

CORPORATE
RESPONSIBILITY
REPORT

SUMMARY
2016



The
value of
**connected
energy**



RED
ELÉCTRICA
CORPORACIÓN

CORPORATE
RESPONSIBILITY
REPORT

**SUMMARY
2016**





TABLE OF CONTENTS

This Report presents a summary of the full Corporate Responsibility Report 2016. The complete version of the same, as well as the legal information (Consolidated Annual Accounts 2016 and Annual Corporate Governance Report 2016) are published solely in electronic format (browsable pdf) and are available on the corporate website www.ree.es.



Annual Corporate Responsibility Report 2016



Annual Corporate Governance Report 2016



Consolidated Annual Accounts 2016



Capture the QR code with your mobile or tablet to access additional information about the Company that may be of interest to you.



01 LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The year in review, a comprehensive assessment of 2016

p 4



04 KEY PERFORMANCE INDICATORS

Red Eléctrica at a glance: our performance during 2016

p 10



01 THE COMPANY

Who we are and what we do / Main activities of the Company

p 12



02 STRATEGY

Strategic Plan 2014-2019 / Essential strategies and cross-cutting strategies

p 20



03 CORPORATE GOVERNANCE

Governance of the Red Eléctrica Group / General Shareholders' Meeting / Board of Directors / Risk management / Integrity model

p 28



04 MANAGEMENT APPROACH

Commitment to Corporate Responsibility / Stakeholder management

p 36



05 SUSTAINABLE ENERGY

Quality and security of the electricity supply / Grid development / System operation / Energy efficiency and innovation

p 40



06 CREATION OF VALUE

Evolution of results / Financial strategy / Shareholder return

p 54



07 EMPLOYEES

Stable and quality employment / Diversity and inclusion / Talent management / Dialogue and transparency / Healthy workplace

p 60



08 SOCIETY

Investment in the community / Community ties / Social commitment / Tax transparency

p 72



09 DIALOGUE WITH STAKEHOLDERS

Dialogue with shareholders and investors / Clients, and market agents / Relations with suppliers and the media

p 82



10 THE ENVIRONMENT

Environmental commitment / Integration into the environment / Biodiversity / Climate change

p 90



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

For yet another year, Red Eléctrica has continued to carry out its responsibility to ensure the proper functioning of the electricity system with the vision of making European energy targets and sustainability goals viable. The aim is to achieve an energy model based on security of supply, sustainability and competitiveness, while at the same time helping to mitigate the effects of climate change.

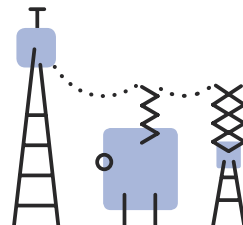
In order to undertake this commitment, in 2016, the Company has continued to execute the 2015-2020 Electricity Infrastructure Plan in Spain, whose deployment allows it to maintain an important rate of investment in the transmission grid. This Plan is mainly designed to improve and strengthen grid meshing, to execute interconnection projects between electricity systems and the need to guarantee security of supply and grid reliability.

In this fiscal year, 674 km of new line and 61 new substation bays have been commissioned, increasing transformer capacity up to 600 MVA, which represents

JOSÉ FOLGADO
Chairman
of Red Eléctrica
Corporación



JUAN LASALA
Chief Executive Officer



a total investment in the Spanish transmission grid of 398.5 million euros.

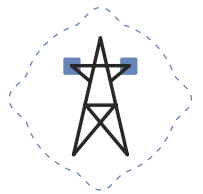
One of the most important milestones has been the commissioning of the Majorca-Ibiza double link, which has brought to an end the electrical isolation of Ibiza, in addition to saving costs for the system and the reduction of polluting emissions in the Balearic Islands. This link consolidates the process for the integration of the Balearic Islands electricity system with that of both the Spanish Peninsula and the European systems.

In addition, the Company has continued to work with the objective of increasing the energy exchange capacity with Europe, which is one of the priority aspects in order to achieve a more efficient and sustainable electricity system. To this end, in 2016, preliminary work has continued regarding three new interconnection projects: one through the Bay of Biscay and two trans-Pyrenean

interconnections through Navarra and Aragón. The undertaking of these projects, with an expected exchange capacity of 8 GW, is geared towards the challenge of achieving a 15% interconnection capacity in 2030 with respect to the installed capacity in our country.

On the other hand, the Company has continued to guarantee the security and quality of the electricity supply, making it compatible with the maximum integration of renewable energies. In this regard, the work of the Control Centre of Renewable Energies has contributed to the fact that 40.8% of the energy integrated into the peninsular system came from renewable sources, which is 3.9 percent points higher than in 2015, with the consequent decrease in CO₂ emissions from electricity generation.

LINE

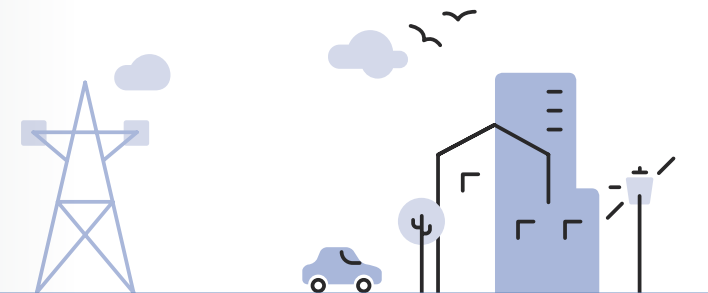


COMMISSIONED
IN 2016

674
km

OF NEW LINE

61 new
substation
bays



For yet another year, the Company has been able to demonstrate stable growth and has continued to generate value for shareholders. Remuneration in the form of dividends has increased by 7% compared to 2015.

FINANCIAL RESULTS



NET PROFIT

636.9

M€

+5.1%

Compared to 2015

Regarding service quality indicators of the facilities, in 2016, it is worth noting the highly satisfactory values registered in relation to the reliability and availability of the transmission grid, both for the peninsular grid and for the grids of the Balearic Islands and Canary Islands systems, highlighting the effectiveness of the maintenance programmes and works undertaken by the Company.

Activities that expand the business base

Red Eléctrica, in addition to continuing to consolidate its role as sole transmission agent and system operator and to channel its efforts towards higher levels of efficiency through the improvement of operating margins, has continued to move forward with other actions aimed at creating a wider business base as an alternative form of growth for the Group.

At an international level, steps have been focused on strengthening the Company's presence in Latin America, through the progress made in the execution of the two new projects awarded last year in Peru, as well as the Mejillones-Cardones project in Chile, derived from the acquisition of 50% of the Chilean company TEN. During 2016, TEN has made investments totalling 379 million dollars, and our companies in Peru have made investments totalling 19.6 million dollars.

For its part, the subsidiary REINTEL has become the telecommunications infrastructure operator of reference in Spain, as a result of having the largest dark fibre optic network in the country, following the acquisition of the fibre network formerly belonging to the railway network.

In addition, the technological potential of the Company is emphasised with the Soria-Chira

pumped-storage power station project in Gran Canaria; an energy storage facility, devised as a system operation tool to improve the sustainability of the new Canary Islands energy model. In 2016, the first steps were taken regarding this project with the launching of its permitting and public information process.

Efficiency and the creation of value

With a focus on value creation, for yet another year the Company has been able to show steady growth, as reflected in the sound financial results obtained, which continue to generate value for shareholders. Revenue reached 1,932.3 million euros compared to 1,938.9 million euros in 2015 and the EBITDA margin stood at 76.9%. Profit for the year was 636.9 million euros, 5.1% up on the previous year, and shareholder remuneration in the form of dividends increased by 7% compared to 2015, in accordance with that set out in the 2014-2019 Strategic Plan.

Progress made in Corporate Responsibility

During 2016, Red Eléctrica has worked on the design of a sustainability model for all the companies of the Group in order to give a better response

to stakeholders, to improve efficiency and to showcase the performance of the Company regarding sustainability. The targets set by the United Nations Sustainable Development Goals have been considered in the definition of the model which is scheduled for implementation in 2017.

Regarding the course of action related to the improvement of sustainability, noteworthy is the approval of a new innovation strategy, focused on four vectors: digitalisation, people, sustainability and technology, and whose objective is the creation of a culture of innovation that serves as a lever for growth and value creation.

In 2016, the Company consolidated its presence in the main sustainability indexes, of note being the rating obtained in the Dow Jones indexes, in which the overall score was improved, in addition to being ranked leader in the 'Electric Utilities' sector in nine areas. Similarly, as a result of the initiatives carried out with suppliers, the Company has been distinguished as 'Top Performer' for its responsible integration of social factors and environmental aspects in the supply chain, being ranked among the 20 leading companies worldwide.

INNOVATION STRATEGY

In 2016, a new innovation strategy was approved, focused on the creation of a culture of innovation that will serve as a lever for Company growth.

Among the actions that have allowed progress to be made in corporate responsibility, noteworthy are those achieved in the field of gender equality and opportunities. The percentage of women in the workforce stood at 23.7%, compared to 23.1% in 2015. Contributing to this was the fact that 55% of the new incorporations in 2016 were women. In addition, the percentage of women in managerial positions has further increased with 8% more than in 2015, reaching a total 21.8%. The percentage of women on the Board of Directors stood at 36.4%, ranking above the IBEX 35 average of 15.6% in 2015.

As part of the employee value propositions, significant is the promotion of health, safety and well-being, including the work-life balance, which Red Eléctrica manages through numerous initiatives encompassed within a healthy workplace model.

One of the relevant aspects of this model is the prevention of occupational health and safety risks, where the Company has recorded an improvement in the main indicators with a significant reduction in the accident rates of both its employees and the third-party personnel. The increased

number of training hours given in this field, with 22.4% more than in 2015, has had an influence on this improvement.

From a point of view of responsibility within the socio-environmental scope, Red Eléctrica has oriented its actions with the vision of creating shared value with society, promoting actions and investments aligned with its business objectives that, at the same time as generating value for the Company, impact positively on society.

For this reason, the Company, in addition to undertaking a neutral and sustainable management of the transmission grid, looking for routes for lines that generate the least environmental impact and promoting actions to protect biodiversity, promotes the participation of society and institutions in the process, through dialogue and ongoing collaboration. Similarly, its projects within the territory are accompanied with collaboration programmes that reflect the Company's social commitment and pursues the sustainable development of the communities in which it is present.

On the other hand, Red Eléctrica, aware of the effects arising from global warming, maintains a firm commitment in the fight

against climate change; a responsibility that translates into the implementation of a specific action plan aimed at promoting activities that contribute to the sustainability of the energy model, such as the integration of renewable energies, the introduction of energy efficiency measures or the promotion of electric mobility. Among them, of note, is the commitment to reduce the carbon footprint with the objective for 2020 of reducing or offsetting 21% of the Company's emissions compared to 2010.

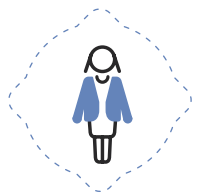
Lastly, the Company has continued to incorporate new practices in good governance. In this regard, the criteria for communication with shareholders, investors and proxy advisors approved by the Board of Directors has been made public in order to maintain an open and transparent relationship with these stakeholders. In addition, it is important to highlight the new Regulatory Compliance System that the Company is implementing, so that the organisation can properly respect the obligations established and the commitments assumed, developing a proactive culture towards the management of risk regarding non-compliance.

Therefore, giving continuity to the Awareness Plan on ethics management that has been in place for several years, a Plan for raising awareness and disseminating information about the Compliance System has been launched and this will continue throughout 2017.

In addition, the transition process for the full separation of powers and the transfer of functions between the positions of Chairman of the Board of Directors and that of CEO culminated at the General Shareholders' Meeting of 2016, which represents an improvement in the corporate governance structure of the Company.

All these achievements have been made possible thanks to the effort, motivation and responsibility of a team of 1,773 highly-qualified professionals, the commitment of the Board of Directors to supervision and control and the full trust placed in the Company by our shareholders.

MANAGEMENT POSITIONS 2016



21.8

%

WOMEN

—

+ 8%

Compared to 2015

SHARED VALUE

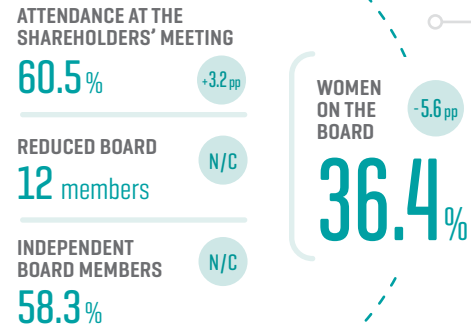
Commitment to the socio-environmental scope is undertaken with the vision of creating shared value with society.

SUSTAINABILITY MODEL

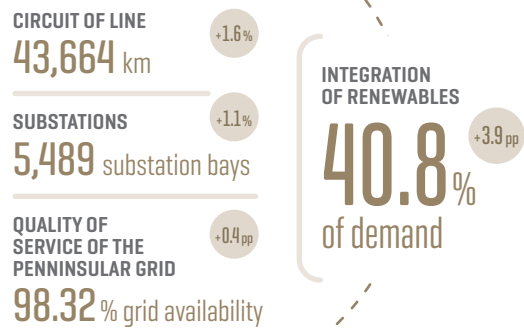
In 2016, a sustainability model was designed for the entire Group, which has been defined taking into account the targets established in the United Nations Sustainable Development Goals.

KEY PERFORMANCE INDICATORS 2016

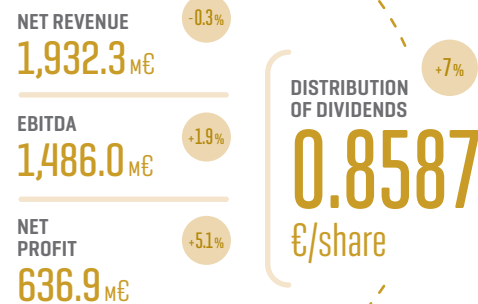
GOOD GOVERNANCE



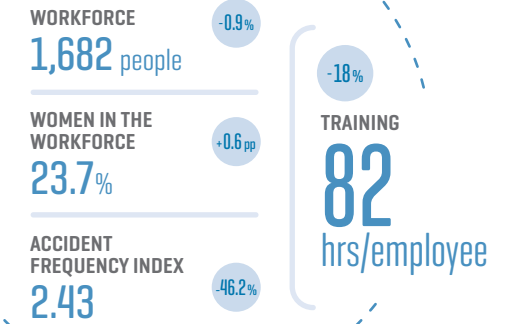
BUSINESS



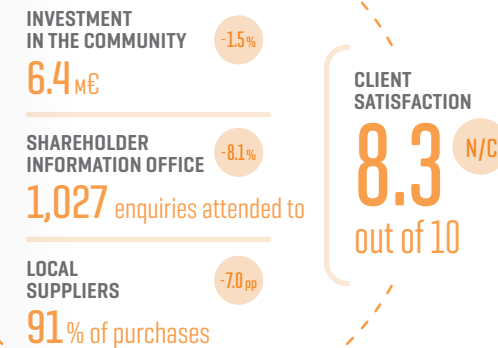
FINANCIAL DATA



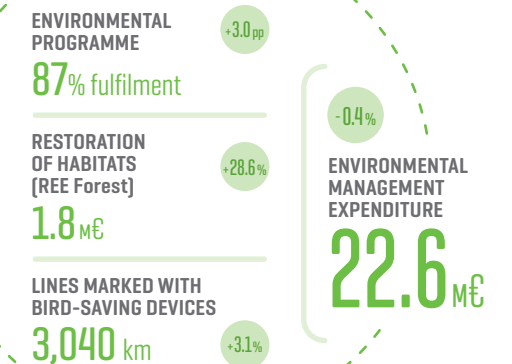
EMPLOYEES



SOCIAL



ENVIRONMENTAL



The figures shown in small coloured circles reflect the variation compared to 2015

N/C: no change / pp: percentage points

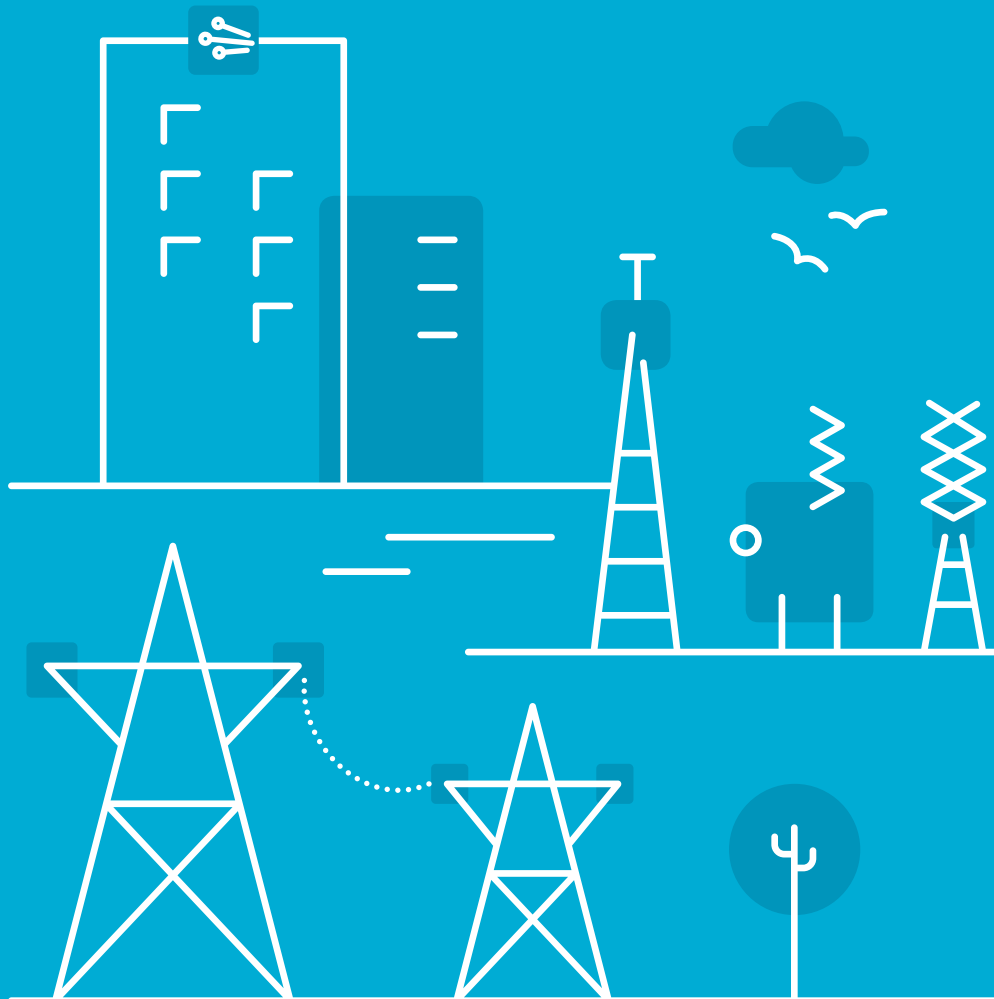


More information on these indicators is provided throughout this report.

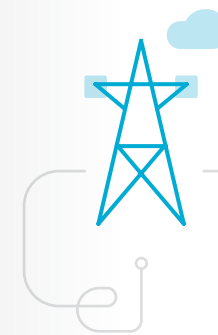


01 THE COMPANY

CONNECTED
TO A SECURE
AND SUSTAINABLE
ENERGY FUTURE



Red Eléctrica, a TSO of reference. Red Eléctrica is the sole transmission agent and operator (TSO) of the Spanish electricity system. The Company carries out this responsibility with transparency, neutrality, independence and economic efficiency, with the aim of providing the highest quality electricity service for society as a whole.

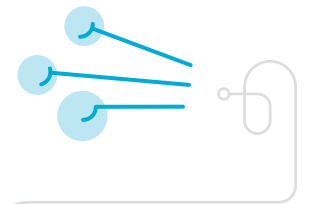


MISSION

Red Eléctrica, as TSO of the Spanish electricity system, has the mission of guaranteeing the correct functioning of the system, ensuring the continuity and security of the electricity supply at all times. Additionally, it is responsible for the transmission of high-voltage electricity; and it builds, maintains and operates the facilities of the transmission grid.

