# Red Eléctrica Corporación, S.A.

**Consolidated Annual Accounts**

**31 December 2019**

**Consolidated 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 Consolidated 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 CONSOLIDATED ANNUAL ACCOUNTS

### Opinion

We have audited the consolidated annual accounts of Red Eléctrica Corporación, S.A. (the "Parent") and subsidiaries (together the "Group") which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### 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 Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. 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 consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Additions to property, plant and equipment (Euros 401,556 thousand)<br>See note 7 to the consolidated annual accounts</th></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Most of the Group's property, plant and equipment pertain to Red Eléctrica de España, S.A.U., the regulated activity of which mainly consists of managing the transmission network of the Spanish electricity system. Each year, Red Eléctrica de España, S.A.U. makes substantial investments in property, plant and equipment in accordance with the Electricity Transmission Network Development Plan for 2015 – 2020 approved by agreement of the Council of Ministers on 16 October 2015. In 2019 additions to the Group’s property, plant and equipment totalled Euros 472,907 thousand, of which Euros 401,556 thousand pertains to Red Eléctrica de España, S.A.U.<br><br>Considering the nature of the business carried out by Red Eléctrica de España, S.A.U., remuneration is set by the Ministry for Ecological Transition and Demographic Challenge. The calculation method is stipulated in legislation and takes into account the costs necessary to construct, operate and maintain the technical electricity facilities, in accordance with Electricity Industry Law 24/2013 of 26 December 2013. As part of the Group's revenues are directly related to the electricity transmission facilities recognised each year, and bearing in mind the significance of these facilities in the consolidated annual accounts, we have considered the additions to property, plant and equipment to be a key audit matter.</td><td>Our audit procedures included evaluating the relevant controls associated with processes involving “fixed assets and acquisitions”, as well as performing substantive procedures on property, plant and equipment. We also assessed the consistency of the Group's accounting policies on “fixed assets and acquisitions” with the applicable accounting framework.<br><br>Our procedures for evaluating and analysing the control environment were focused on:<br><br>- Testing the design, implementation and operating effectiveness of key manual and automated controls related to the cycles of “additions and disposals of fixed assets” and “acquisition of assets and services, progress billings for construction”.<br><br>Our substantive procedures on property, plant and equipment mainly consisted of:<br><br>- Analysing additions during the year and assessing the accuracy of their accounting recognition.<br>- Analysing documentation supporting the cost allocation for a sample of projects in progress.<br><br>We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group.</td></tr>
</table>

| **Hedging instruments**<br>**(assets: Euros 26,043 thousand; liabilities: Euros 53,262 thousand; valuation adjustments: hedging transactions: Euros 82,699 thousand)**<br><br>**See notes 13, 17, 18 and 19 to the consolidated annual accounts** | |
|---|---|
| *Key audit matter* | *How the matter was addressed in our audit* |
| Loans and borrowings and bonds and other marketable securities total Euros 6,452,809 thousand, of which Euros 894,808 thousand is in foreign currency. The Group arranges financial instruments, including foreign currency and interest rate derivatives, to hedge exposures to exchange rate and interest rate fluctuations on part of this debt and in highly probable forecasted future transactions.<br><br>Derivatives designated as accounting hedges must meet strict criteria with respect to documentation and the effectiveness of the hedge on inception.<br><br>Furthermore, the fair value of derivative financial instruments is determined using valuation techniques that may take into consideration, among other factors, unobservable market data or complex pricing models that require a high degree of judgement.<br><br>Given the complexity of complying with the financial reporting framework in force governing the identification and measurement of hedging instruments and the correct measurement of their effectiveness, we have considered this to be a key audit matter. | Our audit procedures included evaluating the relevant controls associated with the classification and measurement of hedging instruments, and performing substantive procedures thereon. We also assessed the compliance of the Group's accounting policies on financial instruments with the applicable accounting framework.<br><br>Our procedures for evaluating the control environment were focused on:<br><br>- Testing the design, implementation and operating effectiveness of key controls related to the cycles of “derivative financial instruments” and “recognition of financial transactions”.<br><br>Our substantive procedures on hedging derivatives mainly consisted of:<br><br>- Performing substantive tests to evaluate whether derivative financial instruments have been correctly measured. Our specialists in financial instruments were involved in these procedures.<br>- Assessing compliance with hedge accounting criteria under International Financial Reporting Standard (IFRS) 9 as regards identifying hedging instruments and positions to be hedged. Our specialists in financial instruments were involved in these procedures.<br>- Evaluating the reasonableness of the measurement of the effectiveness of the Group's accounting hedges. Our specialists in financial instruments were involved in these procedures. |

| **Hedging instruments**<br>**(assets: Euros 26,043 thousand; liabilities: Euros 53,262 thousand; valuation adjustments: hedging transactions: Euros 82,699 thousand)**<br><br>**See notes 13, 17, 18 and 19 to the consolidated annual accounts** | |
|---|---|
| *Key audit matter* | *How the matter was addressed in our audit* |
| | We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Group. |

## Other Information: Consolidated Directors' Report

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

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

a) A specific level applicable to the consolidated non-financial information statement, as well as 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 this information has been provided in the consolidated directors' report, or where applicable, that the consolidated directors' report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to report on this matter.

b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group 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 consolidated 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 information mentioned in section a) above has been provided in the consolidated directors' report, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2019 and that the content and presentation of the report are in accordance with applicable legislation.

In accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013, subsequently amended by CNMV Circular 7/2015 of 22 December 2015 and by CNMV Circular 2/2018 of 12 June 2018 and which provides the templates for the Annual Corporate Governance Report for listed corporations, and for the purposes of the description of Internal Control over Financial Reporting in Annual Corporate Governance Reports, and as mentioned in section F.7.1 of the Annual Corporate Governance Report, which forms part of the accompanying consolidated directors' report for 2019, on 25 February 2020, at the Company's request, we issued our Independent Reasonable Assurance Report on the Internal Control over Financial Reporting (ICOFR) of the Red Eléctrica Group for 2019, based on our examination, which was performed in accordance with ISAE 3000 (Revised) (International Standard on Assurance Engagements 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports.

## Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts __

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

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

## Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts __________

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

– Conclude on the appropriateness of the use by the Parent's Directors 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent 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 Parent'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 Parent, we determine those that were of most significance in the audit of the consolidated 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 of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 25 February 2020

### Contract Period

We were appointed as auditor of the Group 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 consolidated 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)*

# Annual Accounts

# 2019

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

## Red Eléctrica Group
## Consolidated Statement of Financial Position at 31 December 2019

Thousands of Euros

| Assets | Note | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 6 | 765,599 | 242,559 |
| Property, plant and equipment | 7 | 9,673,135 | 8,711,332 |
| Investment property | 9 | 1,345 | 1,654 |
| Equity-accounted investees | 10 | 259,594 | 198,377 |
| Non-current financial assets | 18 | 112,571 | 109,911 |
| Non-current derivatives | 19 | 14,732 | 11,020 |
| Deferred tax assets | 22 | 44,307 | 27,984 |
| Other non-current assets | | 3,869 | 677 |
| **Total non-current assets** | | **10,875,152** | **9,303,514** |
| **Current assets** | | | |
| Inventories | 11 | 42,720 | 34,641 |
| Trade and other receivables | 12 | 1,346,007 | 1,102,560 |
| Trade receivables | | 74,396 | 10,826 |
| Other receivables | | 1,261,607 | 1,089,675 |
| Current tax assets | 22 | 10,004 | 2,059 |
| Other current financial assets | 18 | 58,200 | 54,213 |
| Current derivatives | 19 | 11,311 | - |
| Cash and cash equivalents | | 328,570 | 767,152 |
| **Total current assets** | | **1,786,808** | **1,958,566** |
| **Total assets** | | **12,661,960** | **11,262,080** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Capital and reserves | | 3,568,270 | 3,404,605 |
| Capital | | 270,540 | 270,540 |
| Reserves | | 2,763,196 | 2,598,060 |
| Own shares (-) | | (36,504) | (21,303) |
| Profit attributable to the Parent | | 718,040 | 704,558 |
| Interim dividend (-) | | (147,002) | (147,250) |
| Valuation adjustments | | (52,466) | (44,071) |
| Financial assets at fair value through other comprehensive income | | 24,604 | 15,063 |
| Hedging transactions | | (82,699) | (62,237) |
| Translation differences | | 5,629 | 3,103 |
| **Equity attributable to the Parent** | | **3,515,804** | **3,360,534** |
| Non-controlling interests | | 98,630 | 832 |
| **Total equity** | 13 | **3,614,434** | **3,361,366** |
| **Non-current liabilities** | | | |
| Grants and other | 14 | 705,762 | 631,410 |
| Non-current provisions | 15 | 151,406 | 127,541 |
| Non-current financial liabilities | 18 | 5,318,760 | 4,981,234 |
| Loans and borrowings, bonds and other marketable securities | | 5,258,474 | 4,980,757 |
| Other non-current financial liabilities | | 60,286 | 477 |
| Deferred tax liabilities | 22 | 456,255 | 473,125 |
| Non-current derivatives | 19 | 48,266 | 39,944 |
| Other non-current liabilities | 16 | 94,902 | 83,068 |
| **Total non-current liabilities** | | **6,775,351** | **6,336,322** |
| **Current liabilities** | | | |
| Current provisions | 15 | 27,345 | - |
| Current financial liabilities | 18 | 1,842,891 | 1,196,870 |
| Loans and borrowings, bonds and other marketable securities | | 1,194,335 | 562,328 |
| Other current financial liabilities | | 648,556 | 634,542 |
| Trade and other payables | 20 | 396,943 | 367,522 |
| Suppliers | | 311,879 | 313,759 |
| Other payables | | 61,490 | 50,278 |
| Current tax liabilities | 22 | 23,574 | 3,485 |
| Current derivatives | 19 | 4,996 | - |
| **Total current liabilities** | | **2,272,175** | **1,564,392** |
| **Total equity and liabilities** | | **12,661,960** | **11,262,080** |

The Group has applied IFRS 16 at 1 January 2019, and IFRS 15 and IFRS 9 at 1 January 2018. Given the transition method selected, the comparative information has not been restated.
Notes 1 to 34 and Appendix I form an integral part of these consolidated annual accounts.

## Red Eléctrica Group
## Consolidated Income Statement. 2019

| Thousands of Euros | Note | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| Revenue | 23.a | 2,007,240 | 1,948,540 |
| Self-constructed assets | 6 and 7 | 60,083 | 62,027 |
| Share of profit of equity-accounted investees (with a similar activity to that of the Group) | 10 | 7,606 | 6,966 |
| Supplies | 23.c | (34,503) | (37,725) |
| Other operating income | 23.b | 19,771 | 12,696 |
| Personnel expenses | 23.d | (160,130) | (151,848) |
| Other operating expenses | 23.c | (317,649) | (300,987) |
| Depreciation and amortisation | 6, 7 and 9 | (525,529) | (480,753) |
| Non-financial and other capital grants | 14 | 25,724 | 23,445 |
| Impairment and losses on disposal of fixed assets | 7 | (1,258) | (12,568) |
| **Results from operating activities** | | **1,081,355** | **1,069,793** |
| Finance income | 23.e | 12,817 | 10,670 |
| Finance costs | 23.e | (145,927) | (144,063) |
| Exchange losses | | (890) | (148) |
| Impairment and gains/(losses) on disposal of financial instruments | | 1 | - |
| **Net finance cost** | | **(133,999)** | **(133,541)** |
| Share of profit of equity-accounted investees | 10 | 1,369 | - |
| **Profit before tax** | | **948,725** | **936,252** |
| Income tax | 22 | (230,234) | (231,763) |
| **Consolidated profit for the year** | | **718,491** | **704,489** |
| **A) Consolidated profit for the year attributable to the Parent** | | **718,040** | **704,558** |
| **B) Consolidated profit/(loss) for the year attributable to non-controlling interests** | | **451** | **(69)** |
| Earnings per share in Euros | | | |
| Basic earnings per share in Euros | 32 | 1.33 | 1.31 |
| Diluted earnings per share in Euros | 32 | 1.33 | 1.31 |

Notes 1 to 34 and Appendix I form an integral part of these consolidated annual accounts.

## Red Eléctrica Group
## Consolidated Statement Of Comprehensive Income. 2019

| Thousands of Euros | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **A) Consolidated profit for the year (income statement)** | **718,491** | **704,489** |
| **B) Other comprehensive income – Items that will not be reclassified to profit or loss:** | **(735)** | **2,089** |
| 1. Revaluation/(reversal) of PPE and intangible assets | - | - |
| 2. Actuarial gains and losses (note 15) | (13,701) | 3,280 |
| 3. Share of other comprehensive income from investments in joint ventures and associates | - | - |
| 4. Equity instruments through other comprehensive income (note 18) | 9,541 | (1,501) |
| 5. Other income and expense that will not be reclassified to profit or loss | | |
| 6. Tax effect | 3,425 | 310 |
| **C) Other comprehensive income – Items that could be reclassified to profit or loss:** | **(18,888)** | **20,428** |
| **1. Cash flow hedges:** | **(12,944)** | **6,932** |
| a) Revaluation gains/(losses) | (17,918) | 2,415 |
| b) Amounts transferred to the income statement | 4,974 | 4,517 |
| c) Amounts transferred to initial value of hedged items | - | - |
| d) Other reclassifications | - | - |
| **2. Translation differences:** | **2,188** | **7,235** |
| a) Revaluation gains/(losses) | 2,188 | 7,235 |
| b) Amounts transferred to the income statement | - | - |
| c) Other reclassifications | - | - |
| **3. Share of other comprehensive income from investments in joint ventures and associates:** | **(10,757)** | **9,803** |
| a) Revaluation gains/(losses) | (10,757) | 9,803 |
| b) Amounts transferred to the income statement | - | - |
| c) Other reclassifications | - | - |
| **4. Debt instruments at fair value through other comprehensive income:** | **-** | **-** |
| a) Revaluation gains/(losses) | - | - |
| b) Amounts transferred to the income statement | - | - |
| c) Other reclassifications | - | - |
| **5. Other income and expense that could subsequently be reclassified to profit or loss:** | **-** | **-** |
| a) Revaluation gains/(losses) | - | - |
| b) Amounts transferred to the income statement | - | - |
| c) Other reclassifications | - | - |
| **6. Tax effect** | **2,625** | **(3,542)** |
| **Total comprehensive income for the year (A + B + C)** | **698,868** | **727,006** |
| a) Attributable to the Parent | 699,369 | 727,051 |
| b) Attributable to non-controlling interests | (501) | (45) |

Notes 1 to 34 and Appendix I form an integral part of these consolidated annual accounts.

## Red Eléctrica Group
## Consolidated Statement of Changes in Equity at 31 December 2019

| Equity / Thousands of Euros | Note | Subscribed capital | Reserves | Interim dividend | Own shares | Profit attributable to the Parent | Valuation adjustments | Equity attributable to the Parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2019** | | **270,540** | **2,598,060** | **(147,250)** | **(21,303)** | **704,558** | **(44,071)** | **3,360,534** | **832** | **3,361,366** |
| **I. Comprehensive income for the year** | | **-** | **(10,276)** | **-** | **-** | **718,040** | **(8,395)** | **699,369** | **(501)** | **698,868** |
| **II. Transactions with shareholders or owners** | | **-** | **(382,934)** | **248** | **(15,201)** | **(147,002)** | **-** | **(544,889)** | **-** | **(544,889)** |
| - Distribution of dividends | 13 | - | (384,383) | 248 | - | (147,002) | - | (531,137) | - | (531,137) |
| - Transactions with own shares | 13 | - | 1,449 | - | (15,201) | - | - | (13,752) | - | (13,752) |
| **III. Other changes in equity** | | **-** | **558,346** | **-** | **-** | **(557,556)** | **-** | **790** | **98,299** | **99,089** |
| - Transfers between equity line items | | - | 557,556 | - | - | (557,556) | - | - | - | - |
| - Other changes | 13 | - | 790 | - | - | - | - | 790 | 98,299 | 99,089 |
| **Balances at 31 December 2019** | | **270,540** | **2,763,196** | **(147,002)** | **(36,504)** | **718,040** | **(52,466)** | **3,515,804** | **98,630** | **3,614,434** |
| Balances at 31 December 2017 | | 270,540 | 2,384,396 | (137,509) | (29,769) | 669,836 | (64,104) | 3,093,390 | 59 | 3,093,449 |
| Adjustments due to first-time application of IFRS 9, net of tax | | - | 34,551 | - | - | - | - | 34,551 | - | 34,551 |
| **Balances at 1 January 2018** | | **270,540** | **2,418,947** | **(137,509)** | **(29,769)** | **669,836** | **(64,104)** | **3,127,941** | **59** | **3,128,000** |
| **I. Comprehensive income for the year** | | **-** | **2,460** | **-** | **-** | **704,558** | **20,033** | **727,051** | **(45)** | **727,006** |
| **II. Transactions with shareholders or owners** | | **-** | **(357,272)** | **(9,741)** | **8,466** | **(137,509)** | **-** | **(496,056)** | **-** | **(496,056)** |
| - Distribution of dividends | 13 | - | (359,223) | (9,741) | - | (137,509) | - | (506,473) | - | (506,473) |
| - Transactions with own shares | 13 | - | 1,951 | - | 8,466 | - | - | 10,417 | - | 10,417 |
| **III. Other changes in equity** | | **-** | **533,925** | **-** | **-** | **(532,327)** | **-** | **1,598** | **818** | **2,416** |
| - Transfers between equity line items | | - | 532,327 | - | - | (532,327) | - | - | - | - |
| - Other changes | | - | 1,598 | - | - | - | - | 1,598 | 818 | 2,416 |
| **Balances at 31 December 2018** | | **270,540** | **2,598,060** | **(147,250)** | **(21,303)** | **704,558** | **(44,071)** | **3,360,534** | **832** | **3,361,366** |

Notes 1 to 34 and Appendix I form an integral part of these consolidated annual accounts.

## Red Eléctrica Group
## Consolidated Statement of Cash Flows. 2019

| Thousands of Euros | Note | 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** |
| Depreciation and amortisation | 6, 7 and 9 | 525,529 | 480,753 |
| Other adjustments | | 122,411 | 144,154 |
| Equity-accounted investees | | (8,975) | (6,966) |
| (Gains)/losses on disposal/impairment of non-current assets and financial instruments | | 1,257 | 12,568 |
| Accrued finance income | 23.d | (12,817) | (10,670) |
| Accrued finance costs | 23.d | 145,927 | 144,063 |
| Charge to/surplus provisions for liabilities and charges | 15 | 22,743 | 25,048 |
| Capital and other grants taken to income | 14 | (25,724) | (19,889) |
| **Changes in operating assets and liabilities** | | **(210,374)** | **(112,540)** |
| Changes in inventories, receivables, current prepayments and other current assets | | (194,867) | (74,518) |
| Changes in trade payables, current contract liabilities and other current liabilities | | (15,507) | (38,022) |
| **Other cash flows used in operating activities:** | | **(341,134)** | **(348,594)** |
| Interest paid | | (148,213) | (150,426) |
| Dividends received | 23.e | 4,848 | 4,848 |
| Interest received | | 6,827 | 4,435 |
| Income tax received/(paid) | | (198,354) | (205,570) |
| Other proceeds from and payments for operating activities | | (6,242) | (1,881) |
| **Cash flows used in investing activities** | | **(1,373,834)** | **(525,898)** |
| **Payments for investments** | | **(1,451,064)** | **(557,384)** |
| Property, plant and equipment, intangible assets and investment property | 6, 7 and 9 | (519,263) | (456,219) |
| Group companies, associates and business units | 5 | (931,801) | (101,165) |
| Other financial assets | 18 | - | - |
| **Proceeds from sale of investments** | | **23,651** | **4,067** |
| Property, plant and equipment, intangible assets and investment property | 6, 7 and 9 | 1,121 | 240 |
| Other financial assets | 18 | 22,530 | 3,827 |
| **Other cash flows from investing activities** | **14** | **53,579** | **27,419** |
| Other proceeds from investing activities | 14 | 53,579 | 27,419 |
| **Cash flows used in financing activities** | | **(110,219)** | **(377,582)** |
| **Proceeds from and payments for equity instruments** | **13** | **(13,753)** | **10,417** |
| Acquisition | | (86,202) | (44,675) |
| Disposal | | 72,449 | 55,092 |
| **Proceeds from and payments for financial liability instruments** | **18** | **451,238** | **113,211** |
| Issue and drawdowns | | 2,138,358 | 1,398,826 |
| Redemption and repayment | | (1,687,120) | (1,285,615) |
| **Dividends and interest on other equity instruments paid** | **13** | **(530,841)** | **(495,138)** |
| **Other cash flows used in financing activities** | | **(16,863)** | **(6,072)** |
| Interest paid | | (131) | - |
| Other proceeds from and payments for financing activities | | (16,732) | (6,072) |
| **Effect of exchange rate fluctuations on cash and cash equivalents** | | **314** | **738** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(438,582)** | **197,283** |
| Cash and cash equivalents at beginning of year | | 767,152 | 569,869 |
| Cash and cash equivalents at year end | | 328,570 | 767,152 |

Notes 1 to 34 and Appendix I form an integral part of these consolidated annual accounts.

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In order to facilitate comprehension of the information provided in this document, certain alternative performance measures have been included. The definition of these measures can be found at www.ree.es.

## 1. Activities of the Group Companies

Red Eléctrica Corporación, S.A. (hereinafter the Parent or the Company) is the Parent of a Group formed by subsidiaries. The Group is also involved in joint operations along with other operators. The Parent and its subsidiaries form the Red Eléctrica Group (hereinafter the Group or Red Eléctrica Group). The Company's registered office is located in Alcobendas (Madrid) and its shares are traded on the Spanish automated quotation system as part of the selective IBEX 35 index.

The Group's principal activity is electricity transmission, system operation and management of the transmission network for the Spanish electricity system. These regulated activities are carried out through Red Eléctrica de España, S.A.U. (hereinafter REE).

The Group also conducts electricity transmission activities outside Spain through Red Eléctrica Internacional, S.A.U. (hereinafter REI) and its investees. Furthermore, the Group provides telecommunications services to third parties through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL), essentially via dark fibre backbone network rental, and through the HISPASAT Group, by means of satellite infrastructure operation.

In addition the Group carries out activities through its subsidiaries aimed at financing its operations and covering risks by reinsuring its assets and activities. It also develops and builds electricity infrastructure and facilities through its subsidiaries and/or investees, Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) and Interconexión Eléctrica Francia-España, S.A.S. (INELFE). Moreover, the Group carries out activities aimed at driving and fostering technological innovation through its subsidiary Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT).

Appendix I provides details of the activities and registered offices of the Parent and its subsidiaries, as well as the direct and indirect investments held by the Parent in the subsidiaries.

## 2. Basis of Preparation of the Consolidated Annual Accounts

### a) General information

The accompanying consolidated annual accounts have been prepared by the directors of the Parent to give a true and fair view of the consolidated equity and consolidated financial position of the Company and its subsidiaries at 31 December 2019, as well as the consolidated results of operations and consolidated cash flows and changes in consolidated equity for the year then ended.

The accompanying consolidated annual accounts, authorised for issue by the Company's directors at their board meeting held on 25 February 2020, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its annual accounts applying the accounting principles and criteria in force in its country of operations. Accordingly, the adjustments and reclassifications necessary to harmonise these principles and criteria with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) have been made on consolidation. The accounting policies of the consolidated companies are changed when necessary to ensure their consistency with the principles adopted by the Company.

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

These consolidated annual accounts have been prepared on the historical cost basis, except in the case of financial assets measured at fair value through other comprehensive income, financial assets at fair value through profit or loss, financial instruments at fair value through profit or loss and business combinations.

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Parent's functional and presentation currency, rounded off to the nearest thousand. The consolidated annual accounts have been prepared in accordance with IFRS-EU, and other applicable provisions in the financial reporting framework.

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

### b) New IFRS-EU and IFRIC

The consolidated annual accounts have been prepared in accordance with IFRS-EU.

The following standards and amendments have been applied for the first time in 2019:

| Effective from: | New requirements or amendments |
|---|---|
| 1 January 2019 | New standards and interpretations<br>• IFRS 16 Leases<br>• IFRIC 23 Uncertainty over Income Tax Treatments<br>Amendments<br>• Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)<br>• Prepayment Features with Negative Compensation (Amendments to IFRS 9)<br>• Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)<br>• Annual Improvements to IFRS Standards 2015–2017 Cycle - various standards |

The new standards and interpretations issued are as follows:

- **IFRS 16 Leases**

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

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

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

  - The standard has been applied to leases with an underlying asset of more than US Dollars 5,000 (approximately Euros 4,500 euros) and an estimated life of more than 12 months.
  - At the date of first-time application, 1 January 2019, the Group has not reassessed whether the contracts are, or contain, a lease, and the standard has been applied to contracts that were previously classified as such.
  - The Group has applied the modified retrospective approach, whereby the comparative figures for the prior period are not restated, and the initial value of the asset is therefore equal to the lease liability at 1 January 2019 for all lease contracts.
  - A lessee incremental effective borrowing rate of between 0.60% and 7.38% has been applied, based on the country and contract term.

  The impact of the first-time application of IFRS 16 at 1 January 2019 has entailed an increase of Euros 11,376 thousand in non-current assets, reflecting the right to use assets under leases (see note 7). Non-current and current liabilities have also increased, in amounts of Euros 6,381 thousand and Euros 4,995 thousand, respectively.

Thousands of Euros

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

At 31 December 2019 non-current assets are up Euros 16,821 thousand on the prior year (see note 8).

Details of changes in the Group's accounting principles due to the application of this standard are provided in note 4.

- **IFRIC 23 Uncertainty over Income Tax Treatments**

  The interpretation provides requirements that add to the requirements in IAS 12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income tax. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over the accounting treatment. This interpretation is applicable for annual periods beginning on or after 1 January 2019 and has not had a significant impact on the Group's consolidated financial statements (see note 15).

The entry into force of the remaining standards has not had a significant impact on the Group's consolidated financial statements.

- **New requirements or amendments effective as of 1 January 2020**

  The new standards approved for which application is not mandatory in 2019 but which will enter into force for annual periods beginning on or after 1 January 2020 are as follows:

| Effective from: | New requirements or amendments |
|---|---|
| 1 January 2020 | • Amendments to References to the Conceptual Framework in IFRS Standards |
| 1 January 2020 | • Definition of Material |
| Pending adoption by the EU | • IFRS 17 Insurance Contracts |
| | • Amendments to the Definition of Material |
| | • IBOR reform |

With regard to the IBOR reform, the Group has various hedging relationships to hedge interest rate risk, using derivatives and underlyings whose benchmark rate is the EURIBOR/LIBOR. No hedging relationships have been affected thus far, and moreover, the Company is only minimally exposed to intraday benchmark interest rates (EONIA). These benchmark interest rates are undergoing a reform on a global scale, although this is not expected to affect the long-term hedging relationships currently in place. The Group has adopted a proactive stance with respect to this process, carrying out its monitoring and analysis sufficiently in advance to prevent any negative impacts that may arise. On this basis, the benchmark interest rate reform is not expected to have a significant impact on the Group's financial statements.

### c) Estimates and assumptions

The preparation of the consolidated annual accounts in accordance with IFRS-EU requires Group management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and judgements are assessed continually and are based on past experience and other factors, including expectations of future events that are considered reasonable given the circumstances. Actual results could differ from these estimates.

The consolidated annual accounts for 2019 occasionally include estimates calculated by management of the Group and of the consolidated companies, and subsequently endorsed by their directors, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein.

These estimates are essentially as follows:

- Estimated asset recovery, calculated by determining the recoverable amount thereof. The recoverable amount is understood to be the higher of fair value less costs to sell and value in use. Asset impairment is generally calculated using discounted cash flows based on financial projections used by the Group. The discount rate applied is the weighted average cost of capital, taking into account the country risk premium (see note 7).
- Estimated useful lives of property, plant and equipment (see note 4.b).
- The assumptions used in the actuarial calculations of liabilities and obligations to employees (see note 15).
- The assumptions used to calculate the fair value of derivatives (see note 19).
- The assumptions used to calculate the fair value of assets and liabilities acquired in a business combination (see note 5).
- Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Group 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 (see note 15).

In the absence of International Financial Reporting Standards (IFRSs) that give guidance on the accounting treatment for a particular situation, in accordance with IAS 8, management uses its best judgement based on the economic substance of the transaction and considering the most recent pronouncements of other standard-setting bodies that use the same conceptual framework as IFRS. Accordingly, as tax credits for investments are not within the scope of IAS 12 and IAS 20, after analysing the related facts and circumstances, Group management has considered that credits for investments granted to the Group by public entities are similar to capital grants. Therefore, in these cases management has taken into account IAS 20 on government grants (see note 4j).

To facilitate comprehension of the consolidated 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 consolidated income statement as a change in accounting estimates, as required by IFRS.

### d) Consolidation principles

The types of companies included in the consolidated Group and the consolidation method used in each case are as follows:

- **Subsidiaries**

  Subsidiaries are entities, including structured entities, over which the Company, either directly or indirectly through subsidiaries, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

  A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

  The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group takes control, until the date that control ceases.

  Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

- **Joint arrangements**

  Joint arrangements are those in which there is a contractual agreement to share the control over an economic activity, in such a way that decisions about the relevant activities require the unanimous consent of the Group and the remaining venturers or operators. The existence of joint control is assessed considering the definition of control over subsidiaries.

  The Group assesses all the facts and circumstances relating to each joint arrangement for the purpose of its classification as a joint venture or joint operation, including whether the arrangement contains rights over the assets and obligations for liabilities.

  In joint operations there is a joint arrangement whereby the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. For joint operations, the Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, and the expenses, including its share of any expenses incurred jointly, in the consolidated annual accounts.

  Joint ventures are those in which there is a contractual agreement with a third party to share control over an activity and the strategic financial and operating decisions relating to the activity require the unanimous consent of all the venturers that share control. The Group's interests in jointly controlled entities are accounted for using the equity method in accordance with IFRS 11.

  The Group's acquisition of an initial and subsequent share in a joint operation that is a business, is recognised following the same criteria used for business combinations, at the percentage of ownership of each individual asset and liability. However, in subsequent acquisitions of additional shares in a joint operation, the previous share in each asset and liability is not subject to revaluation.

  In sales or contributions by the Group to the joint operation, it recognises the resulting gains and losses only to the extent of the other parties' interests in the joint operation. When such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets transferred, such losses are recognised in full.

  In purchases by the Group from a joint operation, it only recognises the resulting gains and losses when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

- **Associates**

  Associates are entities over which the Company, either directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

  Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. However, if on the acquisition date all or part of the investment qualifies for recognition as non-current assets or disposal groups held for sale, it is recognised at fair value less costs of disposal.

  Investments in associates are initially recognised at cost of acquisition, including any cost directly attributable to the acquisition and any consideration receivable or payable contingent on future events or on compliance with certain conditions. Any excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable net assets at the acquisition date is recognised as goodwill under equity-accounted investees in the consolidated statement of financial position. Any excess of the Group's share of the net fair value of the associate's identifiable net assets over the cost of the investment at the acquisition date (bargain purchase) is recognised as income in the period in which the investment is acquired.

  The Group classifies the profit or loss of these companies in results from operating activities when the entity's activity is similar to the Group's operating activities. Conversely, when their activity is different, the profit or loss of these companies is classified outside results from operating activities. The Group considers that the activity of Hisdesat cannot be deemed commercially similar to the satellite capacity lease activity performed by the Group, in view of the operational restrictions of its assets.

Appendix I provides details of the Company's subsidiaries, joint arrangements, joint ventures and associates, as well as the consolidation or measurement method used in preparing the accompanying consolidated annual accounts and other relevant information.

The financial statements of the subsidiaries, joint arrangements, joint ventures and associates used in the consolidation process have the same reporting date and refer to the same period as those of the Parent.

The operations of the Company and its subsidiaries have been consolidated applying the following basic principles:

- The accounting principles and criteria used by the Group companies have been harmonised with those applied by the Parent.
- Translation of foreign operations:
  - Balances in the financial statements of foreign companies have been translated using the closing exchange rate for assets and liabilities, the average exchange rate for income and expenses and the historical exchange rate for capital and reserves.
  - All resulting exchange differences are recognised as translation differences in other comprehensive income.
  - These criteria are also applicable to the translation of the financial statements of equity-accounted investees, with translation differences attributable to the Group recognised in other comprehensive income.
- All balances and transactions between fully consolidated companies have been eliminated on consolidation.
- Margins on invoices between Group companies for capitalisable goods or services were eliminated at the transaction date.

### e) Non-controlling interests

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Company. Non-controlling interests' share in consolidated profit or loss for the year and in consolidated comprehensive income for the year is disclosed separately.

Transactions with non-controlling interests are recognised as transactions with equity holders of the Group. As such, the difference between the consideration paid in the acquisition of a non-controlling interest and the corresponding proportion of the carrying amount of the subsidiary's net assets is recognised in equity. Similarly, the gains or losses on disposal of non-controlling interests are also recognised in the Group's equity.

### f) Comparative information

Group management has included comparative information for 2018 in the accompanying consolidated annual accounts. As required by IFRS-EU, these consolidated annual accounts for 2019 include comparative figures for the prior year.

The consolidated financial statements for 2019 are not comparable with those for the 2018 period as a result of the application of IFRS 16 from 1 January 2019 onwards (see note 2b).

### g) Changes in the consolidated Group

The changes in the consolidated Group in 2019 are as follows:

- Red Eléctrica del Norte Perú, S.A.C. (REDELNOR) was incorporated on 11 January 2019 and is wholly owned by REI. The statutory activity of the new company consists of electricity transmission and maintenance activities on the Carhuaquero - Cajamarca Norte - Caclic - Moyobamba line. This company is fully consolidated.

- On 6 June 2019 the Spanish company Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A. (RETIT) was incorporated. This company's statutory and principal activity consists of driving and fostering technological innovation. This company is wholly owned by Red Eléctrica Corporación and will be fully consolidated.

- On 18 July 2019 the Peruvian company Concesionaria Línea de Transmisión CCNCM, S.A. (hereinafter CCNCM) was acquired. 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. This company is wholly owned by REDELNOR and will be fully consolidated (see note 5).

- On 3 October 2019 Hispasat, S.A. and its subsidiaries were acquired. The company's statutory and principal activity consists of commercialising and rendering satellite telecommunications services. Red Eléctrica Sistemas de Telecomunicación, S.A. (RESTEL) holds an 89.68% interest in this company. All of the Hispasat Group companies are fully consolidated, except for Hisdesat Servicios Estratégicos, S.A. and Grupo de Navegación Sistemas y Servicios, S.L., which are accounted for using the equity method (see note 5).

The changes in the consolidated Group in 2018 were as follows:

- Transmisora Eléctrica del Sur 4, S.A. (TESUR 4) was incorporated on 3 January 2018 and is wholly owned by the Red Eléctrica Group company REDESUR. The statutory activity of the new company is the construction, operation and maintenance of the Tintaya-Azángaro (Peru) transmission line under concession. This company is fully consolidated.

- Red Eléctrica Sistemas de Telecomunicaciones S.A.U. (RESTEL) was incorporated on 27 February 2018 and is wholly owned by Red Eléctrica Corporación S.A. Its statutory activity includes the acquisition, holding, management and administration of securities. This company is fully consolidated.

- The Chilean company Red Eléctrica del Norte Dos S.A. (REDENOR 2) was incorporated on 3 July 2018 and is wholly owned by Red Eléctrica Chile. Its statutory activity is its involvement in electricity transmission and transportation activities. This company is fully consolidated.
- The acquisition of 100% of the Chilean company Centinela Transmisión S.A. (which changed its name to Katari Transmisión S.A. (KATARI)) for US Dollars 117.2 million was executed on 12 September 2018. This company's statutory and principal activity is electricity transmission and transportation. The company operates a 265 km circuit made up of three 220 kV lines in Chile's northern Antofagasta Region. This company was absorbed by REDENOR 2 on 31 October 2018 (see note 5).

## 3. Sector Regulation

### a) Spanish electricity sector

Electricity Industry Law 24/2013 of 26 December 2013 has a two-fold objective. On the one hand, it aims to compile into a single piece of legislation all of the statutory provisions introduced by the different regulations published to reflect the fundamental changes occurring in the electricity sector since Law 54/1997 came into force. On the other, it intends to provide measures to guarantee the long-term financial sustainability of the electricity sector, with a view to ensuring the structural balance between the system's revenues and costs.

Law 24/2013 also reviews the set of provisions that made up Law 54/1997, in particular those concerning the remit of the General State Administration, the regulation of access and connection to the networks, the penalty system, and the nomenclature used for the tariffs applied to vulnerable consumers and those still availing of the regulated tariff.

With respect to regulation of the activities conducted by the Group, Law 24/2013 maintains REE's appointment as the sole transmission agent and system operator, as well as assigning it the role of transmission network manager. Furthermore, Law 24/2013 upholds the current corporate structure for these activities since it does not repeal the twenty-third additional provision of Law 54/1997. This provision makes specific reference to the Group's Parent, Red Eléctrica Corporación, S.A., and assigns to the subsidiary Red Eléctrica de España, S.A.U. the functions of sole transmission agent, system operator and transmission network manager, the latter activity being conducted through a specific organisational unit that is sufficiently segregated from the transmission activity for accounting and functional purposes.

Other relevant aspects of the regulation, pursuant to Law 24/2013, of the activities performed by the Group are as follows:

- This Law acknowledges the natural monopoly in the transmission activity, arising from the economic efficiency afforded by a sole grid. Transmission is liberalised by granting widespread third-party access to the network, which is made available to the different electricity system agents and consumers in exchange for payment of an access charge.

  The remuneration for this activity is set by the government based on the general principles defined in the Law and, until 2019, on the method set forth in Royal Decree 1047/2013 of 27 December 2013, which sets out the methodology for calculating the remuneration for electricity transmission activities. However, due to the change in remit introduced through Royal Decree-Law 1/2019, on urgent measures to adapt the powers of the Spanish National Markets and Competition Commission (CNMC) to the requirements of Community law in respect of Directives 2009/72/EC and 2999/73/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in electricity and natural gas, respectively, for the new regulatory period commencing in 2020 this methodology is set forth in CNMC Circular 5/2019 of 5 December 2019, which defines the methodology for calculating the remuneration for electricity transmission activities.

  The remuneration model in force for the transmission activity until 2019 is completed with Ministry of Industry, Energy and Tourism Order IET/2659/2015 of 11 December 2015, approving the standard facilities and benchmark unit values for investment, operation and maintenance per asset that are to be used in calculating the remuneration allocable to companies that own electricity transmission facilities, and with the publication in 2016 of various resolutions required for effective implementation of the Order.

In recent years, the regulator has questioned the use of certain remuneration parameters included in the new remuneration model for transmission activities that has been in force since 2016. The Group understands that these concepts should not be reviewed and has therefore filed the pertinent appeals.

For the 2020-2025 regulatory period, the remuneration methodology set forth in Circular 5/2019 is completed with Circular 2/2019, which defines the methodology for calculating the financial rate of return for electricity transmission and distribution, regasification, and natural gas transmission and distribution, and Circular 7/2019, approving the standard facilities and benchmark unit values for operation and maintenance per asset that are to be used in calculating the remuneration allocable to companies that own electricity transmission facilities. This Circular provides that the benchmark unit values for investment that were in force in the previous regulatory period, and which are set forth in the aforementioned Ministry of Industry, Energy and Tourism Order IET/2659/2015, be extended to cover the 2020-2025 period.

- As electricity system operator, the Company's main function is to guarantee the continuity and security of the electricity supply, as well as to ensure the correct coordination of the production and transmission system, exercising its duties in cooperation with the operators and agents of the Spanish electricity market (MIBEL) while observing the principles of transparency, objectivity and independence. Law 24/2013 also bestows upon the system operator the role of transmission network manager.

  As provided in article 31.1 of the aforementioned law, the Ministry shall assign the role of transmission network manager for the Spanish electricity system to Red Eléctrica following certification by the CNMC, and the European Commission shall be notified in order for such assignment to be published in the Official Journal of the European Union. In 2015 the certification process for Red Eléctrica as transmission network manager for the Spanish electricity system, as envisaged in the law, was completed following publication in the Official Journal of the European Union of 12 February 2015 of the Notification of the Spanish Government regarding the designation of Red Eléctrica de España, S.A.U. as transmission system operator in Spain. Under this assignment, Red Eléctrica de España, S.A.U. operates on an ownership unbundling basis as stipulated in article 9 of the old Directive 2009/72/EC, and reiterated in article 43 of the new Directive 2019/944 on common rules for the internal market for electricity.

  Red Eléctrica is also responsible for the functions of settlement, notification of payments and receipts, and management of guarantees relating to security of supply and the effective diversion of units generated and consumed, as well as for short-term energy exchanges aimed at maintaining the quality and security of supply.

  Furthermore, Red Eléctrica manages the technical and economic dispatch for electricity supply from non-mainland electricity systems (Balearic Islands, Canary Islands, Ceuta and Melilla), and is responsible for the settlements of payments and receipts arising from the economic dispatch of electricity generated by these systems.

  Until the publication of CNMC Circular 4/2019 of 3 December 2019, defining the remuneration methodology for the system operator from 1 January 2020 onwards, the remuneration received by Red Eléctrica de España for the system operation activity was set by the Ministry for the Ecological Transition and Demographic Challenge at its own discretion. Circular 4/2019 defines a remuneration methodology for this activity for the first time, and aims to establish remuneration that is appropriate for a low-risk activity, considering those costs prudently incurred by an efficient and well-managed company.

  Regarding Red Eléctrica's remit in the non-mainland electricity systems, in 2015 the Chira-Soria 200 MW reversible hydroelectric power plant project in Gran Canaria was transferred to the system operator, as stipulated in Order IET/728/2014 of 28 April 2014. Having taken ownership, in 2016 Red Eléctrica submitted a project amending the initial project, which included technical and environmental improvements aimed at increasing the capacity for integrating renewable energy and reducing the impact of this new infrastructure on the environment. In 2016 the Canary Islands government declared the new project to be of strategic interest, and it has been undergoing administrative processing since then.

