



RED ELÉCTRICA
CORPORACIÓN

CHAIRMAN'S ADDRESS

ANNUAL GENERAL SHAREHOLDER'S MEETING 2014

9 May 2014

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INTRODUCTION

Good morning, ladies and gentlemen, shareholders and guests.

Once again, we are here today to celebrate this important corporate event which I am honoured to chair. On behalf of the Board of Directors, I welcome you all and thank you for attending this General Shareholders' Meeting of Red Eléctrica. Similarly, I would like to convey my thanks to all who are following us via the live webcast.

Brief reference to the year's results

I shall begin my presentation with a brief reference to the year's results. Even in a difficult economic and energy context, Red Eléctrica has been able to react well, showing solid economic results with a 7.5% increase in its net profit. It is undeniable that the financial statements of the Company in 2013 have been affected by regulatory changes within the sector, posting a growth rate somewhat lower than what had been seen up until 2011.

2012 and 2013 were marked by the implementation of measures to ensure the financial stability of the electricity sector, but if I had to briefly summarise 2013, I would say that it has been the year of consolidation of our regulatory model. The final methodology regarding the remuneration for electricity transmission was approved, strengthening and clarifying the remuneration principles in line with comparable European companies.

Macro evolution

These results, and the future of the Company, are linked to the economic context in which our business is carried out. During the second half of 2013, the turning point we all longed for regarding the path of decline of the Spanish economy finally occurred, which supports the behaviour of macroeconomic aggregates such as GDP and employment. Moreover, forecasts for 2014 of the main specialised agencies confirm the consolidation of this incipient recovery, as they estimate a growth in economic activity of around 1 %.

This favourable evolution of the economy, together with the rigor of the Government in the implementation of structural reforms aimed at achieving fiscal consolidation with the other countries of the European Union, has reduced market pressure on our sovereign debt. This has helped to stabilise the risk premium of Spanish debt below 160 basis points, ease financial tensions and reduce uncertainty of the markets; three factors that shape a favourable financial situation to secure the economic recovery.

Our companies have faced the challenge to restructure and adjust their productive processes and have explored new markets in which to position its better competitive edge, which has resulted in an increase in exports in 2013 of almost 5%; an increase that is expected to be repeated and even improved upon in 2014.

In addition to growth abroad, in recent months we have also seen improved domestic confidence and demand, which has signified that the Spanish industry is registering, although with varying degrees of intensity across the sectors, an undoubted dynamism, reflected, amongst other indicators, in electricity consumption. This was evident in the Red Eléctrica Index (IRE), an indicator that provides precise information regarding the evolution of the electricity demand of the set of companies that have a medium / high consumption and its

breakdown by activity sector. Since August 2013, the IRE has registered positive growth of around 2%, driven by industrial consumption, which has had a sustained growth rate of close to 5%.

Electricity reform

During 2013, the Government undertook an in-depth reform of the electricity sector regulation, which was necessary to eliminate the structural imbalance between regulated revenues and costs of the system, commonly known as the tariff deficit, and to provide the sector with a new, more transparent, stable and predictable regulatory framework for the development of electricity activities.

The most important landmark of the Reform was established through Royal Decree-Law 9/2013 of 12 July which adopted urgent measures to ensure the financial stability of the electricity system, with an impact on all activities in the sector. This law establishes a transitory methodology for calculating the remuneration of the transmission activity for the second half of 2013 and for 2014.

To underpin and give legal substance to the Reform, the Electricity Industry Law 24/2013, of 26 December, collates and integrates the fundamental principles of the new remuneration system for transmission activity included in the previous legislation, to which it adds a fixed period of validity of 6 years regarding the remuneration parameters. Finally, Royal Decree 1047/2013 develops the formulation and detailed procedures to determine the annual remuneration for this activity.

Naturally, Red Eléctrica found itself affected by the measures to resolve the tariff deficit. Our Company has contributed around 500 million euros in the last two years, via reductions in income or postponement thereof, but we can now tackle a future where the regulatory uncertainty with which we have had to live with in recent years has been removed.

