

TOWARDS A SUSTAINABLE ENERGY FUTURE



**ANNUAL
REPORT
2013**
SUMMARY



RED ELÉCTRICA CORPORACIÓN

ANNUAL REPORT 2013

Summary



RED ELÉCTRICA CORPORACIÓN

This report presents a summary of the activities carried out in 2013. The full *Corporate Responsibility Report 2013*, as well as the legal information (*Consolidated Annual Accounts 2013* and *Corporate Governance Report 2013*) are published solely in electronic format (browsable pdf) and are available on the corporate website www.ree.es

FOR MORE IN-DEPTH INFORMATION

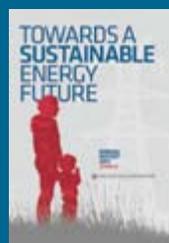
Click on the mouse  or video  symbol and access the relevant Company information that may be of your interest.

More Information



This English version is a translation of the original and authentic Spanish text found in the *INFORME ANUAL 2013 - RESUMEN*, originally issued in Spanish. In the event of discrepancy, the Spanish-language version shall prevail.

ANNUAL REPORT 2013 (SUMMARY)



CORPORATE RESPONSIBILITY REPORT 2013



CORPORATE GOVERNANCE REPORT 2013



CONSOLIDATED ANNUAL ACCOUNTS 2013



Scope of the Annual Report 2013 (Summary): activity in Spain.

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If for any reason the electronic format version cannot be accessed, a printed copy may be request by contacting the *Digame* information service.

Stakeholder Attention Centre: www.ree.es // digame@ree.es // tel.+34 91 728 62 15



Chairman of Red Eléctrica Corporación

JOSÉ FOLGADO

“IN A DIFFICULT CONTEXT, RED ELÉCTRICA HAS MANAGED TO SHOW ITS FINANCIAL SOUNDNESS WITH A 7.5% GROWTH IN NET PROFIT”

How would you sum up the current economic situation in Spain? Do you believe the road to recovery has begun and therefore we are coming out of the crisis?

There are indicators that point in this direction, such as the positive signs that GDP is starting to register; the significant improvement in the risk premium; the increasing competitiveness of companies, which have resulted in an increase in exports, and the progressive reduction of public deficit. If reforms continue, solid economic growth will be secured, and this is the basis for the significant reduction in unemployment rates.

How would you describe the current situation of the electricity sector in Spain?

The main problem has been the tariff deficit that the Government is trying to reduce, with a series of regulatory measures, to ensure the economic sustainability of the energy model, such as the new *Electricity Sector Law* and the new price setting mechanism for electricity. It has been a reform that has affected all industry players, but I am sure it will bring regulatory stability and a better allocation of the resources necessary to ensure the viability, quality and efficiency of the energy system as a whole. >





a new stage that we believe can clearly be positive for the development of Red Eléctrica's activity in the coming years by establishing a single system for remunerating these activities, introducing tools that promote efficiency both in the construction of facilities and in grid operation and maintenance. In short, it is a framework of regulatory stability for upcoming years, which seems to have gone down well with both investors and the markets.

What stage is the process of electricity infrastructure planning at?

The passing of Royal Decree 13/2012 led to the suspension of the granting of new administrative authorisations for the facilities contemplated in the Plan for 2008 to 2016 and, as such, it was necessary to draft a new transmission grid plan, taking as a base the most likely macroeconomic scenario and the evolution of the forecasted demand. Subsequently, the Ministerial Order of January 2013 approved a list of facilities considered critical for the electricity system and, therefore, authorising Red Eléctrica to proceed with them.

In December 2012, a new planning process began

with a 2014-2020 horizon, for which Red Eléctrica has drafted the initial *Proposal for the development of the Transmission Grid. 2014-2020 Horizon*. This was submitted in September 2013 to the Ministry of Industry, Energy and Tourism, and re-submitted in December 2013 with the modifications required by the Ministry.

From a business management standpoint, which milestones in 2013 would you highlight?

Even in a difficult economic and regulatory context, Red Eléctrica managed to show its soundness by presenting solid results with a 7.5% growth in net profit.

Also worth highlighting is the significant investment plan, which has meant an investment of 564 million euros for the strengthening of the transmission grid. In 2013, we put into service 776 km of line amongst which are the various noteworthy sections of the Almaraz-Guillena axis, a project that will allow the quality of supply in the regions of Andalusia and Extremadura to be guaranteed. In the north of the Spanish peninsula, it is worth noting the putting into service of the Grado-Salas axis, which forms part of a larger project to link up

the Cantabrian coastal axis and which will enable the evacuation of wind power energy from Galicia and Asturias to those areas of high consumption, such as the Basque Country and Cantabria. In addition, we continued with projects regarding the strengthening of international interconnections.

meshed, robust and sufficient for the evacuation of renewable energy and also the strengthening of internal interconnections. These are infrastructures that are critical in the long term to reduce the situation of energy isolation in which we find ourselves and also to help compensate for this situation in the short

How do these regulatory measures affect Red Eléctrica and how are they being addressed?

Since this process of regulatory reform began in 2012, the Company has contributed to the objective of sector stability, having undergone major

financial adjustments that totalled over 500 million euros in 2012 and 2013. In 2013, Royal Decree 1047/2013 was passed which sets forth the new method for calculating the remuneration of electricity transmission activities. This decree marks

In 2014, we expect to invest around 550 million euros, with a year-on-year growth in profits of between 4% and 5%

We have continued along the road towards stable and quality employment and have met our commitment to equal opportunities

What contribution does Red Eléctrica make towards achieving a sustainable energy model?

Our contribution as an energy company is based on two essential lines of action: first of all, through system operator efficiency responding to a changing environment, especially as it relates to the challenge of integrating a high volume of non-manageable renewable energy. Secondly, the development of a transmission grid that is

term. They will also help to increase the ability to take better advantage of renewable energy and achieve an integrated energy market that is competitive.

From a global perspective, what other aspects would you highlight regarding the Company's performance in the field of sustainability?

In corporate governance, we have taken yet another step forward by creating the figure of Independent Lead Director >

to respond to international best practices on the subject. In addition, this year we almost doubled our efforts regarding innovation with the creation of new technological developments such as the *Almacena* project, which in the future will result in a new mechanism of flexibility for the operation of the electricity system. In total, we worked on more than 60 R&D+i projects in 2013.

effort we make regarding biodiversity, not only with the specific measures related to our business, but also helping to improve the environment through other actions. For example, by the end of 2013, Red Eléctrica Forest, our forest, amounted to a total of 350,000 trees planted in various territories nationwide. More than 50 corporate responsibility projects were conducted in 2013, proof of

EFQM European Excellence 500+ seal, being awarded the highest score of any company in Spain and one of the highest ratings of any European utility company.

In terms of growth opportunities, where do you see more possibilities?

In 2014, the resolution of the aspects still to be determined within the new remuneration framework, and the approval of the new infrastructures plan, will enable us to define our next strategic plan, linked to the forecasted changes regarding demand evolution and the progress in innovation and efficiency.

The strategic plan will define objectives where the Company will maximise returns for its shareholders, contribute to the development of its employees and provide a quality service, as a responsible and sustainable company.

The expected evolution of the Company is based on three basic lines: firstly, operational excellence focused on the achievement of operational efficiencies which are highly important in the current economic climate; secondly, the integration of markets and sustainability of the electricity system that justifies a significant level of investment in the transmission grid over



the coming years, both on the Spanish peninsula, including international interconnections, as well as on the islands; and, thirdly, the strengthening of the balance sheet through a focus on prudent financial policies that entail the maintenance of a diversified financial debt and a comfortable position of liquidity.

How will this evolution be reflected in shareholder returns?

We will continue to focus our efforts on creating shareholder value. To this end, we will

maintain a dividend growth in line with profit, with a payout of 65%, revisable in the next few years. At the same time, we will continue to maintain a strong capital structure, improving our financial

solvency and working towards ensuring security of supply with quality and efficiency. In 2014, we expect to invest around 550 million euros, with a year-on-year growth in profits of between 4% and 5%.

More than 50 corporate responsibility projects conducted in 2013 demonstrate our commitment towards the environment, sustainability and our stakeholder

In reference to employment, we have continued along the road towards sustained growth regarding stable and quality employment and we have fulfilled our commitment to equality, increasing for yet another year the number of women on the workforce as well as in positions of responsibility. But I would also like to highlight the continued

our commitment towards the environment, sustainability and our stakeholder groups. In recognition of these actions, Red Eléctrica continues to be included in the most prestigious international indexes such as the Dow Jones Sustainability Indexes (since 2006) and FTSE4Good. Also noteworthy in terms of excellence, is the fact that the Company has renewed the

With regard to corporate governance, we have created the figure of lead independent director to respond to international best practices on the subject

KEY INDICATORS 2013

 GOVERNANCE

REDUCED BOARD
(NO VARIATION)
11 members

INDEPENDENT DIRECTORS
(NO VARIATION)
63.6%

WOMEN ON THE BOARD
(NO VARIATION)
36.4%

BOARD REMUNERATION
(-1.4%)
2,366 thousand euros

 BUSINESS

KM OF LINES
(+18.8%)
42,008 km

SUBSTATIONS
(+3.2%)
5,216 substation bays

QUALITY OF SERVICE OF THE GRID
(+0.4%)
98.1% grid availability

INTEGRATION OF RENEWABLES
(+32.5%)
42.4% of demand

 FINANCIAL DATA

NET REVENUE*
(+0.2%)
1,758,3 M€

EBITDA*
(+0.2%)
1,301,9 M€

NET PROFIT*
(+7.5%)
529.1 M€

NET FINANCIAL DEBT
(-6.8%)
4,541.2 M€

 EMPLOYMENT

WORKFORCE
(+1.6%)
1,672 people

WOMEN ON THE WORKFORCE
(+1.8%)
23.1%

EMPLOYEE TRAINING
(+5.5%)
96% of the workforce

SEVERITY OF ACCIDENTS
(-55.5%)
0.12 rate

 SOCIAL

INVESTMENT IN SOCIETY
(NO VARIATION)
0.8% of net profit

SOCIAL COMMITMENT
(+28%)
449 actions

LOCAL SUPPLIERS
(-2%)
95% of purchases

DIALOGUE WITH INVESTORS
(+22.5%)
712 meetings

 ENVIRONMENTAL

ENVIRONMENTAL EXPENDITURE
(+8.8%)
23.4 M€

KM OF LINE MARKED WITH BIRD-SAVING DEVICES
(+10.9%)
2,585 km

SF₆ EMISSIONS
(-1.7%)
0.976 tasa media

DIRECT CO₂ EMISSIONS
(+2.9%)
79,610 tonnes

*Having factored in the one-off events that have had an impact on the results in 2012 and 2013, these magnitudes in like-for-like terms are as follows: Net Revenue 1,822.6 M € (+4.4%); EBITDA 1,369.0 M € (+5.9%); Net Profit 558.0 M € (+8.8%). The percentage of variation in the indicators is compared to the 2012 results.



FUTURE CHALLENGES

The electricity sector is going through a **transitional phase** towards a new energy model characterised by a **greater complexity** in its management due to the high level of **renewable energies** and the need to guarantee an electricity supply with the appropriate levels of **quality and safety** at the lowest possible cost, in order to ensure the **sustainability** of the system. In this regard, balancing the low manageability of renewable generation, **strengthening interconnections**, promoting technological innovation and fostering **continual improvement** of its activities as **TSO**, under the criteria of **efficiency and quality**, represent some of the **challenges** Red Eléctrica is responding to with a view to contribute to an **efficient and sustainable management of the energy model**.



