



RED
ELÉCTRICA
CORPORACIÓN

ADDRESS

GENERAL SHAREHOLDERS MEETING

Chairman

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INTRODUCTION

Hello and welcome, ladies and gentlemen.

On behalf of the Board of Directors I would like to welcome you to the Annual Shareholders Meeting of Red Eléctrica. I am delighted to see both those who have joined us in person as well as those who are watching via the webcast.

This is our quintessential corporate event and I am honoured to chair this meeting which has a particularly special feature. This 15 April will mark one year from the definitive separation of the roles of chairman and chief executive, a process that you, as shareholders, approved in the Special General Meeting, and which set 2016 as the first year that we have had a chief executive officer.

I believe we must congratulate ourselves for this decision and the choice of person to take on the executive duties. Allow me to speak on behalf of the whole Board of Directors in congratulating Juan Lasala and thanking him for his work this year as the company's chief executive. His preparation, professionalism, common sense and absolute dedication have shown us his capacity to get us through any challenges that may arise in future. Proof of this is how far we have come in fulfilling the Strategic Plan approved by the Board of Directors for 2014-2019 under his leadership, with the phenomenal team of professionals that is the Red Eléctrica family. The plan sets the goal of growing profit after tax by between 5% and 6% and dividends by 7%. In 2016, these goals have been hit wholeheartedly, as you will have seen in the documents we have provided and which will be expanded upon by the CEO.

With turnover remaining mostly stable year-on-year, we have achieved a 5.1% rise in after tax profit. This result has been achieved and is only explicable by increased efficiency in the operation and allocation of resources, namely operational efficiency (EBITDA margin) and financial efficiency (reduced financial expenditure). It is owing to this result that we propose to the Meeting a 7% dividend rise fully in line with the goal set in the Strategic Plan.

This is a move that allows us to win in the present but also guarantee the future, with investments in 2016 amounting to 643 million euros with virtually no increase in borrowing, and with net debt at year-end sitting at 4.949 billion euros, giving an adequate debt ratio on EBITDA of 3.3X.

In order to appraise our business in 2016, please allow me to briefly touch upon the economic, regulatory and European energy policy framework in which we have operated.

MACROECONOMIC PERFORMANCE

For the third consecutive year, the Spanish economy has grown beyond expectations, with GDP registering growth in 2016 of 3.2%, nearly double that of the Euro zone.

Internal demand continues to drive growth, in which the creation of net jobs has been a major contributing factor, and which has continued to grow, ending the year with 413,800 more jobs than last year.

The stabilising of oil prices during 2016 at around 45 dollars a barrel (from 52.15 dollars in 2015), together with low interest rates and the effects of structural reforms carried out, have been decisive in the recovery and momentum of the Spanish economy.

Three years after the onset of the recovery, we can finally say that the Spanish economy has left the crisis behind. A new journey of sustained growth has been undertaken, with a hopeful horizon that has come about thanks to two realities. Firstly, structural reforms implemented by the Government have gone a long way to removing financial stress on our sovereign debt and boosting economic activity, generating a climate of confidence in the market and in consumers that is essential to securing economic recovery. Secondly is the great effort of our companies to adapt to the new global economic scenario, which have revised and adjusted their production processes in order to improve efficiency and competitiveness, as shown by their proven successful presence in other markets in what is by no means an easy environment.

Forecasts made by leading specialists for the next two years confirm the consolidation of this path of sustained growth of our economy, although at a more moderate rate of 2-2.5%. This forecast is driven by an exterior sector that offers no negative impact on GDP, a construction industry whose recovery is now gathering pace and by the expectation that the climb in oil prices seen at the end of 2016 will still keep the price of crude below 60 dollars a barrel.

However, in the short and medium term, the Spanish and European economies face uncertainty resulting from two highly relevant political events which occurred in 2016 and the outcome of general elections planned for 2017 in various Euro zone countries (Holland, France and Germany).

The first event of note was the surprising victory of Republican candidate Donald Trump in the US presidential elections, which was received by the

markets with certain bewilderment. It is true that the promise of lowering taxes and increasing public investment in infrastructures has been well received by the markets, which do not consider the possible adverse effects in the medium term of increased deficit and public borrowing. Yet there is still concern on the potential impact on the global economy of the turn towards more protectionist trade policy and the largest world power's reconsideration of geopolitical strategy.

