



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS

GENERAL SHAREHOLDERS MEETING

Chairman

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INTRODUCTION

Hello and welcome, ladies and gentlemen.

On behalf of the Board of Directors, I welcome you to the General Shareholders Meeting of Red Eléctrica. I would like to thank both those of you who are with us in this room and those who are following us through the webcast for your attendance.

This important corporate event, which I am honoured to chair, is of special importance this year for several reasons. Allow me to highlight three of them. First, we are nearing the completion of the regulatory and remunerative process that affects our activity and that allows us to maintain the essential aspects of our Strategic Plan for the coming years.

Second, we have clarified our strategic investment activity for the coming years with the approval, on 16 October, of the Planning for the electricity transmission grid over the 2015-2020 period, the materialisation of the process of creating three new electrical interconnections with France and the rest of Europe, and the role we must play in making substantial investments related to the Canary Islands' new energy model.

SEPARATION OF EXECUTIVE FUNCTIONS

Later, I will give the topics of regulation and our investments the attention they deserve. But now I would like to discuss a third matter that makes this General Shareholders' Meeting special. This is the first such meeting since Juan Lasala was appointed Chief Executive, and it is the event at which the full separation will be implemented of executive functions. Such functions will be under the responsibility of the Chief Executive, and supervision and control will be under the responsibility of the chairman of the Board of Directors.

We are in a position to state that the 2015 was, unquestionably, a key year for Red Eléctrica in matters of corporate governance. The separation of the positions, which is of the utmost importance for the present and future of the company, was addressed in the first General Shareholders' meeting I chaired in 2012, when the Board of Directors made a commitment to adopt certain counterbalancing measures to the powers and authority of the unified positions of Chairman/CEO in order to clear a path towards the definitive separation of these positions.

The Board of Directors deemed it appropriate to propose to a specially called Extraordinary General Meeting for this purpose, and held on 17 June 2015, a process to which the company

was firmly committed, with the aim of adopting a directive structure that would be more appropriate for tackling the objectives set out in the Strategic Plan.

This was also a response to a growing international trend in corporate governance that recommends such separation to companies listed in the securities markets; this request was made to us by our own shareholders, by proxy advisors and by recognised international institutions that annually assess the corporate social responsibility practices of large groups and listed companies.

The appointment of a CEO with full powers on 28 July marked the start of a transitional period in which, under my tutelage and guidance, he has been gradually assuming executive functions, up to today, when the definitive transfer is being carried out.

The addition of Juan Lasala to the Board of Directors did not keep the company from maintaining a sufficient majority of 58% of independent directors. For this reason, the Board deemed it convenient to maintain a lead independent director, even after the end of the process, in order to preserve checks and balances within the Board of Directors in favour of independent directors.

With the completion of the process of separating the positions, Red Eléctrica and, in particular, the Board of Directors present today, complete and fulfil an all-important commitment to its shareholders, based on the principles of anticipation, voluntariness and absolute transparency as set forth in the company's corporate governance policy, which is available to all of you on the corporate website.

I would just like to, once again, congratulate Juan Lasala for this new and important responsibility, for which he is more than sufficiently qualified and, of course, we wish him the greatest of success.

COMPLETION OF REGULATORY AND REMUNERATIVE FRAMEWORK

I shall now, as I have mentioned, share with you some ideas about the regulatory and remunerative framework since the last General Shareholders' Meeting. This framework is now in its final phase, with the publication, in particular, of the unit values of our facilities and of the maintenance thereof, and the resolution on the residential life of assets that pre-date 1998.

We can say that these provisions, which derive from law 24/2013 and Royal Decree 1047/2013, now finalise the new model of remuneration of electricity transmission, thus ending the process of uncertainty about the future revenue of Red Eléctrica. The tariff order for 2016 allows us to envision the economic impact of the new model in this start of the first regulatory period. Some things are lacking, such as the implementation of the remuneration model of the system operator.

If I were to tell you that these regulatory implementations are entirely satisfying to me, I would not be telling the truth, although they must be placed in the context of an energy policy that has the basic obligation of eliminating a huge tariff deficit that was a burden not only for the energy sector, but for the economy as a whole. I assure you that we will continue to work hard to achieve certain improvements in the future that will be fully compatible with the public interest of energy policy, especially with respect to the treatment of the life of assets.