1 STRENGTHENING INTERCONNECTIONS

The European Union recommended in 2002 that all Members States should reach a minimum 10% ratio of interconnection with respect to its installed capacity, in order to eliminate isolated systems and promote the single electricity market. Taking into account the current interconnection with France, Portugal and Morocco, Spain's intercon-



nection rate is 4.3%. With the planned interconnections with Portugal (via Galicia and Andalusia) and the new interconnection with France via the Eastern Pyrenees, this rate will rise to 6-7% which is still insufficient. Therefore, consideration is being given for a new submarine interconnection via the Bay of Biscay in the medium/long term.

2 GREATER GUARANTEE AND SECURITY OF SUPPLY

Red Eléctrica will exceed 1 billion euros in investments in 2013-2014 for the improvement of the transmission grid. Amongst the most relevant facilities that Red Eléctrica is developing for the structural strengthening of the transmission grid, noteworthy are the works

regarding the new interconnections with France and Portugal, the Almaraz-Guilena axis between Extremadura and Andalusia, and the Majorca-Ibiza link. These investments are essential both to strengthen the security and quality of the electricity supply and

to help integrate renewable energies and provide a more efficient functioning of the electricity system.



3 ENERGY EFFICIENCY AND SMART GRIDS

In the future the applications of the so-called smart grids will play an important role in achieving a more sustainable and efficient management of the electricity system, and with greater levels of quality and security of supply. Smart grids will provide greater flexibility to the electricity supply process as it will allow the efficient integration of the behavioural patterns and actions of all users connected to it. For some years now, Red

Eléctrica has had 'intelligence' associated to its devices and elements which are part of the high-voltage transmission grid that it manages and operates. This fact has not deterred the company from continuing to make progress in order to achieve greater automation, integration and adaptation of the equipment and systems that operate the grid. The objective is the security, quality and efficiency of the electricity supply.



4 SAFE INTEGRATION OF RENEWABLE ENERGIES

The safe integration of renewable energies remains one of the great challenges to the security of the electricity supply. This integration is more complex in the Spanish electricity system, due to the limited interconnection capacity with Europe. In this context, year after year, the important work of Red Eléctrica's Control Centre of Renewable Energies (CECRE) is made more apparent due to the fact that the activity it performs is

enabling the production of renewable energies to have an increasingly more important role in demand coverage (42% in 2013). This fact favours not only the reduction of emissions derived from electricity generation, but also reduces the high dependence on foreign energy that Spain has.



5 GREATER OPERATIONAL EFFICIENCY

Red Eléctrica maintains an ongoing focus regarding the continual improvement of key operating processes through which it carries out its functions as TSO, following criteria of efficiency, quality, innovation and environmental protection. In this regard, one of its most important commitments is to develop the grid and manage the system in the most efficient and sustainable way possible, in order to contribute to the sustainability of the entire electricity system. This continual improvement is reflected in the excellent levels of service quality provided, as well as the positive trend in performance that, year after year, is shown in their key financial figures and in the confidence its shareholders, investors and the other stakeholder groups have in the Company.



Main control room of the Electricity Control Centre (CECOEL), located in Madrid.



6 TECHNOLOGICAL INNOVATION

Making progress in the creation of a culture of innovation and technological development as a driver for growth and efficiency is one of the Red Eléctrica's challenges. Efforts in this field focus on the search for resources, tools and technical solutions oriented towards a more efficient operation of the electricity system. The development of

a transmission grid integrated in the Europe arena, the incorporation of more efficient technologies into the transmission grid, the promotion of new operating resources, such as energy storage and the electric vehicle which make the system more sustainable are some of the axes through which technological innovation in the Company is channelled.

1 THE COMPANY

WE WORK TOWARDS ACHIEVING A SUSTAINABLE ENERGY FUTURE, THROUGH TRANSPARENT AND INDEPENDENT MANAGEMENT



OUR VALUES

- >> Dependability
- >> Responsibility
- >> Respect
- >> Leadership and creativity
- >> Environmental awareness



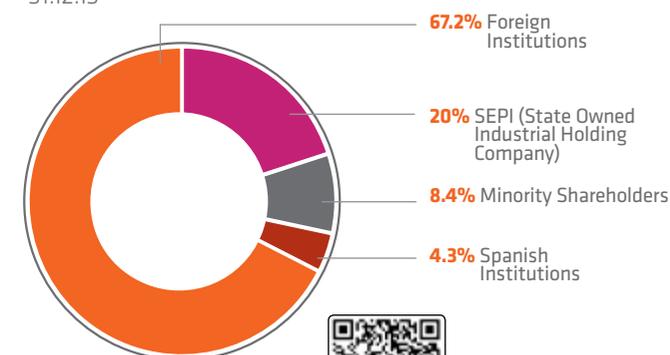
We are key to a secure and sustainable energy future. Red Eléctrica is the sole transmission agent and operator (TSO) of the Spanish electricity system. The Company carries out its mission with transparency, objectivity, independence and efficiency, with the aim of contributing to the smooth operation of the Spanish electricity system.

RED ELÉCTRICA'S core activities are the transmission of electricity, the operation of the system and the management of the transmission grid, which makes it the TSO of the Spanish electricity system. With the objective of reinforcing the separation and transparency of

the regulated activities in Spain from the rest of the activities, the organisational structure of the Company was transformed into a holding structure in 2008.

SHAREHOLDER STRUCTURE

31.12.13



ELECTRICITY ACTIVITY IN SPAIN

OPERATOR OF THE ELECTRICITY SYSTEM

Red Eléctrica establishes the forecasts of electricity demand and manages the electricity generation and transmission facilities in real-time, ensuring at all times that scheduled generation in power stations matches consumer demand.

SOLE TRANSMISSION AGENT AND MANAGER OF THE HIGH-VOLTAGE GRID

Red Eléctrica is responsible for the transmission of electricity from the generating power stations to the centres for distribution to consumers, carrying out

this function under a regime of exclusivity. In addition, the Company has the responsibility for developing, expanding and maintaining the transmission grid under homogenous and coherent criteria. It is also responsible for managing the flow of energy between external systems and guaranteeing third party access to the grid under equal conditions.

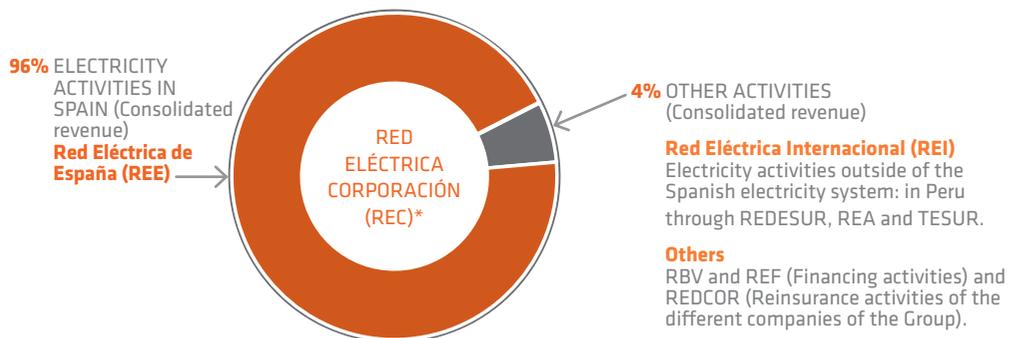
OTHER ACTIVITIES

International activity is channelled through Red Eléctrica Internacional (REI) with investments in Peru (REDESUR, REA, and TESUR) and through REC via its investments in REDCOR and RBV.



ORGANISATIONAL STRUCTURE OF THE RED ELÉCTRICA GROUP

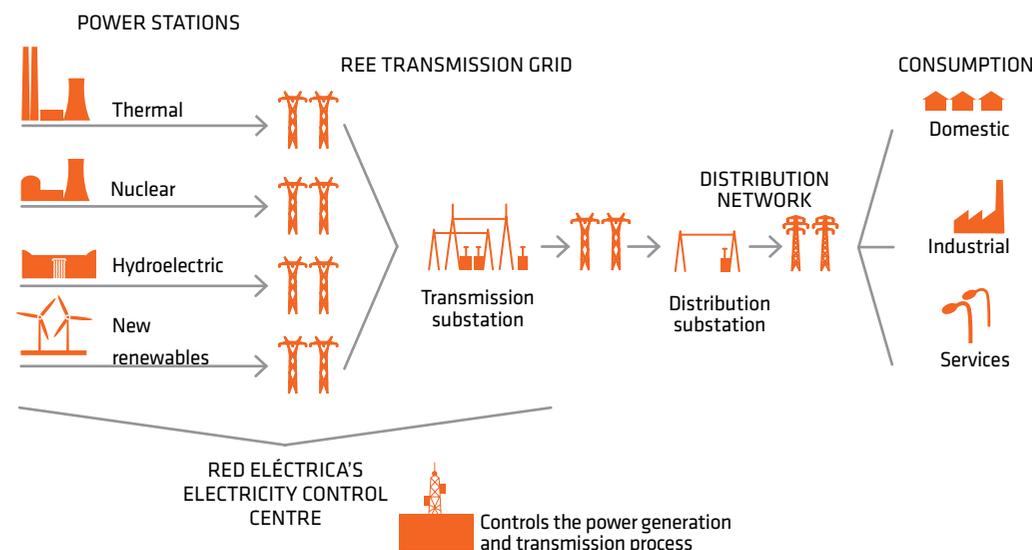
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* Red Eléctrica Corporación is listed on the Spanish Continuous Market and is part of the selective IBEX 35 Index and its weighting in this index was 1.52% in 2013.

HOW THE ELECTRICITY SYSTEM WORKS

RED ELÉCTRICA OPERATES THE SPANISH ELECTRICITY SYSTEM AND IS RESPONSIBLE FOR THE HIGH-VOLTAGE TRANSMISSION OF ELECTRICITY



STRATEGY

The definition, during 2014, of the outstanding issues in the new remuneration framework and the approval of the new infrastructure planning, will allow the Red Eléctrica Group to define its next strategic plan.

However, until the strategic plan is approved, the evolution of the Company is based primarily on the following lines of action:

>> OPERATIONAL EXCELLENCE
focused on achieving efficiencies that position Red Eléctrica as an international reference. The Company will continue to focus on continual improvement of operational efficiency. This improvement will be reflected in the increased EBITDA margin in the coming years.

>> MARKET INTEGRATION AND SUSTAINABILITY of the electricity system, which justifies a significant level of investment. The investment plan, in addition to strengthening the structural

reinforcement and meshing of the grid will continue to be geared towards implementing unique projects such as internal interconnections and those between insular systems.

>> STRENGTHENING THE FINANCIAL BALANCE of the Company, through a focus on prudent financial policies which allow us to maintain a diversified financial debt and an ample position of liquidity to cover the upcoming maturity dates, thus improving the solvency ratios of the Company.

2 CORPORATE GOVERNANCE

WE ADOPT BEST PRACTICES ON GOOD CORPORATE GOVERNANCE MATTERS



Transparency and good governance are not only an inherent part of the Company's vision, its corporate culture and business management, but are key for both markets and stakeholders.

