CORPORATE RESPONSIBILITY REPORT

2016

The value of **connected energy**

RED ELÉCTRICA CORPORACIÓN

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ABOUT THIS REPORT

Sustainability context

This corporate responsibility report aims to provide transparent, reliable and balanced information on the economic, social and environmental matters identified as the most relevant for Red Eléctrica in 2016. Similarly, this report also describes the annual progress made by the Company regarding corporate governance, human rights, ethics and the fight against corruption. / G4-28

Red Eléctrica has published this report annually since 2002, and since 2003, the report has been prepared following the Global Reporting Initiative (GRI) Guidelines for drafting sustainability reports. / G4-29 / G4-30

For the drafting of this report, corresponding to the 2016 fiscal year, the essential principles and contents defined in the latest version of the GRI G4 guide have been followed for the third consecutive year. The report also includes additional applicable information that is required in the Electric Utilities Sector Supplement. With this, Red Eléctrica believes that the Corporate Responsibility Report for 2016 has been prepared **in accordance with G4 at its comprehensive level.** / G4-32

In addition, this report complies with Red Eléctrica's commitment to respond to the compliance and progress of the Company in implementing the ten principles of the United Nations Global Compact. It also responds to Recommendation 55 of the Code of Good Governance of Listed Companies.

With the aim of continuing to offer our various stakeholders a complete and extensive information on the Company's ability to create value, Red Eléctrica includes in this report aspects defined by the International Integrated Reporting Council (IIRC) for the drafting of comprehensive reports, which seeks to improve the content of future editions.

The content of this report is supplemented with the following information, corresponding to the 2016 fiscal year, and which is made available to the public by Red Eléctrica:

- Corporate Governance Report and the Consolidated Annual Accounts Report of the Red Eléctrica Group, which include the management report of the Group's business.
- A wide range of content on the corporate website (www.ree.es).

Additionally, Red Eléctrica de España, founding member of the Spanish Network of the UN Global Compact, annually presents a Progress Report where the main activities undertaken in relation to the Ten Principles are set out. This information is available on the website of the Spanish Network of the UN Global Compact (www.pactomundial.org) and on the website of the Global Compact (www.unglobalcompact.org). The Report of Red Eléctrica de España has, from the outset of the programme, qualified for the 'Global Compact Advanced Level', which is granted to companies that have implemented and communicated best practices related to the integration of the Ten Principles into their management practices.

Materiality and stakeholder participation / G4-23 / G4-27

According to the principles and essential contents of the GRI G4 guide, this report focuses mainly on those issues identified as relevant in the materiality analysis carried out by the Company in 2014, the drafting process and results of which are shown in the annex to this report.

The active participation of the stakeholders in the materiality process was decisive for the prioritisation of the relevant issues. In this regard, it should be noted that stakeholders identified ethics and transparency, commitment to society and governance practices as key issues, coinciding with those issues defined as having the greatest influence on business success.

Coverage / G4-13 / G4-17 / G4-22

This report includes complete information regarding the management approach, actions and financial results of the core activities of the Group: the electricity business in Spain through Red Eléctrica de España, S.A.U. (REE) which represents 92% of the Group's consolidated revenue. For the moment, it has not been considered relevant to provide detailed information of the remaining activities broken down by business segment or geographical area and that jointly represent just 8% of consolidated revenue.

However, of note is that all companies that make up the Red Eléctrica Group are subject to and comply with the policies, comprehensive risk management, information on corporate governance, the integrity model, the consolidated economic and financial data, specific employment KPIs, as well as the tax contribution set out in this report. The structure of the companies in the Red Eléctrica Group are detailed in the Consolidated Annual Accounts Report and in the 'Company' chapter of this report.

Throughout 2016, the Company has worked on the design of the Sustainability Model of the Red Eléctrica Group. The Model, which will be approved in 2017, will encompass the entire Group, defining priorities and objectives common to all business activities and geographical areas in which the Group operates.

In order to assess the evolution of Red Eléctrica's performance over time, the report provides data from previous years. Regarding previous reports, no relevant information has been reformulated, although it is possible that data has been updated or that the calculation formula for a specific indicator has changed, in which case the changes are indicated in the corresponding section. Also, during the period covered by this report there have been no significant changes in the size and structure of the Company.

The Company has worked on the Sustainability Model during 2016, which will be approved in 2017 and applicable throughout the Group.

Verification / G4-33

To verify the reliability of information, Red Eléctrica has submitted this report to external verification by PwC with a limited level of assurance. As a result of the verification process, an Independent Review Report is drafted which includes the objectives and scope of the process as well as the verification procedures used and the conclusions reached. This report is included in the annex to this document.

Consultations / G4-31

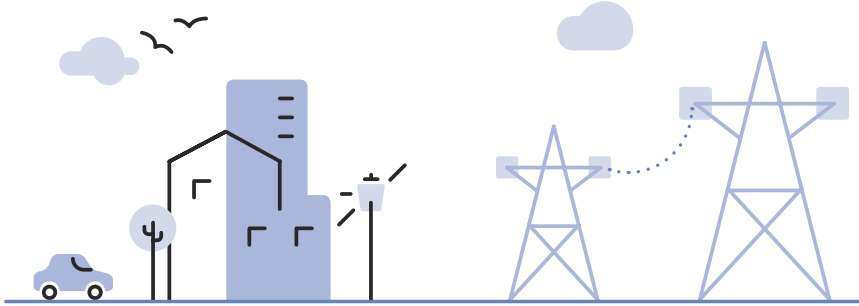
Red Eléctrica welcomes opinion on this report. Please send us your comments and suggestions through the Dígame Service:
http:/www.ree.es
E-mail: digame@ree.es
Telephone: +34 91 7286215

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

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.

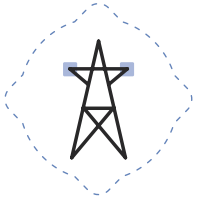
On the other hand, the Company has continued ensuring the security and quality of the electricity supply, making it compatible with the maximum integration of renewable energies. In this regard, the work of the Control Centre of Renewable Energies has contributed to the fact that 40.8% of the energy integrated into the peninsular system came from renewable sources, which is 3.9 percent points higher than in 2015, with the consequent decrease in CO_2 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

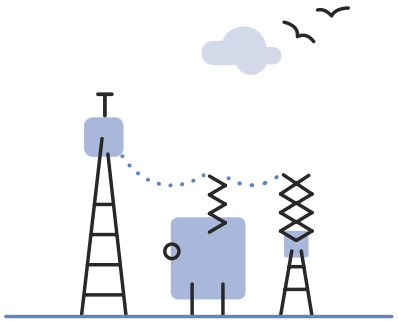
km

OF NEW LINE

61 new substation bays

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 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.

FINANCIAL **RESULTS**

NET PROFIT

636.9

M€

+5.1%

Compared to 2015

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.

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

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 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.

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.

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

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 2016 / G4-9

The figures shown in small coloured circles reflect the variation compared to 2015

N/C: no change. **pp:** percentage points

GOOD GOVERNANCE

- ATTENDANCE AT THE SHAREHOLDERS' MEETING: 60.5 % (+3.2 pp)
- REDUCED BOARD: 12 members (N/C)
- INDEPENDENT BOARD MEMBERS: 58.3 % (N/C)
- WOMEN ON THE BOARD: 36.4 % (-5.6 pp)

BUSINESS

- CIRCUIT OF LINE: 43,664 km (+1.6 %)
- SUBSTATIONS: 5,489 substation bays (+1.1 %)
- QUALITY OF SERVICE OF THE PENNINSULAR GRID: 98.32 % grid availability (+0.4 %)
- INTEGRATION OF RENEWABLES: 40.8 % of demand (+3.9 pp)

FINANCIAL DATA

- NET REVENUE: 1,932.3 M€ (-0.3 %)
- EBITDA: 1,486.0 M€ (+1.9 %)
- NET PROFIT: 636.9 M€ (+5.1 %)
- DISTRIBUTION OF DIVIDENDS: 0.8587 €/share (+7 %)

EMPLOYEES

- WORKFORCE: 1,682 people (-0.9 %)
- WOMEN IN THE WORKFORCE: 23.7 % (+0.6 pp)
- ACCIDENT FREQUENCY INDEX: 2.43 (-46.2 %)
- TRAINING: 82 hrs/employee (-18 %)

SOCIAL

- INVESTMENT IN THE COMMUNITY: 6.4 M€ (-1.5 %)
- SHAREHOLDER INFORMATION OFFICE: 1,027 enquiries attended to (-8.1 %)
- LOCAL SUPPLIERS: 91 % of purchases (-7.0 pp)
- CLIENT SATISFACTION: 8.3 out of 10 (N/C)

ENVIRONMENTAL

- ENVIRONMENTAL PROGRAMME: 87 % fulfilment (+3.0 pp)
- RESTORATION OF HABITATS (REE Forest): 1.8 M€ (+28.6 %)
- LINES MARKED WITH BIRD-SAVING DEVICES: 3,040 km (+3.1 %)
- ENVIRONMENTAL MANAGEMENT EXPENDITURE: 22.6 M€ (-0.4 %)

More information on these indicators is provided throughout this report.

01 THE COMPANY

CONNECTED TO A SECURE AND SUSTAINABLE ENERGY FUTURE

Red Eléctrica, a TSO of reference.

Red Eléctrica is the sole transmission agent and operator (TSO) of the Spanish electricity system. The Company carries out this responsibility with transparency, neutrality, independence and economic efficiency, with the aim of providing the highest quality electricity service for society as a whole.

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

MISSION

Red Eléctrica, as TSO of the Spanish electricity system, has the mission of guaranteeing the correct functioning of the system, ensuring the continuity and security of the electricity supply at all times. Additionally, it is responsible for the transmission of high-voltage electricity; and it builds, maintains and operates the facilities of the transmission grid.

VISION

The goal is to be one of the leading companies in the transmission of electricity and the operation of high-voltage electricity grids, recognised for offering for providing a quality service of the highest standards, implementing ethical and responsible management, maintaining a firm commitment to sustainable development and generating value for all our stakeholders.

VALUES

Responsibility

Respect

Reliability

Environmental awareness

Leadership and creativity

STRUCTURE OF THE RED ELÉCTRICA GROUP

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

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

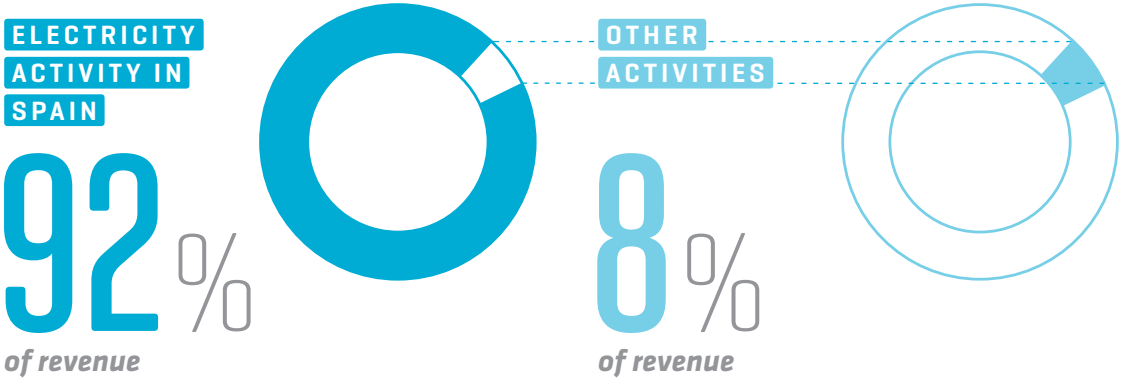
WORKFORCE OF THE GROUP / AS AT 31.12.16

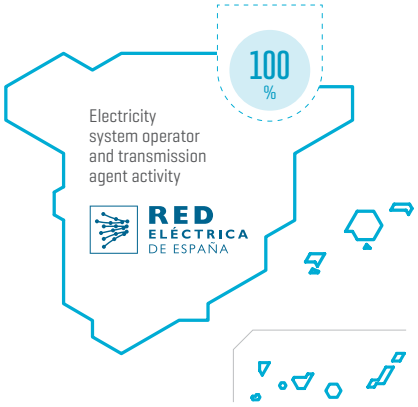
Red Eléctrica Corporación	7
Red Eléctrica de España	1,675
Red Eléctrica Internacional	9
REINTEL	11
REINCAN	4
RE CHILE	1
REDESUR	17
TESUR	2
TESUR2	8
REA	42
REDCOR	1
Total	**1,773**

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

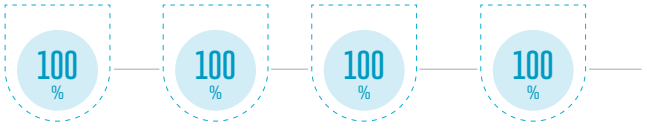
In the Consolidated Annual Accounts Report.

RED ELÉCTRICA CORPORACIÓN





RED ELÉCTRICA DE ESPAÑA owns 50 % of the share capital of **INELFE,** a company created jointly with its French counterpart, **RTE,** for the development of interconnections with France.



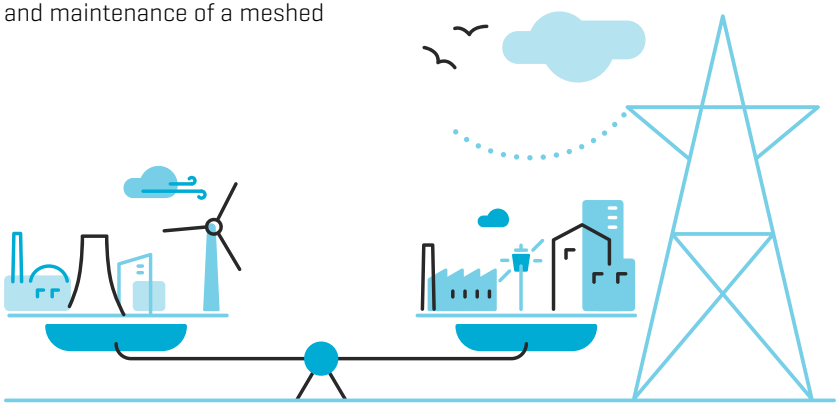
Investment in electricity transmission infrastructure internationally is channelled through different subsidiaries integrated into **Red Eléctrica Internacional (REI).** In Peru, REI manages the following companies: **REDESUR, Red Eléctrica Andina (REA)** and **Transmisora Eléctrica del Sur 3,** companies wholly owned by **REI.** In turn, **REDESUR** controls **Transmisora Eléctrica del Sur** and **Transmisora Eléctrica del Sur 2.** In Chile, **REI** manages **Red Eléctrica Chile,** a company wholly owned by **REI.** This subsidiary, in turn, has acquired 50 % of the share capital of **Transmisora Eléctrica del Norte (TEN),** owned by the Chilean company **EC-L** (belonging to the Engie group).

ELECTRICITY ACTIVITY IN SPAIN / G4-4 / G4-6 / G4-8

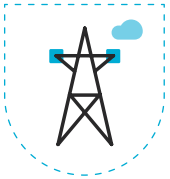
Red Eléctrica is a TSO (Transmission System Operator) of international reference in the efficient management of the electricity supply and in the maintenance of a meshed and reliable transmission grid.

Red Eléctrica de España is the company that carries out the Group's core activity. Its mission is to guarantee the security and continuity of the Spanish electricity supply at all times, and to manage the development and maintenance of a meshed and reliable transmission grid in order to contribute to the progress of society. The efficient performance of these functions positions the Company as one of the benchmark Transmission System Operators in the international arena.

Red Eléctrica owns the entire Spanish high-voltage electricity transmission grid and, through its electricity control centres, operates both the peninsular electricity system as well as the non-peninsular systems, 24 hours a day, 365 days a year. Furthermore, it is a world reference in the safe integration of renewable energy into the electricity system.



LINES



MORE THAN 43,000 km
IN SERVICE IN 2016

ELECTRICITY CONTROL CENTRES

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

What we do

ELECTRICITY TRANSMISSION ACTIVITY

SYSTEM OPERATION ACTIVITY

[1] Red Eléctrica, through its transmission grid, evacuates the electricity generated by the power-generating stations.

[2] Next, it transports the electricity, transformed into high-voltage, from the power-generating stations to the distribution networks.

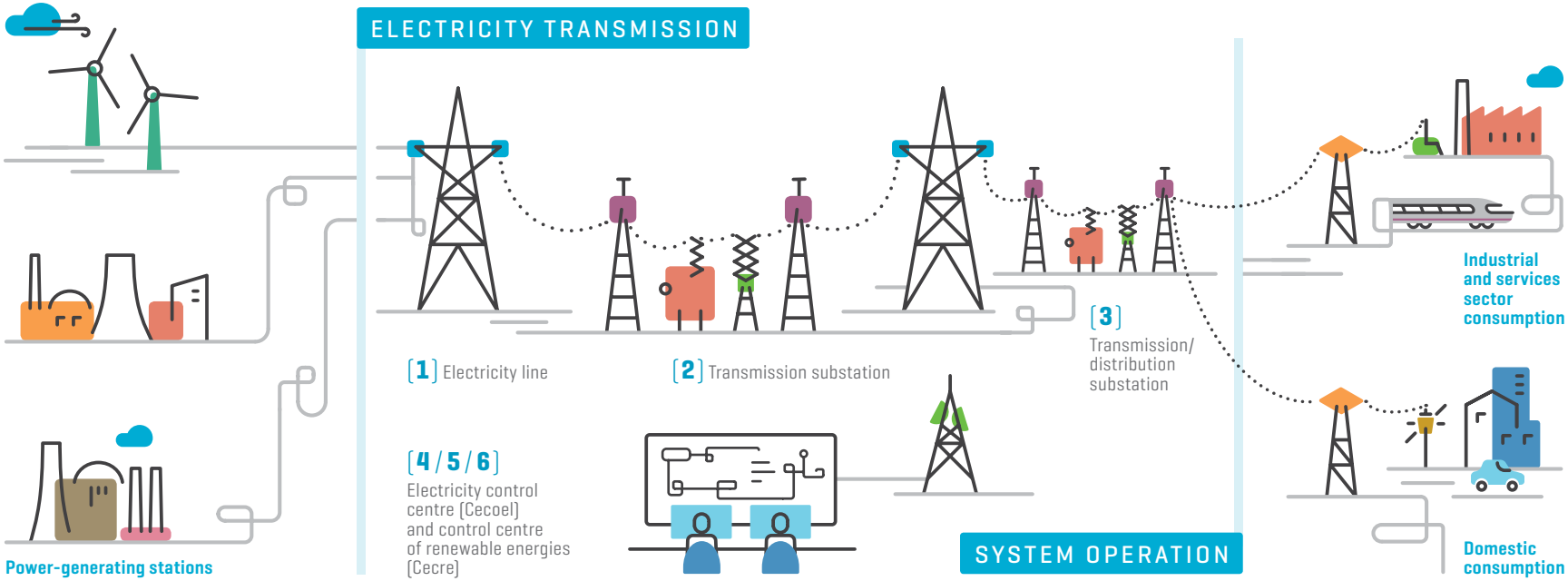
[3] Subsequently, it delivers the electricity, transformed into lower voltage levels, to the distribution companies who then deliver it to the final consumer.

[4] For this process to work, Red Eléctrica must operate the system maintaining the constant balance between generation and consumption, due to the fact that electrical energy cannot be stored in large quantities.

[5] To do this, Red Eléctrica forecasts the electricity consumption that is going to be demanded nationwide throughout the day. Power stations then use this forecast to schedule their production.

[6] Red Eléctrica, through its Electricity Control Centre (CECOEL), is responsible for maintaining the balance between the scheduled production and the energy demanded at each moment.

And, as demand varies, it sends the appropriate orders to the power stations to adjust their production.



OTHER ACTIVITIES / G4-13

International activity

For the Company, the development of International business is a natural growth path which is centred mainly on the construction, management and operation of transmission grids outside Spain, currently in Peru and Chile.
To boost this business, Red Eléctrica, through Red Eléctrica Internacional, analyses corporate acquisitions and frequently participates in tenders for concession contracts.

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

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

During 2016, the Company continued to consolidate its presence in Peru through the progress made in the construction of the Azángaro-Juliaca-Puno and Montalvo-Los Héroes 220 kV lines, representing an overall investment of 110 million dollars.

Similarly, through the subsidiary Red Eléctrica Chile, the Company has entered into the electricity transmission business of Chile, with the acquisition, in December 2015, of 50 % of the share capital of the company Transmisora Eléctrica del Norte (TEN). This company is responsible for the construction and commercial management and operation of the Mejillones-Cardones interconnection line, which will link the north and central electricity subsystems of Chile, and which has represented an investment of 832 million dollars.

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

INVESTMENT IN CHILE

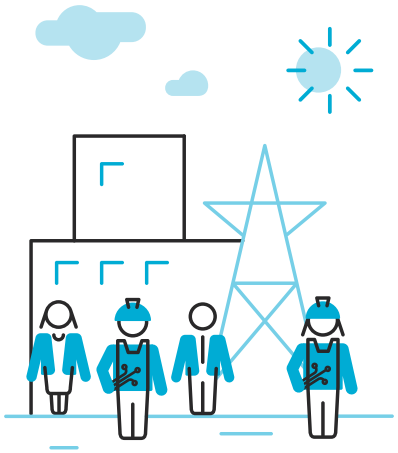
ELECTRICITY TRANSMISSION **BUSINESS**

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

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

Telecommunications activity

The Group's telecommunications business is carried out through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación (REINTEL). Its main activity is the leasing of an extensive dark fibre optic backbone network and of sites and technical spaces for the housing of the telecommunications equipment of its clients.



At present, REINTEL is the **neutral provider of telecommunications infrastructure of reference in Spain,** owing to the fact that it has the largest dark fibre network with the best quality. In this regard, the Company operates and manages a fibre optic network comprised of more than 33,000 km of cables deployed throughout the electricity transmission grid and the railway network, which guarantees access to the network which is both transparent and on equal terms for clients and agents in the sector. It is a robust, redundant and meshed telecommunications network, which is not only connected to the systems on the Spanish islands, but also has international access.

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

REINTEL

HAS A PERMANENT CLIENT HELPDESK AND MONITORING CENTRE THAT

GUARANTEES THE QUALITY

And availability of the service (24/7)

REINTEL

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

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

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

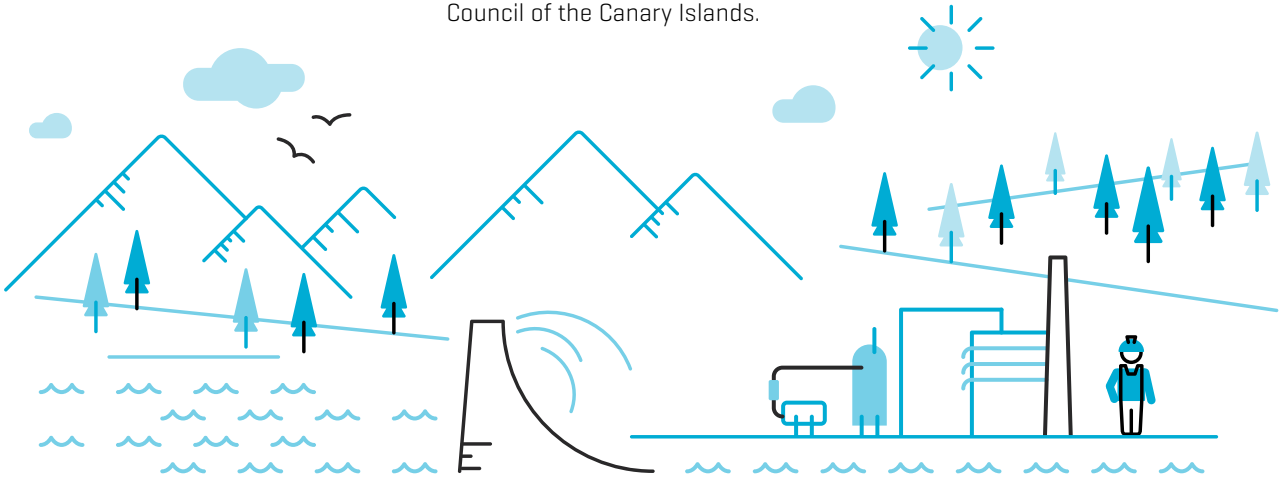
The 200 MW Soria-Chira pumped-storage power station **is a key facility to improve the sustainability** of the electricity system on the Canary Islands.

Energy storage activity in the Canary Islands

In 2015, Red Eléctrica Infraestructuras en Canarias (REINCAN) was created with the aim of promoting energy storage projects on the Canary Islands that can act as tools for the system operator so as to guarantee the electricity supply on the islands, as well as to improve system security and optimise the integration of renewable energy.

In 2016, initial progress was made in this activity with the start of the permitting process and the public information period for the construction project for the pumped-storage power station between the reservoirs of Soria and Chira in Gran Canaria, following the declaration of strategic interest of the project by the Governing Council of the Canary Islands.

This energy storage power station, which has an investment of 320 million euros, will enable a greater development and use of renewable energy on the island, therefore it represents an essential element to progress towards the sustainability of the new energy model in the Canary Islands, which is safer, more efficient and environmentally friendlier.



SORIA-CHIRA
POWER STATION

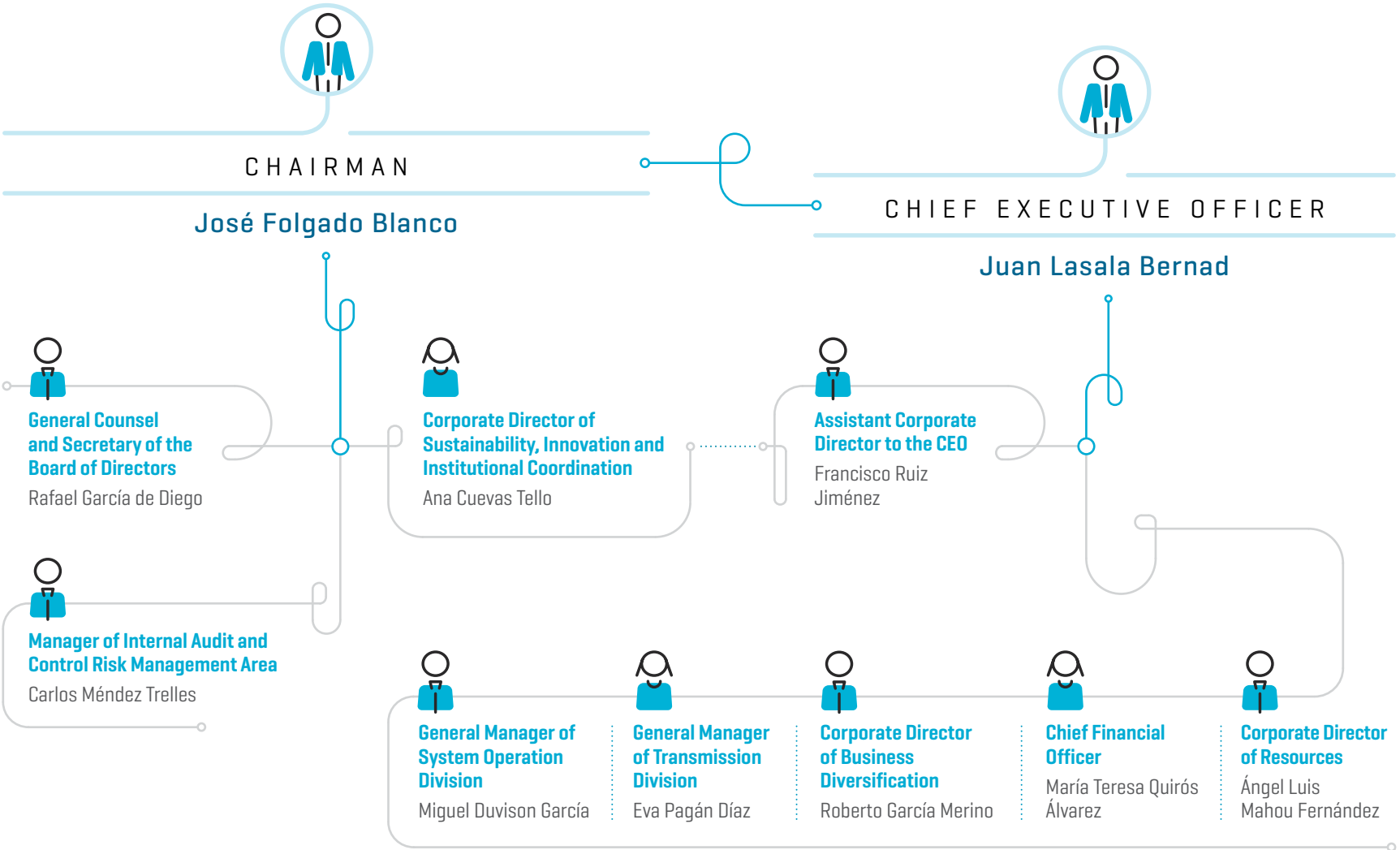
INVESTMENT
320
M€

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

REINCAN

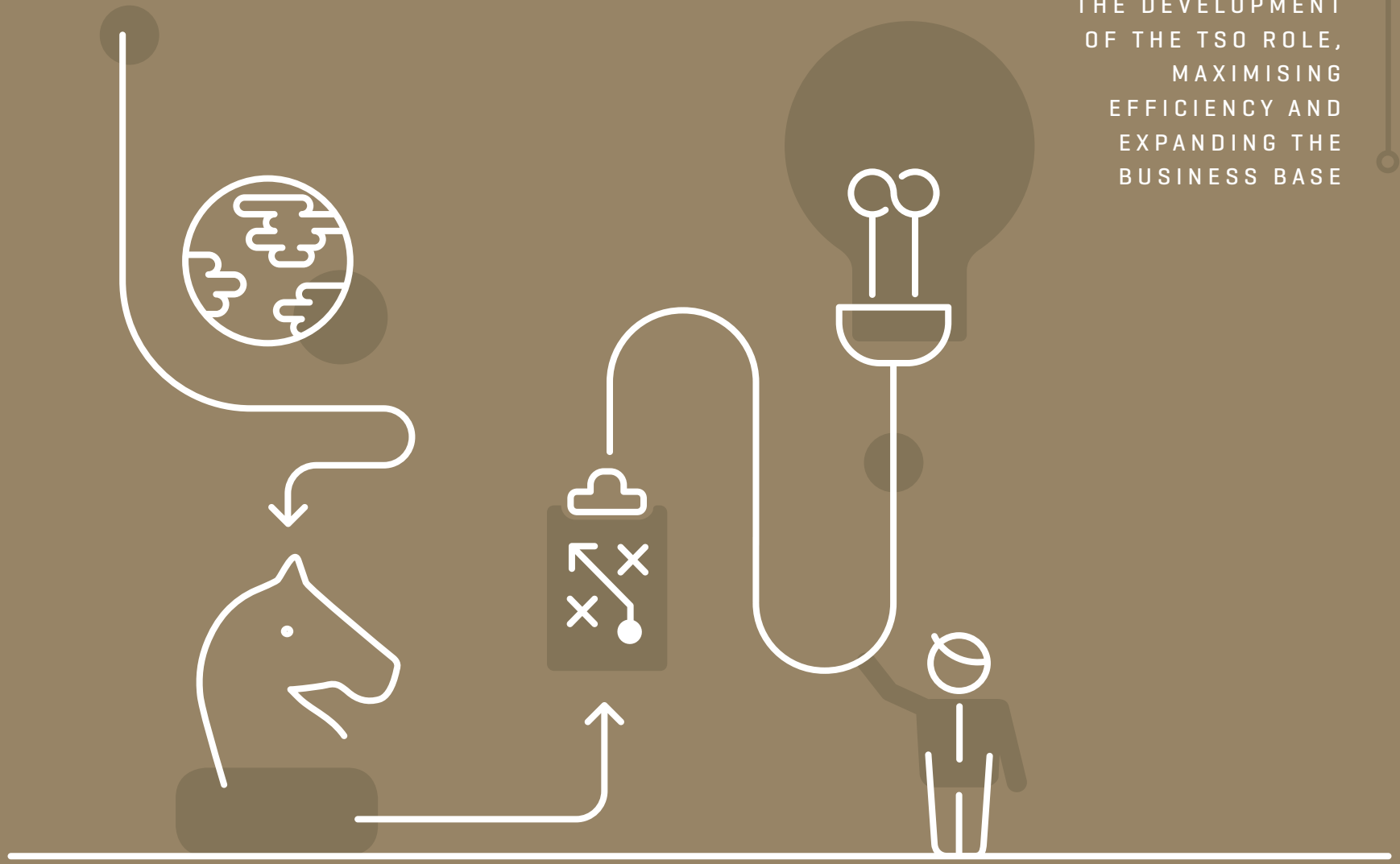
Subsidiary created in the Canary Islands in 2015 for the promotion of energy storage projects that enable a greater integration of renewables on the islands.

MANAGEMENT STRUCTURE / G4-34



02 STRATEGY

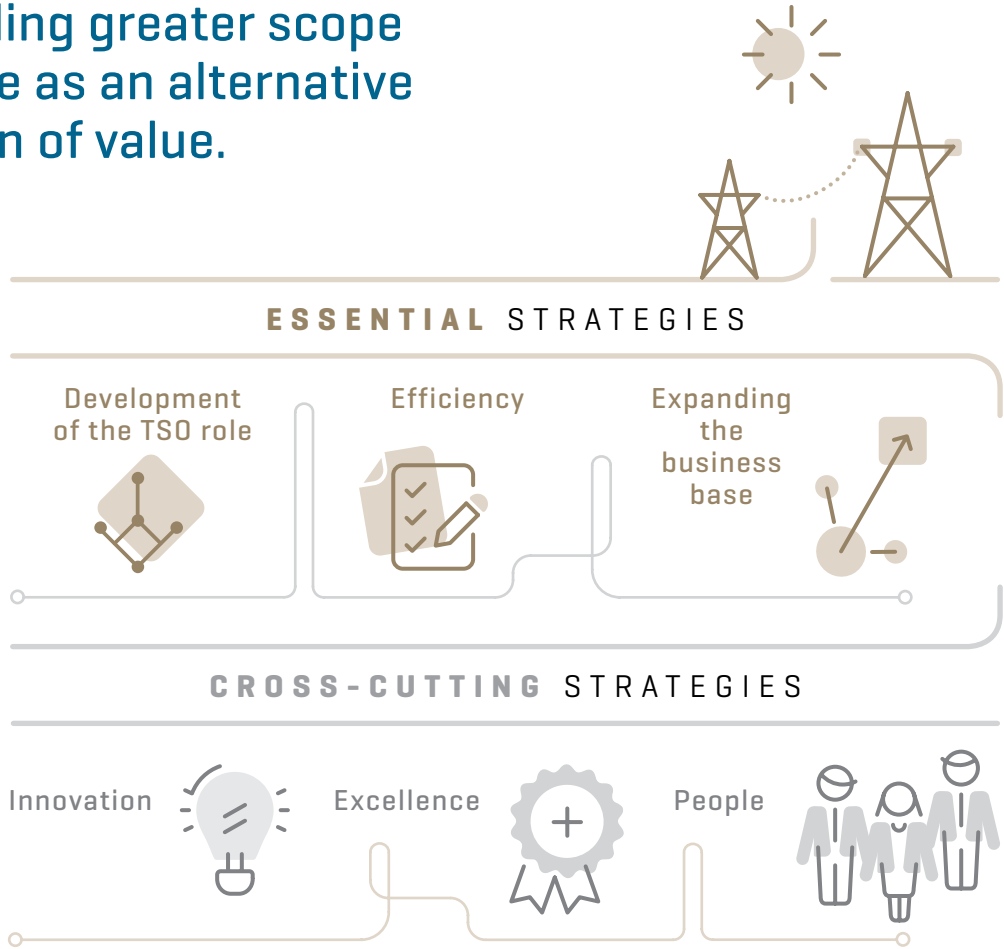
CONNECTED TO THE DEVELOPMENT OF THE TSO ROLE, MAXIMISING EFFICIENCY AND EXPANDING THE BUSINESS BASE



The Strategic Plan 2014-2019 continues to be based on the execution of our role as TSO in Spain, but doing so by strengthening efficiency criteria in order to adapt the Company to the new regulatory environment and a more restrictive remuneration policy, and providing greater scope for expanding the business base as an alternative path for growth and the creation of value.

Strategic plan

The Plan establishes three essential strategies, which define the actions to be undertaken, and three cross-cutting strategies, which address the action criteria for the implementation of the Plan.



REGULATORY, ECONOMIC AND ENERGY SCENARIO

Economic scenario

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

Thus, in June, a referendum was held and the United Kingdom voted to leave the EU, although this caused initial turbulence in financial markets these later stabilised. In the end, the so-called 'Brexit' has not prevented the Eurozone from maintaining, during 2016, the moderate pace of economic growth of the previous two years, with an estimated increase in its annual GDP of 1.7%. Uncertainty remains as to the actual consequences of Brexit going forward, due to the negotiation process which is currently underway to establish the new trade relations framework between the United Kingdom and the EU.

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

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

GDP EUROZONE 2016

1.7 %

MAINTAINS THE MODERATE PACE

of economic growth of the previous two years

GROWTH OUTLOOK

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

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

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

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

Hence, Gross Domestic Product (GDP) growth for the 4th quarter of 2016, published by the Spanish Institute of Statistics in January 2017, establishes the growth of the Spanish economy at 3.2% for 2016 surpassing once again the forecasts that had been formulated for this year and consolidating the recovery trend that began in 2014. This good performance of the Spanish economy has occurred in a political context that was unique and unprecedented in Spain, marked by the political stalemate stemming from the failure to reach an agreement to form a new government after the general elections held in December 2015, which forced a repeat of the elections in June and left Spain with an interim government in office for ten months.

ECONOMIC GROWTH
2016

A GROWTH OF
3.2
%

Exceeds forecast and consolidates the recovery trend

Domestic demand for yet another year has been the driver of growth in 2016, although its contribution has been somewhat lower than in 2015, and has been offset by an increased foreign contribution. This solid growth, which domestic demand has been registering since 2014, has contributed greatly to the continuous improvement in net job creation, which maintained its upward trend in 2016, closing the year with 413,900 jobs more than the previous year. This represented an increase of 2.3% in the number of employed persons, which in turn reduced unemployment to 18.6% in December 2016, below 20% for the first time since 2010.

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

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

Energy scenario

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

Demand, per sector, after having factored in seasonal and working patterns, was barely 0.1% higher than in 2015, despite the good performance of the economy. This fact accentuates the progressive loss of correlation between economic activity and electricity demand. This is a true reflection of the transition towards a production model that is less energy intensive, which contributes substantially to the implementation of energy saving and efficiency measures that are consistent with the objectives of Spanish and European energy policy in order to achieve a sustainable energy model and fight against climate change.

Within the framework of the firm commitment of the European Union to the energy targets and the fight against climate change, at the end of November 2016 the European Commission published, under the generic title 'Clean Energy for All Europeans', a new proposal for legislative development, which has been colloquially referred to as the 'Winter Package'. This proposal is made up of a new Community Directive on electricity, which will replace the current Directive 2009/72/EC and its corresponding regulatory developments.

WINTER PACKAGE

EUROPEAN COMMISSION PROPOSAL FOR LEGISLATIVE DEVELOPMENT

AMONG ITS TARGETS: REDUCTION OF

40 %

of emissions by 2030

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

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

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

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

More on regulatory aspects in the Annual Accounts Report.

TRANSITION TO CLEAN ENERGY

REPRESENTS A BOOMING ECONOMIC SECTOR

300,000 MILLION EUROS

in investment in 2015

OUTLOOK REGARDING CLEAN ENERGY

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

Regulatory scenario

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

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

ESSENTIAL STRATEGIES

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

Some of the most relevant actions associated with the degree of accomplishment of each strategy are set out below, although in the various chapters of this report, the actions carried out in 2016 are described in greater detail.

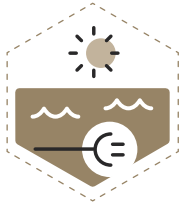
Development of the TSO role

Red Eléctrica's main activity is linked to its status as the sole transmission agent and operator of the Spanish electricity system. Therefore, the main strategy of the Company is based on the development of an increasingly meshed and robust transmission grid that is better interconnected, and in its contribution, as a key element in the functioning of the electricity system. This enables the challenge of sustainable development to be a reality through the integration of renewable energy and promoting projects aimed at energy efficiency and innovation.

Execution of the Plan in the 2014-2016 period

- **Approval of the new regulatory framework** that guarantees the stability of the electricity transmission activity and promotes the efficiency and availability of the grid.
- Approval of the Energy Planning by the Council of Ministers: **Electricity transmission grid development plan 2015-2020.**
- **Holding of the first auctions** for the provision of the interruptibility service.
- **Commissioning of the Puebla de Guzmán-Portuguese border line,** which has made it possible to increase the interconnection capacity between Spain and Portugal and provide greater operational security.
- **Bringing into commercial operation of the interconnection with France** through the eastern Pyrenees; a project that represented a huge technological challenge and that doubles the exchange capacity with the European system.
- **Commissioning of the Majorca-Ibiza interconnection** to strengthen the electricity integration of the Balearic Islands and guarantee the reliability of the supply.
- **Commissioning of more than 1,600 km of new line** and more than 300 new substation bays in the period 2014-2016.
- **Incorporation into the entity called CORESO** (COoRdination of Electricity System Operators) the coordinating body for regional security, composed of several European TSOs, to promote greater and improved coordination between operators in order to maintain the security of the European electricity system.

ELECTRICAL INTEGRATION



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

Greater reliability of supply

2014-2016 PERIOD

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

Efficiency

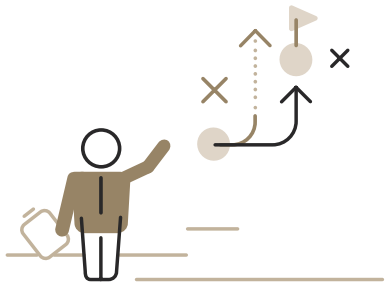
The Company has started a process for the analysis and revision of processes, seeking to improve current levels of efficiency. This approach requires the promotion of a corporate management and culture focused mainly on the optimisation of construction and maintenance activities, which have the greatest economic and financial impact, and the continuous improvement at an operational and process level. Achieving greater efficiency will help to mitigate the impact of the lower profitability of new investments in accordance with the new remuneration model, generating value through the improvement of operating margins.

Execution of the Plan in the 2014-2016 period

- **Optimisation of financing** through the repurchase of bonds.
- **Refinancing REDESUR** through a bond issue in Peru.
- **Defining a framework** for relations between the companies of the Group and the different management areas of Red Eléctrica de España to act as the foundations on which to build the pillars for growth and the diversification of the Company.
- **Identification of efficiency levers** to improve margins.
- **Containment** of operating and structural costs.

Expansion of the business base

The current economic and energy context brings with it a lower growth scenario from the Company's main activity, which means having to consider expanding the business base, both in Spain as well as internationally, in order to drive growth in the coming years. This strategy includes the development of regulated activities other than current and non-regulated activities in the field of telecommunications and infrastructure management, as well as expansion in other geographical areas.



Execution of the Plan in the 2014-2016 period

- **Commissioning** of the Tintaya-Socabaya line in Peru in May 2014.
- **Transfer and commercial operation** and management of the ADIF dark fibre optic network for a period of 20 years, making Red Eléctrica the neutral operator of reference for fibre optic networks in Spain.
- **Creation of Red Eléctrica Infraestructuras de Telecomunicación** (REINTEL) wholly owned by Red Eléctrica Corporación.
- **Signing of the agreement for the transfer** of the Soria-Chira pumped-storage power station project. The permitting process for the project began in 2016.
- **Creation of Red Eléctrica Infraestructuras en Canarias** (REINCAN), the new subsidiary wholly owned by Red Eléctrica Corporación, which will manage the construction of facilities for energy storage on the Canary Islands.
- **Concession contract awarded to Red Eléctrica Internacional** for the 220 kV Azángaro-Juliaca-Puno line in Peru.
- **Corporate restructuring** of the subsidiaries in Peru.
- **Acquisition of 50 % of the share capital** of Transmisora Eléctrica del Norte (TEN), to participate in the construction and commercial operation of the Mejillones-Cardones line in Chile.
- **Awarding of the concession** contract for the Montalvo-Los Héroes line in Peru.
- **Progress made in the construction of the facilities** associated with the Peruvian and Chilean concession contracts, with the TEN project being the most relevant and whose commissioning is foreseen in 2017.

CROSS-CUTTING STRATEGIES

Innovation

Innovation as a strategy implies a cultural change, which is not limited only to the activity of R&D+i. Therefore, innovation is presented with a greater scope, being an integral part of the operational process and boosting technological development as a lever for growth that will make it possible to respond to the great challenges of the future.

Execution of the Plan in the 2014-2016 period

- **Development of various R&D+i projects** aimed at improving system efficiency, the integration of renewables and energy storage, noteworthy among which are the following:
  - **Installation of a flywheel** in Lanzarote.
  - **Installation of a large-scale energy** storage battery in the Carmona substation (ALMACENA project).
  - **Implementation of the PRICE project** for the deployment of demand-side management measures.
  - **Completion of the ESP-Líder project** (re-directing of power flows) of the INNPACTO programme.
- **Development of European projects:** BEST PATHS (integration of massive amounts of renewable energy) and MIGRATE (improvement of the behaviour of the electricity system with high penetration of devices based on power electronics).
- **Approval of a new innovation strategy focused mainly on four vectors:** digitalisation, people, sustainability and technology.
- **Obtaining the 2016 PDU 'Transfer Technology Award' awarded by EPRI** in the field of research for the analysis of the integration and impact of energy storage in electricity systems.

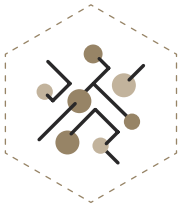
People

Red Eléctrica is committed to a healthy workplace that is conducive to the organisation of work and well-being of employees, enabling the optimisation of resources and boosting talent in order to face the challenges of the Company.

Execution of the Plan in the 2014-2016 period

- **Design of a comprehensive talent management model** with the aim of standardising training and development systems and knowledge management.
- **Creation of Bench Strength** and the promotion of quality of the associated programmes, in collaboration with prestigious business schools.
- **Implementation of the LIDERAT training programme** for the management team.
- **Definition of** criteria and metrics regarding functional and geographical mobility.
- Publication of the first **Healthy Workplace Annual Report.**

NEW INNOVATION STRATEGY 2016



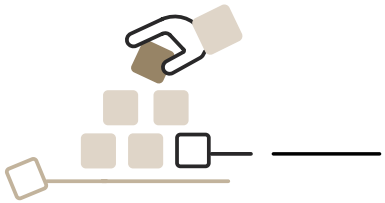
FOCUSED ON **FOUR VECTORS:** DIGITALISATION, PEOPLE, SUSTAINABILITY, TECHNOLOGY

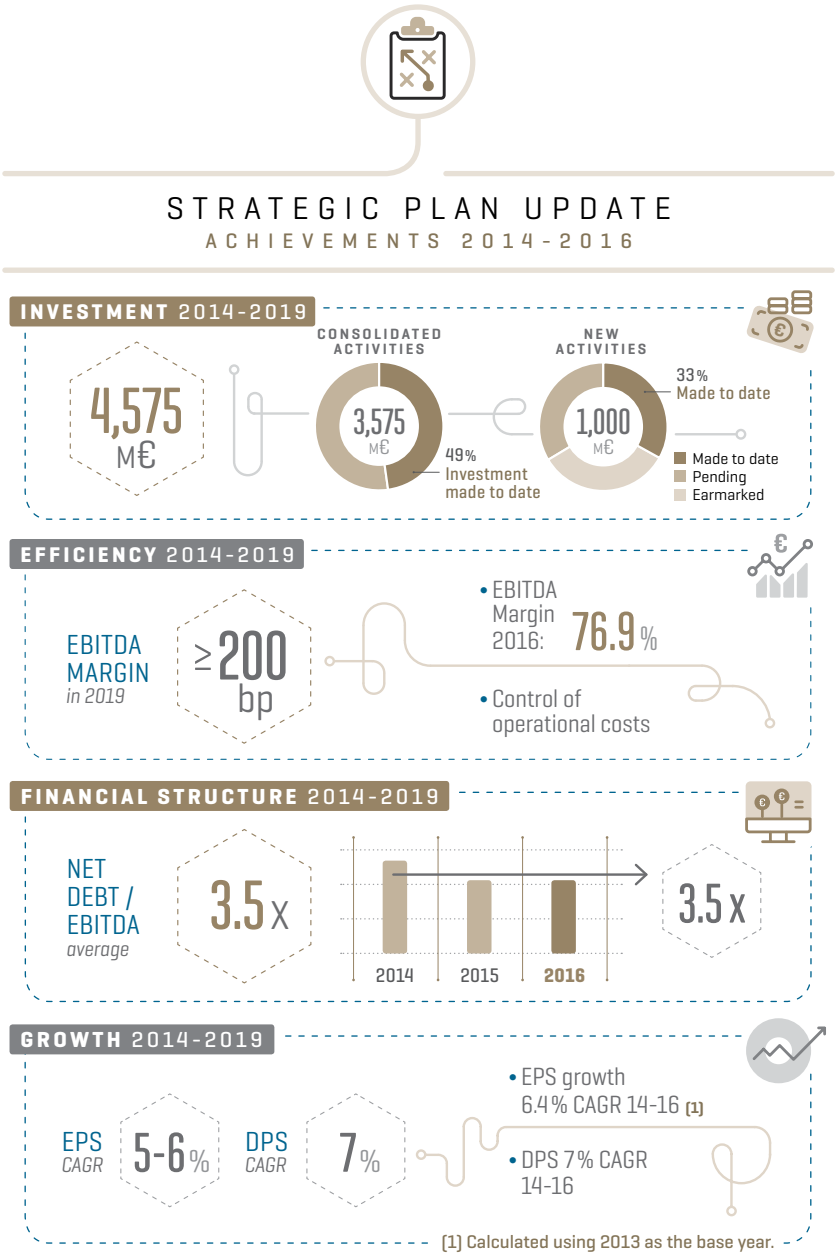
Excellence

At an excellence level, the objective of the Strategic Plan is that the Company maintain its current benchmark position, while strengthening the active management of corporate reputation and brand and the communication with stakeholders, maintaining the goal of consolidating itself as a sustainable company, through an ethical and committed management to society and developing an approach based on excellence and corporate responsibility.

Execution of the Plan in the 2014-2016 period

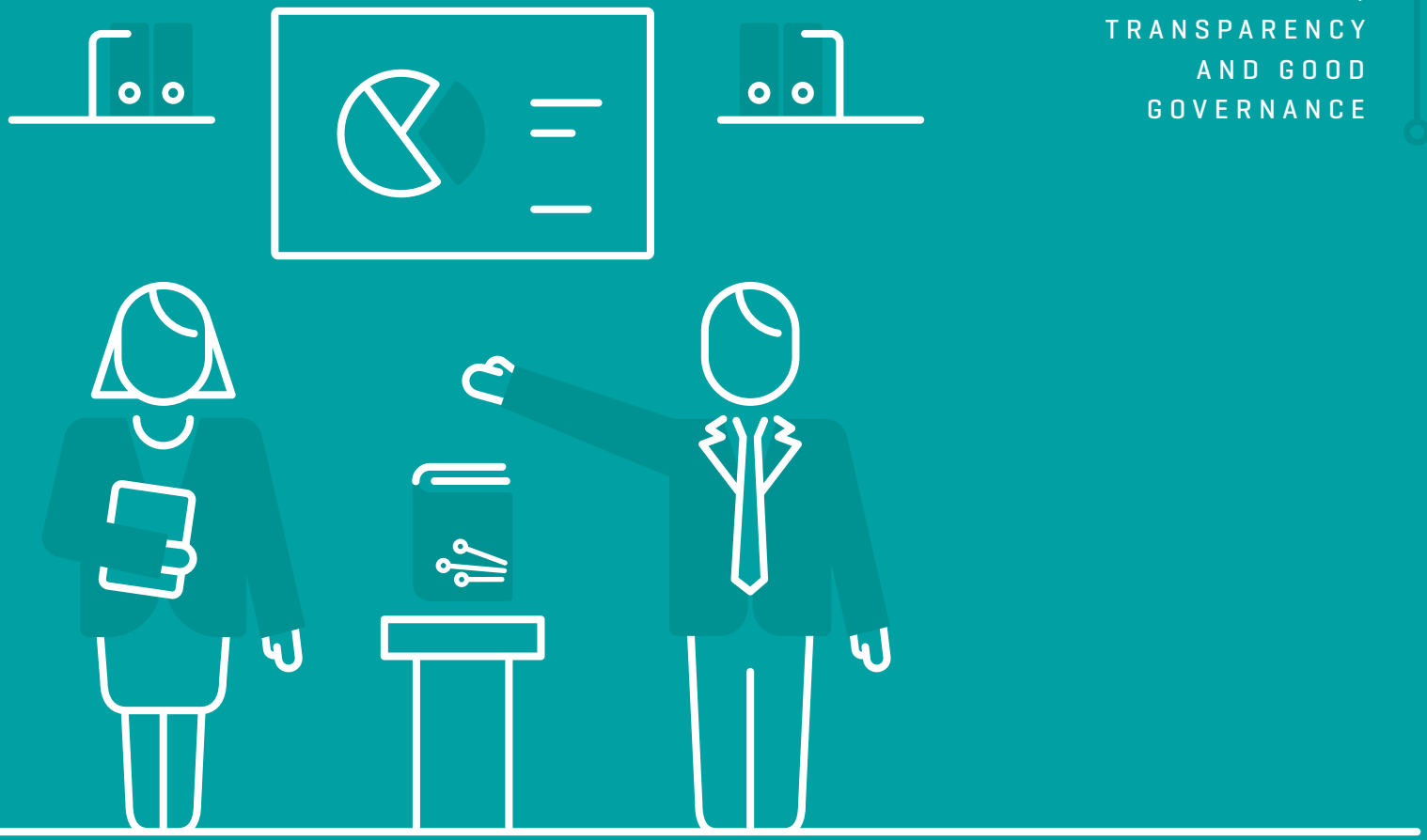
- **Approval of** the Company's first Corporate Governance Policy.
- **European environmental award** for the Company in the special category of Business and Biodiversity.
- Sustainable **mobility plan.**
- **Approval of the Climate Change Action Plan** for the period 2015-2020.
- **Implementation of the LBG** (London Benchmarking Group) methodology to measure the Company's social contribution.
- **Completion of the process of separation** of the executive functions and duties corresponding to the CEO, from those of control and supervision corresponding to the Chairman.
- **Obtaining +700 points in the evaluation of the EFQM model,** a level that few companies in Europe have.
- **Consolidation in** the DOW JONES Global and European sustainability indexes.
- **Obtaining the 'Top Performer' recognition** in the sustainability assessment carried out by Vigeo Eiris.
- **Incorporation into** the carbon footprint registry.





03 CORPORATE GOVERNANCE

CONNECTED TO ETHICS, INTEGRITY, TRANSPARENCY AND GOOD GOVERNANCE

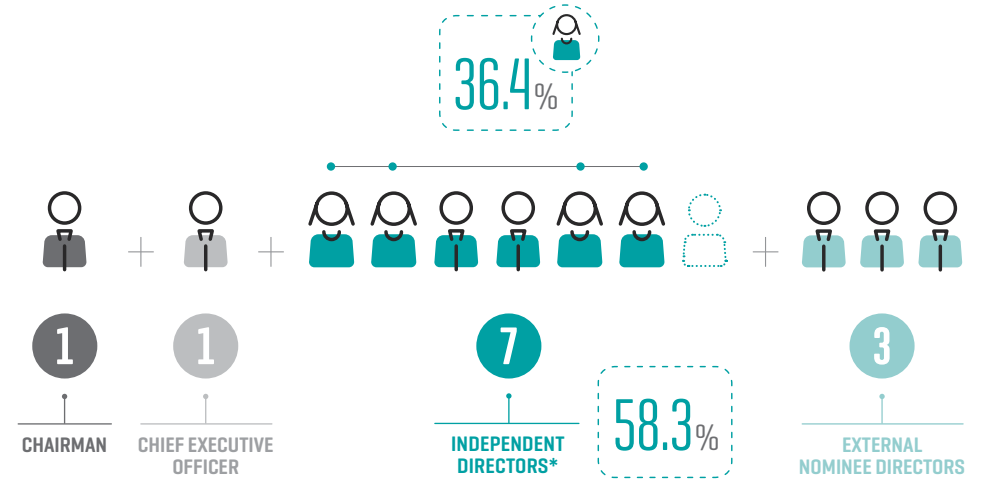


GOVERNANCE STRUCTURE OF THE COMPANY

G4-34 / G4-38

GENERAL SHAREHOLDERS' MEETING

BOARD OF DIRECTORS / AS AT 31 DECEMBER 2016



APPOINTMENTS AND REMUNERATION COMMITTEE*

CHAIRWOMAN
Female lead independent director

INDEPENDENT DIRECTORS

AUDIT COMMITTEE

CHAIRMAN
Independent director

INDEPENDENT DIRECTORS

* As at 31 December 2016 there was one post vacant for an independent director.

GOOD GOVERNANCE OF THE COMPANY

From the outset, Red Eléctrica has maintained a constant and firm commitment to adopting best corporate governance practices.

This is made possible not only by complying with the applicable legal regulations and the most widespread national and international recommendations on the subject but also by voluntarily implementing a series of measures and initiatives targeted at the core of the most important issues regarding good governance of the Company, and which are of most concern and are demanded by shareholders, investors and the markets.

Noteworthy actions in 2016

- Culmination of the process for the **separation of the positions** of Chairman of the Board and Chief Executive Officer (CEO).
- Publication on the website of an interactive version of the **corporate governance story** of the Company since it went public.
- Approval of the **criteria for communication with shareholders,** institutional investors and proxy advisors, in order to promote their commitment to these through open, transparent and sustainable dialogue.
- Recognition as the **best European Utility in Corporate Governance in 2016,** by the prestigious English publication 'Ethical Boardroom Magazine'.
- Red Eléctrica is **included again in the Dow Jones Sustainability Index** (DJSI), with a high score in the section on Corporate Governance.
- **Dissemination and communication actions** for our stakeholders on corporate governance matters.
- Modification of the **Regulations of the Board of Directors** following the separation of the positions of Chairman and Chief Executive Officer to incorporate the most recent recommendations in corporate governance.
- Implementation of the new **Compliance System.**
- **Updating of** the Comprehensive Risk Management Policy.

Internal rules of governance / 31 December 2016

- **Code of** Ethics.
- Corporate **By-laws.**
- Regulations of the **General Shareholders' Meeting.**
- Regulations of the **Board of Directors.**
- Internal Code of Conduct **on the Securities Market.**
- Procedure on proxies, **voting and information by remote means** at the General Shareholders' Meeting.
- Operating Rules of the **Shareholder Electronic Forum.**
- **Succession Plan for the Chairman** of the Company.
- **Corporate Governance** Policy.
- **Criteria for communication** with shareholders, institutional investors and proxy advisors.

RECOGNITION
2016

EUROPEAN UTILITY WITH THE BEST CORPORATE GOVERNANCE

By the prestigious publication 'Ethical Boardroom Magazine'

IN 2016

Publication on the website of an interactive version of the corporate governance story of the Company since it went public.

CORPORATE SHAREHOLDING STRUCTURE

As at 31 December 2016, the Company's share capital was comprised of 541,080,000 fully subscribed and paid-up shares belonging to a single class and series, each with a par value of 0.5 euros, represented by book entries and listed on the four Spanish stock exchanges.

The entry into force of Law 17/2007, of 4 July, introduced a series of legal limitations on participation and voting rights applicable to the Company's shareholders, with the aim of guaranteeing the independence of the Company vis-a-vis all other electricity sector activities and agents.

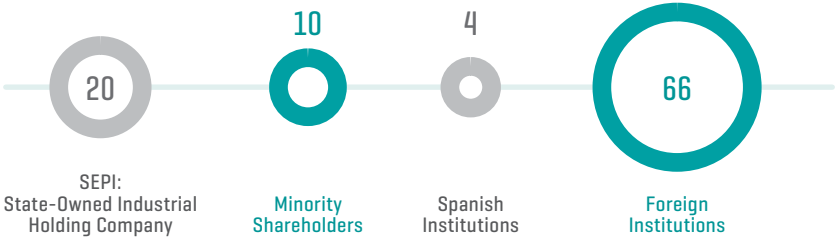
In this regard, the following limits were established:

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they do not hold more than 3% of the voting rights.
- Parties that engage in activities in the electricity sector, and those individuals or legal entities that directly or indirectly hold more than 5% of its capital, may not exercise more than 1% of the voting rights in the Company.
- The special regime for the State Industrial Holding Company (SEPI) is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

In 2016, the equity of the Company was comprised of a 20% shareholding owned by SEPI, with the remaining 80% being free float.

