



The value of
**connected
energy**



RED
ELÉCTRICA
CORPORACIÓN

GENERAL SHAREHOLDER MEETING

31
MARCH 2017





José Folgado Blanco

CHAIRMAN



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Rafael García de Diego Barber

SECRETARY

OF THE BOARD OF DIRECTORS



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Key milestones in 2016



- 1 IMPROVED CORPORATE GOVERNANCE STRUCTURE:**
- Full separation power powers between the chairman and the CEO.

2 FULFILMENT OF OBJECTIVES IN THE MID-POINT OF THE STRATEGIC PLAN

- Rise in net profit: **5.1 %**
- EBITDA Margin: **76.9 %**
- Rise in share dividend: **7 %**
- Solvency ratio (Net debt/EBITDA): **3.3 x**



Macroeconomic performance



SPANISH ECONOMY GROWTH FACTORS

- Rise in internal demand.
- Good behavior of the exterior sector.
- Creation of net employment.

Enabling factors

- Stabilising oil price.
- Structural reforms.
- Companies' adaptation to the new economic scenario.

Following three years of recovery, the Spanish economy has left the crisis behind.

ECONOMIC
GROWTH
2016



3.2 %

Δ GDP

Double that of
the Euro zone

Macroeconomic performance



ON THE CUSP OF A PERIOD OF UNCERTAINTY DRIVEN BY POLITICAL EVENTS

- Donald Trump's Victory in the US (generating unrest in the global economy):
 - Increasingly protectionist trade policy.
 - Reconsidering of geopolitical strategy.
- Brexit vote in the United Kingdom:
 - New context of trade relations with the European Union.
 - European integration plans to be debated.

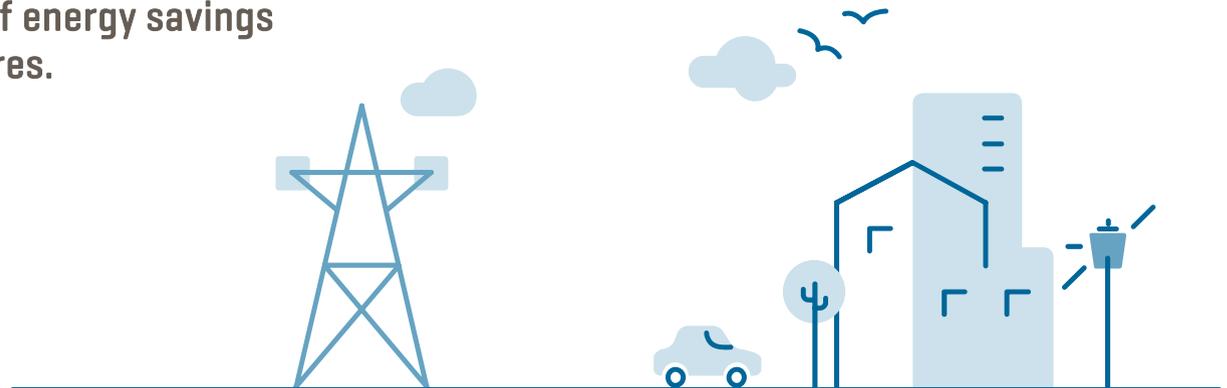
The Spanish economy has shown good performance amidst the uncertainty.

Macroeconomic performance



ENERGY SCENARIO

- Demand for electrical power in 2016 grew just 0.6 %:
 - With a rise in GDP of 3.2 %.
 - Excluding the effects of working patterns and temperature, demand linked to economic activity is at the same level as in 2015.
- Progressive loss of correlation between economic activity and electrical power demand, driven by:
 - The transition towards a less energy-intensive production model.
 - The implementation of energy savings and efficiency measures.



Regulatory context



REGULATION IN THE ELECTRICAL POWER INDUSTRY 2016

- Virtually no regulatory change in 2016 (due to no Government until November).
- Electrical reform practically concluded in 2015.
- Operation of the energy production market (no review envisaged in the short term):
 - In 2016: 21 % drop in the average market price of generation compared to 2015.
- Settlement of regulated income and costs:
 - €1 billion surplus in 2014 and 2015 (will rise with 2016 settlement).
 - Forecast for 2017/2021: surplus of €150 M per annum.
- New context of system sustainability:
 - End to the moratorium on renewable new generation established in 2012.
 - Invitation to tender for 500 MW wind energy and 200 MW biomass.
 - Rise in renewables to meet sustainable development objectives.

