



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS
GENERAL SHAREHOLDERS' MEETING

CHIEF EXECUTIVE OFFICER

14 May 2020

INTRODUCTION

Hello and welcome.

It is a pleasure to be able to address you for the first time as Chief Executive Officer of this great Group, the Red Eléctrica Group, which I have been part of for more than 16 years now.

It is an honour for me to assume this responsibility, and I would first like to thank the members of the Board of Directors for their confidence, and especially you, the shareholders, for ratifying my appointment at this General Meeting, should you consider it appropriate.

I will devote all my energy, effort and commitment to not disappointing you.

I would also like to thank Juan Lasala, the first Chief Executive Officer of Red Eléctrica, for his more than 18 years of commitment to this project, which has enabled the Red Eléctrica Group to become one of the main managers of electrical and telecommunications infrastructures worldwide. Thank you very much for everything, Juan.

Finally, allow me to address a few words of gratitude to those who make all this possible every day, the team of people that make up the Red Eléctrica Group, I would like to highlight their professionalism and commitment that allows us to successfully achieve the objectives we set ourselves.

Before starting with the management analysis for 2019, I will briefly reflect on the important mission that our company carries out by ensuring that supplies that are essential to society, such as electricity and telecommunications, are always available to everyone under any circumstances, even in a state such as that resulting from the COVID-19 pandemic.

It is in times as complex as these that we are truly tested, and these are also the times when we are most needed. Our response capacity, our ability to adapt to these unusual circumstances for society and therefore for the electricity system and for the

telecommunications infrastructure was, and continues to be, extraordinary. We succeeded in managing an absolutely exceptional situation with normality, working with the same intensity, operating the system, managing the grid, providing telecommunications services, and giving the necessary support from the corporate areas to make everything work. And, most importantly, without any relevant incidents to report and maintaining the same quality standards.

This emergency situation has tested the resilience of the outcome of years of work and preparation. At Red Eléctrica we have been developing action plans for more than a decade, and have the technical and human resources to implement the necessary measures to react to any scenario. This is what we did in the face of the COVID-19 pandemic, with a contingency plan primarily focused on the following aspects:

- The implementation of health and safety measures for our employees.
- The implementation in record time of a third electricity control centre in Spain, operated, like the other two, by independent and isolated teams.
- The availability of staff groups to intervene in the event of any fault or unforeseen event occurring on the grid.
- The management of the Group's employees working from home, whose presence in the workplace is not strictly necessary, both in Spain and in South America, doing their work with absolute normality.

In these circumstances, when the electricity supply and access to telecommunications services are most necessary, I must proudly indicate that Red Eléctrica is fulfilling its duty and responsibility.

For this reason, I would like to once again highlight the great professionalism and commitment of our team, both in Spain, Peru, Chile and now also in Brazil. Thank you all for your great efforts to make this possible.

DEMAND-SIDE EVOLUTION

I will provide the fundamental data on the evolution of electricity demand during the time the confinement has lasted since, as you know, the electricity system is perhaps the most objective thermometer of the impact of this exceptional event on society.

In the first weeks, after the declaration of the state of emergency on 14 March, overall demand fell by between 8% the first week, and 10% the second week, compared with the same period last year. In the two weeks that followed, when stricter containment measures were in place with only essential activities allowed, the drop in demand intensified to an average of 20%. Once this "hibernation" state was overcome, demand partially recovered, with consumption reductions of about 15% with respect to the corresponding dates of the previous year.

SIGNIFICANT EVENTS IN 2019

Allow me to begin my management analysis of 2019 by making a brief reference to the most significant events of the year, which I will then develop in more detail together with the results of the year and the progress achieved so far in the Strategic Plan 2018-2022.

2019 saw the company take on major challenges as a transmission agent and operator of the electricity system, most notably those undertaken to drive the energy transition, about which I would like to highlight a few aspects:

- The road map for energy transition was designed in 2019, with the presentation of the draft of the Spanish National Integrated Energy and Climate Plan 2021-2030 ((Spanish acronym: PNIEC)), of special relevance for the achievement of European energy objectives in 2030.
- After designing the road map, the Electricity Transmission Grid Infrastructure Planning process was launched, enabling us to identify the investments needed to address the significant change that will take place in the electricity sector.

