Red Eléctrica Corporación, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements

30 June 2017

Consolidated Interim Directors' Report

2017

(With Limited Review 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, 259 C
28046 Madrid

Limited Review Report on the Condensed Consolidated Interim Financial Statements

(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. commissioned by management:

Report on the Condensed Consolidated Interim Financial Statements

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Red Eléctrica Corporación, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the statement of financial position at 30 June 2017, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the explanatory notes for the six-month period then ended (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, pursuant to article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which under no circumstances can be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2017 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, pursuant to article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw your attention to the accompanying note 2.a, which states that these interim financial statements do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2016. This matter does not modify our conclusion.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2017 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The interim consolidated directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2017. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Red Eléctrica Corporación, S.A. and subsidiaries.

Paragraph on Other Matters

This report has been prepared at the request of Company management in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

Ana Fernández Poderós

27 July 2017

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 30 JUNE 2017 AND 31 DECEMBER 2016
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

ASSETS	30/06/2017	31/12/2016
Intangible assets (note 5)	141,372	134,572
Property, plant and equipment (note 5)	8,725,058	8,776,711
Investment property (note 5)	2,407	2,429
Equity-accounted investees (note 6)	184,294	200,757
Non-current financial assets (note 12)	96,838	111,861
Deferred tax assets (note 14)	28,639	28,903
Other non-current assets	790	1,532
NON-CURRENT ASSETS	**9,179,398**	**9,256,765**
Inventories (note 7)	53,232	39,467
Trade and other receivables (note 8)	1,026,395	962,122
Trade receivables	18,817	15,052
Other receivables	1,003,163	942,530
Current tax assets	4,415	4,540
Current financial assets (note 12)	53,008	40,575
Cash and cash equivalents	657,118	251,421
CURRENT ASSETS	**1,789,753**	**1,293,585**
TOTAL ASSETS	**10,969,151**	**10,550,350**

EQUITY AND LIABILITIES	30/06/2017	31/12/2016
Capital and reserves	**2,967,672**	**2,965,210**
Capital	270,540	270,540
Reserves	2,386,965	2,222,906
Own shares	(29,914)	(36,739)
Profit attributable to the Parent	340,081	636,920
Interim dividend	-	(128,417)
Valuation adjustments	**(52,969)**	**(62,156)**
Available-for-sale financial assets	18,789	16,125
Hedging transactions	(73,545)	(83,801)
Translation differences	1,787	5,520
EQUITY ATTRIBUTABLE TO THE PARENT	**2,914,703**	**2,903,054**
Non-controlling interests	**-**	**17,495**
TOTAL EQUITY (note 9)	**2,914,703**	**2,920,549**
Grants and other (note 10)	594,852	547,941
Non-current provisions	96,030	94,651
Non-current financial liabilities (note 12)	4,732,111	5,034,400
Loans and borrowings, bonds and other marketable securities	4,681,344	4,960,556
Other non-current financial liabilities	50,767	73,844
Deferred tax liabilities (note 14)	477,850	486,570
Other non-current liabilities	89,123	64,225
NON-CURRENT LIABILITIES	**5,989,966**	**6,227,787**
Current financial liabilities (note 12)	1,588,893	1,066,909
Loans and borrowings, bonds and other marketable securities	791,430	384,044
Other current financial liabilities	797,463	682,865
Trade and other payables (note 13)	475,589	335,105
Suppliers	366,479	301,271
Other payables	42,332	19,788
Current tax liabilities	66,778	14,046
CURRENT LIABILITIES	**2,064,482**	**1,402,014**
TOTAL EQUITY AND LIABILITIES	**10,969,151**	**10,550,350**

Notes 1 to 21 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED INCOME STATEMENTS
AT 30 JUNE 2017 AND 2016
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

CONSOLIDATED INCOME STATEMENTS	30/06/2017	30/06/2016
Revenue (note 15-a)	987,295	968,207
Self-constructed assets (note 5)	27,689	14,730
Supplies (note 15-c)	(23,792)	(21,201)
Other operating income (note 15-b)	10,963	3,648
Personnel expenses (note 15-d)	(72,824)	(71,365)
Other operating expenses (note 15-c)	(159,628)	(139,666)
Amortisation and depreciation (note 5)	(257,946)	(250,928)
Non-financial and other capital grants	11,682	10,462
Impairment and gains/(losses) on disposal of fixed assets	23	29
RESULTS FROM OPERATING ACTIVITIES	**523,462**	**513,916**
Finance income	5,849	6,340
Finance costs	(75,881)	(81,774)
Exchange gains/(losses)	78	(75)
Impairment and gains/(losses) on disposal of financial instruments	-	-
NET FINANCE COST	**(69,954)**	**(75,509)**
Share of profit/(loss) of equity-accounted investees	384	(1,719)
PROFIT BEFORE INCOME TAX	**453,892**	**436,688**
Income tax (note 15-f)	(113,811)	(112,240)
CONSOLIDATED PROFIT FOR THE PERIOD	**340,081**	**324,448**
A) CONSOLIDATED PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT	**340,081**	**323,499**
B) PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (note 2-e)	**-**	**949**

EARNINGS PER SHARE

Basic earnings per share (note 20)	**0.63**	**0.60**
Diluted earnings per share (note 20)	**0.63**	**0.60**

Notes 1 to 21 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
AT 30 JUNE 2017 AND 2016
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	**2017**	**2016**
A) CONSOLIDATED PROFIT FOR THE PERIOD	**340,081**	**324,448**
B) OTHER COMPREHENSIVE INCOME - ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:	**481**	**(3,369)**
1. Revaluation/(reversal) of PPE and intangible assets	-	-
2. Actuarial gains and losses	641	(4,491)
3. Share in other comprehensive income from investments in joint ventures and associates	-	-
4. Other income and expense that will not be reclassified to profit or loss	-	-
5. Tax effect	(160)	1,122
C) OTHER COMPREHENSIVE INCOME - ITEMS THAT COULD SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:	**9,187**	**(37,508)**
1. Available-for-sale financial assets:	**1,522**	**(6,648)**
a) Revaluation gains/(losses)	1,522	(6,648)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
2. Cash flow hedges:	**15,977**	**(46,059)**
a) Revaluation gains/(losses)	15,674	(46,650)
b) Amounts transferred to the income statement	303	591
c) Amounts transferred to initial value of hedged items	-	-
d) Other reclassifications	-	-
3. Translation differences:	**(5,004)**	**(2,379)**
a) Revaluation gains/(losses)	(5,004)	(2,379)
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
4. Share in other comprehensive income from investments in joint ventures and associates:	**(1,706)**	**3,440**
a) Revaluation gains/(losses)	(1,706)	3,440
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
5. Other income and expense that could subsequently be reclassified to profit or loss	-	-
a) Revaluation gains/(losses)	-	-
b) Amounts transferred to the income statement	-	-
c) Other reclassifications	-	-
6. Tax effect	**(1,602)**	**14,138**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (A + B + C)	**349,749**	**283,571**
a) Attributable to the Parent	349,749	282,857
b) Attributable to non-controlling interests	-	714

Notes 1 to 21 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AT 30 JUNE 2017 AND 2016
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	30/06/2017						
	Capital and reserves						
EQUITY	**Subscribed capital**	**Reserves (1)**	**Own shares**	**Profit attributable to the Parent**	**Valuation adjustments**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2017	**270,540**	**2,094,489**	**(36,739)**	**636,920**	**(62,156)**	**17,495**	**2,920,549**
I. Other consolidated comprehensive income	-	481	-	340,081	9,187	-	349,749
II. Transactions with shareholders or owners	-	(206,793)	6,825	(128,417)	-	-	(328,385)
- Distribution of dividends	-	(207,323)	-	(128,417)	-	-	(335,740)
- Transactions with own shares	-	530	6,825	-	-	-	7,355
III. Other changes in equity	-	498,788	-	(508,503)	-	(17,495)	(27,210)
Balances at 30 June 2017	**270,540**	**2,386,965**	**(29,914)**	**340,081**	**(52,969)**	**-**	**2,914,703**

