



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS

GENERAL SHAREHOLDERS MEETING

Chief Executive Officer

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INTRODUCTION

Hello and welcome.

Ladies and gentlemen, it is a great honour to address you following this past year as Chief Executive of Red Eléctrica. It has been the start of an age in which, thanks to the confidence and support of the members of the Board of Directors, with the Chairman at the helm, as well as the team of professionals I have at my side throughout this exciting mission and you, the shareholders, I have seen first-hand the huge leaps taken by the Group in our Strategic Plan 2014-2019.

It has been a period of great changes to the organisational structure of the company, fundamentally due to the separation of the roles of chairman and chief executive, which have allowed us to take a more efficient approach against the challenges we face to see our strategic plan to fruition. This reshuffling is also offering new professional opportunities to Red Eléctrica personnel, through internal promotion, mobility, teamwork and talent management.

Yet it has also been a complicated year, owing, as we have heard from the chairman, to the uncertainty roused by the political panorama during the most part. Yet this situation has not stopped Red Eléctrica from continuing to responsibly guarantee the good operation of the Spanish electrical power system, with sights set on making European energy and sustainability goals viable, of from consolidating the business base extension activities, particularly internationally and in telecommunication.

At the mid-point of the Strategic Plan 2014-2019

Before directly analysing key milestones in 2016, allow me to briefly comment on our performance with respect to the Strategic Plan 2014-2019 now that we are at its mid-point, because our achievements to date allow us to believe that we are going in the right direction to meet the goals we set for ourselves.

We have invested half the planned amount in consolidated activities, i.e. electrical power transmission activities and telecommunications. We continue to make good progress in investment in new system operation tools such as storage, and in new electrical power transmission opportunities in stable markets that offer good returns.

Significant operative efficiency gains have been achieved following a review of operation and maintenance policies and supply and construction criteria. The greater demand of operation and maintenance unit costs approved at the end of 2015 has meant a greater effort on the part of Red Eléctrica in reviewing these policies while also maintaining our quality standards in construction and operation.

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

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

SIGNIFICANT EVENTS IN 2016

2016 has been an intense year marked by the achievement of milestones that, as I have said, show us that we are on the right track to meeting our 2019 goals.

Regulated activity

With respect to regulated activity, investments in the transmission grid have essentially aimed to resolve technical restrictions, the meshing of the grid, the execution of special international interconnection and submarine interconnection between islands, and the need to guarantee security of supply and the reliability of the grid.

During 2016, a total of 674 kilometres of new lines have been commissioned and 61 new sub-station positions, increasing transformation capacity by 600 MVA. We currently have an extensive, well-meshed transmission grid comprising 43,664 kilometres of high voltage lines. The simultaneous high service quality and operative efficiency of our facilities must also be highlighted, with an availability index of 98.29% in the national grid.

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

Of the 643 million euros invested during the past year, 398.5 million has been poured into the Spanish transmission grid. As you know, Planning places special emphasis on the development of links between electrical power systems, such as international interconnections, interconnections

between insular systems and connections between the Peninsula and non-Peninsular system.

I would highlight here the commissioning of the Majorca-Ibiza double link, the longest alternating current submarine cable in the world. This link, which became operational in June, provides cost savings for the system and reduces polluting emissions on the Balearic Islands, as well as consolidating integration of the Balearic electrical system with the Peninsular and European systems.

In terms of international interconnections, work has taken place in the planning of three new interconnections with France: one through the Bay of Biscay and two trans-Pyrenean through Cantegrit-Navarre and Marsillón-Aragon, all planned for commissioning after 2020.

Also of note are the works carried out on the 220 KW phase shifting transformer on the Arkale-Argia line, planned for commissioning this year, which will be closely following by the interconnection with Portugal via Galicia, between Fontefría and Vilafría.

Additionally, 2016 has seen the commissioning of certain facilities that galvanise the meshing of the transmission grid, such as the Boimente-Pesoz line in the Asturias-Galicia axis, the Mezquita-Morella line in the Aragón-Levante axis, the Godelleta sub-station in Valencia, the Torremendo sub-station and the Torremendo-San Miguel de Salinas line in the Torremendo axis in Murcia and Alicante, and the Sabinal sub-station in Gran Canaria.

As you all know, Red Eléctrica aims to guarantee that facilities of the transmission grid are in optimum conditions of availability and reliability,

through the application of responsible, efficient and secure maintenance policies.

The annual maintenance programme includes all activities and resources necessary to guarantee electrical supply continuity. In 2016 we have made a clear commitment to imaginative working, innovating in all our actions in order to be more effective and more efficient. As such, we have worked on established cyber security tools to improve safe access to electronic transmission grid equipment, on the development of various innovation projects, on improving efficiency in facility maintenance activities.

International activity

In terms of business diversity, the development of international business is a natural growth path for Red Eléctrica. Significant deployments of our investments in Chile and Peru took place in 2016.