We know that electricity bills are high, indeed among the highest in Europe, both for companies, which reduces their competitiveness, and for households, which reduces their well-being. But it is also clear that they would be much lower if they were not so overloaded with items that have nothing to do with the supplying of electricity, which consists of generation, transmission, distribution and VAT.

Nevertheless, I do place a high value on regulatory stability and on the higher degree certainty about the future revenues from our regulated activities of investment and maintenance. It is a quite stringent regulatory framework, and we are going to respond with renewed efforts to make gains in efficiency. This we now know.

In fact, we have reacted to the remuneration cuts and regulatory uncertainties of recent years with internal measures that have enabled us to achieve reasonable results and to project an image of prudence, reasonableness and transparency. And this has had an obvious reflection in shareholders' identification with our company's policy, as they have driven our share price to double the value it had when I assumed the presidency four years ago.

I would also like to inform you that, although this regulatory framework is quite stringent, it enables us to meet the commitment set out in our Strategic Plan to 2019 of increasing earnings per share between 5 and 6% year on year. This year, we have achieved after-tax profit of 606 million euros, with an increase of 8.3% in like-for-like terms. And we propose distributing €3.21 per shares, which is 7% higher than in the previous year.

CAPEX

The second major topic I mentioned at the start is that of the regulated capital investments of Red Eléctrica, which is what we are here for. I believe it is no exaggeration to say that this is probably the most positive item on the balance sheet of the time I have chaired the Group. For the first time, we can say that the full range of investments we have to implement over many years - no less than ten - is well defined and can be envisioned with utter clarity, and these can be grouped into three main blocks: investments set out in 2015-2010 planning and the annexes thereto; those arising from compliance with EU energy policy in relation to the three new interconnections in addition to those currently existing with France and the rest of Europe; and, lastly, the volume of Red Eléctrica's investments related to the new Canary Islands energy model.

It has been proven that all these investments in grids are absolutely necessary also for self-sufficiency and other forms of distributed energy. If a choice is made to disconnect from the transmission grid, having the same reliability, wave quality and capacity for overloads and controls of voltage levels and frequencies entails extra costs that are far higher than those entailed when connected to the grid with such guarantees.

Planning

A Resolution of the Council of Ministers of 16 October 2015 approved the planning of the transmission grid. This planning meets the challenge of adapting to the new legislation approved from the start, both Law 24/2013 of the Electricity Sector and the Royal Decree on remuneration 1047/2015.

The modifications introduced include: the maximum allowed volume of investment, modification of the planning period to six years and the non-binding inclusion of a set of facilities for the period after 2020 in order to commence the necessary administrative processes.

The total investment volume envisaged in this planning for the 2015-2020 period amounts to 4.554 million euros. This plan includes the following: a reinforcement of international and inter-island interconnections in both the Balearic Islands and in the Canary islands; development and reinforcement of the grid for supply security; grid development to reduce costs related to technical restrictions, and the development of local support from the transmission grid to the distribution grid.

This planning includes the construction of 2,975 kilometres of transmission grid on the mainland and 959 kilometres in the island systems, in addition to 662 new positions on the mainland and 489 new positions in the island systems.

Investments in regulated activities in 2015 amounted to 447.8 million euros, a moderate figure compared to historical levels. We are living through a period - which also affects the current year - with a pace of investment that is somewhat slower than historically implemented by Red Eléctrica and slower than the levels planned for the coming years. This is due to the consequences of regulatory decisions such as the cancellation of the 2008-2016 Planning of investments without administrative authorisation, which has been partially offset by other government decisions to recover some of these investments which were urgently needed or to lend meaning to others that already had administrative authorisation.

Consequently, in the coming years, given the volume of investment included in the planning, the investment pace will clearly increase, especially taking account of the impulse being given to international interconnections.

International interconnections

Precisely such interconnections received a new boost in February 2015 with the publication by the European Commission of the Energy Union Package, which placed great emphasis on the need to increase the interconnection capacity between member states in order to guarantee full integration of the interior market in electricity.

This strategy found a particular political impulse through the Declaration of Madrid of March 2015, agreed in a summit between the governments of Spain, France and Portugal, the European Commission and the European Investment Bank, one of the commitments of which was to undertake new projects that would increase the electricity interconnection level between France and Spain to 8,000 MW.

