



RED
ELÉCTRICA
CORPORACIÓN

Financial results

January - December 2019

26 February 2020

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



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1. Main highlights

The process of reviewing the remuneration parameters of the regulated activities of the Spanish electricity system was completed in the last few months of this year. **Circular 2/2019** was approved on 12 November, which establishes the methodology for calculating the financial remuneration of, among others, electricity transmission activities. Subsequently, on 27 November the Spanish National Markets and Competition Commission (CNMC) approved **Circular 4/2019**, which, for the first time, established the methodology for the remuneration of Spanish electricity system operators. Lastly, CNMC **Circular 5/2019** was published on 5 December, which establishes the methodology for calculating the remuneration of electricity transmission activities, and the **Circular 7/2019**, approving reference values for benchmark installations and operation and maintenance cost. Therefore, and with the participation of the Spanish regulator, companies and other agents in the sector, the regulatory cycle provided for in Spanish law has been closed. Remuneration has thus been set for the 2020-2025 period, giving visibility and predictability to the cash flows of the carrier and system operator.

In addition, in 2019 the Red Eléctrica Group has made significant progress in **diversification activities** included in its strategic plan. In this regard, two projects should be mentioned that will add a new dimension to the Group. On the one hand, the acquisition of **Hispasat**, which will make the Group an important player in the telecommunications market.

On the other hand, note should be made of the investment in the Brazilian electricity transmission company **Argo**, which will give our Group access to a very dynamic market. The purchase of this company will be completed in the coming months, when the relevant permits are obtained from the Brazilian authorities.

Our electricity transmission and system operation activities in Spain in 2019 have been aimed at facilitating the energy transition and enabling proper integration of renewable energy sources, with the ultimate goal of driving progress towards a low-carbon economy. The Company has maintained high levels of service quality with an availability of more than 98% on the Iberian Peninsula, 96.9% on the Balearic Islands and 98.9% on the Canary Islands. Mainland production from renewable sources amounted to 37.5% and CO₂-free mainland production represented 59.5% of production.

Profit for the year was €718.0 million, a 1.9% increase on 2018.

EBITDA was €1,582.4 million, up 2.8% on the previous year.

Total **investments** of the Red Eléctrica Group reached €1,870 million, which is around 3.4 times that invested in 2018. These investments include €396 million allocated to the development of the Spanish **transmission network**, €225 million to the development of international activity and €1,215 million to the telecommunications activity, with this figure including the payment for Hispasat.

On 7 January, Red Eléctrica paid €0.2727 per share as an **interim dividend** for 2019, which was the first of two payments of €1.0519 that will be made with a charge to that year, up 7% on the previous year, as stipulated in the 2014-2019 Strategic Plan, which was also incorporated in the Strategic Plan 2018-22.



2. Red Eléctrica: Main aggregates

Income statement

<i>(Thousands of euros)</i>	January - December			October - December		
	2019	2018	Δ %	2019	2018	Δ %
Revenue	2,007,240	1,948,540	3.0	530,041	478,356	10.8
EBITDA	1,582,418	1,539,669	2.8	426,643	392,262	8.8
EBIT	1,081,355	1,069,793	1.1	278,229	277,279	0.3
Profit before tax	948,725	936,252	1.3	245,028	243,332	0.7
Profit for the year	718,040	704,558	1.9	188,810	183,857	2.7

Income statement by segment

<i>(Thousands of euros)</i>	Management & Operation Electrical infrastructure		Telecommunications (fibre + satellites)	Other busi- nesses, corp. and adjustments	Total
	Spain	Abroad			
Revenue	1,806,997	51,640	175,417	(26,814)	2,007,240
EBITDA	1,405,860	36,297	138,208	2,053	1,582,418
EBIT	967,974	24,744	81,097	7,540	1,081,355
Profit before tax	848,373	9,005	73,122	18,224	948,725
Profit for the year	636,921	8,101	59,393	13,624	718,040

Balance sheet

<i>(Thousands of euros)</i>	December 2019	December 2018	Δ %
Non-current assets	10,875,152	9,303,514	16.9
Equity	3,614,434	3,361,366	7.5
Net financial debt *	6,025,575	4,682,720	28.7

(*) Includes foreign currency derivatives.

