

**RED**  
**ELÉCTRICA**  
CORPORACIÓN

**2015 Results**  
**Confirmation of**  
**2014-2019 targets**

25 February 2016



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# Significant progress in 2014-2019 Strategic Plan

## 2014-2015 achievements

### Targets 2014-2019



**Solid growth in consolidated activities**



Investment in transmission grid **€3,100 million**



Investment in dark fibre optic network **€475 million**



**Additional growth in new activities €1,000 million**



**Improvement in EBITDA margin  $\geq$  200 bp.**



**Average net debt/EBITDA ratio 3.5x**



**EPS growth 5-6% CAGR in the period**

### Achievements 2014-2015

903 M€



437 M€



234 M€



+100 bp.



3,6x



6,9%



Strategic Plan advancing as envisaged



# 2015 results



2015 Annual Results and Confirmation of 2014-2019 Targets  
25 February 2016

# Relevant events in 2015

## Financial results

- Net profit came to €606 million, 8.3% higher than recurring profit in 2014
- EBITDA rose to €1,458 million, 5.3% higher than in 2014
- The dividend proposed to the AGM is €3.21 per share, 7% higher than the previous year
- Net financial debt stood at €4,906 million
- Standard & Poor's raised our rating to 'A-' with a stable outlook, while Fitch reiterated its 'A-', rating with a positive outlook

## Investments

### Transmission network in Spain

- €4,554 million investments under the *Plan Nacional Infraestructuras 2015-2020* (National Infrastructure Plan)
- EU agreement to foster international interconnection with the goal of full integration of the electricity market
- Investment in transmission network in Spain €411 million
- Commercial start-up of the Spain-France Interconnection, commercial capacity raised to 2,800 MW
- Significant progress with Majorca - Ibiza Interconnection. An operation certificate was obtained for the first cable in the project in June of 2015

# Relevant events in 2015

## Investments

### International transmission network

- Acquisition of 50% of Transmisora Eléctrica del Norte (TEN) for \$218 million  
Construction and commercial operation of the Mejillones - Cardones transmission line, which will interconnect the electrical subsystems of central and northern Chile
- Concessions obtained for the 220 kV Azángaro - Juliaca - Puno transmission line and for the Montalvo - Los Héroes 220 kV line, both in Peru

### Energy storage

- Red Eléctrica has been subrogated in the Chira - Soria hydroelectric power station project in an amount of €12 million paid to Endesa, related to the costs incurred in the project
- Incorporation of Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)

### Fibre optic

- Incorporation of Red Eléctrica Infraestructuras de Telecomunicaciones, S.A.U. (REINTEL)
- Contribution to consolidated revenue: €83 million
- Progress in the Interconnection Plan for the two fibre optic networks, which will allow them to be marketed as a single network

# Relevant events in 2015

## Regulatory reform finalised

- New unit values of investment and operation and maintenance of transmission facilities
- Ministerial Order IET/2735/2015 of 17 December establishes the temporary extension of the transmission remuneration for 2015
- The new 2016 tariff will have to be recalculated using the recently published unit values (Ministerial Order IET/2659 of 12 December)
- The finalisation of the regulatory reform guarantees the supply and quality of electrical power as well as the economic and financial sustainability of the electricity system

## Operation of the System

- High operational quality: Disponibility of the grid close to 98%
- Operation of the new interconnection with France, which implies a significant challenge to the System Operator, since it is a cable under continuous current
- The auctions for the Interruptibility Service proceeded successfully and resulted in the allocation of 2,890 MW in interruptible resources for 2016

# Relevant events in 2015

## Corporate Governance

- The EGM approved the separation of the positions of Chairman of the Board of Directors and Chief Executive Officer of the Company
- Board of Directors with majority of independent members: 58%. The Board continues to include the position of Lead Independent Director
- Increase from 4 to 5 the number of members of both of the committees constituted by the Board of Directors (the Appointments and Remuneration Committee and the Audit Committee). Both with a majority of independent board members
- Self-evaluation of the Board with external assessment
- Approval of the Company's first Corporate Governance Policy

## Corporate Social Responsibility

- REE is now included in the Dow Jones Sustainability World Index and Dow Jones Sustainability Index Europe and its listing on the FTSE4Good and Euronext-Vigeo indices was renewed
- Fulfilment of the corporate responsibility program was included in the management goals and long-term objectives of the management team
- Approval of the 2015-2020 Climate Change Action Plan. Contribution to a more sustainable energy model and reduction in the company's carbon footprint
- Red Eléctrica's European Excellence Stamp 500+ (based on EFQM model) was renewed, and the Company was awarded over 700 points



