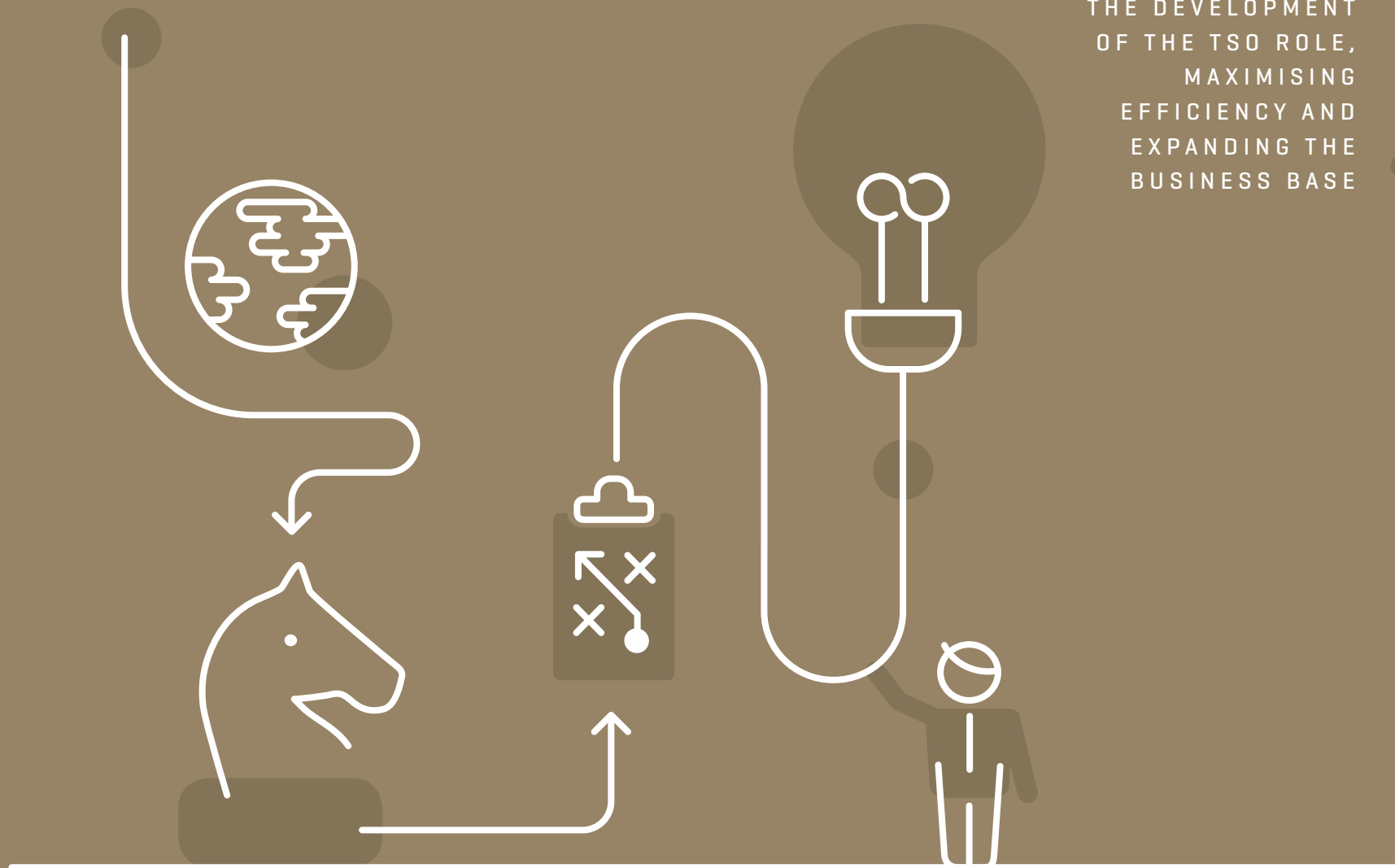




# 02 STRATEGY

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

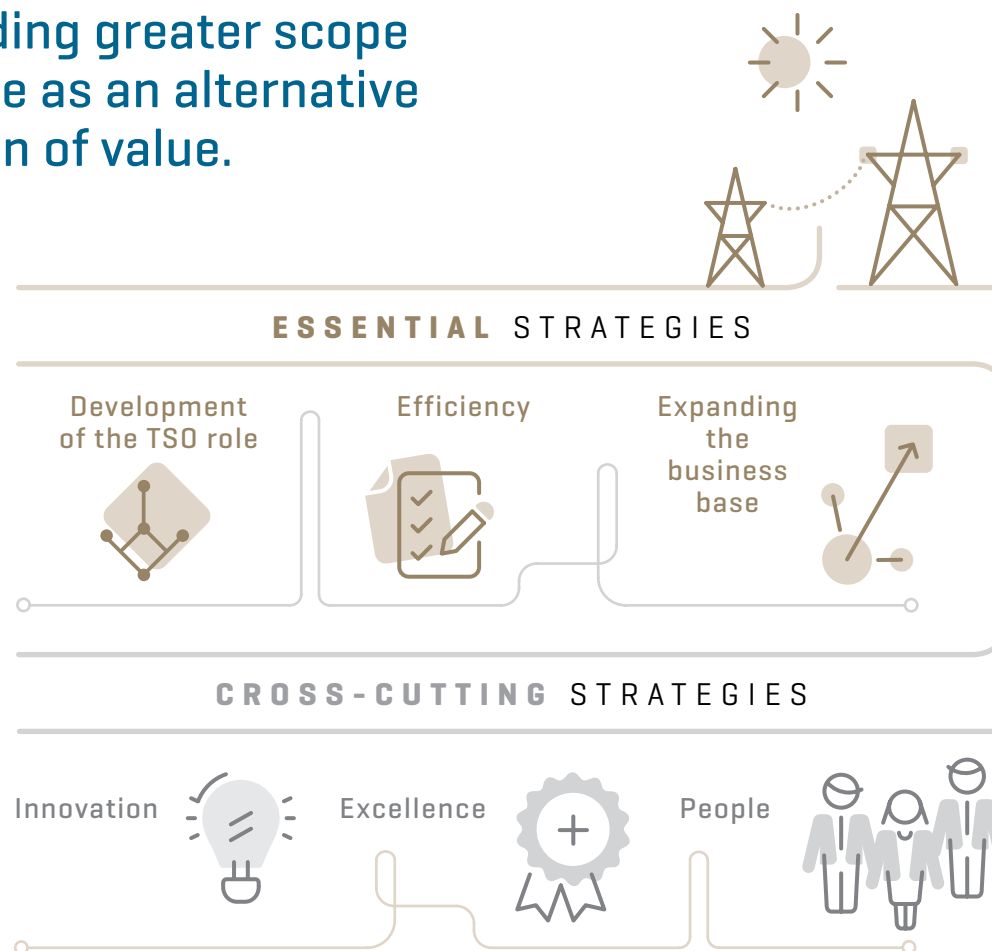


## The Strategic Plan 2014-2019

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, and providing greater scope for expanding the business base as an alternative path for growth and the creation of value.

### 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 the implementation of the Plan.



# REGULATORY, ECONOMIC AND ENERGY SCENARIO

## Economic scenario

**2016 will be** remembered for two unexpected election results, whose future consequences for the global economy are still subject to great uncertainty and which initially brought fears of a significant negative economic impact in the short term, which in the end did not materialise.

Thus, in June, a referendum was held and the United Kingdom voted to leave the EU, although this caused initial turbulence in financial markets these later

stabilised. In the end, the so-called 'Brexit' has not prevented the Eurozone from maintaining, during 2016, the moderate pace of economic growth of the previous two years, with an estimated increase in its annual GDP of 1.7%. Uncertainty remains as to the actual consequences of Brexit going forward, due to the negotiation process which is currently underway to establish the new trade relations framework between the United Kingdom and the EU.