	30/06/2016						
	Capital and reserves						
EQUITY	**Subscribed capital**	**Reserves (1)**	**Own shares**	**Profit attributable to the Parent**	**Valuation adjustments**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2016	**270,540**	**1,931,268**	**(33,076)**	**606,013**	**(29,482)**	**15,350**	**2,760,613**
I. Other consolidated comprehensive income	-	(3,369)	-	323,499	(37,273)	714	283,571
II. Transactions with shareholders or owners	-	(192,715)	5,314	(120,082)	-	-	(307,483)
- Distribution of dividends	-	(193,663)	-	(120,082)	-	-	(313,745)
- Transactions with own shares	-	948	5,314	-	-	-	6,262
III. Other changes in equity	-	485,447	-	(485,931)	-	-	(484)
Balances at 30 June 2016	**270,540**	**2,220,631**	**(27,762)**	**323,499**	**(66,755)**	**16,064**	**2,736,217**

(1) These include other reserves, prior periods' profit and loss and interim dividends.

Notes 1 to 21 and Appendix I form an integral part of these condensed consolidated interim financial statements.

RED ELÉCTRICA GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS
AT 30 JUNE 2017 AND 2016
IN THOUSANDS OF EUROS
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	30/06/2017	30/06/2016
CASH FLOWS FROM OPERATING ACTIVITIES	**592,109**	**447,078**
Profit before tax	**453,892**	**436,688**
Adjustments for:	**323,786**	**321,609**
Amortisation and depreciation (note 5)	257,946	250,928
Other adjustments (net)	65,840	70,681
Changes in operating assets and liabilities	**(9,558)**	**(151,188)**
Other cash flows used in operating activities:	**(176,011)**	**(160,031)**
Interest paid	(117,200)	(114,848)
Interest received	1,844	203
Dividends received	3,881	3,881
Income tax received/(paid)	(61,255)	(42,892)
Other proceeds from and payments for operating activities	(3,281)	(6,375)
CASH FLOWS USED IN INVESTING ACTIVITIES	**(262,766)**	**(477,794)**
Payments for investments	**(270,074)**	**(486,453)**
Property, plant and equipment, intangible assets and investment property	(228,944)	(162,300)
Other financial assets	(27,184)	(199,816)
Other assets	(13,946)	(124,337)
Proceeds from sale of investments	**847**	**518**
Property, plant and equipment, intangible assets and investment property	24	59
Other financial assets	823	459
Other cash flows from investing activities	**6,461**	**8,141**
Other proceeds from and payments for investing activities	6,461	8,141
CASH FLOWS FROM FINANCING ACTIVITIES	**78,129**	**114,286**
Proceeds from and payments for equity instruments	**7,355**	**6,261**
Acquisition	(14,351)	(63,163)
Disposal	21,706	69,424
Proceeds from and payments for financial liability instruments (note 12)	**210,336**	**236,923**
Issue and drawdowns	443,666	491,595
Redemption and repayment	(233,330)	(254,672)
Dividends and interest on other equity instruments paid (note 9)	**(128,417)**	**(120,082)**
Other cash flows used in financing activities	**(11,145)**	**(8,816)**
EFFECT OF EXCHANGE RATE FLUCTUATIONS	**(1,775)**	**(671)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**405,697**	**82,899**
Cash and cash equivalents at beginning of period	**251,421**	**386,861**
Cash and cash equivalents at period end	**657,118**	**469,760**

Notes 1 to 21 and Appendix I form an integral part of these condensed consolidated interim financial statements.

Red Eléctrica Group

Notes to the Consolidated Interim Financial Statements for the six-month period ended 30 June 2017

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

Contents

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 provides telecommunications services to third parties in Spain through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

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 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 PRESENTATION OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

a) General information

The accompanying consolidated interim financial statements 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 30 June 2017, as well as the consolidated results of operations and consolidated cash flows and changes in consolidated equity for the period then ended.

The accompanying consolidated interim financial statements, authorised for issue by the Company's directors at their board meeting held on 26 July 2017, 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 financial statements 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 interim financial statements of the Red Eléctrica Group for the six-month period ended 30 June 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting.

Pursuant to IAS 34, the interim financial reporting is only intended to provide an update on the content of the latest consolidated annual accounts drawn up by the Group, focusing on new activities, events and circumstances occurring during the six-month period, without repeating the information previously published in the consolidated annual accounts for 2016. Therefore, to enable an adequate understanding of the information disclosed in these consolidated interim financial statements, they should be read in conjunction with the consolidated annual accounts of the Group for the year ended 31 December 2016, which were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU) in force.

The Group has not omitted any mandatory accounting principle with a material effect on the consolidated interim financial statements.

The consolidated annual accounts for 2016 were approved by the shareholders at their general meeting held on 31 March 2017.

b) New IFRS-EU and IFRIC

These consolidated interim financial statements take into account the new standards and improvements to International Financial Reporting Standards published and effective as of 1 January 2017. These standards and improvements have not had a significant impact on the Group's financial statements.

The Group is currently analysing the impact on its financial statements of the new standards, improvements and interpretations that will come into force in future years; in particular IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases.

IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The actual impact on the consolidated financial statements for 2018 of adopting IFRS 9 is not known and cannot be estimated reliably, as this will depend on the financial instruments held by the Group and the economic conditions at that date, as well as the accounting choices and judgements the Group makes in the future. However, the Group has made a preliminary assessment of the possible impact of adopting IFRS 9 based on its positions at 31 December 2016 and the hedging relationships designated during 2016 under IAS 39. The main conclusions drawn are as follows:

- Classification of financial assets: IFRS 9 contains a new approach for the classification and measurement of financial assets that reflects the business model under which the assets are managed and their cash flow characteristics. IFRS 9 includes three main categories for the classification of financial assets: measured at amortised cost, at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL). The standard eliminates the categories of held to maturity, loans and receivables and available for sale that currently exist under IAS 39.

  Based on the preliminary assessment, the Group considers that if the new classification requirements were to be applied at 31 December 2016, they would not have a material impact on the trade receivables, loans, investments in debt instruments and investments in equity instruments recognised in its accounts and managed on a fair value basis. At 31 December 2016, the Group held equity investments classified as available for sale with a fair value of Euros 74 million, mostly reflecting the Group's 5% interest in the investee Redes Energéticas Nacionais, SGPS (hereinafter REN). The Group may choose to classify these as at FVOCI or FVTPL. The Group has not yet decided which alternative to use. In the first case, all fair value gains and losses would be reported through other comprehensive income, impairment losses would not be recognised in profit or loss, and gains or losses would not be reclassified to profit or loss upon disposal. In the second case, fair value gains and losses would be recognised in profit or loss as and when generated or incurred.

