



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 responsibility 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 assessed risks.

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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. ".



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.

A handwritten signature in blue ink, appearing to read 'Mª Luz Castilla', with a long horizontal line extending to the right.

Mª Luz Castilla
27th March 2017

Appendix

GREENHOUSE GAS (GHG) INVENTORY OF RED ELÉCTRICA ESPAÑA S.A.U.

<i>GHG Inventory</i>	<i>tCO₂-eq</i>
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: SF₆ 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.