



RED
ELÉCTRICA
CORPORACIÓN

Toward Red21 A sustainable energy model

2014 Results

Strategic Plan 2014-2019

25 February 2015

2014 Results

2014 Results

Relevant events

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SOLID FINANCIAL RESULTS

- Eliminating the impact of certain one-off events in the year, earnings grew by 5.4%, surpassing the target for 2014.

ONE-OFF EVENTS DURING THE YEAR

- Compensation agreement, Transportadora de Electricidad (TDE). Impact of € 52.3mn on the group's earnings, because the full amount was already provisioned.
- Acquisition of rights to use and operate Adif's fibre optic network.
- New corporate income tax law (Law 27/2014):
 - + Reduction in tax rate from 30 % in 2014 to 28 % in 2015 and 25 % starting in 2016.
 - + Main Impact in 2014: Reduction of € 106mn in income tax as a result of the reduction in deferred tax liabilities.
 - + No impact on cash flows in 2014.

A dividend of € 3.00 per share for the year proposed to the General Shareholders' Meeting , 18% higher than the previous year

SIGNIFICANT PROGRESS IN COMMISSIONED ASSETS AND IN INVESTMENTS

- Significant progress in international interconnections: interconnection with France through the Eastern Pyrenees and interconnection with Portugal which connects with 400kV Almaraz–Guillena.
- Approval by the Council of Ministers (6/6/2014) of new investments to strengthen the Canary Islands network, in particular through the development of interconnections between islands.
- Initial laying of underground cable for the interconnection between Ibiza and Mallorca.
- Peru's 220kV Tintaya-Socabaya lines and associated substations were put into service. 30-year concession involving Transmisión Eléctrica del Sur.

NEW ACTIVITIES IN THE OPERATION OF THE SYSTEM

- Publication of the new hourly electricity prices, as set forth in RD 216/2014.
- Management of the new auction system for allocating the interruptibility service .
- Successful coupling of the daily electricity markets of southwest and northwest Europe.

BEST PRACTICES IN SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

- Approval of new Corporate Governance Policy.
- Increase in the number of independent members on the Audit Committee, Governance Committee and Social Responsibility Committee of the Board of Directors.
- Gender diversity policy on the Board: leaders on the IBEX 35 with 50% external female directors .
- Signing of a new collective bargaining agreement to run for 5 years, based on principles of labour market efficiency, work-life balance and sustainability.
- Highest score among Spanish companies for the Seal of European Excellence 500+ and recent inclusion in the MSCI and Euronext-Vigeo family of indexes.

2014 Results Highlights

| €mn | 2013 | 2014 | % |
|---------------------------------|------------|------------|-------------|
| Revenues | 1,758 | 1,847 | 5.0 |
| Gross operating result (EBITDA) | 1,302 | 1,385 | 6.4 |
| Profit before tax | 733 | 854 | 16.4 |
| Profit for the year | 529 | 718 | 35.7 |
| Total investment | 596 | 956* | 60.4 |

* Include Adif contract of assignment (€ 434mn)

| | % |
|--|-------------|
| Profit for the year (excluding one-off events in 2014) | 5.4 |
| TDE effect | 9.8 |
| Fiscal reform effect | 20.1 |
| Adif effect | 0.3 |
| Profit for the year | 35.7 |

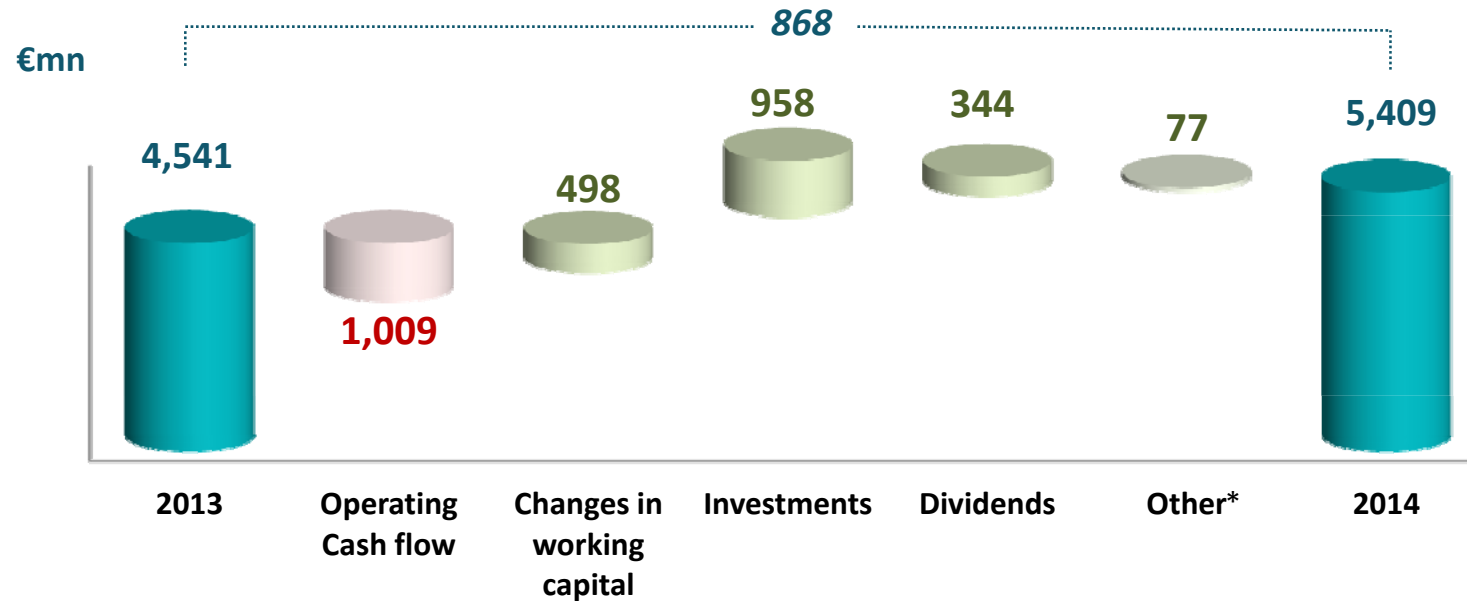
One-off events in 2014

Excluding one-off events in the year, the results surpasses our target for 2014

2014 Results

Balance sheet: Net debt evolution

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(*) "Other" includes changes in other non-current assets and liabilities, suppliers of property, plant and equipment, exchange rate derivatives and other items that did not involve inflows or outflows of cash.