On the other hand, in November the victory of the Republican candidate Donald Trump in the US presidential elections was received with concern by the markets, in view of the possible impact on the world economy due to the measures announced by the candidate during the election campaign regarding a shift towards a more protectionist trade policy and the reordering of the geopolitical strategy of the first world power. However, given that the elections were held very late in the year, the outcome has had no significant impact on the major macroeconomic aggregates for 2016. The world economy, which is expected to grow by 3.1%,

**In 2016, two unexpected election results occurred [BREXIT and Trump's victory], whose future consequences for the global economy are still subject to great uncertainty.**

GDP  
EUROZONE  
2016



1.7  
%

MAINTAINS  
THE MODERATE  
PACE

of economic  
growth of  
the previous  
two years

GROWTH  
OUTLOOK

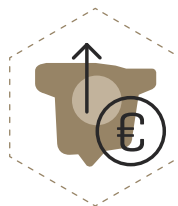
Global growth  
estimated at 3.1 %  
and 1.6 % in the  
US economy.

and US economic growth, which is expected to be at 1.6%, were also not adversely affected as both values are like those predicted before the election.

The stabilisation of the price of oil at around US \$45 per barrel during 2016 has been one of the determining factors that has enabled world economy growth to be maintained, and in particular in emerging countries, the main consumers of this commodity, as well as the countries with high dependence on crude oil, as is the case with Spain.

Hence, Gross Domestic Product (GDP) growth for the 4<sup>th</sup> quarter of 2016, published by the Spanish Institute of Statistics in January 2017, establishes the growth of the Spanish economy at 3.2% for 2016 surpassing once again the forecasts that had been formulated for this year and consolidating the recovery trend that began in 2014. This good

## ECONOMIC GROWTH 2016



A GROWTH OF  
**3.2**  
%

Exceeds  
forecast and  
consolidates the  
recovery trend

## Domestic demand, boosted by net job creation, has been the driver of growth in the Spanish economy in 2016.

performance of the Spanish economy has occurred in a political context that was unique and unprecedented in Spain, marked by the political stalemate stemming from the failure to reach an agreement to form a new government after the general elections held in December 2015, which forced a repeat of the elections in June and left Spain with an interim government in office for ten months.

Domestic demand for yet another year has been the driver of growth in 2016, although its contribution has been somewhat lower than in 2015, and has been offset by an increased foreign contribution. This solid growth, which domestic demand has been registering since 2014, has contributed greatly to the continuous improvement in net job creation, which maintained its upward trend in 2016, closing the year

with 413,900 jobs more than the previous year. This represented an increase of 2.3% in the number of employed persons, which in turn reduced unemployment to 18.6% in December 2016, below 20% for the first time since 2010.

After three consecutive years of sustained growth in a complex national and international political scenario, it seems that the Spanish economy is steadily moving in the right direction, driven by an underlying base of fundamental factors that help stave off the uncertainty that may arise from relevant events that could significantly derail the progress made.

## In 2016, electricity consumption in Spain grew for the second consecutive year following the economic crisis, registering an increase in demand of 0.7 %.

### Energy scenario

**For the first time** since the economic crisis, electricity consumption in Spain grew, in 2016, for the second consecutive year, registering an increase in demand of 0.7%.

Demand, per sector, after having factored in seasonal and working patterns, was barely 0.1% higher than in 2015, despite the good performance of the economy. This fact accentuates the progressive loss of correlation between economic activity and electricity demand. This is a true reflection of the transition towards a production model that

is less energy intensive, which contributes substantially to the implementation of energy saving and efficiency measures that are consistent with the objectives of Spanish and European energy policy in order to achieve a sustainable energy model and fight against climate change.

Within the framework of the firm commitment of the European Union to the energy targets and the fight against climate change, at the end of November 2016 the European Commission published, under the generic title 'Clean Energy for All Europeans', a new proposal for legislative development, which has been colloquially referred to as the 'Winter Package'. This proposal is made up of a new Community

### WINTER PACKAGE



### EUROPEAN COMMISSION PROPOSAL FOR LEGISLATIVE DEVELOPMENT

AMONG ITS  
TARGETS:  
REDUCTION OF

40  
%

of emissions  
by 2030

Directive on electricity, which will replace the current Directive 2009/72/EC and its corresponding regulatory developments.

