



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS

GENERAL SHAREHOLDERS' MEETING 2018

Mr. José Folgado Blanco, Chairman

22 March 2018

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INTRODUCTION

Hello and welcome, ladies and gentlemen.

On behalf of the Board of Directors, here with me today, I would like to welcome you to the Annual Shareholders Meeting of Red Eléctrica. I would like to thank both those who are present here in person as well as those who are following proceedings via the webcast for their participation.

Despite the difficulties of various kinds that we have had to face, I think that it would be fair to state that 2017 has been an extraordinarily positive year for this business group. We have obtained the highest distinctions internationally from entities specialising in sustainability and good governance. The same can be said of the economic, financial and investment management by Red Eléctrica. I will give you here just a few details that will be duly expanded on later by the Chief Executive Officer. With turnover remaining mostly stable year-on-year, Red Eléctrica has achieved a 5.2 % rise in after tax profit. This result has been achieved and is only explicable by increased levels of efficiency in the operation and allocation of resources, namely operational efficiency (EBITDA margin) and financial efficiency (reduced financial expenditure). It is owing to this result that we propose a 7% dividend to this Meeting, fully in line with the goal set in the Strategic Plan.

In this manner not only are we currently on target, but we are guaranteeing the future as well with investments reaching 510 million Euros in 2017, without increased borrowing. At year end this was contained at a net debt level of 4,729 million Euros, reflected in a notable improvement in the debt/EBITDA ratio to a level of 3.2, which is the lowest among comparable companies.

Thank you for bearing with me, but please allow me to briefly discuss the economic, regulatory and European energy policy environment in which Red Eléctrica carries out its business.

MACROECONOMIC PERFORMANCE

For the fourth consecutive year, the Spanish economy has grown beyond expectations, with GDP registering a growth of 3.1 % in 2017, significantly higher than the economic growth of the Euro zone as a whole.

The setting of low interest rates and the confidence generated by socio-economic reforms and measures comprise the basis for the favourable evolution of internal demand, consumption and investment, as well as the export of goods and services. And this has led to an intense and encouraging creation of employment: an additional 490,300 jobs in 2017.

Four years after the onset of the recovery, we may say that the Spanish economy has maintained a path of sustained and sustainable growth, since there are no signs of the classic disparities in prices or external sector that have historically splintered the potential for growth following a phase of expansion. There is no doubt that economic, social and budgetary management have generated a climate of confidence in the market, consumers and investors that is essential to securing economic recovery. It is also important to highlight the extraordinary efforts of our companies to adapt to the new global economic scenario, which have revised and adjusted their production processes in order to improve efficiency and competitiveness, which has led to a successful presence in other markets in a context of global competition that is by no means easy.

Forecasts made by leading specialists for the next two years confirm the consolidation of this path of sustained growth of our economy, although at a somewhat more moderate rate. The exterior sector maintains a positive impact on growth, as does the construction sector, which is clearly recovering.

Within this positive environment, possible short and medium-term risks loom ahead, essentially derived from global financial conditions and the geopolitical environment.

With respect to the financial sector, essentially three global risk factors remain constant: the end of ultra-expansionary monetary policies by the main central banks, high prices of financial assets that, in spite of the adjustments experienced in February, continue at values close to the maximum ones attained in 2017, and high levels of global borrowing.

Finally, on the geopolitical front, some uncertainties remain: the US trade policy and its new protection measures; the way in which the United Kingdom will exit from the European Union; the risks to European construction posed by the advance of populist and Euro-sceptic parties and, at the national level, the resolution of the situation generated by the defiance of sovereignty in Catalonia. However, precedents suggest that all of these challenges will be resolved prudently.

Certainly there are no indications of any serious imbalances in the near future. However, there is no doubt that one of the factors restricting economic growth in the medium and long term is

energy, and the attainment of intense and sustainable growth will depend on the successful implementation of adequate measures to this respect.

We are at the start of the energy transition; a transition that will lead us to a sustainable energy model that relies on energy efficiency and on the greater electrification of society and that is increasingly based on renewable technologies. This new scenario will contribute to sustainable economic development based on lower greenhouse gas emissions, therefore contributing toward the prevention of climate change. Likewise and of equal importance is the contribution by the new energy model to the macroeconomic balance in Spain, because this will reduce the dependence on external sources of energy that historically has been one of the main determining factors for the widening of our current account deficit.