The main impacts of the new Circulars approved at the end of 2019 will be seen from 2020 onwards.

### b) International electricity sector

The Red Eléctrica Group has built and acquired electricity transmission facilities through REI. At international level, it now operates and maintains these facilities in Peru and Chile. Various electricity transmission facilities were also under construction by subsidiaries of REI both in Peru and in Chile at the end of 2019.

**Electricity sector in Peru**

Peru has liberalised its electricity industry and applies a regulation model based on regulated tariffs for the electricity transmission activity.

Regulation of the electricity industry in Peru is mostly set out in the Electricity Concessions Law, Decree Law No. 25844 enacted in 1992 and the related regulations, Supreme Decree No. 009-93-EM enacted in 1993, and the various amendments and/or extensions thereto, including Law No. 28832, "Law for the Efficient Development of Electricity Generation", enacted in 2016, and Supreme Decree No. 027-2007-EM "Transmission Regulation".

This legislation comprises the overall legal framework that enables the State to provide special guarantees to concession holders and guarantee that the rates set during the term of the respective arrangements reflect the amounts of the economic bids presented during the process to promote private investment through which the projects were awarded.

Under these conditions, the costs for investment and for operation and maintenance stipulated in the Group's concession arrangements are adjusted each year or when appropriate (according to the tariff regime) in line with the variation in the Finished Goods Less Food and Energy index published by the Bureau of Labor Statistics of the United States Government.

The new rules regulating "Tariffs and Remuneration for Secondary Transmission Systems (STS) and Complementary Transmission Systems (CTS)" were approved through OSINERGMIN Resolution No. 217-2013-OS/CD and amendments. These rules set forth the criteria and methodology for determining the tolls and remuneration for the STS and/or CTS services.

Lastly, the "Annual Revenue Settlement Procedures for the Electricity Transmission Service" for the (i) "Primary Transmission System (PTS) and Secondary Transmission System (STS) under the BOOT Arrangement Model", (ii) "Guaranteed Transmission System (GTS)" and (iii) "Complementary Transmission System (CTS)" were approved, respectively, through OSINERGMIN Resolutions Nos. 335-2004-OS/CD, 200-2010-OS/CD and 004-2015-OS/CD and amendments. These rules provide for annual updates to remuneration, mainly in respect of the differences arising between the amounts stipulated in the concession arrangements (in US Dollars) and the tariff regime in Peru established in local currency (in Sols).

**Electricity sector in Chile**

The legal framework governing the electricity transmission business in Chile is contained in Decree with Force of Law (DFL) No. 4/2006, which sets out the revised, coordinated and systematised text of Ministry of Mining Decree with Force of Law (DFL) No. 1 of 1982, the General Electricity Services Law (DFL No. 1/1982) and subsequent amendments thereto. Such amendments include Law 19,940 (Short Law I) enacted on 13 March 2004, Law 20,018 (Short Law II) enacted on 19 May 2005, and Law 20,257 (Generation through Non-conventional Renewable Energy Sources) enacted on 1 April 2008. These regulations are supplemented by the Regulation of the General Electricity Services Law of 1997 (Ministry of Mining Supreme Decree No. 327 of 1997) and respective amendments thereto, and by the Technical Standard for Safety and Quality of Service (Exempt Ministerial Resolution No. 40 of 16 May 2005) and subsequent amendments thereto.

The new Transmission Law was enacted on 11 July 2016. This law provides for a new independent coordinating body for the National Electricity System, known as the National Electricity Coordinator ("CEN"), which combines the former Economic Load Dispatch Centre - Central Interconnected System ("CDEC SIC") and the Economic Load Dispatch Centre - Far North Interconnection System ("CDEC SING"). It also defines a new electricity transmission system wherein the facilities forming part of the Backbone, Sub-transmission and Additional Transmission Systems were amalgamated into the National, Zonal and Dedicated Transmission

Systems, respectively. The remuneration received by the transmission agent is calculated by applying a variable post-tax discount rate that ranges between a minimum of 7% and a maximum of 10%. The new law was effective immediately and application thereof is gradual, culminating in full application from 2020 onwards.

The Group's revenue in Chile derives solely from marketing the electricity transmission capacity of its facilities, and only customer contracts under the regulated regime are in place. All of these are subject to regulated tariffs. Total revenue generated on the use of the Group's facilities includes two general components: the annuity of the new investment value ("AVI"), calculated such that the present value of these annuities (using an annual real discount rate and the economic life of each facility) is equal to the cost of replacing the existing transmission facilities with new facilities having similar characteristics at current market prices, plus the costs of operation, maintenance and administration ("COMA"), which reflect the necessary costs to operate, maintain and administrate the facilities in question. The Group is entitled to collect a "toll" from customers, comprising "AVI+COMA", relating to the use of its facilities. The law provides that such collections are an integral component of the provision of transmission services. Thus, these services are substantially the same and have the same pattern of transference to customers, i.e. they are satisfied over time with a similar measurement of progress.

### c) Telecommunications

**Telecommunications in Spain**

The telecommunications sector in Spain is regulated by General Telecommunications Law 9/2014 of 9 May 2014 (GTL), which mainly seeks to foster competition in the market and guarantee access to the networks, and by Royal Decree 330/2016 of 9 September 2016, on measures to reduce the actual cost of deploying high-speed electronic communications networks. Aforementioned Law 9/2014 is developed by Royal Decree 123/2017 of 24 February 2017 approving the regulation on the use of public domain radio, which in turn also regulates the award of the right to use the orbit and spectrum resource and the permits for the land-based satellite segment and the related spectrum. Accordingly, REINTEL and HISPASAT have been entered on the Register of Electronic Communications Operators. In particular, HISPASAT has been awarded the land-based segment permits and the concessions to use the related radio spectrum, as well as concessions to operate various orbit and spectrum resources.

The European regulatory framework comprises Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing the European Electronic Communications Code (Recast), Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009 (regarding users' rights) and Directive 2009/140/EC of the European Parliament and of the Council of 25 November 2009 (regulatory improvements). Based on this legislation, the General Telecommunications Law introduces measures aimed at creating an appropriate framework for investing in the deployment of new generation networks, thereby enabling operators to offer innovative services that are more technologically adapted to people's needs.

In line with the foregoing, special note should also be taken of Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks, which mainly seeks to expedite implementation of the "Digital Agenda" of the European Union (EU) (published in May 2010). This directive was transposed by Royal Decree 330/2016 of 9 September 2016, on measures to reduce the cost of deploying high-speed electronic communications networks.

As regards competition, in accordance with the European Commission Recommendation of 9 October 2014 (on relevant product and service markets within the electronic communications sector susceptible to regulation in accordance with Directive (EU) 2018/1972), the Spanish National Markets and Competition Commission (CNMC) periodically defines the various telecommunications markets and assesses the existence of operators with sufficient market power. These tasks, which are considered in the GTL, may lead to the implementation of specific regulations for that market.

To this end, and in view of recent corporate transactions in the telecommunications sector, the CNMC has analysed the dark fibre backbone network lease activity, concluding that the environment is sufficiently competitive and that this activity may therefore be conducted on a free competition basis.

The regulation also stipulates that access to infrastructure that may be used to host public electronic communications networks must be guaranteed for operators of public electronic communications networks. In this respect, Spanish and European legislation requires owners and managers of infrastructure that may be used to host public high-speed electronic communications networks, and likewise parties to whom usage rights for such infrastructure have been granted, to address all access requests under fair and reasonable terms and conditions. This obligation is fulfilled in view of the nature of the dark fibre business.

**Telecommunications in America**

The Group provides services in different American countries. In most American countries, an entitlement must be obtained in order to provide satellite capacity to telecommunications service providers. Such entitlement may be in the form of permits, concessions, entry in a register or inclusion on a list of authorised satellites. The satellites in the fleet are duly authorised in all countries where this is required, except where there is no commercial interest or no satellite coverage.

In Brazil, the Group holds rights to operate various orbit and spectrum resources, as well as a multimedia communications permit that entitles it to provide electronic communications services. The applicable legislation in this case is Resolution no. 220 of 5 April 2000 approving the Regulation on Satellite Operation Rights for the Transmission of Telecommunication Signals, Resolution no. 614 of 28 May 2013 approving the Multimedia Communications Service Regulation, and General Telecommunications Law no. 9,472 of 16 July 1997.

In Mexico the Group is authorised to provide wholesale satellite internet services. To this end, it holds the sole concession for commercial use, in accordance with the Federal Telecommunications and Broadcasting Law of 14 July 2014.

In Colombia it renders satellite telecommunications services, for which it has been granted authorisation by the ICT Single Register of providers of telecommunications networks and services. The applicable legislation is essentially Law 1978 of 2019 on the modernisation of ICT, and Law 1341 of 2009 defining principles and concepts relating to the information society and the organisation of information and communication technologies.

## 4. Significant Accounting Policies

The accounting principles used in preparing the accompanying consolidated annual accounts have been applied consistently to the reported periods presented and are as follows:

### a) Business combinations

The Group accounts for business combinations by applying the acquisition method when control is transferred to the Group. The acquisition date is the date on which the Group obtains control of the acquiree. The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree. The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

At the acquisition date the Group recognises the assets acquired and liabilities assumed and any non-controlling interest at fair value. Non-controlling interests in the acquiree are recognised at the proportionate interest in the fair value of the net assets acquired. These criteria are only applicable for non-controlling interests which grant entry into economic benefits and entitlement to the proportional part of net assets of the acquiree in the event of liquidation. Otherwise, non-controlling interests are measured at fair value or value based on market conditions. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The Group also recognises indemnification assets transferred by the seller at the same time and following the same measurement criteria as the item that is subject to indemnification from the acquiree, taking into consideration, where applicable, the insolvency risk and any contractual limit on the indemnity amount.

Any excess of the consideration given, plus the value assigned to non-controlling interests, over the value of net assets acquired and liabilities assumed is recognised as goodwill. Any shortfall, after evaluating the consideration given, the value assigned to non-controlling interests, and after identifying and measuring the net assets acquired, is recognised separately in the consolidated income statement.

If the business combination can only be determined provisionally the identifiable net assets are initially recognised at their provisional values and adjustments made during the measurement period are recognised as if they had been known at the acquisition date. Comparative figures for the previous year are restated where applicable. In any event, adjustments to provisional amounts only reflect information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

After a period of one year, the initial measurement is only adjusted when correcting errors.

### b) Property, plant and equipment

Property, plant and equipment primarily comprise technical electricity facilities and are measured at cost of production or acquisition, as appropriate, less accumulated depreciation and impairment. Property, plant and equipment acquired in a business combination are initially recognised at fair value.

This cost includes the following items, where applicable:

- Borrowing costs directly related to property, plant and equipment under construction accrued on external financing solely during the construction period. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods, except where a temporary delay is a necessary part of the process of getting an asset ready for its intended use.
- Operating costs directly related to property, plant and equipment under construction for projects executed under the supervision and management of Group companies.
- The initial estimate of the costs of decommissioning and retiring items of property, plant and equipment.

Assets under construction (works underway) are capitalised as work in progress. Work in progress is transferred to property, plant and equipment in use once these items come into service and provided that the assets are in working condition. Property, plant and equipment under construction are not depreciated.

After initial recognition, items of property, plant and equipment are measured on a cost basis, and recognised at cost less accumulated depreciation and any accumulated impairment.

Enlargement or improvement expenses which lead to an increase in productivity or capacity and lengthen the useful life of the assets are stated as an increase in the carrying amount of the 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 directly 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 assets are expected to be used, and in any case applying the following ranges of depreciation rates:

| | Annual depreciation rate |
|---|---|
| Buildings | 2% - 10% |
| Technical electricity facilities | 2.5% - 8.5% |
| Technical telecommunications facilities (fibre optics) | 5% - 12.5% |
| Technical telecommunications facilities (satellite) | As per depreciation schedule |
| Other installations, machinery, equipment, furniture and other items | 4% - 33% |

Property, plant and equipment primarily comprise technical electricity facilities. Most undepreciated items of property, plant and equipment are depreciated at a rate of 2.5%. The depreciation charge for each period is recognised in profit or loss.

The residual values and useful lives of assets are reviewed at least annually and adjusted, if necessary, to reflect actual circumstances. When the carrying amount of these assets exceeds their estimated recoverable amount, it is immediately written down to the recoverable amount. The Group performs complementary analyses of these indicators in view of the entry into force of the new remuneration regime applicable to electricity transmission assets in Spain (see note 3).

Recoverable amount is understood to be the higher of:

- Fair value less costs to sell.
- Value in use, i.e. the present value of the estimated future cash flows from continued use of the asset and disposal thereof.

Government grants received in relation to the acquisition of these assets are recognised as deferred income and taken to the income statement over the useful lives of the assets.

Property, plant and equipment are derecognised when retired; or when no future economic benefits are expected from their use or disposal. Gains or losses on disposal of an item are calculated based on the difference between any net proceeds from selling the asset and its carrying amount (initial cost less depreciation and impairment). The gains or losses are taken to profit or loss in the year when the item is derecognised. These gains and losses are not included within results from ordinary activities.

The Group measures and determines impairment to be recognised or reversed in respect of the value of its cash-generating units (CGUs) based on the criteria in section h) of this note.

### c) Intangible assets

Intangible assets are recognised at acquisition cost, which is periodically reviewed and adjusted in the event of a decline in value. Amortisation for the year is expensed and determined on a straight-line basis over the estimated useful life allocated to each item or type of intangible asset.

Intangible assets include the following:

- **Goodwill**

  Goodwill is determined using the same criteria as for business combinations. Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Internally generated goodwill is not recognised as an asset.

- **Computer software**

  Licences for computer software acquired, which are capitalised on the basis of the costs incurred to acquire and bring the specific software to use.

  Computer software maintenance costs are charged as expenses when incurred. Computer software must be amortised on a straight-line basis over a period of three to five years from the date on which each program comes into use.

- **Development expenses**

  Development expenses directly attributable to the design and execution of tests for new or improved computer programs that are identifiable, unique and likely to be controlled by the Group are recognised as intangible assets when it is probable that the project will be successful, based on its economic and commercial feasibility, and the associated costs can be estimated reliably. Costs that do not meet these criteria are charged as expenses when incurred. Development expenses are capitalised and amortised, from the date the associated asset comes into service, on a straight-line basis over a period of no more than five years. Computer software maintenance costs are charged as expenses when incurred.

- **Licences and industrial property**

  Licences have a finite useful life and are recognised at acquisition cost, less accumulated amortisation and any impairment. Licences are amortised on a straight-line basis to allocate the cost over their estimated useful lives of five years.

  Industrial property is initially measured at cost of acquisition or production and is subsequently carried at cost less accumulated amortisation and any impairment. These assets are amortised over their useful lives of five years.

- **Administrative concessions**

  The Group operates various assets, located mainly in Peru, under service concession contracts awarded by different public entities. Based on the characteristics of the contracts, the Group analyses whether they fall within the scope of IFRIC 12 Service Concession Arrangements.

  For concession arrangements subject to IFRIC 12, construction and other services rendered are recognised using the criteria applicable to income and expenses.

  The consideration received by the Group is recognised at the fair value of the service rendered, as a financial asset or intangible asset, based on the contract clauses. The Group recognises the consideration received for construction contracts as an intangible asset to the extent that it is entitled to pass on to users the cost of access to or use of the public service, or it has no unconditional contractual right to receive cash or another financial asset.

  Upon initial recognition, an intangible asset received as consideration for construction or upgrade services rendered is recognised at fair value. The intangible asset is subsequently recognised at cost, including capitalised borrowing costs, less accumulated amortisation and accumulated impairment.

  The contractual obligations assumed by the Group to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

  Concession arrangements not subject to IFRIC 12 are recognised using general criteria.

  Administrative concessions have a finite useful life and are recognised at acquisition cost, less accumulated amortisation and any impairment.

  Concessions are amortised on a straight-line basis over the concession period, as detailed in note 6.

- **Other intangible assets**

  These primarily comprise the perpetual rights to regulated tariffs arising from the business combination. In light of the rights to receive perpetual income from the transmission line acquired as part of the Chilean National Transmission System, this asset, which was initially measured at fair value, has an indefinite useful life and is tested for impairment on an annual basis.

- **Intangible assets under development**

  Administrative concessions at the construction stage are recognised as intangible assets under development and measured in line with the amount to be disbursed until completion of the works, in accordance with IFRIC 12.

### d) Investment property

The Group companies measure their investment property at cost of acquisition. When the carrying amount of these assets exceeds their estimated recoverable amount, it must be written down immediately. The market value of the Group's investment property is disclosed in note 9 to the consolidated annual accounts.

Investment property, except land, is depreciated on a straight-line basis over the estimated useful life, which is the period during which the companies expect to use the assets. Investment property is depreciated at a rate of 2%.

### e) Leases

Until first-time application of IFRS 16, which came into effect as of 1 January 2019 (see note 2), the Group classified leases on the basis of whether the risks and rewards of ownership were substantially transferred, distinguishing between operating leases, wherein the lessor retained a significant portion of the risks and rewards of ownership of the leased asset, and finance leases, wherein the significant risks and rewards of ownership of the assets were transferred to the Group. Assets recognised as finance leases were presented in the consolidated statement of financial position based on the nature of the leased asset.

As a result of applying IFRS 16 as of 1 January 2019, the Group assesses at the inception of a contract whether that contract contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The period of time during which the Group uses an asset includes consecutive and non-consecutive periods of time. The Group only re-evaluates the conditions when there is an amendment to the contract.

- **Lessee**

  In contracts that contain one or more lease components or non-lease components, the Group assigns the consideration of the contract to each lease component in accordance with the independent sale price of the lease component and the aggregate individual price of the non-lease components.

  Payments made by the Group that do not constitute a transfer of goods or services thereto by the lessor, do not constitute a separate lease component, but form part of the total consideration of the contract.

  At the commencement date of the lease the Group recognises a right-of-use asset and a lease liability. The right-of-use asset comprises the amount of the lease liability; any lease payments made at or before the commencement date, less incentives received; initial direct costs incurred; and an estimate of dismantling or restoration costs to be incurred, pursuant to the criteria for provisions.

  The Group measures the lease liability at the present value of the lease payments that are not paid at the commencement date. The Group discounts lease payments at the appropriate incremental borrowing rate, unless the implicit interest rate of the lessor can be determined reliably.

  Outstanding lease payments comprise fixed payments, less any incentive receivable, variable payments that depend on an index or rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, providing the lease term reflects the lessee exercising the option to terminate the lease.

  The Group measures right-of-use assets at cost, less accumulated depreciation and accumulated impairment losses, adjusted for any remeasurement of the lease liability.

  If the contract transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

  The Group applies the impairment criteria for non-current assets described in section 4.3 to the right-of-use asset.

  The Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

The Group recognises variable payments not included in the initial measurement of the lease liability in profit or loss in the period in which the event or condition that triggers those payments occurs.

The Group recognises remeasurements of the lease liability as an adjustment to the right-of-use asset, until the latter is reduced to zero, after which, it is taken to profit or loss.

The Group remeasures the lease liability by discounting the lease payments at a revised discount rate, if there has been a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

The Group remeasures the lease liability if there is a change in the amounts expected to be payable under a residual value guarantee or a change in the index or rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review.

The Group accounts for a lease modification as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets; and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group allocates the consideration in the modified contract applying the criteria described above, determines the lease term of the modified lease and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Group has elected not to apply the accounting policies indicated for short-term leases and leases in which the value of the underlying asset is less than US Dollars 5,000 (approximately Euros 4,600).

- **Lessor**

  Leases in which, upon inception, the Group transfers to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases, otherwise they are classified as operating leases.

  For finance leases, the Group recognises a receivable for an amount equal to the present value of the lease payments plus the unguaranteed residual value, discounted at the contractual interest rate implicit in the lease (net investment in the lease). Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income is taken to the income statement using the effective interest method.

  The Group recognises operating lease income in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern in which benefits deriving from the leased asset are diminished.

## f) Financial assets and financial liabilities

**Initial recognition and measurement**

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 Financial Instruments: Presentation.

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

A financial asset or financial liability is initially measured at its fair value plus, in the case of an item not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables that do not contain a significant financing component are initially measured at their transaction price.

**Classification and subsequent measurement**

- Financial assets**:**

  Upon initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. Assets are classified on the basis of the business model and contractual terms of the assets.

  A financial asset shall be measured at amortised cost if both of the following conditions are met and it is not measured at fair value through profit or loss:

  - The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met and it is not measured at fair value through profit or loss:

  - The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Upon initial recognition of an investment in an equity instrument that is not held for trading, the Group may make an irrevocable election to present in other comprehensive income changes in the fair value. This election is made on an instrument-by-instrument basis.

  All financial assets not classified as measured at amortised cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

  Financial assets shall not be reclassified after initial recognition, unless the Group changes its business model for managing financial assets.

  The Group classifies financial assets, excluding equity-accounted investments, into the following categories:

  - <u>Amortised cost:</u> financial assets classified under this category are subsequently measured at amortised cost using the effective interest method. Amortised cost is reduced for impairment losses. Interest income, exchange gains and losses and impairment are recognised in profit or loss. Any gains or losses on derecognition are recognised in the consolidated income statement.

  - <u>Fair value through other comprehensive income:</u> these assets are subsequently measured at fair value. The resulting net gain or loss is recognised in other comprehensive income. Cumulative gains or losses in other comprehensive income are reclassified to profit or loss upon derecognition. In the case of equity instruments classified in this category, gains or losses arising from changes in fair value at the reporting date are recognised directly in other comprehensive income and are never reclassified to profit or loss.

    Dividends from equity investments classified as at fair value through other comprehensive income are recognised in the consolidated income statement when the Company's right to receive payment is established.

  - <u>Fair value through profit or loss:</u> these assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

- Financial liabilities:

  Financial liabilities, which include loans, payment obligations and similar commitments, are initially recognised at fair value less any transaction costs incurred. Such debt is subsequently measured at amortised cost, using the effective interest method, except in the case of transactions for which hedges have been arranged (see section n).

  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 as non-current.

**Derecognition**

- Financial assets:

  The Group derecognises a financial asset when the contractual rights to receive cash flows from the asset expire or are transferred in a transaction in which it transfers substantially all the risks and rewards of ownership of the financial asset or it neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the transferred assets.

- Financial liabilities:

  The Group derecognises a financial liability when the obligation in the contract is discharged or cancelled or expires. The Group also derecognises a financial liability when the terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognised at fair value, based on the new terms. Upon derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### g) Inventories

Inventories of materials and spare parts are measured at cost of acquisition, which is calculated as the lower of weighted average price and net realisable value.

The cost of acquisition comprises the purchase price, import duties and other non-recoverable taxes, as well as transport, handling and other costs directly attributable to the acquisition of the materials or services. Trade discounts, rebates and other similar items are deducted in determining the cost of acquisition.

The cost of any financing used to acquire the inventories can be recognised as an increase in the cost of the inventories until the assets are substantially ready for use or sale.

The Group assesses the net realisable value of inventories at the end of each reporting period, recognising impairment in the income statement when the cost exceeds market value or when it is uncertain whether the inventories will be used. When the circumstances that caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the previously recognised impairment is reversed and recognised as income.

### h) Impairment

- **Financial assets**

  Impairment is calculated by applying the general approach used to calculate expected credit losses on financial assets; except trade receivables, for which the simplified approach set out in IFRS 9 is used, whereby impairment is measured at an amount equal to the lifetime expected credit losses of the asset.

  In order to determine whether there has been a significant increase in credit risk of a financial asset since its initial recognition, or to estimate the lifetime expected credit losses of the asset, the Group considers all reasonable and supportable information that is relevant and available without undue cost and effort. This includes quantitative and qualitative information based on the experience of the Group or of other entities of historical credit losses, and observable market information about the credit risk of the specific financial instrument or similar financial instruments. The Group assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due. The Group also considers that a financial asset is in default when it is more than 90 days past due, unless there is reasonable and supported information that demonstrates its recoverability.

The Group considers that a debt instrument presents a low level of risk when its credit rating is at least "investment grade" at one of the prestigious rating agencies. The maximum period over which expected credit losses are measured is the maximum contractual period over which the Group is exposed to credit risk.

IFRS 9 defines expected credit losses as the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit losses are measured as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate.

In broad terms, expected loss is calculated as follows:

EAD (exposure at default) x PD (probability of default) x LGD (loss given default) x DF (discount factor).

Where EAD is the exposure to risk and is measured based on the accounting balances (outstanding balances receivable in the form of a cash flow or other financial asset) less any prepayments and any bank or other guarantees provided by the customer. PD is the probability of default. LGD is the loss that would be incurred in the event of debtor default and is calculated as (1 – recovery rate). The recovery rate depends on the specific guarantees of the receivable or loan. DF is the time value of money.

Following a hierarchy in accordance with IFRS 13, i.e. from most observable inputs to least observable inputs, the following methods are used:

- If the debtor has quoted credit default swaps (CDS), the probability of default is generally obtained from the CDS, as this is the most objective market credit measure of the probability of default of a company at a specific point in time.
- If the debtor does not have a quoted CDS, the company's rating from each credit rating agency that has issued a report is selected and used to calculate the probability of default.
- If the debtor does not have a rating, a theoretical rating can be calculated by comparing the debtor's ratios with those of other companies that do have a rating.

Provisions for impairment of financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Impairment related to trade and other receivables, including, where appropriate, contract assets under IFRS 15, is presented in the consolidated income statement.

- **Non-financial assets**

  The Group companies analyse the recoverability of their 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 in the consolidated income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount of the assets is the higher of their fair value less costs of disposal and their value in use. Value in use is calculated on the basis of expected future 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 consolidated income statement. Impairment losses on goodwill are not reversed in subsequent years (see notes 6, 7, 8 and 9).

### i) Share capital, own shares and dividends

Share capital is represented by ordinary shares. The cost of issuing new shares, net of taxes, is deducted from equity.

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

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.

### j) Grants

Non-repayable government capital grants awarded by different official bodies to finance the Group's fixed assets are recognised once the corresponding investments have been made.

The Group recognises these grants under non-financial and other capital grants each year during the period in which depreciation is charged on the assets for which the grants were received.

Government assistance provided in the form of income tax deductions and considered as government capital grants is recognised applying the general criteria described in the preceding sections.

### k) Contract liabilities

Non-current contract liabilities, generally arising from long-term contracts or commitments, are recognised under revenue or other operating income, as appropriate, over the term of the contract or commitment.

### l) Provisions

- **Employee benefits**
  - Pension obligations

    The Group has defined contribution plans, whereby the benefit receivable by an employee upon retirement – usually 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 Group 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. The contributions are recognised under employee benefits when accrued.

  - Other long-term employee benefits

    Other long-term employee benefits include defined benefit plans for benefits other than pensions (such as health insurance) for certain serving and retired personnel of the Group. The expected costs of these benefits are recognised under provisions 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 consolidated income statement.

    This item also includes deferred remuneration schemes, which are approved by the competent bodies in each Group company (see note 15).

    In 2015 the Group's Appointments and Remuneration Committee approved the implementation of a Structural Management Plan (hereinafter the "Plan") for certain members of the management team, with the aim of processing, in an orderly and efficient manner, the replacement and administration of the management positions covered in the Plan. Upon reaching the age stipulated in the Plan, the executives included in the Plan will be entitled to receive an amount equal to a maximum of 3.5 times their annual salary, depending on their category and annual fixed and variable remuneration at the date of leaving the Group. Participation in the Plan is subject to meeting certain conditions, and the Plan may be modified or withdrawn by the Group under certain circumstances, including a prolonged decline in the Group's results (see note 15).

- **Other provisions**

  The Group 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 Group's consolidated annual accounts.

  Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax risk-free discount rate that reflects assessments of the time value of money. The increase in the provision due to the passage of time is recognised as a finance cost in the consolidated income statement.

## m) Transactions in currency other than the Euro

- **Foreign currency transactions**

  Foreign currency transactions are translated to the respective functional currency of the Group companies at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency using the closing exchange rate. 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 consolidated 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 consolidated profit or loss.

  Transactions conducted in foreign currencies for which the Group 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.

- **Foreign operations**

  The assets and liabilities of foreign operations are translated to Euros using the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Euros using the exchange rates at the transaction dates.

  Translation differences are recognised in other comprehensive income and presented within equity.

## n) Derivative financial instruments and hedging transactions

The Group holds derivative financial instruments to cover its exposure to currency risk and interest rate risk. The Group designates certain derivatives as hedging instruments for covering variability in the cash flows associated with highly probable forecast transactions as a result of fluctuations in interest rates and exchange rates.

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges.

Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated.

Derivative financial instruments are initially recognised in the consolidated statement of financial position 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 is designated as a hedging instrument and, if so, the nature of the hedged item.

The total fair value of derivative financial instruments is recognised under non-current assets or liabilities if the residual maturity of the hedged item is more than 12 months, and under current assets or liabilities if the residual maturity is less than 12 months.

When a hedging instrument expires or is sold, or when it no longer qualifies for hedge accounting, any cumulative gain or loss recorded in equity at that time remains in equity, and is immediately reclassified to the consolidated income statement as and when changes in cash flows of the hedged item occur. Any cumulative gain or loss is also reclassified from equity to the consolidated income statement if the forecast transaction is no longer expected to occur.

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance costs the amount that is not expected to be recovered.

Details of the fair value of the hedging derivatives used are disclosed in note 19. Details of changes in equity are provided in note 13.

### o) Fair value measurement

Fair value is 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 fair value measurements of financial assets and financial liabilities are classified on the basis of a hierarchy that reflects the relevance of the inputs used in measuring the fair value. The hierarchy comprises three levels:

- Level 1: measurement is based on quoted prices for identical instruments in active markets.
- Level 2: measurement is based on inputs that are observable for the asset or liability.
- Level 3: measurement is based on inputs derived from unobservable market data.

If there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Specifically, the Group calculates the fair value of derivative financial instruments that are not traded on organised markets using valuation techniques, including recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analyses using the market interest rates and exchange rates in force at the reporting date, and option pricing models enhanced to reflect the particular circumstances of the issuer.

### p) Trade payables

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

### q) Income and expenses

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised according to the pattern of transfer of goods and services to the customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring these goods or services.

The majority of the Group's revenues are regulated revenues from transmission and system operation activities in Spain, for which the performance obligations are considered to be satisfied over time. Details of the implementing legislation governing the calculation of these revenues are provided in note 3 to the accompanying consolidated annual accounts.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment is established.

### r) 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.

Deferred tax assets and liabilities are recognised in respect of the temporary differences that arise from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will reverse in the foreseeable future.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.
- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.
- Temporary differences arising from the elimination of profits and losses on transactions between tax group companies are recognised by the company that generates the profit or loss, using the applicable tax rate.
- The Parent of the Group records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to Group companies and associates.
- The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables (receivables) to/from Group companies and associates.

If the Group considers that it is not probable that the taxation authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, this uncertainty is taken into account when determining taxable income, tax bases, tax loss carryforwards, deductions or tax rates. Tax assets or tax liabilities calculated using these criteria that exceed the amount presented in the self-assessments are presented in the consolidated statement of financial position. Changes in events or circumstances relating to tax uncertainties are recognised as a change in accounting estimates.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts, and they relate to income taxes levied by the same taxation authority on the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### s) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares.

According to the consolidated annual accounts of the Red Eléctrica Group at 31 December 2019 and 2018, basic earnings per share are the same as diluted earnings per share, as no transactions that could have resulted in a change in those figures were conducted during those years.

### t) Insurance

The Red Eléctrica Group companies have taken out various insurance policies to cover the risks to which the companies are exposed through their activities. These risks mainly comprise damage that could be caused to the Group companies' facilities and possible claims that might be lodged by third parties due to the companies' activities. Insurance premium expenses and income are recognised in the consolidated income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the consolidated income statement when they are receivable.

### u) Environmental issues

Costs derived from business activities intended to protect and improve the environment are charged as expenses in the year in which they are incurred. Property, plant and equipment acquired to minimise environmental impact and to protect and improve the environment are recognised as an increase in property, plant and equipment.

### v) Share-based payments

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

### w)Contingent assets and liabilities

Contingent assets are not recognised in financial statements since this could result in the recognition of income that may never be realised, except in business combinations to the extent that they represent indemnification assets. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Contingent liabilities are not recognised in the financial statements, except in business combinations to the extent that they represent present obligations arising from past events for which the fair value can be reliably measured. Contingent liabilities are assessed continually and if it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

# 5. Business Combinations

## Business combinations carried out in 2019

- **Acquisition of Hispasat, S.A.**

On 3 October 2019 the Group, through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (hereinafter RESTEL), a wholly owned subsidiary of Red Eléctrica Corporación, S.A., acquired 89.68% of the shares held by Abertis Infraestructuras, S.A. in Hispasat, S.A. (hereinafter Hispasat) for Euros 933 million. The company acquired is the parent of a group of companies, hereinafter the Hispasat Group.

The acquiree's statutory and principal activity consists of the operation of satellite telecommunications systems.

At the date these consolidated annual accounts were authorised for issue, control having being assumed in the last quarter of 2019 and due to the complexity involved in the determination of the fair value of certain assets, which is currently being undertaken by an independent expert, the Red Eléctrica Group is at a preliminary stage of the Purchase Price Allocation (PPA) process. On a provisional basis, until the necessary calculations are finalised, the Group has performed a preliminary PPA, allocating the excess of the price paid over the carrying amount of the net assets acquired, the fair value of contingent liabilities and indemnification assets to goodwill. This business combination will be definitively recognised within the 12-month period provided for by IFRS 3, which ends on 3 October 2020, to reflect the information, facts and circumstances that existed at the acquisition date. The fair value of contingent liabilities and indemnification assets will be used.

The table below summarises the net assets acquired at the acquisition date:

| Thousands of Euros | 03/10/2019 | Adjustments | Provisional fair value |
|---|---|---|---|
| Intangible assets | 51,727 | | 51,727 |
| Property, plant and equipment | 929,344 | | 929,344 |
| Other non-current assets | 91,397 | | 91,397 |
| Other current assets | 59,956 | 25,260 | 85,216 |
| Cash and cash equivalents | 29,911 | | 29,911 |
| **Total assets** | **1,162,335** | **25,260** | **1,187,595** |
| Non-current liabilities | (274,394) | | (274,394) |
| Current liabilities | (118,957) | (25,260) | (144,217) |
| **Total liabilities** | **(393,351)** | **(25,260)** | **(418,611)** |
| **Total net assets** | **768,984** | **-** | **768,984** |
| **Price paid + Non-controlling interest** | | | **1,040,366** |
| **Goodwill** | | | **271,382** |

The adjustment to the fair value of current liabilities reflects the recognition of contingent liabilities; as these liabilities are secured by the seller, an indemnification asset has been recognised in the same amount. Contingent liabilities mainly pertain to tax litigation in Brazil in relation to the ICMS (Brazilian tax on the circulation of goods and services), as well as other taxes, mainly of an indirect nature. These proceedings arise from inspection assessments, in respect of which the Group companies have lodged appeals. In addition, the Group has specific guarantees to cover them (see notes 15 and 22).

The assets and liabilities identified in the PPA for possible allocation are as follows:

- Within intangible assets, licences granted for the use of orbital slots in order to render satellite capacity lease services.
- Within property, plant and equipment, primarily the Group's fleet of satellites.
- Within non-current assets, equity-accounted investments, principally in Hisdesat Servicios Estratégicos, S.A.
- Within non-current liabilities, deferred tax liabilities in relation to revaluations which are not considered to be tax deductible.

The provisional goodwill resulting from this business combination is attributable to the benefits and synergies expected to arise in the Red Eléctrica Group from the acquisition and integration of Hispasat. Preliminary goodwill amounts to Euros 271 million.

Consolidated revenue and net profit for the period, contributed since the date of acquisition, amount to Euros 42.3 million and Euros 6.0 million, respectively. Had the acquisition taken place on 1 January 2019, the consolidated revenue and net profit contributed would have amounted to Euros 173.7 million and Euros 0.3 million, respectively.

The Group incurred acquisition costs of Euros 4.0 million, of which Euros 2.4 million were accrued in 2019 and the rest was booked in prior years. These costs were included under other operating expenses in the consolidated income statement.

- **Acquisition of Concesionaria Línea de Transmisión CCNMC S.A.C.**

On 18 July 2019 the Group, through Red Eléctrica del Norte Perú S.A.C. (hereinafter REDELNOR), a wholly owned subsidiary of Red Eléctrica Corporación, S.A., acquired 100% of the shares held by Cajamarca LT Invest S.L. and Bow Power S.L. in Concesionaria Línea de Transmisión CCNCM S.A.C. (hereinafter CCNCM) for US Dollars 34.3 million (Euros 30.6 million).

The statutory and principal activity of the acquired company consists of rendering transmission, operation and maintenance services in Peru through the 220kV Carhuaquero – Cajamarca Norte – Caclic – Moyobamba transmission line and related substations under the concession agreement entered into with the Peruvian state.

A summary of the amounts recognised for the assets acquired and liabilities assumed at the acquisition date, the amounts resulting from their fair value measurements, and the exchange rate is as follows:

| **Thousands of US Dollars** | **18/07/2019** | **Adjustments** | **Fair value** | **Fair value in thousands of Euros (*)** |
|---|---|---|---|---|
| Intangible assets - Concessions (note 6) | 180,079 | 19,832 | 199,911 | 178,237 |
| Concessions (note 6) | 180,079 | 15,729 | 195,808 | 174,579 |
| Goodwill | | 4,103 | 4,103 | 3,658 |
| Property, plant and equipment | 1 | | 1 | 1 |
| Other current assets | 4,429 | | 4,429 | 3,949 |
| Cash and cash equivalents | 2,268 | | 2,268 | 2,022 |
| **Total assets** | **186,777** | **19,832** | **206,609** | **184,209** |
| Non-current liabilities | (167,431) | (4,090) | (171,521) | (152,925) |
| Deferred tax liabilities | (1,870) | (4,090) | (5,960) | (5,313) |
| Other non-current liabilities | (165,561) | | (165,561) | (147,611) |
| Current liabilities | (797) | | (797) | (711) |
| **Total liabilities** | **(168,228)** | **(4,090)** | **(172,318)** | **(153,635)** |
| **Total net assets** | **18,549** | **15,742** | **34,291** | **30,574** |

(*) Calculated using the Euro-USD exchange rate at 18 July 2019

Within intangible assets, concessions comprise the agreement between CCNCM and the Peruvian state, whereby the Company undertakes to design, finance, procure, construct, operate and maintain the Carhuaquero – Cajamarca Norte – Moyomba transmission line and related substations. This intangible asset has been valued by independent experts using the income approach. The income approach aims to define the market value of a business based on the present value of foreseeable future cash flows by means of discounted cash flow (DCF). The concession has been revalued at US Dollars 15.7 million (Euros 14.0 million).

Deferred tax liabilities arise from the revaluation of the above-mentioned concession, due to differences between accounting amortisation and tax amortisation.

This business combination entailed the recognition of goodwill, which is supported by the net recognition of deferred taxes because the fair value assigned to the net assets acquired was higher than the tax values. Goodwill was calculated as the difference between the cost of acquisition and fair value of the identifiable assets and liabilities existing at the transaction date, including the deferred taxes arising from the differences between the new fair value of the assets acquired and their tax value. Goodwill amounts to US Dollars 4.1 million (Euros 3.6 million).

Consolidated revenue and net profit and loss for the period contributed since the date of acquisition amount to Euros 6.4 million and Euros -2.2 million, respectively. Had the acquisition taken place on 1 January 2019, the consolidated revenue and net profit and loss contributed would have amounted to Euros 14.9 million and Euros -4.7 million, respectively.

Given that 12 months have not yet elapsed since the acquisition, the recognition of this business combination would be revised if the circumstances provided for in IFRS 3 Business Combinations were to arise. However, the Group does not expect any changes in the fair values recognised for the assets acquired and liabilities assumed in the business combination.

The Group incurred acquisition costs of Euros 0.5 million. These costs were included under other operating expenses in the consolidated income statement.

### Business combinations carried out in 2018

- **Acquisition of Centinela Transmisión, S.A.**

  On 12 September 2018 the Group, through REDENOR 2, acquired 100% of the Chilean company Centinela Transmisión S.A. (which changed its name to Katari Transmisión S.A. (KATARI)) for US Dollars 117.8 million (Euros 101.2 million). The acquiree's statutory and principal activity consists of electricity transmission and transportation activities. KATARI operates a 265 km circuit made up of three 220 kV lines in Chile's northern Antofagasta Region. On 31 October 2018, this company was absorbed by REDENOR 2.