SHAREHOLDER STRUCTURE

%



STOCK SPLIT IN 2016

4

NEW SHARES FOR EACH OLD ONE

Changing its nominal value from 2 euros to 0.5 euros per share

IN 2016

The shareholding structure of the Company was 20% owned by SEPI and 80% was free float.

The Company pays special attention to the right to information and shareholder participation via the corporate website and the implementation of electronic voting.

General Shareholders' Meeting

The General Shareholders' Meeting represents all shareholders and exercises the duties assigned to it as the governance body of the Company. The rules on the organisation and functioning of the General Shareholders' Meeting are set out in the Corporate By-laws (Articles 11 through 18 inclusive) and in the Regulations of the General Shareholders' Meeting.

Guarantees and rights of attendance

These are regulated in Red Eléctrica's Corporate By-laws and in the Regulations of the General Shareholders' Meeting. The most relevant aspects related to the rights of attendance, proxy and the right to information are the following:

- No minimum number of shares required to attend the Meeting.
- Representation by proxy at the Meeting by any person, without having to be a shareholder.
- Separate voting on each matter submitted for approval at the Meeting.

PERCENTAGE OF ATTENDEES AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING %

% over share capital.

AVERAGE PERCENTAGE OF VOTES

90.5 %

OF VOTES IN FAVOUR OF THE APPROVAL OF AGREEMENTS

In the Annual Ordinary General Shareholders' Meeting 2016

In the 'General Shareholders' Meeting' subsection of the 'Corporate Governance' section of the corporate website.

- External audit of the management processes of the General Shareholders' Meeting.
- Vote certification.

Transparency and participation

The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate By-laws and in the Regulations of the General Shareholders' Meeting, which also facilitates the maximum participation of shareholders. Some of the key mechanisms are:

- Implementation of the electronic voting system at the General Shareholders' Meeting since 2005.
- Section on the corporate website with complete information regarding the General Shareholders' Meeting.
- Live broadcast of the Meeting via Internet, with simultaneous translation in English and sign language in Spanish.
- Shareholders' Electronic Forum.
- Dissemination via social networks.
- Shareholders and investors office.

Board of directors / G4-38

The Board of Directors administers, manages and represents the Company, without prejudice to the powers that correspond to the General Shareholders' Meeting. It carries out its duties and responsibilities according to the rules of organisation and operation contained in the Corporate By-laws and the Regulations of the Board.

The responsibilities of the Board of Directors can be summarised as follows:

- Approval of the general policies and strategies of the Company and the Group, with a special mention for the risk management control policy.
- Decisions on the appointment of senior-level directors, remuneration of board members, financial reporting, strategic investments (except those that correspond to the General Meeting), the creation or participation in special purpose entities or those registered in tax havens and authorisation of related-party transactions.
- Annual assessment of the quality and efficiency of the Board and the performance of its Committees.

Balance of powers

Red Eléctrica establishes in its Corporate Governance Policy the essential guideline to preserve an adequate balance and proportionality in the powers inherent to the Board of Directors' structure and composition, by adopting the necessary measures to enable action with unity of purpose and impartiality, pursuing the Company's interests and those of its shareholders, as well as the sustainability of the Company.

REDUCED AND BALANCED BOARD

12 MEMBERS

1 Chairman

1 Executive board member

7 External independent directors

3 External nominee directors

* As at 31 December 2016 there was a post vacant for an independent director.

DIVERSITY ON THE BOARD

36.4 %

FEMALE BOARD MEMBERS

5.6 % less compared to 2015

IBEX 35 AVERAGE: 15.6 % (CNMV. 2015 data)

BOARD OF DIRECTORS

36.4 %

WOMEN

Out of a total of 12 members

Separation of the positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) / G4-39

Responding to the commitment undertaken by the Company's Chairman at the General Shareholders' Meeting held in April 2012, and its commitment to best international practices in corporate governance, the Board of Directors of Red Eléctrica submitted the separation of the positions of Chairman of the Board and CEO of the Company, as well as the appointment of Juan Lasala Bernad as executive board member, for approval by the General Shareholders' Meeting at its extraordinary session, held on 17 July 2015 and convened solely for this purpose. Both proposals received a favourable vote of 99% of shareholders, with an attendance figure of 58%. The Board of Directors at its meeting on 28 July 2015, appointed Juan Lasala Bernad as the new CEO of the Company.

LEAD INDEPENDENT DIRECTOR

SINCE 2013

RECOGNISED BY SHAREHOLDERS AND PROXY ADVISORS

As a figure of efficient corporate governance

SEPARATION OF POWERS

The separation of functions between the Chairman of the Board of Directors and that of CEO culminated at the General Shareholders' Meeting of 2016 with the full separation of powers.

In order to complete the process for the separation of powers, a transition phase was established which culminated at the Annual Ordinary General Shareholders' Meeting in 2016, with the full separation of the duties of the Chairman of the Board and the Chief Executive Officer. As of said Meeting, the Chairman of the Board of Directors has been attributed exclusively the responsibilities inherent to said position.

Until the Annual Ordinary General Shareholders' Meeting 2016, the Chairman maintained his executive powers, focusing his efforts on managing, supporting and fostering the transfer of executive powers to the new CEO in order for said transfer to take place in a rational and organised manner during the transition phase. Therefore, the CEO took on executive duties as of the date of his appointment.

Moreover, the figure of the lead independent director created in 2013 has remained unchanged. This figure, along with the responsibilities assigned to it, is recognised by shareholders and proxy advisors as an effective corporate governance practice.

The separation of powers responds to the commitment undertaken by the Chairman and best international practices regarding corporate governance matters.

BOARD OF DIRECTORS / AS AT 31 DECEMBER 2016

CHAIRMAN

José Folgado Blanco

CHIEF EXECUTIVE OFFICER

Juan Lasala Bernad

EXTERNAL NOMINEE DIRECTORS (SEPI)

Fernando Fernández Méndez de Andés
Member of the Audit Committee

Santiago Lanzuela Marina
Member of the Audit Committee

José Ángel Partearroyo Martín
Member of the Appointments and Remuneration Committee

GENERAL COUNSEL AND SECRETARY OF THE BOARD

Rafael García de Diego
Non-Board Director

EXTERNAL INDEPENDENT DIRECTORS*

Antonio Gómez Ciria
Member of the Audit Committee

Mª Ángeles Amador Millán
Member of the Appointments and Remuneration Committee

Carmen Gómez de Barreda Tous De Monsalve
Chairwoman of the Appointments and Remuneration Committee and Independent Lead Director

José Luis Feito Higueruela
Chairman of the Audit Committee

María José García Beato
Member of the Audit Committee

Socorro Fernández Larrea
Member of the Appointments and Remuneration Committee

* As at 31 December 2016 there was one post vacant for an independent director.

More about the structure and composition of the Board of Directors in the Annual Corporate Governance report 2016 in the 'Corporate Governance' section of the corporate website.

On an annual basis, the Appointments and Remuneration Committee **prepares a report regarding gender diversity** that is submitted to the Board for approval.

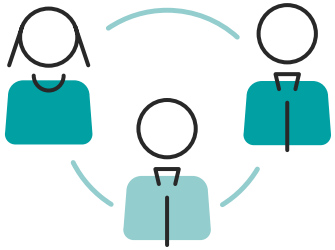
Audit committee

The Audit Committee is assigned, among other functions, those of providing support to the Board in its role as monitor of the process for the drafting of financial information, internal control of the Company and independence of the external auditor. It also monitors compliance with the legal provisions and internal regulations and those relating to the shareholders of the Company, along with those powers which the Board of Directors expressly attributes to said Committee.

During 2016, the Committee held 11 meetings, with no absences or delegation of powers by its members having been registered.

Appointments and remuneration committee

This Committee has powers assigned to it regarding the appointment and removal of board members and senior executives, their remuneration, the fulfilment of their duties as administrators and their respect for the principles and rules of corporate governance and the Corporate Responsibility Policy. In addition, on an annual basis, it prepares a specific report on gender diversity that is submitted to the Board for approval.



During 2016, the Appointments and Remuneration Committee held 13 meetings, with three (3) absences having been registered.

Delegation of economic, social and environmental matters

/ G4-35 / G4-36 / G4-42

The policy of the Board is to delegate the general management of the Company and of Red Eléctrica de España, S.A.U., to the executive bodies and the management team of the Company and of Red Eléctrica de España, S.A.U., and focuses its activity on the general supervision and approval of the essential guidelines for action.

On this basis, the Office of the Chief Financial Officer is conferred overall responsibility for economic matters, while responsibilities regarding social and environmental issues are distributed between the Assistant Corporate Director to the CEO and the areas responsible for Corporate Resources, Corporate Management of Sustainability, Innovation and Institutional Coordination.

BOARD OF DIRECTORS

AUDIT COMMITTEE

11

MEETINGS

APPOINTMENTS AND REMUNERATION COMMITTEE

13

MEETINGS

The directors of these divisions are part of the Executive Committee, chaired by the Chief Executive Officer, as well as the Management Committee, headed by the Company's Chairman, which ensure direct dialogue with the Board of Directors. In addition, they report periodically to the Board to provide information on matters within the scope of their responsibilities.

Dialogue between stakeholders and the highest governance body

/ G4-37 / G4-49 / G4-50

One of the principles underlying the Corporate Governance Policy of Red Eléctrica and that serves as a benchmark for the performance of the Company in its relations with its stakeholders is: to consolidate, develop and nurture symmetrical mechanisms of dialogue and engagement with shareholders, investors and key stakeholders to improve relationships, increase commitment and strengthen their confidence.

In application of this principle, Red Eléctrica strives to fulfil the demands of institutional shareholders, given their noteworthy presence in the Company's shareholding, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relationship with them, increase commitment and strengthen their trust, without negeclting the guarantees and equal treatment enjoyed by other shareholders.

CONSULTATION MECHANISMS

WITH STAKEHOLDERS PROVIDE HOMOGENOUS AND SYSTEMATISED INFORMATION

And foster dialogue between the Company and shareholders and investors

Similarly, in application of this principle, Red Eléctrica undertakes the commitment to provide its shareholders homogeneous and systematised information to show that environmental, social and good corporate governance targets are part of the Company's social interest.

Besides the direct communication channels indicated in the 'Transparency and Participation' section of this report, and detailed in the Annual Corporate Governance Report and in the Regulations of the Board (Articles 39-44), the highest governance body has access to other consultation mechanisms with stakeholders among which the following are noteworthy:

- Consultation and grievance system of the Code of Ethics.
- Social representation/committees.
- Stakeholder satisfaction reports.
- DÍGAME Service.

During 2016, there have not been any relevant issues stemming from the management reports of such channels that required their submission to the Board.

Approval of the criteria for communication with shareholders and institutional investors and proxy advisors, to promote open, transparent and sustainable dialogue.

Selection of board members / G4-40

The system used for the selection, appointment and re-election of members of the Board of Directors is expressly governed by the Corporate By-laws and the Regulations of the Board.

Red Eléctrica applies the principle set out in its Corporate Governance Policy approved in December 2014 in order to ensure that appropriate procedures exist to select Board members, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its duties and responsibilities.

To this end, when evaluating candidates participating in the selection process, the procedure considers, at all times, any competences, experience, professionalism, suitability, gender, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors; a process in which the Appointments and Remuneration Committee plays a relevant role.

The appointment and removal of directors and the ratification, where appropriate, of the appointments by co-optation, corresponds to the General Shareholders' Meeting.

Conflicts of interest / G4-41

Regarding the Board members, Article 32 of the Regulations of the Board establishes the possible conflicts of interest and the procedures to be followed in such conflicts. Furthermore, the Annual Corporate Governance Report 2016 details the mechanisms put in place to detect and resolve possible conflicts of interest between Red Eléctrica and its Board members, management team and relevant shareholders.

The selection of board members is undertaken guaranteeing the balance and diversity within the Board of Directors.

BOARD **REGULATIONS**

ARTICLE 32

REGULATES THE DUTY OF AVOIDING SITUATIONS WITH A POSSIBLE CONFLICT OF INTEREST

And the action guidelines to be followed when faced with such conflicts

BOARD MEMBER ASSESSMENT

Carried out annually with the support of independent external advisors. Conclusions are published in the Annual Corporate Governance Report.

Assessment of the competencies and performance of the board / G4-43 / G4-44

For years now, Red Eléctrica has been applying the principle of conducting an annual assessment of the functioning and performance of the Board of Directors, the Chairman of the Board, the Chief Executive Officer of the Company and the Board's Committees, ensuring that support is received from independent external advisors. The process is carried out under the management of the Appointments and Remuneration Committee in coordination with the lead independent director, and a summary of its main conclusions is voluntarily included in the Annual Corporate Governance Report.

The remuneration policy of the Board of Directors **is based on the principle of moderation and includes performance incentives** whose monetary value would, in no way, have an influence on the independence of the board member.

In terms of knowledge development, Article 26 of the Regulations of the Board of Directors of Red Eléctrica establishes that the Company will have an information programme that quickly provides new board members with adequate knowledge about the Company and its corporate governance rules, and shall also offer programmes for board members to update their knowledge when circumstances deem it appropriate.

Periodically, internal information programmes on national and international trends in Corporate Governance may be established.

One of the tools that has contributed to increasing the efficiency of the Board and its Committees has been the Intranet tool for Board members, in which relevant information is published, such as the minutes of the meeting held by the Board and its Committees, as well as corporate information of interest regarding economic, social and environmental matters.

Remuneration of the board
/ G4-51 / G4-52 / G4-53

The Company applies the principle of maintaining a remuneration policy for the Board of Directors based on the principles of moderation, relationship with its effective dedication, alignment between the strategies and long-term interests of the Company, its shareholders and other stakeholders, including performance incentives whose monetary value would, in no way, have an influence on the independence of the board member.

To do this, the Company carries out comparative analyses with other comparable companies and permanent contact is maintained with its shareholders and proxy advisors. As a result of this analysis and the market study carried out by the Company, with the support of an international consultant, in 2014 a new remuneration structure was established that replaced the variable remuneration part with that of fixed remuneration, with the variable component of the remuneration of the external board members being completely removed. Only the remuneration of the executive board director also includes variable remuneration elements linked and aligned with the short and long-term objectives of the Company. The remuneration of the Board was approved by a large majority at the General Shareholders' Meeting of 2016.

BOARD MEMBER
INTRANET

PUBLISHES
RELEVANT INFORMATION

Regarding corporate, economic, social and environmental aspects

REMUNERATION STRUCTURE

As of 2014 the remuneration of external board members no longer includes variable components.

Noteworthy aspects of Board Remuneration

Since 2010, Red Eléctrica has voluntarily submitted the Annual Report on Remuneration of board members and, since 2007, the annual remuneration of the Board of Directors, to the approval of the Ordinary General Shareholders' Meeting, as separate and independent items on the Agenda of the General Meeting. Therefore, proposals and reports on these matters are submitted to shareholders for approval, with the decision being binding.

In 2016, this same course of action was continued and both the remuneration of the Board of Directors for 2016 and the Annual Report on Remuneration of board members were submitted to the shareholders' approval (binding vote) as separate and independent items of the Agenda of the Ordinary General Shareholders' Meeting. In this way, Red Eléctrica Corporación SA has continued to align itself with the best practices of corporate governance, which aim to provide shareholders with sufficient autonomy and independence of criteria to vote individually and separately on each of the agreements, of a diverse nature, which correspond to the competence of the General Shareholders' Meeting.

ANNUAL REMUNERATION REPORT

SINCE 2010
SUBMITTED TO THE SHAREHOLDERS' APPROVAL

By means of a binding vote

SHAREHOLDERS' VOTE

The Company aims to provide shareholders with autonomy and independence of criteria to vote individually and separately on each agreement.

Any decision regarding the remuneration of board members is voluntarily submitted for approval at the General Shareholders' Meeting.

Principles of the remuneration policy

The Remuneration Policy of board members, approved by the Annual Ordinary General Shareholders' Meeting held on 15 April 2015, amended in the Meeting held on 15 April 2016, is based on the following general principles:

- Balance and moderation.
- Alignment with practices demanded by shareholders and investors.
- Transparency.
- Voluntary submission of any decision regarding remuneration of board members for approval at the General Shareholders' Meeting.

Regarding the remuneration of the CEO, the following principles have been established:

- Alignment of the CEO's remuneration policy with the Company's strategy.
- Maintaining a reasonable balance between the various components of fixed (short-term) and variable (annual and long-term) remuneration reflecting adequate risk-taking combined with the achievement of defined objectives linked to the creation of sustainable value.
- Alignment with the remuneration established by comparable companies.

Regarding the remuneration of the non-executive board members, the following principles have been established as per their status as members of the Board Directors:

- Related to effective dedication.
- Linked to the responsibility and the development of their duties as board members.
- Absence of variable remuneration components in the interest of their total independence from the remuneration of executive board members and the management team.
- Performance incentives whose monetary value would, in no way, have an influence on the independence of the board member.

The remuneration of the CEO reflects the combination between the assumption of risks and the achievement of set goals, linked to the creation of sustainable value.

EXECUTIVE BOARD DIRECTOR AND DIRECTORS' REMUNERATION

INCORPORATES **ESG** CRITERIA

Relating to corporate, economic, social and environmental matters

It should be noted that from 2015, Red Eléctrica Corporación has incorporated ESG criteria (Environmental, Social and Good Corporate Governance) for the calculation of the variable remuneration of the CEO and the senior management team.

Detailed information regarding the remuneration of the Board can be found in the Annual Report on remuneration of board members and in the remuneration policy of the Board of Directors for 2016. Said information is available in the Corporate Governance section of the corporate website and in the sub-section related to the General Shareholders' Meeting to be held in March 2017.

RISK MANAGEMENT / G4-14

The Comprehensive Risk Management Policy **identifies the risk categories, defines the acceptable risk level and sets out the action guidelines** to manage and mitigate said risks.

The Red Eléctrica Group has a Comprehensive Risk Management System established whose objective is to ensure that the risks, which could affect the strategies and objectives of the Group, are systematically identified, analysed, assessed, managed and controlled with uniform criteria and within the established risk limits, so as to facilitate the fulfilment of the Group's strategies and objectives.

This system has a Comprehensive Risk Management Policy and a General Procedure for the comprehensive control and management of risks, approved by the Board of Directors and the Management Committee respectively, which are based on the Comprehensive Framework for Corporate Risk Management COSO II (Committee of Sponsoring Organisations of the Treadway Commission).

The Comprehensive Risk Management Policy and the General Procedure for Comprehensive Risk Management and Control have been updated in November 2016. In addition, the Comprehensive Risk Management System conforms to the ISO 31000 standard on principles and guidelines on risk management.

Comprehensive risk management policy

The Comprehensive Risk Management Policy identifies the different risk categories, defines the risk level that the Company considers acceptable and sets out the action guidelines to manage and mitigate said risks. The Policy for the control and management of tax risks is integrated into this policy, incorporating action guidelines for the management and mitigation of these types of risks.

COMPREHENSIVE RISK MANAGEMENT SYSTEM

CONFORMS TO THE **ISO 31000** STANDARD

Regarding principles and guidelines on risk management

IN 2016

The Comprehensive Risk Management Policy and the General Procedure for Comprehensive Risk Management and Control have been updated.

This policy is fully aligned with the Strategic Plan of the Group and is available on the corporate website in the 'Corporate Governance' section.

Procedure for the comprehensive management and control of risks

This procedure regulates the process for the identification, analysis, assessment, valuation and management of significant risks which the Group faces.

Said procedure establishes the purpose, responsibilities, activities and tasks associated to the Comprehensive Risk Management System.

This process is undertaken in order to ensure that different levels of responsibility of the Group understand and appreciate the risks that threaten the Group's strategies and objectives, and that their management takes them into account, and is carried out within the established acceptable risk levels.

The Risk Management System is comprehensive, to the extent that all units of the Group and the different governing bodies participate in it.

RISK MANAGEMENT AND CONTROL PROCEDURE

REGULATES

THE PROCESS FOR THE IDENTIFICATION, ANALYSIS, ASSESSMENT, CONTROL MANAGEMENT OF RELEVANT RISKS

Determines the object and the activity of the Comprehensive Risk Management System

ON THE CORPORATE WEBSITE

The Comprehensive Risk Management Policy is included in the 'Corporate Governance' section.

Organisational structure

The Risk Policy and Procedure define the different responsibilities of the governing bodies and those of each of the organisational units, as well as defining the flow of information and the activities to be undertaken by the various bodies (see organisational chart).

The risk management system is comprehensive, to the extent that all units of the Group and the different governing bodies participate in it, within a systematised management process, in accordance with the guidelines and criteria established in the Procedure and Policy for comprehensive risk management and control.

RISK MANAGEMENT ORGANISATIONAL DIAGRAM / G4-45 / G4-46 / G4-47

Board of Directors
Audit Committee

- Approve the **Comprehensive Risk Management Policy of the Group.**
- Approve the **criteria of the acceptable risk level.**
- **Periodic monitoring of the efficiency** of the comprehensive risk management system.

Management Committee

- Monitoring of the **significant risk map.**
- Ensure the **adequate control and monitoring of the management of risks** and action plans for their mitigation.

GUIDELINES ↓ ↑ **INFORMATION**

Internal Audit and Risk Control Area

- **Support organisational units** of the Group in the implementation of the procedure for the comprehensive management and control of risks.
- Control that **risks are managed within the acceptable risk level** set and in accordance with the principles and guidelines set out in the Comprehensive Risk Management Policy.
- **Monitor the Group's risk level** and the evolution of the Group's risks.
- **Ensure information on risks flows to the bodies responsible for their control** and from these to the units responsible for the management of the corresponding processes or projects.

+

Organisational units responsible for processes or projects

- **Identify and report to the Internal Audit and Risk Control Area on the appearance of new significant risks,** or relevant changes in risks already identified, that may affect the activities, processes and projects managed.
- **Evaluate significant risks** with the support of the Internal Audit and Risk Control Area and manage such risks.
- **Manage the activities, processes and projects in accordance with the acceptable risk level set.** Design and execute, if deemed necessary, action plans to take the risks to the corresponding acceptable level, maintaining them at said level. Carry out said management in accordance with principles and guidelines established in the Comprehensive Risk Management Policy.

Management system / G4-2

The risk management system of the Red Eléctrica Group defines a methodology for determining the level of acceptable risk. This level of acceptable risk is established both at an individual level, for each risk, and globally.

Risk assessment is performed based on two parameters: the probability of the risk occurring and the impact on the Company should it materialise. The probability of occurrence is classified into five levels defined by means of intervals. As for the impact, risks are assessed in terms of the effect their materialisation can have on four key business elements:

- **Electricity supply:** measured by the Energy Not Supplied (ENS) that would result in the possible event taking place.
- **Achievement of the essential strategies:** degree of impact on the achievement of the essential strategies.
- **Reputation:** degree of impact on the reputation (geographical scope, duration and reparability).
- **Economic loss:** impact on the income statement before Corporate Tax.

For each of these four elements, the Red Eléctrica Group has defined a table with five levels of effect or impact. In the case of electricity supply and economic loss, assessment is quantitative (MWh and euros), while in the case of essential strategies and reputation it is qualitative.

The combination of these two parameters in the probability and impact matrix automatically determines the risk level, this may be low, medium or high.

Acceptable risk at an individual level

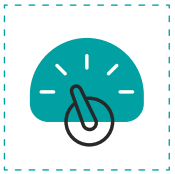
The individual acceptable level defined by the Red Eléctrica Group only considers admissible those risks whose assessment, according to the aforementioned matrix, is considered of low level. According to the risk policy, any risk that exceeds this acceptable level, shall be the target of actions to achieve said value, in as far as the risk be manageable, and the costs of the measures for its mitigation be justifiable, owing to the possible impact that the materialisation of the risk may have on the Group.

Acceptable risk at an overall level

In 2016, the Board of Directors approved the determination of the overall level of acceptable risk that the Group is willing to assume for each of the four types of impacts previously mentioned, and that are contemplated within the Comprehensive Risk Management System.

As general criteria for the management of risks, the overall aggregate level of risk of the Group, determined as a result of the statistical aggregation of the individual risks, shall not exceed this acceptable risk at an overall level.

RISK ASSESSMENT



TWO PARAMETERS

Probability of risk occurring

Impact its materialisation can have

RISK ANALYSIS

In this fiscal period a risk analysis methodology was developed regarding project management.

Red Eléctrica has **specific action plans and other mechanisms** to mitigate or reduce risk levels.

Response and monitoring plans

In the process of identification, analysis, assessment and control of risks, referred to previously, the actions required to reduce the degree of risk to an acceptable level are established.

For the monitoring of risks, the current risk management system includes the monitoring of over 500 action plans that seek to reduce the level of risk, and more than 300 indicators to monitor their progress.

The Internal Audit and Risk Control Area reviews, together with the management units, the evolution and effect of the Action plans previously established to reduce risk. This is done on a half-yearly basis for high-level risks and others of particular relevance, annually for other risks and on and ad-hoc basis for other specific risks.

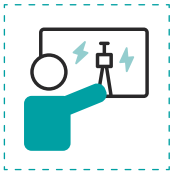
Moreover, the processes of the Group have been designed to incorporate elements to mitigate or reduce the related risks. These processes have been integrated into management systems structured according to international standards (ISO 9001, ISO 14001 and OHSAS 18001, among others), which are submitted to systematic design and compliance adaptation audits (internal and external), and incorporate control aspects corresponding to the objectives to be met.

In addition, Red Eléctrica has contingency plans that regulate the various crisis situations that could occur in the case of electrical incidents (to guarantee security of supply), or non-electrical incidents that may impact upon the environment, people, the operational aspects of the Company, the availability of its systems, business results, or any other events that could have an impact on the Company's reputation.

Red Eléctrica also has available an action guide for the management of cyber-incidents, that establishes the criteria and guidelines for the management of any incident related to cybersecurity regardless of the environment in which it occurs.

In a supplementary manner, Red Eléctrica has a System of Internal Control over Financial Reporting (ICFR), with the aim of obtaining efficiency and security in the processes for the drafting of economic and financial information of the Company, adopting international best practices.

MONITORING OF RISKS



OVER **500** ACTION PLANS

And more than 300 indicators to monitor their progress

MANAGEMENT OF CYBER INCIDENTS

Red Eléctrica has an action guide for the management of incidents that affect cybersecurity.

Risk structure / G4-2

The principal business of the Red Eléctrica Group is the transmission of electricity and operation of the electricity system in Spain. Said activities are regulated in as far as they are critical to the security and continuity of the electricity supply and are carried out on an exclusive basis.

This classification as a regulated activity affects both the setting of revenues and the environment and conditions in which it must undertake its principal activities. In this context, due to their importance and specificity, it is important to highlight the following risks: the regulatory and operational risks, as well as others which are common to the undertaking of economic and business activities.

RISK STRUCTURE 2016

%

Risk types of the Red Eléctrica Group

REGULATORY RISKS

Risks derived from possible changes to the legal framework regulating the activity, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the carrying out of this activity.

- **Regulation** as Spanish TSO.
- **Other regulation:** tax and environmental regulation. Tax Risks are included in this category.

OPERATIONAL RISKS

Risks caused by the failure of processes, personnel, equipment or internal systems, or due to external events. The criticality of the functions performed by the Red Eléctrica Group could lead to these risks having widespread social and economic relevance.

- **Operational:** that may affect the proper functioning of the transmission grid and the operation of the electricity system.
- **Comprehensive corporate security:** security of facilities and cybersecurity.
- **Environmental and related to people:** respect for the natural environment and the special relevance of occupational health and safety in the activities undertaken by people.
- **Other operational risks:** that may affect other processes of the Group such as criminal risk.

FINANCIAL AND COUNTERPARTY RISKS

Financial risk, market risk and those related to the non-fulfilment of counterparties of their contractual obligations:

- **Increased cost** of equipment and raw materials.
- **Increased interest rates** and changes in exchange rates.
- **Conditions of access to** financial markets.
- **Coverage** of accidents.

OTHER RISKS

Risks arising from the relevance of other businesses conducted by the Red Eléctrica Group:

- **Risks associated with the telecommunications business** relating to the management and operation of the dark fibre network.
- **Risks from foreign business** related to the activities carried out by the Company through its subsidiaries abroad.

Materialised risks in 2016

The facilities of the transmission grid are exposed, permanently, to operational events that might affect the continuity and security of the electricity supply.

During 2016, there were events whose consequences represented power outages of minor importance. In general, these events were caused by third parties and by extreme weather conditions.

Given these events, the control systems worked properly, as evidenced by the peninsular transmission grid availability rate which in 2016 was 98.32% (provisional figure, pending audit), a value greater than that obtained in 2015 (97.92%).

The Company also has insurance policies that limit the potential impact of these events on the income statement.

OBJECTIVES 2016

Improvement of the mechanisms for the communication of new risks and relevant events.

Development of the risk analysis methodology in the management of projects.

Adaptation of risk management processes to the requirements of the new versions of the ISO 9001 and 14001 standards.

RESULTS 2016

Approval by the Board of Directors of the Group's overall acceptable risk level.

A methodology has been developed for the analysis of risks in the management of projects.

Development of a methodology that adapts the identification and evaluation of the risks of the processes to the requirements established by ISO 9001 and 14001.

Improvements in the statistical and probabilistic study of historical events that have taken place in the transmission grid.

CHALLENGES 2017

Identify lines of improvement regarding best practices in the short, medium and long term for Red Eléctrica's Comprehensive Risk Management System.

Evolution and improvement of integrated risk reporting.

Improvements in the methodology of risk identification and assessment.

Main risks of the Red Eléctrica Group at present / G4-45

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
REGULATORY RISKS AS TSO		
Risk of changes in the electricity system regulation	• Risk of regulatory changes occurring that could have a negative impact on the activities related to transmission and system operation.	• Dialogue with the Regulator. • Presentation of proposals to the Regulator.
OTHER REGULATORY RISKS		
Other regulatory risks	• Tax risks. • Changes in environmental regulation.	• Adherence to the Code of Good Tax Practices. • Setting up of the tax strategy of the Red Eléctrica Group. • Incorporation of Tax Risk Policy into the Comprehensive Risk Management Policy of the Group. • Adaptation to the legislation related to climate change.
OPERATIONAL RISKS OF THE ELECTRICITY SYSTEM		
Risks related to power outages and the evacuation of generation	• Risk of a breakdown/fault occurring in the facilities that may significantly impact on the electricity system, causing power outages on the Spanish peninsula or the islands.	• Emergency equipment and procedures. • Periodic inspections of equipment and systems. • Preventive and predictive maintenance programmes. • Renovation and improvement plans for facilities. • Improvement of grid meshing and increase in the construction of facilities to deal with the Electricity Infrastructures Plan approved by the Government. • Contracting insurance policies to cover possible damages that can be derived from an incident. • Contingency plans.
Risks associated with the operation of the system	• Human errors in the coordination or configuration of equipment. • Malfunction of telecommunications. • Failure of computer systems that support the activity.	• Strengthening of the transmission grid in certain areas where the situation is precarious. • Power service restoration plans. • Plan for the renovation and improvement of facilities. • Improvement of the telecommunication systems. • Implementation of security mechanisms in the IT information systems used. • Ongoing training of operators. • Contingency plans.

Continued on the following page

Main risks of the Red Eléctrica Group at present / G4-45 / continued from the previous page

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
COMPREHENSIVE CORPORATE SECURITY RISKS		
Risks that may affect the security of facilities	• Impact on security in facilities (substations, control centres, buildings, etc.) such as vandalism, sabotage, theft, terrorism, etc.	• Security systems in facilities. • Service for the permanent monitoring of facilities. • Contact with the Spanish Security Forces (National Police and Guardia Civil). • Comprehensive Corporate Security Management Model. • Consultation and collaboration with the CNPIC (National Centre for Critical Infrastructure Protection). • Operator Security Plan (OSP) and Specific Protection Plans (SPP).
Risks related to cybersecurity	• Non-availability of systems. • Unauthorised access to specific IT applications.	• Firewalls and anti-intrusion systems. • Antivirus systems. • Increase in the security of access requirements. • Mechanisms for the detection of incidents. • Software updates. • Hacking simulations. • Training and awareness programmes. • Comprehensive Corporate Security Management Model. • Consultation and collaboration with the CNPIC (National Centre for Critical Infrastructure Protection). • Development of the Operator Security Plan (OSP) and Specific Protection Plans (SPP). • Action guide in the event of cyber incidents.
RISKS ASSOCIATED TO THE ENVIRONMENT AND THE HEALTH AND SAFETY OF PEOPLE		
Risks of impact on the environment	• Impact on flora. • Impact on fauna. • Contamination of soil. • Impact on archaeological heritage. • Risk of fires.	• Application of strict environmental criteria in all phases of planning, development and maintenance of facilities. • Environmental supervision of construction works. • Biodiversity strategy and actions. • Development of research projects and fire prevention plans. • Projects for birdlife conservation. • Environmental training courses for field staff. • Environmental awareness of suppliers. • Environmental supervision of construction works. • Implementation of Environmental Work Certification. • Establishment of collaboration agreements in the field of environmental protection with the various Regional Governments. • Fire protection plans. • Contingency plans. • Internal environmental audits.

Continued on the following page

Main risks of the Red Eléctrica Group at present / G4-45 / continued from the previous page

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
RISKS ASSOCIATED TO THE ENVIRONMENT AND THE HEALTH AND SAFETY OF PEOPLE / continued		
Risks derived from climate change / G4-EC2	• Reduction in rainfall. • Increase in temperatures. • Changes in wind currents. • Impacts on structural elements due to wind, ice, electrical discharges (lightning) etc. • Alteration in the properties of the conductors. • Erosion around the foundations of the towers and the towers themselves.	• Climate change strategy. • Voluntary Agreement for the comprehensive management of SF_6 in the electricity industry, between the Ministry of Agriculture, Food and Environment, equipment manufacturers (AFBEL), UNESA, REE and waste management companies. • Internal audits of the SF_6 management process. • Development of system operation tools (CECRE). • Construction of new transmission lines for the evacuation of renewable energy. • Strengthening of international interconnections. • Development of demand-side management initiatives (interruptibility service, measures to achieve a more efficient consumption profile, and initiatives for the implementation of the electric vehicle). • Development of research and innovation projects: new technologies and technical solutions for efficient system management, new tools for emergency situations, smart demand-side management, energy storage.
Risks related to management and employees	• Lack of motivation and competencies of staff to reach the Company objectives. • Fraud and corruption. • Workplace accident rate. • Adaptation of occupational health and safety risk prevention.	• Development programmes for experts and directors. • Work-life balance policy and implementation of a management system. • Hiring of young employees with potential. • Maintenance and improvement of the structured risk prevention system in accordance with the OHSAS 18001 standard. • EFR1000 certification and internal audits. • Implementation of the Code of Ethics, the grievance system and audits. • Application of the staff appraisal system. • Technical Procedures for the organisation of safety. • General procedure for accident management and incidents. • Operational Group regarding Prevention.
OTHER OPERATIONAL RISKS		
Other operational risks	• Failure of the processes associated with certain activities of the Group such as engineering, construction, procurement, human resources, etc.	• Controls implemented in each process. • Specific action plans. • Contingency plans.

Continued on the following page

Main risks of the Red Eléctrica Group at present / G4-45 / continued from the previous page

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
FINANCIAL AND COUNTERPARTY RISKS		
Risk of increased costs of equipment and raw materials	• The control of the price of equipment and raw materials is a key part of the management of the construction and maintenance activities.	• Promote competition. • Increase normalisation and standardisation. • Drafting of turnkey contracts. • Use of hedging mechanisms.
Risk of increase in the interest rates	• Variations in interest rates that may detract from that contemplated in the Strategic Plans of the Company.	• Periodic reviews of the interest rates and their impact on the accounts. • Maintenance of the fixed/variable percentages of the financial structure. • Development of a financial risk policy and mechanisms for its management and control.
Unfavourable variations in exchange rates	• Although the part of the business managed in non-euro currencies is not very significant, unfavourable variations in exchange rates may have a negative impact.	• Establishing hedging mechanisms for transactions performed in non-euro currencies. • Development of a Financial Risk Policy and mechanisms for its management and control.
Inadequate coverage when facing claims	• Insufficient coverage when faced with a significant increase in claims made against the Company. • Loss of solvency of the reinsurance company.	• Provisioning. • Ongoing monitoring of the level of claims. • Reinsurance risk.

RISK	DESCRIPTION	MANAGEMENT
RISKS OF THE TELECOMMUNICATIONS BUSINESS		
Risks that can affect the business	• Operational and business risks related to the telecommunications business.	• Monitoring the quality of service provided. • Monitoring the portfolio of clients.

Continued on the following page

Main risks of the Red Eléctrica Group at present / G4-45 / continued from the previous page

RISKS OF BUSINESS ABROAD

RISK	DESCRIPTION	MANAGEMENT
Risks to foreign subsidiaries	• Regulatory and operational risks of foreign subsidiaries.	• Maintaining good relationships with agencies and organisations where the subsidiaries are located. • High-quality standards in the services offered. • Monitoring of regulatory developments and economic evolution. • Monitoring of the projects undertaken by subsidiaries.

RISKS THAT MAY EMERGE IN THE FUTURE

RISK	POTENTIAL IMPACT ON THE BUSINESS	ACTION PLAN
Uncertainty in the development of the european regulatory framework	• Regulatory changes with an impact on the activities of Red Eléctrica.	• Active participation in ENTSO-E. • Increased role in international forums. • Communication with the European regulator.
Major environmental and social demands in projects	• Delays or increased costs in the execution of projects.	• Communication plan for the environmental and social activity. • Maintain relationships with relevant institutions.
Increase in uncertainty regarding international policy	• Worsening of the situation regarding markets and international relations.	• Development of business diversification activities in countries and regions with political and economic stability.
Changes in the electricity model due to the appearance of new technologies	• Cost to adapt to the changes.	• Efficiency action contemplated in the Group's Strategic Plan. • Approval of the innovation strategy of the Group.

INTEGRITY MODEL OF THE RED ELÉCTRICA GROUP / G4-DMA / G4-56 / G4-57

Red Eléctrica considers ethics, integrity and transparency as fundamental pillars for the good functioning of the business. This involves acting with the utmost integrity in the fulfilment of the obligations and duties entrusted to the Company, as well as in the relationships with and commitments to its stakeholders.

To do this, Red Eléctrica has a set of rules of conduct that establish corporate values and performance criteria that must be undertaken by all persons within the Company in the execution of their professional activities.

In addition, the Company is developing a new Regulatory Compliance System aligned with best practices in this area, in order for the organisation to adequately respect the obligations established and the commitments undertaken and thus develop a proactive culture towards the management of risk regarding non-compliance.

In order to give continuity to the Ethics Management Awareness Plan that has been underway since 2014, an awareness and dissemination plan regarding the compliance system has been launched that is expected to last throughout 2017.

INTEGRITY MODEL

Code of Ethics

The Code of Ethics of the Red Eléctrica Group aims to provide an ethical guide for managers and employees of the companies of the Group, setting out the values and commitments that should govern the performance of their activity within the Company.

The current edition of the Code of Ethics of the Red Eléctrica Group was approved by the Board of Directors on 28 May 2013 with

RED ELÉCTRICA'S **CODE OF ETHICS**

PROFESSIONAL **ETHICS GUIDE** FOR ADMINISTRATORS AND EMPLOYEES

Sets out the values and commitments that should govern their activity

COMPLIANCE SYSTEM

An Awareness Plan is underway for its dissemination. The Plan will continue throughout 2017.

the aim of taking on board the requirements of stakeholders and the recommendations of the international organisations of repute in this field, among which the following are noteworthy: United Nations Organisation, the European Union, the Organisation for Economic Cooperation and Development and international organisations such as Transparency International or the ÉTNOR Foundation, amongst others.

Awareness-raising actions

Under the Ethics Management Awareness Plan, approved by the Company's Corporate Responsibility Committee (currently the Sustainability Management Committee), a set of forums was developed during the 2014-2016 period in all work centres of the companies of the Group, with the aim of improving knowledge regarding the ethics management system, reflecting on the values and commitments acquired by the organisation, and highlighting the role and functions of the Ethics Manager. These sessions have the participation of the Ethics Manager and Stakeholder Ombudsman of Red Eléctrica.

ETHICS MANAGEMENT SYSTEM

25
SESSIONS
HELD WITH THE ETHICS MANAGER

With 89.8 % of the workforce attending

'REE VALUES' PROJECT

The aim is to communicate Company values and generate internal debate regarding its application.

The approval of the current Code of Ethics by the Board of Directors in 2013 **responds to requirements made by stakeholders** and to the recommendations of international organisations of repute in this field.

From the outset of the awareness-raising plan in November 2014, and until its conclusion in June 2016, 25 awareness sessions were held, with a total of 1,589 people attending, representing 89.8% of the workforce.

In this process of bringing the values and commitments set out in the Code of Ethics closer to its staff, the 'Red Eléctrica's Values' initiative was approved as a leadership objective and was carried out in 2016. The aim of this initiative was to communicate Company values among employees and generate internal debate regarding its application within each unit, taking into consideration the singularities of each of the units. This communication and debate process has involved all employees and has had the involvement of those responsible for the various units of the Company. In these sessions, the current values were presented and those, which were considered most relevant in the opinion of its employees of each unit, were debated and the possible areas for improvement were also discussed. / G4-SO4

The Ethics Manager is the figure responsible for safeguarding knowledge on and the application of the Code of Ethics under the principles of independence, rigour and impartiality.

Supplier code of conduct

Red Eléctrica has a specific code of conduct for its suppliers in which stresses the requirement to comply with the respect for human rights, equality and the integration of people with disabilities and supplier compliance with the requirements regarding the environment and occupational health and safety in the procurement of products or services required by the Company, whether they are carried out directly or through other companies.

Ethics manager

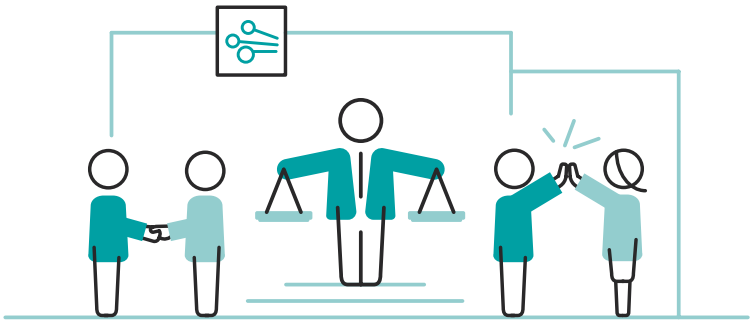
To ensure the awareness, application and enforcement of the Code of Ethics, Red Eléctrica appointed Rafael Garcia de Diego, General Counsel and Secretary of the Board of Directors, as Ethics Manager and Stakeholder Ombudsman.
The responsibilities and duties of the Ethics Manager are the following:

- Resolve enquiries and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.
- Establish proceedings regarding grievances through the verification and investigation of the business conduct of those employees or organisational units reported.
- Develop action plans to resolve the grievances reported and submit them for approval by the Chairman of the Red Eléctrica Group or the Chairperson of the Audit Committee if it affects any member of the Management Committee.
- Keep an updated record on the process (enquiries, grievances, administrative proceedings and communications with interested parties).
- Keep claimant abreast on the status and resolution of enquiries or grievances, when required.
- Draft a periodic report on the review of the reporting system and propose actions to improve the management system.
- Maintain at all times the confidentiality of the claimant, unless legally required to disclose this information.
- Carry out the functions assigned under the principles of independence, rigour and fairness.

SUPPLIER CODE OF CONDUCT

RESPECT FOR HUMAN RIGHTS

Affects both direct and indirect suppliers



Whistle-blowing channel / G4-DMA / G4-57 / G4-58 / G4-HR12 / G4-LA16 / G4-SO5 / G4-SO11

To promote the application of the Code of Ethics, Red Eléctrica has a whistle-blowing channel, available on the corporate website, through which enquiries, grievances or suggestions can be conveyed to the Ethics Manager. This channel has been audited and guarantees the confidentiality of those using this channel.

In addition, Red Eléctrica has another channel for reporting non-compliance, grievances, enquiries and suggestions regarding ethical matters through its Stakeholder Attention Centre DÍGAME, in order to provide a reporting channel for requests from external stakeholders who are not aware of the whistle-blowing channel. This service will transfer to the Ethics Manager the requests received, preserving their confidentiality.

In 2016, 29 enquiries were received by the Ethics Manager through the whistle-blowing channel, with a maximum resolution period of 10 days.

Consultations received have referred to the following areas of business conduct:

- Responsible monitoring of the management of suppliers.
- Safeguarding of information and data.
- Limitation on the acceptance of gifts, loans or invitations.
- Rational use of energy and basic resources.
- Respect, integrity, accountability and transparency within the organisation.

In 2016, three grievances were received regarding compliance with the Code of Ethics, two of which were resolved during the year and the third is currently being resolved by implementing an action plan proposed by the Ethics Manager. A more accurate account of these grievances can be found in the Annual Executive Report on the Management of the Code of Ethics published in the annex to this report.

29 enquiries were received by the Ethics Manager in 2016 through Red Eléctrica's whistle-blowing channel, with a maximum resolution period of 10 days.

WHISTLE-BLOWING CHANNEL

AUDITED CHANNEL
GUARANTEEING CONFIDENTIALITY

For communicating enquiries, grievances or suggestions

DÍGAME SERVICE

Enables requests from external stakeholders related to the Code of Ethics, and its application, to be communicated to the Ethics Manager.

Criminal risk prevention

Red Eléctrica has a Criminal Risk Prevention Programme that aims to identify the rules, procedures and tools established within the Group to avoid any breach of legal regulations that carry criminal implications applicable to the Company and its staff, and to adapt it to the new regulatory environment. Therefore, in addition to the already existing risk control exercised by the Red Eléctrica Group, the scope now incorporates the management and prevention of criminal risks that could affect the Company according to its activity and business sector, pursuant to the Spanish Penal Code.

This programme, approved by the Board of Directors of the Red Eléctrica Group at its meeting on 24 November 2011, has a control body that monitors its compliance and undertakes specific measures to ensure it is adequately updated and implemented. In addition, it regularly reports to the Audit Committee on the actions taken, improvements proposed, updates thereto, measures agreed as well as any other aspect considered relevant in the performance of its duties.

This body is composed of the following members:

- The Ethics Manager.
- A representative from the Internal Audit and Risk Control Department.
- A representative from the Organisation and Human Resources Planning Department.
- A representative from the Legal Department.

Noteworthy actions 2016

- Launch of the new **Legal Compliance System.**
- Launch of the **compliance map.**
- **Reporting model and relationship** between the Compliance Unit and the functional areas and governing bodies of the Company.
- **Criminal Risk** Prevention Audit.
- **Maximum score** (100 out of 100 points) in the Ethics / Compliance / Corruption and Bribery section of the Dow Jones Sustainability Index 2016.

CRIMINAL RISK PREVENTION

SINCE 2011 IT HAS A CONTROL BODY AND PROGRAMME

Objective: prevent any breach of legal regulations that carry criminal implications

Red Eléctrica has obtained the maximum score, 100 out of 100, in the Code of Ethics, Compliance, Corruption and Bribery section of the Dow Jones Sustainability Index 2016.

The Internal Audit and Risk Control Department, responsible for monitoring compliance of the control measures regarding criminal risk, reports to this body. Additionally, the Legal Department, and the Organisation and Human Resources Planning Department also report to this body.

Also, the Ethics Manager informs the Control and Monitoring Body

about grievances received, that may have a possible criminal law implication. This body guarantees the confidentiality of all information received, in the same way as the Ethics Manager does.

In 2016, the Ethics Manager received no grievances regarding infringements related to criminal risks and none of the companies of the Group has been investigated or convicted of infringements related to the criminal risks of the organisation.

Prevention of corruption / G4-DMA

The Code of Ethics and the corresponding management system for queries and grievances, in which aspects related to the fight against corruption are included, are an effective mechanism for the detection and handling of possible cases of corruption and fraud. Governance bodies, employees and suppliers of Red Eléctrica accept the Code of Ethics and, where applicable, the organisation's Supplier Code of Conduct.

In addition, the Board of Directors approved the Guide for the Prevention of Corruption that sets out corporate values and business behaviour contained in the Code of Ethics related to the main manifestations of corruption. All persons of the Red Eléctrica Group are obliged to know and accept the contents of this guide and review their behaviour based on the principles, commitments and controls established. / G4-SO4

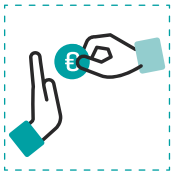
In addition to the aforementioned, and of special relevance, are the processes considered susceptible to the risk of corruption and fraud which are regularly monitored through internal audits using the risk prevention programmes for fraud and criminal risk prevention as a basis, and in which specific controls regarding these risks are incorporated.

In 2016, 100 % of the management areas of Red Eléctrica de España have been assessed regarding the various risks related to corruption; no risks were identified in said audits. / G4-SO3 / G4-SO5

Additionally, the processes of Red Eléctrica are integrated into structured systems in compliance with the international benchmark standards (ISO 9001, ISO 14001 and OHSAS 18001) and their design includes controls to mitigate or reduce the main risks associated thereto.

In addition to these processes, the Company has an Internal Control over Financial Reporting (ICFR) system in place, which includes controls over the risks regarding the inappropriate use of assets and intentional errors

CORRUPTION ASSESSMENT



IN **100** %

OF THE MANAGEMENT AREAS OF RED ELÉCTRICA

No risks were identified in said audits

The Guide for the Prevention of Corruption sets out the corporate values and business behaviour contained in the Code of Ethics related to corruption.

Red Eléctrica defines an explicit commitment to Human Rights in its corporate values and in the business conduct guidelines established in its Code of Ethics and in the Corporate Responsibility Policy.

in the financial statements), whose independent assurance report is included in the annex to this Report.

In 2016, in accordance with the guidelines on business conduct contained in the Code of Ethics, in which the contribution to political parties or organisations is prohibited, no donations, grants or loans to political parties have been provided on behalf of the Group.

Human rights
/ G4-DMA

Red Eléctrica defines an explicit commitment to Human Rights in its corporate values and its guidelines regarding business conduct established in its Code of Ethics. In addition, the Company's Corporate Responsibility Policy establishes the promotion and respect of Human Rights as one of the basic principles and guidelines, ensuring freedom of association, the right to collective bargaining, non-existence of child labour, elimination of forced or compulsory labour and any other practice that implies an infringement of individual or collective dignity.

Red Eléctrica makes the whistle-blowing channel available to its stakeholders as a formal mechanism for responding to queries, enquiries and grievances related to Human Rights. In 2016, no grievances have been filed, addressed, or resolved through the formal grievance mechanisms on human rights.
/ G4-HR12

The Company, as a founding partner of the Spanish Global Compact network, has continued to lead human rights actions, highlighting its active role in the design of an online tool for the implementation of the UN Guiding Principles on Business and Human Rights in the Spanish business fabric.

SPANISH GLOBAL COMPACT NETWORK

2016

RED ELÉCTRICA OBTAINED THE EVALUATION OF

EFFICIENT MANAGEMENT

REGARDING HUMAN RIGHTS MATTERS

According to the application of this organisation

The human rights management model systematises the review of the Human Rights policies and involves all those units that are strategic for its undertaking.

In 2016, in order to achieve the adequate adoption of the Guiding Principles, Red Eléctrica reviewed the analysis of the Company's current management in this area using the IT application of the Spanish Network of the Global Compact. Red Eléctrica was awarded the 'efficient management' rating. The analysis, which identified a low risk level for Red Eléctrica in all categories of Human Rights, aims to serve as a roadmap for the Company in the implementation of a management model focused on protecting, respecting and repairing Human Rights at all levels within the Company.

It should be noted that in order for the corporate responsibility management system to be assured, this entails auditing all work centres in four-year cycles. Thus, in 2016, external audits were carried out by AENOR at the Head offices, in the operation centre in Gran Canaria, and in the East and the Canary Islands regional offices, representing 25% of the total work centres. / G4-HR9

In 2016, Red Eléctrica began working on the design of a new human rights management model that systematises the review of the Company's policies and commitments and the due diligence process in this area to ensure adequate coverage of its activity. Throughout 2017, progress will continue on the design and implementation of this model, which will involve all those units that, due to the responsibility incumbent on them, are strategic for its implementation.

In addition, in order to extend the principles of corporate responsibility throughout the supply chain, Red Eléctrica's Supplier Code of Conduct establishes the duty of this stakeholder group to respect the principles of the Universal Declaration on Human Rights and the conventions that develop it, as well as the recommendations of the International Labour Organisation regarding the rights of workers in the performance of their activities. With the acceptance of the General Conditions of Contract, included in all purchase orders, the supplier agrees to comply with the provisions of the Supplier Code of Conduct, and this can be verified by conducting social audits.

SUPPLIER CODE OF CONDUCT

ESTABLISHES THE

DUTY OF RESPECTING

THE PRINCIPLES OF THE UNIVERSAL DECLARATION ON HUMAN RIGHTS

Supplier actions can be verified through the carrying out of social audits

04 MANAGEMENT APPROACH

CONNECTED TO EXCELLENCE AND SUSTAINABILITY

CORNERSTONES OF THE CORPORATE RESPONSIBILITY MANAGEMENT SYSTEM

Sustainability, ethics and responsibility

1. STRATEGIC PLAN

Defines excellence and corporate responsibility as one of its cross-cutting strategies, in order to consolidate the Company as a sustainable company.

Approved by the Board of Directors

CORPORATE RESPONSIBILITY PROGRAMME

Fulfilment linked to a management goal

2. CORPORATE RESPONSIBILITY POLICY

Establishes the principles and guidelines regarding corporate responsibility, gearing the business activities towards a sustainable business management model and focusing on the creation of value.

Approved by the Board of Directors

3. CORPORATE RESPONSIBILITY PLAN

Sets out the commitments undertaken by the Company and establishes the action framework regarding corporate responsibility and defines the courses of action for the next three years.

Approved by the Appointments and Remunerations Committee

4. CORPORATE RESPONSIBILITY PROGRAMME

Encompasses the most relevant projects carried out by the Company within the corporate responsibility scope.

Approved by the Sustainability Management Committee
96 % fulfilment of the 2016 annual programme

5. MONITORING AND EVALUATION

Definition of the tools that allow the assessment and supervision of the implementation and execution of the Corporate Responsibility Plan.

Dashboard
Internal and external audits

RED ELÉCTRICA´S COMMITMENT TO SUSTAINABILITY

The Corporate Responsibility Policy reflects the commitment to sustainable development through a multi-year plan that defines the framework for action in the medium term.

Red Eléctrica maintains a commitment to sustainability by creating shared value for all its stakeholders in the execution of its activities, through the design and implementation of a management system based on guidelines for responsible action.

In this regard, at Red Eléctrica, corporate responsibility is part of our business culture and a key tool for the creation of shared value in carrying out our mission as an operator and as the sole transmission agent of the Spanish electricity system.

Red Eléctrica´s 2014-2019 Strategic Plan establishes management based on best practices in corporate responsibility as a key action for the Company. In carrying out this strategy, Red Eléctrica acts in a responsible manner and is committed to its stakeholders and to society in general.

The management of corporate responsibility

Red Eléctrica´s commitment to sustainable development is reflected in the principles and guidelines defined in its Corporate Responsibility Policy and is materialised through a multi-year plan that defines the medium-term framework for action regarding corporate responsibility.

The Corporate Responsibility Plan 2014-2016 is structured into five management areas. Each one of these areas is deployed across specific courses of action that involve all areas of the Company for its effective implementation.

CORPORATE RESPONSIBILITY PROGRAMME

96
%
OF OVERALL FULFILMENT IN 2016

A management objective with impact on the remuneration of the workforce has been in place since 2015

Based on these courses of action, each year Red Eléctrica defines its corporate responsibility programme by means of projects that contribute substantially and strategically to furthering the objectives established in said Plan. At the close of 2016, the degree of overall fulfilment of the programme was 96%. It is worth noting that from 2015, fulfilment of this programme is a management goal that has an impact on staff remuneration.

AREAS OF ACTION OF CORPORATE RESPONSIBILITY

INTERNATIONAL CERTIFICATION

SR10

ON CORPORATE RESPONSIBILITY MANAGEMENT

Renewed in 2016 following external audit by AENOR

Monitoring and evaluation

The corporate responsibility management system of Red Eléctrica is systematically evaluated with tools that determine the degree of compliance with the commitments undertaken and the progress made towards the goals defined.

In this regard, the Company has a set of corporate responsibility indicators that reflect the main management indicators. Similarly, Red Eléctrica´s corporate responsibility management system has received the certification of the international standard IQNet SR10 (Social Responsibility Management System) whose correct implementation is assessed annually by external auditors. In 2016, the requirements to renew this certification were met.

The 2014-2016 Corporate Responsibility Plan involves all areas of the Company in order for its effective implementation.

The creation of the Corporate Management of Sustainability, Innovation and Institutional Coordination department reinforces the involvement of the highest levels of decision making and all organisational areas in corporate responsibility matters.

In addition, the management system is periodically submitted to internal audits. The executive report included in the annex to this document details the results of the most recent audit, corresponding to 2016.

Sustainability model of the Red Eléctrica Group

Throughout the year, the Company has worked on the design of the Sustainability Model of the Red Eléctrica Group with a horizon of 2030. Its objective is to establish a common framework for sustainability that combines all the actions carried out in this field by all the companies of the Group, in order to give a better response to its stakeholders, increase efficiency and showcase the Group´s commitment and performance in sustainability. It is foreseen that the Model will be approved in 2017, along with its implementation and deployment through specific multi-year plans for the companies in the Group.

Organisational structure

With the creation of the area for the Corporate Management of Sustainability, Innovation and Institutional Coordination, Red Eléctrica has reinforced the involvement of the highest levels of decision making in the Company.

Similarly, the Company has involved all areas of the organisation in the implementation, supervision and monitoring of the commitments made regarding corporate responsibility.

In 2016, Red Eléctrica revised the composition and functions of the Sustainability Management Committee (formerly the Corporate Responsibility Committee) in order to adapt it to the reorganisation process the Company undertook at the end of 2015.

SUSTAINABILITY MODEL

OBJECTIVE:
ESTABLISH A
COMMON FRAMEWORK

In sustainability matters for all companies of the Group

SUSTAINABILITY MANAGEMENT COMMITTEE

Ensures fulfilment of objectives and goals on sustainability matters, promoting internal awareness.

ORGANISATIONAL SCHEME OF CORPORATE RESPONSIBILITY MANAGEMENT

		Duties and responsibilities
APPROVAL	Board of Directors	• **Approve** the Corporate Responsibility policy.
	Appointments and Remuneration Committee	• **Propose** and promote the Corporate Responsibility policy. • **Monitor** the implementation of the policy and periodically assess progress and results. • **Approve** an annual management report on corporate responsibility, escalated to the Board.
MONITORING AND ASSESSMENT	Sustainability Management Committee	• **Propose** the principles and guidelines of corporate responsibility. • **Guarantee** the establishment of a management system and promote certifications that ensure its efficient implementation. • **Promote** internal awareness. • **Guarantee** the analysis and assessment of the requirements of stakeholders within the Company's strategies. • **Support** the definition of the Sustainability Model and encourage its implementation. • **Ensure** the fulfilment of objectives and targets regarding sustainability matters.
SUPERVISION	Area for the Corporate Management of Sustainability, Innovation and Institutional Coordination	• **Ensure** the development and ongoing improvement of systems, structures, plans and projects of the management system. • **Advise** the Company on matters related to corporate responsibility. • **Define** and design the activities and structural elements of the management model. • **Design** and monitor the corporate responsibility plans and programmes.
IMPLEMENTATION	Organisational units	• **Collaborate** in the implementation of the corporate responsibility management model and support the integration and participation of internal and external collaborators. • **Develop** its activities and projects in accordance with the corporate responsibility principles and guidelines.

The Company retained the European Seal of Excellence 500+, renewed in 2015, with a score of over 700 points, ranking it among the leading European companies.

The new composition of the Sustainability Management Committee represents all the areas of corporate responsibility management: economic, social and environmental. A new feature worth noting is the incorporation of the Business Diversification area, aimed at guaranteeing the involvement of all the companies of the Group; the area responsible for the supply chain as a focus of critical attention in corporate responsibility; and the area of communication, to help build a corporate culture of sustainability.

In addition, the Sustainability Management Committee has widened the scope of its functions and responsibility over that of the former committee, in order to drive the design and deployment of the Sustainability Model. In 2016, the Sustainability Management Committee held six sessions, with an average attendance rate of 86 %.

2016-2017
EXCELLENCE PLAN

46
IMPROVEMENT MEASURES

Based on the 2015 Excellence Assessment Report

The quest for excellence

Red Eléctrica´s commitment to excellence in management is shown in its policy of excellence and quality and is one of the cross-cutting strategies in the Company´s strategic plan.

In this regard, since 1999 Red Eléctrica has had the EFQM (European Foundation for Quality Management) model of excellence management implemented. In 2016, the Company retained the European Seal of Excellence 500+, which was renewed in 2015, with a score of over 700 points, consolidating Red Eléctrica among the leading Spanish and European companies.

