



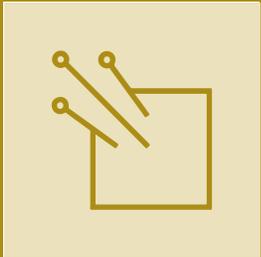
**RED**  
**ELÉCTRICA**  
CORPORACIÓN



The  
value of  
**connected**  
**energy**

# GENERAL SHAREHOLDERS' MEETING

22 March 2018



# José Folgado Blanco

CHAIRMAN





# Rafael García de Diego Barber

SECRETARY OF THE BOARD OF DIRECTORS





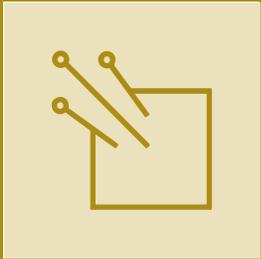
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# GENERAL SHAREHOLDERS' MEETING

22 March 2018



# Quórum





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value of  
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# GENERAL SHAREHOLDERS' MEETING

22 March 2018



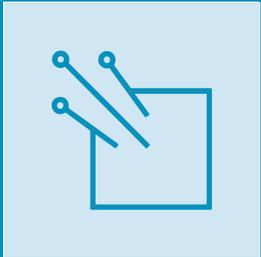
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The  
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# GENERAL SHAREHOLDERS' MEETING

22 March 2018



José Folgado Blanco

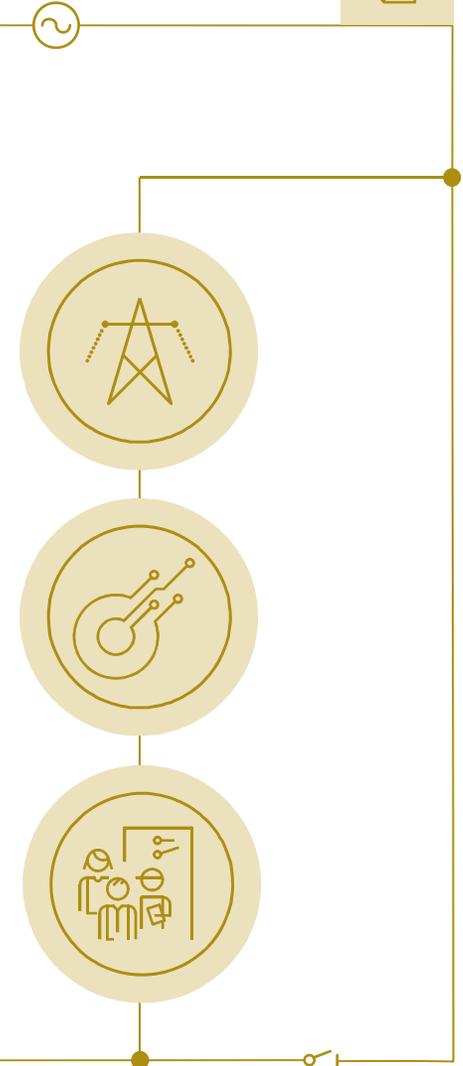
CHAIRMAN



# Main Indicators for 2017



- Revenue: **€1,941M**
- Increase in profit: **5.2 %**
- EBITDA Margin: **78.3 %**
- Total investments: **€510M**
- Increase in dividend per share: **7 %**
- Solvency ratios:
  - EBITDA/Interest: **10.3x**
  - Net debt/EBITDA: **3.2x**



# Macroeconomic performance



## SUSTAINED GROWTH OF THE SPANISH ECONOMY

- Healthy performance of domestic demand.
- Positive performance of external sector.
- Increase in employment.

## Enabling factors:

- Low interest rates.
- Socio-economic policy reforms and measures.
- Adaptation of companies to the new global economic context.

**2018-2019 OUTLOOK:**  
**Consolidation of growth at a more moderate pace.**

## ECONOMIC GROWTH 2017



**3.1%**

**Δ GDP**

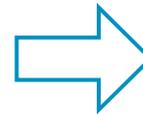
**Higher than that of the eurozone**

# Macroeconomic performance



## POTENTIAL RISKS AND UNCERTAINTIES

- **Global financial conditions:**
  - End of the central banks' ultra-expansionary monetary policies.
  - High prices of financial assets.
  - High levels of global debt.
- **Geopolitical environment:**
  - Uncertainty regarding US trade policy.
  - UK exit from the EU.
  - Risks facing European construction sector.
  - Challenge presented by the sovereignty movement in Catalonia.



