

Rating object	Rating information	
<b>Red Eléctrica Corporación, S.A.</b>  Creditreform ID: FNR0000053877 Incorporation: 2008 Based in: Alcobendas, Spain Main (Industry): Electricity supply CEO: Roberto García Merino  <u>Rating objects:</u> Long-term Corporate Issuer Rating Red Eléctrica Corporación, S.A. Long-term Corporate Issuer Red Eléctrica de España, S.A.U. Long-term Corporate Issuer Rating Red Eléctrica Financiaciones, S.A.U. Long-term Local Currency (LT LC) Senior Unsecured Issues issued by Red Eléctrica Financiaciones S.A.U.	Corporate Issuer Rating: <b>A- / stable</b>	Type: Initial rating Unsolicited Public rating
	LT LC Senior Unsecured Issues,: <b>A- / stable</b>	Other: <b>n.r.</b>
	Rating date: 23 March 2021 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Government Related Companies" CRA "Rating Criteria and Definitions" Rating history: <a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>	

### Content

Summary .....	1
Relevant rating factors .....	2
Business development and outlook ...	4
Structural risk.....	6
Business risk .....	7
Financial risk.....	9
Issue rating.....	10
Financial ratio analysis .....	12
Appendix.....	13

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### Summary

Red Eléctrica Corporación, S.A., hereinafter also referred to as REC or the Company, headquartered in Alcobendas (Spain), was founded in 2008 as a parent of a group of various subsidiaries. REC's main business is electricity transmission system operation and management of the transmission network for the Spanish electricity system, conducted by its major subsidiary Red Eléctrica de España, S.A.U. (hereinafter REE), incorporated 1984. The transmission network in Spain consists of more than 44,000 km of high-voltage electricity lines. REC is responsible for managing the flow of electricity through the Spanish power grid and between external systems, guaranteeing the continuity and accessibility of electricity for the population and for enterprises, as well as developing, enlarging, and carrying out maintenance on the grid (regulated activities). In addition to the Company's regulated activities under a monopoly arrangement in Spain, the Company also pursues - both domestically and internationally - regulated and non-regulated activities, which include electricity transmission and telecommunications services, through a range of subsidiaries.

In 2020, the Company generated revenues of EUR 1,986 million (2019: EUR 2,007 million) and an EAT of EUR 611 million (2016: EUR 715 million).

### Rating result

The current rating attests Red Eléctrica Corporación, S.A. a high level of creditworthiness, representing a low default risk. REC is of strategic importance for Spain, with a strong market position, and has a profile of essentially low economic and financial risks, benefiting from an established regulatory framework in Spain. Despite striving for a diversification of the business model as well as expansion abroad, the majority of its revenues are based on domestic regulated activities, which provide reliable and predictable cash flows. We have based the rating on our assessment that REC is dependent on the government and moderately dependent on the country's overall economic situation, so that the rating of REC is constrained by the sovereign rating of the Kingdom of Spain (CRA: A- / negative as of 22 January 2021). Given the positive performance of REC in the last years - still generating solid financial key figures in 2020 despite the COVID-19 impact and the effects of the new regulation for electricity transmission, as well as its comfortable liquidity position and proven access to financial markets - we assign the Company an unsolicited corporate rating of A-.

## Outlook

The one-year outlook of the rating is stable. Based on the stable regulatory framework and satisfactory business development - despite setbacks due to the unusual circumstances - we expect similar business performance for the Company for our one-year outlook as in the financial year 2020. This is due to the similar general framework conditions, and assumes that the general situation will not deteriorate further with a significant impact on the rating. Despite a worsening of the Spanish economy, we consider the current situation of the Company as sufficiently solid as to be assigned a rating one notch above the sovereign Rating of the Kingdom of Spain; in the event that Spain should suffer a downgrade and the regulated business remains stable. Nevertheless, we point out the currently high level of pandemic-related uncertainty, which could lead to a rating adjustment.

## Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses and evaluations of the rating process, the derived valuations by the analysts participating in the rating, as well as other rating committee members, if applicable. The fundamental external sources used are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

## Excerpts from the financial key figures analysis 2020:

- + Equity ratio
- + Interest expenses to total debt
- + Short-term capital lock-up
- + Liquidity ratios
- + Cash flow
- Higher leverage
- Decrease of EBIT
- Capital lock-up period

**General rating factors** summarize the key issues that – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, either positive (+) or negative (-).

## Relevant rating factors

Table 1: Financials I Source: Red Eléctrica Corporación, S.A. Consolidated Annual Accounts 2020, standardized by CRA

Red Eléctrica Corporación, S.A. Selected key figures of the financial statement analysis Basis: Annual accounts of 31.12. (IFRS.)	CRA standardized figures <sup>1</sup>	
	2019	2020
Sales (million EUR)	2,007.24	1,985.75
EBITDA (million EUR)	1,599.63	1,443.79
EBIT (million EUR)	1,073.72	895.61
EAT (million EUR)	714.82	611.24
EAT after transfer (million EUR)	714.75	621.19
Total assets (million EUR)	12,360.68	12,592.44
Equity ratio (%)	36.10	34.67
Capital lock-up period (days)	56.71	84.64
Short-term capital lock-up (%)	89.15	40.00
Net total debt / EBITDA adj. (Factor)	4.73	4.95
Ratio of interest expenses to total debt (%)	1.83	1.62
Return on investment (%)	6.90	5.83

## General rating factors

- + Nationwide presence in Spain with monopoly position
- + Low sensitivity to economic cycles
- + National leader in its strategic business areas
- + Good access to financial markets
- + Generally stable, significant cash flows from regulated activities
- + High entry barriers
- + Slightly diversified business model
- + Leading position in fiber optics and as satellite operator in Spain and Portugal

<sup>1</sup> For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- Highly specialised product portfolio with a focus on regulated electricity transmission
- High investments requirements
- High level of national regulation
- High concentration on the Spanish market
- Country, counterparty and currency risks

### Current rating factors

**Current rating factors** are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

- + Mostly robust business model, generating stable and predictable cash flows
- + International expansion and product portfolio diversification
- + Fulfillment of all contractual obligations
- + Good performance despite new regulatory effects and the negative consequences of COVID-19
- + Active measures to reinforce liquidity and financial relief due to lower investments
- Lower revenues in regulated domestic business due to new regulated remuneration
- Operating countries are strongly affected economically by the consequences of COVID-19
- Strong currency devaluations and contract cancellations leading to impairments
- Delays in infrastructure projects due to lockdown measures
- High uncertainty in regard to the COVID-19 pandemic and its current consequences

**Prospective rating factors** are factors and possible events that – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

### Prospective rating factors

- + Expansion and extension of the capacity of the power grid
- + Economic recovery as a result of successful containment measures and vaccination program
- + Revenue increase resulting from expanding diversification and expansion of the transmission grid
- + Further growth options through investment in technology and sustainability
- Significant uncertainty associated with the pandemic and economic development in Spain and Latin America
- Increasingly strict regulatory requirements affecting remuneration
- Increase of leverage due to higher capex requirements

### ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Red Eléctrica Corporación, S.A. we have not identified any ESG factor with significant influence.

**ESG factors** are factors related to the environment, social issues and, governance. For more information, please see the "Regulatory requirements" section. CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or outlook.

REC has committed to drive the energy transition and thus a decarbonized energy system in line with the 2021-2030 Integrated National Energy and Climate Plan, achieving - among other objectives - at least a 40% domestic reduction in greenhouse gas emissions by using 74% renewable energy in 2030. To this end, REC primarily need to invest in domestic transmission grids. During the period 2021-2025, REC plans to invest more than EUR 3.3 billion. The integrated National Plan for Energy and Climate foresees investments for around 9 billion by 2030, with a focus on building more connections in neighboring countries, thereby increasing exchange capacity. The higher investment costs could result in higher leverage; however, we do not see any increased financial risk here, as financial sustainability is ensured by means of a government-

regulated remuneration. Sustainability in relation to the energy transition could be a significant growth driver, also abroad, for the Company's performance in the long run.