  A summary of the amounts recognised for the assets acquired and liabilities assumed at the acquisition date, the amounts resulting from their fair value measurements, and the exchange rate is as follows:

| Thousands of US Dollars | Opening balance | Adjustments | Fair value | Fair value in thousands of Euros (*) |
|---|---|---|---|---|
| Intangible assets | - | 55,516 | 55,516 | 48,486 |
| Property, plant and equipment | 33,864 | 16,570 | 50,434 | 43,840 |
| Other non-current assets | 296 | - | 296 | 259 |
| Other current assets | 3,643 | (746) | 2,897 | 2,530 |
| Cash and cash equivalents | 13,194 | - | 13,194 | 11,523 |
| Non-current liabilities | (3,344) | - | (3,344) | (2,921) |
| Current liabilities | (7,516) | 6,405 | (1,111) | (970) |
| **Total assets and liabilities** | **40,137** | **77,745** | **117,882** | **102,747** |

(*) USD/Euro exchange rate at December 2018

## 6. Intangible Assets

Movement in intangible assets and details of accumulated amortisation during 2019 and 2018 are as follows:

| Thousands of Euros | 31 December 2017 | Exchange differences | Changes in the consolidated Group | Additions | Transfers | 31 December 2018 | Exchange differences | Changes in the consolidated Group | Additions | 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Administrative concessions and industrial property | 114,890 | 5,449 | - | - | 51,028 | 171,367 | 3,429 | 211,941 | 290 | 387,027 |
| Development expenses and computer software | 29,327 | 2 | - | 16,613 | (2,082) | 43,860 | 267 | 2,761 | 18,439 | 65,327 |
| Goodwill | - | - | - | - | - | - | - | 275,034 | - | 275,034 |
| Other intangible assets | - | - | 48,486 | - | - | 48,486 | 932 | - | - | 49,418 |
| Intangible assets under development | 49,115 | 2,323 | - | 26,848 | (51,057) | 27,229 | 40 | 12,000 | 15,622 | 54,892 |
| **Total intangible assets** | **193,332** | **7,774** | **48,486** | **43,461** | **(2,111)** | **290,942** | **4,669** | **501,736** | **34,351** | **831,698** |
| Accumulated amortisation of administrative concessions | (20,595) | (1,176) | - | (5,991) | - | (27,762) | (1,207) | - | (11,203) | (40,172) |
| Accumulated amortisation of development expenses and computer software | (17,798) | (8) | - | (2,607) | (208) | (20,621) | (9) | - | (5,297) | (25,927) |
| **Total accumulated amortisation** | **(38,393)** | **(1,184)** | **-** | **(8,598)** | **(208)** | **(48,383)** | **(1,217)** | **-** | **(16,499)** | **(66,099)** |
| **Carrying amount** | **154,939** | **6,590** | **48,486** | **34,863** | **(2,319)** | **242,559** | **3,452** | **501,736** | **17,852** | **765,599** |

Changes in the consolidated Group include the addition of CCNCM and Hispasat Group companies (see note 5).

Administrative concessions and industrial property mainly include service concession arrangements granted by different public entities to the Group companies for the construction and operation of technical electricity facilities in Peru, as well as different bandwidth licences for the use of orbital slots above Brazilian territory as a result of the Hispasat Group acquisition.

Details of agreements for concessions under operation and/or construction in Peru at 31 December 2019 are as follows:

| Thousands of Euros | Redesur | Tesur | Tesur 2 | Tesur 3 | Tesur 4 | CCNCM (*) |
|---|---|---|---|---|---|---|
| Grantor | Peruvian State | Peruvian State | Peruvian State | Peruvian State | Peruvian State | Peruvian State |
| Activity | Electricity transmission | Electricity transmission | Electricity transmission | Electricity transmission | Electricity transmission | Electricity transmission |
| Country | Peru | Peru | Peru | Peru | Peru | Peru |
| Concession period from start-up of commercial operations | 30 years | 30 years | 30 years | 30 years | 30 years | 30 years |
| Remaining useful life | 12 years | 25 years | 29 years | 6 months construction + 30 years operation | 30 months construction + 30 years operation | 28 years operation |
| Tariff review frequency | Annual | Annual | Annual | Annual | Annual | Annual |
| Carrying amount at 31/12/2019 | 39,585 | 55,607 | 49,286 | 28,877 | 6,012 | 157,879 |
| Carrying amount at 31/12/2018 | 40,036 | 56,792 | 50,057 | 22,427 | 1,549 | - |
| Revenue in 2019 | 27,168 | 6,380 | 5,213 | - | - | 6,362 |
| Revenue in 2018 | 17,512 | 5,907 | 4,105 | - | - | - |
| Profit/(loss) for 2019 | 6,047 | (442) | 405 | (217) | (34) | (2,294) |
| Profit/(loss) for 2018 | 3,647 | 11 | 150 | (42) | 96 | - |
| Renewal options | Not stipulated in contract | Not stipulated in contract | Not stipulated in contract | Not stipulated in contract | Not stipulated in contract | Not stipulated in contract |

(*) Concession added to the consolidated Group on 18 July 2019. The contribution to the Red Eléctrica Group is indicated as from that date (see note 5).

Also added to the consolidated Group were the Brazilian satellite operation rights for the transmission of telecommunication signals over C-, Ku-, BSS Ku- and Ka-bands using the orbital slot at 61º west and over the Ku-band and AP 30/30A using the orbital slot at 74º west over Brazilian territory, as well as the renewal of satellite orbital rights at 61º west.

Goodwill arises from the business combinations of the Hispasat Group and CCNCM carried out in 2019 (see note 5).

Intangible assets under development in 2019 and 2018 are mainly related to the construction work carried out by the Peruvian companies TESUR 3 and TESUR 4 for the concession facilities of these two companies.

Other intangible assets amounting to Euros 49,418 thousand reflect the perpetual right to regulated tariffs arising from the acquisition of a transmission line forming part of the Chilean National Transmission System. This item is not amortised as it has an indefinite useful life, and is tested for impairment annually.

Operating expenses of Euros 15,572 thousand incurred directly in connection with intangible assets were capitalised in 2019 (Euros 27,016 thousand in 2018).

During 2019 the Group capitalised borrowing costs of Euros 843 thousand as an increase in intangible assets (Euros 787 thousand in 2018).

At 31 December 2019 the Group has fully amortised intangible assets amounting to Euros 18,550 thousand (Euros 18,550 thousand in 2018), most of which comprise development expenses and computer software.

At 31 December 2019 the carrying amount of intangible assets located outside of Spain is Euros 436,742 thousand (Euros 219,432 thousand in 2018).

At the 2019 and 2018 reporting dates, the Group has performed impairment testing on those intangible assets for which there could be indications of impairment due to changes in sector regulations. To this end, the Group calculated the value in use of the CGUs associated with the assets, which was determined to exceed their carrying amount.

## 7. 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 | 31.12.2017 | Exchange differences | Changes in the consolidated Group | Additions and other | Exits, disposals, reductions and write-downs | Transfers | 31.12.2018 | Exchange differences | Changes in the consolidated Group | First-time application of IFRS 16 | Additions and other | Exits, disposals, reductions and write-downs | Transfers | 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | | | | | | |
| Land and buildings | 82,643 | 27 | - | - | (37) | 42 | 82,675 | 96 | 15,972 | 7,582 | 2,673 | - | 9,223 | 118,221 |
| Technical telecommunications facilities | 438,367 | - | - | - | - | 4,014 | 442,381 | - | 960,227 | - | 687 | (5,812) | 10,313 | 1,407,796 |
| Technical electricity facilities | 13,665,016 | - | 42,732 | - | (4,232) | 330,333 | 14,033,849 | 822 | - | - | 9,943 | (4,206) | 473,878 | 14,514,286 |
| Other installations, machinery, equipment, furniture and other items | 220,499 | 49 | - | 207 | (334) | 3,096 | 223,517 | 53 | 3,853 | 3,794 | 498 | (1,113) | 17,120 | 247,722 |
| Technical electricity facilities under construction | 675,678 | - | - | 370,062 | - | (327,980) | 717,760 | - | - | - | 389,910 | - | (487,991) | 619,679 |
| Under construction and advances | 46,088 | | 1,108 | 31,699 | (9) | (7,394) | 71,492 | - | 15,821 | - | 69,196 | (898) | (22,543) | 133,068 |
| **Total cost** | **15,128,291** | **76** | **43,840** | **401,968** | **(4,612)** | **2,111** | **15,571,674** | **971** | **995,873** | **11,376** | **472,907** | **(12,029)** | **-** | **17,040,772** |
| Accumulated depreciation | | | | | | | | | | | | | | |
| Buildings | (22,984) | (4) | - | (1,435) | 11 | (36) | (24,448) | (11) | - | - | (1,630) | 304 | - | (25,785) |
| Technical telecommunications facilities | (67,528) | - | - | (22,424) | - | - | (89,952) | - | - | - | (52,933) | - | 9 | (142,876) |
| Technical electricity facilities | (6,026,280) | (7) | - | (432,872) | 4,094 | - | (6,455,065) | (1) | - | - | (438,975) | 2,626 | 9,741 | (6,881,674) |
| Other installations, machinery, equipment, furniture and other items | (180,498) | (16) | - | (15,380) | 317 | 244 | (195,333) | (13) | - | - | (15,463) | 3 | (9,750) | (220,556) |
| **Total accumulated depreciation** | **(6,297,290)** | **(27)** | **-** | **(472,111)** | **4,422** | **208** | **(6,764,798)** | **(25)** | **-** | **-** | **(509,001)** | **4,374** | **-** | **(7,270,891)** |
| Impairment | (83,625) | - | - | (11,919) | - | - | (95,544) | - | - | - | (1,202) | - | - | (96,746) |
| **Carrying amount** | **8,747,376** | **49** | **43,840** | **(82,062)** | **(190)** | **2,319** | **8,711,332** | **946** | **995,873** | **11,376** | **(37,296)** | **(7,655)** | **-** | **9,673,135** |

Changes in the consolidated Group include the addition of CCNCM and Hispasat Group companies (see note 5).

Technical telecommunications facilities essentially consist of the concession of the rights to use and manage the operation of the fibre optic cable network and other related items, pursuant to the 20-year agreement entered into by REINTEL with ADIF in 2014, as well as investments associated with the Group's fleet of satellites, which comprise the Hispasat 30W-4, Hispasat 30W-5, Hispasat 30W-6, Hispasat 36W-1, Amazonas 2, Amazonas 3, Hispasat 74W-1, Amazonas 5 and Hispasat 55W-2.

Technical electricity facilities are assets that are subject to regulated remuneration (see note 3). The main additions to technical electricity facilities in 2019 and 2018 are investments in electricity transmission facilities in Spain.

Property, plant and equipment are measured at cost of acquisition, less any accumulated depreciation and impairment (except for assets acquired in business combinations, which are initially recognised at fair value). Cost of acquisition includes the price paid for the asset, personnel expenses, operating expenses and any borrowing costs directly attributable to the construction or manufacture of the asset.

At 31 December 2019 the amount presented in additions and other mainly reflects the investments made during the year as well as the technical facilities received under agreements with third parties.

As a result of first-time application of IFRS 16, assets have arisen in respect of the right to use assets under leases in an amount of Euros 11,376 thousand, of which Euros 3,794 thousand reflects vehicles and Euros 7,582 thousand reflects buildings.

At 31 December 2019, the amount shown under exits, disposals, reductions and write-downs mainly reflects the disposal of certain fully-depreciated assets.

During 2019, the Group companies capitalised construction-related borrowing costs of Euros 6,869 thousand as an increase in property, plant and equipment (Euros 5,386 thousand in 2018). The weighted average rate used to capitalise borrowing costs was 1.6% in 2019 (1.5% in 2018).

Operating expenses of Euros 44,511 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2019 (Euros 35,011 thousand in 2018). The Group's capitalised expenses directly related to the construction of facilities include all operating expenses incurred to provide support to the units directly involved in the activity.

The Group has cash-generating units (CGUs) that encompass property, plant and equipment. CGUs are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The CGUs identified in property, plant and equipment are related to electricity transmission in Spain, Chile and Peru, fibre optic telecommunications in Spain, satellite telecommunications and certain individual assets. The CGUs identified are the same in 2019 and 2018.

The Group tests for impairment when it observes indications, such as amendments to sector regulations or changes in investment plans. In order to calculate impairment, the Group verifies that the recoverable amount or value in use of each cash-generating unit with which the assets or individual assets are associated exceeds its carrying amount. Otherwise, an impairment loss is recognised in the consolidated income statement for the difference between the two, with a charge to impairment and gains/losses on disposal of fixed assets, up to the limit of the higher of: (i) its fair value less costs to sell and (ii) its value in use.

Impairment losses recognised for an asset in prior years are reversed when a change arises in the estimate of its recoverable amount, increasing the value of the asset with a credit to results up to the limit of the carrying amount that the asset would have had if no impairment loss had been recognised.

The recoverable amount is the higher of fair value less costs to sell and value in use, which is understood to be the present value of estimated future cash flows. The Group considers the value in use of an asset to be its recoverable amount. Value in use is calculated using the methodology described below.

To estimate value in use, the Group prepares forecasts of future cash flows after tax based on the best available estimates. These provisions include the best available estimates of income, expenses and investments, using past experience and future expectations in accordance with the prevailing regulatory framework.

At the 2019 reporting date, the Group has performed impairment testing on those items of property, plant and equipment for which there are indications of impairment, by calculating the value in use of the CGUs associated with the assets, which exceeds their carrying amount. In 2019 impairment totalling Euros 1,202 thousand was recognised on technical telecommunications facilities. Impairment of Euros 11,919 thousand was recognised in 2018 as a result of indications of impairment on certain facilities that are included in technical electricity facilities under construction.

At 31 December 2019 the Group has fully depreciated property, plant and equipment amounting to Euros 2,516,967 thousand, of which Euros 2,335,545 thousand comprises technical electricity facilities (Euros 1,577,123 thousand in 2018, of which Euros 1,420,317 thousand comprised technical electricity facilities).

Details of capital grants and other non-current revenue received in advance, in relation to property, plant and equipment, are provided in note 14.

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. These policies provide adequate protection against the risks covered.

The Group has no firm commitments to purchase significant amounts of property, plant and equipment relative to its present volume of assets, and to the investments it makes and plans to make. The Group periodically places orders to cover needs related to its investment plans. The various amounts in the aforementioned orders will normally materialise in the form of delivery orders as and when the different projects included in the plans are capitalised. Therefore, they do not constitute firm purchase commitments at the time of issue.

## 8. Right-of-Use Assets and Lease Liabilities

The entry into force of IFRS 16 led to assets being recognised in 2019 in relation to the right to use assets under leases (see note 2). Euros 11,376 thousand was recognised at 1 January 2019 due to the entry into force of IFRS 16.

Analysis of the Group's leases subject to IFRS 16 reveals that the main types of assets to which this standard applies are as follows:

- Vehicles: primarily vehicles under operating leases.
- Buildings: offices, premises and land needed to carry out the Group's activity.

- **Right-of-use assets**

Details of right-of-use assets and movement in 2019 are as follows:

| | 2019 |
|---|---|
| 1 January 2019 | 11,376 |
| Additions to consolidated Group | 5,266 |
| Additions during the year | 4,846 |
| Derecognitions during the year | (1,682) |
| Depreciation for the year | (2,985) |
| **Total** | **16,821** |

- **Amounts recognised in profit or loss**

Details of the amounts recognised in the 2019 consolidated income statement in relation to the application of IFRS 16 are as follows:

| | 2019 |
|---|---|
| Interest on lease liabilities | 131 |
| Depreciation charges | 2,985 |
| **Total** | **3,116** |

The expense recognised in 2018 in relation to assets under lease amounted to Euros 6,255 thousand, including leases subject to IFRS 16 in 2019. Euros 4,385 thousand has been recognised as operating expenses in respect of leases not falling within the scope of IFRS 16.

- **Amounts recognised in the consolidated statement of cash flows**

Details of lease payments made in 2019 are as follows:

| | 2019 |
|---|---|
| Lease payments | 1,868 |
| Interest paid on leases | 131 |
| **Total** | **1,999** |

- **Future minimum lease payments**

Committed future minimum lease payments are as follows:

| | 2019 |
|---|---|
| Up to 1 year | 4,095 |
| 2 to 5 years | 6,569 |
| More than 5 years | 13,009 |
| **Total** | **23,673** |

## 9. Investment Property

Movement in the Group's 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 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Investment property | 2,910 | - | (72) | 2,838 | - | (441) | 2,397 |
| **Total cost** | **2,910** | **-** | (72) | **2,838** | **-** | **(441)** | **2,397** |
| Accumulated depreciation | | | | | | | |
| Investment property | (525) | (44) | - | (569) | (29) | 99 | (499) |
| **Total accumulated depreciation** | **(525)** | **(44)** | **-** | **(569)** | **(29)** | **99** | **(499)** |
| **Impairment** | **-** | **(615)** | **-** | **(615)** | **(128)** | **190** | **(553)** |
| **Carrying amount** | **2,385** | **(659)** | (72) | **1,654** | **(157)** | **(152)** | **1,345** |

Investment property disposals in 2019 reflect the sale of various premises in Spain. Disposals in 2018 related to a plot of land in Spain.

At the 2019 reporting date, analysis of the fair 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 consolidated income statement.

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

## 10. Equity-accounted Investees

This item includes the investments in Transmisora Eléctrica del Norte, S.A. (TEN), in which the Group holds a 50% interest through Red Eléctrica Chile SpA, Hisdesat Servicios Estratégicos, S.A., in which the Red Eléctrica Group holds a 38.56% interest, and Grupo de Navegación Sistemas y Servicios, S.L., in which the Red Eléctrica Group holds a 12.82% interest. These latter two investments are both through the Group company Hispasat, S.A. As joint ventures, these companies are included in the financial statements of the Group using the equity method (see note 2 d).

TEN was incorporated on 1 March 2007 and undertook the project in Chile for the construction of a transmission line spanning approximately 580 km and the corresponding substations. This project has connected the Far North Interconnection System to the Central Interconnected System in Chile since 2018. TEN currently operates and maintains the facilities constructed. The acquisition price was US Dollars 217,560 thousand (Euros 199,816 thousand).

Hisdesat Servicios Estratégicos, S.A. engages in the commercialisation of spatial systems for government use. Grupo de Navegación Sistemas y Servicios, S.L. engages in the operation of satellite systems. Both companies form part of the Hispasat Group, which joined the Red Eléctrica Group on 3 October 2019, as indicated in note 5.

Movement in these investments in 2018 and 2019 was as follows:

Thousands of Euros

| Company | 31.12.2017 | Exchange differences | Profit attributable to investment | Valuation adjustments | 31.12.2018 | Exchange differences | Changes in the consolidated Group | Profit attributable to investment | Valuation adjustments | 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Transmisora Eléctrica del Norte, S.A. (TEN) | 172,727 | 8,881 | 6,966 | 9,803 | 198,377 | 3,799 | - | 7,606 | (10,757) | 199,026 |
| Hisdesat Servicios Estratégicos, S.A. | - | - | - | - | - | - | 59,080 | 1,369 | - | 60,449 |
| Grupo de Navegación Sistemas y Servicios, S.L. | - | - | - | - | - | - | 119 | - | - | 119 |
| **Total** | **172,727** | **8,881** | **6,966** | **9,803** | **198,377** | **3,799** | **59,199** | **8,975** | **(10,757)** | **259,594** |

The key indicators of these companies at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | Transmisora Eléctrica del Norte, S.A. (TEN) | | Hisdesat Servicios Estratégicos, S.A. (*) | Grupo de Navegación Sistemas y Servicios, S.L. (*) |
|---|---|---|---|---|
| **Year** | **2019** | **2018** | **2019** | **2019** |
| Non-current assets | 666,557 | 665,015 | 284,409 | 1,139 |
| Current assets | 77,425 | 95,535 | 220,875 | 156 |
| Cash and cash equivalents | 43,117 | 65,948 | 210,932 | 152 |
| **Total assets** | **743,982** | **760,550** | **505,284** | **1,295** |
| Non-current liabilities | 654,904 | 620,616 | 231,603 | - |
| Current liabilities | 36,371 | 77,998 | 49,261 | 360 |
| **Total liabilities** | **691,275** | **698,614** | **280,864** | **360** |
| **Net assets** | **52,707** | **61,936** | **224,420** | **935** |
| Revenue from ordinary activities | 75,895 | 74,812 | 72,233 | - |
| Gross operating profit | 66,147 | 54,252 | 53,310 | - |
| Net operating profit | 50,962 | 51,429 | 17,648 | - |
| **Profit after tax** | **15,212** | **13,748** | **9,970** | - |
| **Comprehensive income** | **5,866** | **30,039** | **6,947** | - |
| Dividends received by the Group | - | - | - | - |

(*) Company added to the consolidated Group on 3 October 2019. Revenue and results shown are for the full year.

At 31 December 2019 and 2018 the balance of the loan extended by the Group to TEN was Euros 24,677 thousand and Euros 41,724 thousand, respectively (see note 18).

The Group performs an impairment test each year to verify the recoverability of its investment. When testing for impairment, the Group considers projections of future cash flows. Such testing was performed on the investment in TEN in 2019 and the value in use exceeded the carrying amount. Thus, the Group concluded that this investment is not impaired.

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.

As regards the investments in Hisdesat Servicios Estratégicos, S.A. and Grupo de Navegación Sistemas y Servicios, S.L., these companies are within the Hispasat Group, for which the PPA process that will give rise to the fair value measurement of the assets and liabilities is at a preliminary stage. At the 2019 reporting date they are recognised in proportion to the Red Eléctrica Group's percentage interest, at the carrying amount recorded by the Hispasat Group in its accounts.

## 11. Inventories

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

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Inventories | 76,124 | 67,535 |
| Write-downs | (33,404) | (32,894) |
| **Total** | **42,720** | **34,641** |

Inventories mainly reflect materials and spare parts related to the technical electricity facilities.

The Group companies regularly test inventories for impairment based on the following assumptions:

- Impairment of old inventories, using inventory turnover ratios.
- Impairment for excess inventories, on the basis of estimated use in future years.

As a result, the Group recorded impairment losses of Euros 510 thousand in the consolidated income statement for 2019 (Euros 4,573 thousand in 2018).

## 12. Trade and Other Receivables

Details of trade and other receivables at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Trade receivables | 74,396 | 10,826 |
| Other receivables | 1,261,607 | 1,089,675 |
| Current tax assets (note 22) | 10,004 | 2,059 |
| **Total** | **1,346,007** | **1,102,560** |

Trade receivables primarily comprise balances receivable on the lease of satellite capacity and related services.

Other receivables at 31 December 2019 and 2018 mainly reflect the trend in settlements made by the CNMC in those years for regulated activities in Spain as a result of changes in collections and payments. At 31 December 2019 and 2018 the balances mostly comprise amounts pending invoicing and/or collection for regulated transmission and system operation activities. Under the settlement system set up by the Spanish regulator, some of these receivables are settled and collected in the following year. These amounts also include the revenue receivable derived from applying the methodology set forth in the remuneration model in force for transmission activities in Spain, which stipulates that facilities entering into service in year 'n' are to be remunerated from year 'n+2' onwards.

There are no significant differences between the fair value and the carrying amount at 31 December 2019 and 2018. At 31 December 2019 and 2018 there are no significant amounts over 12 months past due (see note 17).

On 1 January 2018 the Group began to calculate impairment of financial assets based on expected loss, as detailed in note 2.b, using the principles described in note 4.f). This led to the reversal in 2019 of impairment totalling Euros 650 thousand (in 2018 the recognition of impairment amounting to Euros 590 thousand and a Euros 807 thousand reduction in equity due to the first-time application of IFRS 9 at 1 January 2018). Impairment of financial assets based on expected loss accumulated at 31 December 2019 amounts to Euros 747 thousand.

## 13. 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 Group can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

The Group controls its capital structure on a gearing ratio basis, in line with sector practice. This ratio is calculated as net financial debt divided by the sum of the Group's equity and net financial debt. Net financial debt is calculated as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Non-current payables (*) | 5,257,840 | 4,980,757 |
| Current payables (*) | 1,124,871 | 490,460 |
| Foreign currency derivatives | (28,566) | (21,345) |
| Cash and cash equivalents | (328,570) | (767,152) |
| **Net financial debt** | **6,025,575** | **4,682,720** |
| Equity | 3,614,434 | 3,361,366 |
| **Gearing ratio** | **62.5%** | **58.2%** |

(*) In both 2019 and 2018 interest payable has been excluded.

At 31 December 2019, the financial covenants stipulated in the contracts entered into have been met.

On 21 May 2019 the credit rating agency Standard & Poor's issued a new report on the Company maintaining its long-term rating of A- and short-term rating of A-2, with a stable outlook.

On 6 June 2019 the credit rating agency Fitch Ratings upgraded the Company's short-term rating from 'F2' to 'F1', with a stable outlook. Following this announcement, the Company and its subsidiary Red Eléctrica de España, S.A.U. maintain long-term ratings of A- and short-term ratings of 'F1', with a stable outlook.

## b) Equity attributable to the Parent

- **Capital and reserves**
  - **Share 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 the Parent's share capital (Euros 54,199 thousand).

- **Other reserves**

  This heading includes voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves. At 31 December 2019 they amount to Euros 2,371,668 thousand (Euros 2,223,486 thousand in 2018).

  In addition, this item includes statutory reserves amounting to Euros 337,081 thousand (Euros 320,374 thousand in 2018), particularly the following:

  - 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, it may be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996). Nonetheless, this balance may only be distributed, indirectly or directly, when the revalued assets have been fully depreciated, transferred or derecognised.

  - As provided for by article 25 of Law 27/2014 of 27 November 2014, the tax group headed by the Company has appropriated a capitalisation reserve of Euros 72,535 thousand, which is held by REE and REC, as permitted by article 62.1 d) of the aforementioned Law, corresponding to 2015 (Euros 29,110 thousand), 2016 (Euros 15,406 thousand), 2017 (Euros 11,312 thousand), and 2018 (Euros 16,707 thousand). This reserve will be restricted for a period of five years. Pursuant article 62.1.d) of the aforementioned Law, the proposed capitalisation reserve for the year ended 31 December 2019, in an amount of Euros 19,668 thousand, will be appropriated in REE, as a subsidiary of the tax group. Each company forming part of the tax group has adjusted income tax for 2019 in connection with this reserve (see note 22).

- **Own shares**

  At 31 December 2019 the Parent held 2,024,844 own shares representing 0.37% of its share capital, with a par value of Euros 0.50 per share and 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 Parent held 1,198,049 own shares representing 0.22% of its share capital, with a par value Euros 0.50 per share and a total par value of Euros 599 thousand, and an average acquisition price of Euros 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 Parent 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 Parent.

- **Profit attributable to the Parent**

  Profit for 2019 totals Euros 718,040 thousand (Euros 704,558 thousand at 31 December 2018).

- **Interim dividends and proposed distribution of dividends by the Parent**

  The interim dividend authorised by the board of directors in 2019 has been recognised as a Euros 147,112 thousand reduction in consolidated equity at 31 December 2019 (Euros 147,250 thousand at 31 December 2018) (see note 18).

  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 (Euros 0.2727 (gross) per share in 2018).

  Details of the dividends paid during 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | % of par value | Euros per share | Amount | % of par value | Euros per share | Amount |
| Ordinary shares | 196.62% | 0.9831 | 530,841 | 183.76% | 0.9188 | 495,138 |
| **Total dividends paid** | **196.62%** | **0.9831** | **530,841** | **183.76%** | **0.9188** | **495,138** |
| **Dividends charged to profit** | **196.62%** | **0.9831** | **530,841** | **183.76%** | **0.9188** | **495,138** |

The Parent's board of directors also proposed to the shareholders at their general meeting the distribution of a supplementary dividend of Euros 0.7792 per share, which would result in a total dividend for 2019 of Euros 1.0519 per share (Euros 0.9831 in 2018).

- **Valuation adjustments**

  - **Financial assets at fair value through other comprehensive income**

    At 31 December 2019 and 2018 this item reflects valuation adjustments to equity instruments classified as financial assets measured at fair value through other comprehensive income due to fluctuations in the share price of the Group's 5% investment in the listed company Redes Energéticas Nacionais, S.G.P.S., S.A. (hereinafter REN), the benchmark index for which is the Portuguese PSI 20. At 31 December 2019 this item totals Euros 24,604 thousand (Euros 15,063 thousand in 2018).

  - **Hedging transactions**

    This line item reflects changes in the value of derivative financial instruments.

    At 31 December 2019 this item totals a negative amount of Euros 82,699 thousand (a negative amount of Euros 62,237 thousand in 2018).

  - **Translation differences**

    This line item mainly comprises the exchange gains and losses arising from translation of the financial statements of foreign operations whose functional currency is not the Euro. At 31 December 2019 they amount to Euros 5,629 thousand (Euros 3,103 thousand in 2018). This increase is primarily due to the performance of the US Dollar against the Euro in 2019.

## c) Non-controlling interests

Non-controlling interests under equity in the consolidated statement of financial position reflect the non-controlling interests in all the Hispasat Group companies and in the Chilean company REDENOR at 31 December 2019. In 2018 this item included the non-controlling interest in the Chilean company REDENOR. In 2019 this balance amounts to Euros 98,630 thousand (Euros 832 thousand in 2018). Movement in 2019 and 2018 is as follows:

| Thousands of Euros | 31 December 2017 | Changes in consolidated Group and other | Net translation differences | Loss for the year | 31 December 2018 | Changes in consolidated Group and other | Net translation differences | Profit/(loss) for the year | 31 December 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Non-controlling interests | 59 | 817 | 25 | (69) | 832 | 98,299 | (952) | 451 | 98,630 |

Regarding the main non-controlling interests referred to above, a summary of the financial information on assets, liabilities and profit/loss at 31 December 2019 and 2018 of the investees is as follows:

| Thousands of Euros | REDENOR | | HISPASAT GROUP (*) |
|---|---|---|---|
| | 31/12/2019 | 31/12/2018 | 31/12/2019 |
| Non-current assets | 36,302 | 10,700 | 1,069,738 |
| Current assets | 1,142 | 2,276 | 98,404 |
| **Assets** | **37,444** | **12,976** | **1,168,142** |
| Non-current liabilities | 33,065 | 8,334 | 287,246 |
| Current liabilities | 1,501 | 1,878 | 104,855 |
| **Liabilities** | **34,566** | **10,212** | **392,102** |
| **Equity** | **2,879** | **2,763** | **776,041** |
| Income | 889 | 607 | 42,571 |
| Expenses | 1,034 | 866 | 9,568 |
| Gross operating profit | (144) | (260) | 33,003 |
| Profit/(loss) after tax | 62 | (231) | 5,396 |
| Profit/(loss) attributable to non-controlling interests | 19 | (69) | 432 |

(*) Business combination added to the consolidated Group on 3 October 2019. The contribution to the Red Eléctrica Group is indicated as from that date (see note 5).

## 14. Grants and Other Non-current Revenue Received in Advance

Movement in grants and other non-current revenue received in advance in 2019 and 2018 is as follows:

| Thousands of Euros | 31.12.2017 | Additions | Applications | Transfers | 31.12.2018 | Changes in the consolidated Group | Additions | Applications | 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|
| Capital grants | 186,566 | 1,639 | (7,888) | (397) | 180,317 | 63,090 | | (7,888) | 235,519 |
| Other grants and revenue received in advance | 410,556 | 56,094 | (15,557) | 397 | 451,093 | 293 | 36,693 | (17,836) | 470,243 |
| **Total** | **597,122** | **57,733** | **(23,445)** | **-** | **631,410** | **63,383** | **36,693** | **(25,724)** | **705,762** |

Capital grants mainly include the amounts received by REE for the construction of electricity facilities and by the Hispasat Group for the construction of satellites. Applications reflect amounts taken to consolidated profit or loss on the basis of the useful life of the corresponding facilities and recognised under non-financial and other capital grants in the consolidated income statement.

Other grants and other revenue received in advance mainly comprise amounts or technical facilities received as a result of agreements with third parties as well as income tax deductions for investments in the Canary Islands, which by their nature are similar to capital grants (see note 2 c). Applications mainly reflect the amounts taken each year to consolidated profit or loss on the basis of the useful life of the assets linked to the deductions, recognised under non-financial and other capital grants in the consolidated income statement.

## 15. Non-current and Current Provisions

Movement in 2019 and 2018 is as follows:

| Thousands of Euros | 31.12.2018 | Changes in the consolidated Group | First-time application of IFRIC 23 | Additions | Applica-tions | Transfers | Actuarial | 31.12.2019 |
|---|---|---|---|---|---|---|---|---|
| **Non-current provisions** | | | | | | | | |
| Provisions for em-ployee benefits | 62,310 | 1,048 | - | 3,740 | (1,857) | (6,317) | 13,701 | 72,625 |
| Other provisions | 65,231 | - | (4,367) | 18,319 | (402) | - | - | 78,781 |
| **Total non-current** | **127,541** | **1,048** | **(4,367)** | **22,059** | **(2,259)** | **(6,317)** | **13,701** | **151,406** |
| **Current provisions** | | | | | | | | |
| Other provisions | - | 28,101 | - | (150) | (606) | - | - | 27,345 |
| **Total current** | **-** | **28,101** | **-** | **(150)** | **(606)** | **-** | **-** | **27,345** |
| **Total provisions** | **127,541** | **29,149** | **(4,367)** | **21,909** | **(2,865)** | **(6,317)** | **13,701** | **178,751** |

| Thousands of Euros | 31.12.2017 | Additions | Applications | Transfers | Actuarial | 31.12.2018 |
|---|---|---|---|---|---|---|
| **Non-current provisions** | | | | | | |
| Provisions for employee benefits | 62,480 | 4,133 | (1,023) | - | (3,280) | 62,310 |
| Other provisions | 38,502 | 26,730 | (858) | 857 | - | 65,231 |
| **Total non-current** | **100,982** | **30,863** | **(1,881)** | **857** | **(3,280)** | **127,541** |

Provisions for employee benefits reflect defined benefit plans, which essentially include the future commitments – specifically health insurance – undertaken by the Group vis-à-vis its personnel from the date of their retirement, calculated using actuarial studies carried out by an independent expert. In 2019 and 2018 additions derive mainly from the annual accrual of these commitments, as well as changes in the actuarial assumptions used. These additions have been recognised as personnel expenses or finance costs, depending on their nature, and under reserves when they derive from changes in the actuarial assumptions (mainly in the case of obligations related to health insurance) or in consolidated profit or loss (in the case of past service obligations). The personnel expenses and finance costs recognised in this connection in the consolidated income statement for 2019 amount to Euros 1,883 thousand and Euros 606 thousand, respectively (Euros 1,479 thousand and Euros 1,194 thousand, respectively, in 2018), whilst the reserves recognised in 2019 totalled Euros 13,701 thousand, net of tax (negative Euros 3,280 thousand in 2018). Changes in the consolidated Group reflect the long-term incentive corresponding to 2018-2021 as a result of the business combination with Hispasat (see note 5).

The assumptions made with regard to 2019 and 2018 were as follows:

| | Actuarial assumptions | |
|---|---|---|
| | **2019** | **2018** |
| Discount rate | 1.05% | 2.04% |
| Cost increase | 3.0% | 3.0% |
| Mortality table | PERM/F 2000 new production | PERM/F 2000 new production |

Details of the effect of an increase/decrease of one percentage point in the cost of health insurance are as follows:

| Thousands of Euros | 2019 | |
|---|---|---|
| | +1% | -1% |
| Current service cost | 547 | (401) |
| Interest cost of net post-employment medical costs | 6 | (4) |
| Accumulated post-employment benefit obligation for health insurance | 16,259 | (12,229) |

Conversely, the effect of a decrease of half a percentage point in the discount rate used in 2019 for health insurance costs from 1.05% to 0.55%, in thousands of Euros, is as follows:

| Thousands of Euros | Discount rate | | |
|---|---|---|---|
| | 1.05% | 0.55% | Sensitivity |
| Current service cost | 1,726 | 1,989 | 263 |
| Interest cost of net post-employment medical costs | 538 | 283 | (255) |
| Accumulated post-employment benefit obligation for health insurance | 63,293 | 71,451 | 8,158 |

Provisions for employee benefits also include deferred remuneration schemes (see note 4 l). At 31 December 2019 personnel expenses recognised in the consolidated income statement in this regard amount to Euros 1,347 thousand (Euros 1,458 thousand in 2018).

Other provisions basically include the amounts recorded by the Group every year to cover the potential unfavourable rulings relating to administrative proceedings, administrative disciplinary proceedings, judicial reviews, primarily of expropriation proceedings, and out-of-court claims, among others. The provisions recognised to cover these events are measured on the basis of the potential economic content of the ongoing appeals, litigation, claims and general legal or out-of-court proceedings to which the Group companies are party. This item also includes the provisions made to cover potential unfavourable rulings in relation to the application of the remuneration model for transmission activities in Spain (see note 3). Changes in the consolidated Group primarily reflect provisions in relation to the fair value of the contingent liabilities identified in the Hispasat Group business combination, mainly related to tax contingencies in Brazil (see note 5).

First-time application of IFRIC 23 includes the reclassification of Euros 4,367 thousand for corporate income tax payable in connection with the uncertainty over income tax treatments.

The Group has assessed the risks and does not expect any events to arise that would amount to liabilities not considered in its financial statements or that would have a significant impact on its profits. At the 2019 reporting date, the Group is involved in a number of ongoing proceedings, primarily judicial reviews and disciplinary proceedings.

## 16. Other Non-current Liabilities

Other non-current liabilities basically include contract liabilities for the revenues received in advance from agreements with various telecommunications operators for the use of the telecommunications network capacity, recognised in the consolidated income statement based on the duration of the agreements, with expiry dates up to 2038, and amounting to Euros 32,934 thousand at 31 December 2019 (Euros 30,802 thousand at 31 December 2018). Euros 10,354 thousand was added to this item in 2019 from the Hispasat Group, reflecting revenues received in advance on account of future satellite capacity services to be rendered.

This item also includes the non-current liabilities arising from the compensation paid by Électricité de France (hereinafter EDF) under the agreement signed in 1997 for the adaptation of electricity supply contracts, which amounted to Euros 23,625 thousand at 31 December 2019 (Euros 23,625 thousand at 31 December 2018). These are multi-year commitments and are therefore subject to the construction of facilities.

## 17. Financial Risk Management Policy

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

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 Group's core value, rather than generating extraordinary profits.

The Group's finance management is responsible for managing financial risk, ensuring consistency with the Group's strategy and coordinating risk management across the various Group companies, by identifying the main financial risks and defining the initiatives to be taken, based on different financial scenarios.

The methodology for identifying, measuring, monitoring and controlling risk, as well as the management indicators and measurement and control tools specific to each risk, are documented in the financial risk manual.

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

### a) 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**

  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 financial debt structure at 31 December 2019 and 2018 is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Thousands of Euros** | **Fixed rate** | **Variable rate** | **Fixed rate** | **Variable rate** |
| Non-current issues | 2,669,621 | 14,933 | 3,279,141 | 14,926 |
| Non-current bank borrowings | 1,473,276 | 1,071,444 | 1,157,598 | 478,258 |
| Current issues | 702,898 | 215,081 | 287,995 | - |
| Current bank borrowings | 131,083 | 75,810 | 173,305 | 58,648 |
| **Total gross financial debt** | **4,976,878** | **1,377,267** | **4,898,040** | **551,832** |
| **Percentage** | **78%** | **22%** | **90%** | **10%** |

The financial debt structure is low risk with moderate exposure to fluctuations in interest rates, as a result of the debt policy implemented, which aims to bring the cost of debt into line with the financial rate of return applied to the Group's regulated assets, among other objectives.

The interest rate risk to which the Group is exposed at 31 December 2019 and 2018 derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not consolidated profit for the year. A sensitivity analysis of this risk is as follows (in thousands of Euros):

| Thousands of Euros | Effect on consolidated equity of market interest rate fluctuations | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | +0.10% | -0.10% | +0.10% | -0.10% |
| Interest rate hedges: | | | | |
| - Cash flow hedges. Interest rate swap | 4,895 | (4,940) | 3,841 | (3,872) |
| Interest rate and exchange rate hedges: | | | | |
| - Cash flow hedges. Cross currency swap | 135 | (137) | 249 | (253) |

This rise or decline of 0.10% in interest rates would have decreased or increased consolidated profit by Euros 1,075 thousand in 2019 and by Euros 1,144 thousand in 2018.

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2019 and 2018.

- **Currency risk**

Currency risk management considers transaction risk arising on cash inflows and outflows in currencies other than the Euro (essentially USD and BRL), and 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.

With a view to reducing the currency risk on issues in the US private placements (USPP) market, the Group has arranged cash flow hedges through US Dollar/Euro cross-currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035 (see note 18).

To mitigate transaction risk, in 2019 the Group companies arranged forward cash flow hedges in the form of forward derivatives to hedge highly probable cash flows of certain revenue in US Dollars and certain payment commitments in Brazilian Reais (see note 19). Consequently, had the Euro strengthened or weakened by 10% against the hedged currencies at year end, the market values of those derivatives would have changed, and equity would have decreased or increased by approximately Euros 25 million at 31 December 2019 (no impact at 31 December 2018).

In order to mitigate translation risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of its investments in the functional currency. The Group has also arranged hedges of net investments in US Dollars through cross-currency swaps that will be in place until January 2021 (see note 19). Consequently, had the Euro strengthened or weakened by 10% against the currencies to which the Group is exposed at year end, the Parent's equity would have decreased or increased by approximately Euros 14 million at 31 December 2019 (Euros 7 million at 31 December 2018).

- **Credit risk**

In light of the nature of revenues from electricity transmission and electricity system operation, and the solvency of the electricity system agents, the Red Eléctrica Group's principal activities are not significantly exposed to credit risk. For the Group's other activities, credit risk is mainly managed through instruments to reduce or limit such risk.

In any event, credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are requested when necessary.

At year end the Group's exposure to credit risk in connection with the fair value of its derivatives is insignificant, having entered into collateral assignment agreements entailing collateral swaps with various counterparties since 2015 in order to mitigate this risk.

At 31 December 2019, less than 1% of balances are past due (less than 1% in 2018), and the companies do not consider there to be any risk as regards recoverability. The credit quality of the receivables is considered to be high.

### b) Liquidity risk

Liquidity risk arises due to differences between the amounts or dates of collection and payment of the Group companies' assets and liabilities.

Liquidity risk is mostly managed by controlling the timing of financial debt and maintaining a considerable volume of available capital during the year, setting maximum limits of amounts falling due for each period defined. This process is carried out at Group company level, in accordance with the practices and limits set by the Group. The limits established vary according to the geographical area, so as to ensure that the liquidity of the market in which the companies operate is taken into account. Furthermore, the liquidity risk management policy entails preparing cash flow projections in the main currencies in which the Group operates, taking into consideration the level of liquid assets and funds available according to these projections, and monitoring the liquidity indicators as per the consolidated statement of financial position and comparing these with market requirements.

The Group's financial debt at 31 December 2019 has an average maturity of 5.2 years (5.3 years at 31 December 2018). Details of the maturities of issues and bank borrowings are provided in note 18.

The Group's liquidity position for 2019 was based on its robust capacity to generate cash flows, supported by undrawn credit facilities. At 31 December 2019 the undrawn amount of these credit facilities is Euros 1,768 million (non-current balance of Euros 1,576 million and current balance of Euros 192 million).