Other financial aggregates

<i>(Thousands of euros)</i>	January - December			October - December		
	2019	2018	Δ %	2019	2018	Δ %
Operating cash flow after taxes	1,257,817	1,218,928	3.2	267,133	238,108	12.2
Investments	1,870,393	546,594	242.2	1,405,946	142,524	-
Dividends paid	530,841	495,138	7.2	0	0	-

Credit rating

Agency	Credit rating	Outlook	Date
Standard & Poor's	A-	Stable	15/02/2019
Fitch Ratings	A-	Stable	08/04/2019



3. Earnings performance

The Red Eléctrica Group's financial statements for the fourth quarter of 2019 show the impact of the acquisition of Hispasat, a company that has been consolidated in the Group since 3 October. As a result, **revenue** grew by 3.0%, with growth in the last quarter of 2019 reaching 10.8% compared to the same period of the previous year. This revenue includes compensation for electricity transmission activities in Spain; the regulated income related to operation of the system; telecommunications activities in the amount of €175.4 million, which for the first time includes activities from the satellite business; and revenue from international activities, which were in the amount of €51.6 million. To this figure must be added 50% of the results of the Chilean company TEN amounted to €7.6 million, which is included in EBITDA as Profit of Investees.

EBITDA was €1,582.4 million and includes €33.0 million from Hispasat. It grew by 2.8% compared to 2018.

Operating costs performed as follows:

- **Supply costs and other operating expenses** amounted to €352.1 million, including €5.9 million from Hispasat. This figure grew by 4.0% compared to the previous year and by only 2.2% if the costs associated with Hispasat are eliminated.
- The **final headcount** was 2,056 employees and includes 200 employees from Hispasat, while the average headcount was 1,857 employees.

Consequently, **personnel expenses** rose 5.5% year-on-year. Without including Hispasat employees, these expenses would have grown at a rate of 3.0%.

Operating expenses

(Thousands of euros)	January - December			October - December		
	2019	2018	Δ%	2019	2018	Δ %
Supplies and other operating expenses	352,152	338,712	4.0	91,659	66,989	36.8
Personnel expenses	160,130	151,848	5.5	44,825	40,286	11.3
Operating expenses	512,282	490,560	4.4	136,484	107,275	27.2

EBIT stood at €1,081.4 million, up 1.1% on 2018. Without including Hispasat, this result would have grown at a rate of 0.8% compared to the previous year.

The **net finance expense** was -€134.0 million, €0.5 million less than the figure in 2018. The higher average gross financial debt, which amounted to €5,936 million, was offset by a lower average rate, which decreased from 2.42% in 2018 to 2.29% in 2019.

Finally, **profit for the year** amounted to €718.0 million, a rise of 1.9% year-on-year. The effective tax rate was 24.3%.



4. Cash flow and balance sheet performance

Cash flows ⁽¹⁾

<i>(Thousands of euros)</i>	January - December			October - December		
	2019	2018	Δ %	2019	2018	Δ %
Profit before tax	948,725	936,252	1.3	245,028	243,332	0.7
Income taxes paid	(198,354)	(205,570)	(3.5)	(130,075)	(136,007)	(4.4)
Depreciation and amortisation charge and other adjustments	507,446	488,246	3.9	152,180	130,782	16.4
Operating cash flow after taxes	1,257,817	1,218,928	3.2	267,133	238,108	12.2
Changes in working capital	(210,374)	(112,540)	86.9	5,311	21,962	(75.8)
Changes in other assets and liabilities	44,642	30,208	47.8	29,429	67,923	(56.7)
Changes in payables to non-current asset suppliers	(13,007)	(10,792)	20.5	49,339	8,590	-
Investments	(1,870,393)	(546,594)	-	(1,405,946)	(142,524)	-
Free cash flow	(791,316)	579,209	-	(1,054,734)	194,059	-
Dividends paid	(530,841)	(495,138)	7.2	-	-	-
Change in net financial debt ⁽²⁾	1,322,157	84,071	-	1,054,734	(194,059)	-

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

(2) The difference between this figure and the change in net financial debt shown on page 4 is owing to items that do not involve cash movements.