In January we obtained the necessary authorisations to complete our acquisition of a 50% stake in the company Transmisora Eléctrica del Norte (TEN) from Engie Energia Chile for 218 million dollars.

As you will remember, the goal of TEN is the construction and commercial operation of the Mejillones-Cardones 500 KV transmission line, a strategic project for the Chilean electrical power system that will be the first interconnection between the Central Interconnected System and the North Grand Interconnected System.

During 2016, TEN business performed very well, with investment reaching 379 million dollars and the project currently being more than 80% completed.

We are now facing the final phases of the construction process and have 3,000 workers involved, which makes us maintain a high level of confidence in completing the goals set for the commissioning of the line in the second half of the year.

As I indicated in the 2015 AGM, we were awarded two new concessions in southern Peru: the Azángaro-Juliaca-Puno 220 KV line and the Montalvo-Los Héroes 220 KV line. In 2016, we began construction of the first and plan to begin the construction phase of the second for the end of this year.

Total investment in both project lies at around 90 million dollars, of which 19.6 million has been realised during 2016. The projects are making satisfactory progress, with commissioning expected for between 2018 and 2019.

Additionally, in January of this year, we definitively consolidated our presence in Peru with the acquisition of a 45% stake in Red Eléctrica del Sur (REDESUR), which was owned by the Peruvian investment fund AC Capitales. With this deal, the Group now is the sole owner of the company.

This milestone will allow us to optimise the corporate structure of our stakeholdings in Peru and undertake future investments in the country. Upon completion of the currently on-going projects we will manage 1,200 kilometres of transmission lines in the south of the country, where we are now consolidated as the leading manager of transmission grids.

Moreover, we are continuing to seek out new international investment opportunities pursuant to the investment criteria established in the Strategic Plan 2014-2019, focusing on low-risk investment profiles and

stable regulatory frameworks, with a meaningful stake in companies and very active involvement in their management.

Soria-Chira

With respect to energy storage, in 2016 there has been fresh impetus on the Soria-Chira plant on Gran Canaria, a project that will become an operational tool of the system to guarantee supply to the islands, as well as improving system security and optimising the integration of renewable energies.

As such, the public consultation period for the project began in October 2016, driven by all administrations as a key project in the new Canaries energy model. In order to act as transparently as possible in the process, Red Eléctrica informed residents of San Bartolomé de Tirajana and Mogán of the project in writing, and set up two citizen attention points in both towns.

The Soria-Chira pumped hydro plant with 200 MW power, includes construction of a seawater desalination plant and associated marine works, as well as connection of the plant to the Santa Águeda sub-station opened in 2016, through a 220 KV, 20 km line.

With a planned investment of 320 million euros, the construction of this infrastructure will create at least 500 direct and approximately 1,500 indirect jobs. Commissioning will take place 5.5 years after works begin, once all administrative authorisations have been obtained.

Telecommunications

With respect to the telecommunications area that we manage through our subsidiary REINTEL, the achievement of the goals set for 2016 has confirmed the positive forecasts of the fibre optic business performance.

Following the acquisition at the end of 2014 of the usage and exploitation rights of the rail network fibre optic network, and the integration in 2015 of the fibre optic business with the creation of Reintel, 2016 was the year for definitive consolidation of the telecommunications business, positioning us as the benchmark neutral operation in our country for the management of dark fibre optic networks.

The networks interconnection plan is progressing as expected, which has allowed us to offer new network solutions and layouts to accompany our clients in their growth strategy.

In 2016 we also continued to seek out new investment opportunities to enable development of the current business and generate value for shareholders, based on neutral management and the commercial exploitation of infrastructures.

Definitively, business performance has been boosted by new developments in the network of existing clients and by the incorporation of new clients. The telecommunications business has thus increased its weight in the company throughout these three years, with an annual contribution to turnover of 86 million. It has certainly become a long term priority for the Red Eléctrica Group.

RESULTS AND FINANCIAL STRENGTHS

Having looked back at 2016 milestones, I will analyse results for the period and the company's financial strengths. In 2016, Red Eléctrica obtained solid results and considerable bolstering of its main solvency ratios.

Turnover in 2016 was 1.932 billion euros, a 0.3% drop year on year. This figure include transmissions remuneration in Spain, which includes 2015 commissionings. It also involves resources associated with the provision of telecommunications services, which reached 86 million euros, regulated income from system operation, for 56 million euros, and income from foreign transmission activity that, as has already been mentioned, reached 19.8 million euros.

EBITDA amounted to 1.486 billion euros, a rise of 1.9% on the previous year. EBITDA performance has been marked by progression of other operating expenses and supply, which posted a 3% drop in 2016, once again reflecting efficiencies achieved by the Group in this period.

As you know, further efficiency gains should be made in view of our remuneration framework, maintaining a suitable quality level. We look for efficiencies during the whole engineering, construction and maintenance process of facilities, following austerity, demand and expense priority criteria.