The summit also yielded a commitment to create a new High-Level Group for South East Europe for interconnections to expedite the implementation of projects through the Pyrenees; the group was created on 15 June 2015 and Red Eléctrica is an active participant.

In addition, in 2015, the second list was published of Projects of Common Interest, which sets out the European Union's priorities in the development of infrastructure and electricity projects.

The selection of such projects has prioritised those which enable member states to reach the goal of a 10% interconnection by 2020.

This is supplemented by the approval, in June 2015, of the Regulation creating the European Fund for Strategic Investments (better known as the "Juncker Plan"), the purpose of which is to finance projects of common interest oriented towards finalising the interior market in the sectors of transport infrastructures, telecommunications and energy, including energy interconnections.

I can say that the degree of consensus is total between Spain, France, Portugal and the European Union to carry out these three projects and to receive sufficient EU financial support. All of Europe will benefit from these increased interconnections, which will substantially develop renewable energies in Spain.

This objective of increasing interconnections to bring to life the Energy Union is closely linked to EU objectives in sustainable development and in the fight against climate change, which was reaffirmed by the European Council of October 2014, with the setting of new specific targets for the 2030 horizon: a 40% reduction in emission compared to 1990; 27% share of renewables in final usage of energy; 27% energy savings compared to usage forecasts, and 15% interconnection capacity between member countries.

The sustainable development goals are consistent with the Paris Agreement of nearly every country on the planet to contain global warming of the atmosphere.

In the aforementioned European Union framework, not only the increase in interconnections to the targets of 10% of installed capacity in 2020 and 15% in 2030 is important. Also of importance is the increasing integration of the interior energy market via the so-called "Network Codes" (in different phases of development), and the revision of the current regulatory framework relating to the supply security of electricity, regulations of renewables and of energy efficiency; all these developments are expected for the end of this year of 2016.

New energy model on the Canary Islands

With regard to the third block, the unique characteristics of the Canary Islands electricity system, which is made up of a number of isolated sub-systems with insufficient grid meshing, a high dependence on contaminant fossil fuels and limitations in supply security; these require a

specific and urgent commitment to achieve a new energy model that is more efficient economically and more sustainable environmentally.

One of the keys to this new energy model for the Canary Islands is to reduce the weight of fuel in electricity generation, as it is highly polluting, expensive and all imported. Therefore, the development of a balanced mix is a priority. This requires, above all, boosting the deployment of renewable energies, especially wind.

Development of such a mix requires maintaining sufficient grid meshing to ensure supply security. This means tackling two other fundamental matters: completing the process of modernisation and upgrade of the existing grid, part of which is in poor condition due to corrosion, and giving a strong boost to the development of grids and substations. This will help, among other things, to efficiently evacuate new renewable energy.

Interconnections between the islands by means of underwater cables takes on particular importance, as they will allow for optimal usage of the renewable resource of wind and provide a more efficient, secure and cheaper system.

In addition to grid meshing and interconnections, and considering the potential of renewables and the difficulties in managing them due to their intermittent nature, the Spanish government believes, and rightly so, that investments must be implemented to substantially increase energy storage capacity, mainly pumping. Red Eléctrica is legally and technologically capable of leading the incorporation of energy storage throughout the electricity supply chain, with our eyes set on optimising design of grids and integrating renewables, and minimising the final cost of the electricity supply.

Based on these premises, the new Canary Islands energy model is reflected in the planning, with overall investment of 991 million euros to 2020, in addition to any investments in hydroelectric pumping facilities.

CORPORATE SOCIAL RESPONSIBILITY

Therefore, we find ourselves in a panorama of regulated capital investment that is both necessary for the country and excellent for the business activity of Red Eléctrica, a challenge we intent to tackle with the effectiveness that characterises this company, combined with significant investments contemplated in the Strategic Plan in terms of broadening the base of

the business, such as those of an international nature and those related to management of telecommunications.

We are working on the ground, and this ground must be carefully studied and explained in order to minimise adverse positions with investments that are basic for the security of the electricity supply and, consequently, for the economic development and well-being of the population. What I mean is that no actions are taken in Red Eléctrica, including these investments, that do not meet the demands of corporate social responsibility.

Red Eléctrica, as a key component of the Spanish electricity system, helps all people and companies to have reliable access to a basic good like electricity. As the TSO, we assume our mission of developing and managing the transmission grid and operating the electricity system based on the principles of neutrality, transparency, independence and efficiency.

