



RED ELÉCTRICA

CORPORACIÓN

ANNUAL GENERAL SHAREHOLDER'S MEETING

CHAIRMAN'S ADDRESS

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INTRODUCTION

Good morning, ladies and gentlemen, shareholders and guests.

It is an honour for me, as Chairman, to address you on this important corporate occasion. I sincerely welcome and thank you, on behalf of the entire Board of Directors, for attending this Annual General Shareholders' Meeting of Red Eléctrica. I also wish to convey my thanks to all who are following this Meeting via the webcast.

To understand the true value of the economic and financial results of our business group in 2012, results that we submit for the consideration of this Annual General Meeting, we must place them in the complex environment in which we currently find ourselves regarding finance and energy. Results that, are clearly positive in terms of profit, EBITDA and net income, were lower than those originally planned in logical coherence with the effects of the current economic environment on our business. In this sense, we have to take into account the depth of a crisis which for the fourth year running is hitting the Spanish economy extremely hard. A lot has been said about the crisis and I don't want to spend too long talking about the causes of the crisis however I would like to talk to you about two main areas which should lay the foundations for the upcoming future which surely will be more positive and hopeful: the thorough process of internal economic adjustment taking place in the business fabric and the economic reforms that have been implemented by the government. Progress is being made in what I understand are the four solid pillars of sustainable growth of our economy as of the end of this year.

The first pillar would be the quest of Spanish companies to achieve greater efficiency, prompted by a very strong reduction of unit labour costs and by the implementation of business strategies related to resizing that seek to make gains in synergies and economies of scale as well as finding new markets. However, there is no hiding that there still remains a great challenge because we need to undertake financial deleveraging, as noted by the International Monetary Fund.

It has been the companies that have been the real protagonists in strengthening the second pillar of the recovery process and for attaining increased efficiency, and whose maximum exponent is found in the rebalancing of our financial accounts with the rest of the world; the current account balance for instance. Contribution to this is not only being made by lower imports, due to weak domestic demand, but also by the momentum in exports, which has resulted in an increase in the number of companies and target markets, specifically owing to the competitiveness that these have gained, as previously mentioned.

The third pillar comes promoted by structural reforms: labour, financial and public sector. And there are still others still, such as those related to market unity, administrative simplification and incentives for entrepreneurship and innovation. Also, as noted by the IMF, what we need is the "support for the development of new credit instruments for non-financial companies (such as guaranteed loans to small and medium enterprises)". But solid pillars have been laid in a society that wants to progress and give opportunities to new generations.

Finally, the fourth pillar consists of maintaining the well-equipped network of infrastructures and basic facilities that Spain has. Our country enjoys a privileged position compared to most countries with regard to roads, ports, airports, electricity and gas infrastructure, as well as cultural and educational resources, which will prevent us

from having a bottleneck in the growth process we all desire, hence being able to allocate more resources to other tasks such as innovation and entrepreneurial stimulus. It is logical to expect that the recovery of the path of sustainable economic growth, underpinned by these four pillars, will lead to increased demand for electricity.

The true fact is that, in this time of crisis, there has been a significant drop in electricity demand, particularly in 2012, of 1.5%, widening the gap between installed capacity, which is slightly over 100,000 MW, and energy demand, which at the moment does not exceed the 40,000 MW. However, we can look back in history and with hindsight say that this surplus rapidly narrows with economic recovery. In fact, in 1995 there was a surplus of unused installed power capacity close to that of today and six years later, at the end of 2001, when I was Secretary of State for Energy, we had an episode of insufficient installed capacity with the consequent need to apply power supply cuts.

ACTIVITY IN 2012

This context of economic crisis has, in recent years, led to a slowdown in the rate of investment in Red Eléctrica, in alignment with the approach taken by the Government. Compared to rates above 800 million in annual investment in 2010 and 2011, in the past year 2012, investments in the transmission grid were 672 million euros, which resulted in 860 kilometres of new line circuits and 188 new bays in substations being put into service. With these new facilities in service, we manage a safe and reliable electricity transmission grid with more than 41,000 kilometres of electricity line circuit distributed throughout the country. We are working, as is our obligation, on the development of an electricity transmission grid that is increasingly meshed, robust and better connected to neighbouring countries to provide additional transmission capacity and the highest level of quality of service to all consumers.

