



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



KEY PERFORMANCE INDICATORS



01. THE COMPANY

02. STRATEGY



# STRATEGY

## 02

Connected to TSO development, maximising efficiency and expanding the business base



03. CORPORATE GOVERNANCE



04. MANAGEMENT APPROACH



05. SUSTAINABLE ENERGY



06. CREATION OF VALUE



07. EMPLOYEES



08. SOCIETY



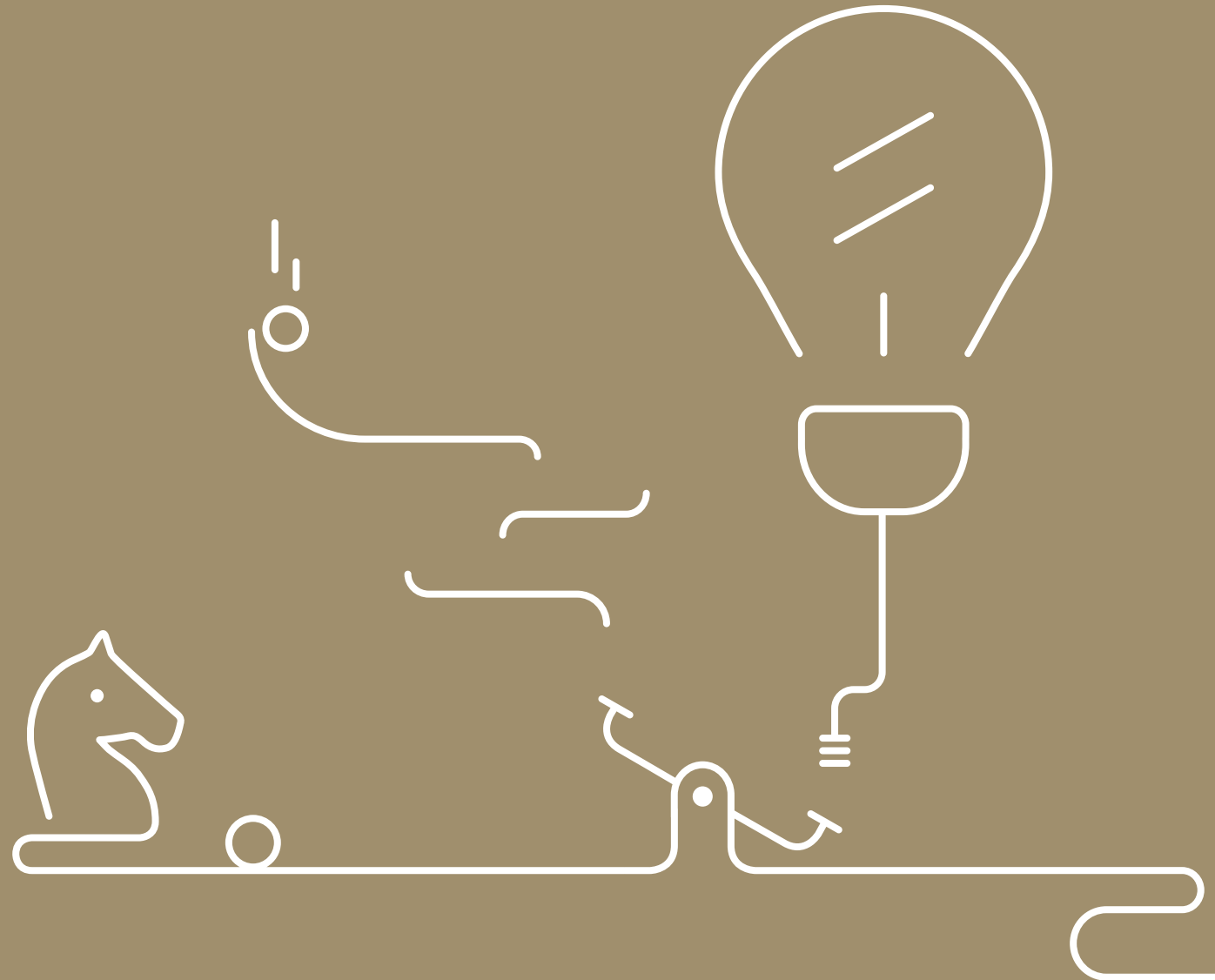
09. DIALOGUE WITH STAKEHOLDERS



10. THE ENVIRONMENT



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## The Strategic Plan 2014-2019,

in addition to continuing to develop our role as TSO in Spain, it maximises efficiency criteria 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 to grow and create value.