The average remaining term to maturity stands at 4.9 years

2014 Results

Debt

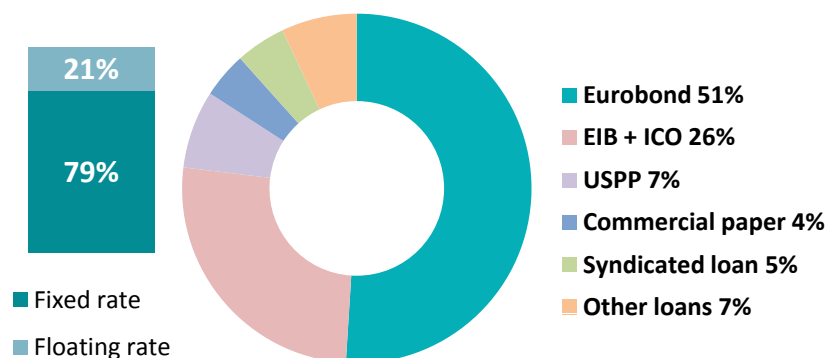
SOLVENCY RATIOS

| | 2013 | 2014 | 2014 excluding ADIF |
|--------------------|--------|--------|------------------------|
| EBITDA / Interest* | 6.8x | 8.1x | 8.1x |
| FFO / Debt | 21.5 % | 18.7 % | 20.6 % |
| Debt/ EBITDA | 3.5x | 3.9x | 3.5x |

(*) EBITDA / Net finance cost excluding capitalisations

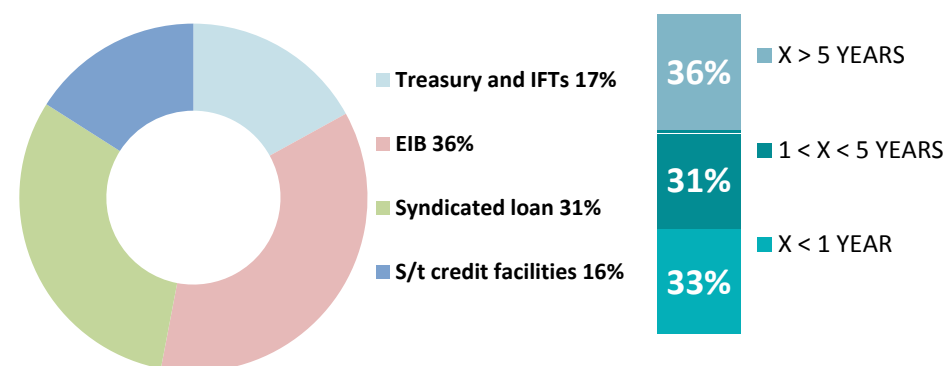
DEBT STRUCTURE BY INSTRUMENT

Total gross debt € 5,708mn



BREAKDOWN OF LIQUIDITY

Total liquidity sources € 1,735mn



- New € 800mn I/t line of credit with a term of five years extendable to 2021.
- € 300mn euromarket bond issue with maturity of 9 years.

Strategic Presentation 2014-2019

Toward Red21

A sustainable energy model I

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Europe's present and future challenges...



Solar **Geothermal** **Wind**
Hydro **Nuclear** **Biomass**

Source: European Climate Foundation

EU 2030 Objectives

- 40 % cut in greenhouse gas emissions.
- 27 % renewable energies.
- 27 % energetic efficiency.



Implementation of the Internal energy market

(Integration of networks and markets).

Toward Red21

A sustainable energy model II

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... are the challenges of **Red21**

CHALLENGES

- Compensate greater variability in renewable generation.
- Achieve greater flexibility from the demand side.
- Flatten the demand curve.
- Increase energy efficiency.
- Integrate distributed generation.

EFFICIENT SYSTEM MANAGEMENT

TOOLS

- Rise in flexible generation.
- Development of smart charges.
- Flexible consumers and smart grids.
- Development of interconnections and supergrids.
- Technological innovation.
- Future technologies for energy storage.

Red21: flexible, smart and safe, efficient, open and sustainable.

We have advanced know-how in operating the electricity system and managing networks

MAINLAND ELECTRICITY SYSTEM

- **2002-2010:** Consolidation of the TSO (acquisition of transmission assets to utilities companies).
- **2005-2011:** Strong pace of investment.
- **2006:** Creation of the CECRE. Leader in integrating renewables.
- **2006-2014:** International interconnections (Morocco, Portugal & France)

NON-MAINLAND ELECTRICITY SYSTEMS

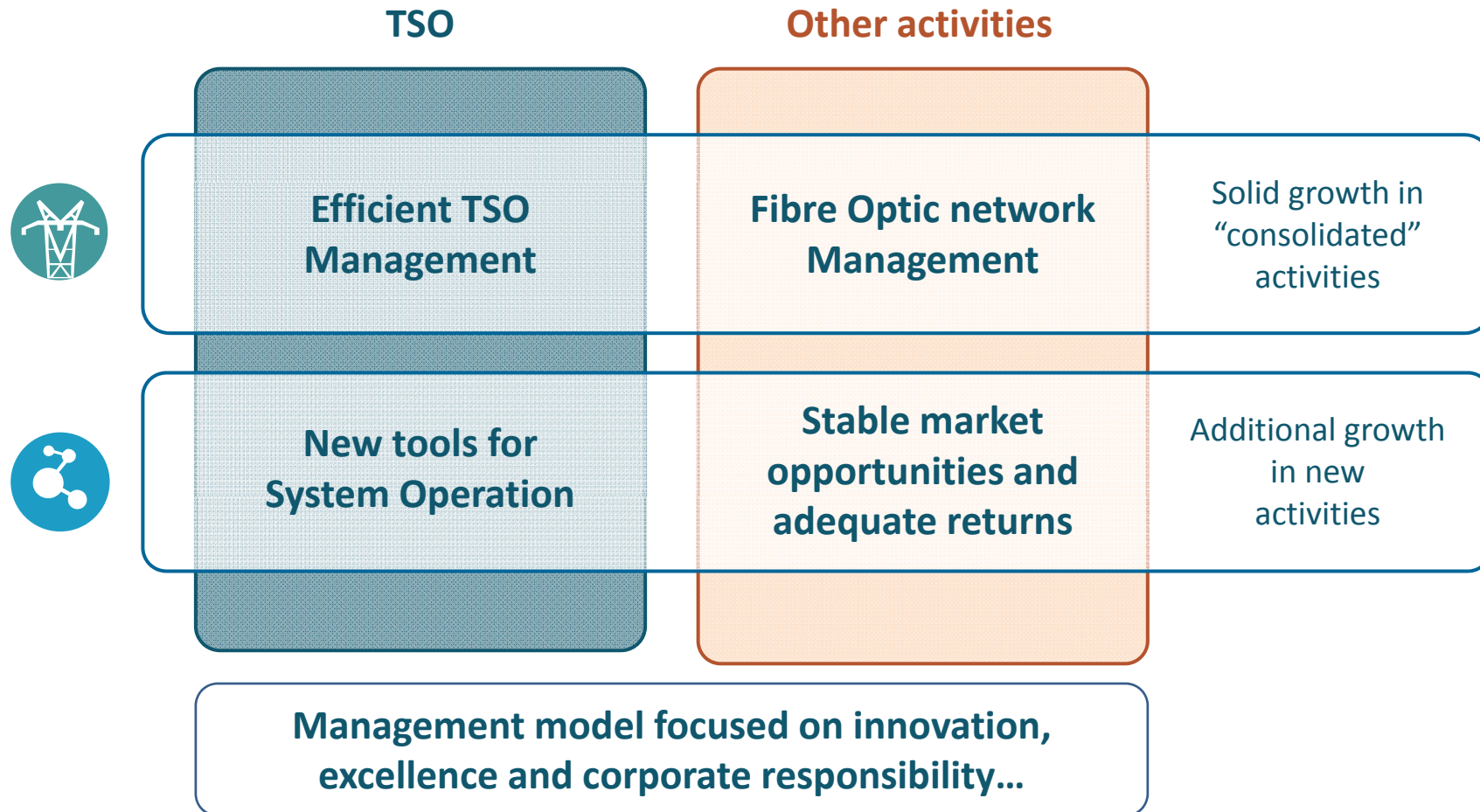
- **2004:** Start-up of operation of the Non-Mainland Electricity Systems.
- **2010:** Acquisition of island assets.
- **2011:** Commissioning of a mainland-Balearic islands interconnection.
- **2013:** Strengthening of the role of system operation to enhance security of supply.

