



**General Shareholders' Meeting. Chairman's Address.**

**Madrid, 19 April 2012.**

Good morning, ladies and gentlemen, shareholders and guests.

It is both a pleasure and honour for me to address you on this important corporate event which is the Annual General Shareholders' Meeting of Red Eléctrica Corporación. I would like to sincerely welcome you and thank you, on behalf of the entire Board of Directors, for your presence at this Meeting.

On 8 March this year I assumed the role of Chairman of Red Eléctrica as unanimously decided by the Board of Directors at the proposal of the Corporate Governance and Responsibility Committee.

As you may well-know, I am not new to this company. As a member of the Board of Directors since 2008, I have had the opportunity to follow its evolution closely through the responsibilities inherent to the position. This knowledge of both the Company and the energy sector as a whole goes back to other stages of my professional career, especially during the four years when I was fortunate enough to hold the post of Secretary of State for Energy in Spain. All this allows me to take on today this new responsibility with a clear vision of how we need to respond effectively to the challenges facing our company, both today and in the future.

Red Eléctrica has two important missions to fulfil, electricity transmission and the operation of the system, and both together should guarantee an efficient electricity supply to the whole of society in accordance with that encompassed in its role and mission as TSO (Transmission and System Operator). Were shareholders to give me their support I have the firm commitment to work tirelessly to continue strengthening the foundations that guarantee the growth expectations of the Company.

Electricity is an essential element for the progress of society and a basic component in the process towards economic recovery. For this reason, Red Eléctrica, as a key player in the electricity supply, in addition to leading a project that server its shareholders, is also a project focused on serving society. This means that changes in the state of affairs should in no way prevent us from continuing to work with criteria which guarantee both businesses and the public an electricity supply which is secure, efficient and globally sustainable.

But please allow me, before going into the analysis of the activities and results of the Company during 2011, to share with you some thoughts on the economic and energy environment in which the activity of our Company has been carried out.

## ECONOMIC AND ENERGY ENVIRONMENT

Unfortunately, 2011 has not been the year of general economic recovery that seemed to have begun tentatively in 2010. Although the major world economies, with a few exceptions, grew throughout 2011, they have grown at a slower pace than that of the previous year, showing over the last two quarters signs of stagnation that could extend throughout 2012.

Within our immediate environment, the Eurozone, the general economic environment and the pressure of the financial markets on sovereign debt in several countries have contributed to the stagnation experienced in the last half of 2011 to be even more significant than in the rest of the world's economic references, such as, the United States, Japan or Great Britain. This fact anticipates a weak economic environment at least during the first half of 2012, which will affect most countries of the Eurozone, according to forecasts by major international organisations.

In the case of Spain, the extremely modest growth in 2011 of 0.7% was characterised by a uniform increase in the first three quarters of the year and a marked slowdown in the last quarter, to 0.3%. This trend anticipated, as was later confirmed, a further contraction of the economy in the first few months of 2012, a situation that, at present, is expected to extend to the whole year. In fact, the IMF has just confirmed a fall of 1.8% in GDP for this year.

On the positive side, we need to evaluate the entire set of measures being undertaken regarding fiscal consolidation, the cleaning up of the financial system and structural reforms, and which I am sure will allow us to return to a stage of sustained growth.

As it could not be any other way, the demand for electricity in Spain in 2011 has maintained a trend in line with economic developments. During the first half of the year there were slight increases or values which were almost flat regarding the corrected monthly rates of demand growth, i.e. having factored in the seasonal and working patterns. These rates became negative in the second half of the year, and more significantly in the last three months of the year in which the average reduction of corrected demand was around 4%.

With these values, 2011 ended with a fall of 1.1% in the electricity consumption associated with economic activity, which contrasts with a growth of 2.9% recorded in 2010.

Data from the first quarter of 2012 suggests a 2% reduction in electricity demand, after having factored in the seasonal and working patterns.

Concern regarding the effects associated with the crisis, especially in Europe, has, to a certain extent, put off the international debate opened during the economic boom years, regarding long-term viability of the current global energy model. This model is based on the use of fossil fuels, mainly oil as a primary energy source, with effects on prices of these raw materials and increasing emissions of CO<sub>2</sub> and other greenhouse gases.