**In this uncertain context the Spanish economy is performing well.**

# Energy context

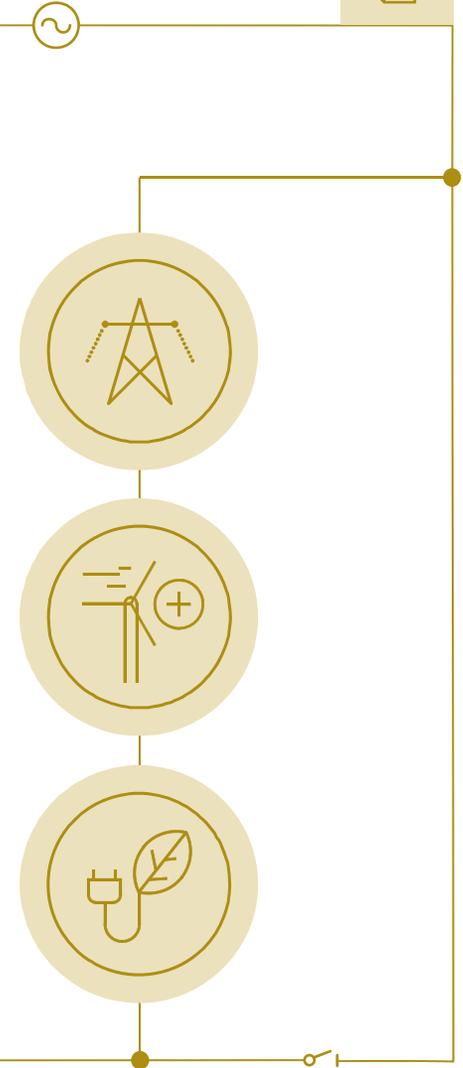


## OBJECTIVES OF THE TRANSITION TOWARDS A MORE SUSTAINABLE ENERGY MODEL

- Improve energy efficiency.
- Increase the presence of electricity as a source of end-use energy.
- Growing Involvement of renewable technologies in electricity generation.
- Clear trend toward the decarbonisation of the economy.

### In Spain

- The capacity of renewable generation has increased 53 % over the last 10 years.
- Nearly half of the generator park uses renewable technology [46 %].
- Transition towards a more energy-efficient production model.



# European energy policy



## EUROPEAN ENERGY OBJECTIVES

- Progress on the implementation of the “Energy Union Package” [new strategic framework to achieve EU targets for 2030]:



Reduction of emissions of CO<sub>2</sub>

**40 %**



Improved energy efficiency

**30 %**



Share of renewables

**27 %**



Interconnection capacity

**15 %**

- Spain will be one of the 4 countries that does not meet the goal of 10 % interconnection in 2020.
- Drawing up of list of community Projects of Common Interest that includes the interconnections with France [Bay of Biscay and Trans-Pyrenees] and with Portugal.

## In Spain

- Creation of the "Group of Experts" for the energy transition.
- Draft Climate Change and Energy Transition Bill.

# European energy policy



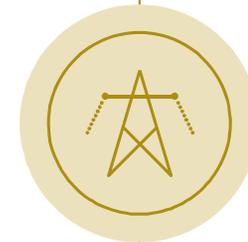
## LEGISLATIVE ACTIVITY IN 2017

- Start of consultation regarding the legislative package entitled “*Clean Energy for all Europeans*”  
[“Winter Package”]



### OBJECTIVE

Establish a new **regulatory framework** in the transition towards **energy that is clean, reliable** and offered at the lowest cost to all consumers.

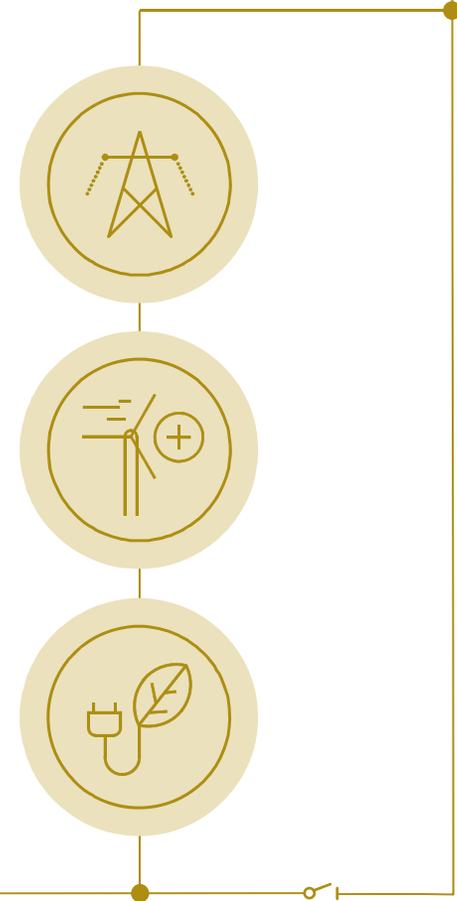


# Regulation in the electrical power industry



## ELECTRICAL REFORM

- **New provisions published:**
  - Two tenders for renewable new generation (8,000 MW awarded)
- **Settlement of regulated income and costs:**
  - €1.440 billion surplus between 2013 and 2016 (will rise with 2017 settlement).
  - Forecast for 2017-2021: surplus of €150M per annum.
- **Operation of the energy production market:**
  - No review is planned at short-term.