The second highly important political event of 2016 was the United Kingdom's vote for Brexit in June. Beyond the potential economic impact in future years, which will largely depend on what UK-EU trade relations will look like after the withdrawal negotiations process, Brexit has shaken the foundations of the European integration project and has opened debate about its future.

In fact, this debate was formally begun by the President of the European Commission with the recent publication of a White Paper on the future of the European Union, which envisages, albeit somewhat superficially, five alternative scenarios of the membership model that the European Union could pursue for 2025, each of which has a different degree of political and economic integration.

As we have said, the Spanish economy has been performing well in this atmosphere of uncertainty. From an energy and, particularly, electrical power perspective, the robust increase in efficiency levels has been the highlight – an international phenomenon which has produced telling results in Spain. In 2016, the aforementioned rise in GDP of 3.2% triggered a growth in electricity demand of just 0.6%. If we exclude the

effects of employment engagement and temperature, electrical demand linked to activity is the same as 2015.

This information is consistent with the progressive loss of correlation between economic activity and electricity demand that has been seen in recent years not only in Spain, as a result of a gradual transition towards a less energy-intensive production model. Contributing to this is the implementation of energy savings and efficiency measures in accordance with European targets to achieve a sustainable energy model and fight climate change. The generalised implementation of LED lights, the switch towards more efficient domestic appliances and building energy certification requirements will have certainly contributed to this.

REGULATION IN SPAIN AND EUROPE

Electrical power reform

The regulatory context of the electrical power industry has been dictated by the institutional gridlock preventing the formation of a new government until November 2016, which has meant that Spanish energy regulation has barely undergone changes during the past year.

However, following publication in the second half of 2015 of benchmark unit values of transmission and distribution remuneration models from the Royal Decree for Self-Consumption and the Royal Decree for Production and Despatch in Non-Peninsular Electrical Power Systems, the reform of the electrical power industry was already practically concluded. There are certain proposals previously announced which are pending approval, which have already been reported to the National Markets and Competition Commission, such as the regulation of capacity and

hibernation mechanisms of generation facilities, and the regulation of marketing activities and hiring and supply conditions.

Electrical power reform also initially contemplated review of the operation of the electricity production market, a subject that has gained great media importance during the period of high marginal generation prices during the final days of January.

However, aside from the special circumstances leading to this particular scenario, the average market price of generation in 2016 was down 21% with respect to 2015, which also enabled a reduction in electricity supply in the past year for the majority of consumers who have opted for the voluntary price for the small consumer (*precio voluntario para el pequeño consumidor*).

In this context, as has been revealed by the minister, there are no short-term plans to consider a detailed review of the electrical power production market, whose performance is a reflection of the impact of various relevant factors, especially sun, wind and water. During the first five months of 2016, the average price in the wholesale market, OMEL, was around 30 euros/MWh, far below any national or international standard, due to the abundance of water, sun and wind. It was rising since the middle of last year, passing 65 euros/MWh at the end of the year following a period of very little rain and wind.

Since the new regulatory framework defined by the electrical power reform came into force, regulated income has exceeded regulated costs, with an accumulated surplus 1 billion euros in 2014 and 2015, which is

expected to rise with the final data for 2016 that will be released at year end.

It is highly likely that this new scenario of sustainable income and costs in the industry will continue in the coming years, as is shown in the electrical power system income and cost performance forecast report for 2017-2021, published by the CNMC. A surplus of around 150 million euros is estimated for each year of said period.

As such, it seems that the problem of the structural tariff deficit has been overcome, which was the primary objective of the reform.

In this new context of system sustainability, January 2016 saw the end of the moratorium on new renewable generation set in 2012 with the 500MW wind and 20MW biomass tender call and award, which opened a new chapter in the development of renewable energies in our country and which will be given a new impetus this year.

With respect to the regulatory scenario of Red Eléctrica, following the publication of the Electrical Energy Transmission Grid Development Plan 2015-2020 at the end of 2015, and the benchmark unit values for investment and maintenance, the first few months of 2016 saw the approval of resolutions determining the investment value and average residual life of pre-1998 assets. This completes the regulatory development of the new remuneration model for transmission activity set by Royal Decree 1047/2013.