VISION

The goal is to be one of the leading companies in the transmission of electricity and the operation of high-voltage electricity grids, recognised for offering a quality service of the highest standards, implementing ethical and responsible management, maintaining a firm commitment to sustainable development and generating value for all our stakeholders.



VALUES

Responsibility
Respect
Reliability
Environmental awareness
Leadership and creativity

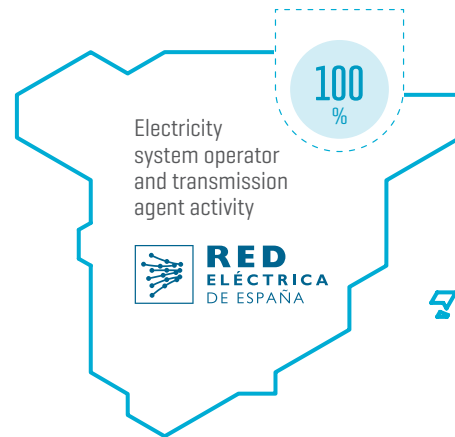
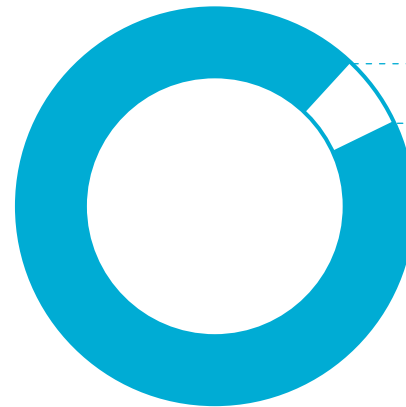
STRUCTURE OF THE RED ELÉCTRICA GROUP

RED ELÉCTRICA

CORPORACIÓN

**ELECTRICITY
ACTIVITY
IN SPAIN**

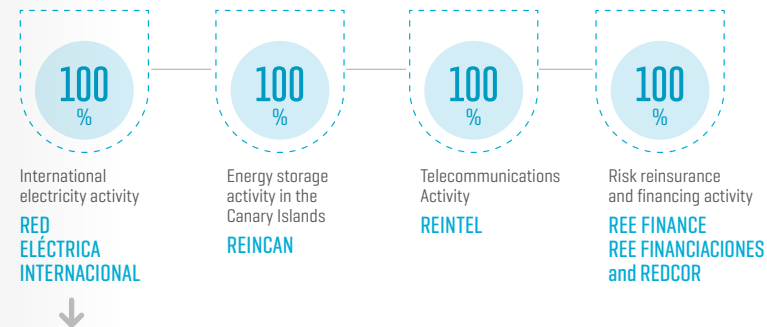
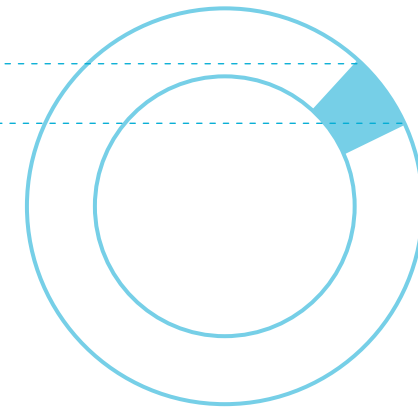
92%
of revenue



RED ELÉCTRICA DE ESPAÑA owns 50% of the share capital of **INELFE**, a company created jointly with its French counterpart, **RTE**, for the development of interconnections with France.

**OTHER
ACTIVITIES**

8%
of revenue



Investment in electricity transmission infrastructure internationally is channelled through different subsidiaries integrated in **Red Eléctrica Internacional (REI)**. In Peru, REI manages the following companies: **REDESUR**, **Red Eléctrica Andina (REA)** and **Transmisora Eléctrica del Sur 3**, companies wholly owned by REI. In turn, **REDESUR** controls **Transmisora Eléctrica del Sur** and **Transmisora Eléctrica del Sur 2**. In Chile, REI manages **Red Eléctrica Chile**, a company wholly owned by REI. This subsidiary, in turn, has acquired 50% of the share capital of **Transmisora Eléctrica del Norte (TEN)**, owned by the Chilean company **EC-L** (belonging to the Engie group).

ELECTRICITY ACTIVITY IN SPAIN

Red Eléctrica de España is the company that develops the Group's main activity. Its mission is to guarantee the security and continuity of the Spanish electricity supply at all times, and to manage the development and maintenance of a meshed

and reliable transmission grid that contributes to the progress of society. The efficient performance of these functions positions the Company as one of the international Transmission System Operators (TSOs) of reference.

Red Eléctrica owns the entire Spanish high-voltage electricity transmission grid and, through its electricity control centres, operates both the peninsular electricity system as well as the non-peninsular systems, 24 hours a day, 365 days

a year. Furthermore, it is a world reference in the safe integration of renewable energy into the electricity system.

LINES



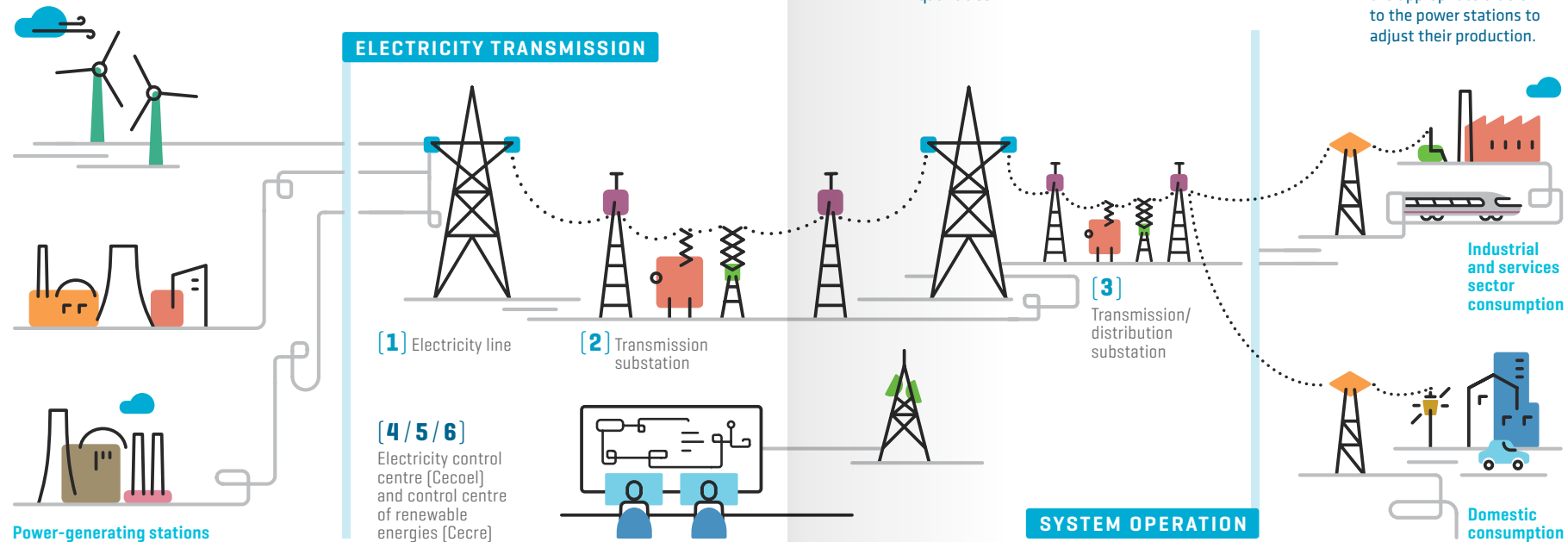
MORE THAN 43,000
km
IN SERVICE
IN 2016

ELECTRICITY TRANSMISSION ACTIVITY

- [1]** Red Eléctrica, through its transmission grid, evacuates the electricity generated by the power-generating stations.
- [2]** Next, it transports the electricity, transformed into high-voltage, from the power-generating stations to the distribution networks.
- [3]** Subsequently, it delivers the electricity, transformed into lower voltage levels, to the distribution companies who then deliver it to the final consumer.

SYSTEM OPERATION ACTIVITY

- [4]** For this process to work, Red Eléctrica must operate the system maintaining the constant balance between generation and consumption, due to the fact that electrical energy cannot be stored in large quantities.
- [5]** To do this, Red Eléctrica forecasts the electricity consumption that is going to be demanded nationwide throughout the day. Power stations then use this forecast to schedule their production.
- [6]** Red Eléctrica, through its Electricity Control Centre (CECOEL), is responsible for maintaining the balance between the scheduled production and the energy demanded at each moment. And, as demand varies, it sends the appropriate orders to the power stations to adjust their production.



OTHER ACTIVITIES

INTERNATIONAL INVESTMENT



WITH THE ACQUISITION OF

50

%

OF TRANSMISORA ELÉCTRICA DEL NORTE (TEN)

Red Eléctrica has entered into the energy transmission business in Chile

RED ELÉCTRICA INTERNACIONAL

Manages the construction and operation of transmission grids outside of Spain.

International activity

International business is developed through the subsidiary Red Eléctrica Internacional, which in turn is made up of the subsidiaries (REDESUR, Red Eléctrica Andina, Transmisora Eléctrica del Sur, Transmisora Eléctrica del Sur 2, Transmisora Eléctrica del Sur 3 and Red Eléctrica Chile), through which the construction and operation of transmission grids outside Spain is managed. Currently, international business is focused on Peru and Chile.

During 2016, the Company continued to consolidate its presence in Peru through the progress made in the construction of the Azángaro-Juliaca-Puno and Montalvo-Los Héroes 220 kV lines.



Similarly, through the subsidiary Red Eléctrica Chile, the Company has entered into the electricity transmission business of Chile, with the acquisition, in December 2015, of 50% of the share capital of the company Transmisora Eléctrica del Norte (TEN). This company is responsible for the construction and commercial operation of the Mejillones-Cardones interconnection line, which will connect the north and central electricity subsystems of Chile.

During 2016, TEN has made investments in the amount of 379 million dollars and our companies in Peru have made investments worth 19.6 million dollars.

Telecommunications activity

The Group's telecommunications business is carried out through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación (REINTEL). Its main activity is the leasing of an extensive dark fibre optic backbone network and of sites and technical spaces for the housing of the telecommunications equipment of its clients.

At present, REINTEL is the neutral provider of telecommunications infrastructure of reference

The 200 MW Soria-Chira pumped-storage power station is a key facility to improve the sustainability of the Canary Islands electricity system.



in Spain, owing to the fact that it has the largest dark fibre network with the best quality. In this regard, the Company operates and manages a fibre optic network comprised of more than 33,000 km of cables deployed throughout the electricity transmission grid and the railway network, which guarantees transparent access to the network and on equal terms for clients and agents in the sector. It is a robust, redundant and meshed telecommunications network, which is not only connected to the systems on the Spanish islands, but also has international access.

Energy storage activity in the Canary Islands

In September 2015, Red Eléctrica Infraestructuras en Canarias

(REINCAN) was created with the aim to promote energy storage projects on the Canary Islands that can act as tools for the system operator in order to guarantee the electricity supply on the islands, as well as to improve system security and optimise the integration of renewable energy.

In 2016, initial progress was made in this activity with the start of the permitting process and the public information period of the project to build the pumped-storage power station between the reservoirs of Soria and Chira in Gran Canaria, following the declaration of strategic interest of the project by the Governing Council of the Canary Islands. This power station is a key facility to guarantee the supply and progress towards the sustainability of the new energy model in the Canary Islands, safer, more efficient and respectful of the environment.

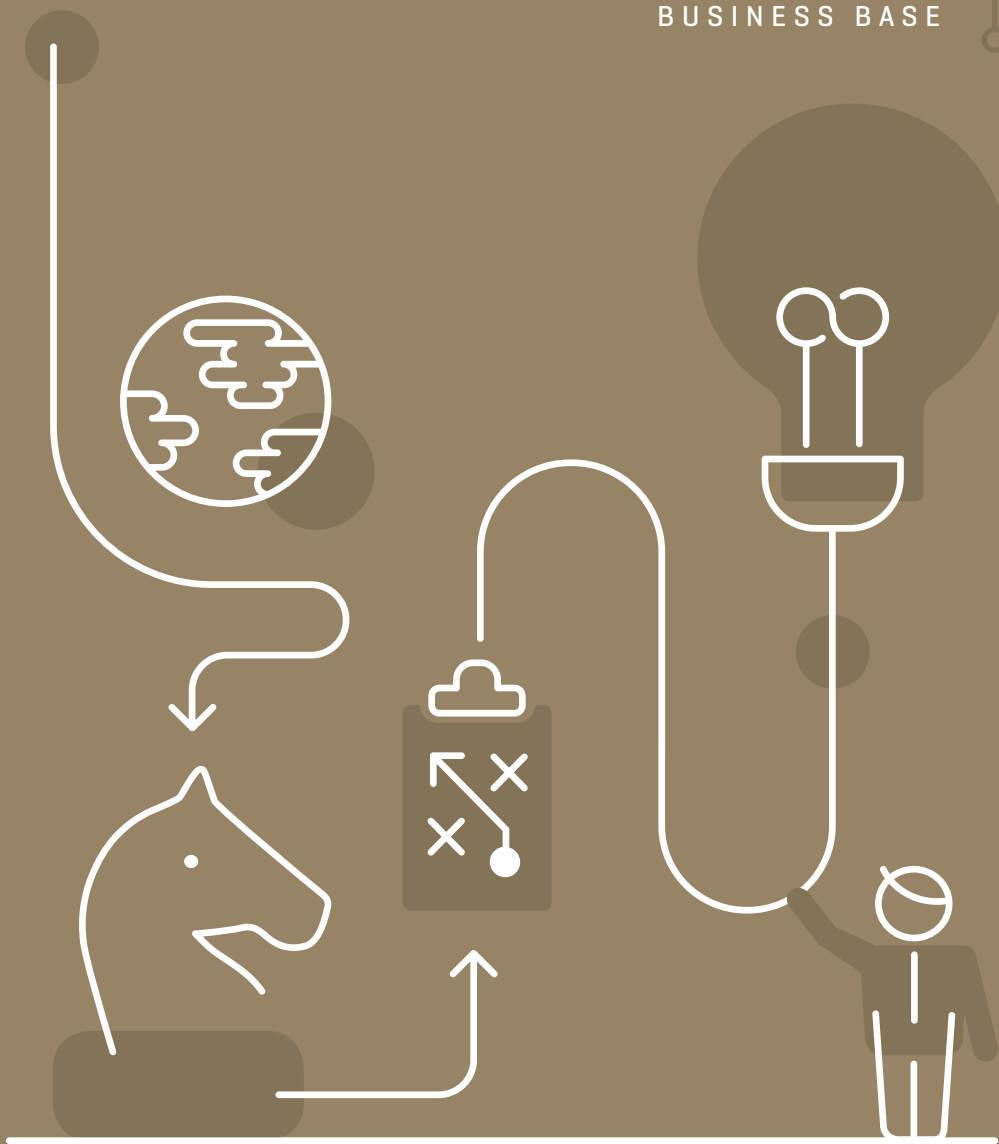
REINTEL

Manages a network of 33,000 km of dark fibre optical cable and 230 sites and technical spaces.



02 STRATEGY

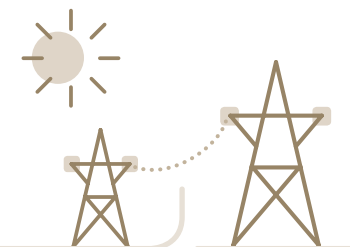
CONNECTED TO THE DEVELOPMENT OF THE TSO ROLE, MAXIMISING EFFICIENCY AND EXPANDING THE BUSINESS BASE



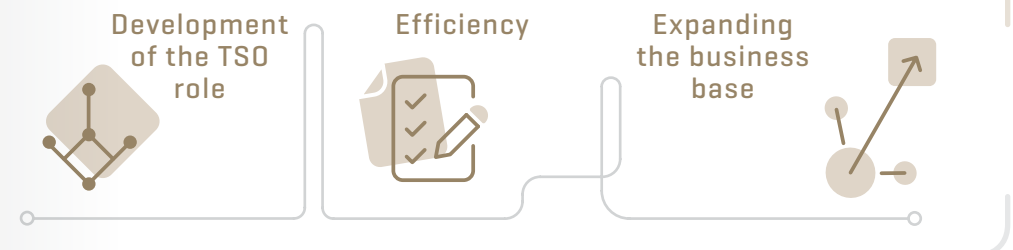
The Strategic Plan 2014-2019 continues to be based on the execution of our role as TSO in Spain, but doing so by strengthening efficiency criteria in order to adapt the Company to the new regulatory environment and a more restrictive remuneration policy. The Plan also encompasses a greater scope regarding the expansion of the business base as an alternative way for growth and the creation of value.

The Strategic Plan

The Plan establishes three essential strategies, which define the actions to be undertaken, and three cross-cutting strategies, which address the action criteria for its implementation.



ESSENTIAL STRATEGIES



CROSS-CUTTING STRATEGIES



ESSENTIAL STRATEGIES

In the period 2014-2016, highly relevant actions were undertaken that contributed to the deployment of the essential and cross-cutting strategies defined in the Strategic Plan 2014-2019. Some of the most relevant actions associated with

the degree of accomplishment of each strategy are set out below, although in the various chapters of this report, the actions carried out in 2016 are described in greater detail.

EXECUTION OF THE 2014-2016 PLAN



MORE THAN
1,600
km
OF NEW
LINES
—
300 new
substation
bays

Development of the TSO role

Red Eléctrica's main activity is linked to their status as sole transmission agent and operator of the Spanish electricity system. Therefore, the main strategy of the Company is based on the development of an increasingly meshed and robust transmission grid that is better interconnected, and in its contribution, as a key element in the functioning of the electricity system. This enables the challenge of sustainable development to be a reality through the integration of renewable energy and promoting projects aimed at energy efficiency and innovation.

Execution of the Plan in the 2014-2016 period

- **Approval of the new regulatory framework** that guarantees the stability of the electricity transmission activity, promotes the efficiency and availability of the grid.
- Approval of the Energy Planning by the Council of Ministers: **Electricity transmission grid development plan 2015-2020**.

- **Holding of the first auctions for the provision of the interruptibility service.**
- **Commissioning of the Puebla de Guzmán-Portuguese border line**, which has made it possible to increase the interconnection capacity between Spain and Portugal and provide greater operational security.
- **Bringing into commercial operation of the interconnection with France** through the eastern Pyrenees; a project that represented a huge technological challenge and that doubles the exchange capacity with the European system.
- **Commissioning of the Majorca-Ibiza interconnection** to strengthen the electricity integration of the Balearic Islands and guarantee the reliability of the supply.
- **Commissioning of more than 1,600 km of new lines** and more than 300 new substation bays in the period 2014-2016.
- **Incorporation into the entity called CORESO (COOrdination of Electricity System Operators) the coordinating body for regional security**, composed of several European TSOs, to promote greater and improved coordination between operators in order to maintain the security of the European electricity system.

The Strategic Plan is based on the optimisation of efficiency levels, generating value through improved operating margins.



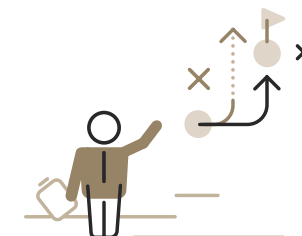
Efficiency

The Company has started a process for the analysis and revision of processes, seeking to improve current levels of efficiency. This approach requires the promotion of a corporate management and culture focused mainly on the optimisation of construction and maintenance activities, which have the greatest economic and financial impact, and the continuous improvement at an operational and process level.

