

| 2017

Annual
report

Corporate
report

Economic
report

emie

2017

Annual report

► Corporate
report

Economic
report

57

Index

1

Letter from
the Chairman

4

2

Corporate Structure
and Governance

10

3

Regulatory environment
and challenges facing the
decarbonisation of the economy

14

4

OMIE's
activity

24

5

Our
commitment

42

6

Energy
for all

50

1. Letter from the Chairman





Our Iberian market is coupled with Europe, and prices are set jointly with all the other operators in Europe.



1. Letter from the Chairman

Our company operates the Iberian Electricity Market (MIBEL), playing a vital and active role in the Iberian electricity system, all pursuant to the provisions of the International Agreement between the Kingdom of Spain and the Portuguese Republic signed on 1 October 2004 in Santiago de Compostela. Furthermore, we have been the Nominated Electricity Market Operator (NEMO) in Spain and Portugal since 2015, performing the EU-regulated duties involved in coupling our market with the rest of Europe.

Our main duty is to manage one of the EU's most liquid "spot" markets, which in terms of energy in 2017 traded a volume of more than 280 TWh, the equivalent of 85% of the Iberian Peninsula's electricity consumption. This meant an economic volume of €15,193 millions, 37.8% more than in 2016.

Our Iberian market is coupled with Europe, and prices are set jointly with all the other operators in Europe, using the same algorithm (EUPHEMIA) and optimising the use of the commercial capacities available at the interconnections. In 2017, the market recorded prices that were around 32% higher than in 2016 due to the lower share of hydro and wind power generation. Specifically, the average price was 52.24 €/MWh in Spain and 52.48 €/MWh in Portugal, with both countries recording the same price for over 93% of the time.

Through this regulated model for the joint operation of MIBEL, OMIE has led the process

of integrating the day-ahead markets, which since 2014 has led to the coupling of over 75% of European demand.

It should be noted that July 2017 marked the tenth anniversary of the integration of the spot electricity market on the Iberian Peninsula, and in January 2018 it was twenty years since the creation of the electricity wholesale market in Spain.

In this vein, our company is actively involved in the development of the new cross-border continuous intraday market (referred to as XBID). The launch of this new European market is scheduled for June this year and will constitute another step forward in the process of building the Internal Energy Market.

European institutions have been busily working on the European Commission's proposals regarding "Clean Energy for All Europeans". In terms of the internal market, these proposals consolidate the role of the NEMOs and impact upon significant aspects of the electricity market's design, in keeping with the market model already implemented on the Iberian Peninsula more than ten years ago.

OMIE is also involved in the implementation of EU legislation developing Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, as well as in the projects and agreements for the joint operation of the day-ahead and intraday markets. The main milestone in this

process in 2017 was the unanimous approval by all Europe’s regulators of the Market Coupling Operator (MCO) Plan proposed by all the NEMOs, which is currently at the implementation stage.

Regarding the other activities we have pursued in 2017, our company was nominated by Spain’s Ministry of Energy, Tourism and the Digital Agenda to hold two auctions for the allocation of new renewable capacity with a view to advancing toward the 20% target for renewable energy by 2020. In total, 8,037 MW

were allocated with a maximum discount in both cases, and thereby minimising the cost for electricity consumers.

As this Report shows, our company has continued operating in full compliance with the duties vested in it by the regulation and has posted financial results that would not have been possible without either the dedication and professionalism of the team of people that make up the Iberian Market Operator or the support of our shareholders and the members of our Board of Directors.

Ignacio Grangel Vicente
Vice-Chairman of OMIE

Artur Trindade
Chairman of OMIE



We are now facing a deep change in the energy sector, which will entail an increase in the electrification of society, whereby the electricity markets will be called upon to play an increasingly important role to continue giving the right investment signals and tackling the different challenges posed regarding the greater involvement of renewable energies in the market and of new players in response to EU regulations. OMIE is also ready to address the needs that may arise from the digitisation of energy markets and is working to provide society with new services.

Thus, as a key component in the management and operation of the electricity system, we are expected to contribute our experience to this far-reaching process of energy transition. We have now been operating for twenty years and we will be working hand-in-hand with all the other companies in the OMI group to continue earning the trust of regulators, of agents across the board, and of our shareholders to develop a market model that meets the needs of our Iberian electricity system.



OMIE is also ready to address the needs that may arise from the digitisation of energy markets and is working to provide society with new services.

Our numbers:



15,193
Millions of euros
Economic
volume

+37.8%
compared to 2016



281
TWh
Total traded
energy



85%
MIBEL
Demand

2. Corporate Structure and Governance



2.1 The Iberian Market Operator

The Iberian Market Operator (OMI) is regulated by the International Agreement on the establishment of an Iberian electricity market (MIBEL) concluded at Santiago de Compostela between the Kingdom of Spain and the Republic of Portugal on 1 October 2004.

The OMI is constituted by two parent companies, OMEL and OMIP SGPS, with headquarters in Spain and Portugal respectively. Ten per cent of the shares of each parent company belongs to the other. Both parent companies own fifty per cent of each of the companies that operate the markets.