In general, we consider the Company as well positioned in terms of ESG. It has among other things a high diversity ratio in management, low CO2 emissions in relation to our peer group comparison, as well as further commitments in line with the Sustainable Development Goals. Therefore, we do not see any regulatory risks in relation to ESG factors.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

#### Best-case scenario: A-

In our best-case scenario for one year, we assume a rating of A-. In this scenario, REC's operating performance is similar to 2020 without causing a deterioration of the financial key figures. Due to successful containment measures and advancing vaccination programs, the economy is stabilizing in the second half of the year. Nevertheless, the Company's Latin American business is still weak, and financial figures slightly burdened by higher leverage, so that an upgrade is unlikely.

#### Worst-case scenario: BBB+

In our worst-case scenario for one year, we assume a rating of BBB+. In this scenario, we assume a pandemic development with longer-lasting lockdown measures, also significantly affecting the second half of the year. In this scenario, the weakened economy, either domestic or abroad, impairs the Company's operating performance. The Company is unable to compensate the significant increased debt due to higher investments, deteriorating the financial key figures and there is no prospect of a short-term recovery due to the severely depressed economy.

## Business development and outlook

Before the COVID-19 crisis, REC's performance had shown a constant increase in revenues and operating results in recent years (see table 2). In 2020, however, impacted by new remuneration regulations and the negative effects in the wake of Covid-19 crisis, REC suffered a decrease in revenues and earnings. Revenues decreased only by 1.1%, but EAT by 14.5% compared with 2019.

Table 2: Business development of Red Eléctrica Corporación, S.A. | Source: Red Eléctrica Corporación, S.A. Consolidated Annual Accounts 2020, standardized by CRA

EUR million	2017	2018	2019	2020
Revenues	1,941.17	1,948.54	2,007.24	1,985.75
EBITDA	1,546.50	1,543.43	1,599.63	1,443.79
EBIT	1,031.35	1,062.68	1,073.72	895.61
EBT	890.24	936.25	950.66	805.99
EAT	669.82	704.49	714.82	611.24

#### Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

The revenues are divided into four segments<sup>2</sup>:

- Management and operation of domestic electricity infrastructure
- Management and operation of international electricity infrastructure
- Telecommunications (fiber optics and satellites)
- Other, corporate and adjustments

Most of the businesses in which the company operates are regulated; hence, the impact of COVID-19 was limited, except in the telecommunication sector, where the market share increased in 2019 after the acquisition of Hispasat, a leading satellite operator in the Spanish and Portuguese speaking regions, which is fully consolidated.

Table 3: The development of corporate segments in 2020 | Source: Red Eléctrica Corporación, S.A. Consolidated Annual Accounts 2020

Red Eléctrica Corporación, S.A. according to individual corporate divisions in 2020					
in million EUR	Domestic electrical infrastructure	International electrical infrastructure	Telecommunications	Other business, corp. and adjustments	Total
Revenue	1,668.3	50.9	292.3	-25.7	1,985.7
EBIT	915.5	45.6	-38.3	6.2	929.0
EAT	612.8	28.0	-22.7	3.2	621.2

Looking at table 3, every business segment proved profitable except telecommunication activities. Domestic regulated business made the largest contribution to revenues and profits, generating 84.0% of total revenues and 98.6% of EAT. In 2019, revenues in this segment amounted to EUR 1,807.0 million. The year-on-year decrease in domestic transmission revenues of around EUR 139 million is mainly attributable to the new regulatory remuneration methodology, applicable since January 2020 and until 2025. The financial return, which was 6.5% in the previous regulatory period, is now 5.58%. Although the telecommunications segment recorded a year-on-year increase of approx. EUR 117 million due to the perimeter change, it was severely impacted by the wake of COVID-19, particularly in the second half of the year in the Latin American Market by contract renegotiations and cancellations, including government projects as well as currency depreciations. According to REC, this resulted in a decrease of EUR 20 million in revenue in the satellite business and, in view of the situation, an impairment test was carried out which resulted in an impairment provision of EUR 122.3 million on intangible assets and tangible fixed assets. Due to the struggling economy in Latin America, REC expects that revenues will also be affected in the coming years, leading to a strategic reflection with the objective of repositioning Hispasat, which still proved as profitable in 2019. Mainly as a result of the impairment of Hispasat, the analytical EBIT of the Group decreased from EUR 1,073.7 million in 2019 to EUR 895.6 million in 2020, representing a drop of 16.6% (see table 2). EAT recorded a decrease of 14.5%, slightly dampened by more favorable financial conditions. Despite a decrease in operating performance, operating cash flows amounted to EUR 1,380 million (2019: EUR 1,045 million), showing an increase of 32.1% year-on-year due to the impairment losses not being cash-effective in the short term.