# Regulatory context of Red Eléctrica



## 2016

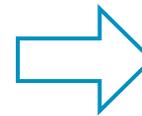
- Regulatory implementation of RD 1047/2013 was completed.
  - New remuneration model for transmission activity.
  - Regulatory framework for the calculation of transmission income until 2019.

## 2017

- The review process for the financial remuneration rate for the 2020-2025 regulatory period began:
  - Remuneration rate for assets: Spanish 10-year bond yield + a spread.

## 2018

- Forecast for new methodology for the remuneration of the electric system operation activity.
  - More objective and transparent.



### OBJECTIVE

Obtain suitable profitability that benefits consumers and enables sufficient capital to be raised for important future investments.

# Regulatory context of Red Eléctrica



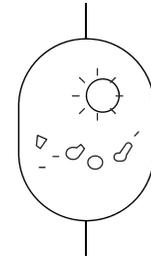
## 2016

- REINCAN presented the reform of the initial project for the Soria-Chira pumped hydro plant.
  - Includes technical and environmental improvements.

## Progress in 2017

- The Gran Canaria Island Water Board granted administrative authorisation for the new project.
- Assessment of the Environmental Impact of the project began.
- The remuneration framework for investment in this activity has yet to be defined.

SORIA/CHIRA  
PLANT  
on Gran Canaria



320

€M  
invested

Improve the security  
of supply  
and the integration  
of renewables  
on the Canary Islands

# 2030 Commitment to sustainability



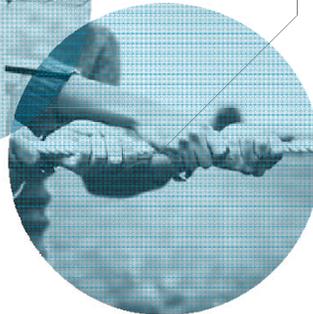
## OUR SUSTAINABILITY PRIORITIES

Decarbonisation of the economy

Anticipate and act in relation to the change

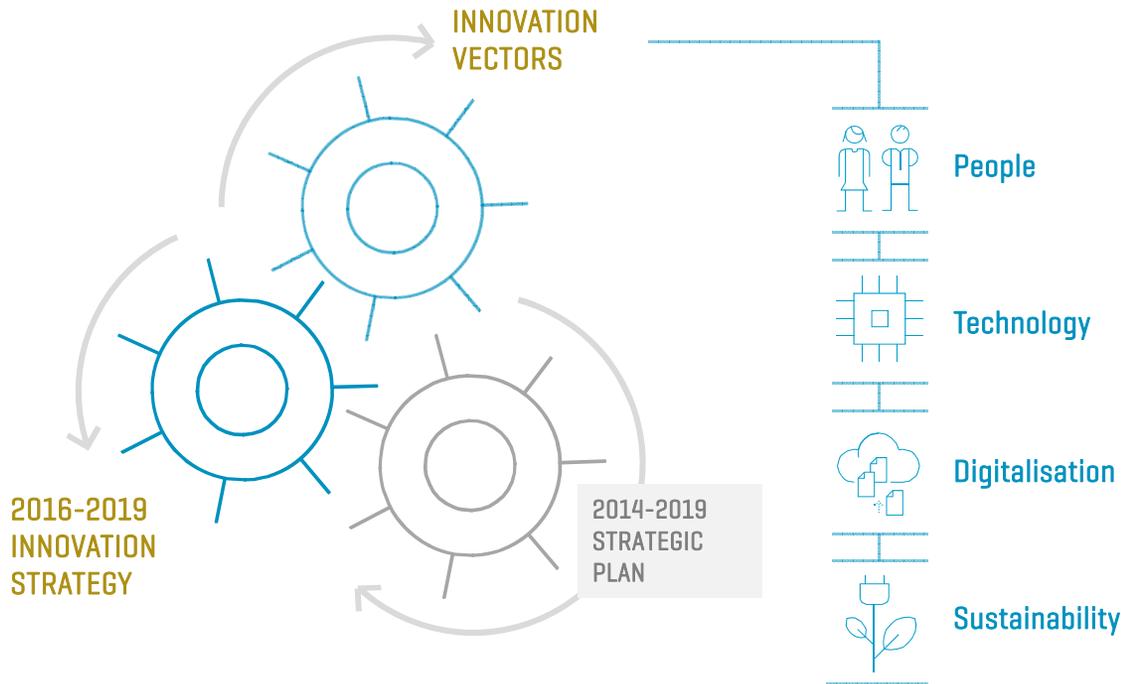
Contribute to the development of the surrounding area

Responsible value chain

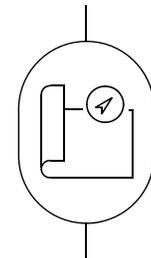


We at the Red Eléctrica Group have made a commitment to strategic, cross-cutting sustainability with a long-term vision.

