

02

STRATEGY

CONNECTED TO TSO
DEVELOPMENT, MAXIMISING
**EFFICIENCY
AND EXPANDING
THE BUSINESS BASE**



STRATEGIC PLAN 2014-2019

THE NEW STRATEGY for 2014-2019 is based at the heart of the Company's business: the management of electricity transmission grids and fibre optic networks.

Red Eléctrica has defined this Plan (approved by the Board in February 2015) after a reflection process on the foreseeable macroeconomic and energy sector scope in the coming years,

given that the level of involvement of the Company within Europe is becoming more and more relevant and that the plan foresees a possible expansion of the business base abroad.

Similarly, the behaviour and strategies of other companies similar to Red Eléctrica have also been assessed.

STRATEGIC LINES

THE NEW PLAN establishes three key strategies that define the courses of action, and three transversal strategies, that establish the criteria to be applied.

The key strategies are defined as:

- >> Development of the TSO activity.
- >> Efficiency.
- >> Expanding the business base.

The transversal strategies that allow the fulfilment of the aforementioned key strategies are: Innovation, Excellence and People.

The new Strategic Plan is still based on the continuance of the Company performing its role as TSO in Spain, but it represents a substantial change with regard to its predecessor as it improves the efficiency criteria.

The aim is to bring the Company in line with the new, and more restrictive, regulatory and remuneration framework, and provides greater scope for expanding the business base as an alternative route for growth. These strategic lines are articulated on 25 key actions that will be deployed in an action plan for each of them, which will ensure the fulfilment of the Plan.

IN FIVE YEARS, THE PLAN FORESEES important investments that will enable the Company to achieve solid growth in 'consolidated' activities and additional growth in new activities

STRATEGIC PLAN 2014-2019

KEY STRATEGIES

- ▶ DEVELOPMENT OF THE TSO ACTIVITY
- ▶ EFFICIENCY
- ▶ EXPANDING THE BUSINESS BASE

TRANSVERSAL STRATEGIES

- ▶ EXCELLENCE AND CORPORATE RESPONSIBILITY
- ▶ INNOVATION
- ▶ PEOPLE

KEY STRATEGIES

Development of the TSO activity

THE MAIN ACTIVITY of Red Eléctrica continues to be linked to its status as the sole transmission agent and operator of the Spanish electricity system. Therefore, the main strategy of the Company is based on two fundamental aspects:

Efficient management of the TSO activity

>> Development of Red21 (21st Century Grid): flexible, intelligent, secure, efficient, open and sustainable.

>> Regulatory framework: the new regulation ensures the financial stability of the energy transmission activity and incentivises efficiency and grid availability.

>> Investment in the transmission grid: pending approval of the new Infrastructure Plan 2015-2020, we can define the

investment portfolio of the Company for the period 2014-2019 that will reach approximately 515 million euros annually, with an annual average commissioning of infrastructure assets of around 600 million euros.

>> Contribution of the Company, as a key element in the operation of the electricity system, to make the challenge of sustainable development a reality.

New System Operation tools

>> Development of other activities such as: the interruptibility service, cross-border energy balancing services, drafting of new voluntary prices for the small consumer, new activities linked to the development of Smart Grids.

Efficiency

FOLLOWING A stage of high growth and acquisitions and the integration of assets, the Company has begun a process of analysis and review of processes, seeking to improve the current levels of efficiency.

The new remuneration model implies a greater need for obtaining both operational and financial efficiencies. This entails fostering a culture and business management approach, focused mainly on the optimisation of construction and maintenance activities, those of greater economic and financial impact, and the ongoing improvement at a process and operational level. Achieving greater efficiency will contribute to mitigating the impact of the lower profitability of

new investment, according to the new remuneration model, creating value through improved operating margins.

Regarding financial efficiencies, these will be focused on:

>> Capital cost optimisation and a new policy regarding dividends

>> Taking advantage of current interest rate levels and coverage of future financial costs

>> Flexible financial structure.

Expanding the business base

THE CURRENT economic and energy context brings with it a lower growth scenario from the Company's main activity, which means having to consider expanding the business base in Spain and internationally to drive growth in the upcoming years.

This could involve the execution of regulated activities that are different to the current ones and non-regulated activities in the field of telecommunications and infrastructure management, as well as expanding into other geographical areas. To this end, a significant portfolio of investments will be made in these areas over the coming years.

Telecommunications

>> The concession contract for the management rights and commercial operation of ADIF's dark fibre optic network makes Red Eléctrica the neutral operator of fibre optic networks of reference in Spain.

>> Opens the door to greater business opportunities (closing of transmission axes by adding new sections line, access to rural and urban areas, areas with insufficient coverage, new redundancies regarding existing line sections, etc). ▶

◀ Energy storage

>> Increase in the energy storage capacity on the islands, as a system operation tool, mainly through pumped storage, without neglecting other future technologies, which would enable a greater integration of renewables and, at the same time, provide more security to the electricity system.

>> The agreement signed with Endesa for the transmission of the Chira-Soria pumping station project in Gran Canaria, establishes the first step in the development of this activity, as it represents the most

significant project in terms of investment, with an estimated budget of 300 million euros.

International

>> Based on our know-how and on profitability criteria with the aim of improving shareholder return.

>> Corporate acquisitions or business concessions outside of Spain will be made in countries with low country risk and with stable regulatory frameworks, and ensuring a majority stake of Red Eléctrica in the shareholding structure and an active involvement in their management.

TRANSVERSAL STRATEGIES

THE TRANSVERSAL STRATEGIES that allow the achievement of the previously indicated key strategies are:

Excellence and Corporate Responsibility.

IN THE FIELD of excellence, the current benchmark position demonstrated in the execution of our activities will continue whilst focusing efforts on actively managing corporate reputation and brand. Also, work will be carried out to improve communication with stakeholders, maintain our focus on consolidating ourselves as a sustainable company through ethical management and the commitment to society whilst maintaining a focus on excellence and responsibility in the execution of our activity.

Red Eléctrica's corporate responsibility model is established on a set of structural elements regarding management, planning and temporary deployment, monitoring, assessment and information dissemination to ensure the proper management of the economic, social and environmental impacts of the Company's activities on its stakeholders.

Innovation

INNOVATION as a transversal strategy involves a cultural change, which is not limited only to the Research, Development and Innovation (hereinafter 'RDI') activity. Thus, the scope of innovation is more far-reaching, becoming an integral part of the

operating process and promoting technological innovation as a lever for growth that enables the great challenges of the future to be overcome.

People

PEOPLE are the cornerstone on which any strategy is built enabling

the forecasted objectives to be achieved. Red Eléctrica is committed to a healthy working environment that promotes the organisation of work and the well-being of its workers, whilst allowing the optimisation of resources.

GROWTH IN A LOW-RISK ENVIRONMENT (2014-2019)

SOLID GROWTH IN 'CONSOLIDATED' ACTIVITIES

- > Investment in the transmission grid **€3.1bn**
- > Investment in the dark optic fibre network **€475m***

ADDITIONAL GROWTH - NEW ACTIVITIES €1bn

- > Investment in energy storage on the islands
- > International investment

2019 OBJECTIVES OF THE GROUP (Using 2013 as the basis for the calculation)

- > Improved EBITDA Margin ≥ 200 basis points
- > Average net debt to EBITDA ratio of 3.5 times over the period
- > 5-6% Growth in earnings per share over the period (CAGR)
- > 7% Growth in dividend per share (CAGR) since 2014

*Includes the concession contract for ADIF's dark fibre optic network.