# Highlights

| € million         | 2014                    | 2014<br>Proforma <sup>1</sup> | 2015                    | 2014-15     |
|-------------------|-------------------------|-------------------------------|-------------------------|-------------|
| Revenue           | 1,847                   | 1,847                         | 1,939                   | 5.0%        |
| EBITDA            | 1,385                   | 1,385                         | 1,458                   | 5.3%        |
| Profit before tax | 853                     | 801                           | 829                     | 3.5%        |
| <b>Net profit</b> | <b>718</b>              | <b>560</b>                    | <b>606</b>              | <b>8.3%</b> |
| <b>Capex</b>      | <b>956 <sup>2</sup></b> | <b>956 <sup>2</sup></b>       | <b>448 <sup>3</sup></b> |             |

1 Excluding impact of TDE agreement and 2014 tax reform

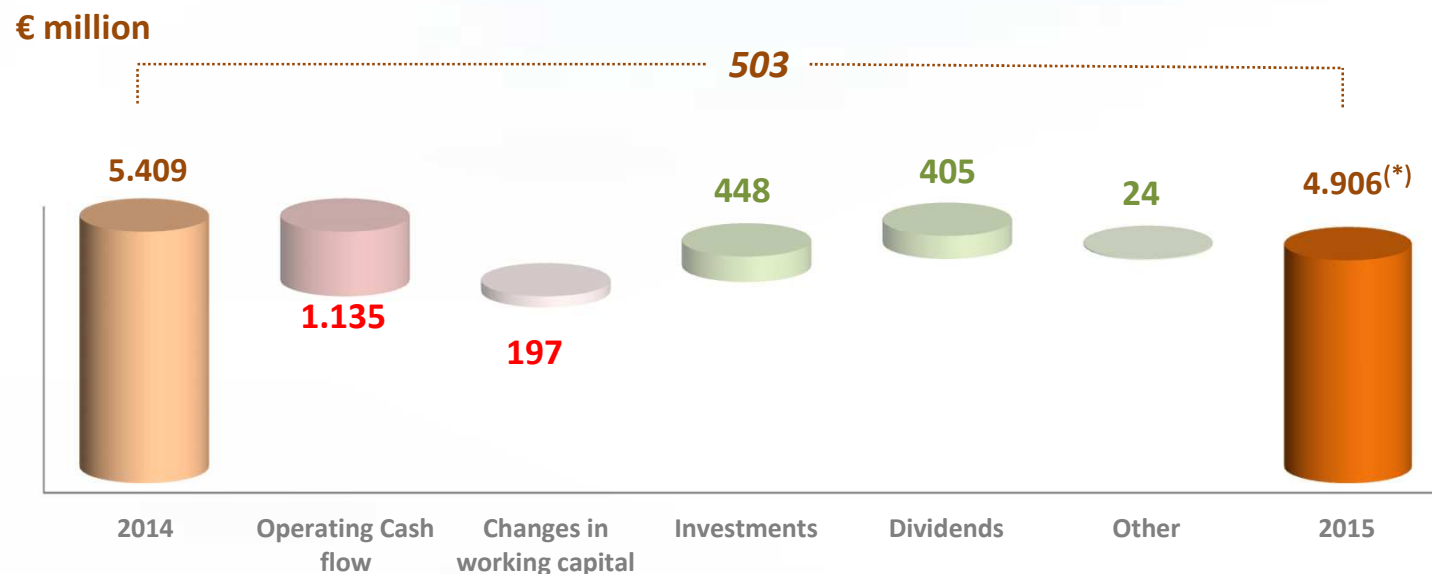
2 Including the acquisition of rights to use and operate ADIF's optic fibre network (€434 million)

3 Does not include payment of \$218 million for the acquisition of 50% of TEN, made in January 2016 following approval by the European Commission

Recurring profit for the year increased 8.3%  
TACC EPS 2013-2015 = 6.9%

# Balance sheet

## Net financial debt



(\*) Net financial debt came to €5,107 million after paying for 50% of TEN in January 2016.

