



Casting networks against climate change in the **Revolution 4.0**

Chairman's Speech

General Shareholders Meeting 2019

22 March 2019

Ladies and gentlemen,

On behalf of the Board, I would again like to welcome you to the General Shareholders Meeting of the Red Eléctrica Group.

This is my first time addressing you. I hope that it is the first of many, and it is a real pleasure.

Thank you for being there and for making this great company whose Board I have the honour of chairing possible.

Today, the Red Eléctrica Group is **stronger, more valuable and has greater future prospects than a year ago**.

- Among other reasons, it is stronger because we increased the Group's profits by over 5% in 2018, reaching 705 million euros.
- We are more valuable because Red Eléctrica's share price has risen 20% since the previous General Shareholders Meeting, a much better performance than the evolution of the Ibex in the same period.
- We have greater future prospects because we have placed ourselves at the centre of a large transformation that is going to radically change the way in which we generate and consume electricity: the energy transition. And we have done it with a focus on diversified growth.

Above all, we are better because we have bolstered **our commitment to society** – a commitment that translates to greater value for the community – which obliges us to work differently.

Having profits and being profitable is evidence that we are doing things well, that we are complying with our economic and business obligation.

It is more important to do it well, creating value for everyone: for you, the shareholders, and also for society as a whole.

This is what we are doing. As an example of what I am saying, I am going to quote some figures relating to 2018:

- With regard to our fundamental mission, we have maintained the guaranteed electricity supply from the transmission grid 99.99% of the time.

- Through our direct investment in Spain, we have generated an estimated production of 564 million euros in the sectors of activity involved, equivalent to over 4,100 indirect jobs.
- We have contributed to stability and quality in employment, with a rate of 99.4% permanent jobs in our Group.
- We have committed to equality by promoting 67% female appointments to executive positions, or a 41.7% presence of women on the Board, one of the highest percentages of the Ibex 35.
- We have contributed to society with an overall tax contribution of 743 million euros, 12% more than the previous year.
- With our activity, we have acted as an engine of the economy, promoting the business and industrial development and job creation throughout our supply chain, today made up of over 1,000 suppliers.

The point is that creating value for society, contributing to economic growth and generating activity and quality employment makes us strong as a company.

We want to give back to society what it gives us: value and determination to continue growing, making the most of the opportunities that the present and future offer us.

We could not do any of this without the confidence of our shareholders, without your confidence.

Since it would not have been possible either without the commendable work of our predecessors, I would like to mention Chairman Folgado, present here and to whom at least half of the successes of 2018 correspond.

Of course, it would not have been possible without the effort of the employees of the Red Eléctrica Group, whose dedication and capacity merit our special recognition in this General Meeting.

Thanks to all of them, we are in the growing field of companies whose actions are governed by a purpose that shapes their mission and vision.

In our case, we have defined that purpose that guides our actions as, and I quote: "Focusing the human and technological talent the Company has and is capable of attracting on the electricity and telecommunications sector, to facilitate economic activity and the lives of the population, in a sustainable manner, by operating systems and networks that provide access to electricity and telecommunications, basic services in the 21st century".

For decades, having access to electricity has been a clear indicator of a society's level of modernisation. Today, in addition to electricity, having access to telecommunications services has become another indicator of a country's social progression.

Thus, electricity and telecommunications have become essential services that make it possible to measure the level of progress and well-being of the population. Red Eléctrica plays a prominent role in both as basic infrastructure supplier.

That is what makes us a key company in current economic and social development: we improve the opportunities and well-being of the population.

A changing world

Achieving the growth and the generation of value that we have attained at Red Eléctrica is not easy in today's world, a world in which the economic and social rules are changing rapidly and in which, as one European leader recently stated, the pieces of the jigsaw that form it are falling apart.

The main hallmarks of our times – globalisation, free trade, multilateralism – are being questioned.

Humanity is losing confidence in the narrative that has dominated global policy in recent decades dominated by the **Revolution 4.0 and the effects of climate change**.

Technological disruption is the new paradigm of the economy and society, a technological and digital paradigm closely related to that of biology.

Automation, robotisation, artificial intelligence and biotechnology have modified and, indeed, are modifying how things are perceived, the way in which we live and connect.

Moreover, they are injecting so many revolutions to the change that it is hitting lightning speed, and so it is not easy to understand it or to adapt to it.