In 2012, the investment effort of the Company has continued to focus on the structural strengthening of the transmission grid and the development of international interconnections. This reinforcement of the grid, in addition to improving the quality and security of supply, is also helping to integrate renewable energy and provide an efficient and competitive operation of the electricity market. In this way, Red Eléctrica fulfils its mission to make available to all market agents, an efficient, safe and reliable electricity transmission grid operated with criteria of neutrality and independence

As you know, the government decided in 2012 through Royal Decree Law 13/2012, to bring to a halt the investment plan, with the exception of those investments that already had administrative approval. Months later and to prevent this putting on hold of investments from jeopardising supply, the Government approved, with good criteria, a package of investments that cannot be postponed in order to complete those that were already underway. This set of investments, which represents a clear and coherent modulation with economic reality, guaranteed a volume of annual investment until 2017 of between 550 and 600 million euros, which focus mainly on improving electricity infrastructure on the Islands, international interconnections and other investments on the Spanish peninsula needed to strengthen the grid meshing.

Although the rate of investment in the coming years is going to be conveniently modulated, it demands an increasing degree of concentration and capacity for dialogue and conviction especially with regional and local administrations and other organisations specialising in environmental matters to ensure the proper and timely execution of those investments established in the Electricity Grid Planning. We are especially involved in an active policy of sustainable development for the implementation of a transmission grid that is as integrated as possible into the environment.

Progress in the improvement of the acquired grids in 2010 (Islands)

One of Red Eléctrica's most important goals is to integrate, improve and upgrade the assets acquired from the electric utility companies. As you know, since 2010, we have been owners of the transmission grids on the Balearic Islands and the Canary Islands. Since then, there has been a significant reduction in the ratios of energy not supplied and average interruption time in the two archipelagos, where an ambitious plan is being carried out to upgrade and improve the facilities to increase the quality level of assets and fit them out to the standards of the Company.

Despite the improvements introduced in recent years, further work is needed to provide the optimal levels of security of supply for these Island systems. In this line, Red Eléctrica has launched an important investment plan for the coming years, which will be around the 125-150 million euros per year, in order to improve the grids on the Islands which exhibit relevant structural development needs.

One of the most noteworthy projects, from the point of view of security of supply and the structuring of the territory, is the Majorca-Ibiza submarine interconnection that will link the two electricity subsystems currently in the Balearic Islands: Mallorca-Menorca and Ibiza-Formentera. With this interconnection the entire Balearic archipelago will be connected to the peninsular electricity system.

Similarly, a milestone that I consider important is that the electricity interconnection between the Spanish Peninsula and the Balearic Islands, fully operational since the middle of last year, in December covered a constant 25% of the energy consumed in the connected Islands, easily surpassing the original objectives set regarding the quality, security of supply and cost savings for the system as a whole.

With respect to the Canary Islands, the main investments will be aimed at strengthening the transmission grid, with three objectives: to guarantee security of supply, also avoiding the risk of outages; to enable the integration of important plan regarding renewable energies existing in the Canary Islands, and to strengthen connections between Islands.

International Interconnections

Security of supply requires, in addition to continuing to develop grid meshing, the further strengthening of international interconnections in order to fulfil the target set at the Barcelona summit to reach a level of interconnection with the rest of Europe of at least 10% of installed capacity, which represents approximately 10,000 MW compared with the current capacity of 1,400 MW. Therefore, the strengthening of interconnections and, in particular, the new interconnection line with France is a priority in the development of the transmission grid.

This new line, whose commissioning is scheduled for late 2014 and whose total investment is 700 million euros, 50% co-financed with our neighbouring country and with the support of the European Investment Bank, will be the first interconnection put into service with the European grid for 30 years. With it, the current exchange capacity will be doubled reaching 2,800 MW, although this still leaves a shortfall. Therefore, a new interconnection is being considered for the 2020 horizon, from the Basque country, that would be submarine link through the Bay of Biscay. At present the technical and economic feasibility study of this project is being carried out by REE and

RTE as mandated by the two Prime Ministers, Mr Hollande and Mr. Rajoy agreed on in the last France and Spain bilateral summit.