Regulatory context of Red Eléctrica



- Passed in 2015:
 - Planning of the transmission grid 2015-2020.
 - Unit values for investment and maintenance.
- Approved in the first few months of 2016:
 - The investment value and average residual life of pre-1998 assets.
- Remuneration of transmission activity for 2016:
 - Calculated with the new remuneration model.



**Completion of the regulatory development
of transmission activity.**

Regulatory energy storage on the Canary Islands



- Red Eléctrica created the company REINCAN in 2015 [to pursue storage projects on the Canary Islands].
- In 2016, the reform of the initial project for Soria-Chira pumped hydro-electric plant [including technical and environmental improvements].
- Soria-Chira project declared of strategic interest by the Canary Government.
- Public consultation period began in 2016.

The objective is to make progress in the sustainability of the Canary electrical power system by integrating renewable energies.

EU energy policy



- "Energy Union Package" was published in 2015
[new strategic framework to achieve EU targets for 2030]:

 Reduction in
emissions of CO₂
40 %

 Improved energy
efficiency
27 %

 Share of
renewables
27 %

 Interconnection
capacity
15 %

- New "Winter Package" legislative proposal published in 2016
[a step further in the transition to clean energy for all Europeans].



**ULTIMATE OBJECTIVE: advance towards energy security,
sustainability and competitiveness of the energy market.**

Stock market performance



VALUE OF RED ELÉCTRICA

- 2016 financial year: first in many years that Red Eléctrica share price has dropped slightly [-7 %].

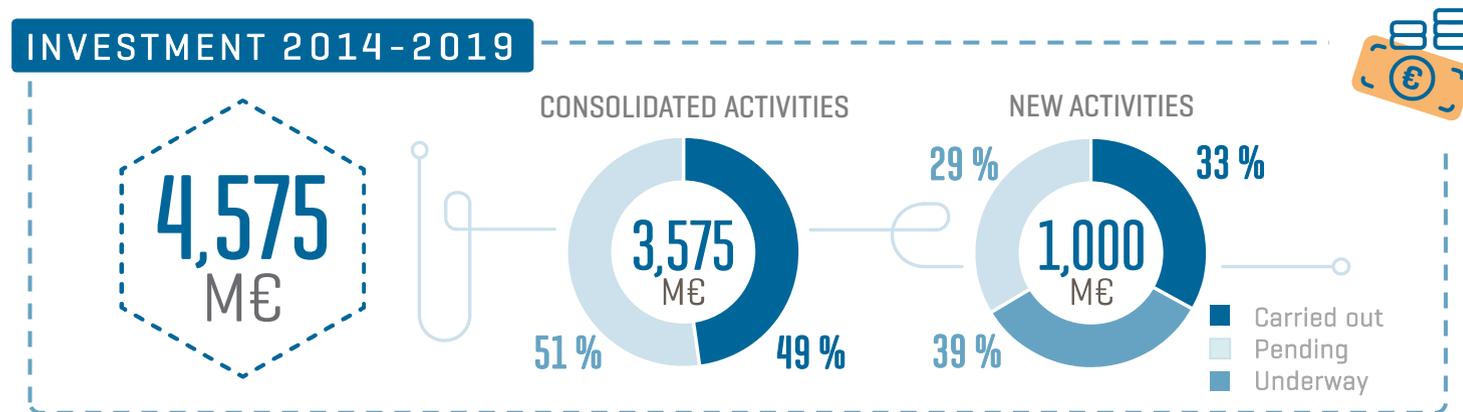


- Period [end 2012-end 2016]: share price practically doubled and surpassed Ibx 35 in nearly identical terms.

Investment performance



FULFILMENT OF OBJECTIVES IN THE MID-POINT OF THE STRATEGIC PLAN



FUTURE INVESTMENT TYPES

- From planning of the transmission grid 2015-2020 and annexes.
- From EU energy policy [three new interconnections with France].
- Those linked to the new Canaries energy model.

Corporate responsibility



CREATION OF SHARES VALUE WITH THE COMPANY

- Respect for surroundings (environmental and social) is a basic principle of Red Eléctrica in development of infrastructures:
 - We promote the company's participation through permanent dialogue.
- We accompany our projects with social programmes in affected areas, to achieve:
 - Socio-economic development in the affected area.
 - Conversation of cultural heritage.
 - Disclosure on the operation of the electrical power system.