RULES OF GOVERNANCE

INTERNAL RULES

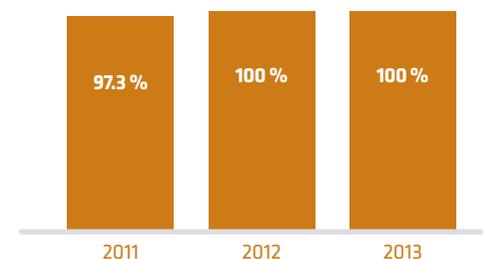
- >> Code of Ethics.
- >> Company By-laws.
- >> Regulations governing the General Shareholders' Meeting.
- >> Regulations governing the Board of Directors.
- >> Internal Code of Conduct on the Securities Market.
- >> Procedure for proxies, voting and information by remote means.
- >> Shareholders' Electronic Forum Operating Regulations.
- >> Succession Plan for the Chairman of the Company.

THE IMPLEMENTATION of globally accepted best principles and practices of corporate governance constitutes a strategic element of the highest level and an inescapable requirement to ensure good governance of the Company.

Therefore, the rules of corporate governance are subject to ongoing amendment in order to incorporate best practices and achieve greater informative transparency. In 2013, noteworthy is the approval of the new Code of Ethics which has a higher level of commitment towards stakeholders.



COMPLIANCE WITH THE RECOMMENDATIONS OF THE UNIFIED CODE OF GOOD GOVERNANCE



BOARD OF DIRECTORS

RED ELÉCTRICA has a reduced, diverse, active and efficient Board of Directors, composed of 11 members, all of recognised professional distinction and with extensive expertise. The Board counts on two committees:

the Audit Committee and the Corporate Responsibility and Governance Committee. In 2013, most noteworthy regarding the composition of the Board was the creation of the role of Lead Independent Director, following the recommendations of the Unified Code of Good Governance and international best practices. The role was approved by the

General Shareholders' Meeting and the independent director Carmen Gómez de Barreda Tous Monsalve was appointed to the position.

Chairman's address to the General Shareholders' Meeting held in Madrid on 18 April 2013.



REDUCED, BALANCED AND EFFICIENT BOARD

- >> Board of Directors composed of 11 members.
- >> Majority of independent board members, 64%.
- >> Gender diversity, 36% women on the Board and 40% of external directors who are women.
- >> Committees are composed of a majority of independent members.
- >> Committees chaired by independent members.
- >> Lead independent director.
- >> Annual external evaluation of the Board of Directors.

* At its meeting held on 28 January 2014, the Board of Directors of Red Eléctrica Corporación, S.A. accepted the resignation tendered by Mr. Alfredo Parra García-Moliner, from his position as External Nominee Director of Red Eléctrica Corporación, S.A., in representation of the Sociedad Estatal de Participaciones Industriales (SEPI - State Owned Industrial Holding Company).

BOARD OF DIRECTORS 31.12.2013

EXECUTIVE CHAIRMAN



José Folgado Blanco

EXTERNAL NOMINEE DIRECTORS PROPOSED BY SEPI



Alfredo Parra García-Moliner*
Member of the Corporate Responsibility and Governance Committee.



Francisco Ruiz Jiménez



Fernando Fernández Méndez de Andés
Member of the Audit Committee.

LEAD INDEPENDENT DIRECTOR



Carmen Gómez de Barreda Tous de Monsalve
Member of the Corporate Responsibility and Governance Committee.

EXTERNAL INDEPENDENT DIRECTORS



María de los Ángeles Amador Millán
Member of the Audit Committee.



Miguel Boyer Salvador



Rui Manuel Janes Cartaxo

SECRETARY OF THE BOARD



Paloma Sendín de Cáceres
Chairwoman of the Audit Committee.



Juan E. Irazo Martín
Chairman of the Corporate Responsibility and Governance Committee.



María José García Beato



Rafael García de Diego Barber
Non-director.



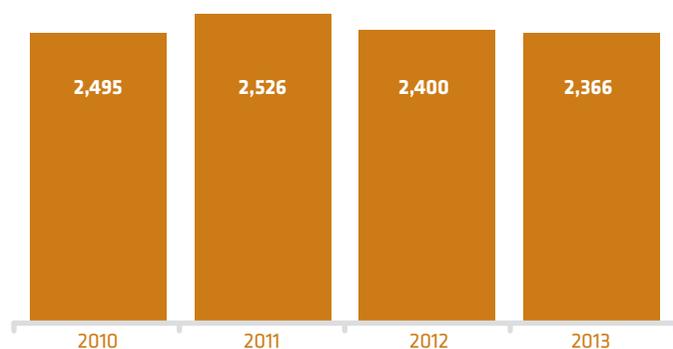
REMUNERATION POLICY

IN 2013 a new remuneration structure was approved for the Board of Directors, in view of the trends shown by international investors and proxy advisors to reduce the excessive weight of the variable remuneration in

the total remuneration of the Board. Therefore, as of 2014 the total remuneration of external directors shall consist of fixed elements and will be de-coupled from business goals to ensure their independence.

REMUNERATION OF BOARD MEMBERS

(THOUSANDS OF EUROS)



TRANSPARENT AND BALANCED REMUNERATION POLICY

- >> Transparency of the individual remuneration received by each Board member.
- >> A maximum statutory limit exists for the remuneration of the Board members.
- >> The remuneration of the Board of Directors and the *Annual Remuneration Report* are submitted for approval by the General Shareholders' Meeting.
- >> Consolidation of the principle of moderate remuneration.
- >> The remuneration of the Board of Directors has remained unchanged since 2007, with a continual reduction in its weighting with respect to results.

GENERAL SHAREHOLDERS' MEETING

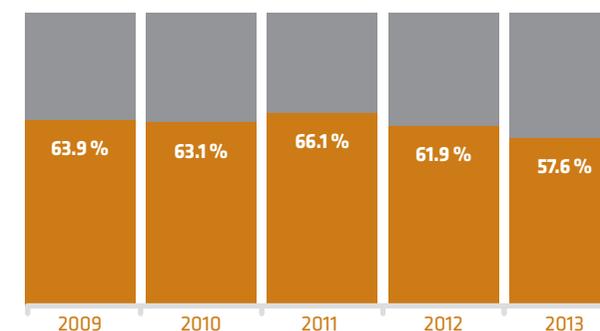
AS PART OF OUR commitment to transparency and the right to information, in 2013 we continued performing various information and communication actions designed to facilitate the shareholders' right to information in the Meeting.

AUDIT OF THE SHAREHOLDERS' MEETING

TO VERIFY that the procedures associated with the Shareholders' Meeting were carried out correctly; in 2013 an external audit of the Meeting was requested. The audit report concluded that the essential aspects regarding the operating procedures established by Red Eléctrica concerning the calling of this Meeting, its preparation, its voting and proxy voting processes had been fulfilled.

PERCENTAGE OF ATTENDEES AT THE ANNUAL GENERAL MEETING

(% OVER SHARE CAPITAL)



TRANSPARENCY AND PROMOTING PARTICIPATION OF SHAREHOLDERS

- >> Implementation of the electronic voting system at the Shareholders' Meeting.
- >> Section on the corporate website with complete information regarding the Meeting.
- >> Live broadcast of the Meeting via Internet, with simultaneous translation in English.
- >> Shareholders' Electronic Forum.
- >> Dissemination via social networks.



ATTENDANCE, REPRESENTATION AND RIGHT TO INFORMATION

- >> Right to attend the Meeting without conditions.
- >> Representation on the Board by any person.
- >> Fully-detailed items included in the Agenda of the Meeting.
- >> Separate voting on each one of the matters submitted for approval at the Meeting.
- >> External audit of the management processes of the Meeting.

RISK MANAGEMENT

THE RED ELÉCTRICA GROUP has a risk policy that sets out the necessary directives for ensuring that material risks, which could affect the objectives and activities of the Group, are systematically identified, assessed and controlled with uniform criteria and within the established risk limits.

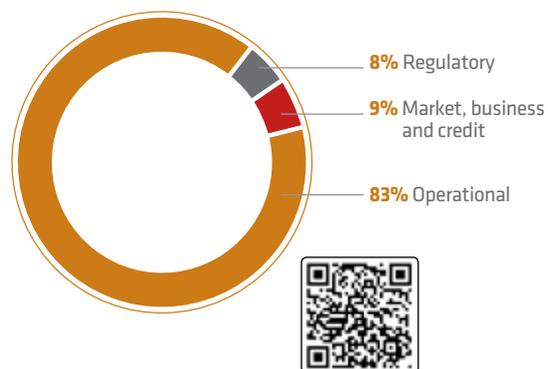
To do this, it has a risk management system covering both the risks of internal processes and those of the environment in which the activities of the Company are carried out.

RISK MANAGEMENT PROCESS



RISK STRUCTURE

MOST IMPORTANT RISKS TO WHICH THE RED ELÉCTRICA GROUP IS EXPOSED AND THAT ARE INTEGRATED INTO THE CONTROL SYSTEM



RISK MANAGEMENT AND CONTROL BODIES

- >> Board of Directors
- >> Audit Committee
- >> Management Committee
- >> Corporate Regulation and Global Risk Control Division (area responsible for comprehensive management)
- >> All organisational units

PERFORMANCE INDICATORS

	2009	2010	2011	2012	2013
Degree of coverage of risk management (%) ⁽¹⁾	92.1	96.2	97.6	99.0	99.3
Improvement of the average weighted value related to risks in comparison to previous year ⁽²⁾	0.75	0.95	0.94	0.95	0.92
External evaluation (DJSI) (0-100)	87	62	70	76	87

(1) (Risks addressed/risks detected) x 100.
 (2) Average weighted value year n/value average weighted year n-1.
 DJSI: Dow Jones Sustainability Indexes.

MAIN RISKS

Main risks of the Group are considered those related to:

- >> The sustained creation of value over time.
- >> The continuity and quality of the energy supply in the electricity systems.
- >> The construction of the electricity transmission grid infrastructures necessary to deal with future needs.
- >> The compatibility of the aforementioned objectives within the social and environmental fabric.



3 MANAGEMENT APPROACH

OUR MANAGEMENT MODEL IS BASED ON EXCELLENCE AND ON CORPORATE RESPONSIBILITY



RECOGNITIONS

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

Dow Jones
Sustainability
World Index.
Sustainability
Yearbook Member

 FTSE4Good
Europe Index and
FTSE4Good Ibex

 Ethibel
EXCELLENCE and
Ethibel PIONEER

 STOXX ESG
Leaders Indices

 SRI
Kempen European
Small Cap
Sustainable
Universe

 ECPI
ECPI EMU Ethical
Equity y ECPI
Global ESG Best
in Class Equity

The aim of Red Eléctrica is to consolidate itself as a sustainable and ethical business committed to society, and whose management is carried out with a focus on excellence and accountability in the performance of its functions.

OUR COMMITMENT towards sustainability is reflected at a strategic level, with the quest for excellence and responsibility in the execution of our activities as a priority for the Company.

RED ELÉCTRICA started out in 1999 on the road to excellence, adopting the EFQM model (European Foundation for Management Quality) for continuous improvement in the management and results of the Company.

IN 2013, Red Eléctrica renewed its European Excellence Seal 500+, according to the EFQM model, getting 678 points (650

in 2011). On a national scale, this development places Red Eléctrica as the company with the best score for the seals issued by the *Club de Excelencia en Gestión* (Excellence Management Club).

FURTHERMORE, THE COMPANY obtained the *Taking responsibility for a sustainable future* award, in 2011, as part of the awards the EFQM grants to the best European companies in the adoption of management systems and advanced business practices.