In Spain, the commitment to electricity of renewable origin has been particularly firm, with generation capacity increasing by 53% in the last 10 years. In comparison, non-renewable generation capacity has scarcely changed. Specifically, in 2017 the percentage of renewable energies reached 46% of total installed capacity.

A robust increase in efficiency levels must be added to this trend. In 2017, a year registering growth in Spain of 3.1%, as I said before, there was a 1.1% growth in electrical demand, 1.6% if we exclude the effects of employment engagement and temperature. This information is consistent with the progressive loss of correlation between economic activity and electricity demand seen in recent years not only in Spain, as a result of a gradual transition towards a less energy-intensive production model and in accordance with European targets to achieve a sustaining energy model and fight climate change.

REGULATION IN EUROPE AND IN SPAIN

European Union energy policy

During 2017, European institutions have continued progress toward the attainment of EU energy policy objectives, specifically for the year 2030, within the scope of the strategic "Energy Union Package", launched by the European Commission at the end of 2015. In November 2017 the European Commission published its second report on the monitoring of advances in the energy transition process defined in this strategic package. This report includes two documents dealing with the existence of bottlenecks in electricity interconnection infrastructures.

The first document is a Communication on the reinforcement of European energy networks, in which the Commission highlights that Spain is one of four countries that will not comply with the 10% interconnection target by 2020. It also indicates the specific actions that must be adopted for the full integration of the Iberian Peninsula in the domestic electricity market.

The second document lists the EU Projects of Common Interest to configure a new list that includes all proposals from Spain, such as the new interconnection with France across the Bay of Biscay and the new interconnection with the north of Portugal. It furthermore gives a name and identity to two other interconnection projects with France through the Central Pyrenees, referred to generically in the previous list.

The report on the state of the "Union Energy Package" likewise assesses the requirement for national energy and climate plans. With respect to Spain, the creation in July 2017 of a Group of Experts is reported, assigned with the task of defining alternative scenarios for the energy transition consistent with the strategy of the "Union Energy Package". Also worthy of note is the Government objective to approve a Climate Change and Energy Transition Act during this legislative session.

The EU energy policy aspect that has aroused the most interest in 2017 was the process for the debate and processing of the legislative development proposal published by the European Commission at the end of 2016 generically entitled "Clean Energy for All Europeans", colloquially dubbed the "Winter Package". Among numerous regulatory proposals it includes a proposal for a new EU Directive on electrical energy.

All EU institutions, the Commission, Council and Parliament, have worked intensely during this first year of processing of the "Winter Package" The so-called "trilogue" phase of the ordinary Legislative Procedure is expected to commence in April, to reach a consensus among the three European institutions on the final text of a new regulation. The objective of the Commission is that the legislative proposals be approved prior to the next European elections, scheduled for May 2019.

The provisions constituting the "Winter Package" will become the new benchmark regulatory framework for all agents. It will cover numerous important changes envisaged in the electrical power sector on the 2030 horizon, I refer to the greater electrification of energy consumption; the impetus of the generation of electricity through non-polluting energy sources; the fostering of energy efficiency; the expansion of self-production; the emergence of storage devices, and the generalising of intelligent grids.

Red Eléctrica, in its capacity as the central agent of the Spanish electrical power system, with extensive experience ensuring the guarantee and safety of the electrical supply, is playing an active role in the debate on the "Winter Package" and the future electrical system model, always under the premise of a safe and reliable electrical supply, at the lowest possible cost for the consumer.

Electrical power reform

In 2017, legislative activity in Spain on energy matters regained its impetus following the institutional gridlock that prevented the formation of a new Government during much of 2016.

Among the provisions published, worthy of mention are those relative to the two tender calls for the award of a remuneration model specific to new electrical power production facilities from renewable energy sources in the peninsular electrical system. Under these tenders 8,000 MW of new renewable generation capacity was awarded, with sights set on compliance with EU targets for the share of these energies in final energy consumption, for the 2020 as well as 2030 horizon.