The excellence management system is founded upon a process-based management approach. In 2016, risk management has been introduced at a process level, broadening the scope of corporate management. Also, the 2016-2017 Excellence Plan has been prepared, which contains 46 improvement measures based on the excellence assessment report drafted in 2015.

Similarly, since 2000 Red Eléctrica has had a certified system that encompasses all processes in the organisation. In 2016, the fifth integrated audit of all the certified corporate management systems was conducted.

Presence in sustainability indexes

Red Eléctrica is included in the main sustainability indexes, which select companies with a distinguished performance in the ethical, social and environmental aspects of corporate governance. These indexes are an important incentive for companies, as investors increasingly find an advantage in these types of companies.

In 2016, Red Eléctrica consolidated its presence in the Dow Jones Sustainability World and Dow Jones Sustainability Europe Indexes, improving its overall score and leading the electric utilities sector in nine areas of sustainability.

In the economic dimension, Red Eléctrica renewed its leadership in ethics management and compliance. In the environmental dimension, noteworthy is that the Company obtained a maximum score in five of the six criteria, bringing to the forefront the Company´s firm commitment to the fight against climate change, and to the conservation of the natural environment. Regarding the social dimension, Red Eléctrica positioned itself as the industry leader. The index positively acknowledged the Company´s work in stakeholder management, the creation of shared value in the territory where its facilities are located and the development of initiatives that underscore Red Eléctrica´s long-term commitment to its employees through talent management and measures that promote and protect their health, well-being and security.

As a result of this, Red Eléctrica has received the 'Silver Class' distinction in 'The Sustainability Yearbook 2017' from RobecoSAM.

Red Eléctrica's main recognitions regarding sustainability

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

FTSE4Good

CDP A LIST 2016 CLIMATE

MSCI 2016 Constituent MSCI Global Sustainability Indexes

EURONEXT vigeo

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ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

ETHIBEL PIONEER & EXCELLENCE

ECPI Sense in sustainability

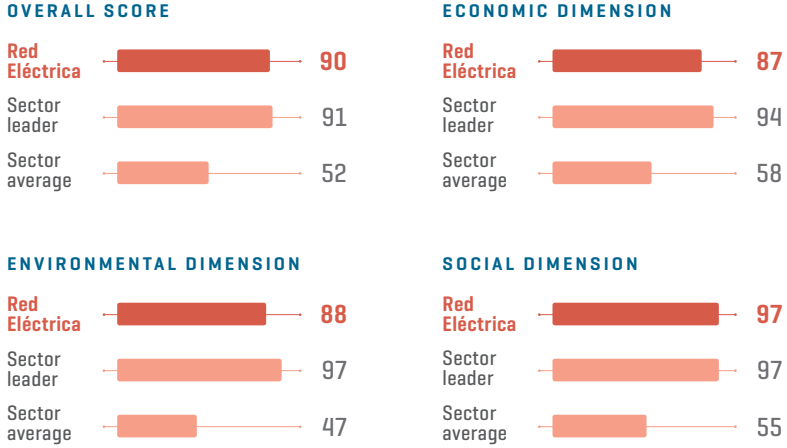
ROBECOSAM Sustainability Award Silver Class 2017

SUSTAINABILITY RECOGNITIONS

RED ELÉCTRICA WAS AWARDED THE **'SILVER CLASS'** DISTINCTION

In 'The Sustainability Yearbook 2017' from RobecoSAM

RED ELÉCTRICA'S RATING IN THE DJSI WORLD 2016



Commitment to external initiatives / G4-15

Red Eléctrica is a member of and voluntarily participates in different initiatives that strengthen its commitment to corporate responsibility, among which the following are noteworthy:

2002. Principles of the United Nations Global Compact

Red Eléctrica has a formal commitment to the Ten Principles of the UN Global Compact regarding Human Rights, Workers' Rights, the Environment and the fight against corruption.

2003. *Global Reporting Initiative*

Since 2003, Red Eléctrica has drafted its Corporate Responsibility Report in accordance to the guidelines and principles set out in the GRI Sustainability Reporting Guidelines.

2007. *Caring for Climate*

Red Eléctrica signed up to this initiative promoted by the United Nations for business leadership on climate change.

2008. *Carbon Disclosure Project*

Red Eléctrica annually provides information on its strategy, practices, performance and objectives in the fight against climate change.

2012. Business Network for a Society Free of Gender-based Violence

Red Eléctrica signed up to this network, promoted by the Spanish Ministry of Health, Social Services and Equality, which seeks to move to the construction of a society free of gender-based violence.

2013. Spanish Business and Biodiversity Initiative (IEEB)

Red Eléctrica is part of this initiative, promoted by the Spanish Ministry of Agriculture, Food and Environment, aimed at the inclusion of biodiversity conservation and management in the business strategies of companies.

2015. Code of Good Tax Practices

Red Eléctrica's adoption of this entails the obligation to reflect its effective fulfilment in the annual Corporate Governance Report.

2015. Spanish Green Growth Group

Red Eléctrica is committed to the development of an economically, socially and environmentally sustainable model with the signing of the Barcelona Declaration.

Global initiatives · Environmental initiatives · Social initiatives · Ethics and Good Governance initiatives

Sustainable development goals (SDG'S)

The United Nations' 2030 Agenda established 17 global goals, divided into a total of 169 targets that seek to unite efforts in achieving sustainable development. For the first time, the business community has been asked to play a main role this transformation, as a key agent in achieving inclusive economic growth based on equal opportunities, environmental protection and prosperity for all.

Red Eléctrica, as operator and sole transmission agent of the Spanish electricity system, holds a key position in the energy sector and, as a company committed to sustainability, collaborates actively in developing a sustainable energy future. In this regard, the activity of **Red Eléctrica de España contributes to attaining the goals regarding energy, innovation and infrastructures, and climate change (objectives 7, 9 and 13).** It should be pointed out that the corporate responsibility commitments undertaken by Red Eléctrica de España, and the actions derived from the same, are also aligned with other Sustainable Development Goals and as such, increase the Company´s contribution to achieving the United Nations' 2030 Agenda.

The process of designing the Group's Sustainability Model, which will be implemented throughout 2017, has considered the targets set by the Sustainable Development Goals, in order to define priorities for the Company in terms of sustainability that make a notable contribution to achieving the SDG's.

CONTRIBUTION TO **THE UNITED NATIONS SDGs**

RED ELÉCTRICA **CONTRIBUTES TO** MEETING THE GOALS: ENERGY, INNOVATION AND INFRASTRUCTURE, CLIMATE CHANGE

And it also aligns the remaining Goals within its commitments

Red Eléctrica contributes mainly to the achievement of the **energy, innovation and infrastructure and climate change goals** (Goals 7, 9 and 13).

UNITED NATIONS' 2030 AGENDA

Establishes 17 global goals in sustainable development matters, broken down into 169 targets.

STAKEHOLDERS / G4-25

Red Eléctrica operates under a model of sustainable business management, focused on creating value for its stakeholders. The Corporate Responsibility Policy contains the Company´s formal commitment to establishing long-term relationships based on trust and ongoing dialogue with stakeholders, strengthening relationship models that allow the Company to respond to their needs and expectations.

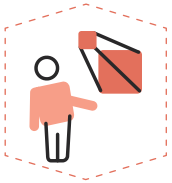
Stakeholder management model

Red Eléctrica´s stakeholder management model, designed and implemented in 2004 and revised in 2012, includes the identification and prioritisation of stakeholder groups, as well as the definition of the framework of relationships and the evaluation of the same, according to the requirements of the benchmark norms and standards in this area, such as AA1000, IQNet SR10, ISO26000 or GRI.

Red Eléctrica understands that its stakeholders are all those groups affected by the services or activities of the Group and whose opinions and decisions have an influence on the Company's financial results, or on its reputation. In this regard, Red Eléctrica has an advanced and mature system of process

In 2016, Red Eléctrica obtained a maximum score (100 points out of 100) in the criteria of the Dow Jones Sustainability Index, which evaluates a company's commitment and performance with respect to its stakeholders.

MANAGEMENT MODEL



CREATED IN 2004 AND REVISED IN 2012

IDENTIFIES AND PRIORITISES

STAKEHOLDER GROUPS

Defines and assesses the relationship framework

IDENTIFICATION OF STAKEHOLDER GROUPS

Obtained based on the analysis of the interactions between the processes and activities of the Company and its environment.

management, by which the identification and segmentation of stakeholder groups is done, mainly through analysis of the interrelationships between the processes and activities of the Company and its environment.

The prioritisation of the stakeholder groups is established according to their degree of influence in achieving the Company´s strategic objectives, and according to the importance or effect of the impact of the organisation on the stakeholder groups.

In this context, Red Eléctrica defines the framework of relationships, establishing the type of relationship with each stakeholder group, from the transmission of information to the development of strategic alliances. For each relationship category, the Company defines the most appropriate channels, among which noteworthy are the satisfaction surveys and the DÍGAME service, due to their cross-cutting nature across all the stakeholder groups.

PRIORITISATION OF STAKEHOLDER GROUPS

ACCORDING TO THEIR **DEGREE OF INFLUENCE** IN ACHIEVING STRATEGIC OBJECTIVES

According to the importance of the impact of the organisation on stakeholders

IN 2016

Red Eléctrica held training sessions for project managers, to improve and systematise the management of stakeholders.

Among the actions encompassed in the stakeholder management system, noteworthy is the analysis of Red Eléctrica's existing alliances, linking them to the Strategic Plan and to stakeholders.

Lastly, Red Eléctrica's stakeholder management model has internal and external tools for evaluating performance and identifying areas for improvement, such as internal and external audits, pursuant to the specific requirements set out in the IQNet SR10 and ISO9001 standards.

Main actions in 2016

Among the actions taken in 2016 within the framework of the stakeholder management system, noteworthy is the analysis of Red Eléctrica's existing alliances, linking them to the Company´s Strategic Plan and to stakeholders. Once the alliance concept had been clearly defined for Red Eléctrica, and the existing alliances were classified and analysed, this work served as a point of departure for the identification of opportunities in the quest for the creation of shared value with our stakeholders.

Similarly, in 2016 Red Eléctrica held training sessions for project managers, in order to improve and systematise the management of stakeholders within the Project Management process, according to the criteria of the ISO 21500 standard.

Furthermore, the future Sustainability Model of the Group, designed throughout 2016, has led to a new update of the stakeholder management model and extending its compliance to the whole of the Red Eléctrica Group; its approval and implementation will take place in 2017. It is worth noting that the active involvement and participation of the stakeholders in the process of designing this model has been essential in defining its key elements.

DÍGAME Service / G4-DMA

The DÍGAME service has guaranteed, since 2008, the professional management of all enquiries (claims, requests or grievances) from external stakeholders, by making various communication channels available (phone, e-mail and online web form). This service is staffed by personnel from the Juan XXIII Roncalli Foundation, an organisation that works with people with some type of disability.

DÍGAME SERVICE

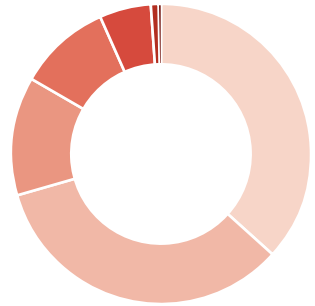
2,901
ENQUIRIES MANAGED
In 2016

SINCE 2008
The Dígame service manages enquiries and grievances made by external stakeholder groups.

'DÍGAME' SERVICE

(2,901 enquiries managed in 2016)

Social environment	36.9 %
Investors and shareholders	33.7 %
Clients	12.9 %
Business sectors and associations	9.9 %
Suppliers and technology providers	5.5 %
Public administration and regulators	0.8 %
Opinion generators	0.2 %



APPLICABLE GRIEVANCES MANAGED THROUGH THE 'DÍGAME' SERVICE IN 2016 / G4-SO11

By grievance type

Impact of facilities	30
Electricity system metering	3
Other	2
Total	**35**

Claimant by stakeholder group

Social environment	31
Business sector/Professional associations	2
Other	2
Total	**35**

Note: An applicable grievance is understood as that which corresponds to the duties and responsibilities of Red Eléctrica. Of the 35 applicable grievances in 2016, 27 have been considered applicable (accepted by Red Eléctrica, as a result of considering the arguments presented as valid and reasonable for their acceptance, complete or partial). These include environmental grievances (see indicator GRI G4-EN34). 80 % of grievances that are applicable have been closed, whereas the rest are currently in process. In 2016, all grievances reported in 2015 and that were pending resolution, were closed (8 grievances).

The evaluation and analysis of the needs contained in the satisfaction surveys lead to the drafting of an improvement action plan and the subsequent monitoring of compliance with said actions.

Satisfaction surveys

Satisfaction surveys allow the Company to perform a quantitative and qualitative analysis of the demands and needs of the stakeholders. These surveys are conducted periodically, generally every two years, by an external consultant to guarantee the confidentiality and validity of the process. / G4-26 / G4-27

The evaluation and analysis of the needs contained in the satisfaction surveys led to the drafting of an improvement action plan and the subsequent monitoring of compliance with said actions. The monitoring of the plan includes sending the results to the stakeholders and seeking their approval on the improvement actions. / G4-45

During 2016, satisfaction surveys were conducted among the following external stakeholder groups: NGOs and foundations, educational centres, R&D+i centres, environmental groups and external clients. In the internal environment, surveys were conducted to evaluate the management of IT services, sustainable mobility, internal communication, and occupational health and safety. The overall satisfaction of all the stakeholder groups analysed during 2016 was 8.2 out of 10.

GLOBAL INDICATORS OF THE STAKEHOLDER PERCEPTION SURVEYS /

	2012	2013	2014	2015	2016
Overall satisfaction	8.2	8.2	8.2	8.4	**8.2**
Satisfaction of the quality of services	7.9	7.9	7.7	7.9	**8.0**
Reputation	8.5	8.5	8.4	8.6	**8.6**
Ethical business conduct	8.1	8.1	8.1	8.3	**8.4**
Management of Corporate Responsibility	7.6	7.6	7.7	7.6	**7.7**
Dialogue with stakeholders	7.9	7.8	7.9	8.0	**8.0**

Note: value range (0-10).

SATISFACTION OF STAKEHOLDER GROUPS

AVERAGE OVERALL SCORE

8.2

OUT OF **10**

Of all stakeholder groups analysed

IN 2016

satisfaction surveys were conducted among NGOs and foundations, educational centres, R&D+i centres, environmental groups and external clients.

Our commitments to stakeholder groups / G4-24

STAKEHOLDER GROUPS	MAIN COMMITMENTS	MAIN CHANNELS OF COMMUNICATION
Investors / shareholders	• Creating value. • Good governance and risk control. • Fluid and transparent dialogue.	• Shareholders' office. • E-mail for shareholders/investors. • Shareholders' Electronic Forum / Web Page. • Road Shows and meetings. • Satisfaction surveys. • Corporate reports.
Regulatory bodies	• Security, quality and continuity of service. • Independence and transparency. • Effective solutions to challenges.	• Periodic work meetings. • Institutional meetings. • Periodic information. • Handling of requests for information.
Clients	• Fulfilment of the Transmission Grid planning. • Leadership and innovation. • Efficient management • Dialogue, impartiality and transparency.	• Public Web and Market Agent's Web (e-sios). • Periodic technical publications. • Telephone help desk service. • Specific e-mail addresses. • 'DÍGAME' Service. • Satisfaction surveys. • Committees and Technical working groups. • Communication forums.
Employees	• Stable employment and equal opportunity. • Work-life balance. • Professional development and recognition. • Ensuring occupational health and safety. • Freedom of association and dialogue with management. • Ethical and responsible conduct.	• Channel for enquiries and grievances regarding the Code of Ethics. • Corporate portal miRED 2.0. • Employee self-service site. • Employee telephone help desk. • Working climate survey and services satisfaction survey. • Communication plan and induction and integration programme. • Work, social and leisure communities. • Bulletin boards and information screens • Social representation committees/panels. • Appraisal interview.

Continued on the next page

Our commitments to stakeholder groups / G4-24 / continued from previous page

STAKEHOLDER GROUPS	MAIN COMMITMENTS	MAIN CHANNELS OF COMMUNICATION
Suppliers	• Compliance with contractual obligations. • Ethics and transparency. • Collaboration to generate mutual benefits.	• Channel for enquiries and grievances regarding the Supplier Code of Conduct. • Specific supplier help desk. ASA (Procurement Help Desk). • Specific area on the corporate website. • Associations and working groups. • Meetings and training days. • Satisfaction surveys. • Tenders published via DOUE and BOE. • Informative bulletin regarding construction.
Social environment	• Transparency on actions carried out and their impact. • Territorial planning and community involvement. • Safety and security of facilities and the electricity supply. • Ethical business practices. • Protection of the natural environment.	• 'DÍGAME' Service. • Satisfaction surveys. • Attention channel on grid planning and development processes. • Periodic meetings. • Dissemination of information on the electricity system. • Corporate reports. • Informative brochures. • Visits to facilities. • Statistics of the electricity system. • 'Entrelíneas' blog.
Opinion generators	• Information transparency. • Efficiency in the management of enquiries and requests.	• E-mail / Website. • Road Shows and meetings. • Satisfaction surveys. • Reports, press releases, training days, social networks, etc. • Corporate reports. • 'Entrelíneas' blog.
Business sectors/ professional associations	• Fluid, transparent and close-knit dialogue. • Exchange of best practices.	• Participation in technical committees, working groups (national and international).

05 SUSTAINABLE ENERGY

CONNECTED TO THE PROVISION OF A SECURE AND EFFICIENT ELECTRICITY SERVICE OF THE HIGHEST QUALITY

CORNERSTONES FOR ACHIEVING SUSTAINABLE ENERGY

The value of a secure, efficient and sustainable energy supply

INTERCONNECTIONS BETWEEN SYSTEMS

Strengthening of interconnections to improve the security of supply, achieve a greater integration of renewables and reduce costs for the electricity system as a whole.

Commissioning of the Majorca-Ibiza double link

ENERGY EFFICIENCY

Development of initiatives aimed at achieving a more efficient management of the electricity system in the fields of demand-side management, energy storage, smart grids.

Carrying out projects for the improvement of system efficiency (PERFILA, ALMACENA,...)

43,664
km
OF LINES IN SERVICE

INTEGRATION OF RENEWABLES

The safe integration of renewable energies to contribute to the reduction of air pollutant emissions, and to reduce Spain's dependence on foreign energy.

40.8% of the electricity demand covered with renewable energies

SUSTAINABLE DEVELOPMENT OF THE TRANSMISSION GRID

Construction of new facilities in order to increase transmission capacity, strengthen grid meshing and facilitate connections between electricity systems.

674 km of new lines and **61 new** substations bays

TECHNOLOGICAL INNOVATION

Incorporation of new innovative technologies in order to increase the security, efficiency and sustainability of the electricity system.

76 R&D+i projects
8.6 M€ in investment

QUALITY AND SECURITY OF SUPPLY / G4-DMA

The objective of the European Union's strategy on the 'Energy Union' is to boost energy security, sustainability and the competitiveness of the energy market.

Red Eléctrica, as transmission agent and operator of the Spanish electricity system, is responsible for helping to make the objectives of the energy policy viable in regard to providing a secure, efficient and sustainable electricity supply.

For this reason, all our actions are aimed in some way at realising the commitment of the European Union to the energy targets and the fight against climate change. In this regard, noteworthy is the legislative proposal announced in 2016, known as the 'Winter Package', for achieving clean energy for all European citizens. This regulatory proposal is a further step in the transition, started in 2015, towards clean energy with the definition of the European Union's strategy on the 'Energy Union'. A strategy broken down into five closely related dimensions, the ultimate goal of which is to boost energy security, sustainability and the competitiveness of the energy market.

Dimensions of the strategy on the 'Energy Union'

1. **Reduce** energy dependence and increase energy solidarity.
2. Achieve a fully integrated **European energy market.**
3. **Foster energy efficiency** as a means to moderate demand.
4. **Decarbonise** the economy.
5. **Increase research,** innovation and competitiveness.

LEGISLATIVE PROPOSAL 2016

WINTER PACKAGE FOR ACHIEVING CLEAN ENERGY

Included in the EU's commitment against climate change

In the 'Activities' section of the corporate website.

Sustainable development of the transmission grid

Electricity infrastructure planning / EU10

The current infrastructure planning, approved by the Council of Ministers in October 2015, covers a period of 6 years and is binding in nature for Red Eléctrica.

This planning includes the projects for new transmission grid infrastructures necessary to guarantee the electricity supply nationwide, considering the aspects of economic efficiency and sustainability of the electricity system. In addition, physical, technological and environmental feasibility has been taken into account in the analyses carried out, prioritising among them those alternatives that allow a better use of the existing grid. As a new development, the planning also includes an annex, non-binding, for those infrastructures deemed necessary with a horizon for post-2020, so that it can begin its administrative permitting process.

A fundamental aspect of this planning is the development of the i**nterconnections between electricity systems:** international interconnections, links between island systems and connections between the Peninsula and non-peninsular electricity systems.

CORNERSTONES OF THE
TRANSMISSION GRID PLANNING (2015-2020)

THE 2015-2020 **PLANNING**

4,554
M€
TOTAL ESTIMATED INVESTMENT

In the development of new electricity infrastructure

ELECTRICITY INFRASTRUCTURE PLANNING

Approved in October 2015 for a period of six years and is binding in nature for Red Eléctrica.

In this scope, the **Spain-France interconnection** is noteworthy for its great influence on the quality and security of the Spanish system, and the integration of renewable energies in the Iberian Peninsula. In addition, the need to increase the capacity of this interconnection is one of the priorities for the European Commission in the field of electricity, with a view to achieving the energy targets that allow access to sustainable, competitive energy under safe conditions.

In this regard, to improve the Spain-France interconnection, a phase shifter for the 220 kV Arkale-Argia line (planned for 2017) is included in the 2015-2020 horizon. Nevertheless, the set of actions that will allow a significant increase in exchange capacity is set out for beyond 2020 due to the great magnitude of the following projects: a submarine interconnection in direct current through the Bay of Biscay and two interconnections through the Pyrenees, one via Navarra and another via Aragón. Regarding the **interconnection with Portugal,** a project is included in the area of Galicia between Fontefría and Vilafría for 2017.

As for the **interconnections between island systems,** eleven new links between islands are included that will allow the connection of isolated systems, or the strengthening of existing connections, which will represent an increase in the security of supply and the reduction of generation costs. Of the links indicated, eight correspond to the period 2015-2020: five in the Balearic Islands (of which, the two links between Majorca and Ibiza) have already been commissioned and three in the Canary Islands.

Finally, with regard to the **Peninsula's interconnections with non-peninsular electricity systems,** a link with Ceuta is planned for 2020 and a second link with Majorca post-2020. Both facilities will reduce generation costs and significantly improve the guarantee of supply in the systems of Ceuta and the Balearic Islands.

INFRASTRUCTURE PLANNING
2015-2020

NEW
INTERCONNECTIONS WITH FRANCE AND PORTUGAL

Increase in exchange capacity

PLANNING
includes eight new links between islands for the 2015-2020 period: five in the Balearic Islands and three in the Canary Islands; In addition to a link between the Spanish Peninsula and Ceuta.

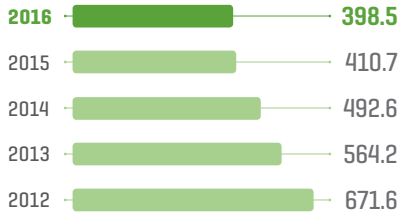
On the other hand, this planning includes, on an indicative basis, both the electricity consumption forecast in the 2015-2020 planning period as well as the **demand coverage analysis,** which assesses whether the forecasted generation allows this demand forecast to be met. In this regard, the structure of the generation mix will continue the transformation registered in recent years, increasing the predominance of both renewable energy and natural gas, in comparison to coal and nuclear energy, with a significant improvement in the associated efficiency, in terms of primary energy.

Regarding the reliability of the coverage of the peninsular demand, a minimum coverage ratio of 1.1 (calculated as the quotient between the net power available in the system and the forecasted peak average hourly demand) is adopted as a figure that adequately guarantees the coverage of the demand of the system in an extreme situation, considering the main uncertainties such as the variability of renewable generation. Under these assumptions, planning does not foresee the need for additional power to cover the peak demand in the 2015-2020 horizon.

Construction of the transmission grid / EU4

In 2016, investment in the transmission grid has basically addressed the resolution of technical constraints, grid meshing, the execution of unique international interconnection projects and submarine interconnections between islands, and the need to guarantee the security of supply and the reliability of the grid.

INVESTMENT IN THE TRANSMISSION GRID M€



In this fiscal year, 674 km of new line and 61 new substation bays have been commissioned, and transformer capacity has also been increased by 600 MVA, with an overall investment in the transmission grid of 398.5 million euros.

The actions by which the improvement of the transmission grid is carried out are classified into two types: structural and connection, which are triggered as a result of the following reasons:

Structural actions

- Resolution of technical constraints.
- Security of supply.
- Reliability.
- International connections, interconnections between islands and connections between the Peninsula and non-peninsular systems.

Connection actions

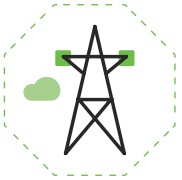
- Grid development associated with the high-speed rail network programme.
- Support for the distribution and new demand of large consumers, mainly industrial.
- Evacuation of conventional and renewable generation.
- Connection of energy storage facilities.

During 2016, the most significant **structural actions** undertaken regarding the development of the transmission grid were, by large axes, the following:

- **Asturias-Galicia axis:** the purpose of this axis is to guarantee the quality and security of supply, creating a 400 kV transmission infrastructure by incorporating 361 km of line, 46 substation bays and 3 transformers. The main objective is to connect northern Galicia and western Asturias in order to meet the foreseen consumption in this area, and facilitate the evacuation of new generation in the upcoming years. This actions will complete the Cantabrian axis, so that areas of surplus, such as Galicia and Asturias, can evacuate their energy into regions with a deficit. Much of this axis was commissioned before 2011. In 2016, the 163 km Boimente-Pesoz line was commissioned.
- **Aragón-Levante axis:** This axis aims to resolve the technical constraints and allow the evacuation of wind energy from Aragón into Castellón. The axis links the Aragón Fuendetodos, Muniesa, Mesquita, Morella and Mudéjar substations by means of a network of 414 km of line,

The major investments in the electricity transmission grid were earmarked for connecting the islands and for grid security and reliability.

GRID CONSTRUCTION
2016



674
km
OF NEW ELECTRICITY LINE

61 new substation bays

ASTURIAS-GALICIA AXIS

The 163 km Boimente-Pesoz line was incorporated in 2016 into the axis connection between northern Galicia and western Asturias.

31 substation bays and 1 transformer. In 2016, the 243 km Mezquita-Morella line was commissioned.

- **Godelleta axis:** has the purpose of resolving 400 kV and 220 kV technical constraints in the province of Valencia. The construction of the Godelleta substation and the associated incoming/outgoing feeder lines will facilitate the evacuation of generation from Aragón, while allowing a new point of support from the 400 kV grid to the 220 kV grid that will feed the city of Valencia. In 2016, the Godelleta 400/220 kV substation and two of the three associated incoming/outgoing feeder lines that form this axis were commissioned.

- **Torremendo axis:** its objective is to resolve the lack of grid meshing at a 220 kV level in Murcia and Alicante, and thus to solve the risk of loss of supply. This infrastructure will strengthen the 220 kV coastal axis, which runs parallel to the coast, from which numerous nuclei are fed, which has experienced a significant increase in demand in recent years. The strengthening of the axis will be undertaken through the existing San Miguel de Salinas substation, which already belongs to the axis, through the construction of the 220 kV Torremendo-San Miguel de Salinas line and the 220/400 kV Torremendo substation that will connect the coastal axis to the already existing 400 kV Nueva Escombreras-Rocamora line. In 2016, progress has been made on the construction of the axis through the commissioning of the Torremendo substation, the associated incoming/outgoing feeder lines and the Torremendo-San Miguel de Salinas line.

- **Sabinal axis:** The strengthening of this axis enables the security and guarantee of supply to be increased and the reliability of the electricity system of Gran Canaria to be improved. In 2016, the Sabinal substation and the associated incoming/outgoing feeder lines were commissioned.

- **Interconnections with France:** In 2016, three new interconnections were designed with the objective of increasing the capacity of energy transmission with Europe through France: a submarine interconnection through the Bay of Biscay and two trans-Pyrenean interconnections Cantegrit-Navarra and Marsillon-Aragón. All these actions have an expected commissioning date post-2020.

- **Majorca-Ibiza interconnection:** this link aims to eliminate the electrical isolation of Ibiza, in addition to saving costs for the system and promoting competition in electricity generation on the islands. In 2015, the first cable of the link was commissioned and in 2016 the second cable of the interconnection was also brought into service, helping to consolidate the process of electrical integration of the entire Balearic archipelago and its connection with the Peninsula.

TRANSFORMER CAPACITY

600 MVA

More in 2016

TORREMENDO AXIS

Will strenthen the coastal axis between Murcia and Alicante whose demand has increased in recent years.

The Majorca-Ibiza submarine link, completed in 2016 eliminates the electrical isolation of the islands of Ibiza and Formentera.

TRANSMISSION GRID (PENINSULAR AND NON-PENINSULAR) / EU4

	2012	2013	2014	2015	**2016** [1]
km of 400 kV line	20,109	20,639	21,094	21,184	**21,620**
km of 220 kV line	18,779	19,053	19,192	19,386	**19,496**
km of 150-132-110 kV line	272	272	272	398	**523**
km of <110 kV line	2,014	2,014	2,014	2,022	**2,025**
Total km of line	**41,174**	**41,978**	**42,572**	**42,989**	**43,664**
400 kV Substation bays	1,319	1,374	1,394	1,441	**1,458**
220 kV Substation bays	2,936	3,026	3,077	3,124	**3,150**
150-132-110 kV Substation bays	52	52	52	84	**90**
<110 kV Substation bays	743	745	769	779	**791**
Total substation bays	**5,050**	**5,197**	**5,292**	**5,428**	**5,489**
Transformer capacity (MVA) [2]	**78,629**	**81,289**	**83,939**	**84,544**	**85,144**

[1] Provisional data pending audit - in progress.
[2] 2016 solely includes the MVA transformer capacity declared in that year.
Cumulative data as at 31 December.

TRANSMISSION GRID KM OF LINE [1]

Cumulative data as at 31 December 2016

	Peninsula	Balearic Islands	Canary Islands	Total
Overhead lines (km)	39,757	1,061	1,080	41,898
Submarine cable (km)	265	540	30	835
Underground cable (km)	516	171	244	930
Total	**40,538**	**1,772**	**1,354**	**43,664**

[1] Provisional data pending audit - in progress.

SUBMARINE CABLE

835 km OF LINE IN TOTAL

Peninsular system and non-peninsular systems

The connection activities carried out in 2016 include: the installation of two feeder bays in the Regoelle substation and one feeder bay in the Cristobal Colón substation, all of which are necessary for the evacuation of renewable generation.

In addition, work has continued on other relevant projects such as: the phase shifter in Arkale (Basque Country), the Campanario-Ayora line of 34.3 km and the Gavarrot substation of the Begues-Santboi line of 4.3 km.

Transmission grid maintenance

Red Eléctrica's mission is to guarantee that the facilities of the transmission grid are always in optimum condition in terms of availability and reliability by establishing adequate implementation of responsible, efficient and safe maintenance policies. To do this, according to the strategic plan of the Company, a maintenance programme is established annually, which includes all the activities and resources necessary to guarantee the continuity of the electricity supply.

During 2016, the most important actions have been the following:

- The establishment of **cybersecurity tools** to improve secure access to electronic equipment in the transmission grid has continued.

- In addition, several **technological innovation** projects have been undertaken:
  - > An analysis of the resilience of transmission infrastructures in order to evaluate the Company's ability to deal with unforeseen risks or situations in a dynamic, flexible and creative way, giving a positive response to phenomena that could seriously affect capacity of supply and the recovery of facilities.
  - > Installation of dual-purpose remote devices to control fires near electricity lines and also to act as an ultrasonic nesting deterrent.
  - > The Inspection of electricity lines for their upkeeping by means of photogrammetric methods from images obtained from an aircraft.
  - > The design of tools for the optimisation of the treatment of vegetation and the use of unmanned drones for the inspection of overhead lines.

- In the scope of our commitment to **excellence in the development of activities:**
  - > Efficiency in facilities maintenance has been further improved through the implementation of intelligent maintenance techniques, monitoring and analysing the most relevant technical parameters of equipment and systems to ensure the reliability of the facilities.
  - > Continued operation of the 24x7 shift for the permanent attention of external customers related to the telecommunications business.

- Within the **commitment to sustainability,** in order to increase the reliability and quality of our facilities:
  - > Thermographic inspections have been carried out in all facilities, as well as monthly visual inspections to ensure the good condition of the substations. In addition, 100% of underground lines have been inspected annually to ensure that there are no negative impacts on their environment.

MAR Project (Improvement of Grid Assets)

Within the maintenance activity, the action of adaptation of the integration of the assets acquired from the electric utility companies, especially those acquired in the island systems, is carried out, providing them with the quality standards established by the Company. At the close of 2016, 80% and 89% of the assets acquired in the Balearic Islands and Canary Islands systems respectively had been integrated. In addition, it has been established that the commissioning of the telecommunications fibre optic system for the Majorca-Ibiza submarine interconnection has substantially improved the telecommunications network of the Balearic Islands system.

TECHNOLOGICAL INNOVATION

IMPLEMENTATION OF **INTELLIGENT MAINTENANCE** TECHNIQUES

monitoring the most relevant technical parameters of the facilities

> A large number of towers have been replaced, both on the Peninsula and on the islands.

> Continuation of the long-term plan for the installation/ replacement of composite insulation in overhead lines.

> Serious investment has been made to incorporate environmentally responsible coatings on the premises.

Service quality / EU28 / EU29

The service quality indicators highlight for yet another year the high level of security and quality of supply provided by Red Eléctrica's facilities, being well within the benchmark established in the current legislation.

However, in the case of the transmission grid of the Canary Islands electricity system, a number of incidents have occurred which have led to an increase in the quality of service indicators associated with continuity of supply (Energy Not Supplied ENS and Average Interruption Time AIT).

SERVICE QUALITY

98.32 %
AVAILABILITY

In the peninsular transmission grid

This increase in these indicators is mainly associated with two incidents that took place on the island of Fuerteventura, which due to the grid topology of the area, have been of greater impact, with an energy not supplied of 374.77 MWh, which represents, 82 % of the total of the ENS and AIT in the transmission grid of the Canary Islands. In any case, 2015-2020 transmission grid planning incorporates new developments aimed at minimising the impact of the potential disturbances in the transmission grid regarding the continuity of supply in the Canary Islands electricity system.

QUALITY OF SERVICE INDICATORS

	2012	2013	2014	2015	2016 (*)
Peninsular grid					
Grid availability (%)	97.78	98.20	98.18	97.92	**98.32**
Energy Not Supplied (ENS) (MWh)	113	1,126	204	53	**67**
Average Interruption Time (AIT) (minutes)	0.238	2.403	0.441	0.112	**0.141**
Balearic Islands' grid					
Grid availability (%)	98.07	97.96	98.00	96.86	**96.92**
Energy Not Supplied (ENS) (MWh)	7	80	13	29	**0.30**
Average Interruption Time (AIT) (minutes)	0.678	7.366	1.205	2.662	**0.027**
Canary Islands' grid					
Grid availability (%)	98.91	98.30	98.37	96.74	**98.09**
Energy Not Supplied (ENS) (MWh)	224	72	148	150	**457**
Average Interruption Time (AIT) (minutes)	13.250	4.380	9.040	9.078	**27.436**

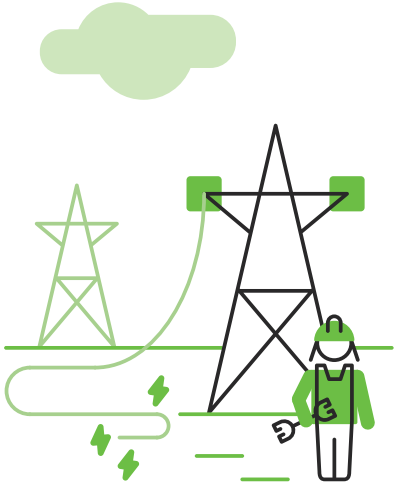
(*) The values for 2016 are pending external audit. As of 2012, the continuity of supply indicators includes the valuation of the impact of incidents that are subject to administrative proceedings currently underway.

Red Eléctrica has mobile response units capable of responding immediately in any area of the national territory.

Contingency management / G4-DMA

Planning and response when faced with emergencies and disasters

Red Eléctrica has in place systems and methodologies to efficiently manage the contingencies that may occur in the Company.



These systems are set out in a series of policy documents governing actions in the case of operational emergencies. Their application in crisis situations are complemented through mobile response units capable of responding immediately in any area of the country, aimed at guaranteeing the quality and continuity of supply.

These actions are complemented with electricity system contingency action plans, called Service Restoration Plans, which detail the precise actions to be taken to restore the electricity supply, under safe conditions for the electricity system.

Similarly, the Company also has a dedicated training centre called the Operation School, where staff from the electricity control centres are trained by means of system restoration and service recovery simulations. It also carries out safety awareness campaigns for general dissemination and drafts specific training courses on security for certain employees.

OPERATION SCHOOL

TRAINING CENTRE SPECIFICALLY FOR CONTROL CENTRE EXPERTS

Conducts awareness campaigns and training courses on security

SERVICE RESTORATION PLANS

Specific actions regarding system operation to restore the electricity supply under safe conditions for the system.

International simulation for the restoration of the electricity supply service

On 15 November 2016, the system operators of Spain, Portugal and France jointly carried out a drill to restore the electricity service following a widespread blackout simulation in the south of France. The simulation has made it possible to validate the plans for service restoration of the peninsular electricity system, in addition to the joint support plans of the Spanish system with the Portuguese and French systems, as well as training the teams involved under highly exceptional situations.

In addition to the operators of Red Eléctrica de España (REE), Redes Energéticas Nacionais (REN), Portugal and Réseau de Transport d'Électricité (RTE) in France, operators from fifteen generation and distribution companies took part, such as the National Centre for Critical Infrastructure Protection (CNPIC), the Permanent Centre for Information and Coordination of the office of the Secretary of State for Security (CEPIC), and the state security forces.

On 30 June 2014, at the request of the Secretary of State for Security, Red Eléctrica was designated Critical Operator according to procedure 1/2014, instructed by the National Centre for Critical Infrastructure Protection (CNPIC). As a result, and to comply with Law 8/2011 on Critical Infrastructure Protection and the regulations for its implementation, the Company undertook the creation of the plans required by said Law:

- **Operator Security Plan (OSP),** which sets the guidelines to be followed by the Company in the protection of these facilities.
- **Specific Protection Plan (SPP),** developed by the Company for each of the facilities designated by the Secretary of State for Security.

Within the system of protection of critical infrastructures, the Secretary of State for Security has drafted instruction nº 5/2011, which establishes a communication protocol between electricity operators, state security forces and the office of the Secretary of State for Security, in the case of a terrorist incident in facilities classified as critical.

The drafting of the Specific Protection Plans for each of the critical facilities is made without prejudice to the mandatory compliance of that set out in the Technical Construction Code, approved by Royal Decree 314/2006, of 17 March, Royal Decree 393/2007 of 23 March, which approves the Basic Rules for Self-Protection of the centres, facilities and premises dedicated to activities that can be focal points of emergency situations, or any other specific regulation applicable to the aforementioned. For this reason, and as an additional measure, the Corporate Security and Occupational Health and Safety department drafts other documents that complement the coverage of operational contingencies, and encompass the entire spectrum of possible contingencies such as those that affect people and / or the environment. These other regulations contemplate actions when faced with situations caused by pandemics, the evacuation of buildings and facilities of the Company, as well as self-protection plans for Company buildings, facilities and substations.

In 2014, Red Eléctrica was designated Critical Operator by the National Centre for Critical Infrastructure Protection (CNPIC).

PROTECTION
OF CRITICAL
INFRASTRUCTURE

RED ELÉCTRICA HAS SPECIFIC
PROTECTION PLANS

In the case of serious incidents or emergency situations

SECURITY PLAN

The Operator Security Plan establishes the guidelines to be followed by the Company for the protection of facilities.

Transmission grid losses / G4-DMA / EU12

The transmission of electricity inevitably entails a loss of energy in the grid. This means that in order to satisfy a given final consumption, it is necessary to have a higher level of generation. Therefore, losses in the transmission grid are the difference between the energy generated and the energy demanded for distribution.

There are several factors that generate losses: the Joule [1] effect, the corona effect and the own consumption of electricity substations which is required for their correct operation. Of these, the most important is undoubtedly the Joule effect associated with the flow of current through the conductors.

Losses in the electricity transmission grid depend on the distance between generation points and consumption points (primarily), the generation mix, the size of the transmission grid, voltage levels, international exchanges and the behaviour of the demand (amount of energy demanded and shape of the demand curve).

Red Eléctrica works to improve aspects that depend on their management and that can have an influence in reducing these losses. Among them noteworthy are the following actions:

- **Development and meshing** of the transmission grid.
- **Increase** in the number of conductors per circuit.
- **Use of technologies** and systems with the best performance (conductors with lower resistance, efficient equipment ...).
- **Maintaining** facilities in the best conditions possible to ensure their good operation.

The first two measures seek to create parallel paths to circulate the same intensity, which reduces resistance and thereby the losses.

However, all these improvements have a remarkably little impact on the evolution of losses, with other aspects, not controlled by Red Eléctrica, having the greatest influence.

TRANSMISSION GRID LOSSES WITH RESPECT TO PENINSULAR DEMAND

[1] **Joule effect:** the effect whereby, when an electrical current flows through a conductor, part of the kinetic energy of electrons is transformed into heat which thereby raises the temperature of the conductor.

Joule effect losses are proportional to the intensity flowing through the conductor and the resistance thereof, the greater the length of the line the greater this resistance is. In view of this, it can be understood that the losses are mainly related to the distance between points of generation and consumption.

ENERGY LOSSES IN THE GRID

1.38
%

With respect to peninsular demand in 2016

JOULE EFFECT

Key factor in energy losses in the transmission grid associated to current passing through conductors.

The increase in losses in the Spanish electricity system is linked to the share of renewable energies in the generation mix.

Losses are usually proportionate to the distance between points of generation and consumption – the greater the distance, the greater the losses. The structure of the electricity generation mix depends on the rules of the electricity market, regulated by an independent body. The role of Red Eléctrica as electricity system operator should be performed according to specific and mandatory operating procedures. According to these procedures, it is not possible to operate the electricity system based on the criteria for reducing losses, so the Company has little capacity to act in relation to the reduction of said losses.

Moreover, it is important to note that in the case of the Spanish electricity system, the increase in losses is closely related to the share of renewable energies in the generation mix. Typically, increases in hydro and wind generation are related to an increase in transmission distances (this type of generation is located far from consumption points).

PENINSULAR DEMAND
2016

246.7
TWh

+0.7%
Compared to 2015

RENEWABLE ENERGY
Has increased its share in the coverage of the peninsular demand by almost 4 percentage points.

Electricity system operation

For yet another year, the fundamental objective of the operation of the electricity system has been to guarantee the security and quality of the electricity supply, maximising the integration of renewable energies. Demand for **peninsular electricity** in 2016 has grown by 0.7% over the previous year. After factoring in the seasonal and working patterns, demand stands at the same level as in 2015.

During 2016, the share of renewable energies in the coverage of the **peninsular demand** represented 40.8%, which is 3.9 percent more than in 2015.

It is worth noting the significant contribution of wind power generation, whose contribution

COVERAGE OF PENINSULAR DEMAND WITH RENEWABLES [1]

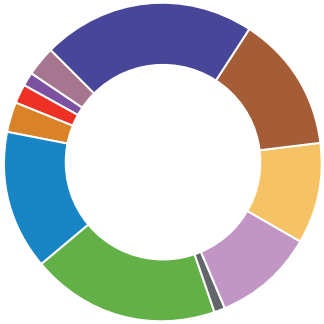
[1] Renewables: hydro, wind, solar photovoltaic, solar thermal, other renewable and 50% of urban solid waste. Excludes pumped-storage generation.

has reached 19%, which ranks this technology in second place, behind nuclear energy, in terms of share among the different types of energy in the coverage of demand. Also in January, February and March, wind generation was the technology with the greatest contribution to the total energy production of the peninsular electricity system, reaching 26.7%, 30% and 25%, respectively.

COVERAGE OF PENINSULAR DEMAND 2016

%

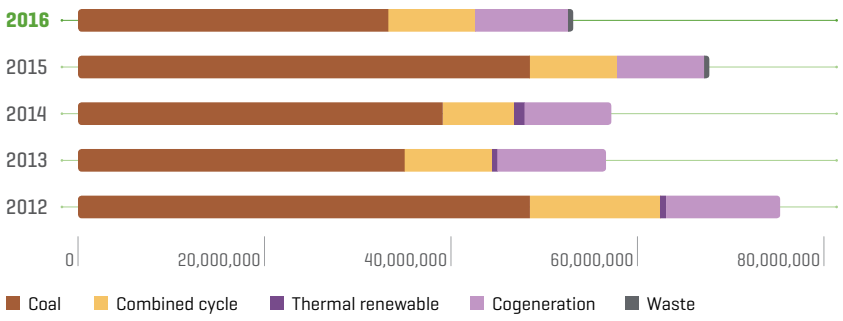
Nuclear	22.2
Coal	13.9
Combined cycle	10.2
Cogeneración	10.3
Waste	1.2
Wind	18.7
Hydro (1)	14.1
Solar photovoltaic	3
Solar thermoelectric	2
Other renewable	1.4
Importer balance international energy exchanges	3



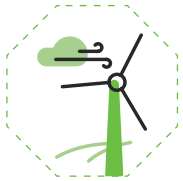
(1) Excludes pumped-storage generation.

CO_2 EMISSIONS ASSOCIATED TO GENERATION OF ELECTRICITY ON THE PENINSULA

tCO_2



RENEWABLE ENERGIES



SHARE OF WIND POWER GENERATION

19 %

Ranked in second place in demand coverage, behind nuclear energy

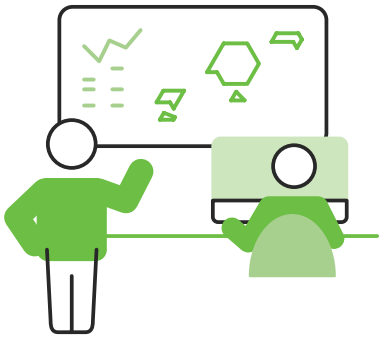
On the other hand, on 11 January, 2016, a new all-time high of hourly energy was registered, reaching 17,390 MWh, and on 12 February, 2016, there was a new all-time high of daily energy reaching 365,348 MWh. To achieve these maximum values and to make the operation of an electricity system possible with such a high penetration of renewable energies under safe conditions, the control and supervision work carried

CORESO (COoRdination of Electricity System Operators)

In October 2016, Red Eléctrica joined CORESO, the coordinating body for regional security, which already includes several European TSOs.

The increasing proportion of variable generation produced mainly by renewable energy and increased cross-border energy flows require greater coordination among European TSOs in order to maintain the high-quality standards of the electricity system.

In this regard, regional security coordinators are entities created by the TSOs with the objective of providing certain coordination services to maintain the security of the electricity system at all times.



21% of demand on the Balearic Islands has been covered by energy transferred through the link that joins the Spanish Peninsula with the Balearic Islands system.

out by CECRE is fundamental. In this regard, CECRE continues to be a pioneering centre which is of reference worldwide.

Regarding the **Balearic Islands electricity system,** the 132 kV double link between Majorca and Ibiza has been commissioned, which has made it possible to connect the two electricity systems of the Balearic archipelago, Majorca-Menorca and Ibiza-Formentera, to form a single electricity system. This infrastructure, together with the link between the island of Majorca and the peninsular electricity system, represent a substantial improvement in the quality and security of the electricity supply for the Balearic Islands, as a whole, avoiding out-of-range frequency deviations and power outages caused by loss generation.

In 2016, the energy transferred from the Peninsula covered 21% of the demand of the Balearic Islands, reaching peaks that exceeded 30% of the hourly consumption. This has meant savings of 18% in the costs for the coverage of the Balearic Islands system and has avoided the emission of approximately 350,000 tonnes of CO_2 in the Balearic Islands territory.

In the **Canary Islands electricity system,** renewable generation - wind and photovoltaic - represented 8% of the total generation in 2016, reaching 29% in Gran Canaria and 35% in La Palma throughout the year, particularly challenging values in small isolated electricity systems.

Similarly, the hydro/wind power station of Gorona del Viento has been operating regularly throughout 2016, increasing the integration of renewable energy in the El Hierro electricity system. Thus, 43% of the total annual generation of this system came from renewable energy sources and in 2016, for more than 500 hours, this system was supplied with 100% renewable energy.

SPANISH PENINSULA BALEARIC ISLANDS **LINK**

SAVING OF

18

%

IN THE COVERAGE COST OF THE BALEARIC ISLANDS SYSTEM

REDUCED EMISSIONS

The Spanish Peninsula-Majorca link has avoided the emission of approximately 350,000 tonnes of CO_2 in the Balearic Islands in 2016.

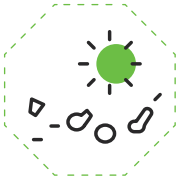
Pumped-storage power stations such as that of Soria-Chira allow energy storage and favour the integration of non-manageable renewable energies.

Energy storage in the Canary Islands

In order to reduce the vulnerability due to peaks in demand, or when facing certain situations of lack of generation, in small and isolated electricity systems such as that of the Canary Islands, it is crucial to introduce energy storage systems, such as pumped-storage power stations, which serve as tools for system operation to improve the guarantee of supply, security of the system and integration of non-manageable renewable energy. It is also essential to develop new interconnections between islands that allow for mutual support between systems and improve grid meshing to provide alternative supply routes in case of incidents.

In this regard, the construction of the pumped-storage power station between the Soria and Chira reservoirs, whose permitting process began in 2016, is an essential tool to progress towards the sustainability of the new energy model in the Canary Islands, as it will make a greater development and use of renewable energies possible on the island of Gran Canaria.

EL HIERRO **ELECTRICITY SYSTEM**



DURING MORE THAN

500

HOURS

Supplied by 100 % renewable energy

THE SORIA-CHIRA pumped-storage power station will have a turbine power capacity of 200 MW and pumping power capacity of 220 MW.

Benefits of the Soria-Chira pumped-storage power station for the electricity system of the Canary Islands

Greater GUARANTEE of supply

The power station will have a turbine power of 200 MW (around 36 % of the current peak of the island's actual demand), so it will increase the guarantee of the electricity supply in Gran Canaria.

Greater system SECURITY

The control capacity provided by this power station will make it possible to compensate for the variability of wind production foreseen on Gran Canaria and to maintain the frequency values stable, thus guaranteeing the security of the system.

Greater INTEGRATION of renewable energies

With this power station, Gran Canaria's electricity system will have an essential facility to take advantage of renewable energy surpluses and to integrate a greater amount of local energy and that energy which produces zero CO_2 emissions.

Greater ENERGY INDEPENDENCE

This facility will help reduce the costs of the Canary Islands electricity system by reducing the import of more expensive and polluting fossil fuels, which in turn lead to greater energy efficiency and a reduction in polluting emissions.

ENERGY EFFICIENCY / G4-DMA

Red Eléctrica works actively on the promotion, development and dissemination of demand-side management initiatives as one of the tools necessary to improve the efficiency and sustainability of the electricity system.

In this respect, demand-side management initiatives seek to contribute to the maintenance of the guarantee and security of supply by promoting the integration of renewable energy sources, reducing the polluting emissions and promoting the sustainable use of energy in order to achieve a greater efficiency for the entire electricity system.

Among these initiatives, noteworthy are, on one hand, those aimed at achieving a more balanced consumption profile and, on the other, those aimed at providing greater flexibility to the operation of the system.

Main actions

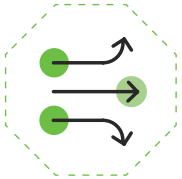
Demand-side management initiatives undertaken by Red Eléctrica seek to address demand, as a whole, carrying out specific actions for the residential sector and the industrial sector. Furthermore, other initiatives that have a global impact on all consumers in Spain are also carried out.

Active Citizen

The electricity system is in a phase of transition towards a new dynamic energy model in which the role of the citizen as a key player in the operation of the system is increasingly relevant. For this reason, Red Eléctrica promotes demand-side management initiatives aimed at making information available to the citizen about the situation of the system, or disseminating recommendations on best practices for an efficient consumption.

Demand-side management initiatives seek to achieve a balanced consumption profile and provide greater flexibility for system operation.

INTERRUPTIBILITY SERVICE 2017



AWARDING OF **2,975** MW OF INTERRUPTIBLE RESOURCE FOR THE SYSTEM

IN THE RESIDENTIAL SECTOR,

Red Eléctrica promotes consumer involvement as a key player in the new energy model.

One aspect of the new energy model that is materialising is self-consumption. Aware of this new reality, during 2016, Red Eléctrica has carried out forward planning and analysis studies to adapt the operation of the system and anticipate its impact.

Interruptibility Service

This service is an industrial demand-side management tool provided by large consumers that provides a fast and efficient response to the needs of the electricity system at any given time. In this regard, the industrial consumers who provide this service reduce, at the request of the system operator, their consumption up to certain predetermined values.

In 2013, a new allocation mechanism was introduced for the demand-side management interruptibility service based on a competitive auction procedure. During 2016, Red Eléctrica, as administrator of the auctions, has managed the holding of these auctions for the allocation of the interruptible resource for the year 2017. Specifically, large industry of the country has competed in auctions held between 14 and 17 November, 2016, which have resulted in the awarding of 2,975 MW of interruptible resource for the system during the following year.

PERFILA **PROJECT**

ANALYSIS
OF HOURLY INFORMATION

From a panel of consumers with smart meters installed

Red Eléctrica leads the PERFILA Project that seeks **to introduce improvements in the profiling service** through a panel of approximately 20,000 consumers.

Profiling Service

Currently, many of the households in Spain do not yet have smart meters and, therefore, do not have hourly measurements. However, because in the electricity market all energy is settled hourly, it is necessary to make an estimate on the hourly behaviour of those consumers that do not have smart meters installed for hourly metering. Said forecast is carried out through the so-called 'settlement profiles', which Red Eléctrica drafts and which assign to each consumer a typical demand behaviour according to their contracted power and the voltage levels (access tariffs).

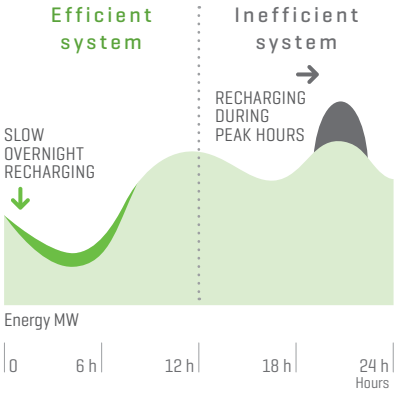
With the objective of improving the current profiling service and having a greater knowledge of the hourly consumption of households and a significant part of small shops and services, since 2013 Red Eléctrica has been spearheading the PERFILA project, which counts on the participation of the most important distribution companies. This project is based on the analysis of hourly information from a panel of consumers who already have smart meters installed. The information collated was already applied in the consumption profile proposals for 2015 and 2016 and is being applied in those for 2017.

In addition, during 2016, work was undertaken on the management and use of hourly residential consumption information to identify average hourly consumption patterns in each type of household, with the idea of transmitting information about these patterns to consumers in the future, so that it serves as a reference when managing their consumption.

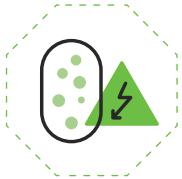
Electric Vehicle

The introduction of the electric vehicle promises to evolve the mobility models of our society, thanks to the possibility of recharging during the night-time valley hours, allowing it to become an ally that will provide greater flexibility and efficiency to the operation of the system.

THE RECHARGING SCHEDULE
OF THE ELECTRIC VEHICLE



ALMACENA **PROJECT**



POWER OF
1
MW

Electrochemical electricity storage system

ELECTRIC VEHICLE

The efficient management of the electricity demand for the electric vehicle is an opportunity for the operation of the electricity system of the future.

Future outlook

Red Eléctrica will continue to respond to the challenges posed by the evolution of the electricity system through the promotion of demand-side management measures that allow greater flexibility in the supply of electricity and a paradigm shift where electricity is not just a product that is consumed, but that the actors of the system can associate this product with services demanded by the end users. Therefore, the Company will continue to drive actions via the 'Active Citizen' initiative that allow the consumer to assume a role not only as a main player, but as an active participant in the electricity sector.

In addition, another challenge to be addressed in the near future, is the incorporation of new flexibility measures in the service sector through demand aggregation. For this reason, during 2016 the foundations were laid for the creation, next year, of a forum where the key agents in the development of the figure of the aggregator can share both their vision and the barriers and opportunities that are identified in its development, and to consolidate a framework, related to the demand, that can provide services to the system through aggregation.

Almacena Project

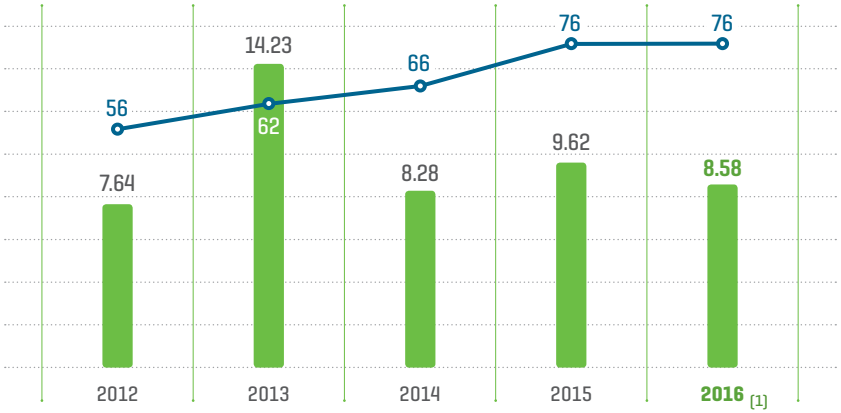
The Almacena Project consists of the field installation, and subsequent operation, of an electrochemical energy storage system, specifically a lithium-ion prismatic battery with a power output of 1 MW and a storage capacity of at least 3 MWh in the Carmona substation (Seville). During 2016, the behaviour of this innovative system has been further analysed and a comparative analysis has been carried out with other electrochemical storage systems encompassed within a project with EPRI (Electric Power Research Institute of the United States), in order to enrich the experience acquired, both in its integration into the electricity system as well as in its operation and maintenance.

TECHNOLOGICAL INNOVATION / G4-DMA

In 2016, Red Eléctrica approved a new innovation strategy with the purpose of boosting innovation as a lever for growth, cultural change and improvement of the Group's sustainability. This initiative aims to extend innovation to all areas of business activity, focusing mainly on four vectors: digitalisation, people, sustainability and technology.

In this new strategy, the figure of the vector coordinator, who channels innovative ideas and proposals, participates in their evaluation and supervises the execution of the plans and programmes of its vector, transferring information on the progress of the various actions to the Innovation Committee. These coordinators belong to different units of the organisation. As a first step in promoting the culture of innovation, an award has been created for the most innovative initiative of 2016. In this first edition, 23 proposals were presented, among which the Innovation Committee chose the following as winners: MoviMAN (Mobility Solution for the Maintenance of Facilities), CONBANK (System of electronic authorisation of payments and financial transactions from mobile devices) and PORCT (Forecast and Optimisation of Resources for the Control of Voltage).

R&D+i EXPENDITURE /



R&D+i Expenditure (M€) — Nº of projects

(1) Includes the projects and actions of the four vectors defined in the innovation strategy.

MOST INNOVATIVE INITIATIVE 2016

23 PROPOSALS PRESENTED

Three were chosen as winners by the Innovation Committee

VECTOR COORDINATOR

Is the figure who channels, evaluates and supervises innovative ideas and proposals to later pass them on to the Innovation Committee.

Similarly, Red Eléctrica has continued to undertake projects in the international arena, in particular those carried out under the framework of ENTSO-E. In 2016, the update of the 'R&D Roadmap 2017-2026' was published. Also in 2016, the R&D Monitoring Report 2015 was published, a report evaluating the progress of the ENTSO-E R&D+i Plan from the analysis of the results of more than 70 innovation projects, with the noteworthy participation of European TSOs. Collaboration has also continued with the European Platform for Technology and Innovation in Electricity Grids (ETIP) within the SET Plan of the EU, in which Red Eléctrica is a member of the Governing Board as part of the representation of European TSOs.