### c) Price risk

The Group is exposed to price risk relating to equity instruments classified as financial assets at fair value through other comprehensive income in the consolidated statement of financial position. Equity investments on quoted markets basically comprise the 5% interest held by the Group in REN. At 31 December 2019 had the listed share price of the Portuguese company REN been 10% higher or lower, equity would have increased or decreased, respectively, by approximately Euros 7 million (Euros 6 million in 2018).

## 18. Financial Assets and Financial Liabilities

### a) Financial assets

Details of the Red Eléctrica Group's current and non-current financial assets at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 31/12/2019 | | | | |
|---|---|---|---|---|---|
| | At fair value through other comprehensive income | At fair value through profit or loss | At amortised cost | Hedging derivatives | Total |
| Equity instruments | 91,206 | - | - | - | 91,206 |
| Derivatives | - | - | - | 14,732 | 14,732 |
| Other financial assets | - | 2,542 | 18,823 | - | 21,365 |
| **Non-current** | **91,206** | **2,542** | **18,823** | **14,732** | **127,303** |
| Other financial assets | - | - | 58,200 | - | 58,200 |
| **Derivatives** | **-** | **-** | **-** | **11,311** | **11,311** |
| **Current** | **-** | **-** | **58,200** | **11,311** | **69,511** |
| **Total** | **91,206** | **2,542** | **77,023** | **26,043** | **196,814** |

| Thousands of Euros | 31/12/2018 | | | | |
|---|---|---|---|---|---|
| | At fair value through other comprehensive income | At fair value through profit or loss | At amortised cost | Hedging derivatives | Total |
| Equity instruments | 81,666 | - | - | - | 81,666 |
| Derivatives | - | - | - | 11,020 | 11,020 |
| Other financial assets | - | 6,734 | 21,511 | - | 28,245 |
| **Non-current** | **81,666** | **6,734** | **21,511** | **11,020** | **120,931** |
| Other financial assets | - | - | 54,213 | - | 54,213 |
| **Current** | **-** | **-** | **54,213** | **-** | **54,213** |
| **Total** | **81,666** | **6,734** | **75,724** | **11,020** | **175,144** |

- **Equity instruments**

  Equity instruments essentially comprise the 5% interest held by the Group in REN, a holding company that encompasses the operation and use of electricity transmission assets and various gas infrastructure in Portugal. This interest was acquired in 2007 for Euros 98,822 thousand. In 2017 the Group subscribed 6,659,563 new shares in the share capital increase carried out by REN for an amount of Euros 12,500 thousand, thereby maintaining its 5% interest in this company

  At 31 December 2018 REN's consolidated equity totalled Euros 1,463,837 thousand and the profit after tax amounted to Euros 115,715 thousand.

  These instruments were classified as financial assets measured at fair value through other comprehensive income (see note 2 b). The value of this investment is subject to the listed share price. In 2019 the fair value of this equity instrument increased and the corresponding valuation adjustment was recognised directly under equity.

  At 31 December 2019 the Group has calculated the increase in value of this investment as Euros 9,541 thousand (a Euros 1,501 thousand decrease in 2018).

- **Derivatives**

  Details of derivative financial instruments are provided in note 19.

- **Other financial assets**

  The balance at 31 December 2019 mainly comprises the loan of Euros 24,677 thousand extended to TEN (Euros 71,724 thousand at 31 December 2018), which earns interest at a Libor-pegged rate plus 270 b.p., and guarantees and loans extended by the Group to its personnel, which fall due in the long term. There are no significant differences between the fair value and the carrying amount at 31 December 2019 and 2018.

  This item also comprises the investment in economic interest groups (EIGs), measured at Euros 2,542 thousand (Euros 6,734 thousand in 2018). These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the risks and rewards of the activity, while the Group only avails of the tax incentives pursuant to Spanish legislation. The Group recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income (see note 23 e) reflecting the difference compared to income tax payable to the taxation authorities.

- **Fair value hierarchy levels**

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

| Thousands of Euros | 31/12/2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total balance |
| Equity instruments | 90,738 | - | 468 | 91,206 |
| Derivatives | - | 26,043 | - | 26,043 |
| Other financial assets | - | 2,542 | - | 2,542 |

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

Level 1 equity instruments reflect the 5% interest held by the Group in the listed company REN. Level 3 reflects the investments in ACEFAT and CORESO.

### b) Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 31/12/2019 | | |
|---|---|---|---|
| | Financial liabilities | Hedging derivatives | Total |
| Loans and borrowings | 2,545,355 | - | 2,545,355 |
| Bonds and other marketable securities | 2,713,120 | - | 2,713,120 |
| Derivatives | - | 48,266 | 48,266 |
| Other financial liabilities (1) | 60,286 | - | 60,286 |
| **Non-current** | **5,318,760** | **48,266** | **5,367,027** |
| Loans and borrowings | 221,206 | - | 221,206 |
| Bonds and other marketable securities | 973,129 | - | 973,129 |
| Derivatives | - | 4,996 | 4,996 |
| Other financial liabilities | 648,556 | - | 648,556 |
| **Current** | **1,842,891** | **4,996** | **1,847,887** |
| **Total** | **7,161,652** | **53,262** | **7,214,913** |

| Thousands of Euros | 31/12/2018 | | |
|---|---|---|---|
| | Financial liabilities | Hedging derivatives | Total |
| Loans and borrowings | 1,665,345 | - | 1,665,345 |
| Bonds and other marketable securities | 3,315,412 | - | 3,315,412 |
| Derivatives | - | 39,944 | 39,944 |
| Other financial liabilities (2) | 477 | - | 477 |
| **Non-current** | **4,981,234** | **39,944** | **5,021,178** |
| Loans and borrowings | 215,306 | - | 215,306 |
| Bonds and other marketable securities | 347,022 | - | 347,022 |
| Derivatives | - | - | - |
| Other financial liabilities | 634,542 | - | 634,542 |
| **Current** | **1,196,870** | **-** | **1,196,870** |
| **Total** | **6,178,104** | **39,944** | **6,218,049** |

(1) Mainly reflects non-current payables to suppliers of fixed assets and non-current lease payables.
(2) Reflects long-term security and other deposits received.

- **Loans and borrowings, bonds and other marketable securities**

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

| Thousands of Euros | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Issues in Euros | 3,086,602 | 3,144,659 | 3,310,737 | 3,336,928 |
| Issues in US Dollars | 544,496 | 458,748 | 653,965 | 511,956 |
| Bank borrowings in Euros | 2,401,301 | 1,640,808 | 2,441,959 | 1,639,750 |
| Bank borrowings in foreign currency | 350,312 | 227,002 | 367,612 | 226,529 |
| **Total** | **6,382,711** | **5,471,217** | **6,774,273** | **5,715,163** |

The fair value of all bank borrowings and issues has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date (level 2 of the hierarchy).

At 31 December 2019 the accrued interest payable amounts to Euros 70,098 thousand (Euros 71,868 thousand in 2018).

Issues in Euros at 31 December 2019 include:

- Eurobonds issued by Red Eléctrica Financiaciones, S.A.U. (hereinafter REF), totalling Euros 2,871,521 thousand (Euros 3,183,659 thousand in 2018). Euros 284 million was repaid in 2019. One bond issue amounting to Euros 600 million was carried out in 2018.

- Promissory notes issued on the Euromarket by REF as part of the "Euro Commercial Paper Programme" (ECP Programme), falling due in the short term, were issued and repaid in 2019. Euros 215 million is outstanding at 31 December 2019.

Issuance in US Dollars at 31 December 2019 amounted to Euros 544,496 thousand (Euros 458,748 thousand in 2018), comprising a US Dollars 500 million issue on the US private placement (USPP) market, of which US Dollars 430 million is payable, as well as three US Dollar bond issues made in Peru, two in 2015 and one following the acquisition of CCNCM, of which US Dollars 189.2 million is payable at 31 December 2019 (see note 17 for an analysis of currency risk).

Bank borrowings in Euros at 31 December 2019 include non-current loans and credit facilities totalling Euros 1,807,881 thousand (Euros 1,529,088 thousand in 2018) and syndicated credit facilities amounting to Euros 593,420 thousand (Euros 111,720 thousand in 2018).

Bank borrowings in foreign currency at 31 December 2019 include non-current loans and credit facilities in US Dollars amounting to Euros 350,312 thousand (Euros 227,002 thousand in 2018).

Details of the maturities of bond issues and bank borrowings at 31 December 2019 are as follows:

| Thousands of Euros | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Amortised cost and other adjust-ments | Total |
|---|---|---|---|---|---|---|---|---|
| Issues in Euros | 765,096 | - | 400,000 | 300,000 | - | 1,690,000 | (68,494) | 3,086,602 |
| Issues in US Dollars | 164,714 | 4,870 | 5,240 | 5,629 | 6,041 | 364,696 | (6,694) | 544,496 |
| Bank borrowings in Euros | 160,716 | 209,353 | 387,188 | 117,189 | 825,665 | 705,931 | (4,741) | 2,401,301 |
| Bank borrowings in US Dollars | 46,924 | 26,407 | 154,641 | 58,354 | 610 | 64,113 | (737) | 350,312 |
| **Total** | **1,137,450** | **240,630** | **947,069** | **481,172** | **832,316** | **2,824,740** | **(80,666)** | **6,382,711** |

The average interest rate of loans and borrowings and bond issues was 2.29% in 2019 (2.42% in 2018).

At 31 December 2019 Group companies have undrawn credit facilities amounting to Euros 1,768 million, of which Euros 1,576 million expire in the long term (Euros 1,291 million at 31 December 2018) and Euros 192 million in the short term (Euros 535 million at 31 December 2018).

Details of bonds and other marketable securities at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 31/12/2019 | | | | |
|---|---|---|---|---|---|
| | Opening outstanding balance at 31/12/2018 | (+) Issues | (-) Repurchases or redemptions | (+/-) Exchange rate and other adjustments | Closing outstanding balance at 31/12/2019 |
| Debt securities requiring a prospectus to be filed | 3,144,659 | 1,342,370 | (1,411,377) | 10,950 | 3,086,602 |
| Debt securities not requiring a prospectus to be filed | - | - | - | - | - |
| Other debt securities issued outside EU member states | 458,748 | - | (8,606) | 94,354 | 544,496 |
| **Total** | **3,603,407** | **1,342,370** | **(1,419,983)** | **105,304** | **3,631,098** |

| Thousands of Euros | 31/12/2018 | | | | |
|---|---|---|---|---|---|
| | Opening outstanding balance at 31/12/2017 | (+) Issues | (-) Repurchases or redemptions | (+/-) Exchange rate and other adjustments | Closing outstanding balance at 31/12/2018 |
| Debt securities requiring a prospectus to be filed | 3,183,842 | 1,125,008 | (1,129,400) | (34,791) | 3,144,659 |
| Debt securities not requiring a prospectus to be filed | - | - | - | - | - |
| Other debt securities issued outside EU member states | 441,533 | - | | 17,215 | 458,748 |
| **Total** | **3,625,375** | **1,125,008** | **(1,129,400)** | **(17,576)** | **3,603,407** |

The outstanding balance at 31 December 2019 and 2018 of debt securities requiring a prospectus to be filed relates to issues registered in Dublin and Luxembourg.

At 31 December 2019 other debt securities issued outside EU member states, within exchange rate and other adjustments, include Euros 81 million from the addition to the consolidated Group of CCNCM. At 31 December 2018 a negative amount of Euros 40.1 million was included in relation to the application of IFRS 9 to financial liabilities that have not been substantially modified in respect of debt securities that required a prospectus to be filed.

Details of changes in liabilities related to financing instruments during 2019, distinguishing between those that entailed cash flows and those that did not, are as follows:

| Thousands of Euros | 31/12/2018 | Movements entailing cash flows | Movements not entailing cash flows | | 31/12/2019 |
|---|---|---|---|---|---|
| | | | Exchange differences | Other changes | |
| Issues in Euros | 3,144,659 | (69,007) | - | 10,950 | 3,086,602 |
| Issues in US Dollars | 458,748 | (8,606) | 12,936 | 81,418 | 544,496 |
| Bank borrowings in Euros | 1,640,808 | 474,650 | - | 285,843 | 2,401,301 |
| Bank borrowings in foreign currency | 227,002 | 54,201 | 2,899 | 66,211 | 350,312 |
| **Total debt** | **5,471,217** | **451,238** | **15,835** | **444,422** | **6,382,711** |

Other changes in issues in US Dollars and bank borrowings in foreign currency essentially reflect the addition of CCNCM to the consolidated Group. Other changes in bank borrowings in Euros primarily reflect the addition of the Hispasat Group to the consolidated Group.

- **Derivatives**

Details of derivative financial instruments are provided in note 19.

- **Other non-current financial liabilities**

Other non-current financial liabilities mainly comprise in-orbit incentives related to satellites, which form part of the asset acquisition price and are paid over the useful life of the satellite. This price component is subject to the correct functioning of the satellites during their useful life and the manufacturer is paid the amount plus the contractually-stipulated interest, which is reflected in the consolidated income statement.

- **Other current financial liabilities**

Details of this item at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Dividend payable (note 13) | 147,112 | 147,250 |
| Suppliers of fixed assets and other payables | 334,194 | 331,550 |
| Other payables | 167,250 | 155,742 |
| **Total** | **648,556** | **634,542** |

Suppliers of fixed assets essentially reflect balances incurred on the construction of electricity facilities.

Other payables basically comprise items pending settlement with respect to the Spanish electricity system and security deposits received. They also include the current lease payables arising from the application of IFRS 16, amounting to Euros 4,077 thousand.

- **Fair value hierarchy levels**

Details of Group financial liabilities not included under the headings of loans and borrowings or bonds and other marketable securities measured at fair value using the inputs defined for this calculation at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 31/12/2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total balance |
| Derivatives | - | 53,262 | - | 53,262 |

| Thousands of Euros | 31/12/2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total balance |
| Derivatives | - | 39,944 | - | 39,944 |

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

## 19. Derivative Financial Instruments

In line with its financial risk management policy, the Red Eléctrica Group has arranged four types of derivative financial instruments: interest rate swaps, forward interest rate swaps, cross-currency swaps and currency forwards. Interest rate swaps consist of exchanging debt at variable interest rates for debt at fixed rates, in a swap where the future cash flows to be hedged are the interest payments. Forward interest rate swaps cover the finance cost of highly probable forecast future transactions. Similarly, cross-currency swaps allow fixed- or variable-rate debt in US Dollars to be exchanged for fixed- or variable-rate debt in Euros, thereby hedging future interest and capital flows in US Dollars. Lastly, currency forwards hedge currency risk related with highly probably forecast transactions denominated in a currency other than the Euro.

As regards the measurement of derivative financial instruments and hedging instruments disclosed in these notes, the application of IFRS 13 (see note 4 n) entails an adjustment to the valuation techniques used to calculate the fair value of derivative financial instruments. The Group has incorporated a credit risk adjustment to reflect own and counterparty risk in the fair value of derivatives using generally accepted measurement models.

To eliminate the credit risk from the cross-currency swaps arranged to hedge the exchange rate for USPP issuance, collateral assignment agreements entailing collateral swaps were entered into with the counterparties in 2015.

When determining the credit risk adjustment for other derivatives, the Group 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 Group 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.

Based on the fair value hierarchy levels detailed in note 4, the Group has considered that the majority of the inputs used to determine the fair value of derivative financial instruments are categorised within Level 2, including the data used to calculate the own and counterparty credit risk adjustment.

The Group has observed that the impact of using Level 3 inputs for the overall measurement of derivative financial instruments is not significant. Consequently, the Group has determined that the entire derivative financial instrument portfolio can be categorised within Level 2 of the fair value hierarchy.

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

Details of hedges at 31 December 2019 and 2018 in thousands of Euros are as follows:

| | | | 2019 | | | |
|---|---|---|---|---|---|---|
| | | | Non-current | | Current | |
| Thousands of Euros | Principal | Term to expiry | Assets | Liabili-ties | Assets | Liabili-ties |
| Interest rate hedges: | | | | | | |
| - Cash flow hedges: | | | | | | |
| Interest rate swap | Euros 325,000 thousand | Up to 2022 | - | (4,030) | - | (4,384) |
| Interest rate swap | Euros 47,460 thousand | Up to 2021 | - | (743) | - | - |
| Interest rate swap | Euros 42,498 thousand | Up to 2021 | - | (742) | - | - |
| - Forward cash flow hedges: | | | | | | |
| Forward interest rate swap beginning in 2020 | Euros 450,000 thousand | Up to 2029 | - | (24,677) | - | - |
| Forward interest rate swap beginning in 2021 | Euros 200,000 thousand | Up to 2027 | 1,325 | (6,016) | - | - |
| Forward interest rate swap beginning in 2022 | Euros 300,000 thousand | Up to 2028 | 2,718 | (8,352) | - | - |
| Forward interest rate swap beginning in 2023 | Euros 100,000 thousand | Up to 2029 | 1,369 | (1,346) | - | - |
| Exchange rate hedges: | | | | | | |
| - Hedges of a net investment: | | | | | | |
| Cross-currency swap | US Dollars 150,000 thousand | Up to 2021 | 4,462 | - | - | - |
| - Forward cash flow hedges: | | | | | | |
| Currency forward | US Dollars 36,116 thousand | Up to 2021 | 24 | - | 159 | (93) |
| Currency forward | BRL 1,775,000 thousand | Up to 2020 | - | - | - | (519) |
| Interest rate and exchange rate hedges | | | | | | |
| - Cash flow hedges (cross currency swaps): | | | | | | |
| Interest rate hedge | US Dollars 430,000 thousand | Up to 2035 | (5,131) | (9,003) | (806) | - |
| Exchange rate hedge | | | 9,965 | 6,643 | 11,958 | - |
| **Total** | | | **14,732** | **(48,266)** | **11,311** | **(4,996)** |

| Thousands of Euros | Principal | Term to expiry | 2018 Non-current Assets | 2018 Non-current Liabilities |
|---|---|---|---|---|
| Interest rate hedges: | | | | |
| - Cash flow hedges: | | | | |
| Interest rate swap | Euros 280,000 thousand | Up to 2022 | - | (16,633) |
| Interest rate swap | Euros 57,120 thousand | Up to 2021 | - | (990) |
| - Forward cash flow hedges: | | | | |
| Forward interest rate swap beginning in 2019 | Euros 140,000 thousand | Up to 2026 | - | (6,493) |
| Forward interest rate swap beginning in 2020 | Euros 200,000 thousand | Up to 2026 | - | (6,983) |
| Forward interest rate swap beginning in 2021 | Euros 50,000 thousand | Up to 2026 | - | (623) |
| Forward interest rate swap beginning in 2022 | Euros 100,000 thousand | Up to 2028 | - | (722) |
| Exchange rate hedges: | | | | |
| - Hedges of a net investment: | | | | |
| Cross-currency swap | US Dollars 150,000 thousand | Up to 2021 | 6,482 | - |
| Interest rate and exchange rate hedges | | | | |
| - Cash flow hedges (cross currency swaps): | | | | |
| Interest rate hedge | US Dollars 430,000 thousand | Up to 2035 | (4,397) | (19,910) |
| Exchange rate hedges | | | 8,935 | 12,410 |
| **Total** | | | **11,020** | **(39,944)** |

Details of the expected cash flows from derivatives, which are similar to the expected impact on profit or loss, by year of occurrence, are as follows:

| Thousands of Euros | Principal | Term to expiry | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 and thereafter | Total |
|---|---|---|---|---|---|---|---|---|---|
| Interest rate hedges: | | | | | | | | | |
| - Cash flow hedges: | | | | | | | | | |
| Interest rate swap | Euros 325,000 thousand | Up to 2022 | (4,384) | - | (4,030) | - | - | - | (8,414) |
| Interest rate swap | Euros 47,460 thousand | Up to 2021 | - | (743) | - | - | - | - | (743) |
| Interest rate swap | Euros 42,498 thousand | Up to 2021 | - | (742) | - | - | - | - | (742) |
| - Forward cash flow hedges: | | | | | | | | | |
| Forward interest rate swap beginning in 2020 | Euros 450,000 thousand | Up to 2029 | - | - | - | - | - | (24,677) | (24,677) |
| Forward interest rate swap beginning in 2021 | Euros 200,000 thousand | Up to 2027 | - | - | - | - | - | (4,691) | (4,691) |
| Forward interest rate swap beginning in 2022 | Euros 300,000 thousand | Up to 2028 | - | - | - | - | - | (5,634) | (5,634) |
| Forward interest rate swap beginning in 2023 | Euros 100,000 thousand | Up to 2029 | - | - | - | - | - | 23 | 23 |
| Exchange rate hedges: | | | | | | | | | |
| - Hedges of a net investment: | | | | | | | | | |
| Cross-currency swap | US Dollars 150,000 thousand | Up to 2021 | - | 4,462 | - | - | - | - | 4,462 |
| - Forward cash flow hedges: | | | | | | | | | |
| Currency forward | US Dollars 36,116 thousand | Up to 2021 | 66 | 24 | - | - | - | - | 90 |
| Currency forward | BRL 1,775,000 thousand | Up to 2020 | (519) | - | - | - | - | - | (519) |
| Interest rate and exchange rate hedges | | | | | | | | | |
| - Cash flow hedges (cross currency swaps): | | | | | | | | | |
| Interest rate hedge | US Dollars 430,000 thousand | Up to 2035 | (806) | - | - | - | - | (14,134) | (14,940) |
| Exchange rate hedges | | | 11,958 | - | - | - | - | 16,608 | 28,566 |
| **Total** | | | **6,315** | **3,001** | **(4,030)** | **-** | **-** | **(32,505)** | **(27,219)** |

## 20. Trade and Other Payables

Details of this item at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Suppliers | 311,879 | 313,759 |
| Other payables | 61,490 | 50,278 |
| Current tax liabilities (note 22) | 23,574 | 3,485 |
| **Total** | **396,943** | **367,522** |

Suppliers comprise amounts not yet due for the purchase of goods and services in the course of the Group's trade operations, essentially payables arising from repairs and maintenance work and modifications to electricity facilities, as well as balances pending settlement vis-à-vis Spanish electricity system agents.

Other payables mainly reflect VAT payable to the taxation authorities, salaries payable and other amounts not yet due for the purchase of goods and services.

## 21. 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.

The scope of this resolution also extends to trading companies that prepare consolidated annual accounts, although only with respect to fully consolidated subsidiaries or equity-accounted investees registered in Spain, irrespective of the financial reporting framework under which the accounts are prepared.

The information on the average supplier payment period for 2019 and 2018 is as follows:

| In days | 2019 | 2018 |
|---|---|---|
| Average supplier payment period | 47.6 | 48.0 |
| Transactions paid ratio | 48.4 | 48.8 |
| Transactions payable ratio | 22.4 | 15.2 |

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Total payments made | 401,252 | 379,209 |
| Total payments outstanding | 12,901 | 10,056 |

## 22. Taxation

The tax group headed by Red Eléctrica Corporación, S.A. has filed consolidated tax returns in Spain since 2002. At 31 December 2019 the tax group includes the Parent, REE, REI, REF, REINTEL, REINCAN, RESTEL and RETIT.

In 2019, Hispasat, S.A., Hispasat Canarias, S.L. and Hispamar Exterior, S.L., subsidiaries of REC, file consolidated tax returns in Spain as part of a group headed by Hispasat, S.A.

Companies that do not form part of the tax groups are subject to the legislation applicable in their respective countries.

A reconciliation of the prevailing tax rate in Spain with the tax rate applicable to the Group is as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Consolidated accounting profit for the year before tax | 948,725 | 936,252 |
| Permanent differences and consolidation adjustments | (31,328) | (21,843) |
| Consolidated taxable accounting income | 917,397 | 914,410 |
| **Tax rate** | **25%** | **25%** |
| Consolidated taxable accounting income at tax rate | 229,349 | 228,602 |
| Effect of applying different tax rates | 3,660 | 1,418 |
| Tax calculated at the tax rate of each country | 233,010 | 230,020 |
| Deductions | (7,218) | (1,111) |
| Other adjustments | 4,442 | 2,855 |
| Income tax | 230,234 | 231,763 |
| Current income tax | 248,868 | 246,674 |
| Deferred income tax | (18,633) | (14,911) |
| **Effective tax rate** | **24.27%** | **24.75%** |

The effective rate of income tax is primarily influenced by permanent differences and by deductions in tax payable. The effective tax rate in 2019 is 24.27% (24.75% in 2018).

Permanent differences in 2019 and 2018 mainly arise from 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 2019 will be held in REE, a subsidiary of the tax group (see note 13).

Deductions mainly comprise those for research, development and technological innovation expenditure, as well as international double taxation relief.

Given the financial nature of the deduction for investments in fixed assets in the Canary Islands, it is treated as a grant, and its impact on the consolidated income statement is deferred over several years based on the useful lives of the assets for which it was awarded (see note 4 j).

Deductions recognised as grants in 2019 amount to Euros 3,969 thousand (Euros 3,556 thousand in 2018) and the amount still to be recognised at 31 December 2019 is Euros 106,746 thousand (Euros 99,330 thousand in 2018).

Current receivables from and payables to public entities at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Current receivables | | |
| Recoverable VAT | 10,873 | 12,548 |
| Recoverable income tax (note 12) | 10,004 | 2,059 |
| Other recoverable taxes | 3,524 | 1,193 |
| Current payables | | |
| VAT payable (note 20) | 30,284 | 28,981 |
| Income tax payable (note 20) | 23,574 | 3,485 |
| Other taxes payable | 6,923 | 4,620 |

In 2019 and 2018, adjustments were made to taxable income to reflect recognition of the EIGs in which the Group has interests, amounting to Euros 77,822 thousand and Euros 67,045 thousand, respectively.

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

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Income statement | Income and expense recognised directly in equity | Business combinations, first-time application of IFRS and other | Total | Income statement | Income and expense recognised directly in equity | Business combinations, first-time application of IFRS and other | Total |
| Thousands of Euros | Variation | Variation | Variation | | Variation | Variation | Variation | |
| **Deferred tax assets:** | | | | | | | | |
| Originating in prior years | 78,088 | 26,677 | 269 | 105,034 | 83,319 | 29,466 | - | 112,785 |
| Movement in the year | (4,562) | 6,734 | 12,348 | 14,520 | (5,231) | (2,788) | 269 | (7,750) |
| **Total gross deferred tax assets** | **73,526** | **33,411** | **12,617** | **119,554** | **78,088** | **26,677** | **269** | **105,034** |
| Offsetting of deferred taxes from the tax group in Spain | | | | (75,247) | | | | (77,050) |
| **Total net deferred tax assets** | | | | **44,307** | | | | **27,984** |
| **Deferred tax liabilities:** | | | | | | | | |
| Originating in prior years | 520,915 | 16,818 | 12,441 | 550,174 | 541,057 | 16,379 | - | 557,436 |
| Movement in the year | (23,195) | (684) | 5,207 | (18,672) | (20,142) | 440 | 12,441 | (7,261) |
| **Total gross deferred tax liabilities** | **497,720** | **16,134** | **17,648** | **531,502** | **520,915** | **16,819** | **12,441** | **550,175** |
| Offsetting of deferred taxes from the tax group in Spain | | | | (75,247) | | | | (77,050) |
| **Total net deferred tax liabilities** | | | | **456,255** | | | | **473,125** |

The business combinations, first-time application of IFRS and other column for 2019 mainly reflects the deferred tax assets and liabilities from the Hispasat Group companies and CCNCM (see note 5).

Deferred tax assets and liabilities at 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Commitments with personnel | 23,130 | 19,246 |
| Grants | 633 | 684 |
| Financial derivatives | 24,275 | 20,789 |
| Tax loss carryforwards | 2,637 | 5,490 |
| Unused deductions | 14,406 | - |
| Balance sheet revaluation - Law 16/2012 | 19,707 | 22,234 |
| Limit on deductible amortisation / depreciation, Law 16/2012 | 21,259 | 27,477 |
| Other | 13,507 | 9,113 |
| Offsetting of deferred assets and liabilities | (75,247) | (77,050) |
| **Total deferred tax assets** | **44,307** | **27,984** |
| Accelerated depreciation and amortisation | 492,235 | 507,738 |
| Non-deductible assets | 14,070 | 13,462 |
| IFRS 9 application adjustments | 8,834 | 10,334 |
| Other | 16,363 | 18,641 |
| Offsetting of deferred assets and liabilities | (75,247) | (77,050) |
| **Total deferred tax liabilities** | **456,255** | **473,125** |

In the consolidated statement of financial position the Group has offset deferred tax assets and deferred tax liabilities arising from the Spanish tax group in an amount of Euros 75,247 thousand, as permitted by IAS 12 (Euros 77,050 thousand in 2018).

At 31 December 2019 the deferred tax assets and liabilities are expected to be recovered and settled as follows:

| | Gross total | More than 1 year | Less than 1 year | Adjustment for offsetting of assets and liabilities | Net total |
|---|---|---|---|---|---|
| Deferred tax assets | 119,554 | 115,088 | 4,466 | (75,247) | 44,307 |
| Deferred tax liabilities | 531,502 | 509,919 | 21,583 | (75,247) | 456,255 |

The recovery/settlement of the Group's deferred tax assets/liabilities is dependent on certain assumptions, which could change.

Deferred tax assets 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. This item also comprises amounts relating to changes in value of cash flow hedges and long-term employee benefits.

At 31 December 2019 the Group has unrecognised deferred tax assets for R&D&i expenditure deductions that are unused by the tax group headed by Hispasat, S.A., amounting to Euros 31,558 thousand. These assets were generated in 2011-2018 and are available until 2030-2037.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the inclusion of the assets and liabilities of REDALTA and INALTA, the companies absorbed by REC in 2006. In 2019, deferred tax liabilities due to accelerated depreciation as provided for in the 11th additional provision of Royal Legislative Decree 4/2004, and the 34th transitional provision of Income Tax Law 27/2014, amounted to Euros 433,881 thousand (Euros 451,724 thousand in 2018).

The notes to REC's annual accounts for 2006 contain disclosures on the merger by absorption of REDALTA and INALTA, as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts include disclosures on REC's 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 of REC and REINTEL for 2015 also include the disclosures stipulated in article 86 of Law 27/2014 regarding the spin-off of the telecommunications services business from REI to REINTEL, while the notes to the annual accounts of REC and REI for 2015 contain the disclosures regarding the non-monetary contribution of shares in REN.

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.

Therefore, in general, Group companies in Spain have open to inspection by the taxation authorities all main applicable taxes since 2016, except income tax, which is open to inspection since 2015. However, this period may be different for Group companies that are subject to other tax legislation.

In Spain the limited administrative proceedings undertaken were completed in 2018, giving rise to the initiation of certain tax proceedings affecting 2011 to 2016. The Group considers its conduct to have been lawful based on reasonable interpretations of the applicable legislation, and has therefore lodged the pertinent appeals, which at 31 December 2019 are 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.

On an international level, at the 2019 reporting date the tax proceedings entailing the review of income tax in Peru for 2009 to 2011 are underway. In 2019 the tax court handed down a judgment in favour of the Group, but at the reporting date the Group has yet to hear whether the ruling will be appealed by the Peruvian taxation authorities. The Group considers it reasonably probable that these appeals will be successful.

As a result of the Hispasat Group acquisition, the Group has open tax proceedings in Brazil relating to ICMS (Brazilian tax on the circulation of goods and services), as well as other taxes, mainly of an indirect nature. These proceedings arise from inspection assessments, in respect of which the Group companies have lodged appeals. In addition, the Group has specific guarantees to cover them (see note 15).

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, any additional liabilities that could eventually arise in the event of inspection are not expected to significantly affect the Company's future results.

## 23. Income and Expenses

### a) Revenue

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

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Domestic market | 1,919,266 | 1,900,684 |
| International market | 87,974 | 47,856 |
| a) European Union | 20,050 | 20,174 |
| a.1) Eurozone | 20,050 | 20,174 |
| b) Other countries | 67,924 | 27,682 |
| **Total** | **2,007,240** | **1,948,540** |

Domestic market essentially includes the regulated revenue from transmission and electricity system operation services in Spain, which is set by the Regulator at Euros 1,734,729 thousand (Euros 1,753,783 thousand in 2018), as well as revenue from facilities that have entered into service and are not considered in the foregoing amount. This item also includes the revenue from telecommunications services rendered in Spain amounting to Euros 118,019 thousand (Euros 87,438 thousand at 31 December 2018).

International market in 2019 and 2018 primarily includes revenue from reinsurance services, presented under European Union; and revenue from the rendering of transmission services in Peruvian and Chilean companies, and satellite telecommunications services in Brazil, presented under other countries.

### b) Other operating income

At 31 December 2019 and 2018 other operating income mostly includes insurance payouts for accidents and breakdowns covered by the policies arranged and other non-trading income of the Group.

### c) Supplies and other operating expenses

Details of these items in 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Supplies | 34,503 | 37,725 |
| Other operating expenses | 317,649 | 300,987 |
| **Total** | **352,152** | **338,712** |

Supplies and other operating expenses mainly comprise repair and maintenance costs incurred at facilities as well as IT, advisory, lease and other service costs. Other operating expenses include the amount accrued in respect of local taxes imposed on the use of the municipal public domain (Euros 8.1 million in 2019 and Euros 9.3 million in 2019).

### d) Personnel expenses

Details of this item in 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Salaries, wages and other remuneration | 123,016 | 114,912 |
| Social security | 27,627 | 25,081 |
| Contributions to pension funds and similar obligations | 2,201 | 2,082 |
| Other items and employee benefits | 7,286 | 9,774 |
| **Total** | **160,130** | **151,848** |

Salaries, wages and other remuneration include employee remuneration, termination benefits and the accrual of deferred remuneration. This item also includes the remuneration of the Company's board of directors.

The Group companies have capitalised personnel expenses (see notes 6 and 7) totalling Euros 40,150 thousand at 31 December 2019 (Euros 30,533 thousand at 31 December 2018).

- **Employees**

  The average headcount of the Group in 2019 and 2018, distributed by professional category, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Management team | 137 | 127 |
| Senior technicians and middle management | 568 | 569 |
| Technicians | 641 | 581 |
| Specialist and administrative staff | 511 | 528 |
| **Total** | **1,857** | **1,805** |

The distribution of the Group's employees at 31 December, by gender and category, is as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Management team | 101 | 47 | 148 | 92 | 36 | 128 |
| Senior technicians and middle management | 399 | 200 | 599 | 375 | 192 | 567 |
| Technicians | 616 | 158 | 774 | 506 | 92 | 598 |
| Specialist and administrative staff | 408 | 127 | 535 | 394 | 112 | 506 |
| **Total** | **1,524** | **532** | **2,056** | **1,367** | **432** | **1,799** |

The average number of employees with a disability rating of 33% or higher in 2019 and 2018, distributed by gender and category, is as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Management team | - | - | - | - | - | - |
| Senior technicians and middle management | 3 | 2 | 5 | 3 | 2 | 5 |
| Technicians | 11 | 1 | 12 | 8 | - | 8 |
| Specialist and administrative staff | 1 | 1 | 2 | 1 | 1 | 2 |
| **Total** | **15** | **4** | **19** | **12** | **3** | **15** |

At 31 December 2019 the Parent's board of directors, which is not included in the employees of the Group, comprises 12 members (12 members in 2018), of which 7 are men and 5 are women (7 men and 5 women in 2018).

### e) Finance income and costs

Finance income mainly comprises the dividends received on the Group's 5% interest in REN, amounting to Euros 5,704 thousand (Euros 5,704 thousand in 2018).

This item also includes Euros 3,433 thousand of finance income (Euros 2,214 thousand in 2018) on the investments in the EIGs (see notes 18 and 22) and Euros 1,439 thousand of finance income (Euros 2,550 thousand in 2018) on the loans extended to TEN (see note 24), as well as income accrued on fixed-term deposits.

Finance costs basically reflect those incurred on loans and borrowings, net of any amounts capitalised, as well as bonds and other marketable securities for an amount of Euros 153,670 thousand (see note 18).

Capitalised borrowing costs (see notes 6 and 7) totalled Euros 7,742 thousand in 2019 (Euros 6,173 thousand in 2018).

## 24. Transactions with Equity-accounted Investees and Related Parties

### a) Balances and transactions with equity-accounted investees

These balances and transactions reflect the TEN and Hisdesat joint ventures. All transactions have been carried out at market prices. The main transactions carried out by Group companies with TEN and Hisdesat in 2019 and 2018 were as follows:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Balances | | Transactions | | Balances | | Transactions | |
| | Receivables | Payables | Expenses | Income | Receivables | Payables | Expenses | Income |
| Transmisora Eléctrica del Norte, S.A. (TEN) | 25,321 | 294 | (568) | 1439 | 42,263 | 47 | (495) | 2,550 |
| Hisdesat Servicios Estratégicos, S.A. | - | - | - | 298 | - | - | - | - |
| **Total** | **25,321** | **294** | **(568)** | **1,737** | **42,263** | **47** | **(495)** | **2,550** |

## b) Transactions with related parties

Related party transactions are carried out under normal market conditions. Details are as follows:

| | 2019 | | | | |
|---|---|---|---|---|---|
| Thousands of Euros | Significant shareholders | Directors and management | Group employees, companies or entities | Other related parties | Total |
| Expenses and income: | | | | | |
| Leases | - | - | - | 83 | 83 |
| Other expenses | | | - | 485 | 485 |
| **Expenses** | **-** | **-** | **-** | **568** | **568** |
| Services rendered | - | - | - | 374 | 374 |
| Finance income | - | - | - | 1,364 | 1,364 |
| **Income** | **-** | **-** | **-** | **1,738** | **1,738** |
| Other transactions: | | | | | |
| Financing agreements, loans and capital contributions (lender) | - | 123 | - | 24,677 | 24,800 |
| **Other transactions** | **-** | **123** | **-** | **24,677** | **24,800** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| Thousands of Euros | Significant shareholders | Directors and management | Group employees, companies or entities | Other related parties | Total |
| Expenses and income: | | | | | |
| Leases | - | - | - | 47 | 47 |
| Other expenses | | | - | 448 | 448 |
| **Expenses** | **-** | **-** | **-** | **495** | **495** |
| Finance income | - | - | - | 2,550 | 2,550 |
| **Income** | **-** | **-** | **-** | **2,550** | **2,550** |
| Other transactions: | | | | | |
| Financing agreements, loans and capital contributions (lender) | - | 148 | - | 42,263 | 42,411 |
| **Other transactions** | **-** | **148** | **-** | **42,263** | **42,411** |

Transactions with other related parties comprise those with TEN and Hisdesat described in section a) of this note. The balance under financing agreements, loans and capital contributions (lender) at 31 December 2019 and 2018 (see note 18) reflects the amount receivable in respect of the credit facility extended to TEN. The maximum amount drawn down on this facility in 2019 was Euros 25,236 thousand (maximum drawdown of Euros 41,724 thousand in 2018).

See note 26 for details of transactions with directors and management.

## 25. 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 this 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 Parent at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company's Strategic Plan and the degree of 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 Parent'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 annual 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 remuneration is for the full 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 | 2019 | 2018 |
|---|---|---|
| Type of director: | | |
| 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 Parent'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 Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% 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 consolidated statement of financial position includes a provision for accrual of this plan for 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 Group 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 Group has taken out public liability insurance to cover claims from third parties in respect of possible damage and loss caused by actions or omissions in performing duties as Group directors. These policies cover the Group's directors and senior management and the annual premiums amount to Euros 142 thousand, inclusive of tax, in 2019 (Euros 142 thousand at 31 December 2018). These premiums are calculated based on the nature of the Group's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

In 2019 and 2018 the members of the board of directors did not engage in transactions with the Company or Group companies, either directly or through intermediaries, other than ordinary operations under market conditions.

## 26. Remuneration of Senior Management

In 2019 total remuneration accrued by senior management personnel amounted to Euros 664 thousand (Euros 657 thousand in 2018) and is recognised as personnel expenses in the consolidated income statement. These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the first few months of the following year.

The senior management personnel who have rendered services for the Group during 2019 and 2018 are as follows:

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

Euros 14 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 14 thousand in 2018).

At 31 December 2019 loans have been granted to these senior managers that have an outstanding balance of Euros 123 thousand. They fall due in 2024 and have the same conditions as those applied to loans granted to personnel under the collective bargaining agreement. The equivalent interest rate applicable to these loans is 0.65%. No advances have been extended to these senior managers at 31 December 2019 and 2018.

As a result of the work of the Parent's Appointments and Remuneration Committee on various long-term incentive plans to be used as a management tool and mechanism for 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 applies to senior management personnel.

Fulfilment of this remuneration scheme will be based on achieving the targets set out in the Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% 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 consolidated statement of financial position includes a provision for accrual of this plan for 2019.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses, in the event of dismissal. In the event the employment relationship were terminated, the indemnity to which senior management personnel would be entitled would be calculated in accordance with applicable legislation. The contracts for these executives have been approved by the Appointments and Remuneration Committee and the board of directors has received notice thereof.

Senior management personnel who rendered services in the Group as at 31 December 2019 are included in the Structural Management Plan implemented by the Company in 2015.

At 31 December 2019 and 2018 the Group has taken out public liability insurance to cover claims from third parties in respect of possible damage and loss caused by actions or omissions in performing duties as senior management of the Group. These policies cover all the Group's directors and senior management and the annual premiums amount to Euros 142 thousand, inclusive of tax, in 2019 (Euros 142 thousand in 2018). These premiums are calculated based on the nature of the Group's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

## 27. Segment Reporting

The Red Eléctrica Group segments its business activities based on their nature, reflecting the main branches of activity used by the Group in its management and decision-making.