Integration of renewable energies

As I mentioned earlier, Red Eléctrica, following the path initiated in previous years, has also continued to work with the objective of achieving a better integration of renewable energy into the electricity system, thus reducing CO₂ emissions to the atmosphere and allowing demand coverage to be carried out with intermittent energies without the security and quality of supply being affected.

Our Control Centre of Renewable Energy, CECRE, continues to be a control centre of international reference regarding the supervision and control of renewable energy. Its work enabled, in 2012, renewable energy production in the peninsular system to represent 32% of the global production with a special contribution of wind energy, which reached new all-time highs in demand coverage and instantaneous production, as well as hourly and daily energy. I wish to emphasize that we are again seeing these maximums being exceeded in 2013.

These facts reflect the ability of our company to safely integrate renewable energy, which is permitting these locally produced energies to have an increasingly greater role in covering electricity demand, thereby reducing our dependence on foreign energy.

FINANCIAL EVOLUTION 2012

2012, as I mentioned earlier, has been a difficult year for both the Spanish economy in general and for the electricity sector in particular and specifically for Red Eléctrica, as there have been a number of regulatory changes that have primarily affected transmission activity.

Major developments in this regard have been: the measures adopted in the electricity sector for the elimination of the tariff deficit, which have had an impact on Red Eléctrica due to the one year deferral in the collection of remuneration for commissioned assets and the 45 million euro cut in revenues of as a result of remunerating in service assets not amortised based on net worth; fiscal reform that eliminates the regime of accelerated depreciation and, therefore, the deferral of payment of company tax for investments made after April 1, 2012, and the first steps in developing a new Infrastructure Plan consistent with the economic situation in Spain and, consequently, the suspension of the authorisation to construct new transmission facilities.

Finally, earlier this year, a new Royal Decree was approved regarding the updating of the remuneration of the activities of the electricity system, with effect from January 1, 2013. As of that date, the consumer price index was replaced by a more restrictive one which excludes food and energy products.

In this regard, I would like to highlight the efforts being made by the Government to address through regulatory measures, one of the main problems in the electricity sector, the tariff deficit. The Government is decisively tackling the problem of imbalance in the sector and has announced that in a few months, the regulatory framework will have been defined and that there will be the necessary dialogue to ensure the adequateness of the measures. We are convinced that it will open a new scenario which will be more positive for the electricity system as a whole and specifically for Red Eléctrica, characterised by a greater regulatory stability and a more favourable economic environment. We understand that the remuneration model of the functions of REE, although it could be improved, is essentially correct, because it contains efficiency mechanisms that favour the entire system and we compare favourably with our counterparts from other European countries.

Nationalisation of TDE

Furthermore, as you know, on May 1, 2012, the Bolivian government decreed the nationalisation of our subsidiary in Bolivia, Transportadora de Electricidad (TDE).

After a long period of almost a year, in which we have attempted to establish a negotiation process with the Government of Bolivia to reach an agreement on the fair compensation that Red Eléctrica should receive, I must point out that, unfortunately, to date, we have not received any specific proposal regarding the compensation.

In this sense, we have only obtained from the Bolivian government references to the value of the company that are well below their fair value. We hope the Bolivian government will reconsider its position in upcoming meetings so as to not find ourselves forced to resort to an international arbitration proceedings process to resolve this situation in order to defend the legitimate interests of our shareholders and uphold our reputation.

I must remind you that, under no circumstance will this process have a negative impact on the financial statements of Red Eléctrica, because, as you know, in an exercise of sound judgment, in recent years we proceeded to make provisions for the book value of our share in TDE in anticipation that there might be a nationalisation of the company.

Evolution of results

Even with this difficult environment, 2012 was a year of significant progress, although the initial forecasts will not be met. The Company has achieved solid financial results, with an increase of 6.9% compared to the previous year, and a significant strengthening of its key solvency ratios. Moreover, in a volatile financial environment, Red Eléctrica has managed to refinance, one year in advance, maturities due in 2013 and cover those maturities due for 2014, strengthening the liquidity position of the Company. This allows us to face, with some reassurance, our investment process. 87% of financial debt is on a fixed rate until maturity.