<sup>2</sup> A description of the detailed content of the divisions can be found in the chapter "Structural risk".

Over the year 2020, REC had investment payments of EUR 925.4 million (2019: EUR 1,451.1 million). Investments decreased by 36.3% in comparison with 2019 as a result of construction delays resulting from lockdown measures, but chiefly due to the fact that investment was significantly higher in 2019 after the acquisition of Hispasat, amounting to EUR 933 million. In 2020, REC acquired several joint ventures notably a Brazilian company called Argo Energia Empreendimentos e Participações S.A., with a shareholding of 50% and accounted at equity-method, amounting to EUR 374.3 million, whose strength is its electricity transmission network in Latin America.

For the period 2021-2025, the Company has planned to invest around EUR 4.524 million to foster, among other objectives, efficiency and innovation, growth in its telecommunication and international business, and sustainability, while investments in domestic transmission grid will make up the largest part with more than EUR 3.300 million. According to the strategic investment plan 2021-2025 approved at the end of 2020, Hispasat will shift from being an infrastructure operator to a provider of satellite services. The deployment of 5G is also expected to generate further growth impulses for optical fiber networks. These considerable investments are significant for REC as well as for the Europe-wide required energy transit, enabling the Group to ensure the maintenance and development of the power grid and generate growth impulses in revenues and EBITDA, which could offset adverse impacts due to regulations, when the COVID-crisis is over. Alone through the expansion measures in the international business and in Hispasat REC expects an annual improvement in EBITDA of 6% by 2025 and 5% in 2021.

Overall, REC has a strong market position, as its subsidiary REE is the sole transmission agent and electricity system operator on the national high voltage transmission grid. Most of the Group's revenues still derive from transparent and stable cash flows generated from its domestic regulated business activities, despite expansion abroad and the telecommunications sector, which has in particular been affecting REC's operative performance in the wake of the negative effects of COVID-19. We believe that the Company will continue to underperform this year to a certain extent against the 2019 business year, based on the persisting crisis and the present containment measures, which have adversely affected economies in which REC operates, especially Latin America. Additionally, a high degree of uncertainty remains as the further course of the pandemic and economic recovery and within a currency stabilization at pre-crisis levels is difficult to assess. Both depend on the further success of the containment measures and on how quickly and widely the vaccinations can be given; It remains to be seen, however, how successful the strategic measures will prove to be.

### Structural risk

The holding structure was created in 2008 through the incorporation of Red Eléctrica Corporación, S.A. with the aim of separating the regulated activities in the Spanish territory from the other business activities of the Company. The Red Eléctrica Group comprises nine subsidiaries, owning 100% of the share capital of each operating company and which are responsible for the management and development of their respective businesses. As mentioned above, REC is divided into four segments. Revenues related to the management and operation of domestic electricity infrastructure are achieved in the Spanish regulated market, mostly deriving from transmission and dispatching in Spanish territory, representing the largest segment at 84.0% of the Group's total revenues in 2020 and representing the major subsidiary of the Red Group. The remuneration for these services is fixed by the Spanish National Markets and Competition Commission (CNMC). Revenues related to the management and operation of international electricity



infrastructure accounted for 2.6%. Management and operation of international electrical infrastructure includes in particular the aim of business growth in the construction and operation of electricity transmission networks outside Spain based on long-term concession contracts with a focus in Latin America, in the countries Peru, Chile and Brazil. Revenue from telecommunications accounted for 14.7%. The telecommunications segment includes in particular operation of satellite infrastructure in Spain, Portugal and South America, for broadcasting, telecommunications and multimedia services, as well as the leasing of a broad dark fiber backbone network in Spain. In addition, the Company operates reinsurance activities and fosters innovation in the electrical and telecommunication sector, among others.