Upon conclusion of the reform, Red Eléctrica will focus on maximum extension of the residual life of its pre-1998 assets and on defending a future strategy for the renewal and improvement of all its assets.

As such, 2016 remuneration determined in Order IET/981/2016, of 15 June, was the first one calculated through full application of the model, thus eliminating another source of uncertainty to which our business is exposed.

I cannot finish my look back at the regulatory environment without addressing the regulation on pumping groups of non-Peninsular electrical power systems allocated to the system operator, due to its particular impact on Red Eléctrica.

Although there have been no regulatory changes in operations during 2016, in order to address the need to push forward the energy storage projects on the Canary Islands, on 17 September 2015, Red Eléctrica incorporated **Red Eléctrica Infraestructuras en Canarias S.A.U.** (Reincan), a wholly owned subsidiary of Red Eléctrica Corporación.

In 2016, Reincan presented a project to reform the initial Soria-Chira project which included technical and environmental improvements to increase the integration capacity of renewable energies and reduce the environmental impact of this new infrastructure. The new project was declared to be of strategic interest by the Canary Islands Government in 2016 and is subject to the corresponding administrative processing. Therefore, construction should begin as soon as possible and this year if viable.

European energy policy

Within the EU, remembering that in 2015 the European Commission published the "Energy Union Package", which defined a new strategic framework to meet EU energy policy and climate change objectives, specifically for the 2030 deadline. These targets are: 40% reduction in

emissions with respect to 1990 levels, 27% share of renewable energy in all final energy consumption, 27% energy efficiency saving with respect to consumption forecasts and 15% interconnection capacity among member states.

The European Commission has continued to advance towards the progressive integration of the interior energy market, with the development of so-called "Network Codes".

Likewise, in 2016 the Commission continued to review the current EU regulatory framework, which culminated with the publication at the end of November of a new legislative development proposal generically entitled "Clean Energy for All Europeans" which has been colloquially dubbed the "Winter Package". It comprises a package of 14 regulatory proposals including, and of particular relevance to Red Eléctrica, a new directive on electrical energy, substituting Directive 2009/72/EC and its corresponding regulatory developments currently in force.

The Winter Package forms part of the European Union objective to lead the transition towards clean energy and, once approved following an administrative process that may take up to two years, it will become the benchmark regulatory framework for all agents. It shall cover numerous important changes envisaged in the electrical power industry for 2030.

Some of these changes are determined by the implementation of EU energy policy, such as the greater electrification of energy consumption and, in particular, the consolidation of the electric car as a new vector of demand, the generation of electricity through non-polluting energy sources or the fostering of energy efficiency.

Conversely, other changes are the result of technological progress, such as the expansion of electrical energy self-production; the emergence of storage devices and their great potential for more efficient technical and economic management of the electrical power system, and the generalising of intelligent grids, which would enable active participation of demand in the operation of the electrical power system. The common denominator of all these changes is that they will demand significant effort from all agents of the electrical power industry in order to become compliant.

As the central agent of the electrical power system, Red Eléctrica, which has accumulated extensive experience ensuring the guarantee and security of electrical supply, will have much to offer in the debate on the Winter Package and the future electrical system model, always under the premise of ensuring a secure and reliable electrical supply, and at the same time trying to consolidate and extend its role in the new electrical scenario which will surely be configured in the coming years.

REFLECTION ON SHARE PRICE AND FIVE-YEAR BALANCE SHEET

The Spanish and European regulatory framework continues to be highly demanding, although this does allow us to fulfil the commitment made in our Strategic Plan to 2019 with respect to share price and dividend distribution in the terms I mentioned at the beginning of my address.

However, 2016 has been the first in many years in which the share price of Red Eléctrica has dropped, albeit only slightly. Various events have occurred during the year that I have already mentioned which have somewhat penalised our value, such as political uncertainty in Spain for a

large part of the year, with the ensuing limited progress in regulatory matters, and forecasts of worldwide interest rate rises which particularly punish infrastructure companies.