**HEADLINE PROJECT Social responsibility plan
for the Mezquita-Morella and Mudéjar-Morella lines.
319,680 euros of investment**

INVESTMENT
IN THE
COMMUNITY



6,4
M€

Earmarked
for the
development
and promotion
of social initiatives

Corporate responsibility



Our commitment to the environment

FIELD

ACTIONS

Environmental management of projects

- Application of strict environmental criteria in the implementation of facilities.
- 87 % compliance with the environmental programme in 2016.
- €23 M environmental costs in 2016.

Integration of infrastructures in the environment

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

Conservation of biodiversity

- Minimising risks for birdlife: "Flyway mapping" project.
- Restoration of degraded zones: "REE Forest" project [€1.8 M invested in the period of 2009-2016].

Reduction of carbon footprint

- 2020 objective: 21 % reduction or offsetting of CO₂ emissions with respect to 2010.

Corporate responsibility



Innovation and energy efficiency

FIELD

ACTIONS

New innovation strategy 2016-2019.

- Broadest innovation concept across four directions: people, digitalisation, sustainability and technology.

Development of R&D+i projects

- 76 projects were on-going in 2016, with an investment of €8.6M.
- Projects geared to greater efficiency and sustainability of the electrical power system.
- Obtainment of the EPRI award for research on the impact of storage in electrical power systems.

Integration of renewable energy

- CECRE contributes to 40 % of annual demand being covered by renewables [average of past four years].

Corporate responsibility



Corporate governance practices

FIELD

ACTIONS

Separation of powers

- Ultimate separation of powers of the chairman [oversight and control] from those of the CEO [executive].

Transparency commitment

- Publication on the website:
 - "Communication criteria with shareholders, investors and voting advisers".
 - History of corporate governance since stock market flotation [1999].

Annual self-appraisal of the Board of Directors

- Performed with the advice of independent external professionals.

Implementation of a regulatory compliance system

- Development of an awareness and disclosure plan for the whole organisation.

Good Governance Code for listed companies

- Compliance with all recommendations, with the exception of recommendation 48.

Corporate responsibility



Corporate governance practices

FIELD

ACTIONS

Gender diversity in the Board of Directors

- 25 % female directors
[above average for IBEX 35 companies].

Ethics and transparency

- Culmination of the ethics management awareness plan developed during the period of 2014-2016.
- Holding of forums in all business centres
[participation of 90 % of the workforce].

Integrity model

Forthcoming improvements:

- Adaptation of the Code of Ethics to advances made in the compliance risk prevention system.
- Review of the ethics management markers system.
- Impetus for new alliances with our interest groups.
- Fostering awareness of the ethics management in every Group subsidiary.

Corporate responsibility



Excellence and sustainability

FIELD

ACTIONS

Responsible management of the supply chain

- Recipient of "Top Performer" award for the integration of social and environmental factors into the supply chain.

Support for talent and equality of gender and opportunities

- 23.7 % of women in the workforce.
- 21.8 % of women in senior management roles.
- 87.5 % of senior management roles recruited internally.

New Group sustainability model

- Developed for the period of 2020-2030, considering the United Nations Sustainable Development Goals.

Healthy company model

- Improve the accident rate among employees and contractor personnel.
- 22.4 % increase in training hours on safety compared to 2015.

Corporate responsibility



Principal recognitions

Presence in sustainability indexes

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



FTSE4Good



2016 Constituent
MSCI Global
Sustainability Indexes



Excellence in business management



EFQM European 500+
excellence award, for
a score of over 700
points.

GOOD GOVERNANCE



**MEJOR
UTILITY
EUROPEA**

EN MATERIA
DE GOBIERNO
CORPORATIVO

By prestigious publication
Ethical Boardroom
Magazine'