As the world's leaders have indicated on more than one occasion in Davos, unlike the previous industrial changes, this technological transformation is much faster, is global and affects all the aspects of society and our own daily life: from how we work to how we buy, to how we connect with friends and family or how we share our daily experiences and encounters.

It is accompanied with economic tensions; changes in the role of countries and in the positions of influence of governments and institutions; geopolitical tensions; populist and nationalist shifts; demographic changes; increase of inequality...

New situations that produce questions to which we do not have answers, answers that we must find, without turning to the past and with an effort at dialogue and consensus, without hiding behind walls that only generate division and confrontations between people.

All of this complicates the decision-making process in all environments, including, of course, in the business sphere.

As companies, we are operating in a context of uncertainty and global instability, in which turning back is not an option; the past does not offer any security and we cannot seek in yesterday the guide for what is to come.

Along with the Revolution 4.0, the spine of the new economic and social paradigm is climate change.

The OECD, the World Economic Forum, the United Nations and numerous international bodies agree that this is the greatest challenge of our time.

The last reference was the recent UN report presented in this month of March, advising that the “ecological foundations of society” are at risk of collapse unless nations take immediate measures on an unprecedented scale.

We are facing a challenge that requires significant collective effort. The warming is global and the solution must also be global. Also urgent.

Today’s young people are calling for it with their movements, on an international scale, demanding “Not one more degree or one more species” and raising awareness that we cannot wait, that we need an answer now, that waiting, not doing anything, is the worst option in terms of cost to the economy, society and the planet.

The role of companies: sustainability, ethics and good governance

Even aware of the depth of the Revolution 4.0 and the significance of global warming, the global response is proving insufficient.

As the UN's recent report says: "the progress is too slow", while the World Economic Forum highlights the emergence of a trend that it calls taking back control, that is to say, in view of the lack of global reaction, a search for solutions on a domestic and internal level.

The lack of an adequate, timely response by governments and institutions to the changes and demands of society is hugely affecting their legitimacy and credibility.

In view of this global institutional crisis, society is therefore demanding increasingly more involvement from companies in the solution of common problems.

We are being asked to consciously assume social responsibilities that do not stop at the bottom line; to use all the capacity and knowledge that the achievement of private objectives gives us in the service of achieving collective objectives.

The time has come for large companies to take a greater leading role in providing solutions to common problems.

A company that turns its back on the world, which only measures its steps in terms of private benefit, runs the risk of losing its source of social legitimacy, which would lead it to collapse in the medium term.

Only by addressing our responsibility to society, which starts with being capable of generating economic dividends but to go further, making economic, environmental and social sustainability the focus of our action, will we be able to last and grow, earning ourselves the respect of our fellow citizens.

This is how the Red Eléctrica Group understands it: we want to generate value following the roadmap of the 2030 Agenda for contribution to the Sustainable Development Objectives.

Our **2030 Sustainability Commitment** is perpendicular to our activity and constitutes a strategic line for the Group.

- This commitment has been strengthened in 2018 with the creation of the **new Sustainability Committee of the Board**, which ensures that these subjects are taken into account as strategic elements in the Board's deliberations.
- Our commitment to the decarbonisation of the economy is reflected in facilitating the integration of renewables in the electricity system, which had 40.1% renewable energies with regard to the total energy production generated in the Spanish peninsular electricity system in 2018.
- Moreover, as a company we have committed to reducing our greenhouse gas emissions by 40% per MWh transmitted in 2030, an objective considered sufficiently ambitious by the international body Science Based Target to significantly contribute to the international climate change commitments. Only four companies in Spain, including Red Eléctrica, and 176 worldwide, have achieved this international validation of their emissions reduction objectives.
- We are not satisfied with applying sustainability best practices at Red Eléctrica, however; we want to extend them across our value chain, which was shown in 2018 in four key areas: the good governance of the Company, the responsible management of suppliers, equal opportunities and the development of the human team, and the consolidation of the ESG (environmental, social and good governance) criteria in our financial strategy.