**This Plan**, approved by the Board of Directors in February 2015, establishes three key strategic lines, which define the actions to be undertaken and three transversal strategic lines that address the action criteria for its execution.





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# Economic, energy and regulatory scenario

In 2015, the international economic situation was marked by the evolution of oil prices, following the progressive and accentuated decline experienced in the final months of 2014, it remained in the vicinity of 60 dollars per barrel during the first half of 2015, to resume the downward trend in the last few months of the year when the average price stood at 40 dollars a barrel, far from the price of 110 dollars a barrel this raw material cost just a year and a half earlier, in June 2014.

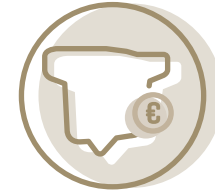
The decisions of oil-producing countries regarding the volume of supply, some of them derived from strategies of a geopolitical nature, as well as the moderate deceleration observed during 2015 in the pace of economic growth in emerging countries, the main consumers of this raw material, are some of the factors that explain the behaviour of oil prices, which has had a positive impact on the economies of countries that must import most of their oil consumption, as is the case of Spain.

Thus, the preliminary report on the latest quarterly Gross Domestic Product data (GDP) published by the National Institute of Statistics estimates that the Spanish economy will grow by 3.2% in 2015, exceeding the forecasts that had been made for this year, and consolidating the recovery trend already noted in 2014.

For yet another year, domestic demand has been the engine of growth, driven not only by the effect of the low cost of oil, but also due to the bringing forward, in July 2015, of tax relief announced by the government for 2016 and, above all, by the progressive improvement of net job creation recorded throughout 2015. This fiscal year has ended with 525,100 more jobs than a year ago, an increase in the employment rate of 3% which has also reduced the unemployment rate by 3 points, to place it in December 2015 at 20.9%, the lowest level since 2011.

## The evolution of the price of oil marked the behaviour of the international economic environment.

### SPANISH GDP 2015



3.2  
%  
INCREASE



### DOMESTIC DEMAND

for yet another year, this has been the engine of growth, driven by the effect of the low cost of oil, the bringing forward of tax relief and the improvement in net job creation recorded in 2015.



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## In 2015, energy consumption in Spain recovered a positive growth rate and broke the downward trend of the last four years.

In this recovery scenario, energy consumption in Spain in 2015 resumed the positive growth rates not seen since 2010, although more moderate than those of GDP values. Thus, the final energy consumption, with the data available until August 2015, grew by 1.4% over the first eight months of 2014, while the increase in consumption of electricity in 2015, after factoring in seasonal and working patterns, was 1.5%.

This loss of correlation between energy and economic growth that has been observed for some years is the result of, on the one hand, the progressive transformation from a production model predominantly industrial towards a less intensive more technological economy in energy consumption. On the other, is the result of the progress in the implementation of energy efficiency and savings measures consistent with the objectives of the Spanish and European energy policy to achieve a sustainable energy model and to combat climate change.

The firm commitment of the European Union to the energy targets and the fight against climate change, reaffirmed by the European Council in October 2014 with the setting of new specific targets for 2030

### ELECTRICITY CONSUMPTION IN SPAIN



INCREASED BY  
**1.5**  
%

*After having factored in seasonal and working patterns*

[40% reduction in emissions compared to 1990, a 27% share of renewables in the final consumption of energy, 27% energy saving compared to consumption forecasts and 15% of interconnection capacity between member countries], received a new impetus in February 2015 with the publication by the European Commission of the EU's 'Third Energy Package'.

To encourage and facilitate the achievement of these objectives, this new legislative package attaches great importance to increasing interconnection capacity between member countries, including a specific strategy to ensure the full integration of the internal electricity market. This package requires a great and renewed political impetus, at a European level, involving both the authorities of the countries that are connected and the Community authorities.



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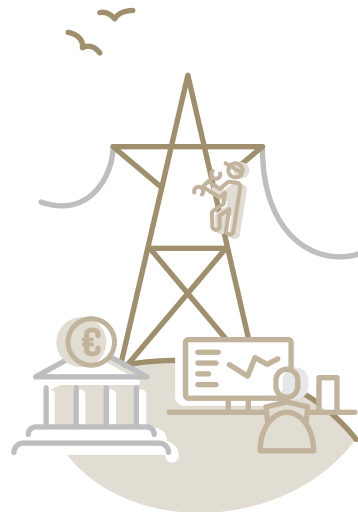


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Another relevant milestone of the international energy scenario in 2015 was the global agreement to curb global warming reached in the 21st UN Climate Change Conference held in Paris in December 2015. This agreement, the first of consensus in all summits, incorporates the objective that the average increase in global temperature by the end of the century be less than 2° C above that of the pre-industrial era, by establishing the commitments for the 195 signatory countries, most demanding for developed countries, which should lead the emission reduction efforts.