# Innovation



## INNOVATION Projects



85

PROJECTS  
in progress

€9.3M  
invested  
in innovation  
in 2017

## HEADLINE PROJECT: GRID2030 Innovation Programme

Multi-year collaboration programme with researchers, start-ups and businesses, unique in Spain, which explores innovations of a technical and socio-economic nature related to the operation and transmission of energy.

# Responsible environmental management



## AREAS

## ACTIONS

Environmental management of projects

- Application of strict environmental criteria in the implementation of facilities.
- €22.7M environmental costs in 2017.

Integration of infrastructures in the environment

- Environmental appraisal in all projects.
- Development of landscape integration actions for facilities.

Conservation of biodiversity

- New 2017-2021 Biodiversity Action Plan.
- Plan to mark all critical power lines for birds (2017-2023).
- Restoration of degraded areas: “REE Forest” project [778 ha restored and €1.8M invested between 2009 and 2017].

Reduction of carbon footprint

- Significant reduction in greenhouse gas emissions.

# Good Governance



## AREAS

## ACTIONS

### Board of Directors

- Approval of the contingency plans for succession of the Chairman and the CEO.
- Approval of the Onboarding Plan for New Directors
- Digitalisation of the Board and Committees.
- Self-evaluation of the Board with the support of an outside consultant.

### Remuneration of Directors

- 2018 Remuneration: the same amounts and types of remuneration as in 2017.

### Gender diversity

- 33 % of the Board is comprised of women: a prominent position within the IBEX.

# Good Governance



## AREAS

Comprehensive risk management system

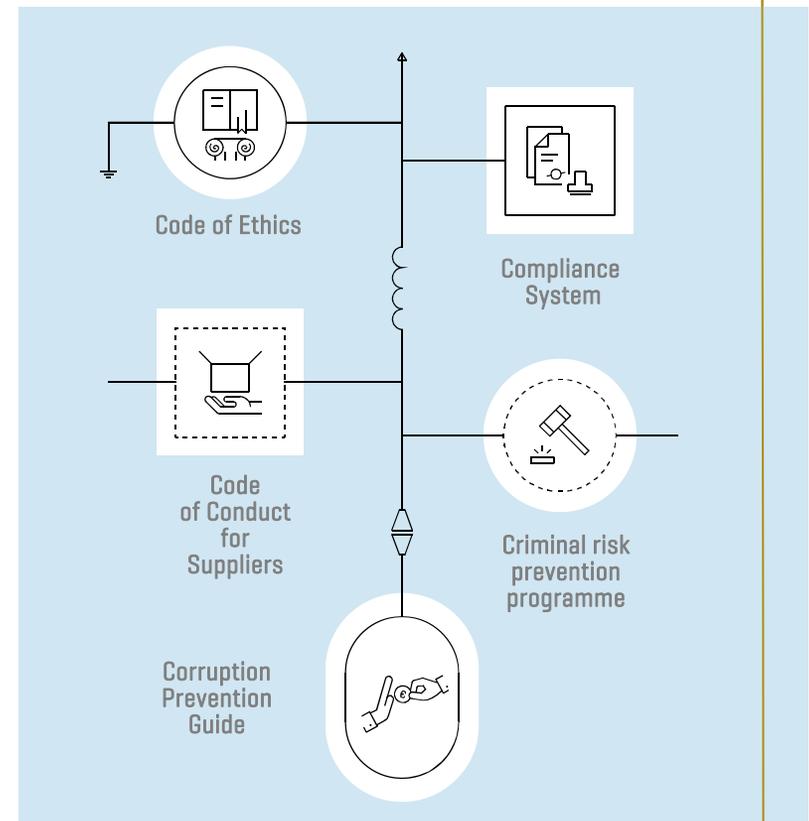
## ACTIONS

- Ongoing incorporation of international best practices.

Ethics and Compliance

- Development of a plan to raise awareness and disseminate the compliance system to the entire organisation.

## INTEGRITY MODEL



# People



## AREAS

Commitment to talent and equality of gender and opportunities

## ACTIONS

- 24.4 % of the work force is women.
- 24.8 % of senior management positions are occupied by women.
- 100 % of senior management appointments were through internal promotions [83.3 % were women].

*Group Data in Spain*

Healthy company model

- Significant reduction in accident indicators among employees and contractor personnel.

**Red Eléctrica obtained the highest score (100 points) in the *Dow Jones Sustainability Indices* assessment in relation to **Human-Capital Development and Labour Practice Indicators** criteria.**

# Main recognitions



## DOW JONES SUSTAINABILITY INDICES

World's Best Company  
in terms of sustainability in the  
Electric Utilities industry and  
leader in  
the Utilities super-sector  
that covers the electricity, gas  
and water industries.

