



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS

GENERAL SHAREHOLDERS MEETING

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INTRODUCTION

Hello and welcome, ladies and gentlemen,

It is a great honour and very exciting to address you for the first time as Chief Executive of Red Eléctrica, which is undoubtedly the most outstanding company for which I have worked.

I would therefore be grateful if you would allow me to say a few words to those who made my appointment possible.

First, to my family, without whose unconditional support my career would not have been possible. I would also like to express my sincerest thanks to the families of Red Eléctrica's workforce and, in particular, to those of employees who choose career paths that require a great deal of commitment and responsibility. Without their support it would be far more difficult for our project to succeed.

Second, I would also like to thank my colleagues over all these years, who have undoubtedly helped me to become a better professional and a better person.

Third, I would like to thank the members of the Board of Directors for their trust and support, in particular our Chairman, Mr José Folgado, whose humility, generosity, leadership and determination serve as a daily example to all of us involved in this collective endeavour. Thank you, Mr Chairman.

Last, and by no means least, I would like to thank you, our shareholders. You, who gave majority support, with 98% of votes in favour, to this project and, in particular, to my candidacy for appointment as Chief Executive Officer at an Extraordinary General Meeting called solely for this purpose in mid July and which obtained a higher quorum than the General Meeting of Shareholders.

Thank you very much from the bottom of my heart.

I am sincerely grateful for your trust and support and will do all in my power to ensure that you are not disappointed. Since joining Red Eléctrica fifteen years ago, I have played a full role in the company's activity, a commitment I renew daily with a view to achieving the goals that the company has set itself over the coming years within the framework of the 2014-2019 Strategic Plan.

SIGNIFICANT EVENTS IN 2015

In 2015 there were several events which, in addition to paving the way for a promising future of growth for Red Eléctrica, represent significant progress in the execution of the Strategic Plan that we presented to you at the last General Shareholders' Meeting.

In addition to further developing our role as a TSO and strengthening efficiency criteria, the company focused on the diversification of its business activities, with significant progress also attained in the international arena including the development of storage systems and the definitive consolidation of our telecommunications activity.

Regulated activity

In 2015, we commissioned 414 km of new lines and 136 new substation positions, thus increasing transformation capacity by 605 MVA. We now have an extensive and meshed grid made up of 43,000 km high-voltage lines. Here it is also worth highlighting the exceptional level of service quality and operational efficiency of our facilities, with an availability rate for our transmission grid of 98%.

As the Chairman has already mentioned, the completion of regulatory reform, the Planning for the electricity transmission grid over the 2015-2020 period, the achievements in 2014 and 2015 and the progress in our non-regulated businesses mean we can reaffirm in 2016 our strategic goals through to 2019 which, as you will recall, are as follows: growth in consolidated activities, with investment of €3,100 million in the transmission grid and €475 million in our fibre optic network; additional growth in new activities with investment of €1,000 million; a 200-basis-point improvement in our EBITDA margin and an average net debt/EBITDA ratio of 3.5x. All this is to be achieved with average annualised growth in earnings per share of between 5 and 6 % in the 2014-2019 period and average annual dividend growth over the same period of 7%.

With the aim of further fostering interconnections, in keeping with the European commitments set out by the Chairman, the planning for the transmission grid focuses in particular on development of the links between electricity systems such as international interconnections, interconnections between island systems and connections between mainland and non-mainland systems.

To improve the interconnection between Spain and France, planning for the 2015-2020 period includes a phase-shifting transformer for the 220 kV Arkale-Argia line (classified by the European Union as a Project of Special Interest) and, in future, the direct current submarine interconnection through the Gulf of Biscay and two interconnections through Aragón and the Basque Country or Navarre. The aim of these projects is to attain 8,000 MW of interconnection capacity with Europe.

With regard to the interconnection with Portugal, this includes a new project for 2017 in Galicia also classified as a Project of Common Interest.

Peru and Chile

With regard to the development of business diversification activities and, more specifically, in the international arena, 2015 was our first year of activities in Chile following the acquisition from E-CL, a subsidiary of ENGIE, of a 50% shareholding in Transmisora Eléctrica del Norte (TEN) for \$218 million.

The purpose of TEN is the construction and commercial exploitation of the Mejillones-Cardones transmission line, a project which enjoys full institutional backing in Chile and which will be the first interconnection between the Central Interconnected System and the Great Northern Interconnected System. It is therefore a strategically important project given that it will enable the interconnection of both systems and their joint operation, making the Chilean electricity system more secure and efficient.

