



**RED**  
**ELÉCTRICA**  
CORPORACIÓN

*Grupo Red Eléctrica*

GENERAL SHAREHOLDERS' MEETING  
2021

SPEECH

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CHIEF EXECUTIVE OFFICER

Thank you very much Chairwoman and good day to everyone.

Dear shareholders, it is my pleasure to address you all at this General Meeting in which, besides talking about the most significant aspects of the last year from a management perspective, I would like to share with you my view of how our company will change over the coming years, the main ideas of which are shown in our Strategic Plan 2021-2025, which was recently approved.

2020 has been a complicated year, affected by the health crisis and the economic recession caused by the pandemic around the world. In this highly complex situation, we at the Red Eléctrica Group have channelled our efforts into protecting our employees' health, guaranteeing the essential services that our business provides for society, such as the power supply and connectivity, through the efficient use of the electricity and telecommunications infrastructures in the countries where we operate.

It is in times as challenging as these we are still living through that every person's commitment is more vital than ever. That is why at the Red Eléctrica Group we believe that the only way to get through this crisis is to aim for a green and digital recovery that is fair and inclusive, as essential conditions for rebuilding our economy, generating business and creating jobs.

For us, as TSO in the Spanish electricity system, we have an essential role in achieving the goals set out in the European Green Deal and the National Plan for Energy and Climate set up in our country. Besides, our contribution will be vital if we are to achieve the road map of the National Plan for Recovery, Transformation and Resilience that the Spanish Government has presented to articulate this sustainable solution to the crisis.

A plan for which Red Eléctrica has submitted proposals aimed at reactivating the economy and contributing to meeting the goals set at national level.

Before we embark on an analysis of the year 2020, allow me to add a brief thought on our response to the pandemic that we are still suffering, although the end seems increasingly to be in sight.

In this situation in which our health and economy are on the line, our capacity to respond has been fantastic. We succeeded in managing an absolutely exceptional situation with normality, working with the same intensity, operating the system, managing the electricity infrastructures, providing telecommunications services, and giving the necessary support from the corporate areas to make everything work.

The hard work and commitment we have shown has meant that the situation caused by COVID has not had a significant impact on the business activity of our Group. Nonetheless, the company set up a crisis management committee at the start of the pandemic which has enabled us to apply a complete contingency plan.

A series of extraordinary measures were taken with the aim of meeting our obligation to guarantee the continuity and security of electricity supply and telecommunications services. It allowed us to set up a third electricity control centre in record time and to begin isolating the critical positions that run the system or maintain the transmission grid.

In order to guarantee the care and health of our employees, we also instituted remote working for non-essential tasks immediately, so that 80% of the Group's workforce was working from home. This was helped considerably by the work on digital transformation that the company had been encouraging with extraordinary foresight, without neglecting the issue of cybersecurity at any time.

Besides these measures, the company has also contributed to various social actions in support of the people and families that were suffering most from the economic fallout of the pandemic. At the same time, we have paid special attention to our suppliers, remaining constantly in contact with those who make up 80% of our expenditure, concerned for the health of their employees and their overall financial position.

After our experiences of the last year, we continue to work and show our commitment to society, assuming our responsibilities in encouraging a return to normality as soon as possible across all sectors.

If we focus on the analysis of management in 2020, I will start by looking at the most significant points in the year, before moving on to analyse the results of the year and the most significant aspects of our new Strategic Plan 2021-2025.

In 2020, despite the effects of the pandemic, which is visible in the change in demand for electricity in the country, falling by 5.6%, this has also been a year with significant advances, which confirms us in thinking that we are on the right path to achieve the targets for energy and the climate, although we still have a long way to go.

In this sense, the Red Eléctrica Group has played a fundamental role in making 2020 the greenest year in our history, achieving a 44% penetration of renewable energies into the electricity mix generated in Spain, with landmarks as memorable as the 75,9% coverage of immediate demand through wind power which was provided on 3 November last year.

Our Energy Control Centre, which celebrated its 15th anniversary in June, has made a major contribution to our achievements. It is the first centre in the world that was designed to integrate the largest possible portion of energy from renewable sources with the same quality and security of supply.

It should also be noted that these percentages for the integration of renewable energy were achieved without any loss of quality in the electricity supply and a high level of security and grid availability.

A target achieved, even in the exceptional circumstances we have seen in the last year, which have been a challenge for the operation of the system.