The European Union 'Third Energy Package' of the European Commission defined a new strategic framework to achieve the communitarian objectives of European energy policy, based on five pillars:

- Reduce dependency and increase energy solidarity.

- Achieve a fully-integrated European energy market.

- Promote energy efficiency as a means of moderating demand.

- Decarbonise the economy.

- Increase research, innovation and competitiveness.

## In 2015, the regulatory reform was concluded with the approval of the unit values of investment and operation and maintenance of transmission facilities.

The Spanish energy regulation, fully identified with the objectives of EU energy policy, was approved during 2015. Among its most important provisions, the first tender for the promotion of new renewable generation with specific remuneration, and the Royal Decree on the auto-consumption of electricity, with which the reform process of the electricity sector regulation undertaken by the Government in 2013 is practically closed.

During the two years of implementation of this new regulatory framework, revenues in the electricity sector have exceeded costs, meaning the deficit problem of structural tariffs, whose elimination was one of the priority objectives of the reform, no longer exists.

Focusing on regulatory aspects directly related to Red Eléctrica during 2015:

- Ministerial Order IET / 2659 of 12/12/2015 was published, approving the unit values of investment and operation and maintenance of transmission facilities and the regulatory useful life of these facilities. The approval of this Ministerial Order represents the coming into force of the new remuneration methodology established in RD 1047/2013.
- In relation to its functions in non-peninsular electricity systems, the transference of the Chira-Soria reversible pumped-storage power station project in Gran Canaria to Red Eléctrica, as system operator, was executed in accordance with Order IET / 728/2014 of 28 April.



More on the regulatory aspects in the Consolidated Annual Accounts.

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# Key strategies

## Development of the TSO activity

The main activity of Red Eléctrica is linked to its 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, to make the challenge of sustainable development a reality through the integration of renewable energy and promoting projects aimed at energy efficiency and innovation.

Although logically the future of the electricity sector will be defined by the main players in the sector, it is a priority that Red Eléctrica adopt a strategic positioning to strengthen its position as Spanish TSO and to defend its position both nationally and at a European level.

### Execution of the Plan in 2015

- Approval of the Energy Planning 2015-2020 by the Council of Ministers.
- Closing of the regulatory reform following the approval of the remaining aspects for the definition of the new remuneration framework for the electricity transmission activity in Spain.
- The coming into full operation of the interconnection with France through the Eastern Pyrenees, a project that has represented a major technological challenge and that doubles the exchange capacity with the European system.
- Commissioning of the first submarine cable of the Majorca-Ibiza link to strengthen the electricity integration of the Balearic Islands and guarantee the reliability of the supply.

The Strategic Plan continues is based on the continuous development of the **key role as Spanish TSO**, consolidating our position both nationally and at a European level.

## TSO DEVELOPMENT



INFRASTRUCTURE  
PLANNING  
**2015-2020  
APPROVED**

In 2015



### KEY STRATEGY

develop an increasingly meshed and robust transmission grid that is better interconnected to contribute to the efficient functioning of the electricity system.

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## Efficiency

The **strategic Plan** seeks to improve current levels of efficiency, which represents promoting management and corporate culture, focused mainly on the optimisation of construction and maintenance activities (the greatest economic and financial impact) and continuous improvement at

an operational and process level. Obtaining greater efficiency helps to mitigate the impact of the declining profitability of new investments, according to the new remuneration model, generating value through improved operating margins.

### Execution of the Plan in 2015

- Optimisation of financing through the repurchase of bonds.
- Refinancing REDESUR through a bond issue in Peru.
- Defining a framework for relations between the Group's companies and the different management areas of Red Eléctrica in order to build the pillars of growth and the diversification of the Group.

## Expansion of the business base

The **current economic** and energy context brings with it a lower growth scenario linked to Company's main activity, which means having to consider expanding the business base both in Spain and internationally, to boost the growth trend over the upcoming years in the following areas:

• **Telecommunications:** after the transfer and commercial exploitation of the dark fibre optic network of ADIF, Red Eléctrica has become the neutral operator of reference in Spain for dark fibre.

• **Energy storage:** an increase in energy storage capacity on the islands, mainly via pumped-storage, as a tool available to the system operator, will enable a better integration of renewables and at the same time provide more security for the electricity system.

• **International:** the internationalisation process is based on our knowledge regarding the management and operation of electricity transmission grids and is conceived with a vocation of long-term presence in low risk countries and stable regulatory environments.

