



Red Eléctrica Corporación, S.A.

Consolidated Annual Accounts

31 December 2018

Consolidated Directors' Report

2018

(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 2018, 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 2018 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 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 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.

Additions to property, plant and equipment (Euros 401,968 thousand)

See note 6 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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 2018 additions to property, plant and equipment totalled Euros 401,968 thousand, of which Euros 380,679 thousand pertains to Red Eléctrica de España, S.A.U.</p> <p>Considering the nature of the business carried out by Red Eléctrica de España, S.A.U., remuneration is set by the Ministry for the Ecological Transition. 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.</p>	<p>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.</p> <p>Our procedures for evaluating and analysing the control environment were focused on:</p> <ul style="list-style-type: none"> - 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”. <p>Our substantive procedures on property, plant and equipment mainly consisted of:</p> <ul style="list-style-type: none"> - Analysing additions during the year and assessing the accuracy of their accounting recognition. - Analysing documentation supporting the cost allocation for a sample of projects in progress. <p>We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Company.</p>

Hedging instruments (assets: Euros 11,020 thousand; liabilities: Euros 39,944 thousand; valuation adjustments: hedging transactions: Euros 62,237 thousand)

See notes 12, 16, 17 and 18 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Loans and borrowings and bonds and other marketable securities total Euros 5,543,085 thousand, of which Euros 685,750 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 of part of this debt and of highly probable forecast future transactions.</p> <p>Derivatives designated as accounting hedges must meet strict criteria with respect to documentation and the effectiveness of the hedge on inception.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Our procedures for evaluating the control environment were focused on:</p> <ul style="list-style-type: none"> - Testing the design, implementation and operating effectiveness of key controls related to the cycles of "derivative financial instruments" and "recognition of financial transactions". <p>Our substantive procedures on hedging derivatives mainly consisted of:</p> <ul style="list-style-type: none"> - Performing substantive tests to evaluate whether derivative financial instruments have been correctly measured. Our specialists in financial instruments were involved in these procedures. - 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. - 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. <p>We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Company.</p>



Other Information: Consolidated Directors' Report

Other information solely comprises the 2018 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 and 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 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 referred to in a) above has been provided in the consolidated directors' report and the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018, 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 models for the Annual Corporate Governance Report for listed corporations, and for the purposes of the description of the System 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 2018, on 20 February 2019, at the Company's request, we issued our Independent Reasonable Assurance Report on the System of Internal Control over Financial Reporting (ICOFR) of the Red Eléctrica Group for 2018, 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 Parent's 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 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 20 February 2019.

Contract Period _____

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 15 April 2016 for a period of three years, from the year commenced 1 January 2016.

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

(Signed on original in Spanish)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20,435

20 February 2019



Consolidated Annual Accounts

2018

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



Red Eléctrica Group
Consolidated Statements of Financial Position at 31 December 2018 and 31 December 2017
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Thousands of Euros

Assets	Note	31/12/2018	31/12/2017
Non-current assets			
Intangible assets	5	242,559	154,939
Property, plant and equipment	6	8,711,332	8,747,376
Investment property	7	1,654	2,385
Equity-accounted investees	9	198,377	172,727
Non-current financial assets	17	109,911	95,265
Non-current derivatives		11,020	12,970
Deferred tax assets	21	27,984	27,824
Other non-current assets		677	752
Total non-current assets		9,303,514	9,214,238
Current assets			
Inventories	10	34,641	39,753
Trade and other receivables	11	1,102,560	1,013,355
Trade receivables		10,826	14,940
Other receivables		1,089,675	994,627
Current tax assets	21	2,059	3,788
Other current financial assets	17	54,213	80,668
Cash and cash equivalents		767,152	569,869
Total current assets		1,958,566	1,703,645
Total assets		11,262,080	10,917,883
Equity and liabilities			
Equity			
Capital and reserves			
Capital		3,404,605	3,157,494
Reserves		270,540	270,540
		2,598,060	2,384,396
Own shares and equity holdings (-)		(21,303)	(29,769)
Profit for the year attributable to the Parent		704,558	669,836
Interim dividend (-)		(147,250)	(137,509)
Valuation adjustments		(44,071)	(64,104)
Financial assets at fair value through other comprehensive income		15,063	15,435
Hedging transactions		(62,237)	(77,241)
Translation differences		3,103	(2,298)
Equity attributable to the Parent		3,360,534	3,093,390
Non-controlling interests		832	59
Total equity	12	3,361,366	3,093,449
Non-current liabilities			
Grants and other	13	631,410	597,122
Non-current provisions	14	127,541	100,982
Non-current financial liabilities	17	4,981,234	4,630,915
Loans and borrowings, bonds and other marketable securities		4,980,757	4,630,691
Other non-current financial liabilities		477	224
Deferred tax liabilities	21	473,125	472,475
Non-current derivatives		39,944	61,437
Other non-current liabilities	15	83,068	87,019
Total non-current liabilities		6,336,322	5,949,950
Current liabilities			
Current financial liabilities	17	1,196,870	1,471,957
Loans and borrowings, bonds and other marketable securities		562,328	824,497
Other current financial liabilities		634,542	647,460
Trade and other payables	19	367,522	402,527
Suppliers		313,759	343,694
Other payables		50,278	47,974
Current tax liabilities	21	3,485	10,859
Total current liabilities		1,564,392	1,874,484
Total equity and liabilities		11,262,080	10,917,883

The Group applied IFRS 15 and IFRS 9 on 1 January 2018. Given the transition method selected, the comparative information has not been restated.

Notes 1 to 33 and Appendix I form an integral part of these consolidated annual accounts.

Red Eléctrica Group



Consolidated Income Statements. 2018 and 2017

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

Thousands of Euros	Note	31/12/2018	31/12/2017
Revenue	22.a	1,948,540	1,941,165
Self-constructed assets	5 and 6	62,027	66,757
Share of profit/(loss) of equity-accounted investees (with a similar activity to that of the Group)	9	6,966	-
Supplies	22.c	(37,725)	(61,110)
Other operating income	22.b	12,696	29,450
Personnel expenses	22.d	(151,848)	(148,693)
Other operating expenses	22.c	(300,987)	(308,071)
Amortisation and depreciation	5, 6 and 7	(480,753)	(515,151)
Non-financial and other capital grants	13	23,445	23,441
Impairment and gains/(losses) on disposal of fixed assets	6	(12,568)	3,627
Results from operating activities		1,069,793	1,031,415
Finance income	22.e	10,670	9,236
Finance costs	22.e	(144,063)	(151,738)
Exchange differences		(148)	(88)
Impairment and gains/(losses) on disposal of financial instruments		-	18
Net finance cost		(133,541)	(142,572)
Share in profit/(loss) of equity-accounted investees	9	-	1,397
Profit before tax		936,252	890,240
Income tax	21	(231,763)	(220,421)
Consolidated profit for the year		704,489	669,819
A) Consolidated profit for the year attributable to the Parent		704,558	669,836
B) Consolidated loss for the year attributable to non-controlling interests		(69)	(17)
Earnings per share in Euros			
Basic earnings per share in Euros	31	1,31	1,24
Diluted earnings per share in Euros	31	1,31	1,24

Notes 1 to 33 and Appendix I form an integral part of these consolidated annual accounts.



Red Eléctrica Group
Consolidated Statements Of Comprehensive Income. 2018 and 2017

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

Thousands of Euros	31/12/2018	31/12/2017
A) Consolidated profit for the year	704,489	669,819
B) Other comprehensive income– Items that will not be reclassified to profit or loss:	2,089	(2,991)
1. Revaluation/(reversal) of PPE and intangible assets	-	-
2. Actuarial gains and losses	3,280	(3,989)
3. Share in other comprehensive income from investments in joint ventures and associates	-	-
4. Equity instruments through other comprehensive income	(1,501)	-
5. Other income and expense that will not be reclassified to profit or loss	-	-
6. Tax effect	310	998
C) Other comprehensive income– Items that could subsequently be reclassified to profit or loss:	20,428	(1,948)
1. Cash flow hedges:	6,932	14,626
a) Revaluation gains/(losses)	2,415	13,253
b) Amounts transferred to the income statement	4,517	1,373
c) Amounts transferred to initial value of hedged items	-	-
d) Other reclassifications	-	-
2. Translation differences:	7,235	(10,451)
a) Revaluation gains/(losses)	7,235	(10,451)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
3. Share in other comprehensive income from investments in joint ventures and associate:	9,803	(4,389)
a) Revaluation gains/(losses)	9,803	(4,389)
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:	-	(1,833)
a) Revaluation gains/(losses)	-	(1,833)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
6. Tax effect	(3,542)	99
Total comprehensive income for the year (A + B + C)	727,006	664,880
a) Attributable to the Parent	727,051	664,897
b) Attributable to non-controlling interests	(45)	(17)

Notes 1 to 33 and Appendix I form an integral part of these consolidated annual accounts.



Red Eléctrica Group
Consolidated Statements of Changes in Equity for the years ended 31 December 2018 and 2017

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

Equity / Thousands of Euros	Note	Subscribed capital	Reserves	Interim dividend	Own shares	Profit/(loss) attributable to the Parent	Valuation adjustments	Equity attributable to the Parent	Non-controlling interests	Total equity
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 application of IFRS 9, net of tax	2.f	-	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	12	-	(359,223)	(9,741)	-	(137,509)	-	(506,473)	-	(506,473)
- Transactions with own shares	12	-	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
Balances at 1 January 2017		270,540	2,222,906	(128,417)	(36,739)	636,920	(62,156)	2,903,054	17,495	2,920,549
I. Comprehensive income for the year		-	(2,991)	-	-	669,836	(1,948)	664,897	(17)	664,880
II. Transactions with shareholders or owners		-	(335,265)	(9,092)	6,970	(128,417)	-	(465,804)	-	(465,804)
- Distribution of dividends	12	-	(335,740)	(9,092)	-	(128,417)	-	(473,249)	-	(473,249)
- Transactions with own shares	12	-	475	-	6,970	-	-	7,445	-	7,445
III. Other changes in equity		-	499,746	-	-	(508,503)	-	(8,757)	(17,419)	(26,176)
- Transfers between equity line items		-	508,503	-	-	(508,503)	-	-	-	-
- Other changes	2.g	-	(8,757)	-	-	-	-	(8,757)	(17,419)	(26,176)
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

Notes 1 to 33 and Appendix I form an integral part of these consolidated annual accounts.



Red Eléctrica Group Consolidated Statements of Cash Flows. 2018 and 2017

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

Thousands of Euros	Note	31/12/2018	31/12/2017
Cash flows from operating activities		1,100,025	1,153,255
Profit before tax		936,252	890,240
Adjustments to profit		624,907	641,492
Amortisation and depreciation	5, 6 and 7	480,753	515,151
Other adjustments		144,154	126,341
Equity-accounted investees		(6,966)	(1,397)
(Gains)/losses on disposal/impairment of non-current assets and financial instruments		12,568	(3,645)
Accrued finance income	22.d	(10,670)	(9,254)
Accrued finance costs	22.d	144,063	151,738
Charge to/surplus provisions for liabilities and charges	14	25,048	8,637
Capital and other grants taken to income	13	(19,889)	(19,738)
Changes in operating assets and liabilities		(112,540)	(30,319)
Changes in inventories, receivables, prepayments for current assets and other current assets		(74,518)	(71,478)
Changes in trade payables, current contract liabilities and other current liabilities		(38,022)	41,159
Other cash flows used in operating activities:		(348,594)	(348,158)
Interest paid		(150,426)	(156,091)
Dividends received	22.d	4,848	3,881
Interest received		4,435	4,944
Income tax received/(paid)		(205,570)	(196,419)
Other proceeds from and payments for operating activities		(1,881)	(4,473)
Cash flows used in investing activities		(525,898)	(536,410)
Payments for investments		(557,384)	(545,588)
Property, plant and equipment, intangible assets and investment property	5, 6 and 7	(456,219)	(472,654)
Group companies, associates and business units	9	(101,165)	(27,184)
Other financial assets	17	-	(45,750)
Proceeds from sale of investments		4,067	882
Property, plant and equipment, intangible assets and investment property	5, 6 and 7	240	24
Other financial assets	17	3,827	858
Other cash flows from investing activities		27,419	8,296
Other proceeds from investing activities	13	27,419	8,296
Cash flows used in financing activities		(377,582)	(294,597)
Proceeds from and payments for equity instruments	12	10,417	7,445
Acquisition		(44,675)	(32,387)
Disposal		55,092	39,832
Proceeds from and payments for financial liability instruments	17	113,211	176,381
Issue and drawdowns		1,398,826	537,559
Redemption and repayment		(1,285,615)	(361,178)
Dividends and interest on other equity instruments paid	12	(495,138)	(463,189)
Other cash flows used in financing activities		(6,072)	(15,234)
Effect of exchange rate fluctuations on cash and cash equivalents		738	(3,800)
Net increase in cash and cash equivalents		197,283	318,448
Cash and cash equivalents at beginning of year		569,869	251,421
Cash and cash equivalents at year end		767,152	569,869

Notes 1 to 33 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.



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

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, and renders telecommunications services to third parties in Spain through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL), essentially through dark fibre backbone network rental for both electricity transmission infrastructure and railway infrastructure.

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).

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 2018, 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 19 February 2019, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its 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 2017 were approved by the shareholders at their general meeting held on 22 March 2018. The consolidated annual accounts for 2018 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 amendments have been applied for the first time in 2018:

Effective since:	New requirements or amendments
1 January 2018	<ul style="list-style-type: none">• IFRS 9 Financial Instruments.• IFRS 15 Revenue from Contracts with Customers:• Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2



As regards the new standards issued, IFRS 9 Financial Instruments and IFRS 15 Revenues from Contracts with Customers, which have entered into force for the annual period beginning on 1 January 2018, the Group has recognised the impacts derived from adoption of these standards and incorporated them in these financial statements at 31 December 2018.

Given the transition methods selected by the Group, the comparative information included in these financial statements has not been restated to reflect the requirements of the new standards with an impact on the financial statements.

IFRS 9 Financial Instruments

IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The main impacts of first-time application of this new standard mainly relate to the treatment of financial liability restructuring transactions under IFRS 9. In the opening figures of the statement of financial position, at 1 January 2018, first-time application of IFRS 9 has entailed a decrease of Euros 47.1 million in loans and borrowings, bonds and other marketable securities, an increase of Euros 35.4 million in equity and the recognition of the corresponding deferred tax liabilities for an amount of Euros 11.7 million. Furthermore, as a result of the introduction of the expected loss model to calculate impairment set out in IFRS 9, at 1 January 2018 impairment losses on receivables were recognised for an amount of Euros 1.1 million, which has resulted in a Euros 0.8 million reduction in equity and the recognition of the corresponding deferred tax assets amounting to Euros 0.3 million.

The impact of first-time application of IFRS 9 at 1 January 2018, net of tax, is as follows:

Thousands of Euros

Consolidated statement of financial position	31/12/2017	01/01/2018	Change
Non-current assets	9,214,238	9,214,507	269
Current assets	1,703,645	1,702,569	(1,076)
Total assets	10,917,883	10,917,076	(807)
Equity	3,093,449	3,128,000	34,551
Non-current liabilities	5,949,950	5,914,592	(35,358)
Current liabilities	1,874,484	1,874,484	-
Total equity and liabilities	10,917,883	10,917,076	(807)



Classification of financial assets and financial liabilities:

IFRS 9 includes three main categories for the classification of financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. Classification of financial assets under IFRS 9 is generally on the basis of the business model for managing the financial assets and their contractual cash flow characteristics. IFRS 9 eliminates the categories of held to maturity, loans and receivables and available for sale that previously existed under IAS 39.

In accordance with IFRS 9, at 1 January 2018 the Group classified financial assets as financial assets at fair value through profit and loss, financial assets measured at amortised cost or financial assets at fair value through other comprehensive income, based on the asset's contractual cash flow characteristics and the business model applied by the Group.

Debt investments held as part of a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest are generally measured at amortised cost. When these debt instruments are held as part of a business model whose objective is achieved by both collecting contractual cash flows of the principal and interest and selling financial assets, they are generally measured at fair value through other comprehensive income. All other debt and equity investments are in general measured at fair value through profit or loss. However, entities may make an irrevocable election to present changes in the fair value of certain investments in equity instruments in other comprehensive income, in which case only the dividends are subsequently recognised in profit or loss.

At 31 December 2017, the Group held equity investments classified as available-for-sale financial assets with a fair value of Euros 83.2 million, mostly reflecting the Group's 5% interest in the investee Redes Energéticas Nacionais, SGPS (hereinafter REN). At the date of first application, the Group classified these investments as financial assets at fair value through other comprehensive income.



Details of the reconciliation of the classification and measurement of financial assets under IAS 39 and IFRS 9 at the date of first application are as follows:

Type of instrument (*)	Classification at 31/12/2017 (IAS 39)	Classification at 1/1/2018 (IFRS 9)	Amount under IAS 39 (thousands of Euros)	Amount under IFRS 9 (thousands of Euros)
Equity instruments	Available for sale	Fair value through other comprehensive income	83,184	83,184
Other financial assets	Loans and receivables	Amortised cost	90,327	90,327
Other financial assets	Available for sale	Fair value through profit or loss	2,422	2,422

(*) Excluding trade and other receivables and cash and cash equivalents

Equity instruments reflect investments that the Group intends to hold in the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments as at fair value through other comprehensive income at the date of initial application. Unlike under IAS 39, the reserve arising from the cumulative change in the fair value of these investments will never be reclassified to profit or loss.

The application of IFRS 9 has had no impact on the classification of financial liabilities. However, application of IFRS 9 has had the initial impact described above on financial liability restructuring transactions.

An increase of Euros 5,808 thousand in finance costs has been recognised in the consolidated income statement for 2018 as a result of the higher effective interest rate under the new accounting criteria for financial liabilities that have not been substantially modified, with respect to that applied in 2017.

The other financial assets designated as at fair value through profit or loss reflect the Group's investment in certain economic interest groups (EIGs). These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the risks and rewards of the activity, while the Group only avails of the tax benefits pursuant to Spanish legislation.



Impairment

IFRS 9 introduces a new impairment model based on expected loss, which differs from the incurred loss model under IAS 39. The impairment model has a dual measurement approach in which the impairment provision will be based either on 12-month expected credit losses or on lifetime expected credit losses. Credit losses under IFRS 9 are recognised before they are under IAS 39. Given the high credit quality of the Group's financial assets, the impact has been limited, with impairment losses amounting to Euros 1.1 million at 1 January 2018 under IFRS 9 (see note 11) and a net effect of less than Euros 0.8 million on reserves.

Hedge accounting.

The Group has opted to adopt the new hedge accounting model under IFRS 9. This requires the Group to ensure that the hedging relationships are aligned with the objectives and risk management strategy, and to apply a more qualitative and forward-looking approach to assess the effectiveness of hedges. IFRS 9 has demanded greater alignment with the Group's risk management and a more qualitative-based approach than under IAS 39, although it has not had a relevant impact on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out a comprehensive conceptual framework to determine whether revenue should be recognised and the timing and amount thereof. This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

Under IFRS 15, revenue is recognised when the customer obtains control of the goods or services. Determining the transfer of control, at a point in time or over time, requires judgement. The new standard provides a comprehensive framework for the recognition of revenue from contracts with customers, establishing the presentation principles for information that is helpful to users of financial statements as regards the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with its customers. The standard sets out a five-step application model: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the different performance obligations; and recognise revenue when a performance obligation is satisfied.

The Group has adopted IFRS 15 using the cumulative effect method, by recognising the effect of initially applying this standard at the date of initial application, i.e. 1 January 2018. As a result, the information presented for 2017 has not been restated.

The Group has assessed the impact derived from application of this standard and concluded that adopting IFRS 15 has not entailed significant modifications to revenue recognition.

The most significant types of revenues and associated contracts analysed were as follows:

- Regulated revenue from transmission and system operation activities in Spain, making up 93% of the Group's revenue: the Group subsidiary Red Eléctrica de España, S.A.U. is the company designated by the Spanish electricity sector regulator (currently the Ministry for the Ecological Transition, or MITECO) to carry out the electricity transmission and system operation activities on an exclusive basis. Both of these activities are regulated by Electricity Industry Law 24/2013. This legislation, which was subsequently enacted by Royal Decree 1047/2013, provides that the amount of remuneration receivable is to be set annually by MITECO, at the proposal of the Spanish National Markets and Competition Commission (CNMC), and should cover the services the Company renders to consumers and other electricity sector agents on an uninterrupted basis throughout the year. The obligations to construct, operate and maintain electricity transmission facilities set out in the law are considered to be a single performance obligation. Similarly, the legal obligations included within the obligation of the electricity system operator are understood to comprise a single performance obligation, identified as "providing the electricity system operation service". As a result, revenue from the performance obligations of transmission and system operation



services is recognised over time, on a straight-line basis, based on the remuneration set for each year. The entry into force of IFRS 15 has not had an impact on the recognition of this revenue.

- Revenue associated with the telecommunications business, representing 4% of the Group's revenue. This revenue mainly derives from the contracts for the concession of the rights to use the fibre optic backbone network and cables to different customers in the telecommunications sector, as well as services rendered thereto, which are considered to be a single performance obligation. Based on an analysis of these contracts under IFRS 15, the Group has concluded that revenue should be recognised over time, as the service is rendered to the customer. Revenue is recognised on a straight-line basis over the year, as it was previously recognised, and no changes are therefore expected to the recognition of revenue associated with the telecommunications business as a result of the entry into force of the new IFRS 15.
- Revenue of international subsidiaries under concessions, representing 1% of the Group's revenue. Based on the analysis, the entry into force of the new IFRS 15 has not had an impact on the recognition of revenue of international subsidiaries under concessions.



The new standards approved by the European Union for which application is not mandatory in 2018 but which will enter into force for annual periods beginning on or after 1 January 2019 are as follows:

Effective since:	New requirements or amendments
1 January 2019	<ul style="list-style-type: none">• IFRS 16 Leases• IFRIC 23 Uncertainty over Income Tax Treatments• Prepayment Features with Negative Compensation (Amendments to IFRS 9)• Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)• Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)• Annual Improvements to IFRS Standards 2015–2017 Cycle - various standards
1 January 2020	<ul style="list-style-type: none">• Amendments to References to the Conceptual Framework in IFRS Standards
1 January 2021	<ul style="list-style-type: none">• IFRS 17 Insurance Contracts

IFRS 16 Leases

IFRS 16 introduces a single accounting model for the recognition of leases by lessees. The lessee recognises an asset for the right of use of the underlying asset and a liability for the lease due to the obligation to make the lease payments. There are recognition exceptions for short-term leases and the leasing of articles of little value. The lessor accounting method remains similar to that under the current standard; i.e. lessors continue to classify leases as finance leases or operating leases.

This standard replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019.

The Group has assessed the estimated impact that initial application of this standard will have on its consolidated financial statements, details of which are provided below.



Leases in which the Group is the lessee

The Group will recognise new assets and liabilities in respect of its operating leases, mainly for its offices and premises and fleet of vehicles. The nature of the expenses related to these leases will now change, because the Group will recognise a depreciation charge for the right-of-use assets and an expense for interest on the lease liabilities. Previously, the Group recognised the operating lease expense on a straight-line basis over the lease term, and recognised assets and liabilities only to the extent that there was a difference in timing between the actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group expects that it will recognise lease assets and lease liabilities amounting to approximately Euros 12 million at 1 January 2019. However, the actual impact of adopting the standard at 1 January 2019 may change as:

- The Group has not completed implementation of the information systems that will provide support to the new operations.
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

Transition

The Group intends to initially apply IFRS 16 at 1 January 2019, retrospectively recognising the cumulative effect of initial application at the date of initial application, without restating comparative information.

IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

This interpretation is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

The Group has assessed the impact of this interpretation and no significant impacts are expected as a result of its application.



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 2018 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 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 6).
- 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 14).
- The assumptions used to calculate the fair value of derivatives (see note 18).
- The assumptions used to calculate the fair value of assets and liabilities acquired in a business combination (see note 8).
- 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 14).



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 2018, 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.

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 2017 in the accompanying consolidated annual accounts. As required by IFRS-EU, these consolidated annual accounts for 2018 include comparative figures for the prior year.

The consolidated financial statements for 2018 are not comparable with those for the 2017 period as a result of the application of IFRS 9 from 1 January 2018 onwards (see note 2b).

Moreover, in 2018 the Group has classified the profit/loss for the period of the equity-accounted investee Transmisora Eléctrica del Norte S.A. (hereinafter TEN), following the start of its activities, under results from operating activities, in accordance with Decision EECS/0114-06 "Change of Presentation of the Share in the Profit or Loss of Associates and Joint Ventures Accounted for Using the Equity Method" issued by the European Securities and Markets Authority (ESMA). This change has not been applied retroactively to the consolidated financial statements for the prior period as the amount is not significant.



g) Changes in the consolidated Group

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 8).

The changes in the consolidated Group in 2017 were as follows:

- On 19 January 2017 REI acquired 45% of the shares in REDESUR, which were held by the infrastructure investment fund AC Capitales. The Group thereby increased its ownership of this Peruvian company and the subsidiaries thereof to 100%.
- On 1 June 2017 REI transferred its interest in TESUR 2 and TESUR 3 to REDESUR. As a result, the latter is now the sole owner of both of these companies. This transaction has no accounting impact on the consolidated financial statements, as the Group already held a 100% interest in both of these companies.
- On 5 July 2017 Red Eléctrica Chile SpA. and Cobra Instalaciones y Servicios S.A. incorporated Red Eléctrica del Norte S.A. (REDENOR) in Chile. This company is fully consolidated in the Group. The company is 69.9% owned by the Group, with the remainder held by non-controlling interests, and its activity comprises the design, financing, construction, operation and maintenance of several transmission facilities in the Far North Electricity System (SING).



3. Sector Regulation

Spanish electricity sector

The electricity sector regulatory reform that had been carried out in past years was completed in 2013 with the publication of Electricity Industry Law 24/2013 of 26 December 2013, which repeals Law 54/1997, with the exception of certain additional provisions, and its regulatory developments.

Electricity Industry Law 24/2013 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 Company, the new Law 24/2013 maintains the Company'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, which made specific reference to the Group's Parent, Red Eléctrica Corporación, S.A., and assigned to the subsidiary Red Eléctrica de España, S.A.U. the functions of sole transmission agent, system operator and transmission network manager, the latter two activities 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 Company are as follows:

- This Law acknowledges the natural monopoly in the electricity 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.

Remuneration for this activity has been set by the government on the basis of the general principles laid down in the law, as developed in Royal Decree 1047/2013 of 27 December 2013, which set out the new remuneration system for the transmission activity, and by Royal Decree 1073/2015 of 27 November 2015, which amends certain provisions in Royal Decree 1047/2013.



The remuneration model for the transmission activity 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 by 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. Accordingly, the recognised cost of the transmission activity has been calculated every year since 2016 based on the new remuneration model defined by Royal Decree 1047/2013.

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.

- As electricity system operator and transmission network manager, 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 (*Mercado Ibérico de la Energía Eléctrica*) while observing the principles of transparency, objectivity and independence.

In this regard, in 2015 the certification process for Red Eléctrica as transmission network manager for the Spanish electricity system, as provided in article 31,1 of Law 24/2013, was completed following publication in the Official Journal of the European Union of 12 February 2015 of the Notification of the Spanish Government pursuant to article 10(2) of Directive 2009/72/EC of the European Parliament and of the Council ('Electricity Directive') concerning common rules for the internal market in electricity regarding the designation of Red Eléctrica de España, S.A.U. as transmission system operator in Spain.

The Company has also been entrusted with developing and expanding the high-voltage transmission network so as to guarantee the maintenance and improvement of a grid based on standardised and consistent criteria, managing the transit of electricity between external systems that use the Spanish electricity system networks, and refusing access to the transmission network in the event of insufficient capacity.

The Company 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, the Company 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.



Regarding the Company's remit in the non-mainland electricity systems, in 2015 the Soria-Chira 200 MW hydroelectric pumping power plant project in Gran Canaria was transferred to the system operator, as stipulated in Order IET/728/2014 of 28 April 2014. Once Red Eléctrica had assumed ownership of the project in 2016, and pursuant to Law 17/2013, for the purposes of implementing a new energy model in Gran Canaria to improve security of supply, system security and the integration of renewable energies, a revised project was submitted in 2016, which included technical and environmental improvements. The revised project was declared to be of strategic interest by the Regional Government of the Canary Islands in 2016 and is undergoing the corresponding environmental and administrative processing. As such, it is estimated that construction may begin soon.

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 2018.

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".

Under the Electricity Concessions Law, the National Interconnected System (SEIN) is divided into three major segments: generation, transmission and distribution. Pursuant to this law and the Law for the Efficient Development of Electricity Generation, the operations of generation power plants and transmission systems are subject to the provisions of the Economic Operation Committee of the National Interconnected System (COES-SINAC), which coordinates operations at minimum cost, so as to ensure the security of electricity supply and enhance the use of energy resources, as well as plan development of the National Interconnected System (SEIN) and administrate the short-term market.



The concession arrangements signed in Peru by Red Eléctrica del Sur S.A., Transmisora Eléctrica del Sur S.A.C, Transmisora Eléctrica del Sur 2 S.A.C and Transmisora Eléctrica del Sur 3 S.A.C comply with Supreme Decree No. 059-96-PCM (Public Works Concessions Law) and the related regulations, Supreme Decree No. 060-96-PCM; whilst the concession agreement of Transmisora Eléctrica del Sur 4 S.A.C complies with Supreme Decree No. 254-2017-EF, which approved the Single Ordered Text of Legislative Decree No. 1224, Legislative Decree of the Framework for the Promotion of Private Investment through Public-Private Partnerships and Projects in Assets and the related regulations, approved by Supreme Decree No. 410-2015-EF. However, these legal regimes have been repealed and replaced by a similar legal regime, comprising Legislative Decree No. 1362, Legislative Decree governing the Promotion of Private Investment through Public-Private Partnerships and Projects in Assets and the related regulation, approved by Supreme Decree No. 240-2018-EF.

This legislation, together with Law No. 28832, comprise 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 values for investment and 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 (Series ID: WPSSOP3500) published by the Bureau of Labor Statistics of the United States Government.

The "Procedures for Setting Regulated Prices" were approved through OSINERGMIN (Peruvian Supervisory Body for Energy and Mining Investment) Resolution No. 080-2012-OS/CD and amendments thereto. These rules contain information relating to the bodies involved in setting regulated prices, their competences and obligations, the price-setting deadlines, the administrative appeals that may be filed, the terms for filing and resolving such appeals, as well as the body responsible for their resolution.

The rules on "Tariffs and Remuneration for Secondary Transmission Systems (STS) and Complementary Transmission Systems (CTS)" were approved through OSINERGMIN Resolution No. 050-2011-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 through OSINERGMIN Resolutions Nos. 335-2004-OS/CD, 200-2010-OS/CD and 004-2015-OS/CD, respectively. 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 No. 4 of 2006 (DFL No. 4/2006), which sets out the revised, coordinated and systematised text of Decree with Force of Law No. 1 of 1982, the General Electricity Services Law (DFL No. 1/1982) and subsequent amendments thereto, including Law 20,257 on non-conventional renewable energy, Law 20,701 on the procedure for awarding electricity concessions, Law 20,698 which fosters expansion of the energy matrix through non-conventional renewable energy sources, Law 20,726 which promotes the interconnection of independent electricity systems, Law 20,805 devised to improve the electricity supply tender process for customers subject to price regulation, and Law 20,936 which provides for a new electricity transmission system and creates an independent coordinator for the national electricity system, published on 20 July 2016, and redefines the transmission systems, classifying them into five segments: National Transmission System (previously backbone), Zonal Transmission Systems (previously sub-transmission), Dedicated Systems (previously additional transmission), Systems for Development Hubs and International Interconnection Systems.

