



ABOUT THIS REPORT

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

KEY PERFORMANCE INDICATORS

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ANNEXES

01 THE COMPANY

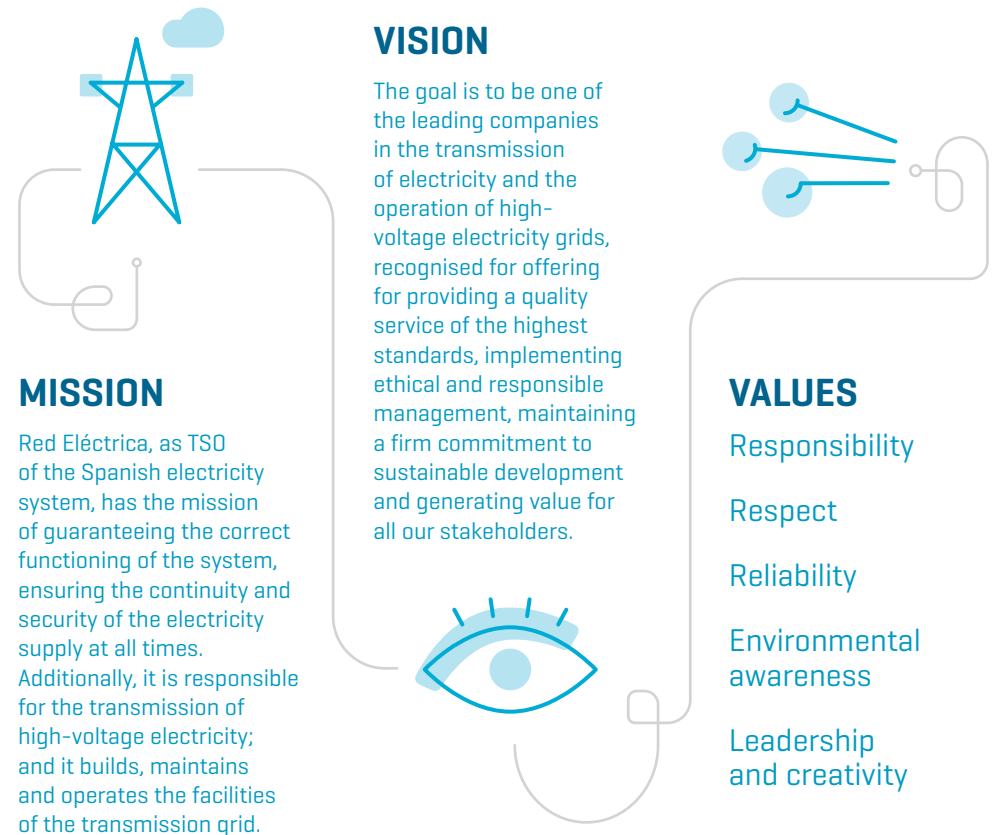
CONNECTED TO A SECURE AND SUSTAINABLE ENERGY FUTURE



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.

+
A complete picture of the Company in the 'About us' section of the corporate website.



STRUCTURE OF THE RED ELÉCTRICA GROUP

A group with a 'holding' structure / G4-3 / G4-7 / G4-17

With the objective of reinforcing the separation and transparency of the regulated activities in Spain from the rest of the Group's activities, the organisational structure of the Company was transformed into a holding structure in 2008.

WORKFORCE OF THE GROUP / AS AT 31.12.16

Red Eléctrica Corporación	7
Red Eléctrica de España	1,675
Red Eléctrica Internacional	9
REINTEL	11
REINCAN	4
RE CHILE	1
REDESUR	17
TESUR	2
TESUR2	8
REA	42
REDCOR	1
Total	1,773

Note: The data shown regarding total workforce does not coincide with the sum of all the companies of the Group due to the fact that three employees belong simultaneously to the staff of more than one company.

+ In the Consolidated Annual Accounts Report.

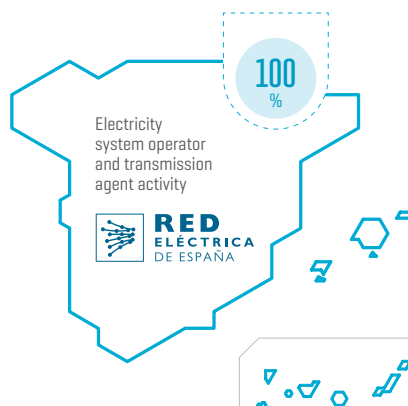
RED ELÉCTRICA CORPORACIÓN

ELECTRICITY ACTIVITY IN SPAIN

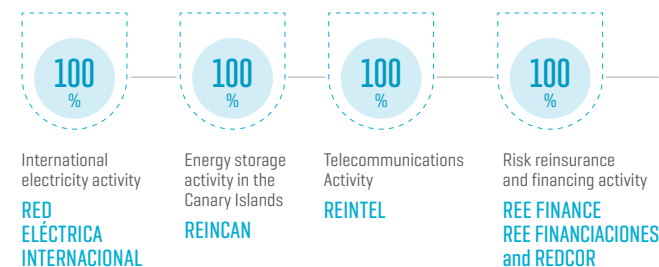
92%
of revenue

OTHER ACTIVITIES

8%
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.



