

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER / G4-1

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.

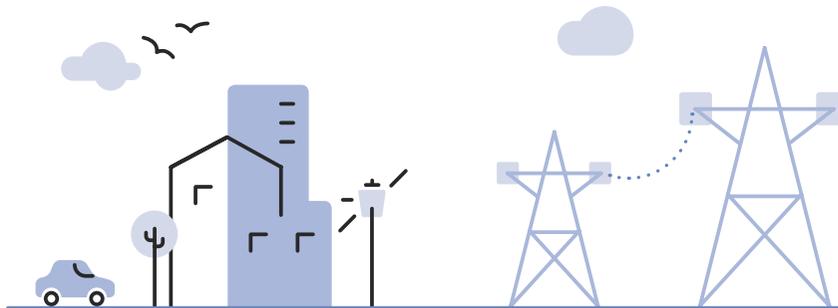
In order to undertake this commitment, in 2016, the Company has continued to execute the 2015-2020 Electricity Infrastructure Plan in Spain, whose deployment allows it to maintain an important rate of investment in the transmission grid. This Plan is mainly designed to improve and strengthen grid meshing, 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 a total investment of 398.5 million euros in the Spanish transmission grid.

JOSÉ FOLGADO
Chairman
of Red Eléctrica
Corporación

JUAN LASALA
Chief
Executive
Officer



KEY PERFORMANCE INDICATORS

01. THE COMPANY

02. STRATEGY

03. CORPORATE GOVERNANCE

04. MANAGEMENT APPROACH

05. SUSTAINABLE ENERGY

06. CREATION OF VALUE

07. EMPLOYEES

08. SOCIETY

09. DIALOGUE WITH STAKEHOLDERS

10. THE ENVIRONMENT

ANNEXES

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



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.

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 reducing 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 ensuring the security and quality of the electricity supply, making it compatible with the

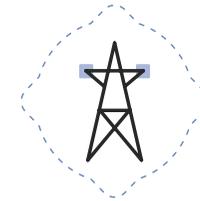
maximum integration of renewable energies. In this regard, the work of the Control Centre of Renewable Energies has contributed to the fact that 40.8% of the energy integrated into the peninsular system came from renewable sources, which is 3.9 percent points higher than in 2015, with the consequent decrease in CO₂ emissions from electricity generation.

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

LINE



COMMISSIONED IN 2016

674

km

OF NEW LINE

61 new substation bays



KEY PERFORMANCE INDICATORS



01. THE COMPANY



02. STRATEGY



03. CORPORATE GOVERNANCE



04. MANAGEMENT APPROACH



05. SUSTAINABLE ENERGY



06. CREATION OF VALUE



07. EMPLOYEES



08. SOCIETY



09. DIALOGUE WITH STAKEHOLDERS



10. THE ENVIRONMENT



ANNEXES

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



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 growth model for the Group.

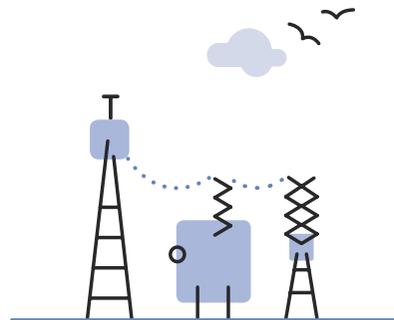
At an international level, steps have been focused on strengthening the Company's presence in Latin America, through the progress made in the execution of the two new projects awarded last year in Peru, as well as the Mejillones-Cardones project in Chile, derived from the acquisition of 50% of the Chilean 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, conceived 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



FINANCIAL RESULTS



NET PROFIT
636.9
M€
+ 5.1%
Compared to 2015

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 in 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

INNOVATION STRATEGY

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



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



and technology, and whose objective is the creation of an innovation culture 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.

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 hires in 2016 were women. In addition, the percentage of women in managerial positions has further increased with 8% more than in

MANAGEMENT POSITIONS 2016



21.8

%

WOMEN

+ 8%

Compared to 2015

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.

Red Eléctrica has consolidated its presence in the main sustainability indexes. Noteworthy was the score obtained in the Dow Jones indexes, in which it has improved the overall score, in addition to leading the 'Electric Utilities' sector in nine areas.

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 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



KEY PERFORMANCE INDICATORS



01. THE COMPANY



02. STRATEGY



03. CORPORATE GOVERNANCE



04. MANAGEMENT APPROACH



05. SUSTAINABLE ENERGY



06. CREATION OF VALUE



07. EMPLOYEES



08. SOCIETY



09. DIALOGUE WITH STAKEHOLDERS



10. THE ENVIRONMENT



ANNEXES

ANNEXES

LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



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.

2020 EMISSIONS TARGET



REDUCTION OR OFFSETTING OF

21%

of the Company's emissions compared to 2010

SHARED VALUE

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

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.

KEY PERFORMANCE INDICATORS

01. THE COMPANY

02. STRATEGY

03. CORPORATE GOVERNANCE

04. MANAGEMENT APPROACH

05. SUSTAINABLE ENERGY

06. CREATION OF VALUE

07. EMPLOYEES

08. SOCIETY

09. DIALOGUE WITH STAKEHOLDERS

10. THE ENVIRONMENT

ANNEXES