Jordi Sevilla Segura	530	-	16	-	-	-	546	228
Mr. Roberto García Merino [1]	287	157	10	-	-	77	531	-
Mr. Juan Lasala Bernad [2]	215	122	6	-	-	57	400	986
Ms. Carmen Gómez de Barreda Tous de Monsalve	131	-	16	28	30	-	205	192
Ms. María José García Beato	131	-	16	28	-	-	175	175
Ms. Socorro Fernández Larrea	131	-	16	28	12	-	187	175
Mr. Antonio Gómez Ciria	131	-	16	28	15	-	190	190
Mr. José Luis Feito Higueruela [3]	29	-	3	7	4	-	43	190
Mr. Arsenio Fernández de Mesa Díaz del Río	131	-	16	28	-	-	175	175
Mr. Alberto Carbajo Josa	131	-	16	28	-	-	175	175
Ms. Mercedes Real Rodrigálvarez [4]	131	-	16	28	-	-	175	175
Ms. María Teresa Costa Campi	131	-	16	28	-	-	175	43
Mr. Antonio Gómez Expósito	131	-	16	28	-	-	175	43
Mr. José Juan Ruiz Gómez [5]	102	-	14	21	-	-	137	-
Other board members [6]	-	-	-	-	-	-	-	576
Total remuneration accrued	**2,342**	**279**	**193**	**280**	**61**	**134**	**3,289**	**3,323**

[1] New director since the board meeting held on 27 May 2019.

[2] Stepped down from the board of directors at the board meeting held on 27 May 2019.

[3] Stepped down from the board of directors at the board meeting held on 22 March 2019.

[4] Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).

[5] New director since the board meeting held on 22 March 2019.

[6] Board members in 2018 who have stepped down from the board.

[7] Includes the employee benefits that form part of the CEO's remuneration.

The above amounts do not include the indemnity associated with the termination of the CEO, amounting to Euros 818 thousand, in 2019 or the indemnity paid to the former chairman, totalling Euros 718 thousand, in 2018.

As a result of the work of the Company's Appointments and Remuneration Committee on various long-term incentive plans to be used as a management tool and mechanism for fulfilment of the new Strategic Plan, on 17 February 2015 the Committee endorsed the establishment of a directors' remuneration scheme for 2014-2019, which was approved by the Company's board of directors on 24 February 2015.

At the 2019 reporting date this scheme only applies to the CEO.

Fulfilment of this remuneration scheme, which forms part of the remuneration policy, will be based on achieving the targets set out in the 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% fulfilment 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 Company's financial statements include a provision for accrual of this plan in 2019.

At 31 December 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 31 December 2019 and 2018 the Company has taken out public liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as directors of the Company. These policies cover the Company's directors and senior management and the premiums amount to Euros 60 thousand, inclusive of tax, in 2019 (Euros 60 thousand at 31 December 2018). These premiums are calculated based on the nature of the Company'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, either directly or through intermediaries, other than ordinary operations under market conditions.

23. Remuneration of Senior Management

At 31 December 2019 the Company has no senior management personnel besides the CEO.

24. Segment Reporting

The Company does not consider it relevant to disclose the distribution of revenue by category of activity, insofar as these categories are not structured very differently in terms of the rendering of services as part of the Company's ordinary activities. Following the contribution of the branch of activities in 2008 pursuant to Law 17/2007, these activities are not regulated electricity activities. As such, the Company is not subject to the requirement to give separate disclosures by activity provided for in Royal Decree 437/1998 of 20 March 1998, which approves the standards adapting the Spanish General Chart of Accounts to electricity sector companies.

25. Guarantees and Other Commitments with Third Parties and Other Contingent Liabilities

The Company, together with REE, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 430 million (US Dollars 430 million in 2018) by the Group company RBV, and REF's Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2019 (Euros 4,500 million at 31 December 2018).

Furthermore, at 31 December 2019 and 2018 the Company and REE have jointly and severally guaranteed the promissory notes issued under the Euro Commercial Paper Programme (ECP Programme) by REF for an amount of up to Euros 1,000 million.

At 31 December 2019 the Company has extended bank guarantees to third parties in an amount of Euros 3,584 thousand (Euros 3,537 thousand in 2018).

26. Environmental Information

At 31 December 2019 and 2018 the Company has no assets for the protection and improvement of the environment, nor did it incur any environmental costs during the year.

The Company is not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. No environment-related grants were received in the year.

27. Other Information

KPMG Auditores, S.L., the auditor of the Company's annual accounts, accrued the following fees and expenses for professional services during the years ended 31 December 2019 and 2018:

Thousands of Euros	2019	2018
Audit services	65	79
Audit-related services	47	23
Total	**112**	**102**

The amounts detailed in the above table include the total fees for services rendered in 2019 and 2018, irrespective of the date of invoice.