The Shareholder structure is primarily made up of four groups: SEPI at 20.0%; foreign institutional investors at 67.0%; Spanish institutional investors at 3%; and minority shareholders at 10.0%. The main shareholder SEPI is a Spanish state industrial holding company which is obliged to hold at least 10% of the shares. The shares, with the exception of those of SEPI, are subject to restrictions that do not allow any individual or entity to hold more than 5% of the share capital and 3% of the voting rights, resulting in a free float of 80%.

REC's shares have been listed on the on the four Spanish Stock Exchange Markets since 1999.

The Company is managed by the Board of Directors, currently featuring 14 members, an Audit Committee (currently featuring 4 members), an Appointments and Remuneration Committee (currently featuring 3 members), and a Sustainability Committee (currently featuring 3 members). The committees each consist of two independent and one proprietary director, and are created by the board of directors to enable more efficient and transparent management support.

The company reports its financial statements in accordance with IFRS and employed on average 2,041 people over the course of the business year 2020.

Due to its national systemic importance and its relevance for the capital market, the Company has to comply with high legislative, regulative and corporate governance standards. During the COVID 19 crisis, the Company was able to meet electricity demand and to keep the system running without any transmission network incidents, thus fulfilling regulatory requirements. We do not see any core risks related to the Company's structure.

## Business risk

REC is one of the most important infrastructure companies in Spain due to its subsidiary REE owning, maintaining, and operating the national power grid. The origins of the Company go back to 1985, when its subsidiary Red Eléctrica de España was created by the Spanish government. By law the electricity sector ratified REE as the sole transmission agent and operator of the Spanish electricity system, including the Balearic and Canary Island as well as the autonomous cities Ceuta and Melilla, giving it a natural monopoly position in the transmission activity. By law the financial balance between revenue and costs is also ensured to guarantee the long-term financial sustainability. On 5 December 2019 the CNMC set a new remuneration methodology, fixed in Circular 5/2019, which affects the revenues of REE from 2020 due the lower financial return. However, the expected revenue losses were compensated for the most part by expanding in international regulated activities and telecommunications, despite the COVID-19 crisis. This positive effect, however, was adversely affected in view of the slump in the result due to impairment losses as a result of COVID-19. The non-regulated business is much more vulnerable. It remains to be seen how successful the further strategies with regard to the repositioning of Hispasat

and telecommunication in general will prove to be considering the weakened framework conditions. Nevertheless, the Company's current business model, as well as its financial and organizational structures, are well thought through and can also be seen on the whole as robust in the event of an economic downturn. However, this could change if ongoing expansion significantly reduces the market share of highly regulated business which, we assume to be fairly unlikely as the Company indicates in its comprehensive strategic business plan for 2021-2025 that revenues from its domestic regulated business will be approx. 80% in 2025.

The new remuneration methodology for the 2020-2025 regulatory period is an adjustment to the general European remuneration standards, which also provides positive factors for the Company. It provides more transparency, and under certain conditions, it is possible to extend the service life of the pre-1998 assets and thus their remuneration, which REC also makes use of. However, the last years of the period the regulated remuneration will be adversely affected by ending the use life of some pre-98 assets.

Another of the objectives set out in the strategic business plan for 2021-2025 is based on developing the grid for renewable energies, thus ensuring the future transport and provision of electricity, assigning a key role in the development of technologies for the integration of renewable energies into the national power grid in Spain. Nevertheless, despite its closeness to the Spanish government, we could assign REC a rating above that of the sovereign rating of Spain in case of a downgrade, due in particular to the electricity market's low degree of sensitivity to economic fluctuations. This is especially the case in Spain, where substitution by a second provider is less likely, if at all, and only under very difficult circumstances. Hence we assess REC's business model as sufficiently stable due to the high degree of regulated and predictable cash flows, a factor which supports our rating despite the current uncertainty in economic development, as well as the current difficulties in the telecommunications sector.