AN INNOVATIVE AND COMMITTED ORGANISATION

- >> A committee of the Board of Directors with supervisory functions regarding corporate responsibility (twelve meetings in 2013).
- >> An executive-level committee driving plans and programmes on this subject (six meetings in 2013).
- >> A specific area for corporate responsibility management.
- >> The carrying out of 50 corporate responsibility projects with a fulfilment level of 81.3%.

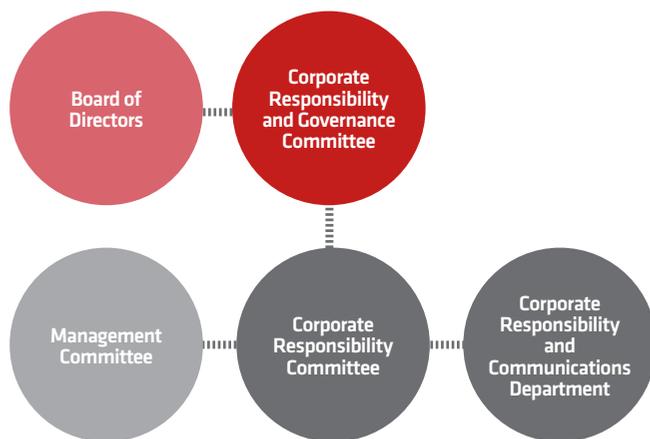
OUR CORPORATE RESPONSIBILITY MODEL

IN ORDER TO CARRY OUT its commitment towards sustainability, Red Eléctrica has a corporate responsibility policy and a management system that is transversal across the organisation that is structured on five general areas of action: ethics and good governance, the creation of value for all stakeholders, minimising the social and environmental impact of activities in the territory where they are carried out: fostering dialogue, integration and social development, and commitment towards the people who make up the Company.

ADDITIONALLY, THE COMPANY HAS an organisational structure that ensures the involvement of the highest levels of decision makers, a specific plan that establishes the main lines of action in each of the five specified areas and a system for the evaluation and monitoring of results.



ORGANISATIONAL STRUCTURE



STAKEHOLDER MANAGEMENT

In 2004, **RED ELÉCTRICA** implemented a management system in order to identify the requirements and expectations of its stakeholders, aimed at creating shared value and an improved level of mutual trust.



THE MANAGEMENT SYSTEM includes the development of the relationship framework that the Company has with each stakeholder group on the basis of active dialogue and transparency.

SAID FRAMEWORK includes multiple specific relationship channels and two transverse channels, such as the Dígame service and satisfaction studies through surveys and interviews.

RESULTS 2013

- >> 8.2 out of 10, overall score in the satisfaction studies.
- >> 100 points awarded regarding stakeholder management by the Dow Jones Sustainability World Index.

4
_SUSTAINABLE ENERGYCOMMITTED TO
SECURITY OF
SUPPLY, EFFICIENT
MANAGEMENT AND
INNOVATION

Red Eléctrica, as transmission agent and system operator of the Spanish system, is responsible for contributing to providing a secure, efficient and sustainable electricity supply. Therefore, we are working on developing a transmission grid that is ever more meshed, robust and better interconnected with our neighbouring countries to offer the highest level of quality of service to all consumers.


**QUALITY AND
SECURITY OF
THE ELECTRICITY
SUPPLY**

- >> 564 million euros investment in grid strengthening and meshing.
- >> 776 new kilometres of line and 162 new substation bays.
- >> 98.13% grid availability rate.
- >> MAR Project: improvement of the quality of insular assets.

**IMPROVED GUARANTEE AND
SECURITY OF SUPPLY**

IN 2013, RED ELÉCTRICA'S INVESTMENT EFFORT in the transmission grid basically responded to the need to increase the capacity and meshing of the grid to support distribution in various parts of the country as well as the implementation of international interconnection projects. In this fiscal year, 776 km of new lines and 162 new bays in substations have been put into operation and the transformer capacity has increased by 2,525 MVA, which represents an investment of 564 million euros.

Main developments of the grid that have continued to be worked on in 2013, listed by major axes are as follows:

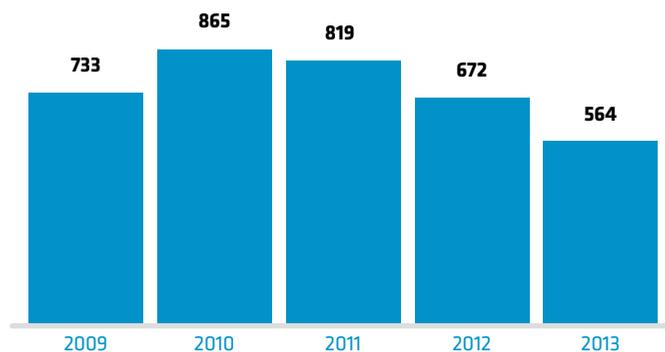
- >> Galicia-Asturias link
- >> Bescanó-Ramis-Santa Llogaia axis
- >> Almaraz-Guillena axis
- >> Guillena-Puebla de Guzmán axis
- >> Aljarafe-Rocío line
- >> France and Portugal interconnection lines.

In addition, various substations of 400 kV and 220 kV have been put into service. >

► **RED ELÉCTRICA** also has the task of ensuring that the facilities of the transmission grid are in optimal conditions of availability and reliability in order to ensure continuity of supply. In this regard, thanks to the maintenance policies and the renovation and improvement programmes, in 2013 the service quality indicators once again demonstrated the high level of quality and security of supply provided by the Company, reaching 98.13% for transmission grid availability.

INVESTMENT IN THE TRANSMISSION GRID

(MILLIONS OF EUROS)

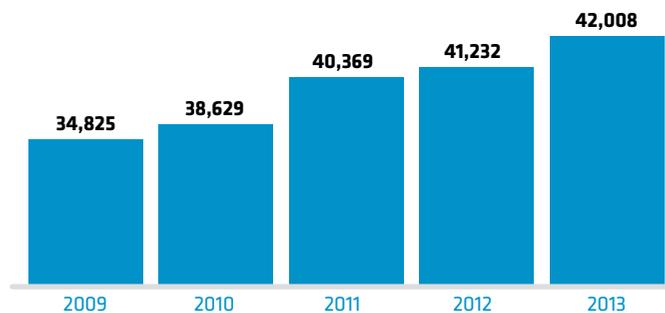


MAR PROJECT (Grid Asset Improvement)

Red Eléctrica is carrying out a significant programme of integration of the assets acquired from the electricity companies, especially in insular systems, raising them to the quality standards established by the Company. The programme, being carried out in the period 2011-2015, is contributing to a significant improvement in the levels of service quality in the two archipelagos. In 2013, the grid availability rate stood at 97.96% in the Balearic Islands and 98.32% in the Canary Islands, similar to values obtained on the Peninsula.

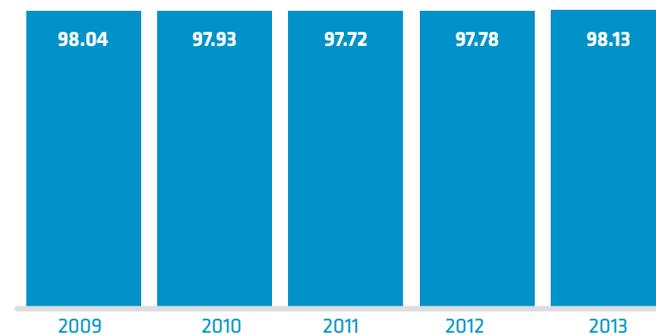
TRANSMISSION GRID

(Km OF LINE)



SERVICE QUALITY

(% AVAILABILITY OF THE PENINSULAR TRANSMISSION GRID)



STRENGTHENING OF INTERNATIONAL INTERCONNECTIONS

For an effective operation of the electricity system, it is essential to strengthen international interconnections. To have an increased electricity exchange capacity with neighbouring countries provides greater security of supply and a better use of renewable energies. In the case of Spain, the need for investment in strengthening interconnections is highly relevant because we have an extremely limited level of interconnection with Europe.



INTERCONNECTION WITH FRANCE

THE NEW INTERCONNECTION AXIS with France consists of a 400 kV direct current line of 65 km in length, which will be completely underground. Moreover, at each end of the line two converter substations are being built, through which the transformation from alternating current to direct current and vice versa will take place. A tunnel (8.5 km long and 3.5 metres in diameter) will house the cables in the stretch that crosses the Pyrenees.

During 2013, work on the tunnel was almost completed and progress was made on digging the trenches where

the line goes underground, in addition the manufacturing of the cable has been completed. As for the converter stations, civil works and the installation of transformers were completed.

THIS INFRASTRUCTURE will double the current electricity exchange capacity between Spain and France to 2,800 MW, but is still insufficient to meet the minimum level of 10% interconnection capacity recommended by the European Union. Therefore, the study of a new interconnection is underway, for the 2020 horizon, via the Bay of Biscay.



INTERCONNECTION WITH PORTUGAL

IN 2013, WORK HAS PROGRESSED on the southern interconnection (Andalusia-Algarve), whose putting into service is scheduled for 2014. This interconnection, through the construction of the 25 km Puebla de Guzmán-Portuguese border line, aims to increase the interconnection capacity between Spain and Portugal, to provide greater security of system operation.

Moreover, the administrative permitting process of the new northern interconnection (Galicia-Porto) will continue. With these interconnections the objective of reaching a commercial exchange capacity of 3,000 MW with Portugal shall be maintained.

INTER-ISLAND LINKS

RED ELÉCTRICA has set out a major investment plan to improve the security and reliability of the electricity systems on the Balearic Islands and the Canary Islands. In this regard, one of the most outstanding projects from the point of view of security of supply and the structuring of the territory is the submarine interconnection between Majorca and Ibiza, which will connect the two currently existing electricity subsystems in the Balearic Islands: Majorca-Menorca and Ibiza-Formentera.

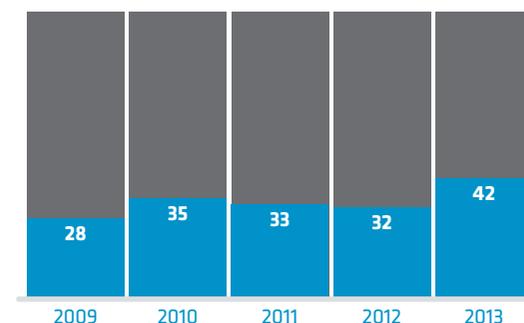
This new link will strengthen the electricity integration process of the Balearic Islands and the Spanish peninsula, initiated with the Spanish peninsula-Majorca interconnection, whose coming into service has led to a substantial improvement in the quality and security of the electricity supply on the islands of Majorca and Menorca. In 2013, the energy transferred from the Peninsula through this link covered 22% of the Balearic Islands' demand, reaching peaks of 35% of the hourly consumption. This has allowed a saving of 18% in the cost of coverage of the Balearic Islands' system and has avoided the emission of 250,000 tonnes of CO₂.





RENEWABLE ENERGY IN DEMAND COVERAGE (%)

THE GREATER WEIGHT OF RENEWABLE ENERGY IN DEMAND COVERAGE, WITH RESPECT TO THE PREVIOUS YEAR, HAS REDUCED CO₂ EMISSIONS OF THE PENINSULAR ELECTRICITY SYSTEM TO 61.4 MILLION TONNES, 23.1% LOWER THAN IN 2012.