In addition, in 2019 the new methodology for the remuneration of electricity transmission for the period 2020-2025 and the methodology for the remuneration of the electricity system operator have been approved, providing the regulatory stability required to carry out our activities in the electricity system with guarantees.

In addition, we have made progress in the electricity infrastructure business at international level, laying the foundations for starting up our activity in Brazil. A very relevant milestone has been reached with the consolidation of our telecommunications business with the acquisition of Hispasat, which positions the Red Eléctrica Group as a global operator of essential infrastructures, electricity and telecommunications, both in Spain and internationally, making it possible to guarantee access to basic services in our current welfare state, such as electricity supply and access to connectivity and telecommunications.

And, finally, in order to contribute to making the paradigm of energy transition and telecommunications development possible, we created a new company, a little less than a year ago, with the purpose of being the lever to accelerate all the innovation and technological development capacities of the companies that make up the Group, with a pioneering innovation model to face the new challenges of the electricity and telecommunications sectors, where the Group has a leading role.

[Actions aimed at advancing the energy transition](#)

As part of the development of one of the most relevant aspects of the 2018-2020 Strategic Plan for the Group, which is to promote the energy transition in Spain, the Red Eléctrica Group is working on contributing efficiently to decarbonising the economy and connecting citizens through technological innovation and the sustainable extension of electrification and telecommunications, thereby guaranteeing connectivity and access to the new renewable generation.

Against this background of progress towards a more sustainable and decarbonised economy, the current Covid-19 pandemic is having a significant impact on the world economy and especially on the European economy. For this reason, several European countries, including Spain, signed a manifesto on 9 April calling on the European Commission to use the European Green Deal as a road map for Europe's economic recovery after the Covid-19 crisis, adopting an approach that also addresses the climate crisis.

As I have mentioned before, in February 2019 the Ministry for Ecological Transition published the Spanish National Integrated Energy and Climate Plan 2021-2030, with the participation of Red Eléctrica, which endorses the security of the electricity supply based on the energy mix designed for the 2030 horizon. One of the main objectives of the plan is to generate 74% of total electricity production from renewable sources by 2030, which is consistent with a path towards a 100% renewable electricity sector by 2050.

Red Eléctrica is already working tirelessly to achieve the objectives set in order to advance in the energy transition. On the one hand, as the company responsible for the procedures for access and connection to the grid, we have made a remote management platform available to the agents to perform these requests, simplifying and speeding up the process. As a result of this effort, in 2019 we have granted access permission to 102 GW of wind and solar PV generation capacity.

On the other hand, we have been able to provide an effective response to a record number of renewables integrated into the electricity system, by bringing 6,456 MW of new renewable generation capacity to the grid in 2019, 6,126 MW more than the previous year. With this increase, 50% of the installed electricity generation capacity in Spain now comes from renewable sources.

And, at the same time, thanks to the work carried out from our Control Centre of Renewable Energies (Cecre), we have contributed to the fact that, during 2019, energy production from renewable sources represented 37.5% of the total energy generated in the Spanish electricity system. All of this has contributed to a reduction in CO2 emissions, reaching a rate of approximately 60% of emission-free electricity generation for the second year in a row.

In addition to all these efforts, in 2019 we have continued to make progress in the sustainable development of the national transmission grid with an investment of 396 million euros, which has enabled 198 kilometres of electricity line and 168 substations to be put into service, as well as increasing the transformer capacity by 1,335 MVA, bringing the total of the transmission grid owned by the Group at the end of the year to 44,372 kilometres of electricity line. These investments meet the need to prepare

the grid for an accelerated incorporation of renewable energies without compromising security of supply, which will be achieved basically by solving technical restrictions, improving the grid meshing, and strengthening international and inter-island submarine interconnections.

Additionally, in 2019, thanks to the application of sustainable, efficient and safe maintenance policies, the transmission grid facilities have registered optimum reliability and service quality indicators, reaching an availability index of 97.94% in the peninsula transmission grid, and 96.87% and 98.91% in the Balearic and Canary Islands grids, respectively.