Law 20.936 covers the planning of transmission over a long-term horizon and regulates the tariffs of the national system, zonal system and system for development hubs, as well as payment for use of the dedicated transmission facilities by users subject to the price regulation. The prices associated with payment for use of the national and zonal transmission systems are determined by the Chilean National Energy Commission (CNE) every four years through processes that involve the participation of companies in the sector, users, the institutions concerned and, where discrepancies to exist, the panel of experts.

The pricing policy takes into account the efficient acquisition and installation costs at market prices, which are annualised based on a useful life calculated every three tariff periods (12 years) and a variable discount rate calculated by the CNE every four years. Owners of regulated transmission facilities should receive the Annual Transmission Value by Segment, based on the sum of actual tariff revenues and a single charge for use associated with each segment and directly applied to end users.

Law 20.936 envisages that the new regime for payment for use of national facilities will enter into force on 1 January 2019, whereupon a transition period up to 31 December 2034 will begin.

On 3 February 2016 the Chilean Ministry of Energy published Decree 23T identifying the backbone transmission facilities (presently national) and the new Investment Values, the Annual Investment Value and the Cost of Operation, Maintenance and Administration, plus the Annual Transmission Value by Segment of the backbone facilities, for the period from 1 January 2016 up to 31 December 2019, as well as the indexation formulas applicable in this period.

Under transitional article 12 of Law 20.936, during the period in which Decree No. 14 remains in force, the process to set the new zonal transmission tariffs, which will be effective from 1 January 2018 to 31 December 2019, will be ongoing and ultimately concluded. On 28 March 2017 the Chilean National Energy Commission published Exempt Resolution No. 149 which approves the final technical report on the calculation of the annual value for the zonal transmission and dedicated transmission systems for the two-year period 2018-2019.

On 27 July 2017, Energy Ministry Exempt Resolution No. 380 was published, setting out the periods, requirements and conditions applicable to the valuation process of transmission facilities for the 2020-2023 period, and Exempt Resolution No. 385 was published, setting out the periods, requirements and conditions applicable to the collection, payment and remuneration of transmission systems.

Telecommunications



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. The aforementioned Law 9/2014 is developed by Royal Decree 123/2017 of 24 February 2017, which approves the regulation on the use of public domain radio.

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 order to authorise the acquisition by the Group of the rights to use and manage the operation of the fibre optic cables of Administrador de Infraestructuras Ferroviarias (Adif), the CNMC analysed the dark fibre backbone network lease activity, concluding that the environment was sufficiently competitive and 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 communications networks must be guaranteed. Under Spanish and European law, REINTEL is obliged to meet all access requests under fair and reasonable terms and conditions. This obligation is fulfilled in view of the nature of the dark fibre business.

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.

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 attributable 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 with property, plant and equipment under construction for projects executed under the supervision and management of Group companies.

The Group companies transfer work in progress to property, plant and equipment in use once these items come into service and provided that the assets are in working condition and able to generate income.



Subsequent to initial recognition of the asset, only those costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Repair and maintenance costs are recognised in consolidated profit or loss as incurred.

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a straight-line basis over its useful life, which is the period during which the companies expect to use the asset and generate income.

Property, plant and equipment are depreciated applying the following rates:

	Annual depreciation rate
Buildings	2% - 10%
Technical telecommunications facilities	5%
Technical electricity facilities	2.5% - 8.5%
Other installations, machinery, equipment, furniture and other items	4% - 25%

The Group reviews the residual values and useful lives of assets and adjusts them, if necessary, at the end of each reporting period. The Group performs complementary analyses of these indicators, as a result of the entry into force of the new remuneration regime applicable to electricity transmission assets in Spain, once all the parameters of the new regime have been definitively established and are effectively applied (see note 3).

During 2018 the Group completed its study of the useful life of certain transmission assets acquired from electricity distributors as a result of the new remuneration model. This study was based on internal and external sources and demonstrated that, if certain operating conditions and appropriate operating and maintenance programmes were upheld, these facilities may have a longer useful life than that initially determined, in line with that set in the aforementioned remuneration model, ensuring security of operations in accordance with legal requirements. Consequently, amortisation and depreciation in the consolidated income statement for 2018 include the impact of this change in estimate from 1 January 2018 onwards, which has entailed a reduction of approximately Euros 45 million in the depreciation charge, which will decrease as the assets included in the study reach the end of their useful lives.

Property, plant and equipment primarily comprise technical electricity facilities. Most undepreciated property, plant and equipment is depreciated at a rate of 2.5%.

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. Intangible assets include the following:

- **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 the associated cost is recognised as an intangible asset. Details of the useful and residual lives of these concessions are provided in note 5.

- **Computer software**

Computer software licences are capitalised at cost of acquisition or cost of preparation for use.

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



- **Rights to regulated tariffs**

This item includes the intangible asset arising on the business combination in the acquisition of KATARI (see note 2g). 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.

- **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.

- **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. The market value of the Group's investment property is disclosed in note 7 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

The Group 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 Group are classified as finance leases. Assets recognised as finance leases are presented in the consolidated statement of financial position based on the nature of the leased asset.



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; and
- 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; and
- 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:

- At amortised cost: 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.
- At fair value through other comprehensive income: 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.

- At fair value through profit or loss: 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 Group companies assess the net realisable value of inventories at the end of each reporting period, recognising impairment in the consolidated income statement when cost exceeds market value or when it is uncertain whether the inventories will be used. When the circumstances that previously 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

The new impairment model under IFRS 9 is based on expected loss, which differs from the incurred loss model under IAS 39. This model is applicable to all financial assets that are debt instruments not measured at fair value through profit or loss.

The Group has adopted IFRS 9 retrospectively from 1 January 2018, the date of first-time application. Impairment is calculated by using the general approach when calculating expected credit losses for its financial assets; except trade receivables, for which the simplified approach set out in IFRS 9 will be used, whereby impairment is measured at an amount equal to the full 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 full 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 more 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:

$EAD \text{ (Exposure at Default)} \times PD \text{ (Probability of default)} \times LGD \text{ (Loss Given Default)} \times DF \text{ (Discount factor)}$.

Where EAD is the exposure to the risk. It 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 $(1 - \text{recovery rate})$. 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 less 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.



i) Share capital, own shares and dividends

The share capital of the Company 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 medical 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 and the Structural Management Plan, which are measured each year. 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 14).



- **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.

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 an interest expense 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 18. Details of changes in equity are provided in note 12.



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

The Group has initially applied IFRS 15 at 1 January 2018. Information on the Group's accounting policies for contracts with customers and the related effect on initial application is provided in note 2 b).

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.

Red Eléctrica Corporación, S.A., Red Eléctrica de España, S.A.U., Red Eléctrica Financiaciones, S.A.U., Red Eléctrica Internacional, S.A.U., Red Eléctrica de Infraestructuras de Telecomunicación, S.A.U., Red Eléctrica Sistemas de Telecomunicación, S.A.U. and Red Eléctrica de Infraestructuras en Canarias, S.A.U. compose the Red Eléctrica tax group and file consolidated tax returns in Spain.

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.

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 2018 and 2017, 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 Group. This remuneration is measured based on the closing quotation of these Group 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. 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. Intangible Assets

Movement in intangible assets and details of accumulated amortisation during 2018 and 2017 are as follows:



Thousands of Euros	31 December 2016	Exchange rate fluctuations	Additions	Transfers	31 December 2017	Exchange rate fluctuations	Changes in the consolidated Group	Additions	Transfers	31 December 2018
Administrative concessions	130,571	(15,818)	171	(34)	114,890	5,449	-	-	51,028	171,367
Development expenses and computer software	17,671	(5)	11,278	383	29,327	2	-	16,613	(2,082)	43,860
Intangible assets under development	21,415	(2,594)	30,260	34	49,115	2,323	-	26,848	(51,057)	27,229
Other intangible assets	-	-	-	-	-	-	48,486	-	-	48,486
Total intangible assets	169,657	(18,417)	41,709	383	193,332	7,774	48,486	43,461	(2,111)	290,942
Accumulated amortisation of administrative concessions	(17,560)	2,413	(5,448)	-	(20,595)	(1,176)	-	(5,991)	-	(27,762)
Accumulated amortisation of development expenses and computer software	(17,525)	2	(275)	-	(17,798)	(8)	-	(2,607)	(208)	(20,621)
Total accumulated amortisation	(35,085)	2,415	(5,723)	-	(38,393)	(1,184)	-	(8,598)	(208)	(48,383)
Impairment	-	-	-	-	-	-	-	-	-	-
Carrying amount	134,572	(16,002)	35,986	383	154,939	6,590	48,486	34,863	(2,319)	242,559



Operating expenses of Euros 27,016 thousand incurred directly in connection with intangible assets were capitalised in 2018 (Euros 32,750 thousand in 2017).

During 2018 the Group capitalised borrowing costs of Euros 787 thousand as an increase in intangible assets (Euros 406 thousand in 2017).

At 31 December 2018 the Group has fully amortised intangible assets amounting to Euros 18,550 thousand (Euros 18,550 thousand in 2017), most of which comprise development expenses and computer software.

Administrative concessions reflect the technical electricity facilities constructed and operated by the Group under concession in Peru.

Intangible assets under development in 2018 are mainly related with 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 48,486 thousand reflect the perpetual right to regulated tariffs arising from the acquisition of KATARI (see note 8). This item is not amortised as it has an indefinite useful life, and is tested for impairment annually.

At 31 December 2018 the carrying amount of intangible assets located outside of Spain is Euros 219,432 thousand (Euros 143,434 thousand in 2017).

Details of service concession contracts awarded by different public entities and under operation and/or construction at 31 December 2018 are as follows:



Thousands of Euros	Redesur	Tesur	Tesur 2	Tesur 3	Tesur 4
Grantor	Peruvian State	Peruvian State	Peruvian State	Peruvian State	Peruvian State
Activity	Electricity transmission	Electricity transmission	Electricity transmission	Electricity transmission	Electricity transmission
Country	Peru	Peru	Peru	Peru	Peru
Concession period from start-up of commercial operations	30 years	30 years	30 years	30 years	30 years
Remaining useful life	13 years	26 years	30 years	6 months construction + 30 years operation	30 months construction + 30 years operation
Tariff review frequency	Annual	Annual	Annual	Annual	Annual
Carrying amount at 31/12/2018	40,036	56,792	50,057	22,427	1,549
Carrying amount at 31/12/2017	38,516	56,213	45,693	2,988	-
Revenue in 2018	17,512	5,907	4,105	-	-
Revenue in 2017	15,882	6,699	-	-	-
Profit/(loss) for 2018	3,647	11	150	(42)	96
Profit/(loss) for 2017	3,354	764	10	10	-
Renewal options	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract

At the 2018 and 2017 reporting dates, the Group has tested intangible assets for impairment by calculating the value in use of the CGUs associated with the assets, which exceeds their carrying amount.

6. Property, Plant and Equipment

Movement in property, plant and equipment and details of accumulated depreciation and impairment during 2018 and 2017 are as follows:



Red Eléctrica Group

Movement in property, plant and equipment, 2018 and 2017

	31 December 2016	Additions and other	Exchange rate Fluctuations	Exits, disposals, reductions and write-downs	Transfers	31 December 2017	Exchange rate Fluctuations	Changes in the consolidated Group	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31 December 2018
Thousands of Euros												
Cost												
Land and buildings	79,596	1,468	(47)	(598)	2,224	82,643	27	-	-	(37)	42	82,675
Technical telecommunications facilities	435,735	-	-	-	2,632	438,367	-	-	-	-	4,014	442,381
Technical electricity facilities	13,370,261	51,896	-	(6,061)	248,920	13,665,016		42,732	-	(4,232)	330,333	14,033,849
Other installations, machinery, equipment, furniture and other items	214,855	232	(177)	(353)	5,942	220,499	49	-	207	(334)	3,096	223,517
Technical electricity facilities under construction	513,888	384,357	-	420	(222,987)	675,678	-	-	370,062	-	(327,980)	717,760
Advances and PPE under construction	40,472	42,737	(7)	-	(37,114)	46,088		1,108	31,699	(9)	(7,394)	71,492
Total cost	14,654,807	480,690	(231)	(6,592)	(383)	15,128,291	76	43,840	401,968	(4,612)	2,111	15,571,674
Accumulated depreciation												
Buildings	(21,611)	(1,380)	-	7	-	(22,984)	(4)	-	(1,435)	11	(36)	(24,448)
Technical telecommunications facilities	(45,683)	(21,845)	-	-	-	(67,528)	-	-	(22,424)	-	-	(89,952)
Technical electricity facilities	(5,563,769)	(468,572)	-	-	6,061	(6,026,280)	(7)	-	(432,872)	4,094	-	(6,455,065)
Other installations, machinery, equipment, furniture and other items	(163,408)	(17,587)	-	161	336	(180,498)	(16)	-	(15,380)	317	244	(195,333)
Total accumulated depreciation	(5,794,471)	(509,384)	-	168	6,397	(6,297,290)	(27)	-	(472,111)	4,422	208	(6,764,798)
Impairment	(83,625)	-	-	-	-	(83,625)	-	-	(11,919)	-	-	(95,544)
Carrying amount	8,776,711	(28,694)	(231)	(6,424)	6,014	8,747,376	49	43,840	(82,062)	(190)	2,319	8,711,332



Technical electricity facilities are assets that are subject to regulated remuneration (see note 3). The main additions to technical electricity facilities in 2018 and 2017 are investments in electricity transmission facilities in Spain.

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 with Adif in 2014. The agreement has been classified as a finance lease, given that substantially all the risks and rewards incidental to ownership of the assets were transferred.

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 2018 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.

At 31 December 2018, the amount shown under exits, disposals, reductions and write-downs mainly reflects the disposal of certain fully-depreciated assets.

During 2018, the Group companies capitalised construction-related borrowing costs of Euros 5,386 thousand as an increase in property, plant and equipment (Euros 5,096 thousand in 2017). The weighted average rate used to capitalise borrowing costs was 1.5% in 2018 (1.5% in 2017).

Operating expenses of Euros 35,011 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2018 (Euros 34,007 thousand in 2017). 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 and telecommunications in Spain, electricity transmission in Chile and certain individual assets. The CGUs identified are the same in 2018 and 2017.



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 budgets include the best available estimates of income, expenses and investments, using past experience and future expectations in accordance with the prevailing regulatory framework.

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, as the regulator has yet to define the allocation of the related remuneration.

At 31 December 2018 the carrying amount of property, plant and equipment located outside of Spain is Euros 57,445 thousand (Euros 3,754 thousand at 31 December 2017).

At 31 December 2018 the Group has fully depreciated property, plant and equipment amounting to Euros 1,577,123 thousand, of which Euros 1,420,317 thousand comprises technical electricity facilities (Euros 1,509,105 thousand in 2017, of which Euros 1,377,264 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 13.

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.

7. Investment Property

Movement in the Group's investment property in 2018 and 2017 is as follows:

Red Eléctrica Group

Movement in investment property, 2018 and 2017

Thousands of Euros	31 December 2016	Additions	31 December 2017	Additions	Disposals	31 December 2018
Cost						
Investment property	2,910	-	2,910	-	(72)	2,838
Total cost	2,910	-	2,910	-	(72)	2,838
Accumulated depreciation						
Investment property	(481)	(44)	(525)	(44)	-	(569)
Total accumulated depreciation	(481)	(44)	(525)	(44)	-	(569)
Impairment	-	-	-	(615)	-	(615)
Carrying amount	2,429	(44)	2,385	(659)	(72)	1,654

The fair value of investment property has been determined by independent experts. In certain cases, the carrying amount of the investment property exceeds the fair value provided by these experts and impairment of Euros 615 thousand has been recognised in the consolidated income statement.

8. Business Combinations

On 12 September 2018, the Group, through REDENOR 2, acquired 100% of the Chilean company Centinela Transmisión S.A. (which then adopted the name Katari Transmisión S.A. (KATARI)), for a provisional amount of US Dollars 117.8 million (Euros 101.2 million). The acquiree's statutory and principal activity is electricity transmission and transportation. KATARI 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.



From the date that control was taken until 31 December 2018, KATARI contributed revenues of Euros 1,739 thousand and a net profit of Euros 996 thousand. Had the acquisition taken place on 1 January 2018, the revenue and net profit contributed by KATARI would have amounted to Euros 5,660 thousand and Euros 2,650 thousand, respectively.

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 exchange rate is as follows:

Thousands of US Dollars	Initial 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

(*) US Dollar / Euro exchange rate at December 2018

Intangible assets reflect a right to a regulated tariff with an indefinite useful life, as the transmission lines acquired have been classified as part of the Chilean National Transmission System and will therefore generate perpetual revenues. The fair value of these assets has been estimated by an independent expert using the income approach, based on the present value of the income attributable to owning the asset. Specifically, the Multi-period Excess Earnings Method (MEEM) was used, whereby the value of the regulated tariff right was estimated on the basis of the residual earnings after deducting the returns on all other assets used from post-tax operating income. This intangible asset has been classified as having an indefinite useful life and will therefore be tested for impairment annually.

Property, plant and equipment mainly reflect those related to the transmission lines. The fair value of these facilities was obtained through an appraisal by an independent expert. The fair value was calculated using Level 2 data as per the fair value hierarchy, based on the replacement cost, using the market values of the new asset and duly considering the effects of physical, function and economic depreciation. The remaining useful lives of the fixed assets were assigned by the aforementioned independent expert, based on its experience in the industry in accordance with the expected use of the assets.

The Group does not expect changes to be made to the amounts recognised for the fair values of the assets and liabilities acquired in 2019.

After assigning the price of the business combination to the assets identified and liabilities assumed, there was no residual value to be assigned and therefore no goodwill was identified on the acquisition.

The Group incurred acquisition costs of Euros 0.2 million in respect of external legal fees and due diligence costs, which have been recognised under other operating expenses in the consolidated income statement.

9. Equity-accounted Investees

This item includes the Group's 50% interest in Transmisora Eléctrica del Norte, S.A. (TEN) held through Red Eléctrica Chile SpA. As a joint venture, this company is incorporated into 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 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 cost was US Dollars 217,560 thousand (Euros 199,816 thousand) and movements recognised in 2017 and 2018 are as follows:

Thousands of
Euros

Company	31 December 2016	Share of profit	Exchange rate fluctuations	Valuation adjustments	31 December 2017	Share of profit	Exchange rate fluctuations	Valuation adjustments	31 December 2018
Transmisora Eléctrica del Norte S.A. (TEN)	200,757	1,397	(25,017)	(4,410)	172,727	6,966	8,881	9,803	198,377
Total	200,757	1,397	(25,017)	(4,410)	172,727	6,966	8,881	9,803	198,377



The key indicators at 31 December 2018 and 2017 are as follows:

Thousands of Euros

Transmisora Eléctrica del Norte S.A. (TEN)	31 December 2018	31 December 2017
Non-current assets	665,015	661,456
Current assets	95,535	109,285
Cash and cash equivalents	65,948	15,874
Total assets	826,499	786,615
Non-current liabilities	620,616	734,453
Current liabilities	77,998	5,826
Total liabilities	698,614	740,279
Net assets	127,885	28,721
Revenue	74,812	6,567
Gross operating profit	54,252	5,077
Net operating profit	51,429	4,629
Profit after tax	13,748	2,794
Comprehensive income	30,039	(4,412)
Dividends received by the Group	-	-

At 31 December 2018 and 2017 the balance of the loan extended by the Group to TEN is Euros 41,724 thousand and Euros 54,828 thousand, respectively (see note 17).

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. As a result of this test, value in use exceeds the carrying amount and, consequently, no impairment has been recorded on this investment.

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 the 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.



10. Inventories

Details of inventories at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Inventories	67,535	68,074
Impairment	(32,894)	(28,321)
Total	34,641	39,753

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 4,573 thousand in the consolidated income statement for 2018 (Euros 2,243 thousand in 2017).

11. Trade and Other Receivables

Details of trade and other receivables at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Trade receivables	10,826	14,940
Other receivables	1,089,675	994,627
Current tax assets (note 20)	2,059	3,788
Total	1,102,560	1,013,355

Other receivables at 31 December 2018 and 2017 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 2018 and 2017 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 2018 and 2017. At 31 December 2018 and 2017 there are no significant amounts over 12 months past-due (see note 16).



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

12. Equity

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	2018	2017
Non-current payables	4,980,757	4,630,691
Current payables	490,460	735,317
Foreign currency derivatives	(21,345)	(4,341)
Cash and cash equivalents	(767,152)	(569,869)
Net financial debt	4,682,720	4,791,798
Equity	3,361,366	3,093,449
Gearing ratio	58.2%	60.8%

At 31 December 2018, the financial covenants stipulated in the contracts entered into have been met.

On 5 June 2018 the rating agency Standard & Poor's issued a new report on the Company maintaining its rating and 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 'A-2' with a stable outlook.

On 18 September 2018 the rating agency Fitch Ratings confirmed the Company's long-term rating of 'A', 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.



Equity attributable to the Parent

- **Capital and reserves**

- **Share capital**

At 31 December 2018 and 2017 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 2018 and 2017 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 2018 and 2017 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 2018 they amount to Euros 2,223,486 thousand (Euros 2,021,135 thousand in 2017).

In addition, this item includes statutory reserves amounting to Euros 320,374 thousand (Euros 309,062 thousand in 2017), 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 55,828 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) and 2017 (Euros 11,312 thousand). This reserve will be restricted for a period of five years. The proposed appropriation to the capitalisation reserve for the year ended 31 December 2018, prepared by the directors and pending approval by the shareholders at the general meeting, is Euros 16,707 thousand, and each company forming the tax group has adjusted income tax for 2018 in this regard (see note 21).

- **Own shares and equity holdings**

At 31 December 2018 the Parent held 1,198,049 own shares representing 0.22% of its share capital, with a par value of 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 (at 31 December 2017 the Parent held 1,613,693 own shares representing 0.30% of its share capital, with a par value Euros 0,50 per share and a total par value of Euros 807 thousand, and an average acquisition price of Euros 18,45 per share).

These shares have been recognised as a reduction in equity for an amount of Euros 21,302 thousand at 31 December 2018 (Euros 29,769 thousand in 2017).

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 2018 totals Euros 704,558 thousand (Euros 669,836 thousand at 31 December 2017).

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

The interim dividend authorised by the board of directors in 2018 has been recognised as a Euros 147,250 thousand reduction in consolidated equity at 31 December 2018 (Euros 137,509 thousand at 31 December 2017) (see note 17).

On 30 October 2018 the Company's board of directors agreed to pay an interim dividend of Euros 0,2727 (gross) per share with a charge to 2018 profit, which was paid on 8 January 2019 (Euros 0,2549 (gross) per share in 2017).

Details of the dividends paid during 2018 and 2017 are as follows:

Thousands of Euros	2018			2017		
	% of par value	Euros per share	Amount	% of par value	Euros per share	Amount
Ordinary shares	183.76%	0.9188	495,138	171.74%	0.8587	463,189
Total dividends paid	183.76%	0.9188	495,138	171.74%	0.8587	463,189
Dividends charged to profit	183.76%	0.9188	495,138	171.74%	0.8587	463,189

The Parent's board of directors also proposed to the shareholders at their general meeting the distribution of a supplementary dividend of Euros 0.7104 per share, which would result in a total dividend for 2018 of Euros 0.9831 per share (Euros 0.9188 in 2017).

- **Valuation adjustments**

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

At 31 December 2018 and 2017 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 2018 this item totals Euros 15,063 thousand (Euros 15,435 thousand in 2017).

- **Hedging transactions**

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

At 31 December 2018 this item totals a negative amount of Euros 62,237 thousand (a negative amount of Euros 77,241 thousand in 2017).



○ Translation differences

This line item mainly comprises the exchange gains and losses arising from translation of the financial statements of foreign businesses, specifically the Peruvian companies TESUR, TESUR 2, TESUR 3, TESUR 4, REA and REDESUR and the Chilean companies RECH, REDENOR, REDENOR 2 and TEN. At 31 December 2018 they amount to Euros 3,103 thousand (a negative amount of Euros 2,298 thousand in 2017). This increase is primarily due to the performance of the US Dollar against the Euro in 2018.

Non-controlling interests

Non-controlling interests under equity in the consolidated statement of financial position shown below reflect the non-controlling interests in the Chilean company REDENOR at 31 December 2018 and 2017. In 2018 this balance amounts to Euros 832 thousand (Euros 59 thousand in 2017). Movement in 2018 and 2017 is as follows:

Thousands of Euros	31 December 2016	Loss for the year	Net translation differences	Changes in the consolidated Group and other	31 December 2017	Loss for the year	Net translation differences	Changes in the consolidated Group and other	31 December 2018
Non-controlling interests	17,494	(17)	1	(17,420)	59	(69)	25	817	832

Regarding the main non-controlling interests referred to above, a summary of the financial information on assets, liabilities and profit/loss at 31 December 2018 and 2017 of the investee is as follows:

Thousands of Euros	31/12/2018	31/12/2017
	REDENOR	REDENOR
Non-current assets	10,700	807
Current assets	2,276	193
Assets	12,976	1,000
Non-current liabilities	8,334	-
Current liabilities	1,878	802
Liabilities	10,212	802
Equity	2,763	198
Income	607	829
Expenses	866	906
Gross operating loss	(260)	(77)
Loss after tax	(231)	(55)
Loss attributable to non-controlling interests	(69)	(17)



13. Grants and Other Non-current Revenue Received in Advance

Movement in grants and other non-current revenue received in advance in 2018 and 2017 is as follows:

Thousands of Euros	31 December 2016	Additions	Derecognitions	Applications	Transfers	31 December 2017	Additions	Derecognitions	Applications	31 December 2018
Capital grants	193,776	1,250	-	(8,063)	(397)	186,566	1,639	-	(7,888)	180,317
Other grants and revenue received in advance	354,165	72,352	(980)	(15,378)	397	410,556	56,094	-	(15,557)	451,093
Total	547,941	73,602	(980)	(23,441)	-	597,122	57,733	-	(23,445)	631,410

Capital grants mainly include the amounts received by REE for the construction of electricity facilities. Applications reflect the 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.

14. Non-current Provisions

Movement in 2018 and 2017 is as follows:

Thousands of Euros	31.12.2016	Additions	Applications	Actuarial	31.12.2017	Additions	Applications	Transfers	Actuarial	31.12.2018
Provisions for employee benefits	55,598	4,029	(1,136)	3,989	62,480	4,133	(1,023)	-	(3,280)	62,310
Other provisions	39,053	2,788	(3,339)	-	38,502	26,730	(858)	857	-	65,231
Total	94,651	6,817	(4,475)	3,989	100,982	30,863	(1,881)	857	(3,280)	127,541

Provisions for employee benefits comprise defined benefit plans, which essentially include the future commitments – specifically medical 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 2018 and 2017 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 medical 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 2018 amount to Euros 1,479 thousand and Euros 1,194 thousand, respectively (Euros 1,461 thousand and Euros 1,107 thousand, respectively, in 2017), whilst the reserves recognised in 2018 totalled a negative amount of Euros 3,280 thousand, net of tax (Euros 3,989 thousand in 2017).



The assumptions made with regard to 2018 and 2017 were as follows:

	Actuarial assumptions	
	2018	2017
Discount rate	2.04%	1.80%
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 medical insurance are as follows:

Thousands of Euros	2018	
	+1%	-1%
Current service cost	439	(321)
Interest cost of net post-employment medical costs	9	(6)
Accumulated post-employment benefit obligation for medical insurance	13,294	(9,988)

Conversely, the effect of a decrease of half a percentage point in the discount rate used in 2018 for medical insurance costs from 2.04% to 1.54%, in thousands of Euros, is as follows:

Thousands of Euros	Discount rate		Sensitivity
	2.04%	1.54%	
Current service cost	1,366	1,567	201
Interest cost of net post-employment medical costs	1,059	802	(257)
Accumulated post-employment benefit obligation for medical insurance	49,730	55,840	6,110



Provisions for employee benefits also include deferred remuneration schemes (see note 4 I). At 31 December 2018 personnel expenses recognised in the consolidated income statement in this regard amount to Euros 1,458 thousand (Euros 1,461 thousand in 2017).

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 Company is 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).

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.

15. 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 2035, and amounting to Euros 30,802 thousand at 31 December 2018 (Euros 34,690 thousand at 31 December 2017).

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 2018 (Euros 23,625 thousand at 31 December 2017). These are multi-year commitments and are therefore subject to the construction of facilities that were not completed at 31 December 2018.

16. 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:

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, according to the original terms, at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018		2017	
	Fixed rate	Variable rate	Fixed rate	Variable rate
Non-current issues	3,279,141	14,926	3,003,117	14,919
Non-current bank borrowings	1,157,598	478,258	1,127,933	480,381
Current issues	287,995	-	602,998	-
Current bank borrowings	173,305	58,648	60,449	71,870
Total financial debt	4,898,040	551,832	4,794,497	567,170
Percentage	90%	10%	89%	11%

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 2018 and 2017 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			
	2018		2017	
	+0.10%	-0.10%	+0.10%	-0.10%
Interest rate hedges:				
- Cash flow hedges. Interest rate swap	3,841	(3,872)	4,416	(4,454)
Interest rate and exchange rate hedges:				
- Cash flow hedges. Cross currency swap	249	(253)	278	(283)

This rise or decline of 0.10% in interest rates would have decreased or increased consolidated profit by Euros 1,144 thousand in 2018 and by Euros 962 thousand in 2017.

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2018 and 2017.



- **Currency risk**

Currency risk management considers transaction risk, arising on cash inflows and outflows in currencies other than the Euro, and translation risk, i.e. a company's exposure when consolidating its subsidiaries and/or assets located in countries whose functional currency is not the Euro.

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

In order to mitigate the translation risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of its investments in the functional currency. The Group has also arranged hedges of net investments in US Dollars using cross-currency swaps up to January 2021 (see note 18). Consequently, had the US Dollar strengthened or weakened by 10% against the Euro at year end, the Parent's equity would have increased or decreased by approximately Euros 7 million at 31 December 2018 (Euros 6 million at 31 December 2017).

- **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 2018, less than 1% of balances are past-due (1% in 2017), although the companies do not consider there to be any risk as regards recoverability. The credit quality of the receivables is considered to be high.

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 2018 has an average maturity of 5.3 years (5.3 years at 31 December 2017). Details of the maturities of bond issues and bank borrowings are provided in note 17.

The Group's liquidity position for 2018 was based on its robust capacity to generate cash flows, supported by undrawn credit facilities. At 31 December 2018 these credit facilities amount to Euros 1,826 million (non-current balance of Euros 1,291 million and current balance of Euros 535 million).