It is highly positive that the Government decisively apply the criteria, long claimed for by investors, to defend regulatory stability in general and a reasonable remuneration for regulated activities that, although adjusted and less than in the past, favour the obtaining of additional margins linked to objectives of greater efficiency. This philosophy is certainly demanding, but makes companies such as Red Eléctrica, with a proven track-record for good management and excellent external ratings regarding good governance matters, become more attractive in the markets.

I consider it important to insist on pointing out that the new remuneration methodology for transmission is more transparent, stable and predictable, and it helps provide regulatory stability to our business, and at the same time lays down the mechanisms to ensure the sustainability of the system and establishes incentives for efficiency.

In this regard, it is important to note that, in the Report submitted to the State Council on the analysis of the regulatory impact of Royal Decree 1047/2013, the Ministry of Industry has made projections relating to transmission remuneration until 2019. This approach sets REE's transmission tariff revenue in 2015 at approximately 1.685 billion euros and a growth of 3% per annum in the period 2015-2019.

It should also be noted that, pursuant to the transitional methodology set forth in Royal Decree-Law 9/2013, the 2014 tariff allocated to REE in the Ministerial Order published in the

Official State Gazette on 1 February fixes revenues for the transmission business at 1.622 billion euros in 2014.

With respect to Europe and the structuring of the internal energy market, it is important to note that we are immersed in an intense process of regulatory harmonisation, which results in the development of European Network Codes, rules concerning grid security, the sharing and exchange of information, congestion management and exchange capacity, balance, tariff harmonisation, etc.

These rules are needed to advance in the coupling of the energy markets. In 2013, work on the coupling of the markets for the south-west Europe region were initiated aimed at the integration of the Spanish and Portuguese markets with the French market, and whose completion is scheduled for May 13.

In line with this objective, the European Council on 20 and 21 March called for the acceleration of the implementation of the Third Package, to apply the rules on energy market integration and energy efficiency, and implement measures to achieve the objective of 10% of interconnection capacity.

Moreover, at the end of March, the Government approved the Royal Decree, which determines the new methodology for calculating the voluntary price for the small consumer PVPC, which applies to all consumers with a contracted capacity not exceeding 10 kW.

In this methodology, Red Eléctrica plays an important role as it publishes on its website all the prices that will be applied to small consumers on an hourly basis, as well as the time coefficients of the consumption profile of consumers who do not have a smart meter to read their hourly consumption. These values are considered final for billing purposes, so that opens up to consumers the chance to be aware of and manage the impact their consumption will have.

With the effective implementation, as of 1 July 2014, of this new mechanism, the Government accelerates the evolution towards the great transformation that is emerging in the medium term future regarding electricity supply billing with the widespread deployment of smart meters. Thus, the consumer moves on to play a decisive role in the determining their electricity bill.

ACTIVITY IN 2013

Investments

Allow me to analyse and share with you the highlights of the Company's activity over the past year. Our investment in the transmission grid reached 564 million euros, a reasonable rate of slowdown, in line with the economic crisis we have experienced in recent years. With these investments, we have brought into service 776 km of new line and 162 new substation bays, increasing transformer capacity by 2,525 MVA. With this, we currently manage a reliable and secure transmission grid of more than 42,000 km of line nationwide, which also has more than 5,000 substation bays and over 80,000 MVA of transformer capacity.

In 2013, the investment effort of the Company has continued to focus on the structural strengthening of the transmission grid and the development of international interconnections. This grid strengthening work, in addition to improving the quality and security of supply, is

helping to integrate renewable energy and provide an efficient and competitive operation of the electricity market.

I would like to highlight, due to their special relevance, the following projects which have been brought into service throughout the year: a significant part (70%) of the Almaraz-Guillena axis, which ensures the quality of supply in the autonomous communities of Extremadura and Andalusia; the Guillena–Puebla de Guzmán axis, which, together with the previous line, allow for a more solid connection with Portugal and in the north, the Grado-Salas axis, part of a larger project for closing the axis of the Cantabrian region and that will allow the evacuation of wind power energy from Galicia and Asturias to areas of high consumption and deficit, such as the Basque Country and Cantabria.