MEMBER OF  
**Dow Jones**  
**Sustainability Indices**  
In Collaboration with RobecoSAM

## GOOD GOVERNANCE

### BEST EUROPEAN UTILITY

IN RELATION  
TO CORPORATE  
GOVERNANCE

For the second  
year running

By the prestigious  
magazine  
Ethical Boardroom

## EXCELLENCE IN MANAGEMENT

Renewal of the  
EFQM European  
500+ excellence  
award, with a score  
of over 700 points.



# Conclusions



## Three significant challenges for the coming years

**1.** Maintain our goal of **excellence** within **sustainability and good governance.**

**2.** Successfully **approach** the **challenges** posed by the new context of the **energy transition.**

**3.** Increase our commitment to **expanding the business base, both internationally and in telecommunications.**



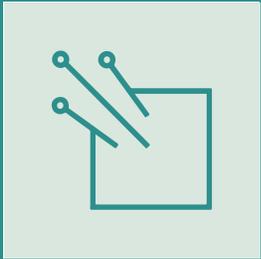
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The  
value of  
**connected**  
**energy**

# GENERAL SHAREHOLDERS' MEETING

22 March 2018



Juan Lasala Bernad

CHIEF EXECUTIVE OFFICER



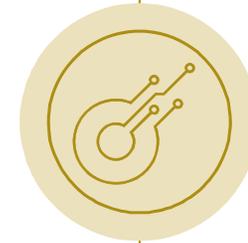
# Economic environment and context



We are facing a demanding and challenging period...  
... that will present opportunities

## OUR STRENGTHS

1. We have significant investment capacity.
2. We perform a vital activity for the country's economy and development.
3. Our solvency position and performance is strong.



# Key Events in 2017



## More meshed and interconnect transmission grid

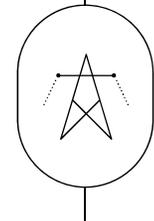
### HIGHLIGHTS

- **147** kilometres of new lines.
- **110** new substations.
- **1,210** MVA improvement in transformation capacity.
- **98.28** % availability for the national transmission grid.

### PURPOSE OF INVESTMENTS

- **Resolution** of technical restrictions.
- **Bolstering** of transmission grid meshing.
- **Execution** of interconnection projects between electrical power systems.
- **Actions** necessary to guarantee security of supply and grid reliability.

Investment  
IN THE  
TRANSMISSION  
GRID



€412

M  
invested in  
2017

# Key Events in 2017



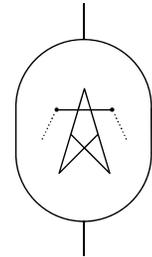
## Most significant actions related to the transmission grid

### MAJOR LINES

- **Lanzarote-Fuerteventura line:** improved meshing of the grid on the islands.
- **Olmedo-Zamora line.**
- **Venta de Baños-Burgos-Vitoria line.**
- **Campanario-Ayora-Cofrentes line.**
- **International interconnections:**
  - Commissioning of phase-shifting transformer on the Arkale-Argia 220 kV line.
  - Start-up of interconnection with France through the Bay of Biscay.
  - Supply to Northern Gerona to improve the interconnection with France.

Bolstering of grid meshing and powering of high-speed train.