FIBRE OPTIC

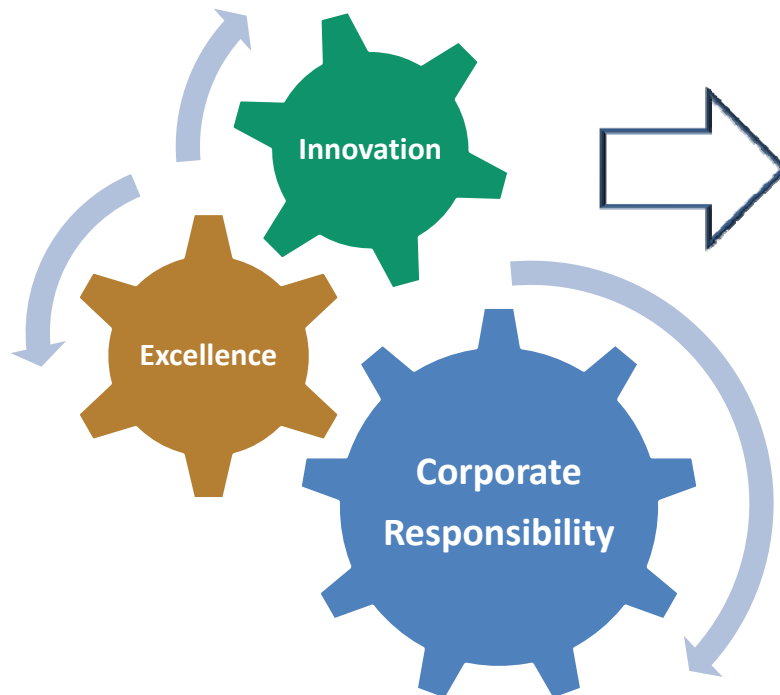
- **1989:** Start of deployment of fibre optic network.
- **1997:** Start of marketing of surplus fibre optic network .
- **2000:** Creation of telecommunications operator.
- **2005:** Focus on fibre optic network business (sale of telecommunications subsidiary).

INTERNATIONAL

- **1999:** REDESUR (Peru).
- **2002:** TDE (Bolivia).
- **2010:** Transmisora Eléctrica del Sur (Peru).
- **2012:** Nationalisation of TDE.
- **2013:** Increase in Redesur's stake to 55%. Commissioning of the Tintaya-Socabaya line (Transmisora Eléctrica del Sur).
- **2015:** Azangaro-Juliaca-Puno (Peru).



... and with a mission geared toward sustainable development



- Promoting an efficient, sustainable electricity system.
- Adopting the best international corporate governance practices and fostering an ethical business culture.
- Development of talent, promoting stable, quality employment. Healthy company.
- Promoting the creation of shared value, enhancing integration in the region and social welfare.
- Harmonising facilities with their surroundings, contributing to the decarbonisation of society.

Growth in a low-risk environment



SOLID GROWTH IN “CONSOLIDATED” ACTIVITIES

- Investment of € 3,100mn in transmission network.
- Investment of € 475mn in the dark fibre optic network*.



ADDITIONAL GROWTH IN NEW ACTIVITIES € 1,000MN

- Investment in storage on islands.
- International investment.



TARGETS OF THE GROUP FOR 2019 (with a 2013 calculation basis)

- Improvement in EBITDA Margin \geq 200 bp.
- Net Debt / EBITDA average estimated at 3.5x in the period.
- EPS growth of 5 % - 6 % in the period (CAGR).



(*) Includes an agreement for the operation and marketing of Adif's fibre optic network for 20 years worth €434mn.

The new regulation guarantees the stability of the electricity transmission activity



BASIC PRINCIPLES

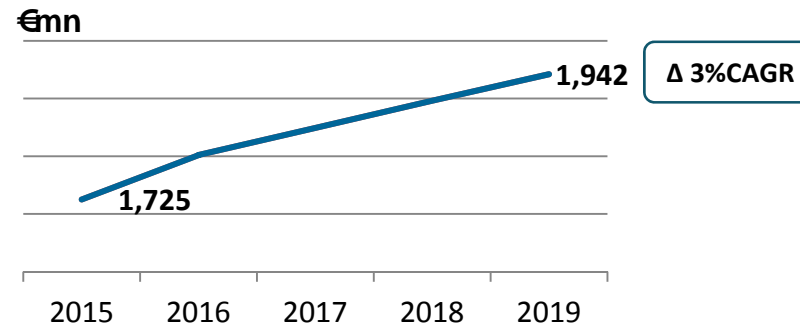
- A single methodology applicable to all transmission facilities.
- Six-year regulatory periods (the first period will end on 31/12/2019).
- Based on reference unit capex costs and operation and maintenance costs.
- Financial remuneration rate benchmarked to 10-year Spanish government bonds + spread (200bp in the first regulatory period).
- Investment in facilities will be recovered depending on when they come into service.
- Extension of facilities' useful life is taken into consideration.