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 2018 had the listed share price of the Portuguese company REN been 10% higher or lower, equity would have increased or decreased by approximately Euros 6 million, respectively (Euros 6 million in 2017).

17. Financial Assets and Financial Liabilities

Financial assets

Details of the Red Eléctrica Group's current and non-current financial assets at 31 December 2018 and 2017 are as follows:



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

Thousands of Euros	31.12.2017			
	Available-for-sale financial assets	Loans and receivables ⁽¹⁾	Hedging derivatives	Total
Equity instruments	85,606	-	-	85,606
Derivatives	-	-	12,970	12,970
Other financial assets	-	9,659	-	9,659
Non-current	85,606	9,659	12,970	108,235
Other financial assets	-	80,668	-	80,668
Current	-	80,668	-	80,668
Total	85,606	90,327	12,970	188,903

(1) Excluding trade receivables

• 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 December 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, and sold subscription rights for this increase, generating a gain of Euros 18 thousand.

At 31 December 2017 REN's consolidated equity totals Euros 1,429,189 thousand and the profit after tax amounts to Euros 125,925 thousand.



At the date of first application of IFRS 9, the Group classified these investments as financial assets at fair value through other comprehensive income (see note 2 b). The value of this investment is subject to the listed share price. In 2018 the fair value of this equity instrument decreased and the corresponding valuation adjustment was recognised directly under equity.

At 31 December 2018 the Group has calculated the decrease in value of this investment at Euros 1,501 thousand (a Euros 1,833 thousand decrease in 2017).

- **Derivatives**

Details of derivative financial instruments are provided in note 18.

- **Other financial assets**

The balance at 31 December 2018 mainly comprises the loan of Euros 41,724 thousand extended to TEN (Euros 54,828 thousand at 31 December 2017), which earns interest at a Libor-pegged rate plus 270 b.p., and guarantees and loans extended by REE 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 2018 and 2017.

This item also comprises the investment in economic interest groups (EIGs), measured at Euros 6,734 thousand (Euros 2,422 thousand in 2017). These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the risks and rewards of the activity, while the Group only avails of the tax benefits pursuant to Spanish legislation. The Group recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income (see note 22 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 2018 and 2017 are as follows:

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



Thousands of Euros	31/12/2017			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	82,698	-	2,908	85,606
Derivatives	-	12,970	-	12,970
Other financial assets	-	-	-	-

Level 1 equity instruments reflect the 5% interest held by the Group in the listed company REN.

Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities at 31 December 2018 and 2017 are as follows:

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	6,218,048



Thousands of Euros	31/12/2017		
	Debts and payables ⁽¹⁾	Hedging derivatives and other	Total
Loans and borrowings	1,608,314	-	1,608,314
Bonds and other marketable securities	3,022,377	-	3,022,377
Derivatives	-	61,437	61,437
Other financial liabilities ⁽²⁾	-	224	224
Non-current	4,630,691	61,661	4,692,352
Loans and borrowings	143,814	-	143,814
Bonds and other marketable securities	680,683	-	680,683
Derivatives	-	-	-
Other financial liabilities	647,460	-	647,460
Current	1,471,957	-	1,471,957
Total	6,102,648	61,661	6,164,309

(1) Excluding trade 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 2018 and 2017, excluding interest payable, are as follows:

Thousands of Euros	Carrying amount		Fair value	
	2018	2017	2018	2017
Issues in Euros	3,144,659	3,183,842	3,336,928	3,404,668
Issues in US Dollars	458,748	441,533	511,956	524,465
Bank borrowings in Euros	1,640,808	1,638,130	1,639,750	1,665,141
Bank borrowings in foreign currency	227,002	102,503	226,529	102,280
Total	5,471,217	5,366,008	5,715,163	5,696,554

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 2018 the accrued interest payable amounts to Euros 71,868 thousand (Euros 89,180 thousand in 2017).



Issues in Euros at 31 December 2018 include:

- Eurobonds issued by Red Eléctrica Financiaciones, S.A.U. (hereinafter REF), totalling Euros 3,144,659 thousand (Euros 3,183,842 thousand in 2017). One bond issue amounting to Euros 600 million was carried out in 2018 (one bond issue amounting to Euros 200 million in 2017).
- Promissory notes issued on the Euromarket by REF as part of the “Euro Commercial Paper Programme” (ECP Programme), falling due in the short term and amounting to Euros 530 million, were issued and repaid in 2018.

Issues in US Dollars at 31 December 2018 amount to Euros 458,748 thousand (Euros 441,533 thousand in 2017), 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 two US Dollar bond issues made in 2015 in Peru for a total of US Dollars 110 million, of which US Dollars 95.4 million is payable at 31 December 2018 (see note 16 for an analysis of currency risk).

Bank borrowings in Euros at 31 December 2018 include non-current loans and credit facilities totalling Euros 1,529,088 thousand (Euros 1,508,178 thousand in 2017) and a syndicated credit facility amounting to Euros 111,720 thousand (Euros 129,952 thousand in 2017).

Bank borrowings in foreign currency at 31 December 2018 include non-current loans and credit facilities in US Dollars amounting to Euros 227,002 thousand (Euros 102,503 thousand in 2017).

Details of the maturities of bond issues and bank borrowings at 31 December 2018 are as follows:

	2019	2020	2021	2022	2023	Thereafter	Adjustments to amortised cost and other	Total
Thousands of Euros								
Issues in Euros	284,100	550,000	-	400,000	300,000	1,690,000	(79,441)	3,144,659
Issues in US Dollars	3,987	161,399	4,412	4,641	4,882	279,825	(398)	458,748
Bank borrowings in Euros	196,419	104,793	153,420	513,184	88,184	587,913	(3,105)	1,640,808
Bank borrowings in US Dollars	-	51,038	19,184	118,775	38,428	-	(423)	227,002
Total	484,506	867,230	177,016	1,036,600	431,494	2,557,738	(83,367)	5,471,217

The average interest rate of loans and borrowings and bond issues was 2.42% in 2018 (2.78% in 2017).

At 31 December 2018 Group companies have undrawn credit facilities amounting to Euros 1,826 million, of which Euros 1,291 million expire in the long term (Euros 1,117 million at 31 December 2017) and Euros 535 million in the short term (Euros 541 million at 31 December 2017).

Details of bonds and other marketable securities at 31 December 2018 and 2017 are as follows:

	31/12/2018				Closing outstanding balance at 31/12/2018
	Opening outstanding balance at 31/12/2017	(+) Issues	(-) Repurchases or repayments	(+/-) Exchange rate and other adjustments	
Thousands of Euros					
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

Thousands of Euros	31/12/2017				
	Opening outstanding balance at 31/12/2016	(+) Issues	(-) Repurchases or repayments	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2017
Debt securities requiring a prospectus to be filed	3,180,848	200,000	(200,070)	3,064	3,183,842
Debt securities not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	506,232	-	(3,723)	(60,976)	441,533
Total	3,687,080	200,000	(203,793)	(57,912)	3,625,375

The outstanding balance at 31 December 2018 and 2017 of debt securities requiring a prospectus to be filed relates to issues registered in Dublin and Luxembourg.

At 31 December 2018 exchange rate and other adjustments include a negative amount of Euros 40.1 million derived from 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 2018, distinguishing between those that entailed cash flows and those that did not, are as follows:

Thousands of Euros	31/12/2017	Cash flows	No cash flows		31/12/2018
			Exchange rate fluctuations	Other changes	
Issues in Euros	3,183,842	(4,392)		(34,791)	3,144,659
Issues in US Dollars	441,533	(3,635)	20,824	26	458,748
Bank borrowings in Euros	1,638,130	3,177	-	(499)	1,640,808
Bank borrowings in foreign currency	102,503	118,061	6,438		227,002
Total debt	5,366,008	113,211	27,262	(35,264)	5,471,217

- **Derivatives**

Details of derivative financial instruments are provided in note 18.

- **Other current financial liabilities**

Details of other current financial liabilities at 31 December 2018 and 2017 are as follows:

Thousands of Euros	Note	2018	2017
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Dividend payable	12	147,250	137,509
Suppliers of fixed assets and other payables		331,550	309,848
Other payables		155,742	200,103
Total		634,542	647,460

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.

- **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 2018 and 2017 are as follows:



Thousands of Euros	31/12/2018			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	39,944	-	39,944
Other financial liabilities	-	-	8,181	8,181

Thousands of Euros	31/12/2017			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	61,437	-	61,437
Other financial liabilities	-	-	6,776	6,776

Level 2 comprises foreign currency and interest rate derivatives. Level 3 comprises security deposits extended. There are no significant differences between the fair value and the carrying amount at 31 December 2018 and 2017. Liabilities at amortised cost are not disclosed by fair value hierarchy level.

18. Derivative Financial Instruments

In line with its financial risk management policy, the Red Eléctrica Group has arranged three types of derivative financial instruments: Interest rate swaps, forward interest rate swaps and cross-currency swaps. 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.

As regards the measurement of derivative financial instruments and hedging transactions 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 2018 and 2017 in thousands of Euros are as follows:



Thousands of Euros	Principal	Expiry	2018	
			Non-current	
			Assets	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 hedge:				
- 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 swap):				
Interest rate hedge	US Dollars 430,000 thousand	Up to 2035	(4,397)	(19,910)
Exchange rate hedge			8,935	12,410
Total			11,020	(39,944)



			2017	
			Non-current	
Thousands of Euros	Principal	Expiry	Assets	Liabilities
Interest rate hedges:				
- Cash flow hedges:				
Interest rate swap	Euros 280,000 thousand	Up to 2020	-	(24,587)
Interest rate swap	Euros 65,940 thousand	Up to 2021	-	(1,080)
- Forward cash flow hedges:				
Forward interest rate swap beginning in 2018	Euros 240,000 thousand	Up to 2026		(8,387)
Forward interest rate swap beginning in 2019	Euros 140,000 thousand	Up to 2026	19	(3,184)
Forward interest rate swap beginning in 2020	Euros 200,000 thousand	Up to 2026	230	(2,764)
Exchange rate hedge:				
- Hedges of a net investment:				
Cross currency swap	US Dollars 150,000 thousand	Up to 2021	12,721	-
Interest rate and exchange rate hedges				
- Cash flow hedges (Cross currency swap):				
Interest rate hedge	US Dollars 430,000 thousand	Up to 2035	-	(25,776)
Exchange rate hedge			-	4,341
Total			12,970	(61,437)



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	Expiry	2019	2020	2021	2022	2023	2024 and thereafter	Total
Interest rate hedges:									
- Cash flow hedges:									
Interest rate swap	Euros 280,000 thousand	Up to 2022	-	(14,952)	-	(1,681)	-	-	(16,633)
Interest rate swap	Euros 57,120 thousand	Up to 2021	-	-	(990)	-	-	-	(990)
- Forward cash flow hedges:									
Forward interest rate swap beginning in 2019	Euros 140,000 thousand	Up to 2026	-	-	-	-	-	(6,493)	(6,493)
Forward interest rate swap beginning in 2020	Euros 200,000 thousand	Up to 2026	-	-	-	-	-	(6,983)	(6,983)
Forward interest rate swap beginning in 2021	Euros 50,000 thousand	Up to 2026	-	-	-	-	-	(623)	(623)
Forward interest rate swap beginning in 2022	Euros 100,000 thousand	Up to 2028	-	-	-	-	-	(722)	(722)
Exchange rate hedge:									
- Hedges of a net investment:									
Cross currency swap	US Dollars 150,000 thousand	Up to 2021	-	-	6,482	-	-	-	6,482
Interest rate and exchange rate hedges									
- Cash flow hedges: (Cross currency swap)									
Interest rate hedge	US Dollars 430,000 thousand	Up to 2035	-	(4,397)	-	-	-	(19,910)	(24,307)
Exchange rate hedge			-	8,935	-	-	-	12,410	21,345
Total			-	(10,414)	5,492	(1,681)	-	(22,321)	(28,924)



19. Trade and Other Payables

Details of trade and other payables at 31 December 2018 and 2017 are as follows:

Thousands of Euros	Note	2018	2017
Suppliers		313,759	343,694
Other payables		50,278	47,974
Current tax liabilities	21	3,485	10,859
Total		367,522	402,527

Suppliers essentially reflect 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 and salaries payables.

20. 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 2018 and 2017 is as follows:

In days	2018	2017
Average supplier payment period	48,0	47,2
Transactions paid ratio	48,8	48,7
Transactions payable ratio	15,2	12,7

Thousands of Euros	2018	2017
Total payments made	379,209	375,210
Total payments outstanding	10,056	16,762

21. Taxation

The tax group headed by Red Eléctrica Corporación, S.A. has filed consolidated tax returns in Spain since 2002. At 31 December 2018, the tax group includes the Parent, REE, REI, REF, REINTEL, REINCAN and RESTEL.

Companies that do not form part of the tax group 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	2018	2017
Consolidated accounting profit for the year before tax	936,252	890,240
Permanent differences and consolidation adjustments	(21,843)	(17,554)
Consolidated taxable accounting income	914,410	872,686
Tax rate	25%	25%
Profit multiplied by tax rate	228,602	218,172
Effect of applying different tax rates	1,418	1,302
Tax calculated at the tax rate of each country	230,020	219,474
Deductions	(1,111)	(906)
Other adjustments	2,855	1,853
Income tax	231,763	220,421
Current income tax	246,674	232,340
Deferred income tax	(14,911)	(11,919)
Effective tax rate	24.75%	24.76%

The effective rate of income tax is primarily influenced by permanent differences and by deductions in tax payable. The effective tax rate in 2018 is 24.75% (24.76% in 2017).

Permanent differences in 2018 and 2017 primarily 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 2018 will be held in REC, as head of the tax group (see note 12).

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 2018 amount to Euros 3,556 thousand (Euros 3,701 thousand in 2017) and the amount still to be recognised at 31 December 2018 is Euros 99,330 thousand (Euros 72,587 thousand in 2017).

Current receivables from and payables to public entities at 31 December 2018 and 2017 are as follows:

Thousands of Euros	Note	2018	2017
Current receivables			
Recoverable VAT		12,548	8,005
Recoverable income tax	11	2,059	3,788
Other recoverable taxes		1,193	493
Current payables			
VAT payable	19	28,981	29,470
Income tax payable	19	3,485	10,859
Other taxes payable		4,620	4,553

In 2018 and 2017, adjustments were made to taxable income to reflect recognition of the EIGs in which the Group has interests, amounting to Euros 67,045 thousand and Euros 73,227 thousand, respectively.



Temporary differences in the recognition of income and expenses for accounting and tax purposes in the Red Eléctrica Group at 31 December 2018 and 2017, and the corresponding cumulative tax effect (assets and liabilities) are as follows:

Thousands of Euros	2018				2017		
	Income statement	Income and expense recognised directly in equity	Business combinations and first application of IFRS 9	Total	Income statement	Income and expense recognised directly in equity	Total
	Variation	Variation	Variation		Variation	Variation	
Deferred tax assets:							
Originating in prior years	83,319	29,466	-	112,785	92,101	32,123	237,009
Movements in the year	(5,231)	(2,789)	269	(7,751)	(8,782)	(2,657)	(19,191)
Total deferred tax assets	78,088	26,677	269	105,034	83,319	29,466	217,819
Deferred tax liabilities:							
Originating in prior years	541,057	16,379	-	557,436	561,758	20,133	1,139,327
Movements in the year	(20,142)	440	12,441	(7,261)	(20,701)	(3,754)	(31,716)
Total deferred tax liabilities	520,915	16,819	12,441	550,175	541,057	16,379	1,107,611



Deferred tax assets and liabilities at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Commitments with personnel	19,246	18,710
Grants	684	735
Financial derivatives	20,789	22,523
Tax loss carryforwards	5,490	2,868
Balance revaluations, Law 16/2012	22,234	24,833
Limit on deductible amortisation / depreciation, Law 16/2012	27,477	34,188
Other	9,113	8,928
Total deferred tax assets	105,034	112,785
Accelerated depreciation	507,738	523,305
Non-deductible assets	13,462	15,816
Adjustments for application of IFRS 9	10,334	0
Other	18,641	18,315
Total deferred tax liabilities	550,175	557,436

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 77,050 thousand, as permitted by IAS 12 (Euros 84,961 thousand in 2017).

The deferred tax assets and liabilities are expected to be recovered and settled as follows:

31.12.2018	Total	More than 1 year	Less than 1 year
Deferred tax assets	105,034	97,455	7,579
Deferred tax liabilities	550,175	525,561	24,613

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.



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 2018, 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 451,724 thousand (Euros 464,469 thousand in 2017).

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 2015, except income tax, which is open to inspection since 2014. However, this period may be different for Group companies that are subject to other tax legislation.

In Spain the limited administrative proceedings undertaken have been completed, 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. 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 2018 reporting date the tax proceedings entailing the review of income tax in Peru for 2009 to 2011 are underway. The Group considers it reasonably probable that these appeals will be successful.

Due to the different possible interpretations of tax legislation, additional tax liabilities could arise as a result of ongoing and 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.



22. Income and Expenses

a) Revenue

Details of this item in 2018 and 2017, by geographical area, are as follows:

Thousands of Euros	2018	2017
Domestic market	1,900,684	1,898,229
International market	47,856	42,936
a) European Union	20,174	20,407
a,1) Eurozone	20,174	20,407
b) Other countries	27,682	22,529
Total	1,948,540	1,941,165

Domestic market essentially includes the regulated revenue from transmission and electricity system operation services in Spain, which is set by the Ministry for the Ecological Transition (MITECO) at Euros 1,753,783 thousand (Euros 1,736,100 thousand in 2017), 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 87,438 thousand (Euros 86,530 thousand at 31 December 2017).

International market in 2018 and 2017 primarily includes revenue from reinsurance services, presented under European Union; and revenue in the Peruvian and Chilean companies from the rendering of transmission services, presented under other countries.

b) Other operating income

At 31 December 2018 and 2017 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 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Supplies	37,725	61,110
Other operating expenses	300,987	308,071
Total	338,712	369,181

Supplies and other operating expenses mainly comprise repair and maintenance costs incurred at technical electricity facilities as well as IT, advisory, lease and other service costs.



d) Personnel expenses

Details of this item in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Salaries, wages and other remuneration	114,912	111,445
Social Security	25,081	24,504
Contributions to pension funds and similar obligations	2,082	2,015
Other items and employee benefits	9,774	10,729
Total	151,848	148,693

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 5 and 6) totalling Euros 30,533 thousand at 31 December 2018 (Euros 31,046 thousand at 31 December 2017).

• Employees

The average headcount of the Group in 2018 and 2017, distributed by professional category, is as follows:

	2018	2017
Management	127	132
Senior technicians and middle management	569	556
Technicians	581	582
Specialist and administrative staff	528	531
Total	1,805	1,801

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

	2018			2017		
	Male	Female	Total	Male	Female	Total
Management	92	36	128	99	31	130
Senior technicians and middle management	375	192	567	364	201	565
Technicians	506	92	598	494	97	591
Specialist and administrative staff	394	112	506	418	111	529
Total	1,367	432	1,799	1,375	440	1,815



The average number of employees with a disability rating of 33% or higher in 2018 and 2017, distributed by gender and category, is as follows:

	2018			2017		
	Male	Female	Total	Male	Female	Total
Management	-	-	-	-	-	-
Senior technicians and middle management	3	2	5	3	2	5
Technicians	8	-	8	6	-	6
Specialist and administrative staff	1	1	2	2	1	3
Total	12	3	15	11	3	14

At 31 December 2018 the board of directors, which is not included in the employees of the Group, comprises 12 members (12 members in 2017), of which 7 are men and 5 are women (8 men and 4 women in 2017).

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 4,566 thousand in 2017).

This item also includes Euros 2,214 thousand of finance income (Euros 2,708 thousand in 2017) on the investments in EIGs (see notes 17 and 21) and Euros 2,550 thousand of finance income (Euros 1,724 thousand in 2017) on the loans extended to TEN (see note 23).

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 150,236 thousand (see note 17). In 2018 this balance includes costs of Euros 5,808 thousand arising from first-time application of IFRS 9, in connection with financial restructuring transactions, for which the balancing entry was initially an increase in reserves at 1 January 2018 (see note 4 f).

Capitalised borrowing costs (see notes 5 and 6) totalled Euros 6,173 thousand in 2018 (Euros 5,502 thousand in 2017).



23. Transactions with Equity-accounted Investees and Related Parties

a) Balances and transactions with equity-accounted Investees

These balances and transactions reflect the joint venture TEN. All transactions have been carried out at market prices. The main transactions carried out by Group companies with TEN in 2018 and 2017 were as follows:

	2018				2017			
	Balances		Transactions		Balances		Transactions	
	Receivable	Payable	Expenses	Income	Receivable	Payable	Expenses	Income
Transmisora Eléctrica del Norte S.A. (TEN)	42,263	47	(495)	2,550	54,828	82	85	1,724
Total	42,263	47	(495)	2,550	54,828	82	85	1,724

b) Transactions with related parties

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

Thousands of Euros	2018				
	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	47
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



Thousands of Euros	2017				Total
	Significant shareholders	Directors and management	Group employees, companies or entities	Other related parties	
Expenses and income:					
Leases	-	-	-	85	85
Services received	-	-	-	100	100
Other expenses	-	-	-	15,342	15,342
Expenses	-	-	-	15,527	15,527
Finance income	-	-	-	1,867	1,867
Income	-	-	-	1,867	1,867
Other transactions:					
Financing agreements, loans and capital contributions (lender)	-	-	-	54,828	54,828
Other transactions	-	-	-	54,828	54,828

Transactions with other related parties comprise those with TEN described in section a) of this note. The balance under financing agreements, loans and capital contributions (lender) at 31 December 2018 and 2017 (see note 17) reflects the amount receivable in respect of the credit facility extended to TEN. The maximum amount drawn down on this facility during the year was Euros 41,724 thousand (maximum drawdown of Euros 54,726 thousand in 2017).

24. Remuneration of the Board of Directors

At their meeting on 16 February 2018, the Company's directors approved the remuneration of the board of directors for 2018, as required by the articles of association and the regulations of the board of directors, based on a proposal from the Appointments and Remuneration Committee. Both the proposed remuneration for the board of directors for 2018 and the annual remuneration report were subsequently submitted for the approval of the shareholders at their general meeting on 22 March 2018. The approved remuneration of the board of directors for 2018, including that of the chairman and the managing director, did not change vis-à-vis 2017.

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.

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.

In line with his duties as non-executive chairman, the chairman receives fixed annual remuneration, in addition to remuneration for being a member of the board of directors. The remuneration scheme for this position consists solely of fixed amounts, with no annual or multi-year variable remuneration and no termination benefit. In 2018 both remuneration components are under the same terms as in 2017.

The remuneration allocated to the managing director includes the fixed and variable annual and multi-year components corresponding to executive duties and the fixed remuneration for being a member of the board of directors. Employee benefits continue to form part of the remuneration for this position. A portion of the annual variable remuneration is paid through the delivery of Company shares.

Moreover, the managing director has been included in a defined contribution benefit scheme. This scheme covers the retirement, death and permanent disability contingencies. Red Eléctrica’s obligation is limited to an annual contribution equal to 20% of the managing director’s fixed annual remuneration.

The annual variable remuneration of the managing director is set by the Appointments and Remuneration Committee of the Parent at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company’s strategic plan and the degree of compliance is assessed by the Committee.

Pursuant to the remunerations policy and in line with standard market practices, the managing director’s contract provides for a termination benefit equal to one year’s salary in the event that labour relations are terminated due to dismissal or changes of control. In addition, as is customary in such cases, as a result of this appointment as managing director, the existing employment contract has been suspended. Should the employment contract be terminated, he would accrue the remuneration due at the date of suspension as an indemnity. For this purpose, his tenure at the Company on the date he was appointed managing director (14 years) would be taken into consideration, in accordance with employment legislation in force.

In 2018 the managing director’s remuneration is under the same terms as in 2017.



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 2018.

The total amounts accrued by the members of the Parent's board of directors in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Total remuneration of the board of directors	2,485	2,448
Directors' remuneration in respect of executive duties ⁽¹⁾	838	838
Total	3,323	3,286

(1) This includes fixed and variable remuneration accrued during the year.

The rise in total remuneration of the board of directors compared with the prior year is essentially because in 2018 the board of directors comprised 12 members for the entire year, which was not the case in 2017, and also because in 2018 the coordinating independent director received the remuneration allocated to this position.

A breakdown of this remuneration by type of director at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Type of director:		
Executive directors	986	986
External proprietary directors	519	519
External independent directors	1,272	1,235
Other external directors	546	546
Total remuneration	3,323	3,286



The remuneration accrued by individual members of the Company's board of directors in 2018 and 2017, by components and director, is as follows:

	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chairperson of committee or board and coordinating independent director	Other remuneration ⁽⁸⁾	Total 2018	Total 2017
Thousands of Euros								
Mr Jordi Sevilla Segura ⁽¹⁾	221	-	7	-	-	-	228	-
Mr José Folgado Blanco ⁽²⁾	308	-	10	-	-	-	318	546
Mr Juan Lasala Bernad	530	300	16	-	-	140	986	986
Ms Carmen Gómez de Barreda Tous de Monsalve ⁽³⁾	131	-	16	28	17	-	192	190
Ms María José García Beato	131	-	16	28	-	-	175	175
Ms Socorro Fernández Larrea	131	-	16	28	-	-	175	175
Mr Antonio Gómez Círia	131	-	16	28	15	-	190	177
Mr José Luis Feito Higuera	131	-	16	28	15	-	190	189
Mr Arsenio Fernández de Mesa Díaz del Río	131	-	16	28	-	-	175	156
Mr Alberto Carbajo Josa	131	-	16	28	-	-	175	129
Ms Mercedes Real Rodríguez ⁽⁴⁾	131	-	16	28	-	-	175	32
Ms María Teresa Costa Campi ⁽⁵⁾	35	-	5	3	-	-	43	-
Mr Antonio Gómez Expósito ⁽⁵⁾	35	-	5	3	-	-	43	-
Mr Fernando Fernández Méndez de Andés ⁽⁶⁾	96	-	12	21	-	-	129	175
Mr Santiago Lanzuela Marina ⁽⁶⁾	96	-	12	21	-	-	129	175
Other board members ⁽⁷⁾	-	-	-	-	-	-	-	181
Total remuneration accrued	2,369	300	195	272	47	140	3,323	3,286

(1) New director since the board meeting held on 31 July 2018.

(2) Stepped down from the board of directors at the board meeting held on 31 July 2018.

(3) Appointed chairwoman of the Sustainability Committee on 27 November 2018.

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

(5) New director since the board meeting held on 25 September 2018.

(6) Stepped down from the board of directors at the board meeting held on 25 September 2018.

(7) Board members in 2017 who have stepped down from the board.

(8) Includes the employee benefits that form part of the managing director's remuneration.

Furthermore, as mentioned above, the indemnity accrued to Mr. José Folgado Blanco in 2016, amounting to Euros 718 thousand, was settled in full in 2018, once he had ceased to be a director of the Company.



As a result of the work of the Parent's Appointments and Remuneration Committee on various long-term incentive plans to be used as a management tool and mechanism for compliance with the new Strategic Plan, in 2015 the Committee approved a directors' remuneration scheme for 2014-2019, which at the 2018 reporting date only applies to the managing director.

Fulfilment of this remuneration scheme, which forms part of the remuneration policy, will be based on achieving the targets set out in the Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% compliance would be 1.8 times the annual fixed remuneration. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Group's strategic plan. These targets are set and assessed by the Appointments and Remuneration Committee. The consolidated statement of financial position includes a provision for accrual of this plan for 2018.

At 31 December 2018 and 2017 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 2018 and 2017 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 premiums amount to Euros 142 thousand, inclusive of tax, in 2018 (Euros 146 thousand at 31 December 2017). 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 2018 and 2017 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.

25. Remuneration of Senior Management

In 2018 total remuneration accrued by senior management personnel amounted to Euros 657 thousand (Euros 649 thousand in 2017) and is recognised as personnel expenses in the consolidated income statement. These amounts include the variable annual remuneration accrued on a straight-line basis, on the assumption that the objectives set each 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 opening months of the following year.

The senior management personnel who have rendered services for the Group during 2018 and 2017 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 2017).

At 31 December 2018 loans have been granted to these senior managers that have an outstanding balance of Euros 148 thousand. They fall due in 2024 and have the same conditions as those applied to loans granted to personnel under the collective bargaining agreement. The equivalent interest rate applicable to these loans is 0.76%. No advances have been extended to these senior managers at 31 December 2018 and 2017.



As a result of the work of the Parent's Appointments and Remuneration Committee on various long-term incentive plans to be used as a management tool and mechanism for compliance with the new Strategic Plan, in 2015 the Committee approved a directors' remuneration scheme for 2014-2019, which includes the senior management personnel.

Fulfillment of this remuneration scheme will be based on achieving the targets set out in the Group's Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% compliance would be 1.8 times the annual fixed remuneration. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the Group's strategic plan. These targets are set and assessed by the Appointments and Remuneration Committee. The consolidated statement of financial position includes a provision for accrual of this plan for 2018.

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 2018 are included in the Structural Management Plan implemented by the Company in 2015.



At 31 December 2018 and 2017 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 2018 (Euros 146 thousand in 2017). 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.

26. Segment Reporting

The principal activity of the Red Eléctrica Group is electricity transmission and operation of the electricity system in Spain, through REE. This represents 93% of consolidated revenue and 85% of the Group's total assets (93% and 88%, respectively, in 2017). Other activities account for the remaining 7% of revenue and 15% of total assets (7% and 12%, respectively, in 2017). Consequently, the Group did not consider it necessary to provide information by activity or geographical segment.

27. 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 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 9).

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 a dark fibre services, with an availability guarantee, between the Balearic Islands and the Mediterranean Coast of the Spanish mainland.

28. Guarantees and Other Commitments with Third Parties and Other Contingent Assets and Liabilities

At 31 December 2018 and 2017 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 4,500 million.

Furthermore, at 31 December 2018 and 2017 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 US Dollar 110 million bond issue.



At 31 December 2018 the Group has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 194,985 thousand (Euros 116,157 thousand in 2017).

On 14 December 2018, REI entered into a share sale-purchase agreement with Cajamarca Invest, S.L. and Bow Power, S.L., as the vendors, to acquire 100% of the capital of Concesionaria Línea de Transmisión CCNMC S.A.C., the concession holder of the 220kV Carhuaquero - Cajamarca Norte - Moyobamba - Cállic transmission line and the associated substations, in Peru. The transaction entailed the acquisition of 366 km of a 220 kV circuit, 6 km of a 138 kV circuit and 4 substations. Since the end of 2017, these assets have been operated under a 30-year concession awarded by the Peruvian government. The transaction is expected to be completed in the first quarter of 2019, subject to various conditions precedent being met, mainly as regards certificates, approval and authorisations being obtained and there being no existing instances of non-compliance. The price initially agreed is US Dollars 34.5 million, though this may be adjusted.

29. Environmental Information

In 2018 Group companies incurred ordinary expenses of Euros 23,958 thousand in protecting and improving the environment (Euros 21,621 thousand in 2017), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, slowing climate change, minimising pollution and safeguarding the countryside.

In 2018 environmental impact and monitoring studies were also carried out in relation to newly-constructed electricity facilities. The costs incurred in these studies amounted to Euros 1,426 thousand (Euros 3,387 thousand in 2017).