Operating cash flow after taxes was €1,257.8 million, up 3.2% year-on-year.

Changes in working capital as at 31 December 2019 totalled -€210.4 million, due mainly to greater transmission receivables and outstanding items to be settled to the system.

Investments by the Group during the period amounted to €1870.4 million. Of this amount, €396.4 million were earmarked for development of the national transmission network. Furthermore, €225.5 million were allocated to the development of the international electricity transmission business, including the acquisition of Cajamarca for €178.4 million. Finally, €1,215.2 million were allocated to the development of the telecommunications business, mainly including the investment in Hispasat.

The **dividends paid** with a charge to profit for the previous year amounted to €530.8 million, which is equal to €0.9831 per share.

As a result of the substantial investments made by the Red Eléctrica Group in 2019, **net financial debt** at 31 December amounted to €6,025.6 million compared to €4,682.7 million at the end of 2018.



Net financial debt^(*)

<i>(Thousands of euros)</i>	Euros	Foreign currency	Total
Cash and cash equivalents	(287,449)	(41,121)	(328,570)
Non-current debt securities	2,871,521	515,930	3,387,451
Non-current loans	2,401,301	350,312	2,751,613
Promissory notes and current loans	215,081	-	215,081
Total net financial debt	5,200,454	825,121	6,025,575

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

At 31 December 2019, 89% of the Group's financial debt was long term. As regards interest rates, 78% of the Group's net debt is at a fixed rate, while the remaining 22% is at a floating rate.

The average cost of the Group's financial debt in 2019 was 2.29%, compared to 2.42% in the previous year. Accordingly, the **average balance of gross debt** stood at €5,936 million, compared to €5,499 million in the previous year.

Moreover, at 31 December 2019, the Red Eléctrica Group's **equity** stood at €3,614 million.

Credit rating

Standard & Poor's has given Red Eléctrica a long-term credit rating of 'A-' with a stable outlook and a short-term credit rating of 'A-2'. Fitch granted the Company a long-term rating of 'A-' with a stable outlook and a short-term rating of 'F1'.

The S&P rating is based on the stability of the cash flows arising mainly from regulated transmission activities. Fitch also highlighted the low level of business risk given TSO's natural monopoly position in Spain and the steady increase in the flow of income from contracts of the telecommunications business and the electricity transmission concessions in Peru and Chile.



5. Significant events in Q4 and thereafter

- The Board of Directors of Red Eléctrica Corporación, S.A. adopted the following resolutions at its meeting held on 25th February 2020:
 - I. Appoint Ms. Beatriz Corredor Sierra as Director, in the category of “other external” directors, in accordance with the report issued by the Appointments and Remunerations Committee and the Board of Directors.
 - II. Appoint Ms. Beatriz Corredor Sierra non-executive Chairwoman of the Board of Directors and Chairwoman of the Company.
- The Board of Directors, at its meeting held on 25 February, agreed to propose to the General Shareholders Meeting a dividend per share of €1.0519 paid against 2019 profits, pursuant to the dividend policy communicated by the Company in its strategic plan. The €0.2727 per share interim dividend paid on 7 January must be deducted from this amount.
- On 28 January, Jordi Sevilla Segura tendered his resignation as director of the Company and, consequently, as Chairman of the Board.
- On 9 January, Red Eléctrica Corporación, through its subsidiary Red Eléctrica Financiaciones, S.A.U., issued bonds totalling €700 million. The funds obtained from this bond will be used to finance and/or refinance Eligible Projects within the Green Financing Framework recently published by Red Eléctrica de España, S.A.U. This issue, which matures in eight and a half years and is payable on 24 January 2020, has an annual coupon of 0.375% and an issue price of 98.963%, representing a yield of 0.500%.
- On 12 and 27 November and 5 December, respectively, the Spanish National Markets and Competition Commission approved Circulars 2/2019, 4/2019, 5/2019 and 7/2019. The first establishes the methodology for calculating the remuneration rate of, among others, electricity transmission activities. Circular 4/2019 introduces into Spanish regulations a methodology for the remuneration of electricity system operators. Circular 5/2019 establishes the methodology for calculating the remuneration of electricity transmission activities. Lastly, Circular 7/2019 approves reference values for benchmark installations and operation and maintenance cost.