The average remaining term to maturity stands at 5.9 years  
 The cost of debt in 2015 was 3.20% vs. 3.49% in 2014  
 85% of debt at fixed rates

# Balance sheet

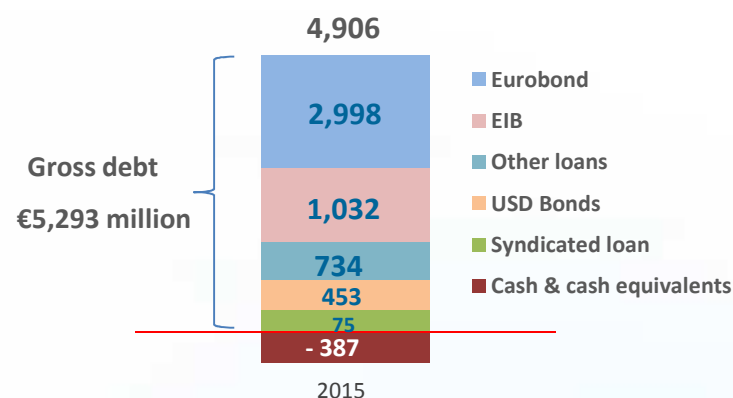
## Solvency ratios

| € million                      | 2014  | 2015  |
|--------------------------------|-------|-------|
| EBITDA / Interest <sup>1</sup> | 8.1x  | 8.5x  |
| FFO / Debt <sup>2</sup>        | 18.7% | 23.1% |
| Debt / EBITDA <sup>2</sup>     | 3.9x  | 3.4x  |

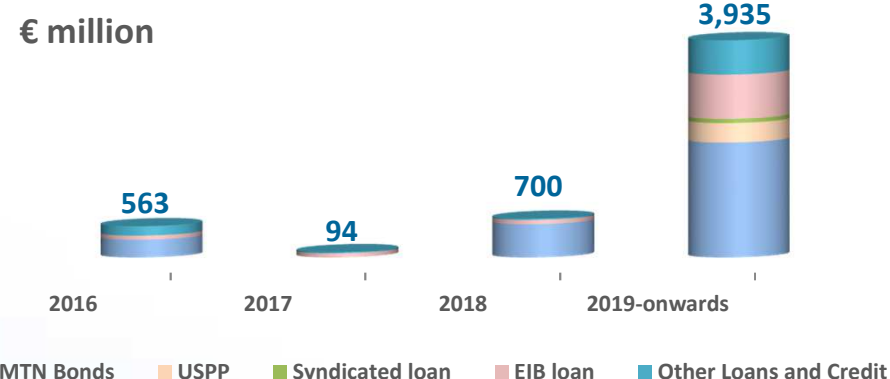
1 EBITDA / net financial expenses excluding capitalisations

2 Include contract of rights to use ADIF's optic fibre network signed on 20/11/2015

## Debt structure by instrument



## Maturities



€500 million 10-year euromarket bond issue with a coupon of 1.176% and a swap for other bonds corresponding to previous issues for a nominal amount of €446 million at rates of between 4.75% and 2.375%  
 Placement of \$70 million in 15-year Peru bonds at 4.968% and \$40 million in 28-year bonds at 5.75%



# Regulatory reform finalised

# Closing of the methodology for calculating the transmission activity remuneration

## Regulatory framework

- Law 24/2013 of the electricity sector of 26/12/2013
- Royal Decree 1047/2013 of December 27th, methodology to calculate transmission remuneration
- Royal Decree 1073/2015 of November 27th, amending matters set out in Royal Decree 1047/2013
- Ministerial Order IET/2659 of December 12th, 2015 approving unit values of investment and operation and maintenance of transmission facilities<sup>(\*)</sup>
- Ministerial Order IET/2735 of December 17<sup>th</sup>, 2015 temporary establishes 2015 transmission tariff extension

<sup>(\*)</sup> New parameters approved will be applied in 2016-2019 period, first regulatory period according to RD 1047/2013

Sound and sustainable regulatory system. The electricity system ended 2014 with a surplus of 550 million euros. 2015 will likely end with a surplus above 2014 figure

# Closing of the methodology for calculating the transmission activity remuneration

## MO IET/2659: New unit values

- Capture by the regulator of a portion of the margins obtained during the last years related to technological progress and reduction of the costs
- Increase of remuneration of multi-circuit lines
- Application of operation and maintenance unit values to all assets in service and investment values to those constructed post 1998
- Investments in the Canary and Balearic Islands' systems are given specific treatment