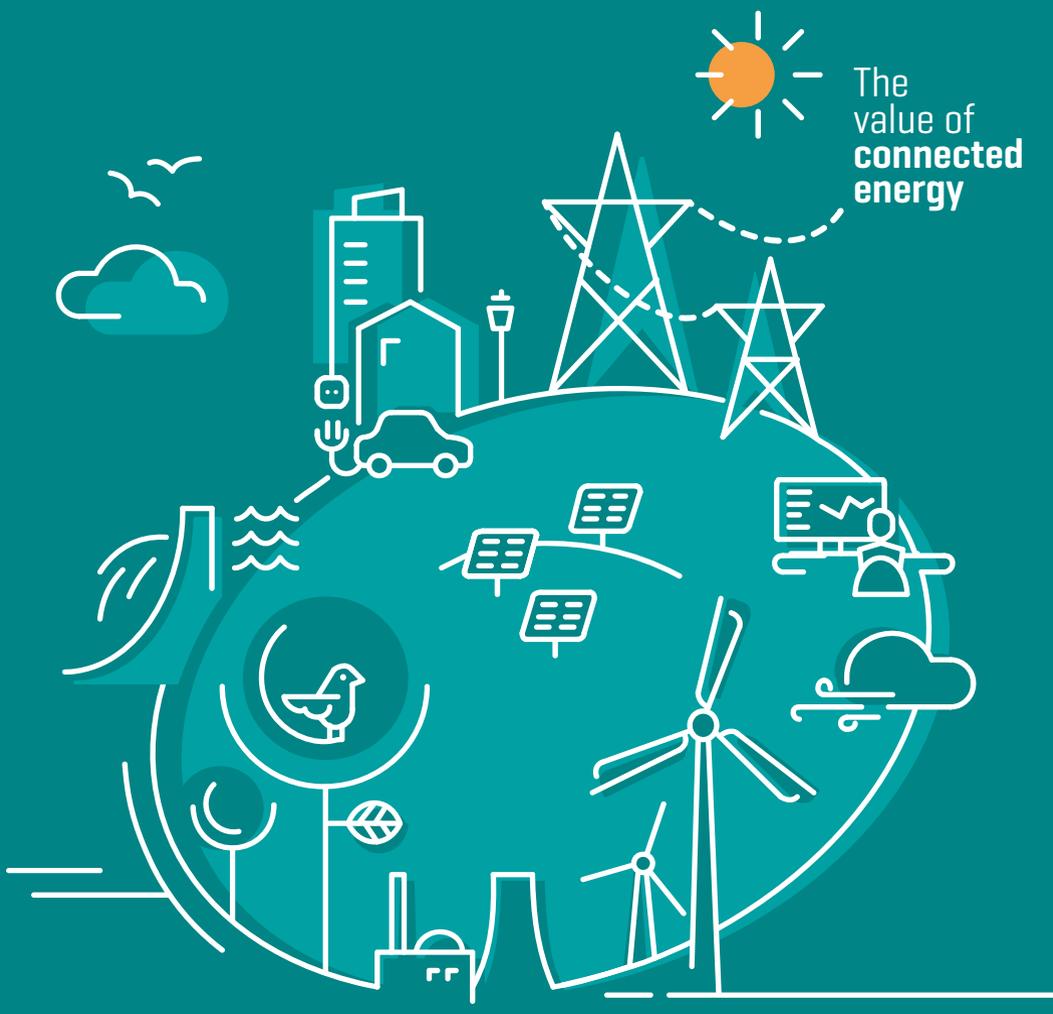
Conclusions



Two great challenges for the coming years

Maintain excellence in the field of good governance and corporate responsibility.

Successful approach the challenges posed by the so-called energy transition for Red Eléctrica.



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Juan Lasala Bernad

CHIEF EXECUTIVE OFFICER

2016 a period of important progress



1 Major push for challenges of the 2014/2019 strategic plan.

2 Consolidation of activities to broaden the business base: international and telecommunications.

3 Improvement in governance structure: full separation of powers between the chairman and the CEO.



Strategic plan 2014-2019



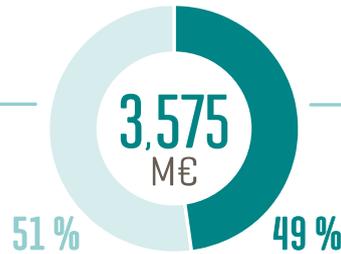
Successes 2014/2016 First half of the strategic plan

INVESTMENT 2014-2019

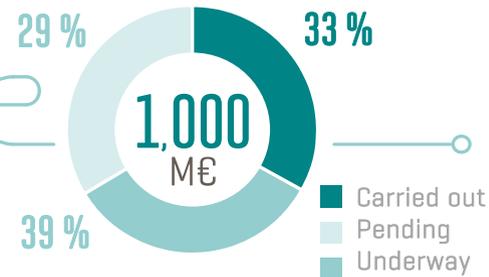


4,575
M€

CONSOLIDATED ACTIVITIES



NEW ACTIVITIES



Carried out
Pending
Underway

2014-2019 EFFICIENCY



EBITDA
MARGEN
2019

≥ 200
p.b.

