



ADDRESS

CEO, Mr, Juan Lasala Bernad

GENERAL SHAREHOLDERS MEETING 2019

22 March 2019

INTRODUCTION

Hello and welcome.

Esteemed shareholders, it is a privilege for me to address you at this General Meeting. I would like to expand on the vision of the business future of this great Group that the chairman has just presented.

As you are surely aware, the Red Eléctrica Group is steadily fulfilling the objectives set in our current Strategic Plan 2014-2019 and is prepared for the challenges that the new Strategic Plan 2018-2022, recently approved by the Board and that I will explain later, entails.

With the acquisition of HISPASAT, we have taken a qualitative leap that makes us a global manager of strategic infrastructures, maintaining the basis of our central role as transmission system operator of the Spanish electricity system, which will be essential to successfully approach the energy transition in our country.

In all this, ladies and gentlemen, we put the interests of you, our shareholders, at the forefront. We share a company that offers growth prospects and high dividend returns that, thanks to our excellent solvency, we will continue to offer over the coming years.

SIGNIFICANT EVENTS IN 2018

2018 was intense, with significant landmarks allowing us to met the objectives of the Strategic Plan 2014-2019.

Regulated activity

With respect to the regulated activity, 378 million euros was invested in the transmission grid, essentially to resolve technical restrictions, to mesh the grid, to execute special international interconnections and submarine interconnection between islands, and to strengthen the guaranteed supply.

This year, nearly 277 km of lines was commissioned, placing the total Red Eléctrica transmission grid in Spain at approximately 44,069 km of lines. Our transformation capacity rose by 2,592 megavolt amperes, to reach a total of 88,846 megavolt amperes nationally. The simultaneous high service quality and operative efficiency of our facilities have given us an availability index of 98.13 in the national transmission 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.

The commissioning, among others, of many facilities of the Canary Islands Wind Energy Plan, which will improve the grid meshing on the islands and the future connections between them and, in particular, will permit the evacuation of renewable energy, should be highlighted.

With respect to international interconnections, we have continued with the technical studies of the western interconnection with France and the preliminary work for the tender of the main project components. The European Commission has confirmed the 578 million euro subsidy to it through the Connecting Europe Facility programme, the largest subsidy granted to an energy infrastructures project in its history.

Moreover, with the aim of improving the exchange through the Santa Llogaia-Baixas interconnection, as well as to strengthen the guaranteed supply in Catalonia, the La Farga substation has been commissioned in the Gerona Norte supply axis.

With regard to system operation, we have continued to maximise the integration of renewables in the electricity system in a secure manner, contributing to 40% of the peninsular demand being covered with these sources of energy, compared with 34% in the previous year. I think it is important to mention the new record for wind energy generated, recorded on 23 January, which entailed 43.2% of the peninsular electricity generation mix.

At the same time, we have worked on the promotion of initiatives directed at the development of intelligent networks, energy efficiency and electrical mobility, as well as the development of energy storage tools that, as well as improving the guaranteed supply in isolated systems, will make it possible to integrate a greater volume of renewable energies.

During the first quarter of 2018, Red Eléctrica de España, along with a group of operators and the TSOs of several European countries, also worked on the implementation of the Intraday Continuous Market in the European area.

International activity

Focusing now on the international business, the Red Eléctrica Group has strengthened its position in the countries in which it operates, with the acquisition of new assets that will allow it to manage 1,686 kilometres of lines in Peru and 1,729 kilometres of lines in Chile. It is thus positioned for potential interconnections between Chile and Peru and Peru and Ecuador.

2018 was the first full year of operation of our interconnection between the two big systems in Chile. In 2018, one of our companies, Redenor, started the construction work for the project it was awarded the previous year, which includes the construction and subsequent operation of 258 kilometres of 220 kV lines and the Arica substation in northern Chile.

After the successful completion of the Azángaro-Juliaca-Puno electrical line construction project in southern Peru and the subsequent period of experimental operation, it commenced commercial operation on 8 June 2018.

In September 2018, the Chilean company Centinela Transmisión was acquired for 101 million euros. It should also be remembered that, at the end of last year, an agreement was reached with Bow Power to acquire 100% of the Carhuaquero-Moyobamba line in Peru for an amount of 205 million dollars.