In particular, some developments over the past year have caused periods of volatility in the prices of energy commodities, particularly oil, which has affected the cost of energy consumption at both a domestic and industrial level. I refer to the institutional conflicts in various countries of the Arab world or the nuclear alarm triggered by the earthquake in the Fukushima power station. In addition, there were already relevant events happening in the first few months of 2012, such as reductions in the supply of Russian gas to Central European countries, or the increased tension in the Middle East due to the nuclear programme of the Iranian regime.

All these events strengthen my belief that the leaders of Western countries should once again bring back to the heart of the debate the energy model to be followed for a sound and dependable way out of the current complex crisis. A model in which energy efficiency and savings must be paramount, and in which I think the role of electrical energy will emerge in a much stronger position compared to fossil fuels. It is therefore logical, and absolutely necessary, that Europe wants to strengthen international connections and promote renewable energies in a generation mix that promotes energy diversification and sustainable development.

In the case of Spain, these necessities are also present, but we also have a pressing need to reduce our reliance on other countries for our energy, owing to its heightened implications for the financing needs of the whole economy, and this needs to be done through a system that generates legal certainty and allows the necessary investments to be made to ensure the electricity supply at all times. Progress must also be made to seek out new ways and measures to make environmental sustainability compatible with the necessary competitiveness of our businesses. During this year, REE will collaborate closely with the Government to decisively address these challenges.

## **2011 ANNUAL RESULTS**

In Red Eléctrica we have been laying the foundations that will enable us to successfully face the challenges of the future energy mix, such as the balance regarding the use of different technologies, the efficient functioning of the electricity market or remuneration of the real costs of assets amongst others.

The constant quest for new technical solutions regarding system operation and the development of the transmission grid investment programme being carried out by the Company contribute to a more efficient electricity system. In addition, it allows a safer, more sustainable and better quality supply of electricity to be provided to consumers.

The transmission grid investment programme mainly focuses on the structural reinforcement of the grid, improving the meshing of nodes and creating new energy transmission axes, and strengthening international interconnections. These actions are essential to guarantee the continuity of the electricity supply and are aimed at making the electrical infrastructure plan effective.

In 2011, investments in the transmission grid were 819 million euros, in line with that of 865 million euros in 2010, which has resulted in the commissioning of more than 1,700 kilometres of electricity line circuit.

Amongst these facilities, I would like to highlight the electricity connection between the Spanish Peninsula and the Balearic Islands, an important project whose development has been a world benchmark due to its unique nature and technical complexity. This link will improve the reliability and quality of supply in the Balearic Islands, and generate significant cost savings for the Spanish electricity system as it will be able to supplement the more expensive electricity generated on the Islands with energy generated on the Peninsula.

All these investments, in addition to increasing transmission capacity and improving security of supply, also help to integrate the available renewable energies, reduce energy losses in transmission and reduce the costs of the electricity system as a whole.

### Integration of acquired assets

It should also be noted that in 2010 the acquisition of transmission assets was completed, a process that began in 2002, when I was Secretary of State for Energy, and by means of which Red Eléctrica now owns and controls virtually all the 400 and 220 kV electricity transmission grid in Spain, including the grids on the Balearic Islands and the Canary Islands. In this respect, 2011 was the first full year of development of the plan for the integration of acquired assets and their adaptation to the quality standards of Red Eléctrica.

This integration and adaptation plan will continue over the coming years to a level of activity which is higher than that seen in 2011, which will result in a higher level of quality and useful life of the assets in the future.

### Interconnections

The commitment of the European energy policy for 2020 foresees an energy system with lower CO<sub>2</sub> emissions, which will require the contribution of renewable energy to cover demand. A key element in achieving these objectives is the development of interconnections between neighbouring countries. These interconnections provide greater security of supply and provide a greater stability for the electricity systems with an increasing penetration of renewable energy.

In the case of Spain, the need for investment in strengthening international connections is very important, as we have an interconnection level with Europe which is clearly insufficient. In this regard, strengthening of interconnections and in particular the new line with Europe via France is the highest priority in the development of the transmission grid and the most important project to be developed in the coming years.