Islands

During 2013, we continued with our ambitious plan for the renovation and improvement of the Balearic Islands' and Canary Islands' transmission facilities acquired in 2010 along with an investment action plan for the coming years, estimated at between 125 and 130 million euros per year.

Although the improvements already made in previous years have contributed to a significant improvement in the energy not supplied and average interruption time ratios in both archipelagos, further work is needed to provide the optimal levels of security supply for these insular systems.

One of the most important projects is the Majorca-Ibiza submarine interconnection, linking the two existing electricity subsystems currently in the Balearic Islands: Majorca-Menorca and Ibiza-Formentera. This new link will strengthen the electricity integration process of the Balearic Islands with the peninsular system, which began with the Spanish peninsula-Majorca interconnection, whose bringing into service has meant a substantial improvement in the quality and security of the electricity supply on the islands of Majorca and Menorca. In 2013, the energy transferred from the Peninsula via this link covered 22% of the Balearic Islands' demand, reaching peaks of 35% of hourly consumption. This has allowed a saving of 18% on the cost of coverage of the Balearic Islands' system and has avoided the emission of 250,000 tonnes of CO₂.

International interconnections

Additionally, there are major projects underway such as the new interconnection with France through Catalonia, whose coming into service is scheduled for late 2014. With a total investment of 700 million euros, 50% co-financed with France and with the support from the European Investment Bank, the interconnection will be the first interconnection with the European grid that will be brought into service for 30 years and will allow the current exchange capacity to be doubled up to 2,800 MW.

However, this level of interconnection continues to be inadequate, so currently being studied for the 2020 horizon is a new submarine interconnection project with France from the Basque Country, through the Bay of Biscay, which in late 2013 was included in the list of Projects of Common Interest (PCI) published by the European Commission. This list includes projects with cross-border implications for the telecommunications and energy sectors that are of strategic importance to the European Union.

Throughout the next few years, the development of interconnections at a European level will enable large highly interconnected electricity highways, called supergrids, to be structured and put in place. These can be understood as supranational transmission grids with a high capacity to transport electricity over long distances and that can help balance the fluctuations inherent to renewable energies.

This aspect was endorsed by the European Council on 20 and 21 March, in which, thanks to the intervention of our Government, it was requested that efforts be intensified in this area and a request was made not only for the rapid execution of all measures geared to achieving the interconnection objective of at least 10% of the installed capacity of electricity generation for all Member States, but the European Commission was also urged to propose, before June, specific interconnection objectives to be achieved by 2030.

Integration of renewable energies

Following the trend started in previous years, Red Eléctrica works with the objective of achieving a better integration of renewable energies into the electricity system, thus reducing CO2 emissions into the atmosphere and allowing demand coverage to be carried out with non-manageable energies without the security and quality of supply being affected.

Our Control Centre of Renewable Energies (CECRE) remains an international reference in the monitoring and control of renewable energy. In 2013, the work it carried out enabled 42% of demand in the peninsular system to be covered by renewable energy production, 10 percent higher than in 2012, helped by a good year in hydroelectric generation and a unprecedented contribution from wind energy that has reached new all-time records regarding demand coverage and instantaneous production, as well as hourly and daily energy. Generation from renewable energy sources contributed to covering 55% of the demand in the first quarter of this year, reaching a new record of daily energy on 25 March.

FINANCIAL AND ECONOMIC PERFORMANCE OF REE

Results

We shall now comment on the evolution of the main figures of our profit and loss statement. I'll start by making a comparison of the evolution in recurring terms, which are a reflection of the Company's standard business; stripping out a number of events that could distort its correct interpretation and that I'll explain later.

First, noteworthy was the growth in net revenue, boosted primarily thanks to the revenues associated with facilities brought into service. The net revenue of the Company reached 1.8226 billion euros and almost 95% of this comes from electricity transmission.

The Gross operating result (EBITDA) in like-for-like terms would have amounted to 1.369 billion euros, representing an increase of 5.9% over the previous year. EBITDA performance has been marked by the efforts made to contain operating costs.