Chira-Soria

With respect to energy storage, we pushed ahead with the Soria-Chira plant project in Gran Canaria, which will become an operational tool of the system to guarantee supply on the islands, as well as improving system safety and optimising the integration of renewable energies.

The extension of the geotechnics campaign ended in July and the design and engineering of the construction project, as well as the technical assistance and work management, were awarded in August. It is one of the biggest work engineering service agreements signed in the Canary Islands, and a committed investment of 39.4 million euros is now consolidated in the project.

With regard to the processing, the file is in the final environmental assessment phase, after taking on the improvements resulting from the studies conducted in the geotechnics campaign as well as those agreed with the competent managers.

With respect to the possible reversible pumping station project in Tenerife, the basic designs of the best options identified have been prepared and we are working on the preparation of the final proposal.

Telecommunications

In relation to the telecommunications area, the results of our subsidiary REINTEL confirm once again the positive performance of this business. Following the acquisition at the end of 2014 of the usage and exploitation rights of the rail fibre optic network, Red Eléctrica has consolidated its position as the benchmark neutral operator of the dark fibre optic network in Spain. This business has thus been increasing its weight in the Company over the last four years, reaching a revenue of 124.4 million euros.

RESULTS AND FINANCIAL STRENGTHS

2018 Results

Having looked back at 2018 milestones, I will analyse results for the period and the Group's financial strengths. In 2018, Red Eléctrica obtained strong results and strengthened its main solvency ratios considerably.

Turnover was 1.941 billion euros, a 0.4 % rise year on year. This increase is essentially the result of the remuneration from system operation activities, which reached €66 million, and the telecommunications business. Furthermore, international activities amounted to 23 million euros following the entry into commercial operation of the Azángaro-Juliaca-Puno line in southern Peru.

EBITDA totalled 1.540 billion euros, up 1.3 % on the previous year. This evolution is a result of the containment of procurement costs and other operating costs, reflecting the consolidation of the efficiency measures implemented by Red Eléctrica.

The financial result was -134 million euros compared with -143 in the previous year. This improvement is essentially a result of a lower average rate, 2.4% compared with 2.8% in 2017.

The profit for the year was 705 million euros, a 5.2% improvement year on year. The effective tax rate was 24.8%, in line with that recorded in 2017.

The net financial debt balance at 31 December 2018 was 4.683 billion euros, ending the year with high solvency ratios. We see that the funds from operations/debt ratio has improved markedly, reaching 26%. The positive debt evolution is consistent with a "net debt over EBITDA" coverage ratio of approximately 3 times.

It is important to highlight the non-current debt maturities schedule that Red Eléctrica faces over the coming years. The average life of the debt is currently 5.3 years and the amounts that must be repaid in the next four years are covered by the Company's availability and liquidity at this time, totalling over 2.5 billion euros.

Focusing now on the debt structure by instrument, we can say that we have well-diversified debt, with 90% of it at fixed rate until maturity and a predominance of the euro with regard to other currencies.

It should be pointed out that, on 15 February, following the acquisition of HISPASAT, the credit rating agency Standard & Poor's confirmed the long-term 'A-' with stable outlook rating for Red Eléctrica Corporación, S.A. For its part, Fitch's rating, which is currently 'A', remains in review period.

During 2018, Red Eléctrica has reduced the cost of its syndicated credit due to the improvement in terms of sustainability. Furthermore, the Company has signed the world's first multi-currency syndicated credit facility with blockchain technology, supported by three banks. The amount of the credit is 150 million euros.

Our financial policy adapted to 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 both the concluding strategic plan and the new, recently approved, Strategic Plan 2018-2022.

Results of the Strategic Plan 2014-2019

Allow me to comment on the advances obtained following intensive years essentially marked by a new regulatory framework. Today, I can say with great satisfaction that, although the 2019 financial year is not over, we are fulfilling our objectives as far as 2018 and we are close to confirming that we are sure to attain all the objectives set for the 2014-2019 period.

We have made 3.456 billion euros of investments in the transmission grid, telecommunications, energy storage and investments in the international sphere. Furthermore, we have committed 1.462 billion euros for international investments and the execution of the recently announced HISPASAT transaction.