To make progress in energy transition and to achieve the objective of decarbonising the energy system, an efficiently functioning European electricity market is indispensable and this requires sufficient physical interconnection capacity with neighbouring countries. This is why the European Union set a recommendation for all its member states to achieve a 10% interconnection ratio by 2020 and subsequently raised it to 15% by 2030. Currently, the interconnection ratio of our country with the European electricity system, from which we can obtain our main support if necessary, is 2.8% of our total installed power capacity, still far from the objectives set.

In order to come closer to achieving these goals, Red Eléctrica is working on the submarine interconnection with France through the Bay of Biscay, which will increase the capacity for electricity exchange between Spain and France to 5,000 MW.

In this context, the PNIEC incorporates in its scenarios an interconnection level of 8,000 MW with France, including not only the interconnection of the Bay of Biscay, but also two additional projects through the Pyrenees, as Projects of Common Interest of the European Union. In addition to these projects, the agreement signed in February 2019 between Spain and Morocco for the development of a third interconnection between the two countries is also important.

Over the next few years we will also have to make progress in the decarbonisation of the island systems, and especially in the isolated systems we will have to encourage an increase in energy storage capacity, as a tool at the service of system operation,

preventing the waste of clean energy in off-peak periods, and at the same time providing greater security for the electricity system. This is the reason for the Chira-Soria pumped-storage hydroelectric power station in Gran Canaria, a project that is currently in the environmental assessment phase.

Planning of the electricity transmission grid 2021-2026

In the immediate future, one of the most relevant challenges for the company in the coming years will be the development of the electricity transmission grid planning for the period 2021-2026, a plan which, as you know, is binding for Red Eléctrica.

The development proposal of the transmission grid is key to achieving the objectives established by the PNIEC for the electricity system in terms of decarbonisation, efficiency, interconnections and sustainability.

This development proposal has to take into account key elements such as security of supply and maximising renewable generation, optimising the use of the existing grid and making its development compatible with environmental constraints.

In addition, the Plan must cover other system needs, such as international interconnections as well as those between island systems, or the investments needed to support the electrification of railway deployments.

The second phase, the study phase, has recently been completed, in which Red Eléctrica, as the system operator, after a technical analysis of the feasibility of all the proposals for new projects and system needs made by the Autonomous Communities and agents in the sector, sent the "Initial proposal for the development of the transmission grid" to the Ministry for Ecological Transition on December 3rd, pending the phase of allegations and consolidation of the different proposals before the definitive authorisation process can begin.

New remuneration methodology

Another noteworthy aspect of 2019 was the approval of the new methodology for electricity transmission remuneration for the period 2020-2025, a methodology that maintains incentives for availability and efficiency.

This methodology is in line with the best regulatory practices in the European Union, specifically the Weighted Average Cost of Capital (WACC). This is one of the new features of the new remuneration which we consider to be positive and that guarantees transparency and facilitates the predictability of future rates.

The applied financial remuneration rate is 5.58% nominal before taxes. According to the regulations, the variations on the financial remuneration rate cannot exceed 50 basis points annually, so the rate to be applied during this year 2020 will be 6.003% and during the rest of the period 5.58%.

With regard to the extension of useful life, a positive modification has been included with respect to the previous model, increasing the annual maintenance fee for assets that have reached the end of their useful life by 30%. This remuneration is a recognition of the effort made by the company to maintain those installations that have exceeded their remunerative useful life in operation and continue to provide service to the system.

Furthermore, the possibility of renewing facilities that have exceeded or are about to exceed their useful life is being considered, depending on their date of commissioning, which is an additional element that was not previously in place, to manage those assets that have reached the end of their useful life, thus increasing the company's asset base.

With respect to the remuneration of the electricity system operator, it is important to emphasize that this is the first time that a methodology has been established for the remuneration of this activity and we consider that it is an advance in creating an environment of legal security in the development of our activity as a system operator.

The regulatory parameters have been defined for a period of three years, the first regulatory period being 2020-2022.

International activity, telecommunications and technological innovation

Focusing on the international arena, in 2019 the company has taken a firm step forward with its presence in Brazil, a country with one of the largest development plans in the electricity transmission sector in Latin America, following the agreement reached with the Bogota Energy Group to jointly and equally acquire 100% of the shares of the Brazilian company Argo Energía, which is dedicated to the management of high-voltage transmission grids.