Alongside all these efforts, in 2020 we have continued to move forward in the sustainable development of the national transmission grid, which at the end of last year measured 44,453 kilometres. A total of 383 million euros was invested during the year, which has enabled us to add another 116 kilometres of power lines and 93 substations, with especially significant projects like the link between Mallorca-Menorca, which was achieved in a record time of 18 months, and which will play a substantial role in the process of decarbonisation of the energy model for the Balearic Islands. We have also increased the system's capacity for transformation by 1,430mva.

Looking to the 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.

At the end of 2019, Red Eléctrica, as System Operator, submitted the initial proposal for this plan to the Ministry for Ecological Transition and Demographic Challenge, and the CNMC later issued a report on this initial proposal that established a series of recommendations that were mainly associated with offering more detail on certain methodological aspects of the proposed actions, and their evaluation.

Finally, in February of this year, the Ministry for Ecological Transition and Demographic Challenge raised the proposed Plan for the transmission grid for public consultation, along with the Strategic Environmental Study.

In this proposal, the Ministry foresaw a total investment of 6,668 million euros in transmission grids, of which over 1,000 million would be destined to actions to strengthen international interconnections with France, Portugal and Morocco, and 5,600 million for reinforcing the transmission grids that make up the national electricity system, both those that were in the original grid and the new proposals. This greater investment will be destined towards the integration of renewables and the solution of technical constraints, as well as promoting the use and improvement of the existing grid, the use of new technologies and the reduction of the environmental impact to a minimum.

Focusing on the rest of the Group's activity, the company has taken a firm step towards consolidation in its international energy business in 2020 by acquiring 50% of the Brazilian company Argo Energy, which manages high-voltage electricity transmission grids, for 374.3 million euros. This acquisition signals the

start of the Red Eléctrica Group's activities in Brazil, where it will take over the management of 1,430km of high-voltage power lines and 11 electric substations for a period of 30 years.

The management of this new concession in Brazil, which can be added to the 1,471km that we operate in Chile and the 1,558km that the Red Eléctrica group has in Peru, is intended to strengthen our efforts towards consolidating our electricity business in Latin America as an area of diversification and growth.

As regards the satellite sector, 2020 has been a year of challenges especially with regard to the COVID pandemic which has affected the demand for satellite services, particularly in the mobility market, due to the reduction in the amount of travel, and in other market sectors such as government connectivity projects, which have been severely delayed in their implementation, or satellite television and audiovisual services due to the reduction in sporting and cultural events. 2020 has also seen the confirmation of tendencies such as the vertical integration of some satellite operators, who are increasingly acting as service providers in some segments and geographical regions.

These circumstances have led us to embark on an update of Hispasat's assets and to make increased efforts to take advantage of the opportunities that will arise in the future. In this sense, Hispasat is engaged in strategic analysis which resulted in the approval of a new Strategic Plan 2021-2025 at the end of 2020. The new strategy aims to reposition Hispasat as an operator of satellite services instead of an infrastructure operator.

As regards the optical fibre business, Reintel has continued to strengthen its position as the largest neutral dark fibre operator in Spain. At present, we are operating a network of over 52,000 km of optical fibre, deployed over the

electricity transmission grid and the railway network. A fibre network that has proved itself an excellent means to effect the digital transformation of society.

Finally, with the goal of stimulating technological innovation and generating new business opportunities, thanks to our technological subsidiary Elewit, we will be able to take full advantage of innovation's potential as a driver of transformation and new prospects. We are helping to bring about energy transition and the development of telecommunications through the conceptualisation, incubation and acceleration of innovative ideas, attracting and integrating internal and external talent. In 2020, Elewit worked on 124 technology innovation projects and 2 Venture Client programmes with 12 startups, which has entailed an investment of 16.9 million euros in total.

I will now move on to mention the main financial aspects of 2020. In this sense, I would like to point out that the financial results have also been affected by a new regulatory context and also by the exceptional circumstances associated with the financial crisis caused by the pandemic.

The revenue reached 1,986 million euros, reflecting a decline in income from the transmission business in Spain as a result of the application of new remuneration parameters. This has been largely offset by higher income from the telecommunications business due to the incorporation of Hispasat, which has provided an income of 155 million euros during the year.



Our gross operating revenue (EBITDA) was 1,568.5 million euros, which is 1.0% lower than that obtained in 2019. This amount includes the 118.8 million earned by Hispasat.

As regards the operating results, I would like to highlight the efforts that the Group has made in reducing costs. This effort is more visible when we look at the cost of provisions and other operating costs which, despite including the expenses associated with Hispasat, rose only by 4.0% in comparison with the previous year.