Achieving greater efficiency will help to mitigate the impact of the lower profitability of new investments in accordance with the new remuneration model, generating value through the improvement of operating margins.

Execution of the Plan in the 2014-2016 period

- **Optimisation of financing** through the repurchase of bonds.
- **Refinancing REDESUR** through a bond issue in Peru.
- **Defining a framework** for relations between the companies of the Group and the different management areas of Red Eléctrica de España to act as the foundations on which to build the pillars for growth and the diversification of the Company.
- **Identification of efficiency levers** to improve margins.
- **Containment** of operating and structural costs.



+

In the 'Strategy' section of the corporate website.



Expansion of 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, both in Spain as well as internationally, in order to drive growth in the coming years.



This strategy includes the development of regulated activities other than current and non-regulated activities in the field of telecommunications and infrastructure management, as well as expansion in other geographical areas.

INTERNATIONAL BUSINES

The acquisition in Chile of 50% of TEN (Transmisora Eléctrica del Norte) expands the international business base of the Company.

Execution of the Plan in the 2014-2016 period

- **Commissioning** of the Tintaya-Socabaya line in Peru in May 2014.
- **Transfer and commercial operation and management** of the Adif dark fibre optic network for a period of 20 years, making Red Eléctrica the neutral operator of reference for fibre optic networks in Spain.

- **Creation of Red Eléctrica Infraestructuras de Telecomunicación (REINTEL)** wholly owned by Red Eléctrica Corporación.
- **Signing of the agreement for the transfer of the Soria-Chira pumped-storage power station project.** The permitting process of the project began in 2016.
- **Creation of Red Eléctrica Infraestructuras en Canarias (REINCAN)**, the new subsidiary wholly owned by Red Eléctrica Corporación, which will manage the construction of facilities for the energy storage in the Canary Islands.
- **Concession contract awarded** to Red Eléctrica Internacional for the 220 kV Azángaro-Juliaca-Puno line in Peru.
- **Business restructuring** of the subsidiaries in Peru.
- **Acquisition of 50% of the share capital of Transmisora Eléctrica del Norte (TEN)**, to participate in the construction and commercial operation of the Mejillones-Cardones line in Chile.
- **Awarding of the concession contract for the Montalvo-Los Héroes line** in Peru.
- **Progress made in the construction of the facilities** associated with the Peruvian and Chilean concession contracts, with the TEN project being the most relevant and whose commissioning is foreseen in 2017.

CROSS-CUTTING STRATEGIES

Innovation

Innovation implies a cultural change, which is not limited only to the activity of R&D+i. Therefore, innovation is presented with a greater scope, being an integral part of the operational process and enhancing technological development as a lever for growth that will respond to the great challenges of the future.

Execution of the Plan in the 2014-2016 period

- **Development of various R&D+i projects** aimed at improving system efficiency, the integration of renewables and energy storage, noteworthy of which are:
 - **Installation of a flywheel in Lanzarote.**

- **Installation of a large-scale energy storage battery** in the Carmona substation (ALMACENA project).
- **Implementation of the PRICE project** for the large-scale deployment of demand-side management measures.
- **Completion of the ESP-Líder project** (re-directing of power flows) of the INNPACTO programme.
- **Development of the European BEST PATHS and MIGRATE projects.**
- **Approval of a new innovation strategy** focused mainly on four vectors: digitalisation, people, sustainability and technology.
- **Receiving the EPRI award for research into the impact of energy storage on electricity systems.**

People

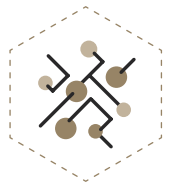
Red Eléctrica is committed to a healthy workplace that is conducive to the organisation of work and well-being of employees, enabling the optimisation of resources and boosting talent in order to face the challenges of the Company.

Execution of the Plan in the 2014-2016 period

- **Design of a comprehensive talent management model** with the aim of homogenising training and development systems and knowledge management.

- **Creation of banks of potential** and the promotion of quality of the associated programmes, in collaboration with prestigious business schools.
- **Implementation of the LIDERAT training programme** for the management team.
- **Definition of criteria and metrics** regarding functional and geographical mobility.
- Publication of the first **Healthy Workplace Annual Report.**

TECHNOLOGICAL INNOVATION



CARRYING OUT OF INNOVATION PROJECTS

Focused on improving the efficiency and sustainability of the electricity system



The Strategic Plan maintains the objective of consolidating our position as a company that is sustainable and committed to society.

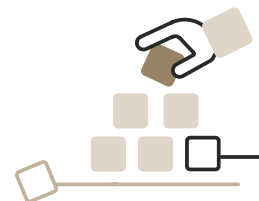
Excellence

At an excellence level, the objective of the Strategic Plan is that the Company maintain its current position of reference, at the same time strengthening the active management of corporate reputation and brand and the communication with stakeholders, maintaining the goal of consolidating itself as a sustainable company, through an ethical and committed management to society and developing an approach based on excellence and corporate responsibility.

- **Approval of the Climate Change Action Plan** for the period 2015-2020.
- **Implementation of the LBG (London Benchmarking Group) methodology** to measure the Company's social contribution.
- **Completion of the** process of separation of the executive functions and duties corresponding to the CEO, from those of control and supervision corresponding to the Chairman.
- **Obtaining +700 points in the evaluation of the EFQM model**, a level that few companies in Europe have.
- **Consolidation in the DOW JONES** Global and European sustainability indexes.
- **Obtaining the 'Top Performer' recognition** in the sustainability assessment carried out by Vigeo Eiris.
- **Incorporation into** the carbon footprint registry.

Execution of the Plan in the 2014-2016 period

- **Approval** of the Company's first Corporate Governance Policy.
- **European environmental award** for the Company in the special category of Business and Biodiversity.
- **Sustainable** mobility plan.



RECOGNITION

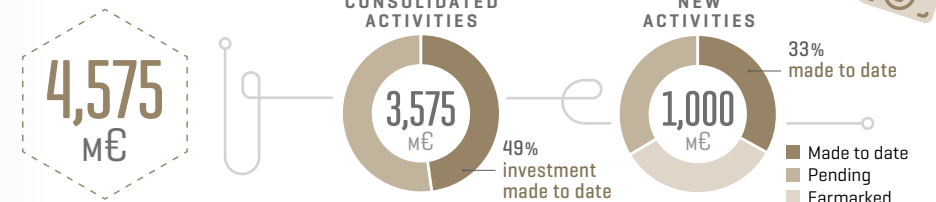
2016

Obtaining the 'Top Performer' recognition for the responsible integration of social and environmental factors in the supply chain.



STRATEGIC PLAN UPDATE ACHIEVEMENTS 2014-2016

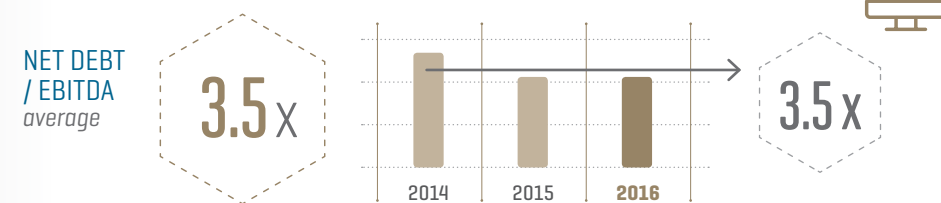
INVESTMENT 2014-2019



EFFICIENCY 2014-2019



FINANCIAL STRUCTURE 2014-2019



GROWTH 2014-2019

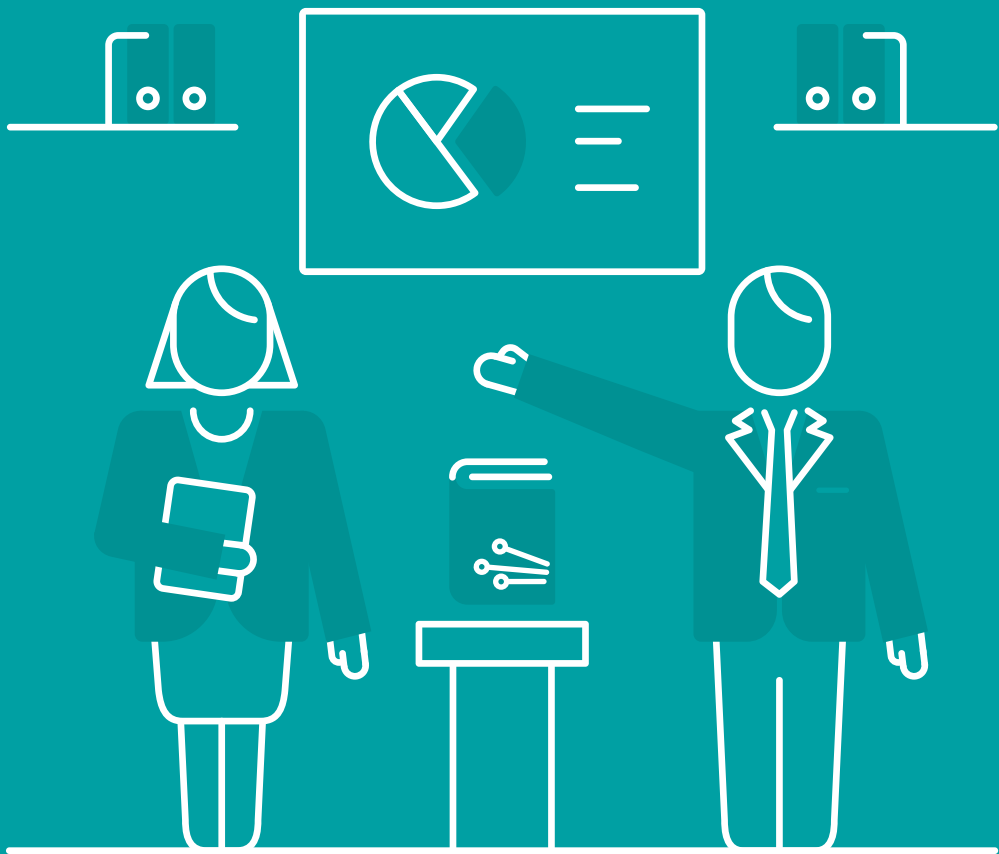


(1) Calculated using 2013 as the base year.



03 CORPORATE GOVERNANCE

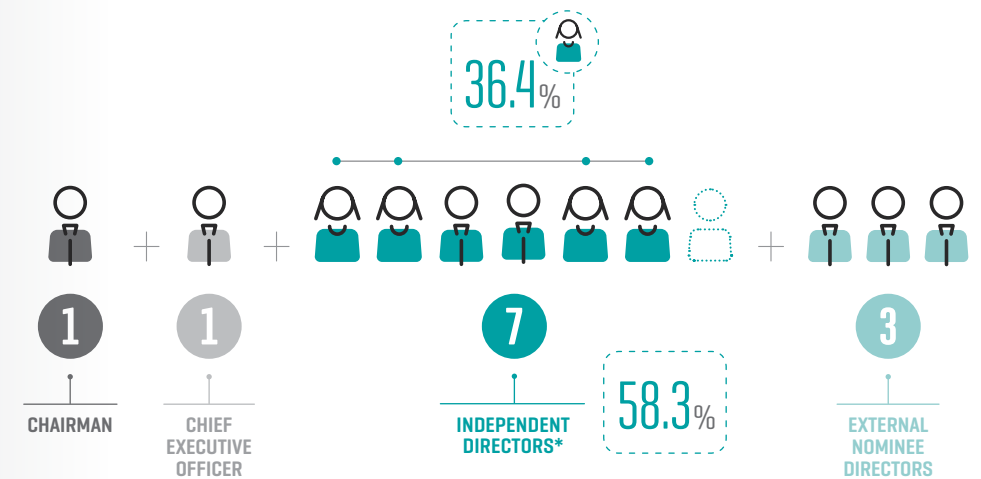
CONNECTED TO ETHICS, INTEGRITY, TRANSPARENCY AND GOOD GOVERNANCE



GOVERNANCE STRUCTURE OF THE COMPANY

GENERAL SHAREHOLDERS' MEETING

BOARD OF DIRECTORS / AS AT 31 DECEMBER 2016



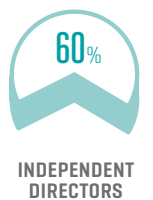
APPOINTMENTS AND REMUNERATION COMMITTEE*

CHAIRWOMAN
Female lead independent director



AUDIT COMMITTEE

CHAIRMAN
Independent director



* As at 31 December 2016, there was one post vacant for an independent director.

GOOD GOVERNANCE OF THE COMPANY

From the outset, Red Eléctrica has maintained a constant and firm commitment to adopting best corporate governance practices.

This is made possible not only by complying with the applicable legal regulations and the most widespread national and

international recommendations on the subject, but also by voluntarily implementing a series of measures and initiatives targeted at the core of the most important issues regarding good governance of the Company, and which are of most concern and are demanded by shareholders, investors and the markets.

RECOGNITION 2016



BEST EUROPEAN UTILITY
IN CORPORATE GOVERNANCE MATTERS

By the prestigious publication 'Ethical Boardroom Magazine'



In the 'Corporate governance' section of the corporate website.



SHAREHOLDER STRUCTURE

Foreign Institutions	66%
SEPI	20%
Minority Shareholders	10%
Spanish Institutions	4%

SEPI: State Owned Industrial Holding Company.



Noteworthy actions in 2016

- Culmination of the process for the **separation of the positions** of Chairman of the Board and Chief Executive Officer (CEO).
- Publication of an interactive version on the website of **the corporate governance story** of the Company since it went public.
- Approval of the **criteria for communication with shareholders, institutional investors and proxy advisors**, in order to promote their commitment through open, transparent and sustainable dialogue.
- **Recognition as the best European Utility in Corporate Governance in 2016**, by the prestigious English publication 'Ethical Boardroom Magazine'.
- **Red Eléctrica is included again in the Dow Jones Sustainability Index**, with a high score in the section on Corporate Governance.
- **Dissemination and communication actions** for our stakeholders on corporate governance matters.
- Modification of the **Regulations of the Board of Directors** following the separation of the positions of Chairman and Chief Executive Officer to incorporate the most recent recommendations in corporate governance.
- Implementation of the **new Compliance System**.
- **Updating** of the Comprehensive Risk Management Policy.

GENERAL SHAREHOLDERS' MEETING



The guarantees and rights of shareholders are regulated in Red Eléctrica's Corporate By-laws and in the Regulations of the General Shareholders' Meeting. The most relevant aspects are the following:

- No minimum number of shares required to attend the Meeting.
- Representation at the Meeting by any person, without having to be a shareholder.
- Separate voting on each matter submitted for approval at the Meeting.
- External audit of the management processes of the General Shareholders' Meeting.
- Vote certification.

PERCENTAGE OF ATTENDEES AT THE GENERAL SHAREHOLDERS' MEETING



% over share capital.

Transparency and participation

Red Eléctrica pays special attention to the right to information, as well as facilitating the maximum participation of shareholders at the General Meeting. Some of the key mechanisms are:

- Implementation of the **electronic voting system** at the General Shareholders' Meeting since 2005.
- **Section on the corporate website** with complete information regarding the General Shareholders' Meeting.
- **Live broadcast** of the Meeting via Internet, with simultaneous translation in English and sign language in Spanish.
- Shareholders' **Electronic Forum**.
- Dissemination via **social networks**.
- **Shareholders and investors office**.

AVERAGE PERCENTAGE OF VOTES



90.5%

IN FAVOUR OF THE APPROVAL OF AGREEMENTS

In the General Shareholders' Meeting 2016



BOARD OF DIRECTORS

DIVERSITY ON THE BOARD



36.4

%

FEMALE BOARD MEMBERS
[5.6 percent points less than in 2015]

Average IBEX 35 15.6% in 2015

SEPARATION OF POSITIONS

The separation of the functions and duties of the Chairman of the Board and the CEO was concluded at the 2016 General Shareholders' Meeting, with the full separation of both positions.

Balance of powers

Red Eléctrica establishes in its Corporate Governance Policy the essential guideline to preserve an adequate balance and proportionality in the powers within the structure and composition of the Board of Directors, by adopting the necessary measures to enable action with unity of purpose and impartiality of criteria, pursuing the Company's interests and that of its shareholders, as well as the sustainability of the Company.

In 2015, with the appointment of Juan Lasala Bernad as CEO of the Company, the process for the separation of powers between the positions of Chairman of the Board of Directors and that of CEO was initiated, establishing a transitional period that culminated at the General Shareholders' Meeting of 2016 with full separation of functions between both positions. As of the 2016 Meeting, the Chairman of the Board of Directors only has those responsibilities exclusively attributed to said position.

Until the General Shareholders' Meeting of 2016, the Chairman maintained executive powers, focusing his efforts on managing, supporting and supervising the transfer of executive powers in favour of the new CEO, so that said transfer occurred in a rational and orderly manner during the

transitional phase. Therefore, the CEO assumed executive functions from the date of his appointment.

Moreover, the Board maintains the figure of the Lead Independent Director, with the responsibilities attributed to it, as an effective corporate governance practice, as recognised by shareholders and proxy advisors.

Remuneration of the board

The Company applies the principle of maintaining a remuneration policy of the Board of Directors based on the principles of moderation, relationship with its effective dedication, alignment between the long-term strategies and interests of the Company and its shareholders and other stakeholders, incentive in nature, but that by its amount does not condition the independence of the director.

The remuneration of the Board of Directors was approved by a majority vote at the General Shareholders' Meeting 2016.



BOARD OF DIRECTORS / AS AT 31 DECEMBER 2016

CHAIRMAN

José Folgado Blanco



CHIEF EXECUTIVE OFFICER

Juan Lasala Bernad



EXTERNAL NOMINEE DIRECTORS (SEPI)



Fernando Fernández Méndez de Andés
Member of the Audit Committee

Santiago Lanzuela Marina
Member of the Audit Committee



José Ángel Partearroyo Martín
Member of the Appointments and Remuneration Committee



GENERAL COUNSEL AND SECRETARY OF THE BOARD



Rafael García de Diego
Non-Board Director

EXTERNAL INDEPENDENT DIRECTORS*

Antonio Gómez Ciria
Member of the Audit Committee



M^a Ángeles Amador Millán
Member of the Appointments and Remuneration Committee



Carmen Gómez de Barreda Tous De Monsalve
Chairwoman of the Appointments and Remuneration Committee and Lead Independent Director



José Luis Feito Higuera
Chairman of the Audit Committee



María José García Beato
Member of the Audit Committee



Socorro Fernández Larrea
Member of the Appointments and Remuneration Committee



* As at 31 December 2016, there was one post vacant for an independent director.

RISK MANAGEMENT



The Red Eléctrica Group has a Comprehensive Risk Management System established whose objective is to ensure that the risks, which could affect the strategies and objectives of the Group, are systematically identified, analysed, assessed, managed and controlled with uniform criteria and within the established risk limits, so as

to facilitate the fulfilment of such business strategies and objectives.

This system has a Comprehensive Risk Management Policy and a General comprehensive risk management and control Procedure, approved by the Board of Directors and the Executive Committee respectively, which are based on the Comprehensive Framework for Corporate Risk Management COSO II (Committee of Sponsoring Organisations of the Treadway Commission). In addition, the Comprehensive Risk Management System conforms to the ISO 31000 standard on principles and guidelines on risk management.

RISK STRUCTURE 2016



RISK ANALYSIS

In this fiscal period, a risk analysis methodology has been developed regarding project management.

INTEGRITY MODEL

Red Eléctrica considers ethics, integrity and transparency as fundamental pillars for the good operation of the business. This involves acting with the utmost integrity in the performance of the obligations and functions entrusted to the Company, as well as in the relationships with and commitments to its stakeholders.

In addition, the Company is developing a new **Regulatory Compliance System** aligned with best practices in this area, in order for the organisation to adequately respect the obligations established and the commitments undertaken and thus develop a proactive culture towards the management of risk regarding non-compliance.

To do this, Red Eléctrica has a number of rules of conduct that establish corporate values and performance criteria that must be undertaken by all persons within the Company in the execution of their professional activities.