CONTROL AND MONITORING OF RENEWABLE ENERGIES

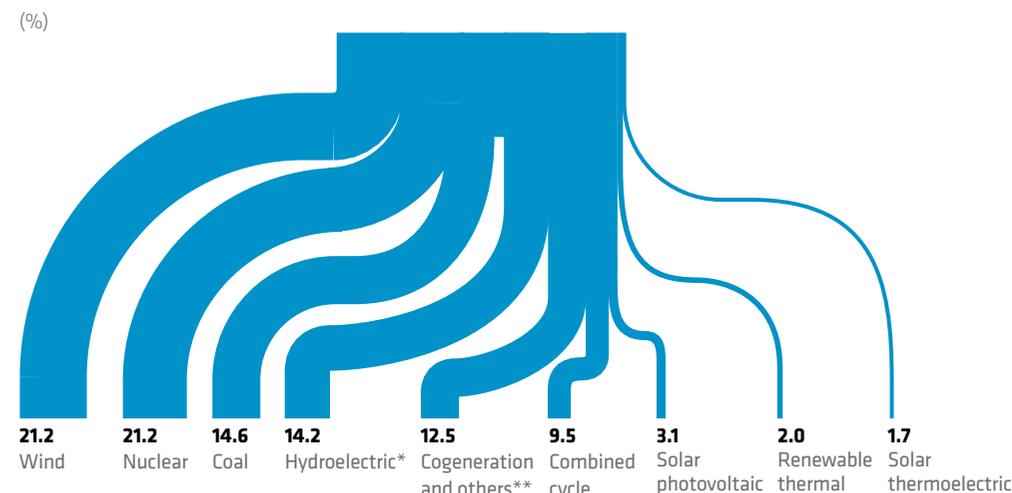
IN ORDER TO MAKE the operation of an electricity system possible with such a high penetration of renewable energies, as is the case with Spain, without compromising security, the work on monitoring and control carried out by the Control Centre of Renewable Energies (CECRE) is essential. The operation of this control centre offers a high responsive capacity to identify risks and anticipate the behaviour of these intermittent energies and compensate for their great variability, without

compromising the quality and security of supply. Therefore, CECRE remains a pioneering control centre of international reference.

INTEGRATION OF RENEWABLES

- >> 42% of the electricity demand covered by renewable energies.
- >> For the first time wind power energy is the technology that contributes most to demand coverage.
- >> New records for wind power production are reached.
- >> A 23% reduction in CO₂ emissions derived from electricity generation.

PENINSULAR ELECTRICITY DEMAND COVERAGE IN 2013 (%)



* Includes hydroelectric from ordinary and special regime. Excludes pumped storage generation.
 ** Includes fuel/gas and non-renewable thermal.

ENERGY EFFICIENCY

THE ELECTRICITY SYSTEM is in a transition phase towards a new more dynamic energy model in which the role of the citizen, as a key part of system operation, is becoming increasingly noteworthy. For this reason, Red Eléctrica promotes the implication of consumers by providing information on the status of the system, or by disseminating recommendations on best practices regarding efficient consumption.



The 'PERFILA' Project seeks to improve the current profiling service and have more knowledge available about both household hourly consumption and that of an important part of small businesses and services.

The project is based on the analysis of the hourly information coming from a panel of consumers who already have smart meters. During 2013, the panel was defined and the 20,000 members or so have been identified. As of January 2014, the first sets of data regarding hourly consumption are beginning to be collected from the panel.

In the first edition of the Enertic Awards 2013, the PERFILA project was awarded for its innovative research and character.

In this sense, during 2013, Red Eléctrica continued developing various demand-side management initiatives aimed at achieving greater flexibility and efficiency for the electricity system. The following initiatives are noteworthy:



The 'PRICE' Deployment project (Smart Grid Project in the Corredor del Henares area of the Community of Madrid) is the first in which the technological challenges associated with demand-side management mechanisms are tackled in a deployment scope and not through conceptual testing. Thanks to the implementation of smart meters at a household level.

The project will allow the knowledge and technology necessary for a smart management of residential demand to be developed, and will incorporate new mechanisms to keep citizens informed about the state of the electricity system and as such will aim to foster a responsible consumption.

TECHNOLOGICAL INNOVATION

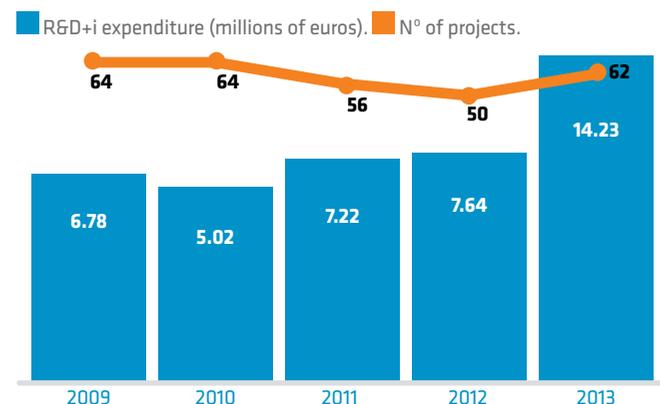
IN 2013, several projects were carried out both nationally and in Europe geared towards the incorporation of more efficient technologies into the transmission grid, and the promotion of new operating resources, to make

the electricity system more sustainable. All projects reflect the Company's commitment to innovation as a driver for growth and efficiency, and as a key element to improve the competitiveness of the industrial fabric.



- >> 14.23 million euros in investment with an increase of 86% compared to 2012.
- >> 62 projects in the R&D portfolio.
- >> Participation of 251 REE technicians/specialists (15% of the workforce).
- >> More than 41,000 working hours, equivalent to 24 full-time personnel.

R&D+I EXPENDITURE



This is a technological project to analyse and assess the challenges and capabilities associated with an energy storage battery connected to the transmission grid. Specifically, a lithium-ion battery with a power of 1 MW

and a capacity of 3 MWh, which has been installed in the Carmona substation. In the future, the development of this type of energy storage systems will help improve the sustainability of the system by allowing a greater integration of renewable energy and improve the flexibility and efficiency of the

electricity system, flattening the demand curve by storing energy in valley hours to be used at times of greater consumption.



5 _CREATING ECONOMIC VALUE

WE MAINTAIN STABLE GROWTH BASED ON INVESTMENT AND IMPROVED EFFICIENCY



In 2013, Red Eléctrica has managed to show stable growth. The Company achieved solid results and a significant strengthening of its key solvency ratios, maintaining a clear focus on efficiency and the permanent creation of value.

CREATING VALUE IN 2013

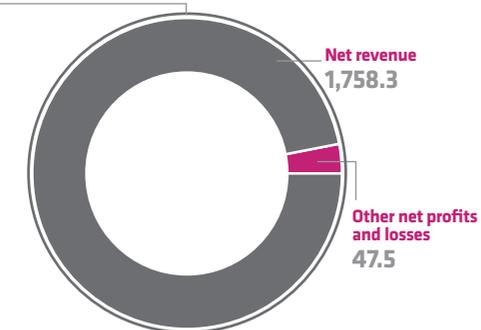
(MILLIONS OF EUROS)

Based on GRI methodology (Global Reporting Initiative), collates the economic value generated and its distribution amongst the various stakeholders.

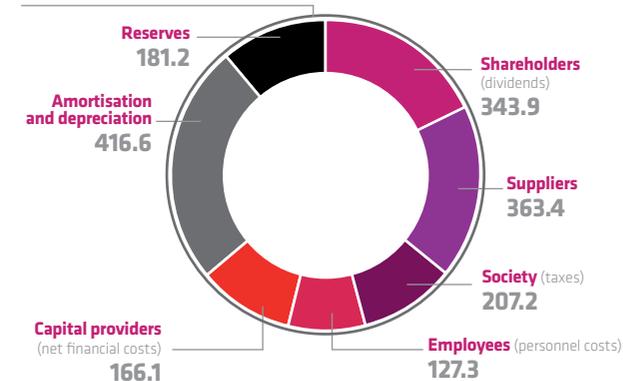
FINANCIALLY SOUND RESULTS*

- >> 1,822.6 billion euros net revenue, up 4.4%.
- >> 1,369 billion euros of EBITDA, up 5.9%.
- >> 967.6 million euros of EBIT, up 7.5%.
- >> 558 million euros of net profit, up 8.8%.

ECONOMIC VALUE GENERATED



ECONOMIC VALUE DISTRIBUTED



*Data shown on a like-for-like basis after having factored into the corresponding year the one-off events that have marked the 2012 and 2013 results.

SHAREHOLDER PROFITABILITY

- >> 30% revaluation of the share.
- >> 2.5422 euros of gross dividend per share.
- >> 7.5% increase in the dividend.
- >> 65% distribution of dividends (payout).

GROWTH IN SHAREHOLDER RETURNS

Red Eléctrica is committed to maximising value for its shareholders by providing, on the one hand, an attractive dividend yield and on the other, contributing to the rise in the share price through an efficient management of the business.

In 2013, the direct return to shareholders in the form of a dividend grew by 7.5% compared to the previous year.



STOCK MARKET PERFORMANCE

2013 WAS a good year for the stock market. The Spanish IBEX 35 market increased its value by 21% during the year, ending a run of three consecutive years of losses. Greater confidence in Spain's economy, manifested in the evolution of the risk premium, which began the year at levels close to 400 basis points and finished with a spread of about 220 points. Also, the first signs of economic growth have triggered the investors' appetite for Spain.

In this context, the value of Red Eléctrica again broke records for the fourth consecutive year, with a rise in the share price value of 30%, exceeding in profitability that of the energy sector index and the IBEX 35.

2013 was marked by regulatory changes in the electricity sector. In this sense, the price reached annual lows in April, however, the price rallied in the fourth quarter, reaching record highs following the release of the new more stable, transparent and predictable remuneration system for transmission activity.

INCOME STATEMENT

MILLIONS OF EUROS

	2012	2013	Var (%)	Pro forma*		
				2012	2013	Var (%)
Net revenue	1,755.3	1,758.3	0.2	1,745.0	1,822.6	4.4
Gross operating result (EBITDA)	1,299.1	1,301.9	0.2	1,292.2	1,369.0	5.9
Net operating result (EBIT)	859.9	898.7	4.5	900.0	967.6	7.5
Profit for the year	492.3	529.1	7.5	513.1	558.0	8.8

OTHER KEY FINANCIAL DATA

(MILLIONS OF EUROS)

	2012	2013	Var (%)
Net equity	1,991.5	2,224.6	11.7
Net financial debt	4,872.5	4,541.2	(6.8)
Investments	705.8	596.0	(15.6)
Total assets	9,101.7	9,419.9	3.5



* 2012 and 2013 were marked by several one-off events: the revaluation of assets, changes in the scope of consolidation, the impact of the application of Royal Decree-Law 9/2013 and asset deterioration. To show the evolution of the Company in the most transparent way possible, the income statement is shown on a like-for-like basis (pro forma), once each of the aforementioned effects has been applied in the corresponding fiscal year.

COMPARISON OF RED ELÉCTRICA STOCK IN 2013



6 COMMITTED TO OUR EMPLOYEES

WE PROMOTE TALENT, EQUALITY, SAFETY AND BOTH STABLE & QUALITY EMPLOYMENT



STABLE AND QUALITY EMPLOYMENT

- >> Sustained growth of the workforce, average 2.4% per year (2009-2013).
- >> 99.8% permanent contracts.
- >> 50% reduction in the voluntary turnover index (0.4%).
- >> Randstad Award as the most attractive company to work for in the energy sector.