This grid of 1,460 km of electricity lines in Brazil is added to the 1,729 km managed in Chile and the 1,686 km managed by the Red Eléctrica Group in Peru, which have been reinforced this last year with the acquisition of 100% of the Carhuaquero - Moyobamba line in Peru.

Moving on to the telecommunications area, the acquisition in 2019 of 89.68% of Hispasat's share capital for 933 million euros has positioned Red Eléctrica in a very dynamic market, opening up a growth path for the Group, which in turn allows it to consolidate as a global operator of strategic infrastructures, managing electricity transmission and telecommunications networks.

Following the conclusion of the Hispasat acquisition, work is underway to define a new Strategic Plan for the company based on the strengthening and expansion of the current business and the coverage of new connectivity and mobility service needs.

In the fibre optic business, REINTEL has experienced growth for the fifth consecutive year, with a larger client portfolio, positioning itself as the largest neutral dark fibre operator in Spain, with a network of more than 50,000 km of optical fibre, deployed on the electricity transmission grid and the railway network. Furthermore, REINTEL has become a driving force for the digitisation of society.

Finally, with the aim of boosting technological innovation, generating competitive advantages and new business opportunities, we will be able to take advantage of the potential of the main technologies through the new subsidiary that was set up last year, in order to contribute to making the energy transition and the development of

telecommunications possible by conceptualising, incubating and accelerating innovative initiatives with a technological base.

Results and financial strengths

We will now comment on the evolution of the main figures in our income statement for 2019, where we have obtained solid results and a significant strengthening of the main solvency ratios.

Turnover has reached 2,007 million euros, with a growth of 3% over the previous year. It is worth noting that without the incorporation of Hispasat this growth would have been 0.8%. This figure includes the remuneration of the electricity transmission activity in Spain and the regulated income related to the operation of the system, the telecommunications activity, which includes for the first time that linked to the satellite business during the last three months of the year and which reached 175.4 million euros, and the income derived from international activity, which reached 59.2 million euros.

The gross operating profit (EBITDA) was 1,582 million euros, 2.8% higher than the previous year, and includes 33.0 million euros from Hispasat since 3 October.

In turn, net profit rose to 718 million euros, which is a 1.9% improvement year on year. The effective tax rate was 24.3%, in line with last year's figure.

As regards investment efforts, in 2019 the level of investment reached 1,870 million euros, of which 396.4 million euros corresponded to investment in the transmission activity in Spain, 226 million euros to investment at the international level, and 1,215 million euros to telecommunications activity.

Finally, the Board of Directors has proposed a gross dividend of 1.05 euros per share for approval at this General Meeting, which represents an increase of 7% over the dividend distributed in the previous year, in line with the provisions of the 2018-2022 Strategic Plan.

With regard to debt, it should be noted that the net financial debt at 31 December reached 6,026 million euros and that we maintain optimum solvency ratios. In this regard, the "Net Debt/Ebitda" coverage ratio was 3.8x and the Operating Funds (FFO)/Debt ratio was 20.8%. These ratios would have been around 3.6x and 22.4% if the cash flows corresponding to Hispasat had been annualised.

Focusing now on the financial structure, the average life of the debt is 5.2 years and the liquidity at the end of last year was 2,097 million euros, which allows us to face the debt maturities of nearly next three more years.

If we look at the debt structure by instrument, we can say that it is well-diversified, with 78% at a fixed rate until maturity, and with the euro predominating over other currencies.

It should be noted that at the end of the year the Standard & Poor's and Fitch credit rating agencies, following the closure of the TSO regulation in Spain, confirmed the long-term rating for Red Eléctrica Corporación of 'A-' with a stable outlook.

In addition, it should be noted that during 2019 we have set up many initiatives that show the strategic commitment of Red Eléctrica to sustainability. Following the presentation of the Green Framework, Red Eléctrica has made its inaugural issue of green bonds for 700 million euros to finance projects eligible under this Green Framework. The operation, which has already continued with others carried out so far in 2020, was very well received by the market.