In like-for-like terms, net operating profit (EBIT) would increase by 7.5%, while pro-forma profit for the year would rise to 8.8% year on year.

Now, as I mentioned previously, the income statement was shaped by various one-off events during 2012 and 2013 that have defined the evolution of the results for the year, amongst which the following are worth highlighting:

- The measures contained in Royal Decree-Law 9/2013, which represent a reduction in transmission revenues of 72 million euros in 2013, 50.6 million euros after tax - as can be seen in the chart.
- The application of Law 16/2012 on restatement of balance sheets, which entails a lower income tax expense of 33.9 million euros in 2013.
- Changes in the Group's scope of consolidation arising from the expropriation of TDE in May 2012 and the increased shareholding in REDESUR in 2013 caused a drop in after tax earnings of almost 24 million euros. Regarding TDE, I would like to point out that the Company initiated arbitration proceedings in July 2012 with the declaration of controversy and has been trying to resolve the conflict in a mutually agreeable way up until the month of February, at which time an arbitration notice was submitted due to the disparity between the offers received and the claims that REE see as legitimate. However, even with the proceedings underway, REE does not close the door on negotiations for an agreement and thus avoid the complete arbitration process.
- Finally, the impairment of Tangible Fixed Assets carried out in the first half of 2012, amounted to 32.5 million euros after tax and also must be incorporated into this reconciliation.

Consequently, the profit for the year grows at a rate of 7.5%, reaching 529 million euros, as a result of not eliminating the impact of these one-off events.

With regard to the results of the first quarter of 2014, presented on April 30, it is worth noting the 6% growth in net income.

Company's balance sheet

Moving on to the Company's balance sheet, we see that the debit balance in December 2013 stood at 4.541 billion euros.

First, I would like to highlight Red Eléctrica's excellent performance in generating 974 million euros in operating cash flow. The 974 million euros generated have allowed us to cover the payments for investments of nearly 600 million euros and 319 million in dividends in 2013.

Additionally, it is necessary to highlight the very positive performance in working capital. The effect of a greater number of settlements collected in 2013 over the previous year, as well as increased VAT reimbursement, settled in the month of January, has enabled a contribution of 209 million euros to this item. Stripping out these temporary effects would have placed the closing balance of net debt at around 4.8 billion euros.

The average cost of our debt stands at 3.8% and the average term of maturity is 5.7 years. 88% of debt is fixed rate until maturity. Our prudent financial policy, coupled with our strong liquidity position is solid ground on which can deliver our targets. We have a well-diversified debt and a comfortable position of liquidity to cover forthcoming maturities.

The bond issues in the European market are an important part of our debt. So, since October 2010, we have issued 2.6 billion euros of long-term bonds. We have been proactive in raising finance, tapping the best alternatives available in the market at each point in time. This gradual strengthening of the balance sheet has led to an improvement in the Company's solvency ratios.

Stock market performance

Similarly, we have just closed a positive year in terms of stock market performance. The leading world indexes made double-digit gains and only some markets located in developing countries did stumble somewhat after several years of strong gains. Regarding European stock markets, the German DAX, after a rise of 25.5% in 2013 is, amongst the indexes of reference, the best performing index of the Old Continent.

Among other European exchanges noteworthy is the Spanish stock exchange, which increased 21% during the year, ending a run of three consecutive years of losses. Increased confidence in our economy, as reflected by the decline in the risk premium, which began the year at levels close to 400 basis points and finished with a spread of about 220 points, and the first signs of economic growth have boosted investor appetite for Spanish assets.

Red Eléctrica has again outperformed the IBEX for the fourth consecutive year with an increase in its share price of 30%. The price reached annual lows in April and returned to similar levels in mid-July after the approval of Royal Decree 9/2013. However, the price rallied in the fourth quarter and stood at record highs, 48.295 euros per share, after the publication on 30 December of Royal Decree 1047/2013, a trend that has continued in the first four months of 2014, in which the share price rose by 22%.