However, it is somewhat unfair to talk about creating value in the short term. At Red Eléctrica we believe we are doing things right, making a constant effort to create value in the long term and, specifically, to fulfil our Strategic Plan. If I take as a reference the period since 2012, the five years in which I have had the honour of being the chairman of Red Eléctrica. During this period, major changes have taken place in the upper echelons of the company, with three major changes standing out: the already mentioned separation of powers with the creation of the role of chief executive officer; the overhaul of the Board of Directors, and a comprehensive reshuffling of senior management. The balance sheet has been extraordinarily positive during these years.

The share price has doubled in value and has beaten the Ibex 35 market in nearly identical terms. This is no mere coincidence. Of course, there are external factors that have benefited the economy as a whole, such as the sharp drop in interest rates and structural reforms that have boosted consumer confidence and investment, with extraordinarily positive effects on employment, as we have already seen. Yet this positive share price performance in the last five years, far outflanking the Ibex 35 and the industry as a whole, is only explicable by what for which we are entitled to feel legitimately proud, such as our reaction time and adaptation to new, much more restrictive and demanding regulation.

We have also commissioned highly important facilities such as the interconnection with France and submarine cables between the Peninsula,

the Balearics and other islands. We have expanded our telecommunications business and internationally like never before. We have successfully managed difficult situations such as the nationalisation of our subsidiary in Bolivia.

There have been many achievements, but would like to highlight a few in particular, such as: HR policy on training, promotion and work-life balance, vendors policy based on transparency and ethics; the internationally enviable efficient system operation policy; the repair and maintenance policy that allows us to produce model data on grid availability and electrical supply continuity; the clearly successful business base extension policy; and the corporate best practice and social responsibility policy which has brought us the highest accolades. I will mention this last issue a little later on. Before doing so, I would like to very briefly refer to investments, which will be subject to more detailed explanation by the chief executive.

INVESTMENTS

As you are all aware, we are now at the mid-point of our Strategic Plan and the balance sheet is wholly positive, both with respect to the development of regulated activity and with respect to the consolidation and growth of the telecommunications business and our international business in Chile and Peru.

Regulated investments in Spain are well defined and can be grouped into three blocks: investments established in Planning 2015-2020 and its attachments, those resulting from compliance with Spanish and EU energy policy in terms of three new interconnections on those pre-existing with

France and the rest of Europe and, lastly, investment volume of Red Eléctrica tied to the new Canaries energy model.

As transmitter and operator of the Spanish electrical system, Red Eléctrica has the obligation to make all investments and assume this responsibility, dealing with all projects from ethics to the commitment to social and environmental sustainability.

SUSTAINABILITY

Social action and shared value

We work on the land, which means that we must make significant effort to minimise adverse positions to investments that are basic to the security of electricity supply and, consequently, for the economic development and well-being of citizens. As such, we must make it clear that Red Eléctrica performs no action that does not **primarily meet the demands of corporate social responsibility**.

Respect for our social and environmental surroundings is one of the company's basic operating principles. This principle is present throughout the process of developing new infrastructures, seeking solutions with the least possible environmental impact and promoting, as I have already commented, society's engagement in the process, through permanent dialogue and collaboration.

The **social projects** in which Red Eléctrica has collaborated in 2016 have entailed an investment in the community of more than 6.4 million euros, representing more than 1% of the company's net profit for last year.

Once of the major projects of 2016 was the Social Responsibility Plan for the Mezquita-Morella and Mudéjar-Morella lines, which began in 2015 and was intended for 22 towns in the areas of Teruel and Castellón, through which these electrical infrastructures pass. This programme hopes to contribute to **socio-economic development, the preservation of cultural heritable and outreach on the operation of the electrical power system.**

For the last of these, outreach, an exhibit entitled "A motorway behind the plug", was visited by 85,000 people during its time in Tarrasa in 2016 before moving to Mallorca. As of 6 April it will be installed in the *Museo de las Ciencias y las Artes*, in Valencia. If you have the opportunity to, I recommend that you visit it. It is an interactive exhibit that will not disappoint.

We cannot forget the outreach made using the corporate website and the *Entrelíneas* blog, as well as visits organised to our facilities, different forums and congresses, and school Olympics centred around the educational game *entreREDes* which is travelling around the whole of Spain.