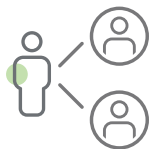
As regards markets operation, there are two companies within the OMI, one with headquarters in Spain, OMI-Polo Español (OMIE) and another with headquarters in Portugal, OMI-Polo Portugués (OMIP). Both companies own fifty per cent each of OMIClear- Sociedade de Compensação de Mercados de Energia S.A.

OMIE is responsible for managing the Iberian spot market and also invoices and settles the energy purchased and sold in this electricity market. In addition, OMIP manages the forward electricity markets and OMIClear is the CCP of the OMI Group. Also, OMIE owns the subsidiary OMEL Diversificación S.A.U. which managed in 2017 two auctions for new renewable installed capacity.

As a market operator, OMIE is subject to Electricity Sector Act 24/2013 and, inter alia, to Royal Decree 2019/1997, 26 December, organising and regulating the electricity generation market.

As from 2015, OMIE is the Nominated Electricity Market Operator (NEMO) in Spain and Portugal, within the meaning of Commission Regulation (EU) 2015/1222, of 24 July 2015, establishing a guideline on capacity allocation and congestion management (CACM).

2.2 Corporate governance



Board¹:

Chairman:

Artur Trindade²

Vice-Chairman:

Ignacio Grangel Vicente³

Members:

- ABENGOA. S.A.:
Germán Bejarano García
- BANCO SANTANDER S.A.:
Carlos Martín de los Santos Bernardos
- EDP-ENERGÍAS DE PORTUGAL, S.A.:
Carlos Mata
- ENDESA GENERACIÓN PORTUGAL, S.A.:
Adolfo de Rueda Villén
- GAS NATURAL SDG, S.A.:
Rosa Sanz García
- IBERDROLA GENERACIÓN ESPAÑA S.A.U.:
José Luis Rapún Jiménez⁴
- PARCAIXA, SGPS, S.A.:
Paulo Henriques
- REDES ENERGÉTICAS NACIONAIS, SGPS, S.A. (REN):
María José Clara
- REN SERVIÇOS, S.A.:
Pedro Henriques Gomes Cabral
- VIESGO INFRAESTRUCTURAS ENERGÉTICAS, S.L.U.:
Javier Anzola Pérez

Secretary (Non member):

Rafael Ramos Gil



Steering Committee:

Chairman:

Artur Trindade²

Vice-Chairman:

Ignacio Grangel Vicente³

Divisions:

- MARKET:
Pedro Basagoiti Satrustegui⁵
- MARKET OPERATION:
Yolanda Cuéllar Salinas
- MARKET MONITORING:
Juan Bogas Gálvez
- PLANNING AND CORPORATE MANAGEMENT:
Carlos Aguirre Calzada⁶
- CORPORATE MANAGEMENT:
Luis Miguel López Otero
- SETTLEMENTS:
Carlos Francisco Gamito Calvo
- EUROPEAN AND PUBLIC AFFAIRS:
Rafael Gómez-Elvira González
- LEGAL AFFAIRS:
Rafael Ramos Gil

1. According to the International Agreement of Santiago, Spain and Portugal are represented on an alternating basis in the positions of Chair and Vicechair. The mandates of each representative are in force in principle for a period of at least six years, composed by two periods of three years, one of them as Chair and the other as Vicechair.

2. Pedro J. Mejía Gómez, until 9 November 2017. Ignacio Grangel Vicente, from 10 November 2017 to 31 December 2017. Artur Trindade, from 1 January 2018.

3. Ignacio Grangel Vicente es Vicepresidente de OMIE desde el 1 de enero de 2018.

4. Gregorio Relaño was a member of the Board of OMIE until 15 January 2018. He is since that date a member of the Board of OMEL.

5. 6. Since 18 April 2018.

3.

Regulatory environment and challenges facing the decarbonisation of the economy



One of the highlights of the European Commission's proposals involves a review of the 2009 Electricity Directive and Regulation.



These measures will pave the way for higher percentages of renewable energies and give a greater role to consumers across the board in the transition toward a more sustainable, participative and integrated energy model.



3.1. Regulatory environment

The European institutions have worked in 2017 on securing agreements for the approval of the package of measures referred to as “Clean Energy for all Europeans”. One of the highlights of the European Commission’s proposals involves a review of the 2009 Electricity Directive and Regulation⁷. These proposals consolidate the roles played by market operators and focus on relevant aspects of the design of the European electricity market. In particular, the draft amendment of the Electricity Regulation includes for the first-time references to Nominated Electricity Market Operators (NEMOs), which are subject to regulatory supervision by both the corresponding national regulators and the Agency for the Cooperation of Energy Regulators (ACER).

According to the Regulation’s aforesaid draft amendment, the NEMOs and Transmission System Operators (TSOs) are responsible for jointly organising the management of the integrated day-ahead and intraday markets. As regards these markets, the Regulation’s draft amendment lays down sundry mandates for the NEMOs with a view to providing agents with an efficient integrated market that caters for the participation of all resources, affecting the market’s granularity in terms of time intervals and the minimum amounts of energy traded.