Further changes in the Spanish regulatory systems and legislation, as well as further economic deterioration of the economy in the operating countries, could have a significant impact on the operating activities and financial position of the Company. Given the systemic national importance of the Company in Spain, we consider that extremely negative changes in the tariff system are rather unlikely. Nevertheless, an adjustment could be possible in the event of a prolonged deterioration in the domestic economic situation.

Construction, maintenance and operation of infrastructures are also exposed to risks such as weather conditions, natural disasters, acts of terrorism, or any damages caused by unpredictable events like the current lockdowns to contain the spread of COVID-19. Such risks could prevent or delay the fulfilment of contracts with the government or other third parties, causing adverse material effects on REC's reputation, operating performance, or financial conditions. In certain cases, these types of risks are covered by insurance policies.

As far as we can assess, REC operates a well-developed and constantly evolving business risk management system and generate further growth impulses, which is in line with current market and regulatory requirements and supported by many years of experience in the industry. Despite the uncertainty of the current environment and the significant investment requirements, we consider the business model as stable due to the predominant share of domestic regulated business.



## Financial risk

For the purposes of its financial ratio analysis, Creditreform Rating AG ("CRA") adjusted the original values in the financial statements. The following representations and calculations are based solely on these adjustments.

The Company is highly capital intensive. Approximately 83.9% of the Company's balance sheet total is tied up in long-term assets, reflecting the specific conditions of the business and emphasising the importance and high levels of investment required for the development and maintenance of the transmission grid. The high capital intensity of the Company is partly offset by the non-current character of most of its obligations. In 2020, the asset coverage ratio amounted to only 42.6%, but with consideration of medium term financial liabilities, full coverage was granted.

CRA calculated an adjusted equity for 2020 of EUR 4,366 million (2019: EUR 4,463 million), which accounts for 34.7% of the structural balance sheet total (2019: 36.1%). The equity ratio decreased slightly in comparison with the previous year due to increased debt. Analytical total debt amounted to roughly EUR 8,227 million in 2020 (2019: EUR 7,898 million), representing an increase of 4.2%, mainly due to the placement of new bond issues, subscribing loans, and borrowing transactions to reinforce liquidity. CRA's adjusted ratio of net debt / EBITDA adjusted rose from 4.7 in 2019 to approx. 5.0 in 2020. In addition to higher debt, the ratio was in particular burdened by the impairment loss to consider as a special item. In view of this, and above all based on the Group's solid and predictable cash flows, we still assess this key figure as positive, despite the rise.

Dividends paid to the shareholders for 2020 amounted to EUR 569 million (2019: EUR 531 million), showing a pay-out ratio of around 79.6%, which is in our opinion high, but also reasonable considering the adequate equity ratio. In view of the extensive investments it plans to make, the Company has compromised to cut dividends from EUR 1 to at least EUR 0.80 after 2022, enabling some financial relief, which is also being provided through alliances with companies of the same sector, especially in the international business.

In addition to equity, the Company is mostly financed by non-current financial liabilities, accounting on an adjusted base for 43.9% of the structural balance sheet total. REC has financed itself mainly through long-term bond issues in euros and US dollars. As of 31 December, bonds and other marketable securities accounted for 52.1 of total financial liabilities. Most of the bonds are part of the Euro Medium Term Note (EMTN) programme, with a maximum total amount of up to EUR 5 billion, of which approx. 3 billion (nominal value) have currently been placed. The second major source of debt financing are loans and borrowings, accounting for 38.7% of total financial liabilities. Overall, we see the finance structure as well-balanced.

The interest rate and currency risks are limited. Around 10.8% of gross financial debt has a foreign currency and 18.0% a variable interest rate. In accordance with further M&A activities, the foreign currency share could increase, and thus also the risk. However, in order to reduce interest and exchange rate risks, REC uses hedging instruments.