- Classification of financial liabilities: IFRS 9 largely maintains the existing requirements of IAS 39 as regards the classification of financial liabilities. The Group's preliminary assessment indicates that there would be no material impact if the requirements of IFRS 9 for the classification of financial liabilities were to be applied at 31 December 2016. However, the International Accounting Standards Board (hereinafter IASB) has yet to determine the application of IFRS 9 as regards financial liability restructuring transactions, and the Group has still to analyse this circumstance while awaiting a final decision from the IASB.
- 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. Given the high credit quality of the Group's financial assets, the impact is forecast to be minimal and in no case is the amount expected to be relevant.
- Hedge accounting. IFRS 9 requires the Group to ensure that the hedging relationships are aligned with the Group's objectives and risk management strategy, and to apply a more qualitative and forward-looking approach to assess the effectiveness of hedges. We therefore consider that IFRS 9 will demand greater alignment with the Group's risk management and a more qualitative-based approach than under IAS 39, although no relevant impact is expected on the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 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. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

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 is assessing the impact of applying this standard, although this analysis had not been completed at the date on which these consolidated interim financial statements were authorised for issue. However, based on its preliminary analysis, the Group considers that adopting IFRS 15 will not entail significant modifications to revenue recognition. The types of revenue and associated contracts on which the Group has focused its analysis, which represent approximately 99% of its revenue, include the following:

- 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 of Energy, Tourism and the Digital Agenda – MINETAD) 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, provides that the amount of remuneration receivable is to be set annually by MINETAD, at the proposal of the Spanish National Markets and Competition Commission (CNMC), and should cover the services the Company renders to the other electricity sector agents on an uninterrupted basis throughout the year.

- Revenue of international subsidiaries under concessions, representing 1% of the Group's revenue. Based on the analysis, the entry into force of the new standard is not expected to have an impact on the recognition of revenue of international subsidiaries under concessions.
- Revenue associated with the telecommunications business, representing 4% of the Group's revenue. No changes are expected to the recognition of revenue associated with the telecommunications business when the new IFRS comes into force.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases. IFRS 16 will come into force for annual periods beginning on or after 1 January 2019. This standard requires companies that are lessees to recognise assets and liabilities in the statement of financial position for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group is currently estimating the impact of this new standard, although the volume of contracts in which it is the lessee is not substantial and the changes introduced by IFRS 16 are therefore not expected to have a significant impact on the Group's financial statements.

c) Estimates and assumptions

The preparation of the consolidated interim financial statements 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 assumptions are based on past experience and other factors that are considered reasonable under the circumstances. Actual results could differ from these estimates.

d) Consolidation principles

The same consolidation principles have been used in these consolidated interim financial statements as in the consolidated annual accounts for 2016.

e) Changes in the consolidated Group

On 19 January 2017 the Group company Red Eléctrica Internacional, S.A.U. (REI) acquired 45% of the shares in REDESUR from the infrastructure investment fund AC Capitales. The Group thereby increased its ownership of this Peruvian company and the subsidiaries thereof to 100%. The effective date of this acquisition is 1 January 2017.

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 interim financial statements, as the Group already held a 100% interest in both of these companies.

3. INDUSTRY REGULATIONS

Spanish electricity sector

The electricity sector is regulated by Law 24/2013 of 26 December 2013, which repeals Law 54/1997, with the exception of some of the additional provisions.

The remuneration model for the transmission activity is regulated by Royal Decree 1047/2013 of 27 December 2013 setting forth the method for calculating the remuneration for electricity transmission activities, amended by Royal Decree 1073/2015 of 27 November 2015, which amends various provisions of the Royal Decrees that regulate electricity sector remuneration.

Royal Decree 1047/2013 repealed Royal Decrees 2819/1998 and 325/2008, which previously set the remuneration for the transmission activity.

Furthermore, Royal Decree 1047/2013 provides that the opening year of the first regulatory period shall be the year following that in which the ministerial orders stipulating the benchmark unit values for mainland and non-mainland transmission facilities are approved, and that the new remuneration model for the transmission activity shall apply as of that opening year.

These unit values were approved at the end of 2015 by Ministry of Industry, Energy and Tourism Order IET/2659/2015, and therefore the first regulatory period to which the new remuneration model applies runs from 1 January 2016 to 31 December 2019.

The final remuneration for 2016 for companies that own electricity transmission facilities was stipulated in Ministry of Industry, Energy and Tourism Order IET/981/2016 of 15 June 2016 setting forth the remuneration for 2016 for companies that own electricity transmission facilities, and was calculated on the basis of the method regulated under Royal Decree 1047/2013.

In 2017, remuneration for the transmission activity has provisionally been set by Ministry of Energy, Tourism and the Digital Agenda Order ETU/1976/2016 of 23 December 2016.

At 30 June 2017 the remuneration model for the system operation activity has yet to be established.

International electricity sector

There have been no significant legislative developments since the publication of the annual accounts at 31 December 2016.

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.

4. SIGNIFICANT ACCOUNTING PRINCIPLES

The same accounting principles have been used in these consolidated interim financial statements as in the consolidated annual accounts for 2016, with the exception of those arising from the new IFRS-EU (see note 2-b), which have not had a significant impact on the consolidated interim financial statements.

5. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Intangible assets, property, plant and equipment and investment property increased by Euros 213,071 thousand in the first half of 2017.

Amortisation and depreciation in the six-month period ended 30 June 2017 amounted to Euros 257,946 thousand (Euros 250,928 thousand in the six-month period ended 30 June 2016).

Operating expenses capitalised in the first half of 2017 totalled Euros 27,689 thousand (Euros 14,730 thousand in the first half of 2016).

Borrowing costs capitalised in the first half of 2017 amounted to Euros 2,771 thousand (Euros 3,941 thousand in the first half of 2016).

6. EQUITY-ACCOUNTED INVESTEES

Movement during the period is as follows:

(Thousands of Euros)	31 December 2016	Share of profit of equity-accounted investees	Translation differences	Valuation adjustments	30 June 2017
Transmisora Eléctrica del Norte S.A. (TEN)	200,757	384	(15,121)	(1,726)	184,294
	----------	----------	----------	----------	----------
	200,757	384	(15,121)	(1,726)	184,294
	======	======	======	======	======

7. INVENTORIES

Details of inventories at 30 June 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	30 June 2017	31 December 2016
Inventories	79,785	65,545
Impairment	(26,553)	(26,078)
	---------	---------
	53,232	39,467
	======	======

Inventories primarily comprise the equipment, materials and spare parts used in the maintenance of electricity transmission facilities.

8. TRADE AND OTHER RECEIVABLES

Details of trade and other receivables at 30 June 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	30 June 2017	31 December 2016
Trade receivables	18,817	15,052
Other receivables	1,003,163	943,376
Current tax assets	4,415	3,694
	-----------	-----------
	1,026,395	962,122
	=======	=======

Other receivables mostly reflect amounts pending invoicing and/or collection for regulated transmission and system operation activities.

9. EQUITY

Capital risk management

The Group's capital management is aimed at safeguarding its capacity to ensure that the Group companies 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, in thousands of Euros, is calculated as follows:

	Thousands of Euros	
	30 June 2017	31 December 2016
Non-current payables	4,681,344	4,960,556
Current payables	743,317	294,051
Foreign currency derivatives	(23,821)	(53,730)
Cash and cash equivalents	(657,118)	(251,421)
Net financial debt	4,743,722	4,949,456
Equity	2,914,703	2,920,549
Gearing ratio	61.9%	62.9%

During the first half of 2017 the rating agency Standard & Poor's maintained the Company's long-term rating of 'A-'. The rating agency Fitch Ratings also maintained the Company's classification, in this case a long-term rating of 'A' with a stable outlook.

Equity attributable to the Parent

- **Capital and reserves**
  - **Share capital**

    At 30 June 2017 the Parent'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).

    Electricity Industry Law 24/2013 of 26 December 2013 expressly repealed the previous Electricity Industry Law 54/1997 of 27 November 1997, with the exception of certain provisions, including additional provision twenty-three regulating the limits on shareholdings in Red Eléctrica Corporación, S.A. Pursuant to this provision, 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 Company charged with system operations 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. 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 30 June 2017 SEPI holds a 20% interest in the Company's share capital.