Environment

The initiative of Red Eléctrica to **protect the environment** is going from strength to strength. Compliance with the eco-programme was 87% in 2016, with 22.65 million euros channelled to this. Of this amount, 2.98 million was poured into launching new projects, environmental impact studies, preventive and corrective measures, works supervision and environmental improvement measures. The remaining 19.67 million was

dedicated to environmental improvements in facilities in service, projects to protect and preserve biodiversity, activities relating to climate change and energy efficiency, communication, training and R&D+i.

One of the key challenges in the **integration of electrical power transmission infrastructures** is their landscape integration. Progress achieved in 2016 included the launch of a landscape integration and analysis methodology in environmental impact studies for electrical lines and a landscape evaluation system for existing facilities.

In term of **biodiversity**, thanks to the outcome of the project for which we were awarded the European Business Award for the Environment, on flyway maps, we have completed the birdlife risk mapping and have identified the national signage needs and goals. I must also highlight the launch of important R&D+i projects such as **Vegeta**, which will optimise plant treatment activities; **Habitat**, which has enabled mapping of ten autonomous regions, validating and certifying the state of habitats in five of them, and the experimental technique project to recover *Posidonia Oceanica* meadows, to begin work on the future Red Eléctrica **Marine Forest**.

Speaking of forests, we cannot forget the **Red Eléctrica Forest**, which in 2016 restored 55.68 hectares in the province of Zamora with the La Carballeda Forest, and 40.7 hectares in La Coruña with the Tremuzo Forest. Agreements have also been signed for the planting of forests on Gran Canaria and Tenerife.

In 2016, the Red Eléctrica's **emissions inventory registry** was opened in the carbon footprint, offset and absorption projects registry of the Spanish

Climate Change Office. Works to improve SF₆ gas leak control and identification, inventory and management procedures have been considered the company's managerial objective, reaching 100% compliance in 2016.

I can state that, this year, Red Eléctrica's firm commitment to the environment will materialise in the **new Environmental Plan**, the objectives of which will be: to improve follow-up of the various actions planned, to identify continual improvement opportunities and favour outreach and visibility of the company's environmental activity. The plan, with an approximate budget of 23 million euros, is structured into three vectors: environmental management of facilities, biodiversity and climate change. I am convinced that the enviable meshing of Spain's electrical grid, overcoming numerous sensibilities, has been made possible by the priority we have placed in social action and environmental issues linked to the installation of the facilities of which the grid is comprised.

Innovation

Innovation is a fundamental springboard to showcase the different actions of the environmental plan, which will contribute to Red Eléctrica maintaining the high and recognised efficiency levels in its environmental performance.

The process of consolidated innovation as a strategic pillar for the efficiency and sustainability of the Red Eléctrica Group has culminated in 2016 in the approval and launch of the **new Innovation Strategy for 2016-2019**. This strategy is the definitive step towards a new, broader innovation concept which includes the technological component and the

rest of the company's activities, which is highlighted in four defined innovation vectors: people, digitalisation, sustainability and technology.

Red Eléctrica continues to collaborate in national and international projects of reference, acting as a leader in many cases, such as the case of the **Best Paths project** to accelerate the development of technological solutions that ensure the rapid evolution of the electrical grid in transmission capacity and flexibility, for the secure integration of all renewables generation needed if we are to meet European energy policy.

A highlight is EPRI's recognition of Red Eléctrica for its involvement in the Energy Storage Integration project, which highlights the company's position as a worldwide benchmark TSO for innovation and, in particular, in applications of electrochemical storage systems in support of the integration of renewables and security of electrical supply.

Without doubt, the activities pursued by the company to **maximise integration of renewable energies in the electrical system** and improved energy efficiency are essential for the achievement of European sustainability objectives and to respond to social demand for an increasingly sustainable energy model. Once again this year, a highlight of these activities is the work of our renewable energies control centre, CECRE, which has helped in achieving 40% of electrical demand being covered by renewable energy as an average in the past four years. The work of CECRE is especially necessary in a context such as ours, of meagre international interconnections and the heavy participation of renewables in the electrical generation technologies mix.