The new standards arise a demanding scenario in future

# Closing of the methodology for calculating the transmission activity remuneration

## Royal Decree 1073/2015: Adaptation of the existing regulation

- Allows for increase in residual life of installations brought into service prior to 1998
- Excludes international interconnection investments from ratio of annual investment limit to GDP
- Pursuant to Law 2/2015, references to an update of standard values in accordance with inflation are eliminated

Includes renovation and improvement concept as investment  
Fostering of international investment  
Speeding up of investment process

# Closing of the methodology for calculating the transmission activity remuneration

## New treatment of renovation and improvement

- Recognition of Red Eléctrica's long-standing request to consider renovation and improvement to be a part of its investments
- The useful life of assets prior to 1998 may be extended for up to another 5 years in the second regulatory period
- The possibility is allowed for renovations and improvements carried out from 2019 to be entitled to remuneration from 2021 if they are included in the investment plans

Recognition of renovation and improvement as investment





# Confirmation of 2014-2019 targets

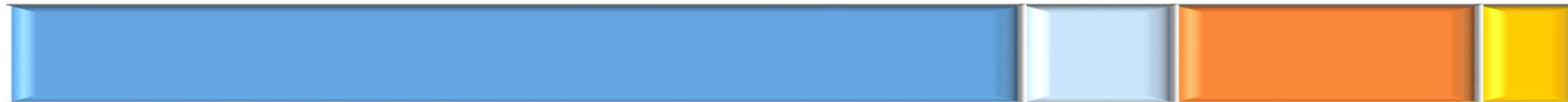
## Main levers to achieve our Strategic Plan goals

- Progress in investment in consolidated activities
- International investment: Peru and Chile
- Review of maintenance policy
- Additional efforts towards improving efficiency

# Investments

**Consolidated activities: €3,575 million in 2014-2019**

**New activities: €1,000 million in 2014-2019**



## ● Efficient TSO management:

- Approval of 2015-2020 Infrastructure Plan
- €3,100 million in total investment in 2014-2019
- This figure does not include new Spain - France interconnections (Bay of Biscay project, and two more projects in the Pyrenees), or the second Spanish Peninsula - Balearic Islands cable, whose time horizons are thought to lie beyond 2019

## ● Management of fibre-optic networks

- Progress in the efficient integration of fibre optic networks
- €475 million in investment in 2014-2019

## ● International

- Opportunities in stable markets and adequate returns
- Low-risk countries and stable regulatory environment

## ● Energy storage

- Chira – Soria expected to be commissioned in after 2019

Optimum mix of consolidated activities and new activities

# Investment

## Expanding the business base

### ● Chile

- 50% stake in TEN
- 600 km of lines
- Put into operation in Q4 2017
- €90 million estimated revenues for 2018
- Financing: Project finance
- Capex project €780 million