At 31 December 2019, the Group's operating segments and their main products, services and operations are as follows:

- **Management and operation of domestic electricity infrastructure:**

  This segment comprises the Group's principal activity, as sole transmission agent and system operator for the Spanish electricity system (TSO). Its mission is to guarantee the security and continuity of the electricity supply at all times and manage high-voltage electricity transmission.
  The Group engages in the high-voltage transmission of electricity, through REE. To this end, it manages the transmission network electricity facilities that connect the generation power plants to the consumer distribution points. As transmission network manager, REE is responsible for the development and expansion of the network, its maintenance, managing the transfer of electricity between external systems and the mainland, and guaranteeing third-party access to the transmission network under equal conditions.
  In addition, REE operates the mainland Spanish electricity system and the non-mainland systems in the Canary Islands, Balearic Islands, Ceuta and Melilla, guaranteeing the security and continuity of the electricity supply at all times. Operation of the system encompasses the necessary activities to guarantee such security and continuity, as well as proper coordination between the generation system and transmission network, ensuring that the energy produced by generators is transmitted to the distribution networks with the requisite quality under applicable legislation.

- **Management and operation of international electricity infrastructure:**

  This segment comprises activities related to international business development as a natural form of growth, mainly focused on the construction and operation of electricity transmission networks outside Spain; at 31 December 2019, in Peru and Chile specifically.

- **Telecommunications (satellites and fibre optics):**

  The telecommunications segment comprises the operation of satellite infrastructure in Spain, Portugal and South America, as well as the lease in Spain of a broad dark fibre backbone network, and technical sites and spaces for storing customers' telecommunications equipment. The main services rendered are the lease and concession of fibre optics, the lease of sites, maintenance of telecommunications and other facilities, and integrated telecommunications infrastructure solutions (towers, fibre optics, technical spaces and electricity supply) for telecom operators to render mobile telephone voice and data services on high-speed train (AVE) lines, as well as the provision of satellite capacity and telecommunications services in the wholesale satellite internet services market.

The Group also carries out reinsurance activities and fosters innovation in electricity and telecommunications. These activities do not meet the quantitative thresholds to be presented separately.

Inter-segment sales prices are established based on the normal commercial terms and conditions with unrelated third parties.

The Hispasat Group is only included in the telecommunications segment from October 2019 onwards, the date on which control of this company was assumed. The key indicators of the operating segments identified are as follows:

### Business segments at 31 December 2019

| | Management and operation of electricity infrastructure | | Telecommunications (fibre optics and satellites) | Other, corporate and adjustments | Total |
|---|---|---|---|---|---|
| **Thousands of Euros** | **Domestic** | **International** | **Total** | | |
| Revenue | 1,806,997 | 51,640 | 175,417 | (26,814) | 2,007,240 |
| External customers | 1,799,904 | 51,310 | 134,548 | 21,478 | 2,007,240 |
| Inter-segment revenues | 7,093 | 331 | 40,869 | (48,292) | - |
| Investments in equity-accounted associates (similar activity) | - | 7,606 | - | - | 7,606 |
| Depreciation and amortisation | (463,670) | (11,551) | (51,849) | 1,542 | (525,529) |
| **Results from operating activities** | **967,974** | **24,744** | **81,097** | **7,540** | **1,081,355** |
| Interest income | 97 | 8,081 | 1,215 | 3,424 | 12,817 |
| Interest expense | (119,701) | (23,399) | (10,162) | 7,334 | (145,927) |
| Investments in equity-accounted associates | - | - | 1,369 | - | 1,369 |
| Income tax | (211,453) | (885) | (13,297) | (4,600) | (230,234) |
| **Profit of the Parent after tax** | **636,921** | **8,101** | **59,393** | **13,624** | **718,040** |
| | | | | | |
| **Segment assets** | **9,679,797** | **895,299** | **2,000,570** | **86,294** | **12,661,960** |
| Equity-accounted investees | - | 199,026 | 60,568 | - | 259,594 |
| **Segment liabilities** | **7,637,115** | **685,965** | **1,110,407** | **(385,961)** | **9,047,526** |

### Business segments at 31 December 2018

| Thousands of Euros | Management and operation of electricity infrastructure | | Telecommunications (fibre optics) | Other, corporate and adjustments | Total |
|---|---|---|---|---|---|
| | Domestic | International | Total | | |
| Revenue | 1,818,828 | 28,025 | 124,432 | (22,745) | 1,948,540 |
| External customers | 1,812,390 | 27,698 | 87,438 | 21,014 | 1,948,540 |
| Inter-segment revenues | 6,438 | 327 | 36,994 | (43,758) | - |
| Investments in equity-accounted associates (similar activity) | - | 6,966 | - | - | 6,966 |
| Depreciation and amortisation | (456,839) | (6,541) | (22,437) | 5,064 | (480,753) |
| **Results from operating activities** | **974,283** | **15,664** | **68,239** | **11,607** | **1,069,793** |
| Interest income | 121 | 8,325 | - | 2,225 | 10,670 |
| Interest expense | (131,035) | (15,531) | (6,840) | 9,341 | (144,063) |
| Income tax | (210,334) | (375) | (14,819) | (6,237) | (231,763) |
| **Profit of the Parent after tax** | **632,900** | **8,196** | **46,581** | **16,881** | **704,558** |
| | | | | | |
| **Segment assets** | **9,577,482** | **667,345** | **516,490** | **500,764** | **11,262,080** |
| Equity-accounted investees | - | 198,377 | - | - | 198,377 |
| **Segment liabilities** | **7,600,481** | **496,267** | **334,469** | **(530,503)** | **7,900,714** |

Details of revenue and non-current assets, by geographical area, are as follows:

Thousands of Euros

| Revenue | 2019 | 2018 |
|---|---|---|
| Spain | 1,919,266 | 1,900,684 |
| Other | 87,974 | 47,856 |
| **Total** | **2,007,240** | **1,948,540** |

Thousands of Euros

| Fixed assets (*) | 2019 | 2018 |
|---|---|---|
| Spain | 9,948,276 | 8,678,669 |
| Other | 751,398 | 475,253 |
| **Total** | **10,699,673** | **9,153,923** |

(*) This excludes non-current investments, deferred tax assets, and non-current trade and other receivables.

## 28. Interests in Joint Arrangements

The Group (through REE) and Réseau de Transport d'Électricité (RTE), the French transmission system operator, each hold a 50% investment in the INELFE joint arrangement, which has its registered office in Paris. Its statutory activity is the study and execution of interconnections between Spain and France that will increase the electricity exchange capacity between the two countries. Decisions are taken with the unanimous consent of the parties. RTE and REE both have rights to the assets and obligations for the liabilities of INELFE. The joint arrangement has therefore been classified as a joint operation. The Group recognises the assets, including its interest in the jointly controlled assets, and the liabilities, including its share of the liabilities that have been incurred jointly in INELFE, in its consolidated annual accounts (see note 2 d).

The Group has an interest in a further joint arrangement through Red Eléctrica Chile S.P.A., which holds a 50% stake in the Chilean company TEN, alongside Engie Energía Chile, S.A. (E.C.L. S.A.). The Group has classified this joint arrangement as a joint venture, inasmuch as the parties have rights to the net assets (see note 10).

Due to the existence of contractual arrangements under which decisions on relevant activities require the unanimous consent of both parties, the Group has joint control of several "UTEs" (Unión Temporal de Empresas – a form of temporary business association). The Group has classified the investments as joint operations because the parties have rights to the assets and obligations for the liabilities. The UTE has been formed to provide dark fibre services, with an availability guarantee, between the Balearic Islands and the Mediterranean Coast of the Spanish mainland.

## 29. Guarantees and Other Commitments with Third Parties and Other Contingent Assets and Liabilities

At 31 December 2019 and 2018 the Company, together with REE, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 430 million, and the Eurobonds programme of REF 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.

On 19 February 2015, REDESUR, TESUR and Scotia Sociedad Titulizadora S.A. created a securitisation trust to hold the REDESUR-TESUR trust assets, in order to back the obligations arising from the bond issues amounting to US Dollars 91 million at 31 December 2019.

At 31 December 2019 the Group has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 233,830 thousand (Euros 194,985 thousand in 2018).

On 22 November 2019, Red Eléctrica Internacional and the Colombian company Grupo Energía Bogotá S.A. ESP (GEB) reached an agreement to jointly acquire, on a 50/50 basis, 100% of the ordinary shares of Argo Energía (Argo Energía Empreendimentos e Participacoes, S.A.), which currently belongs to funds managed by Patria Investments and to Sommerville Investments B.V., an indirect subsidiary of Temasek Holdings (Private) Limited. Argo Energía holds three 30-year electricity transmission concessions in Brazil, amounting to 1,460 km of 500 kV and 230 kV lines and 11 substations, of which 1,150 km of lines and five substations have been operating since October 2019. The two concessions, which form part of the Brazilian national transmission system, and two of which are currently under construction, will generate revenues of around Euros 190 million in 2023 once they come into service. For the contract to come into effect, various permits must be obtained from regulators, including ANEEL and the Brazilian competition authority CADE. The final purchase price has been set at BRL 1,775 million for 50% of the shares.

At 31 December 2019 the Company has signed an agreement for the subscription of shares in a venture capital company called Adara Ventures III S.C.A., SICAR, committing to an amount of Euros 5 million, which will be paid at the behest of that company when opportunities arise in the market to invest in companies in the innovation and technology sectors.

## 30. Environmental Information

In 2019 Group companies incurred ordinary expenses of Euros 26,149 thousand in protecting and improving the environment (Euros 23,958 thousand in 2018), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution.

In 2019 a total of Euros 3,217 thousand (Euros 1,426 thousand in 2018) was spent on environmental issues associated with investment projects (including environmental impact studies, environmental oversight of work, and the adoption of preventive, corrective and accompanying measures).

The Group companies are not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. The Group companies received no significant environment-related grants in 2019 or 2018.

## 31. Other Information

KPMG is the main auditor of the annual accounts of the Group companies, except INELFE, which is audited by PricewaterhouseCoopers (PwC).

The total fees accrued for the audit services rendered to the Group companies in 2019 were Euros 562.9 thousand (Euros 315.6 thousand in 2018).

Details of the contractual fees for services provided to the Red Eléctrica Group by the audit firm KPMG Auditores, S.L. in the years ended 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Audit services | 319.5 | 189.0 |
| Other audit-related services | 100.4 | 75.0 |
| **Total** | **419.9** | **264.0** |

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

Audit services include the limited review of the Group's interim financial statements. Other audit-related services essentially include assurance services relating to the issuance of comfort letters, the reasonable assurance audit report on the effectiveness of the Group's ICOFR under ISAE 3000, and the agreed-upon procedures performed for the Group company REINTEL.

Details of the contractual fees for services provided to the Red Eléctrica Group by other entities affiliated with KPMG in the years ended 31 December 2019 and 2018, both in Spain and abroad, are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Audit services | 238.5 | 142.7 |
| Other services | 40.0 | 65.0 |
| **Total** | **278.5** | **207.7** |

Details of the contractual fees for services provided to the Group by PwC in the years ended 31 December 2019 and 2018 are as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Audit services | 4.9 | 4.8 |
| Total | 4.9 | 4.8 |

In addition, the equity-accounted investees HISDESAT and TEN were audited by KPMG and EY, respectively (in 2018 TEN was audited by Deloitte).

## 32. Earnings per Share

Details of earnings per share in 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Net profit (thousands of Euros) | 718,040 | 704,558 |
| Number of shares | 541,080,000 | 541,080,000 |
| Average number of own shares | 1,558,846 | 2,189,151 |
| Basic earnings per share (Euros) | 1.33 | 1.31 |
| Diluted earnings per share (Euros) | 1.33 | 1.31 |

At 31 December 2019 and 2018 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

## 33. Share-based Payments

Details of share-based payments for management and employees at 31 December 2019 and 2018 are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Average price (Euros) | Amount in thousands of Euros | Number of shares | Average price (Euros) | Amount in thousands of Euros |
| Senior management personnel | 1,390 | 17.255 | 24 | 1,238 | 19.370 | 24 |
| Employees | 240,829 | 17.255 | 4,156 | 191,317 | 19.370 | 3,706 |
| **Total** | **242,219** | **17.255** | **4,179** | **192,555** | **19.370** | **3,730** |

These shares have been valued at the listed price on the delivery date. All shares delivered were approved by the Parent's shareholders at the general meeting, and the related costs incurred have been recognised under personnel expenses in the consolidated income statement.

## 34. Events after 31 December 2019

On 24 January the Company, through its subsidiary Red Eléctrica Financiaciones, S.A.U., issued bonds, guaranteed by Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U., amounting to Euros 700 million and with a maturity of 8.5 years. The bonds pay an annual coupon of 0.375% and their issue price is 98.963%, representing a return of 0.500%. The funds obtained with this bond will be used to finance and/or refinance Eligible Projects within Red Eléctrica de España, S.A.U.'s recently announced Green Financing Framework.

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

# Appendix I: Details of equity investments at 31 December 2019 and 2018

## Red Eléctrica Group
## Details of equity investments at 31 December 2019 and 2018

| - Company<br>- Registered office<br>- Principal activity | 2019 | | 2018 | |
|---|---|---|---|---|
| | Percentage ownership (1) | | Percentage ownership (1) | |
| | Direct | Indirect | Direct | Indirect |
| Red Eléctrica Corporación, S.A., Parent, incorporated in 1985.<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Management of the business Group; rendering of assistance or support services to investees and operation of the property owned by the Company. | | | | |
| A) Fully consolidated subsidiaries | | | | |
| Red Eléctrica de España, S.A.U. (REE)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Transmission, operation of the Spanish electricity system and management of the transmission network. | 100% | - | 100% | - |
| Red Eléctrica Internacional, S.A.U. (REI)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Acquisition and holding of international equity investments. Rendering of advisory, engineering and construction services. - Performance of electricity activities outside the Spanish electricity system. | 100% | - | 100% | - |
| Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Rendering of advisory, engineering, construction and telecommunications services. | 100% | - | 100% | - |
| Red Eléctrica Infraestructuras en Canarias, S.A.U (REINCAN)<br>- Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain).<br>- Construction of energy storage facilities in non-mainland and isolated systems. | 100% | - | 100% | - |
| Red Eléctrica de España Finance, B.V. (RBV)<br>- Hoogoorddreef 15. Amsterdam (Netherlands).<br>- Financing activities. Incorporated in 2003 in the Netherlands to issue debt to finance the Red Eléctrica Group. | 100% | - | 100% | - |
| Red Eléctrica Financiaciones, S.A.U. (REF)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Financing activities. | 100% | - | 100% | - |
| Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Acquisition, holding, management and administration of Spanish and foreign equity securities. | 100% | - | 100% | - |
| Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Activities geared towards driving and accelerating technological innovation. | 100% | - | - | - |
| Redcor Reaseguros, S.A (REDCOR)<br>- 26, Rue Louvigny. (Luxembourg).<br>- 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% | - | 100% | - |
| Red Eléctrica Andina, S.A.C. (REA)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Rendering of line and substation maintenance services. | - | 100%(a) | - | 100%(a) |

| - Company<br>- Registered office<br>- Principal activity | 2019 Percentage ownership [1] | | 2018 Percentage ownership [1] | |
|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect |
| Red Eléctrica del Sur, S.A. (REDESUR)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(a) | - | 100%(a) |
| Transmisora Eléctrica del Sur , S.A.C. (TESUR)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(c) | - | 100%(c) |
| Transmisora Eléctrica del Sur 2 , S.A.C. (TESUR 2)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(c) | - | 100%(c) |
| Transmisora Eléctrica del Sur 3, S.A.C. (TESUR 3)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(c) | - | 100%(c) |
| Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(j) | - | 100%(c) |
| Red Eléctrica del Norte Perú, S.A.C. (REDELNOR)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(a) | - | - |
| Concesionaria Línea de Transmisión CCNCM, S.A.C. (CCNCM)<br>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(d) | - | - |
| Red Eléctrica Chile S.P.A. (RECH)<br>- Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile)<br>- Acquisition, holding, management and administration of securities. | - | 100%(a) | - | 100%(a) |
| Red Eléctrica del Norte S.A. (REDENOR)<br>- Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 69.9%(e) | - | 69.9%(e) |
| Red Eléctrica del Norte 2, S.A. (REDENOR 2)<br>- Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100%(e) | - | 100%(e) |
| Hispasat, S.A.<br>- Paseo de la Castellana 39, 28046 Madrid (Spain).<br>- 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) [2] | - | - |
| Hispasat Canarias, S.L.U.<br>-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)<br>- Sale and lease of satellites and spatial capacity | - | 89.68%(g) [2] | - | - |
| Hispasat Brasil, Ltda.<br>- Praia do Flamengo, 200 Rio de Janeiro, (Brazil)<br>- Commercialisation of satellite capacity | - | 89.68%(g) [2] | - | - |
| Hispamar Satélites, S.A.<br>- Praia do Flamengo, 200 Rio de Janeiro, (Brazil)<br>- Commercialisation of satellite capacity | - | 72.60% (h) [2] | - | - |

| - Company<br>- Registered office<br>- Principal activity | 2019 Percentage ownership (1) | | 2018 Percentage ownership (1) | |
|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect |
| Hispamar Exterior, S.L.U.<br>- Paseo de la Castellana 39, 28046 Madrid (España).<br>- Commercialisation of satellite capacity | - | 72.60%(i) (2) | - | - |
| Hispasat de México, S.A. de C.V.<br>- Agustín Manuel Chávez 1-001 Col. Centro de Ciudad Santa Fe, 01210 México D.F. (México)<br>- Use of radio spectrum, telecommunications networks and satellite communication. | - | 89.68%(g) (2) | - | - |
| Consultek, Inc<br>- 1036 Country Club Drive, Suite 202, Moraga, CA 94556. (United States of America)<br>- Technical consultancy services | - | 89.68%(g) (2) | - | - |
| Hispamar Satélites, S.A. (Venezuela)<br>- Torre Phelps, piso 10 ofic. 10, Caracas (Venezuela)<br>- Commercialisation and rendering of satellite telecommunications services | - | 72.60%(i) (2) | - | - |
| Hispasat UK, LTD.<br>- 3-7 Temple Avenue, Suite 38, Temple Chambers, London, EC4Y 0HP (England)<br>- Commercialisation and rendering of satellite telecommunications services | - | 89.68%(g) (2) | - | - |
| B) Proportionately consolidated companies | | | | |
| Interconexión Eléctrica Francia-España, S.A.S. (INELFE)<br>- Inmueble Window, 7 C Place du Dôme, 92073 La Défense Cedex, Paris (France)<br>- Study and execution of Spain-France interconnections | - | 50%(b) | - | 50%(b) |
| C) Equity-accounted investees | | | | |
| Transmisora Eléctrica del Norte, S.A. (TEN)<br>- Avenida Apoquindo N°3721, piso 6, Las Condes, Santiago (Chile)<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 50%(e) | - | 50%(e) |
| Hisdesat Servicios Estratégicos, S.A.<br>- Paseo de la Castellana 39, 28046 Madrid (Spain)<br>- Commercialisation of spatial systems for government use. | - | 38.56%(g) (2) | - | - |
| Grupo de Navegación Sistemas y Servicios, S.L.<br>- Calle Isaac Newton 1, Madrid (Spain)<br>- Operation of satellite systems | - | 12.82%(g) (2) | - | - |

(1) Equivalent to voting rights.
(2) 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.

# Consolidated Directors' Report

# 2019

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

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The various sections of this consolidated directors' report contain certain prospective information that reflects projections and estimates based on underlying assumptions, statements referring to plans, objectives and expectations associated with future transactions, investments, synergies, products and services, as well as statements concerning results or future dividends, or estimates calculated by the directors and based on assumptions that those directors consider reasonable.

While the Group considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Parent are advised that the information and statements containing future projections are subject to risks and uncertainties, many of which are difficult to foresee and generally beyond the Group's control. As a result of such risks, actual results and developments could differ substantially from those expressed, implied or forecast in the information and statements containing future projections.

The affirmations and statements containing future projections do not provide any guarantee as to future results and have not been reviewed by auditors outside the Group or by other independent third parties. It is recommended that no decisions be made on the basis of the affirmations and statements containing future projections that refer exclusively to the information available at the date of this report. All of the affirmations and statements containing future projections that are reflected in this report are expressly subject to the warnings given. The affirmations and statements containing future projections included in this document are based on the information available at the date of this directors' report. Except as required by applicable legislation, the Group is not obligated to publicly update its statements or review the information containing future projections, even where new data is published or new events arise.

# 1. Position of the entity

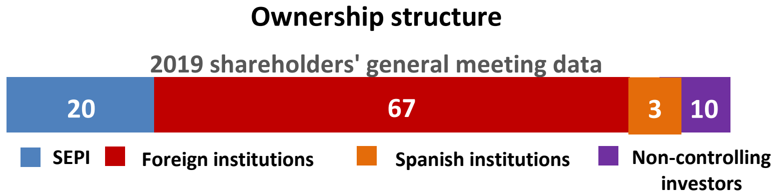
## 1.1. Organisational structure

**Corporate bodies**

The board of directors and the shareholders are responsible for governing and managing the Red Eléctrica Group and its Parent, Red Eléctrica Corporación, S.A. (hereinafter REC).

The shareholders' general meeting is governed by the articles of association and the general meeting regulations, in accordance with the Spanish Companies Act.

The ownership structure at the date of the 2019 shareholders' ordinary general meeting was as follows:




Since November 2018 the Company has had three board committees, following the creation of the new Sustainability Committee, which entailed the restructuring of the other two board committees, namely the Audit Committee and the Appointments and Remuneration Committee. These three essentially technical committees created by the board of directors to support it in its duties are designed to enhance efficiency and transparency.

The structure, composition, roles and responsibilities of the committees are specified in articles 22 to 24 of the articles of association and are implemented in articles 14 to 18 TER of the regulations of the board of directors. Both sets of corporate regulations have been fully brought into line with the latest reforms of the Spanish Companies Act, the Good Governance Code of Listed Companies and the most up-to-date international practices and recommendations on committee composition and committee member independence and qualifications. At the board meeting held on 19 February 2019, the directors approved an amendment to the regulations of the board of directors through the restructuring of the board committees, specifically by creating a new Sustainability Committee and updating the duties of the other two board committees, i.e. the Audit Committee and the Appointments and Remuneration Committee. Among other amendments, the responsibilities of this latter committee were reinforced by creating a new relationship framework between the board of directors and the working environment of the Group companies, while the general oversight function to be carried out by the Audit Committee, in coordination with the specific oversight duties assigned individually to the other board committees within the scope of their respective responsibilities, was revised. At its meeting held on 30 April 2019, the Company's board of directors approved a further amendment to the regulations of the board of directors, essentially with a view to reinforcing the role of the Company's board of directors as the supervisor and guarantor of the functional independence of the electricity system operator – a role that has been legally attributed to Red Eléctrica de España, S.A.U. as regards the assignments and responsibilities required by current legislation. At its meeting held on 24 September 2019 the board of directors agreed to undertake a further review of the regulations of the board of directors, primarily to update the duties (enterprise-wide in some cases) of the board and its committees in terms of sustainability, with the formal and material scope agreed by the three board committees, and to reinforce the mechanisms for coordination between these three committees and improve governance within the Group, bolstering the role of the Company's board of directors with respect to the Group.

At 31 December 2019 the board of directors of REC has 12 members.

At their general meeting on 22 March 2019 the shareholders adopted the following agreements regarding appointments to the board of directors:

- Ratification of the appointment of Mr. Jordi Sevilla Segura as a director of Red Eléctrica Corporación, S.A. in the category of "other external directors", as agreed by the board of directors at their meeting held on 31 July 2018, thus appointing him as a director in the aforementioned "other external directors" category for a term of four years.
- Ratification of the appointment of Ms. María Teresa Costa Campi as a proprietary director of Red Eléctrica Corporación, S.A., as agreed by the board of directors at their meeting held on 25 September 2018, thus appointing her as a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI) for a term of four years.
- Ratification of the appointment of Mr. Antonio Gómez Expósito as a proprietary director of Red Eléctrica Corporación, S.A., as agreed by the board of directors at their meeting held on 25 September 2018, thus appointing him a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI) for a term of four years.
- Appointment of Mr. José Juan Ruiz Gómez as an independent director of Red Eléctrica Corporación, S.A. for a term of four years, to replace the independent director Mr. José Luis Feito Higueruela, at the proposal of the Appointments and Remuneration Committee.

Subsequently, at its meeting held on 27 May 2019, the board of directors co-opted Mr. Roberto García Merino to serve as an executive director until the first general meeting of the shareholders, in order to fill the empty seat on the board as a result of Mr. Juan Francisco Lasala Bernad stepping down from his executive director role. At this same meeting, Mr. Roberto García Merino was also appointed CEO of the Company.

Finally, at the board meeting held on 26 March 2019, the directors agreed to appoint Mr. José Juan Ruiz Gómez to the Appointments and Remuneration Committee, to re-appoint Ms. María José García Beato to the Audit Committee, and to appoint Ms. Carmen Gómez de Barreda Tous de Monsalve as a coordinating independent director, for a term of three years in each case. At its meeting held on the same date, the Appointments and Remuneration Committee appointed Ms. Socorro Fernández Larrea as chairwoman of this committee, also for a term of three years.

The composition of the board committees at 31 December 2019 is as follows:

- Sustainability Committee:
  - Carmen Gómez de Barreda Tous de Monsalve (coordinating independent director and chairwoman)
  - María Teresa Costa Campi (proprietary director)
  - Alberto Carbajo Josa (independent director)
- Audit Committee
  - Antonio Gómez Ciria (independent director and chairman)
  - Mercedes Real Rodrigálvarez (proprietary director)
  - Arsenio Fernández de Mesa y Díaz del Río (independent director)
  - María José García Beato (independent director)
- Appointments and Remuneration Committee:
  - Socorro Fernández Larrea (independent director and chairwoman)
  - Antonio Gómez Expósito (proprietary director)
  - José Juan Ruiz Gómez (independent director)

The composition and powers of the board of directors and the various committees are as follows:

**BOARD OF DIRECTORS**

58.33% independent directors
41.66% women (45.45% external directors)
Segregation of the positions of Chairman of the Board of Directors and CEO
Coordinating independent director

**MAIN REMIT**

Approval of the general strategies and policies of both the Company and the Group.
Group and Company risk control.
Authorisation for issue of the annual accounts and presentation thereof to the shareholders at their general meeting.
Annual assessment of the quality and efficiency of the Board and functioning of its Committees.

**AUDIT COMMITTEE**

75% independent directors
25% proprietary directors
50% women
Chair: independent director

**Powers relating to:**
The process to prepare the Company's financial and economic information.
The effectiveness of the internal control and risk management systems.
External auditor independence.
Compliance with legal provisions and internal regulations on aspects within its remit.
Company shareholders.

**APPOINTMENTS AND REMUNERATION COMMITTEE**

66.7% independent directors
33.3% proprietary directors
33.3% women
Chair: independent director

**Powers relating to:**
Appointments and dismissals of directors and management personnel, reporting directly to the Board, the Chair or the CEO.
The remuneration policy for directors.
Directors' compliance with their duties.
Management of the process of assessing the Board and its Committees.
The Red Eléctrica Group's Comprehensive Diversity Plan.
Group company employees.

**SUSTAINABILITY COMMITTEE**

66.7% independent directors
33.3% proprietary directors
66.7% women
Chair: independent director

**Powers relating to:**
Ethical leadership.
Compliance with the Group's sustainability policies.
Actions and proposed initiatives in the field of sustainability.
The 2030 Sustainability Commitment, the sustainability policies and their relationship with the Strategic Plan.
Processes for relating with the different stakeholders.
The Group's Annual Report on Ethical Management.
Information on sustainability as per international benchmark standards.
Review and validation of reports on specific aspects of sustainability.
Oversight of compliance with the Code of Ethics.

In view of the commitment undertaken by the Company chairman at the shareholders' general meeting held in April 2012, and considering international best practice in the field of corporate governance, at the extraordinary meeting held on 17 July 2015, called specifically for this purpose, the board of directors of Red Eléctrica Corporación, S.A. (REC) submitted for the approval of the shareholders a proposal to segregate the positions of chairman of the board of directors and chief executive of the Company, and to appoint Juan Lasala Bernad as executive director. The two motions were passed, with votes in favour from 99% of the shareholders, compared to the required quorum of 58%. At its meeting held on 28 July 2015, the board of directors appointed the new executive director as CEO of the Company.

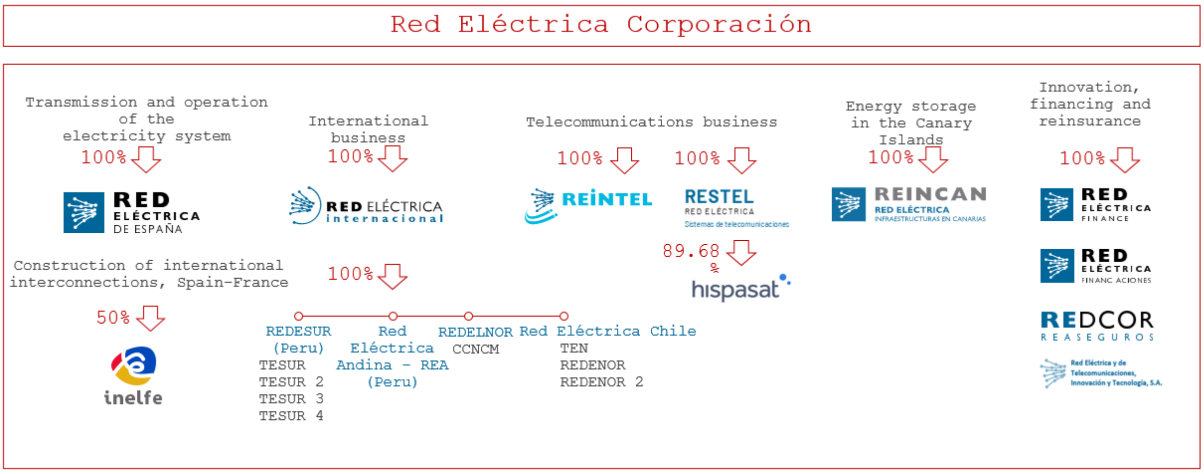
Since 2016, following the specified transition period, the chairman of the board of directors has only had the responsibilities inherent in that position.

Moreover, the position of coordinating independent director created in 2013 has been maintained, since the shareholders and proxy advisors consider that this position embodies an efficient corporate governance practice through the responsibilities attributed to it.

The Annual Corporate Governance Report, which is attached hereto, contains detailed information regarding the composition and operation of the governing bodies of the Parent.

**Composition of the Red Eléctrica Group**

The structure of the Group at 31 December 2019 is as follows:




## 1.2. Activities and business performance

The Group carries out the aforementioned activities both in Spain and abroad. Most notably, its principal activities comprise the management and operation of electricity infrastructure in Spain, Peru and Chile, and shortly in Brazil, and the rendering of telecommunications services (fibre optics and satellites) to third parties.

### Management and operation of domestic electricity infrastructure

The mission of REE, as **transmission agent and system operator for the Spanish electricity system**, is that of guaranteeing the security and continuity of the electricity supply at all times and managing high voltage electricity transmission. To this end, it oversees and coordinates the generation and transmission system and manages the development of the transmission network. The Company seeks to fulfil its mission while adhering to the principles of neutrality, transparency, independence and economic efficiency, so as to offer a secure, efficient and high quality electricity service to society as a whole.

The Group continues to execute its Investment Plan, entailing investments in the transmission network in Spain. This plan comes under the 2015-2020 Planning currently in place.

2019 is the fourth year in which the remuneration for the transmission activity has been set pursuant to the remuneration model in force, which was approved in 2013. A new remuneration model for the new 2020-2025 regulatory period was approved at the end of 2019.

Investments in transmission network facilities in 2019 totalled Euros 396.4 million and were basically to address technical restrictions, extend the network mesh, execute specific projects for international interconnections and inter-island submarine connections, and to ensure security of supply.

During the year, approximately 198 km of new lines came into service, bringing the total for the transmission network owned by the Group to 44,372 km at year end. Transformation capacity was also increased by 1,335 MVA to a total of 93,735 MVA.

In 2019 the most significant initiatives in terms of development of the transmission network, by major axes relating to assets due to enter service in the coming years, were as follows:

- Mallorca - Menorca interconnection 2. 132 kV underground - submarine transmission line to interconnect the islands of Mallorca and Menorca and integrate renewable energy.
- North - East Axis. The purpose of this axis is to improve the evacuation of electricity from Asturias to supply Cantabria and the Basque Country. The initiatives in progress are the expansion of the Itxaso substation and the Güeñes - Itxaso line.
- Caparacena - Baza - Ribina Axis. The purpose of this axis is to facilitate the evacuation of energy from the ordinary regime, renewable sources, co-generation and waste, as well as improving the transmission network mesh and supporting distribution in the province of Granada.
- Beniferri - La Eliana Axis. The purpose of this axis is to reduce the intensity of the short circuit current in Valencia and expand the network mesh, improving transmission efficiency and supporting supply for demand in adjacent nodes. In 2019 part of this axis, specifically the Eliana substation expansion, the binode and the connecting line to Feria de Muestras, came into service.
- Santa Elvira Axis. The purpose of this axis is to construct a line and two 220 kV substations for the transmission network mesh and to support distribution in the city of Seville. The Alcores - Santa Elvira line and the related substations came into service in 2019.
- Lousame – Tibo – Mazaricos Axis. The purpose of this axis is to reinforce the network, evacuate electricity generated, and support distribution in the northeast of Galicia. The Mazaricos and Lousame substations and the Lousame 220 kV input and output came into service in 2019.
- Tías – Playa Blanca Axis. The purpose of this axis is to guarantee electricity supply in the south of Lanzarote and to reinforce the connection with Fuerteventura. These measures, together with the 132 kV submarine cable interconnecting Lanzarote and Fuerteventura, will increase security of supply in the Lanzarote electricity system. The Playa Blanca substation came into service in 2019.
- Oriol Axis. The purpose of this axis is to guarantee the electricity supply, support distribution, and resolve technical restrictions in Caceres. The axis is related to the Navalmoral - Badajoz high-speed train, which forms part of the connection envisaged between Madrid and Lisbon.
- Ciudad Rodrigo – Béjar Axis. The purpose of this axis is the high-speed train connection at two different points on the Medina - Salamanca - Fuentes de Oñoro - Ciudad Rodrigo route. The Ciudad Rodrigo substation and the input and output came into service in 2019.
- La Oliva – Puerto del Rosario Axis. The purpose of this axis is to carry out the necessary transmission network initiatives to contribute to the mesh and the evacuation of special and ordinary regime energy, thereby reinforcing the electricity system on the island of Fuerteventura between the Puerto del Rosario and La Oliva substations. The La Oliva - Puerto del Rosario line came into service in 2019.
- Son Moix Axis. The main purpose of this axis is to find a solution for the existing evacuation from the Valldurgent 220 kV substation towards the city of Palma de Mallorca, to improve voltage control in the west of Palma de Mallorca, and to support Valldurgent's 220/66 kV transformation. The 220 kV-66 kV Son Moix substation and the related 220 kV input and output came into service in 2019.

- Assegador Axis. The purpose of this axis is to support the distribution and integration of renewable energy and reinforce the city of Valencia, which is also the location of the interconnection between the mainland and the Balearic Islands (Sagunto). The axis runs between Castellon and Valencia.

The most notable occurrences in 2019 in terms of **electricity system operation** were as follows:

**Mainland system**

- Mainland electricity demand closed the year at 249,144 GWh, down 1.7% on 2018. Corrected for the effect of working patterns and temperatures, the drop in demand attributable primarily to economic activity was 2.7%, in contrast to the prior-year trend, when it grew 0.5%.
- Maximum instantaneous power was recorded on Tuesday 22 January at 20:08 hours, at a rate of 40,455 MW. This is down 1.2% on the maximum for the prior year, and down 11.0% compared with the record 45,450 MW seen at the end of 2007. Peak demand in terms of time was posted on 10 January (between 20:00 and 21:00 hours) at 40,136 MWh, 10.6% below the aforementioned all-time high.
- Installed capacity on the mainland has risen considerably compared to the prior year, ending 2019 at 104,652 MW, which is 5,927 MW more than at December 2018 (up 6.0%). This significant increase in installed capacity was driven by renewable technologies, notably solar photovoltaic, which is up almost 90% year-on-year. Other renewables climbed 17.4% compared with 2018. Finally, wind technology increased by 9.2% compared to the prior year. In terms of disposals, the Anllares coal-fired plant, with a total of 347 MW, shut down early on in the year. The capacity of other technologies either did not vary or changed only insignificantly.
- Hydropower capacity stood at 25,971 GWh at the end of December 2019, down 12.0% on the historical average and 30.6% lower than in 2018. Reserves of hydroelectric power represented a fill level of 51.0% of total capacity across all reservoirs at the end of 2019, compared with 44.1% in the prior year.
- In 2019, 22.6% of demand was met by nuclear technology (21.5% in 2018), 21.5% by wind power (19.8% in 2018), 20.7% by combined cycle generation (10.7% in 2018), 11.9% by cogeneration (11.9% in 2018 also) and 10.0% by hydroelectric power (13.8% in 2018). With a contribution of less than 5%, coal, solar technologies, other renewable sources, waste and pump-as-turbine jointly covered the remaining 13.3% of demand.
- Renewable energy's percentage contribution to total energy generation in the electricity system dropped to 39.0% (40.1% in 2018).
- In absolute terms, renewable generation is down 3.1% on the prior year, essentially due to the 27.6% drop in hydropower output.
- With respect to $CO_2$ emissions by the mainland electricity industry, the decline in coal-based generation and, conversely, the increase in generation from renewable sources, except hydropower, place emission levels for 2019 at 40.6 million tonnes, down 25.5% compared to the 54.5 million tonnes recorded in 2018.
- Electricity exchanges through the mainland-Balearic Islands link resulted in a net balance of exports to the islands of 1,695 GWh (up 37.4% compared to 2018), covering 27.7% of their demand.
- International electricity exchanges resulted in a net import balance for the fourth year running, totalling 6,862 GWh in 2019.

- Exports amounted to 11,859 GWh (12,916 GWh in 2018) and imports totalled 18,721 GWh (24,018 GWh in 2018).

**Non-mainland systems**

- At the 2019 year end, total annual demand for electricity in non-mainland systems had declined by 0.6% vis-à-vis the prior year. Per individual system, demand climbed 0.9% in the Balearic Islands and 0.4% in the Canary Islands, and dropped 0.6% in Ceuta and 1.0% in Melilla.
- Installed capacity for each technology in the non-mainland systems either did not vary or changed only insignificantly.

Pursuant to Law 17/2013 the Group, through REE, is tasked with developing hydroelectric pumping power plants in the Canary Islands, geared towards security of supply, system security and the integration of unmanageable renewable energies.

In 2019 formalities for the "Chira-Soria Hydroelectric Pumping Power Plant Construction Project. Construction Project Reforms. Amended I" were completed. The public consultation phase having now elapsed, the project is currently undergoing environmental assessment by the Canary Islands government, with a view to obtaining an environmental impact statement, along with the other permits necessary to enable the works to get underway.

Also in 2019, the technical specifications for the Seawater Desalination Plant ("EDAM" per the Spanish acronym) were finalised. This project, which forms part of the above-mentioned Chira-Soria project, is located in Arguineguín and has a capacity of 1.8 hm3/year. The technical specifications for the purchase of the main equipment – Francis vertical shaft pump turbines, alternators, full power converters, etc. – were also completed, and this investment can be undertaken once the necessary permits and licences have been obtained.

With regard to the possibility of implementing a hydroelectric pumping power plant project in Tenerife, in 2019 work was ongoing to select the best project out of those already pinpointed in 2018.

## Management and operation of international electricity infrastructure

The Group's international business is conducted through its subsidiary Red Eléctrica Internacional, S.A.U. (hereinafter REI), which is present in Peru and Chile.

At the 2019 reporting date, REI directly holds 100% of the capital of the Peruvian companies Red Eléctrica Andina (REA), Red Eléctrica del Sur (REDESUR) and Red Eléctrica del Norte (REDELNOR). REI also holds 100% of the share capital of the Chilean company Red Eléctrica Chile (RECH).

REI currently manages a network of 1,686 km of lines in Peru and 1,729 km of lines in Chile, and benefits from preferential positioning with regard to future interconnections between Chile–Peru and Peru–Ecuador.

**Activity in Peru**

REDESUR is the sole owner of TESUR (Transmisora Eléctrica del Sur), TESUR 2, TESUR 3 and TESUR 4.

In 2019, the management excellence of REDESUR, TESUR and TESUR 2, which all manage electricity transmission infrastructure on a commercial operation basis, enabled them to offer an energy transmission service with maximum availability, while supporting development in their operating environment.

For REDESUR, consolidation of the Integrated Management System (IMS) has allowed the company to continue delivering excellent operating standards, with a network availability factor of 99.84% in 2019, above the average for the last five years (99.77%). TESUR's transmission facilities posted 99.88% availability.

TESUR 2, meanwhile, is in its first years of operating its concession facilities, these having come into commercial operation in mid-2018. The availability factor for TESUR 2's network in 2019 was 99.87%.

TESUR 3, the concession holder for the 220 kV Montalvo – Los Héroes transmission line in southern Peru, has successfully completed its project. The facilities are expected to come into commercial operation in the opening months of 2020.

REA renders maintenance services for the concessions under operation, namely REDESUR, TESUR and TESUR 2. Furthermore, in 2019 this company completed all of the necessary tasks to develop and implement the special projects undertaken by REDESUR, and also engaged in work for TESUR 3 and TESUR 4. In addition, REA carries out facilities maintenance and supervises works for other clients, consolidating its position in southern Peru as a leading provider of such services.

The new projects and developments in Peru, awarded in 2017 and 2018, namely TESUR 4 and the extension of REDESUR's Puno substation, are currently under construction and at different stages of execution. These projects are expected to be completed and enter service in the coming years.

On 18 July 2019, REI acquired Zero-E Dollar and Cajamarca Invest, S.L. (both part of the Cobra Group) and 100% of the shares of CCNCM. Since the end of 2017, these assets have been in commercial operation under a 30-year concession awarded by the Peruvian government. Concesionaria Línea de Transmisión CCNCM S.A.C. (CCNCM) is wholly owned by the Peruvian company REDELNOR. CCNCM is the concession holder for the 220kV Carhuaquero – Cajamarca Norte – Moyobamba – Caclic transmission line and the related substations.