These circulars constitute significant milestones in Red Eléctrica’s business activity. Circular 2/2019 therefore brings the Spanish remuneration system into line with that of other European countries, establishing remuneration based on the weighted cost of capital. In Circular 4/2019, for the first time, the Spanish regulator has developed a methodology for remunerating system operation in which incentives play an important role. Likewise, Circular 5/2019 and 7/2019 have meant the end of the regulatory cycle in Spain, establishing, as stated in Spanish law, the revision of the main remuneration parameters that affect transmission activities.

- On 22 November 2019, Red Eléctrica Internacional, S.A.U. (REI) and the Colombian company Grupo Energía Bogotá S.A. ESP (GEB) jointly, and in equal parts, acquired 100% of the ordinary shares of Argo Energía, a company that owns 3 electricity transmission concessions in Brazil for a 30-year period, totalling 1,460 km of 500 kV and 230 kV power lines, and 11 substations, of which 1,150 km of power lines and 5 substations have been in operation since October 2019. The final price of the acquisition has been set at 1,775 million Brazilian reais (BRL), €382 million at the exchange rate announced in the transaction, for 50% of the shares. The concessions, which are part of the Brazilian national transmission system, will have revenue of close to €190 million in 2023 once they are operational.
- On 3 October 2019, Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. formalised the acquisition of 89.68% of the shares of Hispasat. The acquisition price of the 89.68% interest in the share capital of Hispasat amounted to €933 million and was included in the Red Eléctrica Group’s financial statements on 3 October. The Red Eléctrica Group has therefore positioned itself as a global operator of electrical and telecommunications infrastructures, both in Spain and internationally. In order to carry out this transaction, Red Eléctrica Corporación, S.A. entered into a credit facility agreement for €500 million with a term of 5 years, with the possibility of extension to 7 years.



Appendix 1. Consolidated financial statements

Red Eléctrica Group

Consolidated income statement

<i>(Thousands of euros)</i>	31/12/2019	31/12/2018	2019/2018
Revenue	2,007,240	1,948,540	3.0%
Work on non-current assets	60,083	62,027	(3.1%)
Share in the profits of companies accounted for using the equity method (with activities similar to those of the Group)	7,606	6,966	9.2%
Supply costs	(34,503)	(37,725)	(8.5%)
Other operating income	19,771	12,696	55.7%
Personnel expenses	(160,130)	(151,848)	5.5%
Other operating expenses	(317,649)	(300,987)	5.5%
Gross operating profit	1,582,418	1,539,669	2.8%
Depreciation and amortisation charge for non-current assets	(525,529)	(480,753)	9.3%
Allocation to profit or loss of grants related to non-financial assets	25,724	23,445	9.7%
Impairment and gains or losses on disposal of non-current assets	(1,258)	(12,568)	(90.0%)
Net operating profit	1,081,355	1,069,793	1.1%
Finance income	12,817	10,670	20.1%
Finance costs	(145,927)	(144,063)	1.3%
Exchange differences	(890)	(148)	-
Impairment and gains or losses on disposal of financial instruments	1	0	-
Net finance expense	(133,999)	(133,541)	0.3%
Share of profit of companies accounted for using the equity method	1,369	-	-
Profit before tax	948,725	936,252	1.3%
Income tax expense	(230,234)	(231,763)	(0.7%)
Consolidated profit for the period	718,491	704,489	2.0%
A) Consolidated profit attributable to the Parent	718,040	704,558	1.9%
B) Consolidated profit attributable to non-controlling interests	451	(69)	-