EPRI Award

The EPRI (Electric Power Research Institute), an organisation dedicated to research in the field of the electricity sector and involving many companies from around the world, has presented Red Eléctrica with one of its awards: the 2016 PDU 'Transfer Technology Award' for its collaboration in the analysis of the integration and impact of energy storage in electricity systems and, in particular, for the development of a model to maximise the integration of renewable energy in island systems. The awards will be presented in February 2017.

Main R&D+i projects undertaken in 2016

During 2016, Red Eléctrica has dedicated 8.6 million euros to innovation projects; projects that have had the participation of 280 employees dedicating a total of 39,926 hours. The most noteworthy projects that have been worked on in 2016 are listed below:

National projects

- **Monitoring of underground cables** using DTS (Distributed Temperature Sensors). ***Completed in 2016.***
- **Inspection of electricity lines** for their upkeeping by means of photogrammetric methods from images obtained from an aircraft. ***Completed in 2016.***
- **Monitoring and control system** based on synchrophasor measurements installed on the islands of Lanzarote and Fuerteventura. ***Completed in 2016.***
- **Study of surges** due to ferroresonance in high voltage grids. ***Completed in 2016.***
- **Use of drones** to capture geographical information and to inspect electricity lines. ***Completed in 2016.***
- **Optical current sensor** for the identification faults in the underground sections of the mixed lines. ***Completed in 2016.***
- **New forecasting tool** for peninsular and non-peninsular demand. ***Completed in 2016.***
- **Automation of the drafting of technical drawings** for substation plans in accordance with Civil works. ***Completed in 2016.***
- **Prototype to monitor real-time** recharging points for electric vehicles in Palma de Mallorca. ***Completed in 2016.***
- **Development and approval of the technique for the recovery** of Posidonia oceanica seagrass meadows, using seeds germinated in the laboratory and fragments of the species obtained due to natural fragmentation. ***Completed in 2016.***
- **Approval of the use of natural ester fluids** as a refrigerant in standard power transformers. ***Completed in 2016.***
- **Methodology for the optimum management** of the entire vegetation treatment cycle of the 'safety corridors' of lines. ***In progress.***
- **Methodology that allows the emptying of the oil pits** of the high voltage transformers and its treatment in situ. ***Completed in 2016.***

Projects related to national programmes

- **Design of a prototype** to improve the stability of frequency and voltage in small isolated systems (AMCOS-Stability FACTS Project). ***In progress.***

International projects

BEST PATHS

Analysis to overcome the various technical barriers that the current pan-European electricity grid could encounter to safely and efficiently integrate reliable quantities of energy from renewable sources such as solar or offshore wind. Project coordinated by Red Eléctrica. ***In progress.***

MIGRATE

Improved understanding of the behaviour of the electricity system with high penetration of devices based on electronic power (generators, loads, HVDC links, FACTS...). ***In progress.***

In the 'Red 21' section of the corporate website.

06 CREATION OF VALUE

CONNECTED TO SOLID GROWTH AND A CLEAR ORIENTATION TOWARDS EFFICIENCY AND FINANCIAL SOUNDNESS

CORNERSTONES FOR THE CREATION OF VALUE

Financial soundness, solvency and solid growth

FINANCIAL STRATEGY

A financial policy adapted to the new remuneration model, maintaining a diversified financial debt and a comfortable position of liquidity to cover upcoming maturities.

4,949.5 M€ of Net Financial Debt (0.9 % greater than in 2015)

FINANCIAL RESULTS

636.9 M€ IN NET PROFIT

5.1 % greater than in 2015

SOUND RESULTS

Creation of value on an ongoing basis through the attainment of solid financial results.

1,486 M€ of EBITDA (1.9 % greater than in 2015)

SHAREHOLDER RETURN

Maximising returns for shareholders and investors, offering an attractive dividend yield, and contributing to the increase in the share price through efficient business management.

Dividend of €0.8587 per share (7 % greater than in 2015)

EVOLUTION OF RESULTS / G4-DMA / G4-9

In 2016, Red Eléctrica has shown stable growth through solid results, the strengthening of its core solvency ratios, operational efficiency and the ongoing creation of value.

During 2016, Red Eléctrica managed to show stable growth. The Company achieved solid results and a significant strengthening of its core solvency ratios whilst maintaining a clear focus on operational efficiency and the permanent creation of value.

Net revenue for 2016 amounted to 1,932.3 million euros, compared to 1,938.9 million euros in the previous year. This figure includes the remuneration of the transmission in Spain that includes the assets commissioned in 2015. It includes further revenues such as those from the provision of telecommunications services, amounting to 86 million euros, and regulated incomes from system operation in the amount of 56.0 million euros, and revenues derived from international transmission activity, amounting to 19.8 million euros.

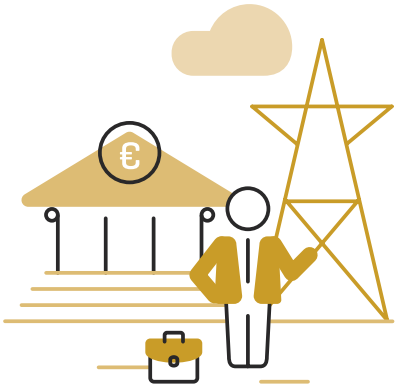
Gross operating profit (EBITDA) amounted to 1,486.0 million euros, showing growth of 1.9% year-on-year. Profit for the year amounted to 636.9 million euros, a rise of 5.1% year-on-year. The effective tax rate stood at 24.9%, in line with the figure of 25% defined in the Corporate Income Tax Act 27/2014.

EBITDA
2016

1,486
M€

+1.9%
Compared to 2015

In the Consolidated Annual Accounts.



Investments undertaken by the Group in 2016 amounted to 643.1 million euros, up 43.6% year-on-year.

NET REVENUE 2016

1,932.3 M€

Compared to 1,938.9 million euros in 2015

ECONOMIC VALUE GENERATED AND DISTRIBUTED (GROUP)

/ G4-EC1

	2014	2015	2016
Economic value generated (EVG)	**1,884.1**	**1,992.2**	**2,014.3**
Net revenue	1,846.7	1,938.9	**1,932.3**
Other net profits and losses (1)	37.4	53.3	**81.9**
Economic value distributed to stakeholders (EVD)	**-1,122.3**	**-1,330.2**	**-1,336.0**
Employees: personnel costs	-133.0	-139.6	**-145.1**
Company: Corporate Income Tax (2)	-134.4	-223.0	**-212.2**
Investment in the community (3)	-5.7	-6.6	**-6.4**
Suppliers: other operating expenses (4)	-347.7	-367.5	**-356.4**
Shareholders: dividends (5)	-405.8	-434.2	**-464.6**
Other Capital providers: net financial costs	-148.0	-159.3	**-151.3**
Economic value retained (EVR)	**761.9**	**662.1**	**678.2**
Reserves	312.0	172.5	**174.0**
Amortisation and depreciation (6)	449.8	489.5	**504.2**

Note: Data obtained from Consolidated Annual Accounts. (1) Includes: other operating income/net results obtained via equity method/results from divestment of non-current assets (divestitures)/capital subsidies and other subsidies, in accordance to that indicated in the Annual Consolidated Accounts/deferred incomes transferred to the fiscal year's results/ works performed by the Company on its assets. In 2016, 6.9 million euros were received from official bodies for the construction of electricity facilities. Similarly, the Company has recognised deductions for investments in the Canary Islands for a total of 63.8 million euros. In 2016, 11.3 million euros were transferred to results corresponding to subsidies received by Red Eléctrica de España S.A.U. for the construction of electricity facilities of official organisms and deductions for investments. More information in note 12 of the Consolidated Annual Accounts / G4-EC4. (2) Costs due to Corporate Income Tax. (3) Investments in the community: data obtained by applying the LBG methodology and subsequently subject to external verification. (4) Procurements and other operating costs (excluding investments in the community). (5) Includes the interim dividend and complementary dividend. (6) Includes: Amortisation / Depreciations (includes mainly provisions for deterioration in asset value).

Operating cash flow after taxes was 1,146.9 million euros, a rise of 1.1% year-on-year. This item includes the increase of 16.7% undergone in the corporate income tax paid as a result of the application of Royal Decree Law 2/2016 that increases the instalment payments of corporate tax.

Group investments in 2016 amounted to 643.1 million euros, up 43.6% year-on-year. 398.5 million euros of this amount was earmarked for the development of the national transmission grid, and 199.8 million euros for the acquisition of 50% of the share capital of the Chilean company Transmisora Eléctrica del Norte (TEN). For its part, 50% of the investment by TEN in Chile to date has amounted to 273 million euros.

At the end of the 2016 fiscal year, 96% of the Group's financial debt is long term. Regarding interest rates, 84% of the Group's net debt is at a fixed rate interest, while the remaining 16% is at a variable rate. The average cost of the Group's financial debt in 2016 was 2.94%, compared to 3.20% in the previous year.

Lastly, the Net Equity of the Red Eléctrica Group reached 2,920.5 million euros, a 5.8% rise on 2015-year end. This growth is mainly due to the results from the period reduced by the corresponding distribution of dividends.

INVESTMENT
2016

398.5
M€
EARMARKED FOR THE SPANISH TRANSMISSION GRID

NET EQUITY
Has amounted to 2,920.5 million euros, 5.8% greater than in 2015.

MAIN FINANCIAL INDICATORS

M€

	2015	2016	Δ%
Revenue	1,938.9	**1,932.3**	-0.3
Gross operating profit (EBITDA)	1,458.4	**1,486.0**	1.9
Net operating profit (EBIT)	989.0	**1,003.3**	1.4
Profit before tax	829.7	**850.8**	2.5
Profit for the period	606.0	**636.9**	5.1
Non-current assets	9,156.5	**9,256.8**	1.1
Equity	2,760.6	**2,920.5**	5.8
Net Financial Debt	4,905.9	**4,949.5**	0.9
Operating cash flow after taxes	1,134.9	**1,146.9**	1.1
Investments	447.8	**643.1**	43.6

NET PROFIT

M€

FINANCIAL STRATEGY

The financial strategy traditionally followed by Red Eléctrica is geared towards reflecting the nature of the business it carries out, whilst adapting to the legislation in force at each moment.

Transmission and operation of the electricity system are very capital-intensive activities, wherein investments mature over long periods.

In addition, the remuneration of these assets is for periods of 40 years at rates linked to Spanish long-term government debt. Therefore, our financial debt is primarily long-term and referenced mainly at fixed rates.

Credit rating

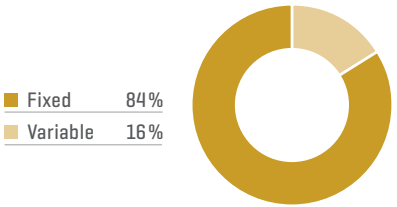
Red Eléctrica has been given a long-term credit rating of **'A-'** by Standard & Poor's with a stable outlook and a short-term rating of **'A-2'**. Meanwhile, Fitch has given Red Eléctrica a long-term rating of **'A-'** with a stable outlook, and **'F1'** in the short term.

Both rating agencies indicated the predictability and recurrent earnings as well as the soundness of its income statement.

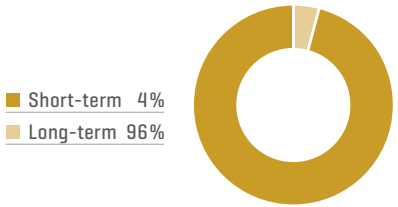
FINANCIAL DEBT STRUCTURE

%

FIXED VS. VARIABLE



SHORT-TERM VS. LONG-TERM



NET FINANCIAL DEBT

M€

NET FINANCIAL DEBT

4,949 M€

96 % long-term

84 % at fixed-rate interest

Financial strategy information in the 'Shareholders and Investors' section of the corporate website.

SHAREHOLDER RETURN

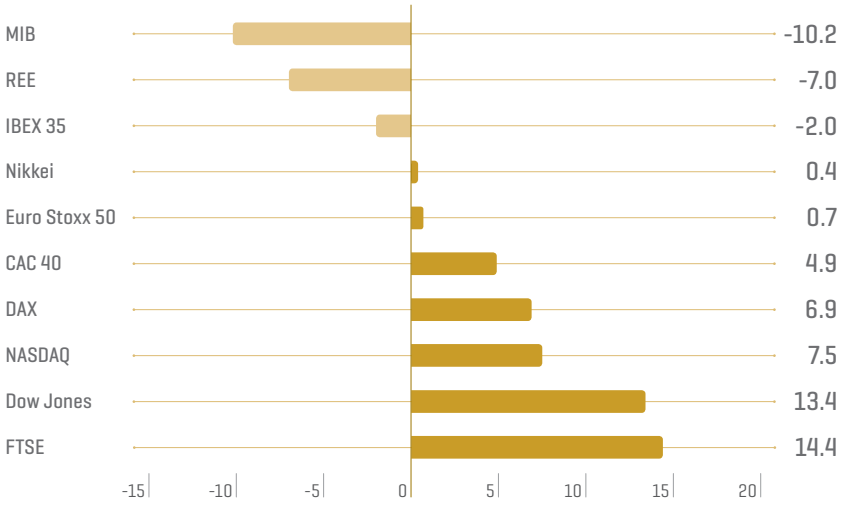
Stock market performance

The 2016 fiscal year has been a year characterised by volatility and uncertainty. Political instability has been the main cause of tension in the markets, and the economy was marked by the directives of the US Federal Reserve, with the increase in rates, the stimulus adopted by the European Central Bank (ECB) and the recovery of oil prices.

Once again, the United States leads the rankings in the stock markets, achieving double-digit gains. Among the major US indexes, the Dow Jones has performed best closing with a 13% increase, followed by the S&P 500 which has risen 10% and the Nasdaq which advanced over 7.5%. All this under the impact at the end of the year of the presidential elections and the entry into the White House of Donald Trump, which, contrary to what the markets thought, did not drive down stock market values.

For its part, the stock market performance in Europe has been more moderate. Noteworthy was the 14% increase of the FTSE 100 in London, in the midst of the stir created by the Brexit that, as happened with the arrival of Trump and despite closing several sessions in the red in the summer months, has not meant huge setbacks in the medium term. The rest of the European markets closed with positive values, Paris (+5%), Frankfurt (+7%), except for the Italian stock market, which closed with losses (down 10%) given the weakness of its financial system, and the Spanish IBEX 35, which fell by 2% also marked by political instability that was not clarified until the end of the year with the formation of a government after a second election.

EVOLUTION OF RED ELÉCTRICA AND THE MAIN STOCK MARKET INDEXES - 2016



SHARES TRADED

714.4 MILLION IN 2016

1.32 times the Company's share capital

SPLITTING OF SHARES

In a ratio of four new shares for each old one, changing its nominal value from €2 euros to €0.5 per share.

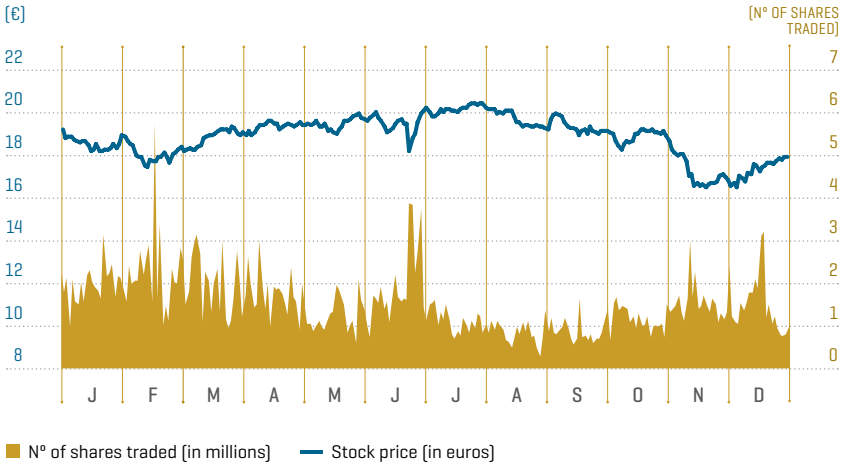
Red Eléctrica's share

2016 has been a challenging fiscal period for utilities. During the year, Red Eléctrica's share price dropped 7%, despite the favourable reception of the 2014-2019 strategic plan, which is characterised by the setting of challenging objectives and a competitive dividend yield for shareholders.

As a notable milestone in the period, it should be highlighted that on 11 July, the new shares of the Company began to be traded after the splitting of shares was approved by the General Shareholders' Meeting and carried out in a 4:1 ratio, changing its nominal value from 2 euros to 0.5 euros per share and maintaining the capital stock intact.

Throughout 2016, 714.4 million shares were traded, representing 1.32 times the Company's share capital. Purchases made in cash totalled 13,432 million euros, down 28% on the previous year which totalled 18,537 million euros.

SHARE PRICE PERFORMANCE AND DAILY VOLUME [1]



(1) Homogeneous values for 2016, taking as a reference the share value after the stock split performed on 11 July 2016 (at a ratio of four new shares for each old, changing its nominal value from €2 to €0.50 per share).

GROSS DIVIDEND
2016

€0.8587
PER SHARE

+7%
Compared to 2015

Distribution of dividends

In 2016, the direct shareholder return in the form of dividends increased by 7% over the previous year. The gross dividend proposed at the General Shareholder's Meeting with a charge to 2016 profit, is €0.8587 per share. On 5 January 2017, a gross interim dividend payout of €0.2382 per share was made, with €0.6205 per share pending distribution, as part of a gross complementary dividend.

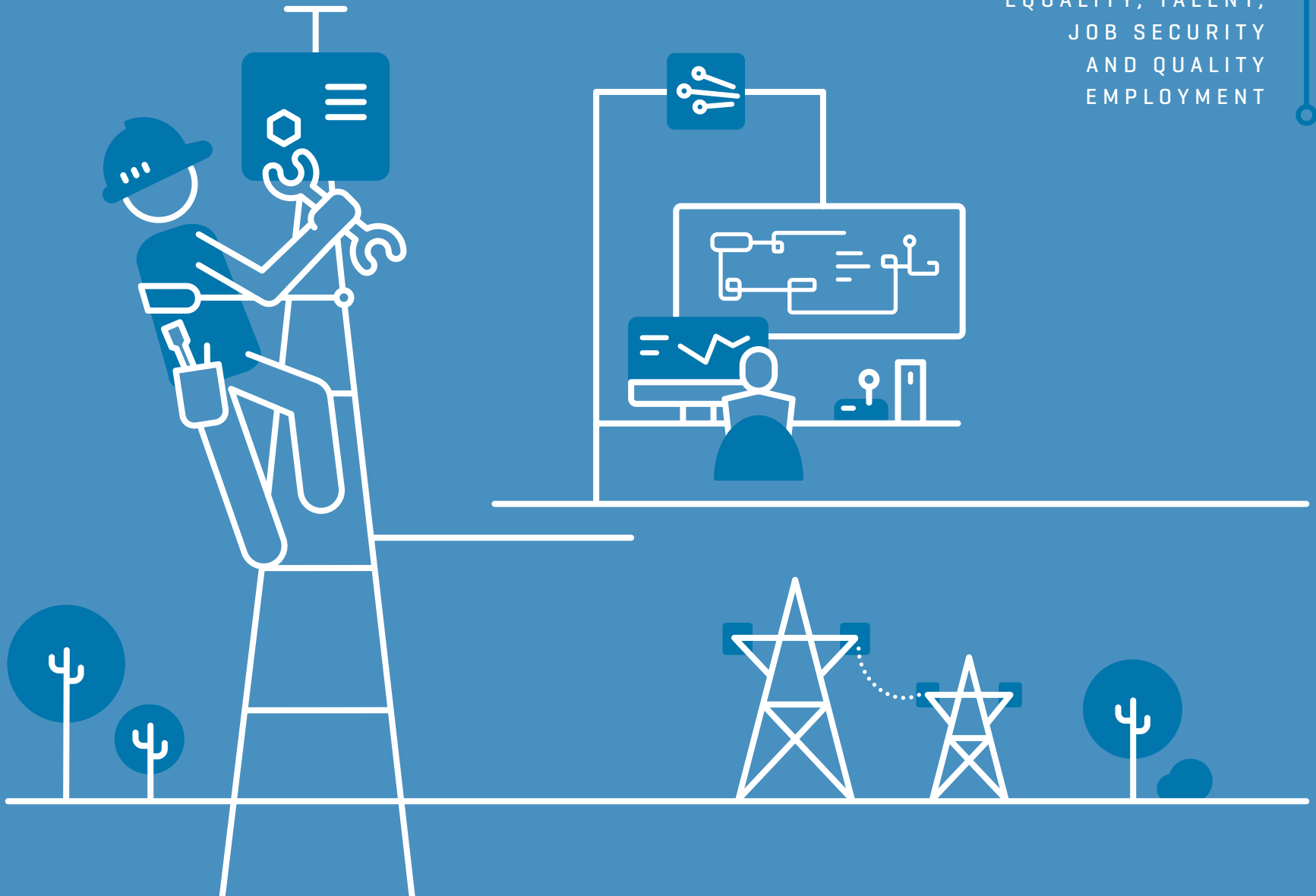
MAIN STOCK MARKET INDICATORS -2016- [1]

	2016
Share price (in €)	
Maximum	20.685
Minimum	16.255
Year-end	17.925
Market capitalisation at close of fiscal year (in €M)	9,698.9
Earnings per share (EPS) (in €)	1.18
Share price/EPS (Nº of times)	15.23
Dividend per share (in €)	0.8587

(1) Homogeneous values for the entire year after the stock split.

07 EMPLOYEES

CONNECTED TO EQUALITY, TALENT, JOB SECURITY AND QUALITY EMPLOYMENT



CORNERSTONES OF OUR COMMITMENT TO EMPLOYEES

Constant backing for a qualified, motivated and committed team

STABLE AND QUALITY EMPLOYMENT

Our commitment: internal employability of people during their time as an employee as professionals through integration, development and mobility programmes.

99.8% permanent contracts

87.5% of new directors via internal promotion

HEALTHY WORKPLACE

Our objective is the continued and progressive improvement in the levels of occupational health and safety which is understood as physical, psychological and social well-being.

Improvement in accident rates of employees and third-party contractors

7,161 hours of occupational health and safety training 22.4% more than in 2015

RESULTS OF THE OCCUPATIONAL **HEALTH AND SAFETY SURVEY**

7.7

OUT OF 10

IN EMPLOYEE SATISFACTION

Employee participation: 62.2%

TALENT MANAGEMENT

The training and development of Red Eléctrica's workforce is integrated under a global talent management model.

138,000 hours of training / G4-LA9

58% of training hours targeted at improving employability / G4-LA10

DIVERSITY AND EQUALITY

Increase in the number women in the workforce and in managerial positions, and the implementation of the action plan associated with the model for managing disability in the workplace.

23.7% of women in the workforce (23.1% in 2015) **21.8% of women in managerial positions** (20.2% en 2015)

2.7% of people with a disability (2.5% in 2015 - includes people in the workforce and LGD agreements - Law on the Rights of People with Disabilities)

STABILITY AND QUALITY OF EMPLOYMENT / G4-DMA

In 2016, Red Eléctrica has continued with the deployment of the Human Resources Director Plan which began in 2014, establishing actions and projects that favour its implementation at all levels of the Company. The purpose of this plan is to actively contribute to the objectives encompassed within the strategic plan of the organisation, within an environment of commitment and good social climate. To achieve this, the director plan has been structured into four main courses of action:

- Strategic business partner.
- Excellence in human resources management.
- Talent management and development.
- Leadership in occupational health and safety: healthy workplace.

Recognitions 2016

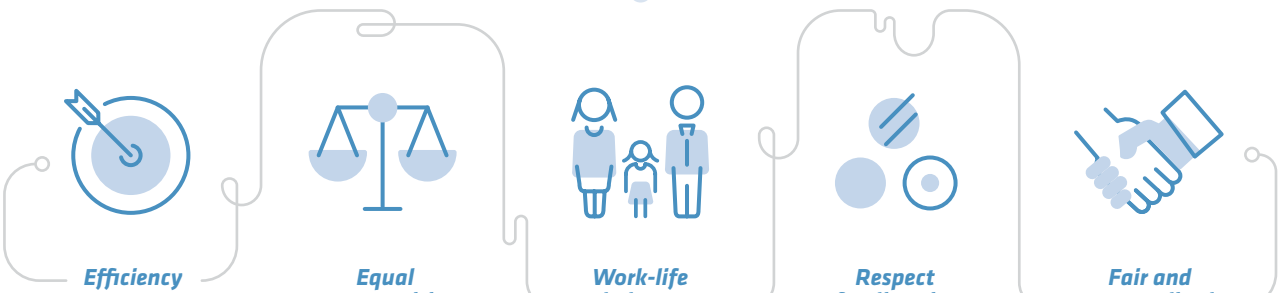
- **Maximum score** (100 points) in the Dow Jones Sustainability Index assessment in the Human Capital Development criteria.
- 35th place in the 16th edition of the **Merco Talento ranking.**
- 38th place in the Universum ranking of the **most attractive companies to work for.**

PERMANENT CONTRACTS

OF WORKFORCE

99.8 %

PRINCIPLES OF THE HUMAN RESOURCES DIRECTOR PLAN



DIRECTOR PLAN

Actively contributes to achieving the objectives set out in the Company's Strategic Plan regarding human resources matters.

A stable, committed and highly qualified team / G4-LA1

At the end of 2016, the Red Eléctrica Group had a total workforce of 1,773 people, 1% more than in 2015. Red Eléctrica de España, responsible for the core activity of the Red Eléctrica Group, employs 95% of the total, which is equivalent to 1,682 professionals, with an average age of 45 years old and an average length of service of 16 years.

In 2016, Red Eléctrica continued to strengthen its commitment to the expansion of the business base and the development of international business. At the end of the year, 5% of people were active in other areas, of which 4% are in Peru and Chile.

Our commitment to job stability is reflected in maintaining a high percentage of indefinite recruitment (99.8%), in boosting internal promotion (87.5% of appointments to managerial positions have been covered by internal promotion) and in the low overall external turnover (2.8%), mainly due to employees reaching retirement age, mainly the management team.

Undesired employee turnover stood at 2%, lower than the 5% target set for 2016.

WORKFORCE
2016

1,682
EMPLOYEES

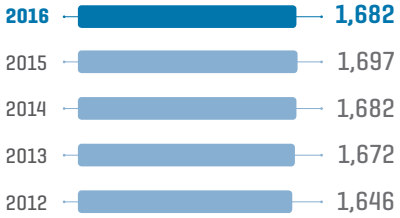
-0.9%
Compared to 2015

KEY EMPLOYMENT INDICATORS [1]
/ G4-10 / G4-LA1 / G4-LA12

	2014	2015	2016
Total workforce	1,682	1,697	**1,682**
Women (%)	22.8	23.1	**23.7**
Men (%)	77.2	76.9	**76.3**
Women in management positions (%)	19.3	20.2	**21.8**
People with some type of disability (%)	0.7	0.8	**0.8**
Creation of net employment (Nº of job positions)	10	15	**-15**
Average age	43	44	**45**
Average length of service (years)	14	15	**16**
Undesired external turnover (%)	0.9	1.6	**2.0**
Total turnover (%)	1.2	2.1	**2.8**
Permanent contracts (%)	99.3	99.9	**99.8**

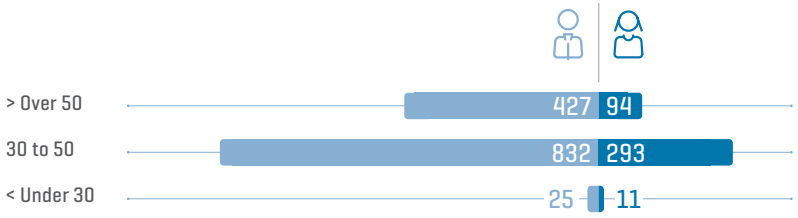
[1] Scope of the data Red Eléctrica de España + Red Eléctrica Corporación.

EVOLUTION OF THE WORKFORCE



Data regarding Red Eléctrica de España + Red Eléctrica Corporación.

WORKFORCE DISTRIBUTION BY AGE AND GENDER 2016



Data regarding Red Eléctrica de España + Red Eléctrica Corporación.

Compensation and remuneration

The Red Eléctrica Group has a remuneration model that responds to the following universal principles:

- Internally fair and equitable and externally competitive.
- Coherence with the organisational and development model.
- Offering opportunities for salary progression.
- Highlighting superior performance through recognition.

On this basis, Red Eléctrica's remuneration model for employees in the collective bargaining agreement is composed of monetary elements: fixed remuneration, within broad salary bands, and a special bonus scheme that recognises outstanding contributions. Additionally, it provides benefits in kind (non -monetary), adapted to the personal circumstances and preferences of employees: health insurance, pension plans, life insurance, public transportation card, luncheon vouchers and childcare vouchers.

For the managerial personnel, a remuneration model has been implemented incorporating the special characteristics of Red Eléctrica and the principles of internal fairness and competitiveness. The annual variable remuneration takes into consideration the contribution to the achievement of individual objectives related to economic, efficiency, quality variables, and those of management (such as safety and corporate responsibility), and in recent years have incorporated objectives to strengthen leadership.

Within this model, top management has a deferred variable whose purpose is to encourage maximum motivation and commitment to the achievement of the Company's strategic plan.

A specific model has also been defined for individuals who do not belong to the management team, but are voluntarily excluded from the Collective Bargaining Agreement, which grants them a differential treatment by providing them with a specific variable remuneration.

The remuneration of new employees is established depending on the training and experience provided under the previous schemes. These criteria are applied universally and equally to both men and women.

REMUNERATION MODEL

OBJECTIVE

Remuneration alignment in the various companies of the Group

MANAGEMENT STAFF

It has a remuneration model based on internal fairness and competitiveness, and incorporates leadership objectives.

Key actions for 2016

- **Remuneration.** A comparative market study has been carried out to analyse the competitiveness and fairness of the remuneration model applied in Red Eléctrica. In addition, the remuneration model has been updated for people who are excluded from the Collective Bargaining Agreement and that do not belong to the management team.
- **Alignment of the remuneration models in the different companies of the Group.** Within the framework of the standardisation of human resources processes and policies in all the companies of the Group, the remuneration models of the different companies of the Group have been updated, taking into account the specific needs of each business, without overlooking the common principles.

DIVERSITY AND EQUALITY / G4-DMA

Red Eléctrica is committed to guaranteeing a discrimination-free workplace that fosters diversity and allows barriers of gender, age and disability to be overcome.

Ethical behaviour, respect for diversity and equality are principles that are integrated into the corporate culture of Red Eléctrica and in the internal policies of the Company. In order to materialise the commitment to these principles, Red Eléctrica carries out various actions aimed at guaranteeing a free environment of discrimination that fosters diversity and allows barriers of gender, age and disability to be overcome.

Among the actions carried out in 2016, noteworthy was the implementation of action plans associated with the management model for workforce ageing (evolution of the comprehensive management for ageing of the workforce) and to the model for managing disability in the workplace, both approved in 2015.

Adherence to initiatives and agreements with the Spanish Ministry of Health, Social Services and Equality

- Agreement to promote the balanced participation of **women and men on boards of directors.**
- Collaboration Agreement to promote a more balanced participation of **women and men in positions of high responsibility.**
- Collaboration Agreement **'Business Network for a Society Free of Gender-based Violence'.**
- Participation in the Promociona Project that promotes **training and professional development as a strategy for access of women to managerial positions.**

Principles for action on diversity and equality

- **Equal Opportunities** in employment.
- **Promotion** of women into positions of responsibility.
- **Protection** against gender-based violence.
- **Protection** against moral, sexual and gender-based harassment.
- **Coexistence** between generations and adapting to change.
- **Inclusion** of professionals with disabilities.
- **Integration** of people at risk of social exclusion.

CONTRACTS
2016

NEW INCORPORATIONS

55

%
WOMEN

EQUALITY SEAL

Red Eléctrica de España maintains the Equality seal awarded by the Spanish Ministry of Health, Social Services and Equality.

Gender equality and equal opportunities / G4-DMA

In order to promote equality, Red Eléctrica has had, since 2009, a specific plan drawn up in conjunction with employees' representatives, which includes a set of actions aimed at promoting equality in all areas (selection, recruitment, promotion, training, remuneration, communication and awareness), as well as the monitoring of the indicators to measure the progress of the defined objectives.

During 2016, new progress has been made in the equality indicators. Thus, the number of women in the workforce ended the year with a percentage of 23.7%, which is 1.5% more than in 2015, standing above the target of 23.5%. This was contributed by the fact that 55% of the new incorporations in 2016 were women.

Similarly, the number of women in managerial positions increased for yet another year, reaching at year end a value of 21.8%, (8.3% more than in 2015, also exceeding the target of 21% set for 2016).

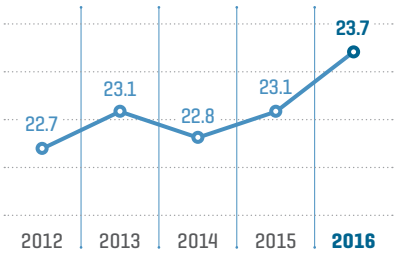
Red Eléctrica offers realistic professional development opportunities for both men and women. In this regard, the actions carried out in favour of the professional development of women enabled 50% of the women who were promoted to managerial positions during 2016 to come from the Company's Bank of Potential.

As for the indicator that measures the equality of opportunities in promotion (men/women), in this year it stood at 1.04 surpassing the target of 1.20 set for 2016.

50% of the women who were promoted to managerial positions during 2016 came from the Company's Bank of Potential.

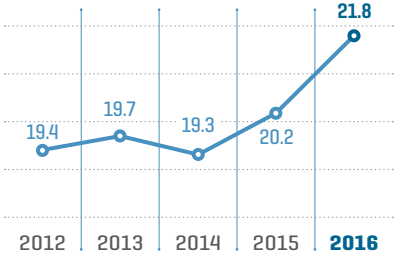
EVOLUTION OF WOMEN IN THE WORKFORCE

TARGET 2016: 23.5%

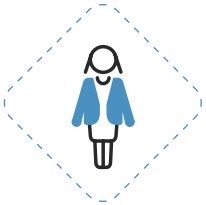


EVOLUTION OF WOMEN IN MANAGERIAL POSITIONS

TARGET 2016: 21%



MANAGERIAL POSITIONS 2016



21.8
%
WOMEN

+8%
Compared to 2015

GENDER EQUALITY INDICATOR

Measures equal opportunities in the promotion of men compared to women. 1.04 was the value in 2016; 1 being the equilibrium value.

During 2016, Red Eléctrica has continued to work on several initiatives for the promotion of equality, among which the following are noteworthy:

- Internal campaigns to raise awareness and the drafting of a training course on equality, that will be accessible to all employees via the corporate intranet.

- Participation in the *Promociona* Project whose objective is to improve the access of women to senior managerial positions. The 4th Edition of this Project has included the incorporation of a female director of the Company, which adds to the three female company directors who participated in the previous edition.

- Collaboration in various forums and working groups on subjects such as the 'Gender Tension Gap Study' promoted by IE Business School, or the study of initiatives and good practices in gender equality, work-life balance and disability issues carried out jointly with ENAGAS and CLH. The experiences and results of these studies will also be incorporated into the Women's Leadership Observatory, launched in 2015, and whose work will continue in 2017.

PEOPLE WITH SOME KIND OF DISABILITY

2.7

%

INCLUDES PEOPLE ON THE WORKFORCE AND LGD AGREEMENTS

+6.4%

Compared to 2015

Inclusion of people with disabilities

During 2016, the action plan associated with the model for managing disability in the workplace, approved in 2015, has been initiated, focusing on actions that raise awareness and increase knowledge regarding disability among all employees, thus facilitating their inclusion in the organisation. Initiatives such as the *'Plan Familia'* or *'Proyecto Unidos'*, support the integration of people with disabilities into the workplace.

In order to develop the various actions included in the plan, ensure compliance with legal obligations in this area and work in favour of disability, Red Eléctrica counts on the collaboration of the Adecco Foundation, as well as with the full involvement of the Company's management team. In 2016, two working groups were set up, consisting of directors and department heads, whose functions are: to safeguard the implementation of the model, to promote the incorporation of people with disabilities –both in staff and service companies– and, above all, to promote commitment and awareness in the application of the model at a global level.

In 2016, 2.7% of the equivalent employment of people with disabilities was achieved, an increase of 6.4% over the previous year. Of this percentage, 0.8% belongs to direct employment and the rest to LGD agreements (General Law on the Rights of People with Disabilities).

Inclusion and awareness are the foundations of the action plan associated with the model for managing disability in the workplace.

Activities carried out in 2016

Generation of Employment

The procurement of goods and services offered by Special Employment Centres for an amount of 385,000 euros and donations totalling 115,000 euros, **equivalent to hiring 32 people with some form of disability,** and to provide support for the 'Empleo Para Todos' ('Jobs For All') programme of the Adecco Foundation, through which 6,367 jobs have been generated for people with some form of disability, or at risk of exclusion.

Training

Development of a **training workshop for human resources experts** involved in selection processes to improve their skills in the selection and hiring of people with disabilities. In addition, an online course has been made available to all employees to improve their knowledge and awareness of disability.

Plan Familia

Ten employees of Red Eléctrica are benefiting from this initiative through which **family members with disabilities receive care and professional assistance** to support their integration both socially and in the workplace.

Plan Aflora

Support for **employees may qualify for the disability certificate** by providing information and assistance with the application process to obtain it.

Proyecto Unidos

Collaboration on this Adecco Foundation project in which universities and companies bring together knowledge, resources and experience **to accompany, guide and prepare college students with disabilities** during their academic stage, and for their access to the labour market. In 2016, 36 companies and 15 universities participated in this project and 19 university students with disabilities benefited from it.

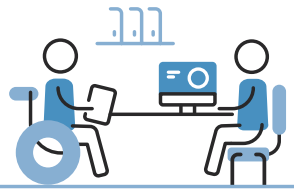
Awareness Training Sessions

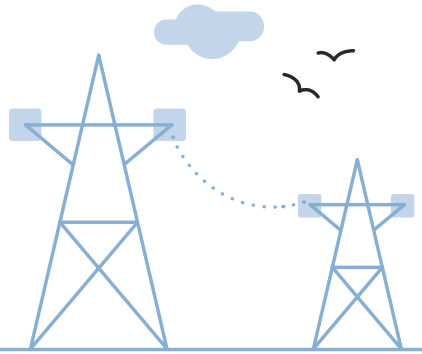
Geared **towards instilling the Company's commitment, as well as to inform and transfer the co-responsibility to all directors** encourage all employees of the Company to take part in the project. With the presence of Gema Hassen Bey, an example of enthusiasm, motivation and the capability to overcome barriers.

Internal communication plan

Creation of a space on the Company's intranet: *'RedDiversa'*, in collaboration with the Adecco Foundation, which is dedicated to diversity. **The videos and testimonials posted by employees of the Company seek to reach out to the Red Eléctrica** workforce on topics related to diversity. It also initiates a process of internal dialogue to debate values and attitudes in the field of disability.

The 'Jobs For All' programme, in collaboration with the Adecco Foundation, **has generated 6,367 jobs for people with disabilities** or at risk of social exclusion during 2016.





Key objectives 2017

Disability Culture

Continue training and **awareness activities aimed at instilling the principles of diversity and inclusion**, normalising disability and strengthening the Company's identity and values. Develop *'RedDiversa'*, the new space on the corporate website, which will communicate the different projects that are being carried out in this area.

Support for employees

Plan Familia. Continue promoting care programme for employees or family members with disabilities.

Promote corporate volunteering

by promoting **actions geared towards integration.**

Include disability within a new Model for the Management of Diversity

Whose aim is to avoid **any type of labelling that may imply barriers** that impede talent and the development of people.

Development of the Age Management Model

Evolution of the **Comprehensive Model for the Management of an Ageing Workforce** approved in 2015 with the objective of achieving a more profitable and sustainable company, committed to diversity, that promotes intergenerational solidarity by harnessing the talent and knowledge obtained through the experience of employees.

TALENT MANAGEMENT / G4-DMA / G4-LA10

Red Eléctrica has backed the development of a Global Talent Management Model aligned with the Company's strategy. This model, with a systemic approach where all processes are interdependent, includes the employment process (recruitment, selection and internal mobility), training (technical capacity and skills), development (programmes for professional growth) and the performance appraisal process, in addition to knowledge management and the leadership model.

Knowledge management and the leadership model

The transmission of key company knowledge and the involvement of senior managers are levers that promote learning and facilitate the necessary commitment that ensures the employability of people. Under the leadership model, during 2016, the Bank of Potential and LideraT programmes have continued to pursue the development of competencies that define a flexible, agile and oriented style of leadership in the creation of collaborative and participatory environments.

Within the LideraT programme, actions aimed at the integration and transition of people who have come to occupy new or different management positions in Red Eléctrica have been implemented, which has facilitated changes in the organisational structure.

In addition, as part of the deployment of the Leadership Model in 2016, a development programme has been designed for the team of experts, which coordinates the work of functional teams.

The LideraT programme has facilitated changes in the organisational structure through integration and transition actions of people who have changed their management positions.

BANK OF POTENTIAL

77 %

OF NEW HEADS OF DEPARTMENT

Employees included in the Bank of Potential programmes

INTERNAL PROMOTION

In 2016, 87.5 % of appointments to managerial positions were covered via internal promotion.

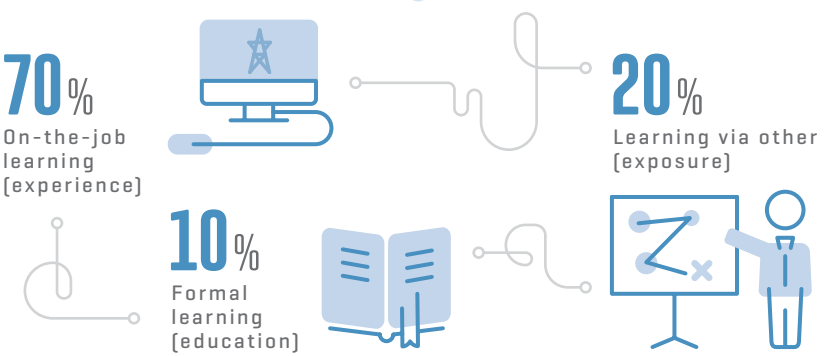
It should be noted that in 2016, 87.5% of Red Eléctrica's appointments to managerial positions were covered through internal promotion. It is also worth noting that 77% of the new department heads came from the Company's Bank of Potential programmes.

With regard to knowledge management, in 2016 the deployment of the model approved the previous year has begun. The first step has been the constitution of a governing body that will facilitate the execution of the model. The first project has also been approved, within the Transmission Management unit, which will serve as a pilot programme. The results obtained will introduce improvements in knowledge management.

Training and development

A key element within the talent management model is the learning strategy that acts as a reference in the construction of training and development programmes. This strategy is based on principles, a methodology, a standard itinerary and an evolved system of training evaluation that culminates with the calculation of ROI.

70-20-10 MODEL



RETURN ON INVESTMENT

10 %

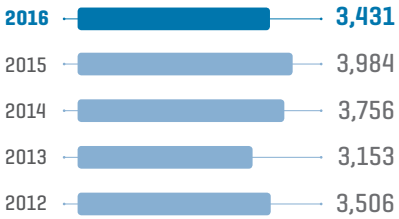
IN THE LAST FIVE YEARS

After applying the ROI in the training assessment

The different training and development programmes are grouped into four areas: technical training, skills development, corporate training and training for specific groups. The methodology used in the training actions is based on the 70-20-10 model and incorporates important technological advances, with a virtual classroom, Aul@REE, for online training.

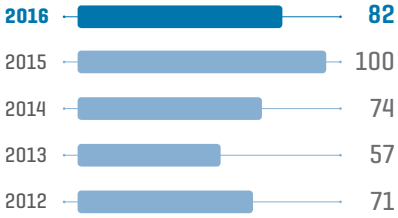
INVESTMENT IN TRAINING PER EMPLOYEE

€



AVERAGE TRAINING HOURS PER EMPLOYEE

Nº



The training and development programme consists of four axes ranging from technical training to corporate training, including skills development and training targeted at specific groups.

In 2016, Red Eléctrica provided 138,507 hours of training to employees of all professional levels, representing 82 hours of training and an investment of 3,431 euros per employee. 58% of the total training hours distributed across 273 courses have been aimed at promoting the employability of employees in technical areas, languages, skills and abilities, not directly related to the functions of the job being performed.

Internal training is a lever for the development and transfer of essential knowledge in Red Eléctrica. 6.7% of employees, experts with relevant knowledge in their respective areas, participate as internal trainers. Emphasis is given to the training of maintenance personnel to carry out local manoeuvre operation in substations, which has been carried out exclusively with internal trainers. 2,932 hours has been invested and this training is expected to be maintained over the next two years.

Also, worthy of note is the simulation for the restoration of the electricity system on 15 November, 2016, which has among its objectives to contribute to the ongoing training of operators, from Red Eléctrica, REN-Portugal and RTE-France, as well as of the rest of the 17 participating companies, when faced with a widespread incident. To achieve this, the use of state-of-the-art technology, Operation Training Simulator (OTS), essential in the ongoing training of system operators, has been key.

Training assessment system

In 2016, the system for the assessment and measurement of training has been implemented up to a level where it can calculate the return on investment (ROI). The system includes different levels: training satisfaction, acquired and applicable knowledge and training impact, culminating in the calculation of overall ROI and per programme. The calculation

EMPLOYEE TRAINING

82
HOURS

Per employee

EMPLOYABILITY

58% of the training hours, distributed across 273 courses, were aimed at promoting the employability of employees.

estimated in 2016 has shown a progressive positive trend of 10% in the return on investment in training in the last five years.

Campus Red Eléctrica

In 2016, we have worked on the project for the Company's new corporate university that will be called Campus Red Eléctrica, and which is due to be launched in early 2017. The objective of this ambitious project is that Campus Red Eléctrica be the platform for the deployment of strategy, values and culture of the Red Eléctrica Group. A place where people can come together that fosters collaboration and innovation hence facilitating the fulfilment of business objectives through learning and knowledge management.

Campus Red Eléctrica: principles

- Passion for **excellence and specialisation.**
- Agile and **adaptable to new business trends** and requirements.
- **Customer-centric.**
- **Universal, open and transversal.**
- Influential and in **constant dialogue with stakeholders.**
- Promotes the **desire to learn.**

CAMPUS
RED ELÉCTRICA

A MODEL
BASED ON
THREE PILLARS

Innovation and culture, transformation, and strategy and leadership

The new Campus represents an important advance with regard to the internal training centres established in the Company since 2004, when moving from a mainly technical approach to a comprehensive approach.

Similarly, it will provide new spaces that will improve the resources currently available and will rely on innovative methods, modern infrastructure and advanced technology.

For the design of the Campus, an analysis of the current situation has been made using the Corporate Learning Improvement Process (CLIP) of the EFMD (European Foundation for Management Development). The initial analysis has facilitated the development of a desired framework and the elaboration of an action plan to be implemented post-2017. The model is based on three fundamental pillars: innovation and culture, transformation, and strategy and leadership.

Evaluation and management of professional development / G4-LA11

The evaluation model of Red Eléctrica is oriented to facilitate the development and professional career of employees, as well as to manage their performance in an efficient way. Since 2012, the opinion of the evaluators and those evaluated for the analysis and revision of the model has been collated.

Campus Red Eléctrica seeks to become the platform for the deployment of Company's strategy, values and culture.

All employees of Red Eléctrica, management team and non-directors, are continuously evaluated on competences, commitment and contribution. Through the performance appraisal, the corresponding assessment is transmitted and improvements are agreed between collaborators and line managers.

In Red Eléctrica, there are different levels of professional progression. According to the maturity, knowledge and work experience of each person, the system offers realistic options for development within a technical career and professional evolution.

The functional mobility model facilitates development by boosting the versatility and employability of people. In 2016, 35 transversal mobility projects and 5 international mobility projects have been developed to exchange knowledge and experience with European companies in the sector. The first international mobility projects have also been carried out with companies of the Group in Peru and Chile.

On the other hand, throughout 2016 the new induction and integration programme for newly incorporated employees has been deployed, with a first edition where the figure of the coach has been elevated, a key element for development in this process.

Collaboration with the educational sector / G4-LA10

The practical training programme for young graduates is a firm commitment that Red Eléctrica maintains with society. The objective of this programme is to facilitate access to the labour market for qualified professionals.

Throughout 2016, 124 people participated, of which 16 have been part of a special theoretical-practical programme on the position of Electricity Control Centre Operator. This programme, which has been carried out in collaboration with university centres and internal experts of the Company, constitutes a valuable source of recruitment that will guarantee that new incorporations have the specific technical knowledge of Red Eléctrica's business.

COLLABORATION
EDUCATIONAL SECTOR

124
COLLEGE STUDENTS HAVE PARTICIPATED

Recent graduates

In 2016, 35 cross-cutting mobility projects and 5 international mobility projects were carried out to exchange knowledge and experience.

Also during this year, three university students have carried out their external academic work experience in Red Eléctrica.

In order to promote work experience for undergraduate vocational students, contact has been made with official organisations of the autonomous communities with the aim of designing and implementing a vocational training programme within the dual vocational training system, adapted to the needs of Red Eléctrica.

Key actions and indicators for 2016 regarding talent management

Leadership model

- **Deployment of the leadership model** with the participation of 100 % of managers to develop competencies, values and leadership styles, with 3,045 hours of training across 167 sessions.
- In the last quarter of 2016, the **third Bank of Potential for Experts** was launched which will be developed in 2017 and 2018.
- Development of the second edition of the **Bank of Potential programme for department heads,** as the main source of coverage of managerial positions in Red Eléctrica.
- **A specific ALUMNI programme** has been developed in order to facilitate a common environment for all people included in the Banks of Potential (for both experts and managerial staff), **which helps to take advantage of the talent,** experience and knowledge of all the participants.

Training and development

- **138,507 training hours were given** in 2016, resulting in an average of 82 hours per employee and an average investment per employee of 3,431 euros. 22.5 % of the training hours have been carried out with in-house personnel.
- Launch of **eight training paths for skills** that serve to improve the results of the evaluation of employees. 292 people have been trained, with a mixed work methodology (face to face and virtual) encompassed within the Talent Management Model.
- Development of the **second edition of the Bank of Experts programme,** with 645 hours of training, to apply and disseminate knowledge in the working environment and to train other employees as internal trainers.
- **273 courses and more than 83,000 hours of training** aimed at promoting the employability of workers in technical areas, languages, skills and abilities not directly related to job functions.
- **377 hours of training in corporate responsibility and corporate values,** including aspects regarding human rights, involving 66 people (experts, management team and new incorporations into the Company).
- Digitalisation of language training with more than 700 people in the **new training programme in English and French,** using 2.0 technology.
- Commencement of **advanced training in project management** in accordance with ISO21500.
- Implementation, for the first time in a continuous way, of **practical training in an electricity substation** with real out-of-service facilities.
- Undertaking of **authentic practical, in-house,** between control centre operators and future operators responsible for local manoeuvre operations.
- Design of the **Corporate University model: CAMPUS Red Eléctrica** as a platform for the deployment of the strategy, values and culture of the Red Eléctrica Group.
- **14 people have completed training in SF_6.** Between 2013 and 2016, 426 people have completed this training, of which 396 have received the official accreditation that enables them to recover SF_6 gas throughout the European Union. Certified according to RD 795/2010.

Evaluation and management of professional development

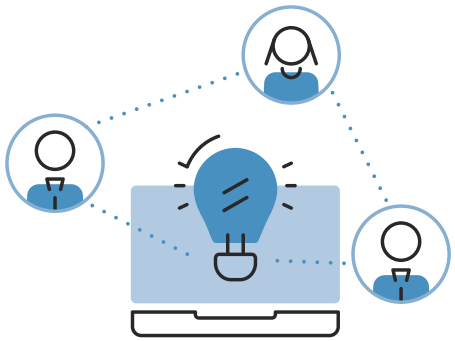
- Drafting of a communication plan aimed at **strengthening the key elements of the evaluator's role,** as well as to favour the development of the interviews of those evaluated.
- **Implementation of the evaluation in REA (Peru)** following the criteria defined in the relational framework established with the subsidiaries in Latin America. Similarly, its implementation has been planned for 2017 in TEN (Chile).
- Ongoing **evaluation of digital skills** to support digital transformation.
- **Consolidation of the multisource evaluation model** for the management team.
- **Revision of the internal mobility model** with the aim of boosting the development of people, increasing their versatility to respond to business needs in the short and medium term.

TALENT
MANAGEMENT

€3,431

INVESTMENT IN TRAINING

Per employee



In 2017 a technological tool will be implemented that **will allow the motivations and professional interests of the employees** to be known and facilitate their employability and mobility.

Key Talent Management Objectives 2017

- Within the leadership model, **promote individualised development programmes** that facilitate strategic vision and facilitate international networking.
- Consolidate the deployment of the **knowledge management model.**
- **Promote technological innovation for the benefit of learning and professional development:** design of simulators, new virtual courses, recording of sequences of technical operations for consultation.
- **Certify maintenance personnel** in regional offices as Operators of Local Manoeuvre Operations in Substations.
- Implementation of the technological tool that **allows the motivations and professional interests** of the employees of Red Eléctrica to be known in order to facilitate their employability and to promote mobility.
- **Deploy the internal functional mobility model** as a lever for development and carry out monitoring for continuous improvement through the performance indicators.
- Implement the relational framework established for the companies of the Group **in the field of talent management with subsidiaries in Latin America.**
- **Analyse the current performance appraisal system** for its improvement and to allow an optimisation of communication between evaluators and those evaluated.
- Implement the **new CAMPUS Red Eléctrica model.**
- **Continue to promote collaboration with the educational sector,** vocational training centres, universities and business schools.
- Promote **corporate training in Equality, Work-life balance and Criminal Risks** to publicise the practices and measures implemented in each of these areas.
- **Consolidate the implementation of the Bank of Experts** by deploying new actions and improvements detected by the participants themselves in synergy with the Knowledge Management Model.
- Continue with the Enlace Programme **to facilitate communication and cohesion between technical staff from the control** centres and maintenance areas.

PERFORMANCE
APPRAISAL

OF ALL
RED
ELÉCTRICA
EMPLOYEES

Through ongoing performance appraisals, by competency, commitment and contribution

DIALOGUE AND TRANSPARENCY

Internal communication is a strategic element that contributes to sharing the Company's mission and objectives through the involvement of employees.

Red Eléctrica focuses and develops internal communication as a strategic element to share the mission and objectives, to involve the employees in the different projects and to improve the working climate thus increasing their pride of belonging.

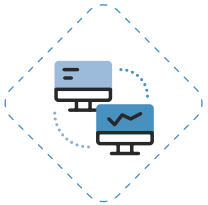
During 2016, work has been carried out on the design of the internal communication model that supports the value that the internal communication must contribute to the development of the Red Eléctrica Group, and develop the framework of criteria for internal communication actions in the different companies of the Group.

Dialogue tools and channels

In the quest for ongoing dialogue in the organisation, one of the innovations of this year has been the breakfasts with the CEO, informal sessions that have allowed the chief executive to encourage greater contact with employees, to know first-hand the issues of Interest, as well as exchange information about the Company's activity. During 2016, 15 breakfasts were held in which 168 employees of the Company (both managers and non-managers) participated.

In addition, during this year the action plans derived from the 2015 climate survey have been monitored in order to work on improvement aspects and to consolidate identified strengths. In addition, an internal communication evaluation survey (involving 51.9% of Red Eléctrica employees) has been launched to learn about the opinions of employees regarding management,

COMMUNICATION CHANNEL



miRED
NEW INTRANET

Consolidates its implementacion in 2016

BREAKFAST WITH THE CEO

Informal sessions that encourage the CEO's contact with employees. In 2016, 15 breakfasts were held with the participation of 168 employees.

initiatives and channels of communication so as to detect areas for improvement that allow the communication needs of the whole staff to be addressed.

Red Eléctrica continues to design communication plans to help the units disseminate their objectives and projects. Of particular note are the actions developed for: talent management, innovation, healthy workplace, corporate values, diversity, actions linked to the operation of the electricity system and maintenance of transmission facilities.

Key actions carried out in 2016

- **Implementation of the internal communication model** that facilitates the effective planning and execution of communication actions within the Company.
- Breakfast **with the CEO.**
- **Consolidation of the new intranet** as the main communication channel and as a collaborative space.
- Launch of the **survey regarding internal communication.**
- **Monitoring of action plans** arising from the 2015 climate survey.

INTERNAL COMMUNICATION SURVEY

PARTICIPATION OF

51.9

%

To improve communication to the workforce as a whole

The new functionalities of the intranet have been able to speed up information, enhance multidirectional communication and encourage the use of collaborative spaces.

Within the various internal communication channels, the new functionalities of the intranet made it possible to accelerate the dissemination of information, stimulate multidirectional communication and encourage the use of collaborative spaces, facilitating access to documentation and knowledge management.

Key objectives 2017

- Human Resources Road Show so that the **employees can gain a greater understanding of the functions of this area.** It additionally allows HR to gain first-hand knowledge regarding the doubts that the different areas may have, so as to provide a response that is both warm and with a human touch, and which responds adequately to the doubts raised.
- **Evolve the internal communication model** and enhance it as a tool of influence and as a strategic element for the management of people and working teams.
- **Conducting of the new climate survey,** with the objective in order to continue to be fully aware of the strengths and areas of improvement of the organisation.
- Launching the **collaborative tools of the miRED intranet,** which allow multidirectional communication and encourage participation.
- **Development of cross-cutting and personalised communication plans** that promote knowledge regarding all areas of the company and broaden the business vision.
- **Broadening of activities of the social and cultural plan** aimed at employee participation and integration, and awareness of issues of sectoral, social and environmental interest.

SOCIAL DIALOGUE / G4-DMA / G4-LA4 / EU15

Red Eléctrica de España guarantees its employees the right to union affiliation, association and collective bargaining within the framework of existing labour laws and the Collective Bargaining Agreement.

In 2016, work has continued on the implementation of the 10th Collective Bargaining Agreement, which entered into force on 1 May 2014 and will remain in force until 31 December 2017, seeking the complete fulfilment of the principles that inspired it:

- Efficiency and productivity.
- Flexibility and sustainability.

Committees contemplated within the 10th Collective Bargaining Agreement

- Occupational Health and Safety Committee. / G4-LA8
- Committee for facilities personnel (transmission grid facilities).
- Training committee.
- Equality committee.
- Professional classification committee.
- Inter-work centre committee.
- Joint committee on monitoring and interpretation of the Collective Bargaining Agreement.
- Committee on social affairs.
- Geographical mobility committee.

The Company maintains a fluid, accessible and flexible communication with the employees' representatives, which allows the dialogue between both parties to be carried out in an ongoing manner. During 2016, the various committees contemplated within the 10th Collective Bargaining Agreement, held a total of 18 meetings.

The Collective Bargaining Agreement covers the majority of the workforce, excluded from its scope are: the management team (6.98%) and employees who voluntarily and reversibly accept the proposal of

Red Eléctrica maintains a fluid and flexible communication with the Employees' Representatives as evidenced through the 18 meetings held in 2016.

WORK **FLEXIBILITY**

1,690

ANNUAL WORKING HOURS

According to the 10th Collective Agreement, in force since 1 May 2014

Continuing with the positive trend of previous years, in 2016 there were no cases of discrimination in the Company and no corrective actions were required.

the management of the Company for exclusion from the Collective Bargaining Agreement (1.22%). However, social agreements are universally applicable. / G4-11

In 2016, 15 grievances (lawsuits filed against REE SAU) on labour practices received through formal mechanisms were managed. All of these grievances were addressed in the year, 10 are pending resolution, due to the corresponding appeals, and 5 have been resolved. / G4-LA16

Continuing with the positive trend of previous years, there have been no cases of discrimination in the Company during 2016.

As a consequence, it has not been necessary to apply corrective measures within 2016.

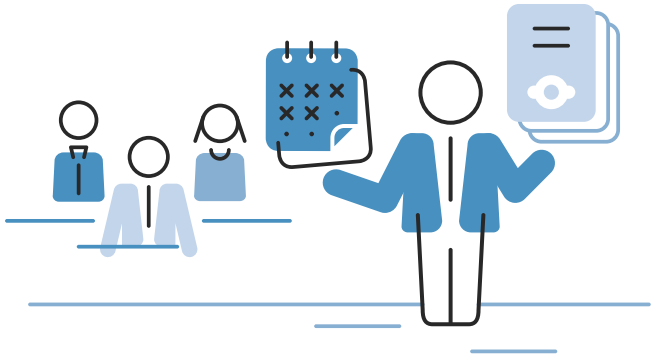
Notification of organisational changes is carried out pursuant to current legislation. The organisational changes that entail the geographical mobility of employees are notified with thirty days' notice, to both the worker and the employees' representatives. In all cases, a consultation process is carried out.