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 2018 or 2017.

30. 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 2018 were Euros 336.5 thousand (Euros 272.5 thousand in 2017).

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 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Audit services	189,0	181,3
Other audit-related services	75,0	72,2
Total	264,0	253,5

The amounts detailed in the above table include the total fees for services rendered in 2018 and 2017, irrespective of the date of invoice.

In 2018 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 on behalf of the Group company REINTEL.

Other affiliates of KPMG International invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2018 and 2017:

Thousands of Euros	2018	2017
--------------------	------	------



Audit services	142,7	87,5
Other services	65,0	55,0
Total	207,7	142,5

Furthermore, during the years ended 31 December 2018 and 2017 PwC invoiced the Group fees and expenses for professional services as follows:

Thousands of Euros	2018	2017
Audit services	4,8	3,7
Total	4,8	3,7

Furthermore, the equity-accounted investee TEN was audited by Deloitte in 2018 and 2017.



31. Earnings per Share

Details of earnings per share in 2018 and 2017 are as follows:

	2018	2017
Net profit (thousands of Euros)	704,558	669,836
Number of shares	541,080,000	541,080,000
Average number of own shares	2,189,151	1,824,488
Basic earnings per share (Euros)	1,31	1,24
Diluted earnings per share (Euros)	1,31	1,24

At 31 December 2018 and 2017 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

32. Share-based Payments

Details of share-based payments for management and employees at 31 December 2018 and 2017 are as follows:

	2018			2017		
	Number of shares	Average price (Euros)	Amount in thousands of Euros	Number of shares	Average price (Euros)	Amount in thousands of Euros
Management	1,238	19,37	24	1,332	18,00	24
Employees	191,317	19,37	3,706	166,831	18,00	3,003
Total	192,555	19,37	3,730	168,163	18,00	3,027

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.



33. Events after 31 December 2018

On 12 February 2019, Abertis Infraestructuras, S.A. and Red Eléctrica Corporación, S.A. entered into an agreement for the latter to purchase Abertis' 89.68% stake in Hispasat, S.A. for Euros 949 million.

In accordance with applicable legislation, the parties must seek the pertinent authorisation for the transaction. This condition precedent, among others, must be fulfilled in order for the agreement signed by the two parties to come into effect. Once the conditions have been met, payment will be made for the transaction, and the acquiree is expected to be integrated into the financial statements of the Red Eléctrica Group effective 1 January 2019 for financial purposes.

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.



APPENDIX I: Details of equity investments at 31 December 2018 and 2017

- Company
- Registered office
- Principal activity

Thousands of Euros	2018		2017	
	Percentage ownership ⁽¹⁾		Percentage ownership ⁽¹⁾	
	Direct	Indirect	Direct	Indirect
<p>Red Eléctrica Corporación S.A., Parent, incorporated in 1985.</p> <p>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).</p> <p>- Management of the business Group; rendering of assistance or support services to investees and operation of the property owned by the Company.</p>				
A) Fully consolidated companies				
<p>Red Eléctrica de España, S.A.U. (REE)</p> <p>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).</p> <p>- Transmission, operation of the Spanish electricity system and management of the transmission network.</p>	100%	-	100%	-
<p>Red Eléctrica Internacional, S.A.U. (REI)</p> <p>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).</p> <p>- International investments. Rendering of advisory, engineering and construction services.</p> <p>- Performance of electricity activities outside the Spanish electricity system.</p>	100%	-	100%	-
<p>Red Eléctrica Infraestructuras de Telecomunicación, S.A.U.(REINTEL)</p> <p>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).</p> <p>- Rendering of advisory, engineering, construction and telecommunications services.</p>	100%	-	100%	-
<p>Red Eléctrica Infraestructuras en Canarias, S.A.U (REINCAN)</p> <p>- Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain).</p> <p>- Construction of energy storage facilities in non-mainland and isolated systems.</p>	100%	-	100%	-
<p>Red Eléctrica de España Finance, B.V. (RBV)</p> <p>- Hoogoorddreef 15. Amsterdam (Netherlands).</p> <p>- Financing activities.</p> <p>- Incorporated in 2003 in the Netherlands to issue debt to finance the Red Eléctrica Group.</p>	100%	-	100%	-
<p>Red Eléctrica Financiaciones, S.A.U. (REF)</p> <p>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).</p> <p>- Financing activities.</p>	100%	-	100%	-
<p>Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)</p> <p>- Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain).</p> <p>- Acquisition, holding, management and administration of equity securities of entities located in Spain and abroad.</p>	100%	-	-	-
<p>Redcor Reaseguros, S.A (REDCOR)</p> <p>- 26, Rue Louvigny. (Luxembourg).</p> <p>- Reinsurance activities.</p> <p>- Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international reinsurance markets.</p>	100%	-	100%	-
<p>Red Eléctrica Andina, S.A. (REA)</p> <p>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)</p> <p>- Rendering of line and substation maintenance services.</p>	-	100%(a)	-	100%(a)
<p>Red Eléctrica del Sur, S.A. (REDESUR)</p> <p>-Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru)</p> <p>- Electricity transmission and operation and maintenance of electricity transmission networks.</p>	-	100%(a)	-	100%(a)



- Company

- Registered office

- Principal activity

Thousands of Euros

	2018		2017	
	Percentage ownership (1)		Percentage ownership (1)	
	Direct	Indirect	Direct	Indirect
Transmisora Eléctrica del Sur , S.A. (TESUR) -Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	100%(c)
Transmisora Eléctrica del Sur 2 , S.A. (TESUR 2) -Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	100%(c)
Transmisora Eléctrica del Sur 3 , S.A. (TESUR 3) -Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	-
Transmisora Eléctrica del Sur 4 , S.A. (TESUR 4) -Av. Javier Prado Este Of. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	-
Red Eléctrica Chile SpA (RECH) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Acquisition, holding, management and administration of securities.	-	100%(a)	-	100%(a)
Red Eléctrica del Norte S.A. (REDENOR) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	69.9%(d)	-	69.9%(d)
Red Eléctrica del Norte 2 S.A. (REDENOR 2) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(d)	-	-
B) Proportionately consolidated companies				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Initiale, 1 Terrasse Bellini - 92919 Paris La Défense Cedex. Paris (France). - Study and execution of Spain-France interconnections.	-	50%(b)	-	50%(b)
C) Equity-accounted investees				
Transmisora Eléctrica del Norte S.A. (TEN) - Avenida Apoquindo N°3721, piso 6, Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50%(d)	-	50%(d)

(1) Equivalent to voting rights.

(a) Investment through Red Eléctrica Internacional, S.A.U.

(b) Investment through Red Eléctrica de España, S.A.U.

(c) Investment through Red Eléctrica del Sur, S.A.

(d) Investment through Red Eléctrica Chile SpA.



Consolidated Directors' Report

2018

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



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To facilitate the understanding of the information provided in this document, some alternative performance measures have been included. The definitions of these measures may be found at www.ree.es

The various sections of this consolidated director's 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 the 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. Company position

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 2018 shareholders' ordinary general meeting was as follows:



Since November 2018 the Company has three board committees, as a result of the creation of the new Sustainability Committee through a restructuring of the other two board committees, the Audit Committee and the Appointments and Remuneration Committee. The three committees created by the board of directors to support it in its duties are eminently specialised and are designed for 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 of the board of directors regulations. Both these corporate regulations are fully adapted to the latest reforms of the Capital Companies Act (LSC), the Code of Good Governance of Listed Companies (CBGSC) and the most up-to-date international practices and recommendations on committee composition and committee member independence and qualifications. At the end of 2018, a review of the board of directors regulations was started that will update the functions of the three board committees.

At 31 December 2018, REC's board of directors comprised 12 members.

The general shareholders meeting of 22 March 2018 approved the re-election of Socorro Fernández Larrea and Antonio Gómez Ciria as independent directors and the ratification and appointment of Mercedes Real Rodríguez as a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), all of them for the four-year term specified in the articles of association.

At its meeting on 29 May 2018, the board of directors re-elected Fernando Fernández Méndez de Andrés as a member of the Audit Committee and Carmen Gómez de Barreda Tous de Monsalve as a member of the Appointments and Remuneration Committee, both of them for a three-year term.

At its meeting on 31 July 2018, the board of directors co-opted Mr. Jordi Sevilla Segura as a director of Red Eléctrica Corporación, S.A., in the "other non-executive" category, and appointed him non-executive chairman of the board of directors and of the Company until the next general shareholders



meeting to fill the vacancy arising on the board from the resignation of José Folgado Blanco as a director and thus also as non-executive chairman of the board of directors and of the Company, which the board accepted in that same session.

At its meeting on 25 September 2018, the board of directors co-opted María Teresa Costa Campi and Antonio Gómez Expósito as proprietary directors of Red Eléctrica Corporación, S.A., representing SEPI, until the next general shareholders meeting, to fill the vacancies arising on the board as a result of the board's acceptance, in the same session, of the resignations of the proprietary directors representing SEPI, Santiago Lanzuela Marina and Fernando Fernández Méndez de Andés, whom they replaced.

At its meeting on 27 November 2018, at the chairman's proposal and after considering a favourable report from the Appointments and Remuneration Committee, the board of directors agreed to create a Sustainability Committee and restructure the other two board committees (Audit Committee and Appointments and Remuneration Committee) and approved the following composition of the committees:

- Sustainability Committee:
 - Carmen Gómez de Barreda Tous de Monsalve (lead independent director and chairman)
 - 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:
 - Jose Luis Feito Higuera (independent director and chairman)
 - Antonio Gómez Expósito (proprietary director)
 - Socorro Fernández Larrea (independent director)



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

BOARD OF DIRECTORS	
<p>58.33% independent 41.66% women (45.45% non-executive female directors) The positions of chairman of the board of directors and managing director are separate Lead independent director</p>	<p style="text-align: center;">MAIN RESPONSIBILITIES</p> <p>Approval of the general policies and strategies of the Company and the Group. Control of the risks of the Company and the Group. Preparation of the annual accounts and presentation of the accounts to the General Meeting. Annual assessment of the quality and efficiency of the board and the functioning of its committees.</p>
AUDIT COMMITTEE	
<p>75% independent 25% proprietary 50% women Chairman: Independent director</p>	<p>Responsibilities in respect of:</p> <p>Preparation of the Company's economic and financial information. Effectiveness of the internal control and risk management systems. Independence of the external auditor. Compliance with laws and internal regulations on matters within the scope of its authority. The Company's shareholders.</p>
APPOINTMENTS AND REMUNERATION COMMITTEE	
<p>66.7% independent 33.3% proprietary 33.3% women Chairman: Independent director</p>	<p>Responsibilities in respect of:</p> <p>Appointment and removal of directors and some senior managers. Directors' remuneration policy. Compliance with directors' duties. Leading the assessment of the board and its committees. Gender diversity report.</p>
SUSTAINABILITY COMMITTEE	
<p>66.7% independent 33.3% proprietary 66.7% women Chairman: Independent director</p>	<p>Responsibilities in respect of:</p> <p>Basic responsibilities in matters of sustainability, previously assigned to the Appointments and Remuneration Committee, together with other corporate governance functions</p>

In response to the undertaking given by the company chairman at the general shareholders meeting held in April 2012 and considering international best practice in the field of corporate governance, at the extraordinary general meeting held on 17 July 2015, called specifically for that purpose, the board of directors of Red Eléctrica asked shareholders to approve a proposal to separate the positions of chairman of the board of directors and managing director of the company and to appoint Juan Lasala Bernad as an executive director. Both proposals were approved by 99% of the shareholders, with a quorum of 58%. At its meeting on 28 July 2015, the board of directors appointed the new executive director as managing director of the company.

A transitional period was established for the separation of powers, ending at the 2016 ordinary general shareholders' meeting, when the roles of chairman of the board of directors and managing director were fully separated. Since that meeting, the chairman of the board of directors has had exclusively the responsibilities of chairman.

Until the 2016 ordinary general shareholders meeting, the chairman retained his executive powers and focused his efforts on managing, supporting and steering the transfer of executive powers to the new managing director, with a view to ensuring a rational and orderly transition.



The lead independent director role, created in 2013, has been maintained because, given the responsibilities it entails, it is an efficient corporate governance practice, as shareholders and proxy advisors alike have acknowledged.

Detailed information on the composition and functioning of the Parent's governing bodies is provided in the Annual Corporate Governance Report, which is attached to this directors' report.

Composition of the Red Eléctrica Group

The Red Eléctrica Group's principal activity is electricity transmission and system operation in Spain via Red Eléctrica de España, S.A.U. (hereinafter, REE), which generates 93% of consolidated revenues and represents 85% of the Group's total assets (93% and 92%, respectively, in 2017). Other activities together account for the remaining 7% of revenue and 15% of total assets (7% and 12%, respectively, in 2017). The Group is present in six countries: Spain, Peru, Chile, the Netherlands, Luxembourg and France.

Red Eléctrica Internacional (REI)

Electricity businesses outside the Spanish system: in Peru through REDESUR, REA, TESUR, TESUR 2, TESUR 3 and TESUR 4 and in Chile through RECH, TEN, REDENOR and REDENOR 2.

REINTEL

Telecommunications businesses in Spain

REINCAN

Construction of energy storage facilities in island and isolated systems.

RESTEL

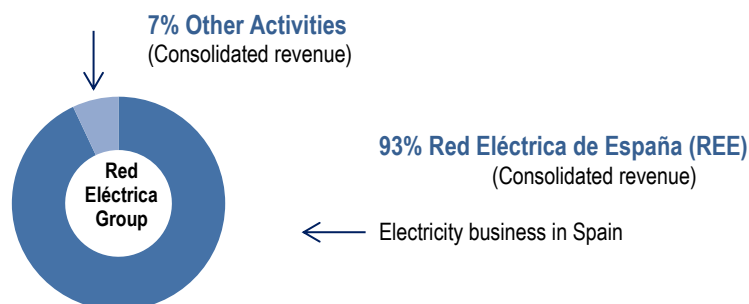
Acquisition, holding, administration, oversight and management of Spanish and foreign securities representing the capital of corporations.

BV and REF

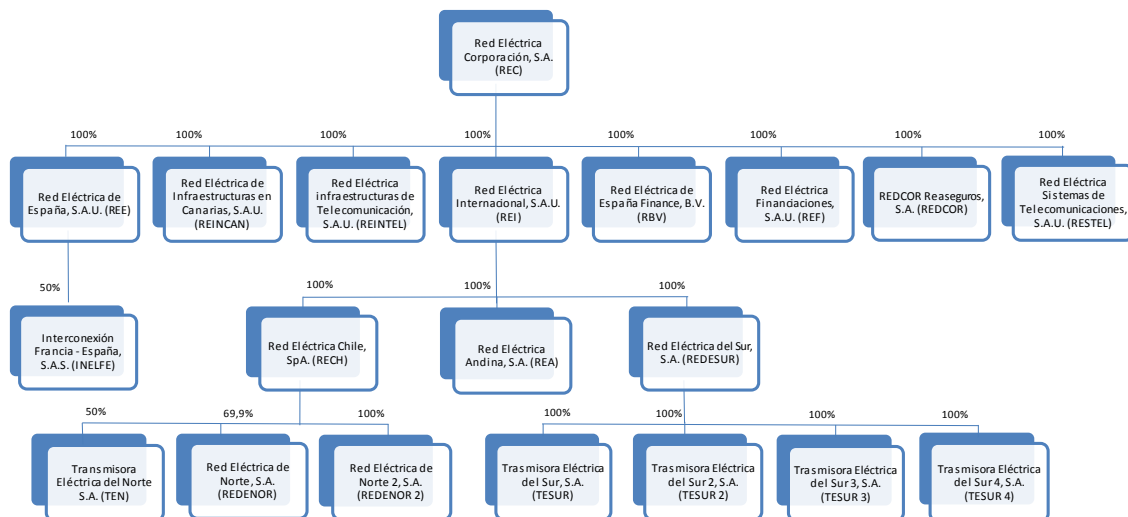
Financing activities.

REDCOR

Reassurance of the risks of the various Group companies.



In 2018, there were changes in the consolidated Group, as described in note 2g to the consolidated annual financial statements. At 31 December 2018, the composition of the Group was as follows (for more information on the activity of each company, see Appendix 1 of the consolidated annual accounts):



1.2 Activities and business performance

The Group carries out the aforementioned activities in Spain and abroad, most notably electricity transmission in Spain, Peru and Chile and the provision of telecommunications services to third parties.

Role of transmission agent and system operator for the Spanish electricity system

The mission of REE, as carrier and operator of the Spanish electricity system, is to guarantee at all times the safety and continuity of the electricity supply and manage the transmission of high voltage energy. 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.

Approval of the 2015-2020 Plan injected the necessary certainty so as to execute the Investment Plan which the Company is implementing and will continue to execute in the next few years.

2018 was the third year in which the remuneration for the transmission activity was set in accordance with the new remuneration model approved in 2013.

Investments in transmission network facilities in 2018 totalled EUR 378 million and basically served to resolve technical restrictions, extend the network mesh, execute specific projects for international interconnections and interisland underwater connections, and ensure supply security.

During the year, 277 kilometres of transmission network were brought into service, bringing REE's total transmission network at year-end to 44,069 kilometres. Meanwhile, transformation capacity was increased by 2,592 MVA, bringing the nationwide total up to 88,846 MVA.

The most significant actions brought about in the development of the transmission network have been, for large-scale actions and interconnections, the following:

- **Son Moix interconnection:** this interconnection is primarily intended to resolve the existing weak evacuation from the 220 kV Valldurgent substation to the city of Palma de Mallorca, improving control of voltages to the west of Palma de Mallorca and supporting the 220/66 kV Valldurgent transformer. The 220 kV - 66 kV Son Moix substation and the 220 kV input and output are expected to be in service in 2019.



- Santa Elvira interconnection: this interconnection is intended for the construction of a line and a 220 kV substation for the mesh of the transmission network and support for distribution in the city of Seville. The SE Santa Elvira 220 kV and the L/ Alcores - Santa Elvira 220 kV line are expected to be in service in 2019.
- San Miguel de Salinas-Torre Vieja interconnection: has as an objective the mesh of the transmission network of the coast of Levante interconnection and support for distribution in order to supply a desalination plant in the area of Torre Vieja (Alicante), facilities were placed into service in July 2018.
- Actions in the island of Tenerife:
 - Abona interconnection: has as an objective to bring about the actions of the transmission network required to contribute to the mesh of the island and evacuation from the special regimen (régimen especial). The Abona substation has as an objective the evacuation of wind energy. The 220 kV - 66 kV Abona substation and the input and output were placed into service in 2018.
 - El Poris interconnection: has as an objective to bring about the actions of the transmission network needed to contribute to the mesh of the island and evacuation from the special regimen (régimen especial). El Poris substation has as an objective the evacuation of wind energy. In 2018, L/ Arico 2 - El Poris 66 kV, 220 kV - 66 kV substation and the El Poris 220 kV input and output were placed into service.
- Arinaga interconnection: the objective of this interconnection is to bring about the actions of the transmission network in the island of Gran Canaria needed to contribute to the mesh of the island and evacuation from the special regimen (régimen especial). The Arinaga substation has as an objective the evacuation of wind energy. In 2018, the L/ Arinaga-Barranco de Tirajana 66 kV and associated substations were placed into service.
- Gerona North Power Interconnection: has as an objective the safety of supply and support for distribution in Catalonia, as well as improving the interchange through the International Interconnection with France. The 400 kV - 220 kV La Farga substation and the 220 V input and output were placed into service in 2018.
- Arenal - Lluçmajor interconnection: intended for the construction of two 132 kV lines to connect at the Cala Blava substation, all for the mesh of the transmission network and support for distribution in Mallorca. The Arenal-Cala Blava 132 kV and Cala Blava - Lluçmajor 132 kV lines were placed into service in 2018.
- Lanzarote-Fuerteventura interconnection: this interconnection is intended to bring about the actions required to construct the mesh of the network on both islands, allowing the evacuation of power and reinforcing the connection between the two islands. The L/ Gran Tarajal - Matas Blancas 132 kV and 66 kV Matas Blancas substation were placed into service in 2018. The remaining facilities are expected to be placed into service in the next few years.
- West interconnection with France: motivated by the need to continue increasing interconnection capacity with France, and for the achievement of the European energy objectives that allow access to sustainable, competitive and safe energy. In 2018, the technical studies and the prior work for preparation of the tender of the main components of the project were continued. Additionally, a grant by the European Commission of 578 million euros through the Connecting Europe Facility (CEF) has been confirmed.



- Input/output at Moncayo of the Trevago-Magallon-Lanzas 220 kV line has led to an improvement in the mesh of the transmission network in the area of Moncayo, supporting the distribution network in the area and allowing the reinforcement of the supply to Moncayo.
- The Cañuelo - Pinar del Rey 220 kV line, dual circuit allows support of the demand of 220 kV from Cañuelo from the transmission network through a new mesh that prevents antenna power and non-compliance with Operational Procedures, ensuring the supply of the demand of Cañuelo when the current circuit that connects with Pinar del Rey is unavailable.

Additionally, in fiscal year 2018, the most notable facts in the operation of the electrical system, were:

- The demand for electrical energy from the peninsula ended the year at 253,495 GWh, 0.4% higher than that of 2017. Factoring in the effects of work and temperature, the demand which is attributable primarily to economic activity places the growth rate at 0.3%, which contrasts with respect to what happened last year when it stood at 1.6%.
- The maximum instantaneous power was recorded on Thursday, 8 February at 20:24 with 40,947 MW, which is a variation of -1.0% with respect to the maximum of the previous year and of -9.9% compared to the record of 45,450 MW reached on 17 December 2007. The maximum demand time also occurred on 8 February (between 20:00 and 21:00) with 40,611 MWh, 9.5% below the historic maximum reached in 2007.
- The peninsular installed power decreased compared to the previous year, at the end of 2018 at 98,593 MW, 276 MW less than at the end of 2017 (which implies a variation of -0.3%). The greatest variation was recorded for combined-cycle technology that reduced power at 386 MW as a result of the closure of the Tarragona plant. The rest of the technologies did not have power variations or the power variations have not been very significant.
- During 2018, bidding was successfully completed for the provision of Interruptibility Service for 1 June 2018 through 31 December 2018, and for 1 January 2019 through 30 June 2019. Specifically, the electro-intensive industry of the country competed for the allocation of interruptible resources in a few bids that have resulted in the award of 2,600 MW of interruptible resource in each of the periods.
- Regarding hydropower, at the end of December 2018 it was at 37,386 GWh, 28.2% higher than the historical average value and 134.1% higher than in 2017. The hydroelectric reserves in the grouping of reservoirs ended 2018 with a fill level of 44.1% of their total capacity, compared with 26.3% the previous year.
- In generation coverage in 2018, nuclear technology accounted for 21.6% (22.4% in 2017), wind for 19.8% (19.1% in 2017), coal for 14.1% (17.1% in 2017), 13.8% hydropower (7.4% in 2017), cogeneration for 11.8% (11.3% in 2017) and combined cycle for 10.7% (13.6% in 2017). Below a share of 10% are solar technologies, other renewables, waste and turbine pump, which together cover 8.2%.
- Renewable energy sources have increased their role in global production of energy in the electricity system covering 40.1% of total production (33.7% in 2017).

In absolute terms, renewable generation varied 18.5% from the previous year, due mainly to the increase of 84.8% of hydroelectric production.

- CO2 emissions from the peninsular power sector, the decline in generation with fossil fuel technologies, and in contrast, the sharp increase in hydroelectric generation, has established the



level of emissions in 2018 at 54.2 million tons, assuming a variation of -15.0% compared to 63.8 million tons in 2017.

- The interchange of electrical energy through the Peninsula-Balearic Islands link has resulted in an export balance to the Balearic Islands of 1,233 GWh (variation of 4.6% compared to 2017), which has made it possible to cover 20.4% of the demand of the Balearic Islands' electricity system.
- The annual demand for electrical energy in the whole of the non-peninsular systems ended 2018 with a variation of -0.3% compared to the previous year. By system, the Balearic Islands increased by 0.6%, 2.2% in Ceuta and 1.2% in Melilla, whereas the Canary Islands fell by 1.0%.
- For power installed in the non-peninsular systems, the most notable is wind technology which doubled its power with respect to 2017. The rest of the technologies did not have power variations or the power variations have not been very significant.
- The balance of international interchange of electrical energy has resulted in importation for the third consecutive year, reaching in 2018 a value of 11,102 GWh.

Exports amounted to 12,916 GWh (14,594 GWh in 2017) and imports to 24,018 GWh (23,763 GWh in 2017).

In accordance with Law 17/2013, REE has been entrusted with the development of pumped-storage hydroelectric plants in the Canary Islands, whose purpose is the guarantee of supply, system safety and the integration of non-manageable renewable energy sources.

In June, the expansion of the geotechnical campaign ended, which began in November 2017 with a budget of 1.5 million euros, in which exploration probes, sampling, geophysics and tests were performed, in order to learn in detail the geological and geotechnical characteristics of the rocky massif. Due to this work, the best possible information was obtained on materials with which the underground hydroelectric power plant will be constructed.

In August, the design and engineering of the construction project was awarded, as well as technical assistance and project management, for UTE Soria-Chira Engineering, a consortium formed by AIN Active, SLU and Amberg Engineering AG, amounting to approximately 20 million euros. The contract covers design to preparation of technical specifications for procurement of all tender packages, as well as technical assistance and project management until it is placed into service. This is one of the largest engineering services contracts signed in the Canary Islands, which consolidates a committed investment of 39.4 million euros in the project, demonstrating strong commitment.

With regard to transmission, the process is in the final phase of environmental assessment. Throughout this process, improvements have been identified, the result of the above-mentioned geological-geotechnical studies and agreements with authorities, which have been implemented in the project. After these changes, and subsequent to mandatory public information, we can begin to obtain relevant authorizations to begin construction.

With regard to the possible project of implementing a pumped-storage hydroelectric plant in Tenerife, during 2018 the core projects have been developed with the best options identified. Work is under way to clarify aspects related to the implementation that will allow for final proposal.

Telecommunications business

The Group's telecommunications business has primarily been developed in Spain, through the subsidiary, Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).



REINTEL is the company in the group that has as its objective the development of operation of networks and provision of telecommunications services for third parties.

REINTEL is positioning itself as a neutral provider of telecommunications infrastructure, its main activity being the rental of dark fiber and the infrastructure associated with that network. REINTEL operates a fiber-optic network of more than 33,000 km of cables deployed on the electricity transmission network and the railway network, ensuring transparent access and equal conditions to customers and agents of the telecommunications sector.

REINTEL is the successful tenderer for a period of 20 years for right of use and operation of the fiber optic network, not dedicated to the railway business and other associated elements, owned by Adif - High Speed.

International business

The international business of the Group has developed through its subsidiary, Red Eléctrica Internacional, S.A.U (hereinafter REI), which has a direct share of 100% in the capital of the Peruvian companies, REA and REDESUR. In turn, REDESUR owns 100% of TESUR, TESUR 2, TESUR 3 and TESUR 4.

Additionally, REI has shareholdings in Chilean companies, RECH (100%) and through this owns 69.9% of REDENOR, 100% of REDENOR 2 and 50% of TEN.

Activity in Peru

During 2018, excellence in the management of REDESUR and TESUR (companies that manage the infrastructure of electricity transmission in Peru) has made it possible to offer services for the transmission of energy with maximum availability and support of the development of their area of activity.

For REDESUR, the consolidation of the Integrated Management System (SIG), has made it possible to continue providing excellent standards of quality in the operation, achieving a rate of network availability in 2018 of 99.88%, which exceeds the average value for the last 5 years (99.83%).

TESUR is positioned in the first years of operation of the license of its facilities, after startup of commercial operation in mid 2014. The rate of network availability of TESUR in 2018 was 99.87% (99.85% in 2017).

TESUR 2, the subsidiary company for the 220 kV transmission line, Azangaro-Juliaca-Puno in southern Peru, has successfully completed the project and the period of experimental operation, having initiated the commercial operation phase on 8 June 2018 for a period of 30 years. In the first six months of operation, the rate of availability of their facilities was 99.92%.

REA performs maintenance services for the subsidiaries in operation, REDESUR, TESUR and TESUR 2. Also, in 2018, REA has performed all tasks for the development and implementation of special projects undertaken by REDESUR and has executed work for TESUR, TESUR 2, TESUR 3 and TESUR 4.

Additionally, REA performs maintenance of facilities and work supervision for other clients, which establishes it, in southern Peru, as one of the companies of reference in the provision of these services.

The new projects, awarded at the end of 2015 and 2017, corresponding to TESUR 3 and TESUR 4, are in the construction period, in various phases of execution. The projects comprise an expected amount



of investment of 95 million United States dollars. They will be finalized and will come into operation in the next few years.

On 14 December 2018, REI signed a contract for the sale of shares, with Cajamarca Invest, S.L. and Bow Power, S.L. in their capacity as sellers, to acquire 100% of the capital of Concesionaria Línea de Transmisión CCNMC S.A.C, subsidiary company of the 220kV transmission line Carhuaquero - Cajamarca North- Moyobamba- Caclic and associated substations, in Peru. The operation includes the acquisition of 366 km of 220 kV circuit, 6 km of 138 kV circuit and 4 substations. These assets have been operating since the end of 2017, on the basis of a license for 30 years with the Peruvian State. The closing of the transaction, scheduled for the first quarter of 2019, is conditioned on the compliance with the various suspensive conditions related mostly to obtaining certificates, consent and authorizations as well as that there are not any non-compliances in effect. The initial price agreed upon was 34.5 million United States dollars, subject to adjustments.

With the acquisition of these assets, REI will manage a network of 1,686 km of circuit in Peru that adds to the 1,729 km that it manages in Chile and that makes up the facilities that Red Eléctrica manages in the area, positioning itself preferentially for future interconnections between Chile - Peru and Peru - Ecuador.

Activity in Chile

The RECH company, constituted by REI in November 2015, has as its main activity the acquisition, possession, administration, direction and management of the shares that the Group will maintain in Chile. REI has 100% of the share capital of the company. RECH, in turn, has 50% share in TEN, the other being 50% of the Chilean company, Engie Energía Chile, a subsidiary of Grupo ENGIE. It also has 70% of REDENOR and 100% of REDENOR 2.

At the end of 2017, commercial operation of the 500 kV power line, 600 kilometers long, was placed into service, which connects the Central Interconnected System (SIC) with the Great Northern Interconnected System (SING), which Grupo TEN has developed, having operated, without incident, throughout 2018, the first year of service.

In 2018, REDENOR began the construction work of the project that was awarded in 2017. This project includes the construction and subsequent operation of 258 kilometers of 220 kV lines and a substation in northern Chile.

In September 2018, REDENOR 2 acquired the assets of the company, Centinela Transmisión, owner of Minera Centinela for a total of \$117.2 million dollars, including operating assets and projects under construction in the Antofagasta Region, northern Chile. It consists of three 220 kV lines with a total of 265 km circuit. The purchase also includes the expansion work of these facilities that are contained in the Expansion Plan of the Transmission System, for 2016-2017, which are in execution.