The Winter Package is part of the European Union's goal of leading the transition towards clean energy. In February 2015, the first step was the publication of the non-legislative package of the 'Energy Union', which defined a new strategic framework for achieving EU energy policy targets. These targets include a commitment to reduce emissions by 40% by the year 2030, which is aligned with the leadership role regarding efforts to slow down global warming by reducing emissions; a role conferred on the Member States at the 21<sup>st</sup> Conference of the Parties which was held in Paris in December 2015 and whose agreements came into force one year later, on 4 December 2016.

In this way, once the Winter Package is approved, after an administrative process that could take up to two years, it will become the normative support required to achieve a transition towards clean energy in accordance with the principles

of the EU energy policy. To this effect, also included are legislative proposals concerning energy efficiency, renewable energies, the design of the electricity market, the security of electricity supply and the governance regulations of the Energy Union.

Furthermore, in its communication regarding the publication of the Winter Package, the Commission highlighted that the transition towards clean energy is, in itself, a thriving economic sector. It is estimated that in 2015 it attracted an overall investment of more than 300 billion euros and has a growth potential that the European Union aims to stimulate by mobilising public and private investment estimated at 177 billion euros per year from 2021 onwards. It is estimated that over the next decade it could generate GDP growth of up to 1% and create 900,000 new jobs.



More on regulatory aspects in the Annual Accounts Report.

## TRANSITION TO CLEAN ENERGY



REPRESENTS  
A BOOMING  
ECONOMIC  
SECTOR  
**300,000  
MILLION  
EUROS**

in investment  
in 2015

## OUTLOOK REGARDING CLEAN ENERGY

The European Union estimates public and private investment at 177 billion euros per year from 2021 onwards.

## Regulatory scenario

**Spain's energy** regulation, which is fully aligned with the objectives of the Community's energy policy, has barely progressed in 2016, due to the political stalemate which, following the general elections of December 2015, did not allow a new government to be formed until November 2016. Within this context, among the few regulations passed during the year of note was the approval in December of Royal Decree-Law 7/2016, which establishes several amendments to Law 24/2013, of the electricity sector. The purpose of these changes is, on the one hand, to establish a new regime for the financing of a social electricity tariff (*Bono social*) - a discount on the electricity bill for certain consumers considered

to be at risk - the cost of which is to be borne by electricity providers and, on the other hand, to introduce Law 24/2013 on the general principles that provide coverage to a subsequent regulatory development of new measures aimed at protecting the most vulnerable consumers of electricity.



# Spanish energy regulation in 2016 has focused on measures for the protection of the most vulnerable consumers.

# ESSENTIAL STRATEGIES

In the period 2014-2016, highly important actions were taken that contributed to the deployment of the essential and cross-cutting strategies defined in the 2014-2019 Strategic Plan.

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.

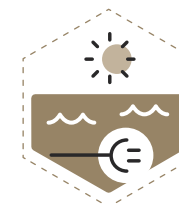
## Development of the TSO role

**Red Eléctrica's main activity** is linked to its status as the 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 and 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 line** 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.

### ELECTRICAL INTEGRATION



COMMISSIONING  
IN 2016 OF THE  
**MAJORCA-  
IBIZA**  
INTERCONNECTION  
IN THE BALEARIC  
ISLANDS

**Greater reliability  
of supply**

**2014-2016  
PERIOD**

Commissioning  
of more than  
1,600 km of new  
line and over 300  
substation bays.

## 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.

## 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

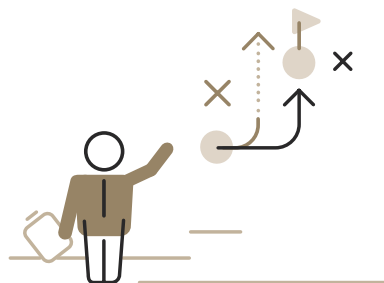
of regulated activities other than current and non-regulated activities in the field of telecommunications and infrastructure management, as well as expansion in other geographical areas.