Consolidated net revenue grew by 7.2%, mainly due to revenues associated with the commissioning of assets in 2011, and offset by 45 million euros as a result of the impact of the aforementioned legislative measures and the deconsolidation of TDE after its expropriation.

The gross operating result (EBITDA) amounted to 1.299 billion euros, an increase of 6.9% on the previous year. It is a figure reasonably in line with the consolidated net revenue, making evident Red Eléctrica's commitment to efficiency, as the EBITDA margin has been increasing in recent years.

From the point of view of the evolution of the balance sheets, the increase in debt in 2012 reflects the effect of the one-year delay in the remuneration of commissioned facilities and the elimination of the free choice of depreciation method. Despite this increase, the debt coverage ratio "Net debt over EBITDA" has continued to improve, reaching levels of 3.8 times in 2012.

I would like to stress that our financial management has allowed the average cost of our debt in 2012 to be 3.8%. This was achieved in a market characterised by high volatility of the interest rates and the increase in intermediation margins of financial institutions.

We have a well-diversified debt and enjoy an ample liquidity position to cover upcoming maturities. Therefore, Red Eléctrica continues to maintain with the rating agencies, Standard & Poor's and Moody's, a rating level above that of the Kingdom of Spain, a fact which reflected in the markets. Also, these agencies recognise the solvency and financial strength of the Company.

Stock market performance

In terms of stock market performance, in general, 2012 was positive. All the major global indices, with the exception of the IBEX, closed in positive figures and noteworthy are the gains of over 20% of markets such as the German or Japanese. A positive interpretation of this behaviour would lead us to say that the stock markets, with their anticipatory character on business cycles, foresee that the deep crisis affecting the world in recent years is coming to an end. An alternative reading, although not inconsistent with the above, leads us to conclude that the evolution of markets has highlighted the intensive use of monetary policy as a tool to combat the recession. Policymakers in the major economies of the world have applied expansionary policies, reflected in low interest rates and extension of credit, in order to reactivate their markets.

Against this backdrop, noteworthy is the atypical behaviour of our market, the only one among the most significant, with a negative balance in the last twelve months. Our country has suffered intensely from the sovereign debt crisis, and in early summer the IBEX had accumulated a fall of more than 25%. Subsequently, the decisive action from the ECB and the economic developments in the European Union allowed a recovery and closed the year down 4.7%.

The behaviour of Red Eléctrica's value has differed substantially from that maintained by the IBEX, recording a gain of 12.8%, in line with the average increase of the European markets. The Euro Stoxx 50, for example, rose by 13.8%. The defensive nature of our share has allowed it to enjoy the preference of investors during 2012.

Dividends

As for remuneration to the shareholders in the form of dividends, the proposal submitted to this Annual General Meeting today is 2.3651 euros per share, 6.9% above last year's dividend, in line with the growth in earnings, representing a payout of 65%. This demonstrates the commitment we maintain of maximizing value for our shareholders, offering an attractive dividend yield and contributing to the rise in the share price through the efficient management the Company's business.

CORPORATE RESPONSIBILITY AND GOOD GOVERNANCE

Regarding the aspects related to corporate responsibility, I am particularly proud of the progress we have made in terms of equality. Sustained growth in the integration of women in both the Board of Directors and management positions, as in the team of professionals that make up this Company, is the evidence of the strong commitment we have with equal opportunities in employment. In the past five years, the number of women in the workforce has grown 28%, and in director positions 50%. Similarly, the percentage of women on the Board of Directors stands at 36%, one of the highest in the companies listed in the IBEX.

From the point of view of environmental sustainability, in addition to continuing to increasingly integrate renewables into the electricity system with the consequent reduction of greenhouse gases derived from the production of electricity, we conducted numerous actions in the field of conservation of the natural environment, so that the undesired effects of our facilities are kept to a minimum. In this sense, avoiding areas rich in biodiversity in the siting of new facilities, the protection of habitats and species when it is inevitable that facilities cross protected areas, or the collaboration with the various local and regional authorities in the development of strategies and measures to fight against forest fires represent some of the most important activities to which we devote our efforts and resources in this area.