• EBITDA
Margen
2016: **76.9%**

• Control of operative
costs

Strategic plan 2014-2019

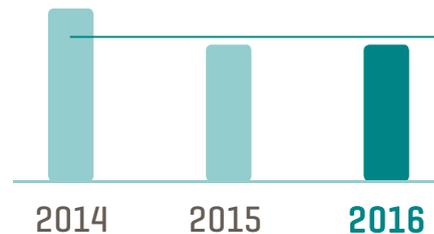


Successes 2014/2016 First half of the strategic plan

2014-2019 FINANCIAL STRUCTURE

NET DEBT /
EBITDA
average

3.5X



3.5X



2014-2019 GROWTH

BPA
CAGR

5-6%

DPA
CAGR

7%

• GROWTH
BPA 6.4% CAGR14-16 ⁽¹⁾

• DPA 7% CAGR14-16



(1) Calculated based on 2013 .

Milestones in 2016



More meshed and interconnect transmission grid

HIGHLIGHTS

- **674** kilometres of new lines.
- **61** new substations.
- **600** MVA improvement in transformation capacity.
- **98.29** % 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.

TRANSMISSION GRID



€ **399**M
investment
in 2016

Key events in 2016



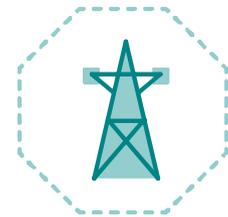
Principal commissioned facilities

MAJOR LINES

- **Asturias-Galicia:** Boimente-Pesoz line [134 km].
- **Aragón-Levante:** Mezquita-Morella line [243 km].
- **Godolleta:** Godolleta sub-station and associated input and output lines [E/S].
- **Torremendo:** Torremendo sub-station and associated E/S lines.
- **Sabinal:** Sabinal sub-station and associated E/S lines.
- **International interconnections:**
 - **France:** Phase-shifting transformer on the Arkale-Argia 220 kV line [planned for 2017].
 - **Portugal:** Fontefría-Vilafría line [planned for 2017].

**43,664 km of lines and 5,489 sub-station positions
in service in 2016.**

KEY PROJECT



Double link
Mallorca-Ibiza
Definitive
integration of the
Balearic system
into the Peninsula

Milestones in 2016

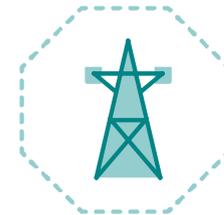


International business: Significant deployment of investments

FIRST PROJECT IN CHILE

- Acquisition of a 50 % stake in TEN, with the aim of:
 - Construction and operation of the Mejillones-Cardones line.
- In 2016, TEN invested \$379M in the project, which is now over 80 % completed.
- The construction engages 3,000 workers in the project.

500 kV LINE
MEJILLONES-CARDONES
CHILE



600 km

First interconnection
of the northern and
central electrical power
systems in Chile

Milestones in 2016



International business: Significant deployment of investments

PROGRESS IN NEW PROJECTS IN PERU

- Azángaro-Juliaca-Puno 220 kV line.
- Montalvo-Los Héroes 220 kV line.
 - Total investment of \$90M in both projects [\$19.6M executed in 2016].
 - Scheduled commissioning: 2018/2019.
 - 1,200 km of transmission lines managed in southern Peru.

Consolidation of our position as the principal manager of transmission grids in southern Peru.

PERU
REDESUR



Acquisition of

45 %

stake

Wholly owned
subsidiary of the Red
Eléctrica Group

Milestones in 2016

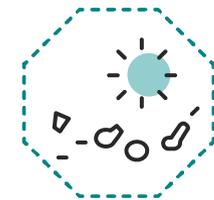


Energy storage on Canary Islands

CHIRA-SORIA PUMPED STORAGE 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 project's public consultation process began in 2016, backed by all administrations.
- Soria-Chira hydro plant in figures:
 - **200** MW power.
 - **20** km of **220** kV connection lines to the plant.
 - **500** direct and **1,500** indirect jobs.