2. Business performance

2.1 Key financial indicators

Revenue for 2018 amounted to EUR 1,948.5 million, compared to EUR 1,941.2 million the previous year, an increase of 0.4%. This figure includes the remuneration of the transmission business in Spain. It also includes the revenue associated with the external telecommunications business, which amounted to EUR 88.7 million, regulated revenues relating to system operation, which amounted to



EUR 65.8 million, and the revenues arising from the foreign transmission business, which amounted to EUR 22.9 million.

The profits of the Chilean company TEN, which in 2018 amounted to EUR 7.0 million, are included in gross operating profit as "Results of investees".

Gross operating profit (EBITDA) amounts to EUR 1,539.7 million, up 1.3% year-on-year.

The trend in operating expenses is as follows:

- **Supplies and other operating expenses** are down 8.3% compared to the previous year, reflecting the efforts Red Eléctrica has put into improving efficiency, especially in maintenance expense, and a lower accident rate (in the last quarter of 2017 there were numerous cases of weather-related damage, whereas 2018 had fewer incidents). Expenses are also down due to the completion of TESUR 2.
- The **end-of-year headcount** is 1,799, while the average headcount is 1,805.

Personnel expenses are up 2.1% compared to the previous year. This increase is partly explained by the 2.1% increase in average wage costs and a 0.2% increase in the Group's average workforce compared to the same period of last year.

Net operating profit (EBIT) is EUR 1,069.8 million, up 3.7% on the previous year. This increase reflects the decline in depreciation and amortisation expense, mainly due to adjustments to the estimated useful life of some transmission assets.

Net finance costs were EUR -133.5 million, compared with EUR -142.6 million the previous year. The main reason for this improvement is reduced interest expense, thanks to the decline in borrowing costs.

Lastly, **Profit for the year** came to EUR 704.6 million, 5.2% more than the previous year. The effective tax rate is 24.8%, in line with the 25% defined in Law 27/2014 of 27 November on Corporate Income Tax.

The **Investments** made by the Group during 2018 reached EUR 546.6 million, compared to 510.2 the previous year. Of this total, EUR 378.2 million were used to develop the Spanish transmission network. The investment in the international business includes EUR 101.2 million for the acquisition of Centinela Transmisión, which has been renamed Red Eléctrica del Norte 2 S.A. (REDENOR 2).

Dividends paid out of the previous year's profit totalled EUR 495.1 million, an increase of 6.9% on the previous year, as envisaged in the 2014-19 Strategic Plan.

At the end of 2018, 100% of the Group's interest-bearing debt is non-current; 90% is at a fixed rate of interest and the remaining 10% at a floating rate.

The average cost of the Group's interest-bearing debt in 2018 was 2.42%, compared to 2.78% the previous year. The average balance of **Gross debt** was EUR 5,499 million, compared with EUR 5,123 million the previous year.

Lastly, the Red Eléctrica Group's **Equity** amounted to EUR 3,361.4 million, which is 8.7% more than at the end of 2017. This growth is attributable mainly to the profit for the period less the dividends paid.



Financial indicators (figures in millions of euros)	2017	2018	Δ%
Revenue	1,941.2	1,948.5	0.4%
Gross operating profit (EBITDA)	1,519.5	1,539.7	1.3%
Operating profit (EBIT)	1,031.4	1,069.8	3.7%
Net profit	669.8	704.5	5.2%
ROE (After-tax earnings / Equity)	21.7%	21.0%	-3.2%
Cash flows from operating activities	1,153.3	1,100.0	-4.6%
Dividends paid	463.2	495.1	7.0%
Equity	3,093.4	3,361.4	8.7%
Gearing (Net interest-bearing debt / Net interest-bearing debt + Equity)	60.8%	58.2%	-4.2%
Investments	510.2	546.6	7.1%
Total assets	10,917.9	11,262.1	3.2%
Debt service coverage ratio (Net debt / EBITDA)	3.2	3.0	-3.4%

3. Liquidity and capital

The Red Eléctrica Group's liquidity policy has been designed to ensure payment obligations are met by diversifying the coverage of financing requirements and the timing of debt maturities.

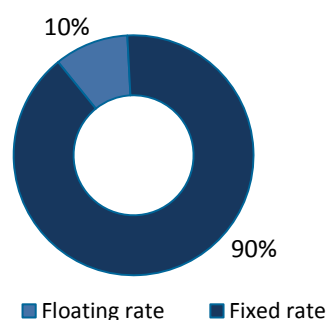
The Group's liquidity position is based essentially on robust cash flow generation, primarily through regulated activities. This, coupled with appropriate management of collection and payment periods and the existing financial capacity, thanks to the availability of short- and long-term credit facilities, allows prudent liquidity risk management.

The undrawn balance on credit facilities at 31 December 2018 is EUR 1,826 million.

The average maturity of the debt drawn down at the end of the year is 5.3 years.

The Group's financial strategy has aimed to reflect the nature of its businesses, at all times adhering to legislation in force. The Group's activities are very capital-intensive and its investments mature over long periods. Moreover, the return on these assets is earned over long periods, which is why the interest-bearing debt is primarily long-term and fixed-rate. The Group's strategic commitment to long-term, enterprise-wide sustainability is also present in the form of responsible, transparent management that promotes sustainable funding sources.

Structure of interest-bearing debt: Fixed vs. Floating





With regard to capital structure, the Group follows a policy of optimising the cost of capital while ensuring a sound financial position, balancing value creation for shareholders with competitive financing costs. Capital is monitored periodically through the gearing ratio, which in 2017 stood at 60.8%, compared to 58.2% in 2018. This ratio is calculated as net interest-bearing debt divided by equity plus net interest-bearing debt.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

4. Risk management

The Group has implemented an Integrated Risk Management System, aimed at ensuring that any risks which might affect the Group's strategies and objectives are systematically identified, analysed, assessed, managed and controlled, according to uniform criteria and within the established risk levels, so that the Group's strategies and objectives can be accomplished. The Integrated Risk Management Policy was approved by the board of directors. The Integrated 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 main risks to which the Group is exposed and which might affect the achievement of its objectives are regulatory risks, including tax risks (inasmuch as the Group's main businesses are regulated), operating risks (mainly from the activities for the electric grid system service), financial risks and environmental risks.

The Integrated Risk Management Policy also includes financial risk management, details of which are provided in note 16 to the consolidated annual financial statements. Detailed information on the Group's current and possible future risks is provided in the company's Sustainability Report,

5. Information on the average payment period to suppliers. Third additional disposition, "Duty of disclosure", of Law 15/2010 of 5 July

Based on the parameters set in 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 the average payment periods to suppliers in commercial transactions, the average supplier payment period in the case of Spanish Group companies was 48 days at the 2018 year-end.

The disclosures required by this Resolution are outlined in note 20 to the Group's consolidated financial statements for 2018.

6. Significant events occurring after the reporting period

On 12 February 2019, Abertis Infraestructuras, S.A. and Red Eléctrica Corporación, S.A. agreed on the acquisition by the latter of 89.68% of the shares held by Abertis in Hispasat, S.A. for EUR 949 million.

In accordance with applicable law, the parties will apply for the necessary authorisations, success in obtaining these authorisations being a condition precedent for the effectiveness of the contract they have entered into. Once these conditions are met, payment will be made and the integration of the acquiree in the Group's financial statements is expected to be effective from 1 January 2019.



Hispasat is the largest satellite infrastructure operator in Spain and Portugal in terms of business volume, the fourth largest in Latin America and the eighth largest in the world.

7. Outlook

The Group will keep working towards achieving the objectives set out in the Strategic Plan. To that end, it will continue in its role of Spanish TSO, while also reinforcing its efficiency criteria so as to adapt to the new, more stringent regulatory and remuneration environment, and placing greater emphasis on widening its business base as an alternative means of growth.

Implementation of the strategy, based on excellence, innovation and personal development, will allow the Group to maintain its current leadership in terms of the reliability and security of the electricity systems it operates and the excellent standards in other activities.

The Group will uphold its commitment to maximise 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 business base, maintaining a robust capital structure and working to guarantee supply with a maximum 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.

Outlook for regulated activities in Spain

The progress of the regulated activities is driven mainly by the following lines of action:

- Propelling the energy transition, market integration and the sustainability of the electricity system, which will require large investments in the transmission network over the next few years, with a major technological component. The investment plan will be focused on transmission, the integration of renewable energy sources and the development of interconnections, both with France and Portugal and with the island systems.
- The search for efficiency, enabling the Group to maintain its position as an international benchmark. Accordingly, the Company has reviewed its main operating processes, promoting a streamlined and flexible organisation that optimises the Company's returns and the efficiency of the mainland and non-mainland electricity systems.
- Implementation of new regulated activities, such as storage of energy in the island systems as a tool to guarantee the security of the isolated non-mainland electricity systems.

The Group will apply a financial policy adapted to the new remuneration model for the transmission activity, ensuring that interest-bearing debt is diversified and its liquidity position can comfortably cover upcoming maturities, aiming for the most flexible financial structure possible.

Foreseeable development of telecommunication activities

The telecommunications activity developed through REINTEL, as a supplier of telecommunication infrastructure, will focus on the market for fiber backbone networks, which assumes the provision of services for renting dark fiber for infrastructure associated with the agents of the telecommunications sector. To do this, REINTEL will continue developing its business plan and



operating the investments at the request of customers, which will generate new revenue for the company.

Additionally, REINTEL will continue to move forward in the interconnection of electrical fiber and railway networks in order to offer new solutions to its customers such as new redundancies and new access points. All this will be accomplished while maintaining a high level of quality of service offered to its customers.

Outlook for the international business

The Group will continue to focus on strengthening its performance in the countries where it operates, specifically in Peru and Chile.

Furthermore, as a means of broadening the business base, the Company will seek to execute projects or acquisitions which, fulfilling a series of geographic, strategic and financial criteria, boost the Company's international presence.

8. Innovation

During 2018, the implementation of the Innovation Strategy of the Red Eléctrica Group has deepened, unfolding through the vectors of digitization, people, sustainability and social and technology innovation, and whose purpose is to promote innovation as a lever for growth, cultural change and sustainability of the Group.

The third innovation contest was held, the aim of which was to detect ideas of possible interest and promote a culture of innovation. At this edition, 50 proposals have been submitted, compared to 28 last year. The winners have been:

- ALBOS - submarine pump storage.
- Predictive analytics in transport projects.
- Implementation of polymeric singular supports.

Throughout 2018, there has been development, with the collaboration of InnoEnergy, of the GRID2030 Program, with the objective of detecting disruptive ideas of possible future interest for the Group and financing their transition to solutions that are close to commercial use. In this first call, the following projects have been chosen:

- FST (Flexible Smart Transformer): design, development and testing of an innovative and disruptive power electronic device based on semiconductors made of silicon carbide, with multiple possible applications such as transformers and converters for alternating and direct current, which provide greater control and new features.
- RITSE (Reduced Inertia Transient Stability Enhancement): improves the flexibility of the electrical system using two complementary and coordinated tools to improve transient stability against disturbances. One acts at the global level to eliminate oscillations, using international connections in direct current; and another at the local level, using batteries that keep the frequency and voltage emulating a synchronous generator.



Additionally, two new challenges for 2019 have been launched: "Improving knowledge of the physical state of transmission infrastructure of electrical energy" and "Technologies and digital services for energy transition."

At the international level, continued dedication to the Committee on Research, Development and Innovation of ENTSO-E (European Network of TSOs) and its working groups. Additionally, continued collaboration with the European Technology & Innovation Platforms (ETIP) in electricity networks within the SET Plan of the EU, in which Red Eléctrica is a member of the Governing Council as part of the representation of the European TSOs.

With regard to the projects financed by European programs, in 2018 BEST PATHS (BEYond the State-of-the-art technologies for re-Powering Ac corridors & multi-Terminal HVDC Systems) was completed, coordinated by REE and involving 39 partners including universities, technological centers, industry, electric utilities and TSOs. The project's main objective was to overcome technical barriers that the current electricity network could encounter upon integrating massive amounts of energy from renewable sources. Additionally, continuing work on the MIGRATE project, REE participates as a partner leading a work package, which the objective is to improve the understanding of the behavior of the electrical system with high penetration of devices based on power electronics (generators, loads, HVDC links, FACTS...). Another ongoing project with the outstanding participation of Red Eléctrica is OSMOSE, where flexibility mechanisms (mainly based on storage) will be studied for improvement of the operation of the electrical system and the integration of renewable energies. Finally, the Coordinet project has begun, a European project for H2020 coordinated by Endesa Distribucion in the area of coordination between TSOs and DSOs, and in which REE will lead a demonstration on a large scale.

With regard to national projects, AMCOS-Stability FACTS has ended, for the design of a prototype to improve stability of the frequency and voltage in small isolated systems.

Throughout 2018, work has continued on our own R+D+i projects, among which the CECOVEL project and the ALMACENA Project are notable.

The CECOVEL (Control Center for the Electric Vehicle) project is an initiative of REE to support electric mobility in the current scenario of energy transition. Operational since January 2017, CECOVEL is a collaborative project with the participation of the main operators in mobility and allows for tracking of the energy demand for recharging electric vehicles, creating awareness for new consumers of electrical energy.

The ALMACENA Project has allowed for deepening in future applications of new storage technologies in the field of integration of renewables and the improvement of operational services of the system due to electrochemical storage equipment installed in Carmona (Seville). During 2018, development of the models and studies was completed in addition to continuing with the operation and maintenance, which is expected to continue until 2020. In addition, there has been a conference for feedback of experiences of the project that has allowed for internal transfer and communication of the results obtained.

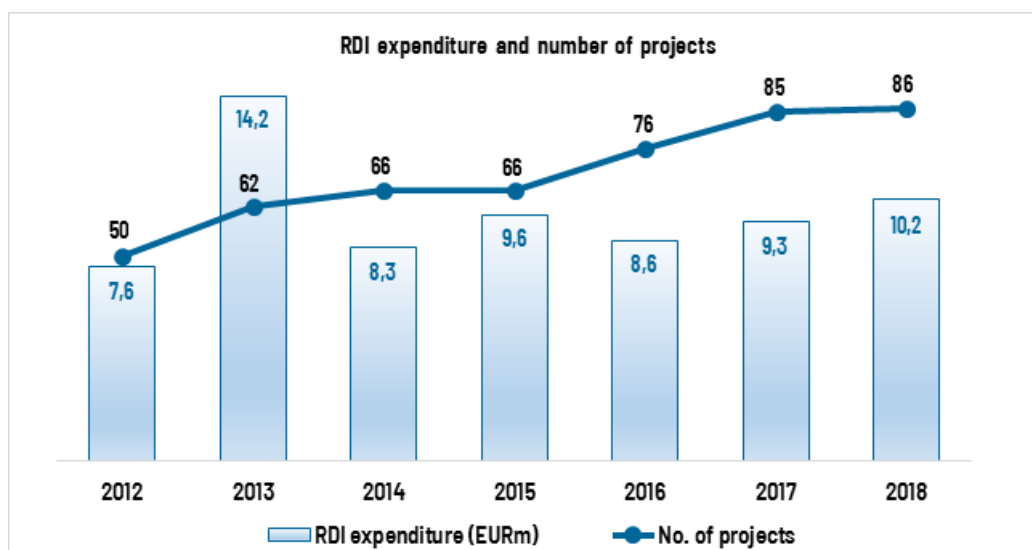
During 2018, a total of 10 projects were completed, in the field of operation of the electrical system and in construction and maintenance of installations as well as environmental projects.

Specifically, projects dedicated to the environment, such as bio-transport, have been completed. The bio-transport project has analyzed and identified the effectiveness of the base of the power transmission lines as stepping-stones for the fauna of the various natural and protected spaces in the Iberian Peninsula, and the Balearic and Canary Islands. And in a future second phase for 2019,



performance will be addressed, implementing appropriate measures to check on a large scale the effect of the electrical supports. In this way, with this new mission of the electricity infrastructure, we will contribute to performing ecosystem services, adding value to natural capital and resulting in improvement for society as a whole. This "green" focus on the use of infrastructure, represents a radical shift in thinking in industrial exploitation separated from nature, integrating biodiversity in the everyday life of the world's population, and it fits perfectly with the policies of the European Union in relation to the protection of the environment.

In summary, during 2018, 86 actions of innovation were worked on, having dedicated a total of 10.2 million euros.



9. Own shares

In order to provide investors with adequate levels of liquidity, in 2018 the Company acquired 2,582,384 shares with a total par value of EUR 1.3 million and a cash value of EUR 44.6 million. A total of 2,998,028 shares were sold, with an overall par value of EUR 1.5 million and a cash value of EUR 55.1 million.

At 31 December 2018, the Company held 1,198,049 own shares, representing 0.22% of its share capital. These shares had a par value of EUR 0.50 each, and an overall par value of EUR 0.6 million and an acquisition price of EUR 17.78 (see note 12 to the annual financial statements) and their market value totalled EUR 23.4 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 Group subsidiaries do not hold own shares or shares in the Parent.



10. Other relevant information

10.1 Stock market performance and shareholder returns

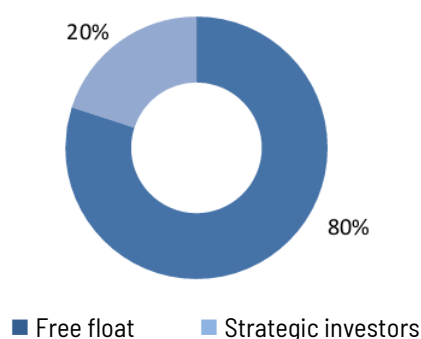
All of the shares in REC, the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system.

REC also forms part of the IBEX 35 index, of which it represented 2.37% at the end of 2018.

At 31 December 2018, the share capital of REC amounted to EUR 270.5 million and was represented by 541,080,000 shares with a par value of EUR 0.50 each, subscribed and fully paid.

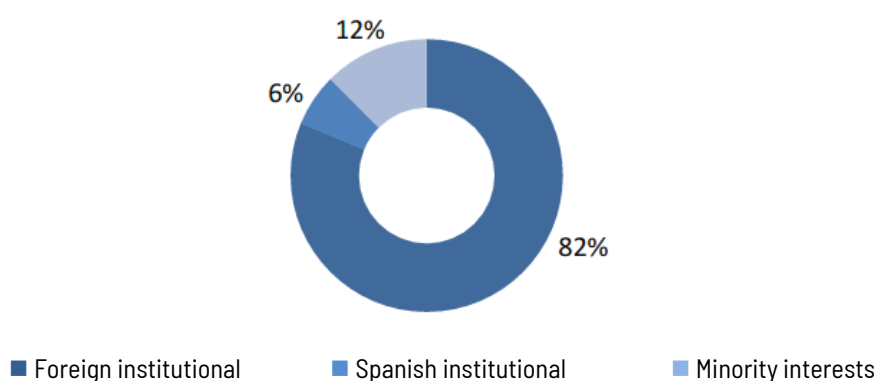
During the year REC's free float was 80%.

Shareholding structure



At the date of the last shareholders' meeting (22 March 2018), the free float comprised 432,864,000 shares, of which an estimated 12% is held by non-controlling shareholders, 6% by Spanish institutional investors and 82% by foreign institutional investors, primarily in the United Kingdom and the United States.

Distribution of the free float



2018 marked a turning point in share price performance, as the upward trend seen in previous years was reversed. The main stock indices showed significant falls, in the region of -6% in the United States and -15% in Europe and Asia, most notably the -25% drop in the Shanghai Composite.

These figures reflect the worst equity market performance since the financial crisis. Trade tensions, growing doubts about economic growth, institutional challenges (especially in Europe) and the



difficulties facing the emerging economies, all these against the background of the withdrawal of monetary stimulus, have weighed heavily on the markets.

REC's shares gained 4.2% over the course of 2018, outperforming most regulated European energy companies. The expectation of a major investment plan in the second regulatory period to facilitate the energy transition, the progress made in setting the regulatory parameters for the next regulatory period and the company's shareholder remuneration policy drew positive market reactions.

The company's market capitalisation at the end of 2018 was EUR 10,548 million.

In 2018 as a whole, a total of 493.6 million shares were traded in regulated secondary markets, which is 0.9 times the company's shares. Cash trading amounted to 8,735.3 million euros.

10.2 Dividend policy

The dividends paid in 2018 amounted to EUR 495.1 million, 7% more than in 2017.

The dividend for 2018 proposed by the board of directors and awaiting approval by the General Shareholders' Meeting is EUR 0.9831 per share, an increase of 7% compared to the previous year.

This confirms the dividend growth target contained in the Group's 2014-2019 Strategic Plan, which anticipated growth of around 7%, comparing the average annual rate over the period with the total dividend approved for 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 5 June 2018, the rating agency Standard & Poor's issued a new report on Red Eléctrica, maintaining its rating and outlook. Following this announcement, the Company and its subsidiary REE maintain long-term ratings of A- and short-term ratings of A-2, with a stable outlook.

On 18 September 2018, the rating agency Fitch Ratings granted 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

In 1999, the Company adopted the EFQM (European Foundation for Quality Management) model as a tool for continuous improvement of its management and results. Since 2001, external assessments have been carried out every two years to identify areas for improvement, which are articulated through excellence plans, and to measure progress in management excellence. In 2018, following the external assessment carried out in 2017, the Company renewed its Recognised for Excellence 500+ certification, with a score of more than 700 points. The assessment resulted in the launch of the 2018-2019 Excellence Plan, which includes a total of 49 improvement actions.

In 2018 the Company's improvement efforts were recognised by the Excellence in Management Club, which represents the EFQM in Spain, with the award of the title of European Excellence Ambassador.

Since 2000, Red Eléctrica has also had a certified quality system, covering all the organisation's processes, based on the international UNE-EN-ISO9001 standard. In 2018 this system was certified



through an external audit, which has been carried out comprehensively on all the certified corporate management systems since 2012.

11. Statement of non-financial information in compliance with Law 11/2018 of 28 December

11.1 Description of the Group's business model and sustainability priorities

The Red Eléctrica Group has made a strategic commitment to long-term, enterprise-wide sustainability. In 2017, the board of directors approved the Red Eléctrica Group's 2030 Sustainability Commitment. With 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 commitment defines four sustainability priorities, identified as the drivers for responding to the challenges facing the Group and for materialising existing opportunities.

- **Decarbonisation of the economy.** The Group undertakes to be 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 energies through a robust and better-connected network and the development and operation of energy storage systems.
- **Responsible value chain.** The Group undertakes to extend its responsibility commitment to all the links of the value chain, from its employees to its suppliers and customers, by forging alliances and underpinned by the model of good governance and integrity.
- **Contribution to the development of the surrounding community.** The Group undertakes to contribute to economic, environmental and social progress in the surrounding area, 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.
- **Anticipation and action for change.** The Group undertakes to foster a corporate culture of innovation and flexibility that enables it 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.

Red Eléctrica belongs to the most reputable sustainability indices, in recognition of its excellent track record in this connection and its firm commitment to transparency in its reporting to third parties. The company is a component of the benchmark indices: Dow Jones Sustainability Index (DJSI), FTSE4Good, CDP, Euronext Vigeo Eiris, Ethibel and MSCI.

In 2018, to fulfil its responsibilities and acknowledging the strategic importance of sustainability for the Red Eléctrica Group, the board of directors created the Sustainability Committee.

This committee's task is to supervise and drive actions relating to the environment and the fight against climate change; ethical behaviour and the values associated with the development of a corporate culture that will sustain the Group's success and business model; and the social impact on the communities affected by Red Eléctrica's activity.



Creating this committee is a voluntary step, not a legal requirement, and is consistent with the strategic significance of sustainability for the Red Eléctrica Group and the demands of the Group's stakeholders.

MATERIALITY ANALYSIS

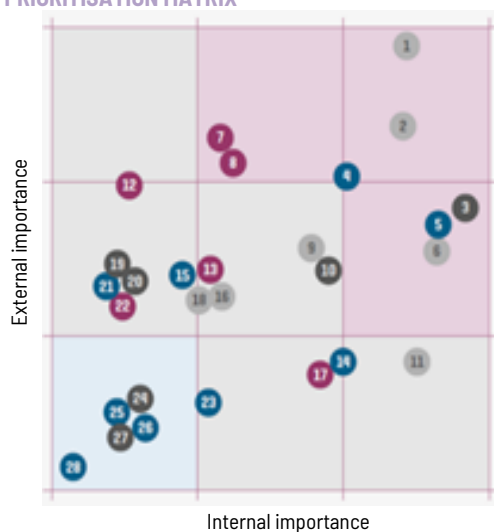
The Red Eléctrica Group's 2030 Sustainability Commitment was designed based on the results of the materiality analysis carried out in 2016. In accordance with the Global Reporting Initiative (GRI) standards for the preparation of sustainability reports, this report is centred on the issues identified as material in that analysis.

1. Issue identification. A total of 24 material 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, and 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 double analysis of the issues, revealing both their internal importance, assigned by the top-level managers 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. A total of 30 different areas of the Group took part in this phase. They evaluated the results of the previous phases and identified the opportunities associated with each material issue, as well as its impact on the 2014-2019 Strategic Plan and any links with the Sustainable Development Goals.

In 2019, the materiality analysis will be reviewed to ensure that the 2030 Sustainability Commitment and the multi-year deployment plan are aligned with stakeholders' current expectations, so as to focus the Group's efforts on responding to the main sustainability challenges and trends.

Material issue prioritisation matrix

PRIORITISATION MATRIX



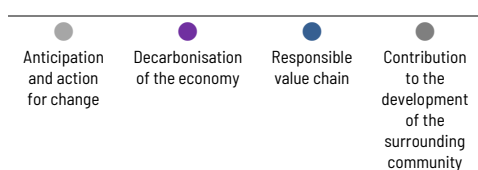
Prioritisation of issues by importance

CRITICAL

1. Innovation
2. Regulatory environment
3. Service quality and safety
4. Alliances with stakeholders
5. Financial strength
6. Internationalisation and diversification
7. Energy transition: Integration of renewables
8. Energy transition: Interconnection capacity

HIGH

9. Integrated risk management
10. Social contribution to the region
11. People's flexibility and adaptation to change
12. Climate change: Carbon footprint and adaptation
13. Energy transition: Demand management
14. Safety, health and well-being
15. Corporate governance



Note: The Energy transition issue contains five sub-issues, which means that the chart includes a total of 28 items.

16. Overall safety of plant and equipment
17. Energy transition: Energy storage
18. Digital transformation
19. Biodiversity and natural capital
20. Transparency
21. Integration of plant and equipment in the environment
22. Energy transition: integration of electric vehicles
23. Integrity

MEDIUM

24. Social identity
25. Responsibility in the supply chain
26. Customer orientation
27. Employer brand
28. Human rights

11.2 Information regarding environmental issues

The commitment to the environment of the Group comes from management and is based on environmental policy, which includes explicit commitment to prevention of pollution and precautionary principles. To bring about 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 organizational 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 in fiscal year 2018 for Red Eléctrica de España, the amount of recurring costs for the protection and improvement of the environment amounted to 23.5 million euros, of which 1.4 million was dedicated to the prevention of pollution. The amount allocated to environmental aspects associated with investment projects was 1.16 million euros.

The environmental commitment is articulated in three main vectors: Environmental management and integration of installations into the environment, biodiversity and climate change.

a) Environmental management and integration of 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 follow-up of strict environmental criteria in all phases, make it possible for potential effects on the environment to be reduced significantly. The best tool to ensure this process is an Environmental Impact Assessment, which is required for most Red Eléctrica projects.

Among the measures applied, those related to the prevention of pollution are most notable. In this sense, the main activities are those designed to minimize the risk of soil and groundwater contamination from leaks and spills of hydrocarbons. Also noteworthy are measures aimed at the mitigation of noise generated in electrical substations and to reducing light pollution (in this latter aspect it should be mentioned that in the past two years, we have worked on the implementation of measures for the night shutdown of installations limiting light pollution as much as possible; these measures are implemented already in 72% of the substations).

Also, activities and projects aimed at the integration of the landscape of the facilities and the protection of the socio-economic environment are very relevant, mainly those related to conservation of archaeological heritage.

Finally, it is necessary to highlight the importance for Red Eléctrica, the work and significant progress in the sustainable use of resources and for this reason, in 2018, we have adhered to the Pact for a Circular Economy led by the Ministry for Ecological Transition.



In addition, there are various projects underway with the objective of minimizing the quantity and hazardousness of waste generated as a result of our activities, among which the "Residue 0" project stands out whose main objective is that no waste from Red Eléctrica enters the landfill as its final destination. In 2019, and to provide a response to the commitment made in the pact, we are going to design a roadmap that will mark the guidelines to becoming a group of companies that is 100% circular by 2030. It will address issues related to the use and source of raw materials, useful life extension of materials and equipment, waste management and **minimization of water use**.

b) Climate change

The Red Eléctrica Group, as a central actor in the electricity system, is a key agent in the change in the energy model, whose main elements must be: the electrification of the economy, the maximum integration of renewables in the energy mix and efficiency, always ensuring the safety of the supply. Conscious of our relevant role, in 2011 we decided to formalize a voluntary commitment in the fight against climate change, which materialized into a **Climate Change Action Plan**, which the last version was approved in 2015.

This plan includes the main objectives for the **Horizons 2020 and 2030**, as well as the main actions for achievement.

In 2018, with the purpose of increasing climate ambition, an update was performed of the emission reduction objectives. As a general objective, **Red Eléctrica is committed to reducing emissions of Scope 1 and 2 per MWh transported by 40% in 2030, with respect to 2015**. This objective was approved by the Science Based Targets (SBTi) initiative and is equivalent to a net reduction of emissions of Scope 1 and 2 of 30% in 2030.

The plan covers the following lines of action:

- Contribution to an energy model low in emissions, deploying the necessary actions to achieve European objectives for 2020 and 2030:
 - Development of a robust and interconnected transmission network.
 - Maximum **integration of renewables** by optimizing the operation of the electricity system and the momentum of storage systems.
 - Progress in the efficient management of the network by applying new demand management measures, incorporating new elements such as electric vehicles and momentum of technological innovation.
- Reduction of greenhouse gas emissions arising from the activities. The main measures are developed in the following areas of action:
 - Reduction of emissions of SF6.
 - Reducing the consumption of electrical energy (efficiency measures) and associated emissions (**acquisition of 100% renewable energy**).
 - Sustainable mobility: reduction of emissions associated with the vehicles of the Group, business travel and the movement of employees.
 - Involvement of the supply chain in the commitments of the Group.



- Progress in the incorporation of the criteria of efficiency and saving of materials in the design of facilities.
- Emissions compensation, 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:** Red Eléctrica identifies and evaluates on a regular basis the risks and opportunities arising from climate change and applies various measures defined in the framework of this analysis. In 2018, work began on the implementation of the recommendations of the **Task Force on Climate-related Financial Disclosures**, which implies a thorough review of the assessment incorporating the consideration of different scenarios and intensifying the economic quantification of risks and opportunities identified.

c) Protection of biodiversity

The protection and conservation of biodiversity has always been a priority in environmental management of the Red Eléctrica Group. The Group has a specific commitment for management of biodiversity (revised in 2017) and a **multi-year Action Plan (2017-2021), which lists the main actions to be developed in this period.**

Biodiversity management is brought about by taking into account the hierarchy of impact mitigation. **Avoiding** protected areas or areas rich in biodiversity is a primary criterion in defining the location of installations (energy transmission infrastructure, only 15% of the lines and 5.9% of the substations are located in protected areas). In addition, the application of preventive and corrective measures, including the **restoration** of affected lands, makes it possible to **minimize** the possible effects on habitats and species. Finally, different actions and projects for environmental improvement have been accomplished, pursuing **compensation** for impacts.