28. Share-based Payments

In 2019, a total of 668 Parent shares were delivered to employees, with a fair value of Euros 17.255 each, resulting in an expense for the year of Euros 12 thousand.

In 2018, a total of 154 Parent shares were delivered to employees, with a fair value of Euros 19.370 each, resulting in an expense for the year of Euros 3 thousand.

This remuneration is measured based on the quotation of these Company shares on the day they were delivered.

The shares delivered were approved by the Company's shareholders at their general meeting, and the related costs incurred have been recognised under personnel expenses in the income statement.

29. Events after 31 December 2019

On 9 January 2020 the Group company REF issued bonds in the Euromarket amounting to Euros 700 million, as part of the Euro Medium Term Note Programme (EMTN programme). They have a maturity of eight and a half years, and the foreseen disbursement date is 24 January 2020. They pay an annual coupon of 0.375% and their issue price is 98.963%, representing a return of 0.500%. These bonds are guaranteed by the Company and the Group company REE. The funds will be used to finance and/or refinance Eligible Projects within the Company's recently announced Green Financing Framework.

On 28 January Mr. Jordi Sevilla Segura stepped down as chairman of the Company and, as a result, chairman of the board of directors, having been appointed as such by the board on 31 July 2018.

RED ELÉCTRICA CORPORACIÓN

Grupo Red Eléctrica

Directors' Report

2019

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

Contents

The various sections of this 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 Company considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Company 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 Company'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 Company 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 Company 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.

The non-financial information is presented in the consolidated directors' report.

1. Business performance. Most significant events

Since July 2008, Red Eléctrica Corporación, S.A. (hereinafter REC) has been operating as the Parent of the Red Eléctrica Group (hereinafter the Group) by holding equity investments in the Group companies and rendering assistance and support services to these companies.

The commitments that the Company undertakes in carrying out these activities drive it towards the ongoing generation of value for its shareholders and stakeholders.

2. Key financial indicators

In 2019, the Company posted profit after tax of Euros 570.7 million, down 11.6% compared to 2018. Details of the key components are as follows:

- Revenue amounted to Euros 581.8 million, down 10.7% on 2018. This figure includes Euros 565.1 million of dividends from Group companies, given that one of the Company's activities as Parent of the Group is holding shares in Group companies.
- EBITDA [(1)] totalled Euros 574.8 million, a drop of 11.9% vis-à-vis 2018.
- EBIT [(2)] amounted to Euros 573.1 million, down 11.7% on 2018.

The dividends paid in 2019 amounted to Euros 530.8 million, which is 7% more than in 2018.

REC's equity was Euros 2,735.4 million, up 1.0% on 2018.

[1] EBITDA is calculated as the sum of revenue, self-constructed assets and other operating income less personnel expenses, supplies and other operating expenses.

[2] EBIT is calculated as EBITDA plus any non-financial capital grants recognised and gains/losses or impairment on asset disposals, less depreciation and amortisation.

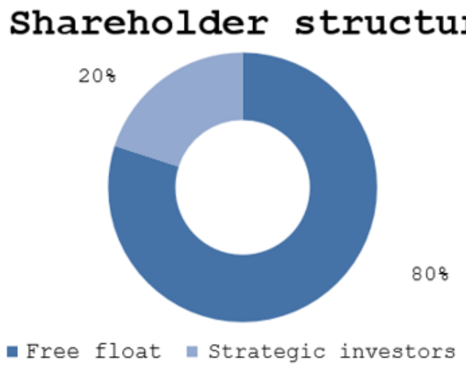
3. Stock market performance and shareholder returns

All of the shares in REC, the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system.

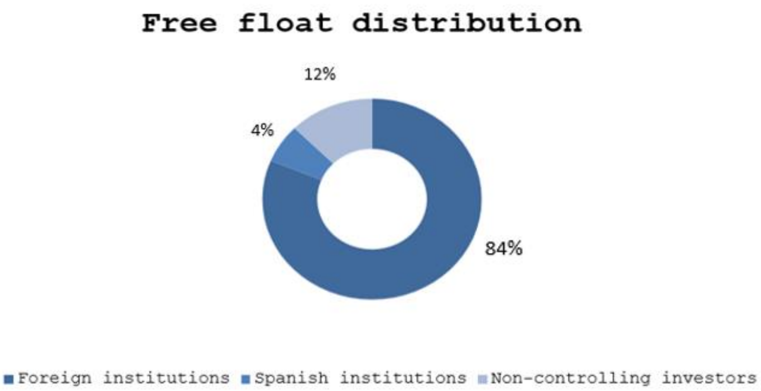
REC also forms part of the IBEX 35 index, of which it represented 1.96% at the end of 2019.