Having a team of people that is skilled/qualified, motivated and committed is essential to performing the responsibilities assigned to Red Eléctrica and to meet the energy challenges of the coming years.

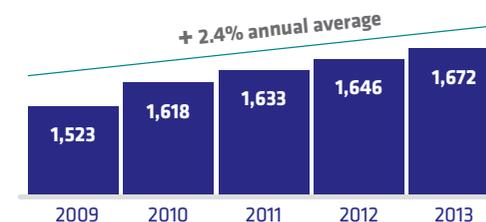
SUSTAINED GROWTH OF QUALITY EMPLOYMENT

RED ELÉCTRICA DE ESPAÑA had 1,672 people that made up its workforce at the end of 2013, representing a slight increase of 1.6% compared to 2012. In the Group, the workforce increased by 4.4% as a result of the increased stake in Redesur to 55% in May 2013.

Our commitment towards the creation of stable employment is reflected in the

percentage of permanent contracts that reached almost 100%. This stability of employment positively affects the pride of belonging of the professionals of Red Eléctrica and reinforces their commitment to the business project. A reflection of this reality is the reduction of undesired external turnover, which stands at 0.4%, which is 50% lower than the previous year.

EVOLUTION OF THE WORKFORCE*



* Workforce in Spain. The Group's workforce in 2013 totalled 1,745 people according to the scope of consolidation of the companies of the Group.



KEY EMPLOYMENT INDICATORS

Spain

	2011	2012	2013
Total workforce	1,633	1,646	1,672
Women (%)	22.7	22.7	23.1
Men (%)	77.3	77.3	76.9
Women in management positions (%)	17.6	19.4	19.7
People with some type of disability (%)	0.5	0.7	0.7
Creation of net employment (number of positions)	15	13	26
Average age	41	42	43
Average length of service (years)	12	13	13
Undesired external turnover (%)	0.9	0.8	0.4
Total turnover (%)	2.5	1.5	1.0
Permanent contracts (%)	99.7	100	99.8

RECRUITMENT MODEL

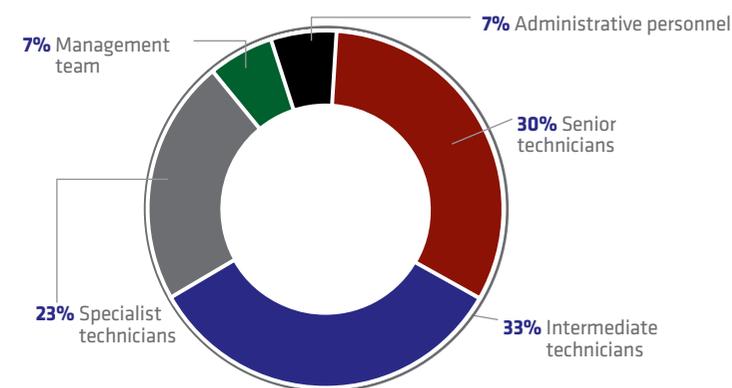
RED ELÉCTRICA IDENTIFIES selects and integrates the most suitable people in a transparent and objective process that guarantees recruitment based on the qualifications and competencies of the candidates, equal

opportunities, stability and compliance with current employment legislation.

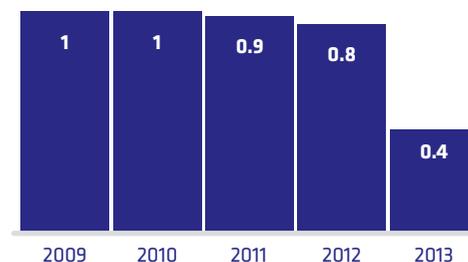
To promote internal rotation, Red Eléctrica offers professionals the opportunity to apply for vacancies that arise.

During 2013, the overall internal rotation rate was 10% and during the year, 86% of vacant management positions were covered by internal promotion.

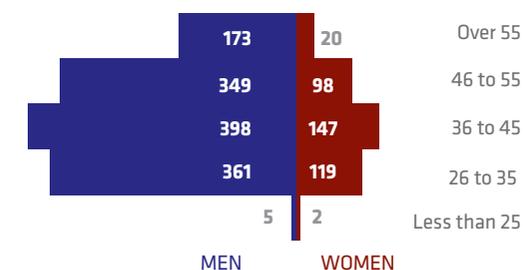
STRUCTURE OF THE WORKFORCE BY PROFESSIONAL GROUP



UNDESIRABLE TURNOVER INDEX (%)



WORKFORCE DISTRIBUTION BY AGE GROUP



EQUAL OPPORTUNITIES AND DIVERSITY

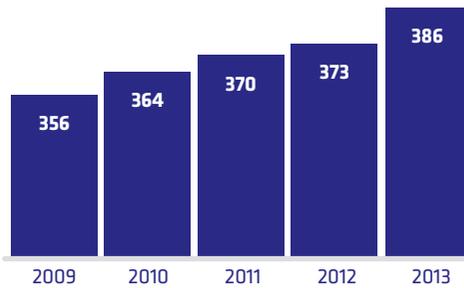
RED ELÉCTRICA commits to the principles of equality and non-discrimination through its Code of Ethics, in its internal policies and through the different collective bargaining agreements which govern labour relations. In this respect, in

2009, the Equality Plan was approved together with the social representation, which includes a series of actions geared towards promoting real and effective equality between men and women of the Company in the areas of employ-

ment (recruitment, promotion and contracting), training and remuneration. In 2013, the Comprehensive Equality Plan was approved which brings together and defines specific actions in the different areas related to equality.

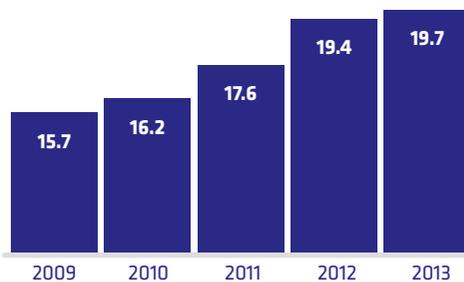
EVOLUTION OF WOMEN ON THE WORKFORCE

(N°)



EVOLUTION OF WOMEN IN MANAGEMENT POSITIONS

(%)



MAIN AREAS OF ACTION REGARDING EQUALITY



DISABILITY MANAGEMENT

RED ELÉCTRICA every year increases its efforts towards the workplace integration of people with disabilities. For this reason, it focuses its actions on three key aspects:

>> Incorporate people with some kind of disability into the workforce.

>> Exceed the alternative measures that are applied on this matter with respect to obtaining the certificate of exceptionality.

>> Promote various initiatives and projects whose purpose is to facilitate the integration of people with disabilities.

EQUALITY AND DIVERSITY

>> 43.5% increase in women in management positions (2009-2013).

>> 8.4% increase in women in the workforce (2009-2013).

>> 11 workers with different capacities in the workforce at the end of 2013.

>> Procurement of goods and services from special employment centres.

TRAINING AND DEVELOPMENT

- >> 696 training and development actions in 2013.
- >> More than 100,000 hours of training, 57 hours per employee.
- >> 96% of workforce in training programmes in 2013.
- >> Investment in training represents 4.3% of the personnel costs.



KEY TRAINING INDICATORS

	2011	2012	2013
Training hours	154,715	115,969	100,997
Hours per employee	96	71	57
Investment per employee (euros)	4,192	3,503	3,154
Investment in training/total personnel costs (%)	7.0	5.2	4.3

TALENT MANAGEMENT

IN RED ELÉCTRICA we understand that managing the talent of the people who make up the Company is key to contributing towards the achievement of the business objectives of the Company.

THE RED ELÉCTRICA CORPORATE SCHOOL (ECRE) facilitates the global framework for the development of training that is ever more specific and tailored to the needs of the Company and its employees.

THROUGH ECRE, we train employees to carry out the operation and transmission functions of the electricity system and manage the training and development of skills and abilities for different groups in agreement with the bespoke people management model created by Red Eléctrica to address both their present and future needs.

IN 2013 a review began of the global system of talent management developing a new model of leadership and the process by which it will be assessed. Also, a new mobility model has been designed: a plan that will start to be implemented in 2014.

REGARDING DEVELOPMENT PROGRAMMES, in 2013 noteworthy was the creation of a Bank of potential specialists and heads of department. This Bank contains people of Red Eléctrica who have been identified as showing potential, and are worked with to enhance their professional development.

COOPERATION WITH THE EDUCATION SECTOR

- >> PRACTICA+ 2013 Grant Programme, which offers in-company practice to 71 recently graduated students.
- >> Operation Grant that has trained 14 technical engineers in the operation of electricity systems.
- >> Operation Grant for Cuban operators.



DIALOGUE AND TRANSPARENCY

INTERNAL COMMUNICATION is a key element for the involvement of employees in fulfilling the mission and business objectives to improve the working climate, promote the integration of people and increase their pride of belonging.

DURING 2013 development has continued of communication plans for corporate projects that seek the global dissemination of strategies, policies and objectives of the Company:

- >> Dissemination of the new Code of Ethics and corporate values.
- >> Energy efficiency and mobility.
- >> Occupational health and safety, equality, work-life balance and diversity.

DIALOGUE AND TRANSPARENCY

- >> Score of 9.3 out of 10 satisfaction rating in the latest working climate survey (2012).
- >> 1,115 publications on the intranet.
- >> Participation of 650 people in 18 sporting groups.
- >> 9,971 requests related to Human Resources via the RH2000 channel.



A HEALTHY COMPANY

OCCUPATIONAL HEALTH AND SAFETY

RED ELÉCTRICA pursues two general objectives in the area of occupational health and safety. On the one hand, to consistently reduce work-related accidents until a ZERO accident rate is achieved, and on the other, to continually and progressively improve the level of the occupational health and safety of its employees and those of providers who collaborate with them, or that work on Company premises.

OUR CHALLENGE is to move towards a Healthy Company Model, with a broader vision of promoting occupational health and safety with regard to the traditional risk prevention model, by integrating physical, psychological and social aspects into its management. >

A HEALTHY COMPANY

- >> Over 50% reduction in the severity and frequency of accidents indexes compared to the previous year.
- >> 1,226 medical and first-aid consultations through its own in-house medical service and 1,138 medical check-ups.
- >> Score of 94 out of 100 granted in the occupational health and safety assessment of the DJSI 2013.
- >> Over 40 work-life balance measures implemented. EFR Certificate.



› **IN THIS REGARD**, new campaigns were developed promoting health and work was carried out on the integration of ergonomics and industrial hygiene into the occupational health and safety management system.

IN 2013, we had a significant improvement (approximately

50%) in the indexes for the frequency and severity of accidents. More than 12,000 inspections were conducted have resulted in 840 corrective actions and more than 3,000 hours were dedicated to training activities regarding occupational health and safety prevention and awareness.



OCCUPATIONAL HEALTH AND SAFETY KEY INDICATORS

	2011	2012	2013
Accident frequency index	3.96	5.34	2.49
Accident severity index	2.21	0.27	0.12
Absenteeism rate	2.30	2.17	2.16
Medical check-ups	1,143	1,157	1,138

WORK-LIFE BALANCE

THE COMMITMENT of Red Eléctrica towards its employees is an undertaking that has been evident for years with the identification of needs both at work and at a personal level.