**Activity in Chile**

The transmission business in Chile comes under the umbrella of the parent company in that country, Red Eléctrica Chile (RECH). This company was incorporated by REI in 2015 and its principal activities comprise the acquisition, holding and management of the Group's equity investments in Chile, and the provision of commercial advisory, financial and business services to the Group's investees. RECH holds a 50% interest in Transmisora Eléctrica del Norte (TEN), a 69.9% interest in Red Eléctrica del Norte (REDENOR, incorporated in 2018) and 100% of Red Eléctrica del Norte 2 (REDENOR 2, acquired in 2018).

TEN constructed and operates the 500 kV Changos – Cumbre – Nueva Cardones axis, which forms part of the National Transmission System, as well as the 220 kV Mejillones – Changos dedicated line. Construction of the 500 kV axis enabled the creation of the National Transmission System in 2017, through the interconnection of the systems existing at that time, namely the Central Interconnected System ("SIC") and the Far North Interconnection System ("SING"). In 2019, TEN completed its second full year of commercial operation, and with a high availability factor for its facilities (99.75% for lines and 99.66% for substations), on a par with the prior year's availability.

REDENOR has continued its construction of the transmission facilities, awarded in 2017. This project entails the construction and subsequent operation of a substation in northern Chile (Nueva Pozo Almonte 220 kV) and 258 km of 220 kV lines leading up to the Pozo Almonte, Cóndores and Parinacota substations.

REDENOR 2 has completed the first year of commercial operation of its facilities (three 220 kV lines linking the El Cobre – Esperanza – El Tesoro – Encuentro substations). It is also immersed in the extension works on its facilities encompassed in the Transmission System Expansion Plan, entailing the construction of a new 220 kV substation.

**Activity in Brazil**

On 22 November 2019, Red Eléctrica Internacional and the Colombian company Grupo Energía Bogotá S.A. ESP (GEB) reached an agreement to jointly acquire, on a 50/50 basis, 100% of the ordinary shares of Argo

Energía (Argo Energía Empreendimentos e Participacoes, S.A.), which currently belongs to funds managed by Patria Investments and to Sommerville Investments B.V., an indirect subsidiary of Temasek Holdings (Private) Limited. Argo Energía holds three 30-year electricity transmission concessions in Brazil, amounting to 1,460 km of 500 kV and 230 kV lines and 11 substations, of which 1,150 km of lines and five substations have been operating since October 2019. The two concessions, which form part of the Brazilian national transmission system, and two of which are currently under construction, will generate revenues of around Euros 190 million in 2023 once they come into service. For the contract to come into effect, various permits must be obtained from regulators, including ANEEL and the Brazilian competition authority CADE. The final purchase price has been set at BRL 1,775 million for 50% of the shares.

## Telecommunications

### Satellite business

Red Eléctrica Sistemas de Telecomunicaciones, S.A. (hereinafter RESTEL) was incorporated in 2018 for the purpose of carrying out the following activities, among others:

- The acquisition, holding, administration, management and handling of Spanish and foreign equity securities, and the placement of financial resources arising from these activities.
- Grid operation and the provision of telecommunications services to third parties.

On 3 October 2019, once the conditions precedent for the contract signed on 12 February 2019 had been met, RESTEL acquired 89.68% of the shares of the Hispasat Group for Euros 933 million. The other Hispasat Group shareholders are SEPI, with a 7.41% interest, and the CDTI, which holds 2.91%.

Hispasat is the leading satellite infrastructure operator in Spain and Portugal by volume of business, and also ranks as the fourth operator in Latin America and the eighth operator worldwide. It is the leading distributor of content in Spanish and Portuguese.

The Hispasat Group's principal activity consists of leasing spatial capacity and providing broadband managed services, through the operation and commercial exploitation of its fleet of satellites in orbit and the related land-based segment. These activities are conducted through the Group's parent, Hispasat, S.A., which operates and commercialises the Group's satellites that are not located in orbit over Brazilian territory, and through Hispasat Canarias, S.L., Sociedad Unipersonal, Hispamar Satélites, S.A., Hispamar Exterior, S.L., Sociedad Unipersonal, and Hispasat México, S.A. de C.V., which jointly operate and commercialise the satellites that are in orbit over Brazilian territory.

The Group has a corporate presence in five countries: Spain, Brazil, Mexico, Argentina and Colombia, and serves customers in more than 26 countries.

Various contracts were executed in 2019, both for the distribution of television channels and for connectivity. Efforts were made to boost development of the connectivity business in a mobility context.

New initiatives were also undertaken in 2019 to commercialise Ka-band services in Central and North America.

Lastly, and notably, manufacturing of the new Amazonas Nexus satellite, equipped with a new generation HTS payload and a digital processor, got underway at the end of 2019.

### Fibre optics business

The Group conducts its fibre optics business in Spain, through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

REINTEL is the Group company responsible for operating telecommunications networks and rendering fibre optic telecommunications services to third parties.

REINTEL is a neutral provider of telecommunications infrastructure. Its principal activity is leasing dark fibre and associated infrastructure. REINTEL also provides maintenance services for fibre optic cables and telecommunications equipment. At present, the company operates a fibre optic network in excess of 50,000 km rolled out over the electricity transmission grid and the railway network, guaranteeing transparent access on equal terms to its customers and to telecommunications sector players.

REINTEL has been awarded, for a period of 20 years until November 2034, the rights to use and operate the fibre optic network not used for railway services, and the related infrastructure, owned by Adif-Alta Velocidad.

## 2. Business performance

### 2.1. Key financial indicators

In 2019 the Red Eléctrica Group's financial statements reflect the impact of the acquisition of Hispasat – this company has formed part of the consolidated Group since 3 October. As a result, revenue is up 3.0% on the same period of the prior year.

EBITDA totalled Euros 1,582.4 million and includes Euros 33.0 million generated by Hispasat. This indicator has climbed 2.8% compared to 2018.

Operating expenses were as follows:

- The cost of supplies and other operating expenses totalled Euros 352.1 million, including Euros 5.9 million pertaining to Hispasat. This reflects an increase of 4.0% compared with the previous year.
- The year-end headcount was 2,056 employees, including 200 Hispasat workers. The average headcount was 1,857 employees.

  Personnel expenses are therefore up 5.5% on the prior year. This growth rate would have been 3.0% were it not for Hispasat-related expenses.

EBIT totalled Euros 1,081.4 million, up 1.1% on 2018. Not considering Hispasat, the rise in this indicator would have been 0.8% compared with the previous year.

The net finance cost amounted to Euros 134.0 million, a difference of Euros 0.5 million compared with the prior year. The higher average gross financial debt, totalling Euros 5,936 million, was offset by lower average borrowing costs, the rate sliding from 2.42% in 2018 to 2.29% in 2019.

Lastly, profit for the year totalled Euros 718.0 million, up 1.9% on the same period of the previous year. The tax rate stood at 24.3%.

The Group's investments during the year amounted to Euros 1,870.4 million. Euros 396.4 million of this amount were used to develop the national transmission network. Moreover, Euros 225.5 million were channelled into developing the international electricity transmission business, notably entailing the acquisition of Cajamarca for Euros 178.4 million. Lastly, Euros 1,215.2 million were fed into the development of the telecommunications business, primarily reflecting the investment in Hispasat.

Dividends paid with a charge to the prior year's profit totalled Euros 530.8 million, equivalent to Euros 0.9831 per share.

As a result of the Red Eléctrica Group's vibrant investment activity in 2019, net financial debt amounted to Euros 6,025.6 million at 31 December, compared with Euros 4,682.7 million at the 2018 reporting date.

At 31 December 2019, 89% of the Group's financial debt is non-current. In terms of interest, 78% of the Group's debt is fixed-rate and the remaining 22% is variable-rate.

In 2019, the average cost of the Group's financial debt was 2.29%, compared to 2.42% in the prior year. Average gross debt was Euros 5,936 million, compared with Euros 5,499 million in the previous year.

Lastly, at 31 December 2019, the Group's equity stood at Euros 3,614 million.

| **Financial indicators (millions of Euros)** | **2019** | **2018** | **Δ%** |
|---|---|---|---|
| Revenue | 2,007.2 | 1,948.5 | 3.0% |
| EBITDA | 1,582.4 | 1,539.7 | 2.8% |
| EBIT | 1,081.4 | 1,069.8 | 1.1% |
| Net profit | 718.5 | 704.5 | 2.0% |
| ROE (Profit after tax / Equity) | 19.9% | 21.0% | -5.2% |
| Cash flows from operating activities | 1,045.2 | 1,100.0 | -5.0% |
| Dividends paid | 530.8 | 495.1 | 7.0% |
| Equity | 3,614.4 | 3,361.4 | 7.5% |
| Gearing (Net financial debt / Net financial debt+Equity) | 62.5% | 58.2% | 7.4% |
| Total assets | 12,662.0 | 11,262.1 | 12.4% |
| Debt service coverage ratio (Net debt / EBITDA) | 3.8 | 3.0 | 25.4% |

## 3. Liquidity and capital

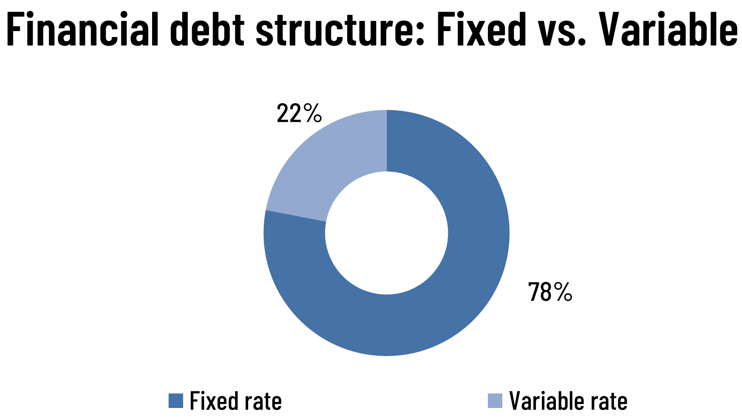
The Group's liquidity policy has been designed to ensure payment obligations are met, by diversifying how financing requirements are covered and when debt matures.

The Group’s robust liquidity position allows for prudent liquidity risk management. This position is essentially based on cash flow generation, primarily through regulated activities; appropriate management of collection and payment periods; and the financial capacity obtained through short- and long-term credit facilities.

At 31 December 2019 the undrawn balance on credit facilities amounts to Euros 1,768 million and cash surpluses of Euros 329 million are available.

The average maturity of the debt drawn down at the end of the year is 5.2 years.

The Group's financial strategy has aimed to reflect the nature of its businesses, at all times adhering to the legislation in force. The activities conducted by the Group are very capital-intensive, wherein a major portion of investments mature over extensive periods. In addition, these assets are remunerated over long periods of time, meaning that financial debt is primarily long-term and fixed-rate. The Group’s strategic commitment to long-term, enterprise-wide sustainability is also present in its responsible and transparent management style, which promotes sustainable sources of financing.




The Group's capital structure policy ensures a financial structure that optimises the cost of capital through a sound financial position, which balances the generation of value for shareholders with competitive costs of financing. Capital is periodically monitored through the gearing ratio, which in 2019 stood at 62.5%, compared to 58.2% in 2018. This ratio is calculated as net financial debt divided by equity plus net financial debt.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to shareholders, reimburse capital or issue shares.

## 4. Risk management

The Group 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 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 arising from the activity carried out in the electricity and telecommunications sectors, 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.

## Information on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In relation to the risks and opportunities associated with climate change, in 2018 the Group began to work on implementing the recommendations of the TCFD.

Substantial progress was made on this work in 2019. Specifically, an in-depth review was performed of the management model for the risks and opportunities associated with climate change, and a new method for the prioritisation and economic quantification thereof was developed, which has been implemented on the basis of different scenarios.

### Governance

Significant risks relating to climate change have been included in the Corporate Risk Map, adopting the governance model described above. Moreover, the information on climate change risks and opportunities has been passed on to the Sustainability Committee for supervision, in collaboration with the Audit Committee, as part of its oversight role over the comprehensive risk control system. The Sustainability Committee also supervises the corporate responsibility and climate change policies in order to integrate the results of the climate change risks and opportunities analysis into the Group's decision-making.

The Company's strategic plans reflect the climate change strategy, considering the risks and opportunities identified, detailing the lines of action, setting out the objectives and defining high-level responsibilities.

Based on the strategic guidelines, the business areas will establish specific climate change initiatives within their operational plans with a view to keeping the exposure to these risks below acceptable levels. Such plans will include specific objectives and responsibilities.

### Identification and quantification of risks and opportunities

Climate change risks and opportunities comprise both physical risks and opportunities related to changes in climate variables (which could directly affect the facilities or impact the services rendered by the Group) and transition risks and opportunities (related to changes stemming from the fight against climate change: regulatory, technological, market and reputational).

The risks and opportunities have been identified and assessed considering different scenarios:

- For physical risks, AEMET's projections for the most important scenarios of the IPCC AR5 [1] (RCP 4.5 and RCP 8.5) have been considered.
- The regulatory and transition scenarios are based on the proposed National Integrated Energy and Climate Plan sent to the European Commission, having considered the trend scenario and the target scenario.

The transition risks and opportunities analysis focuses on the 2020-2030 horizon, while the physical risks and opportunities analysis focuses on a longer time frame (2030-2050-2070). The economic impact has been quantified for the 2020-2030 period in both cases.

The risks and opportunities identified are assessed considering variables such as exposure, sensitivity and capacity to adapt. They can thus be prioritised based on their importance.

Significant risks and opportunities are scrutinised in order to quantify the Group’s exposure based on economic variables and/or business indicators.

[1] IPCC Fifth Assessment Report (2014) drawn up by scientists from various countries. RCP 4.5 is a target scenario and RCP 8.5 is a trend scenario contemplating greater changes in climate parameters.

**Conclusions: Risks and opportunities**

High-priority risks are as follows:

Physical:

- Impact of extreme events (wind) on outdoor facilities (power lines).
- Fires beneath the lines and near substations.

The economic impact of physical risks is reduced considerably by insurance policies. The estimated annual impact is no more than 1% of the Group's profit.

Transition:

- Stricter legal requirements related to the use of fluorinated gases (SF6).
- Difficulties in monitoring and controlling a system with a greater penetration of renewable energy, whose production is highly volatile.
- Claims due to limitations on renewable energy production and incidents that may affect the security of supply in the Canary Islands.
- Difficulties in bringing into service the necessary infrastructure for the energy transition (this risk is identified and analysed specifically for international interconnections).

The latter has been identified as the most significant climate change transition risk for the Group. In order to meet the objectives of the energy transition, the transmission network must be developed, mainly in respect of the evacuation and integration of renewable power generation. However, due to social aversion to this type of infrastructure and the long waits to obtain the necessary authorisations for its development, there could be difficulties in bringing the required facilities into service. The annual impact estimated for this risk is less than 3% of the Group's profit, in the worst case scenario.

For the remaining transition risks the impact is less than 1% of the Group's profit.

Meanwhile, energy transition policies provide huge opportunities for the Group, connected to the development of infrastructure to make the transition possible: integration of new renewable energy capacity, interconnections, high-speed trains and support for an increased electrification of society. Investment opportunities have been identified in the transmission network (lines and substations), storage and other technical solutions to address the energy transition challenges (protection systems, FACTS equipment, and other control and monitoring equipment).

To a much lesser extent, the Group's improved performance in respect of mitigating and adapting to climate change could be a boon for its reputation, leading to better financing opportunities or higher stock prices.

## 5. 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 in the case of Spanish Group companies was 47.6 days at the 2019 year end.

The disclosures required by this resolution are contained in note 21 to the Group's annual accounts for 2019.

## 6. Significant events occurring after the reporting period

On 24 January the Company, through its subsidiary Red Eléctrica Financiaciones, S.A.U., issued bonds, guaranteed by Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U., amounting to Euros 700 million and with a maturity of 8.5 years. The bonds pay an annual coupon of 0.375% and their issue price is 98.963%, representing a return of 0.500%. The funds obtained with this bond will be used to finance and/or refinance Eligible Projects within Red Eléctrica de España, S.A.U.'s recently announced Green Financing Framework.

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

## 7. Outlook

As regards the management of the different businesses, the Group 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, the Group 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 both fibre optic and satellite telecommunications infrastructure; focus its attention on managing 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.

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

**Outlook for the management and operation of domestic electricity infrastructure**

Regulated activities, aimed at facilitating the energy transition in Spain, primarily observe the following lines of action:

- The integration of more renewable sources of energy generation in the electricity system, supporting the change to zero emission carriers and greater energy efficiency.
- Making the user the centre of the electricity system, providing new services for an increasingly active user.
- The creation of a genuine electricity system platform, providing more information to allow for the participation of all agents and the integration of all markets.

- Galvanisation of electric mobility, fostering the electrification of transport and the penetration of electric vehicles as an alternative mode of transport.
- Development of storage based on the management needs of the system in order to implement a more flexible electricity system.
- The digitalisation and roll-out of smart networks, committing to technology.
- A higher degree of interconnection, furthering integration with the European market and improving the functioning of non-mainland systems.

All of these challenges will continue to require a sustained and significant level of investment in the transmission network in the coming years, with a considerable technological component, which will be rolled out in a new, stricter regulatory and remuneration environment

The Group will apply a financial policy adapted to the new remuneration model for the transmission activity, ensuring that financial debt is diversified and its liquidity position can comfortably cover upcoming maturities, aiming for a robust financial structure that incorporates sustainability criteria.

**Outlook for the management and operation of international electricity infrastructure**

The Group will continue to focus its international business activity on strengthening its performance in countries where it has a presence, specifically Peru, Chile and Brazil.

Moreover, as a way of expanding the core business, efforts will centre on executing projects or acquisitions that meet a number of geographical, strategic and financial criteria, so as to consolidate international presence.

**Outlook for telecommunication activities**

With regard to the satellite telecommunications business, this activity is immersed in a phase of profound transformation, mainly characterised by stagnation of the traditional business, which is based on the long-term leasing of spatial capacity and is highly conditioned by demand for video services. Moreover, satellite operators are shifting the focus towards data services, which show better growth prospects.

In addition, the sector is in a period of technological disruption, with satellite manufacturers and operators pursuing a variety of technological solutions to obtain much higher volumes of spatial capacity at a significantly lower unit cost.

The strategy consists of protecting the current business whilst taking action to solidify the company's positioning in an increasingly complex competitive environment. The main strategic areas and actions proposed in the different lines of work can be summarised as follows:

- Rendering services with greater added value in certain vertical markets where the company holds a robust competitive position.
- Investing in new spatial systems in order to optimise the existing fleet and offer competitive satellite capacities in the vertical markets showing the best long-term outlook.
- Making strategic alliances with other players in the sector to strengthen Hispasat's position and enhance the roll-out of services in its fleet of satellites.

In addition, the telecommunications activities carried out by REINTEL, as a provider of telecommunications infrastructure, will focus on the backbone fibre network market, specifically the lease of dark fibre in the infrastructure associated with telecommunications sector players. To this end, the commercial plan will continue to be implemented and the investments requested by customers will continue to be made, in order to generate new revenues for the Group.

Furthermore, work will remain ongoing to make progress on interconnecting rail and electrical fibre networks with the aim of offering new solutions to customers, such as new redundant sources and access points, whilst continuing to uphold the high standard of service quality offered to its customers.

## 8. Innovation

The Group subsidiary Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (hereinafter RETIT) was incorporated in 2019. This new Group company will foster the energy transition and the transferability and accessibility of information, thus helping to address the current and future challenges faced in global management of strategic infrastructure.

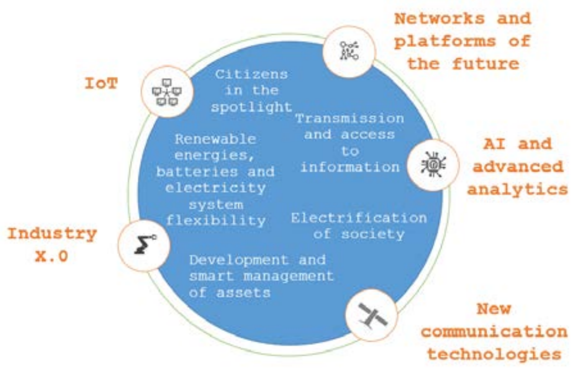
The creation of this new company leads the Group to focus its interest on the latest technological advances. These can positively affect the Group's current businesses and the potential development of new businesses. The development of new applications and technologies that could be of interest to third parties is an integral part of the Group's activity.

The aim is to adopt technologies that are useful for the Group and could potentially add value to its current or future businesses, whilst the company will also showcase, through their commercialisation, technologies developed by the Group, whether exclusively or via alliances with other partners.

This facilitates and strengthens the relationships between the Group and the entire ecosystem of innovation and entrepreneurship, in Spain and abroad, underscoring the Group's know-how and attracting ideas and external talent to create value. In the current climate of innovation and change, the acceleration programmes for start-ups and investment in venture capital are pivotal tools to strengthen presence and impact within the ecosystem.

Activity is strategically centred on impact areas and technology niches:

Impact areas and technology niches




The initiatives undertaken by the Group in 2019 across all of its capabilities are as follows:

- Start-ups accelerator: the first acceleration programme was launched at the end of December. More than 500 compelling start-ups were whittled down to four, which propose different tech-based solutions such as augmented reality, artificial vision, artificial intelligence, virtual reality, blockchain, etc. The aim is to explore collaboration structures with a business approach (collaboration, commercialisation, new providers, joint projects, new lines of business, etc.) and/or a possible investment, while providing support and assistance for growth, making the most of the Red Eléctrica Group's know-how and its assets. Four companies were selected.

- Corporate venture capital (CVC): in 2019 the Group signed an agreement to invest Euro 5 million in the venture capital fund ADARA VENTURES, as an open innovation tool, to be rolled out in 2020.
- Innovation hub: as part of the open innovation strategy, several agreements and collaborations were finalised in 2019 with a view to driving innovation through cooperation with key players in the ecosystem:

| | |
|---|---|
| **Barrabés: "Madrid in motion" mobility hub** | To participate as a supporting partner in the masterminding of an innovative mobility ecosystem centred in Madrid and with a global impact, contributing CECOVEL know-how and the ability to interact and participate in projects that are in line with the Group's strategic challenges. |
| **EDF. Innovation 2 Business (I2B): energy transition hub** | To be part of the innovation ecosystem that aims to convert the Iberian Peninsula into the European hub for energy transition, bringing together the key players in Spain and Portugal. |
| **Banco Sabadell: Bstartup** | To support young, innovative tech companies through access to funding. |
| **Asociación Española de Capital, Crecimiento e Inversión (ASCRI)** | To showcase and deepen RETIT's direct investment and venture capital structure, taking up a leading position among direct corporate investment players (corporate venture capital). |
| **SEPI – Desarrollo Empresarial (SEPIDES)** | To study the possibility of sharing investment opportunities in their initial phases, as well as potentially collaborating with other SEPI companies and institutions in the creation of a venture capital fund. |
| **EIT InnoEnergy** | To access an innovation ecosystem centred on sourcing technologies geared towards the energy transition. |

- Technology labs: collaborative agreements have been signed with Ericsson, MasMovil and Cellnex, and the scope, planning and budget have been established for development of the initial minimum viable product (MVP), which will enable exploration of the electricity transmission network infrastructure's potential to integrate 5G technology.
- A proposal was submitted in the second round of "Plan Nacional 5G" (Red.es), which will develop pilot tests applying 5G technology to various use cases in line and substation construction and maintenance processes. The proposal was presented by a consortium led by Orange and with the involvement of the Red Eléctrica Group, Arbórea, Vysion, Robotnik, CFZ Cobots, Idrica and Etra.
- Project management office: in 2019 the foundations were laid to achieve more efficient management of innovation projects and programmes. A total of 88 internal innovation projects were managed, broken down by impact areas and technology niches in which the Group concentrates its activity. The most significant projects by impact area are as follows:
    - Citizens in the spotlight: 10 projects were undertaken, most notably the DATAHUB project (development of a data hub system that incorporates hourly measurements from the smart metres of type 5 consumers, those with a contracted capacity of 15 kW or less, which are used by some 28 million small consumers in the Spanish electricity system; new services could be provided on the basis of the information gathered and processed).

- Development and smart management of assets and processes: 48 projects were executed, notably including the Grid2030 programme, a multi-year collaborative innovation scheme that is groundbreaking in Spain, and through which Red Eléctrica and Innoenergy explore radical innovations of a technical or socio-economic nature relating to the operation of the electricity system and its transmission network. The projects underway are: i) FST (Flexible Smart Transformer) run by CIRCE technology centre / EFACEC High Voltage (Spain / Portugal). FST consists of the design, development and testing of a new power electronics device based on silicon carbide semiconductors, with multiple potential applications as a transformer to convert AC to DC and vice versa, with active control and new functionalities; ii) RITSE (Reduced Inertia Transient Stability Enhancement) run by IMDEA Institute / SUPERGRID (Spain / France). RITSE consists of two complementary and coordinated control systems to improve transient stability in electricity systems: DVAC (Dynamic Virtual Admittance Control), with HVDC links; and BATTERTIA (Battery Grid Interface for Improved Transient Stability), with batteries; iii) ENIGMA (Electrlc Grid Ai), the main purpose of which is to study frequency stability in an electrical subsystem via simulation and application of neural networks and deep reinforcement learning methodologies when analysing the results obtained. ENIGMA centres on optimising the principles of functionality and parameterisation of the control functions implemented in the new electronic devices connected to the electricity network.
- Electrification of society: 2 projects have been undertaken: ALMACENA (field installation of a storage system and analysis of the contribution made by this type of system to services that are ancillary to transmission network operation); and BATERIA VERDE (reducing the cost of electricity supply for Red Eléctrica ancillary services).
- Renewable energies and electricity system flexibility: 27 projects have been carried out. These notably include SIFOV (the design of a system to identify transmission line faults using travelling wave technology) and DLR (development of the method and tools to determine the transmission capacity of overhead cables in real time, upgrading current capacity predictions to 36 hours).
- Transmission and access to information: 1 project has been undertaken, namely PRODINT (evaluation and analysis of the applicability to REE of the SIGFOX wireless telecommunications network, specifically designed to connect "Internet of Things" (IoT) sensors, as well as development and deployment of a prototype system for detecting forest fires in the vicinity of power cables, and support for REE based on this new technology).

- Commercialisation: in 2019 the Group embarked upon the commercialisation strategy to showcase among third parties the products and services arising from the innovation process, and to roll out the necessary marketing, pre-sales, sales and customer service initiatives. The roll-out of a commercialisation plan for the Advanced Asset Management Solution ("SAGA" per the Spanish acronym) software developed by the Red Eléctrica Group, which has attracted interest from various Spanish and foreign companies, has got underway. SAGA was built drawing on the findings of the MANINT project and it incorporates the VEGETA algorithm, which predicts vegetation growth and optimises felling and pruning plans.

Throughout 2019 work remained ongoing for proprietary R&D&i projects relating to the management and operation of electricity infrastructure nationwide. These projects notably include CECOVEL and ALMACENA.

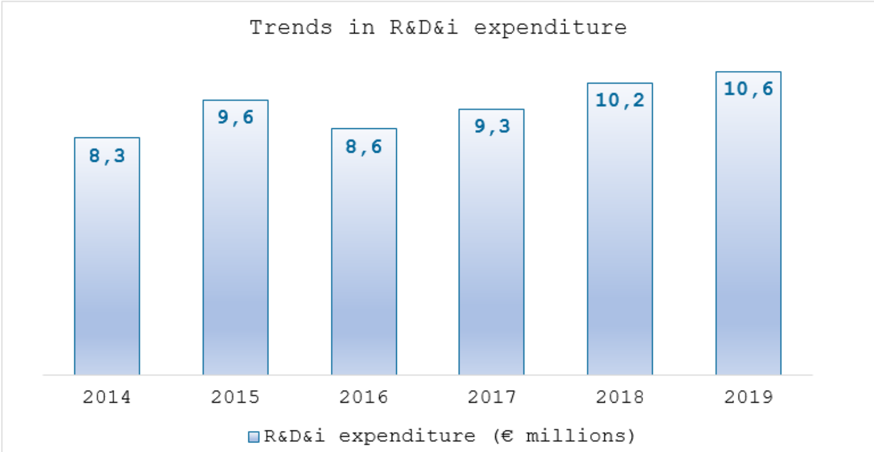
The CECOVEL (Electric Vehicle Control Centre) project is an REE initiative to support electric mobility in the present energy transition scenario. Since January 2017 the CECOVEL project has made it possible to monitor demand for electricity to charge electric vehicles, pre-empting the mass introduction of electric vehicles to ensure they can be integrated safely and effectively. CECOVEL is a collaborative project involving four mobility operators in Spain: IBIL-REPSOL, GIC, FENIE and MELIB. 2019 ended with 1,865 charging stations integrated, both public and private, with capacities from 2.3 kW to 350 kW and real-time connections to the mobility operators collaborating on the project, which can perform remote smart management.

The ALMACENA project has enabled future applications of new storage technologies to be studied in more detail, as regards the integration of renewable energies and improvements to system operation services, through electrochemical energy storage equipment set up in Carmona (Seville). The scheduled operation and maintenance of the equipment continued in 2019 and is expected to remain ongoing in 2020.

The main activities being carried out in relation to the satellite business are:

- Video business: new advanced video platform incorporating Push-VoD services with the platform Quadrille.
- Security and emergencies: incorporation into the portfolio of products and services for solutions tailored to security and emergency environments. Hispasat has also participated and continues to participate in the Horizon 2020 UNICRINF project, which employs Hispasat telecommunications infrastructure in catastrophe scenarios.
- Mobility: this is considered one of Hispasat's growth areas, and from an innovation perspective work is ongoing to develop access solutions for professional business under the agreement with Phasor for development of an antenna optimised for professional vehicles. Work is also underway to devise and implement railway connectivity solutions and maritime mobility solutions with content distribution via the Push-VoD platform.
- 5G: satellites are expected to play an important role in the development of new 5G infrastructure, supporting terrestrial networks. In this respect, Hispasat has participated in the European NRG-5 project, inter alia, the aims of which include predictive maintenance of power lines and gas plants using drones.
- IoT (Internet of Things): various pilot tests for IoT applications in the agri-food sector have been carried out and an agreement has been reached with one of the main agri-food ERP providers.
- WiFi solutions: development and roll-out of WiFi internet access solutions tailored to rural areas. Efforts are also being made to find low-cost integrated backhaul solutions for Hispasat’s portfolio.
- New infrastructures are being pursued to provide a competitive advantage vis-à-vis costs and performance for Hispasat. In this regard, the company is involved in various working groups with HAPS (High Altitude Platforms) solution manufacturers and providers, analysing the viability and possibility of providing hybrid HAPS – Satellite services.

The Group's efforts towards innovation in 2019 amounted to Euros 10.6 million, including the commitment to invest Euros 5 million in the venture capital fund. The following graph depicts expenditure trends in recent years.




## 9. 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 12 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.

## 10. Other relevant information

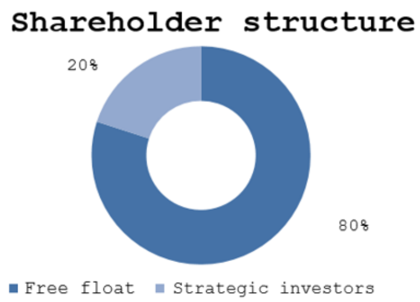
### 10.1. Stock market performance and shareholder returns

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.

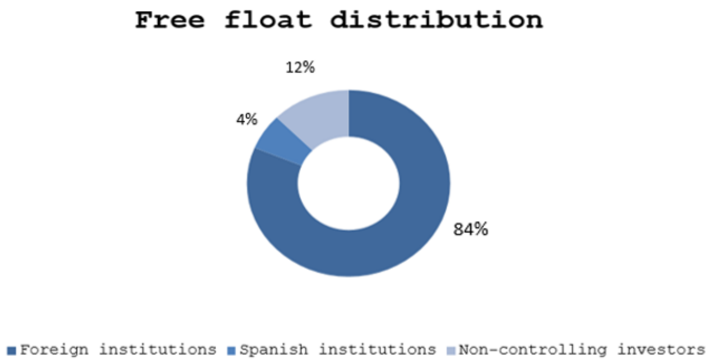
REC also forms part of the IBEX 35 index, of which it represented 1.96% at the end of 2019.

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 REC'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.

## 10.2. 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.

## 10.3. Credit rating

On 21 May 2019 the credit rating agency Standard & Poor's issued a new report maintaining the same rating and outlook. Following this announcement, REC and its subsidiary REE maintain long-term ratings of A- and short-term ratings of A-2, with a stable outlook.

On 8 April and 6 June 2019 the credit rating agency Fitch Ratings gave the Company a long-term rating of A- with a stable outlook. Following this announcement, REC and REE maintain long-term ratings of A- and short-term ratings of F1, with a stable outlook.

## 10.4. Excellence

Since 1999 the Group 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 the Company 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 Group has ISO 9001-certified quality management systems in its main subsidiaries (REE, REA, Hispasat) and the standard has been implemented and certified in the subsidiary REINCAN 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.

# 11. Non-financial Information Statement in compliance with Law 11/2018 of 28 December 2018

## 11.1. Description of the Group's business model

The Group has consolidated itself as a global operator of essential infrastructure, managing electricity transmission networks in Spain and South America, and telecommunications networks (fibre optics and satellites).

**Management and operation of domestic electricity infrastructure**

Construction and maintenance of power lines and electricity substations forming part of the transmission network (including international and inter-island interconnections) that match generation with consumption and operation in real-time in the Spanish electricity system, guaranteeing continuity of supply and the safe integration of renewable energy.

It also includes the design and construction of storage infrastructure in the Canary Islands, which serves as a tool for the operation of the electricity system to improve the integration of renewable energy and the safety of supply on the islands.

**Management and operation of international electricity infrastructure**

Construction and operation of energy transmission infrastructure in Peru, Chile and foreseeably in Brazil, and provision of electricity infrastructure maintenance services in Peru.

**Telecommunications (fibre optics and satellites)**

Satellite communications services for video, data transmission and mobility services through 7 satellites in operation. Hispasat has a presence in 5 countries: Spain, Brazil, Mexico, Argentina and Colombia, and serves customers in more than 26 countries.

Commercial operation of the excess fibre optic network capacity associated with both the electricity transmission network and the rail network, as well as technical spaces for storing telecommunications equipment in Spain.

The Group is committed to innovation and technology, based on the acceleration of **technological innovation**, the generation of competitive advantages and business opportunities to turn the Group into a technological benchmark in the energy transition, the traceability and accessibility of information, as well as the provision of innovation and technological development services to third parties.

The Group's business model creates value for all its stakeholders and for society as a whole.

**Commitment to sustainability 2030**

The Group has made a strategic commitment to long-term, enterprise-wide sustainability. In 2017, the board of directors approved the Group's 2030 Sustainability Commitment. Through this commitment, the Group aims to achieve long-term continuity through a business model that is capable of responding to the challenges of the future and putting the principles set out in the Corporate Responsibility Policy into practice.

The 2030 Sustainability Commitment is backed by the board of directors and the Group's management team, whose message is transmitted to the entire organisation with a view to encouraging a proactive attitude that incorporates sustainability into day-to-day decision making. It is worth noting the creation of the

Sustainability Committee within the board of directors in 2018 as a result of the strategic importance of sustainability for the Group; the key role of the Sustainability Steering Committee and the Corporate Division for Sustainability and External Relations, which reinforce the involvement of the highest decision-making levels and the involvement of all areas of the organisation in the implementation, supervision and monitoring of the 2030 Sustainability Commitment.

In May 2019, the board of directors approved the Group's 2030 sustainability objectives, which lay out eleven proposals to measure compliance with the commitments established in the four sustainability priorities, focusing on those aspects that provide answers to the great global challenges on the horizon for 2030. The objectives, which are defined by the Sustainability Steering Committee and validated by the Sustainability Committee of the board of directors, are aligned with the priorities of the 2030 Sustainability Commitment and the Group's 2018-2022 Strategic Plan and the United Nations Sustainable Development Goals (SDGs).

**Sustainability priorities and objectives for 2030 of the Red Eléctrica Group**

| | |
|---|---|
| **DECARBONISATION OF THE ECONOMY** | |
| Act as a proactive agent in the energy transition towards an emissions-free model, based on the electrification of the economy and the efficient integration of renewable energy through a robust and better-connected network and the development and operation of energy storage systems. | |
| **Objectives for 2030** | **1.** Reduce our GHG emissions by over 40%. |
| | **2.** Empower 100% of society to be actively involved in the energy transition process. |
| | **3.** Safely integrate 100% of the renewable energy available in the electricity system, minimising waste and accelerating progress towards meeting the energy transition objectives. |
| **RESPONSIBLE VALUE CHAIN** | |
| Extend our responsibility commitment to all the links in the value chain, from our employees to our suppliers and customers, by forging alliances, all underpinned by our model of good governance and integrity. | |
| **Objectives for 2030** | **4.** Drive change in our suppliers. |
| | **5.** Receive ESG financing in 2030. |
| **CONTRIBUTION TO THE DEVELOPMENT OF THE ENVIRONMENT** | |
| Contribute to economic, environmental and social progress in the environment, by providing an essential service in a secure and efficient way, fostering environmental conservation, enhancing people's quality of life and social welfare and involving communities in the development of our activities so as to generate mutual rewards that are tangible to that community. | |
| **Objectives for 2030** | **6.** Benchmark in gender equality: parity in the management team by 2030. |
| | **7.** Benchmark in diversity: inclusion of collectives at risk of social and workplace exclusion. |
| | **8.** Have a net positive impact on the natural capital of the area surrounding our facilities. |

**9.** Fully eradicate the digital divide: 100% connection rate for people in the areas surrounding our facilities.

| ANTICIPATION AND ACTION FOR CHANGE | |
|---|---|
| Foster a corporate culture of innovation and flexibility that enables us to identify growth opportunities and tackle future challenges by staying ahead of and adapting to global trends and to the regulatory environment emerging from the new energy model. | |
| **Objectives for 2030** | **10.** Become a benchmark technological player, pushing at least 120 technological innovation initiatives that contribute to the energy transition and telecommunications, making the world a more connected, intelligent and sustainable place. |
| | **11.** Become a leading company in circular economy. |

The Group's main objective is to achieve a lasting and trusting relationship with its stakeholders.

The Group's stakeholder management model incorporates the requirements of regulations and benchmark standards in the field, such as AA1000, IQNet SR10, ISO26000 or Global Reporting Initiative. This model ensures adequate management of the significant impact of the Group's activities and services on its stakeholders, avoiding the risk of not rapidly identifying any problem that may affect the relationship with them.

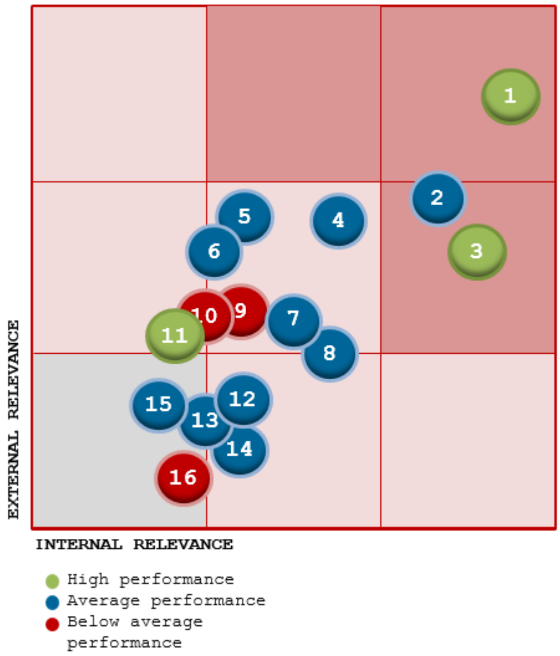
The Group classifies its stakeholders into the following categories: investors, shareholders and business partners, regulatory bodies and the administration, customers, people, suppliers, surrounding environment, opinion makers, business sector and professional associations and innovation agents.

## MATERIALITY ANALYSIS

In 2019, with a view to advancing the 2030 Sustainability Commitment, the Group updated its Materiality Study in accordance with the Global Reporting Initiative (GRI) standards for the purpose of identifying relevant issues. This was achieved in stages, as follows:

1. Issue identification. A total of 16 relevant issues were identified in the analysis of the sustainability context. They include: trend analysis, industry benchmarking, strategic interviews with the senior management team and external stakeholders, key technical personnel at the company and an analysis of internal information.
2. Issue prioritisation. Internal and external assessment of the criticality of the identified issues for the achievement of long-term objectives and thus for long-term continuity. The prioritisation matrix provides a dual analysis of the issues, revealing both their internal importance, assigned by the top-level managers and key technical personnel who took part in the analysis of the sustainability context, and their external importance, based on the value assigned by the external stakeholders who were consulted.
3. Issue evaluation and validation. Cross-organisational analysis of the results of the issue identification and issue prioritisation phases. This stage consisted of an evaluation of the results of the previous stages and identified the opportunities associated with each relevant issue, as well as its impact on the 2018-2022 Strategic Plan and any connection with the Sustainable Development Goals.

**Relevant issue prioritisation matrix**




| Issue prioritisation | | |
|---|---|---|
| Critical | 1 | Energy transition |
| | 2 | Climate emergency |
| | 3 | Innovation and technology |
| High | 4 | Digital transformation |
| | 5 | Biodiversity and natural capital |
| | 6 | Corporate governance and ethics |
| | 7 | Diversity |
| | 8 | Financial strength |
| | 9 | Contribution to society |
| | 10 | Circular economy |
| | 11 | Safety, health and wellbeing |
| | 12 | Relationship with communities |
| | 13 | Supply chain |
| | 14 | Customer focus |
| Medium | 15 | Talent |
| | 16 | Digital divide |

## 11.2. Information regarding environmental issues

The Group's commitment to the environment comes from management and is based on environmental policy, which includes explicit commitment to the prevention of pollution and precautionary principles. To bring about the continuous improvement of environmental performance, Red Eléctrica has implemented an Environmental Management System, certified according to ISO 14001 and EMAS standards. The involvement of all organisational units and the commitment of all the people who work in the Group are critical for the development of this system.