With investment of over \$780 million, this 500-kV, 600-km line, which is scheduled to come into service in the second half of 2017, will form part of the country's trunk system, with regulated revenue of around \$90 million.

For Red Eléctrica, our entry into Chile marks a significant milestone in our international development. I am convinced that the manner in which this has been achieved, robustly, through a project of strategic importance for the country and in tandem with a prestigious local partner in EC-L, means we can be confident about strengthening our presence in Chile.

In Peru, where Red Eléctrica has been managing transmission grids for over 15 years with outstanding availability rates and smooth collaboration with all our stakeholders, we have become established as the number one transmission grid operator in the south of the country. In 2015, we secured two new 30-year concessions which will enable us to improve the

electricity supply in southern Peru. Both projects, which entail a total investment of around \$110 million, will come into service between 2018 and 2019, enabling Red Eléctrica to increase the network it will manage in Peru as a strategic operator to around 1,200 kilometres.

Naturally, all these international transactions are aligned with the investment criteria set out in the 2014-2019 Strategic Plan since they are investments in low risk environments with stable regulatory frameworks, with a significant interest in the companies and playing a very active role in management. Furthermore, they will enable Red Eléctrica to significantly increase its presence in two neighbouring regions - northern Chile and southern Peru - and put the company in a strong position to play a pivotal role in the potential interconnection between the two countries.

Chira-Soria

2015 was also a key year for energy storage due to our focus on the Chira-Soria pumping station project on Gran Canaria, an initiative that will play a pivotal role in safeguarding supply on the islands, as well as improving system security and optimising the integration of renewable energies.

In 2015, the Chira-Soria project was transferred from Endesa to Red Eléctrica and the transfer of the rights of use for the dammed waters was formalised with the Gran Canaria Water Board. Furthermore, in light of the characteristics of the project, a new company was established, Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN), to carry it out.

Over the year, a number of changes were made to the design of the project in order to maximise the capacity to integrate renewable energy and adapt it to its new function as a tool of the system operator. We expect works to commence in 2017 and to be completed in around five years, with a budget of approximately €320 million.

Telecommunications

In the area of telecommunications, 2015 saw the consolidation of the fibre optic business following the acquisition in 2014 of the rights to use and manage ADIF's fibre optic network, positioning us as the leading neutral operator in Spain of dark fibre optic networks.

In 2015, our subsidiary Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) was created to exclusively manage our telecommunications business, which over the coming years will focus on providing new solutions to its customers whilst maintaining the excellent

levels of service delivered to date. In 2015, REINTEL's activity accounted for over 50% of the growth in the Red Eléctrica Group's EBITDA.

Thanks to the steps taken in business diversification we can be optimistic about delivering on the commitments set out in our Strategic Plan. We will continue to strive to consolidate the progress made and to seek out fresh opportunities to create shareholder value.

RESULTS AND FINANCIAL STRENGTHS

Having provided an overview of the main milestones in 2015, I would now like to analyse the results for 2015 and the company's financial strengths. In 2015, Red Eléctrica delivered solid results and considerably strengthened its main solvency ratios.

Revenue in 2015 totalled €1,939 million, up 5% year on year, boosted by the increase in transmission revenue in Spain thanks to the start-ups in 2014 and revenue associated with the provision of telecommunication services, which amounts to €83.5 million.

EBITDA amounted to €1,458 million, up 5.3% year on year, largely due to the Company's telecommunications activity, which contributed over 50% of this growth. The EBITDA performance was affected by supply and other operating costs, which rose by 5.9% in 2015 as a result of the inclusion of the costs of the new telecommunications business. Stripping out the costs associated with this business, the increase is just 1%, reflecting the efficiency gains achieved by the company in this period.

Profit for the year amounted to €606 million, up 15.6% compared with 2014, though the increase stands at 8.3% factoring in the non-recurring gains from the compensation for TDE of €52 million and from the application of the tax reform of €106 million.

In 2015, the company invested €448 million, of which €411 million was earmarked for development of the Spanish transmission grid and €12 million for energy storage on the Canary Islands. This figure does not include the payment of \$218 million last January for a 50% stake in TEN after European Commission approval had been secured.

With regard to the main balance sheet items, the net debt balance at 31 December 2015 stood at €4,906 million, down 9.3% year-on-year. The strong cash flow generation was mainly attributable to the improved results and enabled the Company to meet investment payments of over €440 million, pay €405 million in dividends and reduce the Group's financial debt.

