



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS

GENERAL SHAREHOLDERS' MEETING 2018

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INTRODUCTION

Hello and welcome.

Dear shareholders, it is a privilege to address you all at this General Shareholders' Meeting. I would like to use the occasion to share with you my vision for this great company, to which we as members of the board of directors owe so much, as do the rest of the team.

As you will well know, the Red Eléctrica Group is hitting its targets set in the strategic plan. But I will set aside our triumphs, to say that we are facing a challenging time. Murmurs about regulatory changes, an economic scenario that is fearful of growing interest rates, and the strict competition that our foreign investment projects face are all proof of the tough context in which we do business. However, the Red Eléctrica team will always be motivated, engaged and willing to overcome.

Firstly, we have the good fortune of sharing a company with an excellent investment capacity, with the challenge of developing investment contained in our strategic plan and with projects over the coming years that will be engineering milestones, such as the future submarine interconnection with France or the Chira-Soria pumping station on the Canary islands.

I am sure you will agree that our company is a key part of the domestic economy and national growth. Its core role in the Spanish electrical system, the importance of its telecommunications business and its work in Chile and Peru to contribute to modernising and developing both countries means that we can look to the future with optimism.

It is our intention to spread our knowledge to other business areas, and we set that commitment in the Strategic Plan 2014/2019. We want to take a major leap to become a large infrastructures manager, while maintaining our core role as a transmitter and operator of the Spanish electrical system.

In all this, we put the interests of our shareholders at the forefront. We share a company that offers high dividend returns that, thanks to our excellent solvency, we will continue to offer over the coming years.

SIGNIFICANT EVENTS IN 2017

2017 has been an intense year marked by the achievement of milestones that, as I have said, show us that we are on the right track to meeting our 2019 goals.

Regulated activity

With respect to regulated activity, €411.8 million was invested in the transmission grid in 2017, essentially to resolve technical restrictions, to mesh the grid, to execute special international interconnections and submarine interconnection between islands, and to guarantee security of supply and the reliability of the grid.

This year, nearly 150 km of circuit was commissioned, which places the total Red Eléctrica transmission network in Spain at approximately 43,800 km. Our transformation capacity rose by 1,210 megavolt amperes, to reach a total of 86,654 megavolt amperes nationally. The simultaneous high service quality and operative efficiency of our facilities have given us an availability index of 98.29% in the national grid.

In order to contribute to an energy model based on secure supply, sustainability and competitiveness, which also helps to alleviate the effects of climate change, Red Eléctrica has continued to develop the Electrical Infrastructures Plan 2015-2020 approved by the Government.

Highlights include the commissioning of the first facilities of the Lanzarote-Fuerteventura connection, which will improve meshing of the grid between the two islands and the connection between them and will enable the delivery of energy from the normal and special regimes.

In terms of international interconnections, the Arkale Phase Shifter has been commissioned, which will be key to increasing exchange capacity with European and security of supply, as well as power to the northern Girona area. The connection, which is slated to be completed next year, is related to the interconnection with France that was commissioned in 2014.

Likewise, work has been carried out in the western interconnection with France, with preliminary studies being performed on continuous current submarine cable laying in the Bay of Biscay.

Other facilities have been commissioned to bolster the meshing of the grid, such as the Tabara substation in the Olmedo-Zamora axis, and new facilities in the Campanario-Ayora-Cofrentes

axis, to consolidate support between the autonomous regions of Castile-La Mancha and Valencia, and to reinforce the power supply of the high speed Madrid- Levante railway. Some facilities included in the Venta de Baños - Burgos – Vitoria axis have been commissioned, partly owing to the need to power the Burgos-Vitoria high speed rail line.

Our annual maintenance programme includes all activities and resources necessary to guarantee electrical supply continuity. In 2017, we worked on establishing cybersecurity tools to improve safe access to electronic transmission grid equipment, and on improving efficiency in facility maintenance activities.

In terms of system operation, Red Eléctrica has continued to guarantee electrical supply security and continuity, while making it compatible with maximum integration of renewable energies. The work of the Renewable Energies Control Centre has been vital for this, contributing towards 33.8% of the energy integrated in our mainland system coming from renewable sources.