In this regard, continuing the Plan to raise awareness about ethics management that has been carried out since 2014, a Plan has been launched for the dissemination of the Compliance System and to raise awareness of the same that will extend throughout 2017.

COMPLIANCE SYSTEM

In 2016, work was undertaken on the implementation of a new Regulatory Compliance System.

INTEGRITY MODEL



04 MANAGEMENT APPROACH

CONNECTED TO EXCELLENCE AND SUSTAINABILITY



CORNERSTONES OF THE CORPORATE RESPONSIBILITY MANAGEMENT SYSTEM

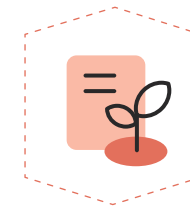
Sustainability, ethics and responsibility



1. STRATEGIC PLAN

Defines excellence and corporate responsibility as one of its cross-cutting strategies, in order to consolidate the Company as a sustainable company.

Approved by the Board of Directors



CORPORATE RESPONSIBILITY PROGRAMME

Fulfilment linked to a management goal



2. CORPORATE RESPONSIBILITY POLICY

Establishes the principles and guidelines regarding corporate responsibility, gearing the business activities towards a sustainable management model and focusing on the creation of value.

Approved by the Board of Directors



5. MONITORING AND ASSESSMENT

Definition of the tools that allow the assessment and supervision of the implementation and execution of the Corporate Responsibility Plan.

Dashboard and audits



4. CORPORATE RESPONSIBILITY PROGRAMME

Encompasses the most relevant projects carried by the Company within the corporate responsibility scope.

Approved by the Sustainability Management Committee

96% fulfilment of the 2016 annual programme



3. CORPORATE RESPONSIBILITY PLAN

Sets out the commitments undertaken by the Company and establishes the action framework regarding corporate responsibility that defines the course of action for the next three years.

Approved by the Appointments and Remunerations Committee of the Board

COMMITMENT TO SUSTAINABILITY

Red Eléctrica maintains a commitment to sustainability through the creation of shared value for all its stakeholders and society in general, carried out by means of a management system based on guidelines of responsible action.

Therefore, management focused on the application of best practices in corporate responsibility is one of the key actions of the Strategic Plan 2014-2019 undertaken by the Company.

The management of corporate responsibility

Red Eléctrica's commitment to sustainable development is reflected in the principles and guidelines defined in its Corporate Responsibility Policy and is materialised through a multi-year plan that defines the medium-term framework for action regarding corporate responsibility.

The Corporate Responsibility Plan (2014-2016), is structured into five management areas. Each one of these areas is deployed across specific courses of action that involve all areas of the Company for its effective implementation.

Based on these courses of action, each year Red Eléctrica defines its corporate

responsibility programme by means of projects that contribute substantially and strategically to furthering the objectives established in said Plan. At the close of 2016, the degree of overall fulfilment of the programme was 96%. It is worth noting that from 2015, fulfilment of this programme is a management goal that has an impact on staff remuneration.

Sustainability model of the Red Eléctrica Group

Throughout 2016, has worked on the design of the **Sustainability Model of the Red Eléctrica Group**, with a horizon of 2030. Its objective is to establish a common framework for sustainability that combines all the actions carried out in this area by all the companies of the Group, in order to give a better response to its stakeholders, increase efficiency and showcase the Group's commitment and performance in sustainability. The design process for this model, whose approval and implementation is scheduled for 2017, has taken into account the targets set by

the United Nations Sustainable Development Goals.

Presence in sustainability indexes

In 2016, Red Eléctrica consolidated its presence in the Dow Jones Sustainability World and Dow Jones Sustainability Europe Indexes, improving its overall score and leading the electric utilities sector in nine areas of sustainability.

Stakeholders

Among the measures taken in 2016 within the framework of the stakeholder management system, noteworthy is the analysis of the existing alliances in Red Eléctrica, linking them to the Company's Strategic Plan and to the stakeholder groups. Similarly, training sessions for the leaders of the project were held to improve the management of stakeholders in the implementation of electricity infrastructure projects.

STAKEHOLDER SATISFACTION



AVERAGE OVERALL ASSESSMENT

8.2

OUT OF 10

From all the stakeholders analysed

RED ELÉCTRICA

Has reached the maximum score (100 points) in the 'Stakeholder commitment' criteria of the Dow Jones Sustainability Index.



AREAS OF ACTION OF CORPORATE RESPONSIBILITY



DISTINCTION

Red Eléctrica has received the 'Silver Class' distinction in 'The Sustainability Yearbook 2017' from RobecoSAM.

Main recognitions regarding sustainability



05

SUSTAINABLE ENERGY

CONNECTED TO THE PROVISION OF A SECURE AND EFFICIENT ELECTRICITY SERVICE OF THE HIGHEST QUALITY



CORNERSTONES FOR ACHIEVING SUSTAINABLE ENERGY

The value of a secure, efficient and sustainable energy supply



INTERCONNECTIONS BETWEEN SYSTEMS

Strengthening of interconnections to improve the security of supply, achieve a greater integration of renewables and reduce costs for the electricity system as a whole.

Commissioning of the Majorca-Ibiza double link



SUSTAINABLE DEVELOPMENT OF THE TRANSMISSION GRID

Construction of new facilities in order to increase transmission capacity, strengthen grid meshing and facilitate connections between electricity systems.

674 km of new lines and **61 new** substation bays

43,664
km
OF LINES
IN SERVICE



ENERGY EFFICIENCY

Development of initiatives aimed at achieving a more efficient management of the electricity system in the fields of demand-side management, energy storage or smart grids.

Carrying out projects for the improvement of system efficiency (PERFILA, ALMACENA, ...)



INTEGRATION OF RENEWABLES

The safe integration of renewable energies to contribute to the reduction of polluting emissions, and to reduce Spain's dependence on foreign energy.

40.8% of the electricity demand covered with renewable energies



TECHNOLOGICAL INNOVATION

Incorporation of new innovative technologies in order to increase the security, efficiency and sustainability of the electricity system.

New innovation strategy
76 R&D+i projects
€8.6m in investment

QUALITY AND SECURITY OF SUPPLY

Red Eléctrica, as transmission agent and operator of the Spanish electricity system, is responsible for helping to make the objectives of the energy policy viable in regard to providing a secure and efficient electricity supply that is respectful to the environment.



For this reason, all our actions are aimed in some way at realising the commitment of the European Union to the energy targets and the fight against climate change. In this regard, noteworthy is the legislative proposal announced in 2016, known as the 'Winter Package', for achieving clean energy for all European citizens. This regulatory proposal is a further step in the transition towards clean energy that started with the definition of the European Union's strategy on the 'Energy Union'. A strategy

broken down into **five closely related dimensions**, the ultimate goal of which is to boost energy security, sustainability and the competitiveness of the energy market.

Sustainable development of the transmission grid Electricity infrastructure planning

The current infrastructure planning, approved by the Council of Ministers in October 2015, covers a period of 6 years and is binding in nature for Red Eléctrica.

This planning includes the projects for new transmission grid infrastructure necessary to guarantee the electricity supply nationwide, considering the aspects of economic efficiency and sustainability of the electricity system.

Dimensions of Europe's strategy on the 'Energy Union'

1. **Reduce energy dependence and increase energy solidarity.**
2. **Achieve a fully integrated European energy market.**
3. **Foster energy efficiency as a means to moderate demand.**
4. **Decarbonise the economy.**
5. **Increase research innovation and competitiveness.**

2015-2020 PLANNING



ESTIMATED TOTAL INVESTMENT

4,554
M€

In the development of new electricity infrastructure

CORNERSTONES OF THE TRANSMISSION GRID PLANNING / 2015-2020



In addition, physical, technological and environmental feasibility has been taken into account in the analyses carried out, prioritising among them those alternatives that allow a better use of the existing grid.

A fundamental aspect of this planning is the development of the **interconnections between electricity systems**: international interconnections, links between island systems and connections between the Peninsula and the non-peninsular electricity systems.

In this area, noteworthy are the projects to increase **the electricity exchange capacity between Spain and France** because of its great influence on the quality and security of the electricity systems and the integration of renewable energies.

In this regard, to improve the Spain-France interconnection, a phase shifter for the 220 kV Arkale-Argia line (planned for 2017) is included in the 2015-2020 horizon. Nevertheless, the set of actions that will allow a significant increase in exchange capacity is set out for beyond 2020 due to the great magnitude of the following projects: a submarine interconnection in direct current through the Bay of Biscay and two interconnections through the Pyrenees, one via Navarra and another via Aragón. Regarding the **interconnection with Portugal**, the planning includes a project in the area of Galicia between Fontefría and Vilafría for 2017.

As for the **interconnections between island systems**, eleven new links between islands are included that will allow the connection of isolated systems

2015-2020 INFRASTRUCTURE PLANNING



NEW
INTER-CONNECTIONS WITH FRANCE AND PORTUGAL

To increase electricity exchange capacity



GRID CONSTRUCTION 2016



NEW LINES
674
km
OF LINE
61 new substation bays

In 2016, the Majorca-Ibiza double link was commissioned, thus consolidating the process of electrical integration of the Balearic Archipelago.

or the strengthening existing connections, which will represent an increase in the security of supply and a reduction in generation costs.

Of the links indicated, eight correspond to the period 2015-2020: five in the Balearic Islands (of which, the two links between Majorca and Ibiza have already been commissioned) and three in the Canary Islands).

Finally, with regard to the **Peninsula's interconnections with non-peninsular electricity systems**, a link with Ceuta is planned for 2020 and a second link with Majorca post 2020. Both facilities will reduce generation costs and significantly improve the

guarantee of supply in the systems of Ceuta and the Balearic Islands.

Construction of the transmission grid

In 2016, investments in the transmission grid have mainly been earmarked for grid meshing, the execution of unique international interconnection projects and submarine interconnections between islands, and the need to ensure the security of supply and the reliability of the grid.

In this fiscal year, 674 km of new line and 61 new substation bays have been commissioned, and transformer capacity has been increased by 600 MVA, representing a total investment in the transmission grid of 398.5 million euros.

During 2016, the most significant actions undertaken

INVESTMENT IN THE TRANSMISSION GRID M€



regarding the development of the transmission grid were, by large axes, the following:

- **Asturias-Galicia axis:** the purpose of this axis is to guarantee the quality and security of supply by incorporating 361 km of line connecting northern Galicia and western Asturias in order to meet the foreseen consumption in this area, and facilitate the evacuation of new generation in the upcoming years. In 2016, the 163 km Boimente-Pesoz line was commissioned.
- **Aragón-Levante axis:** This axis aims to resolve technical constraints and allow the evacuation of wind energy from Aragón into Castellón. The axis links the Aragón Fuendetodos, Muniesa, Mesquita, Morella and Mudéjar substations by means of a network of 414 km of line. In 2016, the 234 km Mezquita-Morella line was commissioned.
- **Godolleta axis:** aims to resolve the 400 kV and 220 kV technical constraints in the province of Valencia. The construction of the Godolleta substation and the associated incoming/outgoing feeder lines will facilitate the evacuation of generation from Aragón, while allowing a new point of support from the 400 kV grid to the 220



kV grid that will feed the city of Valencia. In 2016, the Godolleta 400/220 kV substation and two of the three associated incoming/outgoing feeder lines that form this axis were commissioned.

• **Torremendo Axis:** its objective is to resolve the lack of grid meshing at a 220 kV level in Murcia and Alicante, and thus to solve the risk of loss of supply due to the important increase in demand in the regions in recent years. In 2016, progress has been made on the construction of the axis with the commissioning of the Torremendo substation, the associated incoming/outgoing feeder line and the Torremendo-San Miguel de Salinas line.

GRID INVESTMENT

Investments have been earmarked for grid meshing, the execution of interconnection projects between systems and the need to guarantee security of supply.





with the objective of increasing the electricity transmission capacity with Europe through France, by means of a submarine interconnection through the Bay of Biscay, two trans-Pyrenean interconnections via Navarra and Aragón. The expected commissioning date for all these interconnections is post 2020.

- **Sabinal Axis:** The strengthening of this axis enables the security and guarantee of supply to be increased and the reliability of the electricity system of Gran Canaria to be improved. In 2016, the Sabinal substation and the associated incoming/outgoing feeder lines were commissioned.

- **Interconnections with France:** In 2016, three new interconnections were designed

- **Majorca-Ibiza interconnection:** this link aims to eliminate the electrical isolation of Ibiza, in addition to saving costs for the system and promoting competition in electricity generation on the islands. In 2015, the first cable of the link was commissioned and in February 2016 the second cable of the submarine interconnection was also commissioned, consolidating the process of the electrical integration of the entire Balearic archipelago and its connection to the Peninsula.

ELECTRICITY TRANSMISSION GRID INFRASTRUCTURE

Km of line	43,664
Overhead lines [km]	41,898
Submarine cable [km]	835
Underground cable [km]	930
Substation bays [n°]	5,489
Transformer capacity [MVA]	85,144

Peninsular and non-peninsular cumulative data as at 31 December 2016.

RENEWABLE ENERGIES

Renewable energy production has covered 40.8% of annual demand.

For yet another year, grid reliability and availability indicators have registered highly satisfactory values

Service quality

Red Eléctrica's mission is to guarantee that the facilities of the transmission grid are always in optimal condition in terms of availability and reliability through the implementation of responsible, efficient and safe maintenance policies. To do this, according to the strategic plan of the Company, a maintenance programme is established annually, which includes all the activities and resources necessary to guarantee the continuity and security of the electricity supply.

system has been to guarantee the security and quality of the electricity supply, maximising the integration of renewable energies.

Demand for peninsular electricity in 2016 has shown a slight increase of 0.7% over the previous year. After factoring in the seasonal and working patterns, demand is at the same level as in 2015.

During 2016, the share of renewable energies in the coverage of the **peninsular electricity system** represented 40.8%, which is 3.9 percentage points more than in 2015.

Noteworthy is the significant contribution of wind generation to the annual energy production,

Electricity system operation

For yet another year, the fundamental objective of the operation of the electricity

QUALITY OF SERVICE 2016



98.32

%

GRID AVAILABILITY INDEX

Of the peninsular transmission grid

SERVICE QUALITY INDEX FOR GRID AVAILABILITY

	2012	2013	2014	2015	2016
Peninsular transmission grid	97.78	98.20	98.18	97.92	98.32
Balearic Islands transmission grid	98.07	97.96	98.00	96.86	96.92
Canary Islands transmission grid	98.91	98.30	98.37	96.74	98.09



SPANISH PENINSULA-BALEARIC ISLANDS LINK



HAS COVERED

21

%

OF THE BALEARIC ISLANDS DEMAND IN 2016

whose contribution has reached 19%, which ranks this technology in second place, behind nuclear energy, in terms of share among the different types of energy in the coverage of demand.

Regarding the **Balearic Islands electricity system**, the 132 kV double link between Majorca and Ibiza has been commissioned, which has made it possible to connect the two electricity systems of the Balearic archipelago, Majorca-Menorca and Ibiza-Formentera, to form a single electricity system.

This infrastructure, together with the link between the island of Majorca and the peninsular

COVERAGE OF THE PENINSULAR DEMAND WITH RENEWABLE ENERGIES [1]



[1] Renewables: hydro, wind, solar photovoltaic, solar thermal, other renewable and 50% of urban solid waste. Does not include pumped-storage generation.

electricity system, represent a substantial improvement in the quality and security of the electricity supply for the Balearic Islands as a whole, avoiding out-of-range frequency deviations and power outages caused by loss of generation.

The energy transferred from the Peninsula covered 21% of the demand of the Balearic Islands, reaching peaks that exceeded 30% of the hourly consumption. This has meant savings of 18% in the costs of coverage of the Balearic Islands system and has avoided the emission into the atmosphere in the order of 350,000 tonnes of CO₂ in the Balearic Islands territory.

In the **Canary Islands electricity system**, renewable generation - wind and photovoltaic - represented 8% of the total generation in 2016, reaching 29% in Gran Canaria and 35% in La Palma throughout the year, values that are particularly challenging in small isolated electricity systems.

Similarly, throughout 2016, the integration of renewable energy in the El Hierro electricity system has increased, thanks to the hydro-wind power station of Gorona del Viento. Thus, 43% of the total annual generation of this system came from

REDUCED EMISSIONS

In 2016, CO₂ emissions from electricity generation have been reduced, thanks to the greater integration of renewables.

renewable energy sources and this system was supplied with 100% renewable energy for more than 500 hours in the year.

Energy storage in the Canary Islands

In order to reduce the vulnerability, due to peaks in demand, or when facing certain situations of lack of generation, in small and isolated electricity systems such as those of the Canary Islands electricity system, it is crucial to **introduce energy storage systems**, such as pumped-storage power stations, which serve as tools for system operation to improve the guarantee of supply,

security of the system and integration of non-manageable renewable energy.

In this regard, the construction of the **pumped-storage power station** between the Soria and Chira reservoirs, whose permitting process began in 2016, is an essential tool to progress towards the sustainability of the new energy model in the Canary Islands, as it will make a greater development and use of renewable energies possible on the island of Gran Canaria.

Benefits of the Soria-Chira pumped-storage power station for the electricity system of the Canary Islands

Greater **GUARANTEE** of supply

The power station will have a turbine power capacity of 200 MW (around 36% of the current peak of the island's current demand), so it will increase the guarantee of the electricity supply in Gran Canaria.

Greater system **SECURITY**

The control capacity provided by this power station will make it possible to compensate for the variability of wind production foreseen in Gran Canaria, and to maintain the frequency values stable, thus guaranteeing the security of the system.

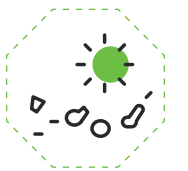
Greater **INTEGRATION** of renewable energies

With this power station, Gran Canaria's electricity system will have an essential facility to take advantage of renewable energy surpluses and to integrate a greater amount of local energy and that which produces zero CO₂ emissions.

Greater energy **INDEPENDENCE**

This facility will help reduce the costs of the Canary Islands electricity system by reducing the import of more expensive and polluting fossil fuels, which, will in, turn lead to greater energy efficiency and a reduction in polluting emissions.

ENERGY STORAGE IN THE CANARY ISLANDS



320

M€

INVESTMENT

In the Soria-Chira project

SORIA-CHIRA PROJECT

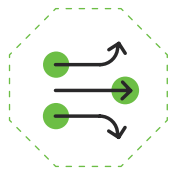
The Soria-Chira pumped-storage power station will have a turbine power capacity of 200 MW and pumping power capacity of 220 MW.



ENERGY EFFICIENCY



INTERRUPTIBILITY SERVICE AUCTIONS [2016 Outcome]



AWARDING
OF
2,975
MW
OF
INTERRUPTIBLE
RESOURCE
FOR THE
ELECTRICITY
SYSTEM IN 2017

IN THE RESIDENTIAL SECTOR

Red Eléctrica promotes the involvement of the consumer as a key player in the new energy model.

Red Eléctrica works actively on the promotion, development and dissemination of demand-side management initiatives that seek to contribute towards maintaining the guarantee and security of supply by promoting the integration of renewable energy sources, reducing the polluting emissions and promoting the sustainable use of energy in order to achieve a greater efficiency for the entire electricity system.

Among these initiatives, noteworthy on one hand are those aimed at achieving a more balanced consumption profile and on the other, those aimed at providing greater flexibility to the operation of the system.

Main actions

Active Citizen

Red Eléctrica drives initiatives to promote the involvement of the consumer as a key player in

the new energy model, making information available regarding the situation of the system, or disseminating recommendations on best practices for efficient consumption.

On the other hand, aware of the new reality that is already beginning to materialise in the new energy model such as self-consumption, in 2016 Red Eléctrica carried out forward planning and analysis studies to adapt the operation of the system and anticipate its impact.