It is also worth noting that the average cost of our debt eased from 3.49% in 2014 to 3.2%, with an average term to maturity of 5.9 years. 85% of Red Eléctrica's debt is fixed rate to term, with euro-denominated debt predominating over debt in other currencies. Just 2% of debt was dollar-denominated at the end of 2015.

Turning now to the company's solvency, we note a marked improvement in the EBITDA ratio to 8.5 times. Thanks to the positive debt performance, net debt/EBITDA stands at 3.4 times.

Our financial policy adapted to the new remuneration model and the maintenance of diversified financial debt and a comfortable liquidity position to cover forthcoming maturities means we are well placed to attain our objectives, since we have the ideal capital structure for the financial implementation of our Strategic Plan.

DELIVERY OF THE STRATEGIC PLAN

Although the future of the electricity sector will naturally be defined by the main sector agents, it is essential that Red Eléctrica adopts a strategic position to bolster its position as Spanish TSO and safeguard it in the domestic and European arenas.

Under the 2014-2019 Strategic Plan we will continue to develop our role as TSO in Spain, strengthening efficiency criteria to adapt the company to a new, more stringent remuneration framework and increasing the scope of other businesses as a complementary source of growth.

In the first two years of the plan's execution major initiatives have been developed that have facilitated the implementation of the basic and transversal strategies.

In the sphere of **Development as a TSO**, especially noteworthy is the approval by the Council of Ministers of the 2015-2020 Electricity Transmission Grid Plan and the approval of the aspects pending definition of the new remuneration system for power transmission activity in Spain.

Also of particular significance is the start-up of the interconnection with France via the Eastern Pyrenees and the commissioning of first submarine cable of the Mallorca-Ibiza interconnection to strengthen the integration of the electricity system of the Balearic Islands and safeguard security of supply.

As I mentioned earlier, in 2015 significant steps were taken aimed at **increasing the scope of other businesses**.

Our subsidiary Red Eléctrica Infraestructuras de Telecomunicaciones, SAU (Reintel) was created and fibre optic networks are being efficiently integrated. These dovetail smoothly as the network acquired is very extensive in urban areas.

The transfer process of the Chira-Soria project has now concluded. This included the creation of the Red Eléctrica Infraestructuras en Canarias, S.A.U. (Reincan), company, which will manage the construction of energy storage facilities on the Canary Islands.

Red Eléctrica Internacional has cemented its position in southern Peru by securing the concession for two new lines. The company has also entered the Chilean power transmission sector via the acquisition of a 50% stake in Transmisora Eléctrica del Norte (TEN).

With regard to the improvement of **efficiency** levels, Red Eléctrica's delivery on its commitment is reflected in the increase in the EBITDA margin from 74% in 2013 to 75.2% in 2015.

On the financial front, key events include the €500 million issue of 10-year, 1.176% bonds in April. Part of this issue was used for a swap for other bonds corresponding to previous issues at rates between 4.75% and 2.375%.

In the same month the company carried out its first bond placement in Peru, worth a total of \$110 million, including a 15-year and a 28-year issue. Of particular note is the fact that the bonds were issued in a public offering on the local market with the longest term to maturity by a corporate issuer and yielded the best corporate rate in dollars of any 15-year issue.

Red Eléctrica underlined the effectiveness of its **innovation** strategy in 2015 by developing 76 technological innovation projects aimed at increasing system efficiency and integrating renewables.

In addition, and with the aim of facilitating achievement of the goals set out in the Strategic Plan and with advancing the process of separation of the functions of the chairman and chief executive officer, the organisational structure of Red Eléctrica has been revamped. This reorganisation has enabled the company to deal with generational transition in the management team, with 80% of posts covered via internal promotion. This clearly underlines Red Eléctrica's commitment to the talent of its **people**.

In addition, the Healthy Workplace Model has been implemented, which establishes the principles and general guidelines for promoting the health, safety and well-being of employees.

In keeping with the strategy aimed at achieving **excellence** and corporate responsibility, I would like to highlight some of the points which the Chairman has already spoken about with us: Red Eléctrica's inclusion in the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index and the renewal of the European Seal of Excellence 500+ certification under the EFQM model, with a score of over 700 points.

As you can see, the Red Eléctrica Group has demonstrated its ability to attain the goals set out in its Strategic Plan and has the financial strength to continue to do so in future thanks to the unswerving commitment of our shareholders, the Board of Directors, the management team and every one of the people who strive daily to exceed our proposed targets.

Thank you very much for your attention.