During the four years since the publication of the new Spanish Electricity Sector Act 24/2013 [*Ley 24/2013, del Sector Eléctrico*], excess regulated income has been recorded each year, with an accumulated surplus for the period of 1,440 million Euros. This quantity is likely to increase once the final data for the settlement of regulated costs in 2017 is known.

It therefore seems that the primary objective of the reform, to achieve the economic and financial sustainability of the electrical power system, appears to be on the right path. I say this not just because of the accumulated surplus, but also because a surplus of around 150 million Euros is forecast for the next five years, as shown in the electrical power system income and cost performance forecast report for 2017-2021, published by the CNMC.

The reform also initially contemplated the review of the operation of the electricity production market, while no specific proposal was drafted. This subject, of recurring media relevance during episodes of high marginal generation prices, such as the one recorded in January 2017, are generally the result of highly singular weather and operating circumstances that trigger concern and alarm among consumers.

Without prejudice to the fact that there is still some room for improvement in the operation of the electricity production market, these fluctuations in annual prices are closely tied to the availability of renewal resources each year, primarily water and wind.

Regulatory framework for Red Eléctrica

With respect to the regulatory scenario of the activities undertaken by Red Eléctrica, in 2016 the regulatory development of the new remuneration model for the transmission activity established by Spanish Royal Decree 1047/2013 [*Real Decreto 1047/2013*] was completed, therefore configuring the regulatory framework for the calculation of income recognised to this activity through to 2019.

According to this Royal Decree, installations prior to 1998 have an aggregated remuneration treatment that grants them a regulatory average residual life of 10 years, extendable for a maximum of a further 10 years on the basis of the volume of investment performed on them by the carrier through to 2014.

In this regard, we at Red Eléctrica hope that in the end a residual life will be recognised that adequately reflects the physical and technical reality of those assets, which are in a perfect state to be able to continue to provide service to the electric power system for a much longer time than was originally established in the residual life currently assigned to them.

At the end of February of this year, the process has commenced for the possible review of one of the most relevant parameters of the remuneration model for the new 2020-2025 regulatory period, the financial remuneration rate of transmission assets. Red Eléctrica has already provided the Ministry with its proposal on the matter, which comply with the provisions of current regulations.

This process will culminate with the preparation by the Ministry of Energy, Tourism and Digital Agenda of a draft bill that will establish the spread by which the average yield of 10-year Government Bonds will increase on the secondary market between May 2017 and April 2019, which should be brought before the Council of Ministers for approval prior to 1 January 2019.

Spanish Law 24/2013 itself establishes that, in setting the spread that will lead to the final value of the financial yield, in addition to the general principle of a transmission remuneration suitable to that of a low-risk activity, another series of factors should be taken into consideration. These are the financial situation of the electrical system; the cyclical situation of the Spanish economy;

the cost of financing the comparably-efficient and well-managed transmission companies of the European Union, and the investment needs of the following regulatory period based on the evolution of electrical demand estimates.

It therefore appears wise to expect that the tempered and objective assessment of all these factors by the Ministry and the CNMC will lead to the determination of a reasonable financial remuneration rate for transmission assets that should reflect the real costs of financing the activity. It would also enable the attainment of reasonable and adequate profitability to attract capital in a scenario that will require sizeable investments made necessary by the application of the new European energy model.

Another significant development is the increase in remuneration recognised for the system operation activity for 2018, set at 65 million Euros, 9 million Euros more than 2017, in order to cover the additional costs to be incurred by the system operator in its contribution toward design, development, start-up, operation and management of the interior electricity market of the European Union.

It is our hope that the approval of an objective and transparent methodology is achieved to calculate the remuneration of this activity, which could materialise this year as set out in the Government regulatory plan for 2018.

Lastly, I do not want to complete my recap of the regulatory environment of Red Eléctrica without addressing the energy storage projects allocated to the system operator in non-Peninsular territories. During 2017, the Consejo Insular de Aguas de Gran Canaria approved the administration authorisation for the Reform of the Soria-Chira Project, which includes technical and environmental improvements to increase the integration capacity of renewable energies and reduce the environmental impact of this new infrastructure.

After obtaining this authorisation from the Cabildo de Gran Canaria [*council of Gran Canaria*], administration authorisation from the Canary Islands Government is still pending, which is subject to the approval of the Environmental Impact Statement Project, currently underway.