Thus, in 2018:

- We approved Guidelines for the management of conflicts of interest that may affect the executive team.
- We were among the 1% of best rated companies for the integration of human rights factors in the supply chain at global level, according to the rating agency Vigeo Eiris.
- We devoted over 131,000 hours to employee training. This entails an average of 72 hours and an investment of 3,767 euros per employee.
- We collaborated with the educational sector and in the access of young people to the labour market thanks to the advanced vocational training students qualification and employability support programme, in the Superior Electricity Plant Technician dual professional training qualification. Furthermore, we participate actively in a mentoring programme for university students on technical courses to promote female talent in these areas.
- We signed the world's first multi-currency credit facility based on blockchain technology. This technology guarantees the transparency, traceability and immutability of the whole process. The good results attained a year ago have allowed the Company to reduce the cost of that credit facility.
- We contributed to the development of social initiatives with an investment of over 7 million euros, with a pioneering focus on social innovation.

We committed to being a 100% circular company by 2030, acceding to the Circular Economy Pact led by the Ministry of Ecological Transition.

All of this consolidates our commitment to excellent performance in terms of sustainability, placing us among the leading companies in sustainability at global level. Red Eléctrica is the only company in its sector in the world that has maintained its presence consecutively over last four years in the Dow Jones Sustainability World and Dow Jones Sustainability Europe indexes.

And in parallel with the progress in sustainability, we also focused on improving our corporate governance in 2018.

Strengthening with initiatives such as the update of the Contingency Plans for the Succession of the Chairman of the Board and the CEO; the application of the new directors induction plan; the approval of the new Board of Directors competence matrix; and the maintenance of our leading position, in the Board and in the organisation, in gender diversity matters.

Managing risk and overseeing the fulfilment of our commitments

In this changing world full of uncertainties, in a context of new rules of play, we must be mindful of creating value and providing solutions. We must also be mindful of overseeing the risks that may affect our activity to take measures in due time to allow us to control them and minimise their effects.

Red Eléctrica integrates international best practices to ensure that the risks are identified, assessed and managed systematically, with uniform criteria and within the acceptable risk level approved by the Board of Directors.

Thus, as of December 2018, we had analysed 120 risks and implemented over 500 action plans to reduce them.

Ethics and compliance are also fundamental pillars for the proper operation of our Group.

On the one hand, we are embarking on a review process in relation to the Code of Ethics, as a fundamental regulation that establishes the Group's ethical principles and essential commitments, which will align it

with the most demanding standards in corporate ethics, the evolution of stakeholders' demands and the changes in our structure.

On the other hand, in 2018, we strengthened our Compliance System, working on the update of the Group's Criminal Compliance System, as well as on the Criminal Compliance Systems for the subsidiaries that develop their business activity outside Spain. In this process, the criminal risks have been analysed and assessed for the jurisdictions in which the Group develops its activities, identifying over 300 key controls to mitigate these risks.

Finally, I will mention that, in 2018, we renewed the +500 European Seal of Excellence, consolidating us as one of the leading companies in this area, as one of the three organisations exceeding 700 points within the selective group of entities to hold this recognition in Spain.

At the centre of the transformation

As I have already mentioned, our society is immersed in a two-pronged transformation: ecological and technological. In the phase of industrial capitalism, oil was the main raw material and the large oil companies were the protagonists.

Now, in this phase of the Revolution 4.0 and the fight against **climate change, electricity, telecommunications and talent** constitute the new levers for economic and social development over the coming years:

This is because the current change entails the decarbonisation of the production systems and the incorporation of new and revolutionary technologies. The former leads us to look after our planet, among many other ways, by replacing fossil fuels with electricity.

Technological disruption urges us to redefine our strategy to join digitalisation, big data and artificial intelligence.

The engines for action and growth of this sustainable, technological and ecological progress are **electricity, telecommunications and talent**. Three raw materials that define the world we live in.

They are hallmarks of Red Eléctrica. This allows us to place ourselves at the centre of the global transformation and make the most of all its opportunities.

The energy sector is in the middle of transition and **Red Eléctrica is the main player in that process, which includes a growing electrification**.

As Transmission System Operators (TSOs), we play a leading role in the process of change shaking the current electricity system.

We must adapt ourselves to this new reality with artificial intelligence in our control centre, increasingly intelligent networks with greater capacity for interconnection.

We are placing a clear focus on innovation to allow us to give new answers to changing challenges of a system in profound transformation.

For their part, telecommunications are key elements in our world and are increasingly at the centre of our business.