- **Reserves**

  This item includes:

  - **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. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 30 June 2017 the legal reserve amounts to Euros 54,199 thousand, which exceeds 20% of share capital.

  - **Other reserves**

  This heading includes voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves, all of which are freely distributable. At 30 June 2017 these reserves amount to Euros 2,332,766 thousand.

- **Own shares**

  At 30 June 2017 the Parent held 1,614,492 own shares representing 0.3% of its share capital, with a total par value of Euros 807 thousand and an average acquisition price of Euros 18.53 per share.

  These shares have been recognised as a reduction in the Group's equity in an amount of Euros 29,914 thousand at 30 June 2017.

  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.

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

  Dividends paid in the first half of 2017 and 2016, in thousands of Euros, are as follows:

	Current period			Prior period (*)		
	% of par value	Euros per share	Amount (Thousands of Euros)	% of par value	Euros per share	Amount (Thousands of Euros)
Ordinary shares	47.64%	0.2382	128,417	44.53%	0.2227	120,082
	---------	---------	---------	---------	---------	---------
Total dividends paid	47.64%	0.2382	128,417	44.53%	0.2227	120,082
	=====	=====	=====	=====	=====	=====
Dividends charged to profit	47.64%	0.2382	128,417	44.53%	0.2227	120,082
	=====	=====	=====	=====	=====	=====

(*) For the purpose of comparing Euros per share in the two periods, data on Euros per share in 2016 are presented on a like-for-like basis in relation to the split performed in July 2016.

At their general meeting held on 31 March 2017, the shareholders approved the supplementary dividend for 2016 of Euros 0.6205 per share, resulting in a total gross dividend of Euros 0.8587 per share for that year. The supplementary dividend was paid on 3 July 2017.

- **Valuation adjustments**

This item essentially comprises valuation adjustments to available-for-sale financial assets (less the effect of impairment recognised in the income statement), derivative financial instruments, and valuation adjustments due to exchange differences at foreign subsidiaries.

At 30 June 2017 this item reflects a negative balance of Euros -52,969 thousand, primarily comprising negative valuation adjustments to hedges, partly offset by positive valuation adjustments to available-for-sale financial assets arising from fluctuations in the listed share price of the Portuguese company REN, in which the Company holds a 5% interest.

Non-controlling interests

The Group has no non-controlling interests following its acquisition, in January, of the 45% of REDESUR it did not already hold.

10. GRANTS AND OTHER

Additions in the first half of 2017 essentially reflect facilities assigned to the Group, for which the related costs were borne by third parties.

11. 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.

The Group has maintained the principal guidelines that comprise this policy, a summary of which 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.

At 30 June 2017, there have been no significant changes in the financial risk management policy since the previous reporting date.

In 2017 there have been no major changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

No financial assets have been reclassified in 2017.

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

Details of the Red Eléctrica Group's current and non-current financial assets at 30 June 2017 and 31 December 2016, in thousands of Euros, are as follows:

	30.06.2017			
	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivatives	Total
Equity instruments	75,109	-	-	75,109
Derivatives	-	-	12,861	12,861
Other financial assets	-	8,868	-	8,868
	----------	----------	----------	----------
Non-current	75,109	8,868	12,861	96,838
	======	======	======	======
Derivatives	-	-	-	-
Other financial assets	-	53,008	-	53,008
	----------	----------	----------	----------
Current	-	53,008	-	53,008
	======	======	======	======
Total	75,109	61,876	12,861	149,846
	======	======	======	======

	31.12.2016			
	Available-for-sale financial assets	Loans and receivables (1)	Hedging derivatives	Total
Equity instruments	74,288	-	-	74,288
Derivatives	-	-	28,742	28,742
Other financial assets	-	8,831	-	8,831
	======	======	======	======
Non-current	74,288	8,831	28,742	111,861
	======	======	======	======
Derivatives	-	-	-	-
Other financial assets	-	40,575	-	40,575
	----------	----------	----------	----------
Current	-	40,575	-	40,575
	======	======	======	======
Total	74,288	49,406	28,742	152,436
	======	======	======	======

(1) Excluding trade receivables

Equity instruments essentially comprise the 5% interest held by the Parent in REN, the holding company for the operation and exploitation of electricity transmission assets and various gas infrastructure in Portugal. At 30 June 2017 this investment amounts to Euros 73,559 thousand.

This interest was acquired in 2007 for Euros 98,822 thousand. The value of the investment is subject to the listed share price. In 2017 this investment has been restated and the corresponding valuation adjustment has been recognised directly in the Group's equity.

At 30 June 2017 equity instruments also comprise the investment in economic interest groups (EIGs), amounting to Euros 1,064 thousand (Euros 1,765 thousand at 31 December 2016). 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 Company recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income reflecting the difference compared to income tax payable to the taxation authorities.

Other current financial assets essentially include the Euros 45,189 thousand current loan extended in 2017 to the Chilean company Transmisora Eléctrica del Norte, S.A. (hereinafter TEN), and the related Euros 68 thousand interest receivable thereon.

Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 30 June 2017 and 31 December 2016 are as follows:

	30.06.2017			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	73,559	-	1,550	75,109
Derivatives	-	12,861	-	12,861
Other financial assets	-	-	61,876	61,876

	31.12.2016			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	72,037	-	2,251	74,288
Derivatives	-	28,742	-	28,742
Other financial assets	-	-	49,406	49,406

Level 1 equity instruments reflect the 5% interest held by the Group in the listed company REN. Level 2 essentially comprises foreign currency and interest rate derivatives. Level 3 mainly refers to investments in economic interest groups, the loan extended to TEN and security and other deposits provided by the Group. There are no significant differences between the fair value and the carrying amount at 30 June 2017 and 31 December 2016.

Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities at 30 June 2017 and 31 December 2016, in thousands of Euros, are as follows:

The carrying amount and fair value of loans and borrowings and issues of bonds and other marketable securities at 30 June 2017 and 31 December 2016 are as follows:

	Carrying amount Thousands of Euros		Fair value Thousands of Euros	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Issues in Euros	3,181,423	3,180,848	3,435,772	3,445,378
Issues in US Dollars	467,338	506,232	564,510	601,740
Bank borrowings in Euros	1,701,242	1,527,879	1,722,951	1,551,109
Bank borrowings in foreign currency	74,658	39,648	74,489	39,647
Total	5,424,661	5,254,607	5,797,722	5,637,874

Movement in issues, repurchases or repayments of debt securities in the six-month periods ended 30 June 2017 and 2016, expressed in thousands of Euros, is as follows:

	Current period				
	Opening outstanding balance 31/12/2016	Issues	Repurchases or repayments	Exchange rate and other adjustments	Closing outstanding balance 30/06/2017
Debt securities issued in an EU member state requiring a prospectus to be filed	3,180,848	200,000	(200,070)	645	3,181,423
Debt securities issued in an EU member state not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	506,232	-	(1,915)	(36,979)	467,338
Total	3,687,080	200,000	(201,985)	(36,334)	3,648,761

	Prior period				
	Opening outstanding balance 31/12/2015	Issues	Repurchases or repayments	Exchange rate and other adjustments	Closing outstanding balance 30/06/2016
Debt securities issued in an EU member state requiring a prospectus to be filed	2,998,351	297,984	-	2,425	3,298,760
Debt securities issued in an EU member state not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	493,684	-	(884)	(10,396)	482,404
Total	3,492,035	297,984	(884)	(7,971)	3,781,164

The outstanding balance at 30 June 2017 and 2016 of debt securities requiring a prospectus to be filed relates to issues registered in Dublin and Luxembourg.