At 31 December 2019, the share capital of REC amounted to Euros 270.5 million and was represented by 541,080,000 shares with a par value of Euros 0.50 each, subscribed and fully paid.

During the year REC's free float was 80%.



At the date of the last shareholders' meeting – 22 March 2019 – the free float comprised 432,864,000 shares, of which an estimated 12% is held by non-controlling shareholders, 4% by Spanish institutional investors and 84% by foreign institutional investors, primarily in the United Kingdom and the United States.



2019 was a good year in terms of stock market performance. It was also a peculiar year. While the main markets have rallied strongly, reaching record highs in the case of Wall Street, there has also been a gradual economic slowdown which, based on initial estimates, has resulted in 2019 being the year with the lowest growth in the past 10 years. According to the World Bank, the global economy grew by 2.4%, the lowest rate since the great recession in 2009. The reasons for this disconnection between markets and economy could be attributable to the steadfast support given by major worldwide banks to the markets. Monetary injections through debt repurchases, as well as interest rate cuts where possible, have been implemented by the monetary authorities over the last 12 months. Lastly, it is worth mentioning that trade disputes were eased during the last few months of the year, which helped to consolidate the gains accumulated throughout the period.

The main US stock exchanges were up, the Dow Jones by 22.3% and the Nasdaq tech index by 35%, and all reached record highs during the year. It was also a good year for Asian stock markets, with the Japanese Nikkei 225 index up by 18.2% and the Chinese Shanghai index up by more than 22%, following a December rally after a trade agreement was reached with the USA. Lastly, European stock exchanges saw gains of around 25%, except for the British FTSE, possibly hampered by the uncertainty caused by Brexit, and the Spanish IBEX, ostensibly affected by the political instability in Spain.

This conducive landscape is in contrast to the performance of Red Eléctrica's share price, which dropped by 8% over the year. This atypical performance is perhaps largely due to the regulatory changes made to electricity transmission activity in Spain. The draft circular with new regulatory parameters published at the start of July caused the share price to fall sharply, hitting a year low of Euros 16.74 on 31 July. From then until 31 December it recovered by over 7%.

The market capitalisation of the Company at the end of 2019 was Euros 9,699 million.

In total, 529.6 million shares were traded on official secondary markets in 2019, which is 0.98 times the Company's share capital. Cash transactions amounted to Euros 9,804.2 million.

4. Own shares

In order to provide investors with adequate levels of liquidity the Company acquired 4,702,441 shares with a total par value of Euros 2.4 million and a cash value of Euros 86.1 million in 2019. A total of 3,875,646 shares were sold, with an overall par value of Euros 1.9 million and a cash value of Euros 72.5 million.

At 31 December 2019 the Company held 2,024,844 own shares, with a par value of Euros 0.50 per share, representing 0.37% of its share capital. These shares had an overall par value of Euros 1.0 million and an acquisition price of Euros 18.03 per share (see note 14 to the annual accounts) and a market value of Euros 36.3 million.

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 subsidiaries do not hold own shares or shares in the Parent.

5. Risk management

The Company has implemented a Comprehensive Risk Management System, which aims to ensure that any risks that might affect its 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 Comprehensive Risk Management Policy was approved by the board of directors. This Comprehensive Risk Management System, the Policy and the General Procedure are based on the COSO II (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management Integrated Framework.

The Corporate Risk Map depicts the Group's most significant risks and is prepared applying a bottom-up methodology, whereby the risks are identified, analysed and assessed by the different organisational units before being escalated for validation by Directors, General Managers and Corporate Directors, until their final presentation to the Chair of the Red Eléctrica Group, the Executive Committee, the Audit Committee and the Board of Directors.

The Board of Directors is responsible for approving the Risk Policy and acceptable level of risk of the Group, while the Audit Committee is tasked with overseeing the effectiveness of the Comprehensive Risk Management System. The Executive Committee is responsible for implementing adequate monitoring of the Group's significant risks and the action plans to mitigate these risks.

The main risks to which the Group is exposed and that could affect achievement of its objectives are regulatory risk, including tax risks, inasmuch as the Group's principal business lines are subject to regulations, operational risk, primarily relating to electricity system servicing activities, financial risk and environmental risk.

The Comprehensive Risk Management Policy also covers financial risk management, as detailed in the note to the consolidated annual accounts on Financial Risk Management Policy. The Company's Sustainability Report provides further details of the Group's main risks at present, as well as risks which could emerge in the future.

6. Environment

At 31 December 2019, REC has no assets specifically for the protection and improvement of the environment. In 2019 the Company incurred no expenses in protecting and improving the environment.