This line, whose commissioning is scheduled for 2014, will allow our electricity exchange capacity with the European grid to be doubled, reaching 6% of the maximum peak demand. This percentage is still far short of the goal of 10% as the minimum interconnection level between countries as established at the European Council 2002 held in Barcelona.

Furthermore, the development of interconnections enables the formation of large electricity highways which are highly interconnected and which have a high capacity for electricity transmission over long distances. Both factors will help balance the variability inherent to renewable energies and which are essential in order to achieve the sustainability objectives of the European energy policy, whilst at the same time providing a higher level of stability to the Iberian electricity system.

### Integration of renewable energies

Throughout 2011, we have also continued to work on the improved integration of available renewable energies into the electricity system. The goal is to make it possible to cover the demand using these intermittent energies without the security and quality of supply being affected.

Our Control Centre for Renewable Energies, CECRE, has very recently contributed to establishing a new record of demand coverage with clean energies. In the early hours of this morning, wind power covered 61% of the demand on the peninsula. Furthermore, yesterday afternoon the record for wind power generation was broken, recording a capacity of 16,636 megawatts at 4.41 pm. Both milestones reflect the capability of our Company to safely integrate renewable energies, converting us into a world reference regarding power transmission and electricity system operation.

But in order to continue integrating renewable energies safely, we must advance in other areas. Demand-side management is key in this regard. Therefore, the introduction of measures to achieve a more balanced demand across different times of day and year with greater flexibility, are essential to achieving a better integration of these energies which are not programmable, optimising generation capacity and improving system efficiency.

In this regard, we must promote a more intelligent and interactive behaviour of the demand, that increases consumption in valley hours and reduces it during peak hours. This way, we will help to offset the high variability of renewable generation and will reduce the difficulties in maintaining the balance between generation and consumption during valley hours which have a high renewable production, which can lead to unwanted situations where wind power is lost.

In order to advance in this area, it will be very important to promote technological innovation so as to provide solutions that offer more automation and monitoring of electricity grids and promote the dissemination of best practices regarding energy efficiency. Smart grids, as they are called, will play a relevant role over the coming years and, therefore, we are already working on the foundations of how applying information technologies to the grids as a whole could contribute to a greater overall efficiency of the electricity system.

In short, in Red Eléctrica we are preparing to meet the new challenges of this decade, with the aim of achieving a more sustainable energy model, which contributes to economic recovery and to the development and general well-being of society.

## **ECONOMIC DEVELOPMENT OF THE COMPANY IN 2011**

From an economic standpoint, 2011 was, for Red Eléctrica, a year of growth. Once again, we have fulfilled the commitment that we had set for you, our shareholders, and the market, in regard to obtaining a growth in profits and a dividend per share in excess of 15%.

The results of the Company have shown a steady growth in recent years, driven by the investment programme and our efforts to improve operational and financial efficiency. In 2011, the growth of the major economic indicators has been particularly significant. For the first time our financial statements include the global effect of assets acquired in 2010, which has allowed economies of scale to emerge.

Net revenue, EBITDA and EBIT increased 17%, 21% and 23% respectively. Net profit grew by 18%, reaching 460 million euros.

Total investments made during 2011 reached 844.3 million euros. Of these, 819 million euros were earmarked for the development of the national transmission grid, in line with the rate of investment we had established in previous years.

Moreover, despite the strong rate of investment, cash flow generated by the Company managed to keep a level of net debt at a level slightly lower than in 2010. Thus, the coverage ratio "Net Debt/EBITDA" dropped significantly to be situated below a ratio of 4.

Finally, I would like to emphasise that our financial management has allowed the average cost of our debt to be 3.7% in 2011. This has been achieved in a market

characterised by strong volatility in interest rates and increased intermediation margins of the financial institutions. 78% of the financial debt is at a fixed rate until its maturity.

Red Eléctrica continues to maintain a high credit rating, 'A +' with Standard & Poor's and 'A2' with Moody's, a fact which has been appreciated by the markets. Thus, in the debt issues carried out in recent months we have obtained financing at a very competitive rate.