The Company also disposes of an adequate liquidity position, taking into consideration its liquidity reserves as well as its reliable and stable cash flows, the fact that these cash flows are predominantly generated by a highly regulated business, and its good access to financial markets. The volume of the reported operating cash flow was at EUR 1,380 million in 2020 (2019: EUR 1,045 million). At the end of 2020, the Company had cash and cash equivalents of EUR 482 million (2019: EUR 329 million). As well as the unused amount of the EMTN programme, the

Group also had undrawn credit facilities amounting to EUR 1,930 million as of 31 December 2020 (2019: 1,768).

Overall, we do not see any significant short- or medium-term financial risks for REC, taking into consideration its satisfactory current cash position and liquidity reserves, its reliable cash flows, and its well-coordinated and corporate favourable investment plans. Furthermore, the Company has an adequate capital structure and disposes of diversified financing resources that should allow REC to pursue its strategic plan. Further significant increases of net debt without a compensating EBITDA could, however, have a negative impact on the rating assessment. Risks could arise in connection with a breach of financial covenants and a deterioration of the Company's rating.

## Issue rating

### Further issuer ratings

In addition to the rating of Red Eléctrica Corporación, S.A., the guarantor Red Eléctrica de España, S.A.U. as well as the Issuer Red Eléctrica Financiaciones, S.A.U., and its issues (see below), have been rated.

Besides Red Eléctrica Corporación, S.A., Red Eléctrica de España, S.A.U. is also the guarantor of the EMTN programme, as Red Eléctrica de España, S.A.U. is the sole transmission agent and system operator for the Spanish electricity system on an ownership unbundling basis. Thus the domestic regulated business is also integrated in providing financial resources.

Due to the corporate, strategic, liability, financial, economic and performance-related interdependencies of the aforementioned subsidiaries, all of which are direct 100% subsidiaries of Red Eléctrica Corporación, S.A., and which have been consolidated into the Group annual accounts, the ratings of the rating objects are constrained by the rating of the unsolicited Red Eléctrica Corporación, S.A., and we derive the unsolicited issuer ratings of the subsidiaries from the unsolicited issuer rating of Red Eléctrica Corporación, S.A., setting it equal to its rating of A- / stable.

### Issue rating details

The rating objects of this unsolicited issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Red Eléctrica Financiaciones, S.A.U., and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 4 June 2020. This EMTN programme amounts to EUR 5 billion. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision and a cross default mechanism.

We have provided the debt securities issued by Red Eléctrica Financiaciones, S.A.U. with a rating of A-. The rating is based on the corporate rating of Red Eléctrica Corporación, S.A. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

The following tables provide an overview of the ratings issued by Creditreform Rating AG in this context, as well as the key features of the EMTN programme.

**Overview**

Table 4: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Red Eléctrica Corporación, S.A.	23.03.2021	A- / stable
Red Eléctrica de España, S.A.U.	23.03.2021	A- / stable
Red Eléctrica Financiaciones, S.A.U.	23.03.2021	A- / stable
Long-term Local Currency (LC) Senior Unsecured Issues issued by Red Eléctrica Financiaciones, S.A.U.	23.03.2021	A- / stable
Other	--	n.r.

Table 5: Overview of 2020 Euro Medium Note Programme | Source: Base Prospectus dated 04.06.2020.

Overview of 2020 EMTN Programme			
Volume	EUR 5,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Red Eléctrica Financiaciones, S.A.U. (Issuer) Red Eléctrica Corporación, S.A (Guarantor) Red Eléctrica de España, S.A.U. (Guarantor)	Coupon	Depending on respective bond
Arranger	Deutsche Bank	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes issued by Red Eléctrica Financiaciones, S.A.U. and that have similar conditions to the current EMTN programme, denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

## Financial ratio analysis

Table 6: Financial key ratios | Source: Red Eléctrica Corporación, S.A. Consolidated Annual Accounts 2020, structured by CRA