### HEADLINE PROJECT



Start of interconnection projects between electrical power systems

**Spain-France**  
370 km through Bay of Biscay  
(280 submarines)

### Facilities in commission in 2017

**43,793** km of lines

**5,601** substations

# Key Events in 2017



## International business: significant progress on investments

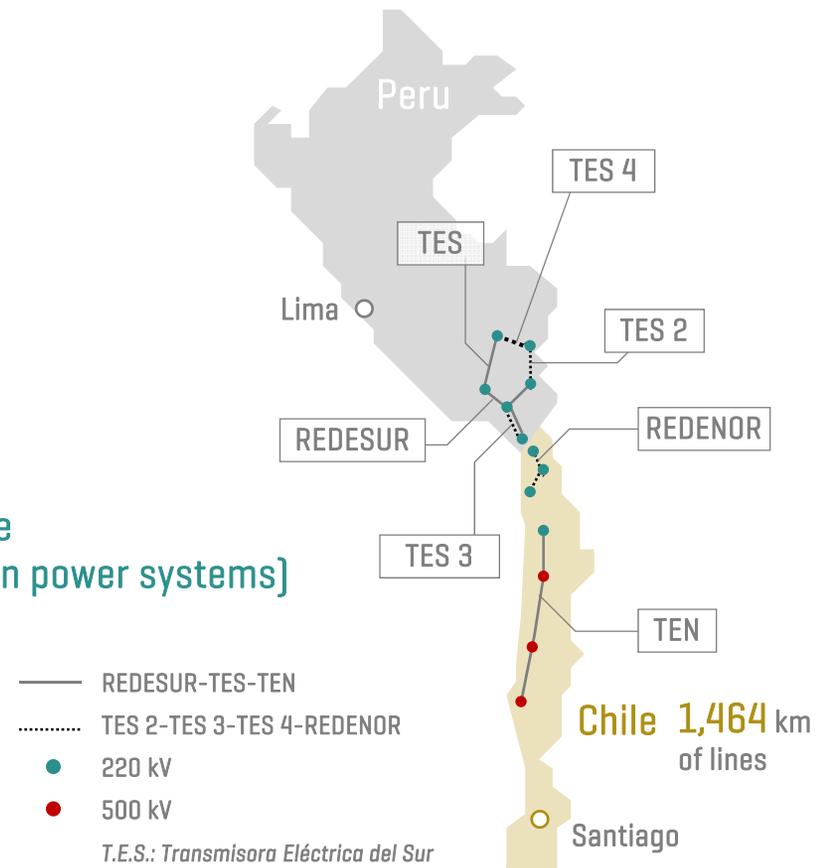
### PROJECTS IN CHILE

- **New projects in the north of Chile:**

- 258 km 220 kV line.
- \$100M invested.
- Strengthen our position for the future interconnection between Chile and Peru.
- It will be carried out by REDENOR [subsidiary in which the Group has a 70 % stake].

- **Commissioning of the Mejillones-Cardones line [interconnection of Chile's central and northern power systems]**

- 600 km 500 kV line
- \$800M invested.
- Project executed by TEN [subsidiary 50 % owned with Engie Chile].



# Key Events in 2017



## International business: significant progress on investments

### PROGRESS ON INVESTMENTS IN PERU

- Upcoming commissioning of the 220 kV Azángaro-Juliaca-Puno line.
- Start of construction on the 220 kV Montalvo-Los Héroes line.
- New projects awarded in 2017:
  - 220 kV Tintaya-Azángaro line.
  - It will close the ring composed of the Group's other facilities in southern Peru.
  - It will be executed by Transmisora Eléctrica del Sur 4 [REDESUR subsidiary].

**Definitive installation of the Group in Chile and significant progress on investments in Peru.**



# Key Events in 2017



## Energy storage on Canary Islands

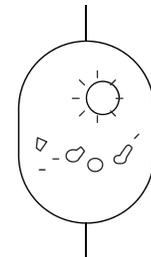
### CHIRA-SORIA PUMPED HYDRO PLANT

- System operation tool to improve the sustainability of the Canaries electrical power system:
  - Greater supply guarantee.
  - Greater security of the electrical power system.
  - Greater integration of renewable energy.
- The process for Evaluating the Environmental Impact of the project began in 2017.

### POSSIBLE REVERSIBLE PUMPING STATION PROJECT IN TENERIFE

- Preliminary studies were conducted on various viable options in 2017:
  - Based on technical, environmental and economic parameters.

SORIA/CHIRA  
PLANT  
on Gran Canaria



200

MW

of power  
of turbination  
and 220 MW  
of pumping

# Key Events in 2017



## Performance of the telecommunications business

### KEY DATA

- Fibre optic network of 33,000 km, meshed and deployed across two infrastructures: the electricity transmission grid and the railway network.
- Growth driven by the developing customer base and network interconnection.
- 49 % market share of dark fibre rental.
- €86.5M in income associated with the telecommunications business in 2017.



**We are the benchmark neutral operator in Spain in the management of dark fibre optic networks.**

# 2017 results: key figures



Millions of euros	2016	2017	Δ %
Revenue	1,932	1,941	0.5
Gross operating profit (EBITDA)	1,486	1,519	2.3
Profit before tax	851	890	4.6
Profit for the year	637	670	5.2
Investments	643*	510	

[\*] The 2016 investment figure includes the payment of 50 % of the share capital of the Chilean Company TEN.



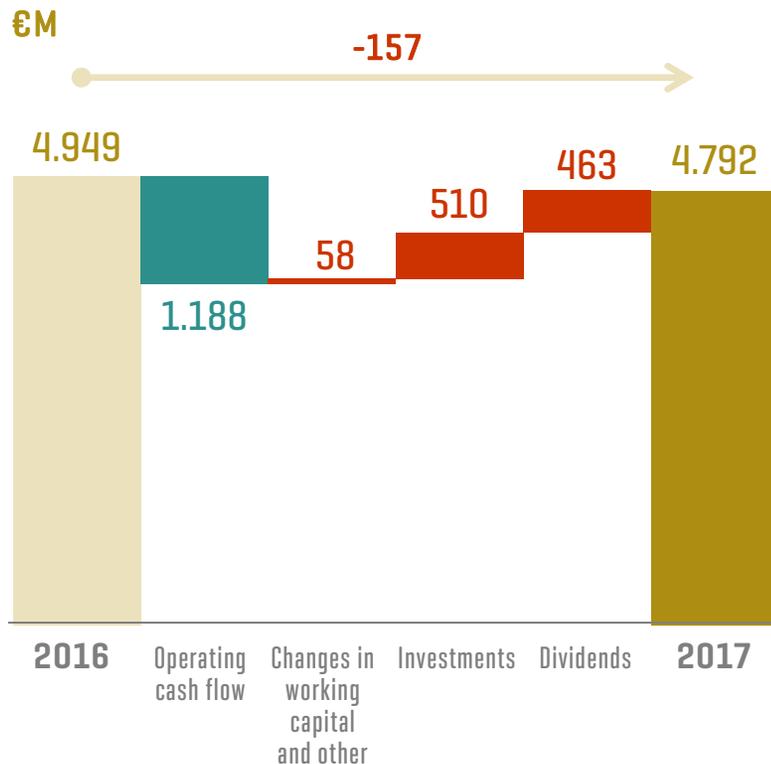
**2017 increase in profit: 5.2 %**  
**EBITDA Margin 2017: 78.3 %**