Incentives for efficiency and availability of network

Estimated transmission tariff according to RD*



Red Eléctrica remuneration in 2015 € 1,675m according to OM IET/2444/2014 of 19 December.



- Forecasts have been calculated using temporary methodology as per RD-I 9/2013, of 12 July.
- Hypothetical investment scenario of € 600mn per year.
- The revenue path includes the availability incentive and remuneration for Gas Natural-Fenosa assets (€ 37mn in 2015).

2015 Electricity Network Tariff in line with the estimated path

(*) Figures taken from the Impact Assessment Report sent to the State Council on the RD establishing the methodology used to calculate electricity transmission remuneration and the regime of payments for access and connection studies for transmission networks.

Efficient TSO management: Investments in Electricity Transmission Network I

Draft 2015-2020 Infrastructure Plan
€ 4,400mn

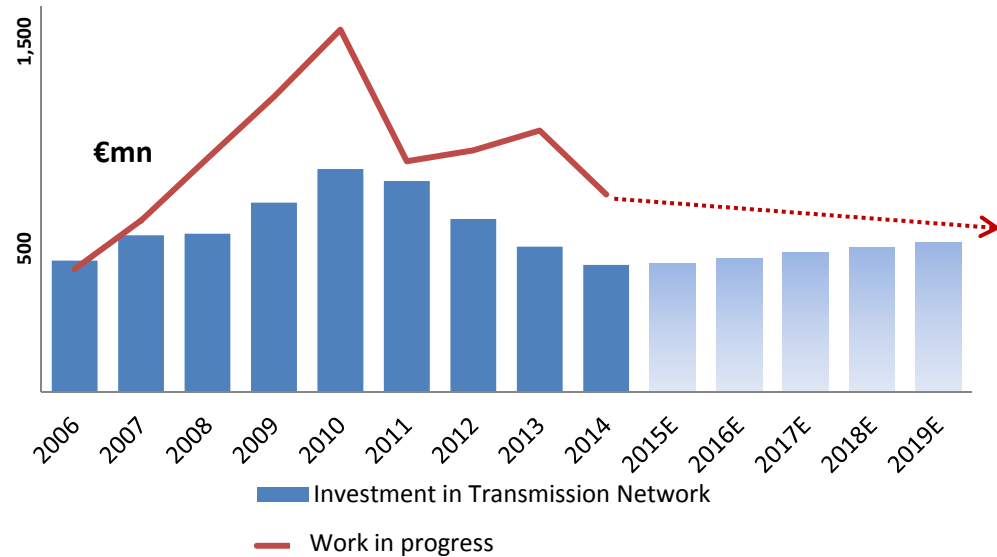


RD 1047/2013 investment limited
to 0.065% of GDP



REE 2014-2019 Plan:
Average investment of € 515mn
Average annual amount put into
service, € 600mn

Investment in Transmission Network
and work in progress.

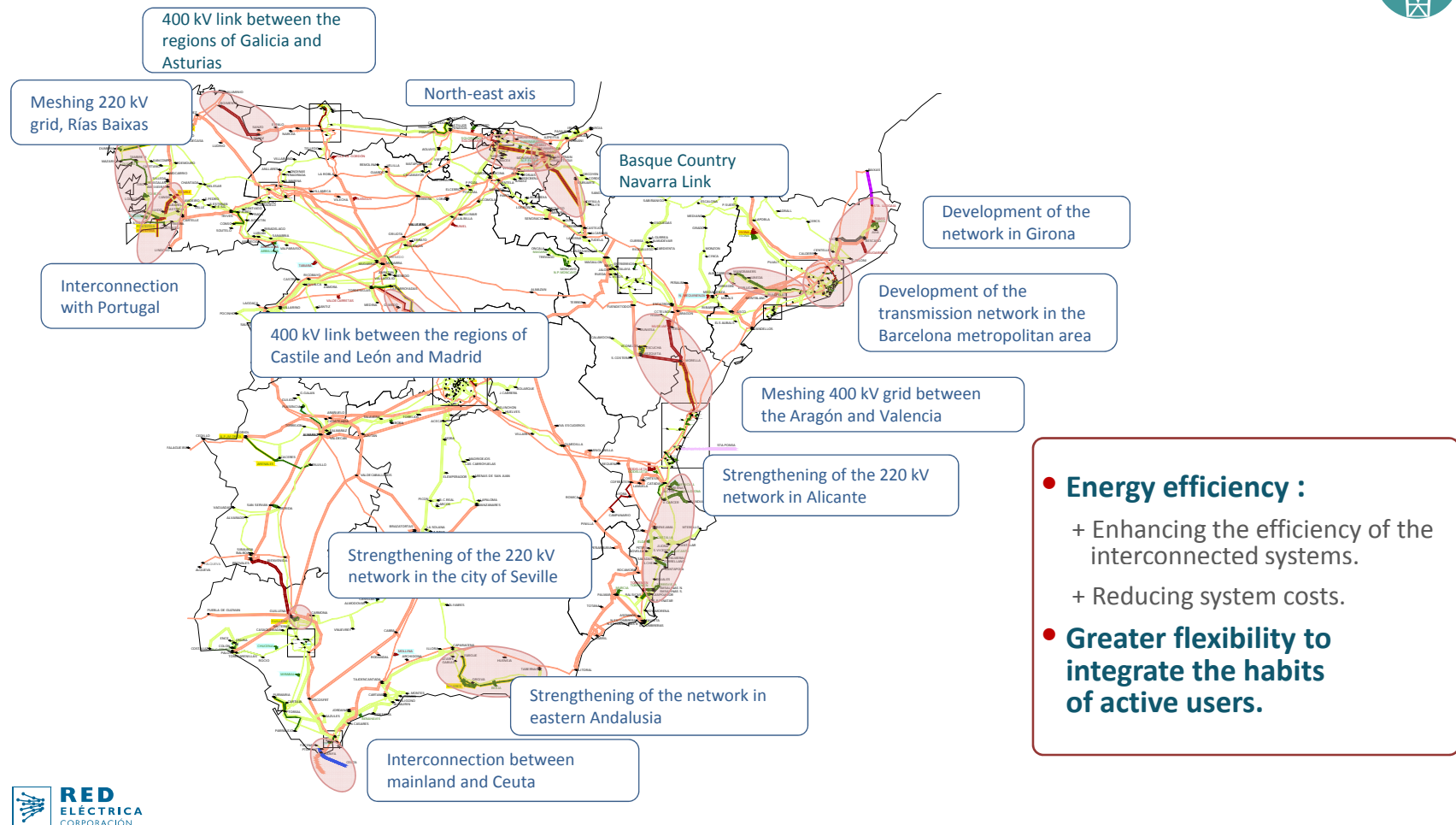


Promote the infrastructure needed to lower system costs,
safeguard security of supply to the consumer
and sustainably integrate the facilities in the territory