As for substantial modifications to the employment contract, in the case of changes to an employee's contract, these will be notified fifteen days in advance to both the affected worker and social representatives. If it concerns company-wide changes, a consultation period will be opened with legal representatives which may be replaced by a mediation or arbitration procedure.

Furthermore, the 10th Red Eléctrica Collective Bargaining Agreement includes specific work regimes, such as the special shift regime, or the special flexibility regime. In reference to the latter, legislation establishes different notification periods for the carrying out of work on non-working days or at night. In this regard, it is important to note that the agreement foresees penalties for the Company in the event of the cancellation of work scheduled for non-working days.

COLLECTIVE **AGREEMENT**

98.8
%
OF THE WORKFORCE IS COVERED UN THE AGREEMENT



OCCUPATIONAL HEALTH AND SAFETY

RED ELÉCTRICA-HEALTHY WORKPLACE / G4-DMA

Red Eléctrica's commitment to occupational health and safety and well-being, including the work-life balance, is a priority and one of the essential pillars of our value propositions for our employees. Red Eléctrica's healthy workplace model revolves around four main principles:

physical work environment, health resources, psychosocial work environment and community involvement.

In 2016, the Red Eléctrica Healthy Workplace Manual was published, offering specific information on all aspects of the model through practical electronic format files accessible from anywhere.

The third psychosocial risk assessment was carried out. The study consisted of an anonymous questionnaire in which 76% of people from Red Eléctrica participated, (whose results

HEALTHY **WORKPLACE**

76
%
PARTICIPATION

In the third psychosocial risk assessment

RED ELÉCTRICA HEALTHY WORKPLACE MODEL

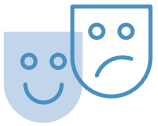
PRINCIPLES

Physical work environment

Provide the necessary means to perform the tasks associated to the job under the best health and safety conditions.

Health resources

Provide the workforce with tools to improve their state of physical and mental health, contributing to their well-being and quality of life.



Psychosocial work environment

Implement work management organisation tools and resources that promote the physical and psychosocial well-being of employees.

Community involvement

Actions carried out by the Company that can impact on the improvement of the health and well-being of their employees' families and the communities in which their facilities are located.

improve by 19% compared to the 2011 evaluation), and a qualitative analysis through 12 stress management workshops in 11 work centres in which 158 people participated. This work has allowed the design of a psychosocial risk prevention plan that will be deployed over the next three years.

The occupational health and safety survey was also carried out in which 62.2% of employees participated. The level of satisfaction is 7.7 out of 10. The conclusions will also be translated into a specific action plan.

In addition, during this year we have worked on the alignment of the policies of the companies of the Red Eléctrica Group in matters of occupational health and safety. Nationally, all the activities carried out have an equal impact on all companies in the Group. Internationally, an analysis and a diagnosis of the situation of Peruvian companies of the Group has been carried out, and an action plan has been designed to implement the healthy workplace model. Similarly, following the same methodology as in the holding company, the psychosocial risk assessment was carried out and monitored with the physical presence of specialised employees from the head offices of the Company. The level of participation was 78%.

OCCUPATIONAL HEALTH & SAFETY SURVEY

7.7

SCORE GIVEN BY EMPLOYEES

Participation of 62% of employees

The promotion of health

Red Eléctrica annually carries out several campaigns regarding the promotion of health and the prevention of health risks. In 2016, actions aimed at promoting physical activity and sport as a healthy life habit, and as an important driver of healthy values have enabled Red Eléctrica to position itself as a benchmark company in this field. The Company obtained the 'Runner-up position' at the NAOS Awards ('Strategy for Nutrition, Physical Activity and Prevention of Obesity'), an initiative of the Spanish Ministry of Health and Consumer Affairs. Said award recognises the efforts made by the Company in this field, and particularly for the project conducted in collaboration with the University of Castilla-La Mancha, which has allowed the impact of physical exercise on certain health factors and especially on cardiovascular risk to be analysed.

Similarly, in 2016, other actions have been developed to promote sports practice such as financial aid for sport, sports days, sporting events with European TSOs, as well as other solidarity actions (Heart race, 'Action against hunger' charity run, football tournament for breast cancer research). All these initiatives will mark the steps that Red Eléctrica will follow in the coming years.

The Company obtained the 'Runner-up position' at the NAOS Awards of the Spanish Ministry of Health and Consumer Affairs regarding Strategy for Nutrition, Physical Activity and Prevention of Obesity.

In parallel, the Healthy Nutrition Campaign was launched in collaboration with SEDCA (Spanish Society of Dietetics and Food Sciences), with collective actions such as workshops and talks, as well as individual actions, such as consultations regarding nutrition.

In addition and on an ongoing basis, Red Eléctrica carries out preventive monitoring of the health of its workers through an in-house medical service, responsible for monitoring employee health through periodic medical examinations. Due to the preventive measures applied, no incidence or risk of certain occupational or work-related diseases has been identified. / G4-LA7

Age management

Encompassed within the healthy workplace model, in 2015 the comprehensive model for the management of an ageing workforce was approved, which will not only try to guarantee that workers age within the Company in the best possible health, but will also enable them to extend their working life within the Company, by allowing them to work in roles that are best suited to their physical capabilities. To this end, in 2016, the action plan for age management (evolution of the approved model) has been launched, which addresses several cross-cutting objectives in which all areas of human resources are involved.

The Action Plan for age management addresses the adaptation of advanced age workers to work positions that are best suited for them depending on age and health.

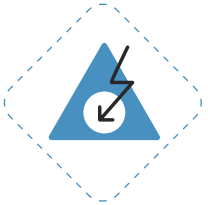
The first step has been to carry out a study of the Work Ability Index according to the methodology of the Finnish Health Institute, in which 85% of the workers asked participated voluntarily. This study will support the proposed changes in work organisation, in a way that is aligned with the needs of the business, in work positions in which age has an impact.

Physical work environment

A priority for Red Eléctrica is the reduction of work-related accidents and the application of the process for the continual and progressive improvement of the occupational health and safety levels of its employees and of those employees of suppliers who collaborate or work on Company premises and in facilities.

In that regard, Red Eléctrica has a strategy and a plan of action for the prevention of occupational health and safety risks that promotes best practices in the field during the execution of works and

OCCUPATIONAL RISK **PREVENTION**



FREQUENCY RATE

-42

%

Compared to 2015

SEVERITY RATE

-25

%

Compared to 2015

The accident indicators, for both Company staff and contractors registered significant improvements compared to previous years.

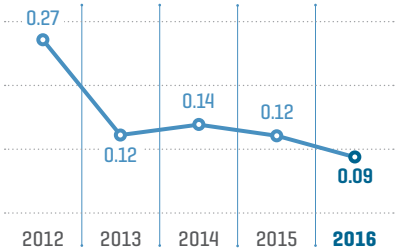
activities in its facilities. Among the actions included in the action plan are follow-up meetings and analysis of results to reinforce the behaviours followed during the execution of works.

Another milestone in the action plan is geared towards conducting internal audits by occupational risk prevention experts in conjunction with construction or maintenance experts of activities underway.

In terms of risk prevention, the continual monitoring of work and activities of greater risk through safety inspection programmes is key to achieving the high levels of safety required by Red Eléctrica.

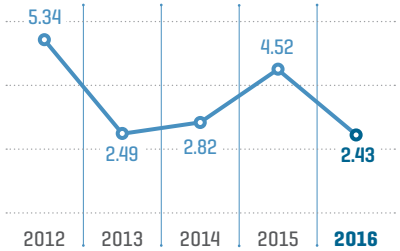
EMPLOYEE ACCIDENT SEVERITY RATE / G4-LA6

TARGET 2016: 0.57



EMPLOYEE ACCIDENT FREQUENCY RATE / G4-LA6

TARGET 2016: 3.82



OCCUPATIONAL HEALTH AND SAFETY INSPECTIONS

13,038 INSPECTIONS HAVE BEEN CONDUCTED

Which have resulted in 1,785 corrective actions

INTERNAL AUDITS

Included as part of the occupational health and safety action plan and are conducted by occupational risk prevention experts in conjunction with construction or maintenance experts.

In this regard, in 2016, 13,038 occupational health and safety inspections were carried out in works in facilities, which involved 1,785 corrective actions, of which 96% were resolved.

The measures taken in the Occupational Health and Safety Improvement Action Plan, the increase in the control of work through internal inspections and audits, as well as the tightening of controls regarding compliance with Occupational Health and Safety measures carried out on all stakeholders, has allowed a significant improvement in accident rates for both our own staff and that of our suppliers.

In 2016, there was an improvement in the main accident indicators for both Company employees and contractors. Regarding 2015, the frequency and severity indexes were reduced by 46.2% and 25% respectively in Red Eléctrica. Similarly, in the contracted companies the frequency index was reduced by 20% and the severity index by 90%.

During 2016 other actions have been carried out, among which the following should be highlighted:

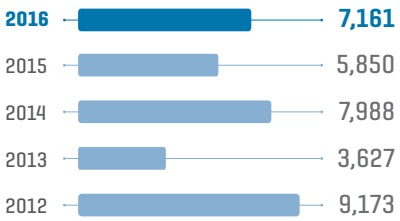
- Completion of identification of and signage for confined spaces. All information is collected in the PRER application available to users.
- Improvement of the control of access to substations by means of the *Kérberos* system, in order to allow automated access only to personnel who have previously been authorised in PRER by technical personnel from Red Eléctrica who are responsible for the facilities.
- As a consequence of the entry into force of R.D. 299/2016 of 22 July on the protection of the occupational health and safety of workers regarding risks related to exposure to electromagnetic fields, a specific programme has been established to respond to this requirement, which complements the actions in this matter usually carried out by the Company. Within the framework of this programme, in 2016, measurements have been taken in 40 facilities.

Training and awareness / G4-LA9

Red Eléctrica considers training and awareness in the field of occupational health and safety risk prevention essential to reduce accidents and to preserve the health and safety of all its personnel. During 2016, there were 7,161 hours of occupational health and safety training with 1,238 attendees. Of these hours, 1,361 were earmarked for specific training in electrical risk.

TRAINING HOURS IN OCCUPATIONAL HEALTH AND SAFETY

Nº



OCCUPATIONAL HEALTH AND SAFETY **RISK PREVENTION**

7,161 HOURS OF HEALTH & SAFETY TRAINING

With the participation of 1,238 attendees participated

OCCUPATIONAL HEALTH AND SAFETY COMMITTEE

Committee composed of equal representation from management and employees for the regular and periodic consultation on actions regarding occupational risk prevention matters.

The health and safety of people is integrated into the culture of the Company, and represents a managerial objective for Red Eléctrica's management. In 2016, 2.5% of the occupational health and safety training hours were for the management team, which represents an increase of 500% in relation to the previous year.

Consultation and participation / G4-LA5 / G4-LA8

Red Eléctrica de España has an Occupational Health and Safety Committee whose composition and functions are set out in Chapter 7 of the 10th Collective Bargaining Agreement.

This Committee is composed of equal representation from management and employees set up for regular and periodic consultation regarding the Company's actions on the prevention of occupational risks. The Committee consists of six representatives nominated by the Company and six prevention delegates chosen from representatives of the workers, representing 100% of the employees. In addition, the Company's Risk Prevention Service experts take part in the meetings of this Committee.

Consultations and suggestions regarding occupational health and safety can be made and any doubts resolved on the corporate intranet.

Meetings are held on a quarterly basis (in accordance with Law 31/95 on the prevention of occupational risks), but also may be held as and when requested by any of the parties concerned. In 2016, four meetings were held fulfilling the foreseen objectives.

During these meetings, monitoring is carried out on the following: all occupational health and safety activities, the new applicable legislation, the review of processes and internal regulations, and the analysis and monitoring of the occupational health and safety programmes and their results in addition to monitoring security equipment and materials. The minutes of these meetings are available to all employees in a specific section of the corporate intranet, 'miRED'. Also, this Committee is made aware of the results of internal and external audits conducted and the improvement actions implemented.

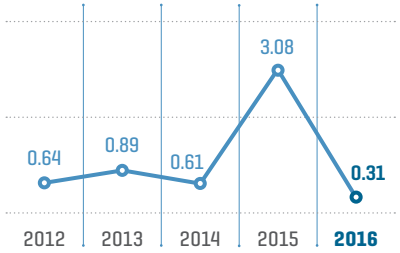
On the other hand, to encourage employee participation, a specific community in this field has been created on the corporate intranet through which consultations and suggestions regarding occupational health and safety can be made and any doubts resolved.

Occupational health and safety in the supply chain / EU18

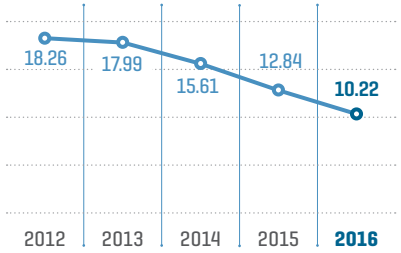
All suppliers who work in the facilities and work centres of Red Eléctrica are approved and qualified in occupational health and safety and, in the case of carrying out activities with risk, these activities are managed by the supplier's works supervisors who have been previously qualified by the Red Eléctrica prevention service. Red Eléctrica has certified more than 2,000 works supervisors and more than 400 worksite managers.

In addition, Red Eléctrica randomly requests, from its suppliers, proof of the health and safety training of its employees. It also requests proof of

ACCIDENT SEVERITY RATE-RED ELÉCTRICA'S CONTRACTORS / G4-LA6 / EU-17



ACCIDENT FREQUENCY RATE-RED ELÉCTRICA'S CONTRACTORS / G4-LA6 / EU-17



OCCUPATIONAL HEALTH AND SAFETY IN THE SUPPLY CHAIN

CERTIFIED
2,000
WORKS SUPERVISORS AND
400
WORKSITE MANAGERS

training in occupational health and safety for any new incorporations into the supplier database in the corporate occupational health and safety application (PRER). In addition, it certifies the personnel of suppliers that carry out critical functions, such as works supervisors and worksite managers. In the processes of certifying both, proof of their training and experience is requested.

Milestones in occupational health and safety 2016

Health promotion

- Dissemination of the **Healthy Workplace Manual.**
- Launch of the **third psychosocial risk assessment.**
- Evaluation of the labour **training index in professional** groups with risks associated with ageing.
- **Medical and nursing consultations** (1,258), medical examinations (1,092). Annual influenza vaccination campaign (210).
- **Health campaigns** aimed at promoting healthy eating habits and physical exercise.
- Research study of **personalised physical exercise programmes** and evaluation of their impact on cardiovascular health.
- **Promotion of physical activity as a healthy habit.** 42.4 % of the workforce benefits from financial aid in 42 sports groups. Sports days and inter-company sporting events.
- **More than 350 personalised nutritional consultations,** reinforced with healthy eating workshops and a cooking workshop.
- Personalised treatment and monitoring to **help quit smoking,** in collaboration with the Carlos III Hospital.
- **Colon cancer prevention campaign** for the over 50s, and detection of prostate cancer markers for men over 50 years of age.
- **Reduction of 6.6 % in the absenteeism rates** linked to common illnesses.

Occupational health and safety

- **7,161 hours of health and safety training,** 22.4 % more than in 2015.
- **Identification of and signage for more than 1,500 confined spaces** by the end of 2016.
- **Measurement of electromagnetic fields** in 40 substations.
- Creation of a specific community in **occupational health and safety on the corporate intranet.**
- Execution of **22 Internal Prevention audits** of different activities in Red Eléctrica's facilities.
- **Reduction of accident frequency and severity rates,** in REE employees and contractors.

HEALTH **PROMOTION**

MORE THAN **350** ENQUIRIES ON NUTRITION

Reinforced through healthy eating workshops

In the 'Employees' sub-section of the 'Sustainability' section of the corporate website.

Challenges 2017

- Implementation of the measures contained in the action plan **to improve occupational health and safety,** aimed at implementing best practices in the field. The plan consists of three courses of action: preventive culture, training and skills of the personnel performing the work, and operational control of the activity performed.
- **Improve training and skill** requirements for the agents involved in the execution of works and activities in facilities.
- Establish actions aimed at **improving the control and monitoring of the activity as a key element of safety regulations.** Among others: meetings with contractors based on their results in prevention, internal audits by prevention experts and construction and maintenance of different activities.
- Develop **communication plans linked to raising awareness regarding** occupational health and safety for all stakeholders.
- Develop a system for the control of access to facilities (Kerberos) to **increase the information available in the Company,** regarding personnel who work on overhead lines.
- Continuation of **personalised physical activity and health plans.**
- Continuation of the **Healthy Nutrition Campaign** in different work centres.
- **Campaigns for the prevention** of sleep disorders.
- Implementation of **programmes to support workers preparing for retirement.**

The work-life balance / G4-LA2

The work-life balance management model, based on the EFR standards, has changed and matured over the six years it has been implemented, and represents one of the main areas of action of the healthy workplace model within its psychosocial environment. This environment includes the organisation of work, institutional culture and attitudes, values, beliefs and practices that are exhibited daily in the organisation and affect the psychological and physical well-being of people.

The action plan, called the Comprehensive Work-life Balance Plan, which identifies the objectives and needs to be covered, for the 2014-2017 horizon, is focused on the development of actions that allow us to come closer to excellence in the management of the work-life balance.

COMPREHENSIVE PLAN FOR THE WORK-LIFE BALANCE

MORE THAN **60** MEASURES ADOPTED

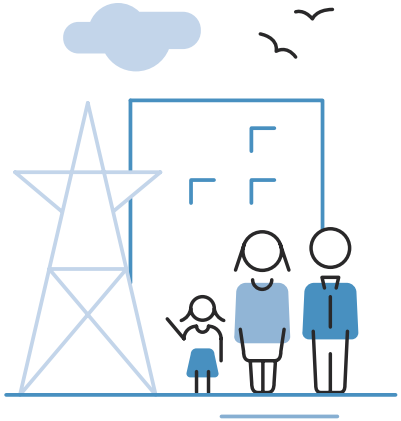
The more than 60 work-life balance measures, actions and initiatives implemented by Red Eléctrica, which apply equally to all staff, regardless of the type of contract, are one of the fundamental axes that make up the management model. The 10th Collective Bargaining Agreement also represents a clear advance in this field as it complements or broadens the scope of existing measures. With all of these measures, Red Eléctrica aims to provide tools that will improve the well-being and quality of life of its employees, increase people's commitment and their pride of belonging.

All measures are detailed in the guide 'The work-life balance a benefit for all', published on the Company intranet, accessible to all employees. The guide is structured in seven generic sections:

- Flexitime.
- Authorised leave.
- Parenthood.
- Disability/family dependents.
- Social Benefits/benefits in kind.
- Services.
- Events and activities.

The perception of how the actions integrated into the work-life balance model reach the different groups and their impact has been evidenced through the working groups that, during 2016, have held sessions in various work centres. These sessions complement the psychosocial risks evaluation mentioned at the beginning of this chapter.

All measures adopted regarding the work-life balance are detailed in the guide 'The work-life balance a benefit for all', published on the Company intranet.



As part of the work-life balance actions carried out in 2016, new impetus was given to local work-life balance partners to study the needs of other work centres and groups.

Milestones for the work-life balance in 2016

- **Banks of Potential development programme:** training and awareness-raising for the management of people through work-life balance.
- **Knowledge analysis and qualitative evaluation** of the model in different work centres.
- Continuity of **work-life balance measures related to health and well-being.**
- **Dissemination of the model for managing disability** in the workplace and measures aimed at employees with disabilities and their families: Red Diversa.
- **Family support activities and services:** takeaway service (dishes included in the corporate dining menu), non-school days (activities with children of employees on working days), urban summer camps.
- **New impetus from local work-life balance partners** to study the needs of other workplaces and groups.
- Increased **consultation through the role of the work-life balance interlocutor** supporting the interpretation of measures and facilitating individual solutions to personal circumstances. In 2016, 50 % of the consultations have been resolved with solutions adapted to the needs, beyond what is established in the Collective Bargaining Agreement.
- **Elaboration of a training video** aimed at the entire workforce.
- 'School for Parents': **theoretical-practical kitchen workshop** working on aspects of healthy eating for children.

Challenges 2017

- **Incorporation of the Work-life Balance Management training video** into the AulaRed virtual classroom.
- Development of the **3rd Comprehensive Work-life Balance Plan.**
- Launching of a **new survey on the knowledge,** use and satisfaction of existing work-life balance measures.
- **Continuation of activities:** group sporting activities subsidised by the Company, non-school days and urban summer camps for children of employees, children's parties, children's painting contest, leisure and environmental activities for the family.

WORK-LIFE BALANCE **INTERLOCUTOR**

50 %

OF CONSULTATIONS RESOLVED WITH SOLUTIONS ADAPTED TO NEEDS

Beyond what is established in the Collective Agreement

INDICATORS

WORKFORCE DISTRIBUTION BY TYPE OF EMPLOYMENT, CONTRACT, REGION AND GENDER Spain (1) / G4-10

Nº

	2014			2015			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	**Total**
Workforce (Nº of people)	1,298	384	1,682	1,305	392	1,697	1,284	398	1,682
Employees with permanent contract (Nº)	1,289	383	1,672	1,304	392	1,696	1,282	397	1,679
Employees with temporary contract (Nº)	9	1	10	1	0	1	2	1	3
Permanent contracts (%)	99.3	99.7	99.4	99.9	100.0	99.9	99.8	99.7	99.8
Part-time contracts (Nº)	0	0	0	0	0	0	0	0	0
Workers from temporary employment agencies (Nº) (2)	6	4	10	13	15	28	6	9	15
Interns (Nº) (2)	20	35	55	31	26	57	35	32	67

(1) (1)Data for Red Eléctrica de España SAU + REC. Total workforce of the Red Eléctrica Group is 1,773 people.
(2) (2)These workers are not included in the workforce count as they are not employees of Red Eléctrica.

Note: Red Eléctrica has no self-employed workers that are legally recognised.

EMPLOYEES COVERED BY THE COLLECTIVE BARGAINING AGREEMENT Spain (1) / G4-11

%

	2014	2015	2016
	Men	Women	**Total**
Employees included in the Collective Bargaining Agreement (%)	98.99	98.79	98.78
Employees excluded from the Collective Bargaining Agreement (%) (2)	1.01	1.21	1.22

(1) Data for Red Eléctrica de España SAU.
(2) Employees who voluntarily and reversibly accept the proposal of the management of the Company to be excluded from the agreement. The management team was not taken into account in the overall calculation and represents 6.98 % of the total workforce.

NEW RECRUITMENT BY AGE AND GENDER Spain (1)

/ G4-LA1

	2014						2015						**2016**					
	N° of new recruitment			Recruitment rate (%)			N° of new recruitment			Recruitment rate (%)			**N° of new recruitment**			**Recruitment rate (%)**		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	**Total**	M	W	**Total**
Less than 30	10	1	11	23.3	6.7	19.0	10	6	16	32.3	54.5	38.1	4	3	7	16.0	27.3	43.3
30 to 50	12	7	19	1.4	2.3	1.6	23	11	34	2.7	3.7	2.9	11	15	26	1.3	5.1	6.4
Over 50	0	0	0	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
Total recruitment	**22**	**8**	**30**	**1.7**	**2.1**	**1.8**	**33**	**17**	**50**	**2.5**	**4.3**	**2.9**	**15**	**18**	**33**	**1.2**	**4.5**	**5.7**

(1) Data for Red Eléctrica de España SAU + REC.

M: Men / **W:** Women.

EMPLOYEE TURNOVER BY AGE AND GENDER Spain (1)

/ G4-LA1

	2014				2015				**2016**			
	Number of people leaving		Turnover rate (%)		Number of people leaving		Turnover rate (%)		**Number of people leaving**		**Turnover rate (%))**	
	M	W	M	W	M	W	M	W	M	W	M	W
Less than 30	0	0	0.0	0.0	0	0	0.0	0.0	0	1	0.0	9.1
30 to 50	3	8	0.3	2.7	11	8	1.2	2.6	7	8	0.8	2.7
Over 50	7	2	1.9	3.1	15	1	4.0	1.5	29	3	7.0	3.7
Total turnover	**10**	**10**	**0.8**	**2.6**	**26**	**9**	**2.0**	**2.3**	**36**	**12**	**2.8**	**3.1**

(1) Data for Red Eléctrica de España SAU + REC.

Note: Average length of service of those leaving: 21.11 years.
M: Men / **W:** Women.

MATERNITY/PATERNITY LEAVE RATES (M/P) Spain (1)
/ G4-LA3

Nº

	2014		2015		**2016**	
	Men	Women	Men	Women (4)	Men	Women (4)
Employees with the right to M/P leave (Nº)	76	38	80	40	69	26
Employees who have taken M/P leave (Nº)	76	38	80	40	69	26
Reincorporations at the end of M/P leave (Nº) (2)	76	33	80	36	69	23
Employees with M/P leave who remain on the workforce (%) (3)	100	95	100	90	100	89

(1) Data for Red Eléctrica de España SAU + REC. Total workforce of Red Eléctrica Group 1,773 people.
(2) The difference between the number of reincorporations of women in relation to those who have enjoyed leave is due to 3 authorised leaves due to child care.
(3) Employees who return to work after M/P leave and continued at work in the twelve months after their reincorporation. Data as at year end.
(4) In the columns with the heading 'Women', also includes men who have exercised their right to take this leave.

OCCUPATIONAL HEALTH AND SAFETY INDICATORS Spain (1)
/ G4-LA6

/

	2014			2015			**2016**		
	Men	Women	Total	Men	Women	Total	Men	Women	**Total**
Average workforce (Nº)	1,291	385	1,676	1,313	391	1,704	1,306	398	1,704
Hours worked (thousands)	2,182	651	2,832	2,214	659	2,873	2,207	673	2,880
Accidents with sick leave (serious/minor) (Nº)	0/7	0/1	0/8	0/8	0/5	0/13	0/7	0/0	0/7
Fatal accidents (Nº)	0	0	0	0	0	0	0	0	0
Days lost due to accidents (Nº) (2)	348	35	393	202	146	348	255	0	255
Accident frequency rate	3.21	1.54	2.82	3.61	7.58	4.52	3.17	0.00	2.43
Accident severity rate	0.16	0.05	0.14	0.09	0.22	0.12	0.12	0.00	0.09
Incidence rate	5.42	2.60	4.77	6.09	12.79	7.63	5.36	0.00	4.11
Absenteeism rate due to common illness (3) (a)	1.61	2.64	1.84	1.80	3.19	2.10	1.87	2.34	1.98
Absenteeism rate due to occupational illness (b)	-	-	-	1.89	3.30	2.20	1.95	2.35	2.05

(1) Data for Red Eléctrica de España + REC + REI + REINTEL + REINCAN.
(2) The calculation is based on 6,000 working days per fatal accident and 4,500 for total permanent incapacity.
(3) The calculation formula was amended as of 2014. Therefore, the data for 2015 and 2016 is not comparable with previous years.

Serious accident: Those classified as serious by each doctor that issued the sick leave certificate. **Frequency rate:** The number of work-related accidents with leave of absence per million hours worked. **Accident severity rate:** The number of work days lost due to work-related accidents + incapacity scale, per thousand hours worked. **Incidence rate:** The number of accidents with sick leave x 1,000 / average workforce. **Absenteeism rate:** (a) From 2014 the calculation formula is: days absent due to common TI (temporary incapacity) > 3 days + days absent TI <3 days / average headcount x 365 x 100 and (b) As of 2015 it also incorporates the total absence due to occupational illness: days absent due to common TI > 3 days + days absent TI <3 days + days absent due to AT + EP / average headcount x 365 x 100.

Note 1: The data for accident and absenteeism rates is provisional. **Note 2:** Days off work AT (excluding commuting) men: 255 / women: 0 / Total 255.
Note 3: The register and reporting of accidents is done based on Spanish law and as set out in the Red Eléctrica management system, certified according to OHSAS 18001.

AVERAGE HOURS OF TRAINING BY PROFESSIONAL GROUP AND GENDER Spain (1)

/ G4-LA9

Nº

	2014			2015			**2016**		
	Men	Women	Total	Men	Women	Total	Men	Women	**Total**
Management team	64	77	66	112	163	122	110	120	112
Experts (G1+G2+G3)	60	85	64	95	130	101	83	90	84
Administrative personnel (G4)	13	23	20	30	54	48	23	36	32
Total	**76**	**73**	**74**	**86**	**114**	**100**	**83**	**79**	**82**

(1) Data for Red Eléctrica de España + REC + REI + REINTEL + REINCAN.

PERCENTAGE OF EMPLOYEES WHOSE PERFORMANCE AND PROFESSIONAL DEVELOPMENT IS APPRAISED PERIODICALLY Spain (1)

/ G4-LA11

%

	2014		2015		**2016**	
	Men	Women	Men	Women	Men	Women
Employees with a performance appraisal (%)	100	100	100	100	100	100

(1) Data for Red Eléctrica de España SAU + REC.

COMPOSITION OF THE CORPORATE GOVERNANCE BODIES BY AGE

/ G4-LA12

%

	2016		
	< Under 30	30-50	> Over 50
Board of Directors (1)	0	27.3	72.7
Audit Committee	0	0	100
Appointments and Remuneration Committee (1)	0	50	50

(1) The Board of Directors is composed of 12 members, although at the end of 2016 there was a vacancy following the resignation of the external independent member Agustín Conde Bajén on 29 November 2016. Therefore, the calculations used for this indicator have used the number of existing Board members (11) at the end of 2016 and on the existing members (4) of the Appointments and Remuneration Committee at the end of 2016.

COMPOSITION OF THE CORPORATE GOVERNANCE BODIES

/ G4-LA12

Nº

	2014				2015				**2016**			
	M	W	Total	% W	M	W	Total	% W	**M**	**W**	**Total**	**% W**
Board of Directors (1)	6	5	11	45.5	7	5	12	41.7	7	4	11	36.4
Audit Committee	2	2	4	50.0	4	1	5	20.0	4	1	5	20.0
Appointments and Remuneration Committee (2)	1	3	4	75.0	0	4	4	100.0	1	3	4	75.0

(1) The Board of Directors is composed of 12 members, although at the end of 2016 there was a vacancy following the resignation of the external independent member Agustín Conde Bajén on 29 November 2016. Therefore, the calculations used for this indicator have used the number of existing Board members (11) at the end of 2016.
(2) This committee is composed of 5 members, although at the end of 2016 there was a vacancy following the resignation of the external independent member Agustín Conde Bajén on 29 November 2016. Therefore, the calculations used for this indicator have used the number of existing Board members on this committee (4) at the end of 2016.

M: Men / **W:** Women.

WORKFORCE DISTRIBUTION BY AGE, GENDER AND PROFESSIONAL GROUP Spain (1)

/ G4-LA12

%

	2014						2015						**2016**					
	< Under 30		30-50		> Over 50		< Under 30		30-50		> Over 50		< Under 30		30-50		> Over 50	
	M	W	M	W	M	W	M	W	M	W	M	W	**M**	**W**	**M**	**W**	**M**	**W**
Management team	0.0	0.0	72.1	27.9	89.7	10.3	0.0	0.0	69.6	30.4	88.9	11.1	0.0	0.0	69.4	30.6	87.7	12.3
Experts (G1, G2, G3)	75.4	24.6	78.1	21.9	92.9	7.1	73.8	26.2	77.5	22.5	91.6	8.4	69.4	30.6	76.9	23.1	90.8	9.2
Administrative personnel (G4)	0.0	0.0	19.1	80.9	33.3	66.7	0.0	0.0	17.9	82.1	32.3	67.7	0.0	0.0	18.4	81.6	28.2	71.8
Total	**75.4**	**24.6**	**74.4**	**25.6**	**85.1**	**14.9**	**73.8**	**26.2**	**74.2**	**25.8**	**83.5**	**16.5**	**69.4**	**30.6**	**74.0**	**26.0**	**82.0**	**18.0**

(1) Data for Red Eléctrica de España SAU + REC.

M: Men / **W:** Women.

TOTAL NUMBER OF EMPLOYEES BROKEN DOWN BY AGE, GENDER AND REGION Spain (1)

/ G4-LA12

Nº

	2014			2015			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	**Total**
Under 30	43	15	58	31	11	42	25	11	36
30-50	884	304	1,188	860	299	1,159	832	293	1,125
Over 50	371	65	436	414	82	496	427	94	521
Total	**1,298**	**384**	**1,682**	**1,305**	**392**	**1,697**	**1,284**	**398**	**1,682**

(1) Data for Red Eléctrica de España SAU + REC.

RATIO OF BASE SALARIES OF MEN COMPARED TO WOMEN (MEN/WOMEN) Spain (1)

/ G4-LA13

/

	2014	2015	2016
Management team	1.02	1.01	1.03
Experts (G1, G2, G3)	0.94	0.94	0.94
Administrative personnel (G4)	0.98	1.01	1.01
Total	**1.02**	**1.02**	**1.01**

(1) Data for Red Eléctrica de España SAU + REC.

EMPLOYEES WITH THE POSSIBILITY OF RETIREMENT IN THE NEXT 5 OR 10 YEARS Spain (1)

/ EU-15

%

	In the next 5 years 2017-2021	In the following 5 years 2022-2026
Management team	1.3	1.1
Experts (G1, G2, G3)	5.3	7.8
Administrative personnel (G4)	0.2	2.2
Total	**6.8**	**11.1**

(1) Data for Red Eléctrica de España SAU (workforce 1,675).

Note 1. Considering retirement age as a sole requirement and estimating this as 65 years of age.
Note 2. In the first period (2017-2021), employees considered are those whose age is equal to or greater than 65.

OCCUPATIONAL HEALTH AND SAFETY INDICATORS **REE contractors (1)**

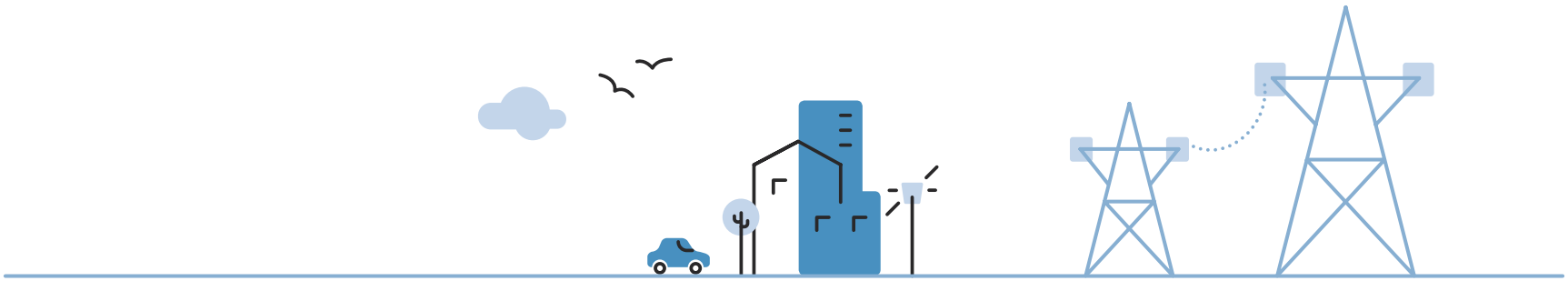
/ EU17 / G4-10 / G4-LA6

	2014	2015	**2016**
Average workforce (1)	3,336	2,950	2,666
Hours worked (thousands)	5,637	4,986	4,502
Accidents with sick leave (serious/minor)	4/88	11/51	0/46
Fatal accidents	0	2	0
Days lost due to accidents (2)	3,437	15,347	1,402
Accident frequency rate	15.61	12.84	10.22
Accident severity rate	0.61	3.08	0.31
Incidence rate	27.57	21.69	17.26

(1) Based on hours worked, considering 1,690 hours per worker.
(2) Calculation based on 6,000 working days per fatal accident and 4,500 for total permanent incapacity.

Serious accident: Those classified as serious by each doctor that issued the sick leave certificate. **Frequency rate:** The number of work-related accidents with leave of absence per million hours worked. **Accident severity rate:** The number of work days lost due to work-related accidents + incapacity scale, per thousand hours worked. **Incidence rate:** The number of accidents with sick leave x 1,000 / average workforce.

Note 1: Data regarding 2016 is provisional. **Note 2:** Regarding **G4-10**, no data is available broken down by type of work contract and regulatory regime.



08 SOCIETY

CONNECTED TO THE COMMITMENT TO THE CREATION OF SHARED VALUE

CORNERSTONES OF THE RELATIONSHIP WITH SOCIETY

Dialogue, collaboration and creation of shared value

COMMUNITY TIES

Development of relationships based on trust and ongoing dialogue to facilitate the implementation of projects in the territory.

68% of agreements reached with landowners are amicable

SOCIAL COMMITMENT

Undertaking projects and initiatives of a social, cultural, environmental, educational and corporate volunteering nature.

Over 250 social actions geared towards development of the communities

COLLABORATION WITH LOCAL ADMINISTRATIONS

35

COLLABORATION AGREEMENTS

With Autonomous Communities and Local Councils

INVESTMENT IN THE COMMUNITY

Social contribution aimed at improving the well-being and progress of the communities in which the Company's facilities are located.

€6.4 million contributed to society

TAX TRANSPARENCY

Tax information transparency and tax contribution through the payment of taxes in the different countries in which the Red Eléctrica Group operates.

€681 million Total Tax Contribution

OUR COMMITMENT TO SOCIETY

Red Eléctrica is committed to the creation of shared value as the guiding principle of its business activity.

Global vision in the creation of shared value

Red Eléctrica orients its commitment to the socio-environmental setting towards the creation of shared value with society, promoting actions and investments aligned with its business objectives that, while generating value for the Company, positively impact on society and on the territory and its inhabitants. In turn, this is a contribution of the Company to the achievement of various challenges such as those related to the United Nations Sustainable Development Goals, or those addressed in the European energy strategy 2020.

The creation of shared value in Red Eléctrica occurs both in the way it operates the electricity system (guaranteeing an efficient, secure and sustainable electricity supply to citizens and companies), as well as in the development and maintenance of transmission grid infrastructure. This activity generates a scenario of opportunities for the creation of shared value throughout the life cycle of the electricity infrastructure.

Additionally, the work of Red Eléctrica as transmission agent favours system operation and especially allows the integration of renewable energies to be maximised, through its Control Centre of Renewable Energies (CECRE), which in turn, makes it possible for the energy model to respond to society's ongoing demand for it to be ever-more sustainable.

To achieve these objectives, the Company manages the transmission grid under the principles of neutrality and efficiency. It also manages grid access requests from the different agents that are involved in the electricity system under the same criteria, something that in itself is a process for the creation of shared value with society.

SHARED **VALUE**

WITH SOCIETY
BY DRIVING PROJECTS

that favour progress in the territories

SOCIAL COMMITMENT

The activity generated by the Company represents a scenario of opportunities for the creation of value throughout the life cycle of the infrastructure.

Respect for society, both environmental and social, is a basic principle of action for Red Eléctrica and is present throughout the development process for new infrastructure. On the one hand, seeking solutions that generate the least environmental impact and, on the other, promoting the participation of society in the process through consensus and ongoing collaboration. In this manner, the needs of society are resolved through in a consensual manner and, at the same time, the facilities respond to the needs of the electricity system.

Finally, Red Eléctrica accompanies its projects in the territory with collaboration programmes that reflect the Company's social commitment and pursue the goal of contributing to the development of the communities in which its facilities are located.

Ties with the community / G4-DMA / G4-SO1

Red Eléctrica carries out a program of actions that promotes institutional and social relations, seeking collaboration agreements in a transparent manner, disseminating information on the functioning of the electricity system and driving participation in projects and initiatives that promote social well-being and progress in the territory.

In this regard, the Company promotes and maintains an ongoing relationship with the local communities in which its facilities are located, not only during the process of construction of new facilities but also throughout the entire life cycle of the facilities. Therefore, it has an organisational structure distributed nationwide that facilitates institutional communication and collaboration with government administrations and also public and private institutions. This open and participatory strategy aims to establish relationships based on trust and collaboration that:

- **Integrate the presence of the Company in the social,** environmental and institutional fabric of the territories where the projects are implemented, through collaboration agreements.
- **Explain and disseminate the need for the projects** and provide an adequate level of response to the demand for information from communities where its facilities are located.

In the development of new infrastructure, in addition to seeking the minimum environmental impact possible, REE promotes the participation of society in the implementation process.

SOCIAL COLLABORATION PROGRAMMES

RED ELÉCTRICA ACCOMPANIES ITS INVESTMENT PROJECTS WITH **ACTIONS THAT CONTRIBUTE** TO THE DEVELOPMENT OF THE COMMUNITIES

- **Maintain informative transparency** and facilitate the maximum public participation.
- **Balance the general interests** of the territorial scope with the needs of the project to obtain social acceptance.
- **Promote the maximum institutional and social consensus** in the implementation of investment projects.

In 2016, noteworthy was the signing of 35 collaboration agreements with Autonomous Communities and local councils for carrying out projects aimed mainly at socio-economic, environmental, educational and cultural development.

In the case of local councils, and in relation to the construction of new infrastructure, the Company fosters close-knit ties with communities to inform on the need for facilities and their role within the transmission grid, as well as to promote dialogue that facilitates the carrying out of projects in a sustainable manner and with social acceptance. Thanks to this ongoing dialogue and the collaboration on projects for local development, Red Eléctrica has managed to sign collaboration agreements with 47% of the local councils affected by the facilities brought into service in 2016.

Furthermore, noteworthy is the fact that amicable agreements were reached with 68% of the landowners affected by projects whose permitting process was completed in 2016.

SOCIAL RESPONSIBILITY **PLAN**

ALL
MUNICIPALITIES OF TERUEL AND CASTELLÓN

Associated to the Mezquita-Morella and the Mudéjar-Morella electricity lines

319,680 euros investment

Red Eléctrica accompanies its projects in the territory with collaboration projects that evidence its social commitment.

Social Responsibility Plan associated with the Mezquita-Morella line

In 2015, Red Eléctrica designed a Social Responsibility Plan aimed at the 22 local councils in the municipalities of Teruel and Castellón which are crossed by the Mezquita-Morella and Mudéjar-Morella electricity lines.

This programme, which now has 2 more local councils that were pending agreement, has represented an investment in the territory of 319,680 euros for the carrying out of initiatives of a social, cultural and environmental nature.

In addition, in order to showcase the artistic, cultural and environmental wealth of the area, Red Eléctrica has published the book *'Cuadernos de viaje. Por tierras de Teruel y Castellón'*, whose main theme is a tour of the 22 municipalities through which the infrastructures run, thus helping to strengthen the identity of these cities and towns.

Investment in the community

In the framework of the strategy of business development, Red Eléctrica provides and promotes social action as an essential element of its corporate responsibility policy, which is carried out through defined actions in collaboration with different institutions and public and private entities to respond to the demands for collaboration put forth by stakeholders.

In 2016, the Company contributed 6.4 million euros (1.09 % of net profit) to the development or promotion of social initiatives; an amount obtained by applying the methodology of the LBG (London Benchmarking Group).

Social commitment

Red Eléctrica's social programme includes actions mainly aimed at the socio-economic development of the territory; conservation, protection and enhancement of the natural heritage of the municipalities; and disseminating knowledge of the electricity system.

In the field of **socio-economic development of the territory,** in 2016, Red Eléctrica promoted and collaborated on over 250 initiatives, among which noteworthy are the projects for the construction or improvement of municipal infrastructure, collaboration on projects of social relevance with an impact on tourism, enhancement of the cultural wealth of the territories and projects for the restoration of emblematic buildings, among others.

CONTRIBUTION 2016

%

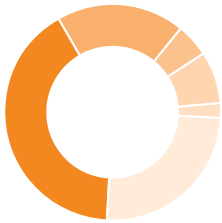
TYPE OF CONTRIBUTION

Monetary	75 %
Time	16 %
Management costs	9 %

REASONS FOR ACTION

Social investment	52 %
Initiative aligned with the business	48 %

AREA OF ACTION



Socio-economic development	41 %
Environment	19 %
Art and culture	5 %
Social well-being	8 %
Other	2 %
Education	25 %

SOCIAL CONTRIBUTION 2016

6.4 M€

EARMARKED FOR THE DEVELOPMENT OF SOCIAL INITIATIVES

59 %

With an impact on the SDGs

'Jóvenes para Jóvenes' Project

Red Eléctrica, in collaboration with the Helsinki Foundation, has launched the ***'Jóvenes para Jóvenes'*** Project (Youth for Youth). A pioneering initiative in the Canary Islands, through which about 30 university students will receive specific training in human rights education and the promotion of a future sustainable energy model. They will then go to educational centres to promote the respect and knowledge of these subjects among some 450 secondary school students who are 13-16 years of age.

During 2016, 151 visits were organised to the electricity control centres and to various infrastructure facilities of the transmission grid.

In the field of **knowledge dissemination,** Red Eléctrica, as the sole transmission agent and operator of the Spanish electricity system, plays an active role in publicising how the Spanish electricity system works as a whole, as we are aware that a more informed society is better able to develop and maintain a sustainable energy model that effectively meets the energy needs of citizens.

Red Eléctrica also pays special attention to higher education and training in the area of energy and the environment. During 2016, of note was the support for the training of 1,047 students in masters or specialisation courses of more than 28 schools and colleges through 49 visits to Company facilities. Also noteworthy are the 8 agreements signed with universities and educational institutions, and collaboration for the delivery of workshops and lectures at universities, in which Red Eléctrica participates in disseminating information on issues related to grid management and electricity systems.

In relation to the **environmental actions,** noteworthy is the 'Red Eléctrica Forest' project, an initiative that contributes to the fight against climate change through the planting of trees. This project, along with other environmental actions and

'A highway behind the wall socket' exhibition

The objective of the exhibition 'A highway behind the wall socket' is **to explain the electricity supply process,** from generation to consumption, showcasing the Company's activities as TSO of the Spanish electricity system, and to raise public awareness about the need for an efficient and responsible energy consumption. And at the same time, the exhibition **serves as a communication vehicle to enhance the understanding,** by the public, of the need to develop electricity infrastructure, thereby facilitating its implementation in the territory. In this regard, in 2014 the exhibition was chosen by the Directorate General for Energy of the European Commission as one of the **five best practices of the European TSOs** to facilitate social acceptance of projects.

During 2016, the exhibition was moved to Palma de Majorca after having been on show for more than one year at the Science and Technology Museum of Tarrasa, **where it received 86,400 visits.** This exhibition, which started its journey in 2010, **has visited seven other Spanish cities** receiving more than 365,000 visitors.

TRAINING SUPPORT

THROUGH VISITS TO FACILITIES FOR

1,047

STUDENTS

Of Master courses from more than 28 schools and universities

REE FOREST

Initiative that contributes to the fight against climate change through the planting of trees.

projects in which the Company also collaborates, is discussed in more detail in the environmental chapter of this report.

Additionally, during 2016, 96 institutional visits were organised to the CECOEL and CECRE electricity control centres, 6 to the control centres in the islands, and 49 visits were arranged to different transmission grid facilities

REE in the classroom

During 2016, in collaboration with the regional administrations, a plan was **designed and implemented to disseminate the digital educational game *'entreREDes'*** and to develop initiatives around it that facilitate knowledge regarding the electricity system among the students of secondary education. The game, **designed by Red Eléctrica** in collaboration with the Spanish Committee of the International Year of Light, the Sociedad Española de Óptica and the Spanish Illumination Committee, is aimed at 13-16 year-olds. They learn how the Spanish electricity system works while reviewing in a fun and dynamic way the contents of the Mathematics, Physics and Chemistry, Language and Literature, and Geography and History curriculum.

About **825 young people have participated** in the competitions organised within the framework of the Forum of Young Talents of Catalonia, the Science Fair of Seville and the Science Week in Murcia.

VISITS TO FACILITIES 2016

IN TOTAL
1,813
PEOPLE

Visited the Company's facilities and its control centres

nationwide, bringing the total number of visitors to Company facilities and control centres to 1,813.

Similarly, the Company continues to contribute to the training of National Security Forces, as well as for the fire departments. In 2016, training sessions were organised in 9 provinces of six Autonomous Communities with the participation of 802 attendees. In total, more than 3,000 people have been trained as part of this programme since it was launched in 2012.

Corporate volunteering

The promotion of volunteering is another of the cornerstones for action of the Corporate Responsibility Plan of the Company. In this regards, aware of the needs of our environment, several voluntary actions are carried out each year with the supportive participation of employees. To this end, *EnREDando*, the corporate volunteering group of Red Eléctrica, continued its vocation in 2016 to support social actions aimed at promoting and supporting the most disadvantaged groups, channelling their concerns and offering solidarity activities aligned with the objectives of the corporative volunteering programme:

- **Contribute to improving the socio-environmental reality** and the general interest of society in the local environment in which the Company is present, as well as responding to emergency situations.

More than 3,000 members of National Security Forces have received specific training regarding electricity facilities since the programme was rolled out in 2012.

The promotion of employee volunteering through participation in solidarity activities is one of the cornerstones for action of the Corporate Responsibility Plan.

- **Become a vehicle that supports the development** of people's talent and the enhancement of corporate values.
- **Strengthen ties and dialogue** with the Company's stakeholders, especially with NGOs and the communities in which the Company's facilities are located.

Main volunteering actions in 2016

'Companies' Solidarity Day' (DSE)

Red Eléctrica participated for the fourth consecutive year in the Solidarity Day of Companies. This initiative aims **to promote and facilitate the social participation** of companies through corporate volunteering as a powerful tool for social transformation. In this **tenth edition of the DSE,** volunteers of the Company dedicated one day to different groups of people at risk of social exclusion. In this regard, employees from the Madrid head offices shared breakfasts **with people who have no resources and/or are homeless.** Additionally, volunteers from the Seville office helped in a social soup kitchen.

Charity races

EnREDando **has continued supporting several NGOs through sport activities** and more specifically with the participation in charity races to raise funds for **various causes,** such as the Challenge Interempresas or the Popular Heart Race.

In the case of the Intercompany Challenge for Action against Hunger, Red Eléctrica employees ran in Madrid, Barcelona and Bilbao to fight child malnutrition.

The kilometres covered by Company volunteers translated into a total of **3,825 days of therapeutic nutritional treatment** received by children from disadvantaged populations. All the kilometres covered by the volunteer runners was converted into an economic amount that was donated to the *Fundación Menudos Corazones*.

'A Smile for Christmas' Campaign

Red Eléctrica has participated in the campaign of collecting toys 'A Smile for Christmas', that *Cooperación Internacional* carries out every year. This solidarity initiative aims **to send a Christmas gift to thousands of children** in situations of vulnerability throughout Spain. The generous response of the employees contributed **to beat a record number** which raised many smiles nationwide through the collaboration of social entities.

CORPORATE **VOLUNTEERING**

MAIN OBJECTIVE

IMPROVE THE SOCIAL REALITY OF THE LOCAL ENVIRONMENT

And give response to emergency situations

EnREDando

Corporate volunteering group set up in 2005 to respond to the needs, problems and social and environmental interests through the collaboration of employees in solidarity actions.

PARTICIPATION IN ORGANISATIONS AND ASSOCIATIONS / G4-16

Red Eléctrica is part of various organisations and entities with whom it exchanges knowledge and experience regarding the challenges of the electricity system, corporate responsibility, social investment, innovation and technological development, among other things. Among them, noteworthy is its involvement in ENTSO-E, the Association of European TSOs.

ENTSO-E (European Network of Transmission System Operators for Electricity)

This association has continued in 2016 with the work of developing network codes (Network Codes / Guide Lines), highlighting the **coming into force of the codes related to the connection to networks** ('Requirements for Generators', 'Demand Connection' and 'HVDC') and the so-called 'Forwards Capacity Allocation'. In addition, the Guideline Transmission System Operation and the 'Emergency and Restoration' code have passed the committee stage and are pending scrutiny by the European Parliament and Council. Only the Electricity Balancing code is pending approval by the member states.

An important step in transparency is represented by the setting up of the Independent Advisory Council, a council that is created with the intention of **better gathering the opinions of the interest groups.** This council is made up of personalities from consumer associations, environmental NGOs, smart grids, market agents, the European Union and equipment manufacturers.

The Ten-Year Network Development Plan 2016 (TYNDP 2016) has been completed and the work of TYNDP 2018 has begun with the collection of information and arguments that will justify the 2030 and 2040 scenarios.

On the other hand, **at the annual ENTSO-E conference** 'The Energy Union for You', the visions, opinions and reality of the implementation of market design and the future of smart cities were compared, as well as the challenge of the implementation of infrastructures, regional collaboration and the answer to the question of what is the benefit of all this for the consumer.

PARTICIPATION IN ORGANISATIONS

ENTSO-E
ASSOCIATION OF THE EUROPEAN TSOs

Facilitates the exchange of knowledge and experiences regarding the challenges of the electricity system

International organisations

ENTSO-E (European Network of Transmission System Operators for Electricity)

Association that groups together the transmission agents and operators of electricity systems in Europe (TSOs), constituted according to the mandate of regulation EC 714/2009.

CIGRE (International Council on Large Electric Systems)

Organisation which groups together electricity companies, manufacturers of capital equipment and goods, engineering companies, universities and research centres from around the world with the aim of exchanging technical knowledge. Red Eléctrica holds the position of President and Secretary of the Spanish Committee and is also a member of the following research committees: High Voltage Equipment, Overhead Power Lines, HVDC and Power Electronics, Development and Economics of Power Systems, System Operation and Control, and Information Systems and Telecommunications. In 2016, during the session held in Paris, Red Eléctrica collaborated in 13 of the 28 articles presented by the National Committee of Spain.

RGI (Renewable Grid Initiative)

Association of European TSOs and NGOs that promotes a network of efficient, sustainable, clean and socially acceptable European electricity infrastructure capable of integrating generation from decentralised renewable resources and on a large-scale.

GO 15 (Reliable and Sustainable Power Grids)

An international initiative which groups together the 19 largest Power Grid Operators in the world. In 2016, the National Energy Control Centre (CENACE) of Mexico was incorporated.

Med-TSO (Association of the TSOs of the Mediterranean basin)

This association of the TSOs of the Mediterranean basin whose objective is to coordinate development plans as well as the operation of electricity grids in the countries of this region. During 2016, the technical regulation for the regional market start-up was analysed, as well as the definition of the planning methodology, in order to respond to the commitments acquired with the EC within the "Mediterranean Project".

EASE (European association for the storage of energy)

European association that promotes energy storage as an essential tool to improve flexibility and provide services for the energy system with full respect to the EU's climate and energy policies.

CORESO (COoRdination of Electricity System Operators) coordinating body for regional security.

Organism whose main objective is to promote coordination between European operators to guarantee security of supply in electricity systems. This body has the functions of coordinating the programming of the operation in the systems of Western Europe, the analysis of the coverage of the region in the short and medium term; as well as the coordination of the calculation of the exchange capacity and the non-availabilities that can condition said capacity, for which it must build common network models based on the models supplied by each of the TSO members.

European Foundation for Quality Management

Non-profit foundation that defines a model of Quality and Excellence as a way for self-evaluation and determination of the processes of continuous improvement in private and public business environments.

International Corporate Governance Network

Investor-led organisation whose mission is to promote effective standards of corporate governance and investor management to advance in efficient markets and sustainable economies around the world, guided by the Global Governance Principles and the Global Principles of Global Accountability of ICGN.

In the 'Sustainability' section of the corporate website.

PARTICIPATION IN CIGRE 2016

RED ELÉCTRICA COLLABORATED ON

13

ARTICLES

Of the 28 presented by the National Committee of Spain

National organisations

***Asociación Española para la Calidad* [Spanish Association for Quality]**

Association focused on raising awareness, training, qualification and certification of professionals of Spanish organisations, thereby promoting the culture of quality, sustainable management, brand value in services, knowledge management and other processes of social interest.

***Asociación Española de Normalización y Certificación* [Spanish Association for Standardisation and Certification]**

Private entity whose activity contributes to improve the quality and competitiveness of companies, their products and services, through the development of technical standards and certifications.

Casa de América

Entity for the execution of a variety of activities that contribute to closing the ties between Spain and the continent of America, especially with Latin America.

***Club Excelencia en Gestión e Innovación* [Excellence in Management and Innovation Club]**

Non-profit business association to enhance the global competitiveness of organisations and professionals, through the values of excellence, providing its partners with an infrastructure to share knowledge, develop competencies and give visibility to their levels of excellence.

***Club de Excelencia en Sostenibilidad* [Sustainability Excellence Club]**

Non-profit business association that seeks to promote sustainability by sharing and disseminating good practices.

***Emisores españoles* [Spanish Stock Issuers]**

Association representing more than 70% of the Spanish stock market and 75% of the IBEX 35 index for the promotion of measures that reinforce legal certainty in the issue of listed securities, participation in the development of a better national and European legal framework and the contribution to the development of high standards of corporate governance.

Forética

Association of companies and professionals of corporate social responsibility/ sustainability whose mission is to promote the integration of social, environmental and good governance aspects in the strategy and management of companies and organisations.

***Foro de Integridad de Transparency International España* [Integrity Forum of Transparency]**

Reflection platform facilitated by Transparency International España for the improvement of compliance and ethical management in Spanish companies, which is structured through different working groups and periodic thematic sessions on business ethics.

***Fundación Biodiversidad* [Biodiversity Foundation]**
(promoted by the Ministry of Agriculture, Fisheries, Food and Environment)

That is formed by companies committed to sustainable development. Its objective is to position itself as a leader in responsible and innovative business management, committed to the integration of biodiversity conservation into its policies and strategies.

***Fundación Chile-España* [Chile-Spain Foundation]**

Entity whose main objective is to increase the cultural, social, economic and artistic exchange between Chile and Spain. Red Eléctrica is part of the Board of Trustees.

***Fundación Energías sin Fronteras* [Energy Without Borders Foundation]**

Spanish foundation, whose mission is to extend and facilitate access to energy and drinkable water services, in a continuous fashion, to those who still do not have them or who receive them in non-suitable conditions.

***Fundación Lealtad* [*Lealtad* Foundation]**

A pioneering non-profit organisation in Spain whose mission is to promote Spanish society's confidence in NGOs.

***Fundación Perú-España* [Peru-Spain Foundation]**

Foundation whose main job is to drive and develop activities that promote the image and presence of Peru in Spain, in the economic, business, cultural and artistic, social, scientific and educational fields; as well as to strengthen the links between institutions and people of both countries. Red Eléctrica is part of the Board of Trustees.

***Fundación Seres* [*Seres* Foundation]**

Foundation whose mission is to promote the commitment of companies to the development of society. Red Eléctrica is part of the Board of Trustees.

***Fundación Víctimas del Terrorismo* [Victims of Terrorism Foundation]**

Entity whose objective is to promote democratic values, the defence of human rights and the freedom of citizens.

***Fundación Voluntare* [Voluntare Foundation]**

A global corporate volunteering network that connects businesses with organisations in the third sector.

London Benchmarking Group (LBG)

Organisation made up of companies committed to promoting social action in business, using an internationally accepted methodology for the comparative assessment and measurement of commitment to society.

***Real Instituto Elcano* [Elcano Royal Institute]**

Entity whose main task is to conduct international and strategic studies looking at the world from a Spanish, European and global perspective. Red Eléctrica is part of the Board of Trustees.

***Red Española del Pacto Mundial* [Spanish Network of the Global Compact]**

Entity for the promotion of the implementation of the 10 Principles of the Global Compact. Red Eléctrica is a founding member of the Spanish Network of the Global Compact.

In the 'Sustainability' section of the corporate website.

TAX TRANSPARENCY

The tax strategy of Red Eléctrica Group, approved by the Board of Directors [1], is based on three core values: transparency, good governance and accountability.

Continuing with the good practice started in 2014, and with the aim to voluntarily offer tax information to the different stakeholders, with greater transparency, the Company publishes its Total Tax Contribution, in order to highlight the economic and social function derived from the Group's tax payments.

[1] In session held on 30 June 2015.

The vision of the tax strategy

Manage the tax affairs in a manner that is proactive, responsible with all stakeholders and which is transparent, in order to comply with tax laws and minimise reputational risk, making it compatible with protecting the share price.

KEY DATA 2016

681 M€
Total tax contribution

More than **2,545 M€**
tax payments in the 2013-2016 period

44 %
of value generated earmarked for tax payments

98 %
of the total tax contribution made in Spain

35 %
tax contribution compared to revenue

TAX CONTRIBUTION

681 M€

For taxes borne and collected in 2016.

2013-2016 PERIOD

More than 2,545 million euros in tax payments.

Total tax contribution

To calculate its Total Tax Contribution, the Red Eléctrica Group has followed PwC's Total Tax Contribution (TTC) methodology, whose characteristics are:

- It measures the total impact derived from a company's payment of tax.
- It reflects the total amount of all the taxes input (which represents an effective cost for the company) and collected (which are paid by other taxpayers as a result of the economic activity generated), at any level of the Public Administration.
- It includes all the tax payments made to the Public Administrations.
- It adapts to any tax regime in the world and it is simple to use, even for people with no knowledge of taxes.

Total tax contribution of 681 million euros: 238 million in taxes borne and 443 million in taxes collected.