**2017 Dividend: €0.9188/share**  
**[7 % increase]**

# Financial strength and solvency



## Performance of net financial debt



### DEBT STRUCTURE

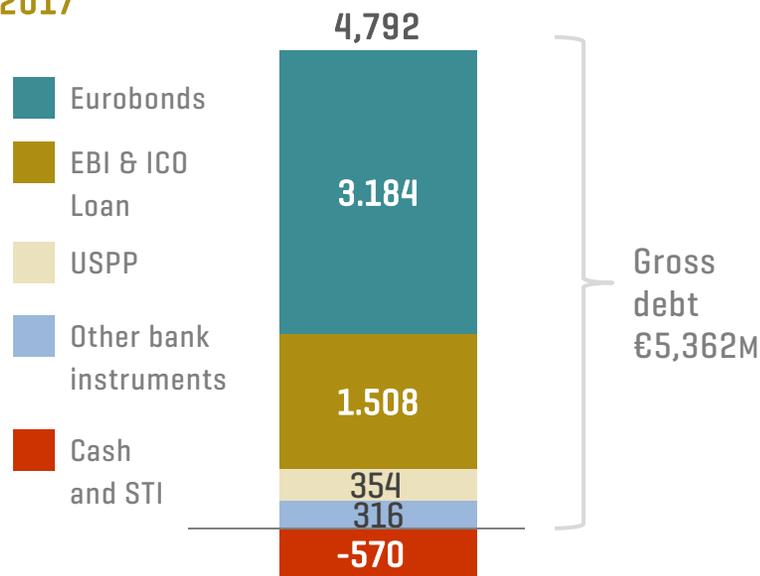
Average term of debt	5.3 years
Cost of debt	2.78 % [2016: 2.94 %]
Fixed-rate debt	89 %
Long-term debt	84 %

# Financial strength and solvency



## Debt structure by instrument

2017



## SOLVENCY RATIOS

	2016	2017
EBITDA/Interest <sup>1</sup>	9.4x	10.3x
FFO/debt	23.2 %	24.8 %
Net debt/EBITDA	3.3x	3.2x

1. EBITDA/Net finance costs excluding capitalisations.

Signature of **syndicated credit facility for €800M with sustainability criteria.**

**[First sustainable syndicated credit facility in the electricity sector]**

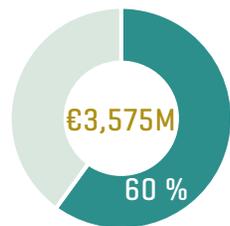
# Preview of the 2014-2019 Strategic Plan



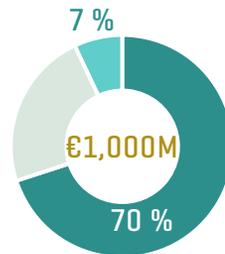
## 2014-2017 achievements

2014-19 investment: €4,575M

Consolidated activities

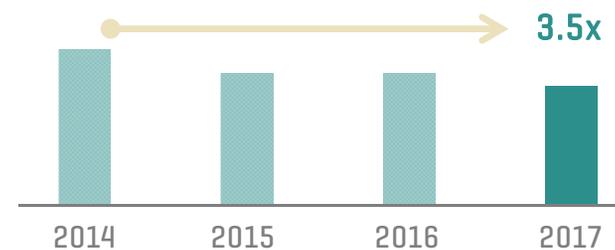


New activities



■ Made ■ Committed ■ Pending

2014-19 financial structure:  
Net debt/EBITDA 3.5x



2014-19 efficiency: EBITDA margin  $\geq$  200bps

2017 EBITDA Margin: 78.3 %

Control of operating costs

2014-19 growth: EPS 5-6 % & DPS 7 % CAGR

EPS growth: 6.1 % CAGR 14-17\*

DPS growth: 7 % CAGR 14-17

\*Calculated based on 2013

# Business diversification



## Actively seeking opportunities

### INTERNATIONAL

- Analysis of new investment opportunities in countries with a consolidated presence [Peru and Chile].
- Opportunities in markets that are stable, low risk and suitably profitable.