Our conservative financial policy and our strong liquidity position give us a solid starting point to move off from and to start developing our future business objectives.

### Stock Market performance

Regarding stock market performance, 2011 was marked largely by the sovereign debt crisis experienced in Europe. In this zone the solvency problems of the peripheral countries have progressively moved and been passed on to the other countries of the Monetary Union in the form of lower growth.

This fact was reflected in the annual evolution and trend in the main stock market indexes, where falls generally prevailed. Nationally, in Spain, the IBEX 35 was negative for second consecutive year with a decrease of 13.1%, distancing itself negatively from the other European stock markets.

In this context, Red Eléctrica shares were also unable to avert the negative conditions experienced by the equity markets and fell by 6.1% over the year. However, this drop was lower than that of the IBEX 35 and also lower than that experienced by most European indexes.

### Dividends

Regarding remuneration to shareholders in the form of dividends, the proposal being submitted today to the General Meeting, is 2.21 euros per share, 18% up on the dividend of last year, maintaining a payout of 65%. All this underlines our commitment to maintain an attractive dividend for our shareholders.

## **CORPORATE RESPONSIBILITY AND EXCELLENCE**

With regard to our management in the field of quality, excellence and corporate responsibility, 2011 was a very satisfactory year. Firstly, and as maximum recognition, Red Eléctrica won the award for Business Excellence in the category "Taking Responsibility for a Sustainable Future" granted by the highest authority in the field, the EFQM (European Foundation for Quality Management).

This is one of the most important international awards in the field of business excellence in recognition of a sustainable, ethical and responsible management. Secondly, we were short-listed in the absolute category for the award to large corporations.

This latest milestone is a tremendous recognition of international note that we can all feel proud of, as we are the first major Spanish company in the IBEX 35 and the first European electricity utility to have been awarded this award.

Thirdly, we have been considered for best European practice, in addition to the results in corporate responsibility management, also for our customer management and balanced economic and financial management.

These awards give us recognition as best Spanish company for our results for excellence in management and place us amongst the top 5% of the best European companies from all sectors.

Talking specifically about corporate responsibility, we continue to lead the rankings of national observatories in the field for the 5th consecutive year, for management systems and results, and for the 7th year, for information transparency. Internationally, we are listed in all sustainability indexes as international leaders in the electricity sector, valuing us amongst the top 12 companies worldwide.

From the standpoint of reputation, the Company continues to improve its performance and the confidence of its stakeholders, year on year, even though we are not a household name amongst society as a whole. Two years ago we were ranked 45 and today we are ranked 26.

No doubt the “brand” Red Eléctrica de España is today synonymous with efficiency, accountability and excellence in the Spanish and European business fabric. I would like to highlight from this rostrum my appreciation to all the men and women working in Red Eléctrica for these achievements, which have placed the Company amongst the top European echelons regarding social responsibility.

With regard to our responsibility towards people, we continued to generate stable and quality employment, encouraging the recruitment of women and promoting their presence in management positions. In the past five years the number of women employees has increased by 30%, which demonstrates the Company's commitment to promoting equal opportunities in employment. Similarly, the percentage of women holding posts of responsibility within the Company continues to increase.

I would also like to highlight our commitment regarding the work-life balance. In this regard, obtaining the Family-Responsible Company Certificate (FRC) supports our commitment to the work-life balance. In addition, we continue to strive to achieve the highest level of occupational health and safety training and prevention of employees. Special emphasis has continued in these areas to minimise accidents and to train of workers in occupational health and safety. An area where despite all the efforts we devote to this task, more can always be done.

With your permission, I would like to pay an emotional tribute to the two people who sadly died in a helicopter crash last year whilst doing routine line inspection works: the pilot, who belonged to a contractor, and our own maintenance technician, Rodolfo Cuesta Manso. In addition, I would also like to remember our dear colleague John Guadalajara Algarra, who died suddenly from a cardiovascular problem whilst doing maintenance work. I would again like to express our sincerest condolences to their families, colleagues and those closest to them.

In addition, I would like to stress and extend to you our firm commitment to ensuring improved workplace safety, including the continued backing of our prevention policies.