Notable actions related to the following areas:

- Protection of avifauna, the main objective being to minimize the risk of collision of birds with the ground wires from power lines. In this regard, a plan for signaling with bird-saving devices has been established on sections with greater potential for impact on avifauna (more than 700 kilometers of lines), which will conclude in 2023. In 2018, the proportion of critical priority areas with signaling was 51.2%.
- Prevention of forest fires, through proper design and maintenance of the safety corridors and working together with authorities in this matter. As well, there are currently 13 fire prevention agreements in force. These agreements have an associated budget of more than 1.04 million euros every 4 years which is intended for cleaning forest land, purchase of extinguishing media and protection, training and awareness.
- Development of conservation projects in collaboration with the administration, non-governmental organizations and other agencies, among which are those related to the conservation of avifauna and those aimed at the recovery of degraded spaces. Among these are the "REE Maritime Forest" projects for the recovery of *Posidonia oceanica* meadows and the "Red Eléctrica Forest", with more than 842 hectares restored (2009 to 2018) and an investment of 2.1 million euros.



Environmental indicators of a non-financial nature

Non-financial indicators	2017	2018	Δ%
Direct greenhouse gas emissions (scope 1)(tCO2 eq.) ⁽¹⁾	28,994	39,272	35.45
Indirect greenhouse gas emissions (scope 2)(tCO2 eq.) ⁽¹⁾	1,163,812	1,117,407	-3.99
Power consumption (MWh) ⁽¹⁾	15,177	14,584	-3.91
Water consumption (m3) ⁽²⁾	27,627	22,566	-18.32
Number of environmental accidents ⁽³⁾	7	4	-42.86
Lines marked with bird-saving devices in critical priority areas (accumulated kilometers at the end of each year).	276.1 (37.6% of the total to signal)	375.7 (51.2% of the total to signal)	36

(1) In the data for 2018, the emissions and consumption associated with the activities of REINTEL are included.

(2) The data has a coverage of 83% in terms of personnel. The water consumed comes from the municipal supply network (72.5%), wells (24.5%), cistern (2.92%). In some centers 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 % utilization of rainwater.

(3) Relevant accidents according to internal classification (does not include collisions)

11.3 Information about social and personnel related issues

Human team

In 2018, the Group reviewed and updated the Human Resources Master Plan, linked to the company's Strategic Plan. The Impulsate project, which was launched in 2018 and is due to finish in 2020, will help to transform the people management function in order to add value to the Group, as a strategic vector for change and to help achieve its objectives.

Various key actions were implemented in 2018, such as the organisational transformation; the definition and development of a new people management model; the design and implementation of new, efficient and simple processes; and the actions required to manage the cultural and digital transformation changes.

This transformation is a process to change our business models and working methods in order to add more value, facilitated by the rapid development of new digital technologies.

One of the objectives of the Group's digital transformation strategy is to adapt its human capital so that it works more effectively in a digital company.

"Imagina" is the project to transform the Group's working methods. It is implemented through cultural, technological, process and spatial initiatives, which are promoted through "Imagineers" backed by the support and organisation of a project team and a series of working groups.

a) Employment

At the end of 2018, the Group's workforce consisted of 1,799 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 (8.9% functional mobility).



Structure of the workforce by country where the Group is present

	Women			Men			Total
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Spain							
Management team	0	24	12	0	36	53	125
Specialists / Technical Experts	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

	Women			Men			Total
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Peru							
Management team	0	0	0	0	3	0	3
Specialists / Technical Experts	1	8	1	9	40	4	63
Administrative personnel	0	3	1	0	0	0	4
Total	1	11	2	9	43	4	70

	Women			Men			Total
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Chile							
Management team	0	0	0	0	0	0	0
Specialists / Technical Experts	1	0	0	0	5	0	6
Administrative personnel	0	1	0	0	0	0	1
Total	1	1	0	0	5	0	7

The Group also has one employee in Luxembourg, a female technician who is aged between 30 and 50.

Workforce by contract type

	Women			Men			Total
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Total permanent contracts							
Management team	0	24	12	0	39	53	128
Specialists / Technical Experts	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



	Women			Men			Total
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Total temporary contracts							
Management team	0	0	0	0	0	0	0
Specialists / Technical Experts	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 Group did not employ any personnel on part-time contracts.

Dismissals for the year

Dismissals (1)	Women			Men		
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50
Management team	0	0	0	0	0	2
Specialists / Technical Experts	0	1	0	0	4	1
Administrative personnel	0	0	2	0	0	0
Total	0	1	2	0	4	3

(1) Figures from REE+REC+REINCAN+REI+REINTEL

Remuneration in the Red Eléctrica Group

The Red Eléctrica 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 the average remuneration of the workforce are as follows (euros):

Total average salary	Women			Men			Total average women	Total average men
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50		
Red Eléctrica en España Group ⁽¹⁾								
Management team	0	117,648	157,195	0	124,630	154,929	129,732	141,695
Specialists / Technical Experts	39,182	54,964	62,225	40,704	51,303	64,360	55,316	55,183
Administrative personnel	0	37,055	42,984	0	35,314	43,198	40,919	41,567
Total	39,182	58,604	61,631	40,704	54,580	73,121	58,684	60,652

(1) Figures from REE+REC+REINCAN+REI+REINTEL



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 programs 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 will carry out a study to quantify and analyse the salary gap in order to identify and quantify it by gender and to establish action plans to correct this where necessary.

By professional category, the ratio of the base salary for men compared to women (men / women), is as follows:

Spain (1)	2017	2018
Management team	1.05	1.06
Specialists / Technical Experts	0.98	0.95
Administrative personnel	1.06	1
Total	1.02	0.99

(1) Figures from REE+REC

The average remuneration of members of the Board of Directors, including variable remuneration and allowances, according to the details included in Note 24 of the consolidated report of the Red Eléctrica Group, is as follows:

Thousands of Euros	Amount
Average remuneration Men (*)	256.3
Average remuneration Women	152.0

(*) This includes the Chairman of the Board and the CEO. Excluding these roles, the average remuneration for men would be 147.3 thousand euros.

Additionally, according to the report, in 2018 the outgoing Chairman was paid compensation accrued in 2016 totalling 718 thousand euros.

With regards to senior management, according to Note 25 of the consolidated report of the Red Eléctrica Group, remuneration for 2018 totalled 657 thousand euros. The difference in the average salary between men and women in this category is less than 1%.

Lastly, it should be noted that the total amount of contributions by the sponsor of the Group’s pension plan in 2018 was as follows:

Thousands of Euros	Amount
Men	1,606
Women	427
Total contribution	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 on personal data protection and digital rights, includes an obligation for the Group 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 tools 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 regards 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 work

Organisation of working hours

The real and effective working day, calculated on an annual basis, will apply to all employees. Consequently, every employed person, regardless of the working day and schedule that they work according to the nature of their role, shall work the same real and effective working day, which will be 1,690 hours per annum.

Absenteeism hours

Spain ⁽¹⁾	2017			2018		
	Men	Women	Total	Men	Women	Total
Days lost due to accidents ⁽²⁾	139	0	139	333	19	352
Absenteeism rate due to common illnesses ^(a)	1.53	3.24	1.94	1.95	3.72	2.38
Absenteeism rate due to occupational illnesses ^(b)	1.64	3.26	2.03	2.06	3.79	2.48

(1) REE+REC+REI+REINTEL+REINCAN.

(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.

Incidence rate: Number of accidents with leave x 1,000/average headcount

Absenteeism rate:

(a) Days absent due to common temporary incapacity > 3 days + days absent for temporary incapacity < 3 days /average headcount * 365 * 100

(b) Days absent due to common temporary incapacity > 3 days + days absent for temporary incapacity < 3 days + days absent for work-related accidents + work-related illness /average headcount * 365 * 100

Note 1. Accidents are recorded based on Spanish legislation and according to the Red Eléctrica management system certified under OHSAS 18001.

Work-life balance

The 3rd Integral Work-Life Balance Plan was approved in 2018 for the 2018-2021 period. It establishes the objectives and actions that will be developed in this area, including the mechanisms for monitoring, measuring and evaluating the degree of progress.



The Group has implemented more than 60 work-life balance measures, actions and initiatives, which apply equally to the whole workforce regardless of the type of contract and are one of the fundamental lines of its management model.

The guide to work-life balance, published on the intranet, features more than 60 measures organised into seven blocks:

1. Flexible working hours
2. Holidays, permissions and authorisations
3. Maternity and paternity leave
4. Disability and dependent family members
5. Employee benefits and remuneration in kind
6. Services
7. Events and activities

The Red Eléctrica Group has joined the Observatory for the Development of Work-Life Balance and Co-responsibility, led by ICADE-ICAI University. The aim is to offer companies and institutions relevant information and reliable data, checked against international standards, which helps them to shape their active work-life balance policies based on applied, interdisciplinary and high quality research.

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, and to train, inform and raise 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 electrical installations, 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 2018 nearly 11,000 safety inspections were carried out on works at facilities, which resulted in 2,400 corrective actions, of which 92% have been completed. Furthermore, this year we have also implemented internal safety audits for works carried out on site.

In order to raise awareness about occupational risk prevention among its team, in 2018 a new skills-based training management model was developed, 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 the role they are associated with.

In 2018, some 5,612 hours of health and safety training were given to 907 people.

In 2018, the key accident rates were 3.08 (frequency rate) and 0.12 (severity index).

In 2018, a wide range of awareness and training initiatives were carried out totalling 700 hours to improve employees' knowledge about nutrition, stroke prevention and active ageing, as a fundamental aspect of promoting good health.



Workplace accidents and occupational illnesses

The Group monitors the health of its employees on an ongoing basis thanks to 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.

Spain ⁽¹⁾	2017			2018		
	Men	Women	Total	Men	Women	Total
Accidents requiring leave	5	0	5	8	1	9
Fatal accidents	0	0	0	0	0	0
Days lost due to accidents ⁽²⁾	139	0	139	333	19	352
Frequency rate for accidents	2.25	0	1.71	3.62	1.42	3.08
Severity index for accidents	0.06	0	0.05	0.15	0.03	0.12
Incidence rate	3.81	0	2.89	6.11	2.39	5.21

(1) REE+REC+REI+REINTEL+REINCAN.

(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.

Incidence rate: Number of accidents with leave x 1,000/average headcount.

Absenteeism rate:

(a) Days absent due to common temporary incapacity > 3 days + days absent for temporary incapacity < 3 days /average headcount x 365 x 100

(b) Days absent due to common temporary incapacity > 3 days + days absent for temporary incapacity < 3 days + days absent for work-related accidents + work-related illness /average headcount x 365 x 100

Note 1. Accidents are recorded based on Spanish legislation and according to the Red Eléctrica management system certified under OHSAS 18001.

d) People matters

A series of global actions were designed and implemented in 2018 based on the results of the working environment survey carried out in 2017. The Group is carrying out actions to improve communication, leadership and recognition across every area of the Red Eléctrica Group. At the same time, each organisational unit has designed its own action plans to develop those areas with improvement opportunities.

A new working environment survey will be carried out in 2019 to see how much progress has been made in each of the categories analysed.

Red Eléctrica guarantees its employees the right to union affiliation, association and collective bargaining within the framework of existing labour laws and the applicable collective bargaining agreement.

In 2018, negotiations began on the 11th Red Eléctrica de España Collective Bargaining Agreement, since the 10th Agreement expired on 31 December 2017.

Consequently, relations with employees' representatives were defined by the negotiations of a new agreement text through the Negotiating Committee created for this purpose. An agreement has not yet been reached, but the negotiating platforms of each party are putting forward their cases and analysing the situation to find common ground. Negotiations are ongoing and will continue into 2019.



Independently of the negotiation of the new collective bargaining agreement, two collaborative spaces have been set up on the intranet to help the company manage its relations with employee representatives, as an additional measure for communicating with this representation.

Employees covered by a collective bargaining agreement

Red Eléctrica en España Group	2017	2018
Employees included in the collective bargaining agreement (%)	98.6	98.6
Employees excluded from the collective bargaining agreement (%) ⁽¹⁾	1.4	1.4

(1) Employees that voluntarily and reversibly accept the management's proposal to be excluded from the agreement. The management team is not taken into account in the overall calculation and represents 7.26% of the total workforce in Spain.

Summary of the collective bargaining agreements in the field 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 10th 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 Law 31/95 on Occupational Health & Safety) although it may also meet whenever either party requests it. In 2018, the committee met four times in accordance with its objectives.

These meetings monitor all health and safety activities; any applicable new legislation; they review processes and internal regulations; analyse and track the results and the occupational health & safety programs; and monitor 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 2018 the Leadership and Strategy Institute consolidated its role in the Red Eléctrica Group Campus, which seeks to drive the cultural transformation of the company with a new approach to leadership. "Transformative leadership" will be fundamental to responding to the Group's strategic needs.

The roll-out of the knowledge management model has also been consolidated and shared with all employees.

The REEAvanza initiative has been designed under this model to disseminate and share knowledge and experiences, to encourage discussions and the exchange of ideas, and to create a network of contacts that generates new shared knowledge between the experts in each area of the Red Eléctrica Group.



In 2018, work was carried out to design and optimise the training model, aligning the contents with the three levers of the “Red Eléctrica Group Campus” corporate university, namely knowledge of the business and technical training; strategy and leadership; and cultural transformation and innovation.

More than 130,000 hours of training have been given, equivalent to 72 hours per employee and an investment of EUR 3,822 per person.

Training hours by professional category and gender

Spain ⁽¹⁾	2017			2018		
	Men	Women	Total	Men	Women	Total
Management team	112	95	104	49	61	52
Specialists / Technical Experts	108	115	111	76	90	79
Administrative personnel	15	50	33	24	40	36
Total	109	105	108	71	76	72

(1) Figures from REE+REC+REI+REINTEL+REINCAN.

All employees are continuously assessed and the new appraisal model was launched in 2018, effectively separating the evaluation of 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 2018, a pilot project was launched to begin implementing a challenge-based management model, intended to give each professional clearer guidance about his/her 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.

f) Integration and universal accessibility for people with disabilities

Red Eléctrica has continued to develop the action plan associated with its disability management model, integrated in the Integral Diversity Plan. Red Eléctrica collaborates with the Adecco Foundation to implement this plan and has important agreements for purchasing goods and services from Special Employment Centres.

In 2018, a figure of 2.63% employment equivalent was achieved for people with disabilities. Of this percentage, 0.9% related to direct employment and the rest was through agreements under the General Law on the Rights of People with Disabilities (LGD). By purchasing goods and services through special centres, Red Eléctrica contributed an amount equivalent to hiring 30 people with disabilities.

The work done by company volunteers to promote the inclusion of people with disabilities marks the start of a new line supporting diversity, which will be strengthened in the multi-year corporate volunteering plan 2018-2020.

The percentage of Group employees with disabilities is as follows:

	2017	2018
People with disabilities (%)	0.8	0.9



With regards to accessibility to the corporate website, the Group firmly believes that everyone, regardless of disability, should be able to access the services of the Group's public website under equal conditions. The Group has therefore worked continuously since 2007 to create an accessible website that all users can access without difficulties.

A new, more interactive and multi-device corporate website was launched at the end of 2013, developed with web accessibility criteria. Work is currently underway on the best techniques needed to achieve Double-A conformance certification for the website according to the Web Content Accessibility Guidelines 2.0 of the Web Accessibility Initiative (WAI) of the World Wide Web Consortium.

g) Equality and diversity

The Red Eléctrica Group realises its commitment to diversity, inclusion and non-discrimination through its **diversity management model**, approved in 2017, which is aligned with the Group's Strategic Plan and Sustainability Commitment 2030. This model incorporates the previous systems that dealt with the different areas of diversity (**equality, disability and age**) under the same umbrella.

The model is implemented through an Integral Diversity Plan approved in 2018. This 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 Integral 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.

Gender equality is one of the vectors included in the new Integral Diversity Plan and refers to the principles of equal employment opportunities, the promotion of women in 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 defined objectives.

The percentage of women in the Red Eléctrica workforce in 2018 was 24.1% (24.4% in 2017). The number of women in management positions has once again increased significantly, totalling 28.8% in 2018 (24.8% in 2017). These results exceed the objectives set, primarily due to equal opportunities in training and development processes, and in promotions, which led to 67% of all new managerial appointments being women.

The target for the indicator that measures equal promotion opportunities (men/women) for 2018 of 1.20 was exceeded, with a ratio of 1.39.

The difficulty of finding candidates in some recruitment processes has led Red Eléctrica to sign a collaboration agreement with the Royal Academy of Engineering to promote female talent in STEM



subjects. Among other activities, the company actively participates in a program to mentor university students studying technical subjects as part of the “Women and Engineering” project. It also carried out the TECHMI competition in schools in the Madrid Region to attract talented girls into technology subjects.

11.4 Human rights information

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) in which stakeholders can express their concerns about any grievances in this area. In 2018, the DÍGAME Service received a total of four human rights-related complaints, of which 50% have been resolved.

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.



Ethics Code

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 his duties.

In 2018, 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.
- Responsible monitoring of supplier management.
- Restriction on the acceptance of gifts, loans and invitations.
- Proper treatment of confidential information.

In 2018, 7 complaints were received in connection with compliance with the Code of Ethics, 4 of these were resolved during the year and 3 are in the resolution phase.

Compliance system

The Group's Compliance System is fully aligned with the best practices in this sphere, so as to support the organisation in fulfilling its obligations and commitments.

The main goals of the compliance system are:

- To nurture a corporate culture based on ethics and compliance.
- To achieve a comprehensive overview of compliance at the organisation.
- To have a transversal and homogeneous approach to compliance.
- To strengthen the preventive aspects of compliance.

In accordance with the Group's commitment to responsible and sustainable management and with best management practices, the organisation has a Compliance Area within the Risk Control, Compliance and Quality Department (part of Internal Audit and Risk Control), which combines compliance functions with risk control and quality management functions, based on the synergies between these functions.

Prevention of criminal risks

The Group has a Criminal Risk Prevention Programme whose purpose is to identify the rules, procedures and tools in place in the Group to prevent non-compliance with the criminal legislation applicable to the organisation and its staff and to adapt them to the current regulatory framework. The management and prevention of criminal risks that could affect the Group, based on its activities



and business sectors, in accordance with the Criminal Code, are thus incorporated in the Group's control processes.

Creating the programme, which was approved by the board of directors, entailed creating the Criminal Risk Prevention Programme Control and Supervision Body, whose functions include: monitoring, supervising and updating the programme; and reporting periodically to the Audit Committee on action taken, proposed improvements, updates implemented, measures agreed and any other matter it considers relevant in the performance of its duties.

In 2018, the Control and Supervisory Body did not receive any complaints regarding non-compliances in connection with the Criminal Risk Prevention Programme and none of the Group's companies were investigated or found guilty of non-compliances 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.

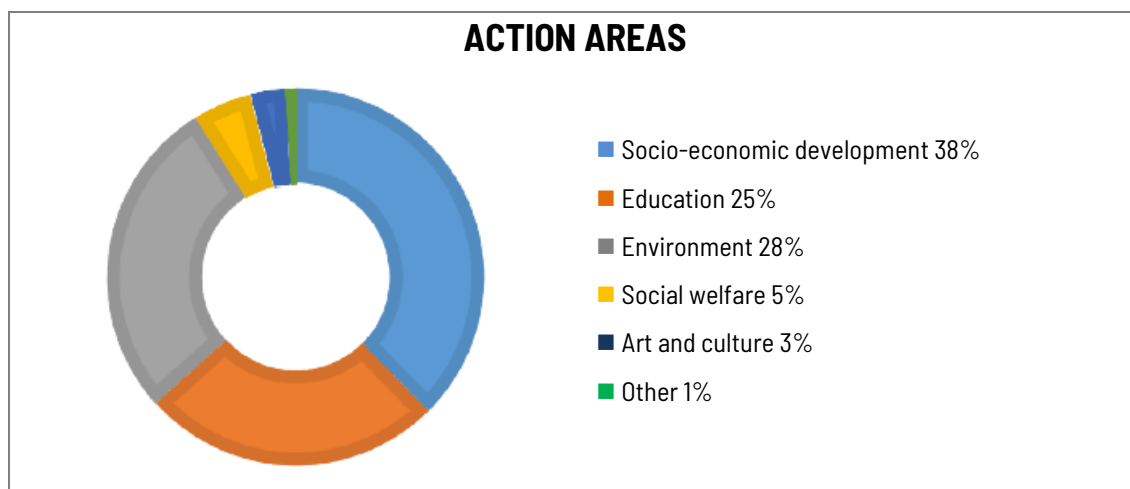
11.6 Information on relations with society

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 accompanies its projects on the ground with collaboration projects to nurture institutional and social relationships, transparently seeking partnership agreements, disseminating information about the electricity network and fostering involvement in projects and initiatives that boost socio-economic development and the conservation, protection and enhancement of natural heritage in the countries and regions in which it operates.

In 2018, the Group contributed seven million euros (amount calculated using the London Benchmarking Group methodology) to social initiatives.





In 2018, the Company signed 99 agreements with public and social entities, mainly to cooperate in socio-economic, environmental, educational and cultural development projects.

Of the 437 social initiatives undertaken, 226 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 takes an active role in disseminating and raising awareness about the electricity network as a whole, since a better informed society has greater capacity to develop and maintain a sustainable energy model.

In this connection, in 2018, more than 2,180 people visited Red Eléctrica facilities and control centres, more than 76,067 visitors attended the itinerant exhibition 'A Highway behind the Wall Socket' ['Una autopista detrás del enchufe'] explaining the electricity supply process from generation to consumption, and more than 7,200 school children took part in activities under the framework of the educational game 'entreREDes', aimed at teaching kids to be efficient and environmentally-friendly consumers in the future.

20 cooperation agreements were also signed with universities and training centres.

In Spain, the training programme for the State Police and Security Forces continued. During the year, 16 forest fire prevention training days were organised in 10 provinces in six autonomous communities, in which 957 people took part in person and 700 people via streaming.

Corporate volunteering

The Red Eléctrica Group's Healthy Company model fosters well-being through actions aimed at promoting the well-being of the immediate work environment while also extending the commitment to the wider community.

Thus, the Red Eléctrica Group's Corporate Volunteering model, approved in 2017, extends the company's 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 2018 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.

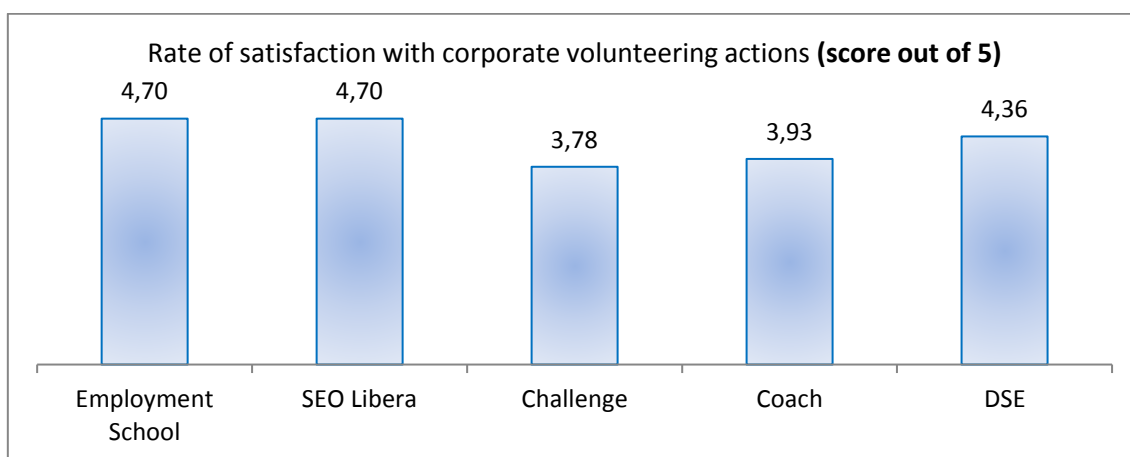
Main corporate volunteering actions in 2018

Mentoring programme	Collaboration in the CAMPVS mentoring programme run by Fundación A LA PAR, in which the company's volunteers act as mentors to students with intellectual disabilities to help them achieve inclusion in the world of work.
Employment school	Participation in this programme run by Fundación Adecco, aimed at improving the employability and access to employment of high potential people with disabilities.
Action Against Hunger	Participation in the 2018 Action Against Hunger Challenge to combat infant malnutrition and eradicate hunger.
Día Solidario de las Empresas (DSE,	Participation in this corporate volunteering day organised by Cooperación Internacional, in which the company's volunteers, in six different cities in Spain, accompanied various



“Company Solidarity Day”)	vulnerable groups, such as homeless, disabled or elderly people, and took part in leisure activities with children at risk of social exclusion.
A Smile for Christmas	Collaboration in Cooperación Internacional’s toy donation campaign, aimed at delivering Christmas presents to children in situations of poverty and vulnerability.
Project “Coach”	Participation in this Fundación Exit project aimed at introducing children at risk of school failure to the world of business through coaching.
SEO Libera	Clean-up of natural environments spoiled by litter, led by SEO Birdlife.

Satisfaction index of corporate volunteering actions (where an assessment was made)



- **The company’s commitments to sustainable development**

The investments the Group makes enable it to maintain the continuity and security of electricity supply to a high standard of quality. The investments also have a beneficial effect on society by stimulating economic activity.

The Group’s investments stimulate production, which 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, Red Eléctrica has used a methodology based on multipliers computed using Input-Output Tables. These multipliers can be used to estimate the overall increase in activity generated by an initial investment. The calculations take the direct, indirect and induced effect into account.

Effects of the investments		
Direct effect	Indirect effect	Induced effect
Estimate and valuation of the production activity 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 2018, the Group's total investment in the transmission network in Spain amounted to EUR 378 million, of which an estimated EUR 103 million were spent on imports of the products needed to carry out the activity. The rest, totalling some EUR 276 million, consisted of direct investment in Spain, the effect of which, after applying the chosen methodology, are broken down in the following table:

Total effects of the investment in the transmission network

	Direct	Indirect	Induced	Total
Production (€m)	276	262	26	564
Income-GDP (€m)	110	110	9	228
Employment (No. of jobs)	1,892	1,982	272	4,146
Tax revenue (€m)	43	42	4	89

Note: The discrepancy in one of the cases between the total and the sum of the partial figures is due to rounding of decimals.

The investment made in Spain generated an estimated EUR 564 million of output in the business sectors concerned, more than double the total investment made in Spain (EUR 276 million). This effectively represents a contribution of EUR 228 million to Spanish GDP and the equivalent of 4,146 jobs. All this together would have produced tax revenue of EUR 89 million.

The Group is in the process of applying this same measurement methodology 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.

This methodology was expanded during 2018 to calculate the socio-economic contribution of the Red Eléctrica Group's investment in the other countries in which it operates.

Participation in international bodies

The Red Eléctrica Group is a member of and is active in various international organisations and associations, particularly within the European Union, with a view to explaining its positioning on fundamental aspects of its activity, building strong alliances and contributing to the achievement of common objectives.

<p>ENTSO-E (European Network of Transmission System Operators for Electricity)</p>	<p>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 company 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 technological 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 to meet the challenges of the new energy transition scenario, marked by emissions reduction, large-scale integration of renewables, flexibility and new technologies.</p>
<p>CIGRE (International Council on Large Electric Systems)</p>	<p>CIGRE is the world's largest body for the development and exchange of technical knowledge in the energy sector, bringing together electricity companies, capital goods manufacturers, engineering companies, research centres and universities. Red Eléctrica holds a prominent position on the National Committee as Chair and Secretary and many of its employees are participants.</p>



RGI (Renewable Grid Initiative)	Through the joint participation of the TSOs and NGOs in RGI, Red Eléctrica 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.
IESOE (Interconnexion de l'électricité du Sud-ouest de l'Europe)	This regional organisation aims to share information and carry out initiatives around the operation of neighbouring power grids, based on cooperation between the countries of North Africa, represented by the Comité Maghrebien d'Électricité (Morocco, Algeria and Tunisia), and the countries of southeast Europe (Spain, Portugal and France).
GO 15 (Reliable and Sustainable Power Grids)	Red Eléctrica is present in this forum, in which the world's 18 largest power grid operators share experiences and knowledge, debating the future challenges of the electricity industry at the highest level.
Med-TSO (Mediterranean Transmission System Operators)	This association facilitates cooperation between the countries of the north and the south of the Mediterranean Basin through coordination of the region's infrastructure development plans and aspects of network operation. An important element is the transfer of the regulatory knowledge and operating and electricity market practices developed in the European Union to the countries of the south Mediterranean basin.
EASE (European Association for the Storage of Energy)	In view of the new challenges of the energy transition, storage is considered an essential tool in the future scenario. Through its participation in this association, Red Eléctrica aims to be involved in and have first-hand knowledge of the development of storage solutions that will optimise electricity system management.
ICGN (International Corporate Governance Network)	For Red Eléctrica, being a member of this network means being at the forefront of the development of effective standards of corporate governance and investor relations, so as to create efficient markets and sustainable economies throughout the world, taking ICGN's Global Governance Principles and Global Stewardship Principles as a guide.

Participation in Spanish bodies

The Red Eléctrica Group is a member of various Spanish organisations and associations pursuing various goals:

- **Sharing and spreading best practices in business**

AEC (Asociación Española para la Calidad)	An association aimed at defending and promoting quality as a driver of competitiveness in business and improvement in society.
ASCOM (Asociación Española de Compliance)	The first association created to professionalise the compliance function and facilitate the exchange of ideas and best practices.
AENOR (Asociación Española de Normalización y Certificación)	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.



- **Promoting knowledge of the work of the company and the electricity industry**

ENERCLUB (Club Español de la Energía)	An association that contributes to a better understanding of various industry-related issues among the social partners.
Fundación de Energía de la Comunidad de Madrid	The foundation drives initiatives and research programmes for the development and application of energy technologies.
CME (Clúster Marítimo Español)	A group that promotes the development and competitiveness of Spanish maritime companies and industries.

- **Promoting the Red Eléctrica Group's commitment to sustainability**

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 governance issues in companies' strategy and management.
Club Excelencia en Gestión e Innovación	A business association aimed at strengthening the global competitiveness of organisations and professionals through the values of excellence.
Foro de Integridad de Transparencia International España	A think tank for improving compliance and ethical management in companies.
Fundación Voluntare	A global corporate volunteering network that helps to connect companies with third sector organisations.

- **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 2018, contracts worth a total of EUR 580 million were awarded to 1,049 suppliers. Of that amount, 82% relates to services and structures, while the remaining 18% relates to materials and equipment.

96% of the total amount was awarded to suppliers based in Spain and 99% 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 abovementioned 1,049 suppliers, an additional 1,007 companies (subcontractors) also did work for the Group, so that the total number of companies that worked within the framework of the Group's contracts was 2,056. 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 68 suppliers during 2018 to verify compliance with the Code of Conduct among the Group's suppliers.



As a result of the audits, improvements or action plans have been agreed with 47 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.