Investment in electricity transmission infrastructure internationally is channelled through different subsidiaries integrated into **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 / G4-4 / G4-6 / G4-8

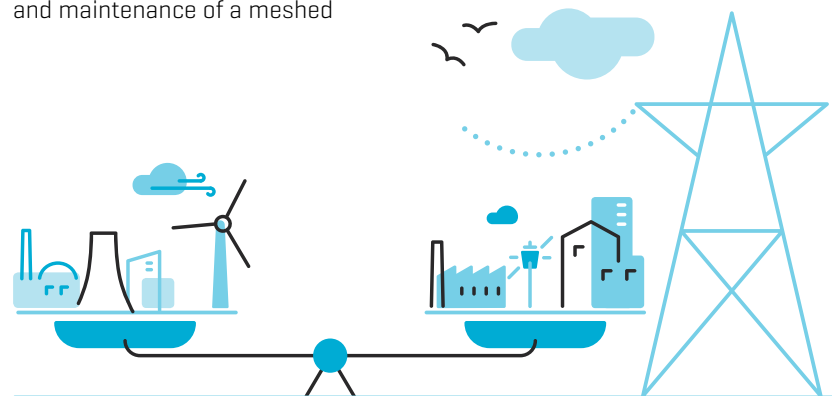
Red Eléctrica is a TSO (Transmission System Operator) of international reference in the efficient management of the electricity supply and in the maintenance of a meshed and reliable transmission grid.

Red Eléctrica de España is the company that carries out the Group's core 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

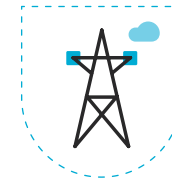
and reliable transmission grid in order to contribute to the progress of society. The efficient performance of these functions positions the

Company as one of the benchmark Transmission System Operators in the international arena.

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 CONTROL CENTRES

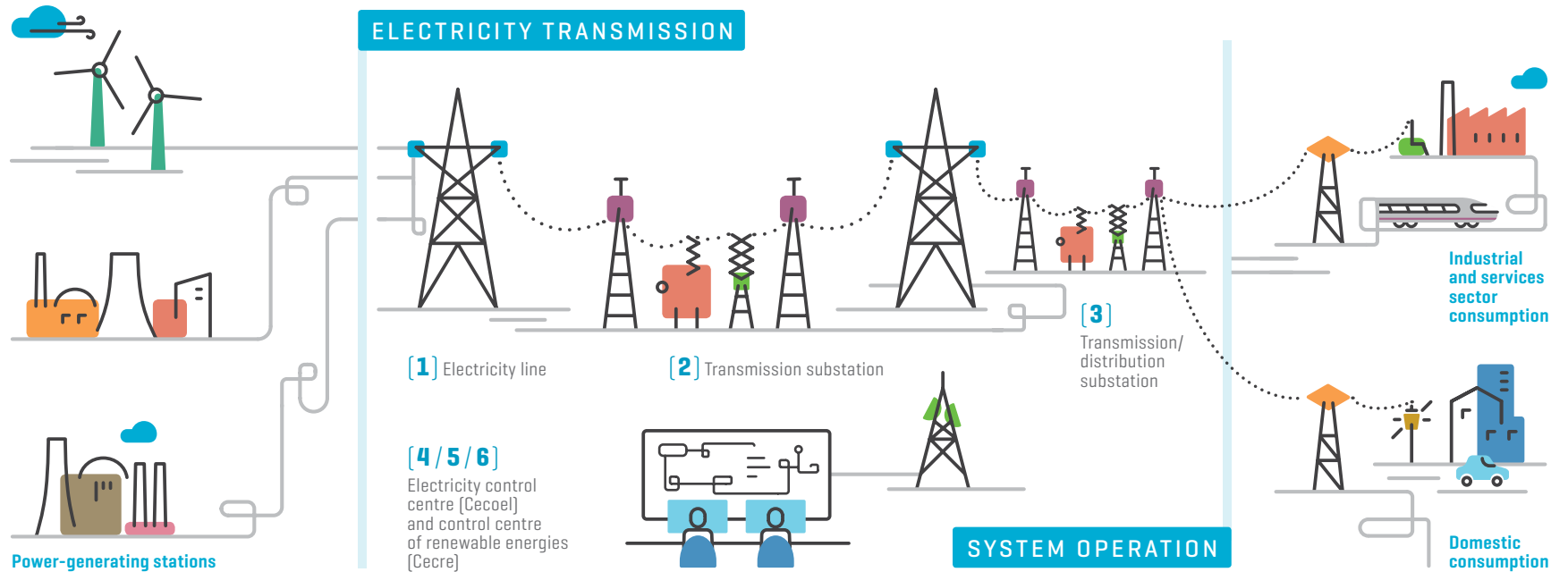
Responsible for the 24/7 operation of the peninsular and non-peninsular electricity systems.