Within the environmental scope we conduct numerous activities to ensure that the undesired effects of our facilities be minimised as far as possible. In 2011, in addition to working diligently on the conservation of biodiversity as a priority, we approved our

Climate Change Strategy and its action plan in order to align what we do with the objectives set out by the European commitment to sustainability for 2020.

Similarly, in order to guarantee our transparency before markets and stakeholder groups, we have continued to roll out best practices in corporate governance, whilst explaining and communicating the policy and actions implemented in this field to the main institutional investors in the Company. I would like to stress at this point, my personal commitment, and that of the Board, to continue to ensure that Red Eléctrica is amongst those considered to be applying world-wide best practices in corporate governance, as our shareholder structure means we are an international company that seeks excellence in its management and the relationship with its shareholders.

Also, I would like to stress that the Company continues with the policy of reducing the impact of the remuneration of the Board of Directors on the Group's results. Freezing for the fifth consecutive year the overall remuneration has represented a reduction in this factor, thus contributing to strengthening the Company.

I do not want to elaborate further on the whole of the actions that underpin our commitment to corporate responsibility and that are detailed in a transparent manner in the various annual reports that were handed out at the entrance and that are at your disposal. I would, however, like to highlight that which is already a constant in the eyes of those who rate us from outside the company; I am referring refer to our outstanding position in the main international sustainability indexes, the Dow Jones Sustainability Index and the FTSE4Good Index.

## **STRATEGIC OBJECTIVES AND CONCLUSIONS**

Finally, I would like to highlight what our business objectives over the coming years will be. The first is that our shareholders, current and those who will join us continue to feel pride in belonging to this great company, and continue putting their faith in it, as a result of its profitability and the values of quality, efficiency and excellence that it embodies.

Our strategy will be developed with a focus on operational excellence and with an undeniable orientation to meeting our commitments, which are none other than guaranteeing the quality and security of the electricity supply and contributing to the efficiency and sustainability of the Spanish energy model.

In order to achieve these goals it is essential that, as mentioned earlier, we maintain stability and regulatory certainty and the adequacy of infrastructures. Therefore, our main strategic line will be making investments that take on board the new planning, on which we are already working hard, in order to meet the new legal mandate.

We shall spare no effort in making it possible for us, in accordance with the new regulatory framework and the new planning to be approved by the Government, to continue along the path laid out in previous years in the carrying out of our activity, in line with that accomplished to date. We shall continue, therefore, with the levels of investment consistent with the increase in profitability of the value of the Company, and also we shall complete the full integration of the acquired transmission assets.

We fully understand the mandate that the government has given us to develop a new investment plan to be delivered before June 30. It is a new grid planning that must adapt to the new economic forecasts and energy demand. But this adaptation does not mean a breaking-off and much less an impasse in investments that put at risk not only the



activity of this company but the security of the energy supply. Therefore, we understand that it is key for the Government to streamline, as much as possible, the approval of the new plan that we will present in late June, so that it can be operational in the second half of 2013. Taking into account the investments already committed to, that deadline guarantees the continuity of the investment of the Company.

In this respect, REE will continue to be efficient with an investment strategy designed to:

- Facilitate the evacuation of the new installed generation
- Facilitate the powering of new high-speed train lines.
- Give the necessary support to distribution grids
- And, above all, strengthen international connections, a key element to reinforce the sustainability of the Spanish electricity system.

In summary, our business management will be carried out with a focus on operational efficiency and financial strength. We will continue working to provide the electricity system and society with the highest level of service quality and security of supply. Also we must remain focused on the creation of value in a sound and sustainable manner, ensuring for the shareholders a dividend payment in line with the growth of profits of the Company.

I would like to conclude by highlighting my sincere appreciation to my predecessor, Luis Atienza, whose brilliant management has placed the Company on a very sound footing to cope with the great challenges it will face in this decade. Similarly, I would like to express my most sincere appreciation for the tremendous work performed by the members of the Board of Directors as they now come to the end of their term in office. They have been a real pillar, as I know from experience, in the Company's progress in recent years.

Lastly, I would like to express our thanks for the commitment of all those persons and institutions that have directly, or indirectly, trusted in us through their investments. And to all of you, thank you very much for your confidence and your support.