Corporate governance and ethics management

2016 has been a key year for Red Eléctrica in **corporate governance**. Firstly, in addition to the mentioned **separation of roles**, although this was by no means a legal requirement, the figure of the independent coordinating director has been maintained, due to the effective role this position plays in corporate governance.

Secondly, I would like to draw attention to a practice adopted by the company in the spring of 2016 in compliance with the transparency promise made with our shareholders and investors, which have been very warmly received: Red Eléctrica has published a highly visual, easy to use interactive section on its website on the company's **corporate governance history** since its 1999 stock market flotation.

Likewise, the "Communication criteria with shareholders, institutional investors and voting advisers" approved by the Board of Directors on 25 October 2016 were published on the website, which contained the communications principles and directives maintained by the company with these interest groups. We are therefore guaranteeing the adequate exercise of their rights and interests and favouring the commitment and relationship with them through open, transparent and sustainable dialogue.

I would like to cite the recent **amendment of the Regulations of the Board of Directors** approved in December 2016, which was the product of a lengthy analysis process carried out in order to update their content to most recent legislative reforms, make certain adaptations to international corporate governance practices, and introduce improvements to the

organisation and operation of the Board of Directors and its Committees, adapted to the new reality of the organisation.

Moreover, yet again, the Board of Directors has undertaken an **annual self-appraisal**, with advice from external independent professionals, and once again, we have published its main conclusions in the Annual Corporate Governance Report.

The Board of Directors has once again voluntarily submitted its **remuneration and annual report on Directors' remuneration** for your approval. The 2017 proposal is to **freeze remuneration** for non-executive director at 2016 levels.

Moreover, in terms of risk management I would like to highlight the continual incorporation of international best practices in the **Red Eléctrica Group Integral Risk Management System**. The Risk Management and Control Policy was updated during 2016, which included tax risks, and which you may all consult on the corporate website. Development and **implementation of the Group's Regulatory Compliance System** has also continued. This system is the result of the commitment made as a behaviour guideline in the Code of Ethics to provide an adequate legal compliance control system, resulting from the values of dependability and responsibility.

As we did in the previous year, in compliance with recommendation no. 3 of the Spanish Code of Good Governance of Listed Companies, which suggests that the Chairman of the Board inform shareholders in the Annual General Meeting of the reasons why any of the recommendations

of the Code are not following, I inform you that in 2016 Red Eléctrica has complied with all recommendations, with a single exception.

The company has not complied with recommendation no. 48, which proposes that companies with high capitalisation have separate appointments and remuneration committees. As I explained to you last year, we find this separation to be inappropriate due to the small size of the Board of Directors in comparison to other high capitalisation companies, as these committees would not have enough business during the year to justify such separation, and because it would harm the independence of non-executive directors by belonging to a number of different committees at the same time.

In terms of **gender diversity** on the Board of Directors, following the appointments made in 2016 and in this Meeting, the percentage of women on the Board has now risen to 25%, which aligns us near the top of Ibex 35 companies.

As you well know, in the election of directors and the other professionals that make this company a reality, calibre, ability and experience rule over issues of gender, although in recent years we have pushed for sustained growth in the number of women. This is why I am committed to championing the proposal of female candidates to occupy any vacancies on the Board of Directors.

In relation to the Group's integrity model, we believe **ethics and transparency** are two essential pillars of the company's good governance. Acting with maximum integrity in compliance with our obligations and

commitments is a primary objective to achieving results that can be considered to be truly satisfactory.

Progress made in the company in 2016 in this area include the culmination of the ethical management awareness plan for 2014-2016, which has driven the holding of forums in all business centres of Group companies, with 90% workforce participation. The aim of the forums is to improve knowledge of the ethics management system, reflecting on the values and undertakings acquired by the organisation, and further examining the figure and duties of the **ethics manager**.

Yet the culmination of this multi-year plan does not imply the conclusion of the **Group integrity model** as it is under continual development. There are certain actions that I find particularly relevant, such as the forthcoming adaptation of the Code of Ethics in line with advances in the compliance risk prevention system, the review of the ethics management indicators system which contributes to optimising monitoring, the fostering of new alliances with our interest groups, which allow us to improve business ethics management, and the performance of new awareness actions in relation to our ethics management system in each of the subsidiaries of the Red Eléctrica Group.