TAX BORNE

Tax on profits, mainly Corporate Income Tax (1) represents 81 % of total taxes borne that have been paid to the various tax authorities, mostly to the Spanish tax authority.

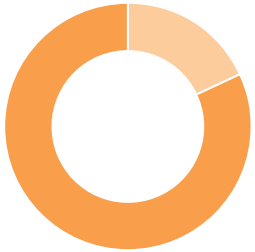
TOTAL TAX CONTRIBUTION 2016

Red Eléctrica's Total Tax Contribution during 2016 amounted to 681 million euros, 238 million euros corresponding to tax borne and 443 million euros to taxes collected.

TAX COLLECTED

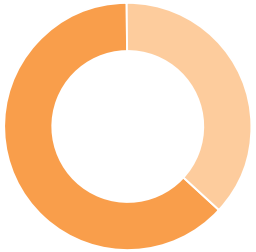
Of the total taxes collected during 2016, the taxes on products and services stand out, fundamentally the Value-Added Tax (1) which accounts for 81 % of the total.

CORPORATE INCOME TAX



81 % OF TAXES BORNE

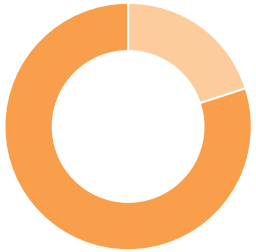
TOTAL TAX CONTRIBUTION



681 M€

Collected (443 M€)	65 %
Collected (238 M€)	35 %

VALUE ADDED TAX



81 % OF TAXES COLLECTED

(1) The Consolidated Annual Accounts provide detailed and specific information regarding the effective tax rate of 24.94%, accounting deductions, etc.
(2) Understood as those indirect taxes equivalent to Spanish IVA (VAT), which taxes consumption.

TOTAL TAX CONTRIBUTION 2016

M€

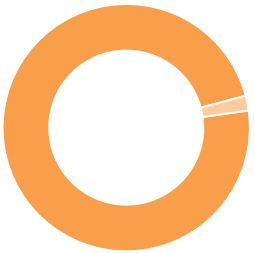
	Spain	Peru	Chile	Other (UE)	Total
Tax borne	229	4	4	1	238
Tax collected	439	4	-	-	443
Tax contribution	668	8	4	1	681

The Total Tax Contribution of the Red Eléctrica Group to the public administrations in all the countries in which it operates grew to 681 million euros in 2016, with the greatest contribution being made in Spain (98 %).

GEOGRAPHICAL DISTRIBUTION

TOTAL TAX CONTRIBUTION

%



Spain	98 %
Other	2 %

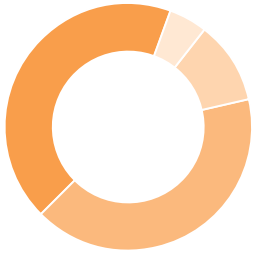
The revenue of the Red Eléctrica Group is mainly generated in Spain (97 %).

Weight of taxes on value distributed

Applying the Total Tax Contribution (TTC) methodology, the value distributed by the Red Eléctrica Group in 2016 would total 1,543 million euros, a figure which is composed of the sum of the following elements:

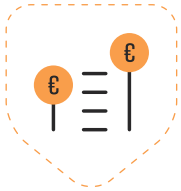
- Taxes (681 million euros): borne (238 million euros) and collected (443 million euros).
- After-tax profit or shareholder value (639 million euros).
- Net interest (151 million euros).
- Wages and salaries after taxes collected (72 million euros).

VALUE DISTRIBUTED 2016



Inland Revenue Services	44 %
Shareholders	41 %
Wages and salaries	10 %
Net interests	5 %

TOTAL TAX CONTRIBUTION



35 %

Compared to the revenue figure of the Company

Of every 100 euros in value generated by the Red Eléctrica Group in 2016, 44 euros went to tax payments.

Tax contribution as a percentage of revenues

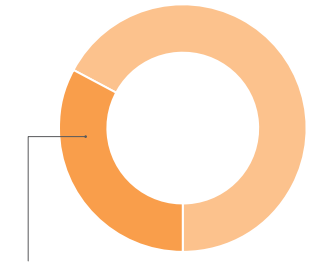
The comparison of Total Tax Contribution to total revenues is an indicator that shows the amount of the contribution made by Red Eléctrica in relation to the size of its business.

The ratio of Total Tax Contribution to total revenues is 35 %, of which:

- 12 % are taxes borne.
- 23 % are taxes collected.

TAX CONTRIBUTION 2016

WITH RESPECT TO REVENUE



35

taxes borne	12 %
taxes collected	23 %

Tax responsibility

Regarding Red Eléctrica's tax responsibility, noteworthy are the following aspects:

- Red Eléctrica is committed to complying with tax legislation and tax obligations in the countries in which it operates.
- In the area of transfer pricing, Red Eléctrica operates on the principle of full competition.
- Red Eléctrica's Code of Ethics and tax strategy sets out the commitment not to create companies to evade taxes in territories considered tax havens.
- Red Eléctrica has a Comprehensive Risk Management System that includes any relevant tax risks for the Group. The aspects regarding the Control and Management Policy of Tax Risks of the Red Eléctrica Group, approved by the Board of Directors [1], which are integrated into the Comprehensive Risk Management Policy, establish the specific guidelines for action for the management of said risks.

The Red Eléctrica Group has adhered to the Code of Good Tax Practices adopted by the State Tax Administration Authority under the Large Business Forum.

- The Company also has a specific Internal Control System for Financial Information (ICSFI), which includes tax data and processes, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology. These processes and systems are systematically subject to internal and external audits.
- The Red Eléctrica Group has adhered to the Code of Good Tax Practices adopted by the State Tax Administration Authority under the Large Business Forum. Said undertaking took place in 2015 [1], and is aligned with the principles and guidelines for action on tax matters established in the Tax Strategy of the Group.

[1] Board of Directors session held on 29 September 2015.

RISK **MANAGEMENT**

COMPREHENSIVE RISK **POLICY MANAGEMENT**

Includes tax risks relevant to the Group

CODE OF ETHICS, TAX STRATEGY AND THE CODE OF GOOD TAX PRACTICES

Set out the commitment not to create companies to evade taxes in tax havens.

09 DIALOGUE WITH **STAKEHOLDERS**

CONNECTED TO OUR STAKEHOLDERS THROUGH A RELATIONSHIP BASED ON TRANSPARENCY AND TRUST

CORNERSTONES FOR DIALOGUE WITH STAKEHOLDERS

Transparent, fluid
and close-knit relationship

SHAREHOLDERS AND INVESTORS

Transparent and fluid communication, facilitating relevant corporate information to meet the needs of these groups.

1,027 enquiries from stakeholders dealt with
546 meetings with analysts and investors

THE MEDIA

Dissemination of activities, projects and initiatives undertaken by the Company, with particular emphasis on its commitment to sustainability.

64 press releases issued
(33% regarding sustainability projects)

CORPORATE WEBSITE
2016

MORE THAN
2.1
MILLION
VISITS

CLIENTS AND MARKET AGENTS

Compliance with legal requirements regarding communication and the publication of information, guaranteeing transparency, integrity and disclosure timelines.

Client satisfaction: 8.3 out of 10

SUPPLIERS

Sustainable supply chain management model: transparency in management; integration of corporate responsibility criteria in the procurement strategy.

91% of purchases from suppliers with their head office in Spain, and 98% of our purchases made with European suppliers

SHAREHOLDERS AND INVESTORS

Red Eléctrica maintains a solid commitment to dialogue with all its stakeholders, particularly with shareholders and investors, facilitating them with the relevant corporate data to meet their information needs at each moment. This communication is transparent and fluid, which is key to achieving a trust relationship with them.

In 2016, 546 meetings were held: 520 for variable income, 5 for fixed income, 12 for corporate governance and 9 with rating agencies. For yet another year, the Company has turned to major financial forums in the domestic markets, Europe, the United States, Asia and Australia, thus responding to our communication and transparency policy. Our aim is to continue with the clear goal of increasing the number of meetings with analysts and investors over the next few years.

Similarly, in our day-to-day quest to improve transparency and communication with shareholders and investors, the following actions were noteworthy in 2016:

- **The Board of Directors,** in its session held on 25 October 2016, approved the 'Criteria for communication with shareholders, institutional investors and proxy advisors', which sets out the principles and guidelines on communication that the Company maintains with

The aim of our communication policy with shareholders and investors is focused on maintaining transparent and fluid communication, making relevant corporate information available at all times.

MEETINGS WITH **SHAREHOLDERS 2016**

546 HELD

520 FOR VARIABLE INCOME

5 for fixed income

12 FOR CORPORATE GOVERNANCE

9 with rating agencies

In the 'Shareholders and investors' section of the corporate website

In 2016, the Board of Directors approved the 'Criteria for communication with shareholders, institutional investors and proxy advisors'.

these stakeholders, guaranteeing the adequate exercising of their rights and interests and favouring the commitment and relationship with them, through an open, transparent and sustainable dialogue.

- **On the other hand,** in order to comply with our commitment to transparency, and to provide more information about the Company's track record and the progress made each year in corporate governance, Red Eléctrica has published on its website an interactive section, highly visual and easy to consult, about the corporate governance story of the Company since its IPO in 1999.

This is a completely new practice in the business world, both nationally and internationally, which highlights the firm commitment of the Board of Directors with the implementation and continuous improvement of good governance within the organisation during these years.

In addition, a specific section on the corporate website for socially responsible investors has been made available in which all relevant information regarding the Company is published. The data published gives these investors access to information not only regarding ethical, social and environmental elements, but also the main performance indicators in these areas. These elements and indicators are considered necessary when making investment decisions, and this data is complementary to the traditional economic and financial criteria.

MAIN INDICATORS

Nº

	2014	2015	2016
Shareholders' office (visits managed)	1,105	1,284	**875**
Shareholder electronic forum – via phone and email (consultations managed)	1,008	1,118	**1,027**
Meetings with analysts and institutional investors	555	542	**546**

CORPORATE GOVERNANCE STORY

INTERACTIVE SECTION OF THE CORPORATE **WEBSITE**

Tells the story of the Group since it was floated in the stock market in 1999

CORPORATE WEBSITE

Includes a specific informative section for the investor with ethical, social and environmental indicators.

CLIENTS, MARKET AGENTS AND REGULATORY BODIES

Profile of Red Eléctrica's Clients

These are those organisations or bodies with which Red Eléctrica establishes a relationship necessary for the supply of their services as the TSO of the Spanish electricity system and that can be grouped into the following broad categories:

- **Regulatory bodies** (Ministry of Energy, Tourism and Digital Agenda; National Commission of Markets and Competition and the various public administration energy departments of the different Autonomous Communities). They are responsible for regulating, assessing its management and establishing remuneration for Red Eléctrica's activity.
- **Participating agents in the electricity market.** These are all those market subjects (492 as at December 2016) which participate in the organised markets, or execute bilateral contracts with the physical delivery of energy. / EU3
- **Operators of the interconnected electricity systems,** electricity distribution companies, the market operator (OMIE), providers of system adjustment services and companies providing demand-side interruptibility management services.
- **Other groups,** requesters of local operation and maintenance services and those requesting adaptations of or changes to the routes of high-voltage electricity lines.

During 2016, no grievances were received from clients and market agents relating to ancillary services and the scheduling of international interconnections.

PARTICIPATING **MARKET AGENTS**

492
REGISTERED

As at December 2016

In the e-sois website.

Red Eléctrica has a System Operator Code of Conduct which guarantees transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system.

Transparency, neutrality and independence as electricity system operator

Red Eléctrica has a **System Operator Code of Conduct** which guarantees transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system. And, at the same time, it performs its business management under the principles of neutrality, independence and economic efficiency on which it bases its success as manager of the Spanish electricity system.

The Company has the duty to publish the information on the results of the markets or system operation process, guaranteeing the confidentiality of the data provided by market participants. To do so, it has the operating procedure No.9 (P.O.9) 'Exchange of Information with the System Operator', which sets out the criteria for the aggregation and publishing of this information and the timeframes within which it should be made available to market agents and society in general.

On request by the system operator, this operating procedure has been recently adapted to conform to the Transparency Regulation (EU) 543/2013 and Regulation (EU) 1227/2011 on Wholesale Energy Market Integrity and Transparency (REMIT) as well as to Royal Decree 413/2014 of 6 June regulating the activity of electricity production from renewable energy sources, cogeneration and waste approved by the State Directorate for Energy's Resolution of 18 December 2015.

E-SIOS
PUBLIC WEBSITE

PLATFORM FOR THE COMMUNICATION
and publication of information with
MARKET SUBJECTS
RENEWED IN 2015

to present information in a clearer, more modern and more educational manner

E-SIOS WEBSITE
for market subjects, accessed by means of a digital certificate.

Additionally, as system operator, the Company has a website for market participants, accessible via a digital certificate (http://sujetos.esios.ree.es) and a public web e-sios (https://www.esios.ree.es). Both channels, which undergo continual improvement, are key tools to ensure compliance with legal requirements regarding the communication and disclosure of information. The public e-sios website underwent a complete renovation in 2015 regarding its structure and content in order to present the information in a clearer, more modern and more educational manner. In this way, the Company strengthened its commitment to transparency

regarding the full implementation of the internal energy market, coinciding with the coming into operation of the ENTSO-E Transparency Platform.

Red Eléctrica also manages the regional information platform of the IESOE region **(www.iesoe.eu),** in which the operators of the French, Portuguese, Moroccan and Spanish electricity systems centrally publish data on the capacity and use of electricity interconnections between these countries.

Also, as of January 2015, Red Eléctrica sends the ENTSO-E transparency platform **(www.transparency.entsoe.eu),** 100 % of the data regarding the presentation and publication of data on electricity markets (Transparency Regulation). In line with Article 5 of this Regulation, the procedure manual for the exchange of information via this platform was revised in 2016 in order to improve the quality of the data published.

ELECTRICITY **MARKETS**

RED ELÉCTRICA SENDS

100

%

OF THE DATA

to the ENTSO-E platform for transparency

PVPC

The Voluntary Price for the Small Consumer has been included in the publications of the Group since 2014.

In addition, in application of the Commission Implementing Regulation (EU) 1348/2014 of the EC, of 17 December relating to the communication of data in virtue of article 8 (paragraphs 2 and 6) of Regulation (EU) 1227/2011 of the European Parliament on Wholesale Energy Market Integrity and Transparency (REMIT), as of April 2016 Red Eléctrica reports to ACER the results of the explicit capacity auctions and the programme's in-use nominations of the capacities reported by the participants in said auctions.

On the other hand, as of 2014, Red Eléctrica includes among its publications the information related to the **Voluntary Price for the Small Consumer (PVPC),** in compliance with the regulations of Royal Decree 216/2014 of 28 March, which establishes the methodology for calculating the voluntary price for the small consumer of electricity and the legal framework for contracting it.

Every two months, Red Eléctrica organises the CTSOSEI, the committee which provides market subjects and regulatory bodies with information about the operation of the electricity systems of the Iberian Peninsula and information on the electricity system adjustment services markets in Spain and Portugal, and on the energy exchanges made through the interconnections of the Iberian electricity systems. Additionally, the Company participates in, and spearheads in some cases, working groups that aim to increase communication and transparency, such as the Incident Analysis Group (GRAI).

Lastly, in 2016, the external assessments of the processes and results associated with the operation activity under the standard known as SSAE-16 (Standards for Attestation Engagements) were conducted for the periods relating to 2014 and 2015.

Management of incidents and grievances

Red Eléctrica manages grievances related to the services it offers and to the impact of its activities, according to clearly defined criteria, in order to assure that they are treated properly.

To this end, the **e-sios website** for market agents contains a 'Grievances' section, which allows online processing of grievances regarding the system adjustment services market and the international energy exchange schedule managed by the system operator. In addition, market agents can consult the status of their grievances and obtain information on how they are being dealt with. Red Eléctrica also publishes, on this website, periodic reports on incidents identified, the handling of the grievances received and the resolutions taken.

SATISFACTION SURVEY

The satisfaction level of market agents and clients in 2016 was 8.3 out of 10.

Satisfaction surveys

Red Eléctrica carries out satisfaction surveys every two years, directed to its clients and business agents. The survey conducted in 2016 has resulted in an overall average rating of 8.3 out of 10. Based on these results and on the analysis of the requirements and expectations collected, the 2017-2018 Improvement Plan will be drawn up. The Improvement Plan and the final results obtained are notified to clients and business agents that take part in the survey. The previous survey, conducted in 2014, led to 34 actions being undertaken.

MAIN INDICATORS

	2014	2015	2016
Number of estimated grievances related to the ancillary services market and the international energy exchange schedule	2	3	**0**
Grievances per 1,000 GWh of energy managed in the ancillary services markets	0.09	0.17	**0**
Percentage of grievances resolved	100%	100%	**-**

SATISFACTION INDICATORS OF CLIENTS AND MARKET AGENTS (0-10)

	2014	2015	2016
Overall satisfaction level	8.1	8.1	**8.3**
Level of satisfaction of quality factors	7.8	7.9	**8.0**
Level of satisfaction of services provided	7.6	7.7	**8.1**
Customer attention	7.8	7.7	**7.9**
Evaluation of improvement actions undertaken as a result of the previous evaluation study	7.0	6.6	**7.1**

Note: The data in the table has been recalculated so that, for the first time ever, the results regarding the satisfaction of the services provided nationwide are shown in aggregate form.

SUPPLIERS / G4-DMA / G4-EC9

Red Eléctrica has a sustainable supply chain management model which is governed, amongst other things, by the guidelines of the Procurement Policy and the relationship framework established in the Supplier Code of Conduct, as an integral part of REE's General Conditions of Contract.

In 2016, the Company managed its purchases of goods and services through 904 suppliers, for a total of 600.1 million euros. 73% of this amount corresponds to services and civil works while the remaining 27% was for materials and equipment. Regarding the geographical location of purchases, 91% of this amount has been awarded to suppliers with head offices in Spain and 98% of purchases were made within the European Union.

Description of the supply chain / G4-12

The supply chain is characterised by:

- Centralised management.
- The existence of an independent unit for management of the stakeholder group of suppliers and associated processes.
- A supply chain with separated functions.
- Outsourced management of stock and distribution.
- Development of a specific communication channel for the supplier: ASA (Procurement Support and Helpdesk).

91% of Red Eléctrica's suppliers have their head offices in Spain, and 98% belong to EU countries.

PURCHASING **OF GOODS AND SERVICES**

600.1
M€
MANAGED THROUGH
904 suppliers

ASA
Procurement Support and Helpdesk. Specific communication channel for suppliers.

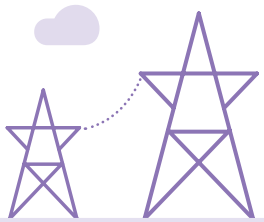
SUPPLY CHAIN MANAGEMENT MODEL

FRAMEWORK OF THE MODEL

- Law 31/2007
- REE Code of Ethics
- Supplier Code of Conduct
- Procurement Policy
- CR Policy
- Regulation

LEVERS FOR ONGOING IMPROVEMENT

- REE Strategic Plan
- Strategic Plan of the Procurement Department
- Annual objectives and projects
- Our suppliers
- Evaluations / Audits



PILLARS

Transparency and the separation of functions within the management processes

Transparency

- Maximum communication with the supplier throughout the entire process. The supplier is 'listened to'.
- A supplier qualification process, on the corporate website, that is both transparent and accessible.
- System-managed processes that are traceable, auditable and that are visible to top management.

Separation of functions

- Existence of a specific department for Suppliers.
- Whoever defines the need does not make the purchase.
- Whoever makes the purchases neither qualifies, nor certifies, nor pays, nor decides on the supplier.
- Whoever certifies does not pay.

Ethical management and strengthening ties with suppliers and subcontractors

Ethical management

- Processes defined under the principles of transparency, fairness and objectivity.
- Diverse communication channels that guarantee confidentiality: ASA (Procurement Support and Helpdesk), DÍGAME and the Ethics Manager.

Strengthening ties with suppliers and subcontractors

- Transference of technical and corporate responsibility requirements.
- Information campaigns for suppliers and participation with them in working groups.
- Acceptance of the Supplier Code of Conduct.
- Social audits.
- Specific development plans resulting from continual monitoring.
- Medium-term and long-term purchasing strategy regarding suppliers that gives visibility to the Company's business.

Minimisation of the risk associated with the procurement processes

Minimisation of risk

- Continuous verification of compliance with the business/technical/CSR requirements for qualification, selection, awarding, subcontracting, and continual monitoring of performance.
- Continuous search for an optimal supplier market.

The number of suppliers with which the Company formalised purchase orders in 2016 was 904. Taking into account the authorised subcontracting, 1,017 companies (subcontractors) who have performed work for the Company must be added to this number, so that the total number of companies that have worked within the framework of Red Eléctrica's contracts totalled 1,921. In this context, it should be noted that the average time for managing subcontracting requests was 1.5 days compared to 2.1 days in 2015.

In line with previous years, there is still a concentration of purchases in a small number of suppliers, so that 20 suppliers (Top20) represent 51% of the total volume of purchase for 2016.

All our suppliers must meet the specific requirements not only business and technical, but also those associated with working conditions and ethical behaviour. This is verified at the outset (in the supplier qualification process) and subsequently on an ongoing basis (monitoring) as part of the Red Eléctrica-Supplier relationship.

In addition, suppliers of 'critical' supplies, due to the impact they have on the Company's business, must meet more demanding requirements. The purchasing volume of these 'critical' supplies represented 79% of total purchases in 2016, these being funnelled through a total of 394 suppliers, in line with previous years.

In 2015, a new impact matrix regarding corporate responsibility was drafted that enabled the requirements demanded from our suppliers in this field to be identified in greater detail. In 2016, the testing phase of said requirements was conducted among our suppliers and this test has been fundamental in reaching consensus on how:

- adapt the requirements demanded from our suppliers to the realistic situation of our market and
- disseminate and promote the improved performance of our suppliers in terms of sustainability.

TOP 20 **SUPPLIERS**

REPRESENT **51** % OF THE TOTAL VOLUME OF PURCHASES

In 2016

Categories of impacts identified in the matrix / G4-EN33 / G4-LA15 / G4-HR11 / G4-SO10

Impacts on ethics and working conditions

- Corruption and bribery.
- Appropriation and misuse of information.
- Discrimination/inequality.
- Violation of the fundamental rights of workers.
- Lack of ethics in remuneration.
- Impact on the well-being of the community.
- Legislative/regulatory non-compliance regarding social and work-related aspects.

Impacts on occupational health and safety

- Accidents in the workplace.
- Occupational illnesses.
- Inadequate training/experience/information.
- Legislative/regulatory non-compliance related to occupational health and safety.

Impacts on the environment

- Impact on biodiversity.
- Impacts on the soil and water.
- Climate change and air quality.
- Generation of non-hazardous waste.
- Generation of hazardous waste.
- Legislative/regulatory non-compliance related to environmental matters.

Red Eléctrica was distinguished in 2016 as 'Top Performer' for the responsible integration of social and environmental factors in the supply chain.

Following a specific supply chain study conducted by the sustainability rating agency Vigeo Eiris, Red Eléctrica was distinguished as 'Top Performer' for the responsible integration of social and environmental factors in the supply chain, ranking among the 20 leading companies in the world. This recognition is as a result of both the new matrix project and the initiatives the Company has been promoting among its suppliers regarding sustainability.

TOP
PERFORMER

RED ELÉCTRICA IS AMONG THE
20
LEADING COMPANIES

In sustainability worldwide

Efficiency in management

In the area of efficiency in the management of processes, the following initiatives have been addressed:

- Optimisation of the corporate supplier database for all supplies purchased by the Company on a recurring basis.
- Greater transparency in communication with suppliers, where the following actions are noteworthy:
  - The implementation of the LICITA platform, providing greater transparency to the bidding process and giving it more traceability.
  - The guarantee that technical non-compliances shall be communicated in full to suppliers in a timely manner.
  - The dissemination of the corporate model regarding supplier monitoring, as well as the decisions taken.
  - The increase in the information communicated to the suppliers, during the bidding stage, regarding the criteria used in the awarding process.
- Greater control in the subcontracting process concerning the terms of payment to subcontractors, and an increase in the information regarding field verifications of work to approve payment.
- Analysis of the current criteria for the procurement of equipment and materials and the identification of weaknesses of the same, in order to define, develop and implement new and improved criteria.
- Promoting social audits to verify compliance with the Supplier Code of Conduct in cases where the manufacture of equipment and materials is carried out in countries where risks may exist.

LICITA PLATFORM

Communication platform with suppliers which provides greater transparency to the bidding process and giving it more traceability.

- Development of an ad hoc financial solvency index adapted to the needs of the Company, which allows it to determine, with greater precision, the financial capacity of a supplier thus mitigating the potential risks associated with the financial difficulties its suppliers may have.

- Definition and implementation of the contracting strategy for strategic services, integrating the planning of needs, demand aggregation, supplier market and service levels.

- Review of the Company's General Conditions of Contract to adapt them to the current criteria regarding contracting, competition, regulation, cost, risk, supplier market and the environment.

- Optimisation of the procurement process for equipment and materials in terms of functions, tasks, organisation and systems.

- Progress in the implementation of the relational procurement model for non-regulated business (initially developed in 2015) identifying the needs to adapt systems, regulation and roles.

Qualification of suppliers / G4-DMA / G4-LA14 / G4-EN32 / G4-SO9 / G4-HR10

In 2016, the Company processed 896 requests for qualification of supplies that have a significant impact on the Company. These requests correspond to 470 suppliers (who opt to more than one supply per supplier).

These requests affected supplies that require different verifications depending on the corporate responsibility risk identified (environmental, occupational health and safety prevention, labour conditions and ethical behaviour).

- 21% (corresponding to 113 suppliers) of purchase orders required specific verifications regarding occupational health and safety prevention.

- 57% (corresponding to 261 suppliers) of purchase orders required specific verifications regarding the environment.

- 100% of purchase orders were verified according to labour practices and Human Rights criteria.

SOCIAL AUDITS
2016

WERE CONDUCTED ON

40

SUPPLIERS

OF SUPPLIES WHOSE MANUFACTURING PROCESS HAS A HIGH IMPACT

In working conditions and ethical behaviour

Evaluation and social audits / G4-LA15 / G4-EN33 / G4-SO10 / G4-HR11

During 2016, the Company has conducted social audits on 40 suppliers. These audits, which aim to assess compliance with the Supplier Code of Conduct, focus on those supplies whose manufacturing process has a high impact on working conditions and ethical behaviour.

As a result of one of these audits, a supplier has been temporarily suspended from carrying out work for the Company until the incidents detected are resolved. In the remaining audits, in which aspects to be improved have been detected, actions have been established with the supplier concerned in order to correct or improve them. In addition, it should be noted that all our suppliers explicitly accept the Supplier Code of Conduct upon acceptance of the purchase order.

THE MEDIA

During 2016, information transparency has continued to be the basis of Red Eléctrica's relationship with the media. Thus, efforts have focused on training and informing not only on matters regarding the Company's core activity (electricity transmission and operation of the electricity system) but also on the expansion of the business base in the areas of energy storage, telecommunications and in the international arena.

Communications on the regulated activity have focused on projects set out in the 2015-2020 Strategic Plan, paying special attention to the importance of new infrastructure projects in order to guarantee the quality and security of supply in the Spanish electricity system as a whole and in the territories where they are installed. In this regard, noteworthy are the meetings that have been held with different regional media to explain the planned investments in their region for the coming years.

Following the path of previous years, in 2016 the information issued on **matters related to sustainability** has played a leading role, with special emphasis on the dissemination of all the projects implemented in the territory through corporate social responsibility agreements. A good example of the latter has been that associated with the Mezquita-Morella electricity line.

In this regard, the information published about environmental projects, R&D+i, as well as about other initiatives related to human resources, social responsibility and good governance, have increased

In 2016, the information issued on matters related to sustainability has played a leading role, with special emphasis on the dissemination of projects carried out in the territory through corporate social responsibility agreements.

PRESS RELEASES

33 %

WERE FOCUSED ON SUSTAINABILITY PROJECTS

In 2016

compared to the previous year. Thus, 33% of the press releases issued and 77% of the information published via the Entrelíneas blog have focused on highlighting some of the sustainability projects carried out by the Company. In total, 246 media enquiries have been addressed regarding aspects directly or indirectly related to the Company's activity.

Among the issues related to the **expansion of the business base,** communication activity with the media has focused on explaining the new energy model for the Canary Islands. In order to be more economically efficient and more environmentally sustainable, this model is based on renewable energies and interconnections between islands.

In this regard, the dissemination of information regarding the Soria-Chira pumped storage hydropower station has been key, both through the issuance of a press release at the beginning of the public information process and with the published articles and requests for public information addressed on this matter.

'ENTRELÍNEAS' BLOG

107

NEW ARTICLES IN 2016

Explains Red Eléctrica's activity focusing on social commitment and innovation

In the *'Entrelíneas'* blog.

Promotion of digital channels

Given the changing nature of communication and the media world, whose trend to go digital is evident, the decision was made to publish Company related news in the digital media, including opinion articles by Company's executives, interviews and special reports.

Similarly, the use of the Company's digital channels, such as social networks, the on-line Press Room and, in particular, the *Entrelíneas* blog (http://entrelineas.ree.es/en) has gained special relevance. This informative space, which began its journey in July 2015, has become a useful tool to convey, in an educational and enjoyable way, the activity of Red Eléctrica, paying special attention to matters related to social commitment and innovation.

The 'Latest news' section of this blog, which reviews the latest events of relevance, both nationally and locally, has published 86 brand new articles in 2016. In the 'Tribune' section, 4 opinion pieces have been published prepared by Company directors. The 'Observatories' section, which offers an analysis of the true picture of current energy matters, human resources, corporate responsibility, the financial or environmental scenario, has had 6 pieces published. In addition, three short-length audio-visuals have been posted in the 'Videos' section. Finally, the 'Learn more' section, which provides information to provide both journalists and the general public an insight into the Company's activity, has had 5 articles posted.

MAIN INDICATORS (INFORMATION ISSUED AND PUBLISHED)

Nº

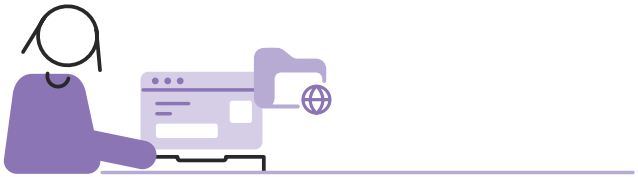
	2014	2015	2016
Press Releases	86	79	**64**
Press conferences and meetings	14	23	**10**
Interviews and statements	63	69	**74**
New content on the blog	-	64	**107**

CORPORATE WEBSITE

The corporate website is an interactive and informative space that contributes to reinforcing the Company's brand and increasing knowledge on its activities and maintaining a direct channel of contact with its stakeholders.

In 2016, of note was the Company's commitment to transparency with shareholders and investors fundamentally. In this regard, in addition to publishing several contents of interest for these groups, such as the publication of the criteria for communication with shareholders, institutional investors and proxy advisors, an interactive section was published that reflects the corporate governance story of the Company. On the other hand, reports have also been published that form part of the different phases of the environmental processing of our projects for the construction of facilities and diverse materials have been published to present the construction project of the Soria-Chira pumped-storage power station in Gran Canaria to the general public.

Regarding website traffic, the number of downloads of the various publications on the corporate website has once again surpassed two million downloads. In 2016, the corporate website had about 2,100,000 visits and 110 million page views and is among the top ten websites of IBEX 35 companies according to the Webranking analysis conducted by the consultancy firm Comprend.



The corporate website is among the top ten websites of IBEX 35 according to the Webranking analysis conducted by the consultancy firm Comprend.

CORPORATE **WEBSITE**

HAD DURING 2016

2.1

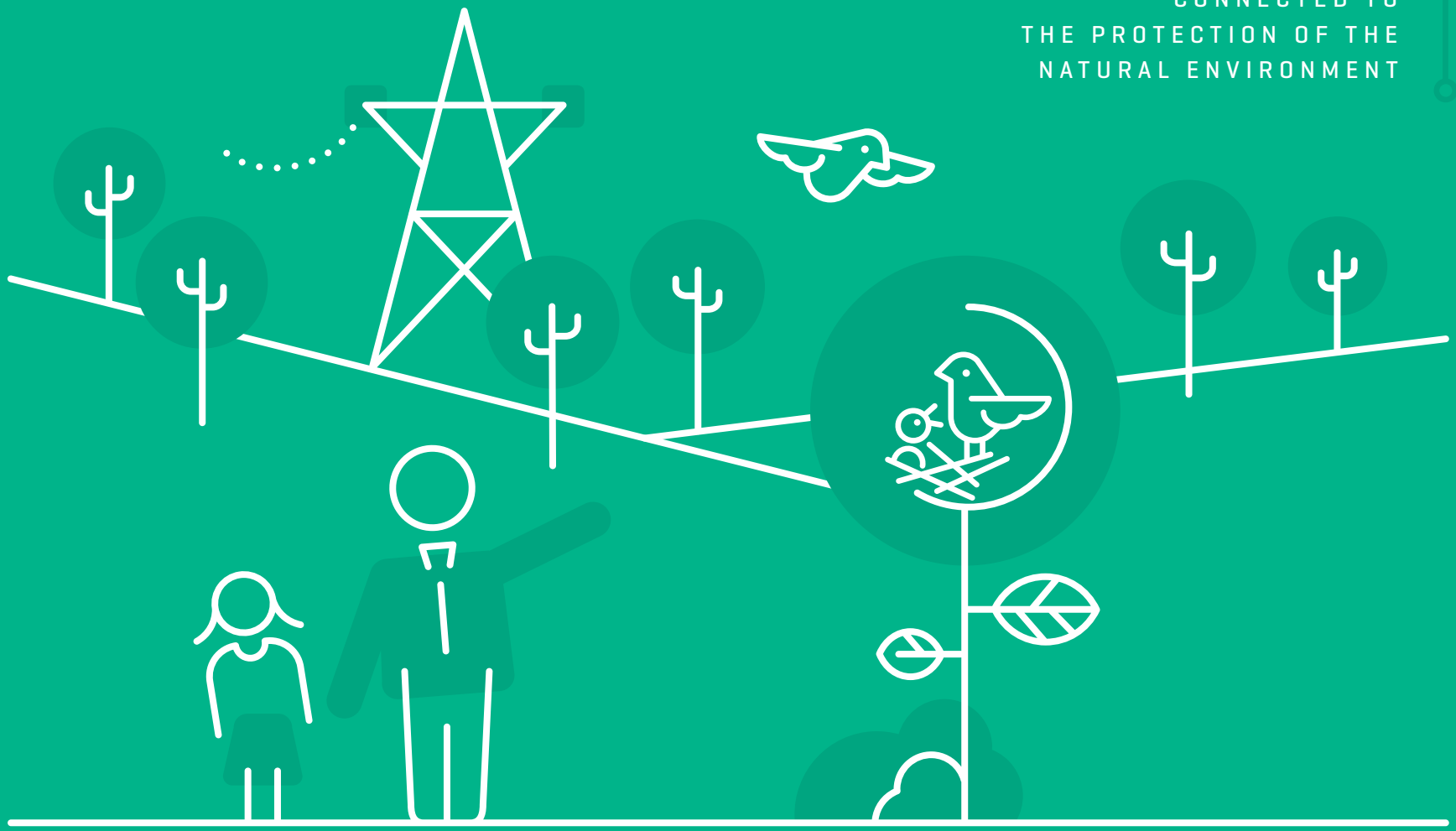
MILLION VISITS

110

Million pages visited

10 THE ENVIRONMENT

CONNECTED TO THE PROTECTION OF THE NATURAL ENVIRONMENT



CORNERSTONES OF OUR ENVIRONMENTAL COMMITMENT

Maximum respect for the natural environment and its protection

INTEGRATION INTO THE ENVIRONMENT

We make our facilities compatible with the environment, through dialogue with stakeholders and the implementation of preventive and corrective measures to minimise potential impacts on the environment.

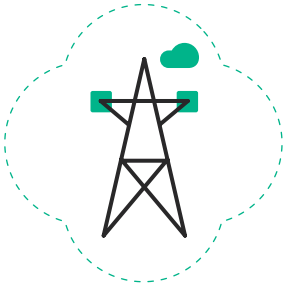
Environmental assessment of all projects
***Hábitat* Project** (2015-2020)

ENVIRONMENTAL MANAGEMENT

Red Eléctrica undertakes all its activities following strict environmental criteria in accordance with the principles adopted in its environmental policy.

ISO 14001 Certification and EMAS Register
87 % fulfilment of the 2016 environmental programme

ENVIRONMENTAL EXPENDITURE 2016



23
MILLION
EUROS

CLIMATE CHANGE

Red Eléctrica contributes to the fight against climate change by providing solutions in the execution of its business activities, and through its commitment to the efficient use of energy.

40.8 % of demand covered using renewable energies
1,907 tonnes of CO_2 avoided in 2016

BIODIVERSITY

Biodiversity conservation has always been an essential principle of our environmental policy and business strategy.

3,040 km of electricity lines marked with bird-saving devices (3% more than in 2015)
1.8 million euros of investment in the Red Eléctrica Forest initiative (2009-2016)

OUR ENVIRONMENTAL COMMITMENT / G4-DMA

Red Eléctrica undertakes all its activities taking into account environmental protection, in accordance with the principles set out in its environmental policy, among which are included the commitment to the prevention of pollution and the principle of precaution. / G4-14

The main environmental impacts of Red Eléctrica are those derived from the presence of facilities in the territory, therefore the Company works hard to make them compatible with the environment, considering their entire life cycle and paying particular attention to biodiversity conservation.

In addition, Red Eléctrica is committed to a sustainable energy model, thus acquiring a specific commitment to climate change and energy efficiency.

Management system

In order to continuously improve its environmental performance and processes, Red Eléctrica has an environmental management system certified in accordance with **ISO 14001** and which has been registered, since October 2001, under the Community Eco-management and Audit Scheme **(EMAS)**. An environmental programme is defined annually that sets out the various objectives derived from the strategies of the Company and that establishes the specific actions required for its fulfilment.

For 2017, in order to boost environmental activities, the decision has been taken to broaden the scope of the programme and therefore, the Environmental Plan 2017 has been drawn up and approved by senior management. This plan, which has a global scope and is transversal across the entire company, encompasses all the activities with an environmental component that will be undertaken throughout the year, including measures to improve the environment, objectives linked to legal requirements, environmental management activities, communication and innovation.

Organisational structure

Red Eléctrica's commitment to the environment, stems from senior management, who establish the environmental policy and implement the measures for compliance with environmental requirements, with

EVOLUTION OF THE FULFILMENT OF THE ENVIRONMENTAL PROGRAMME

ENVIRONMENTAL PROGRAMME 2016

87
%
FULFILMENT

Three percentage points higher than in 2015

the Chairman being the person who assumes the maximum environmental responsibility.

The involvement of all organisational units and the commitment of the entire workforce are fundamental in environmental management. To provide technical support, there is a specific environment department which has 35 experts located at the head offices and in the territories where the facilities are located.

Environmental expenditure

Red Eléctrica allocates important financial resources for environmental protection. In 2016, a total of 22.65 million euros was earmarked for environmental matters. Of this, 2.98 million corresponded to activities associated with the implementation of new projects (investment): environmental impact studies, preventive and corrective measures, works supervision and environmental improvement measures. The remaining 19.67 million was allocated to environmental improvements associated with facilities in service, biodiversity protection and conservation projects, activities related to climate change and energy efficiency, communication, training, R&D+i projects and other expenses.

ENVIRONMENTAL PROTECTION

22.6
MILLION
EUROS EARMARKED FOR ENVIRONMENTAL MATTERS

Supply chain
/ G4-DMA / G4-EN33

Red Eléctrica requires all those suppliers with a major environmental impact (providers of services that can generate direct impacts on the environment, and equipment suppliers whose manufacturing process is resource-intensive) to have an environmental management system that has been documented or certified by a third party.

In order to improve the environmental performance of the supply chain, since 2015 work has been underway to adjust the requirements that are requested from the various suppliers to the impacts (real or potential) of each supplier. In 2015, the impacts of each one of the services contracted were identified and in 2016, tests were conducted on a significant group of suppliers. These tests have allowed us to determine the baseline situation and adjust the specific requirements in each case. It is foreseen that the results of this project will be incorporated into the supplier qualification process in 2017.

The environmental requirements regarding training and specifications for the execution of work form part of the contractual documentation for those services where it has been identified as necessary. In the case of the activities with the greatest potential impact, such as construction, renovation of facilities and some maintenance activities, a part of the cost of the work is dependent on the result of the environmental certification of the work, which involves extensive monitoring of the established environmental requirements.

In addition, the Company has begun to assess the environmental performance of suppliers and whose result is taken into account in its overall assessment, but which may also be grounds for their disqualification.

Moreover, since 2011 Red Eléctrica has worked on calculating the carbon footprint of all its suppliers.

ENVIRONMENTAL EXPENDITURE M€

INTEGRATION OF FACILITIES INTO THE ENVIRONMENT / G4-DMA

The principal measure for reducing and even avoiding the undesirable effects of Red Eléctrica's facilities on the environment and in the local communities is the selection of their location. For this reason, the Company conducts a detailed study of the territory and works in coordination with the public administration and key stakeholders in the definition of the siting of substations and the routes the electricity lines will follow.

In addition, Red Eléctrica establishes the appropriate preventive and corrective measures to be applied when performing construction or maintenance work, in order to reduce, as far as possible, the potential impacts these activities may have on the territory.

The best tool to carry out the definition of the best Project and the appropriate preventive and corrective measures is the Environmental Impact Assessment procedure, which the majority of Red Eléctrica's projects are submitted to by law. However, when the law does not require a regulated procedure, the Company also conducts an assessment of an environmental nature and establishes a voluntary communication with the competent authorities.

The definition of the siting of substations and the routes the electricity lines will follow is undertaken in coordination with the public administration and the key stakeholder groups.

ENVIRONMENTAL **ASSESSMENT**

DEFINITION OF THE **BEST ALTERNATIVE** AND THE PREVENTIVE AND CORRECTIVE MEASURES FOR ALL PROJECTS

To guarantee the implementation and effectiveness of the measures defined, programmes of environmental monitoring are undertaken. These are applied during the construction of the facilities and during their first years of functioning and facilitate the definition of new measures in cases where it may be deemed necessary. For facilities undergoing maintenance, the Company carries out periodic inspections to verify compliance with environmental standards and to identify the necessary improvement measures.

Among the preventive and corrective measures applied, of note are the ones designed to protect habitats and species (measures to protect biodiversity) and those aimed at reducing potential effects on the socioeconomic environment. All these measures are described in detail in the following sections of this chapter.

DEVELOPMENT AND IMPLEMENTATION PHASES

FOR TRANSMISSION GRID INFRASTRUCTURE / G4-SO1

Infrastructure proposal

(Drawn up by REE)

Environmental Feasibility Study:

- Analysis of all proposals from an environmental point of view.
- Only includes environmentally feasible projects.

Transmission grid planning

(Drawn up by MINETUR)

Strategic environmental assessment of plans and programmes.

Public participation of stakeholder groups (SGs) through the submission of comments or arguments.

Project design

(New facilities and modifications)

Prior dialogue with stakeholders before defining the project (Autonomous Communities, local councils and NGOs).

Environmental Impact Assessment.

1 Prior consultation with SGs.
2 Defining the alternative of least impact .
3 Public information. Submission of arguments by SGs.
4 Proposal for preventive and corrective measures.
5 Publication of results. Environmental authorisation.

Construction or modification of facilities

Implementation of preventive and corrective measures.

Environmental monitoring (monitoring of preventive and corrective measures).

Monitoring the work of contractors regarding compliance with environmental requirements.

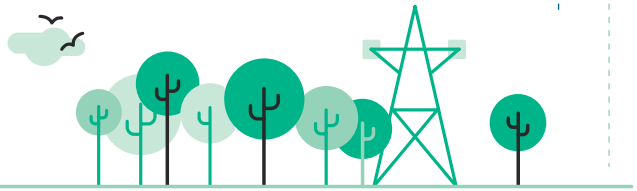
Environmental certification of works taking into account compliance with environmental requirements.

Maintenance

Environmental monitoring programmes in the initial years of operation of a facility.

Periodic inspections of facilities to verify compliance with standards and identify improvement measures.

Application of environmental improvement measures.



SOCIO-ECONOMIC ENVIRONMENT / G4-SO2

Social aspects are integrated into the environmental assessment which is performed during the design of facilities.

The presence of electricity infrastructure in no case represents a significant alteration in the way of life of the communities affected. In the case of substations, these produce a total and irreversible occupation of land, however, in the case of electricity lines, land use is limited to the feet of the towers and the newly created accesses to the infrastructure. The land surface with overhead electricity lines is subject to a right of way easement during the useful life of the infrastructure. Livestock and agricultural activities are compatible with the lines, allowing all kinds of agricultural crops to be grown under them and the free movement of the machinery necessary for its management.

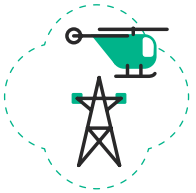
Social aspects are integrated into the environmental impact assessment carried out in the design phase of facilities. The main conditioning factors considered in this phase are: the use of land not compatible with the facilities; areas of high agricultural yields and agroforestry plantations, and landscape, touristic and cultural resources.

In addition to carefully defining the siting of facilities, preventive and corrective measures are defined that ensure the impacts both on the land and the activities carried out on the land, are kept to a minimum. These measures are similar to those used for the protection of habitats and flora. Noteworthy amongst these are the definition of adequate work techniques to minimise impacts on crops, and the restoration of the land and the elements affected by the works (paths, walls etc.). Sometimes improvement measures requested by the affected parties are added, which often involve the opening of forest tracks and paths and the making good of access routes.

Noteworthy actions during 2016

Among the preventive measures undertaken during 2016, of particular note is the **use of a helicopter** for the construction of 14 towers during the improvement works on the 132kV Ciutadella-Mercadal line and for the hanging of the new 400 KV Bohimente-Pesoz line. Among the accompanying measures, **noteworthy are the restoration tasks being carried out on the *Pino de los Sasos***, in the municipality of Alcorisa (Teruel), which have consisted mainly of pruning dry branches and the elimination of mistletoe, which improve the conservation of this tree, which has been catalogued as a unique element of the landscape.

PREVENTIVE MEASURES



HOISTING OF **14** TOWERS WITH A HELICOPTER

In 2016

CONDITIONING FACTORS AFFECTING FACILITIES

The following four are considered: the use of land not compatible with facilities; areas of high agricultural yields and agroforestry plantations, and landscape, touristic and cultural resources.

Noise

In regard to substations, worth noting was the work carried out by Red Eléctrica to reduce noise levels produced by different elements that may cause inconvenience to neighbouring properties. In this line of work and to improve understanding of the nature of the noise generated, the ACURED R&D+i project was launched. Increased knowledge will allow the assessment of different technical solutions to reduce noise and promote its application in existing and future facilities. During 2016, the phases of the preliminary study, evaluation, classification and prioritisation of sources of noise, and the proposal and simulation of corrective measures have been carried out. In 2017, the execution and validation of some of these corrective measures (screens for transformers) will be carried out.

During 2016, noise reduction screens were installed at the Santa Ponsa substation (Majorca).

Blending facilities into the landscape

One of the main challenges regarding the integration of electricity transmission infrastructure into the environment is the ability to blend them into the landscape. In order to progress in this integration, it is essential to improve the tools for evaluating the visual impact of the facilities. For this reason, in recent years, Red Eléctrica has been promoting different projects in the field.

- **Analysis methodology and landscape integration in the environmental impact studies for electricity lines.** This methodology, which was put into effect in 2016, permits an evaluation of the landscape impact of future facilities and systematically integrates the landscape variable in decisions about the route to be taken of future lines or other matters such as the distribution and the height of the towers. During 2017, it is expected that this matter will be examined in greater depth and work will proceed on the criteria for defining the height and the type of towers for new projects.

- **Landscape assessment system for Red Eléctrica's facilities (existing facilities).** (Between 2015 and 2016, work was carried out on the definition of the system to be applied and its implementation as a pilot project in the province of León. Based on the results obtained, in 2017 an adjustment will be made in the methodology, allowing it to be applied nationwide and to incorporate other social aspects of interest into the analysis. The

Main measures regarding landscape integration in 2016

- **Restoration of the areas affected by the works:** adding topsoil, adaptation of embankments and temporary worksites, sowing and planting. Apart from the many measures that are habitually associated with the construction and modification of facilities, gardening work has been done in a recreational area affected by the maintenance of the safety corridor in the municipality of Valdaliga, Cantabria.
- **Creation of vegetation screens and gardened areas:** this year, work has been done at five substations: In addition, a vegetation screen has been erected near a section of the Camino Norte de Santiago (in the municipality of Lourenza) to obscure the electricity line from view.
- **Landscape integration of substation buildings** by developing designs adjusted to the environment in which the substations are located. In 2016, the El Sabinal (Gran Canaria) substation was commissioned. Its design incorporates camouflage and harmonisation techniques, and it was built with materials compatible with the textures and colours of the area.

LANDSCAPE EVALUATION SYSTEM

MAP OF
SENSITIVE LINE SECTIONS
FOR THE ENTIRE TRANSMISSION GRID

Will be 100% completed in 2020

ACURED PROJECT

Knowledge regarding the noise generated in substations and an assessment of technical solutions to reduce noise.

objective is to draw up a map of sensitive sections in the entire transmission grid (100% in 2020). Knowledge and study of each situation will make it possible to suggest possible measures related to the maintenance of the facilities or other improvement aspects.

- **Visual impact analysis methodology for electricity lines.** This permits the drafting of intervisibility maps and visual basins, and a view of existing or planned lines, through 3D simulations, using the corporate geographical information system (GeoRed). This is a very useful tool for visual impact analysis applied to specific cases, which allows for comparisons between alternatives or for presentations to different stakeholder groups. The system applied is innovative as it takes into account aspects that up to now had not been considered when drawing up visibility maps: screening of flora, the height of the observer, the part of the tower that is seen and the distances at which it is seen.

Apart from developing assessment tools, the Company continues to work on the application of different integration measures that facilitate the reduction of the impact of the facilities on the landscape.

ARCHAEOLOGICAL SUPERVISION

IN
19
LINE WORKS
—
5
NEW SUBSTATIONS

GEORED

Corporate geographical information system for preparing visibility maps for the analysis of impacts in specific cases through 3D simulations.

Protection of archaeological and ethnological heritage

The protection of archaeological and ethnological heritage is an important factor in the design and construction of facilities. In 2014, work began on the ***'Arqueored'* project,** which aims to provide a digital mapping of catalogued heritage for its consultation prior to the planning of works. In this way, potential impacts can be avoided and the necessary measures, where appropriate, can be provided in advance. Thanks to close collaboration with the relevant authorities, the project has progressed in a highly satisfactory manner and information is already available on all the Autonomous

ARQUEORED
PROJECT
Digital Mapping of archaeological heritage

Currently with data from all
AUTONOMUS COMMUNITIES

Main actions in 2016

- **Archaeological assessment of the Iberian archaeological site 'Cañada de la Lengua' (Almansa, Albacete).** Action taken within the framework of the archaeological supervision of works for the 400 kV Campanario-Ayora line. An excavation was made of an agricultural installation with a surface area of 150 m^2 approximately 2,200 years old, dating from the second or third century B.C. The complex contained a granary, storage rooms, a drying area and grain processing mills. Following the excavation and documentation process, the archaeological remains were protected by shoring them up and covering them.
- **Protective measures for Spanish Civil War trenches in Cabezo del Cerro, Cuevas de Almudén (Teruel).** The existence of these trenches was discovered thanks to archaeological supervision. The area was cordoned off and a geotextile covering was placed on it, along with protection to avoid any effect from the machinery. After the work was completed, the entire surface was restored to its original condition.

During 2016, there was no incident resulting from non-compliance with the European regulation regarding the levels of electric and magnetic fields.

Electric and magnetic fields / G4-DMA / G4-PR1

Thanks to the criteria applied in the design of facilities, the levels of electric and magnetic fields (EMFs) stay below those recommended by Communities. In 2017, the second phase of this project will begin, which will consist of the in-situ revision and verification of all the information obtained.

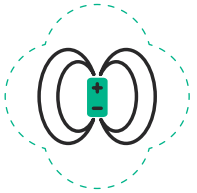
On the other hand, before carrying out any earthworks, an archaeological survey is conducted whose intensity and scope are based on the likelihood of material of interest being present in the area. According to the results, the need for the continued presence of an archaeologist during the works is determined. During 2016, archaeological supervision took place during the construction of five new substations and 19 works carried out on new and existing lines, with the permanent presence of an archaeologist at 95% of the lines and 80% of the substations. Similarly, Red Eléctrica collaborates actively with the public administrations in the conservation of cultural heritage.

the Council of the European Union (The Official Journal of the European Communities 1999/519/EC: exposure limit values for the general public in sites where they may remain for a period of time at 5kV/m for electric fields and 100μT for magnetic fields). The most important measures are the following:

- Construction of double circuits and transposition of phases in lines.
- Increasing the height of towers, thus increasing the safety distances.
- Establishing the minimum distance of electricity lines from population nuclei and isolated houses.

In order to verify compliance with the recommendation, Red Eléctrica has a tool that uses specific line parameters to accurately calculate the maximum EMF levels that said facilities can generate. This action is carried out when requested by stakeholders. In 2016, this was performed on 6 occasions and none of the cases exceeded the recommended limits.

EMF LEVELS
2016



CALCULATED FOR
6
CASES
NONE EXCEEDED THE RECOMMENDED LEVELS

By the European Union

CALCULATION TOOL

Allows the maximum EMF levels that can be produced by a facility to be calculated, based on certain parameters.

Red Eléctrica actively participates in **various working groups and supports research projects** regarding electric and magnetic fields.

In the event of not having the necessary parameters for the calculation, in situ measurements are necessary. This is the case with some facilities acquired by the Company in 2010 in the island systems, for which during 2015 and 2016 a measurement plan was carried out.

The main parameters influencing the field values that an electricity line can generate are intensity (in the case of magnetic fields), voltage (in the case electric fields) and the distance at which the measurement device is from the line when the measurement is taken. Additionally, there are other factors that have an influence, although to a lesser extent, such as the geometry of the line, or the amount of circuits. For this reason, in the definition of the plan, measurements were deemed appropriate for each type of line configuration (defined by the following characteristics: voltage, geometry and amount of circuits) in locations with nearby buildings. As a result, a total of 21 measuring points in the Balearic Islands and 27 in the Canary Islands have been checked, with all having values that are consistent with the recommendation.

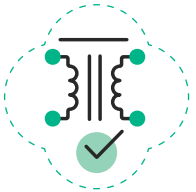
Therefore, at this time it can be considered that Red Eléctrica has evaluated and validated compliance with the regulation for 100 % of its facilities. / G4-PR1

Red Eléctrica, on an exceptional basis, performs some measurements at the request of interested parties. In 2016, measurements were taken in two lines and one substation, with results being below those values recommended by the European Union in all cases. During 2016, there was no incident resulting from non-compliance with the regulation in this area. / G4-PR2

Moreover, Red Eléctrica considers it of utmost importance to remain abreast of all news generated on the topic, as well as to participate in various working groups and actively support research projects in this matter. Therefore, the Company has signed up to an international information service (ELF Gateway, which reports almost daily via email to its customers all the news appearing in the world) and maintains contact with different organisations and associations.

In order to reflect the advances in the scientific community and the recent declarations of international organisations, Red Eléctrica has worked with UNESA in updating the publication 'Electric and magnetic fields of 50 HZ. Analysis of the current state of knowledge' that will be published on the corporate website in the upcoming future.

REGULATORY **COMPLIANCE**



100 %

OF THE FACILITIES VALIDATED

Regarding EMF levels

In the 'Environmental' subsection of the 'Sustainability' section of the corporate website.

BIODIVERSITY / G4-DMA

The commitment of Red Eléctrica to biodiversity has always been a key principle of its environmental policy and specifically, it becomes evident in its biodiversity strategy and in a specific action plan that covers all the Company's activities.

Red Eléctrica is part of the Spanish Business and Biodiversity Initiative (IEBB) promoted by the Ministry of Agriculture, Food and Environment.

CORNERSONES OF THE BIODIVERSITY STRATEGY

Integrate conservation
and the sustainable use of biodiversity in the development of the transmission grid.

Establish mechanisms
to ensure the protection and conservation of environmental values in the activities carried out by the Company, especially in sensitive natural environments.

Contribute and promote the development
of applied research projects aimed at blending the transmission grid into the environment.

Promote a communication and collaboration framework
with stakeholders, increasing the visibility of the Company's commitment to biodiversity conservation.

MAXIMUM SCORE
OF RED ELÉCTRICA

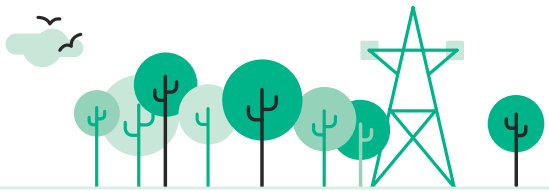
100
OUT OF
100
IN THE BIODIVERSITY CRITERIA

In the Dow Jones Sustainability Index 2016 assessment

In the 'Environmental' subsection of the 'Sustainability' section of the corporate website.

Biodiversity challenges

CHALLENGES	ACTIONS	PROGRESS	OBJECTIVES
Design new approaches for biodiversity management	• Value and work on **incorporating the concepts** of net impact and mitigation hierarchy.	• **New Project 2017.**	***Objective:*** incorporation of the new management approaches regarding biodiversity into the biodiversity management of the Company.
Make facilities compatible with birdlife	• **Project for the mapping of bird flight paths:** identify sensitivity areas, obtain risk maps, design a plan for the marking of electricity lines with bird-saving devices. • **Monitoring the interaction between lines and birds.** Analysis of accident rates and assessing the effectiveness of different models of bird-saving devices.	• Risk map finalised and the marking plan for all the Autonomous Communities defined. • Fulfilment of the objective of the 2016 line-marking plan. Marking of planned lines in the Balearic Islands and the Canary Islands.	***2017-2023 objective:*** fulfilment of the line-marking plan for all Autonomous Communities.
Make facilities compatible with forested areas	• Signing of agreements for the **prevention of forest fires.**	• Eleven agreements currently in force.	***2020 objective:*** agreements signed with all the Autonomous Communities nationwide.
Make facilities compatible with habitats of high ecological value	• ***Hábitat* Project,** phase 1 (2015-2017)	• Obtaining mapping for 10 Autonomous Communities. Validation and qualification of conservation status in 5 of them.	***2017 objective:*** mapping, validation and qualification of conservation status for all Autonomous Communities. ***2020 objective:*** phases 2 and 3 of the project.
Collaborate with Autonomous Communities and other stakeholders on biodiversity matters	• **Innovation** (R&D+i Projects). • Framework agreements regarding protection and other agreements on **biodiversity protection.** • Agreements for the reforestation of degraded areas. **The REE Forest.**	• Project completed: experimental technique for the recovery of Posidonia oceanica seagrass meadows. • 10 agreements with Autonomous Communities. • ***Progress 2009-2016:*** Thirteen agreements signed.	***New project: Biotransporte:*** transmission lines as stepping stones for biodiversity. ***2015-2020 objective:*** agreements with all the Autonomous Communities. ***2020 objective:*** one forest per year.
Promote Red Eléctrica's stance on biodiversity matters	• Participation in **forums, development of informative material** and the involvement of suppliers.	• Participation in various forums related to biodiversity. • Publication of two videos about birdlife. • Tests with suppliers to know the impacts on biodiversity of the contracted services identified in 2014.	***2017-2020 objective:*** participation in two events per year. Produce an annual publication. ***2020 objective:*** Incorporate the criteria of protection and conservation of biodiversity in the selection of suppliers.



Electricity infrastructure and biodiversity

Red Eléctrica's facilities are distributed nationwide, as the aim of the electricity transmission grid is to connect the points of energy generation with those of consumption. Avoiding areas rich in biodiversity is a priority criterion taken into account in the grid planning phase as well as in the definition of each project. However, considering that 25% of the area of Spain has some form of environmental protection, it is inevitable that in some cases infrastructure cross, or are located in protected areas or areas with species of interest.

On these occasions, Red Eléctrica implements all preventive and corrective measures required to minimise the possible impacts on habitats and species (impacts associated with construction work and the modification of facilities, impacts on birdlife as a result of collisions and fire hazards). In addition, these measures are complemented with environmental improvement actions to enhance biodiversity in those areas where facilities are located.

Red Eléctrica´s current facilities occupy only 0.08% of the Red Natura Española (Natura 2000 Network). Of the total infrastructure, existing in 2016, only 15% of the lines and 6% of the substations are located in protected areas (Red Natura).