What we do

ELECTRICITY TRANSMISSION ACTIVITY

SYSTEM OPERATION 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.
- [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 / G4-13

International activity

For the Company, the development of International business is a natural growth path which is centred mainly on the construction, management and operation of transmission grids outside Spain, currently in Peru and Chile.

To boost this business, Red Eléctrica, through Red Eléctrica Internacional, analyses corporate acquisitions and frequently participates in tenders for concession contracts.



The objective is to invest in low-risk countries with stable regulatory environments, ensuring noteworthy participation in the shareholding structure and an involvement in the management of the companies in which it has a shareholding.

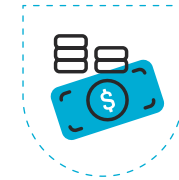
Red Eléctrica Internacional, which in turn is made up of the subsidiaries (REDESUR, Red Eléctrica Andina, Transmisora Eléctrica del Sur, Transmisora Eléctrica del Sur 2, Transmisora Eléctrica del Sur 3 and Red Eléctrica Chile), has been present in South America for more than 15 years, where it manages transmission grids while maintaining excellent rates of availability of the facilities and a seamless collaboration with all stakeholders.

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, representing an overall investment of 110 million dollars.

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 management and operation of the Mejillones-Cardones interconnection line, which will link the north and central electricity subsystems of Chile, and which has represented an investment of 832 million dollars.

With these actions, Red Eléctrica Internacional has increased its business standing in two geographical areas with a common border as is the case with northern Chile and southern Peru.

INVESTMENT IN CHILE



ELECTRICITY TRANSMISSION BUSINESS

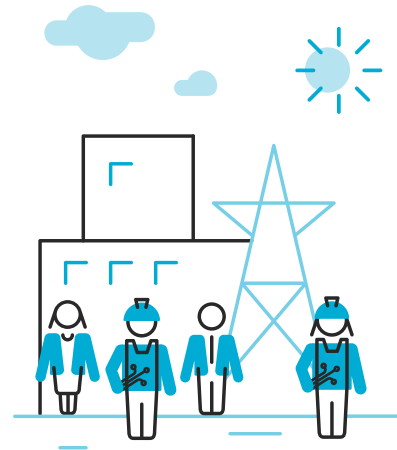
Red Eléctrica acquires 50% of the share capital of TEN (Transmisora Eléctrica del Norte)



In the 'About us' section of the corporate website.

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



REINTEL is the neutral provider of telecommunications infrastructure of reference in Spain.

housing of the telecommunications equipment of its clients.

At present, REINTEL is the **neutral provider of telecommunications infrastructure of reference 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 access to the network which is both transparent 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.

REINTEL



HAS A PERMANENT CLIENT HELPDESK AND MONITORING CENTRE THAT **GUARANTEES THE QUALITY**

—
And availability of the service (24/7)

Given the importance of the correct functioning of the grid for our clients, REINTEL prioritises excellence in all its operations and backs innovation and the continuous improvement of its infrastructures. One of its main priorities is to guarantee high levels of quality of service and availability of the network, for which it has a permanent client helpdesk and monitoring centre (24/7) that controls and monitors the state of the entire network and deals with the incidents and the scheduled work of the clients, in order to offer a service which is both reliable and of maximum quality.

The Company's experience in the telecommunications market began in 1997 and, since then, it has been the supplier of reference for the main agents of the sector. Therefore, it has a solid client base that includes the main telecommunications operators with a presence in Spain.

REINTEL

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

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

Energy storage activity in the Canary Islands

In 2015, Red Eléctrica Infraestructuras en Canarias (REINCAN) was created with the aim of promoting energy storage projects on the Canary Islands that can act as tools for the system operator so as 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 for the construction project for 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 energy storage power station, which has an investment of 320 million euros, will enable a greater development and use of renewable energy on the island, therefore it represents an essential element to progress towards the sustainability of the new energy model in the Canary Islands, which is safer, more efficient and environmentally friendlier.



SORIA-CHIRA POWER STATION



INVESTMENT

320 M€

A project declared to be of strategic interest by the Government of the Canary Islands

REINCAN

Subsidiary created in the Canary Islands in 2015 for the promotion of energy storage projects that enable a greater integration of renewables on the islands.

MANAGEMENT STRUCTURE / G4-34