International activity

The development of international business is a natural growth path for Red Eléctrica and an area where in the past few years we have been especially active. In 2017, a number of milestones were hit that amounted to the Group's permanent installation in Chile and significant progress in our investments in Peru.

In June, the consortium formed by Red Eléctrica Internacional and Cobra, in which Red Eléctrica holds a 70% stake, was awarded a new project in northern Chile for the construction of a 258 km, 220 kV line, which will end in Arica and will entail an investment of \$100 million. This new line, which consolidates our investments in the north of the country, places us as one of the leading actors in a future interconnection between Chile and Peru, where, as you will all know, we manage the transmission network for the south of the country.

In November, we commissioned the Mejillones-Cardones line, a 500 kilovolt, 600 km long line that is the first connection between the Sistema Interconectado del Norte Grande (SING) and the Sistema Interconectado Central (SIC) in Chile. The project was executed by Transmisora Eléctrica del Norte (TEN), a company that we purchased 50% of in 2016, while the remaining 50% continues to be held by our partner Engie Chile.

The operation of this line has underlined the relevance and strategic nature of this infrastructure, having been commissioned earlier than initially anticipated and under budget, with a final cost of around \$800 million.

Additionally, in January last year, we consolidated our presence in Peru with the acquisition of a 45% stake in Red Eléctrica del Sur (REDESUR), which was owned by the Peruvian investment fund AC Capitales. With this deal, the Group now is the sole owner of the company. This acquisition has allowed us to optimise the corporate structure of our stakeholdings in Peru and undertake future investments in the country.

From an operative perspective, in 2017 we made significant progress with projects that we were awarded in 2015. Construction has begun on the Montalvo-Los Héroes 220 kV line and, as planned, the Azángaro-Juliaca-Puno 220 kV line will be commissioned in the first half of 2018.

In addition, at the end of the year we were awarded a new project, a line that will connect the Tintaya and Azángaro substations, allowing us to manage a ring-shared grid in the south of the country.

Upon completion of the currently on-going projects we will manage more than 1,300 kilometres of transmission lines in the south of Peru, where we are now consolidated as the leading manager of transmission grids.

Moreover, we are continuing to seek our new international investment opportunities pursuant to the investment criteria established in the Strategic Plan 2014-2019, focusing on low-risk investment profiles and stable regulatory frameworks, with a meaningful stake in companies and very active involvement in their management.

Soria-Chira

With respect to energy storage, we pushed ahead with the Soria-Chira plant project on Gran Canaria, which will become an operational tool of the system to guarantee supply to the islands, as well as improving system security and optimising the integration of renewable energies.

In 2017, we successfully renewed the concession on the dam waters and basin of the Chira dam for hydroelectric use. The Environmental Impact Study began in September; at the end of the year, we published in the Official Journal of the European Union the need to hire the services of an architect, works manager and technical assistant for the new project.

Work has been carried out on the preliminary studies for the potential reversible pumping project in Tenerife. More than 60 alternatives for implementation have been identified, according to terrain, of which the technically viable options were selected following an analysis of the minimum power and energy needs. In a second study, those options were analysed according to economic, technical, environmental and social parameters. During the year, it is expected that we will conclude the base plans for the top two options, in order to select the best option and take the next steps.

Telecommunications

With respect to the telecommunications area, the results of our subsidiary REINTEL confirm once again the positive performance of the Group's fibre optic business.

Following the acquisition at the end of 2014 of the usage and exploitation rights of the rail network fibre optic network, Red Eléctrica has consolidated its position as the benchmark neutral operator in our country of electric and rail dark fibre optic networks.

The telecommunications business has increased its weight in the company throughout the last three years, with an annual contribution to the Group's turnover of 85 million.

Throughout 2017, we worked intensely to seek out new telecommunications investment opportunities to bolster the current business, based on neutral management and the commercial exploitation of infrastructures, and creating value for our shareholders.