SINCE 2004, when the first steps were taken and the first measures arose, the actions that have been carried out and implemented are many

and varied so as to achieve the establishment of a work system based on a specific management model. Currently Red Eléctrica has more than 40 measures implemented regarding the work-life balance (flexibility or reduction of working hours, leave, maternity and paternity leave, family dependents, benefits, products, services, events and activities).



RECOGNITIONS

- >> Renewal of the certification according to the EFR model. The results of the last audit positioned us as a Proactive company (2012).
- >> Alares National Award. First prize regarding the work-life balance (2012).
- >> Randstad Awards. Second Prize regarding the work-life balance. (2012).
- >> Premio de la Federación de Mujeres Progresistas (Federation of Progressive Women Prize) (2012).

7
_COMMITTED TO OUR SOCIETY

WE MAINTAIN A TRANSPARENT, FLUID AND CLOSE-KNIT DIALOGUE WITH OUR STAKEHOLDERS



SHAREHOLDERS AND INVESTORS

- >> 712 meetings with international investors.
- >> 1,003 shareholder consultations were dealt with.
- >> 241,471 visits to the 'Shareholders and Investors' section of the corporate website.
- >> Creation of the Socially Responsible Investment section of the corporate website.
- >> Promotion of shareholder participation in the General Shareholders' Meeting via electronic means.

The pillar of trust Red Eléctrica seeks in its relationship with stakeholders is based on the principles of transparency, dialogue and mutual collaboration, and the creation of sustainable value.

In this sense, efforts are focused on seeking communication channels, participation and dialogue, and the fulfilment of commitments towards stakeholders.

DIALOGUE WITH SHAREHOLDERS AND INVESTORS

RED ELÉCTRICA maintains a solid commitment to an open dialogue with its shareholders and investors through the Stakeholder Attention Centre and the Investor Relations Department, facilitating relevant corporate data to satisfy the information requirement of these groups. This communication is transparent and fluid, which is key to achieving a trust relationship with them.

In 2013, the Company's management team continued to hold numerous meetings and presentations in major domestic, European, American and Australian financial markets. In

this regard, 712 meetings were held (659 for variable income, 43 for fixed income and 10 for corporate governance).

REGARDING the General Shareholders' Meeting, we have continued to encourage shareholder participation at the Meeting through the live broadcast of the Meeting on the Internet (in Spanish and in English) and through mobile devices and through the electronic shareholder forum. Similarly, and since 2005, the electronic voting system continues to be made available and was utilised in 2013 by 320 shareholders to cast their votes electronically.

MAXIMUM TRANSPARENCY IN THE RELATIONSHIP WITH CLIENTS AND MARKET AGENTS

RED ELÉCTRICA, as TSO of the Spanish electricity system, bases its success on the principles of transparency and independence, which it applies to all of its processes and activities, especially in the service it provides to its clients and market agents. In this sense, the Company has a Code of Conduct for System Operation, which is periodically audited, and serves as a

guarantee of its independence, transparency, confidentiality, ethics and objectivity in its role as electricity system operator. In addition, it has implemented an internal control system regarding the activity of system operation under the standard SSAE-16 (Standards for Attestation Engagements).

the fulfilment with legal requirements regarding the publication of information.

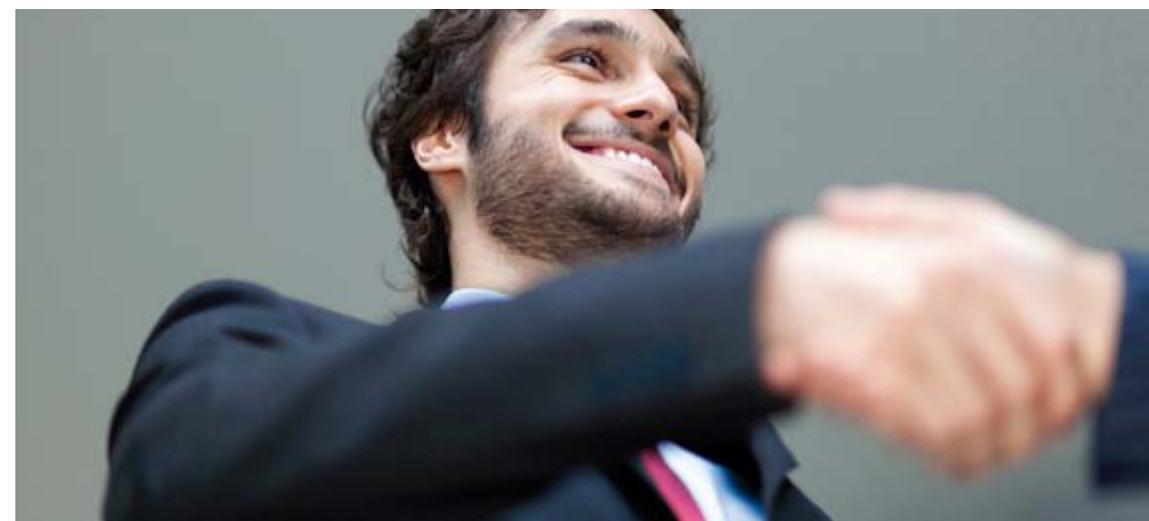
- >> Participation in the implementation of the European Regulation regarding the Wholesale Energy Markets Integrity and Transparency (REMIT).
- >> Participation in GRAI (Incident Analysis Group).
- >> The information platform of the IESOE region for the publication of data related to Spanish, French, Portuguese and Moroccan electricity systems.
- >> Biennial satisfaction studies.

KEY DIALOGUE CHANNELS

- >> The website for market subjects (<http://sujetos.esios.ree.es>) and the public website e-sios (<http://www.esios.ree.es>), which ensure

CLIENTS AND MARKET AGENTS

- >> Maximum transparency in information regarding markets and operation processes.
- >> Real-time information system for communication of anomalies and incidents with market subjects.
- >> 8.3 overall client satisfaction level (on a scale of 0-10).
- >> Client management: 97 points in the Dow Jones Sustainability Indexes (0-100).



STABLE AND TRUSTWORTHY RELATIONSHIP WITH SUPPLIERS

RED ELÉCTRICA'S MANAGEMENT OF SUPPLIERS seeks to minimise, throughout the supply chain, business, technical, environmental and health and safety risks, in addition to those related to working conditions and ethical behaviour.

In this regard, in 2013 improvements have continued in the monitoring model for suppliers, strengthening the differentiation and commitment to those that integrate socially responsible principles into their activity. Additionally, the Company has continued to strengthen the social responsibility audits carried out, which complement

the performance evaluation of suppliers, with the objective of increasing from 20 audits in 2013 to over 50 in 2014.

IN ADDITION RED ELÉCTRICA remains committed to the development of partnerships with suppliers as a basis for building stable relationships that result in mutual benefit. Therefore, in 2013 work was carried out in the definition of a Procurement Plan that allows a greater pooling of requirements, and therefore, of contracts awarded with a longer time horizon that provides our strategic suppliers a stable economic framework.

SUPPLIERS

- >> Purchasing volume of 610 million euros.
- >> 1,200 suppliers awarded contracts.
- >> 95% of purchases from local suppliers.
- >> 1,798 supplier consultations were dealt with.
- >> Fostering alliances with strategic suppliers.

COMMUNICATION CHANNELS

- >> 86 press releases, 58 interviews and 13 press conferences and statements.
- >> Greater dissemination of the Company's commitment towards sustainability (38 press releases).
- >> Greater presence in digital communication media and social networks.
- >> Double A seal of accessibility level for the corporate magazine, Entrelíneas.



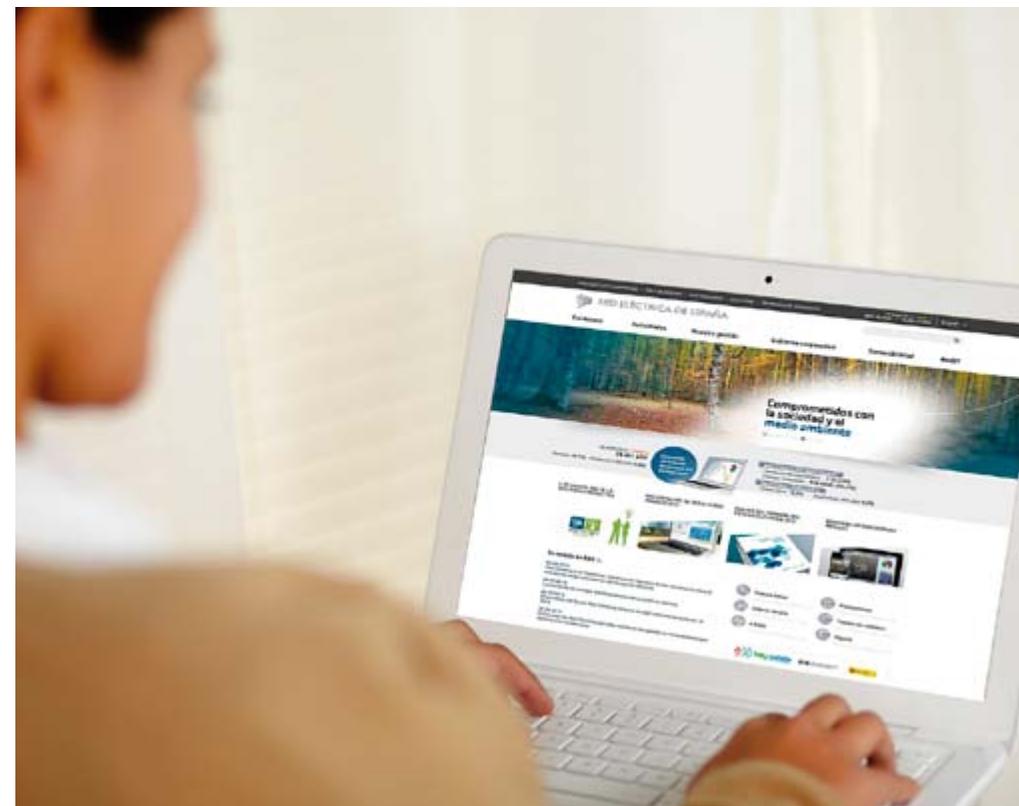
CHANNELS OF COMMUNICATION

IN ACCORDANCE with its policy on management and transparency of information with regard to its stakeholders, Red Eléctrica is moving forward in its relationship with the media, not only through the dissemination of its activities regarding the electricity system, but also offering complete

information about projects and initiatives developed by the Company in terms of sustainability in response to its strategic commitment.

Similarly, aware of the importance of the Internet and the growing presence of digital media in soci-

ety, Red Eléctrica has opted for the implementation and use of these new channels of information, and also monitors information about the Company published via these means. In this regard, in 2013, the information geared towards the media on these social networks has increased.



SOCIAL ENVIRONMENT

IN 2013, the Company continued to improve the tools for the communication and promotion of relationships, amongst which it is worth highlighting this year the remodelling of contents and functionalities of the corporate website that has been consolidated as a space that strengthens ties with its stakeholders and, especially, with society.

NEW CORPORATE WEBSITE

THE NEW CORPORATE WEBSITE (www.ree.es) is a more visual, interactive, and informative space which contributes to reinforcing the Company's brand and increasing knowledge of its activities and also facilitating direct contact with its stakeholders. The new website contains the latest trends in internet tools, such as social

networks and the new 2.0 technologies and that additionally is optimised for mobile devices.

In this regard, it becomes a new interactive communication tool that aims to inform with transparency, transmit knowledge with an informative focus and to promote a culture of energy amongst the public.