It should be noted that the Group's ordinary expenses for the protection and improvement of the environment came to Euros 26.1 million.

Specifically, in the case of the domestic management and operation of electricity infrastructure business, ordinary expenses for the protection and improvement of the environment exceeded Euros 25 million due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution. The amount allocated to environmental issues associated with investment projects was Euros 1.7 million.

In the aforementioned domestic electricity infrastructure operation and management business, the environmental commitment has three primary vectors: Environmental management and integration of the electricity facilities into the environment, combating climate change and biodiversity protection.

### a) Environmental management and integration of electricity facilities into the environment.

The main route to make facilities compatible with the environment is the selection of routes and sites so that the environmental impact is as low as possible. Additionally, the application of preventive and corrective measures and the monitoring of strict environmental criteria, make it possible for potential effects on the environment to be reduced significantly. The best tool to guarantee this process is an Environmental Impact Assessment. By law, most of Red Eléctrica's projects are subject to this procedure.

The measures applied notably include those related to pollution prevention. In this respect, the main initiatives undertaken are those aimed at minimising the risk of land or groundwater being polluted by hydrocarbon leaks or spillages. Actions aimed at mitigating the noise generated by certain electrical substations and reducing light pollution are also noteworthy. To address the latter issue, over the last three years the Company has worked on implementing the necessary measures to enable facilities to be shut down at night, thereby limiting light pollution as much as possible while also achieving significant energy savings.

Activities and projects designed to integrate the facilities into the surrounding environment are also particularly relevant, as are those aimed at protecting the socio-economic environment, primarily those related to the conservation of archaeological heritage.

Lastly, we should highlight the importance for Red Eléctrica of the work and significant progress in the sustainable use of resources. In 2019, the Company announced its sustainability goals for 2030, which include the aspiration to be a leading company in the field of circular economy. This year, a circular economy roadmap has been designed, which contains the goals to be achieved and the main actions to be carried out to achieve them. These actions fall within four strategic lines: process optimisation (which includes, inter alia, measures aimed at minimising water consumption), zero waste (the main objective of which is for none of the Group's waste to end up in a landfill); alliances for supplies (which includes actions related to the eco-design of equipment and facilities) and work with other agents (focused on collaboration with key players in the search for solutions related to innovation and promotion of the circular economy).

### b) Climate change

The Group, through its activities in the electricity sector, is a key and proactive agent in the energy transition towards a zero emissions model, the main elements of which should be: the electrification of the economy, the full integration of renewable energy into the energy mix and efficiency, while always ensuring the safety of the supply. Taking on this role, in 2011 the Group decided to formalise a voluntary commitment in the fight against climate change, which materialised into a Climate Change Action Plan, the latest version of which was approved in 2015.

This plan includes the main objectives for the 2020 and 2030 time horizons, as well as the main actions needed to achieve them.

As a general objective, the Group is committed to reducing Scope 1 and 2 emissions per MWh transported by 40% in 2030 with respect to 2015. This objective was approved in 2018 by the Science Based Targets (SBTi) initiative and is equivalent to a net reduction of Scope 1 and 2 emissions of 30% by 2030.

The plan covers the following lines of action:

- Contribution to a low-emissions energy model, taking the necessary actions to achieve European objectives for 2020 and 2030:
    - o Ongoing investor involvement to develop a robust, intelligent and inter-connected transmission network that enables the electrification and connection of new renewable energy.
    - o Maximum integration of renewable energy through optimisation of the operation of the electricity system and the fostering of storage systems.
    - o Progress in the efficient management of the network by applying new demand management measures, incorporating new elements such as electric vehicles and the driving of technological innovation.
- Reduction in greenhouse gas emissions resulting from the Company's activities. The main measures implemented apply to the following areas of action:
    - o Reduction in SF6 emissions.

- o Reduction in electricity consumption (efficiency measures) and the associated emissions (acquisition of 100% renewable energy).
- o Sustainable mobility: reduction in emissions associated with the Group's vehicles, business trips and employee travel.
- o Involvement of the supply chain in the Group's commitments.
- o Progress in the incorporation of the criteria of efficiency and saving of materials in the design of facilities.
- o Emissions offsetting, mainly through the Red Eléctrica Forest Project.

- Positioning and disclosure: dissemination of knowledge of the electricity system and demand management measures as well as the promotion of other energy efficiency measures.
- Adaptation: the Group regularly identifies and evaluates the risks and opportunities arising from climate change and applies various measures defined within the framework of this analysis. In 2018, and particularly in 2019, work began on the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which gave rise to a thorough review of the assessment, considering different scenarios and intensifying the economic quantification of risks and opportunities identified. Details of the TCFD recommendations are provided in note 4 on risk management in the consolidated directors' report.

### c) Protecting biodiversity

The protection and conservation of biodiversity has always been the Group's priority in environmental management. The Group has a specific commitment for the management of biodiversity (revised in 2017) and a multi-year Action Plan (2017-2021), which lists the main actions to be carried out in this period.

The main effects on biodiversity are associated with the presence of the facilities in the area and the work carried out to build them. Most notable is the risk of birds colliding with earth wires in power lines and the effect of firebreaks on vegetation.

Biodiversity management is carried out taking into account the impact mitigation hierarchy. Avoiding areas that are protected or highly biodiverse is a fundamental criterion when deciding on the location of facilities (in energy transmission infrastructure, only 15.6% of lines and 5.7% of substations are located in protected areas). The second step is to minimise possible affects and is achieved through the application of the corresponding preventive and corrective measures, including the restoration of habitats wherever possible. Lastly, different environmental improvement actions and conservation projects are carried out to offset any impacts.

Notable actions related to the following areas:

- Protection of birdlife, the primary objective being to minimise the risk of birds colliding with ground wires, as mentioned above. A plan to use bird-saving devices in sections with the greatest potential impact for birds (more than 750 km of lines) has been devised and is due to be completed in 2023. In 2019, the proportion of critical priority areas with signalling was 60.7%.
- Prevention of forest fires, through appropriate design and maintenance of safety corridors and the joint efforts of the pertinent authorities in this field. There are currently 10 fire prevention agreements in place and three are being renewed. These agreements have an overall associated budget of more than Euros 1 million for 4 years, which is allocated to cleaning up mountains, acquiring fire extinguishers and fire-fighting equipment, training and raising awareness.
- Implementation of conservation projects in cooperation with the government, NGOs and other bodies, notably including projects relating to birdlife conservation or those devised for the

restoration of degraded areas. The latter include the "REE Marine Forest" project to restore posidonia oceanica seagrass, and the "Red Eléctrica Forest", with an investment of Euros 2.1 million, through which more than 842 hectares have been restored since 2009.

In 2019, as part of its commitment to sustainability, the Group announced its goal of achieving a net positive impact on the natural capital of the area surrounding its facilities by 2030.

To this end, the Group has defined an initial methodology to study and assess ecosystem services, enabling it to further the incorporation of natural capital as a concept within management and thus make progress in the pursuit of this goal. Furthermore, it participates actively in a sector work group that is designing guidelines to facilitate the calculation and comparability of the results achieved across the different initiatives and projects of this sort within the energy sector.

**Environmental indicators of a non-financial nature pertaining to the management and operation of domestic electricity infrastructure**

| Non-financial indicators | 2018 | 2019 | Δ% |
|---|---|---|---|
| Direct greenhouse gas emissions (scope 1) ($tCO_2$ eq.) | 39,272 | 23,614 | -39.9 |
| Indirect greenhouse gas emissions (scope 2) (tCO2 eq.)[(1)] | 1,010,754 | 781,452 | -22.7 |
| Power consumption (MWh)[(2)] | 14,584 | 14,051 | -3.6 |
| Fuel consumption (MWh)[(3)] | 6,600,714 | 6,853,984 | 3.8 |
| Water consumption ($m^3$)[(4)] | 22,566 | 20,347 | -9.8 |
| Hazardous waste (kg)[(5)] | 3,036,874 | 547,100 | -82.0 |
| Non-hazardous waste (kg)[(5)] | 1,521,150 | 718,987 | -52.7 |
| Number of environmental accidents[(6)] | 5 | 5 | 0 |
| Lines marked with bird-saving devices in critical priority areas (accumulated kilometres at the end of each year). | 375.7 (51.2% of the total to mark) | 459.7 (60.72% of the total to mark) | 22.3 |

(1) Scope 2 emissions in 2018 have been updated with respect to those published in the 2018 report as in November 2019 there was a significant update in the information on losses in the transmission network. This information is obtained from the Electricity Meter Communication System (SIMEL), which receives the information recorded by all meters in Spain. For various reasons, this information is adjusted and updated throughout the year. Regulations establish a deadline of 11 months to finalise the definitive information

(2) All of the energy supply contracts managed by the company are for green energy or offer guarantees of the renewable origin of the energy, which represents 87% of the electricity consumed in 2019 (the remaining consumption corresponds to workplaces that are leased or that do not have electrical hook-ups and therefore receive their supply from the transmission network).

(3) Fuel consumption of fleet vehicles and electrical generators.

(4) The data has a coverage of 82% in terms of personnel, including collaborators. The water consumed comes from the municipal supply network (79.5%), wells (17.65%), cistern (2.9%). In some centres there are reservoirs for accumulation of rainwater for sanitary use, fire prevention and irrigation. The reservoirs do not have mechanisms to record the stored water so it is not possible to calculate the percentage usage of rainwater.

(5) 68% of all the waste generated (hazardous and non-hazardous) has been recycled (this generic category includes reuse, recycling, composting, anaerobic digestion and regeneration).

(6) Significant accidents are considered to be those categorised as significant, severe or major in the internal classification (level 3 accidents and above on a scale of 1 to 5). Does not include collisions. The 2018 information has been corrected with respect to that published in the previous report, as it now includes an accident that occurred subsequent to the publication of the annual reports.

## 11.3. Information on social and employee-related issues

### Human team

During 2019, in relation to the management and operation of electricity infrastructure and telecommunications (fibre optics) businesses, work continued on the objectives set out in the Human Resources Master Plan linked to the Strategic Plan. The Impúlsate project, which was launched in 2018 and is due to finish in 2020, rolled out the majority of its functionality in 2019, boosting the transformation of the people management function in order to add value to the Group as a strategic lever for change and to help achieve its objectives.

Various key actions were implemented in 2019, such as the change of organisational model, the roll out of the challenge-focused management model and the definition of a new technological organisation (RETIT) and the actions required to manage the cultural changes and digital transformation.

A key project to transform the Group's way of working is the Imagina project, which continues to progress in 2019 through its various projects: the renovation of spaces, the implementation of a digital mailroom, the extension of the external flexibility pilot (distance working and the digital training of our employees through new platforms), among others.

In this context, in keeping with its strategic objectives, the Group has encouraged the adaptation of its human capital to orient its companies towards greater efficiency and digitisation.

### a) Employment

At the end of 2019, the Group's workforce consisted of 2,056 professionals. Its commitment to stable employment is reflected in the high levels of permanent employment contracts (nearly 100%), prioritising employability and functional mobility as levers for growth and professional development.

Structure of the workforce by country where the Group is present

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Spain | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 34 | 13 | 0 | 47 | 45 | 139 |
| Technicians | 38 | 244 | 55 | 56 | 847 | 395 | 1,635 |
| Administrative personnel | 0 | 43 | 60 | 0 | 6 | 24 | 133 |
| **Total** | **38** | **321** | **128** | **56** | **900** | **464** | **1,907** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Peru | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 4 | 1 | 5 |
| Technicians | 1 | 12 | 1 | 3 | 47 | 5 | 69 |
| Administrative personnel | 0 | 3 | 1 | 0 | 0 | 0 | 4 |
| **Total** | **1** | **15** | **2** | **3** | **51** | **6** | **78** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Chile | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 3 | 0 | 3 |
| Technicians | 0 | 2 | 0 | 2 | 7 | 1 | 12 |
| Administrative personnel | 0 | 2 | 0 | 0 | 0 | 0 | 2 |
| **Total** | **0** | **4** | **0** | **2** | **10** | **1** | **17** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Luxembourg | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Administrative personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **1** | **0** | **0** | **0** | **1** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Argentina | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 0 | 1 | 0 | 0 | 1 | 0 | 2 |
| Administrative personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **1** | **0** | **0** | **1** | **0** | **2** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Brazil | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| Technicians | 13 | 5 | 1 | 6 | 14 | 8 | 47 |
| Administrative personnel | 0 | 1 | 1 | 0 | 0 | 0 | 2 |
| **Total** | **13** | **6** | **2** | **6** | **15** | **8** | **50** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Colombia | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| Administrative personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **0** | **0** | **1** | **0** | **1** |

The information for 2018 is as follows:

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Spain | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 24 | 12 | 0 | 36 | 53 | 125 |
| Technicians | 20 | 213 | 57 | 35 | 755 | 398 | 1,478 |
| Administrative personnel | 0 | 26 | 63 | 0 | 2 | 27 | 118 |
| **Total** | **20** | **263** | **132** | **35** | **793** | **478** | **1,721** |

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Peru | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 3 | 0 | 3 |
| Technicians | 1 | 8 | 1 | 9 | 40 | 4 | 63 |
| Administrative personnel | 0 | 3 | 1 | 0 | 0 | 0 | 4 |
| **Total** | **1** | **11** | **2** | **9** | **43** | **4** | **70** |

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Chile | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 1 | 0 | 0 | 0 | 5 | 0 | 6 |
| Administrative personnel | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| **Total** | **1** | **1** | **0** | **0** | **5** | **0** | **7** |

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Luxembourg | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Administrative personnel | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **1** | **0** | **0** | **0** | **0** | **1** |

Following is a total for 2018 and 2019 of the information on the Group's workforce by age, gender and professional category:

| By age | 2018 | 2019 |
|---|---|---|
| Under 30 | 66 | 119 |
| 30 to 50 | 1,117 | 1,325 |
| Over 50 | 616 | 612 |
| **Total** | **1,799** | **2,056** |

| By gender | 2018 | 2019 |
|---|---|---|
| Female | 432 | 532 |
| Male | 1,367 | 1,524 |
| **Total** | **1,799** | **2,056** |

| By professional category | 2018 | 2019 |
|---|---|---|
| Management team | 128 | 148 |
| Technicians | 1,548 | 1,767 |
| Administrative personnel | 123 | 141 |
| **Total** | **1,799** | **2,056** |

## Workforce by contract type

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Total contracts Permanent | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 34 | 13 | 0 | 55 | 46 | 148 |
| Technicians | 33 | 259 | 58 | 46 | 900 | 407 | 1,703 |
| Administrative personnel | 0 | 46 | 62 | 0 | 6 | 24 | 138 |
| **TOTAL** | **33** | **339** | **133** | **46** | **961** | **477** | **1,989** |

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Total temporary contracts | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 19 | 5 | 0 | 21 | 17 | 2 | 64 |
| Administrative personnel | 0 | 3 | 0 | 0 | 0 | 0 | 3 |
| **TOTAL** | **19** | **8** | **0** | **21** | **17** | **2** | **67** |

The information for 2018 is as follows:

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Total contracts Permanent | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 24 | 12 | 0 | 39 | 53 | 128 |
| Technicians | 15 | 221 | 58 | 37 | 794 | 401 | 1,526 |
| Administrative personnel | 0 | 28 | 64 | 0 | 2 | 27 | 121 |
| **Total** | **15** | **273** | **134** | **37** | **835** | **481** | **1,775** |

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| **Total temporary contracts** | **Under 30** | **30 to 50** | **Over 50** | **Under 30** | **30 to 50** | **Over 50** | |
| Management team | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians | 7 | 1 | 0 | 7 | 6 | 1 | 22 |
| Administrative personnel | 0 | 2 | 0 | 0 | 0 | 0 | 2 |
| **Total** | **7** | **3** | **0** | **7** | **6** | **1** | **24** |

The averages by type of contract in 2019 are as follows:

**Average total by type of contract**

| | |
|---|---|
| Total permanent contracts | 1,790 |
| Total temporary contracts | 67 |
| **Total** | **1,857** |

Following are details by age, gender and professional category:

| | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| **Average permanent contracts** | **Under 30** | **30 to 50** | **Over 50** | **Under 30** | **30 to 50** | **Over 50** | |
| Management team | 0.0 | 28.6 | 11.0 | 0.0 | 49.8 | 49.8 | 139.2 |
| Technicians | 28.6 | 222.4 | 49.7 | 40.9 | 814.3 | 375.4 | 1,531.4 |
| Administrative personnel | 0.0 | 39.6 | 53.1 | 0.0 | 5.3 | 21.3 | 119.4 |
| **TOTAL** | **28.6** | **290.7** | **113.7** | **40.9** | **869.5** | **446.6** | **1,790.0** |

| | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| **Average temporary contracts** | **Under 30** | **30 to 50** | **Over 50** | **Under 30** | **30 to 50** | **Over 50** | |
| Management team | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Technicians | 17.7 | 4.2 | 0.0 | 23.0 | 17.8 | 1.8 | 64.5 |
| Administrative personnel | 0.0 | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 2.5 |
| **TOTAL** | **17.7** | **6.7** | **0.0** | **23.0** | **17.8** | **1.8** | **67.0** |

In 2019, the Group's workforce does not include any part-time personnel.

### Details of dismissals for the year

| 2019 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Dismissals (1) | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 1 | 1 | 2 |
| Technicians | 0 | 0 | 0 | 0 | 2 | 1 | 3 |
| Administrative personnel | 0 | 1 | 1 | 0 | 0 | 0 | 2 |
| **Total** | **0** | **1** | **1** | **0** | **3** | **2** | **7** |

(1) Information pertaining to Group employees

Information on dismissals for 2018:

| 2018 | Female | | | Male | | | Total |
|---|---|---|---|---|---|---|---|
| Dismissals (1) | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | |
| Management team | 0 | 0 | 0 | 0 | 0 | 2 | 2 |
| Technicians | 0 | 1 | 0 | 0 | 4 | 1 | 6 |
| Administrative personnel | 0 | 0 | 2 | 0 | 0 | 0 | 2 |
| **Total** | **0** | **1** | **2** | **0** | **4** | **3** | **10** |

(1) Information pertaining to Group employees

### Remuneration in the Red Eléctrica Group

The Group is working to consolidate a remuneration model across every company in the Group, which reflects the following common principles:

- Internal fairness and external competitiveness.
- Consistency with the organisational and development model.
- Opportunity for salary progression.
- Differentiating recognition of superior performance.
- Salary equality between men and women.

Details of average remuneration of the workforce for 2019 (in Euros):

| Average total salary for 2019 | Female | | | Male | | | Average total for women | Average total for men | Average total |
|---|---|---|---|---|---|---|---|---|---|
| | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | | | |
| Management team | 0 | 124,330 | 167,973 | 0 | 133,285 | 166,863 | **137,330** | **150,604** | **146,211** |
| Technicians | 29,847 | 54,443 | 63,943 | 32,072 | 52,442 | 65,582 | **52,649** | **55,604** | **54,980** |
| Administrative personnel | 0 | 36,930 | 43,639 | 0 | 36,306 | 44,131 | **40,919** | **42,364** | **41,234** |
| **Total** | **29,847** | **58,882** | **64,780** | **32,072** | **56,171** | **74,531** | **57,692** | **61,267** | **60,342** |

Following is the information for 2018:

| Average total salary for 2018 | Female | | | Male | | | Average total for women | Average total for men | Average total |
|---|---|---|---|---|---|---|---|---|---|
| Red Eléctrica Group in Spain (1) | Under 30 | 30 to 50 | Over 50 | Under 30 | 30 to 50 | Over 50 | | | |
| Management team | 0 | 117,648 | 157,195 | 0 | 124,630 | 154,929 | **129,732** | **141,695** | **138,193** |
| Technicians | 39,182 | 54,964 | 62,225 | 40,704 | 51,303 | 64,360 | **55,316** | **55,183** | **55,209** |
| Administrative personnel | 0 | 37,055 | 42,984 | 0 | 35,314 | 43,198 | **40,919** | **41,567** | **41,078** |
| **Total** | **39,182** | **58,604** | **61,631** | **40,704** | **54,580** | **73,121** | **58,684** | **60,652** | **60,177** |

(1) Figures from REE+REC+REINCAN+REI+REINTEL

The average salary by age for 2019 is Euros 31,100 for employees under 30, Euros 56,881 for employees aged 30 to 50 and Euros 72,412 for employees aged over 50.

The Group therefore continues to make progress with the "total remuneration" model defined in 2017 that consists of different elements (economic, financial, intangible and emotional), which enables and supports new ways of working and the organisational and cultural transformation of the Group. This approach includes recognition programmes linked to the development of innovative and efficient ideas as well as revenue generation in order to encourage the participation of all of the Group's professionals.

In 2019, the Group carried out a study to quantify and analyse the wage gap in order to identify and quantify it by gender and to establish action plans to remedy the situation where necessary.

By professional category, the ratio of the salary for men compared to women (average salary for men / average salary for women), is as follows:

| Category | 2018 (1) | 2019 |
|---|---|---|
| Management team | 1.06 | 1.1 |
| Technicians | 0.95 | 1.06 |
| Administrative personnel | 1 | 1.04 |
| **Total** | **0.99** | **1.06** |

(1) Figures from REE+REC

The average remuneration of the members of the board of directors, including variable remuneration and allowances, according to note 24 of the consolidated annual accounts of the Group, is as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Average remuneration for men (*) | 263.6 | 256.3 |
| Average remuneration for women | 183.4 | 152 |

(*) This includes the Chairman of the Board and the CEO. Excluding these roles, the average remuneration for men would be Euros 149.2 thousand.

Additionally, as stated in the notes to the consolidated annual accounts, in 2019 the CEO was paid compensation totalling Euros 818 thousand.

In 2018 the outgoing Chairman was paid compensation accrued in 2016 totalling Euros 718 thousand.

With regard to senior management, according to note 25 of the consolidated annual accounts of the Group, remuneration for 2019 totalled Euros 664 thousand. The difference in the average salary between men and women is less than 3%.

Lastly, it should be noted that the total amount of contributions to the Group's pension plan in 2018 and 2019 was as follows:

| Thousands of Euros | 2019 | 2018 |
|---|---|---|
| Male | 1,806 | 1,606 |
| Female | 484 | 427 |
| **Total contribution** | **2,290** | **2,033** |

### Implementation of workplace disconnection policies

Article 88, the Right to Digital Disconnection from the Working Environment, of Organic Law 3/2018 of 5 December 2018 on personal data protection and digital rights, includes an obligation for companies to meet with employees' representatives and draft an internal policy for employees (including those in management positions) that defines how this right to disconnect can be exercised and the actions taken to train employees and raise awareness about the reasonable use of technology to prevent the risk of IT fatigue.

Furthermore, according to this law, the right to digital disconnection must also be upheld in cases of partial or total remote working, as well as in employees' homes with regard to the use of technology tools for work purposes.

The Group is currently working to comply with the requirements of this law.

## b) Organisation of working hours

The actual effective working day established for employees complies with legal standards of minimum required rights and with the conventional framework applicable at the corresponding Group company.

### Absenteeism hours

The number of working hours lost due to common illness or occupational accident are shown in the table below:

| 2019 | | | |
|---|---|---|---|
| | Male | Female | TOTAL |
| Hours lost due to occupational accidents | 2,371 | 650 | 3,021 |
| Hours lost due to common illness | 59,025 | 32,282 | 91,307 |
| **Hours lost due to health and safety** | 61,396 | 32,932 | 94,328 |

In Peru, the number of hours lost due to common illness was 2,031, while in Chile it was 167 hours.
In the Group, the number of hours lost due to common illness was 1,179, with zero hours lost due to occupational accidents (calculation performed using an annual base extrapolated to the period from 1 October to 31 December).
Hours of absence due to occupational accidents included occupational accidents + commuting accidents
Hours lost due to common illness: Sum of days of common temporary disability + Illness < 3 days
Hours lost due to health and safety: Sum of days of common temporary disability + Illness < 3 days + commuting accidents

The information for 2018 is as follows:

| 2018 | | | |
|---|---|---|---|
| Spain [(1)] | Male | Female | TOTAL |
| Hours lost due to occupational accidents | 2,839 | 458 | 3,297 |
| Hours lost due to common illness | 48,521 | 29,505 | 78,026 |
| **Hours lost due to health and safety** | 51,360 | 29,963 | 81,323 |

(1) REE+REC+REI+REINTEL+REINCAN
Hours of absence due to occupational accidents included occupational accidents + commuting accidents
Hours lost due to common illness: Sum of days of common temporary disability + Illness < 3 days
Hours lost due to health and safety: Sum of days of common temporary disability + Illness < 3 days + commuting accidents

**Management of work-life balance**

Regarding the domestic electricity infrastructure operation and management and Telecommunications (fibre optics) businesses, following the approval in 2018 of the third Comprehensive Work-Life Balance Plan, 2019 has been characterised by the roll out of objectives defined for the year. It is worth noting the participation of the Group in the Observatory for the Development of Work-Life Balance and Co-responsibility, led by ICADE-ICAI University, the extension of a flexible working culture or the implementation of a support service for dependent family members.

This management model is one of the fundamental pillars of the Healthy Company model and the Diversity model and includes over 70 work-life balance measures, structured into different blocks:

1. Leadership and management styles
2. Quality of employment
3. Flexibility of time and location
4. Family support
5. Personal and professional development
6. Equal opportunities

## c) Health and Safety

The Group has a strategy and a specific action plan that promotes best practices in relation to occupational risk during activities and work carried out at its facilities. The objective is to go beyond mere legal compliance, by training, informing and raising awareness about the obligations and responsibilities that exist and to commit the whole Group to this goal.

To minimise the risks associated with construction and maintenance tasks at electricity facilities, the Group places special emphasis on training, awareness, consultation and participation (through the Health & Safety Committee, internal audits and working groups), improving safe conduct and the safety measures employed while work is being carried out by internal and external (contractors) personnel.

With regards to risk prevention, the Group monitors higher risk tasks and activities on an ongoing basis by means of safety inspection programs, which are essential to achieving the high levels of safety required by the Group. Accordingly, in 2019 nearly 11,000 safety inspections were carried out on works at facilities, with incidents having been detected in 13.75% of cases. As a result of all the activities performed to control and monitor works, over 2,200 corrective actions were required, of which over 93% have been resolved.

In order to raise awareness about occupational risk prevention among its team, 2019 saw the continued development and implementation of the new skills-based training management model depending on the activity being carried out, which encourages cross-functional training in this area and ensures that people will improve their health and safety skills regardless of their role.

With the aim of improving the safety conditions in construction and maintenance work, a series of actions aimed at reducing accidents during the works execution phases has been developed in recent years.

Combining this "zero accidents" objective to reduce accidents with the great digital transformation that is taking place in society, during 2019 the Group established objectives to seek out and analyse new technologies that improve, eliminate and minimise the hazardous situations that arise during the performance of works.

Also during 2019, the supplier evaluation system has been implemented and improved, with the aim of improving the safety results in the works execution phase, assisting suppliers in implementing the best practices in prevention, focusing on higher risk activities.

In 2019, the key accident rates for Group employees were 4.13 (frequency rate) and 0.14 (severity index).

The global severity index, counting own personnel and Group suppliers, was 0.28, which represents a significant reduction compared to the previous year (0.92).

**Workplace accidents and occupational illnesses**

The Group monitors the health of its employees on an ongoing basis through its in-house medical service, which is responsible for checking employees' health through medical examinations and consultations. No incidents or risks of specific illnesses associated with the professional activities carried out or related to the workplace were identified thanks to the preventive measures applied.

| | 2018 (1) | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Red Eléctrica Group** | **Male** | **Female** | **Total** | **Male** | **Female** | **Total** |
| Accidents with leave | 8 | 1 | **9** | 10 | 3 | **13** |
| Fatal accidents | 0 | 0 | **0** | 0 | 0 | **0** |
| Work days lost due to accidents (2) | 333 | 19 | **352** | 324 | 109 | **433** |
| Accident frequency index | 3.62 | 1.42 | **3.08** | 4.28 | 3.69 | **4.13** |
| Accident severity index | 0.15 | 0.03 | **0.12** | 0.14 | 0.13 | **0.14** |

(1) 2018, only entities in Spain.
(2) The calculation is based on 6,000 working days per fatal accident and 4,500 days for total permanent disability.
Serious accident: Those classified as serious by the physician that issues the medical certificate.
Frequency rate: Number of work-related accidents resulting in leave per million hours worked.
Severity index: number of working days lost for work-related accidents + incapacity scale, per thousand hours worked.
Note 1. Accidents are recorded based on Spanish legislation and according to the Red Eléctrica management system certified under OHSAS 18001.

In addition, it should be noted that there were no occupational illnesses in either 2019 or 2018.

In the specific area of health and health promotion, in addition to the basic actions of individual health monitoring, different campaigns aimed at guaranteeing physical, psychological and social well-being have been rolled out with the aim of improving people's overall well-being: cancer prevention initiatives, nutrition consultations, fitness consultations, physiotherapy consultations, access to yoga classes, Pilates and sports activities, among others. These individual actions will be complemented by talks and awareness-raising sessions on active ageing and stroke prevention.

The set of programmes and actions deployed in recent years has received external validation in the form of the 12th edition of the NAOS Strategy Award granted by the Ministry of Health and the Spanish Agency for Consumption, Food Safety and Nutrition (AECOSAN), with a view to acknowledging interventions or other initiatives that contribute to the prevention of obesity by promoting healthy eating and/or regular physical activity.

## d) Social relationships

During the last four months of 2019, a new edition of the climate study was carried out as a continuation of the previous survey conducted in 2017 in order to maintain the traceability of the results. In addition, information related to strategic aspects such as innovation or cultural and digital transformation has been included.

Results will be communicated in 2020, both at Group level and organisational unit level, and the different improvement plans will be defined and implemented.

### Employees covered by a collective bargaining agreement

The Group guarantees its employees the right to trade union membership, association and collective bargaining within the framework of the provisions of the International Labour Organisation, existing labour laws and the applicable collective bargaining agreement.

| Employees covered by a collective bargaining agreement | 2018 | 2019 |
|---|---|---|
| Employees in Spain | 93% | 91% |
| Employees in Brazil (1) | - | 96% |

(1) In 2018 there were no Group employees in Brazil

During the first half of 2019, negotiations continued regarding the 11th Red Eléctrica de España Collective Bargaining Agreement started in 2018. This negotiation concluded with an agreement, and the 11th Agreement came into force on 21 June 2019.

Consequently, relations with employees' representatives were defined by the negotiation of a new agreement through the Negotiating Committee created for this purpose.

During the second half of 2019, various meetings were held by Red Eléctrica de España's Intercentre Committee and other committees in which employees' representatives are involved.

**Summary of the collective bargaining agreements in the area of health and safety**

Red Eléctrica has an occupational health and safety committee whose composition and functions are set out in Chapter 7 of the 11th Collective Bargaining Agreement.

This committee is a collegiate body with equal representation intended to provide regular and periodic consultation regarding the company's occupational health and safety actions. The committee consists of six representatives nominated by the company and six health and safety delegates chosen from among the employees' representatives, who represent 100% of the employees. Specialists from the company's health and safety service also attend the committee's meetings.

The committee meets every quarter (in accordance with Occupational Risk Prevention Law 31/1995) although it may also meet at the request of any of the parties. In 2019, the committee met four times in accordance with its objectives.

These meetings serve to monitor all health and safety activities, any new applicable legislation, the reviews of processes and internal regulations, as well as analysing and tracking the results and the occupational health & safety programmes and monitoring safety equipment and materials. The minutes of these meetings are available to all employees under a dedicated section of the miRED corporate intranet. This committee also receives the results of the internal and external audits that are carried out and any improvement actions that are implemented.

## e) Training

In 2019, the Red Eléctrica Group's Campus was the main hub of Learning and Professional Development within the Red Eléctrica Group.

The Group's transformation continues to be promoted through the new leadership approach and the development of employees' capacities through specific programmes developed by the three institutions (business knowledge and technical training, strategy and leadership and transformation and innovation).

As a result of the new "push yourself" (Impúlsate) philosophy, a high component of self-development is encouraged in training, with the launch of programmes and learning spaces where it is the employees themselves who decide how and when to participate based on their own interests. This new direction has translated into the new "Pharos" training catalogue composed of more than 200 online courses on different technical, management and skills subjects, as part of the "Digital by Campus" programme aimed at the acquisition of skills and knowledge related to digital transformation and the "Self Development Ecosystem" designed to improve the personal and professional skills of all employees.

143,330 hours of training have been provided, equivalent to 72 hours per employee and an investment of EUR 4,306.33 per person.

Training hours by professional category and gender

| | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Red Eléctrica Group** | **Male** | **Female** | **Total** | **Male** | **Women** | **Total** |
| Management team | 5,465 | 2,510 | 7,975 | 4,763 | 2,351 | 7,114 |
| Technicians | 93,991 | 27,267 | 121,258 | 108,452 | 24,046 | 132,498 |
| Administrative personnel | 787 | 3,732 | 4,519 | 635 | 3,083 | 3,718 |
| Total | **100,243** | **33,509** | **133,752** | **113,850** | **29,480** | **143,330** |

All employees are continuously assessed. The new appraisal model was launched in 2019 and effectively separates the evaluation of an employee's contribution in order to increase objectivity and to help align employees with the Group's strategy and encourage a culture of development and recognition.

In 2019 the Group consolidated the implementation of the challenge-based management model, which has contributed towards giving each professional clearer guidance about their work, with greater autonomy and flexibility, allowing employees to work when, where, how and with whom they require.

The voluntary and proactive internal mobility plan has become well established, together with the use of the LinkRED tool that can be accessed by all employees to share their experiences and interests in relation to development and mobility.

In addition, to help students on higher vocational training courses to obtain qualifications, the Red Eléctrica Group has been actively involved in creating a vocational training programme with theoretical and practical content, as part of the dual vocational training system leading to the qualification of Senior Power Plant Technician.

The aim of this initiative is to produce professionals who are qualified in this field and available to immediately take up maintenance specialist technician positions; to furnish the sector with trained professionals equipped with Red Eléctrica know-how; and to enhance the employability of young people, with a view to their becoming part of the domestic industrial fabric. The course for the first intake drew to a close in November 2019, the 2018/20 intake will graduate in 2020 and the third intake has already embarked upon the first year of study at the "Centro Integrado de FP" (integrated vocational training centre) in León.

Lastly, in 2019 the Red Eléctrica Group ran a nine-month theoretical and practical programme led by the Company's operators, that enables people to qualify as an Electricity Control Centre Operator.

### f) Integration and universal accessibility for people with disabilities

Disabilities are one of the main areas of focus of the Comprehensive Diversity Plan approved at the start of 2019.

The General Law on the Rights of People with Disabilities (LGD) is applicable to three of the Group's companies, of which two comply with the law through direct employment: REINTEL (3.4%) and HISPASAT (2.2%). REE goes beyond legal compliance with alternative, exceptional measures, achieving 2.7% in total.

Regarding compliance with the General Law on the Rights of People with Disabilities (LGD), in 2019 the Group achieved an average 2.7% equivalent employment for persons with disabilities at those Group companies that are subject to the aforementioned Law. Of this percentage, 1.0% corresponds to direct employment and the rest to the application of exceptional alternative measures within the framework of the LGD, consisting of contracting goods and services from Special Employment Centres and making donations to entities whose mission is the social and labour integration of people with disabilities, such as the Adecco Foundation, which provide support in carrying out actions related to disabilities as part of the annual diversity programme as we in turn contribute to their social initiatives.

The percentage of Group employees with disabilities is as follows:

| | 2018 | 2019 |
|---|---|---|
| People with disabilities (%) | 0.9 | 0.9 |

The corporate website of Red Eléctrica is developed using website accessibility criteria with Level Double-A Conformance to Web Content Accessibility Guidelines 2.0 of the Web Accessibility Initiative (WAI) of the World Wide Web Consortium.

One of the most valuable disability projects is the Family Plan, consisting of personalised assistance to improve social and labour integration of any Group employees' family members with disabilities.

Another highly interesting project is the participation in employment schools for people with disabilities, which is carried out as part of the Multiannual Corporate Volunteer Plan.

Red Eléctrica has collaborated with the CERMI Women's Foundation to bring about the 3rd edition of the Women and Girls with Disabilities Forum "UNITED FOR DIVERSITY".

### g) Equality and diversity

The Group's commitment to diversity, inclusion and non-discrimination has materialised in the form of its 2018-2022 Comprehensive Diversity Plan, which is aligned with the Group's Strategic Plan and the 2030 Sustainability Commitment. It seeks to inspire and become a benchmark for the Group itself and in the wider social, labour and personal environment, through the Group's commitment to talent diversity, social inclusion, employment and non-discrimination, breaking down stereotypes and cultural barriers. The goals of the Comprehensive Diversity Plan are:

- Create a corporate culture that encourages diversity among employees and other stakeholders.
- Integrate diversity into all of the Group's processes, especially people management.
- Involve, raise awareness and promote the Group's mission and approach to diversity among collaborators and suppliers.
- Participate with official organisations, academic institutions and other social agents in campaigns and projects that enable the Group to become a leading social agent that will contribute to building a more diverse society.
- The Comprehensive Diversity Plan has the following specific objectives:
    - Ensure that at least 35% of the management team are women.
    - 0% wage gap.
    - Family-Friendly Company (EFR) classification - A+
    - LGD compliance of 70% through direct employment

Gender equality is one of the vectors included in the new Comprehensive Diversity Plan and refers to the principles of equal employment opportunities, the promotion of women to positions of responsibility, salary equivalence between men and women, the promotion of familial co-responsibility, the prevention of harassment on moral, sexual and gender grounds and the prevention of gender violence. These aspects are monitored through indicators that enable the Group to measure the progress of the objectives defined.

The percentage of women in the Group's workforce in 2019 was 25.8% (24.0% in 2018). The number of women in management positions has once again increased significantly, totalling 31.8% in 2019 (28.1% in 2018). These results are nearing the targets set for 2022.

The indicator that measures equal promotion opportunities (men/women), specifically for the domestic electricity infrastructure operation and management business, was 1.62% this year, surpassing the 1.20% target set for 2019.

Equal opportunities in training reached 1.36%. It is worth noting the Group's participation in all editions of the Promociona programme, with a total of 7 participating female managers.

The significant female presence on the Executive Committee is also notable, with 55.56% women, as well as on the board of directors, where women have a 42% representation.

During 2019 the Group has collaborated with entities and participated in various observatories and academic forums in relation to diversity, including:

- Generation & Talent Observatory (Universidad Europea de Madrid), participation in the Intergenerational Health and Wellness project.
- Instituto de empresa: Bias workshop and innovation and diversity study.
- Real Instituto Elcano. Participation in the working group on gender equality and international relations.
- Alcobendas Business Owners Association (AICA) Diversity Committee
- Spanish Association of Executives and Directors (EJE&CON)
- Association of Spanish diplomatic women (AMDE).
- Royal Academy of Engineering (RAI): Participation in the "Women and Engineering" project to foster the involvement of women in STEM careers.
- The Women's Institute (Instituto de la mujer): participation in technical workshops on equality and gender violence.

In 2019, various commitments and agreements were signed in relation to diversity, including:

- Signing of the commitment #CEOPORLADIVERSIDAD: With a view to promoting the De&I (Diversity, equity and Inclusion) strategy with CEOE and Fundación Adecco.
- Signing of the protocol "More women, better companies": In order to ensure the presence of women in management roles, on steering committees and boards of directors, signed with the government department of the Ministry of the Presidency, Relations with the Cortes and Democratic Memory (MPR).
- Renewed signing of the diversity charter with the Diversity Foundation (Fundación Diversidad).
- Signing of the membership agreement with the Spanish Association of Women in Energy (AEMENER). Spanish Association of Women in Energy (AEMENER)

The Group has received acknowledgement for the following:

- Woman Forward Award for corporate governance and gender diversity in the "Corporate" category.
- The Group is in the top 100 of the EQUILEAP ranking, at number 49.

- It is also ranked in the top 30 of companies with best practices in diversity and inclusion.

## 11.4. Information about respect for human rights

**Respect for human rights**

The Group has an explicit and public commitment to respect and promote human rights in every country in which it operates, with special emphasis on the freedoms and rights of vulnerable groups such as indigenous people, women, children and ethnic minorities, among others. This commitment is included in the rules of conduct and guidelines established in the Code of Ethics and the Corporate Responsibility Policy and applies to the whole supply chain through the Code of Conduct for Group Suppliers. Lastly, as a member of the Spanish network of the United Nations Global Compact, Red Eléctrica has strengthened its commitment to human rights by signing up to the ten principles of the Global Compact.

In order to continue making progress in human rights management and to strengthen its commitment to upholding them, in 2017 the Group formalised a human rights management model, approved by the Sustainability Steering Committee, which applies to all of the Group's activities and is based on the United Nations' Guiding Principles on Business and Human Rights.

The Group takes an approach based on control and continuous improvement, implementing actions that help to prevent potential human rights violations, while searching for solutions and redressing them in the event that they arise. The Group's conduct in this area is subject to internal and external audits and it carries out corporate audits among its suppliers to ensure the effectiveness of the management model.

The scope of the human rights due diligence carried out applies to all the Group's activities. The results demonstrate a low level of risk in all analysed areas and shows that the Group applies the appropriate controls.

The Group has set up a whistleblower channel available to all stakeholders as a formal mechanism for addressing any human rights-related enquiries or complaints. The Group also has the DÍGAME Service and ASA (the Procurement Support Service), through which stakeholders can express their concerns about any grievances in this area. In 2019, the DÍGAME Service received two human rights related complaints. 100% of these claims have been resolved. The whistleblowing channels available to stakeholders have not received any human rights related complaints in respect of HISPASAT.