Corporate social responsibility and excellence

As you are aware, the company's history of corporate social responsibility dates back 15 years, to when its policy was approved, with the first management system being implemented two years later, in 2004. Since then, a great many more steps have been taken, such as approval of the various version of the Code of Ethics, adapting it to the principal

recommendations of the most prestigious international bodies in this area; the Vendors Code of Conduct, which contributed to passing these criteria to the supply chain, and the Corporate Responsibility Plan 2014-2016, which has rolled out a total of 95 projects.

Work has been performed on the **Red Eléctrica Group's Sustainability Model** for 2030, the aim of which is to establish a common framework which amalgamates the actions pursued by all companies of the Group, to provide better responsiveness to interest groups, make efficiency gains and showcase our sustainability performance.

The model, which is expected to be approved and implemented this year, has been designed in consideration of the United Nations Sustainable Development Goals.

There is a fundamental aspect in the area of corporate responsibility that must not be forgotten, and that is the **commitment to talent and opportunity and gender equality**, as shown in the fact that 87.5 % of senior management appointments made in 2016 in the Group were the result of internal promotion. There has also been a rise in the number of women in the workforce and in management roles, of 23.7% and 21.8%, respectively.

Actions carried out in 2016 in the field of diversity include the launch of action plans associated with the disability management model and the age management model, which were both approved in the past year.

Likewise, the **healthy management model** implemented is a strategic commitment for the management, promotion and supervision of the health and well-being of company members. During 2016, a number of

different initiatives were launched in this field, to promote health, for work-life balance and the prevention of occupational risk. Improvements have been made to principal indicators of the accident rate for employees and contractor personnel.

All the efforts made by Red Eléctrica in corporate social responsibility are recognised by the company's presence in the main **sustainability indexes**. These include the Dow Jones sustainability indexes, in which Red Eléctrica has consolidated its position among leading global companies. As a result, the company obtained the Gold Class distinction in the RobecoSAM Sustainability Yearbook 2016.

Red Eléctrica is also among the 9% of companies that, as a result of an evaluation performed by the Carbon Disclosure Project (CDP), were awarded the maximum score in recognition of their work to reduce emissions, mitigate climate and manage associated risks and opportunities.

Red Eléctrica has also obtained the award for the best European utility in Corporate Governance, granted by the prestigious English publication "Ethical Boardroom Magazine".

Also of relevance is the company's on-going inclusion since 2008 in the FTSE4Good sustainability index, which includes quoted companies worldwide, and in the MSCI ESG indexes which include companies with the best score in Environmental, Social and Governance areas in their respective industries.

As you all know, following the most recent excellence evaluation in 2015, Red Eléctrica has maintained the EFQM European excellence 500+ seal,

due to scoring more than 700 points, placing it among the highest scoring companies nationally and in Europe. In 2016, the company received a recognition from *Club Excelencia en Gestión* for its exemplary behaviour in the excellence value "Maintaining outstanding results across time".

There is no doubt that these recognitions highlight the commitment of Red Eléctrica to sustainability when addressing global challenges and its firm undertaking for transparency through accountability.

CONCLUSIONS

I would like to conclude by referring to the two great challenges that I mentioned in last year's Annual General Meeting: to maintain the difficult and exciting goal of excellence in the sphere of good governance and corporate social responsibility, and, additionally, to successfully tackle the challenges posed for Red Eléctrica by the so-called energy transition, with an ambitious approach to our investment goals in regulated activities and in those which expand our business base in areas we know well, such as telecommunications and international electric grids. The positive trend of Red Eléctrica in this five-year period in which I have had the honour to act as chairman gives us the confidence to believe that these great challenges I have mentioned will culminate in a good outcome.

Lastly, I would like to pay homage to the great work of the Board of Directors in these years of major change for Red Eléctrica, which has seen huge progress in ethics, transparency and good governance, and in which the pursuit of excellence has dictated our actions in the Group. I would also like to give special thanks for the dedication and hard work of our outgoing directors (Agustín Conde this past November and now María

Ángeles Amador), and wish the very best to our new incoming directors, Arsenio Fernández de Mesa and Alberto Carbajo, as well as the proposed renewal of María José García Beato, whom I am confident will have your firm support.

Many thanks for your attention.