Interruptibility Service

This service is a demand-side management tool provided by large power consumers that provides a fast and efficient response to the needs of the electricity system when faced with imbalances between generation and demand. In this regard, the industrial consumers who provide this service reduce, at the request of the system

In the industrial sector, for yet another year the allocation of the interruptibility service resource has been managed through competitive mechanisms.

operator, their consumption down to certain predetermined values.

In 2016, Red Eléctrica has managed a competitive allocation mechanism for the interruptibility service by means of an auction procedure, held between 14 and 17 November, which resulted in the allocation of 2,975 MW of interruptible resource for the system during the following year.

Profiling Service

With the objective of having a greater knowledge of the hourly consumption of households and a significant part of small shops and services, since 2013 Red Eléctrica has been in charge of the PERFILA project, which counts on the participation of the most important distribution

companies. This project is based on the analysis of hourly information from a panel of consumers who already have smart meters installed. The information collated is already being applied in the consumption profile proposals for 2015, 2016 and 2017.



Almacena Project

The Almacena Project consists of the field installation, and subsequent operation, of an electrochemical energy storage system, with a power output of 1 MW and a storage capacity of at least 3 MWh in the Carmona substation (Seville). During 2016, the behaviour of this innovative system has been further analysed and a comparative analysis has been carried out with other electrochemical storage systems encompassed within a project with EPRI (Electric Power Research Institute of the United States), in order to enrich the experience acquired, both in its integration into the electricity system as well as in its operation and maintenance.

PERFILA PROJECT

Red Eléctrica leads the PERFILA project that seeks to introduce improvements in the profiling service through a panel of approximately 20,000 consumers.



TECHNOLOGICAL INNOVATION

In 2016, Red Eléctrica approved a new **innovation strategy** with the purpose of boosting innovation as a lever for growth, cultural change and improvement of the Group's sustainability. This initiative aims to extend innovation to all areas of the business activity, focusing mainly on **four vectors**: digitalisation, people, sustainability and technology.

In this new strategy, the figure of the **vector coordinator**, who channels innovative ideas and proposals, participates in their evaluation and supervises the execution of the plans

and programmes of its vector, transferring information on the progress of the various actions to the Innovation Committee.

EPRI Award

The EPRI (Electric Power Research Institute), an organisation dedicated to research in the electricity sector has presented Red Eléctrica with one of its awards: the 2016 PDU 'Transfer Technology Award' for its collaboration in the analysis of the integration and impact of energy storage in electricity systems and, in particular, for the development of a model to maximise the integration of renewable energy in island systems.

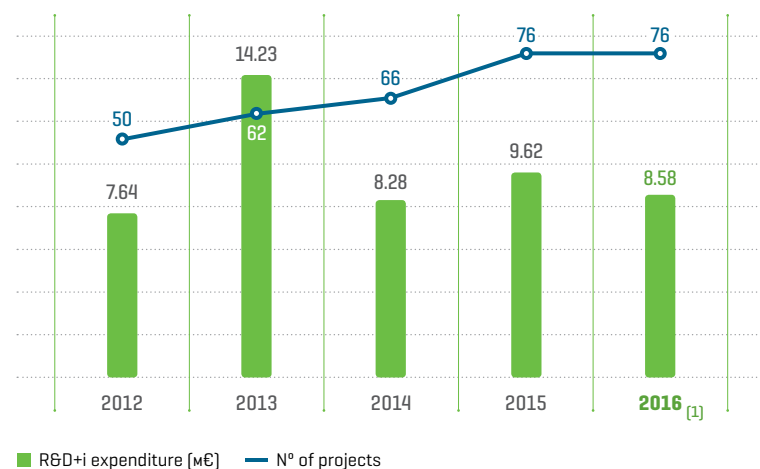
NEW INNOVATION STRATEGY 2016



FOCUSED ON FOUR VECTORS

Digitalisation, people, sustainability, technology

R&D+i EXPENDITURE



[1] Includes the projects and actions of the four vectors defined in the innovation strategy.

TECHNOLOGICAL INNOVATION

The innovation strategy was defined with the purpose of promoting innovation as a lever for growth and improvement of the Company's sustainability.

Main R&D+i projects undertaken in 2016

National projects

- **Monitoring of underground cables** using DTS (Distributed Temperature Sensors). *Completed in 2016.*
- **Inspection of electricity lines** for their upkeeping by means of photogrammetric methods from images obtained from an aircraft. *Completed in 2016.*
- **Monitoring and control system** based on synchrophasor measurements installed on the islands of Lanzarote and Fuerteventura. *Completed in 2016.*
- **Study of surges** due to ferroresonance in high voltage grids. *Completed in 2016.*
- **Use of drones** to capture geographical information and to inspect electricity lines. *Completed in 2016.*
- **Development and approval of the technique for the recovery of Posidonia oceanica seagrass meadows**, using seeds germinated in the laboratory and fragments of the species obtained from natural fragmentation. *Completed in 2016.*
- **Approval of the use of natural ester fluids as a refrigerant** in standard power transformers. *Completed in 2016.*
- **Methodology for the optimal management** of the entire vegetation treatment cycle of the 'safety corridors' of lines. *In progress.*
- **Design of a prototype** to improve the stability of frequency and voltage in small isolated systems (AMCOS-Stability FACTS Project). *In progress.*

International projects

BEST PATHS

Analysis to overcome the various technical barriers that the current pan-European electricity grid could encounter to safely and efficiently integrate reliable quantities of energy from renewable sources such as solar or offshore wind. Project coordinated by Red Eléctrica. *In progress.*

MIGRATE

Improved understanding of the behaviour of the electricity system with high penetration of devices based on electronic power (generators, loads, HVDC links, FACTS ...). *In progress.*

R&D+i PROJECTS 2016



76

GEARED TOWARDS ACHIEVING AN INCREASED EFFICIENCY OF THE ELECTRICITY SYSTEM

In the 'Red21' section of the corporate website.



06

CREATION OF VALUE

CONNECTED TO SOLID GROWTH AND A CLEAR ORIENTATION TOWARDS EFFICIENCY AND FINANCIAL SOUNDNESS



CORNERSTONES FOR THE CREATION OF VALUE

Financial soundness, solvency and solid growth

FINANCIAL RESULTS



636.9
M€
NET PROFIT

5.1% greater than 2015



SHAREHOLDER RETURN

Maximising returns for shareholders and investors, offering an attractive dividend yield, and contributing to the increase in the share price through efficient business management.

Dividend of €0.8587 per share,
7% higher than in 2015



FINANCIAL STRATEGY

A financial policy adapted to the new remuneration model, maintaining a long-term financial debt referenced mainly to fixed rates.

4,949.5 m€
of Net Financial Debt,
0.9% greater than 2015



SOUND RESULTS

Stable growth and clear orientation towards the permanent creation of value.

1,486 m€ EBITDA,
1.9% higher than 2015

EVOLUTION OF RESULTS

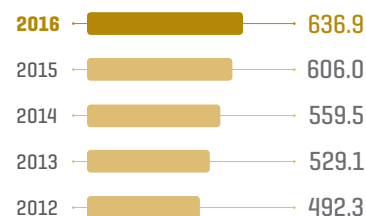
Net revenue for 2016 amounted to 1,932.3 million euros, compared to 1,938.9 million euros in 2015. This figure includes the remuneration of the transmission activity in Spain as well as the incomes resulting from the provision of telecommunications services, in the amount of 86.0 million euros, regulated incomes from system operation in the amount of 56.0 million euros and revenues derived from the transmission activity internationally, amounting to 19.8 million euros.

Gross operating profit (EBITDA) amounted to 1,486.0 million euros, showing growth of 1.9% year-on-year.

Profit for the year amounted to 636.9 million euros, a rise of 5.1% year-on-year.

Group **investments** in 2016 amounted to 643.1 million euros, of which 398.5 million euros were earmarked for the development of the national transmission grid, and 199.8 million euros for the acquisition of 50% of the share capital of the Chilean company *Transmisora Eléctrica del Norte (TEN)*.

NET PROFIT



MAIN FINANCIAL INDICATORS

	2015	2016	Δ%
Revenue	1,938.9	1,932.3	-0.3
Gross operating profit (EBITDA)	1,458.4	1,486.0	1.9
Net operating profit (EBIT)	989.0	1,003.3	1.4
Profit before tax	829.7	850.8	2.5
Profit for the period	606.0	636.9	5.1
Non-current assets	9,156.5	9,256.8	1.1
Equity	2,760.6	2,920.5	5.8
Net Financial Debt	4,905.9	4,949.5	0.9
Operating cash flow after taxes	1,134.9	1,146.9	1.1
Investments	447.8	643.1	43.6

EBITDA 2016



In the Consolidated Annual Accounts Report



FINANCIAL STRATEGY



The financial strategy

traditionally followed by Red Eléctrica is geared towards reflecting the nature of the business it carries out, whilst adapting to the legislation in force at each moment.

Transmission and operation of the electricity system are very capital-intensive activities, wherein investments mature over long periods.

In addition, the remuneration of these assets is for periods of 40 years at rates linked to

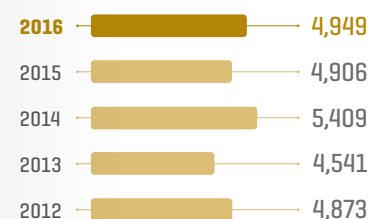
Credit rating

Red Eléctrica has been given a long-term credit rating of 'A-' by Standard & Poor's with a stable outlook and a short-term rating of 'A-2'. Meanwhile, Fitch has given Red Eléctrica a long-term rating of 'A', with a stable outlook, and 'F1' in the short term.

Both rating agencies indicated the predictability and recurrent earnings as well as the soundness of its income statement as some of the Company's strengths

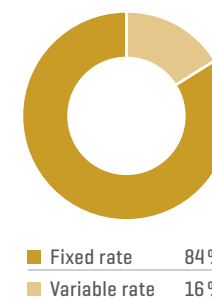
Spanish long-term government debt. Therefore, our financial debt is primarily long-term and referenced mainly at fixed rates.

NET FINANCIAL DEBT

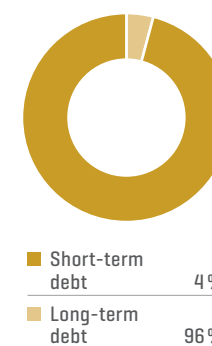


FINANCIAL DEBT

FIXED VS. VARIABLE RATE



SHORT-TERM VS. LONG-TERM



SHAREHOLDER RETURN



Stock Market Performance

Once again, the United States has led the rankings in terms of stock market performance, achieving double-digit increases in some cases. Among the major US indicators, the Dow Jones has performed the best closing with a 13% increase, followed by the S&P 500 which increased 10% and the Nasdaq which went up more than 7.5%.

The stock market performance in Europe has been more moderate, although the FTSE 100 was 14% up in London. The rest of the European stock exchange markets closed with positive signs, Paris (+5%), Frankfurt (+7%), with the exception of the Italian stock market, which closed 10% down and the Spanish market which fell 2%.

Red Eléctrica shares

2016 has been a challenging fiscal period for the utilities.

During the year, Red Eléctrica's share price dropped 7%, despite the favourable reception of the 2014-2019 strategic plan, which is characterised by the setting of challenging objective and a competitive dividend yield for shareholders.

As a notable milestone in the period, it should be noted that on 11 July, the new shares of the Company began to be traded after the splitting of shares was approved by the General Shareholders' Meeting and carried out in a 4:1 ratio, changing its nominal value from €2 to €0.5 per share and maintaining the capital stock intact. In 2016, as a whole, 714.4 million shares were traded, representing 1.32 times the Company's share capital. Purchases made in cash totalled 13,432 million euros, down 28% on the previous year which totalled 18,537 million euros.

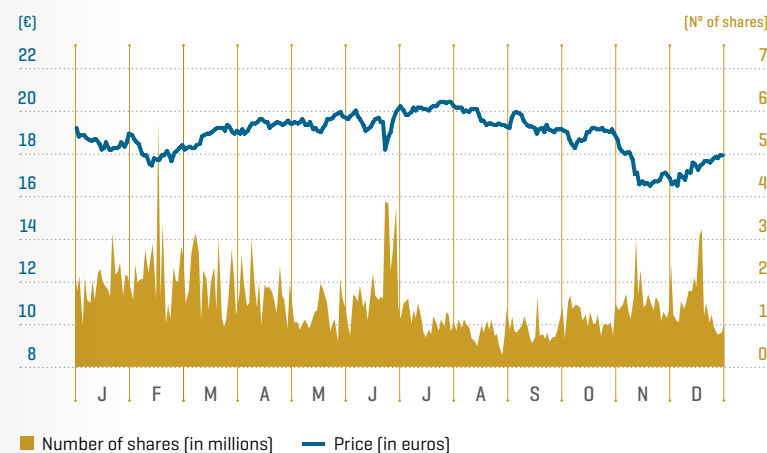
Distribution of dividends

Red Eléctrica maintains the commitment to maximise value for its shareholders, offering, on the one hand, an attractive dividend yield and, on the other hand, contributing to the revaluation of the share through efficient business management.

STOCK SPLIT

At a ratio of four new shares for each old one, changing its nominal value from €2 to €0.5 per share.

SHARE PRICE PERFORMANCE AND DAILY VOLUME ⁽¹⁾



[1] Homogeneous values for 2016, taking as reference the share value after the stock split performed on 11 July 2016.

In 2016, the direct shareholder return in the form of dividends increased by 7% over the previous year. The gross dividend proposed at the General Shareholders' Meeting with a charge to 2016 profit, is €0.8587 per share.

On 5 January 2017, a gross interim dividend payout of €0.2382 per share was made, with €0.6205 per share pending distribution, as part of a gross complementary dividend.

GROSS DIVIDEND 2016



€0.8587
PER SHARE

+7%

Compared to 2015

MAIN STOCK MARKET INDICATORS

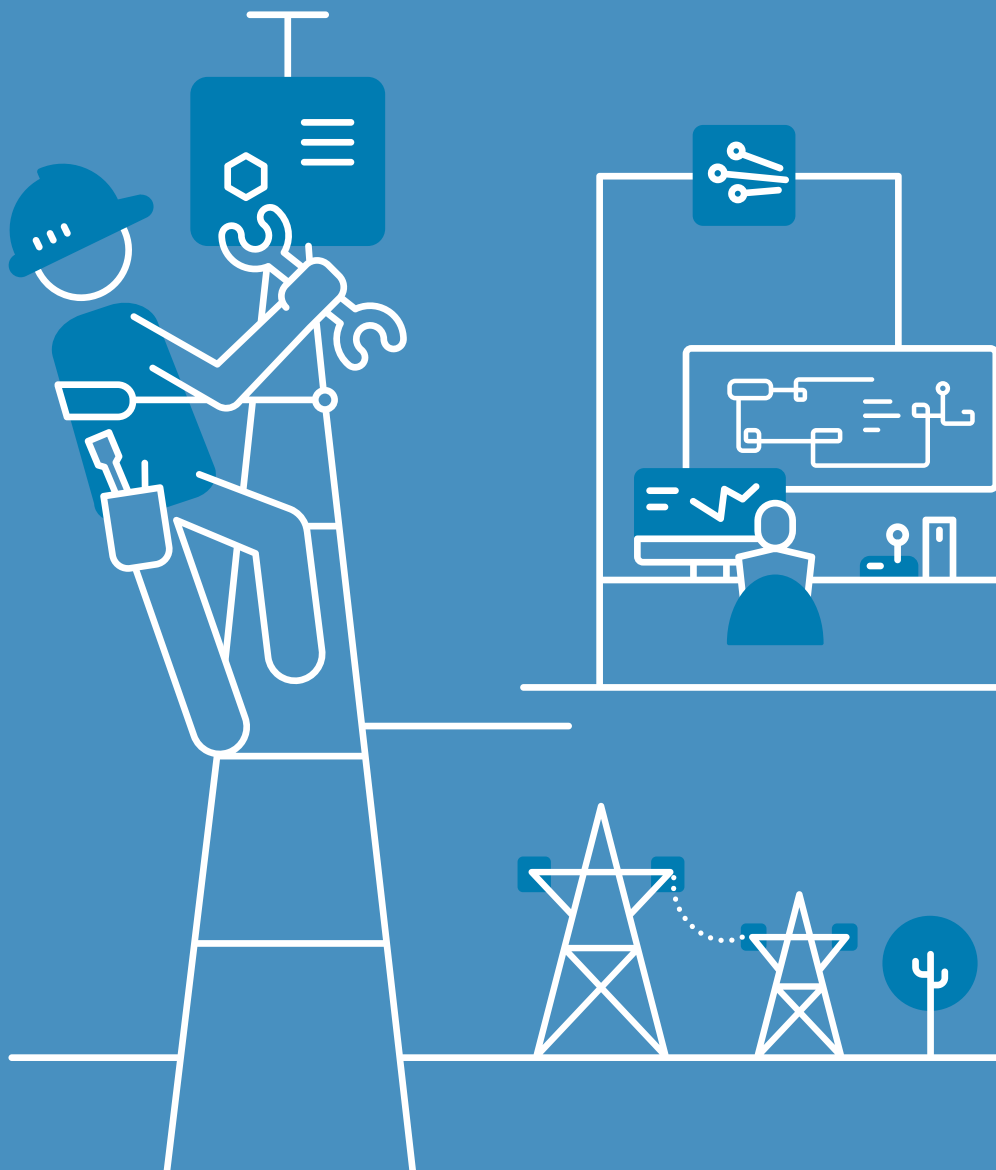
	2016
Share price (in €)	
Maximum	20.685
Minimum	16.255
Year-end	17.925
Market capitalisation at close of fiscal year (in m€)	9,698.9
Earnings per share (EPS) (in €)	1.18
Share price/EPS (N° of times)	15.23
Dividend per share (in €)	0.8587

SHAREHOLDER RETURN

The dividend per share grew 7% compared to the previous year.

07 EMPLOYEES

CONNECTED TO
EQUALITY, TALENT,
JOB SECURITY AND
QUALITY EMPLOYMENT



CORNERSTONES OF OUR COMMITMENT TO EMPLOYEES

Constant backing for
a qualified, motivated
and committed
team



STABLE AND QUALITY EMPLOYMENT

Our commitment: internal employability of people during their time as professionals through integration, development and mobility programmes.

- 99.8% permanent contracts
- 87.5% of new directors via internal promotion



HEALTHY WORKPLACE

Our objective is the continued and progressive improvement in the levels of occupational health and safety which is understood as physical, psychological and social well-being.

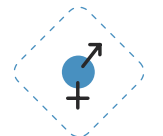
- Improvement in accident rates of employees and third-party contractors
- 7,161 hours of occupational health and safety training 22.4% more than in 2015



TALENT MANAGEMENT

The training and development of Red Eléctrica's workforce is integrated under a global talent management model.

- 138,000 hours of training
- 58% of training hours targeted at improving employability



DIVERSITY AND INCLUSION

Increase in the number of women in the workforce and in managerial positions, and the implementation of the action plan associated to the management model for the inclusion of people with disabilities.

- 23.7% of women in the workforce (23.1% in 2015)
- 21.8% of women in managerial positions (20.2% in 2015)
- 2.7% of people with a disability (2.5% in 2015 - includes people in the workforce and LGD agreements - Law on the Rights of People with Disabilities)

OCCUPATIONAL HEALTH AND SAFETY SURVEY RESULTS



7.7
OUT OF 10
IN EMPLOYEE
SATISFACTION
62.2% Took part



STABILITY AND QUALITY OF EMPLOYMENT

At the end of 2016, the Red Eléctrica Group had a total workforce of 1,773 people, 1% more than in 2015. **Red Eléctrica de España**, responsible for the core activity of the Red Eléctrica Group, employs 95% of the total, which is equivalent to **1,682** professionals. In 2016, the Company continued to strengthen its commitment to

the expansion of the business base and the development of international business. At the end of the year, 5% of staff were active in other business areas, of which 4% are in Peru and Chile.