Efficient TSO management: Investments in Electricity Transmission Network II

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Mainland projects

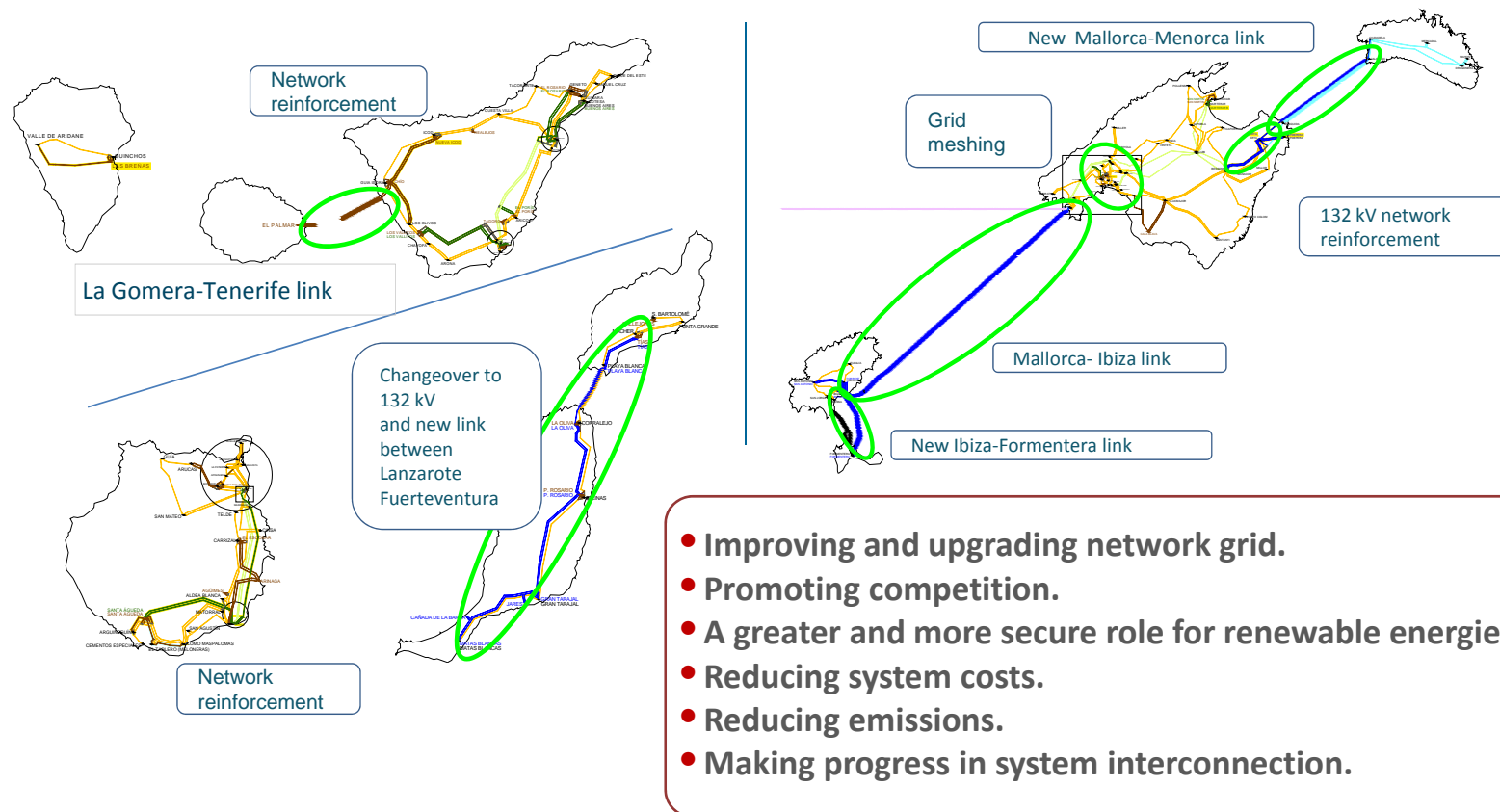


- **Energy efficiency :**
 - + Enhancing the efficiency of the interconnected systems.
 - + Reducing system costs.
- **Greater flexibility to integrate the habits of active users.**

Efficient TSO management: Investments in Electricity Transmission Network III

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Non-mainland projects



New tools for System Operation: Insular energy storage I

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Coverage of annual demand for electricity

| | Mainland | Canary Islands |
|--------------|----------|----------------|
| Renewable | 42,8 % | 8 % |
| Fossil fuels | 35,2 %* | 92 % |
| Nuclear | 22 % | 0 % |

* Includes cogeneration

- **Forecast sharp increase in renewable generation** (currently 160 MW wind and 160 MW photovoltaic).
- **Need to compensate for the variability of renewable energies.**
- **Small, electrically isolated sub-systems.**
- **Impossibility of interconnecting with mainland system.**
- **High generation costs.**

COVERAGE OF DEMAND

- **Mainland:** 42.8 % renewable and 64.8 % free of CO₂ emissions.
- **Canary Islands:** 8.0 % renewable and same percentage emission free.

New tools for System Operation: Insular energy storage II

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System Operator owner of pumping storage centrals to guarantee the electricity supply and renewables integration, non generator.



“Planning of electricity and gas” sectors includes storage to be constructed in Canary Islands.

2008

Approval of the “Comprehensive Strategy for the Canary Islands Region”.
Directive 2009/28/EC to develop storage in order to favour the renewable integration.

2009

Law 17/2013, to guarantee supply and increase competition in the Non-Mainland Electricity Systems.

2013

IET/728/2014
Order, of 28 April.

2014

23/01/2015 Endesa-Red Eléctrica agreement to transfer Chira Soria hydroelectric plant concession in Gran Canaria.

2015

- Chira-Soria 200MW reversible hydroelectric plant in Gran Canaria (approx. € 300mn).
- Additional projects planned in Tenerife and La Palma.
- Other projects:
 - + Flywheel in Canary Islands.
 - + Lithium-ion prismatic battery at the Carmona (Andalusia) substation.