Contacts with the Ministry began in 2017 regarding the need to define a transparent and stable regulatory framework for operation of the pumping groups allocated to the system operator to establish a recognised investment value for the project, by ministerial order, prior to obtaining the corresponding administrative authorisation from the Canary Islands Government, which is essential in order to begin construction.

SUSTAINABILITY

In the Red Eléctrica Group, we understand sustainability as the commitment to create shared value for all of our interest groups by means of the responsible development of our activities. In this sense, we wager for a business model that fully responds to the challenges of the future and is sustained on criteria of integrity and transparency, in order to make our activity compatible with environmental care and the generation of shared value through alliances with our surroundings.

The continued spirit of Red Eléctrica to be a worldwide benchmark has motivated us to work on an ambitious Sustainability Commitment, tied to the business strategy and setting long-term sights on 2030. This commitment focuses on the decarbonisation of the economy as proactive agents in the fight against climate change.

All of us who form part of this large family that is the Red Eléctrica Group work together with our interest groups, sharing common values and objectives, and therefore generating a responsible value chain. We assume our responsibility to contribute toward the development of our surroundings, providing an essential service safely and efficiently, promoting the conservation of the environment and involving the community in order to improve the quality of life of citizens.

Innovation

In an environment under constant evolution such as the current one, in the Red Eléctrica Group we maintain an attitude of anticipation and action for change, detecting any opportunities that the future may bring us, with innovation as a key growth lever.

In 2017 we invested more than 9.3 million Euros in innovation, 8.1% more than 2016, in projects aligned with the four vectors of our strategy to this respect: Technology, Digitalisation, People and Sustainability. In the course of the year, we developed 85 initiatives, some of which have earned recognition, among those worthy of mention is the Renewables Grid Initiative (RGI) "Good Practice of the Year" award for the Innovation project for the recovery of Posidonia Oceanica grasslands, in collaboration with the Mediterranean Institute for Advanced Studies (IMEDEA).

Our innovation model places value on collaboration with national and international research institutions of reference, with which we share know-how and leadership, for the purpose of

endowing the future electrical system with the mechanisms, technology and professionals to ensure its medium and long-term sustainability. Good examples of these include projects such as Osmose, recently begun, Best Paths, whose final results will be known this year, or Migrate, that has begun to deliver its first conclusions in this very month of March.

On the other hand, Grid2030 is a multi-annual innovation partnership program in which we explore radical innovations of a technical or socio-economic nature, with regard to the electrical transmission sector. Partially funded by Red Eléctrica with 2 million Euros and targeted at researchers, *start-ups* and companies, the purpose of the programme is to detect disruptive ideas of future interest for the electrical system and make their transition to closer solutions a reality for use in the transmission grid.

Environment

With regard to the environment, we consider the integration of our facilities in our surroundings a priority. We work intensely to reduce their possible impact as of the very moment of their definition and considering their entire lifecycle.

The Red Eléctrica wager for the protection and conservation of our environment is increasingly expanding. Of the 22.7 million Euros allocated toward environmental activities in 2013, 1.3 million Euros corresponded to actions associated with the launch of new projects, such as environmental impact studies, preventive and corrective measures, works supervision and other environmental improvement measures.

Within this context, the company has decided to dedicate special efforts toward the protection and preservation of biodiversity. We have approved a Biodiversity Action Plan for the 2017-2021 period, which contains several commitments and projects, such as those associated with the prevention of forest fires, working in close collaboration with the competent administrations in this area, as well as those devoted to the protection of birdlife.

With respect to this last point, it is important to emphasise that as a result of the "Birds and power lines: mapping of bird flight paths", for which Red Eléctrica has received several awards, among these the 2014 European Business Award for the Environment, we have designed a plan that contains our commitment to mark 100% of the critical lines for birds between 2017 and 2023.

And speaking of biodiversity, we must give special mention to our active participation in several projects for the preservation of birdlife and the recovery of degraded habitats. Among these, we cannot forget the "Red Eléctrica Forest", with which 647,000 trees and shrubs were planted for the restoration of 778 hectares of natural spaces, entailing an investment of 1,844,000 Euros. Of equal relevance is "The Red Eléctrica Marine Forest", the continuation of the successful innovation project mentioned above, that will recover 2 hectares of Posidonia Oceanica grasslands in Mallorca.