CONTRIBUTION TO SOCIETY

AS THE CORNERSTONE of the electricity system Red Eléctrica, through its activities, contributes to ensuring that all citizens and businesses can enjoy a basic commodity such as electricity. Moreover, in its capacity as operator of the electricity system, it is also contributing to the achievement of a more sustainable energy model.

SIMILARLY, THE COMPANY undertakes, as an objective of its business management, to contribute to the sustainable development of society, whereby it carries out different activities that foster institutional and social relations, openly seeking collaboration agreements and encouraging participation in projects and activities that foster well-being and progress in the communities in which it carries out its activities.

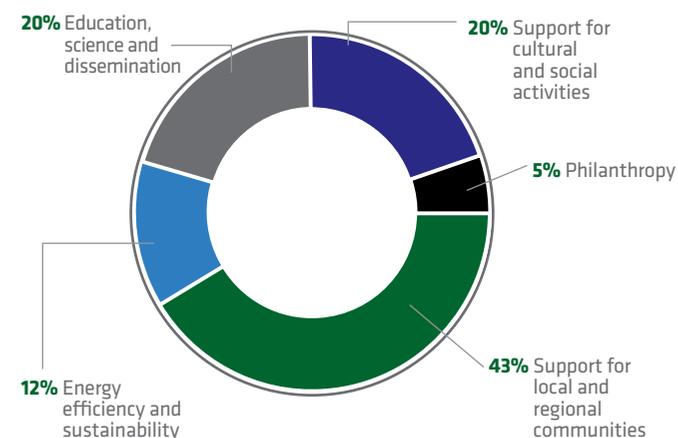


SOCIAL ENVIRONMENT

- >> Educational support for 767 students in Masters' courses at 25 schools and universities through visits to Company facilities.
- >> 40 days of training on security in facilities and fire prevention to 1,300 members of the Security Forces and fire fighters.
- >> Agreements with councils for the improvement of facilities that are for social use.
- >> Dissemination of energy matters via the exhibition 'A highway behind the wall socket' (49,000 visits in the Museum Casa de la Ciencia in Seville).

- >> 11 Corporate volunteering projects.
- >> 0.8% of net profit earmarked for actions that contribute to the community.

SOCIAL INVESTMENT STRUCTURE 2013



8 COMMITTED TO OUR ENVIRONMENT

WE FIGHT AGAINST CLIMATE CHANGE AND WE PROTECT BIODIVERSITY AND THE NATURAL ENVIRONMENT

Respect for the environment, conservation of biodiversity and the implementation of good environmental practices in the development of our work are key elements of our business management.

ENVIRONMENTAL MANAGEMENT

- >> ISO 14001 Certification.
- >> Registered in EMAS (EU Eco-Management and Audit Scheme).
- >> 84.5% level of fulfilment of the annual environmental programme.
- >> 23.4 million euros allocated to environmental management.
- >> Natural Capital Efficiency Leader in the Utilities sector in the Natural Capital Leaders Index compiled by the GreenBiz Group and Trucost Plc.

ENVIRONMENTAL MANAGEMENT

RED ELÉCTRICA HAS a strict environmental policy and it has an environmental management system certified according to the ISO 14001 standard and which has been registered since October 2001 in the EU Eco-Management and Audit Scheme (EMAS). Red Eléctrica annually defines an environmental programme in which the various objectives arising from the different strategies of the Company are established and specific work actions are defined.

The main environmental impacts of our activities are linked to the presence of the grid infrastructure necessary for the transmission of electricity from one point to another nation-wide. >



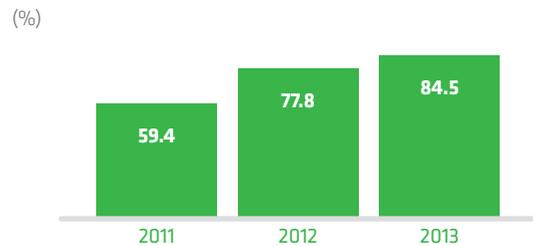
➤ **TO THIS END, RED ELÉCTRICA** makes a tremendous effort in the study of alternatives and in the coordination with key interested parties in order to define and agree on the locations of substations and the route to be taken by lines, so that any possible effects on the environment can be minimised. Once the projects and preventive and corrective measures are defined, intensive environmental monitoring is carried out to verify the compliance and effectiveness of these measures at all stages of the activity (design, construction and maintenance).



The most significant data for 2013 is:

- >> Project: environmental permitting processes initiated for 14 projects and completed (with environmental authorisation) for 33 projects.
- >> Construction: environmental monitoring of 97.5% of the work in substations and 100% of the work on lines.
- >> Maintenance: 26 environmental monitoring programmes (1,121 km of line and 7 substations) and environmental monitoring of 106 substations.

FULFILMENT OF THE ENVIRONMENTAL PROGRAMME



ENVIRONMENTAL EXPENDITURE



BIODIVERSITY

THE CONSERVATION OF BIODIVERSITY has always been a basic principle within Red Eléctrica's environmental policy and corporate business strategy. During 2013, this commitment was strengthened by the signing of the Biodiversity Compact. By means of this engagement, Red

Eléctrica adheres to the Spanish Business and Biodiversity Initiative (Iniciativa Española Empresa y Biodiversidad (IEEB)) promoted by the Ministry of Agriculture, Food and Environment, which aims to include the conservation and management of biodiversity in the business strategies of companies.

ONE OF THE MAIN CRITERIA when defining the location of new facilities is to avoid areas rich in biodiversity. However, when it is inevitable that they cross or be located in protected spaces or in areas with species of interest, in these cases Red Eléctrica applies all the necessary preven- ➤

BIODIVERSITY CONSERVATION

- >> 2,585 km of lines marked with bird-flight diverters.
- >> Over 300,000 trees planted through the Red Eléctrica Forest project.
- >> 980,000 euros earmarked for collaboration agreements aimed at firefighting and fire prevention.
- >> 99 out of 100 points granted in the Biodiversity category by the DJSI in the 2013 assessment.

THE 'RED ELÉCTRICA FOREST' PROJECT (2009-2013) FIGURES

Trees and shrubs planted:
349,974 specimens.

Surface area recovered:
568 hectares.

Emissions offset:
97,031 tonnes of CO₂ equivalent.

Investment:
1,125,107 euros.

Impact on local employment:
4,914 working days.

> tive and corrective measures to minimise the possible effects on these spaces, and provides additional biodiversity conservation improvement measures. The key lines of action are:

AVOID AREAS RICH IN BIODIVERSITY

THE FACILITIES of Red Eléctrica currently only occupy 0.12% of the protected spaces of Red Natura.

PROTECTION OF HABITATS AND SPECIES

IN THE CONSTRUCTION PHASE of facilities numerous measures are applied to minimise the alteration of the habitat and the impact on vegetation.

Among the measures applied in 2013, the following, as a reference, are worth noting:

- >> Use of a helicopter in the construction of various lines to avoid having to open access roads.
- >> Hanging by hand of cable for the whole of the Puebla de Guzmán-Portuguese Border line (25.2 km).

>> Biological stoppages in all construction works during specific periods.

>> Restoration of the Ses Salines coastal sand dunes and expansion of the protected area of the beach in Formentera.

PROTECTION OF BIRDLIFE

THE MAIN EFFECTS that the facilities of Red Eléctrica have on fauna is the risk of birds colliding with the grounding cables that protect the lines against electrical discharges during storms. To reduce this risk, Red Eléctrica marks grounding cables with devices to increase their visibility. In order to gain a more in-depth knowledge of areas of greatest risk of collision, we are working on the design of a tool that will allow the identification, characterisation and mapping of flight paths of birds that interact with high-voltage electricity transmission lines.



FIRE PREVENTION

THE PROPER DEFINITION of safety corridors for electricity lines, the application of advanced maintenance techniques, the collaboration with public administrations in the fight against forest fires and the development of research projects, as well as raising aware-

ness on these matters, are the main areas of action underway in this field.

In 2013, the research project regarding a system for monitoring of forest fires in lines (2013-2014) was begun and training days for both Red Eléctrica's

specialists and the Environmental specialists from the provincial services have continued to be conducted. In addition, in 2013, seven new agreements on firefighting and fire prevention were signed, which are added to the three already in place.

PROTECTION OF THE SOCIO-ECONOMIC ASPECT AND THE LANDSCAPE

THE PRESENCE OF electricity infrastructure may have some effects of a social nature, but in no case is a significant alteration in the way of life of the affected communities. The social aspects are taken into account in the design phase when determining the corridors for lines and the locations for substations; this analysis is integrated into the environmental impact study.

REDUCING THE VISUAL IMPACT OF FACILITIES

RED ELÉCTRICA applies various measures to reduce visual impact, noteworthy of which are the restoration of affected areas and the integration of substation buildings into the landscape. In 2013, six specific projects for the integration of substations into the landscape were carried out.

ARCHEOLOGICAL SUPERVISION

BEFORE ANY CONSTRUCTION WORK for facilities can begin, it is necessary to perform an archaeological survey. During 2013, archaeological supervision was carried out on the



construction of 15 lines and 6 substations, with the permanent presence of an archaeologist in 76% of the cases.

ELECTRIC AND MAGNETIC FIELDS

THANKS TO THE PREVENTIVE MEASURES that are applied in the design of the facilities, the

levels of electric and magnetic fields stay below levels recommended by the European Union. Nonetheless, we keep abreast of all innovations and the latest scientific advances in the field.

CLIMATE CHANGE AND ENERGY EFFICIENCY

RED ELÉCTRICA has a specific climate change strategy whose key lines of action are:

INTEGRATION OF RENEWABLE ENERGY. The development of electricity transmission grids and the implementation of system operation solutions geared towards the integration and better use of renewable energy are essential to achieving the European climate targets.

EMISSIONS. The main direct emissions derived from Red Eléctrica's activities are those coming from sulphur hexafluoride (SF₆); 98% of total direct emissions calculated in terms of CO₂. Therefore we continue to work to find solutions for the control and reduction of emissions of this gas.

ENERGY EFFICIENCY. Red Eléctrica works in this field from two converging perspectives. The first is focused on the implementation of various demand-side management measures aimed at providing greater flexibility to the operation of the system. The second is geared towards promoting energy efficiency within the Company and reducing the Company's carbon footprint.

In the last three years, the lighting consumption at the Head Offices has been reduced by 21.6%.

OFFSETTING EMISSIONS. Within the climate change action plan, we have established a goal to offset at least 20% of our direct emissions. In 2013, through our Red Eléctrica Forest project we have offset 39% of these emissions.

PROTECTION OF WOODLAND. Aware of the importance of woodland as CO₂ carbon sinks, we minimise the loss of trees associated with the construction and expansion of electricity grids, we optimise the maintenance of safety corridors of electricity lines with the aim of preventing forest fires and we carry out reforestation projects.

CARBON FOOTPRINT IN THE VALUE CHAIN. For the second consecutive year, Red Eléctrica has worked on the size of the carbon footprint associated with its value chain.

THE FIGHT AGAINST CLIMATE CHANGE

- >> 42% of the electricity demand of the Spanish peninsula covered with renewable energy.
- >> Decrease in the SF₆ emission rate through the installation of equipment with a lower leakage rate.
- >> Reduction of 21.6% of electricity consumption for lighting at the Head Office of the Group over the last three years.
- >> Offsetting of 30,740 tonnes of CO₂ emissions through the specimens planted via the Red Eléctrica Forest 2013 project, 39% of direct emissions.



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