Asset structure	2017	2018	2019	2020
Fixed asset intensity (%)	83.59	81.82	84.75	83.87
Asset turnover	0.19	0.18	0.18	0.16
Asset coverage ratio (%)	46.62	49.80	44.05	42.62
Liquid funds to total assets	5.23	6.82	2.66	3.83
Capital structure				
Equity ratio (%)	38.04	39.61	36.10	34.67
Short-term debt ratio (%)	17.19	13.90	18.41	11.59
Long-term debt ratio (%)	0.93	1.13	1.22	1.08
Capital lock-up period (in days)	64.63	58.77	56.71	84.64
Trade-accounts payable ratio (%)	3.15	2.79	2.52	3.66
Short-term capital lock-up (%)	71.7	46.63	89.15	40.00
Gearing	1.49	1.35	1.70	1.77
Leverage	2.64	2.57	2.65	2.83
Financial stability				
Cash flow margin (%)	17.94	18.26	16.42	14.23
Cash flow ROI (%)	10.89	10.77	10.23	9.08
Total debt / EBITDA adj.	4.38	4.37	4.93	6.26
Net total debt / EBITDA adj.	4.01	3.87	4.73	4.95
ROCE (%)	11.21	11.46	10.00	9.53
Total debt repayment period	5.67	6.16	6.74	6.58
Profitability				
Gross profit margin (%)	100.29	101.25	101.27	101.53
EBIT interest coverage	6.80	7.38	7.41	6.70
EBITDA interest coverage	10.19	10.71	11.04	10.81
Ratio of personnel costs to total costs (%)	7.41	7.55	7.74	8.61
Ratio of material costs to total costs (%)	3.04	1.88	1.67	1.34
Cost income ratio (%)	51.72	49.58	50.62	58.79
Ratio of interest expenses to total debt (%)	2.25	2.12	1.83	1.62
Return on investment (%)	7.49	7.50	6.90	5.83
Return on equity (%)	16.50	16.37	16.03	13.85
Net profit margin (%)	33.36	35.04	34.58	29.91
Operating margin (%)	51.36	52.85	51.94	43.83
Liquidity				
Cash ratio (%)	30.40	49.04	14.44	33.02
Quick ratio (%)	92.06	120.78	79.19	134.38
Current ratio (%)	95.43	130.77	82.82	139.19

## Appendix

### Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 7: Corporate Issuer Rating of Red Eléctrica Corporación, S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	23.03.2021	www.creditreform-rating.de	Withdrawal of the rating	A- / stable

Table 8: Corporate Issuer Rating of Red Eléctrica de España, S.A.U.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	23.03.2021	www.creditreform-rating.de	Withdrawal of the rating	A- / stable

Table 9: Corporate Issuer Rating of Red Eléctrica Financiaciones, S.A.U.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	23.03.2021	www.creditreform-rating.de	Withdrawal of the rating	A- / stable

Table 10: LT LC Senior Unsecured Issues of Red Eléctrica Financiaciones, S.A.U.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	23.03.2021	www.creditreform-rating.de	Withdrawal of the rating	A- / stable

### Regulatory requirements

The rating<sup>3</sup> was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

<sup>3</sup> In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

The rating was conducted based on the following information.

List of documents
<b>Accounting and controlling</b>
<ul style="list-style-type: none"> <li>▪ Red Eléctrica Corporación S.A. Annual Accounts 2019</li> <li>▪ Red Eléctrica Corporación S.A. Annual Accounts 2020</li> <li>▪ Financial Results 2020</li> </ul>
<b>Finance</b>
<ul style="list-style-type: none"> <li>▪ Red Eléctrica Corporación S.A. 2020 Results and Strategic Plan 2021-2025</li> <li>▪ EMTN Base Prospectus 4 June 2020</li> </ul>
<b>Additional documents</b>
<ul style="list-style-type: none"> <li>▪ Grupo Red Eléctrica Sustainability Report 2019</li> <li>▪ Press releases</li> </ul>

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
<a href="#">Corporate Ratings</a>	2.3	29.05.2019
<a href="#">Government-related Companies</a>	1.0	19.04.2017
<a href="#">Non-financial Corporate Issue Ratings</a>	1.0	October 2016
<a href="#">Rating Criteria and Definitions</a>	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Email-Address
Christina Sauerwein	Lead analyst	C.Sauerwein@creditreform-rating.de
Holger Becker	Analyst	H.Becker@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Email-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 23 March 2021, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 24 March 2021. There has not been a subsequent change to the rating.



The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

### ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

### Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

#### Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

#### Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the [ESMA website](#).

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