SORIA/CHIRA PLANT ON GRAN CANARIA



320
M€
INVESTMENT

Milestones in 2016

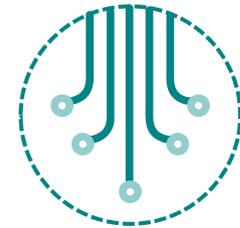


Definitive consolidation of the telecommunications business

- Progress of the fibre optic networks interconnection plan (electricity grid and rail network) allows us to offer new solutions to clients.
- We generate value through neutral management and commercial exploitation of infrastructures.
- In the past three years, the telecommunications business has contributed €86M per annum to Group turnover.

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

TELECOMMUNICATIONS
BUSINESS
REINTEL



33,000 km
OF DARK FIBRE OPTIC

Upwards of 230
technical sites
and spaces

2016 results: key figures



| Millions of euros | 2015 | 2016 | Δ% |
|---------------------------------|-------|-------|------|
| Revenue | 1,939 | 1,932 | -0.3 |
| Gross operating profit (EBITDA) | 1,458 | 1,486 | 1.9 |
| Profit before tax | 830 | 851 | 2.5 |
| Profit for the year | 606 | 637 | 5.1 |
| Investments | 448 | 643 | 43.6 |



Rise in profit 2016: **5.1 %**
EBITDA Margin 2016: **76.9 %**

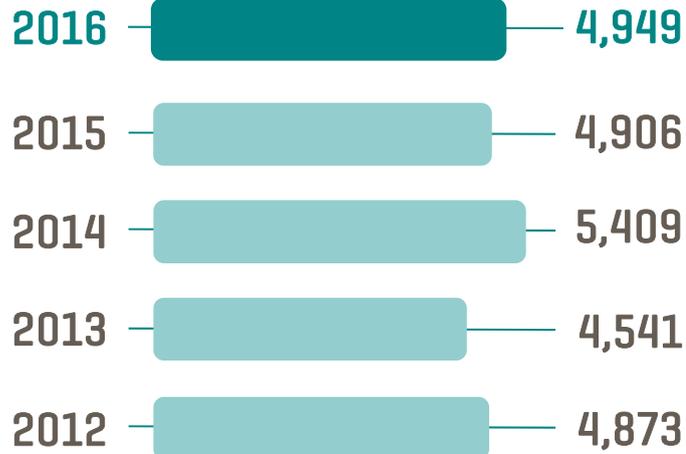
Dividend 2016: **€0.8587/share**
[7 % increase]

Financial strength and solvency



NET FINANCIAL DEBT

[Millions of €]



SOLVENCY RATIOS

| | 2015 | 2016 |
|------------------------------|-------|-------|
| EBITDA/Interest ¹ | 8.5x | 9.4x |
| FFO/Debt | 23.1% | 23.2% |
| Net debt/EBITDA | 3.4x | 3.3x |

- Average life of 5.5 years.
- Average cost of debt: 2.94 %
- 84 % of debt at fixed rate.

1. EBITDA/Net financial cost excluding capitalisations.

Future investments plan



2017-2019: Second half of the strategic plan

INVESTMENT IN THE TRANSMISSION GRID

- Investment in 2017 similar to that of 2016, concentrating on the remaining investment in 2018 and 2019.

STORAGE ON THE CANARY ISLANDS

- Construction of the Soria-Chira pumped hydro plant [commissioning as of 2023].
- 60 % of the investment will take place during the Strategic Plan.

INTERNATIONAL BUSINESS [Future tenders]

- CHILE: expansion of trunk transmission system [\$300-400M].
- PERU: transmission plan projects 2015-2024 [\$500-600M].

Future investments plan



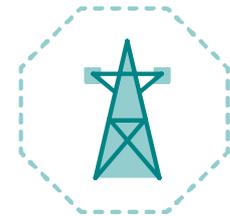
Post-2019 horizon

DEVELOPMENT OF INTERNATIONAL INTERCONNECTIONS

- Submarine interconnection between Bay of Biscay (Spain) and Aquitaine (France).
 - Investment of €1.9 billion
- Two new trans-Pyrenean projects:
 - Through Cantegrit and Navarre or the Basque Country.
 - Through Marsillon and Aragon.
 - Estimated cost for each one: €900 to €1.200 billion

Key projects to meet European energy and sustainability goals.