### Execution of the Plan in 2015

- Creation of Red Eléctrica Infraestructuras de Telecomunicaciones (REINTEL), whose activity is focused on the leasing of dark fibre optic networks and points of presence.
- Setting up of Red Eléctrica Infraestructuras en Canarias (REINCAN), that will manage the construction of facilities aimed at energy storage in the Canary Islands, such as the project for the Chira-Soria pumped-storage hydro power station.
- Concession contract awarded to Red Eléctrica Internacional for the 220 kV Azángaro-Juliaca-Puno line and the Montalvo-Los Héroes lines in Peru.
- Acquisition of 50% of the share capital of Transmisora Eléctrica del Norte (TEN), to participate in the construction and operation of the Mejillones-Cardones line in Chile.



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# Transversal strategies

## ***Excellence and corporate responsibility***

**At an excellence level,** we must maintain the current benchmark in the execution of our activities, while focussing our efforts on the active management of our reputation and corporate brand and strengthening communication with stakeholders. We seek to do this while maintaining the objective to consolidate ourselves

as a sustainable company, through ethical management and a commitment to society with a focus on excellence and responsibility in the development of our activity.

### **Execution of the Plan in 2015**

- Incorporation into the Dow Jones Sustainability World and Europe Indexes.
- Implementation of the Sustainable Mobility Plan.
- Approval of the Action Plan for Climate Change 2015-2020.
- Appointment of a new CEO, separation of the roles of Chairman of the Board of Directors and Chief Executive Officer of the Company.
- Renewal of the EFQM European Seal of Excellence 500+, with a score in excess of 700 points, consolidating Red Eléctrica among the leading companies both at a national and European level.

## ***Innovation***

**Innovation** as a transversal strategy 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 that promotes technological innovation as a lever for growth that will respond to the great challenges of the future.

### **Execution of the Plan in 2015**

- Undertaking of 76 technologically innovative projects aimed at increasing system efficiency and the integration of renewable energies.
- New Innovation and Technological Development Plan 2016-2019.
- Completion of the ESP-Líder project (redirection of current flows) of the INNFACTO programme and its installation in Torres de Segre available for system operation.





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## People

**People are the cornerstone** on which the whole strategy is built, and are those that enable the proposed objectives to be achieved. Red Eléctrica is committed to establishing a healthy working

environment conducive to the organisation of work and well-being of employees, allowing the optimisation of resources.

### Execution of the Plan in 2015

- Definition of a healthy workplace model that establishes the general principles and guidelines for the promotion of health, safety and the well-being of employees.
- Creation of banks of employee potential and boosting the quality of the associated programmes in collaboration with prestigious business schools.
- Implementation of the LideraT training programme for the management team.

## SIGNIFICANT PROGRESS IN the Strategic Plan 2014-2019



### GOALS 2014-2019

SOLID GROWTH IN CONSOLIDATED ACTIVITIES

€ **3.1** bn

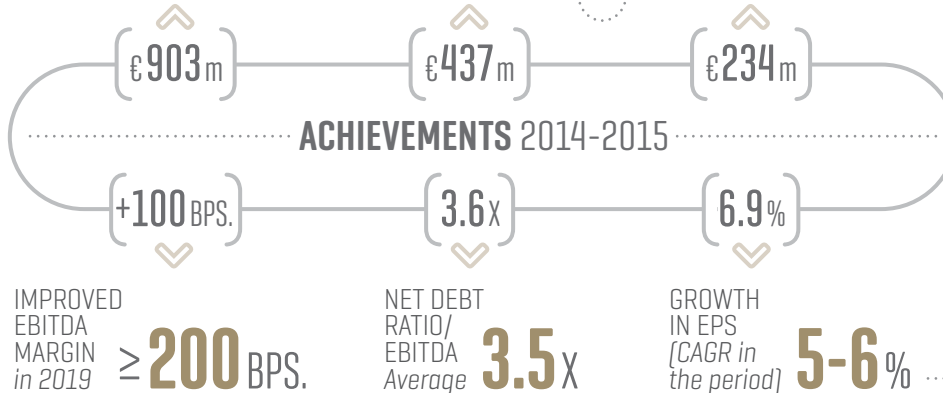
Investment in the Transmission Grid

€ **475** m

Investment in the dark fibre optic network

ADDITIONAL GROWTH IN NEW ACTIVITIES

€ **1** bn



### IN FIVE YEARS

the plan foresees investments for an amount of 4,575 million euros that will allow the Company to achieve solid growth in consolidated activities and further growth in new activities.