These practices, together with the application of other criteria such as sustainability and efficiency in the development of activities or the tying of salaries to company goals have led us to an EBITDA margin in 2016 of 76.9%.

Profit for the year amounted to 637 million euros, a rise of 5.1% year-on-year.

As I have already mentioned, in 2016 the company invested 643 million euros, of which 399 million euros were channelled towards developing the national transmission grid and 200 million was used in January for the acquisition of 50% of TEN.

In terms of main balance sheet items, net financial debt at 31 December 2016 was 4.949 billion euros. Strong cash generation from improved results has allowed us to make investments of over 640 million euros and a dividend payment of 443 million, while the Group's financial debt levels have ended slightly higher than last year.

I would like to stress that the average cost of debt has dropped from 3.20% last year to 2.94% this year, and has an average life of 5.5 years. 84% of Red Eléctrica's financial debt is fixed rate to maturity, and mainly euro-denominated. By 2016 year-end, only 3% of debt was tied to the dollar.

In terms of solvency, the EBITDA ratio on interest has improved considerably, reaching 9.4X. Positive debt performance has led to a "net debt over EBITDA" coverage ratio of 3.3X in 2016.

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

FUTURE INVESTMENTS PLAN

Having analysed fulfilment of the strategic plan at its mid-point, the milestones and results for the year, as well as the Group's financial and

technical robustness to face the coming years, I will now break down the investment plan that will form the basis of our future growth.

In 2017 we expect investment in the Spanish transmission grid to remain at a similar level to that of 2016, concentrating remaining investment in 2018 and 2019, once cruising speed is reached following the delay in approving the national infrastructures plan.

With respect to the Soria-Chira pumped hydro plant, planned to be commissioned as of 2023, we estimate that 60% of the investment will be made during the span of the strategic plan.

Investments in the transmission business in other markets will principally focus on Latin America, where, as you are well aware, we have been present in Peru since 1999, and in Chile since January 2016.

In the coming years we will pay special attention to tenders called in Chile for the trunk transmission system expansion plan, which will be between 300 and 400 million dollars, and to tenders in Peru relating to the transmission plan 2015-2024 with an estimated investment of between 500 and 600 million dollars. We will also explore acquisitions of operating assets or those under construction that may arise.

Post-2019 investments

I would like to transmit to you the image of the key role that Red Eléctrica will have in future and, as such, I would ask that you fix your gaze on the post-2019 horizon, with features the reference of the European Union framework on climate and energy that includes targets to reduce

greenhouse gas emissions and to increase the use of renewable energies and that fosters a more competitive, secure and sustainable energy system.

In the transition towards this new energy model the development of international interconnections will be key to greater and better integration of renewable energies. The main projects in place to increase the exchange capacity between Spain and France to 8,000 MW after 2020 are:

- The project to connect the Bay of Biscay in Spain to the Aquitaine region in France, with an estimated cost currently at 1.9 billion euros. This project, which is included in the list of Common Interest Projects, is currently undergoing the technical study phase.
- Two new trans-Pyrenean projects, one through Cantegrit and Navarre or the Basque Country and the other through Marsillon and Aragon, each with an estimated cost currently at between 900 million and 1.2 billion euros.

In relation to island systems, the possibility of a second link between Majorca and the Mainland is being considered for 2021-2030, and a third link between Majorca and Ibiza, as well as a link between Gran Canaria and Fuerteventura. These links would be justified by their contribution to reducing the variable costs of generation and to securing supply in isolated systems.

Another portion of our investments for 2020-2030 will be earmarked to guaranteeing security of supply, taking into account that, for the fulfilment of the 2030 goals, 55-60% of demand will have to be met with renewable energies. The development of networks that support new renewable

generation and new storage on the Canary Islands will be particularly important in securing supply in island systems, which is why pumped-storage hydro plants in other locations are currently being studied. It will also be crucial to determine the investment necessary to replace pre-1998 assets and their regulatory treatment.

Some of these projects are already included in appendix II of current planning, to allow their administrative processing, although the approval of the new plan must be achieved before they can be authorised and construction can begin.

We are also continuing to make progress in the telecommunications development plan and within the digitalisation of the industry, thanks to our neutrality in the management of industry measures, we can play a key role.

Lastly, with respect to international business, we will focus our investment efforts on low risk opportunities, seeking out adequate returns with a preferably majority stake and active involvement in management, with particular focus on consolidating our positions in the areas in which we are currently present.

As I previously mentioned, Red Eléctrica holds a key role in the energy transition currently taking place in Europe and it will continue to exercise its responsibility as Spanish transmission system operator, focusing its efforts on creating value for shareholders and for the company in general. We will also continue to support the growth of the Group's international business and the telecommunications branch. We are technically prepared

to do this and have shown our sound financial solvency. We will face future challenges as we have done during the first half of our strategic plan.

Many thanks for your attention.