[Results of the Strategic Plan 2014-2019](#)

Allow me now to take a few minutes to analyse the performance of the Strategic Plan 2014-2019 which we announced five years ago, and which we can say with great satisfaction that we have successfully concluded, fulfilling all the commitments we made at the time to our shareholders.

In this regard, we have achieved a level of investment that exceeds our commitment to the market, reaching a figure of 4,861 million euros.

In terms of efficiency, significant operative gains have been achieved following a review of operation and maintenance policies and supply and construction criteria.

These achievements have been made while also maintaining an average "Net Debt/EBITDA" solvency ratio of around 3.4x, allowing us to maintain a credit rating above sovereign rating, which is key for a company whose remuneration is linked to the cost of capital.

Additionally, earnings per share for the period have grown by an average of 5.2% and we have kept our promise to the market to distribute a dividend per share that has grown 7% yearly during the same period, as previously mentioned.

We have therefore successfully closed this Strategic Plan 2014-2019 after great performance, with the confidence of having fulfilled the commitments made five years ago and with the responsibility of doing so again with the Strategic Plan 2018-2022.

[Strategic Plan 2018-2022](#)

I will now comment on the keys to the development of the current Strategic Plan 2018-2022, which we presented in February last year. After two years of progress in the Plan, we have achieved 46% of this objective, which has been specified as follows:

- At national level we can highlight that until 2019 investments in the transmission grid in Spain have reached 775 million euros.
- In our international activity, it is worth highlighting the agreement with the Energía Bogotá Group to jointly acquire, in equal parts, 100% of the shares of the Brazilian company Argo Energía, as I have already mentioned.
- Progress has also been made in Peru with an investment of 219 million euros in the last two years. Investments in Chile have amounted to 145 million euros in the 18-19 period.

- And finally, in the telecommunications sector, we have ended 2019 with the acquisition of 89.68% of Hispasat, which meant an investment of 933 million euros.

These actions demonstrate that our strategic plan is being developed around three strategic lines: promoting energy transition; enhancing our key skills through international investment; and becoming a benchmark operator of telecommunications infrastructure. Furthermore, all this is done while maintaining operational efficiency and financial discipline.

As stated on the presentation of our 2018-2022 Strategic Plan, we believe that the telecommunications business will be key in the coming years, in which the demand for reliable, flexible and quality telecommunications networks and services will grow exponentially.

In recent years, our Group has gradually positioned itself as a telecommunications infrastructure operator thanks to the consolidation of the fibre optic network business and its entry into the satellite business as a result of the acquisition of Hispasat.

We acknowledge that the synergies generated by these activities represent an opportunity to offer and develop connectivity projects to citizens that will promote and energize the fight against depopulation and the digital divide in Spain and will support the deployment of new technologies, such as 5G.

With respect to the current situation and the outlook for the future, there is no doubt that we are in an extraordinary situation, and the effect that the pandemic situation will have on the world is still uncertain, although the nature of the activities carried out by the Red Eléctrica Group leads us to assume that the impact it could have on the Group should not be very significant, thus allowing us to maintain the commitments of the 2018-2022 Strategic Plan.

As regards the strategic objectives, we have set ourselves the goal of an average EBITDA margin of over 76% for the period, based on an efficiency policy which partly compensates for the revision of the financial remuneration rate and the capture of

efficiencies in maintenance activities through the optimisation and automation of processes and a progressive reduction in external operating expenses.

In addition to the above, we will consolidate our financial discipline, maintaining an average Net Debt/EBITDA ratio of around 4x in the period, focusing on maintaining a credit rating level in line with our activity.

As for our commitment to sustainable Net Profit, we can say that we are still on the right track, showing net profit growth of over 3% in a compound annual rate over the period 2018-2019.

We are also committed to distributing a dividend of at least 1 euro per share in the period 2020-2022. Our dividend and shareholder remuneration policy has led to an increase in the average dividend during the 2014-2019 Strategic Plan, which stood at 0.89 euros per share, compared to the average dividend of 1.01 euros per share in this new 2018-2022 strategic plan.

To sum up, in the coming years we will continue to work to achieve the commitments of our Strategic Plan, and we will continue to fulfil our duty, providing essential services for society according to criteria of safety, efficiency and sustainability.

Thank you very much for your attention.