In line with the inclusion of the decarbonisation of the economy as one of the priorities of our new Sustainability Commitment, we have performed an in-depth review of our Climate Change Action Plan to adapt it to the context deriving from the Paris Agreement, including new short and medium-term challenges and objectives for the 2020 and 2030 horizon.

In the course of this year, we have continued working on the application of measures for the reduction of emissions and improvement of energy efficiency, resulting in a 26% decrease of our direct emissions and those associated with the consumption of electric power compared to 2015.

Corporate governance and risk management, ethics and compliance

The year 2017 was also a key year for Red Eléctrica in corporate governance. In this regard, I would like to point out that in 2017 the board of directors approved the contingency Plans for succession of the Chairman and the Chief Executive Officer, in order to anticipate any actions that must be adopted immediately within the company in case of unexpected events that prevent the Chairman or the Chief Executive Officer from performing their duties during their terms of office. These plans, which will be kept fully updated, attribute the responsibilities and tasks necessary in the board of directors and the organisation so that, should such circumstances occur, the company may continue to operate normally, avoiding the risks of an unexpected and disorderly succession.

Furthermore, in 2017 a detailed Plan was approved to facilitate a rapid and efficient induction of new directors, and sessions of the board of directors and its committees are now fully digitalised.

For yet another year, the board of directors has submitted to a self-evaluation process, with support from a new external consultant, and we have published the main conclusions in the Annual Corporate Governance Report.

Furthermore, the Board of Directors has once again voluntarily submitted its remuneration and annual report on Directors' remuneration for your approval. The 2018 proposal is to maintain the same remuneration quantities and concepts as in 2017 and in preceding years for non-executive directors, the chairman of the board and the chief executive officer.

In compliance with recommendation no. 3 of the Spanish Code of Good Governance of Listed Companies, which suggests that the Chairman of the Board inform shareholders in the Annual Shareholders Meeting of the reasons why any of the recommendations of the Code has not been followed, I inform you that in 2017 Red Eléctrica complied with all recommendations, with one sole exception.

The company has not complied with recommendation no. 48, which proposes that companies with high capitalisation have separate appointment and remuneration committees. As I explained to you last year, we find this separation to be inappropriate due to the small size of the Board of Directors in comparison with other high capitalisation companies, as these committees would not have enough business during the year to justify this separation, and because it would impair the independence of some non-executive directors by belonging to several committees at the same time.

In terms of gender diversity on the Board of Directors, following the appointments made in 2017 and in this Meeting, the percentage of women on the Board has risen from 25% to over 33%, placing us near the top of Ibex 35 companies.

In selecting the directors and other professionals that make this company a reality, calibre, ability and experience take precedence over gender, although in recent years we have pushed for sustained growth in the number of women. In spite of the progress made and the external recognitions, there is a firm commitment of the board of directors, and my own as chairman of the Red Eléctrica Group, to continue moving forward in terms of diversity.

I invite you to consult the last Diversity and Equality Report approved by the board of directors and published on our corporate website, containing detailed information to this respect.

In terms of risks, we have included the best international practices in the Red Eléctrica Group Integral Risk Management System, for the purpose of facilitating compliance with our strategies and objectives. In this manner, we ensure that any risks that may affect these objectives, including tax risks, are systematically identified, evaluated and managed, with uniform criteria

and within the level of acceptable risk approved by the board of directors. The Annual Report on Corporate Governance contains extensive information to this respect.

The year 2017 has been decisive in terms of progress in compliance. We are implementing a Compliance System in order to ensure respect by each and every one of the members of the organisation of the obligations resulting from a growing number of laws and internal standards that companies must observe, as well as the commitments that we assume voluntarily in our interest groups, under an adequate and effective environment of control.

Last year, likewise in accordance with the most advanced practices, we defined a specific methodology for the identification and evaluation of the risks of breach.

Without a doubt, having a solid culture of ethics and compliance in the organisation, common to all of its members, facilitates an integral performance of our obligations and commitments, as well as in the relations with our interest groups. In this regard, the development in 2017 of a Plan for awareness and dissemination of the Compliance System is worthy of note, that will continue in upcoming years with the mandatory participation of everyone in the organisation.