Reasonable return on investment of a regulated asset

New tools for System Operation: Other activities

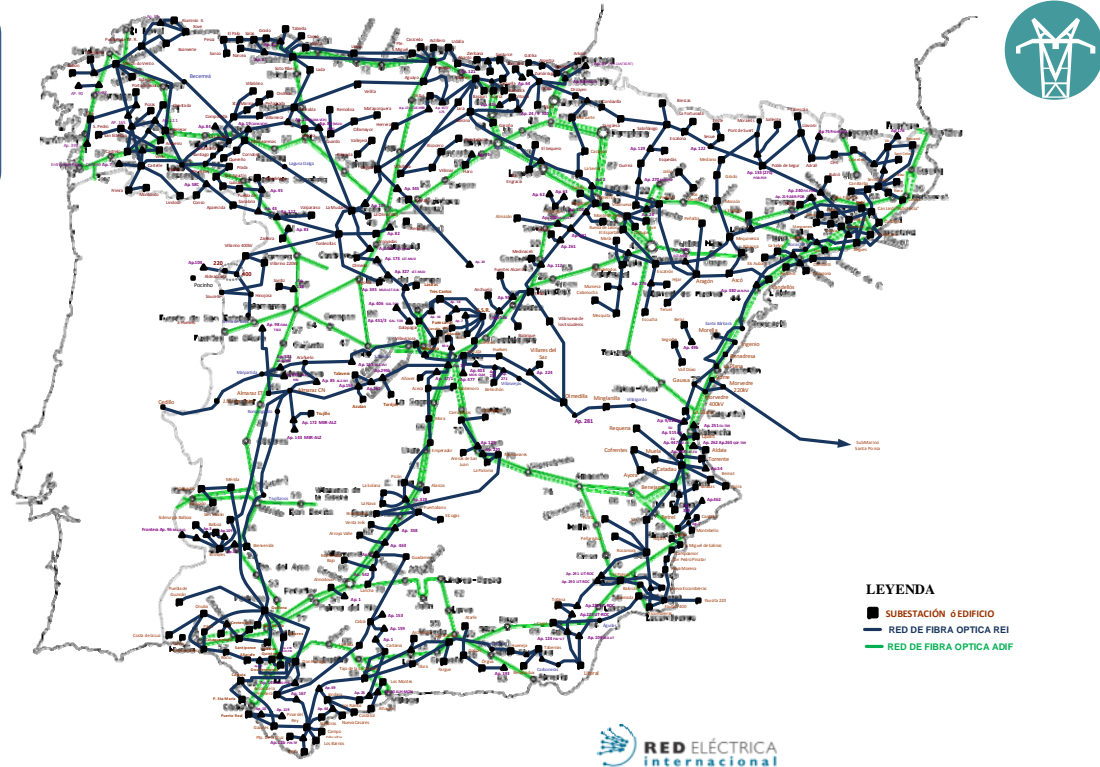
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- **Interruptibility service:** Introduction of interruptible-power competitive-allocation mechanisms.
- **Cross-border energy mix services:** Contribute to optimising the use of the commercial-exchange capacity, to increased competition in the balancing markets and to coordinating interconnected electricity systems.
- **Formulation of new Voluntary Price for the Small Consumer:** a tool for efficiently managing electricity consumption.
- **New activities linked to developing smart grids.**



Suitable remuneration model for system operation

We are the benchmark neutral fibre optic network operator in Spain



- Adif's fibre optic network complements that of REI, providing access to large cities.
- More than 32,000 km fibre optic network deployed on two infrastructures.
- € 434mn for the assignment of Adif's fibre optic network for 20 years.

A LARGER FIBRE OPTIC NETWORK, MORE POSSIBILITIES

- Ring closing with new network sections.
- New redundancies on existing sections.
- Access to rural and urban areas.
- Coverage of shadow zones.
- International and island access.

POSITIVE FINANCIAL IMPACT STARTING IN THE FIRST YEAR

- Telecommunications revenues increase by 3.3x in 2015.
- The telecommunications business will contribute over 4% of REE Group's revenues and EBITDA at the end of the period.



- Maintenance of the fibre rail network carried out by Adif. Ensures continuity in service levels, minimizing any type of operational risk.
- Contracting professional management support services with Adif for 6 years for a gradual transition.

Stable market opportunities and adequate returns

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Internationalisation based on our know-how and according to profitability criteria...



INVESTMENT CRITERIA:

- Stable, predictable revenue in low-risk environments.
- Securing of adequate returns.
- Preferably a majority interest with local shareholders and an active role in management.
- A long-term commitment.
- Low-risk countries and stable regulatory environments.

... in order to enhance shareholder remuneration

ENGINEERING AND CONSTRUCTION

- Optimisation of design of facilities and of implementation
- Supply management adapted to new quality requirements.
- Efficiencies throughout the complete cycle of the project .

ASSETS MAINTENANCE

- Changes in renewal policies at the operations and accounting level.
- Adaptation of maintenance policies to the regulatory life of facilities.
- Strengthening of performance indicators (KPIs) to ensure continuous improvement .

FINANCING

- Optimising the cost of capital and new dividend policy.
- Taking advantage of the current interest rate levels and coverage of the future finance cost.
- Flexible financial structure.

OTHER

- Application of sustainability and efficiency criteria in developing activities.
- Linking salaries to the company's objectives.
- Tax optimisation.

Improvement in EBITDA Margin
of ≥ 200 bp. in 2019

CAGR Profit
2014-2019 5%-6%

Additional improvements in EPS

FINANCIAL POLICY

- Optimizing financial cost for the 2014-2019 period.
- Bringing the future cost of debt into line with remuneration of assets starting in 2020.
- Maintaining a diversified maturity structure.