At 30 June 2017 issues reflect the Eurobonds issued by Red Eléctrica Financiaciones totalling Euros 200,000 thousand, with a maturity of nine years and an issue price of 99.454%.

Repurchases or repayments at 30 June 2017 comprise the reimbursement of the promissory notes issued on the Euromarket by Red Eléctrica Financiaciones, S.A.U. (hereinafter REF) as part of the “Euro Commercial Paper Programme” (ECP Programme).

At 30 June 2017 the accrued interest payable on these issues amounts to Euros 36,086 thousand (Euros 44,143 thousand in the first half of 2016).

The fair value of all loans and borrowings and issues of bonds and other marketable securities has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date.

Details of the Group's financial liabilities measured at fair value using the inputs defined for this calculation at 30 June 2017 and 31 December 2016 are as follows:

	30.06.2017			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	50,543	-	50,543
Other financial liabilities	-	-	12,132	12,132

	31.12.2016			
	Level 1	Level 2	Level 3	Total balance
Derivatives	-	73,620	-	73,620
Other financial liabilities	-	-	39,620	39,620

Level 2 comprises foreign currency and interest rate derivatives. Level 3 comprises security deposits extended to the Group. There are no significant differences between the fair value and the carrying amount at 30 June 2017 and 31 December 2016. Assets at amortised cost are not disclosed by fair value hierarchy level.

13. TRADE AND OTHER PAYABLES

Details at 30 June 2017 and 31 December 2016 are as follows:

	Thousands of Euros	
	30 June 2017	31 December 2016
Suppliers	366,479	301,271
Other payables	42,332	19,788
Current tax liabilities	66,778	14,046
	----------	----------
	475,589	335,105
	======	======

Suppliers essentially reflect payables arising from engineering, construction and maintenance work and modifications to electricity facilities, as well as balances pending settlement in relation to the Spanish electricity system for the activities carried out.

Other payables in 2017 and 2016 basically comprise balances vis-à-vis public entities, for the most part value added tax (VAT).

14. DEFERRED TAX ASSETS AND LIABILITIES

The balance of deferred taxes is as follows:

	Thousands of Euros	
	30 June 2017	31 December 2016
Deferred tax assets	28,639	28,903
Deferred tax liabilities	(426,793)	(486,570)
	-----------	-----------
	(398,154)	(457,667)
	=======	=======

No significant movements were recorded in deferred tax assets and liabilities in the first half of 2017. At 30 June 2017 and 2016 deferred tax liabilities mainly arise from accelerated depreciation for tax purposes of certain fixed assets.

15. INCOME AND EXPENSES

a) Revenue

Details at 30 June 2017 and 2016, by geographical area, are as follows:

	Thousands of Euros	
	Current period	Prior period
Domestic market	965,697	946,338
International market	21,598	21,869
a) European Union	10,057	9,915
b) OECD countries	-	-
c) Other countries	11,541	11,954
	-------------	-------------
TOTAL	987,295	968,207
	========	========

Domestic market essentially includes the revenue from transmission and electricity system operation services in Spain, which is set by the Ministry of Energy, Tourism and the Digital Agenda (MINETAD). This item also includes revenue from telecommunications services.

International markets primarily include revenue from reinsurance services, and revenue from electricity transmission services rendered in Peru by the Peruvian Group companies REDESUR and TESUR.

b) Other operating income

This item mostly includes insurance payouts for accidents and breakdowns covered by the policies arranged, other non-trading income, and government operating grants taken to the income statement.

c) Supplies and other operating expenses

Details at 30 June 2017 and 2016, in thousands of Euros, are as follows:

	Thousands of Euros	
	30 June 2017	30 June 2016
Supplies	23,792	21,201
Other operating expenses	159,628	139,666
	------------	------------
	183,420	160,867
	=======	=======

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

d) Personnel expenses

Details at 30 June 2017 and 2016 are as follows:

	Thousands of Euros	
	30 June 2017	30 June 2016
Salaries, wages and other remuneration	55,835	55,319
Social Security	12,146	11,697
Contributions to pension funds and similar obligations	1,018	974
Other items and employee benefits	3,825	3,375
	----------	----------
	72,824	71,365
	======	======

Workforce

The distribution by gender of the average workforce of the Parent and the Red Eléctrica Group for the six-month periods ended 30 June 2017 and 2016 is as follows:

	Red Eléctrica Group		Red Eléctrica Corporación S.A.	
	Current period	Prior period	Current period	Prior period
Male	1,364	1,352	2	2
Female	421	410	5	5
	-----------	-----------	-----------	-----------
	1,785	1,762	7	7
	=======	=======	=======	=======

e) Income tax

The tax rate was 25.1%, compared to 25.7% in the prior period.

16. TRANSACTIONS WITH ASSOCIATES AND RELATED PARTIES

Related party transactions are carried out under normal market conditions. Details in thousands of Euros are as follows:

	30/06/2017				
EXPENSES AND INCOME:	Significant shareholders	Directors and senior management	Group employees, companies or entities	Other related parties	Total
Leases	-	-	2	-	2
Services received	-	-	-	58	58
Other expenses	-	-	-	6,219	6,219
EXPENSES	-	-	2	6,277	6,279
Finance income	-	-	744	-	744
INCOME	-	-	744	-	744
OTHER TRANSACTIONS:					
Financing agreements, loans and capital contributions (lender)	-	-	45,257	-	45,257
OTHER TRANSACTIONS	-	-	45,257	-	45,257

	31/12/2016				
EXPENSES AND INCOME:	Significant shareholders	Directors and senior management	Group employees, companies or entities	Other related parties	Total
Leases	-	-	2	-	2
Services received	-	-	-	126	126
Other expenses	-	-	-	16,436	16,436
EXPENSES	-	-	2	16,562	16,564
Finance income	-	-	4,389	66	4,455
Other income	-	-	-	-	-
INCOME	-	-	4,389	66	4,455
OTHER TRANSACTIONS:					
Financing agreements, loans and capital contributions (lender)	-	-	32,172	-	32,172
OTHER TRANSACTIONS	-	-	32,172	-	32,172

Expenses, income and other transactions with Group employees, companies or entities reflect those conducted with the Group Company TEN.

17. REMUNERATION OF THE BOARD OF DIRECTORS

At their meeting on 22 February 2017, the Company's directors approved the remuneration of the board of directors for 2017, 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 remuneration policy for directors and the annual remuneration report were subsequently submitted for the approval of the shareholders at their general meeting on 31 March 2017.

On 17 July 2015, at their extraordinary general meeting, the shareholders approved the appointment of Mr. Juan Lasala Bernad as executive director of the Company for a period of four years, as stipulated in the articles of association. At its meeting on 28 July 2015, the board of directors unanimously approved the appointment and agreed to jointly and unselectively delegate thereto all of the board of directors' powers that may be delegated pursuant to the law and the articles of association.

For the purpose of disclosing the remuneration of the chairman and that of the managing director, 2016 was divided into two periods based on certain corporate milestones linked to the gradual transfer of executive duties from the former to the latter, culminating in the complete transfer of those duties at the ordinary general shareholders meeting on 15 April 2016:

- From 1 January 2016 to the date of the ordinary general shareholders meeting, whereupon the transitional period for the transfer of all executive duties to the managing director ended. The remuneration policy for this period followed the principles and criteria set forth in the remuneration policy for directors approved by the shareholders at their ordinary general meeting in 2015, and observed the agreements adopted by the shareholders at their extraordinary general meeting in 2015.
- The chairman of the board of directors ceased performing executive duties as of the date of the ordinary general shareholders meeting in 2016, and since that date all executive duties have been performed by the managing director. During this period the remuneration policy was adapted to the criteria approved by the shareholders at their general meeting in 2016.