Our commitment to job stability is reflected in maintaining a high percentage of indefinite recruitment (99.8%), in boosting internal promotion (87.5% of appointments to managerial positions have been covered by internal promotion) and in the low overall external turnover (2.8%), mainly due to employees reaching retirement age, mainly the management team.

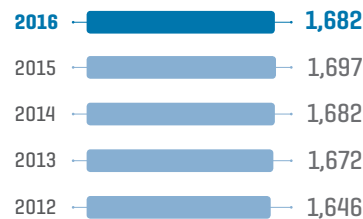
WORKFORCE GROUP



1,773
EMPLOYEES

+1%
Compared to 2015

EVOLUTION OF THE REE WORKFORCE ^{Nº}



KEY EMPLOYMENT INDICATORS ^I

	2014	2015	2016
Total workforce	1,682	1,697	1,682
Women [%]	22.8	23.1	23.7
Men [%]	77.2	76.9	76.3
Women in managerial positions [%]	19.3	20.2	21.8
People with some type of disability [%]	0.7	0.8	0.8
Creation of net employment (Nº of posts)	10	15	-15
Average age	43	44	45
Average length of service (years)	14	15	16
Undesired external turnover [%]	0.9	1.6	2.0
Total turnover [%]	1.2	2.1	2.8
Permanent contracts [%]	99.3	99.9	99.8

Red Eléctrica maintains a commitment to stability in employment reflected in a high percentage of indefinite contracts, the backing for internal promotion and the low overall external turnover.

PRINCIPLES OF THE HUMAN RESOURCES DIRECTOR PLAN



Efficiency



Equal opportunities



Work-life balance

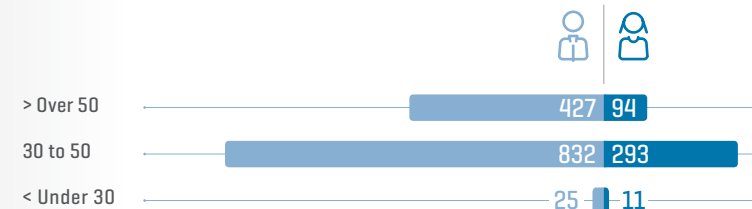


Respect for diversity



Fair and personalised treatment for all professionals

WORKFORCE DISTRIBUTION BY AGE AND GENDER 2016 ^{Nº}



DIVERSITY AND EQUALITY

Red Eléctrica works to **guarantee a discrimination-free environment** that fosters diversity and allows barriers of gender, age and disability to be overcome.

NEW CONTRACTS 2016



55%
WOMEN

1.5%

More women in the workforce compared to 2015

Ethical behaviour, respect for diversity and equality are principles that are integrated into the corporate culture of Red Eléctrica and in the internal policies of the Company. In order to materialise the commitment to these principles, Red Eléctrica carries out various actions aimed at guaranteeing a discrimination-free environment that fosters diversity

and allows barriers of gender, age and disability to be overcome.

Among the actions carried out in 2016, noteworthy was the implementation of action plans associated with the management model for workforce ageing and to the management model for the inclusion of people with disabilities, both approved in 2015.



EQUALITY SEAL

Red Eléctrica maintains the Equality Seal awarded by the Ministry of Health, Social Services and Equality.

Principles for action on diversity and equality

- **Equal Opportunities** in employment.
- **Promotion** of women into positions of responsibility.
- **Protection** against gender-based violence.
- **Protection** against moral, sexual and gender-based harassment.
- **Coexistence** between generations and adaptation to change.
- **Inclusion** of professionals with disabilities.
- **Integration** of people at risk of social exclusion.



Gender equality and equal opportunities

In order to promote equality, Red Eléctrica has had, since 2009, a specific plan drawn up in conjunction with the employees' representatives, which includes the set of actions aimed at promoting equality in all areas [selection, recruitment, promotion, training, remuneration, communication and awareness], as well as the monitoring of the indicators to measure the progress of the defined objectives.

During 2016, new progress has been made in the equality indicators. Thus, the number of women in the workforce ended the year with a percentage of 23.7%, compared to 23.1% in 2015. This increase was a result of the fact that 55% of the new incorporations in 2016 were women. Similarly, the number of women in managerial positions increased for yet another year, reaching 21.8% at year end, a value 8% higher than in 2015.

Red Eléctrica offers realistic professional development opportunities for both men and women. In this regard, the actions carried out in favour of the professional development of women enabled 50% of the women who were promoted to managerial positions during 2016 to come from the Company's Bank of Potential.

MANAGERIAL POSITIONS 2016



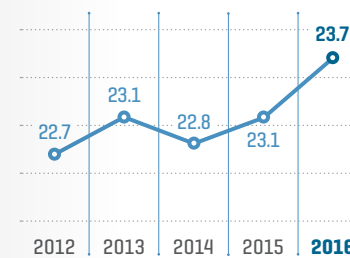
21.8%

WOMEN

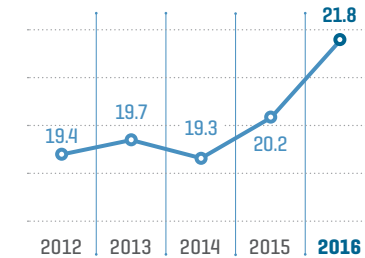
+8%

Compared to 2015

WOMEN IN THE WORKFORCE



WOMEN IN MANAGERIAL POSITIONS





Inclusion and awareness are the basis of the action plan associated with the management model for people with disabilities.



Inclusion of people with disabilities

During 2016, the action plan associated with the management model for the inclusion of people with disabilities has been initiated, focusing on actions that raise awareness and increase knowledge regarding disability among all employees, thus facilitating their inclusion in the organisation.

In order to develop the various actions included in the plan, ensure compliance with legal

obligations in this area and work in favour of disability, Red Eléctrica counts on the collaboration of the Adecco Foundation, as well as with the full involvement of the Company's management team. In 2016, two working groups were set up, consisting of directors and department heads, whose functions are: to safeguard the implementation of the model, to promote the incorporation of people with disabilities and, above all, to promote commitment and awareness in the application of the model at a global level.

In 2016, 2.7% of the equivalent employment of people with disabilities was achieved, an increase of 6.4% over the previous year. Of this percentage, 0.8% belongs to direct employment and the rest to LGD agreements [Law on the Rights of People with Disabilities].

INCLUSION OF PEOPLE WITH DISABILITIES

During 2016, 2.7% of the equivalent employment of people with disabilities was achieved, an increase of 6.4% over the previous year.

TALENT MANAGEMENT

Red Eléctrica has backed the development of a Global Talent Management Model aligned with the Company's strategy. This model includes the employment process [recruitment, selection and internal mobility], training [technical capacity and skills], development [programmes for professional growth], and the performance appraisal process, in addition to knowledge management and the leadership model.

Knowledge management and the leadership model

The transmission of key company knowledge and the involvement of senior management are levers that promote learning and facilitate the necessary commitment that ensures the employability of people. Under the leadership model, during 2016, the Bank of Potential and LideraT programmes have continued to pursue the development of competencies that define a flexible, agile and oriented style of leadership in the creation of collaborative and participatory environments.

Within the LideraT programme, actions aimed at the integration and transition of people who have come to occupy new

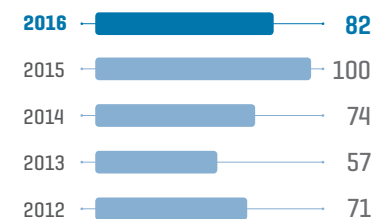
or different management positions in Red Eléctrica have been implemented, which has facilitated changes in the organisational structure.

It should be noted that in 2016, 87.5% of Red Eléctrica's appointments to managerial positions were covered through internal promotion. It is also worth noting that 77% of the new department heads came from the Company's Bank of Potential programmes.

Training and Development

A key element within the talent management model is the learning strategy that acts as a reference in the construction of training and development programmes. This strategy is based on principles, a methodology, a standard itinerary

AVERAGE TRAINING HOURS PER EMPLOYEE



BANK OF POTENTIAL



77%

OF THE NEW HEADS OF DEPARTMENT

Persons included in the Bank of Potential programmes

INTERNAL PROMOTION

In 2016, 87.5% of appointments to managerial positions were covered through internal promotion.



EMPLOYEE TRAINING



82
HOURS
—
€3,431
—
Per employee

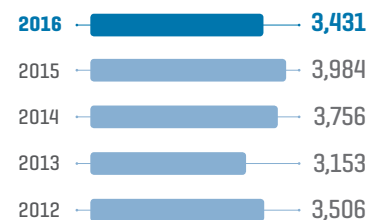
and an evolved system of training evaluation that considers the return on investment.

The different training and development programmes are grouped into four areas: technical training, skills development, corporate training and training for specific groups. In 2016, Red Eléctrica provided 138,507 hours of training to employees of all professional levels, representing 82 hours of training and an investment of 3,431 euros per employee.

The training and development programme consists of four axes ranging from **technical training to corporate training, to competency development and training targeted at specific groups.**



INVESTMENT IN TRAINING PER EMPLOYEE



Collaboration with the educational sector

Throughout 2016, 124 young graduates participated in the practical training programme, of which 16 have been part of a special theoretical-practical programme regarding the position of Operator in the Electricity Control Centre. This programme, which has been carried out in collaboration with university centres, constitutes a valuable source of recruitment that will guarantee that the future incorporations into the Company have the specific technical knowledge of Red Eléctrica's business.

DIALOGUE AND TRANSPARENCY

Red Eléctrica focuses on and develops internal communication as a strategic element to share the Company's mission and objectives, to involve the employees in the different projects and to improve the working climate thus increasing their pride of belonging.

During 2016, work has been carried out on the design of a model that promotes the value that internal communication must contribute to the Red Eléctrica Group. Said model will also develop the framework of criteria for internal communication actions in the different companies of the Group.

Dialogue tools and channels

In the quest for ongoing dialogue within the organisation, one of the innovations of this year has been the breakfasts with the CEO, informal sessions that have allowed the main executive to encourage greater contact with employees, to know first-hand

the issues of interest, as well as exchange information about the Company's activity.

In addition, during this year the action plans resulting from the 2015 climate survey have been monitored to work on improvement aspects and to consolidate the strengths identified. In addition, an internal communication evaluation survey (involving 51.9% of employees) has been launched whose objective is to learn about the opinions of employees regarding management, initiatives and channels, and to find areas for improvement that allow the communication needs of the entire workforce to be addressed.

Social dialogue

Regarding social dialogue, work has continued the implementation of the 10th Collective Bargaining Agreement seeking the full achievement of the principles that inspired it: efficiency, productivity, flexibility and sustainability.

Campus Red Eléctrica

In 2016, work has taken place on the project of the new corporate university of the Company, 'Campus Red Eléctrica' that is due to be launched in early 2017. The objective is that it be the platform for the deployment of the strategy, values and culture of the Red Eléctrica Group.

A place of meeting, collaboration and innovation that facilitates the achievement of business objectives through learning and knowledge management.

COMMUNICATION CHANNEL



miRED
NEW
INTRANET

Consolidated its implementation in 2016

HEALTHY WORKPLACE



Red Eléctrica's healthy workplace model revolves around four main principles: physical work environment, psychosocial work environment, health resources and community participation.

During 2016, the third psychosocial risk assessment was carried out. The study consisted of an anonymous questionnaire in which 76% of Red Eléctrica's personnel participated and a qualitative analysis through 12 stress management workshops. The health and safety survey was conducted in which 62.2% of employees participated. The level of satisfaction is 7.7 out of 10.

Red Eléctrica's commitment to health, safety and well-being, including the work-life balance, is a priority and one of the essential pillars of our employee value propositions.

OCCUPATIONAL HEALTH AND SAFETY

During 2016, the accident rates of employees and the employees of contracted companies have been improved.

HEALTHY WORKPLACE MODEL PRINCIPLES



Physical work environment

Provide the necessary means to perform the tasks associated to the job under the best health and safety conditions.



Health resources

Provide the workforce with tools to improve their state of physical and mental health, contributing to their well-being and quality of life.



Psychosocial work environment

Implement work management organisation tools and resources that promote the physical and psychosocial well-being of employees.



Community involvement

Actions carried out by the Company that can impact on the improvement of the health and well-being of their employees' families and the communities in which their facilities are located.

Additionally, Red Eléctrica annually carries out several prevention and health promotion campaigns through actions aimed at promoting physical activity and sport as a healthy life habit, and the launching of healthy nutrition campaigns.

Regarding the prevention of occupational health and safety risk, in 2016, there was an improvement in the main accident indicators for employees of the Company and of the employees of contracted companies. In comparison to 2015, the frequency and severity indexes were reduced in Red Eléctrica by 46.2% and 25% respectively, and by 20% and by 90% among the employees of contracted companies. Red Eléctrica considers training and awareness in this field essential, therefore in 2016, 7,161 hours of

health and safety training were given [22.4% more than in 2015] to 1,238 attendees.

The work-life balance

Red Eléctrica has a comprehensive work-life balance plan that identifies the objectives and needs to be covered for the 2014-2017 horizon, and is focused on the carrying out of actions that allow us to move closer to achieving excellence in the management of the work-life balance.

The more than 60 measures, actions and work-life balance initiatives that Red Eléctrica has implemented, and which apply equally to the whole of the workforce regardless of the type of contract, are one of the fundamental lines that are integrated into the management model.

HEALTH PROMOTION

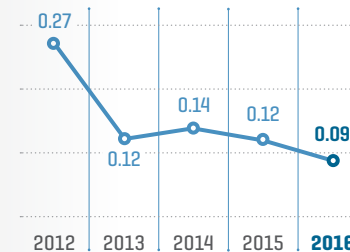


ACTIONS TO PROMOTE SPORT

And healthy nutrition campaigns

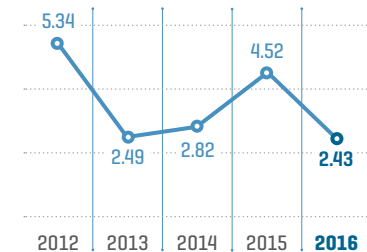
ACCIDENT SEVERITY INDEX

[among the workforce]



ACCIDENT FREQUENCY INDEX

[among the workforce]



AWARD

Red Eléctrica has been distinguished as being one of the oldest companies with the EFR certificate (Family Responsible Company).

08 SOCIETY

CONNECTED TO
THE CREATION OF
SHARED VALUE



CORNERSTONES OF THE RELATIONSHIP WITH SOCIETY

Dialogue, collaboration
and creation of
shared value



COMMUNITY TIES

Development of relationships based on trust and ongoing dialogue to facilitate the implementation of projects in the territory.

68% of agreements
reached with landowners
are amicable



SOCIAL COMMITMENT

Undertaking projects and initiatives of a social, cultural, environmental, educational and corporate volunteering nature.

Over 250 social actions
geared towards
community
development

COLLABORATION WITH LOCAL ADMINISTRATIONS



35
COLLABORATION
AGREEMENTS

**With autonomous
communities and
local councils**



INVESTMENT IN THE COMMUNITY

Social contribution aimed at improving the well-being and progress of the communities in which the Company's facilities are located.

6.4m€ contributed
to society



TAX TRANSPARENCY

Tax information transparency and tax contribution through the payment of taxes in the different countries in which the Red Eléctrica Group operates.

681m€ Total Tax
Contribution

OUR COMMITMENT TO SOCIETY

Our commitment to the social and environmental environment is oriented towards the creation of shared value with society.



Global vision of creating shared value

Red Eléctrica orients its socio-environmental commitment to the creation of shared value with society, promoting actions and investments aligned with its business objectives that, while generating value for the Company, positively impact on society and on the territory and its inhabitants. In turn, this is a contribution of the Company to the achievement of various challenges such as

those related to the United Nations Sustainable Development Goals or those set out in the European energy strategy.

The creation of shared value in Red Eléctrica occurs both in the way the electricity system operates (guaranteeing an efficient, secure and sustainable electricity supply for citizens and companies), as well as in the development and maintenance of transmission grid infrastructure. This activity generates a scenario of opportunities for the creation of shared value throughout the life cycle of the electricity infrastructure.

To achieve these objectives, the Company manages the transmission grid under the principles of neutrality and sustainability. It also manages grid access requests from the different agents that are involved in the electricity system under the same criteria, something that, in itself, is a process for the creation of shared value with society.

The Company, in addition to looking for the route that generates the least possible environmental impact on the development of infrastructure, encourages the participation of society in the process, through dialogue and ongoing collaboration. In this manner, the needs of society are

resolved through consensus and, at the same time, the facilities respond to the needs of the electricity system.

Finally, Red Eléctrica accompanies its projects in the territory with collaboration programmes that reflect the Company's social commitment and pursue the goal of contributing to the development of the communities in which its facilities are located.

Ties with the community

The Company promotes and maintains an ongoing relationship with the local communities in which its facilities are located, not only during the process of construction of new facilities, but also throughout the entire life cycle of the facilities. Therefore, it has an organisational structure distributed nationwide

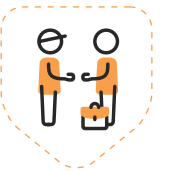
that facilitates institutional communication and collaboration with government administrations and also public and private institutions.

This open and participatory strategy aims to establish relationships of trust and mutual collaboration that allow the integration of electricity facility projects into the territory with the maximum possible social and institutional consensus.

In this regard, in 2016, noteworthy was the signing of 35 collaboration agreements with Autonomous Communities and local councils for carrying out projects aimed mainly at socio-economic, environmental, educational and cultural development.

In the case of municipalities, the Company has been able, through this ongoing dialogue

INVESTMENT IN THE COMMUNITY



6.4

M€

Earmarked for the development and promotion of social initiatives

Social Responsibility Plan associated to the Mezquita-Morella line

In 2015, Red Eléctrica defined a Social Responsibility Plan aimed at 22 local councils in the municipalities of Teruel and Castellón which are crossed by the Mezquita-Morella and Mudéjar-Morella electricity lines

This programme, which in 2016 had the addition of 2 more local councils that were pending agreement, has represented an investment in the

territory of 319,680 euros for the development of initiatives of a social, cultural and environmental nature. In addition, in order to showcase the artistic, cultural and environmental wealth of the area, Red Eléctrica has published the book 'Cuadernos de viaje. Por tierras de Teruel y Castellón'. (A travel log through the regions of Teruel and Castellón).

and collaboration in local development projects, to sign collaboration agreements with a large number of municipalities affected by facilities commissioned in 2016. Furthermore, noteworthy is the fact that amicable agreements were reached with 68 % of the landowners affected by projects whose permitting process was completed in 2016.

responsibility policy, which is carried out through defined actions in collaboration with different institutions and public and private entities to respond to the demands for collaboration put forth by stakeholders.

In 2016, the Company contributed 6.4 million euros [1.09% of net profit] to the development or promotion of social initiatives; an amount obtained by applying the LBG methodology (London Benchmarking Group).

Investment in the community

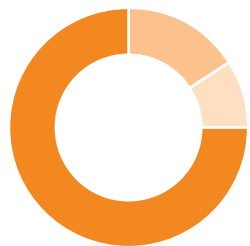
Red Eléctrica provides and promotes social action as an essential element of its corporate

SOCIAL INVESTMENT

During 2016, 6.4 million euros were invested in the development and promotion of social initiatives.

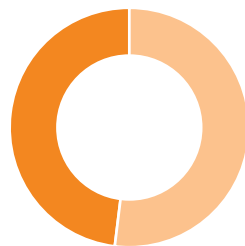
CONTRIBUTION 2016

TYPE OF CONTRIBUTION



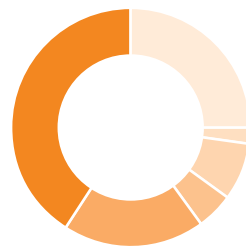
Monetary	75 %
Time	16 %
Management costs	9 %

REASON FOR ACTION



Social investment	52 %
Initiative aligned with the business	48 %

AREA OF ACTION



Socio-economic development	41 %
Environment	19 %
Education	25 %
Art and culture	5 %
Social well-being	8 %
Other	2 %

The social programme promotes actions aimed at the socio-economic development of the territory, the conservation of natural heritage and disseminating knowledge about the electricity system.