### 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 for 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 energy storage on the Canary Islands.
- **Concession contract awarded to Red Eléctrica Internacional** for the 220 kV Azángaro-Juliaca-Puno line in Peru.
- **Corporate 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** as a 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 boosting technological development as a lever for growth that will make it possible to 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 among which are the following:
  - **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 deployment of demand-side management measures.
  - **Completion of the ESP-Líder project** (re-directing of power flows) of the INNFACTO programme.
- **Development of European projects:** BEST PATHS (integration of massive amounts of renewable energy) and MIGRATE (improvement of the behaviour of the electricity system with high penetration of devices based on power electronics).
- **Approval of a new innovation strategy focused mainly on four vectors:** digitalisation, people, sustainability and technology.
- **Obtaining the 2016 PDU 'Transfer Technology Award' awarded by EPRI** in the field of research for the analysis of the integration and impact of energy storage in electricity systems.

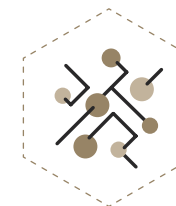
## People

**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 standardising training and development systems and knowledge management.
- **Creation of Bench Strength** 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**.

## NEW INNOVATION STRATEGY 2016



FOCUSED ON  
**FOUR  
VECTORS:**  
DIGITALISATION,  
PEOPLE,  
SUSTAINABILITY,  
TECHNOLOGY

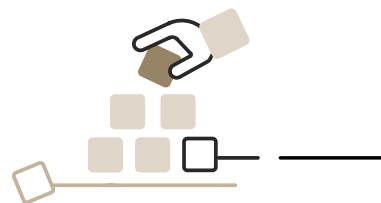
## Excellence

At an excellence level, the objective of the Strategic Plan is that the Company maintain its current benchmark position, while 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.

### Execution of the Plan in the 2014-2016 period

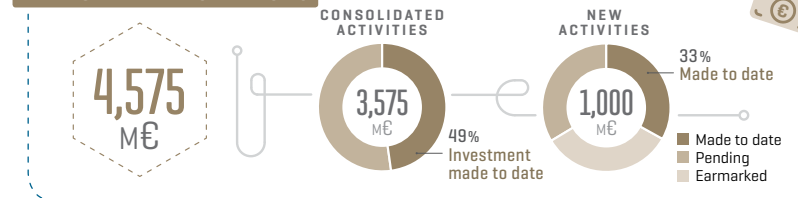
- **Approval** of the Company's first Corporate Governance Policy.
- **European environmental award** for the Company in the special category of Business and Biodiversity.
- Sustainable **mobility plan**.
- **Approval of the Climate Change Action Plan** for the period 2015-2020.

- **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.

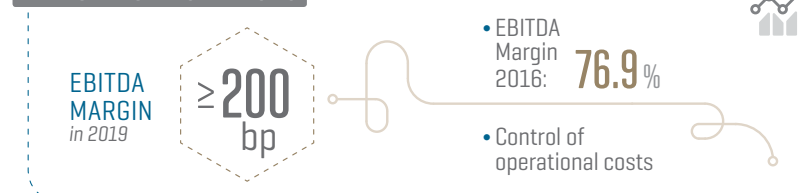


## STRATEGIC PLAN UPDATE ACHIEVEMENTS 2014-2016

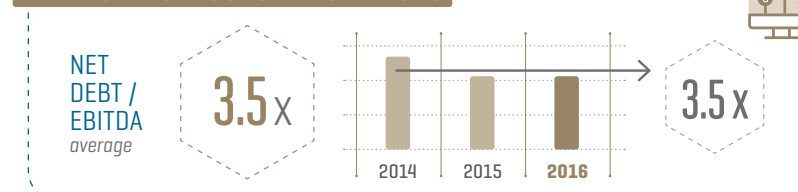
### INVESTMENT 2014-2019



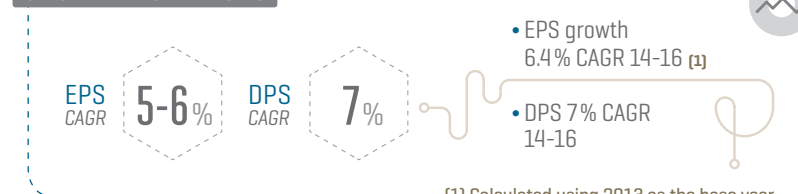
### EFFICIENCY 2014-2019



### FINANCIAL STRUCTURE 2014-2019



### GROWTH 2014-2019



(1) Calculated using 2013 as the base year.