## 11.5. Information about the fight against corruption and bribery

**Ethics and Compliance in the Red Eléctrica Group**

Ethics and Compliance are fundamental pillars of the proper course of business at the Group. This means acting with the utmost integrity in discharging the Group's obligations and commitments, and in relations and cooperation with its stakeholders.

The Group has a series of corporate rules of conduct establishing the values and standards of behaviour that must be adhered to by all persons in the Group in the performance of their professional activities.

**Code of Ethics**

The Group's Code of Ethics applies to the Group's directors and employees and establishes the values and commitments that must govern their behaviour. The latest edition of the Group's Code of Ethics was approved by the board of directors on 28 May 2013.

**Ethics Channel**

The Group has an Ethics Channel, available through its corporate website, to convey queries, complaints or suggestions relating to the Code of Ethics. The Group has an Ethics Officer for fielding queries and compiling, analysing and resolving complaints relating to the Code of Ethics. This figure, in direct contact with the Chairman and the board of directors, acts independently and undertakes to maintain the utmost confidentiality in performing their duties.

In 2019, 21 queries were filed with the Ethics Officer and the maximum resolution time was 10 days. The queries related to the following patterns of behaviour:

- Integrity, responsibility and transparency.
- Respect, dignity and non-discrimination.
- Responsible monitoring of supplier management.
- Restriction on the acceptance of gifts, loans and invitations.
- Adequate safeguarding of information systems.

In 2019, 3 complaints were received in connection with compliance with the Code of Ethics, one of which is pending resolution.

**Compliance system**

The Group's Compliance System is aligned with the best practices in this area, so as to support the organisation in fulfilling its obligations and commitments.

In 2019, a global Compliance Policy for the Group was approved, expressing the organisation's commitment to the prevention, detection and response to any conduct that contravenes the legal obligations and commitments assumed voluntarily, in accordance with the values and behaviour guidelines of the Code of Ethics.

The Group has a Compliance area that is entrusted with the design, development, implementation and monitoring of the organisation's compliance system.

The main goals of the compliance system are:

- Establish a control and supervision system to mitigate compliance risks.
- Make available to the entire organisation the content of the principles and rules that should govern their performance within the Group and the instruments required to this end.
- Raise awareness among Group members of the importance of the Compliance System and the necessary adaptation of their conduct to the values and behaviour guidelines of the Code of Ethics.
- Formalise the Group's commitment to the prevention of any conduct that is contrary to the applicable legislation and to the commitments assumed voluntarily.
- Inform the persons subject to the Compliance System that the violation of the principles and guidelines of the System will lead to disciplinary measures.
- Establish appropriate control measures to mitigate the Group's compliance risk, as well as reaction and correction when a breach is detected.
- Maintain supporting evidence of compliance with obligations and commitments.

**Legal compliance system**

The Group has a legal compliance system that aims to identify the rules, procedures and tools in place in the Group to prevent non-compliance with the criminal legislation applicable to the company and its personnel. The management and prevention of criminal risks that could affect the Group, based on its activities and business sectors, are thus incorporated into the Group's control processes.

The process of reviewing and updating the Criminal Compliance System has been completed in 2019 with the aim of adapting it to the criteria of the Group's Global Compliance System and to best practices in criminal compliance management.

The board of directors, as the ultimate body in charge of the Group's risk management, in accordance with applicable regulations, has designated the Criminal Compliance Committee as the specific body in control of the Group's Criminal Compliance System. The Criminal Compliance Committee is responsible for the supervision and monitoring of the Group's Criminal Compliance System and its objective is for the main criminal risks to be properly identified, managed and disseminated internally.

In 2019, none of the Group's companies were investigated or found guilty of acts of non-compliance linked to the organisation's criminal risks. Likewise, no complaints were filed in connection with potential cases of corruption and no Group company was investigated or found guilty by any court in connection with non-compliances linked to corruption cases.

**Prevention of corruption and money laundering**

The Code of Ethics and the Criminal Compliance System, which include aspects related to the fight against corruption and money laundering, constitute an effective mechanism for the detection and treatment of possible cases of corruption and fraud. The Group has a guide for the prevention of corruption: zero tolerance, approved by the board of directors in 2015, which establishes behaviour guidelines and commitments, as well as the performance criteria and main controls in place at the company associated with corruption, including money laundering.

## 11.6. Information regarding society

**Impact of the activity on employment and local development**

The activities carried out by the Group, specifically in its electricity infrastructure operation and management business, undoubtedly have benefits for society, with the best known being that they maintain the continuity and safety of the electricity supply in conditions of high quality.

Once again this year, Red Eléctrica's investment in the transmission network in Spain has had a beneficial effect on society due to its dynamic effect on the economic activity of the country because by encouraging production it leads to an increase in wealth (as measured by GDP), in jobs and in tax revenue, which can be used to improve the general well-being of society. All this is the result not only of the Group's direct investments but also of the increase in activity driven by the circular flows of the economy.

Since 2017, the Group has used a benchmark methodology based on implicit multipliers of activity, computed using the latest Input-Output Tables provided by the Spanish National Statistics Institute (INE) to estimate the level of general activity generated as a result of an initial investment. Calculations are performed taking into account three main effects:

| Direct effect | Indirect effect | Induced effect |
|---|---|---|
| Estimation and valuation of the production chain and job and income creation generated in the economic system by an initial investment. | Income and jobs created when the beneficiaries of the initial investments acquire other goods and services (intermediate consumption) from other production systems, which in turn acquire goods and services from their own suppliers. | Impact arising from all the income generated in the previous stages. This effect thus incorporates the effect of the final consumption arising from the wage income generated and the tax revenue obtained by governments when taxing the different economic activities and the income they generate. |

In 2019, the Group's total investment in the transmission network in Spain amounted to Euros 396.4 million, of which an estimated Euros 71 million were spent on importing the products needed to carry out the activity. The remainder, totalling around Euros 325 million, consisted of direct investment in Spain, the effect of which, after applying the chosen methodology, is broken down in the following table:

**Total effects of the investment in the transmission network**

| | Direct | Indirect | Induced | Total |
|---|---|---|---|---|
| Generation (€M) | 325 | 286 | 30 | **641** |
| Income-GDP (€M) | 149 | 124 | 10 | **283** |
| Employment (no. of positions) | 2,214 | 2,208 | 305 | **4,727** |
| Tax income (€M) | 54 | 47 | 4 | **105** |

This same methodology is already being applied to other specific investment projects to estimate the socio-economic contribution to the region and country in terms of wealth (measured by GDP), output, jobs and tax revenue.

The investment made in Spain has generated Euros 641 million of output in the business sectors concerned, which is almost double the investment made (Euros 325 million). This led to a contribution of Euros 283 million to Spanish GDP (around 14.1% of the Group's revenues in 2019), which has generated activity equivalent to 4,727 jobs. All this combined has generated tax revenue of Euros 105 million (represents approximately 7.5% of provisional collection in 2019 for the special electricity tax).

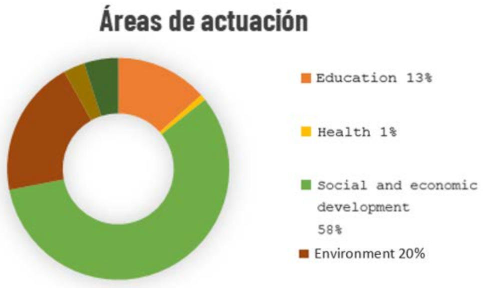
**Impact of the activity on local populations and the local area**

The Group focuses its socio-environmental commitment towards unlocking shared value with society by pursuing actions and investments that are aligned with its business goals and, while generating value for the Group, also have a positive impact on society, the country or region and its inhabitants. It also contributes to the attainment of various challenges, such as the UN's Sustainable Development Goals or those envisaged as part of the European 2020 energy strategy.

Shared value is created by the Group both in the way it develops and builds infrastructure and in the way it operates and delivers services to the effective systems it operates in and to its customers. This activity generates opportunities to unlock shared value throughout the infrastructure life cycle.

In addition, the Group supplements its projects in the area with collaboration projects to nurture institutional and social relationships, transparently seeking collaboration agreements, disseminating information about the electricity network and fostering involvement in projects and initiatives that boost socio-economic development, education, social well-being and the conservation, protection and enhancement of natural and cultural heritage in the countries and regions in which it operates.

In 2019, the Group contributed over Euros 8 million (amount calculated using the London Benchmarking Group methodology) to social initiatives.




Of the total social initiatives carried out by the Group in 2019, 62 are contributions to funds and non-profit organisations, totalling Euros 1.7 million.

In 2019, the Group signed over 100 agreements with public and social entities, mainly to cooperate on socio-economic, environmental, educational and cultural development projects.

Of the 545 social initiatives undertaken, 289 were focused on the socio-economic development of the local area, including, among others, municipal infrastructure construction or improvement projects, efforts to nurture the area's cultural wealth and restoration of emblematic and socially significant buildings with an impact on tourism.

With regard to the dissemination of knowledge, the Group has always played an important role through activities that foster the spreading of knowledge on the Spanish electricity system, which is even more important now given the great challenge posed by the new energy transition model through the decarbonisation of the economy, since a better informed society has greater capacity to develop and maintain a new sustainable energy model.

In 2019, as part of its institutional commitment, the Group welcomed 212 visits, which is an increase of 39% with respect to the prior year. Over 2,000 people visited Red Eléctrica's facilities and the control centres (CeCoEI, Cecre and island control centres).

Another major area in which the Group is involved is the education of school children, most notably through the itinerant exhibition "A Motorway behind the Wall Socket" explaining the electricity supply process from generation to consumption, which was attended by more than 9,000 visitors, as well as the educational game 'entreREDes', aimed at teaching children to be efficient and environmentally-friendly consumers in the future, which attracted over 8,250 school children.

The Group has 24 collaboration agreements with universities and educational institutions.

The training programme for the State Police and Security Forces continued. During 2019, 12 forest fire prevention training days were organised in 14 provinces in 4 autonomous regions, in which 622 people took part.

**Corporate volunteering**

The Group's Healthy Company model fosters well-being through actions aimed at promoting the well-being of people through actions that also consider the state of the surrounding environment, seeking for this commitment not only to apply to the work environment but also the wider community.

Thus, the Group's corporate volunteering model, approved in 2017, extends its social action by driving and reinforcing collaboration in solidarity activities that respond to the social needs, problems and interests defined in its action guidelines.

The corporate volunteering model has a strategic and transformational focus, aimed at promoting volunteering actions which, on the one hand, channel internal talent into corporate volunteering and, on the other, provide innovative solutions to social and environmental problems. The actions carried out in 2019 were in response to the interest shown by participating volunteers and were targeted primarily at improving the quality of life for groups at risk of social exclusion, fostering employability and meeting specific, real needs of society.

The volunteering actions carried out in 2019 saw a participation of individual volunteers of 33.6%, which is far higher than the target set at the beginning of the year (20%).

Main corporate volunteering actions in 2019

| SOCIAL VOLUNTEERING | |
|---|---|
| *Give and Gain* | Participation in Forética's International Volunteering Week through initiatives carried out in Madrid, Barcelona, Seville, Granada and Zaragoza. Each region chose the most relevant action for them.<br>• 89 volunteers |
| Adecco's employment school | Mentoring sessions held to improve the employability of people with disabilities and women at risk of social exclusion in Madrid, Mallorca, Zaragoza, Valencia, Barcelona and Zaragoza.<br>• 41 volunteers |
| A LA PAR Foundation Mentoring | Mentoring by the management team in Madrid of young persons with learning disabilities to improve their personal development and employability.<br>• 9 volunteers |
| Christmas activities with Cruz Roja | Collection of a total of 438 new books for children aged 0 to 9 in all regions of Spain.<br>• 438 volunteers |
| SOCIAL AND HEALTHCARE VOLUNTEERING | |
| Heroes at home project with the Stop Strokes Association (Asociación Freno al Ictus) | Raising awareness about strokes, addressing over 300 children in schools. Volunteers will receive training prior to visiting the schools to provide information on the condition and the actions to take.<br>• 10 volunteers |
| Children's day with Cruz Roja | Preparation of 500 child hygiene kits for international children's day.<br>• 500 volunteers |
| ENVIRONMENTAL VOLUNTEERING | |
| "Red Natura 2000" project | Cleaning of protected natural habitats in Zaragoza in collaboration with the Spanish Ornithology Society (SEO) and BirdLifeen.<br>• 13 volunteers |
| Project LIBERA | Cleaning rubbish in natural habitats in Madrid and Seville, once again in collaboration with SEO/BirdLife.<br>• 67 volunteers |
| Limne Foundation | Planting of helophytes in the Turia river (Valencia). These plants are crucial in favouring the filtration of pollutants and the oxygenation of water.<br>• 20 volunteers |
| Ocean's day | Cleaning of Caletillas beach in collaboration with the council, the island authorities and various associations in Tenerife, as well as the performance of environmental workshops, an exposition and the release of turtles into the wild.<br>• 11 volunteers |

| | |
|---|---|
| Acteo, Arqueología y Patrimonio S.L. | Day of cleaning and superficial trimming of weeds in Galapagar, Madrid.<br>• 21 volunteers |
| Release into the wild of Cory's shearwaters | Release into the wild of 9 Cory's shearwaters, a nesting bird in the Canary Islands that breeds in colonies on islets and coastal cliffs.<br>• 27 volunteers |

Other corporate volunteer actions that are worth mentioning are the collection of solidarity bottle tops that were sent to the CEPRI association (an entity that provides educational and rehabilitation care for people with autism), the solidarity auction of donated institutional gifts, the money from which was donated to the Apsuria Foundation for people with learning disabilities, and the participation in solidarity races in Barcelona and Zaragoza.

**Participation in organisations**

The Group is a member of and is active in various international organisations and associations, particularly within the European Union, with a view to raising awareness of its stance on fundamental aspects of its activity, building strong alliances and contributing to the achievement of common objectives.

| | |
|---|---|
| **European Network of Transmission System Operators for Electricity (ENTSO-E)** | Red Eléctrica is a member of this association along with all the other European transmission network managers. ENTSO-E is the fundamental tool for collaboration among TSOs in building the Internal Energy Market. The main areas in which the Group cooperates in ENTSO-E are the development of the Internal Energy Market, the development of the European electricity infrastructure network and the coordination of the European electricity system. It also works with ENTSO-E on innovation and technological development. Combining the experience and technical capacity of its members, ENTSO-E has been assigned the task of developing the current network codes and is the main technical advisor to the European institutions on electricity matters. Its involvement is essential in meeting the challenges of the new energy transition scenario, characterised by emissions reduction, large-scale integration of renewable energy, flexibility and new technologies. |
| **RGI (Renewable Grid Initiative)** | Through the joint participation of the TSOs and NGOs in RGI, the Group addresses the environmental concerns of all its stakeholders, directing its action towards the development of efficient, sustainable, clean and socially accepted electricity infrastructure networks that are capable of integrating decentralised renewable resources on a large scale. |

The Group participates in other international electricity-related organisations such as IESOE (Interconnexion de l'électricité du Sud-ouest de l'Europe), GO 15 (Reliable and Sustainable Power Grids), Med-TSO (Mediterranean Transmission System Operators), EASE (European Association for the Storage of Energy), ICGN (International Corporate Governance Network) and CIGRE (International Council of Large Electricity Networks). Regarding the satellite business, HISPASAT participates in the International Telecommunications Union (ITU), the Inter-American Telecommunications Commission (CITEL) and the Inter-American Telecommunicatios Asociation (ASIET).

The Group participates in organisations or domestic associations that seek different objectives:

- **Share and extend the best practices in the business context**

| | |
|---|---|
| Spanish Quality Association (AEC) | An association aimed at defending and promoting quality as a driver of competitiveness in business and improvement in society. |
| Spanish Compliance Association (ASCOM) | The first association created to professionalise the compliance function and facilitate the exchange of ideas and best practices. |
| Spanish Association for Standardisation and Certification (AENOR) | An association that contributes to improving the quality and competitiveness of companies by developing technical standards and certifications. |
| Emisores Españoles | An association that fosters measures to reinforce legal certainty in the issue of listed securities and contributes to the development of high standards of corporate governance. |

- **Favour knowledge of the Group's activities in the electricity sector**

| | |
|---|---|
| Spanish Energy Association (ENERCLUB) | An association that contributes to a better understanding of various energy-related issues among interested parties in society. |
| Madrid Energy Foundation (Fundación de la Energía de la Comunidad de Madrid) | The foundation drives initiatives and research programmes for the development and application of energy technologies. |
| Energy Cluster (Clúster de la Energía) of various autonomous regions | A group that promotes the development and competitiveness of energy companies in Spain. |

- **Promote the Group's commitment to sustainability**

| | |
|---|---|
| Sustainability Excellence Association (Club de Excelencia en Sostenibilidad) | A business association aimed at driving sustainability by sharing and building awareness of good practices. |
| Forética | An association of companies and sustainability professionals promoting the integration of environmental, social and good governance issues in companies' strategy and management. |
| Association for Excellence in Management and Innovation (Club Excelencia en Gestión e Innovación) | A business association aimed at strengthening the global competitiveness of organisations and professionals through the values of excellence. |
| Integrity Forum (Foro de Integridad) of Transparency International Spain | A think tank for improving compliance and ethical management in companies. |
| Voluntare Foundation | A global corporate volunteering network that helps to connect companies with third sector organisations. |

### h) Subcontracting and suppliers

The globalisation of markets has extended the limits of companies' responsibilities and triggered a change in the role of suppliers, which have become a pivotal element. The Group extends its responsibility over the supply chain and adheres to a responsible management model, based on the principles of non-discrimination, mutual recognition, proportionality, equal treatment and transparency, as well as a framework of legislation and internal Group codes, policies and rules.

In 2019, specifically for the electricity infrastructure operation and management and Telecommunications (fibre optics) businesses, contracts worth a total of EUR 617 million were awarded to 1,071 suppliers. Of that amount, 82% relates to services and works, while the remaining 18% relates to materials and equipment.

91% of the total amount was awarded to suppliers based in Spain and 98% to suppliers in EU countries, which means the Group acts as a driver of growth, fostering business, industrial and social development by creating employment throughout the supply chain.

Besides the aforementioned 1,071 suppliers, an additional 1,038 companies (subcontractors) also did work for the Group, bringing the total number of companies that worked within the framework of the Group's contracts to 2,109. In this context, it should be pointed out that the turnaround time for subcontracting requests was 1.5 days, a figure that has decreased in recent years, improving on the commitment to resolve subcontracting requests within two days.

Social audits were conducted at 53 suppliers during 2019 to verify compliance with the Code of Conduct among the Group's suppliers.

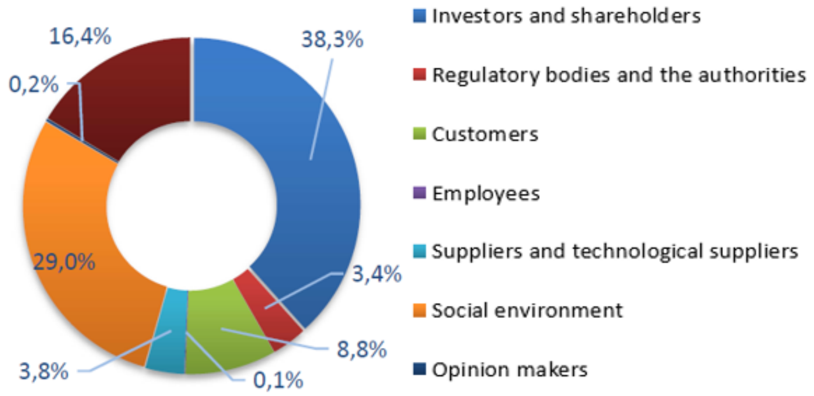
As a result of the audits, 44 action plans have been agreed with 16 suppliers, so that supplier development can be monitored and improvements recorded. The results of these audits and their findings are shared internally, placing special emphasis on the detection of major non-compliances.

### i) Consumers

Since 2008 the "Dígame" service has provided a professional response to requests from external stakeholders, who have several channels of communication at their disposal (telephone, email and online form). The service is manned by employees of Fundación Juan XXIII Roncalli, an institution that facilitates the integration of people with disabilities in the workplace.

In the Dígame service, external stakeholders receive a professional response to their requests through several channels of communication. In 2019, the service processed 3,887 requests.

**Assistance received by stakeholder**




**Requests handled through the Dígame service in 2019**

| | |
|---|---|
| By type: | |
| Impact of the facilities | 47 |
| Quality and continuity of supply | 196 |
| Information on operation | 1 |
| Information on supplier management | 1 |
| Corporate assistance | 1 |
| Total | **246** |
| By stakeholder complainant: | |
| Social environment | 198 |
| Business sector/Professional associations | 46 |
| Other | 2 |
| Total | **246** |

Note: Proper claim is understood as that which corresponds to functions and responsibilities.

Of the 246 claims from 2019, 53 were considered (accepted by considering certain and reasonable the arguments underpinning their acceptance, whether complete or partial). Most of the claims received have been related to: impact of facilities and quality and continuity of supply. The first type primarily consists of claims that have their origin in the cutting down and clearing of vegetation, while the second group reflects claims related to the incidents in Menorca in October 2018 and Tenerife in September 2019.

The five claims that remained open at the end of 2018 were closed during 2019.

Between October and December 2019, HISPASAT received a total of 736 requests from stakeholders (343 incidents, 0 complaints, 0 suggestions and 393 queries) through its call centre and its support centre integrated in the company's corporate website. The assistance needed for any type of request from the customer through any of the official channels is provided by HISPASAT's personnel based on the Customer Service Procedure and the Incident Management Procedure. Both define the life cycle of the request through their statuses, the hierarchical levels that deal with each request based on the responsibilities derived from each one and guidelines for their resolution.

It is worth highlighting that the activity of the Group companies has no impact on the health and safety of consumers. In the case of energy transmission activity, it should be noted that due to the criteria applied in the design of the facilities, the levels of the electric and magnetic fields (EMFs) remain below those recommended by the Council of the European Union (Official Journal of the European Union 1999/519/EC: limitation of exposure of the general public in areas where they spend significant time, of 5 kV/m for the electric field and 100 µt for the magnetic field). The main criteria applied are as follows:

- Construction of double circuits and translocation of phases in lines.
- Increasing the height of supports, thereby increasing the safety distances.
- Minimum distances from the lines to population centres and isolated homes.

To verify compliance with recommendations, the Group has a tool that uses certain line parameters to accurately gauge the maximum levels of EMFs that the facilities can generate.

## j) Tax information

The Group is committed to compliance with tax laws and the fulfilment of its tax obligations, seeks a cooperative relationship with the tax authorities and considers it important to contribute to economic and social development by paying taxes in all the countries in which it operates.

The Group's tax strategy was approved by the board of directors on 30 June 2015 and is intended to define a consistent approach to tax matters in line with the Group's strategy. It embodies the Group's vision and objectives in tax matters and is based on three core values: transparency, good governance and responsibility.

On 29 September 2015, the board of directors approved the Group's Tax Risk Control and Management Policy and its inclusion in the Comprehensive Risk Management Policy. The tax risk control and management systems are described in the corporate governance report.

The Group's Tax Strategy and Comprehensive Risk Management Policy may be consulted on the corporate website.

Both the Code of Ethics and the Tax Strategy state the Group's commitment not to create companies in countries considered tax havens in order to evade tax.

The Group has no presence and carries out no activity in countries considered tax havens under applicable laws and regulations.[1]

[1] Royal Decree 1080/91 of 5 July 1991, subsequently amended by Royal Decree 116/2003 of 31 January 2003; EU list of non-cooperative countries and jurisdictions in taxation matters and list of non-cooperative tax havens drawn up by the OECD.

### Profits obtained, broken down by country

Millions of Euros

| Profit before corporate income tax [*] | 2018 | 2019 |
|---|---|---|
| Spain | 921 | 930 |
| Peru | 6 | 7 |
| Chile | -6 | -7 |
| Brazil | - | 3 |

[*] Comprises the pre-tax income and expenses of each company, excluding dividends received from Group entities, aggregated at country level.

### Corporate income tax paid

With a view to following best practices in corporate social responsibility and voluntarily providing greater transparency in tax matters for its various stakeholders, since 2014 the Group has calculated and published its total tax contribution, highlighting the significant economic and social importance of its tax contribution.

The Group's total 2019 tax contribution in all the countries in which it operates amounted to Euros 732 million, consisting of Euros 251 million paid and Euros 481 million collected.

The corporate income tax paid in each country in 2019 and 2018, understood as the amount of corporate income tax paid, is as follows:

Millions of Euros

| Corporate income tax paid | 2018 | 2019 |
|---|---|---|
| Spain | 202 | 195 |
| Peru | 3 | 4 |
| Chile | 1 | 1 |
| **Total** | **206** | **200** |

Corporate income tax in 2019 accounts for 80% of the taxes paid by the Group to governments, mainly the Spanish government.

### Government grants received

In 2019, Euros 0.3 million were received from official bodies mainly for R&D&i projects. The grants received in 2019 and 2018, broken down by country, are as follows:

Millions of Euros

| Government grants received | 2018 | 2019 |
|---|---|---|
| Spain | 3 | 0.3 |
| **Total** | **3** | **0.3** |

## 11.7. Index of content required by Law 11/2018 of 28 December 2018 on disclosure of non-financial and diversity information

| CONTENTS | Page | Reporting framework |
|---|---|---|
| Description of the **business model:**<br>– Business environment<br>– Organisation and structure<br>– Markets in which the Group operates<br>– Objectives and strategies<br>– Key factors and trends that may affect future developments | 26 | (1) 102-1, 102-2, 102-4, 102-6, 102-7, 102-40, 102-43, 102-44, 102-46, 102-47, 102-49 |
| **I. Information on environmental matters** | | |
| Management approach | 29 | (1) 103-1, 103-2,103-3 |
| Present and foreseeable impact of the company's activities on the environment, health and safety. | 29 | Internal framework. Description of the impact of the activity on the environment, health and safety |
| Environmental assessment or certification procedures. | 30 | Internal framework. Certified Environmental Management System |
| Resources allocated to preventing environmental risks. | 29 | Internal framework. Ordinary expenses incurred for environmental protection and improvement. |
| Application of the precautionary principle | 29 | (1) 102-11 |
| Provisions and guarantees for environmental risks. | 29 | Internal framework. Amount allocated to environmental aspects associated with investment projects |
| **Pollution** | | |
| Measures for the prevention, reduction or remediation of the effects of carbon emissions (also includes noise and light pollution) | 30 | Internal framework. Measures for the prevention of noise, light and atmospheric pollution, as well as measures for the reduction of carbon emissions |
| **Circular economy and waste prevention and management** | | |
| Measures for the prevention, recycling, reuse and other recovery and disposal of waste. | 30 | Internal framework. Circular economy measures |
| Actions to combat food waste | Not significant | These types of actions are not carried out due to the nature of our activities |
| **Sustainable use of resources** | | |
| Water consumption and supply | 32 | (1) 303-1 |
| Consumption of raw materials and measures to improve efficiency | Not significant | The company's activities do not entail direct consumption of raw materials |
| Direct and indirect energy consumption | 32 | (1) 302-1 / 302-2 |
| Measures taken to improve energy efficiency | 30 | Internal framework. Initiatives to combat climate change and energy efficiency measures |

| | | |
|---|---|---|
| Use of renewable energies | 32 | Internal framework. Qualitative/quantitative information on the use of renewable energy |
| **Climate change** | | |
| Key elements of the greenhouse gas emissions generated | 30 | (1) 305-1 / 305-2 / 305-3 / 305-4 |
| Measures taken to adapt to the consequences of climate change. | 30 | (1) 305-5 |
| Voluntary medium and long-term emission reduction targets set and steps taken. | 30 | Internal framework. Objective for reducing emissions and combating climate change |
| **Protection of biodiversity** | | |
| Measures taken to preserve or restore biodiversity | 31 | (1) 304-1 / 304-3 |
| Impacts caused by activities or operations in protected areas. | 32 | (1) 304-2 |
| **II. Information on social and employee-related issues** | | |
| Management approach | 32 | (1) 103-1, 103-2,103-3 |
| **Employment** | | |
| Total number and distribution of employees by gender, age, country and professional qualifications. | 33 | (1) 102-8 |
| Total number and distribution of employment contract types by gender, age and job category. | 35 | (1) 102-8 |
| Average annual number of permanent, temporary and part-time contracts, by gender, age and professional category | 36 | Internal framework. Average annual number of contracts by type, broken down by gender, age and professional category |
| Number of dismissals by gender, age and professional classification | 38 | Internal framework. Details of dismissals for the year by gender, age and professional classification |
| Wage gap | 39 | (1) 405-2 |
| Average pay by gender, age and professional classification | 39 | Internal framework. Average total salary by gender, age and professional classification |
| Remuneration of like positions or average remuneration in the company | 39 | (1) 405-2 |
| Average remuneration of directors by gender | 40 | Internal framework. Average remuneration of members of the board of directors by gender |
| Average remuneration of management personnel by gender | 40 | Internal framework. Average remuneration of senior management personnel by gender |
| Implementation of workplace disconnection policies. | 40 | Internal framework. Workplace disconnection measures |
| Employees with disabilities | 45 | Internal framework. Percentage of employees with a disability |
| **Organisation of work** | | |
| Organisation of working hours | 41 | Internal framework. Real and effective working day |
| Number of hours of absenteeism. | 40 | Internal framework. Number of hours of absenteeism |

| | | |
|---|---|---|
| Measures aimed at facilitating a work-life balance and encouraging the joint and responsible sharing thereof by both parents | 40 | (1) 401-2 |
| **Health and safety** | | |
| Occupational health and safety conditions. | 41 | (1) 403-3 / 404-1 / 404-2 |
| Number of workplace accidents and occupational illnesses by gender, frequency and severity | 42 | (1) 403-2 |
| **Social relationships** | | |
| Organisation of social dialogue, including procedures on worker communication, consultation and negotiation | 43 | (1) 402-1 |
| Percentage of employees covered by collective bargaining agreements by country | 43 | (1) 102-41 |
| Outcome of collective bargaining agreements, particularly in the field of health and safety | 44 | (1) 403-1 / 403-4 |
| **Training** | | |
| Policies implemented | 44 | (1) 404-2 |
| Total hours of training by professional category | 45 | (1) 404-1 |
| **Universal accessibility for people with disabilities** | | |
| Universal accessibility for people with disabilities | 45 | Internal framework. Accessibility measures |
| **Equality** | | |
| Measures taken to promote equal treatment and equal opportunities for women and men | 46 | Internal framework. Measures adopted to promote diversity |
| Equality plans: job stimulation measures, protocols against sexual harassment and gender bias | 46 | Internal framework. Diversity plan |
| Integration and universal accessibility for people with disabilities | 46 | Internal framework. Hiring of people with disabilities and integration and accessibility measures |
| Policies against all kinds of discrimination and, as the case may be, diversity management | 47 | Internal framework. Anti-discrimination policy |
| **III. Information about respect for human rights** | | |
| Management approach | 48 | (1) 103-1, 103-2,103-3 |
| Implementation of due diligence procedures in relation to human rights | 48 | (1) 407-1 / 408-1 / 409-1 |
| Prevention of risks of human rights abuses and, where appropriate, measures to mitigate, manage and redress any potential abuses committed | 48 | (1) 411-1 / 412-1 / 412-3 |
| Reporting of human rights infringements | 48 | (1) 102-17 |
| Promotion of and compliance with the provisions of the core conventions of the International Labour Organisation with regard to respect for freedom of association and the right to collective bargaining; elimination of discrimination in employment and occupation; elimination of forced or compulsory labour; effective abolition of child labour. | 44 | Internal framework. Compliance with ILO provisions |
| **IV. Information about the fight against corruption and bribery** | | |
| Management approach | 48 | (1) 103-1, 103-2,103-3 |
| Measures to prevent corruption and bribery | 48 | (1) 102-16 / 102-17 / 406-1 |
| Measures to combat money laundering | 50 | (1) 102-16 / 102-17 / 406-1 |
| Contributions to foundations and non-profit organisations | 52 | Internal framework. Contributions to foundations and non-profit organisations |
| **V. Information about the company** | | |
| Management approach | 50 | (1) 103-1, 103-2,103-3 |
| **The company's commitments to sustainable development** | | |
| Impact of the company's activity on employment and local development | 50 | (1) 413-1 |
| Impact of the company's activity on local populations and the local area | 51 | (1) 413-1 |
| Relations with local community actors and types of dialogue | 52 | (1) 413-1 |
| Association and sponsorship actions | 53 | (1) 102-13 |

| | | |
|---|---|---|
| **Subcontracting and suppliers** | | |
| Inclusion of social, gender equality and environmental issues in the purchasing policy | 56 | (1) 414-1 |
| Attention given to social and environmental responsibility in relations with suppliers and subcontractors | 56 | (1) 414-1 |
| Supervision systems and audits and results | 56 | (1) 308-1 / 308-2 |
| **Consumers** | | |
| Measures to protect consumer health and safety | 56 | (1) 416-1 |
| Systems in place for making claims | 57 | (1) 102-43 / 102-44 |
| Complaints received and resolution thereof | 57 | (1) 102-43 / 102-44 |
| **Tax information** | | |
| Profit obtained, broken down by country | 58 | (1) 207-4 |
| Corporate income tax paid | 58 | (1) 207-4 |
| Government grants received | 58 | Internal framework. Government grants received |

(1) This table shows the equivalence between the requirements of Law 11/2018 and the GRI indicators. Red Eléctrica has published non-financial information since 2003 in accordance with successive versions of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).

## 12. 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

Independent Limited Assurance Report of the Consolidated Non-Financial Statement for the year ended December 31, 2019

RED ELÉCTRICA CORPORACIÓN, S.A. and SUBSIDIARIES

Building a better working world

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# INDEPENDENT LIMITED ASSURANCE REPORT OF THE CONSOLIDATED NON-FINANCIAL STATEMENT

Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

To the Shareholders of RED ELÉCTRICA CORPORACIÓN, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2019, of RED ELÉCTRICA CORPORACIÓN, S.A. and subsidiaries (hereinafter, the Group), which is part of the Group's accompanying Consolidated Management Report.

The content of the NFS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our assignment has been exclusively limited to the verification of the information shown in section "11.7. *Index of content required by Law 11/2018 of 28 December on disclosure of non-financial and diversity information*" of the aforementioned Statement.

## Responsibility of the Board of Directors

The Board of Directors of the Group are responsible for the approval and content of the NFS included in the Group's accompanying Consolidated Management Report Consolidated of RED ELÉCTRICA CORPORACIÓN, S.A. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and the criteria of the selected *Global Reporting Initiative Sustainability Reporting Standards*, as well as other criteria described in accordance with that indicated for each subject in section "11.7. *Index of content required by Law 11/2018 of 28 December on disclosure of non-financial and diversity information*" from the aforementioned NFS.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

They are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

## Our independence and quality control procedures

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of professional integrity, objectivity, competence, diligence as well as confidentiality and professional behavior.

Our Firm complies with the International Standard on Quality Control No. 1 and thus maintains a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards, as well as applicable legal provisions and regulations.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

## Our responsibility

Our responsibility is to express our conclusions in an independent limited verification report based on the work performed, that refers exclusively to 2019. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the guidelines for verifying Non-Financial Statement, issued by the Spanish Official Register of Auditors of Accounts (ICJCE).

The procedures carried out in a limited assurance engagement vary in nature and execution timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- Meeting with Group personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.

- Analyzing the scope, relevance and integrity of the content included in the NFS for the year 2019 based on the materiality analysis made by the Group and described in section "MATERIALITY ANALYSIS", considering the content required by prevailing mercantile regulations.

- Analyzing the processes for gathering and validating the data included in the 2019 Non-Financial Statement.

- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2019 NFS.

- Checking, through tests, based on a selection of a sample, the information related to the content of the 2019 NFS and its correct compilation from the data provided by the information sources.

- Obtaining a representation letter from the Directors and Management.

## Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter came to our attention that would lead us to believe that the 2019 NFS of the Group for the year ended December 31, 2018 has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section "11.7. *Index of content required by Law 11/2018 of 28 December on disclosure of non-financial and diversity information*" of the aforementioned Statement.

## Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

______________________

Alberto Castilla Vida

February 25, 2020

KPMG

# 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.<br>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.<br><br>• 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.<br><br>• Due to the uncertainty associated with these estimates, this has been considered a key audit matter. | • Our audit procedures included the following:<br>- evaluating the design and implementation of the key controls related to the process of measuring investments;<br>- assessing the criteria used by the Company's Directors and Management in determining whether there are indications that the investments may be impaired;<br>- evaluating the main assumptions considered when analysing impairment of investments in Group companies, with the assistance of our valuation specialists where necessary.<br><br>• 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)*

RED ELÉCTRICA CORPORACIÓN

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.

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## 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)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- 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)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- 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)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- 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)<br>- Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain).<br>- 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)<br>- Hoogoorddreef 15. Amsterdam. (Netherlands).<br>- 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)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Financing activities. | 100% | - | 60 | 60 | - | 10,040 | (2,000) | 2,433 | (229) | 2,000 |
| Red Eléctrica Sistemas de Telecomunicaciones, S.A. (RESTEL)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- 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)<br>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).<br>- Activities geared towards driving and accelerating technological innovation. | 100% | - | 4,250 | 250 | 4,000 | (3) | - | (503) | (670) | - |
| Redcor Reaseguros, S.A (REDCOR)<br>- 26, Rue Louvigny. (Luxembourg).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru).<br>- 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)<br>- Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago. (Chile).<br>- 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)<br>- Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago. (Chile).<br>- 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)<br>- Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago. (Chile).<br>- Electricity transmission and operation and maintenance of electricity transmission networks. | - | 100% (e) | 25,401 | 28,277 | - | (117) | - | (520) | 2,675 | - |
| Hispasat S.A.<br>- Paseo de la Castellana, 39. 28046 Madrid. (Spain).<br>- 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.<br>-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).<br>- 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.<br>- Praia do Flamengo, 200 Rio de Janeiro. (Brazil).<br>- Commercialisation of satellite capacity | - | 89.68% (g) (4) | 43,066 | 23,457 | - | 20,062 | - | 2,831 | 282 | - |
| Hispamar Satélites, S.A.<br>- Praia do Flamengo, 200 Rio de Janeiro. (Brazil).<br>- Commercialisation of satellite capacity | - | 72.6% (h) (4) | 5,948 | 24,989 | - | 20,879 | - | 2,784 | 2,973 | - |
| Hispamar Exterior, S.L.U.<br>Paseo de la Castellana 39, 28046. Madrid. (Spain).<br>- 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.<br>- Agustín Manuel Chávez 1-001 Col. Centro de Ciudad Santa Fe, 01210 México D.F. (Mexico).<br>- Use of radio spectrum, telecommunications networks and satellite communication. | - | 89.68% (g)(4) | 6,555 | 7,131 | - | 1,435 | - | (339) | 1,624 | - |
| Consultek, Inc<br>- 1036 Country Club Drive, Suite 202, Moraga, CA 94556. (United States of America)<br>- Technical consultancy services | - | 89.68% (g)(4) | 16 | 18 | - | 26 | - | 6 | 10 | - |
| Hispamar Satélites, S.A. (*)(Venezuela)<br>- Torre Phelps, piso 10 ofic. 10. Caracas. (Venezuela).<br>- Commercialisation and rendering of satellite telecommunications services | - | 72.60% (i)(4) | - | - | - | - | - | - | - | - |
| Hispasat UK, LTD. (*)<br>- 3-7 Temple Avenue, Suite 38, Temple Chambers, London, EC4Y 0HP. (England)<br>- Commercialisation and rendering of satellite telecommunications services | - | 89.68% (g)(4) | - | - | - | - | - | - | - | - |
| **B) Proportionately consolidated companies** | | | | | | | | | | |
| Interconexión Eléctrica Francia-España, S.A.S. (INELFE)<br>- Inmueble Window, 7 C Place du Dôme, 92073 La Défense Cedex, Paris (France)<br>- 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)<br>- Avenida Apoquindo N°3721, piso 6, Las Condes, Santiago. (Chile)<br>- 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.<br>- Paseo de la Castellana 143, 28046 Madrid. (Spain).<br>- 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.<br>- Calle Isaac Newton 1, Madrid. (Spain).<br>- 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:

<u>Market risk</u>

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<br>- 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<br>- 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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Thousands of Euros | 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.)

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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.

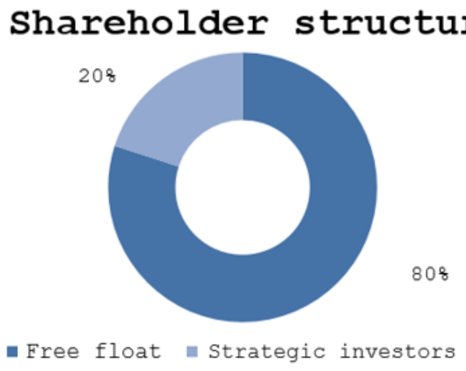
## 3. Stock market performance and shareholder returns

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.

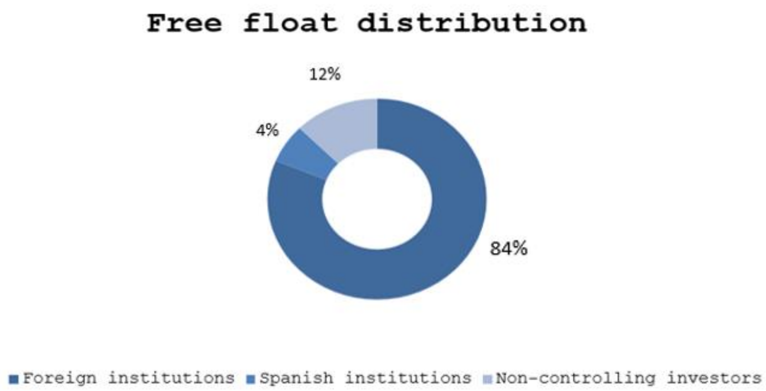
REC also forms part of the IBEX 35 index, of which it represented 1.96% at the end of 2019.

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