**THREE NEW
INTERCONNECTIONS
WITH FRANCE**



8,000 MW

More capacity
for exchange
with Europe

Future investments plan



Post-2019 horizon

DEVELOPMENT OF INTERCONNECTIONS BETWEEN SYSTEMS

- Second link between Mallorca and the Peninsula.
- Third link between Mallorca and Ibiza.
- A link between Gran Canaria and Fuerteventura.

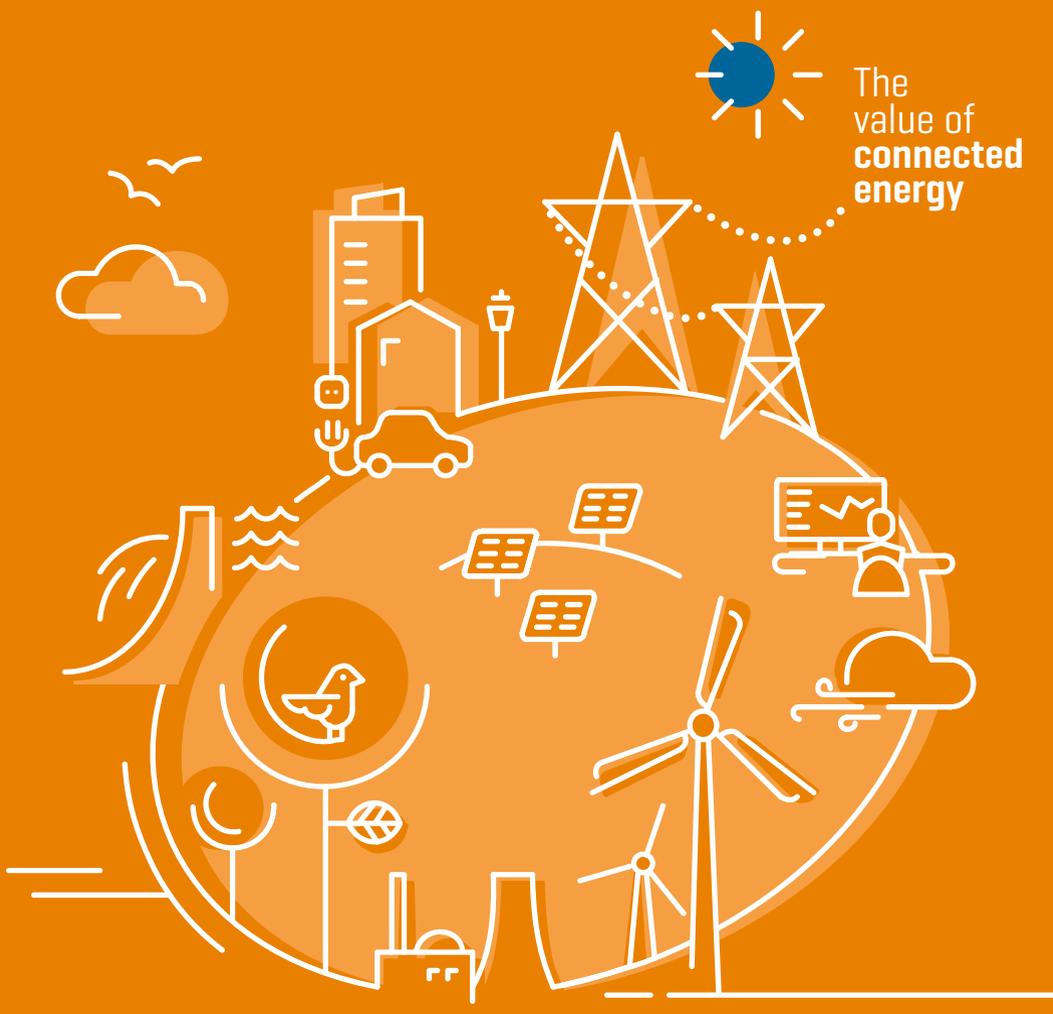
PROJECTS FOR SUPPLY SECURITY

- Increase the weight of renewables in the generation mix (55-60 %).
- Renewal and upgrade of pre-98 assets.
- Canary Islands storage.

TELECOMMUNICATIONS, DIGITALISATION AND INTERNATIONAL

- Progress in the fibre optic networks integration plan
- Neutral management of measures in the electrical power sector.
- Opportunities in stable markets and suitable profitability.
- Countries with low country risk and a stable regulatory environment.

**Our investments
as a lever to
decarbonisation
and greater cost
effectiveness**



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