Social commitment

Red Eléctrica's social programme includes actions mainly aimed at the socio-economic development of the territory; conservation, protection and showcasing the natural heritage of the municipalities; and disseminating knowledge about the electricity system.

In the field of socio-economic development of the territory, in 2016, Red Eléctrica promoted

'Jóvenes para Jóvenes' project

Red Eléctrica in collaboration with the Helsinki Foundation has launched the Jóvenes para Jóvenes project (Youth for Youth). A pioneering initiative in the Canary Islands, in which about 30 university students will receive specific training in human rights education and the promotion of a future sustainable energy model. They will then go to educational centres and work on the respect and promotion of these subjects with some 450 students in secondary education aged 13-16.

and collaborated on over 250 initiatives, among which noteworthy are the projects for the construction or improvement of municipal infrastructure, collaboration on projects of social relevance with an impact on tourism, enhancement of the cultural wealth of the territories and projects for the restoration of emblematic buildings, among others.

In the field of knowledge dissemination, Red Eléctrica, as TSO of the Spanish electricity system, plays an active role in raising awareness on how the Spanish electricity system works as a whole, as we are aware that a more informed society is better able to develop and maintain a sustainable energy model that effectively meets the energy needs of citizens.

SOCIAL PROGRAMME 2016



MORE THAN 250 ACTIONS

Geared towards the socio-economic development of the territory

SUPPORT FOR
TRAINING

THROUGH
VISITS TO
FACILITIES
FOR
1,047
STUDENTS

From Master's
courses from
more than
28 schools and
universities

During 2016, visits to the electricity control centres and various facilities of the transmission grid were organised.

Red Eléctrica also pays special attention to **higher education and training in the area of energy and the environment**. During 2016, of note was the support for the training of 1,047 students in Masters or specialisation courses of more than 28 schools and colleges through 49 visits to Company facilities.

On the other hand, during 2016, visits to the electricity control centres and various facilities

of the transmission grid were organised. In total, 1,813 people have visited Company facilities.

In relation to the **environmental actions**, the 'Red Eléctrica Forest' project is an initiative that contributes to the fight against climate change through the planting of trees.

REE in the classroom

During 2016, in collaboration with the regional administrations, a plan was designed and implemented to disseminate the digital educational game 'entreREDes' and to develop initiatives around it that facilitate knowledge regarding the electricity system among the students of secondary education.

About 825 young people have participated in the competitions organised as part of the events of the Young Talents Forum of Catalonia, the Science Fair of Seville and the Science Week in Murcia.

'A highway behind the wall socket' exhibition

The objective of this exhibition is to explain the electricity supply process, from generation to consumption, showcasing the Company's activities as TSO of the Spanish electricity system, and to raise public awareness about the need for an efficient and responsible energy consumption.

In November 2016, the exhibition was moved to Palma de Majorca after having been on show for more than one year at the Science and Technology Museum of Tarrasa, where it received 86,400 visits. This exhibition, which started its journey in 2010, has visited seven other Spanish cities receiving more than 365,000 visitors



This project, along with other environmental actions in which the Company also works, are discussed in more detail in the environmental chapter of this report.

Corporate volunteering

The promotion of volunteering is another of the courses of action

of the Corporate Responsibility Plan of the Company. In this regard, aware of the needs of our environment, several voluntary actions are carried out each year with the solidarity of employees who participated.

Main volunteering actions in 2016

Companies' Solidarity Day' (DSE)

In this tenth edition of the DSE, employees from Madrid shared breakfast with people at risk of social exclusion, without resources and homeless, and volunteers from Seville collaborated in a social soup kitchen.

Charity Runs

Collection of funds for various solidarity causes through participation in charity runs, such as the Intercompany Challenge or the Popular Heart Race. In the case of the Intercompany Challenge for Action against Hunger, Red Eléctrica employees worked in Madrid,

Barcelona and Bilbao to fight child malnutrition.

'A Smile for Christmas' Campaign

This initiative aims to send a Christmas gift to thousands of children in situations of vulnerability. The generous response of the employees contributed to beat the all-time record number of gifts which raised many smiles nationwide through the collaboration of social entities.

RESPONSIBLE EXHIBITION



'A HIGHWAY
BEHIND
THE WALL
SOCKET'
365,000
VISITS

Accumulated
total from
seven cities

TAX TRANSPARENCY

The tax strategy of the Red Eléctrica Group, approved by the Board of Directors, is based on three core values: transparency, good governance and accountability.



Continuing with the good practice started in 2014, and with the aim to voluntarily offer tax information to the various stakeholders, with greater transparency, the Company publishes its Total Tax Contribution, in order to highlight the economic and social function derived from the Group's tax payments.

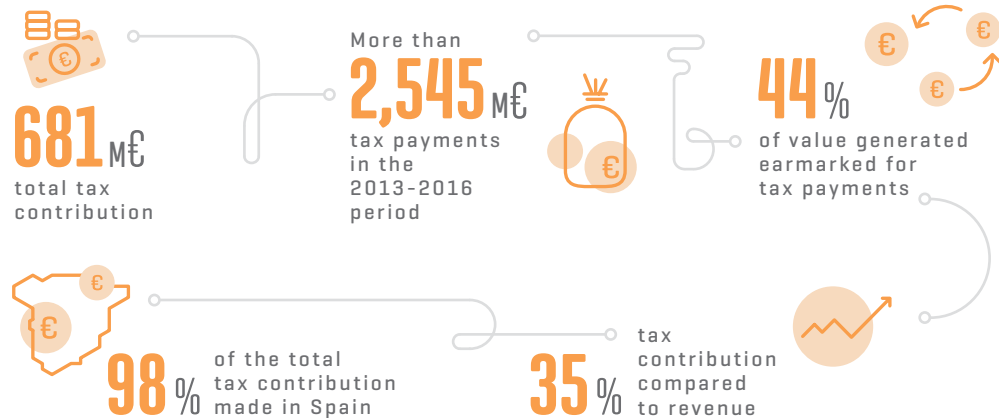
The vision of the tax strategy

Manage the tax affairs in a manner that is proactive, responsible with all stakeholders and which is transparent, in order to comply with tax laws and minimise reputational risk, making it compatible with protecting the share price.

2013-2016 PERIOD

More than 2,545 million euros of tax contribution paid to public administrations.

KEY DATA IN 2016



The Total Tax Contribution of the Red Eléctrica Group paid to the Public administrations in all the countries in which it operates rose to **681 million euros in 2016**, with Spain having the highest tax contribution [98%].

GEOGRAPHICAL DISTRIBUTION



TAX CONTRIBUTION



681
M€

For taxes borne and collected in 2016

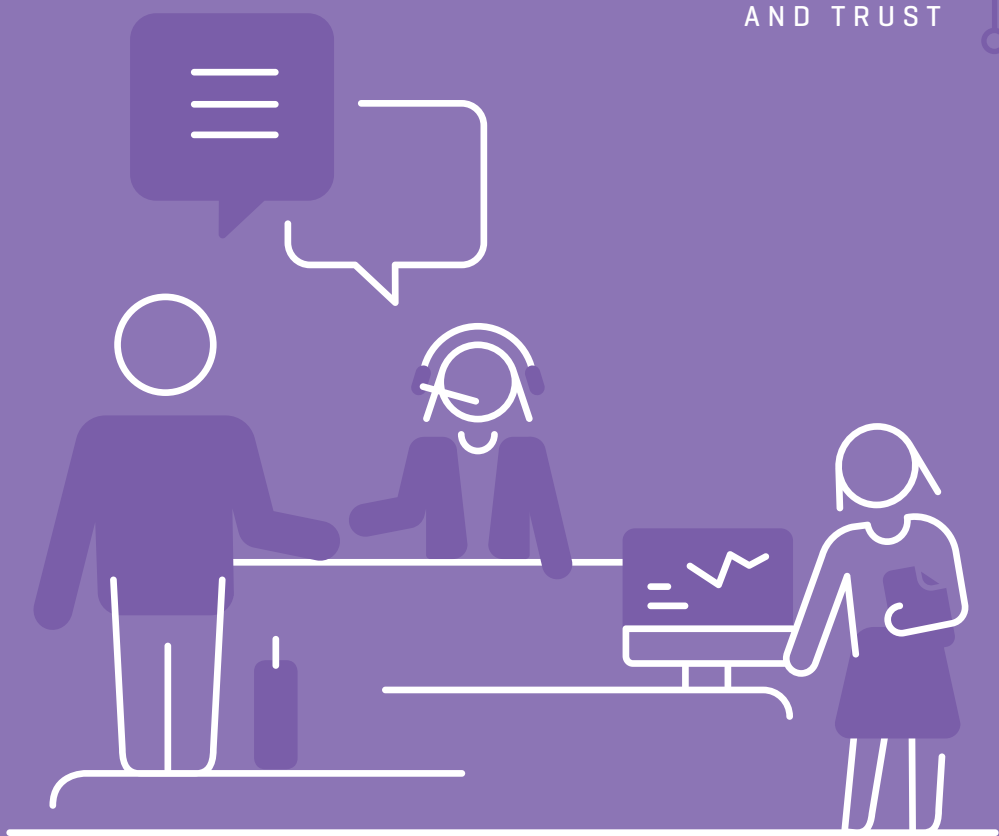
TOTAL TAX CONTRIBUTION 2016

	Spain	Peru	Chile	Other (EU)	Total
Tax borne	229	4	4	1	238
Tax collected	439	4	-	-	443
Tax contribution	668	8	4	1	681

09

DIALOGUE WITH STAKEHOLDERS

CONNECTED TO OUR STAKEHOLDERS THROUGH A RELATIONSHIP BASED ON TRANSPARENCY AND TRUST



CORNERSTONES FOR DIALOGUE WITH STAKEHOLDERS

Transparent, fluid and close-knit relationship



SHAREHOLDERS AND INVESTORS

Transparent and fluid communication, facilitating relevant corporate information to meet the needs of these groups.

1,027 enquiries from stakeholders dealt with
546 meetings with analysts and investors

CORPORATE WEBSITE 2016



CLIENTS AND MARKET AGENTS

Compliance with legal requirements regarding communication and the publication of information, guaranteeing transparency, integrity and disclosure timelines.

Client and market agents - satisfaction **8.3 out of 10**



COMMUNICATION CHANNELS AND THE MEDIA

Dissemination of activities, projects and initiatives undertaken by the Company, with particular emphasis on its commitment to sustainability.

64 press releases issued [33% regarding sustainability projects]

MORE THAN **2.1** MILLION VISITS



SUPPLIERS

Sustainable supply chain management model: transparency in management, corporate responsibility criteria in the procurement strategy.

91% of purchases from suppliers with their head office in Spain, and 98% of our purchases made within the European Union

ONGOING DIALOGUE

WITH SHAREHOLDERS AND INVESTORS



and investors, in 2016 the following actions are noteworthy:

- The Board of Directors approved the document 'Criteria for communication with shareholders, institutional investors and proxy advisors', which sets out the principles and guidelines on communication that the Company maintains with these stakeholders, guaranteeing the adequate exercising of their rights and interests and favouring the commitment and relationship with them, through an open, transparent and sustainable dialogue.
- On the other hand, in order to comply with our commitment to transparency, and in order to provide more information about the Company's track record and the progress made each year in corporate governance, Red Eléctrica has published on its website an interactive section, highly visual and easy to consult about the corporate governance story of the Company, since going public in 1999.

This is a new practice in the business world, which highlights the commitment of the Board of Directors with the continuous improvement of good governance.

Red Eléctrica maintains a solid commitment to dialogue with all its stakeholders, particularly with shareholders and investors, facilitating them with the relevant corporate data to meet their information needs at each moment. This communication is transparent and fluid, which is key to achieving a trust relationship with them.

In 2016, 546 meetings were held: 520 for variable income, 5 for fixed income, 12 for corporate governance and 9 with rating agencies. For yet another year, the Company has turned to major financial forums in the domestic markets, Europe, the United States, Asia and Australia, thus responding to our communication and transparency policy.

Similarly, in our effort to improve communication with shareholders

INVESTOR RELATIONS 2016



546 MEETINGS

520 VARIABLE INCOME

5 fixed income

12 CORPORATE GOVERNANCE

9 with rating agencies

MAXIMUM TRANSPARENCY

WITH CLIENTS AND MARKET AGENTS

In order to guarantee transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system, Red Eléctrica has a **System Operator Code of Conduct**. And, at the same time, it performs its business management under the principles of neutrality, independence and economic efficiency on which it bases its success as TSO of the Spanish electricity system.

In this regard, Red Eléctrica has the duty to publish the information on the results of the markets or system operation process, guaranteeing the confidentiality of the data provided by market participants. To this end, it has a web for market participants, accessible via a digital certificate (<http://sujetos.esios.ree.es>) and a public web e-sios (<https://www.esios.ree.es>). Both channels, which undergo continual improvement, are key tools to ensure compliance with legal requirements regarding the communication and disclosure of information.

In addition, Red Eléctrica also manages the regional information platform of the IESOE region (www.iesoe.eu), composed of operators of the French, Portuguese, Moroccan and Spanish electricity systems.

As of January 2015, it also participates in the ENTSO-E transparency platform (www.transparency.entsoe.eu) by sending 100% of the data regarding the presentation and publication of information of the electricity markets.

In addition, as of April 2016, and pursuant to the European Regulation regarding the Wholesale Energy Markets Integrity and Transparency (REMIT), Red Eléctrica reports the results of the explicit capacity auctions and the capacities reported by the participants in said auctions.

On the other hand, Red Eléctrica organises CTSOSEI, a committee in which market agents and regulatory bodies are given information on the operation of the electricity systems of the Iberian Peninsula.



SATISFACTION SURVEY 2016



8.3

OUT OF 10

Overall average rating from clients and market agents

GRIEVANCES

During 2016, there have been no grievances regarding ancillary services and scheduling of international interconnections.

STABLE AND TRUSTWORTHY RELATIONSHIP WITH SUPPLIERS



SUPPLIER MANAGEMENT



904

SUPPLIERS

€600.1
MILLION IN
PURCHASES

91% awarded
to suppliers
with head offices
in Spain

Red Eléctrica has a sustainable supply chain management model which is governed, amongst other things, by the guidelines of the Procurement Policy and the relationship framework established in the Supplier Code of Conduct, as an integral part of REE's General Conditions of Contract.

In 2016, the Company managed its purchases of goods and services through 904 suppliers, for a total of 600.1 million euros. 73% of this amount corresponds to services and civil works

while the remaining 27% was for materials and equipment. Regarding the geographical location of purchases, 91% of this amount has been awarded to suppliers with head offices in Spain and 98% of purchases were made within the European Union.

All our suppliers must meet specific business, technical and environmental requirements as well as those associated with occupational health and safety prevention, working conditions and ethical behaviour.

Red Eléctrica seeks to minimise, throughout the supply chain, the business, technical and environmental risks, as well as those regarding occupational health and safety, working conditions and ethical behaviour.



In the 'Supplier' section of the corporate website.



In 2016, Red Eléctrica was distinguished as a **'Top Performer' for the integration of social and environmental factors in the supply chain.**

These requirements are initially verified in the supplier qualification phase and subsequently, in an ongoing manner, during the relationship with the suppliers. In addition, suppliers of 'critical' supplies, due to the impact they have on the Company's business, must meet more demanding requirements.

Following the drafting of a corporate responsibility impact matrix in 2015 which made it possible to identify the requirements to be demanded from suppliers in greater detail, the Company has undertaken in 2016 the trial phase related to these requirements among suppliers so as to find a balance between the reality of our market of suppliers and the motivation of these suppliers to achieve a greater performance in terms of sustainability.

As a result of this project, and the initiatives carried out with suppliers in the area of

sustainability, Red Eléctrica has been distinguished by Vigeo Eiris as Top Performer for the responsible integration of social and environmental factors in the supply chain, ranking among the 20 leading companies in the world.

In addition, in 2016, 896 requests for **qualification of supplies** that have a significant impact on the Company were managed. These requests affected supplies that require different verifications depending on the corporate responsibility risk identified (environment, occupational health and safety prevention, working conditions and ethical behaviour).

In addition, **social audits** have been conducted on 40 suppliers, focused on verifying working conditions and ethical behaviour.

SUPPLIER QUALIFICATION 2016



896

REQUESTS
MANAGED

Regarding the
qualification of
supplies that
have a significant
impact on the
Company

SOCIAL AUDITS

These were conducted on 40 suppliers to evaluate their fulfilment of the Supplier Code of Conduct.



CHANNELS OF COMMUNICATION

COMMUNICATION WITH THE MEDIA 2016



33

%

OF PRESS RELEASES AND

77

%

OF BLOG CONTENT

Focused on sustainability projects

During 2016, information transparency has continued to be the basis of Red Eléctrica's relationship with the media. Thus, efforts have focused on training and informing not only regarding the Company's core activity (electricity transmission and operation of the electricity system), but also on the expansion of the business base in the areas of energy storage, telecommunications and in the international arena.

Communications on the regulated activity have focused on highlighting the importance of new infrastructure projects in order to guarantee the quality and security of supply in the territories where they are present. In this regard, noteworthy are the meetings that have been held with different regional media to explain the planned investments in their autonomous community for the coming years.

Following the path of previous years, in 2016 the information issued **on matters related to sustainability** has played a leading role. In this regard, the information published about environmental projects, R&D+i, social commitment and good governance, have increased compared to the previous year. Thus, 33% of the press releases issued and 77% of the information

published via the *Entrelíneas* blog have focused on highlighting the most relevant sustainability projects carried out by the Company. In total, 246 media enquiries have been addressed regarding aspects directly or indirectly related to the Company's activity.

Promotion of digital channels

Given the changing nature of communication and the media world, whose trend to go digital is evident, the decision was made to publish Company related news in the digital media, including opinion articles by Company's executives, interviews and special reports.

Similarly, the use of the Company's digital channels, such as social networks, the on-line Press Room and, in particular, the *Entrelíneas* blog <http://entrelineas.ree.es/en> has gained special relevance. This informative space, which began its journey in July 2015, has become a useful tool to convey, in an educational and enjoyable way, the activity of Red Eléctrica, paying special attention to matters related to social commitment and innovation.

CORPORATE WEBSITE

The corporate website is an interactive and informative space that contributes to reinforcing the Company's brand and increasing knowledge on its activities and maintaining a direct channel of contact with its stakeholders.

In 2016, of note was the Company's commitment to transparency with shareholders and investors fundamentally. In this regard, in addition to publishing several contents of interest for these groups, such as the publication of the criteria for communication with shareholders, institutional investors and proxy advisors, an interactive section was published that reflects the corporate governance story of the Company. On the other hand, reports have been published that form part of the different phases of the environmental processing of our projects for the construction of facilities and diverse materials have been published to present the construction project of the Soria-Chira pumped-storage power station in Gran Canaria to the general public.



The corporate website is among the top ten websites of IBEX 35 companies.

Regarding website traffic, the number of downloads of the various publications on the corporate website has once again surpassed two million downloads. In 2016, the corporate website had about 2,100,000 visits and 110 million page views and is among the top ten websites of IBEX 35 companies according to the Webranking analysis conducted by the consultancy firm Comprend.

WEBSITE TRAFFIC

In 2016, the number of visits exceeded two million, with 110 million page views and more than two million downloads of publications.



In the *Entrelíneas* blog.



10 THE ENVIRONMENT

CONNECTED TO THE PROTECTION OF THE NATURAL ENVIRONMENT



CORNERSTONES OF OUR ENVIRONMENTAL COMMITMENT

Maximum respect for the protection of the natural environment



INTEGRATION INTO THE ENVIRONMENT

We make our facilities compatible with the environment, through dialogue with stakeholders and the implementation of preventive and corrective measures to minimise potential impacts on the environment.