Corporate governance

Moreover, progress in the adoption and implementation of the best international recommendations regarding good governance is a strategic objective of the business management of this company. Therefore, in order to introduce new practices in corporate governance, we have amended the Articles of Association, as reflected in one of the resolutions proposed to the Annual General Shareholders' Meeting. Amongst the changes, noteworthy is the counterweight measures regarding the concentration of power of the Chief Executive and Chairman of the Board of Directors of the Company and other measures that permit, in this event, the separation of the two duties. In this regard, the Board of Directors at its meeting held on 13 March, 2013, created the position of the Lead Independent Director subject to approval by the Annual General Shareholders' Meeting.

Another change introduced is the adaptation of the composition of the Board committees, strengthening its independence. In this regard, in 2012, the two board committees were renewed, the Audit committee and the Corporate Responsibility and Governance committee. Both are composed exclusively of external Board members, with a majority of independent directors and chaired by independent directors.

In addition, following the recommendations of investors and proxy advisors, transparency has been increased regarding the remuneration policy of the Board and senior management. With respect to the remuneration paid in 2012, I wish to point out that the overall amount of remuneration for all concepts has been reduced, around 5% compared to 2011, and remuneration has remained frozen since 2007.

In relation to the remuneration of the Board for 2013, and in view of the trends expressed by investors which established the advisability of increasing the weight of the fixed remuneration of the Board, at the expense of the excessive weight of the variable remuneration, a new remuneration scheme has been proposed. In this sense, the resolutions submitted to this General Meeting for their approval contain very

detailed information on the amounts and items, fixed and variable that make up Board remuneration as well as the objectives and parameters established for the calculation of the variable remuneration.

With the addition of these developments in corporate governance, the Company meets all the recommendations of the Unified Code of Good Governance. All these actions we undertake in the field of corporate responsibility and good governance position us as one of the top rated companies in this field, and this is not a personal perception, but something that is recognised by the leading sustainability indices. We have remained in the Dow Jones Sustainability Indexes since 2005 and in October 2012 our company was rated as the best company in the utilities sector by the FTSE4Good Index.

STRATEGIC OBJECTIVES AND CONCLUSIONS

To finish off, I would like to highlight what will be our business objectives in the coming years. Our strategy will be carried out with a focus on operational excellence and oriented towards fulfilling our commitments, which are none other than to ensure the quality and security of the electricity supply and to contribute to the efficiency and sustainability of the Spanish energy model, and at the same time, continue to strengthen the foundations for growth for this the Company.

Therefore, must strive for greater electrification of the country that will allow our own energy sources to be taken advantage of and reduce external dependence by reducing the use of petroleum in transportation. And, at the same time, we must ensure security of supply, which requires the further development of grid meshing, both in the Peninsula and on the Islands, and set as an objective a level of interconnection with the rest of Europe of at least 10% of installed capacity.

In this sense, our investment plan for the period 2013-2017, as I mentioned earlier, is consistent with the current economic environment and sets out investments between 550 and 600 million euros per year. This investment plan allows us, however, to maintain an acceptable rate of business activity for the Company and by extension for the country as a whole.

But also, we must back energy storage as a tool for system operation in order to achieve greater security of supply in light of the increase of unmanageable renewable energy, and boost technological innovation projects to address the great challenges of the future, such as smart grids and supergrids, not to mention the promotion of energy efficiency measures aimed at more rational use of electricity. But undoubtedly, the most important challenge is to ensure that energy becomes the driver for technological development, increased economic activity and job creation and is no longer a limiting factor for growth

Regarding the financial objectives, in the period 2013-2017, we do expect to maintain a rate of growth of our profits that will be more moderate than in recent years, between 6 and 8% as a compound average rate throughout the period, with the first years seeing the fastest growth. Also, we will continue to focus our efforts on creating shareholder value, so we will maintain a dividend growth in line with profit, with a payout of 65%. All this while maintaining a solid capital structure, complemented by a conservative financial policy. And at the same time, we will work hard to provide all of the electricity system agents and society, both companies and domestic consumers, the highest level of quality of service and security of electricity supply.