The net operating profit (EBIT) was 929 million euros, and this includes the provision for the impairment in the value of fixed assets in Hispasat of 122 million, as the result of the need to adjust the value of assets to its new business situation, caused by the pandemic, especially in the second half of the year.

In turn, earnings for the year were 621.2 million euros, which is a 13% decline in comparison with the previous year.

Without the provision mentioned above, the recurring result would be 703 million euros, which is only 1.8% lower than the previous year.

The Group's investments during the year amounted to 895 million euros. Of this sum, 383.1 were used to develop the national transmission grid and 16.8 to running the system. As regards the development of our international electricity transmission business, it accounted for 417.5 million euros, 374.3 million of which was used to acquire a 50% share in the Brazilian company Argo. Finally, 60.1 million euros were spent on developing the telecommunications business and other projects, including those which were carried out by our technological subsidiary Elewit.

With regard to debt, it should be noted that the net financial debt at 31 December reached 6,113 million euros and that we maintain optimum solvency ratios. In this sense, the “Net debt to Ebitda” coverage ratio stands at 3.9 times, and the “Operating Funds/Debt” ratio at 20.2%, which is well above the levels required to maintain our current credit rating.

Focusing on the financial structure, the average life of debt currently stands at 5.3 years, with an average cost of 1.74% and the sums due to be paid off in the next three years are covered by our liquid assets, which at present amount to over 2,400 million euros.

If we look at the debt structure by instrument, we have a well-diversified debt, with 82% at a fixed rate until maturity, and with the euro predominating over other currencies.

It should also be noted that we have accessed the capital market with the issue of our first green bond in January 2020, for 700 million euros, which means that 23% of all our financing acquired at the end of last year met ESG criteria.

Similarly, we should point out that in May of this year, we made an issue of 12-year green bonds worth 600 million euros, at 0.625%.

The credit margin for this operation is the lowest seen on the Spanish market in the last decade. At the same time, this operation shows our desire for green financing, which is destined to support our projects to speed up the ecological transition of Spain.

We should also highlight that the credit rating agencies Standard & Poor's and Fitch decided last March to maintain the long-term rating for the Red Eléctrica Corporación at "A-", with a stable outlook.

Finally, the Board of Directors proposed a supplementary dividend from the results of 2020 of 0.7273 euros per share for approval at the General Meeting. This supplementary dividend, plus the dividend payable in January 2021 (of 0.2727 euros per share), comes to a total amount of 1 euro per share, in accordance with our commitment to our shareholders and the market.

Please allow me to spend a few minutes in going over our Strategic Plan 2021-2025, which contains a series of strategic guidelines to guide us as we seek to move forwards towards the efficient transformation of the energy model. In this sense, the plan budgets for a volume of investment amounting to 4,400 million euros in the 2021-2025 period, of which more than 3,300, or 75%, will be devoted to making the energy transition possible.

The remaining investments will be dedicated to consolidating our position in significant growth areas such as international business and the telecommunications sector.

We will undertake all this while promoting a corporate culture of innovation, talent and commitment to sustainability. To sum it up, we are going to empower a fair ecological transition under sustainable criteria, highlighting our neutrality and contribution to social and territorial cohesion.

In order to achieve a carbon neutral economy, the company is developing the necessary infrastructures included in the new Energy Plan 21-26, such as the connections between Spain and France, the third connection with the Balearic

Islands, projects to reinforce the transmission grid or to evacuate renewable energy, so that the Strategic plan foresees investments that amount to more than 2,800 million euros.

In addition, 411 million euros will be destined to energy storage projects, an essential aspect for the integration of renewable sources, and in particular the Chira-Soria pumping station on Gran Canaria, whose environmental impact is currently being processed and which is expected to enter service in 2027, as well as the project for the island of Tenerife, which is currently in the study phase to find its most suitable location.

Finally, with regard to System Operations, there are plans to invest 92 million euros in this period to progress in the preparations for operating a system that will be more complex, with more renewable input and the most integrated in Europe.

In total, the investments to make Spain's energy transition possible will reach 3,349 million euros during this period, in which the investment in the transmission grid will account for over 85% of the regulated investments.

The volume of investment currently committed, and which will take us to the end of 2025 is especially important, as it will not enter service until the following remuneration period, which begins in 2026.