Since 15 April 2016, the date of the general shareholders meeting, the chairman's remuneration has comprised a fixed annual amount for his duties as the Company's non-executive chairman, and the aforementioned remuneration as a member of the board of directors. From that date onwards, the remuneration scheme for this position consists solely of fixed components, with no annual or multi-year variable remuneration. In 2017 remuneration is under the same terms as in 2016.

The chairman's contract was proposed by the Corporate Responsibility and Governance Committee (currently the Appointments and Remuneration Committee) and approved by the Company's board of directors in March 2012. At the proposal of the Appointments and Remuneration Committee, and with the approval of the board of directors on 23 February 2016, this contract was amended to reflect the new conditions as non-executive chairman of the Company. Furthermore, at the end of the transitional period as executive chairman, the chairman had accrued an indemnity corresponding to one year's remuneration as executive chairman, as stipulated in the contract. This indemnity will be payable once the chairman ceases to be a board member of the Company.

Since the general shareholders meeting held on 15 April 2016, the remuneration of the managing director has also been reviewed, such that it is commensurate with having assumed all executive duties of the Company, as approved by the shareholders at their general meetings on 17 July 2015 and 15 April 2016. The managing director's remuneration 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.

The managing director's contract was proposed by the Appointments and Remuneration Committee and approved by the Company's board of directors on 28 July 2015. At the proposal of the Appointments and Remuneration Committee, and with the approval of the board of directors on 23 February 2016, this contract was amended, in accordance with the remunerations policy, to reflect the new conditions after taking on all executive duties.

Pursuant to the remunerations policy and in line with standard market practices, this contract provides for termination benefits 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 prevailing employment legislation.

Annual variable remuneration 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.

At the proposal of the Appointments and Remuneration Committee, at the meeting held on 22 February 2017 the board of directors approved the inclusion of the managing director in a defined contribution benefit scheme, effective 1 January 2017. 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, accrual of which commenced on 1 January 2017. The other components of the managing director's remuneration in 2017 remained under the terms approved by the shareholders at their general meeting in 2016.

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 2017.

The total amounts accrued by the members of the Parent's board of directors for the six-month periods up to 30 June 2017 and 2016 are as follows:

		30/06/2017	30/06/2016
Total remuneration of the board of directors		1,226	1,128
Directors' remuneration in respect of executive duties (1)		419	428
		---------	---------
	Total	1,645	1,556
		======	======

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

The rise in total remuneration of the board of directors compared with the prior period is essentially due to the inclusion of the chairman's remuneration during the six-month period of 2017, inasmuch as during the period from 1 January to 14 April 2016, the date on which the managing director took up full executive duties, the chairman's remuneration was included in directors' remuneration in respect of executive duties.

The remuneration accrued by the members of the Company's board of directors at 30 June 2017 and 2016, in thousands of Euros, and broken down by components, is as follows:

	30/06/2017	30/06/2016
Remuneration:		
Fixed remuneration	1,173	1,136
Variable remuneration	150	131
Allowances	108	108
Committee work (*)	144	151
Other remuneration	70	30
	---------	---------
Total remuneration	1,645	1,556
	======	======

(*) This includes the remuneration of the chairs of the committees and the coordinating independent director.

The increase in both fixed and variable remuneration is primarily because in 2017 the total remuneration for full executive duties taken up by the managing director has been allocated, whereas in 2016 the full amount of remuneration only applied as of 14 April. Moreover, the increase in other remuneration reflects the accrual of the Company's obligation to contribute to the defined contribution benefit scheme for the managing director.

In 2016 the chairman and managing director were beneficiaries of a life insurance policy with an aggregate annual premium of Euros 12 thousand, which expired on 31 December 2016. The cost of life insurance is not borne by the Company in 2017. The managing director bears the cost of the life insurance policy, with a charge to his remuneration (within other remuneration).

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. This scheme includes the chairman and managing director, although in the case of the chairman the remuneration is only applicable up to 28 July 2015, the date on which the managing director was appointed. As the chairman was no longer included in this scheme, in 2016 he was paid Euros 188 thousand for the period it was applicable and no further amounts were accrued in this respect from the aforementioned date onwards.

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 Company's financial statements include a provision for accrual of this plan at June 2017.

At 30 June 2017 and 2016 no loans or advances have been extended to the members of the board of directors, nor have any guarantees been granted 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 30 June 2017 and 2016 the Group has taken out civil liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as Group directors. The policies cover the Group's directors and senior management. The annual cost of these policies, including tax thereon, for the 2017 and 2016 full years is Euros 145 thousand and Euros 144 thousand, respectively. 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 2017 and 2016 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.

18. REMUNERATION OF SENIOR MANAGEMENT

In the six-month period ended 30 June 2017, total remuneration accrued by senior management personnel amounted to Euros 326 thousand (Euros 383 thousand in 2016) and is recognised as personnel expenses in the consolidated income statement. These amounts include the annual variable remuneration accrued on a straight-line basis, on the assumption that the objectives set each for each period were 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.

At 30 June 2017 and 2016, the senior management personnel who have rendered services for the Group are as follows:

Name	Position
Carlos Collantes Pérez - Ardá	General Manager of Transmission (1)
Eva Pagán Díaz	General Manager of Transmission
Miguel Duvison García	General Manager of Operations

(1) Position held until 26 November 2015. He held the position of Assistant General Manager from that date until 31 March 2016, whereupon he left the Group.

Euros 6 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 8 thousand in 2016).

No advances or loans have been extended to these senior managers at 30 June 2017 and 2016.

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.

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 Group's financial statements include a provision for accrual of this plan at June 2017.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses, in the event of dismissal. Were the employment relationship to be 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 render services in the Group as at 30 June 2017 are included in the Structural Management Plan implemented by the Company in 2015.

At 30 June 2017 and 2016 the Group has taken out civil 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. The policies cover all of the Group's directors and senior management. The annual cost of these policies, including tax thereon, for the 2017 and 2016 full years is Euros 145 thousand and Euros 144 thousand, respectively. 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 2016 expenses of Euros 823 thousand were recognised in relation to a senior manager leaving the Group.

19. SEGMENT REPORTING

The Red Eléctrica Group's principal activity is electricity transmission and system operation in Spain via Red Eléctrica de España, S.A.U., which generates 93% of consolidated revenues and represents 90% of the Group's total assets. Other activities together account for the remaining 7% of revenues and 10% of total assets. Consequently, the Group did not consider it necessary to provide information by activity or geographical segment.

20. EARNINGS PER SHARE

Details of earnings per share in the first half of 2017 and 2016 are as follows:

	Current period	Prior period
Net profit (thousands of Euros)	340,081	323,499
Number of shares (*)	541,080,000	541,080,000
Average number of own shares (*)	1,971,951	2,089,048
Basic earnings per share (Euros) (*)	0.63	0.60
Diluted earnings per share (Euros) (*)	0.63	0.60
	539,108,049	134,747,738

(*) For the purpose of comparing the two periods, data on Euros per share in 2016 are presented on a like-for-like basis in relation to the split performed in 2016.

At 30 June 2017 and 2016 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

21. EVENTS AFTER 30 JUNE 2017

No significant events have occurred between the reporting date and the date on which these consolidated interim financial statements were authorised for issue.