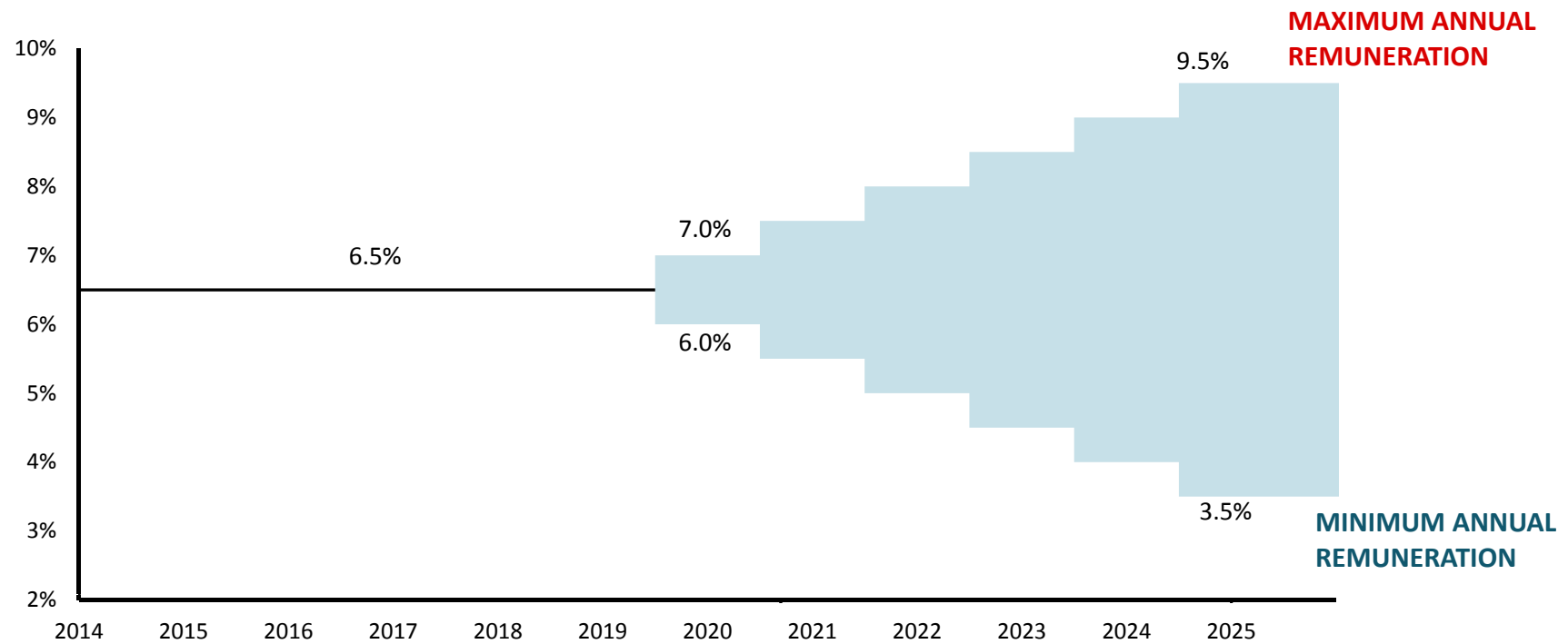


ACTIONS INTENDED TO:

- Maximise shareholder returns.
- Take advantage of the possibilities that the new regulatory framework offers for optimizing the difference between the future return on investments and the cost of debt.
- Reduce the risk of interest-rate changes with an impact both on debt and on remuneration of assets.

Make the most of the possibilities that the new regulatory framework offers for the financial management becoming a source of value for the shareholder

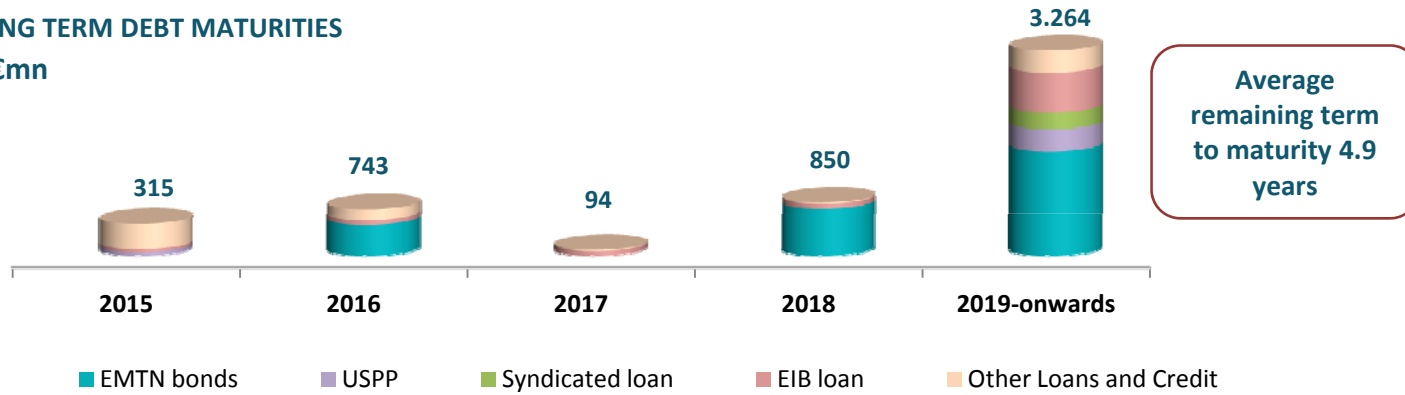
- Financial remuneration rate: Average Spanish 10-year bond + spread.
 - + First regulatory period 2014-2019: 6.5 % (4.5 % + 200 bp).
 - + Subsequent regulatory periods: the financial remuneration rate may not experience annual variations above 50 bp, either upward or downward.



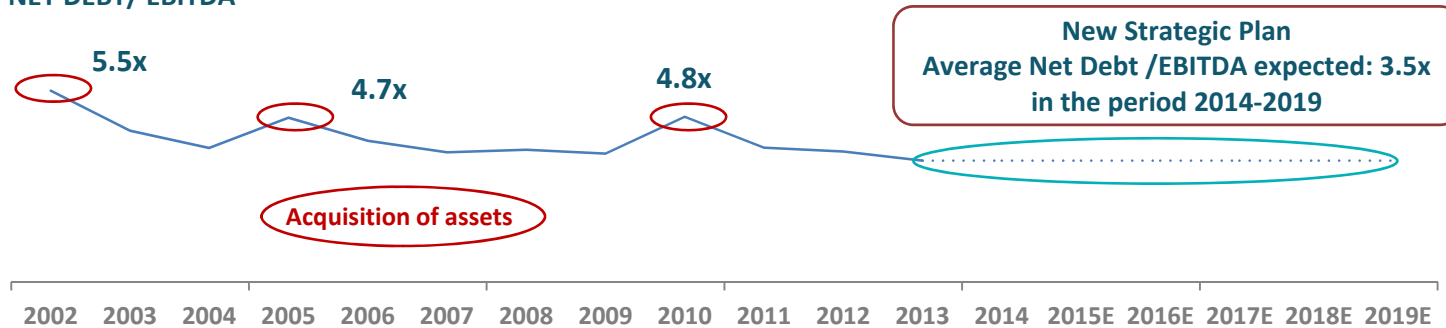
Clear commitment to economic sustainability