Protection of habitats and species during works

In works for the construction of lines or the modification of facilities, the main effects to be avoided are the alteration of the habitat of certain species of fauna and flora, and also the impact on vegetation due to the opening up of safety corridors, necessary to prevent fires in the operation of the line. / G4-EN12

Among the preventive and corrective measures applied, noteworthy are the following:

- Detailed field studies on specific issues, such as impact reports for Red Natura and surveys to identify the presence of protected flora and fauna.
- Introduction of modifications in the design of facilities to mitigate their effect on flora: compacting or increasing the height of towers, relocation of towers, modification of access roads etc.

RED ELÉCTRICA'S **CURRENT FACILITIES**

OCCUPY ONLY

0.08 %

OF *RED NATURA ESPAÑOLA*

IN 2016

Just 6% of the substations and 15% of lines were located in protected areas (*Red Natura* - Natura 2000 Network).

Hábitat Project (2015-2020)

This project seeks to determine in detail the natural values present in the area of influence of the facilities of Red Eléctrica and their conservation status. The ultimate goal is to monitor the interaction of electricity transmission lines and natural habitats of Community interest, information that will be able to be used for the decision-making process regarding the operation and maintenance of facilities.

The first phase, which is expected to end in 2017, consists of the creation of a digital information system with all the data, obtained by working in collaboration with the different Autonomous Communities and experts in the field.

In later phases, work will be carried out on the design of plans or measures to promote the conservation of these habitats (2018-2020).

- Construction of decanting pools and filters to prevent contamination of waterways.
- Signage and protection of habitats and species of ecological value to avoid them being damaged during the course of the work.
- Use of construction techniques that minimise earthworks and the occupation of land (reducing the opening up of access roads, the size of work sites and storage areas for materials): hoisting structures with a boom crane, hanging of line by hand, or carrying out works using a helicopter or a drone.
- Transfer of species affected by the work to other areas.
- Biological stoppages in 100% of the works during breeding or nesting periods to reduce impacts on the fauna that may be impacted.
- Recovery of affected areas: restoration of slopes, sowing of seed and the planting of flora.
- Accompanying measures and the development of specific projects to improve biodiversity in affected areas.

LINE MARKING 2016

FOR THE PROTECTION OF BIRDS

RISK MAPS

AND A LINE MARKING PLAN FOR ALL AUTONOMOUS COMMUNITIES

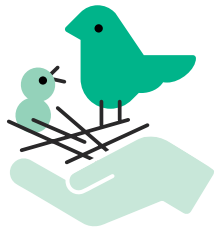
BIOLOGICAL STOPPAGES

Are carried out for 4 to 6 months in all works during the breeding and nesting season so as to avoid impacts on various species.

Red Eléctrica applies construction techniques that **minimise the impact on habitats and also restores areas** that may have been affected.

Specific measures for the protection of habitats and species 2016

- **Use of a helicopter** to hoist 14 towers in the works to improve the 123 kV Ciutadella-Mercadal line
- **Hanging of line by hand** (10 spans), in areas located in priority habitat, for the 220kV Torremendo-San Miguel de Salinas line and 15 spans of the incoming and outgoing feeder lines of the Torremendo substation.
- **Biological stoppages of different duration** (between 4 and 6 months) for 6 lines, to avoid impacts on different species, notably the Egyptian vulture, Golden eagle, Bonelli´s eagle, Booted eagle, Black kite, Honey buzzard, Marsh harrier, Grey eaglet, Royal owl, Dupont´s lark, Lesser kestrel, Little bustard, Pin-tailed sandgrouse, Black-bellied sandgrouse, Great bustard, Common crane and Sand martin.
- **Removal of Sweet tabaiba** *(Euphorbia balsamifera)* with its root ball intact, for subsequent use in the restoration works of the area of the incoming and outgoing feeder lines of the El Sabinal substation.
- **Transplanting of 25 Olive trees affected** by a tower of the incoming and outgoing feeder lines of the Godelleta substation, for their subsequent use in the restoration of the area near this substation.
- **Planting of different species to offset tree felling works:** 200 Poplars in the municipality of Valtierra (Navarra), restoration of 25.9 hectares in Grandas de Salime and 16.9 hectares in Pesoz (Asturias), by planting 36,000 Pine trees, 3,032 Chestnut trees, 3,563 Birch trees and 1,469 Wild cherry trees.



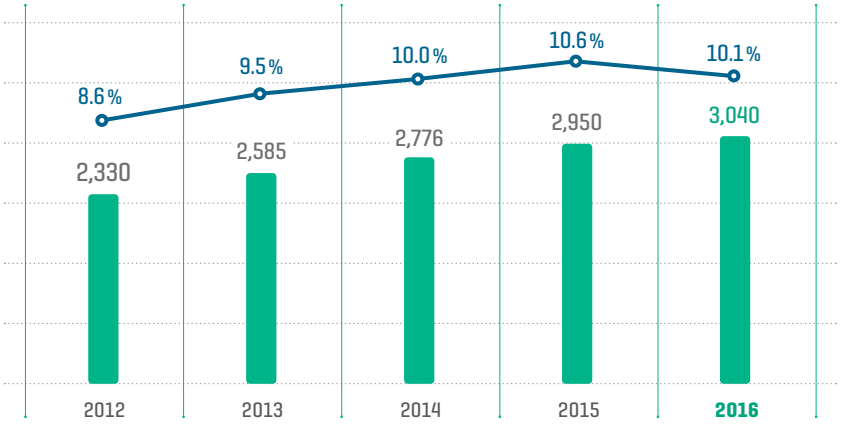
Minimising the risk of bird collisions

The main effect on fauna by Red Eléctrica's facilities is the risk of birds colliding with grounding cables that protect the lines from electrical discharges during storms. The main measure to reduce that risk is marking the grounding cables with devices that increase their visibility. / G4-EN12

In 2016, the project 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines' was completed; a project for which the Company has received various recognitions since it was rolled out in 2016.

Thanks to this project, 47 focal species (considered prone to collisions) have been identified and selected according to diverse criteria. The most complete and updated data on the presence and flight routes of these species has been reflected in a geographic information system.

MARKING OF LINES WITH BIRD FLIGHT DIVERTERS (1)



(1) Data for the Peninsula accumulated at the end of each year.

MULTI-YEAR **LINE MARKING PLAN**

217.7 km OF CRITICAL PRIORITY LINE MARKED UP TO 2016

15% **reduction in the potential risk of collision**

With this information, sensitivity maps (areas where these species can be found and which should be kept in mind when defining new line routes) and risk maps (sensitive areas in which there are also factors that influence the probability of accidents occurring) have been prepared.

Based on the analysis of the risk maps, work is being carried out on a **Multi-Year Line Marking Plan**, in which priority is given to actions in the sections of the line with the greatest potential impact on birdlife. Work under this plan began in 2016, with lines being marked in the island systems; foreseen to be completed in 2023.

Multi-year line marking plan (2016-2023)

Objective of the Plan: line marking on all the sections that have been designated as a priority for critical intervention (sensitive areas), a total of 738.5 km of lines. Line marking of the sensitive sections represents, for the transmission grid, a 25% reduction in the potential risk of collision.

Up to the end of 2016: 217.7 km of sensitive line had been marked (marking of these lines represent a 15.2% reduction in the potential risk of collision).

Total length of sensitive lines pending line marking: 528.8 km (marking of these lines will represent the remaining 10.2% reduction).

The prevention of fires associated with transmission lines is achieved with the adequate **design of the security corridors and by conducting predictive** and preventive maintenance activities on facilities.

Other relevant projects regarding the protection of birds in relation to collisions are:

- A specific methodology and protocol for the collection and analysis of data from bird collision accident rates with electricity transmission lines.
- Analysis of the effectiveness of blade-type bird flight diverters in different bird communities. Project carried out in collaboration with the Doñana Biological Station (CSIC) (2013-2018).
- Collaboration with SEO Birdlife on the drafting of the 3rd Atlas of birds in the breeding season in Spain (2014-2018). The information obtained will allow the data relevant to the identification, characterisation and mapping of routes and flight paths to be updated.

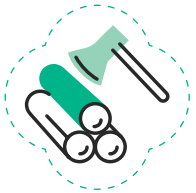
Fire prevention

In order to minimise the risk of fire associated with the presence of transmission lines strict compliance with the safety distances between flora and facilities is critical. Red Eléctrica ensures this compliance through the proper design of the safety corridors and the actions of predictive and preventive maintenance, such as the annual inspection of all facilities and conducting periodic forestry work.

The Company applies best practices in the design and maintenance of safety corridors, respecting shrubs and small size/slow growing tree species, minimising the actions on protected species and not using chemical treatment methods.

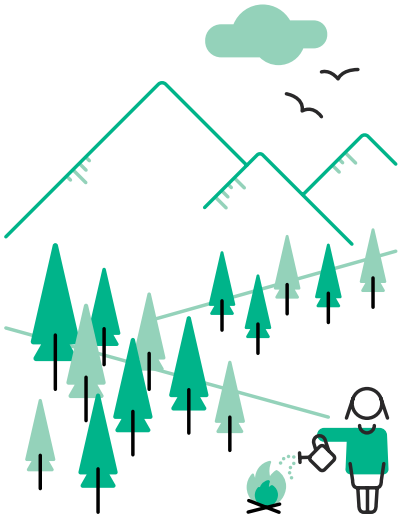
In order to optimise the vegetation treatment tasks, the R&D+i **Vegeta Project** (2016-2017) was launched. During 2016, work was done on defining an algorithm that, based on the analysis of different variables (state of the vegetation, growth index, distance from the electricity line, legal requirements and other established criteria) allows felling works to be coordinated with greater efficiency. The project also includes making detailed inventories of the vegetation in the safety corridor below the overhead lines, making it possible to identify more precisely the compatible and incompatible species, thus

VEGETA **PROJECT**



ESTABLISHES THE **FELLING SCHEDULE** WITH GREATER EFFICIENCY. IDENTIFIES COMPATIBLE AND NON-COMPATIBLE SPECIES

Facilitates the application of environmental criteria in maintenance tasks



facilitating the application of environmental criteria to the maintenance work. So far, a pilot project has been carried out in one Autonomous Community and in 2017, a second pilot project will be undertaken in another community which has different characteristics in order to validate the methodology.

Also, noteworthy is the active and ongoing collaboration of Red Eléctrica with public administrations involved in forestry management.

Collaboration agreements for the prevention and fighting of forest fires

Red Eléctrica aims to sign agreements with the different competent administrations in forestry management. In these, issues are reflected related to the management of safety corridors where electricity lines run through and additionally it sets out other commitments related to firefighting. Currently, there are **11 agreements in force,** with a **budget of 1,100,000 euros associated every five years.**

Within the framework of these agreements, various actions were carried out in 2016:

- Supply of 39 individual sets **of protective equipment for hired personnel** (Navarra).
- **Selective clearing** of land for the prevention of fires (Navarra).
- **Training and awareness actions:** awareness campaign for school children, farmers and infrastructure maintenance contractors (Aragón), Head of Forest Fire Fighting course for staff of the Regional Government of Extremadura and Vizcaya, Forest fire prevention campaign to raise awareness among the tourism sector in the Balearic Islands, collaboration on the general informative campaign called 'El bosc vital' in Valencia and the 3rd Working Days on forest fire prevention in Castilla La Mancha. It is interesting to note that within the framework of the latter, people took part in the first edition of the 'International Forest Fire Awards 2016', whose objective is to promote research in this field.

CONSERVATION PROJECTS

IN **10** AUTONOMOUS COMMUNITIES IN 2016

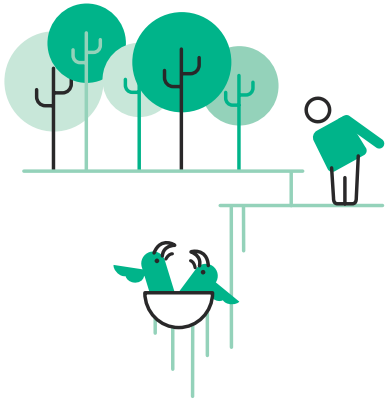
Projects related to birdlife and other species of flora and fauna

FIRE PREVENTION AGREEMENTS

11 agreements are currently in force between Red Eléctrica and the competent administrations, with a budget of 1.1 million euros every 5 years.

Contribution to biodiversity conservation / G4-EN13

Red Eléctrica actively contributes to the conservation of biodiversity in Spain spearheading or participating in various projects and conducting dissemination activities and environmental training. The Company aims to carry out conservation projects in all autonomous communities. In 2016, it collaborated on projects related to biodiversity in ten autonomous communities. Most of these projects are linked to birdlife conservation, although work is also being carried out on other types of flora and fauna. Also relevant are the actions aimed at restoring degraded habitats, among which noteworthy is the **'REE Forest'.**



Conservation projects in connection with endangered species / G4-EN14

- **Platforms** for the Osprey *(Pandion haliaetus)* in Andalusia. [1]
- **Reintroduction** of the Bonelli's eagle *(Hieraaetus fasciatus)* in Majorca. [1]
- **The actual impact** of supplementary feeding on the spatial and reproductive ecology of the Bonelli's eagle *(Hieraaetus fasciatus) in the Community of Valencia*. [1]
- **Monitoring,** conservation and recovery of the population of the Spanish Imperial eagle *(Aquila adalberti)* in Doñana. [2] [3]
- **Adaptation** of the facilities of the Bearded Vulture *(Gypaetus barbatus)* in La Alfranca. [2]
- **Foraging areas** and movements of the Canarian Hubara *(Chlamydotis undulata fuertaventurae)*. [2] [3]

[1] Vulnerable species according to the national catalogue of endangered species.
[2] Vulnerable species in danger of extinction according to the national catalogue of endangered species.
[3] Vulnerable species according to the IUCN Red List.

Experimental technique for the recovery of *Posidonia oceanica* seagrass meadows (2012-2016) R&D+i project / G4-EN13

Posidonia oceanica is a marine plant endemic to the Mediterranean. It forms a habitat of priority interest, an essential ecosystem for many organisms to complete their lifecycle. Posidonia contributes to the control of water quality and the protection of the coastline, and also constitutes one of the main CO_2 sinks in the sea.

The Posidonia seagrass meadows can be affected due to various reasons, among them, the construction works for submarine electricity cables. For this reason, Red Eléctrica decided to promote this project, in collaboration with the Mediterranean Institute of Advanced Studies (CESIC-IMEDEA), whose objective has been to define and develop the necessary actions to restore the Posidonia meadows.

Main phases of the project:

- Review of previous studies, definition of the project and training of the team.
- Non-invasive collection of Posidonia fragments and seeds.
- Cultivation of fragments and seeds in an aquarium (laboratory).
- Sowing of seeds and planting of fragments on different substrates of the bays of Santa Ponsa (Majorca) and Talamanca (Ibiza).
- Monitoring of plantations (growth rates and degree of survival).

As a conclusion of the work, it has been possible to determine that the plantations are viable (survival rates around 50 % have been obtained), so from this experience it is planned to establish an open methodology for its use.

As a follow-up to this project, Red Eléctrica has decided to launch the project **'Red Eléctrica Marine Forest',** which will be developed in collaboration with the CSIC and the Balearic Islands Government and whose purpose is the actual restoration of 2 hectares of Posidonia in a degraded area of the Bay of Pollensa (Balearic Islands), following the methodology resulting from the research carried out. This plantation will be a living laboratory in which to continue advancing in the knowledge of the species and its ecology.

REE
FOREST

1.79
MILLION
EUROS
INVESTED

750
ha
OF SURFACE
AREA RECOVERED

Red Eléctrica Forest
/ G4-EN13

Started in 2009 and of an ongoing nature, this project is twofold: to offset emissions from Red Eléctrica by planting trees and the recovery of degraded natural areas of public 'common' land, thus contributing to the conservation of biodiversity. This initiative also seeks to contribute to the development of local economies by contracting work to companies or groups in the area, and also raise awareness and involve the local population and Company employees.

Relevant milestones in 2016

La Carballeda Forest (Zamora). Restoration of 55.68 hectares of land affected by forest fires in the municipality of Espadañedo by planting 104,830 trees of different species: Pine *(Pinus sylvestris)*, Birch *(Betula alba)*, Wild cherry *(Prunus avium)*, Mountain ash *(Sorbus aucuparia)*, Oak *(Quercus robur and Quercus petraea)*. Training workshops have been held for 153 schoolchildren from five schools in the area in addition to a forest tour, within the same programme created to work in the framework of the Puebla de Sanabria forest project *'I plant my land'*.

Tremuzo Forest (Galicia). Restoration of 40.87 hectares in the Tremuzo highland area (Concello de Outes) that had been affected by a devastating fire. A total of 59,693 native trees have been planted: Pines *(Pinus pinaster)*, oaks *(Quercus suber* and *Quercus robur)*, Birch *(Betula celtibérica)*, Chestnut *(Castanea x hybrida)*, Alders *(Alnus glutinosa)* and Holly *(Ilex aquifolium)*, which complement the species that survived the fire (Wild willows and Pear trees). The rocky areas, in the highest parts, have been preserved in their natural state in order to favour open areas for the feeding of the fauna and thus contribute to the conservation of biodiversity.

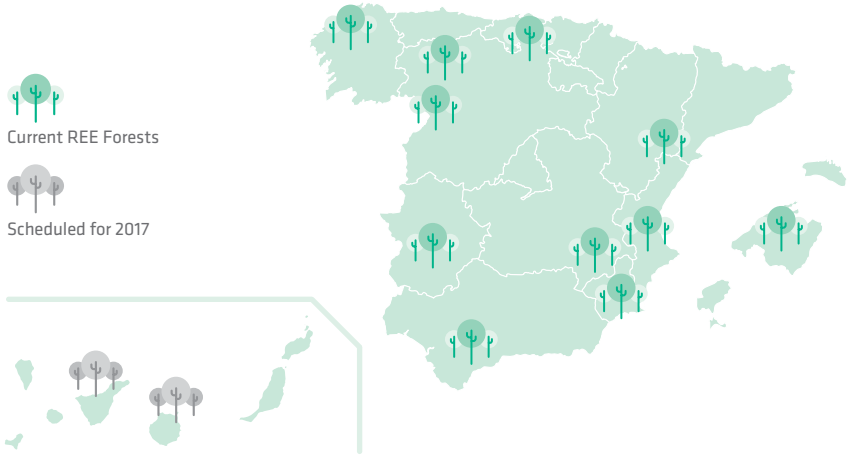
The project has been completed with the putting up of different informative signs, including descriptive milestones for each of the species planted and signage for a burial structure, dating back about 4,000 years, found in the area where the works were carried out.

Within the framework of the project, different workshops have been organised with a total of 120 students from the two schools in the area, who have also carried out the planting of 156 trees. In addition, an awareness training day was conducted in which 61 Red Eléctrica employees participated.

Firgas Forest (Gran Canaria). An agreement has been signed with the Island Council of Gran Canaria for the restoration of 16.96 hectares in Parque Rural de Doramas in the municipality of Firgas.

Chajaña Forest (Tenerife). An agreement has been signed with the Island Council of Tenerife for the restoration of 26.97 hectares in Parque Natural Corona Forestal in the municipality of Arico.

THE RED ELÉCTRICA FOREST
IN FIGURES (2009-2016)



761 ha
Surface area recovered

638,145 units
Trees and shrubs planted

Investment
€1,795,914

Emissions offset
183,483 t of CO_2 eq.

In the 'Map of projects' subsection of the 'Sustainability' section of the corporate website.

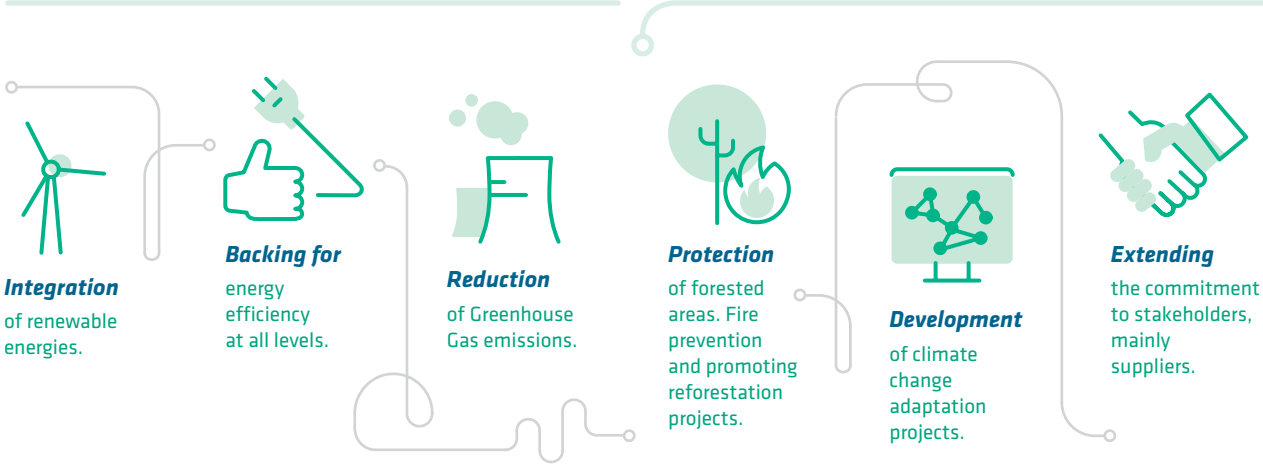
CLIMATE CHANGE / G4-DMA

In order to combat climate change, it is indispensable to adopt an energy model based on the electrification of the economy, the decarbonisation of the electricity sector and increased energy efficiency.

Red Eléctrica as transmission agent and operator of the Spanish electricity system is a key player in the progress towards a more sustainable energy model: the development of transmission infrastructure and the implementation of solutions for system operation aimed at integrating renewable energy represent major opportunities in sustainability and, at the same time, are essential to the achievement of the transition towards clean energy, whilst maintaining security of supply.

Therefore, although Red Eléctrica is not subject to regulations requiring reporting and the reduction (or possibly offsetting) of emissions associated with their activities, the Company decided to formalise its voluntary commitment to the fight against climate change by publishing in 2011 a specific strategy that was reviewed and approved by the Chairman in May 2014.

CORNERSTONES OF THE CLIMATE CHANGE STRATEGY



Integration of renewable energies.

Backing for energy efficiency at all levels.

Reduction of Greenhouse Gas emissions.

Protection of forested areas. Fire prevention and promoting reforestation projects.

Development of climate change adaptation projects.

Extending the commitment to stakeholders, mainly suppliers.

RECOGNITIONS 2016

Inclusion in the CDP Leadership Index (A list). The Company has been recognised as part of the group of leaders, for its efforts and actions to combat climate change.

DJSI Maximum score in the Dow Jones Sustainability Index, in the criteria of Climate Strategy.

RED ELÉCTRICA

Red Eléctrica is a member of the Spanish Green Growth Group, an association whose goal is to promote public-private collaboration, in order to progress together in the decarbonisation of the economy, by working on aspects related to mitigating actions and the adaptation to climate change and to the circular economy.

Red Eléctrica works on the review and update of the targets included in the Climate Change Action Plan.

Climate change action plan

In May 2015, Red Eléctrica launched an Action Plan on climate change which included the targets to achieve in this area and the measures to be undertaken to reach these targets are established. The plan is divided into four main lines of work:

Contribution to a sustainable energy model

Includes actions related to the activity of Red Eléctrica as operator and transmission agent of the electricity grid, and is necessary for the achievement of the European 20-20-20 targets for the year 2020. In this regard, the construction of facilities is expected to help reducing emissions from the electricity system as a whole, such as electricity interconnections and the transmission facilities necessary for the evacuation of renewable energy and the rail transport network.

Also included are all the projects to promote the maximum integration of renewable energy, such as optimising CECRE, improved tools for predicting renewable generation, the development of mechanisms for its participation in system ancillary services and the integration of energy storage systems. In addition, in this regard, all activities to contribute to the efficiency of the electricity system are contemplated, such as the different demand-side management measures and the development of research projects relating to smart grids and electric mobility.

CARBON FOOTPRINT

REDUCTION OR OFFSETTING OF

21

%

Of the Company's emissions in 2020 compared to 2010

Found under the heading 'Energy and climate change' within the 'Sustainable energy' subsection of the 'Sustainability' section of the corporate website.

Detailed information on these actions is described in the Sustainable Energy chapter of this report.

Reducing the carbon footprint

The Action Plan sets the reduction or compensation of 21% of the company emissions compared to 2010 as a general target for 2020, in addition to other partial objectives. The activities are grouped into four broad areas: improved calculation of the carbon footprint, reduction of SF_6 gas, greater efficiency in electricity consumption and reducing fuel consumption of fleet vehicles and the reduction of business trips. In this chapter, we describe these aspects in more detail.

Red Eléctrica is working on revising the objectives included in said plan, in order to adapt them to the new international situation (the Paris Agreement and the new European targets) and to internal changes (that affect the methodology for calculating emissions and different aspects of management). During 2017, it is expected that an updated action plan will be approved and presented.

Involvement of stakeholders

This covers a series of initiatives whose goal is to involve the stakeholders in Red Eléctrica´s commitment to combat climate change. To this end, different channels of collaboration with the administration have been established and actions are also being defined to extend the commitment to the Company´s suppliers. Different activities are also being carried out to make the public aware of and sensitive to this issue. It is worth noting that Red Eléctrica participates as a global partner in the **'Community for the Climate'** initiative, which is driven by several local social entities, the Ministry of Agriculture and Fisheries, Food and Environment, the Spanish Green Growth Group and several NGOs, and whose goal is to promote climate-related actions in Spanish society.

COMMUNITY
FOR CLIMATE

DRIVES
CLIMATE ACTIONS IN THE SPANISH SOCIETY

Red Eléctrica jointly participates with the Ministry of Agriculture, the Spanish Green Growth Group and Various NGO's

Adapting to climate change

Besides working on mitigation actions, Red Eléctrica is aware of the need to work in the field of adaptation to climate change. For this reason, it has identified and evaluated both the risks and opportunities arising from climate change and has begun to develop some actions derived from this analysis.

Climate change risks and opportunities / G4-EC2

The climate change risks inherent to Red Eléctrica are integrated into the corporate risk map. The Corporate Governance chapter of this report, which details the risks inherent to the Company, provides information on the climate change risks and the main actions carried out by Red Eléctrica to manage them. Regarding opportunities, the fight to stop climate change implies a change in the energy model and the transmission model. Policies set at European level are clearly aimed at these purposes. The need to increase the share of renewable energy in the electricity system (connection of new facilities and the optimisation of their management), the improvements to be undertaken in order to increase the efficiency of the system, changes in mobility policies (boost to rail transport and development of electric vehicles) represent a clear need for new investment in the transmission grid (new lines, interconnections) and therefore, a clear business opportunity for the Company.

Besides working on mitigation actions, Red Eléctrica is aware of the need to work in the field of adaptation to climate change.

Emissions inventory / G4-DMA

Red Eléctrica drafts its **emissions inventory** based on the methodology of the GHG Protocol. Since 2011, the Company has been working on expanding the inventory and improving the calculation processes. Since 2013, the inventory has been submitted to independent review in accordance with ISAE 3410. The Independent Assurance Report is included in the annex to the present report.

In 2016, Red Eléctrica registered its **emissions inventory** in the Carbon Footprint Registry, offsetting and absorption projects of the Spanish Climate Change Office (MAPAMA).

During 2016, the action guidelines when faced with SF_6 leaks have been revised in order to minimise breakdown and incident resolution times.

Control of SF_6 emissions

The main direct emissions derived from Red Eléctrica's activities are those of sulphur hexafluoride (SF_6). This gas, despite its high potential for global warming, provides huge technical advantages. It is a nontoxic gas that allows a huge reduction in the distances to be maintained between the various elements of facilities which makes it possible to reduce the size of the installation and therefore better blend it into the landscape.

The emissions of this gas are associated with small leaks from equipment, leakages due to handling the gas and those one-off accidents that may occur, which makes it very difficult to establish measures and reduction targets. However, for Red Eléctrica this is a priority issue and it has various courses of action underway aimed at improving knowledge about and control of the gas and the reduction of leaks. The most important courses of action are the following:

- Improvement of the procedures for the control and identification of leaks, inventory and management of SF_6 gas. In this regard, during 2016, Red Eléctrica has continued to improve the procedure for monitoring the gas and the calculation of annual emissions having incorporated this process into the Company's IT tools (this new procedure will be implemented during 2017).

  In addition, work has been done on defining new requirements for the handling of SF_6 gas by suppliers and contractors and for the management of equipment at the end of its useful

MANAGEMENT OF SF_6

IMPROVEMENT
OBJECTIVE IN 2016

CONTEMPLATES THE FOLLOWING CRITERIA:

- **Improvement in the monitoring calculation**
- **Requirements from suppliers**
- **Reduction in response times**

life. Criteria related to action guidelines regarding leakage have also been revised in order to minimise breakdown and incident resolution times to minimise emissions. The execution of all these works has been considered a priority managerial objective for the Company, reaching a compliance of 100% in 2016.

- Provision of the most efficient equipment for the detection of leaks, the handling and measurement of SF_6
- Training of people involved in the handling of the gas. Red Eléctrica has two legally recognised training centres with a classroom for lectures and a workshop for experiments in which 426 employees have been trained since 2013.
- Replacement of old equipment with equipment with lower leakage rates.
- R&D+i projects related to the improvement in the management of gas. Collaboration with EPRI (2015-2020) and the development of a leak repair methodology for SF_6 in GIS facilities (2016-2018).

TRAINING CENTRES

426

EMPLOYEES

HAVE RECEIVED TRAINING IN THE HANDLING OF SF_6

Since 2013

Additionally, Red Eléctrica works in collaboration with the government and other entities in the search for solutions aimed at controlling and reducing these emissions. During 2016, different meetings were held under the framework of the voluntary agreement signed in May 2015 between the Ministry of Agriculture, Food and Environment, manufacturers and suppliers of electrical equipment using SF_6, transportation companies and electricity distribution companies and waste managers for this gas and the equipment containing it, for a comprehensive management of the use of SF_6 in the electricity industry which is more respectful to the environment.

Replacement of old equipment with equipment with a lower leakage rate

Objective 2020:
Avoid 1,500 t CO_2 eq. per year.

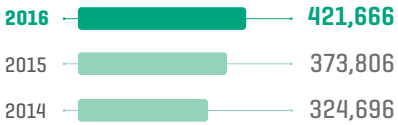
Actions 2016:
1,076 t of CO_2 eq. avoided annually.

Actions 2015-2016:
1,353 t CO_2 eq. avoided annually.

Note: The calculation of avoided emissions is carried out taking into account the theoretical leakage rates of the equipment, depending on their age.

EVOLUTION OF SF_6 GAS INSTALLED IN RED ELÉCTRICA

kg

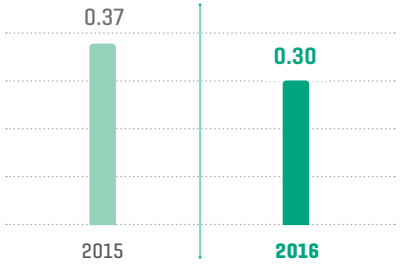


The growth in installed gas is due to the commissioning of new facilities and the replacement of old equipment for equipment insulated with SF_6. However, the large increase in 2016 is also associated with the updating of the inventory of SF_6 gas insulated substations, which has made it possible to determine the amount of gas contained in them (which in previous years was estimated).

SF_6 EMISSION RATE

% OF EMISSIONS OF INSTALLED GAS

%



The reference rate is 0.5 %, which is the maximum leakage rate for equipment in service established in the Voluntary Agreement for SF_6 management signed in 2015. This rate is set for the equipment commissioned from the date the agreement was signed, allowing greater leakage rates in previous equipment.

EFFICIENCY IN ELECTRICITY CONSUMPTION

Buildings

Energy management system certified under ISO standard 50001 in the buildings of the Head office.

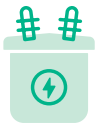
- Efficiency measures in the **construction of new buildings.** In 2016, a new service and logistic depot building was built in the Torrente substation (Ibiza) that obtained a B energy rating.
- Efficiency measures in the **refurbishment of existing buildings.** In the last year, improvement measures have been implemented in the climate control, lighting and insulation systems in six work centres, which are estimated to represent a saving of 96,981 kWh per year.

IT Systems

Efficiency measures associated with the use of computer equipment:

- **Renewal** of equipment and systems.
- **Implementation** of policies for efficient use, with a target of reducing electricity consumption associated with this equipment by 60 % in the period 2012-2020.
- In 2016, **a renewal of equipment** (laptops, desktops and monitors) was carried out that represents an estimated reduction in electricity consumption of 2,548 kWh per year.

Substations



Reduction of electricity consumption in substations: selection of more efficient equipment and components and establishing efficient guidelines for use, with a special focus on auxiliary services: climate control in buildings housing control elements, substations and cabins and improvement of lighting systems.

Advances in the standardisation of new technologies and the rationalisation of the use of lighting in substations. Launching of the innovation project: 'Study on the use of geo-cooling for gas-insulated facilities and cable galleries' (R&D+i).

Awareness

Awareness campaigns for employees and collaborators working in Company facilities.

During 2016, a series of energy audits were carried out in compliance with RD 56/2016 on energy efficiency. As a result of these works, different efficiency measures have been identified related to climate control systems and lighting that will be implemented between 2017 and 2018 and are estimated to bring savings of 183,800 kWh per year.

Red Eléctrica eficiente

One of the axes of the Company's climate change strategy is the commitment to energy efficiency at all levels. In order to make it visible, and to encourage employees to identify and drive projects that promote the efficient use of natural resources, the internal efficiency brand ***Red Eléctrica Eficiente*** has been created, which identifies all these projects.

Each year some of them are awarded for their contribution to the achievement of the different efficiency objectives. In the Fourth Edition of the ***Red Eléctrica Eficiente*** Awards, three awards were presented:

Sustainable Stock Project: reverse logistics project that allows the recovery of part of the value of equipment or materials not useful for the Company, through an auction system for reuse or valuation by third parties.

Automatic Real-Time Management of the El Hierro Hydro-wind Power Station. The tool proposed in this project automates the real-time monitoring of wind power generation and the state of the power station, supporting the system operator and allowing the maximum integration of renewables under secure conditions. Thanks to this, new records of renewable energy integration were reached throughout the year, with periods of more than 70 hours of continuous demand coverage with 100 % renewable energy being registered. The total integrated renewable energy has gone from 19 % in 2015 to 42 % in the period January-November 2016.

REDCOM Project. Extension of the use of Microsoft's Lync communication tool in terms of the number of users and the use of features, with the benefits that this entails in improving communication and reducing trips.

RED ELÉCTRICA eficiente

The Company is committed to the rationalisation of the use of private vehicles in the commute to workplaces.

Sustainable mobility

Red Eléctrica has for several years been working on optimising the trips made for executing its work and reducing the emissions associated with them. In 2014, it decided to give a greater impulse to this initiative, by approving a Sustainable Mobility Plan, with the goal of incorporating a new culture of mobility in the Company. Among the most important measures taken, the following are noteworthy:

- **Efficient vehicle management:** a progressive improvement in the energy rating of the vehicles used and the optimisation of their use, through the CARs IT application (Agile, Responsible and Safe Driving System), which facilitates responsible driving and the use of efficient routes. Proof of this is the 'Green Fleet Accreditation' in its 'Master' mode (the most demanding) received from AEGFA (Association of Fleet Managers) and IDAE (Institute for Energy Diversification and Saving) obtained by Red Eléctrica in 2015.

- **Reduction of emissions associated with business trips:** launch of a corporate fleet of 12 electric vehicles for trips during the working day; prioritisation of the use of efficient taxis (75% of the kilometres have been travelled in ECO taxis) and improvements in communication tools, in order to reduce the number of trips (video conferences and remote accessibility platforms).

ENERGY RATING OF VEHICLES

77.65 % of fleet vehicles (including saloon cars, shared leasing vehicles, management vehicles, pool of electric vehicles, off-road, vans and car-derived vans) have an energy rating of A or B, or are electric.

If we exclude special purpose vehicles (off-road, vans and car-derived vans) this percentage reaches 98.5 %.

- **Rationalisation of the use of private vehicles in the commute to workplaces:** Improvements in the company bus service and shuttle services connecting the offices with different locations; redesigning routes and lengthening hours so as to provide a better service; inclusion of the transport pass in the employee options for payment in kind (16% of the employees have adopted this measure) and promoting the use of shared vehicles (53% of the employees are doing so regularly).

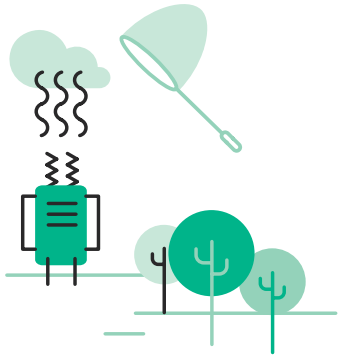
- **Efficient vehicles for executives:** implementation of a fleet of electric and hybrid vehicles for the executive team, with recharging points at work centres.

Mobility targets 2020

- **30 % reduction** in emissions associated with the use of fleet vehicles (2010-2020).
- **300 t of CO_2** equivalent avoided each year on business trips as of 2020.
- **200 t of CO_2** equivalent avoided annually in the employee commute to work centres as of 2020.

Offsetting emissions

Red Eléctrica has put into effect different alternatives for emissions reduction. However, given the nature of the emissions (the main direct emissions are diffuse) and the characteristics of the Company´s activities, in order to achieve greater progress in reducing the Company's carbon footprint, it is important to work on offsetting measures. The main method of offsetting emissions is the execution of the Red Eléctrica Forest programme, described in the chapter on biodiversity.



OFFSETTING EMISSIONS

+20 %

OF TOTAL DIRECT EMISSIONS

Meeting the annual target of the Climate Change Action Plan

TREMUZO FOREST

The planting of 59,693 trees in this forest in Galicia has represented the offsetting of 57% of direct emissions in 2016.

Red Eléctrica offsets part of its emissions by supporting a deforestation project in the Amazonia rainforest of Peru.

During 2016, work was completed on the planting of the La Carballeda Forest (Zamora), which is estimated will offset 31,449 tonnes of CO_2 and which, when added to the work already executed at Ejulve in 2015, will offset all of the direct emissions from 2015.

Additionally, the planting of 59,693 trees in the Tremuzo Forest (Galicia) will offset 17,908 tonnes of CO_2, representing 57% of the direct emissions during 2016, thereby meeting the goal of offsetting 20% of the direct emissions, as reflected in the climate change action plan.

Moreover, for the fourth consecutive year the Company has offset a part of the emissions corresponding to employee commutes to their respective work centres, having purchased a total of **2,050 VCUs *(Verified Carbon Unit)*** under the standard VCS (Verified Carbon Standard), which correspond to the emissions generated by all those workers who answered the mobility survey 2016 (57.15% of the workforce). This purchase has been offset by supporting a project against a deforestation project in the Amazon rainforest - Peru: *'Madre de Dios Amazon REDD Project'*, which contributes to the conservation of biodiversity in the area and the development of indigenous communities.

WASTE AND EFFLUENTS / G4-DMA

The waste that Red Eléctrica generates is produced as a result of the following activities:

- Preventive or corrective maintenance tasks: inspections, changing of parts, oil renewal, etc.
- Actions against accidents: containment measures used in the case of leaks or spillages and cleaning work may lead to a large amount of associated waste.
- Improvement of facilities: renewal of obsolete switchgear, improvement in accident prevention systems, among others.

Red Eléctrica has established processes that help minimise the quantity and the hazardous risk level of waste generated, such as the in-situ regeneration of power transformer oil for its reuse and the avoidance of the need to deal with large quantities of oil as waste. In this line, the opportunity to reduce 'water-oil mixture' waste has been identified and an R&D+i project has been launched, and some results have already been obtained.

However, and given the nature of the waste generating activities, it is very difficult to predict the evolution of the quantities generated and set quantitative reduction targets. Therefore, most of the efforts are aimed at finding better solutions for final management, promoting good practice through training and awareness and seeking the best options among our suppliers.

The waste generated in construction activities is managed by contractors. For all works there, is a waste management plan which sets out the management to be carried out in each case, with the being minimisation and reuse the prevailing criteria

Minimisation of waste resulting from the cleaning of transformer containment pits. R&D+i project

The goal of the project is to develop a catalyst that allows, through the utilisation of a mobile plant, for the cleaning of the water from oil containment pits, so that it would only be necessary to manage, through an authorised waste management expert, part of their content (the oil) and not the entire amount (the water-oil mixture). The treated water could then be reused in the same pits, in order to maintain the level of water needed for them to function correctly. In this way, the waste to be managed and dealt with would be significantly reduced.

The project has been undertaken in two phases. In the first, experimental phase, the contents of different pits were analysed and characterised in a laboratory; in a second phase, practical treatment was carried out in situ at different substations. In both phases, very positive results were obtained, with very high performance (higher results with the more contaminated waste). In all cases, hazardous waste has been reduced by at least 90 %.

During 2017, work will continue on applying the conclusions of this work to the real management of Red Eléctrica's facilities.

WASTE MANAGEMENT

APPLICATION OF **BEST PRACTICES**

MANAGEMENT OF WASTE FROM WORKS

Red Eléctrica includes specific requirements in the contractual documentation for works, and reviews its compliance through on-site inspection of works.

criteria of minimisation and reuse established as a priority (which is especially important for surplus excavation material). In addition, Red Eléctrica includes specific waste management requirements in the contractual documentation of works and reviews compliance through monitoring visits to works and via documentation control.

'Sustainable Stock' Project

This is a reverse logistics project that faithfully follows the 3R principle: reduce, re-utilise and recycle.

It consists of the sale of materials considered useless for their reuse, or their valuation as waste, through an auction system. The project permits the extension of the useful life of some materials and the total or partial recovery of their components or materials.

In December 2015, the pilot project ended and it became a standard company practice due to it being considered very effective, given that successful solutions were found for 100 % of the materials auctioned (which so far has represented 4 % of the total stock of Red Eléctrica).

ENVIRONMENTAL **RISK ASSESSMENT**

ELECTRICITY SUBSTATIONS

OBJECTIVE:

MINIMISE THE RISKS OF LEAKS AND SPILLAGES OF HAZARDOUS SUBSTANCES

2015-2016

IN 2017

Assessment of the environmental risk of cables containing oil will be conducted.

Protection against leaks and spillages

Red Eléctrica includes among its environmental risks the risk of contamination of soil or groundwater from leaks or spillages of oils, fuels and hazardous substances. For this reason, it has established numerous preventive and corrective measures to minimise these risks.

On the one hand, proper maintenance of equipment is carried out and strict working procedures that reduce the number of incidents are established. On the other hand, it has adequate containment systems (especially relevant in the case of power transformers containing large amounts of oil) and response protocols when faced with possible events that result in a reduction of the severity of the consequences should accidents occur.

Apart from all these measures, the Company has decided to promote work intended to minimise, as much as possible, the risks from leaks and spillage of hazardous substances. To this end, during 2015 and 2016, the 'Evaluation of environmental risk and the identification of environmental liabilities at electricity substations' project was carried out. The goal was to define the level of environmental risk associated with these substations and to classify the facilities in accordance with the same. The evaluation has centred mainly on those substations where there is equipment present with significant oil content. Besides evaluating the potential risk of impacting on the soil and water associated with the different elements of the substations, consideration has also been given to risks associated with activities habitually carried out, as well as those activities carried out adjacent to the sites, in addition to the environmental value of the surroundings and their vulnerability.

Once the facilities were classified, a proposal was made for actions, prioritised according to urgency, to reduce, control or completely eliminate the risks identified.

Red Eléctrica expects to continue working on improving the comprehensive management of this type of risk. In order to do so, in 2017 work will be carried out to evaluate the environmental risks related to cables with oil.

INDICATORS

FUEL CONSUMPTION
/ G4-EN3

L

	2014	2015	**2016**
Diesel	408,277	400,096	712,853
Petrol	-	44	49,768
Biodiesel	-	121	0
LPG Autogas		33	0
Diesel generator sets (1)	4,100	5,061	3,452

(1) Corresponds to diesel refilled in the fuel tanks in 2016.

Note: Data from 2014 and 2015 only includes fleet vehicles owned by Red Eléctrica.
Data for 2016 includes owned vehicles and shared leasing vehicles (including management vehicles).

ELECTRICITY CONSUMPTION
/ G4-EN3

kWh

	2014	2015	**2016**
Total	**16,180,971**	**15,900,041**	**15,516,259**

Note: Includes the consumption of the Head Office, the electricity control centres (centres that operate 24/7 and have a special energy consumption) and work centres (regional offices and maintenance centres).

SUMMARY OF ENERGY CONSUMPTION (1)
/ G4-EN3

J

	2014	2015	**2016**
Fuel consumption	$1.52 \cdot 10^{13}$	$1.48 \cdot 10^{13}$	$2.82 \cdot 10^{13}$
Electricity consumption	$5.82 \cdot 10^{13}$	$5.72 \cdot 10^{13}$	$5.58 \cdot 10^{13}$

(1) Total consumption data in joules, according to the criteria defined by GRI.

1 kWh= $36 \cdot 10^{5}$ joules; 1 litre of diesel fuel= $37 \cdot 10^{6}$ joules; 1 litre of gasoline= $34 \cdot 10^{6}$ joules,
1 litre of gas oil= $37 \cdot 10^{6}$ joules; 1 litre of biodiesel= $32.79 \cdot 10^{6}$ joules; 1 litre of LPG= $25.7 \cdot 10^{6}$ joules.

INDIRECT ENERGY CONSUMPTION. ELECTRICITY
/ G4-EN3

/

	2014	2015	**2016**
Transmission grid losses (MWh) (1)	3,187,000	3,023,000	3,441,000
Transmission grid losses (joules)	$1.15 \cdot 10^{16}$	$1.08 \cdot 10^{16}$	$1.23 \cdot 10^{16}$

(1) Losses in the electricity transmission grid are related to the location of generation points in relation to the consumption points (the greater the distance, the greater the losses), the amount of energy demanded during the year, the generation mix of the year (percentage of each generation technology in the total energy generated), international exchanges and the shape of the demand curve. Practically none of these factors are manageable by Red Eléctrica, making it very difficult to reduce losses. However, Red Eléctrica works to identify and improve those factors it can have an influence on. During 2016, the value of losses in the transmission grid increased compared to the previous year mainly due to the different distribution of generation in the Spanish peninsular system.

EXTERNAL ENERGY CONSUMPTION. LOGISTICS
/ G4-EN4

	2014	2015	**2016**
Fuel consumption (litres)	239,120	238,240	196,973
Fuel consumption (joules)	$8.85 \cdot 10^{12}$	$8.82 \cdot 10^{12}$	$7.29 \cdot 10^{12}$

Note: In 2016, the calculation method has been adjusted (this is the reason for the decrease in emissions shown by the data).

1 litre of gas oil = $37 \cdot 10^{6}$ joules

REDUCTIONS IN ELECTRICITY CONSUMPTION
/ G4-EN6

	kWh/annually	joules/annually
Efficiency measures in work centres: improvements to insulation, climatization and lighting (1)	113,454	$4.08 \cdot 10^{11}$
IT efficiency measures: Renewal of desktop equipment, laptops and monitors (1)	2,548	$9.17 \cdot 10^{9}$

(1) Estimated annual reductions resulting from the measures carried out in 2016 (estimations obtained from equipment specifications and information based on energy audits regarding the implementation of measures).

ENERGY INTENSITY
/ G4-EN5

	2014	2015	**2016**
Electricity consumption per employee in Head Office (kWh/employee) (1)	6,725	7,126	6,763
Transmission grid losses (MWh/MWh transported) (%) (2)	1.320	1.219	1.376
Average consumption of vehicles for logistical use (external) (litres/100 km)	25.7	26.6	26.4

(1) The calculation takes into account all staff working at the Moraleja and Albatros work centres (employees of the Group, interns, employees from temporary staffing agencies and collaborators).
(2) Losses in the electricity transmission grid are related to the location of generation points in relation to the consumption points (the greater the distance, the greater the losses), the amount of energy demanded during the year, the generation mix of the year (percentage of each generation technology in the total energy generated), international exchanges and the shape of the demand curve. Practically none of these factors are manageable by Red Eléctrica, making it very difficult to reduce losses. However, Red Eléctrica works to identify and improve those factors it can have an influence on.

TOTAL WATER WITHDRAWAL BY SOURCE
/ G4-EN8

	2014	2015	**2016**
Head Office (m^3) (1)	9,177	9,018	9,166
Other work centres (m^3)	18,892	18,232	17,276
Total of all work centres (m^3) (2)	28,069	27,250	26,442

(1) Only the Head Office building in 'La Moraleja' is taken into account.
(2) The data provided has a coverage of 99 %, in terms of personnel (taking into account all personnel that work in the different work centres in Spain: employees of the Group, interns, employees from temporary staffing agencies and collaborators).

Note: The water consumed comes from: the municipal mains (62.18%), wells (34.6%), cisterns (3.23%). In the Northern regional office and in some work centres cisterns are available for the collection of rainwater for sanitary use, fire prevention and irrigation. In general, the cisterns do not have mechanisms to measure the water stored, so the actual % of utilisation of rainwater cannot be calculated. / G4-EN10

PRESENCE OF FACILITIES IN RED NATURA SPACES

/ G4-EN11

	2014	2015	2016
Km of line in Red Natura/total km of line (%)	15.1	15.0	15.0
Number of substations in Red Natura/number of substations (%)	6.16	5.96	5.92
Surface area of facilities in Red Natura/total surface in Red Natura (%) [1]	0.09	0.08	0.08

Red Natura (Natura 2000 Network) includes: SCI (Site of Community Importance) and SPA (Specially Protected Areas for birds).

[1] Surface area occupied by lines and substations. The surface area of lines has been calculated assuming an occupation of 20 m on each side of the line. It is necessary to keep in mind that the occupation is overhead, there is only actual land occupation in the case of the towers.

Note 1. For the calculation of the 2014 ratios, the base data published in July 2014 was used. In the case of the 2015 ratios, the base data published by MAGRAMA in February 2016 was used. For 2016, the base data published by MAGRAMA in January 2017 was used.

Note 2. The mapping of in-service facilities is improved and updated annually, whereby some variations in calculations not related to the increase or decrease in the number of facilities may result.

COLLISIONS OF ENDANGERED SPECIES DETECTED IN 2016

/ G4-EN12

Species affected	Nº of birds affected
Great Bustard *(Otis tarda)* [1]	1
Little Bustard (Tetrax tetrax) [2] [3]	1
Red Kite (Milvus milvus) [4]	2
Black-bellied Sandgrouse (Pterocles orientalis) [3]	8
Black stork (Ciconia nigra) [3]	1
Canarian Egyptian Vulture (Neophron percnopterus majorensis) [4]	4 [5]
Houbara Bustard (Chlamydotis undulata) [1] [4]	7

[1] Vulnerable species according to IUCN Red List. / G4-EN14
[2] Near-threatened species according to IUCN Red List. / G4-EN14
[3] Vulnerable species according to the National Catalogue of Endangered Species. / G4-EN14
[4] Near extinct species according to the National Catalogue of Endangered Species. / G4-EN14
[5] One of the Canarian Egyptian Vultures involved was only injured.

Collisions are mainly detected during monitoring plans or specific studies. In 2016, a specific study was carried out in the Canary Islands (Study for the quantification of the impact of the electricity cables of the eastern islands of the Canary Islands on bird mortality), in collaboration with the Museum of Natural Sciences (CSIC) and GREFA.

DESCRIPTION OF THE MOST SIGNIFICANT IMPACTS ON BIODIVERSITY

/ G4-EN12

Most relevant impacts on protected spaces [1]

Effects on marine SCI of 'Canal de Menorca': Contamination of three coves and subsurface waters due to accidental oil leakage in the Majorca-Menorca interconnection cable. Leakage due to accidental damage to cable caused by the anchor of a yacht and also through two accidental leaks. Affected area: between 1,200-1,600 m^2 of seabed and a seawater surface area of between 2,200 and 2,600 m^2. Measurements were taken for the containment of the spillage as well as for the cleaning up of the affected beaches and of the oil present on the surface of the water. In addition, various actions were carried out regarding water characterisation and the monitoring of potentially affected areas.

Effects on the beach of 'Cala Mesquida' in the SCI and SPA of 'Muntanyes d'Arta' due to the leakage of a land section of the Majorca-Menorca interconnection cable. Affected area: 1,100 m^2 of soil and 1,700 m^2 of groundwater. Different characterisations of soils and water have been made to determine the extent and depth of the impact (pending final results). Emergency measures have been established to extract the contaminating product present in groundwater.

Most relevant impacts on vegetation

Felling of Sweet Tabaibas *(Euphorbia balsamifera)* linked to the construction of the new electricity line.

Felling of indigenous flora – 157 Aleppo pines *(Pinus halepensis)* and 2 date palm trees *(Phoenix dactylifera)* in protected spaces, due to the opening up of a forest safety corridor in the construction of two new electricity lines.

[1] For more information on these incidents, please consult the / G4-EN24 indicator.

SPECIES INCLUDED IN THE IUCN RED LIST

and the national conservation list whose habitats are located in areas affected by operations, broken down by the extinction risk level of the species

/ G4-EN14

	Scientific name	Common name	Classification according to MAGRAMA (2016) (National Catalogue)	Classification according to the IUCN red list
1.	*Aquila adalberti*	Imperial Eagle	In danger of extinction	Vulnerable (VU)
2.	*Hieraaetus fasciatus*	Bonelli's Eagle	Vulnerable	Least concern (LC)
3.	*Pandion haliaetus*	Osprey	Vulnerable	Least concern (LC)
4.	*Burhinus oedicnemus subspp.*	Stone-curlew	Vulnerable	Least concern (LC)
5.	*Neophron percnopterus*	Griffon Vulture	Vulnerable	Endangered (E)
6.	*Neophron percnopterus majorensis*	Canarian Egyptian Vulture	In danger of extinction	Not evaluated (NE)
7.	*Chersophilus duponti*	Dupont's Lark	Vulnerable	Near threatened (NT)
8.	*Botaurus stellaris*	Eurasian Bittern	In danger of extinction	Least concern (LC)
9.	*Otis tarda*	Great Bustard	-	Vulnerable (VU)
10.	*Chlamydotis undulata*	Houbara Bustard	In danger of extinction	Vulnerable (VU)
11.	*Aegypius monachus*	Black Vulture	Vulnerable	Near threatened (NT)
12.	*Marmaronetta angustirostris*	Marbled Duck	In danger of extinction	Vulnerable (VU)
13.	*Ciconia nigra*	Black Stork	Vulnerable	Least concern (LC)
14.	*Corvus corax canariensis*	Common Raven	-	Not Evaluated (NE)
15.	*Fulica cristata*	Crested Coot	In danger of extinction	Least concern (LC)
16.	*Pterocles alchata*	Pin-tailed Sandgrouse	Vulnerable	Least concern (LC)
17.	*Pterocles orientalis*	Black-bellied Sandgrouse	Vulnerable	Least concern (LC)
18.	*Ardeola ralloides*	Squacco Heron	Vulnerable	Least concern (LC)
19.	*Falco pelegrinoides*	Barbary Falcon	In danger of extinction	Least concern (LC)
20.	*Geronticus eremita*	Northern Bald Ibis	-	Critically endangered (CR)
21.	*Oxyura leucocephala*	White-headed Duck	In danger of extinction	Endangered (E)
22.	*Milvus milvus*	Red Kite	In danger of extinction	Least concern (LC)
23.	*Columba junoniae*	White-tailed Laurel Pigeon	Vulnerable	Near threatened (NT)
24.	*Lagopus muta*	Rock Ptarmigan	Vulnerable	Least concern (LC)
25.	*Dendrocopos leucotos*	White-backed Woodpecker	In danger of extinction	Least concern (LC)
26.	*Fringilla teydea subspp.*	Blue Chaffinch	In danger of extinction (Tenerife) Vulnerable (Gran Canaria)	Near threatened (NT)
27.	*Aythya nyroca*	Ferruginous Duck	In danger of extinction	Near threatened (NT)
28.	*Gypaetus barbatus*	The Bearded-Vulture	In danger of extinction	Near threatened (NT)
29.	*Tetrax tetrax*	Little Bustard	Vulnerable	Near threatened (NT)
30.	*Tetrao urogallus cantabricus*	Cantabrian Capercaillie	In danger of extinction	Not Evaluated (NE)
31.	*Tetrao urogallus aquitanicus*	Aquitanian Capercaillie	Vulnerable	Not Evaluated (NE)

The main risk on protected species due to the operations of Red Eléctrica arises from birds colliding with the electricity lines. Within the framework of the project 'Identification, characterisation and mapping flight paths of birds that interact with high voltage transmission lines' 2010-2014, allowed the species that are prone to colliding with Red Eléctrica's lines to be identified (focal group, a total of 47 species) and whose habitats are located in areas where such lines exist. Of the 47 species identified, 31 have been considered threatened.

DIRECT GREENHOUSE GAS EMISSIONS (t CO_2 equivalent) (1)

tCO2

/ G4-EN15

Direct Emissions (SCOPE 1)	2014	2015	2016
SF_6 (2)	81,018	31,651	28,770
Air conditioning	809	840	610
Fleet vehicles (3)	1,094	989	1,898
Diesel generator sets	204	182	222
Total direct emissions	**83,125**	**33,662**	**31,500**

(1) The calculation of emissions is performed from an operational control perspective. The information on the inventory scope and methodology is available on the REE website (http://www.ree.es/en/sustainability/sustainable-energy/energy-and-climate-change/our-carbon-footprint). The inventory was submitted to independent review in accordance with ISAE 3410.
(2) Taking GWP (Global Warming Potential) to 100 years: 22,800 (Source IPCC, Intergovernmental Panel on Climate Change: 4th assessment report). The decrease in SF_6 emissions post 2015 is linked to the change in the methodology used for its calculation. In 2014, the data was calculated based on the application of theoretical emission factors of the installed gas. As of 2015, the calculation is based on actual data regarding leakages.
(3) Data for 2014 and 2015 only include emissions from Red Eléctrica-owned fleet vehicles. The data for 2016 includes those from vehicles owned and shared leasing (including management vehicles).

OTHER INDIRECT EMISSIONS SCOPE 3

(t CO_2 equivalent) (1)

tCO2

/ G4-EN17

Indirect (SCOPE 3)	2014	2015	2016
Emissions associated with business travel (1)	1,485	2,517	1,433
Emissions associated with the internal transportation of materials (2)	641	589	494
Employee commuting	3,468	3,345	3,574
Emissions associated with the value chain (3)	175,389	234,807	223,275

(1) Corresponds to trips made by train, plane, privately owned or rental vehicles and taxi. This scope does not correspond to that of 2015, which also included the emissions derived from the use of shared leasing vehicles and management vehicles, which this year have been included in scope 1.
(2) The calculation method was adjusted in 2016.
(3) 2014: information on suppliers that represent 95% of the volume of purchase orders. Carbon intensity in the value chain: 370 t CO_2 / million euros.
2015: data on 100% of purchase orders. Carbon intensity of the value chain: 424 t CO_2 / million euros.
2016: data on 100% of purchase orders. Carbon intensity of the value chain: 372 t CO_2 / million euros.

Note: For the correct interpretation of the data it is necessary to take into account that carbon intensity depends on the type of purchase orders made during the year and there are products / services with different carbon intensity. That is why strict comparisons cannot be made between the different years. Of all the activities, the construction of facilities and equipment manufacturing are the most carbon intensive.

INDIRECT GREENHOUSE GAS EMISSIONS FROM THE GENERATION OF ENERGY

(t CO_2 equivalent) (1)

tCO2

/ G4-EN16

Indirect Emissions (SCOPE 2)	2014	2015	2016
Electricity Consumption (2)	3,867	4,229	1,664
Transmission grid losses (3)	767,907	804,118	736,374
Total indirect emissions	**771,774**	**808,347**	**738,038**

(1) The calculation of emissions is performed from an operational control perspective. The information on the inventory scope and methodology is available on the REE website (http://www.ree.es/en/sustainability/sustainable-energy/energy-and-climate-change/our-carbon-footprint).
(2) Different emission factors are used depending on the electricity supply of each work centre. Until 2015, the average peninsular factor calculated by Red Eléctrica was used.
(3) Losses in the electricity transmission grid are related to the location of generation points in relation to the consumption points (the greater the distance, the greater the losses), the amount of energy demanded during the year, the generation mix of the year (percentage of each generation technology in the total energy generated), international exchanges and the shape of the demand curve. Practically none of these factors are manageable by Red Eléctrica, making it very difficult to reduce losses. However, Red Eléctrica works to identify and improve those factors it can have an influence on (see sustainable energy section). In this case, similarly as in the case of emissions associated with electricity consumption, CO_2 is not emitted during Red Eléctrica activities, as it takes place at the different points of power generation. To calculate the emission factor associated with losses in transmission, the emission factor calculated by Red Eléctrica, which is based on the annual peninsular electricity generation balance, is used. During 2016, emissions have been reduced due to the decline in the emission factor, mainly associated with increased hydroelectric power generation and a lower share of coal in the peninsular energy mix (emission factor in t CO_2 / MWh: 0.266 in 2015 and 0.214 in 2016).