Reintel is now the greatest neutral operator of dark fibre infrastructures in Spain, a business supplemented with the recent acquisition of **Hispasat** to provide satellite connection services, thus opening us up to new segments of customers, areas of business, and creating new synergy and growth opportunities with them.

We are also focusing on technology, digitalisation and innovation as a lever for growth, corporate culture change and sustainability.

We want to concentrate on talent, innovation and technology and become a benchmark centre for all people, universities, technological centres, companies and start-ups to work together for innovation and technological development in the electricity system and telecommunications. That is why we are launching a new technology company.

In the current context, the establishment of alliances, shared learning and the pursuit of synergies is essential, particularly in the case of companies as technology is blurring the lines between business areas and activities, and, therefore, new forms of collaboration are arising between companies from very different sectors, opening doors to unexpected solutions that we must explore

It is therefore a huge responsibility but also a great privilege for the Red Eléctrica Group to be in the eye of the storm of the global transformation that is defining the world, fighting to find solutions to what society is demanding.

We feel pride at contributing, as one of the protagonist companies in the global revolution of the 21st century.

Protagonists in the energy transition

I want pause now on one of the paradigm shifts we are facing in this new period: the energy transition, a challenge so ambitious and on such a scale that I have sometimes compared it with what joining the European Union entailed for our country.

As then, this project is also a countrywide aspiration that has dates, periods, objectives and commitments. It involves us all, government and companies, citizens and institutions, and so we must all work on a common roadmap.

The European Union is our guiding compass as the key driver of the international response to the climate crisis,, a focus on dialogue, the pursuit of agreement and the avoidance of confrontation and unilateralism. The energy transition must be a firm focus of everyone, above any ideological or partisan difference, in a context of uncertainty, working towards a cross-cutting objective.

With measures such as the Energy Roadmap 2050, Europe has outlined the objectives and the path towards a decarbonised economy.

With the approval of the **Clean Energy for all Europeans Package**, the correct operation of the internal electricity market and the correct functioning of the relationships of mutual dependence that are changing profoundly with the energy transition are ensured

To comply with this mandate, in February, along with Climate Change and Energy Transition Draft Bill, the Spanish government published the **Integrated National Energy and Climate Plan 2021-2030**, which contains some objectives even more ambitious than those set by the EU as it sets the objective of almost tripling the installed capacity of wind and solar generation.

As well as a significant reduction in CO2 emissions, that effort will signify for Spain the creation of between 250,000 and 364,000 more jobs for 2030, over 200 billion euros in investment, 1.8% GDP growth in 2030 and a 15 percentage point reduction in energy dependency.

These are ambitious objectives that we must be prepared to face and support.

We are **facing a complex, cross-cutting and profound transition process that has costs but also important benefits that we must take advantage of**. It is key that we do it well so that the transition is perceived as fair for everyone. So that the benefits are distributed among everyone.

We have a great challenge ahead of us and a great opportunity for change. The plan marks the roadmap for decarbonisation in Spain, has countrywide conviction, guarantees the electricity supply and renders possible the energy transition.

A transformation of such a scope that it requires the **consensus of all the political groups**. Only based on agreement can such long-term transformations as those raised by the National Energy and Climate Plan, which is undoubtedly a step in the right direction and marks the route that we must assume together in our contribution to the fight against climate change, be approached.

I am now issuing a call to consensus, to separate from partisan politics a challenge of this scale that will allow us to build a more sufficient society that is more committed to its future, more open to change.

An agreement that will give stability so that companies and citizens can make decisions as soon as possible and so that young people feel that their future truly matters to us here and now.

An agreement that is starting to be known across the world as the Green New Deal.

The energy transition is opening. A paradigm that involves the decarbonisation, digitalisation and decentralisation of the system, progressing towards a more efficient and democratic model.

Red Eléctrica will be at the centre of this transformation and will provide its knowledge, its experience and its innovation capacity to make it a success.

Red Eléctrica, its employees, its executives and its shareholders are and will be involved in that transformation. It is our obligation and our commitment.

Red Eléctrica within a year

So far I have presented the summary of the most relevant results of our Group in 2018 in its commitment to profits but also to sustainability, excellence and value creation.

Now let us look at the future.

Next year, ladies and gentlemen, you will attend a General Meeting in which I am sure **we will present a stronger, more valuable Red Eléctrica with even greater future prospects.**

The laws of thermodynamics indicate that all systems change, unless they are isolated.