With respect to efficiencies, significant results have been obtained in the operational sphere 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 in reviewing these policies, always maintaining our quality standards in construction and operation.

These achievements have been reached maintaining a period average "Net Debt/EBITDA" solvency ratio of around 3.4 times, allowing us to continue to have a high solvency credit rating.

Furthermore, earnings per share for the 2014-2018 period have grown around 6% on average and we have fulfilled our market commitment to distribute a dividend per share growing 7% yearly over the same period.

HISPASAT

With regard to the acquisition of HISPASAT, the satellite infrastructure business is a natural channel for extension of the Red Eléctrica Group's telecommunications business.

This transaction fits perfectly with the strategy defined for the Group's telecommunications business for several reasons:

- It is a wholesale business that does not render services to domestic users but to companies, essentially telecommunications and audiovisual service operators.
- It is a business with stable and recurrent revenue, with entry and exit barriers.

- It is an investment-intensive business with high margins.
- Satellite technology is very cost-efficient, as point-multipoint transmission facilitates the coverage of continents, is independent of land-based infrastructure and complements fibre optics.

HISPASAT offers communications services via video satellite, data retransmission and mobility services. It has 7 operational satellites that provide coverage to Europe and the American continent, with a total of 301 transponders and 46 gigabits per second in service.

It is the leading Spanish communications satellite operator in the distribution of Spanish and Portuguese content, and maintains a strong presence in the Iberian peninsula and Latin America, where it is the fourth largest satellite operator. It has positioned itself strongly in high-growth markets and has a stable base of strategic customers, as the current ninth leading global satellites operator.

Through its powerful fleet of satellites, HISPASAT distributes over 1,000 television and radio channels, giving coverage to over 20 countries, and it is a key engine of the Spanish aerospace industry, thanks to a highly qualified human team.

Its main figures in 2018 were as follows: net profit was 42 million euros; EBITDA reached 161 million euros; assets totalled 1.242 billion euros; and the Company maintains good solvency ratios with a net financial debt over EBITDA of 1.8 times.

Ultimately, the purchase of HISPASAT allows us to maximise the complementarity between HISPASAT and REINTEL and increase and diversify the current customer portfolio: mainly audiovisual service companies and international telecommunications operators.

With respect to the transaction, it is going to be 100% financed with debt and, therefore, there is no need for a share issue, while we will continue to maintain a strong credit rating.

We believe, therefore, that this is a good transaction that stimulates our telecommunications activity and, ultimately, the Red Eléctrica Group.

STRATEGIC PLAN 2018-2022

I will now comment on the key elements of the development of the Strategic Plan 2018-2022, approved by the Board in February.

To achieve our long-term objectives and our commitment to sustainable development, it is necessary to work in three strategic lines: drive the energy transition, be a benchmark operator of telecommunications infrastructures, and highlight our key skills through international investment. We will do all of this maintaining operative efficiency and financial discipline.

Our commitment is undoubtedly to guarantee the security and quality of the electricity supply, maximising the integration of renewable energies. As part of this, we will invest over 3.2 billion euros, of which 2.9 billion will be allocated to the development of the transmission grid, 200 million to storage in the Canary Islands and 50 million to system operation.

Maximising the integration of renewable energies in the Spanish electricity system will entail average investment of 575 million euros per year in the transmission grid, almost 40% more than in the previous strategic period.

Red Eléctrica will allocate a significant part of the investments to the growth of the international and island-to-island interconnection capacity. This will make it possible to address the greater variability of renewable generation, minimise waste in a context of greater green generation capacity, reduce the need for backup generation, and facilitate the development of the internal energy market in Europe, which will be a key tool in the operation of the electricity system.

Another portion of the investment will be allocated to the hydraulic pumping plants in the Canary Islands, storage projects that will serve as operation tools to guarantee the supply, improve the safety of the system and optimise the integration of renewable energies on the islands.

The regulation must be a facilitating element of this energy transition, offering high visibility and targeting stability. The next regulatory period starts on 1 January 2020 and will last 6 years, until 2025.