GREENHOUSE GAS EMISSIONS INTENSITY

/ G4-EN18

	2014	2015	2016
Emissions of SF_6/SF_6 installed (%) [1]		0.37	0.30
Emissions from fleet vehicles (kg CO_2/ km) [2]		0.27	0.16
Emissions (1 and 2)/revenues (t CO_2/million euros) [3]	479	462	427
Emissions/revenues (t CO_2/million euros) [4]	48.8	20.8	18.0
Emissions/energy transported (t CO_2/GWh) [5]	3.5	3.4	3.1

(1) The emission rate is calculated based on emissions data calculated according to actual data regarding leakage. No data from previous years is included as it is not comparable.
(2) All types of vehicles are included. The indicator litre/100 km is replaced by this new indicator as it is considered more appropriate to reflect all types of fleet vehicles (biodiesel and LPG vehicles are included).
(3) Emissions Scope 1 and 2 (includes transmission grid losses).
(4) Emissions Scope 1 + electricity consumption emissions. REE considers it relevant to monitor this indicator, without including transmission grid losses (since it is not possible to act on them, as explained above). The reduction in the indicator is due to the decrease of Scope 1 emissions associated with the change in methodology in calculating SF_6 emissions.
(5) Emissions Scope 1 and 2 (including transmission grid losses). The total energy transported corresponds to the annual demand measured at power station busbars.

REDUCTION OF GREENHOUSE GAS EMISSIONS

/ G4-EN19

Net savings [1]	**t CO_2 eq**
Savings in emissions due to efficiency measures related to fleet vehicles	10
Savings in emissions due to efficiency measures related to management vehicles	23
Savings in emissions due to the use of efficient taxis	5
Savings in emissions due to contracting an electricity supply with a guarantee of origin [2]	1,869

Annual savings [3]	**t CO_2 eq / year**
Efficiency measures in work centres: improved insulation, climatization and lighting	24
IT efficiency measures: Renewal of desktop equipment, laptops and monitors	1
Reduction in SF_6 emissions due to the replacement of old equipment with new ones with a lower leakage rate	1,076

(1) Net savings compared to 2016 (measured or estimated).
(2) Electricity with guarantees of origin: 0 t CO_2/kWh.
(3) Reductions associated with the measures implemented in 2016.

TOTAL WEIGHT OF WASTE ACCORDING TO TYPE AND TREATMENT METHOD

/ G4-EN23

Type of waste	2014	2015	**2016**
Non-hazardous waste (kg) (1)	2,111,046	1,857,536	1,522,422
Hazardous waste (kg) (2)	2,375,019	1,183,925	2,035,645

Waste management method (%) (3)	Non-hazardous	Hazardous
Composting/Regeneration/Recycling	85	46
Valuation	0	40
Elimination (by any method)	15	14

(1) Metal waste not included as an adjustment is being made in the process of collecting and recording the information. This explains the difference of the data for 2014 and 2015 with those published in previous years. Waste vegetation is not included either because it cannot be quantified, most of it is incorporated into the land or given to landowners, as the most appropriate form of waste management.
(2) There is a slight variation from the 2015 data published last year due to a change in the qualification of a waste product. The increase in the amount of waste produced is related to the increase in the remodelling and refurbishment works of facilities which have led to an increase in oil and water mixture waste (due to the cleaning of tanks), equipment with oil, (due to the renewal of power transformers) and gas in pressurised containers (due to works for the replacement of equipment containing SF_6).
(3) The management of the waste corresponds to the information provided by the contractor, or by the default procedure of the contractor responsible for the removal of waste.

Note 1. Red Eléctrica concluded its Plan of elimination / decontamination of transformers, equipment and oil with PCBs in 2010, however, there is still some old sealed equipment that can only be analysed at the end of its useful life. For this reason, waste continues to be generated from equipment contaminated with PCBs. In 2016, 10,479 kg were managed.

Note 2. The treatment of used SF_6 gas waste, which consists of the regeneration of the gas for its subsequent reuse, takes place outside of Spain. This means that **0.52% of the total hazardous waste was transported internationally.** / G4-EN25

LEAKS AND SPILLAGES 2016 (1) (2)

/ G4-EN24

	1	2	3	4	5
Fuel leaks and spillages in substations	0	1	1 (3)	0	0
Oil leaks and spillages in substations	0	0	4 (4)	0	0
Oil leaks and spillages in lines (cables)	0	0	0	5 (5)	0

(1) Events classified as being of very little relevance as incidents are not included.
(2) Classification of accidents according to their severity on a scale of 1 to 5 (1 minor - 5 severe). There have been no minor accidents in 2016 and only one accident has been classified as minor. **No spillage has been included in the organisation's financial statements.**

The following are significant and major accidents:

(3) Significant accident: leakage of 1,491 litres of diesel fuel due to failure of the system which manages the transfer between the tank and the diesel generator set (occurred in the room where the equipment is located).
(4) Significant accidents: Three of them due to explosion of equipment with oil spillage of various amounts (50, 175 and 838 kg) that dispersed affecting variable surfaces, within the respective substations. The fourth accident was caused by failure in a power transformer unit, releasing about 1,000 litres of oil around the containment pit.
(5) Major accidents:
- Incident on the land section of the Majorca-Menorca link. The leakage of 9,000 litres of oil affected between 1,200 and 1,600 m^2 of soil and a surface area of about 2,200-2,600 m^2 of groundwater. Red Eléctrica implemented different emergency measures and a procedure for the cleaning and recovery of the affected areas is being undertaken.
- Damage caused to the cable of the Majorca-Menorca submarine link by the anchor of a yacht. Discharge into the sea of between 18,000-20,000 litres of oil. Impact on several beaches and seawater (area located in Red Natura). The beaches were closed and cleaned and the oil present on the surface of the water was removed and various water characterisation was undertaken, as well as the supervision of the potentially affected areas.
- Leakage due to fault in the submarine cable of the Majorca-Menorca link resulting in the discharge of 300 litres of oil in Red Natura. The area has been cleaned.
- Incident due to leakage in the land section of the Majorca-Menorca link resulting in the leakage of 3,620 litres of oil affecting the beach of 'Cala Mesquida' in Red Natura. (Impact: land 1,100 m^2 and groundwater surface area 1,700 m^2). Emergency measures have been established to clean up the oil.
- Damage caused by an anchor in the Tarifa-Fardioua submarine cable, resulting in an estimated oil leak of 33,400 litres. The incident occurred in Moroccan waters so the actions have been coordinated by the Moroccan operator.

SANCTIONS AND FINES

/ G4-EN29

	2014		2015		**2016**	
	Nº of cases	Amount (euros)	Nº of cases	Amount (euros)	Nº of cases	Amount (euros)
Fire risk (lack of maintenance of vegetation or the abandoning of material)	1	100	2	811	1	451
Unauthorised felling and pruning	2	2,175	1	100	2	7,060
Obstruction of waterway / Unauthorised works in certain areas	2	3,600				
Opening up of a forest trail without authorisation	1	1,001	1	2,000		
Use of a helicopter in a critical birdlife area without authorisation			1	1,000		
Crossing of a livestock route with an electricity line without authorisation			1*	30,051*		
Incorrect waste management			1*	2,500*		
Total	**6**	**6,876**	**7***	**36,462***	**3**	**7,511**

(*) Data updated in 2016 after resolution of two cases opened in 2015.

ENVIRONMENTAL EXPENDITURE AND INVESTMENT
/ G4-EN31

	2014	2015	**2016**
Investment	**2,651,609**	**3,856,802**	**2,983,757**
Engineering and construction of facilities [1]	2,651,609	3,856,802	2,983,757
Expenditure	**19,795,259**	**18,848,972**	**19,665,125**
Development of methodologies and systems [2]	50,082	47,145	116,854
Environmental studies and analyses	125,502	201,743	108,435
Environmental actions regarding in-service facilities	17,502,652	16,722,722	17,679,436
Contamination prevention [3]	1,376,552	1,268,565	1,376,552
Protection of biodiversity. Landscape [4]	14,914,991	14,593,765	14,820,439
Climate change [5]	771,487	635,143	974,994
Waste reduction and management	439,622	225,250	488,409
Research and development	363,316	339,554	440,739
Training and communication	256,722	176,595	48,862
Environmental training and awareness	54,310	41,067	15,125
Communication [6]	202,412	135,528	33,737
Environmental taxes and fees	280,223	92,906	51,360
Cost of personnel involved in environmental activities	1,216,762	1,268,307	1,219,440
Total expenditure	**22,446,868**	**22,705,774**	**22,648,882**

(1) Environmental impact studies carried out on all projects, application of preventive and corrective measures, environmental supervision at electricity facilities under construction and application of environmental improvement measures.
(2) Environmental certifications, audits and consultancy.
(3) Adaptation of facilities, repair of equipment, analysis, etc.
(4) Fire prevention (inspection of facilities, felling, pruning and clearing of vegetation for the maintenance of the safety distances, projects related to the prevention and fight against forest fires), line marking with bird flight diverters, bird-nesting deterrents, management of nests, landscaping adaptation, biodiversity conservation projects, etc.
(5) The section on climate change and energy efficiency has been unified. It includes costs of: meter installation, energy audits, activities to improve energy efficiency, projects to reduce emissions (improvement in SF_6 management) and offsetting of emissions (REE Forest, purchase of carbon credits).
(6) Affiliations, congresses, brochures and reports, stands at fairs, publicity in magazines, collaboration and sponsorship agreements.

NUMBER OF ENVIRONMENTAL GRIEVANCES

/ G4-EN34

	2014	2015	**2016**
Electromagnetic fields	1	1	0
Impact on the landscape	1	0	0
Facilities	0	0	7
Waste	2	0	0
Noise	0	1	1
Flora	11	19	17
Total	**15**	**21**	**25**

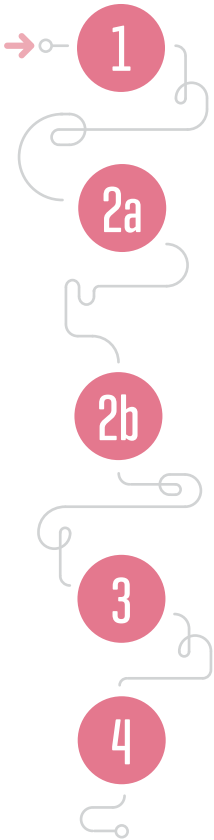
Note: Environmental cases reported are managed through the DÍGAME service. Reported cases are classified and handled according to their nature (including complaints, enquiries, suggestions, requests for information and recognition) or grievances. In 2016, 72 environmental cases were handled, 25 of which have been grievances. (Only those deemed applicable in accordance with the criteria established in REE's internal procedure are accounted for).
All grievances from previous years were closed in 2015. Of the grievances filed in 2016, 19 were closed in the year, leaving 6 pending.

/ ANNEXES

MATERIALITY ANALYSIS

Red Eléctrica carried out the latest materiality analysis in 2014, information regarding its elaboration process and results are shown below.

MATERIALITY IDENTIFICATION PROCESS / G4-18



Identification

Internal and external information sources of reference were analysed to identify trends, demands and requirements in sustainability matters and those specific to the electricity sector. The preliminary list of relevant issues was obtained as a result. [1]

Internal prioritisation and validation

The preliminary list of relevant issues was validated by an internal dialogue panel composed of a representative sample of managers and experts of 14 management areas of the Company, chosen according to their relevance regarding sustainability. Said panel was moderated by an external expert in the field of sustainability and dialogue with stakeholders. The prioritised list of relevant issues, internally assessed and validated was obtained as a result.

External validation

In order to include the perspective of external stakeholders in the analysis, an external dialogue panel was assembled composed of a representative sample of the different stakeholder groups and moderated by the same person as in the case of the internal dialogue panel. The prioritised list of relevant issues, externally assessed and validated was obtained as a result. In addition, several proposals were collected to enhance the appreciation of the actions regarding sustainability.

Evaluation

The results derived from the internal and external evaluation phases were assessed, this lead to a final list of 22 relevant issues being obtained that were prioritised according to two variables: Influence on the success of the business and the importance to the stakeholders of the Company.

Analysis of opportunities

Attainment of a relevant issues matrix (future trends) vs. maturity (degree of implementation) and identification of opportunities. This phase was planned to be carried out during 2015. However, it has been considered more convenient to carry out this phase coinciding with the revision and the update of the 2014-2016 multi-annual corporate responsibility plan.

[1]
SOURCES CONSULTED

External

- Global Reporting Initiative: topics set out in the G4 Guide, Electric Utility Supplement and the Sustainability Topics for Sectors document.
- Energy trends: Planning of the electricity and gas sectors 2008-2016, 2030 Framework for climate and energy policies, Ten-Year Network Development Plan 2014.
- Concerns collected by external international organisations of repute in this field: sustainability agencies, ISO26000, European Directive on non-financial information.
- Concerns raised in public debates: National CSR Plan, Global Compact.
- Topics considered by peer companies.
- Analysis of the media.
- Concerns raised by stakeholders.

Internal

- Policies and commitments.
- The Company's Strategic Plan.
- The Company's corporate reports.
- 2013 Materiality study performed within the framework of the International Integrated Reporting Council (IIRC).
- 2011 Materiality study.

MATERIALITY MATRIX / G4-19

Importance to Stakeholders

- Ethics and transparency
- Commitment to society
- Governance practices

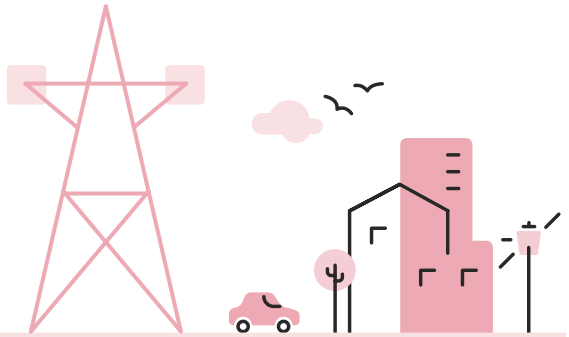
- Climate change
- Equal opportunities and diversity
- Biodiversity

- Financial strength and soundness
- Dialogue with stakeholders
- Integration of facilities into the landscape
- Risk control
- Well-being, security and health & safety
- Talent management

- Technological innovation
- Quality and stable employment

- Efficient management of resources
- Integration of renewable energies
- Respect for human rights
- Waste and discharges

- Quality and transparency in the management of system operation
- Grid planning, development and maintenance
- Energy efficiency and demand-side management
- Responsible management of the supply chain
- Regulatory framework



Influence on the success of the business

Governance and Ethics · Business · Employees · Society · The Environment

RELEVANT MATERIAL ASPECTS / G4-19 / G4-20 / G4-21

	GRI ASPECTS	STANDARD DISCLOSURES	IMPACT INT	IMPACT EXT
Corporate governance practices	Governance	G4-34 to G4-44 / G4-49 to G4-55	•	•
	Diversity and Equal Opportunity	G4-LA12	•	•
Ethics and transparency	Ethics and Integrity	G4-56 to G4-58	•	•
	Anti-corruption	G4-SO3 / G4-SO4 / G4-SO5	•	•
	Compliance	G4-SO8	•	•
Risk control	Governance	G4-45 to G4-47	•	•
	Strategy and Analysis	G4-2	•	•
	Organizational Profile	G4-14	•	•
	Economic Performance	G4-EC2	•	•
Respect for human rights	Assessment Human Rights	G4-HR9	•	•
	Human Rights Grievance Mechanisms	G4-HR12	•	•
Financial strength and soundness	Economic Performance	G4-EC1 / G4-EC3 / G4-EC4	•	•
Regulatory framework		Aspect specific to Red Eléctrica. No GRI indicators.		•
Technological innovation		Sectorial management approach.	•	•
Responsible management of the supply chain	Procurement Practices	G4-EC9		•
	Description of the organization's supply chain	G4-12		•
	Supplier Assessment for Labor Practices	G4-LA14 / G4-LA15		•
	Supplier Environmental Assessment	G4-EN32 / G4-EN33		•
	Supplier Assessment for Impacts on Society	G4-SO9 / G4-SO10		•
	Supplier Human Rights Assessment	G4-HR10 / G4-HR11		•
	Supplier Environmental Assessment	G4-EN32 / G4-EN33		•
Quality and transparency in the management of system operation	Ethics and Integrity	G4-56		•
Grid planning, development and maintenance	Availability and Reliability	EU10		•
	System Efficiency	EU12		•
	Access to electricity	EU28 / EU29		•

Continued on next page

RELEVANT MATERIAL ASPECTS / continuation

	GRI ASPECTS	STANDARD DISCLOSURES	IMPACT INT	IMPACT EXT
Integration of renewable energies	-	Aspect specific to Red Eléctrica. No GRI indicators.		•
Energy efficiency and demand-side management	-	Sectorial management approach.		•
Efficient management of resources	-	Aspect specific to Red Eléctrica. No GRI indicators.	•	•
Quality and stable employment	Employment	G4-LA1 / G4-LA2 / G4-LA3 / EU15	•	
	Labor/Management Relations	G4-LA4	•	
	Labor Practices Grievance Mechanisms	G4-LA16	•	
Equal opportunities and diversity	Diversity and Equal Opportunity	G4-LA12	•	
	Equal Remuneration for Women and Men	G4-LA13	•	
Well-being, security and health & safety	Employment	EU17 / EU18	•	
	Occupational Health and Safety	G4-LA5 / G4-LA6 / G4-LA7 / G4-LA8		
Talent management	Training and Education	G4-LA9 / G4-LA10 / G4-LA11	•	
Commitment to society	Local Communities	G4-SO1		•
Dialogue with stakeholders	Stakeholder Engagement	G4-24 to G4-27		•
	Grievance Mechanisms for Impacts on Society	G4-SO11		•
Integration of facilities into the landscape	Local Communities	G4-SO1 / G4-SO2		•
	Compliance	G4-EN29 / G4-EN31		•
	Supplier Environmental Assessment	G4-EN33		•
	Environmental Grievance Mechanisms	G4-EN34		•
	Customer Health and Safety	G4-PR1		•
Climate change	Energy	G4-EN3 to G4-EN7		•
	Emissions	G4-EN15 to G4-EN21		•
Biodiversity	Biodiversity	G4-EN11 to G4-EN14		•
Waste and discharges	Effluents and Waste	G4-EN22 to G4-EN-26		•

ABOUT THIS REPORT
LETTER FROM THE CHAIRMAN AND THE 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

GRI CONTENT INDEX FOR 'IN ACCORDANCE'-COMPREHENSIVE [1]

Part 1. General Standard Disclosures / G4-32

GENERAL STANDARD DISCLOSURES	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
STRATEGY AND ANALYSIS				
G4-1	4	-	243	Statement from the Chairman.
G4-2	46, 48	-	243	Key impacts, risks and opportunities.
ORGANIZATIONAL PROFILE				
G4-3	12	-	243	Name of the organization.
G4-4	13	-	243	Primary brands, products and services.
G4-5	Red Eléctrica - Paseo Conde de los Gaitanes, 177 Alcobendas (Madrid) - Spain.	-	243	Location of the organization's headquarters.
G4-6	13	-	243	Countries of operation.
G4-7	12	-	243	Nature of ownership and legal form.
G4-8	13	-	243	Markets served.
G4-9	9, 103	-	243	Scale of the organization.
G4-10*	112, 138, 144	-	243	Number of employees.
G4-11*	128, 138 Percentage of contractors covered by collective bargaining agreements is not available.	-	243	Employees covered by collective bargaining agreements.
G4-12	170	-	243	Organization's supply chain.
G4-13	3, 15	-	243	Significant changes to the organization's size, structure, ownership, or its supply chain.
G4-14	43, 180	-	243	Precautionary approach.
G4-15	71	-	243	Economic, environmental and social charters, principles, or other initiatives.
G4-16	154	-	243	Memberships of associations and national or international advocacy organizations.
EU1*	-	**Not applicable.** All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.		Installed capacity, broken down by primary energy source and by regulatory regime.

[1] This index includes aspects and indicators from the Electric Utility Supplement in accordance with the publication 'G4 Sector disclosures' (Electric Utilities).
The symbol (*) indicates those indicators where sector-specific information is included.

GRI CONTENT INDEX FOR 'IN ACCORDANCE'-COMPREHENSIVE [1]

Part 1. General Standard Disclosures / continuation

GENERAL STANDARD DISCLOSURES	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
ORGANIZATIONAL PROFILE / continuation				
EU2*	-	**Not applicable.** All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.		Net energy output broken down by primary energy source and by regulatory regime.
EU3*	166	-	243	Number of residential, industrial, institutional and commercial customer accounts.
EU4*	83, 86	-	243	Length of above and underground transmission and distribution lines by regulatory regime.
EU5*	-	**Not applicable.** The rights regarding CO_2 Equivalent Emission Allowances do not apply to power transmission activities.		Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework.
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	3, 12	-	243	Entities included in the organization's consolidated financial statements or equivalent documents.
G4-18	219	-	243	Process for defining the report content and the Aspect Boundaries.
G4-19	220, 221	-	243	Material Aspects identified in the process for defining report content.
G4-20	221	-	243	Aspect Boundary within the organization.
G4-21	221	-	243	Aspect Boundary outside the organization.
G4-22	3	-	243	Restatements of information.
G4-23	2	-	243	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.

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Part 1. General Standard Disclosures / continuation

GENERAL STANDARD DISCLOSURES	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
STAKEHOLDER ENGAGEMENT				
G4-24	77, 78	-	243	Stakeholder groups engaged by the organization.
G4-25	73	-	243	Basis for identification and selection of stakeholders with whom to engage.
G4-26	76	-	243	Approach to stakeholder engagement.
G4-27	2, 76	-	243	Key topics and concerns raised through stakeholder engagement.
REPORT PROFILE				
G4-28	2	-	243	Reporting period.
G4-29	2	-	243	Date of most recent previous report.
G4-30	2	-	243	Reporting cycle.
G4-31	3	-	243	Contact point for questions regarding the report or its contents.
G4-32	2, 223	-	243	Index with respect to the 'in accordance' option chosen.
G4-33	3, 243	-	243	External assurance for the report.
GOVERNANCE				
G4-34	18, 30	-	243	Governance structure of the organization.
G4-35	37	-	243	Delegating authority from the highest governance body to senior executives and other employees.
G4-36	37	-	243	Executive-level positions with responsibility for economic, social and environmental topics.
G4-37	38	-	243	Processes for consultation between stakeholders and the Board of Directors.

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GENERAL STANDARD DISCLOSURES	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
GOVERNANCE / continuation				
G4-38	30, 34	-	243	Composition of the highest governance body and its committees.
G4-39	35	-	243	State whether the chair of the highest governance body is also an executive officer and the reasons for this arrangement.
G4-40	39	-	243	Selection and nomination of the members of the highest governance body.
G4-41	39	-	243	Processes for the highest governance body to ensure conflicts are avoided.
G4-42	37	-	243	Roles of highest governance body and senior executives in the development, approval and updating of the organization's vision, mission, values, strategies, policies and goals.
G4-43	39	-	243	Highest governance body's knowledge of economic, environmental and social topics.
G4-44	39	-	243	Highest governance body's performance.
G4-45	45, 50, 76	-	243	Processes of the highest governance body to supervise the identification and management of economic, environmental and social performance, as well as its role in the implementation of due diligence processes and in stakeholder consultations.
G4-46	45	-	243	Highest governance body's role in reviewing the effectiveness of the management of economic, environmental and social risks and opportunities.
G4-47	45	-	243	Frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities.

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GENERAL STANDARD DISCLOSURES	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
GOVERNANCE / continuation				
G4-48	The Corporate Responsibility Report is submitted for approval to the Appointments and Remuneration Committee, which is the competent authority regarding corporate responsibility matters.	-	243	Highest body that reviews and approves the report.
G4-49	38	-	243	Process for communicating critical concerns to the highest governance body.
G4-50	38	-	243	Critical concerns communicated to the highest governance body.
G4-51	40	-	243	Remuneration policies for the highest governance body and senior executives, as well as the relationship to economic, environmental and social performance.
G4-52	40	-	243	Process for determining remuneration of the highest governance body and senior executives, stating whether independent consultants are involved.
G4-53	40	-	243	Report how stakeholders' views are sought and taken into account regarding remuneration.
G4-54	The ratio between the total remuneration of the highest-paid individual of the organisation [2] and the average total remuneration of the entire workforce [3] (excluding the highest-paid individual) was 11.8 times.	-	243	Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees.
G4-55	Ratio of percentage increase in total remuneration of the highest-paid individual (2016/2015) [4] (14%)/ Ratio of percentage increase in the average total remuneration of the workforce (2016/2015) [5] (4%).	-	243	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees.

(1) This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures (Electric Utilities) publication. The symbol (*) indicates those indicators where specific information regarding the sector is included. (2) Total remuneration accrued of the highest-paid individual (CEO): 806,000 euros. Includes both the fixed and variable remuneration corresponding to his role as top executive of the Company, as well as the fixed remuneration corresponding to his role as a member of the Board of Directors and other remunerations. Information available in note 23 of the Annual Consolidated Accounts of 'Red Eléctrica Corporación S.A. and Dependent Companies' and in the Annual Corporate Governance Report. (3) The average total remuneration of the workforce excluding the highest-paid individual: 68,510 euros (personnel cost excluding social security costs). Information available in note 21c of the Annual Consolidated Accounts of 'Red Eléctrica Corporación S.A. and Dependent Companies'. (4) Total remuneration accrued of the highest-paid individual: 806,000 euros (2016) and 707,000 euros (2015). Details in note 23 of the Consolidated Annual Accounts and in the Annual Corporate Governance Report. (5) Average total remuneration of the workforce: 68,510 euros (2016) and 65,893 euros (2015). Details in note 21c of the Annual Consolidated Accounts.

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Part 1. General Standard Disclosures / continuation

GENERAL STANDARD DISCLOSURES	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
ETHICS AND INTEGRITY				
G4-56	55	-	243	Organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
G4-57	55, 58	-	243	Internal and external mechanisms for seeking advice on ethical and lawful behaviour.
G4-58	58	-	243	Internal and external mechanisms for whistleblowing.

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Part 2. Specific Standard Disclosures

DMA AND INDICATORS	PAGE NUMBER / LINK / DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
CATEGORY: ECONOMIC				
Material aspect: Economic performance				
G4-DMA	103	-	243	Disclosures on management approach.
G4-EC1	104	-	243	Direct economic value generated and distributed.
G4-EC2	52, 200	-	243	Financial implications and other risks and opportunities for the organization's activities due to climate change.
G4-EC3	Consolidated Annual Accounts Report 2016 Note 4-1	-	243	Coverage of the organization's defined benefit plan obligations.
G4-EC4	104	-	243	Financial assistance received from government.
Material aspect: Procurement Practices				
G4-DMA	170	-	243	Disclosures on management approach.
G4-EC9	170	-	243	Proportion of spending on local suppliers at significant locations of operation.
Material aspect of the electric utility sector: Availability and Reliability				
G4-DMA*	81	-	243	Disclosures on management approach.
EU10	82	-	243	Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime.
Material aspect of the electric utility sector: Demand-Side Management				
G4-DMA*	96	-	243	Disclosures on management approach.
Material aspect of the electric utility sector: Research and Development				
G4-DMA*	99	-	243	Disclosures on management approach.

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DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect of the electric utility sector: Plant Decommissioning				
G4-DMA*	-	**Not applicable.** The activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.		Disclosures on management approach.
Material aspect of the electric utility sector: System Efficiency				
G4-DMA	91	-	243	Disclosures on management approach.
EU11*	-	**Not applicable.** The activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.		Average generation efficiency of thermal plants by energy source and regulatory regime.
EU12*	91	-	243	Transmission and distribution losses as a percentage of total energy.
CATEGORY: ENVIRONMENTAL				
Material aspect: Energy				
G4-DMA	198	-	243	Disclosures on management approach.
G4-EN3	208		243	Energy consumption within the organization.
G4-EN4	209	-	243	Energy consumption outside of the organization.
G4-EN5	209	-	243	Energy intensity.
G4-EN6	209	-	243	Reduction of energy consumption.
G4-EN7	-	**Not applicable.** Red Eléctrica, as system operator, performs various initiatives on demand management to improve energy efficiency of the electricity system as a whole, but it does not produce or market products nor services, whereby it is not possible to quantify the energy reductions that may result from them.		Reductions in energy requirements of products and services.

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DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Water [2]				
G4-DMA	Note [2]	-	243	Disclosures on management approach.
G4-EN8*	209	**Not applicable** to the sector aspect, Red Eléctrica does not have electricity generation.	243	Total water withdrawal by source.
G4-EN9	-	**Not applicable.** The water consumed is obtained from authorised water withdrawal points (municipal mains and wells) or from cisterns. Therefore, no direct effect exists on ecosystems.		Water sources significantly affected by withdrawal of water.
G4-EN10	209	-	243	Percentage and total volume of water recycled and reused.
Material aspect: Biodiversity				
G4-DMA*	189	-	243	Disclosures on management approach.
G4-EN11	210	-	243	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
G4-EN12*	191, 193, 210	-	243	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
G4-EN13	195, 196, 197	-	243	Habitats protected or restored.
G4-EN14	196, 210, 211	-	243	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

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Part 2. Specific Standard Disclosures / continuation

DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Biodiversity / *continuation*				
EU13*	-	**The comparison of the offset habitat with the affected area is not applicable,** as the effects on the original habitat are minimal. 'Thanks to the preventive and corrective measures implemented, Red Eléctrica facilities do not entail a loss of biodiversity that is significant enough so as to require the establishment of offset areas. The impacts generated are one-off situations, having established in some cases very specific offsetting measures such as planting woodland or the restoration of habitats.'		Biodiversity of offset habitats compared to the biodiversity of the affected areas.
Material aspect: Emissions				
G4-DMA	201	-	243	Disclosures on management approach.
G4-EN15*	212	-	243	Direct greenhouse gas (GHG) emissions (Scope 1).
G4-EN16*	212	-	243	Energy indirect greenhouse gas (GHG) emissions (Scope 2).
G4-EN17	212	-	243	Other indirect greenhouse gas (GHG) emissions (Scope 3).
G4-EN18	213	-	243	Greenhouse gas (GHG) emissions intensity.
G4-EN19	213	-	243	Reduction of greenhouse gas (GHG) emissions.
G4-EN20	-	**Not applicable.** These can be considered to be irrelevant, with the exception of those associated with the use of air conditioning systems containing R22. Losses are minimal owing to the fact that they undergo adequate maintenance. Equipment with R22 has been replaced. There's only 165.4 kg of gas R22 left in operating equipment, however, this will be progressively replaced.		Emissions of ozone-depleting substances (ODS).

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Part 2. Specific Standard Disclosures / continuation

DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Emissions / *continuation*				
G4-EN21*	-	**Not applicable.** The activities of the Company do not give rise to these emissions as they do not involve the burning of fossil fuels – REE does not generate electricity - except for fuel used in vehicles and diesel generator sets and whose emissions are not considered relevant under this aspect.		NOX, SOX, and other significant air emissions.
Material aspect: Effluents and Waste				
G4-DMA*	206	-	243	Disclosures on management approach.
G4-EN22*	-	**Not applicable.** The activities of the Company do not give rise to these discharges. Rainwater discharges only occur in substations.		Total water discharge by quality and destination.
G4-EN23*	214	-	243	Total weight of waste by type and disposal method.
G4-EN24	210, 214	-	243	Total number and volume of significant spills.
G4-EN25	214	-	243	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
G4-EN26	-	**Not applicable.** Rainwater discharges from substations (which is the only water dumping associated with the activities of REE that takes place) do not affect water resources nor the associated habitats.		Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff.

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Part 2. Specific Standard Disclosures / continuation

DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Compliance				
G4-DMA	180	-	243	Disclosures on management approach.
G4-EN29	215	-	243	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.
Material aspect: Overall				
G4-DMA	180	-	243	Disclosures on management approach.
G4-EN31	216	-	243	Total environmental protection expenditures and investments by type.
Material aspect: Supplier Environmental Assessment				
G4-DMA	174, 181	-	243	Disclosures on management approach.
G4-EN32	174	-	243	Percentage of new suppliers that were screened using environmental criteria.
G4-EN33	172, 174, 181	-	243	Significant actual and potential negative environmental impacts in the supply chain and actions taken.
Material aspect: Environmental Grievance Mechanisms				
G4-DMA	75	-	243	Disclosures on management approach.
G4-EN34	75, 217	-	243	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanism.

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DMA AND INDICATORS	PAGE NUMBER / LINK / DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
CATEGORY: SOCIAL				
Labour practices and decent work				
Material aspect: Employment				
G4-DMA*	111	-	243	Disclosures on management approach.
G4-LA1*	112, 139	-	243	Total number and rates of new employee hires and employee turnover by age group, gender, and region.
G4-LA2	136	-	243	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.
G4-LA3	140	-	243	Return to work and retention rates after parental leave, by gender.
EU15*	127	-	243	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region.
EU17*	134, 144	-	243	Days worked by contractor and subcontractor employees that participate in construction, operation and maintenance activities.
EU18*	134	-	243	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training.
Material aspect: Labour/Management Relations				
G4-DMA	127	-	243	Disclosures on management approach.

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DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Labour/Management Relations / *continuation*				
G4-LA4	127	-	243	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.
Material aspect: Occupational Health and Safety				
G4-DMA	129	-	243	Disclosures on management approach.
G4-LA5	133	-	243	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advice on occupational health and safety programs.
G4-LA6*	132, 134, 140, 144	-	243	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities, by region and by gender.
G4-LA7	131	-	243	Workers with high incidence or high risk of diseases related to their occupation.
G4-LA8	133	-	243	Health and safety topics covered in formal agreements with trade unions.
Material aspect: Training and Education				
G4-DMA	118	-	243	Disclosures on management approach.
G4-LA9	110, 133, 141	-	243	Average hours of training per year per employee by gender, and by employee category.
G4-LA10	110, 118, 122	-	243	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.

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DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Training and Education / *continuation*				
G4-LA11	121, 141	-	243	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.
Material aspect: Diversity and Equal Opportunity				
G4-DMA	114	-	243	Disclosures on management approach.
G4-LA12	112, 141, 142, 143	-	243	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
Material aspect: Equal Remuneration for Women and Men				
G4-DMA	115	-	243	Disclosures on management approach.
G4-LA13	143	-	243	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
Material aspect: Supplier Assessment for Labour Practices				
G4-DMA	174	-	243	Disclosures on management approach.
G4-LA14	174	-	243	Percentage of new suppliers that were screened using labour practices criteria.
G4-LA15	172, 174	-	243	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken.

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Part 2. Specific Standard Disclosures / continuation

DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Labour Practices Grievance Mechanisms				
G4-DMA	58, 127	-	243	Disclosures on management approach.
G4-LA16	58, 128	-	243	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms.
HUMAN RIGHTS				
Material aspect: Assessment				
G4-DMA	61	-	243	Disclosures on management approach.
G4-HR9	62	-	243	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.
Material aspect: Supplier Human Rights Assessment				
G4-DMA	58, 170	-	243	Disclosures on management approach.
G4-HR10	174	-	243	Percentage of new suppliers that were screened using human rights criteria.
G4-HR11	172, 174	-	243	Significant actual and potential negative human rights impacts in the supply chain and actions taken.
Material aspect: Human Rights Grievance Mechanisms				
G4-DMA	58	-	243	Disclosures on management approach.
G4-HR12	58, 61	-	243	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms.

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DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
SOCIETY				
Material aspect: Local Communities				
G4-DMA*	148, 182	-	243	Disclosures on management approach.
G4-SO1	148, 183	-	243	Percentage of operations with implemented local community engagement, impact assessments, and development programs.
G4-SO2	184	-	243	Operations with significant actual or potential negative impacts on local communities.
EU22*	-	**Not applicable.** Red Eléctrica facilities do not produce any form of displacement.		Number of people physically or economically displaced and compensation, broken down by type of project.
Material aspect of the electric utility sector: Disaster/ Emergency Planning and Response				
G4-DMA	89	-	243	Disclosures on management approach.
Material aspect: Anti-corruption				
G4-DMA	60	-	243	Disclosures on management approach.
G4-SO3	60	-	243	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.
G4-SO4	56, 60	-	243	Communication and training on anti-corruption policies and procedures.
G4-SO5	58, 60	-	243	Confirmed incidents of corruption and actions taken.

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DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect: Regulatory compliance				
G4-DMA	55	-	243	Disclosures on management approach.
G4-SO8	Significant fines or sanctions are those whose financial value exceeds 500,000 euros or those that, due to their nature, may have a special impact on the Company as a result of its connection to the Electricity Sector. Similarly, it has been taken as a reference criteria that the sanction be final, at least via administrative proceedings. Regarding the aforementioned, we consider that no significant fines have been imposed on the Company for non-compliance with laws and regulations.	-	243	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.
Material aspect: Supplier Assessment for Impacts on Society				
G4-DMA	174	-	243	Disclosures on management approach.
G4-SO9	174	-	243	Percentage of new suppliers that were screened using criteria for impacts on society.
G4-SO10	172, 174	-	243	Significant actual and potential negative impacts on society in the supply chain and actions taken.
Material aspect: Grievance Mechanisms for Impacts on Society				
G4-DMA	75	-	243	Disclosures on management approach.
G4-SO11	58, 75		243	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms.

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05. SUSTAINABLE ENERGY
06. CREATION OF VALUE
07. EMPLOYEES
08. SOCIETY
09. DIALOGUE WITH STAKEHOLDERS
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ANNEXES

GRI CONTENT INDEX FOR 'IN ACCORDANCE'-COMPREHENSIVE [1]

Part 2. Specific Standard Disclosures / continuation

DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
PRODUCT RESPONSIBILITY				
Material aspect: Customer Health and Safety				
G4-DMA	187	-	243	Disclosures on management approach.
G4-PR1	187, 188	-	243	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.
G4-PR2	188	-	243	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.
EU25*	For 2016, we are not aware of the lodging of any formal civil, administrative or penal grievances by third parties regarding injuries, deaths or illnesses of any citizen caused by Company assets.	-	243	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements, and pending legal cases of diseases.
Material aspect of the electric utility sector: Access				
G4-DMA*	81	-	243	Disclosures on management approach.
EU26*	-	**Not applicable.** Red Eléctrica, as high voltage transmission agent, does not reach the final consumer.		Percentage of population unserved in licensed distribution or service areas.
EU27*	-	**Not applicable.** Red Eléctrica does not carry out distribution activity, only high voltage transmission. The quality indicators of the transmission activity are shown in the following link.		Number of residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime.

[1] This index includes aspects and indicators from the Electric Utility Supplement in accordance with the publication 'G4 Sector disclosures' (Electric Utilities).
The symbol (*) indicates those indicators where sector-specific information is included.

ABOUT THIS REPORT
LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER
KEY PERFORMANCE INDICATORS
01. THE COMPANY
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04. MANAGEMENT APPROACH
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GRI CONTENT INDEX FOR 'IN ACCORDANCE'-COMPREHENSIVE [1]

Part 2. Specific Standard Disclosures / continuation

DMA AND INDICATORS	PAGE NUMBER LINK DIRECT ANSWER	OMISSIONS	EXTERNAL ASSURANCE PAGE	DESCRIPTION
Material aspect of the electric utility sector: Access / *continuation*				
EU28*	88	-	243	Power outage frequency.
EU29*	88	-	243	Average power outage duration.
EU30*	-	**Not applicable.** All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.		Average plant availability factor by energy source and by regulatory regime.
Material aspect: Compliance				
G4-DMA	55	-	243	Disclosures on management approach.
G4-PR9	On 07/03/16 a sanctioning resolution was issued by the Economy, Industry, Commerce and Knowledge Advisory Board of the Government of the Canary Islands, in which it is agreed to impose a fine of 6,000,001 euros on Red Eléctrica de España, due to incidents in the electricity system of Gran Canaria, on 03/12/12 and 12/12/12, which caused a loss of supply [220kv Barranco de Tirajana substation]. Red Eléctrica de España, considering that it did not commit said infringement, has lodged a contentious-administrative appeal against the aforementioned administrative act, before the Contentious-Administrative courtroom of the Superior Court of Las Palmas, which is in the administrative process. This fine is the only one considered significant, according to the parameters indicated above for the G4-SO8 indicator.	-	243	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.
Material aspect of the electric utility sector: Provision of Information				
G4-DMA*	-	**Not applicable.** Red Eléctrica, as high voltage transmission agent, does not reach the final consumer.		Disclosures on management approach.

[1] This index includes aspects and indicators from the Electric Utility Supplement in accordance with the publication 'G4 Sector disclosures' (Electric Utilities).
The symbol (*) indicates those indicators where sector-specific information is included.

REPORT ON
Independent review / G4-33

Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT
ON THE CORPORATE SOCIAL RESPONSIBILITY INDICATORS

To the Management of Red Eléctrica Corporation S.A.,

We have carried out our work to provide limited assurance on the Corporate Responsibility indicators contained in "Contents GRI G4 Comprehensive Option" Appendix of the 2016 Corporate Responsibility Report (hereinafter "CR Indicators") of Red Eléctrica Corporation S.A. (hereinafter REC) for the year ended 31 December 2016, prepared in accordance with the general basic and specific content proposed in the Guidelines for the Preparation of Sustainability Reports of the Global Reporting Initiative (GRI) version G4 (hereinafter GRI G4 Guidelines) and the Electric Utilities Sector Supplement.

Responsibility of the Management

The Management of REC is responsible for the preparation, content and presentation of the Corporate Responsibility Report in accordance with the Comprehensive option of the GRI G4 Guidelines and the Electric Utilities Sector Supplement. Management's responsibility includes establishing, implementing and maintaining the internal control required to ensure that the CR indicators are free from any material misstatement due to fraud or error.

The Management of REC is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CR indicators, is obtained.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

- Meetings with REC's personnel from various units who have been involved in the preparation of the 2016 Corporate Responsibility Report.
- Analysis of the procedures used for obtaining and validating the data presented in the CR indicators.

- Analysis of REC's CR indicators adaptation to the requirements established by the GRI G4 Guidelines for the preparation of reports and to the Electric Utilities Sector Supplement.
- Verification, through random sampling tests revisions, internal control tests and analytical and substantive tests on the quantitative and qualitative information used to determine REC's CR indicators. We have also verified whether they have been appropriately compiled from the data provided by REC's sources of information.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Limited assurance conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that REC's CR indicators, for the financial year ending 31st December 2016, contain significant errors or have not been prepared, in all of their significant matters, in accordance with the G4 GRI Guidelines and the Electric Utilities Sector Supplement.

Use and Distribution

Our report is only issued to the Management of REC, in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than REC's Management.

PricewaterhouseCoopers Auditors S.L.

Mª Luz Castilla
27 de marzo de 2017

REPORT ON INDEPENDENT REVIEW
of greenhouse gas emissions inventory

Free translation from the original in Spanish, in the event of a discrepancy, the Spanish language version prevails.

REPORT ON INDEPENDENT LIMITED ASSURANCE OF GREENHOUSE GAS EMISSIONS INVENTORY 2016

To the Management of Red Eléctrica España, S.A.U.:

Scope of the work

We have undertaken a limited assurance engagement on the Greenhouse Gas Emissions Inventory (hereinafter referred to as the GHG Inventory) of Red Eléctrica España, S.A.U. (hereinafter referred to as REE) for the financial year ending 31st December 2016, included in the Appendix of this Report. This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.

Responsibility of REE for the GHG Inventory

REE's management is responsible for the preparation and update of the 2016 GHG Inventory in accordance with their internal procedure, "Methodology for the Calculation of the Greenhouse Gas Emissions (GHG) Inventory of Red Eléctrica España, S.A.U.", available on the following website link *http://www.ree.es/es/sostenibilidad/energia-sostenible/energia-y-cambio-climatico/nuestra-huella-de-carbono*. This responsability includes the design, implementation and maintenance of internal control relevant to ensure that the GHG Inventory is free from material misstatement, whether due to fraud or error.

The quantification of GHG emissions is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the GHG Inventory based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements 3410 (ISAE 3410), "Assurance Engagements on Greenhouse Gas Statements" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we plan and perform this engagement to obtain a limited assurance that REE's 2016 GHG Inventory is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of REE´s use of applicable criteria as the basis for the preparation of the GHG statement, assessing the risks of material misstatement of the GHG statement whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the GHG statement.A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assesses risks.

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Through inquiries and meetings with personnel of REE's various departments who have been involved in the preparation of the GHG Inventory, obtained an understanding of REE's control environment and information systems relevant to emissions quantification and reporting, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Evaluated whether REE's methods for developing estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate REE's estimates.
- Verification, through random sampling tests, internal control tests and the development of substantive tests of the information (activity data, calculations and information generated) used to determine REE's 2016 GHG Inventory with the internal procedure. We have also verified the correct compilation of information based on the data provided by REE's sources of information.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Limited Assurance Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that REE's GHG Inventory for the financial year ending 31st December 2016 contains any material misstatement or is not prepared, in all material respects, in accordance with the "Methodology for the Calculation of the Greenhouse Gas Emissions (GHG) Inventory of Red Eléctrica España S.A.U. ".

pwc

Use and distribution

Our report is only issued to the Management of Red Eléctrica España S.A.U. in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than REE's Management.

PricewaterhouseCoopers Auditores, S.L.

Mª Luz Castilla
27th March 2017

RED ELÉCTRICA DE ESPAÑA

Appendix

GREENHOUSE GAS (GHG) INVENTORY OF RED ELÉCTRICA ESPAÑA S.A.U.

GHG Inventory	*tCO2-eq*
Scope 1	***31,500***
1.1 Diesel generating sets	*222*
1.2 Fleet vehicles	*1,898*
1.3 SF6	*28,770*
1.4 Air conditioning	*610*
Scope 2	***738,038***
2.1 Electricity consumption	*1,664*
2.2 Transmission grid losses	*736,374*
Scope 3	***228,776***
3.1 Supply chain	*223,275*
3.2 Business travel	*1,433*
3.3 Logistics	*494*
3.4 Employees commuting	*3,574*

(December 31, 2016)

Organisational boundaries

The calculation of Company's emissions is performed under operational control criteria. The inventory only applies to the activities that take place in Spain.

Operational scope

Emissions associated to Company's activities and facilities are quantified, taking into consideration the following scopes:

Scope 1: Direct GHG emissions (Greenhouse gases)

Emissions resulting from the Company's controlled or owned sources:

- Stationary combustion: derived from the combustion of fuels used in diesel generating sets. (No other stationary combustion source exists in the Company).
- Mobile Combustion: emissions derived from fuel consumption of the fleet.
- Fugitive Emissions: SF_6 gas leaks in electricity substations and refrigerant gases leaks from air conditioning systems.

Scope 2: GHG indirect emissions from electricity consumption

- Electricity consumption.
- Electricity losses in the transmission grid.

Scope 3: Other indirect GHG emissions

- Emissions associated with purchased goods and services (supply chain)
- Emissions associated with business travel by plane, train and car.
- Emissions derived from downstream transportation and distribution (logistics, subcontracted to an external company)
- Emissions from employees commuting to the workplace.

ANNUAL EXECUTIVE REPORT ON THE MANAGEMENT OF THE CODE OF ETHICS 2016

The Code of Ethics is the professional ethical guide incumbent on all employees of the Group and the Board of Directors and its members in the performance of their duties and responsibilities.

Introduction

The Annual Report on the Management of the Code of Ethics sets out the circumstances arising in relation to the corporate system for the management of ethics of the Red Eléctrica Group within the 2016 fiscal year.

The Code of Ethics of the Company seeks to provide an ethical guide for the people of the companies of the Red Eléctrica Group, establishing the values and commitments that should govern their activity within the Company.

The current edition of the Code of Ethics of the Red Eléctrica Group was approved by the Board of Directors of its parent company on 28 May 2013, undertaking the requirements demanded by stakeholders and the recommendations of organisations of repute with influence in this area.

The Code of Ethics is incumbent on all persons in the Group, understood as its Board of Directors, its directors and employees, in the performance of their duties and responsibilities.

It is applied in the companies of the Group, i.e. in those in which the Group has majority of shareholding, regardless of their geographical location and in those countries where they are temporarily performing activities, providing professional services or any other activity related to the Group.

Ethics manager and stakeholder ombudsman

To ensure understanding, implementation and enforcement of the Code of Ethics, Red Eléctrica appointed Rafael García de Diego, General Counsel and Secretary of the Board of Directors, as Ethics Manager and Stakeholder Ombudsman. The responsibilities of the Ethics Manager are the following:

- **Resolve enquiries** and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.
- **Institute proceedings** regarding grievances through the verification and investigation of the conduct of those employees or organisational units reported.
- **Develop action plans** to resolve the grievances reported and submit them for approval by the Chairman of Red Eléctrica Group or the Chairperson of the Audit Committee if it affects any member of the Management Committee.
- **Keep an updated record** on the process (enquiries, grievances, procedures and communications with interested parties).

- **Keep claimants** abreast of the status and resolution of enquiries or grievances reported, when such information is requested.

- **Draft a periodic report** on the review of the system and propose actions to improve the management system.

- **Maintain at all times the confidentiality** of the claimant, unless legally required to disclose this information.

- **Carry out the duties and functions** assigned under the principles of independence, rigour and fairness.

Whistle-blowing channel

To promote the application of the Code of Ethics, Red Eléctrica has a whistle-blowing channel, available on the corporate website, through which enquiries, grievances or suggestions can be conveyed to the Ethics Manager.

In addition, Red Eléctrica has another channel for reporting non-compliance, grievances, enquiries and suggestions regarding ethical matters through its Stakeholder Attention Centre DÍGAME, in order to provide a reporting channel for requests from external stakeholders who are not aware of the whistle-blowing channel. This service will transfer to the Ethics Manager the requests received, preserving their confidentiality.

Regarding the whistle-blowing channel for the detection and handling of possible non-compliances, complaints, queries and suggestions, in 2016, 29 queries were made to the Ethics Manager, all with a maximum resolution time of 10 days or less. The enquiries made have referred to the following patterns of business behaviour:

- Responsible monitoring of the management of suppliers,
- Adequate handling of confidential information.
- Protection and use of facilities and equipment of the Organisation.
- Limitation on the acceptance of gifts, loans or invitations.
- Respect, integrity, accountability and transparency within the organisation.

In 2016, three grievances were received regarding compliance with the Code of Ethics.

The first one of them, formulated from within the organisation itself, concerned issues related to the rational use of computer power. Once the grievance was analysed, and the information and evidence obtained during the processing of the case, it was filed because there was no breach of the values included in the Code of Ethics of the Red Eléctrica Group, and after having verified that the control criteria and energy efficiency information in the use of computer equipment of the Company is being applied.

The second of the grievances, reported by a private individual, referred to the corporate value 'responsibility' and was motivated by slight damages caused on a farm as a result of the maintenance work on one of Red Eléctrica's facilities. At the request of the Ethics Manager, an action plan for the repair of the damages, object of the complaint, was designed, which was carried out by the unit responsible in the Company with the agreement of the landowner.

The role of the Ethics Manager is to ensure the dissemination, application and compliance of the Code of Ethics while dealing with the requests, grievances and suggestions of stakeholder groups.

The 'Guide for the Prevention of Corruption: zero tolerance' provides all the professionals of the companies of the Group with general guidelines on the prevention of corruption.

The third of the grievances reported refers to the corporate value 'environmental conscience', made by a private individual, was motivated due to the noise emission of one of the Company's facilities. From the study, it was shown that the levels emitted were in accordance with legal standards and recommended practices. Notwithstanding this, the Ethics Manager proposed that a series of improvements were carried out in the screening of the facility in order to increase the absorption of noise and at the same time improve the landscape impact of the facility. The implementation of this action plan is expected to be completed during the first half of 2017.

Among the functions undertaken by the Ethics Manager is the obligation to communicate the grievances that could lead to a criminal risk for the companies of the Red Eléctrica Group, for which the Control and Monitoring body of the Criminal Risk Prevention Programme of the Group, of which the Ethics Manager is a member, can assess the aforementioned grievances and, where appropriate, initiate an investigation into the event until it is resolved.

In 2016, as occurred in previous years, the Ethics Manager received no complaint about non-compliances related to criminal risk, and none of the companies of the Red Eléctrica Group have been investigated, or convicted by any law court for infringements related to criminal risks of the organisation.

Integrity and transparency

The Code of Ethics and the corresponding management system for enquiries and grievances, which include aspects related to the fight against corruption, constitutes an effective mechanism for the detection and handling of possible cases of corruption and fraud. The governing bodies, managers and other employees of Red Eléctrica must accept the content of the Code of Ethics and, the suppliers, the Code of Conduct for suppliers of the organisation.

As a result of the commitment undertaken by Red Eléctrica to prevent any practices related to corruption, bribery or facilitation payments, the Board of Directors of the parent company approved on 22 December 2015 the 'Guide for the Prevention of Corruption: zero tolerance' as a fundamental element of the integrity model of the Red Eléctrica Group. It aims to provide a guide regarding the prevention of corruption for all professionals in the companies of the Red Eléctrica Group, setting out the commitments and action criteria, thereto, that should govern their professional activities within the same. Its purpose is to provide members of the Red Eléctrica Group an analysis of the circumstances and the risks they face regarding corruption, and advance the dissemination of the criteria and the instruments available to the Company for its eradication.

Over the last year, no grievance has been registered through the whistle-blowing channel regarding possible cases of corruption. No company of the Red Eléctrica Group has been accused of or convicted by any court of law on non-compliances related to cases of corruption, in the same way as in previous years.

Awareness actions

Within the Awareness Plan on ethical management, approved by the Corporate Responsibility

Committee of the Company (currently the Sustainability Management Committee), a number of forums were held during the 2014-2016 period at all work centres of the Group's companies, with the aim of improving knowledge regarding the ethics management system, reflecting the values and commitments made by the organisation, and strengthening the figure and functions of the Ethics Manager. These sessions include the participation of the Ethics Manager and the Red Eléctrica Stakeholder Ombudsman.

From outset of the awareness campaign in November 2014, and until its conclusion in June 2016, 25 awareness training sessions were held, with a total of 1,589 people attending, representing 89.8% of the workforce.

In this process of bringing the values and commitments, encompassed within the Code of Ethics, to its members, the accomplishment of the 'Values of Red Eléctrica' project, which was undertaken during 2016, was approved as a leadership objective. The aim of the process is to communicate the values of the Company to all members and generate internal debate about its application within each unit, taking into account its peculiarities. This communication and debate has been undertaken with all the employees and with the involvement of those responsible for the different units of the Company. In these sessions, the current values were presented and the most significant in the opinion of its members were discussed within each unit, and proposals were made on possible areas for improvement.

Recognitions

In the area of external recognition, noteworthy is the leadership achieved by Red Eléctrica in the Ethics / Compliance / Corruption and Bribery section of the Dow Jones Sustainability Index 2016. For the second consecutive year, Red Eléctrica obtained the highest score (100 out of 100 points) in that section, 28 points above the average of the companies in its sector participating in said index, having also reached the maximum percentage (100) in the assessment.

Noteworthy is the inclusion of Red Eléctrica in the Euronext-Vigeo Sustainability Indexes (Eurozone 120, Europe 120, Global 120) which selects the companies that stand out for their performance in areas such as environmental protection, ethics or contribution to economic and social development of the communities in which they operate.

Lastly, noteworthy is the continued presence of Red Eléctrica in the business ethics indexes, such as the Ethibel Sustainability Index (ESI) Excellence Europe for the second year running, as well as its inclusion in the Ethibel Excellence since 2009.

Alliances

Among the initiatives in which Red Eléctrica has participated in the promotion of business ethics noteworthy is the establishment of the Integrity Forum of the non-governmental organisation Transparency International España. The Forum is a reflection platform facilitated by Transparency International España for the improvement of compliance and ethical management in Spanish companies, which is structured through various working groups and periodic thematic sessions on business ethics.

On the other hand, Red Eléctrica has joined the group of large companies that are part of the recently constituted Transparency, Good Governance and Integrity Cluster. It is a platform of companies coordinated by the Spanish association for the promotion of the culture of ethical and socially responsible management, Forética, with the aim of serving as a business meeting point in leadership, knowledge, exchange and dialogue in this area.

INDEPENDENT AUDITOR'S REPORT
on the System of Internal Control over Financial Reporting

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on
the System of Internal Control over Financial Reporting

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Directors of
Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 26 October 2015, we have examined the information concerning the System of Internal Control over Financial Reporting (*Sistema de Control Interno sobre la Información Financiera*, hereinafter "SCIIF") of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the Red Electrica consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2016. This system is based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Board of Directors of the Company and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and defining the content of and preparing the accompanying information concerning SCIIF. Our responsibility is to express an opinion on the effectiveness of the Group's System of Internal Control over Financial Reporting based on our examination.

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's System of Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

We apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Due to the limitations inherent in any internal control system, there is always a possibility that SCIIF may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2016, in accordance with the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Furthermore, the disclosures contained in the information concerning SCIIF included in note F of the Group's Annual Corporate Governance Report at 31 December 2016 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 7/2015 of 22 December 2015, with respect to the description of the System of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 23 February 2017 we issued our unqualified audit report on the consolidated annual accounts of the Group for 2016, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Ana Fernández Poderós

23 February 2017

EXECUTIVE SUMMARY
of the internal audit

EXECUTIVE SUMMARY OF THE INTERNAL AUDIT OF THE CORPORATE RESPONSIBILITY MANAGEMENT SYSTEM (SECOND HALF OF 2015 and FIRST HALF OF 2016)

Objective and scope

For the period of the second half of 2015 and first half of 2016, verify the implementation of the Corporate Responsibility Management System in the activities conducted by Red Eléctrica, verifying whether the requirements of the IQNet SR 10 and SA8000 standards, and those of the organisation itself, are suitably implemented and efficient.

In relation to the activities carried out by Red Eléctrica at its Head Offices, the general aspects of the system and specifically in the 'Our Business' and the 'Corporate Governance and Ethics' vectors have been verified (report 17/16).

In addition, the work carried out in other work centres (report 30/16) was reviewed in which 17 individual interviews were held with employees of the Central Transmission Regional Office and the Balearic Islands Transmission Regional Office. Questionnaires were also filled out by 26 employees from the Canary Islands Transmission Regional Office, the work centre of the Balearic Islands Electricity System, the building of the North Regional Office and the building of the Northeast Regional Office.

Conclusions

It can be concluded that the Corporate Responsibility Management System is suitably implemented, as no deficiencies have been detected that, in accordance with the auditor's judgment, need to be categorised as anomalies.

The following were included as **noteworthy strengths**:

- The Investor Relations Department encourages the incorporation of socially responsible investors into the shareholder structure.
- The "Guide for the Prevention of Corruption: zero tolerance", approved by the Board of Directors, has been published by the Red Eléctrica Group.
- The Supply Chain Management Model and its implementation, highlighting the following: the Supplier Code of Conduct, the Suppliers' Monitoring Model, the conducting of social audits on suppliers and the promotion of supplier development and participation.
- The high degree of global compliance with the Corporate Responsibility Programme: 93% in 2015 (83% in 2014).
- Good management of enquiries and grievances received by the Ethics Manager (registration, analysis, decision making and communication).
- A positive vision of the social benefits provided by the 10th REE Collective Bargaining Agreement has been well accepted. The majority of employees see flexibility in working hours in a favourable light, allowing them to improve their work-life balance.
- High-level of employee participation in the psychosocial risk survey and working climate survey.
- The actions related to the promotion of Occupational Health and Safety are valued positively.

Key recommendations for improvement

Report 17/16 Corporate Responsibility Management System in the Head office

- Although in 2016 actions were taken to develop and implement the Compliance System of the organisation, there is, as yet, no evidence of the assessment of legal compliance. During 2017, work must continue on the development of this system, on the corresponding Risk Map and conducting the aforementioned assessment.
- The new Corporate Responsibility Policy and the latest organisational changes have motivated the Company to be in a phase of reorientation of activities related to corporate responsibility, which will make the updating of functions and the applicable internal regulations convenient.
- In order to develop the content of the 10th REE Collective Bargaining Agreement, and as a means of promoting the relationship and communication between the Human Resources Department and the Intercentres Committee, it is recommended the organisation of meetings contemplated in the Agreement be promoted.
- Analyse the convenience of implementing a comprehensive management tool that provides greater control and efficiency in the management of information.

Report 30/16 Supplementary report on the Corporate Responsibility Management System

- Improve employees' knowledge of Corporate Responsibility regulations in which REE is certified and that of the Harassment Protocol.
- Promote the dissemination of the application and the benefits of Corporate Responsibility in REE. An option might be to conduct informative seminars.
- Conduct interviews or surveys (or similar activity) with employees in order to know the degree of implementation of the Corporate Responsibility Management System in the different work centres.
- Promote the internal mobility of workers.
- Promote the involvement and participation of employees in Corporate Responsibility activities.

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