Environmental assessment of all projects
Hábitat Project (2015-2020)

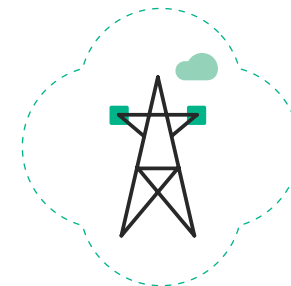


ENVIRONMENTAL MANAGEMENT

Red Eléctrica undertakes all its activities following strict environmental criteria in accordance with the principles adopted in its environmental policy.

ISO 14001 Certification and EMAS Register
87% fulfilment of the 2016 environmental programme

ENVIRONMENTAL EXPENDITURE 2016



23
MILLION
EUROS



CLIMATE CHANGE

Red Eléctrica contributes to the fight against climate change by providing solutions in the execution of its business activities, and through its commitment to the efficient use of energy.

Integration of 40.8% of electricity generation coming from renewables
1,907 tonnes of CO₂ avoided



BIODIVERSITY

Biodiversity conservation has always been an essential principle of the Company's business strategy.

3,040 km of electricity lines marked with bird-saving devices [3% more than in 2015]
1.8 million euros of investment in the Red Eléctrica Forest initiative (2009-2016)

OUR ENVIRONMENTAL COMMITMENT



Red Eléctrica undertakes all its activities taking into account environmental protection, in accordance with the principles set out in its environmental policy, among which the commitment to the prevention of pollution and the principle of precaution are included.

The main environmental impacts of Red Eléctrica are those derived from the presence of facilities in the territory, therefore the Company works hard to make them compatible with the environment, considering their entire life cycle and paying particular attention to biodiversity conservation. In addition, Red Eléctrica is committed to a sustainable energy model, thus acquiring a specific commitment in the fight against climate change.

ENVIRONMENTAL POLICY

Includes the principles of environmental protection, including the commitment to prevent pollution.

Management system

In order to continuously improve the Company's environmental performance, Red Eléctrica has an Environmental Management

System certified in accordance with ISO 14001 and which has been registered, since October 2001, under the Community Eco-management and Audit Scheme [EMAS]. An environmental programme is defined annually that sets out the various objectives derived from the strategies of the Company and that establishes the specific actions required for its fulfilment.

EVOLUTION OF THE FULFILMENT OF THE ENVIRONMENTAL PROGRAMME



ENVIRONMENTAL EXPENDITURE



INTEGRATION OF THE FACILITIES INTO THE SURROUNDINGS

Red Eléctrica works with public administrations and other stakeholders in the **definition of the location of substations and the routes of lines** to minimise the impact of the facilities on the environment.



maintenance work, with the aim of reducing as far as possible the potential impacts these activities may have on the territory. To guarantee the implementation and effectiveness of the measures defined, programmes of environmental monitoring are established and carried out.

Among the preventive and corrective measures applied, of note are the ones designed to protect habitats and species (measures to protect biodiversity) and those aimed at reducing potential impacts on the socio-economic environment.



The main measure for reducing and even avoiding the undesirable effects of Red Eléctrica's facilities on the environment and the local communities is the selection of their location. For this reason, the Company conducts a detailed study of the territory, and works in coordination with the public administration and key stakeholders in the definition of the siting of substations and the routes the electricity lines will follow.

In addition, Red Eléctrica establishes the appropriate preventive and corrective measures to be applied when undertaking construction or

ENVIRONMENTAL PROGRAMME



87%

FULFILMENT

3 percentage points higher than in 2015



ENVIRONMENTAL ASSESSMENT



SOCIAL ASPECTS INTEGRATED

Land use, agricultural and agroforestry yield, tourism, the landscape and cultural resources

In 2016, among the preventive measures taken, noteworthy was the use of a **helicopter for the hoisting of 14 towers** of the 132 kV Ciutadella-Mercadall line and for the hanging of the 400 KV Boimente-Pesoz line.

Socio-economic environment

The presence of electricity infrastructure in no case represents a significant alteration in the way of life of the communities affected.

In the case of substations, these produce a total and irreversible occupation of land, however in the case of electricity lines, land use is limited to the feet of the towers and the newly created accesses to the infrastructure. The land surface with overhead electricity lines is subject to a right of way easement during the useful life of the infrastructure. Livestock and agricultural activities are compatible with the lines, allowing all kinds of agricultural crops to be grown under them and the free movement of the machinery necessary for their management.

The social aspects are integrated into the environmental assessment carried out in the design phase of the facilities and the main conditioning factors to consider are: the use of land not compatible with the facilities; areas of high agricultural yields and agroforestry; as well as tourism, the landscape and cultural resources.

Blending facilities into the landscape

One of the main challenges of integrating electricity transmission infrastructure into the environment is the ability to blend them into the landscape. In order to progress in this field, in recent years, Red Eléctrica has been promoting different projects in the field of visual impact analysis.



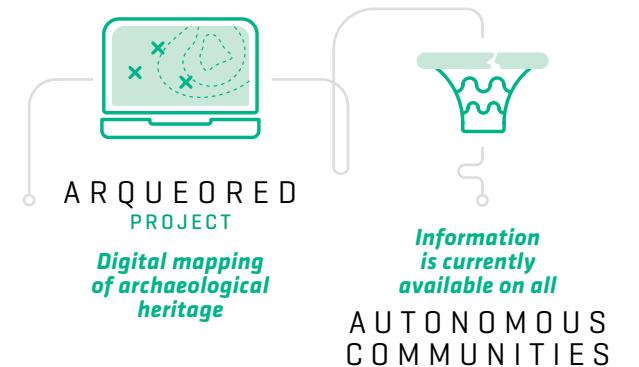
- Analysis methodology and integration of the landscape in the environmental impact studies for electricity lines.
- Landscape assessment system for existing facilities.
- Visual impact analysis methodology for electricity lines (drafting of maps using 3D simulations to assess the visual impact of existing or projected lines).

Protection of archaeological and ethnological heritage

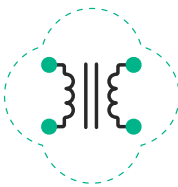
In 2014, work began on the 'Arqueored' project, which aims to provide the digital mapping of catalogued archaeological heritage for its consultation prior to the planning of works. In this way, potential impacts can be avoided and the necessary measures, where appropriate, can be taken in advance.

Key measures in 2016

- Restoration of areas affected by works.
- Creation of plant barriers and garden areas in five substations.
- Landscape integration of the El Sabinal substation (Gran Canaria).



ELECTRIC AND MAGNETIC FIELDS



100

%

COMPLIANCE OF LEVELS REGARDING FACILITIES

Below those recommended by the Council of the European Union

Thanks to close collaboration with the relevant authorities, the project has progressed satisfactorily and information is already available regarding all the autonomous communities.

Moreover, before carrying out any earthworks, an archaeological survey is conducted whose intensity and scope are based on the likelihood of material of interest being present in the area. During 2016, archaeological supervision took place during the construction of five new substations and 19 works for new and existing lines, with the permanent presence of an archaeologist at works for 95% of the lines and 80% of the substations.

Key actions in 2016

- **Archaeological assessment** at the Iberian archaeological site 'Cañada de la Lengua' (Almansa, Albacete).
- **Measures to protect Spanish Civil War trenches** in Cabezo del Cerro, Cuevas de Almodén (Teruel).

Electric and magnetic fields

Main measures applied in the design of facilities:

- **Construction** of double circuits and transposition of phases in lines.
- **Increasing** the height of towers, thus increasing the safety distances regarding EMFs.
- **Establishing** the minimum distance of electricity lines from population nuclei and isolated houses.

Electric and magnetic fields

Thanks to the criteria applied in the design of facilities, the levels of electric and magnetic fields (EMFs) are kept below those recommended by the Council of the European Union.

In order to verify compliance with the recommendation, Red Eléctrica has a tool that, as of certain parameters of the lines, accurately calculates maximum EMF levels that said facilities can generate. In the event of not having the necessary parameters for the calculation, in situ measurements are necessary. Therefore, at this time it can be considered that Red Eléctrica has evaluated and validated compliance with the regulation for 100% of its facilities.

BIODIVERSITY

The commitment of Red Eléctrica to biodiversity has always been a key principle of its environmental policy and this specifically becomes evident in the Company's biodiversity strategy and in a specific action plan that covers all its activities.

Red Eléctrica is part of the Spanish Business and Biodiversity Initiative (IEBB) promoted by the Ministry of Agriculture, Food and Environment.



Electricity grids and biodiversity

As Red Eléctrica's facilities are distributed nationwide, avoiding areas rich in biodiversity is a priority criterion taken into account in the grid planning phase as well as in the definition of each project.

However, considering that 25% of the area of Spain has some form of environmental protection, it is inevitable that in some cases infrastructure cross, or be located in protected spaces, or areas with species of interest. On these occasions, Red Eléctrica implements all preventive and corrective measures required to minimise the possible impacts on habitats and species.

BIODIVERSITY CRITERIA

Maximum score in the 'Biodiversity' criteria in the Dow Jones Sustainability Index 2016 assessment.

Biodiversity challenges

- **Work on new approaches to biodiversity management.** Incorporation of concepts of net impact and mitigation hierarchy.
- **Make facilities compatible with birdlife.** Line marking plan for sensitive areas identified thanks to the 'Mapping of bird flight paths' project. Monitoring of the interaction between lines and birds: analysis of the effectiveness of different models of bird-saving devices.
- **Make facilities compatible with forested areas.** Signing of agreements for the prevention of forest fires.
- **Make facilities compatible with habitats of high ecological value.** HÁBITAT Project (2015-2020).
- **Collaborate with the autonomous communities and other stakeholders** on biodiversity.
- **Promote the communication of Red Eléctrica's stance** regarding biodiversity.



Protection of habitats and species during works

In works for the construction of lines or the modification of facilities, the main impacts to be avoided are the alteration of the habitat of certain species of fauna and flora, and also the impact on vegetation due to the opening of safety corridors, necessary to prevent fires in the operation of the line.

Minimising the risk of bird collisions

The main impact on fauna by Red Eléctrica's facilities is the risk of birds colliding with grounding cables that protect the lines from electrical discharges during storms.

Red Eléctrica's current facilities occupy only 0.08% of the Red Natura Española [Natura 2000 Network]. Of the total infrastructure existing in 2016, only 15% of the lines and 6% of the substations are located in protected areas [Red Natura].

Specific measures for the protection of habitats and species 2016

- **Use of a helicopter** to hoist 14 towers in the works to improve the 123 kV Ciutadella-Mercadall line.
- **Hanging of line by hand** in areas located in the priority habitat of the Torremendo-San Miguel de Salinas 220 kV line and for the incoming and outgoing feeder lines at the Torremendo substation.
- **Biological stoppages** of various duration (between 4 and 6 months) for 6 lines, to avoid impacts on different species.
- **Removal of Sweet tabaiba** (*Euphorbia balsamifera*) for later reuse in the restoration of the area of the ingoing and outgoing feeder lines of the El Sabinal substation.
- **Transplanting** of 25 olive trees affected by a tower for the ingoing and outgoing feeder lines of the Godelleta substation, for use in the restoration of the area near this substation.
- **Planting** of different species to offset tree felling works.

Red Eléctrica's current facilities occupy just 0.08% of the protected areas of the Red Natura Española.



MARKING OF SENSITIVE LINES



218 km

OF LINE MARKED UP UNTIL 2016 [29.5%]

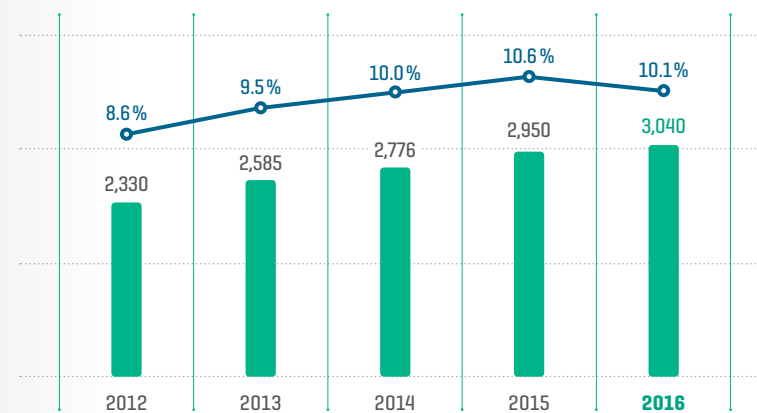
2023 Target: marking of 739 km (100%)

The main measure to reduce said risk is marking the grounding cables with devices that increase their visibility.

In 2016, the project 'mapping of bird flight paths and corridors'

was completed, a project for which the Company has received different recognitions. Thanks to this project, 47 species prone to collisions have been identified and selected according to diverse criteria. The most complete and

MARKING OF LINES WITH BIRD-FLIGHT DIVERTERS ⁽¹⁾



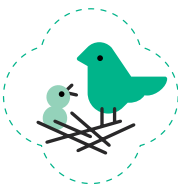
■ km of line — % over total km of line

[1] Cumulative data on the Peninsula as at the end the year.

BIOLOGICAL STOPPAGES

Of various duration, to avoid impacts on different species.

HÁBITAT PROJECT 2015-2020



OBJECTIVE MONITORING OF THE INTERACTION OF ELECTRICITY LINES WITH NATURAL HABITATS OF COMMUNITY INTEREST





Fire prevention

In order to minimise the risk of fire associated with the presence of transmission lines, it is essential that the safety distances between flora and facilities be strictly complied with.

Red Eléctrica ensures this compliance thanks to the adequate design of the safety corridors, and to predictive and preventive maintenance actions, such as the annual review of all the facilities and the execution of periodic silvicultural works.

In addition, it is important to highlight in this area the active and continuous collaboration of the Company through the signing of various agreements with the public administrations involved in forestry management.

Contribution to biodiversity conservation

Red Eléctrica actively contributes to the conservation of biodiversity through the carrying out of conservation projects in all autonomous communities (in 2016, the Company collaborated on projects in ten autonomous communities).

updated data on the presence and flight routes of these species has been reflected in a geographic information system.

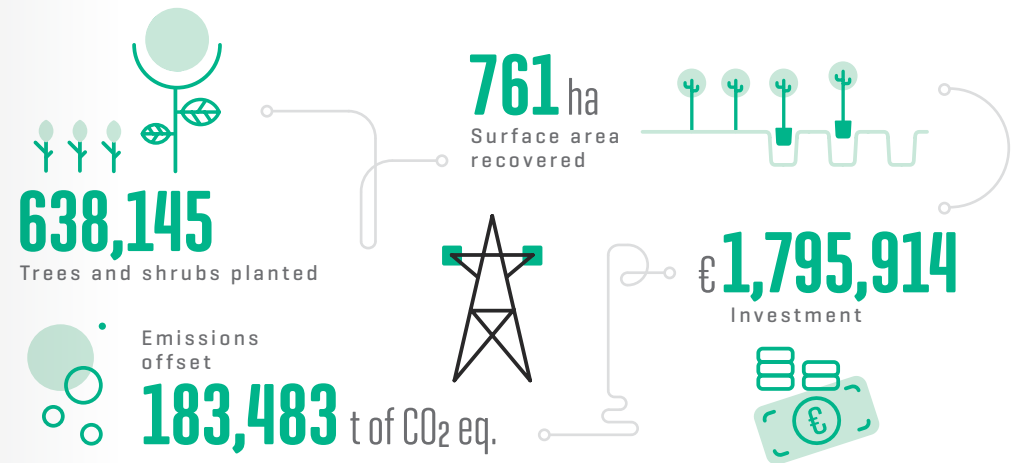
With this information, sensitivity maps (areas where these species can be found) and risk maps (sensitive areas in which there are also factors that influence the probability of occurrence of accidents) have been prepared, and which are being used for the drafting of **multi-year marking plan**.

VEGETA PROJECT 2016-2017

R&D+i project whose purpose is to optimise tasks related to the treatment of vegetation in the safety corridors of lines.



'RED ELÉCTRICA FOREST' IN FIGURES [2009-2016]



Most of these projects are linked to birdlife conservation, although work is also carried out on other flora and fauna. Relevant actions are the restoration of degraded habitats, among which noteworthy is the 'REE Forest' initiative.

Forest' project in collaboration with the Balearic Islands Government, with the aim of restoring 2 hectares of Posidonia in a degraded area of the Bay of Pollensa (Balearic Islands).

In 2016, the R&D+i project 'Recuperation of Posidonia oceanic seagrass meadows' was completed, using the experimental technique of seeds germinated in the laboratory and fragments from natural fragmentation. As a continuation of this project, in which survival rates of around 50% have been obtained, the Company has decided to launch the 'Red Eléctrica Marine

'Red Eléctrica Forest' (milestones 2016)

- **La Carballeda Forest (Zamora).** Restoration of 55.68 ha of burnt highlands.
- **Tremuzo Forest (Galicia).** Restoration of 40.87 ha.
- **Firgas Forest (Gran Canaria).** Restoration of 16.96 ha.
- **Chajaña Forest (Tenerife).** Restoration of 26.97 ha.

CLIMATE CHANGE



INTEGRATION OF RENEWABLES



40
%

OF THE PENINSULAR DEMAND COVERED BY RENEWABLE ENERGIES

Average over the last three years

MAXIMUM SCORE

In the 'Climate Strategy' criteria of the Dow Jones Sustainability Index 2016 assessment.

Red Eléctrica, as TSO of the electricity system, is a fundamental agent to move towards a more sustainable energy model that contributes to the achievement of the European targets on the fight against climate change.

Climate change action plan

Since 2011 Red Eléctrica has had a climate change strategy, which was revised and approved by the Chairman in 2014. In 2015, Red Eléctrica launched its Climate Change Action Plan which is articulated on four main lines of work:

Contribution to a sustainable energy model

Included in this line of work are those activities of the Company, as electricity system operator and transmission agent, that contribute to the achievement of the European sustainability goals.

To this end, the following actions are contemplated:

- The construction of infrastructure that will enable a **reduction of emissions in the electricity system**, such as electricity interconnections and facilities for the evacuation of renewable energies and for powering the railway network.
- Projects to promote the **maximum integration of renewable energies**.
- Activities geared towards contributing to the **efficiency of the electricity system**: demand-side management measures, the development of smart grids and electric mobility.

Reducing the carbon footprint

The **Action Plan** establishes the reduction or offsetting of 21% of the Company's emissions compared to 2010, as a general target for 2020. The activities are grouped into four broad areas:

- Improving the calculation of the carbon footprint. To this end, we are working on the expansion of the emissions inventory and on the improvement of its calculation.
- The reduction of SF₆ gas emissions, through improved procedures for the control and identification of gas leaks and the replacement of old equipment with equipment with lower leakage rates. During 2016, 1,076 t of CO₂ were avoided, with the goal of avoiding 1,500 t CO₂ eq. per year by 2020.
- Greater efficiency in the consumption of electrical energy. In 2016, energy efficiency measures were carried out, which will mean an estimated saving of electricity of 116,000 kWh per year. In the period 2017-2018, the implementation of measures related to climatization and lighting is anticipated, that will result in an estimated savings of 183,000 kWh per year.

- The reduction of fuel consumption in the use of fleet vehicles and for work-related travel. In 2014, the Sustainable Mobility Plan was approved in order to achieve improvements in the efficient management of vehicles and to promote a new culture of mobility that facilitates the reduction of emissions.

Involvement of interested parties

In this scope, different channels of collaboration have been established with the administration and work is being done on the definition of actions for the extension of the commitment to the Company's suppliers.

Adaptation to climate change

Besides working on actions regarding mitigation, Red Eléctrica is aware of the need to work in the field of adaptation to climate change. For this reason, it has identified and assessed both the risks and opportunities arising from climate change and has begun to develop some actions derived from this analysis.

EMISSIONS TARGET 2020



REDUCTION OR OFFSETTING OF

21
%

Of the emissions of the Company with respect to 2010



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