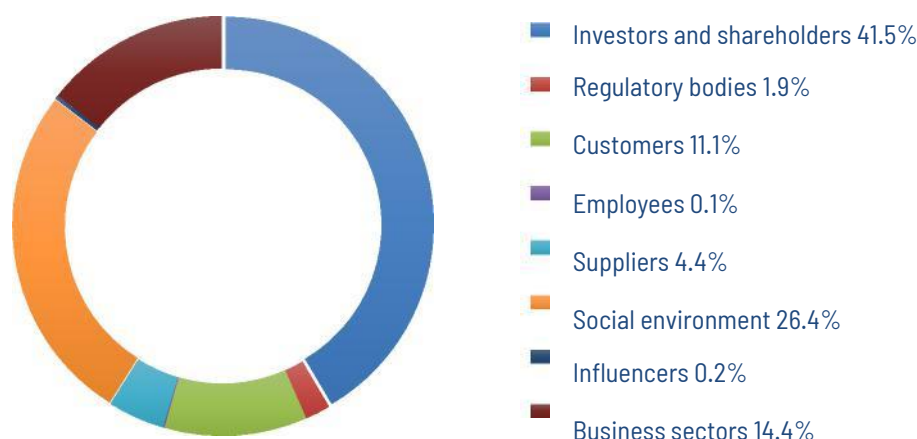
- Consumers

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.

DÍGAME Service (3,675 requests handled)

Requests handled through the Dígame service in 2018



By typology:	
Installation impact	26
Quality and continuity of supply	5
Environmental aspects	1
Total	32
By interest group complainant:	
Social environment	26
Business sector/Professional associations	4
Others	2
Total	32

Note: Proper claim is understood as that which corresponds to the functions and responsibilities of the Group. Of the 32 claims from 2018, 31 were considered (accepted by considering certain and reasonable arguments underpinning their acceptance, complete or partial). These claims included environmental issues. 84% of the accepted claims are closed, while the rest are in progress. Of the seven claims that remained open at the end of fiscal year 2017, in 2018 there remains only one pending closure.



It should be noted that due to the criteria applied in the design of the installations, the levels of the electric and magnetic fields (CEMs) remain below that recommended by the Council of the European Union (Official Journal of the European Union 1999/519/EC: Exposure limit values for the general public at sites where it can remain for a long time, 5 kV/m for the electric field and 100 µt for the magnetic field). The main criteria are:

- 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 centers and isolated houses.

To verify compliance with recommendations, Red Eléctrica has a tool that, from certain parameters of the lines, allows accurate calculation of the maximum levels of CEM that the installations can generate.

• Tax information

The Red Eléctrica Group is committed to compliance with tax law and fulfilment of its tax obligations, seeks a cooperative relationship with the tax authorities and considers it important that it should contribute to economic and social development by paying taxes in all the countries in which it operates.

The Red Eléctrica 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 Red Eléctrica Group's **Tax Risk Control and Management Policy** and its inclusion in the Integrated Risk Management Policy. The tax risk control and management systems are described in section E of this report.

The Red Eléctrica Group's Tax Strategy and Integrated Risk Management Policy may be consulted on the corporate website.

Both the Code of Ethics and the Tax Strategy state the Red Eléctrica Group's commitment not to create companies in countries considered tax havens in order to evade tax.

The Red Eléctrica Group has no presence and carries out no activity in countries considered tax havens under applicable laws and regulations¹.

Profits obtained, broken down by country

Million euros

Item	Spain	Peru	Chile	Other EU ⁽²⁾
Profit before corporate income tax ⁽¹⁾	921	6	-6	-

(1) Comprises the pre-tax income and expenses of each company, excluding dividends received from Group entities, aggregated at country level.

(2) France, Netherlands and Luxembourg

¹ Royal Decree 1080/91 of 5 July, subsequently amended by Royal Decree 116/2003 of 31 January; EU list of non-cooperative jurisdictions in taxation matters, approved by ECOFIN at its meeting on 5 December 2017; List of uncooperative tax havens drawn up by the OECD.



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 Red Eléctrica Group has calculated and published its total tax contribution, highlighting the significant economic and social importance of its tax contribution.

The Group's total 2018 tax contribution in all the countries in which it operates amounted to EUR 743 million, consisting of EUR 250 million paid and EUR 493 million collected.

The tax on profit paid in each country in 2018, understood as the amount of corporate income tax paid, is as follows:

Million euros

Item	Spain	Peru	Chile	Other EU (*)	Total
Tax on profit paid	202	3	1	-	206

(*) France, Netherlands and Luxembourg

Corporate income tax accounts for 82% of the taxes paid by the Red Eléctrica Group to governments, mainly the Spanish government.

Government grants received

In 2018, EUR 3 million were received from official bodies for the construction of power facilities and other RDI projects. The grants received, broken down by country, are as follows:

Million euros

Item	Spain	Rest of countries	Total
Grants received	3	-	3

The grants received in 2018 in relation to power facilities, totalling EUR 2 million, were for the Spain-France electricity interconnection via the Bay of Biscay and for the construction of facilities in Extremadura (with ERDF funds).

Additional grants totalling EUR 1 million were received for the following RDI projects: BEST PATHS, OSMOSE and MIGRATE. The scope of these projects is set out in section 8, "Innovation", of this Directors' Report.

11.7 Index of content required by Law 11/2018 of 28 December on disclosure of non-financial and diversity information

CONTENTS	Page	Reporting framework
Business model. Policies applied. Result of these policies.	22 and following	(2)
Main related risks.	15	(2)
Materiality analysis	23	(1) 102-43, 102-44, 102-46, 102-47, 102-49
I. Information on environmental matters		



CONTENTS	Page	Reporting framework
Current and foreseeable impact of the company's activities on the environment, health and safety.	24	(2)
Environmental assessment or certification procedures.	24	(1)102-11
Resources devoted to environmental risk prevention.	24	(2)
Provisions and guarantees for environmental risks.	24	(2)
Pollution		
Measures to prevent and reduce carbon emissions	24	(2)
Circular economy and waste prevention and management		
Measures for the prevention, recycling, reuse and other recovery and disposal of waste.	24	(2)
Actions to combat food waste	Not applicable	
Sustainable use of resources		
Water consumption and supply.	24	(1)303-1
Consumption of raw materials and measures to improve efficiency.	24	(2)
Direct and indirect energy consumption	25	(1)302-1/302-2
Measures to improve energy efficiency and use of renewable energy.	25	(2)
Climate change		
Greenhouse gas emissions.	25	(1) 305-1/305-2/305-3/305-4
Measures taken to adapt to the consequences of climate change.	25	(1)305-5
Voluntary medium and long-term emission reduction targets set and steps taken.	25	(2)
Protection of biodiversity		
Measures taken to preserve or restore biodiversity.	26	(1) 304-1/304-3
Impacts caused by activities or operations in protected areas.	26	(1) 304-2
II. Information on employment and employee-related issues		
Employment		
Total number and distribution of employees by gender, age, country and professional qualifications.	27	(1) 102-8
Total number and distribution of employment contract types by gender, age and job category.	28	(1)102-8
Dismissals by gender, age and job category.	29	(2)
Average pay by gender, age and job category.	29	(2)
Pay gap.	30	(1)405-2
Remuneration of like positions or average remuneration in the company	30	(1)405-2
Average remuneration of directors and senior managers.	30	(2)
Contribution to long-term pension and savings insurance schemes by gender.	30	(1) 201-3
Implementation of disconnection policies.	30	(2)
Employees with disabilities.	35	(2)
Organisation of work		
Organisation of working hours.	31	(2)
Absentee rate.	31	(1)403-2



CONTENTS	Page	Reporting framework
Work-family measures	31	(1)401-2
Health and safety		
Occupational health and safety conditions.	32	(1)403-3/404-1/404-2
Industrial accidents: frequency and seriousness.	33	(1)403-2
Industrial diseases.	33	(1)403-2
Social relationships		
Organisation of social dialogue.	33	(1)402-1
Procedures for informing, consulting and negotiating with employees.	33	(1)402-1
Employees covered by collective agreement, by country.	34	(1) 102-41
Outcome of collective agreements in the field of health and safety.	34	(1)403-1/403-4
Training		
Policies implemented	34	(1)404-2
Training hours by job category.	35	(1)404-1
Universal accessibility for people with disability		
Universal accessibility for people with disability.	35	(2)
Equality		
Measures taken to promote equal treatment and equal opportunities for women and men.	36	(2)
Equality plans	36	(2)
Measures taken to promote employment.	36	(2)
Protocols against sexual harassment and harassment on the grounds of sex.	36	(2)
Integration and universal accessibility for people with disability	36	(2)
Policy against any kind of discrimination.	36	(2)
Diversity management.	36	(2)
III. Information about respect for human rights		
Application of human rights procedures	37	(1)407-1/408-1/409-1
Prevention of human rights infringements and measures to remedy infringements	37	(1)411-1/ 412-3
Reporting of human rights infringements	37	(1)102-17
Promotion and compliance with the provisions of the fundamental conventions of the ILO	37	(2)
IV. Information about the fight against corruption and bribery		
Measures to prevent corruption and bribery	37	(1)102-16/102-17/406-1
Measures to fight against money laundering	37	102-16/102-17 /406-1
Contributions to foundations and not-for-profit organisations	39	(2)
V. Information about the company		
The company's commitments to sustainable development		
Impact of the company's activity on employment and local development.	39	(1)413-1



CONTENTS	Page	Reporting framework
Impact of the company's activity on local populations and the local area.	39	⁽¹⁾ 413-1
Relations with local community actors and types of dialogue.	39	⁽¹⁾ 413-1
Association and sponsorship actions.	40	⁽¹⁾ 102-13
Subcontracting and suppliers		
Inclusion of social, gender equality and environmental issues in the purchasing policy.	44	⁽¹⁾ 414-1
Attention given to social and environmental responsibility in relations with suppliers and subcontractors.	44	⁽¹⁾ 414-1
Supervision systems and audits and results.	44	⁽¹⁾ 308-1/308-2
Consumers		
Measures to protect consumer health and safety.	45	⁽¹⁾ 416-1
Complaints systems; complaints received and how they were resolved.	45	⁽¹⁾ 102-43/102-44
Tax information		
Profit obtained, broken down by country.	46	⁽²⁾
Corporate income tax paid.	47	⁽²⁾
Government grants received.	47	⁽²⁾

(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).

(2) For this information the Group has used a specific reporting framework, which is explained on the relevant page of the report.

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/>

<http://www.cnmv.es/Portal/consultas/EE/InformacionGob-Corp.aspx?nif=A-78003662>

RED ELÉCTRICA CORPORACIÓN, S.A. and SUBSIDIARIES

**Independent Limited Assurance Report of the Non-Financial
Statement for the year ended December 31, 2018**

Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT OF THE NON-FINANCIAL STATEMENT

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, 2018, of RED ELÉCTRICA CORPORACIÓN, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Director's Report of the Group.

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 contained in the attached NFS.

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 Consolidated Director's Report 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* of the 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 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. 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) 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 2018 based on the materiality analysis made by the Group and described in section 11.1 *Description of the Group's business model and sustainability priorities* of the Director's Report, considering the content required by prevailing mercantile regulations.
- Analyzing the processes for gathering and validating the data included in the 2018 Non-Financial Statement.
- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the NFS.
- Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 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 2018 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 NFS.

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)

February 20, 2019



Red Eléctrica Corporación, S.A.

Annual Accounts
31 December 2018

Directors' Report
2018

(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

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

Independent Auditor's Report on the Annual Accounts

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 2018, 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 2018, 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.

Non-current and current investments in Group companies and associates: Euros 2,401,342 thousand

See notes 4 d), 4 e), 8 and 21 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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 2,038,325 thousand of which are recognised in the balance sheet under non-current investments in Group companies and associates and Euros 363,017 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 of impairment of these investments, and if this is the case, calculates the recoverable amount of these investments.</p> <p>As mentioned in note 4 d) and e) to the accompanying annual accounts, as a result of this assessment, the Company has concluded that there are no indications of these investments being impaired.</p> <p>Due to the significance of the investments in Group companies, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">- evaluating the design and implementation of the key controls related to the process of measuring investments;- assessing the criteria used by the Company's Directors and Management in determining whether there are indications that the investments may be impaired;- substantive verifications of movement in investments in Group companies and associates during the year, evaluating documentation supporting additions and disposals, which essentially reflect movements in loans to Group companies. <p>We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.</p>



Other Information: Directors' Report

Other information solely comprises the 2018 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 referred to in a) above has been provided in the directors' report and the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2018, 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 20 February 2019.

Contract Period _____

We were appointed as auditor by the shareholders at the ordinary general meeting on 15 April 2016 for a period of three years, from the year commenced 1 January 2016.

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

(Signed on original in Spanish)

Eduardo González Fernández
On the Spanish Official Register of
Auditors ("ROAC") with No. 20,435

20 February 2019



RED
ELÉCTRICA
CORPORACIÓN



Annual Accounts

2018

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

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Red Eléctrica Corporación, S.A.
Balance sheets at 31 December 2018 and 2017

Thousands of Euros	Note	31.12.2018	31.12.2017
Non-current assets		2,118,605	1,974,669
Property, plant and equipment	5	62,773	61,372
Land and buildings		58,068	59,444
Other installations, machinery, equipment, furniture and other items		210	406
Under construction and advances		4,495	1,522
Investment property	6	1,655	2,385
Land		558	629
Buildings		1,097	1,756
Non-current investments in Group companies and associates		2,038,325	1,893,245
Equity instruments	8	1,233,003	1,232,943
Loans to companies	21	787,758	650,073
Non-current interest on loans to companies	21	17,564	10,229
Non-current investments	12	13,257	15,187
Equity instruments		6,734	2,422
Loans to third parties		28	31
Derivatives	11	6,482	12,721
Other financial assets		13	13
Deferred tax assets	17	2,595	2,480
Current assets		933,772	775,810
Trade and other receivables	13	1,578	3,508
Trade receivables from Group companies and associates		-	54
Other receivables		281	3,451
Personnel		3	3
Public entities, other		1,294	-
Current investments in Group companies and associates	21	363,017	319,943
Loans to companies		363,017	319,943
Current investments		56	-
Other financial assets		56	-
Prepayments for current assets		717	72
Cash and cash equivalents		568,404	452,287
Cash		568,404	452,287
Total assets		3,052,377	2,750,479
Equity	14	2,709,048	2,556,780
Capital and reserves		2,690,049	2,538,910
Capital		270,540	270,540
Reserves		1,942,465	1,808,365
(Own shares and equity holdings)		(21,303)	(29,769)
Profit for the year		645,597	627,283
(Interim dividend)		(147,250)	(137,509)
Valuation adjustments		18,999	17,870
Non-current liabilities		80,533	28,507
Non-current provisions	15	5,097	4,397
Non-current payables	16	72,015	19,057
Loans and borrowings		71,999	19,041
Other liabilities		16	16
Non-current payables to Group companies and associates	21	1,565	1,565
Deferred tax liabilities	17	1,856	3,488
Current liabilities		262,796	165,192
Current payables	16	255,579	150,890
Loans and borrowings		101,857	1,009
Other current payables		153,722	149,881
Current payables to Group companies and associates	21	2,526	199
Trade and other payables	18	4,691	14,103
Payables to Group companies		-	20
Other payables		4,248	5,173
Personnel		350	334
Current tax liabilities		-	8,338
Public entities, other		93	238
Total equity and liabilities		3,052,377	2,750,479

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



Red Eléctrica Corporación, S.A. Income Statements for 2018 and 2017

Thousands of Euros	Note	2018	2017
Revenue	20.a	651,268	631,058
Finance income on investments in equity instruments		634,245	616,448
Group companies and associates		634,245	616,448
Finance income on securities and other financial instruments of Group companies and associates		17,023	14,610
Supplies		-	(1)
Raw materials and other consumables used		-	(1)
Other operating income		10,364	10,492
Lease income	7	10,354	10,460
Non-trading and other operating income		10	32
Personnel expenses	20.b	(4,023)	(3,815)
Salaries and wages		(3,726)	(3,561)
Employee benefits expense		(97)	(99)
Other items and employee benefits		(200)	(155)
Other operating expenses		(6,071)	(9,075)
External services		(5,643)	(8,600)
Taxes		(428)	(475)
Depreciation and amortisation	5 and 6	(1,616)	(1,668)
Impairment and gains/(losses) on disposal of fixed assets	20.d	(686)	3,145
Impairment and losses		(615)	-
Gains/(losses) on disposal and other		(71)	3,145
Results from operating activities		649,236	630,136
Finance income	20.c	2,228	2,711
Marketable securities and other financial instruments		2,228	2,711
Other		2,228	2,711
Finance costs	20.c	(4,829)	(3,408)
Other		(4,827)	(3,406)
Provision adjustments		(2)	(2)
Change in fair value of financial instruments	11	(307)	6
Trading portfolio and other		(307)	6
Exchange losses		(78)	(56)
Net finance cost		(2,986)	(747)
Profit before income tax		646,250	629,389
Income tax	17	(653)	(2,106)
Profit from continuing operations		645,597	627,283
Profit for the year		645,597	627,283

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

(Free translation from the original in Spanish.

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Red Eléctrica Corporación, S.A.
Statements of Total Changes in Equity.
2018 and 2017

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 2016	270,540	1,719,249	(36,739)	-	551,836	(128,417)	2,376,469	16,728	2,393,197
Total recognised income and expense	-	(6)	-	-	627,283	-	627,277	1,142	628,419
Transactions with shareholders or owners									
(-) Distribution of dividends	-	-	-	(464,157)	-	(9,092)	(473,249)	-	(473,249)
Transactions with own shares and equity holdings (net)	-	475	6,970	-	-	-	7,445	-	7,445
Other changes in equity									
Distribution of prior year's profit	-	-	-	551,836	(551,836)	-	-	-	-
2016 profit transferred to reserves	-	88,647	-	(87,679)	-	-	968	-	968
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 and equity holdings (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

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

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Red Eléctrica Corporación, S.A.
Statements of Recognised Income and Expense
for the years ended 31 December 2018 and 2017

Thousands of Euros	2018	2017
Profit for the year	645,597	627,283
Measurement of financial instruments	-	-
Cash flow hedges	-	-
Grants, donations and bequests received	-	-
Actuarial gains and losses and other adjustments	6	(7)
Tax effect	1,127	1,143
Income and expense recognised directly in equity	1,133	1,136
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	646,730	628,419

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

(Free translation from the original in Spanish.

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Red Eléctrica Corporación, S.A.
Statements of Cash Flows for the years ended 31 December 2018 and 2017

Thousands of Euros	2018	2017
Cash flows from operating activities	605,632	856,686
Profit for the year before tax	646,250	629,389
Adjustments to profit	(645,420)	(630,771)
Depreciation and amortisation	1,616	1,668
Change in provisions	560	1,017
Proceeds from disposals of fixed assets	71	-
Finance income	(653,496)	(633,769)
Finance costs	4,829	3,408
Exchange losses	78	56
Fair value measurement of financial instruments	307	(6)
Other income and expenses (impairment)	615	(3,145)
Changes in operating assets and liabilities	(45,793)	221,739
Trade and other receivables	3,073	(3,402)
Other current assets	(701)	(7)
Other current assets - Group companies and associates	(47,858)	222,266
Trade and other payables	(307)	2,882
Other cash flows from operating activities	650,595	636,329
Interest paid	(3,140)	(2,589)
Dividends received	634,245	616,448
Interest received	6,617	8,663
Income tax paid/received	13,591	13,807
Other amounts paid/received	(718)	-
Cash flows from (used in) investing activities	(156,051)	25,855
Payments for investments	(156,052)	(10,891)
Group companies and associates	(132,023)	-
Property, plant and equipment, intangible assets and investment property	(2,645)	(1,945)
Other financial assets	(21,384)	(8,962)
Other assets	-	16
Proceeds from sale of investments	1	36,746
Group companies and associates	-	33,000
Property, plant and equipment, intangible assets and investment property	-	3,743
Other assets	1	3
Cash flows used in financing activities	(333,464)	(434,533)
Proceeds from and payments for equity instruments	10,417	7,445
Acquisition and sale of own equity instruments	10,417	7,445
Proceeds from and payments for financial liability instruments	151,257	21,211
Loans and borrowings	151,257	21,211
Dividends and interest on other equity instruments paid	(495,138)	(463,189)
Dividends	(495,138)	(463,189)
Effect of exchange rate fluctuations	-	-
Net increase/(decrease) in cash and cash equivalents	116,117	448,008
Cash and cash equivalents at beginning of year	452,287	4,279
Cash and cash equivalents at year end	568,404	452,287

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 19 February 2019 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2018, 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 2017 were approved by the shareholders at their general meeting held on 22 March 2018. The annual accounts for 2018 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 2018 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.
- 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 2018, 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 2018 include comparative figures for the prior year, which formed part of the annual accounts for 2017.

3. Proposed Distribution of Profit

The proposed distribution of profit for the year ended 31 December 2018, prepared by the directors and pending approval by the shareholders at the general meeting, is as follows:

Thousands of Euros	
Profit for the year	645,597
Total	645,597
Distribution	
Voluntary reserves	97,256
Capitalisation reserve	16,707
Dividends:	
Interim dividend	147,250
Supplementary dividend	384,384
Total	645,597

This proposed distribution entails a supplementary dividend of Euros 0.7104 per share, which would result in a total dividend for the year of Euros 0.9831 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 with 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: including cash on hand, demand deposits in financial institutions and other short-term, highly liquid investments.

e) Impairment of assets

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, provided 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) Equity

The share capital of the Company 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

• Employee benefits

○ 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 medical 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.

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.

The total fair value of the 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.



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.

A hedging instrument is considered highly effective when the changes in fair value or in the cash flows of the hedged items are offset by the changes in fair value or in the cash flows of the hedging instrument with an effectiveness ranging from 80% to 125%.

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 2018 and 2017 are as follows:

Thousands of Euros	31 December 2016	Additions	Disposals	Transfers	31 December 2017	Additions	Disposals	Transfers	31 December 2018
Cost									
Land and buildings	76,659	-	(598)	2,224	78,285	-	-	-	78,285
Other installations, machinery, equipment, furniture and other items	14,989	-	(45)	-	14,944	-	-	-	14,944
Under construction and advances	1,968	1,778	-	(2,224)	1,522	2,973	-	-	4,495
Total cost	93,616	1,778	(643)	-	94,751	2,973	-	-	97,724
Accumulated depreciation									
Buildings	(17,479)	(1,362)	-	-	(18,841)	(1,376)	-	-	(20,217)
Other installations, machinery, equipment, furniture and other items	(14,321)	(262)	45	-	(14,538)	(196)	-	-	(14,734)
Total accumulated depreciation	(31,800)	(1,624)	45	-	(33,379)	(1,572)	-	-	(34,951)
Impairment of installations	-	-	-	-	-	-	-	-	-
Carrying amount	61,816	154	(598)	-	61,372	1,401	-	-	62,773

Additions to property, plant and equipment under construction in 2018 and 2017 mainly reflect the adaptation of the buildings in Tres Cantos and the headquarters in Alcobendas (Madrid).



Disposals of property, plant and equipment in 2017 primarily reflect the sale of a building in A Coruña (see notes 13 and 20-d).

Transfers from property, plant and equipment under construction to land and buildings in 2017 comprise buildings.

At 31 December 2018 the Company has fully depreciated property, plant and equipment with a cost of Euros 15,544 thousand (Euros 14,768 thousand in 2017), Euros 14,680 thousand of which are other installations (Euros 13,904 thousand in 2017).

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 2018 (Euros 177 thousand in 2017).

6. Investment Property

Movement in investment property in 2018 and 2017, in thousands of Euros, is as follows:

Thousands of Euros	31 December 2016	Additions	Disposals	31 December 2017	Additions	Disposals	31 December 2018
Investment property	2,910	-	-	2,910	-	(71)	2,839
Total cost	2,910	-	-	2,910	-	(71)	2,839
Accumulated depreciation	(481)	(44)	-	(525)	(44)	-	(569)
Total accumulated depreciation	(481)	(44)	-	(525)	(44)	-	(569)
Impairment of investment property	-	-	-	-	(615)	-	(615)
Total impairment	-	-	-	-	(615)	-	(615)
Carrying amount	2,429	(44)	-	2,385	(659)	(71)	1,655

Disposals of investment property in 2018 reflect the disposal of land in Extremadura (see note 20-d).

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

Investment property has a market value of approximately Euros 2.6 million in 2018 (Euros 3 million in 2017) 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 2018	31 December 2017
Cost		
Land and buildings	74,180	74,180
Other installations, machinery, equipment, furniture and other items	14,555	14,555
Total cost	88,735	88,735
Accumulated depreciation		
Buildings	(19,991)	(18,670)
Other installations, machinery, equipment, furniture and other items	(14,345)	(14,239)
Total accumulated depreciation	(34,336)	(32,909)
Carrying amount	54,399	55,826

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) and Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN), 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 10,186 thousand in 2018 (Euros 10,283 thousand in 2017). Approximately 96% of this lease income pertains to REE and 4% to the remaining Group companies (98% and 2% in 2017, respectively).

8. Investments in Group Companies and Associates

At 31 December 2018 and 2017, none of the Group companies in which the Company holds a direct or indirect interest is listed on the stock exchange.

Details of investments in Group companies and associates at 31 December 2018 are as follows:

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails.)



Red Eléctrica Corporación, S.A.
Details of equity investments at 31 December 2018

- Company
- Registered office
- Principal activity

	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				
Thousands of Euros										
A) Fully consolidated subsidiaries										
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission, operation of the Spanish electricity system and management of the transmission network.	100%	-	1,014,326	800,006	54,319	627,411	(137,635)	632,900	974,283	631,924
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - International equity investments. Rendering of advisory, engineering and construction services. - Performance of electricity activities outside the Spanish electricity system.	100%	-	132,640	60,010	72,630	35,941	(3,937)	1,792	3,645	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Rendering of advisory, engineering, construction and telecommunications services.	100%	-	74,417	30,000	44,417	61,765	(742)	46,581	68,239	-
Red Eléctrica Infraestructuras de Canarias, S.A.U. (REINCAN) - Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain). - Construction of energy storage facilities in non-mainland and isolated systems.	100%	-	5,000	5,000	-	32	-	(56)	(77)	-
Red Eléctrica de España Finance, B.V. (RBV) - Hoogoorddreef 15. Amsterdam (Netherlands). Financing activities. - Incorporated in 2003 in the Netherlands to issue debt to finance the Red Eléctrica Group.	100%	-	2,000	18	1,982	-	-	182	(101)	154
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). Financing activities.	100%	-	60	60	-	7,756	-	2,284	(207)	2,167
Red Eléctrica Sistemas de Telecomunicaciones, S.A. (RESTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition, holding, management and administration of Spanish and foreign equity securities.	100%	-	60	60	-	(5)	-	1	-	-
Redcor Reaseguros, S.A. (REDCOR) - 26, Rue Louvigny. (Luxembourg). - Reinsurance activities. - Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international reinsurance markets.	100%	-	4,500	4,500	-	41,407	-	2,598	3,045	-
Red Eléctrica Andina, S.A. (REA) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Rendering of line and substation maintenance services.	-	100% (a)	1,778	1,713	-	1,021	-	54	642	-
Red Eléctrica del Sur, S.A. (REDESUR) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (a)	34,573	11,353	-	20,110	-	3,647	8,051	-

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails.)



	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				
Thousands of Euros										
Transmisora Eléctrica del Sur, S.A. (TESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	32,732	33,888	-	(1,572)	-	11	1,750	-
Transmisora Eléctrica del Sur 2, S.A. (TESUR 2) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	20,684	19,805	-	(278)	-	150	1,135	-
Transmisora Eléctrica del Sur 3, S.A. (TESUR 3) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	4,469	4,367	-	(45)	-	(42)	(39)	-
Transmisora Eléctrica del Sur 4, S.A. (TESUR 4) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	4,039	14,022	-	-	-	315	(10)	-
Red Eléctrica Chile SpA (RECH) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Acquisition, holding, management and administration of securities.	-	100% (a)	128,792	123,812	-	(7,186)	-	(3,544)	273	-
Red Eléctrica del Norte, S.A. (REDENOR) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	69.9% (d)	2,073	3,057	-	(55)	-	(231)	(261)	-
Red Eléctrica del Norte Dos S.A. (REDENOR 2) - Avenida El Golf nº 40, piso 20. Comuna de Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (d)	25,401	27,743	-	514	-	(560)	113	-
B) Proportionately consolidated companies										
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Tour Initiale, 1 Terrasse Bellini - 92919 Paris La Défense Cedex. Paris (France). - Study and execution of Spain-France interconnections.	-	50% (b)	1,000	2,000	-	14,352	-	5	1	-
C) Equity-accounted investees										
Transmisora Eléctrica del Norte, S.A. (TEN) - Avenida Apoquindo Nº 3721, piso 6, Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (d)	190,773	72,876	-	(12,428)	(4,122)	13,748	51,456	-

(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.

(a) Investment through Red Eléctrica Internacional, S.A.U.

(b) Investment through Red Eléctrica de España, S.A.U.

(c) Investment through Red Eléctrica del Sur, S.A.

(d) Investment through Red Eléctrica Chile SpA.



In 2018, the Company incorporated Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL). This company's statutory activity includes the acquisition, holding, management and administration of securities.

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 dark fibre optic backbone network rental for both electricity transmission infrastructure and railway infrastructure.

International activity is conducted by REI (a wholly owned subsidiary). Details of the main transactions performed in 2018 and 2017 are as follows:

- **In Peru:**

- In 2018, Red Eléctrica del Sur, S.A. (REDESUR) incorporated the Peruvian company Transmisora Eléctrica del Sur 4, S.A. (TESUR 4) as a wholly owned subsidiary. The statutory activity of TESUR 4 is the construction, operation and maintenance of the Tintaya-Azángaro transmission line under concession.
- In 2017 REI purchased 45% of REDESUR, in which it already held a 55% interest, from the infrastructure investment fund AC Capitales. This transaction increased REI's interest in REDESUR to 100%.
- Furthermore, in 2017 REI sold its 25% interest in Transmisora Eléctrica del Sur 2, S.A. (TESUR 2) and its 100% interest in Transmisora Eléctrica del Sur 3, S.A. (TESUR 3) to REDESUR. As a result, these companies are controlled indirectly through REDESUR.

- **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.
- In 2017, Red Eléctrica del Norte, S.A. (REDENOR) was incorporated, in which the Company holds a 69.9% interest through RECH. REDENOR's statutory activity is the construction, operation and maintenance of electricity transmission networks. This company has been awarded several 220 kV electricity transmission lines forming part of the Far North Interconnected System (SING) in Chile.

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.