Red Eléctrica Group

Consolidated balance sheet

ASSETS (thousands of euros)	31/12/2019	31/12/2018
Intangible assets	765,599	242,559
Property, plant and equipment	9,673,135	8,711,332
Investment property	1,345	1,654
Investments accounted for using the equity method	259,594	198,377
Non-current financial assets and derivatives	127,303	120,931
Deferred tax assets	44,307	27,984
Other non-current assets	3,869	677
Non-current assets	10,875,152	9,303,514
Inventories	42,720	34,641
Trade and other receivables	1,346,007	1,102,560
Current financial assets and derivatives	69,511	54,213
Cash and cash equivalents	328,570	767,152
Current assets	1,786,808	1,958,566
Total assets	12,661,960	11,262,080

LIABILITIES (thousands of euros)	31/12/2019	31/12/2018
Equity	3,568,270	3,404,605
Share capital	270,540	270,540
Reserves	2,763,196	2,598,060
Treasury shares and own equity instruments (-)	(36,504)	(21,303)
Profit for the year attributable to the Parent	718,040	704,558
Interim dividend	(147,002)	(147,250)
Valuation adjustments	(52,466)	(44,071)
Non-controlling interests	98,630	832
Equity	3,614,434	3,361,366
Grants and other	705,762	631,410
Non-current provisions	151,406	127,541
Non-current financial liabilities and derivatives	5,367,026	5,021,178
Deferred tax liabilities	456,255	473,125
Other non-current liabilities	94,902	83,068
Non-current liabilities	6,775,351	6,336,322
Current financial liabilities and derivatives	1,847,887	1,196,870
Trade and other payables	396,943	367,522
Other current liabilities	27,345	-
Current liabilities	2,272,175	1,564,392
Total liabilities	12,661,960	11,262,080



Red Eléctrica Group

Consolidated statement of cash flows

<i>(Thousands of euros)</i>	31/12/2019	31/12/2018
CASH FLOWS FROM OPERATING ACTIVITIES	1,045,157	1,100,025
Profit before tax	948,725	936,252
Adjustments for:	647,940	624,907
Changes in working capital	(210,374)	(112,540)
Other cash flows from operating activities	(341,134)	(348,594)
CASH FLOWS FROM INVESTING ACTIVITIES	(1,373,834)	(525,898)
Payments due to investments	(1,451,064)	(557,384)
Proceeds from disposals	23,651	4,067
Other cash flows from investing activities	53,579	27,419
CASH FLOWS FROM FINANCING ACTIVITIES:	(110,219)	(377,582)
Proceeds from/(payments for) equity instruments	(13,753)	10,417
Proceeds from/(payments for) financial liability instruments	451,238	113,211
Dividends paid	(530,841)	(495,138)
Other cash flows from financing activities	(16,863)	(6,072)
Effect of foreign exchange rate changes	314	738
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(438,582)	197,283
Cash and cash equivalents at beginning of period	767,152	569,869
Cash and cash equivalents at end of period	328,570	767,152



Financial calendar

Upcoming events

Estimated dates

Final dividend for 2019	July 2020
First quarter 2020 results presentation	April-May 2020

For more information

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Appendix 2. Sustainability certifications



The Company was once again placed on the DJSI World index.



Silver Class distinction in the 2020 Sustainability Yearbook prepared by S&P's Global in cooperation with RobecoSAM.



FTSE4Good

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



Continued inclusion in the STOXX Global ESG Leaders indices.



Continued inclusion in the MSCI ESG index with a maximum rating of "AAA".



Renewed presence in the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120 and Global 120).



The Company confirmed its presence in the Ethibel Sustainability Index Excellence Europe.



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



Included in the ECPI Indices since 2008.



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

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