### TELECOMMUNICATIONS

- Assessment of the potential acquisition of a stake in the share capital of HISPASAT.



### OBJECTIVE

Make the company  
a global manager  
of strategic infrastructure.

# Energy transition. 2030 Horizon



## Paris Agreement December 2015 (COP 21) & Clean Energy Package

- 40 % reduction in greenhouse gas emissions
- 27 % share of renewable energy.
- 30 % improvement in energy efficiency.
- 15 % interconnection capacity between electrical power systems.



- Draft Climate Change and Energy Transition Bill in Spain.
- Committee of Experts for the energy transition.

## Change to less emitting energy vectors. Development of emission-free generation and increased energy efficiency:

- Electrification of the economy.
- Energy storage.
- Increased renewable capacity
- Management of demand.



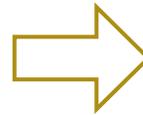
The role of electricity grids will be key in the transition towards a zero-emissions energy model.

# Energy transition. 2030 Horizon



## Key role of network operators

- Increase the interconnection capacity:
  - Bay of Biscay and Trans-Pyrenees interconnections.
  - Links on Balearic and Canary Islands.
- Guarantee system operation with significant contribution of intermittent generation.
- Integration of distributed resources: electric vehicles.
- Active management and control of demand.
- Energy storage.
- Digitalisation and automation.



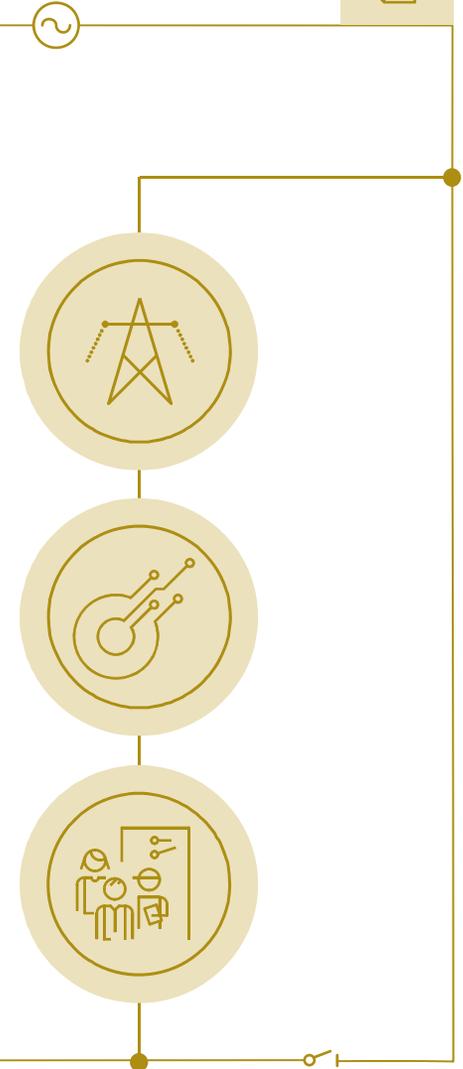
**The energy transition and modernisation and digitalisation of grids requires investments in the electrical transmission grid beyond the fifteen-year historical average.**

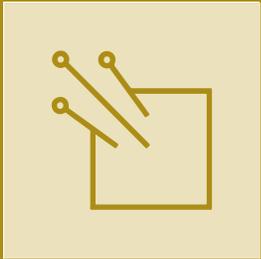
# Energy transition. 2030 Horizon



## Challenges for the energy transition

- Financial stability of the electrical power sector.
- Adequate profitability to enable the investment necessary for the transition of the energy model.
- Turn the electrical tariff into a signal of efficient pricing.
- Promote the lengthening of the useful life of the pre-98 facilities.
- Benefits for the consumer and society.



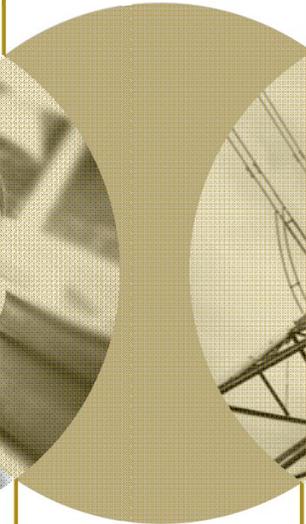


# Quórum





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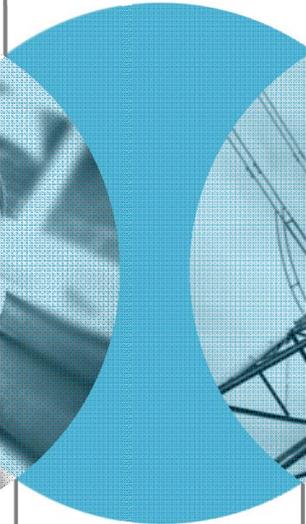
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