### ● PERU

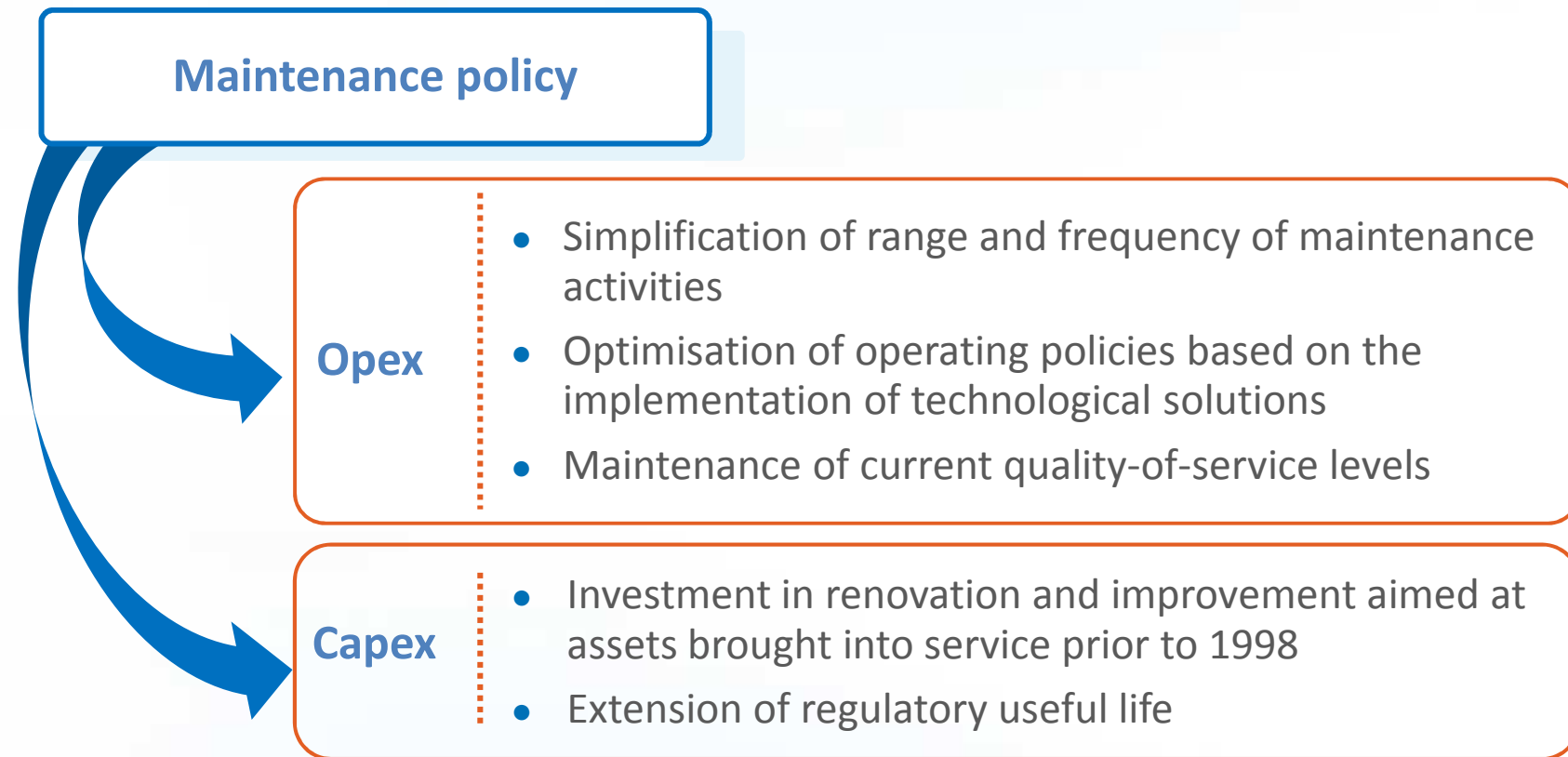
- Projects in which REE holds a majority stake
- 942 km of lines in service
- 240 km in progress
- Put into operation in 2019
- €28 million estimated revenues for 2019
- Estimated pending capex [[€88 million]]

New tender in Chile  
Construction project 3 new  
500kV lines, 180 km and 3  
substations  
Contract award on 14 March



Internationalisation based on our know-how and profitability criteria

# Review of maintenance policies



Efficiency-oriented. Adaptation to new remuneration environment, while maintaining the same levels of safety and quality of service

## Additional efforts towards improving efficiency


- ✓ Design of facilities
- ✓ Adaptation to new maintenance standards
- ✓ Reorganization

≥ 200 bp improvement  
in EBITDA margin by  
2019

- ✓ Adaptation of useful life of facilities to regulatory life
- ✓ Financing
- ✓ Taxes

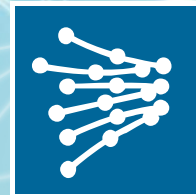
Additional  
increases in EPS

## Confirmation of 2014-2019 targets

|  | 2014 - 2019<br>targets |   |
|--|------------------------|---|
|  Investment in consolidated activities <sup>1</sup> | 3,575 M€               | ✓ |
|  New opportunities for investment                   | 1,000 M€               | ✓ |
|  Improvement in EBITDA margin by 2019               | ≥200 bp                | ✓ |
|  Average net debt/EBITDA                            | 3.5x                   | ✓ |
|  Δ EPS (CAGR 2019/13)                             | 5-6%                   | ✓ |
|  Δ 7% dividend per share (CAGR since 2014)        | 7.0%                   | ✓ |

<sup>1</sup> Investment in transmission and telecommunications network

Confirmation of growth after completing regulatory reform



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Presentation available at:

[www.ree.es](http://www.ree.es)

Shareholders and investors



FTSE4Good



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