Another strategic area for the Group is the consolidation of our international business. We have been present in South America for 20 years, where we operate 4,459km of power lines, with excellent levels of availability. We have invested more than 1,300 million euros in international assets in Peru, Chile and Brazil. The remuneration models in these countries show stable and predictable revenue

flows over time, and new business options have emerged in recent years as a result of our solid presence in the zone.

In the future, therefore, we will look to consolidate and grow our electricity business organically in Peru, Chile and Brazil, strengthening our presence and our existing business, as well as looking for opportunities for business that can generate new revenues. To this end, the investments planned for the period 2021-2025 will amount to roughly 225 million euros, and we expect our EBITDA to evolve favourably, with annual growth in excess of 6% until 2025.

As regards the telecommunications business, the sector is operating in a world that is becoming more intricately connected and with the need to handle growing amounts of data, which will ensure increasing demand for telecommunications infrastructures.

We will therefore continue to strengthen our optical fibre business and to develop new opportunities in relation with 5G technology, which offers enormous growth potential.

We will continue to work on attracting new types of clients in the field of regional and local telecommunications operators, and to expand our catalogue of products

Our investments in this area represent a figure of 115 million euros for the period, and we hope that the EBITDA will grow during this period in a range of between 2 and 5% annually.

In the satellite sector, we have been working to prepare a new strategic plan since the acquisition of Hispasat in 2019. This would allow us to transform the company and enable us to optimise our current business and take advantage of the opportunities arising in a sector undergoing technological change that is moving to offer services more directly to the public.

In view of the expected growth for the market in the coming years, this plan is based on a steady and orderly realignment, combining commercial exploitation of HISPASAT's legacy business (tied to audiovisual services and the lease of space capacity), and at the same time adopting a new vertical orientation and services with greater potential for future growth such as connectivity and mobility, based on the application of new technologies and new alliances.

The growing demand for connectivity in all fields, especially in rural areas to reduce the digital divide and achieve the full digitalisation of our society, makes the combination of different technologies, like fibre and satellites, a necessity. The option to combine them both represents an opportunity that will enable Hispasat to bolster its leadership in this sector.

To achieve this goal, an investment of 620 million euros will be made in satellite infrastructures, which the company will finance with its own cash flow with no need for outside resources. It will mainly focus on the new Amazonas Nexus satellite, and on supporting the transformation of the company from one geared towards managing telecommunications infrastructures to one with a larger proportion of land-based and mobility services. This will entail annual growth well above 5% in EBITDA during this period.

Efficiency is another strategic pillar of the new Plan. In this sense, to provide the investments derived from energy transition and the preparation of the new activities included in the strategic plan there will be changes in the capital structure. Our commitment to financial discipline and credit solvency will not change, but we will improve our operating efficiency through the generation of

synergies and the optimisation of processes and resources, to guarantee our resilience and business continuity.

We are also continuing the challenge of consolidating our role in the innovation ecosystem, boosting our leadership in the energy and telecommunications sectors, as well as preparing entrepreneurship programmes like tools for open innovation and cultural transformation, with Elewit as our driving force.

We also want to push the transformation of the Group by fostering a culture of innovation, agility and collaboration, to attract the best professionals and build our talent. All of this is aligned with our commitment to sustainability as a lever to consolidate a business model that will allow us to respond to future challenges and to apply ourselves to the opportunities that derive from them.

The development of this Strategic Plan is founded on achieving a series of financial targets in the 2021-2025 period. The most important of these is the completion of planned investments worth 4,400 million euros supported by management based on operative and financial efficiency, with a target margin of 70% EBITDA in 2025, maintaining solvency ratios for Net Debt/EBITDA below 5 times, and Operating Funds/Debt above 15%, with the goal of retaining a solid credit rating throughout this period.

We shall also consider taking advantage of the company's strategic assets with the collaboration of minority partners who can enable us to fully develop these assets and make their potential for creating value apparent.

Finally, we will ensure shareholder remuneration of 1 euro per share in the period 2020-2022 and at least 0.8 euro per share in the 2023-2025 period.

To sum up, the Strategic Plan 21-25 seeks to take us efficiently towards a decarbonised economy, making Spain's energy transition a reality, consolidating our position in important areas of expansion such as our international and telecommunications activities, driving a corporate culture based on efficiency, innovation and talent, and permanently committed to sustainability as a guarantee of the Group's continued existence.

This is our commitment, and we are working hard to meet the targets we have set and affirm the strength of the principles on which our strategic plan has been created.

Thank you very much for your attention.