APPENDIX I

RED ELÉCTRICA GROUP
Details of equity investments at 30 June 2017

RED ELÉCTRICA GROUP
Details of equity investments at 30 June 2017
(Expressed in thousands of Euros)

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

Company - Registered office - Principal activity	2017 Percentage ownership (1) Direct	 Indirect
Red Eléctrica Corporación S.A., Parent, incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Management of the business Group; rendering of assistance or support services to investees and operation of the property owned by the Company.		
A) Fully consolidated subsidiaries		
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission, operation of the Spanish electricity system and management of the transmission network.	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - International investments. Rendering of advisory, engineering and construction services. - Performance of electricity activities outside the Spanish electricity system.	100%	-
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%	-
Red Eléctrica Infraestructuras en 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%	-
Red Eléctrica de España Finance, B.V. (RBV) - Hoogoorddreef 15. Amsterdam (Netherlands). - Financing activities.	100%	-
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-
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%	-
Red Eléctrica Andina, S.A. (REA) - Av. Alfonso Ugarte Nº 536 Cercado. Arequipa (Peru). - Rendering of line and substation maintenance services.	-	100%(a)
Red Eléctrica del Sur, S.A. (REDESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100% (a)
Transmisora Eléctrica del Sur , S.A. (TESUR) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100% (b)
Transmisora Eléctrica del Sur 2 , S.A. (TESUR 2) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks		100% (b)
Transmisora Eléctrica del Sur 3 , S.A. (TESUR 3) - Juan de la Fuente, 453. Lima (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks	-	100% (b)
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)
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%(c)
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)

(1) Equivalent to voting rights.

(a) Investment through Red Eléctrica Internacional, S.A.U.
(b) Investment through REDESUR
(c) Investment through Red Eléctrica de España, S.A.U.
(d) Investment through Red Eléctrica Chile

Red Eléctrica Group

Consolidated Interim Directors' Report for the six-month period ended 30 June 2017

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

Contents

CONSOLIDATED DIRECTORS' REPORT

1 SIGNIFICANT EVENTS DURING THE PERIOD

ACTIVITIES IN SPAIN

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

The investments carried out by the Red Eléctrica Group in Spain up to June 2017 amounted to Euros 156 million, of which Euros 144.5 million was used to develop the national transmission network.

The most notable facility that entered into service during the first half of 2017 was the 550 MVA phase-shifting transformer for the 220 kV interconnection between the substations of Arkale (Oyarzun, Guipúzcoa) and Argia (France). Commissioned on 30 June, this phase-shifting transformer acts as a power limiter that will allow for part of the energy to be routed through other less congested lines. This facility will be a key component in increasing the exchange capacity with Europe and improving security of supply. As such, it has been declared a Project of Common Interest by the European Union as it will increase security of supply and reinforce the international electricity exchanges with southwest Europe, which will be essential in ensuring a greater use of renewable energies and for the creation of a single European energy market.

Mainland electricity system

The most notable events in the first half of 2017 were as follows:

Mainland energy demand amounted to 125,048 GWh, up 1.1% on the first half of 2016. Adjusted for calendar effects and temperatures, the increase was 1.5%.

Demand for hourly average power and daily electricity peaked on 18 January at 41,015MW and 838GWh, respectively, up 7.3% and 7.2% on the maximum levels recorded in the first half of 2016.

Notably, 37.6% of demand was covered with renewable power generation, 12.8 percentage points down on the same period in 2016.

Maximum instantaneous power and daily electricity from wind power were recorded on 28 February and 5 February, respectively, at 15,829MW and 315GWh, down 9.6% and 14.0% on the maximum levels recorded in the first half of 2016.

As in the prior year, international electricity exchanges resulted in a net import balance, reaching 5,074GWh in the first half of 2017, 36.3% more than in the same period in 2016.

The performance of REE's mainland transmission grid has once again been excellent, with provisional total availability of the grid to June at 98.45%, close to the 98.51% achieved in the same period of the prior year. The continuity of supply indicators were below the thresholds set out in Royal Decree 1955/2000, with an accumulated ENS (energy not supplied) and AIT (average interruption time) to June 2017 of 32.48 MWh and 0.068 minutes, respectively (6.50 MWh and 0.014 minutes in 2016), highlighting the continuing high degree of the security and quality of supply provided by Red Eléctrica facilities.

Non-mainland electricity systems

Within the Balearic Islands system, demand to June 2017 was up 3.0% on the same period of the prior year. The contribution in terms of temperatures has had a positive impact of 1.6% on demand.

The 250 kV Morvedre-Santa-Ponsa HDVC link-up has continued to contribute towards the security and quality of supply. Electricity from the mainland covered 17.6% of the demand in this system (22.6% in 2016).

Demand in the Canary Island system was up 2.2% in the first half of 2017 compared to the same period of the prior year. Moreover, accumulated renewable power generation (wind, photovoltaic, other renewables and wind-hydro power) accounted for 7.2% of total output in the first half of 2017 (8.7% in 2016).

Other activities in Spain

The telecommunications activities conducted by the Red Eléctrica Group are centred on the commercial operation of the surplus capacity of the fibre optic networks and infrastructure associated with REE's electricity transmission network and, as of November 2014, the railway network, following the award of the 20-year concession for the rights to use and operate the fibre optic network not used for railway services, and related infrastructure, owned by Adif-Alta Velocidad. These activities are carried out through the wholly-owned subsidiary Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL).

REINTEL is a neutral provider of telecommunications infrastructure. Its principal activity is leasing dark fibre and associated infrastructure. REINTEL has a fibre optic network in excess of 33,000 km rolled out over the electricity transmission network and the railway network and its main customers are telecommunications operators present in Spain.

Throughout the first half of 2017, the company continued to implement its commercial plan as a telecommunications infrastructure supplier and to undertake investments where requested by customers, thereby generating greater revenues from the lease of dark fibre optic infrastructure to agents in the telecommunications sector. The company has also implemented its plan for 2017 to interconnect the electrical fibre network and the railway network, with the aim of offering new solutions to its customers.

The company has improved its economic results by 15% by reducing debt whilst maintaining revenues in line with those of the prior period.

INTERNATIONAL ACTIVITIES

The Group's international business is conducted by Red Eléctrica Internacional, S.A.U. (REI). Activities are carried out through the subsidiaries REDESUR, TESUR, TESUR2, TESUR3 and REA, which manage electricity transmission infrastructure in southern Peru, while activities in Chile are channelled through Red Eléctrica Chile (RECh), which holds a 50% interest in Transportadora

Eléctrica del Norte (TEN), the company tasked with executing the project to interconnect the Far North and Central electricity systems (SING-SIC) in that country.

During 2017, REDESUR and TESUR have continued to offer a transmission service with maximum availability and have improved their economic results. REDESUR has delivered excellent operating standards, with a cumulative grid availability factor of 99.90% in January-June 2017 and an average of 99.83% for the last five years. Following their entry into service in June 2014, these facilities are now operated by TESUR under a 30-year concession and have also presented a highly satisfactory availability factor (99.92% in the January-June 2017 period).

TESUR2 has been awarded the project to design, finance, construct, operate and maintain the 220 kV Azángaro-Juliaca-Puno transmission line in southern Peru. The project encompasses the construction of a 115 km line and 14 substation bays of 220 kV and 138 kV, as well as their operation for a period of 30 years. The project is currently under construction and progressing according to plan.

Furthermore, on 16 December 2015, REI was awarded the project to design, finance, construct, operate and maintain the 220 kV Montalvo-Los Héroes transmission line, also in southern Peru. The project considers the construction of a 128 km line, three 220 kV substation bays and one 66 kV substation bay, as well as their operation for a period of 30 years. TESUR3 holds the concession to carry out the project, which is in the initial construction stage, and to operate the facilities.