Together with the undeniable stability provided by the new regulatory framework, shareholders and investors have based their confidence in the professionalism of the Company and have highlighted the transparency and objectivity with which we have acted in managing the communication of relevant events during the year with reliability and a positive vision.

Dividends

As for shareholder remuneration in the form of dividends, the proposal submitted to today's General Shareholders' Meeting is 2.5422 euros per share and represents 7.5% more than that paid in the previous year, in line with the growth in profits, and which represents a pay-out of 65%.

We are committed to maximising value for our shareholders, offering a dividend return in line with the situation of the Company and contributing to the increase of the share price through efficient management of the business, as we have been demonstrating.

CORPORATE RESPONSIBILITY AND GOOD GOVERNANCE

Red Eléctrica continues its firm commitment to consolidate itself as a sustainable company through ethical management and a commitment towards society and maintaining a focus on excellence and responsibility in the carrying out of their activity.

As a key part of the electricity system, our responsibility and priority is to design and agree with the authorities the locations of lower environmental and social impact, protect habitats

and species when passing through protected areas is unavoidable and in this manner contribute to the conservation of biodiversity.

Since 2009, when we started to develop the Red Eléctrica Forest initiative, we have reforested damaged areas of the Spanish territory through the planting of 350,000 trees, an initiative which has involved an investment of over one million euros in these first five years. With this initiative, the Company has offset around 40% of its CO2 emissions.

As for the team of professionals that makes up Red Eléctrica, year after year, the Company renews its commitment towards the creation of stable and quality employment, as reflected in the percentage of permanent contracts which stands close to 100%; towards equality, also increasing the number of women, both in management positions and on the workforce, and to the promotion and protection of occupational health and safety and the well-being of the people.

In addition, last April, the Company and the unions signed the new collective bargaining agreement, which focuses on a new formula for salary revision that is not linked to the RPI and is based on internal productivity and real GDP growth. The agreement, endorsed by 82.74% of the employees of the Company, develops and improves flexibility of the working timetable - backing efficiency, supporting the work-life balance and the sustainability of the employment framework, and enabling a better self-management of working time.

Regarding dialogue with our stakeholders, in 2013 noteworthy was the updating of the Company's corporate website to make it more dynamic, functional and complete, aspiring to become a channel of reference for the promotion of an energy culture. This corporate website has been adapted to the highest international corporate governance standards, an area in which Red Eléctrica continues to advance.

Similarly, we have approved a new edition of the Code of Ethics, a document containing the corporate values that should govern the conduct of members of the organisation and has been drafted to undertake the demands of our stakeholders and meet the recommendations of the international agencies.

In addition, the Company has adopted new measures to offset the powers and responsibilities of the executive director and chairman of the Board of Directors, through the adaptation of the Bylaws to allow separation of the positions of Chairman of the Board and Chief Executive Officer of the Company. It has also created the post of Lead Independent Director, approved at the last General Meeting.

In line with the actions initiated in 2013 which reduced the weight of the variable remuneration in the total remuneration of the Board, in 2014, a new remuneration structure was approved which eliminates this variable part as per the requirements put forth by international investors and their advisors. Additionally, the overall amount of the Board's remuneration has been frozen with respect to that of 2013.

With the appointment of Ms. Socorro Fernández Larrea as an independent director, subject to the approval of this General Shareholders' Meeting, the percentage of women on the Board of Directors stands at 50%, which consolidates us as one of the leading companies in this field.

In recognition of the commitment towards sustainability, excellence and good governance, Red Eléctrica forms part, for yet another year, of the most prestigious international indexes such as the Dow Jones Sustainability Indexes and the FTSE4Good, and it has also become the

Spanish company with the best score in the European Seal of Excellence +500 recognition, according to the EFQM model.

STRATEGIC OBJECTIVES AND CONCLUSIONS

Challenges

I will now move on to briefly discuss the challenges that, from my point of view, we must address in the coming years. In terms of energy policy, the challenge for the future of the sector in Europe is the compatibility of the three traditional pillars of the energy policy: sustainability, competitiveness and security of supply.