This year we will proceed with the review of the fundamental standard of the organisation, the Code of Ethics, in order to adapt it to the best practices in terms of compliance, as well as to any changes that have occurred to the structure of the Red Eléctrica Group.

Individuals and excellence

There is a fundamental aspect in the area of sustainability that must not be forgotten, and that is the commitment to talent and opportunity and gender equality, as illustrated by the fact that 100 % of the senior management appointments made in 2017 in the Group were the result of internal promotion. There has also been an increase in the number of women in the workforce, 24.4%, and in management roles, 24.8%.

In 2017 actions were launched in association with the age management and disability management models, which were both approved in 2015. Advances in the definition of a new integral diversity model that encompasses and develops the various initiatives on gender, age and disability are also important.

The healthy management model implemented is a strategic commitment for the management, promotion and supervision of the health and well-being of company members. The results of

this model are illustrated by the decreased frequency and severity indices with respect to last year. In the same manner, the trend toward the reduction of accident rates in contractor companies remains the same. Lastly, Red Eléctrica continues working on aligning the policies of Group companies on safety and health.

Sustainability has therefore been consolidated as a basic pillar of our strategy and defines a business model that was recognised in 2017 by the Dow Jones Sustainability Index. The index positions our company as leader in the utilities sector worldwide, proof of our excellent performance in sustainability and direct contribution toward the attainment of global objectives, among which the UN Sustainable Development Goals (SDGs) are worthy of mention.

Furthermore, as a result of the evaluation performed by Carbon Disclosure Project (CDP), and just like last year, Red Eléctrica was awarded the highest score in recognition of its work to reduce emissions, mitigate climate change and manage associated risks and opportunities.

Progress in the adoption and implementation of the best international recommendations on good corporate governance is undoubtedly a priority objective in the business management of this company, something that was recognised by the prestigious English publication "Ethical Boardroom Magazine" when, for the second consecutive year, we earned the award for the best European company of our sector in Corporate Governance.

Following the most recent excellence evaluation in 2017 according to the EFQM, Red Eléctrica has maintained the EFQM European excellence seal 500+. Therefore, our firm commitment with excellence in management consolidates our position as one of the leading companies in this field, as one of the three organisations that scored more than 700 points within the selective group of 94 companies bestowed with this recognition in Spain.

There is no doubt that these recognitions highlight the commitment of Red Eléctrica to sustainability when addressing global challenges and its firm wager for transparency through accountability.

CONCLUSIONS

I would like to conclude with a reference to the major challenges facing this company in the near future, some of which were mentioned last year. In the first place, to maintain the difficult and

exhilarating goal of excellence in all our actions. That is the best way to generate value for the company so that we can continue to lead the sector on sustainability and good governance rankings at international level.

In the second place, to successfully meet the challenges posed for Red Eléctrica by the so-called energy transition, fulfilling the ambitious investment goals tied to it that are being realised in the network planning by the Government. We are convinced that this investment effort will be dealt with in the second regulatory period that will begin in 2020, as the law mandates, in a framework of stability and reasonable remuneration for this regulated and mandatory activity.

In the third place, to intensify our commitment to expand our business base, in the international as well as telecommunications areas. This is in effect a matter of diversification in spheres with which we are familiar that generate value for the Red Eléctrica Corporation Group and do not divert the company away from its principal activity, which is the Spanish electricity transmission network, and operation of the system.

As the icing on the cake of this presentation, I must refer to the great human capital making up this Company. On a daily basis, management and employees write a new page in the history of the success of Red Eléctrica through their dedication, efficiency and innovative initiatives. I would like to convey to them all my deepest gratitude. I also cannot refrain from mentioning the enormous contribution from the board of directors, whose members have shown exemplary dedication and commitment in their supervision, control and management duties. I admire and support them. This is particularly so in the case of the directors up for renewal, Antonio Gómez Ciria and Socorro Fernández Larrea, and the director up for ratification and appointment, Mercedes Real Rodrigálvarez. I am fully confident that they will all have the firm support of all shareholders.

Many thanks for your attention.