As you already know, the financial remuneration rate proposed by the Spanish National Markets and Competition Commission for this regulatory period is 5.58% for energy transmission and distribution activities. In the implementation of this rate, it must be taken into account that Royal Decree 1047/2013 establishes that the final variation of the financial remuneration rate may not suffer annual variations of over 50 basis points. Thus, the variation of that rate will be progressive and limited from the current rate of 6.5% in 2019, 6% in 2020, to 5.58% in 2021 and the rest of the regulatory period.

Moreover, the current regulatory framework offers incentives for efficiency and for transmission grid availability.

One of the critical aspects in the regulatory area for the energy transition will be the development of networks maintaining an adequate cost for the consumer, for which the extension of the useful life of the facilities that render essential services should be promoted. The residual life of pre-98 assets should be a reflection of the real physical state of the facilities, containing the material and economic efforts made to guarantee the provision of the service and the quality of the supply in their regulatory value.

With respect to the development of the satellite system and the dark fibre rental business, it will be carried out by increasing the customer portfolio, accessing new market segments such as alternative and regional operators, gaining a share in the public administrations sector and rendering services to technology companies. New customers will also be accessed through the integration of HISPASAT.

Furthermore, we will extend the provision of telecommunications services to new sectors and geographic areas and we will commence the search for strategic partners who want to venture into new products and/or markets, maintaining a majority position as far as possible.

Investment in telecommunications will reach 1.68 billion euros in the 2018-2022 period, including the acquisition of HISPASAT, which will be a strong means of support as we seek to become a benchmark operator of telecommunications infrastructures.

Another important strategic line is the focus on the international business. Red Eléctrica has been operating in South America, where it manages 2,635 kilometres of lines with excellent availability rates, for 20 years. In recent years, we have invested over 900 million euros in international assets, mainly in Peru and Chile, countries in which the Company has a long-term presence vocation.

Moreover, the Company remains alert to the investment opportunities that may arise in stable markets. We consider projects with which sufficient profitability may be obtained, preferably with majority participation and active involvement in the management. We consider profitability exceeding the cost of capital by at least 100 basis points to be adequate profitability.

Red Eléctrica's vocation is one of long-term presence in low-risk countries with stable regulatory environments. Over the coming years, the Company is going to consolidate its position in the countries in which it is present, Chile and Peru, and will analyse investment possibilities in countries such as the USA and Brazil, through greenfield and brownfield projects. Around 1 billion euros may be allocated to investment in regulated transmission in the international sphere in the 2018-2022 period.

Technological innovation and digitalisation constitute levers that will allow us to open up new business opportunities and optimise operations, improving the efficiency of the Company's normal activities. In this sense, consolidating the implementation of new experiences and projects together with digital technologies in the Group's areas of business will make it possible to extend this transforming vision to the operational processes to make the most of their benefits.

Furthermore, to support the Company's strategy, it is our intention to maintain strong financial discipline, with an average objective Net Debt/EBITDA ratio for the period of around 4 times and maintaining funds from operations/debt ratio levels above 17%.

Good financial management, optimising the cost of financing and integrating sustainability criteria in the financing of our activities, is becoming a key to success for the development of our strategic pillars.

Finally, I would like to communicate, ladies and gentlemen, that our commitment to the energy transition is sustainable, with the aim of creating value for all our stakeholders. Therefore, the Company will essentially base itself on five core principles:

- The total investment in the 2018-2022 period, including the previously mentioned acquisitions, will reach approximately 6 billion euros. Around 50% of this figure will be allocated to investments in the transmission grid and storage in Spain, driving the energy transition.
- The average EBITDA margin will be above 76%, maintaining an average Net Debt/EBITDA ratio of around 4 times.
- The net profit will see a compound annual growth rate of over 1% in the 2018-2022 period.
- We will maintain shareholder remuneration of 1.05 euros per share in 2019 and at least 1 euro per share in the 2020-2022 period.

Ultimately, ladies and gentlemen, we are facing the challenge of approaching an energy transition in which meeting the targets set in the context of climate change is an opportunity to contribute to job creation and to improving the country's economic activity and technological development.

The new strategic plan, based on a business model balanced between regulated activities and operations subject to market risk, responds to challenges related to technological disruption and sustainability. As the chairman has said, electricity, telecommunications and talent today constitute the new raw materials for economic development, and they are also the hallmarks of the Red Eléctrica Group's new strategy.

Many thanks for your attention.