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 2018 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 2018 and 2017 the carrying amounts of each category of financial instruments, except investments in Group companies, are as follows:



- Financial assets

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

Thousands of Euros	Financial instruments by category at 31.12.2017			
	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Loans to third parties	-	31	-	31
Loans to Group companies and associates	-	660,302	-	660,302
Equity instruments of a special nature	2,422	-	-	2,422
Derivative financial instruments	-	-	12,721	12,721
Other financial assets	-	13	-	13
Non-current	2,422	660,346	12,721	675,489
Loans to Group companies and associates	-	319,997	-	319,997
Other financial assets	-	-	-	-
Trade and other receivables	-	3,454	-	3,454
Current	-	323,451	-	323,451
Total	2,422	983,797	12,721	998,940



- Financial liabilities

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

Thousands of Euros	Financial instruments by category at 31.12.2017		
	Debts and payables	Hedging derivatives	Total
Loans and borrowings	19,041	-	19,041
Payables to Group companies and associates	1,565	-	1,565
Other financial liabilities	16	-	16
Derivative financial instruments	-	-	-
Non-current	20,622	-	20,622
Loans and borrowings	1,009	-	1,009
Payables to Group companies and associates	219	-	219
Current payables	149,881	-	149,881
Trade and other payables	14,083	-	14,083
Current	165,192	-	165,192
Total	185,814	-	185,814

b) Analysis by maturity

- Financial assets

Thousands of Euros	Maturity of financial assets		
	2019	Subsequent years	Total
Equity instruments of a special nature	-	6,734	6,734
Loans to third parties	-	28	28
Loans to Group companies and associates	363,017	805,322	1,168,339
Other financial assets	56	13	69
Trade and other receivables	1,578	-	1,578
Total	364,651	812,097	1,176,748



- Financial liabilities

Thousands of Euros	Maturity of financial liabilities		
	2019	Subsequent years	Total
Loans and borrowings	101,857	71,999	173,856
Payables to Group companies and associates	2,526	1,565	4,091
Trade and other payables	158,413	-	158,413
Other financial liabilities	-	16	16
Total	262,796	73,580	336,376

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 2018 and 2017 are as follows:

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails.)



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

Thousands of Euros	31.12.2017		Non-current		Current	
	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedge						
- Hedges of a net investment:	US Dollars 150,000 thousand	Up to 2021	12,721	-	-	-
Cross-currency swap						

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

Thousands of Euros	Hedged principal	Term to expiry							Total
			2019	2020	2021	2022	2023	2024 and thereafter	
Exchange rate hedge									
- Hedges of a net investment:	US Dollars 150,000 thousand	Up to 2021	-	-	6,482	-	-	-	6,482
Cross-currency swap									

In 2018 the Company recognised an expense of Euros 307 thousand (Euros 6 thousand in 2017).

12. Non-current Investments

Details of non-current investments at 31 December 2018 and 2017 are as follows:

Thousands of Euros	31 December 2018	31 December 2017
Equity instruments	6,734	2,422
Loans to third parties	28	31
Derivative financial instruments	6,482	12,721
Other financial assets	13	13
Total	13,257	15,187

Equity instruments reflect the Euros 6,734 thousand investment in economic interest groups (EIGs) (Euros 2,422 thousand in 2017) engaged in the lease of assets managed by an unrelated company, which retains most of the rewards and risks 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 2018 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 2018 and 2017 are as follows:

Thousands of Euros	31 December 2018	31 December 2017
Trade receivables from Group companies and associates	-	54
Other receivables	281	3,451
Personnel	3	3
Public entities, other	1,294	-
Total	1,578	3,508

At 31 December 2018 other receivables essentially reflect the amount outstanding in connection with own shares sold, while at 31 December 2017 this item basically comprises the balance receivable on the sale of a building in A Coruña (see note 5).

At 31 December 2018 public entities, other reflect income tax receivable, which has been recognised by the Company, as parent of the tax group.

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 2018 and 2017 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 2018 and 2017 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 2018 and 2017 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 2018.

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 1,496,657 thousand and Euros 19,895 thousand, respectively, at 31 December 2018 (Euros 1,373,869 thousand and Euros 19,895 thousand, respectively, at 31 December 2017). Both of these reserves are freely distributable.

At 31 December 2018 and 2017 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 2018.

As provided for by article 25 of Law 27/2014 of 27 November 2014, in 2018 the tax group headed by the Company created a capitalisation reserve of Euros 11,312 thousand, corresponding to 2017, 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 2016, in an amount of Euros 15,406 thousand, was appropriated in 2017 (see note 17). The proposed appropriation to the capitalisation reserve for the year ended 31 December



2018, prepared by the directors and pending approval by the shareholders at the general meeting, is Euros 16,707 thousand (see note 3).

- **Own shares and equity holdings**

At 31 December 2018 the Company held 1,198,049 own shares representing 0.22% of its share capital (0.30% in 2017), with a total par value of Euros 599 thousand and an average acquisition price of Euros 17.78 per share. At 31 December 2017, the Company held 1,613,693 own shares, with a total par value of Euros 807 thousand and an average acquisition price of Euro 18.45 per share.

These shares have been recognised as a reduction in equity for an amount of Euros 21,303 thousand at 31 December 2018 (Euros 29,769 thousand in 2017).

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 645,597 thousand (Euros 627,283 thousand in 2017).

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

The interim dividend authorised by the board of directors in 2018 has been recognised as a Euros 147,250 thousand reduction in equity at 31 December 2018 (Euros 137,509 thousand at 31 December 2017).

On 30 October 2018 the Company's board of directors agreed to pay an interim dividend of Euros 0.2727 (gross) per share with a charge to 2018 profit, which was paid on 8 January 2019.

The cash flow forecast for the period from 30 September 2018 to 8 January 2019 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 30/09/2018:	
Non-current credit facilities available	37,062
Current credit facilities available	105,000
Current investments and cash	518,662
Forecast receipts:	
Current transactions	-
Financial transactions	265,424
Forecast payments:	
Current transactions	(140,741)
Financial transactions	-
Forecast available funds at 08/01/2019	785,407

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 2018 allows for the distribution of this interim dividend.



c) Valuation adjustments

At 31 December 2018 and 2017 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 2018 and 2017 is as follows:

Thousands of Euros	31 December 2016	Additions	Applications	Actuarial gains and losses	Transfers	31 December 2017	Additions	Applications	Actuarial gains and losses	Transfers	31 December 2018
Provisions for employee benefits	271	157	-	7	-	435	201	-	(6)	-	630
Other provisions	3,100	862	-	-	-	3,962	386	(738)	-	857	4,467
Total	3,371	1,019	-	7	-	4,397	587	(738)	(6)	857	5,097

Provisions for employee benefits include future commitments (medical 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 2018 and 2017:

	Actuarial assumptions	
	2018	2017
Discount rate	2.04%	1.80%
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 medical insurance cost trend rates is as follows:

Thousands of Euros	1%	-1%
Current service cost	2	(1)
Interest cost of net post-employment medical costs	-	-
Accumulated post-employment benefit obligation for medical insurance	30	(22)

Conversely, the effect of a decrease of half a percentage point in the discount rate used in the actuarial assumption for medical insurance costs from 2.04% to 1.54% is as follows:



Thousands of Euros	Discount rate		Sensitivity
	2.04%	1.54%	
Current service cost	4.4	5.2	0.8
Interest cost of net post-employment medical costs	1.8	1.4	(0,4)
Accumulated post-employment benefit obligation for medical insurance	82	96	14

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 2018 amount to Euros 4.4 thousand and Euros 1.8 thousand, respectively (Euros 4.2 thousand and Euros 1.5 thousand, respectively, in 2017). 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 6 thousand (Euros 7 thousand in 2017), which has been recorded under actuarial gains and losses in the statement of changes in equity.

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 2017, this item also included the provision made to cover amounts accrued by the former chairman, which were payable when he ceased to be a director of the Company (see note 22).

In 2018, the amount shown in transfers reflects provisions for current liabilities from prior years for which the estimated settlement period has been revised to non-current.

16. Non-current and Current Payables

Details at 31 December 2018 and 2017 are as follows:

Thousands of Euros	31 December 2018	31 December 2017
Loans and borrowings	71,999	19,041
Derivative financial instruments	-	-
Other liabilities	16	16
Non-current payables	72,015	19,057

Thousands of Euros	31 December 2018	31 December 2017
Loans and borrowings	101,857	1,009
Other current payables	153,722	149,881
Current payables	255,579	150,890

Non-current loans and borrowings at 31 December 2018 and 2017 include Euros 71,999 thousand drawn down from credit facilities arranged by the Company in Euros and US Dollars (Euros 19,041 thousand at 31 December 2017).

At 31 December 2018 and 2017 other liabilities comprise non-current security deposits received amounting to Euros 16 thousand.



Current loans and borrowings at 31 December 2018 include Euros 100,000 thousand drawn down from loans arranged by the Company (no amount drawn down at 31 December 2017).

At 31 December 2018 the accrued interest payable amounts to Euros 215 thousand (Euros 25 thousand in 2017) and has been recognised under current loans and borrowings. This item also reflects the interest accrued but not yet payable on derivative financial instruments.

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. The fair value of loans and borrowings at 31 December 2018 is Euros 171,560 thousand (Euros 19,041 thousand in 2017). The average interest rate accrued on loans and borrowings was 0.51% in 2018 (1.72% in 2017).

Details of other current payables are as follows:

Thousands of Euros	31 December 2018	31 December 2017
Dividends	147,250	137,509
Suppliers of fixed assets and other payables	6,472	12,372
Total	153,722	149,881

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 2018 and 2017 with the tax loss that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2018	2017
Accounting profit for the year before tax	646,250	629,389
Permanent differences	(643,831)	(621,142)
Taxable accounting income	2,419	8,247
Temporary differences:		
Originating in current year	896	3,470
Reversals during the year	(236)	167
Total	660	3,637
EIG charges	(67,045)	(73,227)
Tax loss	(63,966)	(61,343)

In 2018 and 2017, adjustments were made to the tax base to reflect recognition of the EIGs in which the Company has interests, amounting to Euros 67,045 thousand and Euros 73,227 thousand, respectively (see note 12).

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

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

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails.)



Thousands of Euros	2018	2017
Accounting profit for the year before tax	646,250	629,389
Permanent differences	(643,831)	(621,142)
Taxable accounting income	2,419	8,247
Tax rate	25%	25%
Tax at the current rate	605	2,062
Deductions	-	-
Expense for the year	605	2,062
Foreign income tax	-	-
Other adjustments	48	44
Income tax expense	653	2,106
Effective income tax rate	0.10%	0.33%
Breakdown of income tax:		
Current income tax	767	2,968
Deferred income tax	(162)	(906)
Other adjustments	48	44
Income tax expense	653	2,106

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 2018 and 2017 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 will be held in the Company, as head of the 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 2018 and 2017, and the corresponding cumulative tax effect (assets and liabilities) are as follows:



Thousands of Euros	2018		2017	
	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	2,473	7	1,626	5
Originating in current year	224	(1)	867	2
Reversals of prior years	(108)	-	(20)	-
Total	116	(1)	847	2
Total deferred tax assets	2,589	6	2,473	7
Deferred tax liabilities:				
Originating in prior years	(2,360)	(1,128)	(2,419)	(2,269)
Originating in current year	-	-	-	-
Reversals of prior years	46	1,128	59	1,141
Total	46	1,128	59	1,141
Adjustment of prior years	458	-	-	-
Total deferred tax liabilities	(1,856)	-	(2,360)	(1,128)

Deferred tax assets in 2018 and 2017 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 2015, except income tax, which is open to inspection since 2014.

In June 2018 the limited administrative proceedings concerning income tax for 2011 to 2015 were completed, giving rise to 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. No penalties were imposed as a result of the proceedings and no significant tax liabilities arose for the Group.

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event 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 2018 and 2017 are as follows:

Thousands of Euros	31 December 2018	31 December 2017
Payables to Group companies	-	20
Other payables	4,248	5,173
Personnel	350	334
Public entities	93	8,576
Total	4,691	14,103

At 31 December 2017 public entities included Euros 8,338 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.

In accordance with the resolution, the information on the average supplier payment period for 2018 and 2017 is as follows:

Days	2018	2017
Average supplier payment period	49.8	33.7
Transactions paid ratio	50.6	33.7
Transactions payable ratio	20.9	33.5

Thousands of Euros	2018	2017
Total payments made	4,369	3,977
Total payments outstanding	121	272

20. Income and Expenses

a) Revenue

Details at 31 December 2018 and 2017 are as follows:

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails.)



Thousands of Euros	31 December 2018	31 December 2017
Finance income on investments in equity instruments of Group companies and associates	634,245	616,448
Finance income on securities and other financial instruments of Group companies and associates	17,023	14,610
Total	651,268	631,058

At 31 December 2018 and 2017 finance income on investments in equity instruments of Group companies and associates reflects the dividends received from REE, REF and RBV.

At 31 December 2018 and 2017 finance income on securities and other financial instruments of Group companies and associates comprises income from loan agreements entered into with REE, REINTEL and RECH, as well as the credit facilities arranged with REE, RECH and REI (see note 21).

Details of this item in 2018 and 2017, by geographical area, are as follows:

	2018	2.017
Domestic market	643,001	625,746
European Union	154	148
Other countries	8,113	5,164
Total	651,268	631,058

b) Personnel expenses

In 2018 and 2017 this item comprises the following:

Thousands of Euros	31 December 2018	31 December 2017
Salaries and wages	3,726	3,561
Social Security	92	93
Contributions to pension funds and similar obligations	5	6
Other items and employee benefits	200	155
Total	4,023	3,815

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

Employees

Besides the chairman and managing director, the average headcount of the Company in 2018 and 2017, by professional category, is as follows:

	2018	2017
Senior technicians	1	1
Specialist and administrative staff	4	4
Total	5	5



Besides the chairman and managing director, the distribution of the Company's employees at 31 December 2018 and 2017, by gender and category, is as follows:

	2018			2017		
	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 2018 or 2017.

A 31 December 2018 and 2017, there are 12 directors, of which 7 are men and 5 are women (8 men and 4 women in 2017).

c) Finance income and costs

In 2018 and 2017 finance costs primarily reflect those incurred on loans and borrowings and derivative financial instruments.

In 2018 and 2017 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 2018 this item reflects impairment, and losses on certain disposals, of investment property (see note 6).

In 2017 this item reflects the gains on certain disposals of property, plant and equipment (see note 5).

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 2018 and 2017 are as follows:

	2018		2017	
	Loans and dividends	Payables	Loans and dividends	Payables
Red Eléctrica de España, S.A.U. (REE)	778,057	3,722	723,460	1,528
Red Eléctrica Internacional, S.A.U. (REI)	66,965	338	-	226
Red Eléctrica Financiaciones, S.A.U. (REF)	79	-	79	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	168,686	30	102,101	30
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	-	1	2	-
Red Eléctrica Chile SpA (RECH)	154,552	-	154,657	-
Total Group companies	1,168,339	4,091	980,299	1,784

Loans and dividends receivable from REE include the Euros 425 million loan arranged with that company in 2016, of which Euros 425 million had been drawn down at 31 December 2018 (Euros 425 million at 31 December 2017). The loan falls due in 2021 and the average interest rate for the period was 0.84% (0.91% in 2017). This



item also includes the current credit facility arranged with REE for an amount of Euros 850 million (Euros 850 million in 2017). Euros 351,058 thousand had been drawn down at 31 December 2018 (Euros 286,336 thousand at 31 December 2017). The average interest rate for the period was 0.41% (0.41% in 2017).

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 165,150 thousand at 31 December 2018 (Euros 100 million at 31 December 2017) and falls due in 2022. The average interest rate for the period was 2.94% (2.94% in 2017).

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 131,004 thousand at 31 December 2018 (Euros 125,073 thousand at 31 December 2017). The average interest rate for the period was 2.81% (1.66% in 2017). 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). This item also includes the current credit facility arranged with RECH on 1 March 2017 for US Dollars 100 million, of which Euros 5,960 thousand had been drawn down at 31 December 2018 (Euros 19,297 thousand at 31 December 2017). The average interest rate for the period was 4.50% (3.79% in 2017).

Loans receivable from REI primarily include the credit facility arranged with this company for an amount of US Dollars 215 million, of which Euros 66,604 thousand had been drawn down at 31 December 2018. This facility expires in 2023 and the average interest rate for the period was 3.68%. A further current credit facility was extended to REI in 2017 for US Dollars 50 million, which was repaid in full in 2017. The average interest rate for the period was 2.09%.

Transactions with Group companies and associates are as follows:

Thousands of Euros	2018				2017			
	Operating income	Finance income	Operating expenses	Finance costs	Operating income	Finance income	Operating expenses	Finance costs
Red Eléctrica de España, S.A.U. (REE)	9,769	636,688	1,109	-	10,058	619,748	1,097	-
Red Eléctrica Internacional, S.A. (REI)	42	429	-	-	43	384	-	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	374	3,717	12	-	202	3,411	-	-
Red Eléctrica de España Finance, B.V. (RBV)	-	154	-	-	-	147	-	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	11	-	-	-	11	-	-	-
Red Eléctrica Financiaciones, S.A.U. (REF)	-	2,167	-	-	-	2,204	-	-
Red Eléctrica Chile SpA (RECH)	-	8,113	-	-	-	5,164	-	-
Red Eléctrica del Sur, S.A. (REDESUR)	-	-	-	-	-	-	31	-
Red Eléctrica Andina, S.A. (REA)	-	-	-	-	-	-	259	-
Total Group companies	10,196	651,268	1,121	-	10,314	631,058	1,387	-

At 31 December 2018 and 2017 operating income from REE, REINTEL, REI and REINCAN mainly derives from the property lease agreements entered into with these companies (see note 7).

In 2018 and 2017 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 and REI.



Balances and transactions with related parties

Related party transactions are carried out under normal market conditions and their amounts are immaterial. Details are as follows:

Thousands of Euros	2018				2017			
	Significant shareholders	Senior management	Other related parties	Total	Significant shareholders	Senior management	Other related parties	Total
Other expenses	-	-	-	-	-	-	45	45
Total expenses	-	-	-	-	-	-	45	45
Other income	-	-	-	-	-	-	143	143
Total income	-	-	-	-	-	-	143	143
Other transactions	-	-	-	-	-	-	-	-
Total other transactions	-	-	-	-	-	-	-	-

There are no balances receivable from or payable to related parties in 2018 or 2017.

22. Remuneration of the Board of Directors

At their meeting on 16 February 2018, the Company's directors approved the remuneration of the board of directors for 2018, as required by the articles of association and the regulations of the board of directors, based on a proposal from the Appointments and Remuneration Committee. Both the proposed remuneration for the board of directors for 2018 and the annual remuneration report were subsequently submitted for the approval of the shareholders at their general meeting on 22 March 2018. The approved remuneration of the board of directors for 2018, including that of the chairman and the managing director, did not change vis-à-vis 2017.

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.

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.

In line with his duties as non-executive chairman, the chairman receives fixed annual remuneration, in addition to remuneration for being a member of the board of directors. The remuneration scheme for this position consists solely of fixed amounts, with no annual or multi-year variable remuneration and no termination benefit. In 2018 both remuneration components are under the same terms as in 2017.

The remuneration allocated to the managing director includes the fixed and variable annual and multi-year components corresponding to executive duties and the fixed remuneration for being a member of the board of directors. Employee benefits continue to form part of the remuneration for this position. A portion of the annual variable remuneration is paid through the delivery of Company shares.



Moreover, the managing director has been included in a defined contribution benefit scheme. This scheme covers the retirement, death and permanent disability contingencies. Red Eléctrica's obligation is limited to an annual contribution equal to 20% of the managing director's fixed annual remuneration.

The annual variable remuneration of the managing director is set by the Appointments and Remuneration Committee of the 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 compliance is assessed by the Committee.

Pursuant to the remunerations policy and in line with standard market practices, the managing director's contract provides for a termination benefit equal to one year's salary in the event that labour relations are terminated due to dismissal or changes of control. In addition, as is customary in such cases, as a result of this appointment as managing director, the existing employment contract has been suspended. Should the employment contract be terminated, he would accrue the remuneration due at the date of suspension as an indemnity. For this purpose, his tenure at the Company on the date he was appointed managing director (14 years) would be taken into consideration, in accordance with employment legislation in force.

In 2018 the managing director's remuneration is under the same terms as in 2017.

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 2018.

The total amounts accrued by the members of the Company's board of directors in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Total remuneration of the board of directors	2,485	2,448
Directors' remuneration in respect of executive duties ⁽¹⁾	838	838
Total	3,323	3,286

(1) Includes fixed and variable remuneration accrued during the year.

The rise in total remuneration of the board of directors compared with the prior year is essentially because in 2018 the board of directors comprised 12 members for the entire year, which was not the case in 2017, and also because in 2018 the coordinating independent director received the remuneration allocated to this position.

A breakdown of this remuneration by type of director at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Type of director:		
Executive directors	986	986
External proprietary directors	519	519
External independent directors	1272	1,235
Other external directors	546	546
Total remuneration	3,323	3,286

The remuneration accrued by individual members of the Company's board of directors in 2018 and 2017, by components and director, is as follows:

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In the event of discrepancy, the Spanish-language version prevails.)



	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chair of committee/board and coordinating independent director	Other remuneration ⁽⁸⁾	Total 2018	Total 2017
Thousands of Euros								
Mr. Jordi Sevilla Segura ⁽¹⁾	221	-	7	-	-	-	228	-
Mr. José Folgado Blanco ⁽²⁾	308	-	10	-	-	-	318	546
Mr. Juan Lasala Bernad	530	300	16	-	-	140	986	986
Ms. Carmen Gómez de Barreda Tous de Monsalve ⁽³⁾	131	-	16	28	17	-	192	190
Ms. María José García Beato	131	-	16	28	-	-	175	175
Ms. Socorro Fernández Larrea	131	-	16	28	-	-	175	175
Mr. Antonio Gómez Ciria	131	-	16	28	15	-	190	177
Mr. José Luis Feito Higuera	131	-	16	28	15	-	190	189
Mr. Arsenio Fernández de Mesa Díaz del Río	131	-	16	28	-	-	175	156
Mr. Alberto Carbajo Josa	131	-	16	28	-	-	175	129
Ms. Mercedes Real Rodríguez ⁽⁴⁾	131	-	16	28	-	-	175	32
Ms. María Teresa Costa Campi ⁽⁵⁾	35	-	5	3	-	-	43	-
Mr. Antonio Gómez Expósito ⁽⁵⁾	35	-	5	3	-	-	43	-
Mr. Fernando Fernández Méndez de Andés ⁽⁶⁾	96	-	12	21	-	-	129	175
Mr. Santiago Lanzuela Marina ⁽⁶⁾	96	-	12	21	-	-	129	175
Other board members ⁽⁷⁾	-	-	-	-	-	-	-	181
Total remuneration accrued	2,369	300	195	272	47	140	3,323	3,286

(1) New director since the board meeting held on 31 July 2018.

(2) Stepped down from the board of directors at the board meeting held on 31 July 2018.

(3) Appointed chairwoman of the Sustainability Committee on 27 November 2018.

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

(5) New director since the board meeting held on 25 September 2018.

(6) Stepped down from the board of directors at the board meeting held on 25 September 2018.

(7) Board members in 2017 who have stepped down from the board.

(8) Includes the employee benefits that form part of the managing director's remuneration.

Furthermore, as mentioned above, the indemnity accrued to Mr. José Folgado Blanco in 2016, amounting to Euros 718 thousand, was settled in full in 2018, once he had ceased to be a director of the Company.

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 compliance with the new Strategic Plan, in 2015 the Committee approved a directors' remuneration scheme for 2014-2019, which at the 2018 reporting date only applies to the managing director.

Fulfilment of this remuneration scheme, which forms part of the remuneration policy, will be based on achieving the targets set out in the Strategic Plan for this period and on meeting certain conditions. A minimum limit of 70% and maximum limit of 110% is established for evaluation of this scheme. Depending on the targets met, the total amount for the six-year period with 100% compliance would be 1.8 times the annual fixed remuneration. As in the case of annual targets, this scheme takes into account predetermined quantifiable and objective criteria, in line with the medium- and long-term outlook of the 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 2018.

At 31 December 2018 and 2017 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 2018 and 2017 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 Company directors. These policies cover the Company's directors and senior management and the premiums amount to Euros 60 thousand, inclusive of tax, in 2018 (Euros 62 thousand at 31 December 2017). 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 2018 and 2017 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 2018 the Company has no senior management personnel besides the managing director.

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

At 31 December 2018 and 2017 the Company, together with REE, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 430 million by the Group company RBV, and REF's Eurobonds programme for an amount of up to Euros 4,500 million.

Furthermore, at 31 December 2018 and 2017 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 2018 the Company has extended bank guarantees to third parties in an amount of Euros 3,537 thousand (Euros 1 thousand in 2017).

26. Environmental Information

At 31 December 2018 and 2017 the Company has no assets for the protection and improvement of the environment, nor has it incurred 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 2018 and 2017:

Thousands of Euros	2018	2017
Audit services	79	76
Audit-related services	23	15
Total	102	91

The amounts detailed in the above table include the total fees for services rendered in 2018 and 2017, irrespective of the date of invoice.

28. Share-based Payments

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. No Company shares were delivered to employees in 2017.

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 2018

On 12 February 2019, Abertis Infraestructuras, S.A. and Red Eléctrica Corporación, S.A. entered into an agreement for the latter to purchase Abertis' 89.68% stake in Hispasat, S.A. for Euros 949 million.

In accordance with applicable legislation, the parties must seek the pertinent authorisation for the transaction. This condition precedent, among others, must be fulfilled in order for the agreement signed by the two parties to come into effect. Once the conditions have been met, payment will be made for the transaction, and the acquiree is expected to be integrated into the financial statements of the Red Eléctrica Group effective 1 January 2019 for financial purposes.

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.



RED
ELÉCTRICA
CORPORACIÓN



Directors' Report

2018

(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 2018, the Company posted profit after tax of Euros 645.6 million, an increase of 2.9% compared to 2017. Details of the key components are as follows:

- Revenue amounted to Euros 651.3 million, up 3.2% on 2017. This figure includes Euros 634.2 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 651.5 million, climbing 3.6% vis-à-vis 2017.
- EBIT⁽²⁾ amounted to Euros 649.2 million, up 3.0% on 2017.

The dividends paid in 2018 amounted to Euros 495.1 million, which is 7% more than in 2017.

REC's equity was Euros 2,709.0 million, up 6.0% on 2017.

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 2.37% at the end of 2018.

At 31 December 2018, 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 2018 – the free float comprised 432,864,000 shares, of which an estimated 12% is held by non-controlling shareholders, 6% by Spanish institutional investors and 82% by foreign institutional investors, primarily in the United Kingdom and the United States.

In stock market performance, 2018 marked a turning point from the upward trend recorded in prior years. The main stock markets witnessed sharp drops, with slumps of around 6% in the US, 15% in Europe and Asia and, most notably, a 25% fall in the Shanghai Composite in China.

These figures reflect the worst equity market performance since the financial crisis. Trade tensions, rising concerns about economic growth, institutional challenges, particularly in Europe, and the difficulties of emerging economies, against a backdrop of monetary policy stimulus packages being withdrawn, have dragged on market performance.

Despite these circumstances, the price of REC shares rose by 4.2% in 2018, this upturn outperforming that of the majority of regulated European energy companies. The expectations surrounding a major investment plan during the second regulatory period to facilitate the energy transition, the progress towards setting the

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.



regulatory parameters for the following regulatory period as well as the Company's shareholder remuneration policy have received a warm welcome from the markets.

The market capitalisation of the Company at the end of 2018 was Euros 10,548 million.

In total, 493.6 million shares were traded on official secondary markets in 2018, which is 0.9 times the Company's share capital. Cash transactions amounted to Euros 8,735.3 million.

4. Own shares

In order to provide investors with adequate levels of liquidity the Company acquired 2,582,384 shares with a total par value of Euros 1.3 million and a cash value of Euros 44.6 million in 2018. A total of 2,998,028 shares were sold, with an overall par value of Euros 1.5 million and a cash value of Euros 55.1 million.

At 31 December 2018 the Company held 1,198,049 own shares, with a par value of Euros 0.50 per share, representing 0.22% of its share capital. These shares had an overall par value of Euros 0.6 million and an acquisition price of Euros 17.78 per share (see note 14 to the annual accounts) and a market value of Euros 23.4 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 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 main risks to which REC is exposed and that could affect achievement of its objectives are regulatory risk, inasmuch as the Group's principal business lines are subject to regulations, operational risk, primarily relating to electricity system servicing activities, financial risk and environmental risk.

The Comprehensive Risk Management Policy also covers financial risk management, as detailed in note 16 to the consolidated annual accounts.

6. Environment

At 31 December 2018, REC has no assets for the protection and improvement of the environment. In 2018 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

The Company applies the EFQM (European Foundation for Quality Management) Excellence Model as a tool for achieving ongoing improvements to its management. In order to determine its current level of excellence, external assessments are carried out every two years in order to identify areas of improvement, which are described in excellence plans. In 2018 the Company retained its European Seal of Excellence 500+, as awarded by the EFQM, following the external assessment carried out in 2017 with a rating of more than 700 points. As a result of this assessment, the 2018-2019 Excellence Plan, containing 49 improvement initiatives, was launched.

In 2018 Red Eléctrica was named “Ambassador of European Excellence” by Club Excelencia en la Gestión, the representative in Spain of the EFQM, for the level of excellence achieved.

Moreover, the Group’s quality system has been certified in accordance with international standard UNE-EN-ISO 9001, encompassing all processes at the organisation. This system was certified through an external audit in 2018. Such audits have been performed for all certified corporate management systems since 2012.

REC forms part of the most reputable sustainability indices, demonstrating its excellent work in this area and reflecting its bid for transparency in its reporting to third parties. The Group is listed in the Dow Jones Sustainability Index (DJSI), the FTSE4Good, the CDP, the Euronext Vigeo Eiris, the Ethibel and the MSCI benchmark indices.

9. 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.

This information is provided in note 19 to the Company's annual accounts.

10. Significant events occurring after the reporting period

On 12 February 2019, Abertis Infraestructuras, S.A. and Red Eléctrica Corporación, S.A. entered into an agreement for the latter to purchase Abertis’ 89.68% stake in Hispasat, S.A. for Euros 949 million.

In accordance with applicable legislation, the parties must seek the pertinent authorisation for the transaction. This condition precedent, among others, must be fulfilled in order for the agreement signed by the two parties to come into effect. Once the conditions have been met, payment will be made for the transaction, and the acquiree is expected to be integrated into the financial statements of the Red Eléctrica Group effective 1 January 2019 for financial purposes.

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.

11. Dividend policy

The dividends paid in 2018 amounted to Euros 495.1 million, 7% more than in 2017.



The board of directors has proposed a dividend of Euros 0.9831 per share with a charge to 2018 profit, pending approval by the shareholders at their general meeting, representing an increase of 7% on the prior year.

Based on the projections and estimates contained in the Group's 2014-2019 Strategic Plan, the dividend could grow at a rate of approximately 7%. This increase is considered as the average annual rate for the period covered by the Strategic Plan, on the basis of the total dividend approved with a charge to 2014. This forecast is subject to fulfilment of the Plan.

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

12. Outlook

As head of the Red Eléctrica Group, REC will keep working towards achieving the objectives laid out in its Strategic Plan. To this end, it will continue to provide support to the role of the Spanish TSO, while also reinforcing its efficiency criteria so as to adapt to the new, more stringent regulatory and remuneration environment, and placing greater emphasis on widening its business base as an alternative means of growth.

Implementation of the strategy, based on excellence, innovation and personal development, will allow the Group to maintain its current leadership in terms of the reliability and security of the electricity systems it operates and the excellent standards in other activities.

REC will uphold its commitment to maximise 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 business base, maintaining a robust capital structure and working to guarantee supply with a maximum 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.

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>