We do not live in isolation, and so we are subjected to changes, and, to guide that inevitable change, we have designed and approved the **Strategic Plan 2018-2022** to respond to future challenges with a strong investment commitment and to strengthen the capitalisation structure of the different business areas.

The Red Eléctrica Group will invest 6 billion euros in the coming years to facilitate the energy transition, consolidate its position as a benchmark telecommunications infrastructures operator, expand its international business and speed up innovation in Spain, with the launch of a start-ups accelerator.

Over 50% of the investments will be allocated to meeting the challenges of the energy transition in Spain. We will devote around 28% and 17% of the new investments, respectively, to telecommunications and our international expansion.

A plan to grow and to do so intelligently, we are going **to diversify our activity in a controlled manner**. It will be a diversification between the regulated and unregulated activity, in which the market compensates the regulated activity and the regulation compensates the market risk.

In line with the fundamental role that Red Eléctrica has in the energy transition, we will allocate the bulk of the investment to the integration of renewable energies, accounting for over 1.5 billion euros. We will allocate over 550 million to extending the technological and digital tools, over 200 million to storage and around 900 million to strengthening the reliability of the transmission networks and guaranteed supply. For all of this, the assistance of all the Public Administrations and the impetus of the regulatory bodies will be necessary. The Administrations must endeavour to speed up time scales and administrative processes.

We are a TSO and proud of it and we want this to be noted.

We are much more than a TSO.

That is why we want to diversify our activity in the unregulated part. Capitalise it, equip it to compete, adding value to all the lines of business so that each and every one of them contribute value to the Group. This part is where the telecommunications activity comes in with great force with our dark fibre optics services and now also our satellite connection services.

The acquisition of Hispasat consolidates the Red Eléctrica Group's position as global operator of telecommunications infrastructures both in Spain and internationally.

This transaction makes it possible to significantly expand the Group's telecommunications business towards new customer segments and geographic areas, also opening synergies with the existing fibre optics business.

Growing and diversifying in a controlled manner is therefore our response to the prevailing uncertainties.

Diversifying our sectors of activity between the regulated and unregulated parts.

Diversifying our activity among the vectors of electricity, telecommunications and technology.

Diversifying our business through the **internationalisation of our activity**, making the most of our competitive advantages. We know how to manage electricity and telecommunications networks and we are very good at it. Therefore, we can do it efficiently and profitably in any other part of the world.

This commitment to reorganising the Group, to equipping it with the mechanisms to act as a business group, will allow us to have an increasingly better and stronger Red Eléctrica, with more value and more future projection year by year.

A Group that renders strategic and essential services for the development of countries and their citizens. A Group specialising in critical electricity and telecommunications infrastructures, the two engines driving today's world, driven by the talent of its employees.

Conclusion

In conclusion, we are experiencing moments of change, of transformation, in a revolution different to all the previous ones, with a global paradigm shift, with challenges that involve everyone and in which the speed of the change obliges us to be prepared to adapt and act quickly.

I want to categorically assure you, here and now, that we are prepared. That the Red Eléctrica Group is ready to be even more useful and more profitable from a social and private viewpoint, as we have a strategy to grow with diversification in the three raw materials driving today's economy: electricity, telecommunications and the talent of our employees.

We are focusing on being a bigger, stronger, more secure and useful company for all our stakeholders.

A better organised and sustainable company that grows diversifying its activity in a controlled manner.

A more profitable and effective company for everyone: our shareholders, our employees and, in general, all the stakeholders and society as a whole, which is ultimately our customer.

A company prepared to take advantage of all the opportunities that are opening up as a result of being at the centre of the transformation of the economy and today's global society.

That is our purpose, what is behind the numbers.

We are sure that we are not making a mistake in wanting to be at the centre of this world we live in, in this transforming world, and focusing on growth and diversification based on a firm commitment to sustainability.

Casting networks against climate change, in the Revolution 4.0. Electrical and telecommunications networks. Making an even better and stronger Red Eléctrica Group, with more opportunities for the future.

We are counting on your confidence and, of course, also on your support. I assure you that you and all Spaniards will continue to have the commitment and dedication of all the employees, executives and directors of the Red Eléctrica Group.

Many thanks for your attention.