LONG TERM DEBT MATURITIES

€mn



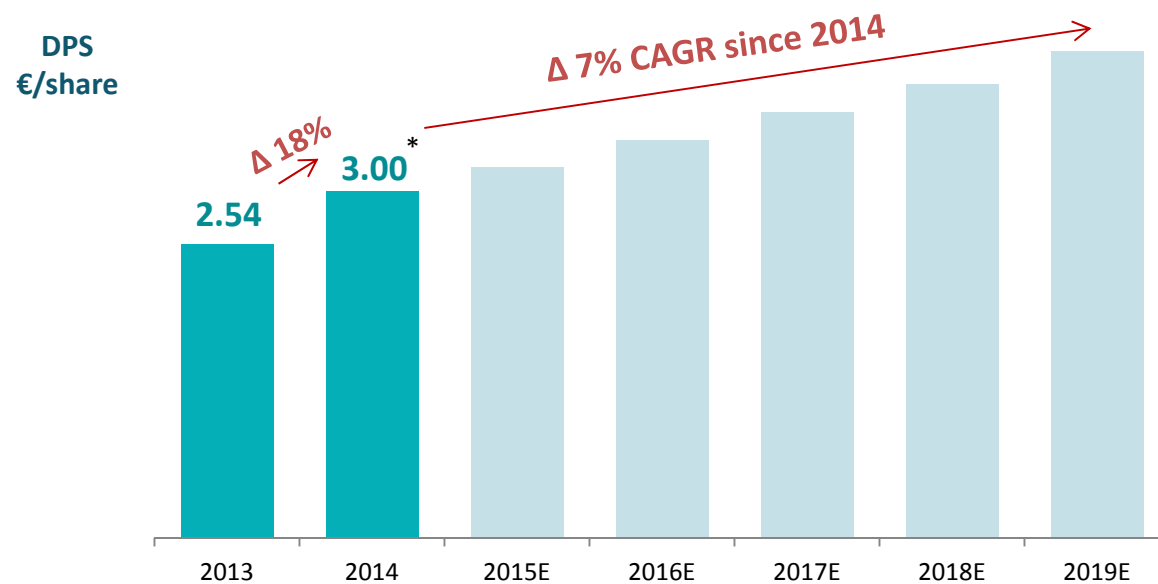
NET DEBT/ EBITDA



The Strategic Plan strengthens growth with new opportunities maintaining solid solvency ratios

Dividend policy

Focus on shareholder returns

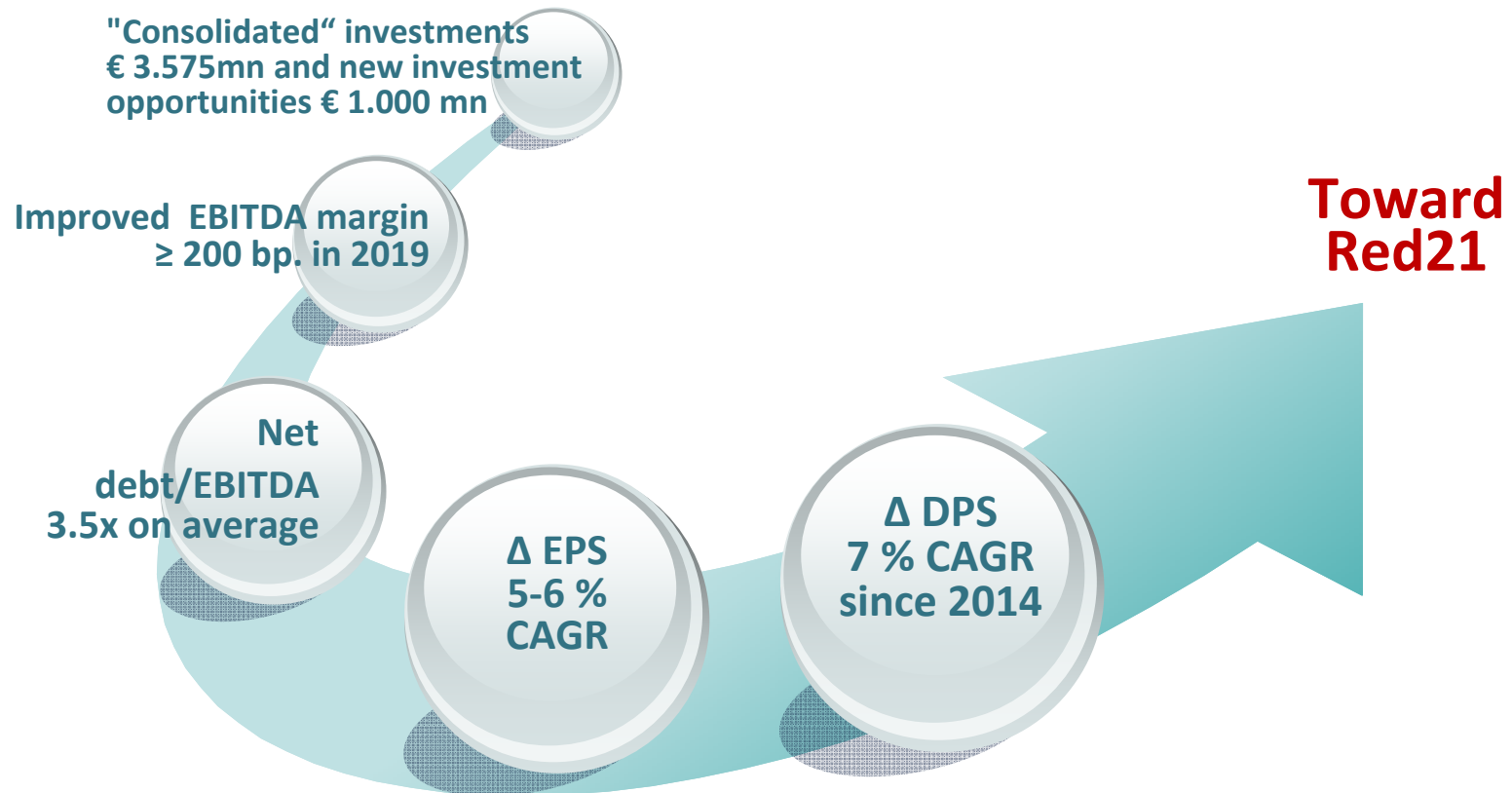


* The Board of Directors agreed, at a meeting held on 24 February, to propose to the General Shareholders' Meeting a payment of €3 per share.

Visibility of shareholder remuneration

Conclusions

Strategic Plan 2014-2019



Growth in a low-risk environment



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Presentation available in:

www.ree.es

Shareholders and investors



PREMIO
PRÍNCIPE FELIPE
A LA
EXCELENCIA
EMPRESARIAL



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