In this regard, Red Eléctrica shall contribute to the electrification of the Spanish society and consequently, of its economy. To the extent that our energy consumption moves towards applications that use electricity as a source of energy instead of hydrocarbons, we will reduce our energy dependence. At the same time, we will be contributing to the achievement of the European targets for the reduction of emissions and the integration of renewable energy set for 2020, as well as the future objectives of the energy policy that may be established for 2030.

In this respect, it is worth remembering that the recent Communication from the European Commission on 22 January regarding "A policy framework for climate and energy in the period from 2020 to 2030", proposes for the first time, for the 2030 horizon, a CO2 reduction target of 40% compared to the 20% set for 2020, and aims to reach by that year a 27% production of energy from renewable sources. Undoubtedly, these are demanding objectives that cannot be achieved if we do not move forward with the electrification of our society.

The transportation of people and goods is the sector where this electrification would impact most and therefore, it is in this area where the greatest efforts should be made. The transition of Spain's fleet of motor vehicles to electric cars and the promotion of rail transport are two key areas for the electrification of our economy, and to which Red Eléctrica must contribute through the proper development of the transmission grid and the efficient operation of the system.

Moreover, the experience obtained by Red Eléctrica in recent years, which has made us a world reference in the integration of renewable energy, puts us in a privileged position to lead what will undoubtedly be a profound transformation of the electricity sector.

Finally, as cited in the conclusions of the European Council last March, Europe and Spain face the challenge of developing their interconnections, with a special focus on the Iberian Peninsula and the Mediterranean area. In this respect, the future development of supergrids represents in the medium and long-term a great challenge in which the role of Red Eléctrica again be decisive.

Fundamental strategic lines

I would like to conclude my presentation by briefly outlining the main strategies of the Company for the upcoming years, as we are working on the definition of the Strategic Plan, whose content we can detail in more depth in the coming months.

Red Eléctrica must prepare itself for the changes that can be experienced by the sector, the implications of the development of electric vehicles, smart grids, the implementation of new technologies, etc.

As I mentioned earlier, an important aspect that the Company must manage in the coming years is the implications of the new remuneration model, which puts us in a position that requires that we obtain greater operational and financial efficiencies. This position requires that we foster a corporate management and culture focused on the optimisation of construction and maintenance activities and the continuous improvement of our processes as well as at an operational level.

Achieving greater efficiency will contribute to mitigating the impact of the declining profitability of new investments under the new remuneration model, creating value through improved operating margins.

Furthermore, in a context of lower growth, it makes sense to expand on our core business. In this regard, recently ADIF has ratified the awarding of the assignment and commercial management of its fibre optic network to Red Eléctrica Internacional for the next 20 years, which is a great strategic opportunity for the Group, as it allows an increase in our business base to be addressed within the scope of our activities. This is an activity that we have already been carrying out for 17 years, therefore the risk is limited, and that will generate value for the shareholder. The formalisation of the assignment is subject to approval by the authorities responsible for the defence of competition, and therefore we expect the definitive closing of the transaction to take place in the coming months.

In addition, an essential element in the development of this new Strategic Plan will be innovation as an integral part of the operating process, integrated into the business culture and contributing to social, economic and environmental improvement.

Central to the deployment of the strategy are our people, so we will continue to back talent to meet the challenges of the Company and promoting a healthy business model to strengthen the commitment of our people to the organisation.

Regarding financial goals in 2014, we will continue to contribute to the efficiency and sustainability of the Spanish energy model by carrying out the investment plan, which, adapted to the new remuneration framework, will represent an investment of between 500 to 550 million euros.

In addition, we expect to achieve an inter-year increase in profit of between 4 and 5%. Similarly, we will continue to focus our efforts on creating shareholder value, and will continue to maintain a strong capital structure, improve our financial solvency and work towards ensuring the security of supply while maintaining maximum quality and efficiency.

Finally, and as the essence of our management philosophy, our strategy will continue to be based on the quest for excellence; we must strive to maintain the current position of reference regarding our performance and how we carry out our activities, while focusing our efforts on actively managing corporate reputation and brand, and strengthening communication with stakeholders, maintaining management principles based on best practices of corporate responsibility and good governance.