RESULTS AND FINANCIAL STRENGTHS

2017 Results

Having looked back at 2017 milestones, I will analyse results for the period and the Group's financial strengths. In 2017, Red Eléctrica obtained solid results and considerable bolstering of its main solvency ratios.

Turnover was €1.941 billion, a 0.5% rise year on year. This figure includes transmissions remuneration in Spain, which includes 2016 commissioning. Income associated with associated with the provision of telecommunications services reached €86.5 million. Regulated income from system operation was €56 million, and income from foreign transmission activity reached €19.6 million.

EBITDA totalled €1.5195 billion, up 2.3% on the previous year. This improvement is the result of operating cost containments and the company's efficiency measures.

Our demanding remuneration framework means that greater efficiency is recommended, maintaining an adequate level of quality in the engineering, construction and maintenance of facilities, following austerity, stringency and cost prioritisation criteria.

These practices, together with the application of other criteria such as sustainability and efficiency in the development of activities, or the tying of salaries to company goals, have led us to EBITDA in 2017 of 78%. It is our intent to maintain those efficiencies, hitting the target that we set to improve EBITDA by at least 200 points.

Therefore, profit for the year was €670 million, which is a 5.2% improvement year on year.

In 2017, we invested €510 million. Although that number is lower than the previous year, it is worth noting that the 2016 figure included the purchase of 50% of the Chilean company TEN. Without factoring in that deal, 2017 investment would be 15% up on 2016. Investment in the national transmission network was €411.8 million, a 3.3 % rise on 2016.

Focusing on financial structure, net financial debt as of 31 December 2017 was €4.792 billion. Strong cash generation from improved results has allowed us to make investments of over €500 million and a dividend payment of €463 million, while the Group's financial debt levels have been steady and ended slightly lower than last year.

The average cost of debt has dropped from 2.94% last year to 2.78% this year, with an average life of 5.3 years. 89% of financial debt is fixed rate to maturity, and mainly euro-denominated. By year-end, only 3% of debt was tied to the dollar.

The company has buoyant solvency ratio, with an EBITDA over interest that is notably improved on the previous year, reaching 10.3 times and a funds from operations to total debt ratio of nearly 25%.

In terms of debt structure per instrument, we have well-diversified debt. With respect to long-term debt maturities, repayments in the next four years are covered by liquidity sources, which are in excess of €2.2 billion.

In June 2017, Red Eléctrica made a Euro market note issue for €200 million, maturing in 9 years and at 1.065% cost.

In addition, in December, Red Eléctrica transformed its €800 million syndicated credit into green financing, by adding environmental, social and good governance criteria to its interest rate. It is a great achievement for us to have signed the electrical sector's first sustainable syndicated credit.

In 2017, Fitch and Standard & Poor's issued positive reports on the company, keeping Red Eléctrica's rating at 'A' and 'A-' respectively.

Our financial policy in line with the new remuneration model, as well as the maintenance of diversified financial debt and a high liquidity position to cover forthcoming maturities, provide us with a solid launch point in the path to meeting our objectives, as we benefit from an ideal capital structure for the financial implementation of our strategic plan.

Progress in the Strategic Plan 2014-2019

If I may, I will now give you a brief overview of how our strategic plan is developing. We have already made 60% of the planned investment in consolidated activities, investment in the domestic transmission network and fibre optic networks. In new investment opportunities, we have made progress of 77% between investments made and committed in storage, and new opportunities in electricity transmission in stable markets that offer the correct returns.

The Strategic Plan 2014-2019 included an ambitious investment plan of more than €4.5 billion: €3.5 billion on the Spanish national grid and fibre optic networks, and €1 billion for energy storage and international business.

The delay in approving the 2015/2020 Planning, the delay in the arrangements to obtain administrative permits for projects and greater socio-environmental sensitivity are some of the reasons that have proven to be barriers to investing in the Spanish national grid and in storage on the Canary islands, which has meant that some of the remaining investments have been pushed back. We believe that around 10% of our investment in regulated transmission in Spain until 2019 will be pushed back until after this financial year. However, we continue to strive to meet all our targets.

The greater demand of operation and maintenance unit costs approved at the end of 2015 has meant a greater effort by the company in reviewing operation and maintenance policies, while maintaining our quality standards in construction and operation.