REC is not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. No environment-related grants were received in the year.

7. Research, development and innovation (R&D&i)

REC does not carry out research, development or innovation activities (R&D&i).

8. Excellence and corporate responsibility

Since 1999 the company has applied the EFQM (European Foundation for Quality Management) excellence management model as a tool to improve management, and external assessments are performed periodically. In 2019 Red Eléctrica retained its EFQM 500+ European Seal of Excellence, following the external assessment carried out in 2017, with a score of more than 700 points.

In 2019 Red Eléctrica was the winner of first nationwide award for excellent, innovative and sustainable management, presented by Club Excelencia en Gestión, the EFQM's representative in Spain. Red Eléctrica was chosen by the panel for its excellence in management and the Company's sustainable and innovative management over time. Once again in 2019, Red Eléctrica was named "Ambassador of European Excellence" by Club Excelencia en Gestión, a title given to companies and entities which have a current EFQM 500+ European Seal of Excellence and have scored over 600 EFQM points in their assessment.

In keeping with its commitment to excellence and quality, the Red Eléctrica Group has ISO 9001-certified quality management systems in its main subsidiaries (Red Eléctrica de España, Red Eléctrica Andina, Hispasat) and the standard has been implemented and certified in the subsidiary Red Eléctrica Infraestructuras en Canarias, S.A.U. for the first time this year.

2019 also saw the development of a groundbreaking project to implement and certify project-based management in the Chira-Soria hydroelectric pumping power plant project under ISO 10006 and 21500.

9. Average supplier payment period. "Reporting Requirement". Third Additional Provision of Law 15/2010 of 5 July 2010

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to annual accounts on average payment periods to suppliers in commercial transactions, the average supplier payment period was 43.5 days at the 2019 year end.

The disclosures required by this resolution are contained in note 19 to the Company's annual accounts for 2019.

10. Significant events occurring after the reporting period

On 9 January 2020 the Group company REF issued bonds in the Euromarket amounting to Euros 700 million, as part of the Euro Medium Term Note Programme (EMTN programme). They have a maturity of eight and a half years, and the foreseen disbursement date is 24 January 2020. They pay an annual coupon of 0.375% and their issue price is 98.963%, representing a return of 0.500%. These bonds are guaranteed by the Company and the Group company REE. The funds will be used to finance and/or refinance Eligible Projects within the Company's recently announced Green Financing Framework.

On 28 January Mr. Jordi Sevilla Segura stepped down as chairman of the Company and, as a result, chairman of the board of directors, having been appointed as such by the board on 31 July 2018.

11. Dividend policy

The dividends paid in 2019 amounted to Euros 530.8 million, 7% more than in 2018.

The Board of directors has proposed a dividend of Euros 1,0519 per share with a charge to 2019 profit, pending approval by the shareholders at their general meeting, representing an increase of 7% on the prior year.

This is in line with the dividend policy set out in the Group's 2014-2019 Strategic Plan, with growth at a rate of approximately 7%. This increase is considered as the average annual rate for the period on the basis of the total dividend approved with a charge to 2014.

The dividend will be paid in two instalments – an interim dividend in January and a supplementary dividend halfway through the year following approval of the annual accounts by the shareholders at their General meeting.

12. Outlook

As the Parent of the Red Eléctrica Group, REC will continue to undertake its activities in order to meet the targets set out in the 2018-2022 Strategic Plan, implementing a model encompassing two major lines of action in equal proportion: operations subject to market risk which offset the concentration of regulatory risk, and regulated operations which offset market risk. To this end, it will: continue to develop the role of the Spanish TSO, helping to make the energy transition possible; take further steps to consolidate its position as a leading operator of telecommunications infrastructure; increase the scope of its international business and invest in technological acceleration and innovation.

Executing the strategy, underpinned by efficiency, digital transformation and personnel development, will enable the Group to adapt to the new, stricter regulatory and remuneration environment, and to generate more ways of creating value.

REC will uphold its commitment to maximising value for its shareholders, offering an attractive return in the form of dividends and generating value through efficient management of its activities, analysing alternatives for expanding its core business, maintaining a robust capital structure and working to guarantee supply with the utmost level of quality.

The Group will therefore continue to seek the generation of long-term value, creating lasting, competitive advantages and improving our corporate reputation, whilst focusing on providing optimum service to society – the differentiating feature of the Group's management.

Lastly, REC will foster the roll-out of its 2030 Sustainability Commitment. Sustainability is the Red Eléctrica Group's long-term commitment to unlocking shared value for all its stakeholders by carrying out its activities responsibly.

13. Annual Corporate Governance Report

The Annual Corporate Governance Report forms an integral part of the directors' report and can be viewed at the following address:

http://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A-78003662