REA provides facility maintenance services to REDESUR and TESUR as well as support services for the projects carried out by TESUR2 and TESUR3. The company also carries out facilities maintenance and supervises works for other customers, consolidating its position in southern Peru as a leading provider of such services.

On 27 January 2016, RECh and E-CL, a Chilean subsidiary of ENGIE, executed the acquisition by Red Eléctrica Chile of 50% of the share capital of TEN, owned by E-CL. Since the acquisition, both of these companies have been involved in the construction and commercial operation of the Mejillones-Cardones transmission line in Chile, which is being developed by TEN. The project, which is in the final construction stage and is expected to enter into service in the second half of this year, forms part of Chile's backbone transmission system and comprises a 500kV line spanning a distance of 600 km, connecting the Central Interconnected System (SIC) and the Far North Interconnected System (SING).

In June this year, the Red Eléctrica Chile - Cobra Instalaciones y Servicios 70/30 consortium was awarded one of the projects set out in the Expansion Plan for Chile's Backbone Transmission System to construct power lines spanning more than 258 km in the Far North Interconnected System (SING). The project covers the first circuit of a 220 kV line between Nueva Pozo Almonte – Pozo Almonte, the first circuit of a 220 kV line between Nueva Pozo Almonte – Cóndores and the first circuit of a 220 kV line between Nueva Pozo Almonte – Parinacota, as well as the Nueva Pozo Almonte 220 kV circuit breaker substation.

This project represents another step forward in Red Eléctrica's internationalisation strategy, having launched activities in Chile in 2016 and strengthened its position in Peru through two new concessions awarded in 2015.

2 BUSINESS PERFORMANCE

Revenue for the first half of 2017 amounted to Euros 987.3 million, up 2.0% on the same period in the prior year. This increase is mainly attributable to the remuneration for transmission facilities that entered into service during 2016. Revenue also incorporates other income, including Euros

43.4 million from telecommunications services rendered and regulated revenue of Euros 28.0 million for system operation.

With regard to operating expenses:

- Supplies and other operating expenses rose by 14% on the same period in the prior year, essentially owing to the inclusion of the investment made in projects under construction in Peru, in accordance with IFRIC 12, and breakdown-related expenses. If these two effects were eliminated, this item would have remained practically stable vis-à-vis the expense incurred in 2016, highlighting the Group's ongoing efforts in terms of efficiency.
- Personnel expenses grew by 2% to June. This rise is in large part attributable to the 1.3% increase in the Group's average workforce.

The headcount was 1,815 at 30 June 2017, while the average workforce was 1,785 employees.

EBIT amounted to Euros 523.5 million, 1.9% higher than in the same period of the prior year, due to a 2.8% rise in depreciation charges for non-current assets in relation to the facilities that started operating in 2016.

The net finance cost amounted to Euros 70.0 million, compared to Euros 75.5 million recognised in the same period of the prior year, which can be explained by the effects of lower average interest rates and the reduction in the average balance of financial debt.

Profit for the period totalled Euros 340.1 million, up 5.1% on the same period of the previous year. The effective tax rate was 25.1%, compared to 25.7% in the same period of the prior year.

Interim dividends paid during the first half of 2017 totalled Euros 128.4 million, equivalent to Euros 0.2382 per share, and reflected the payment on account of the dividend for 2016.

The net financial debt of the Red Eléctrica Group stood at Euros 4,743.7 million at 30 June 2017, compared to Euros 4,949.5 million at the end of 2016. Moreover, the average cost of the Group's financial debt was 2.83% during the first half of the year, with an average debt balance of Euros 5,265.64 million. The average cost and balance of financial debt were 3.00% and Euros 5,459.4 million, respectively, in the same period of the prior year.

At 30 June 2017, the Red Eléctrica Group's equity stood at Euros 2,914.7 million.

3 MAIN RISKS AND UNCERTAINTIES IN THE SECOND HALF OF THE YEAR

The Red Eléctrica Group is exposed to the different risks inherent in the activities and geographical markets in which it operates, which could have an impact on its results.

The Group has had a risk management system in place since 2002 and developed its first risk map in 2003. The Group's risk management system works on a comprehensive and ongoing basis, and risk management is further consolidated at corporate level by business unit, subsidiary and support area. This Comprehensive Risk Management System aims to ensure that any risks, including those relating to tax, that might affect the Red Eléctrica Group's 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 Group's comprehensive risk management policy and general comprehensive risk management and control procedures are based on the COSO II

(Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management Integrated Framework. Both the policy and the procedures were updated in late 2016.

This process of risk identification, analysis, assessment and control sets out the actions required to reduce risk to an acceptable level. For risk monitoring purposes, the existing risk management system contains more than 500 management plans to mitigate these risks and more than 300 indicators to monitor changes therein. The Internal Audit and Risk Control Department reviews the progress and impact of the previously established risk management plans in conjunction with the organisational units on a half-yearly basis for high-level and other significant risks, annually for other risks, and whenever circumstances so advise in the case of specific risks.

Moreover, the Group's processes have been designed so as to incorporate elements to mitigate or reduce the associated risks. These processes have been integrated within the management systems established under international standards (including ISO 9001, ISO 14001 and OHSAS 18001), which are subject to systematic internal and external audits on the suitability of design and compliance, and incorporate the control aspects specific to the objectives to be met.

The Group has also drawn up contingency plans to manage the various crisis situations that could arise in the event of an electrical incident (in terms of guaranteeing security of supply) or non-electrical incident that could affect the environment, people, business operations, system availability, business results or any other event that could impact the Company's reputation.

The Group also has a guide for managing cyber incidents, which sets out the criteria and guidelines for managing any cyber security incident, irrespective of the area concerned. In addition, the Group has an Internal Control over Financial Reporting (ICOFR) system, so as to ensure efficiency and security in the preparation of its economic and financial information, for which it has adopted international best practices.

The main risks associated with the activities of the Red Eléctrica Group are as follows:

REGULATORY RISKS

The fact that the activities are regulated affects revenue and the conditions under which the principal activities must be carried out. In this respect, regulatory risks could arise from the possibility of changes to the legal framework applicable to the activities which could affect both revenue and costs, either directly or because new requirements are introduced.

OPERATIONAL RISKS

The Group's activities are exposed to different operational risks, such as breakdowns in the electricity transmission network or the fibre optic network, fires at facilities, adverse meteorological conditions, accidents within the transmission network, as well as other events that could result in damage to the Group's facilities or harm to people and/or materials. To this end, the Group has established control systems that have worked satisfactorily in the past in resolving such events. Furthermore, the Group has arranged corporate insurance policies to shield its equity and limit the potential impact of such events on its results.

FINANCIAL RISKS

The Group is exposed to volatility in interest and exchange rates, which could affect the Company's financial position.

In terms of exchange rate fluctuations, although the part of the business managed in a currency other than the Euro is insignificant, the Company's forecast results are always susceptible to an adverse change in exchange rates.

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 Company 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. 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 of those countries. The Group has also arranged hedges of net investments in US Dollars using cross-currency swaps up to January 2021.

At 30 June, the Group has a low-risk debt structure 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, 88% of the Group's borrowings at 30 June 2017 have been arranged at fixed rates, whilst the remaining 12% is subject to variable rates. The interest rate risk to which the Group is exposed derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not profit for the period.

COUNTERPARTY RISK

Counterparty risk refers to the risk of a breach by a party in a specific transaction. At the Group, this risk reflects potential increases in the cost of equipment and raw materials, which mainly affect construction and maintenance activities. This risk is for the most part managed by fostering competition and increasing homogenisation and standardisation.

4 EVENTS AFTER 30 JUNE 2017

No significant events have occurred between the reporting date and the date on which these consolidated interim financial statements were authorised for issue.

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

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

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