These achievements have been made while also maintaining an average "Net Debt/EBITDA" solvency ratio of around 3.5X, allowing us to maintain a credit rating above sovereign rating, which is key for a company whose remuneration is linked to the Spanish ten-year bond performance.

Additionally, earnings per share for the period of 2014-2017 have grown by an average of over 6% and we have kept our promise to the market to distribute a dividend per share that has grown 7% yearly during the period.

In the international context, as I have already mentioned, we will continue to be especially active in analysing investment opportunities in countries where we already have a consolidated presence, particularly in the tender processes being held in Chile and Peru. We will continue to explore other potential acquisitions of construction or exploitation assets that may arise in countries that meet the Red Eléctrica Group's criteria.

In telecommunications, a number of different investment opportunities have been analysed. As we reported in a significant event in October, the company is assessing the potential acquisition of a stake in Hispasat.

This is a company of great interest to Red Eléctrica, based on the commercial management of a critical telecommunications infrastructure for the country, with exploitable assets in similar conditions to those of our fibre optic business, with clients and contract types that are very similar to the Group's current telecommunications business.

Satellite signal transmission would complement and boost our ability to offer telecommunications services, generating synergies and improving the quality and security of terrestrial signal transmission.

This potential deal forms part of our active search for investment opportunities that aims to turn Red Eléctrica into a global manager of strategic infrastructures. We aim to broaden the Group's opportunities, always adhering to neutrality, transparency and profitability, to ensure that we create value for you, our shareholders.

As we also stated in our market announcement, the company is yet to make any final decisions.

ENERGY TRANSITION 2030 OUTLOOK

If I may, I will briefly reflect on the company's challenges looking out to 2030.

In this context, electricity grids play a vital role. Our company will play a key role in the energy transition; growing our rate of international interconnection will be critical, which currently is below 3% with France-far from the 10% target set for 2020.

The new 370 km electricity line through the Bay of Biscay, 280 of which are submarine, will be a great addition to that interconnection by increasing supply security and guarantee, improving the efficiency of both electrical systems and enabling greater integration of renewable energies. The submarine and underground line will be continuous current and with a transmission capacity of 2 x 1,000 MW. The project, which is currently at consultation phase, will be operational between 2024 and 2025.

In addition, to be able to reach the nearly 8,000 MW level of interconnection, two new projects that cross the Pyrenees will be necessary.

New connections will also be required on the Canary and Balearic Islands to help to reduce the variable costs of generation and to secure supply in isolated systems.

The energy transition will be possible only with the back-up of a solid, sufficiently meshed and interconnected grid that has adequate management mechanisms, which will require investment in the transmission network to 2020 to be higher than the historical average of the last 15 years. To face these challenges, the electrical sector must achieve financial stability.

The reform of the sector undertaken in 2013 strengthened and clarified the principles and criteria for regulatory activity remuneration, and increased comparability with European TSOs, which altogether provided transmission activity with a more stable and predictable setting. This stability is essential, as is adequate remuneration of electricity grids, for the correct pursuit of very capital-intensive activities and of core elements of the energy transition.

The compatibility of the change to the energy model with maintaining our competitiveness and economic and social development of this transition is with minimum cost to the end consumer: on the one hand, measures should minimise necessary investments; on the other, they should guarantee investments that are strictly necessary to meet those targets.

The measures to minimise the impact of system costs would help to extend the useful life of facilities that provide key services, which include certain generation facilities and grids.

Ladies and gentlemen, we are facing the challenge of undertaking an energy transition in which stability and commitment to long term targets will be key. Meeting the targets set in the context of climate change is an opportunity to contribute to job creation, and to improving the economy and technological development of the country.

Red Eléctrica plays a key role and it will continue to exercise its responsibility as Spanish transmission system operator, focusing its efforts on creating value for shareholders and for the company in general. We will also continue to back growth of our business in foreign territories and in the telecommunications area.

We are technically prepared to do this and have shown our sound financial solvency. We will face future challenges as we have done during the development years of our strategic plan.

Many thanks for your attention.