Respect for the natural and social environment is also a basic principle for the company. This principle can be found throughout the process of developing new infrastructures, as we seek out solutions that cause the least possible environmental impact and foster the participation of society in the process through permanent dialogue and collaboration. The company has signed collaboration agreements with 56% of the municipalities affected by installations commissioned in 2015. Also noteworthy are the 94% of amicable agreements reached with the owners of land affected by projects whose permission arrangements were completed in 2015. This form of management constitutes a process of shared value creation that goes beyond the provision of a service.

In addition, the activities of the company to **maximise the integration of renewable energies in the electricity system and improve energy efficiency** are essential for attaining European objectives in sustainability and providing an answer to social demands for an ever more sustainable energy model. Such activities have included, for another year, the work of our renewable energies control centre, CECRE, which has helped ensure that an average of 40% of electricity demand has been met by renewables over the past three years. CECRE's work is particular necessary in a context such as ours, with meagre international interconnections and a high share of renewables in the mix of electricity generation technologies.

In addition, in 2015, in order to continue making progress in integrating such energies without affecting the security and quality of the supply, **work has commenced on monitoring wind production in Portugal and that country's renewable energy output has been included in**

calculations of maximum renewable output that can be integrated in the mainland electricity system without endangering the interconnection with France.

Further, in line with its strategy of fighting climate change, in 2015 Red Eléctrica started up a **new climate change action plan** that includes the challenges to be met in this field. Specifically, as part of the commitment of reducing the carbon footprint, the objective has been set for 2020 of reducing or offsetting 21% of emissions compared to 2010.

In relation to the Group's integrity model, we consider ethics and transparency to be two of the cornerstones for the good governance of the company. Acting with the utmost integrity in fulfilling our obligations and commitments is a priority objective to achieve results that can be considered truly satisfactory.

The company's advances in 2015 include the **approval of the Anti-Corruption Guide**, which sets out the corporate values contained in the Code of Ethics, and which has been externally validated by a leading independent body in the world of business ethics.

In addition, the Board of Directors has approved the Group's tax strategy, and the **company's adherence to the Code of Good Tax Practices** adopted by the Spanish tax agency.

In 2015, we also completed the design of the **new Regulatory Compliance System** and the Regulatory Compliance Unit, thus showing the company's commitment to observing the law in all matters, and to the development of robust business ethics.

With regard to **gender diversity** on the Board of Directors, Red Eléctrica has consolidated its excellent position among IBEX 35 companies.

With regard to remuneration of the Board of Directors, in a few minutes, we will submit to all of you, in a voluntary manner as we have done for many years, our proposed resolutions on remuneration of the Board of Directors for 2016, on modification of the remuneration policy of directors to adapt it to the new governance structure of the company following the end of the aforesaid process of separation of positions, and the Annual Report on directors' remuneration.

Further, as part of our commitment to corporate social responsibility, I would like to emphasise that **variable remuneration**, in the short and long term, of the CEO and of the management team, **is linked to fulfilment of the objectives set out in the Multi-year Corporate Social Responsibility Plan**, among others.

In addition, for years now, the Board of Directors has submitted itself to an annual self-assessment, with the advisory of external independent professionals and we have once again published the main conclusions of this process in the Annual Corporate Governance Report.

Pursuant to recommendation 3 of the new Spanish Code of Good Governance of Listed Companies approved in February 2015, which suggests that the Chairman of the Board inform shareholders in the Ordinary General Meeting of the reasons it does not observe any recommendation in the Code, I inform you that **Red Eléctrica has complied with virtually all the recommendations in 2015**, with the following exceptions.

The company is **not compliant with recommendation 48**, which suggests that companies with a high level of capitalisation have a separate nomination committee and remuneration committee. The company has not deemed it convenient to make such a separation due to the small size of the Board of Directors compared to other large caps, because two separate committees, a Nomination Committee and a Remuneration Committee, would not have sufficient matters during the year to justify the separation, and because it would harm the independence of non-executive directors due to the fact that some are simultaneously members of several committees.

Nor did the company comply in 2015 with recommendations 61 and 62, which suggest that a **significant percentage of variable remuneration** of executive directors should be **linked to the delivery of company shares** and, once such shares are allocated, directors cannot transfer ownership of a portion of the same until at least three years have elapsed since such allocation.

Hence, I must inform you that, although such a remuneration system was not contemplated in 2015 for the executive directors of Red Eléctrica, **the new remuneration scheme applicable to the CEO in 2016 now specifies that a percentage** of his annual variable remuneration (up to **25%** of the same) shall be received in company shares and the commitment of the CEO has been given to keep ownership of such shares for at least **five years**. Thus, **both recommendations will be complied with in 2016**. This is pursuant to the what is set forth in the modification of the remuneration policy and in the annual report on directors' remuneration to be submitted to your approval.

Another fundamental aspect in corporate responsibility is a **commitment to talent and for gender equality and equality of opportunities**, as is shown by the fact that a vast majority of the appointments of executives in 2015 in the Group were done via **internal promotion**. Also notable is the increase in the number of women in the workforce and in executive positions, and

the creation of a **Female Leadership Observatory**, the mission of which is to propose actions to increase the presence of women in executive positions. A significant figure in this regard is that 31% of the people who acceded to executive positions via internal promotion in 2015 were women.

In the same way, the model of healthy company we have implemented constitutes a strategic commitment for the management, promotion and monitoring of the health and well-being of the people who make up the company. In 2015, a number of **initiatives** were carried out in this field **related to the promotion of health, work-life balance, and occupational risk prevention**. These commitments undertaken by the company contribute to enhancing workers' involvement in the entrepreneurial project, as shown in the climate survey, with a yielded a score of 9.4 out of 10 in employee satisfaction.

The company structures its commitments in corporate social responsibility through multi-year plans and annual programmes, approved by the Appointments and Remuneration Committee of the Board of Directors, the compliance of which has been linked from 2015 to management goals and to the long-term objectives of the executive team.

Many of the commitments undertaken by Red Eléctrica in these programmes contribute to the **achievement of the 17 Sustainable Development Goals approved in the Agenda 2030 of the United Nations in September 2015**.

All the foregoing has enabled the company in 2015 to **return to the Dow Jones worldwide and European sustainability indices**, and to return to its place in sustainability indices. The company **has also maintained its European Seal of Excellence 500+** under the EFQM model, having **received more than 700 points** placing the company among the best rated in Spain and in Europe.

Other awards include: The Sustainability Yearbook de RobecoSAM; IISR Survey 2015; Observatorio de la RSC; Observatorio de RSE; the Commitment and Transparency Foundation [Fundación Compromiso y Transparencia]; the Carbon Disclosure Project; FTSE4Good and Euronext-Vigeo.

Dear shareholders, we are embarking upon a future that is not free of risks or uncertainties, but I wish to say, with the deepest conviction, that the experience of these past four years has unquestionably been an example of success in a setting that has been far from easy, with stringent regulation and the challenge of overcoming of a major economic crisis.

Looking ahead to the coming years, we are encouraged by our conviction that we have the best internal conditions to face any new challenges that may arise. Allow me to mention at least two of these.

The first is to keep taking steps towards permanent excellence in the sphere of good governance. We are convinced that good corporate governance contributes to the economic, environmental and social sustainability of the company. And accordingly, to the stability, progress and social and economic development of our world.

The second challenge is to tackle the major changes expected in the production and demand for electricity. We are heading towards a new model in the electricity sector that is characterised by greater electrification, increasing distributed generation, and the development of sustainable mobility through electric vehicles, without overlooking the growing role of renewable energies and commitments related to climate change. All of this, undoubtedly, will demand an efficient response from Red Eléctrica in investments and in relationships with market agents and, in particular, with distribution.

We are ready for this. We have a team of people who are committed to innovation, excellence, quality and corporate values. This human factor is the most decisive factor allowing us to look forward to brilliant performance in the coming years. We also possess instruments in the fields of conciliation, training and promotion that provide us with a suitable working environment. This is how we increase productivity levels - and such productivity should be compensated - and we foster pride in belonging to this great company that provides a home to us all.

Before I give the floor to our CEO, I would like to conclude by reiterating by satisfaction at working with teams of excellence in the Board of Directors and in the company as a whole. It has allowed us to offer a magnificent balance sheet and gives us the opportunity to face the future and fulfil our commitments.

Thank you very much for your attention.