Many of the core components of this package are consistent with the market model in place for the Iberian Peninsula (MIBEL), such as promoting liquidity close to real time, reducing the minimum size of bids, reinforcing the coordination of the system’s operation between neighbouring countries, and the existence of dynamic price bids on the retail market, among others.

These measures will pave the way for higher percentages of renewable energies and give a greater role to consumers across the board in the transition toward a more sustainable, participative and integrated energy model.

The definitive texts of the Electricity Directive and Regulation are expected to be approved by the European Council and Parliament in the second half of 2018.

In addition, negotiations on the new Renewables Directive, the Regulation on the Governance of the Energy Union and the Energy Efficiency Directive are in their final stages. As regards the Renewables Directive, towards the end of 2017 the European Parliament agreed to set a binding target for renewable energy of 35% by 2030, as opposed to the 27% proposed by the Commission and upheld by the Council.

7. Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC; Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003.

Concerning the Energy Efficiency Directive, the Parliament has called for a binding target for energy efficiency of 35% by 2030, which is more ambitious than the figure of 30% supported by the Council.

Insofar as interconnections are concerned, the target for the level of interconnection among Member States is 15% by 2030.

Within this scope, the most significant advance in recent times has been the approval of the funding for the interconnection between Spain and France via the Bay of Biscay, making it the Project of Common Interest with the highest funding at 580 million euros. This line will allow reaching an interconnection capacity with France of 5,000 MW.



The Regulation's draft amendment lays down sundry mandates for the NEMOs with a view to providing agents with an efficient integrated market that caters for the participation of all resources.

Implementation of Commission Regulation (EU) 2015/1222



OMIE and all the other NEMOs have undertaken an intense programme of work for fulfilling the mandates of Commission Regulation (EU) 2015/1222.

OMIE collaborates with all the other NEMOs in the European Union as a member of the "Interim NEMO Committee". Within this context, OMIE and all the other NEMOs have undertaken an intense programme of work for fulfilling the mandates of Commission Regulation (EU) 2015/1222, of 24 July 2015, establishing a guideline on capacity allocation and congestion management.

All NEMOs are responsible for establishing and operating the coupling mechanisms for the day-ahead and intraday markets in cooperation with the TSOs. A milestone was recorded in 2017 that constituted a key component of this market coupling, namely, the approval by all the regulators of the Market Coupling Operator Plan proposed by all the NEMOs.

Elsewhere, in 2017 Europe's regulators were presented with the four methodologies that NEMOs needed to draw up according to the aforesaid Regulation:

- Backup methodology (contingency).
- Methodologies for the price coupling and continuous trading matching algorithm.
- Methodologies for products that can be taken into account by the NEMOs in the single day-ahead and intraday coupling process.
- Methodologies for harmonised maximum and minimum clearing prices (result of the matching).

The fourth methodology (maximum and minimum prices) was adopted by ACER through decisions no. 04/2017 and no. 05/2017 and their annexes. The backup and products methodologies were approved by all the regulators in January 2018, and finally, the methodologies for the price coupling and continuous trading algorithms are pending adoption by ACER.

Efficient allocation of more than 8,000 MW of new renewable installed capacity

The year 2017 played an important part in Spain's progress toward achieving its 2020 target for renewable energies. Specifically, it saw the publication of Royal Decree 359/2017, of 31 March⁸, establishing an initial amount of 3,000 MW for the assignment of the specific payment scheme for new renewable generation plants in the Iberian Peninsula's electricity system, and Order ETU/315/2017, of 6 April⁹, regulating the allocation procedure for the specific payment scheme in the tender for new electricity generating plants using renewable energy sources, called under the auspices of Royal Decree 650/2017, of 31 March, and approving its payment parameters.

In addition, and based on the same principles as in the first one, a second call was issued through Royal Decree 650/2017, of 16 June¹⁰, establishing a quota of 3,000 MW of installed power for new electricity generating plants using renewable energy sources and Order ETU/615/2017, of 27 June¹¹.

Within this context, our company was nominated by the Spanish Ministry of Energy, Tourism and the Digital Agenda to hold these two auctions for renewable power through our

subsidiary OMEL Diversificación. Both sessions, which were held in a due and proper manner, were attended by numerous agents, with a very high demand and involved the allocation of a total of 8,037 MW with the maximum discount.

In parallel, the Portuguese Republic has pursued a busy work programme with a view to achieving its 2020 targets and making further inroads in the process of decarbonising its economy. In fact, it is currently immersed in the process of approving a solar plan in 2018.

Photovoltaic projects have been approved in 2017 with an output of more than 700 MW whose payment depends in full on the wholesale market price. The interest in projects of this nature has meant that towards the end of 2017 over 2 GW of power was pending approval by Portugal's Directorate General for Energy and Geology (DGEG). Given that it is not possible to accommodate all the photovoltaic power planned and approved, the Portuguese Government has approved a lottery mechanism for selecting the projects that will finally be built.

8. Royal Decree 359/2017, of March 31, establishing a tender to assign the specific remuneration regime to new installations of renewable electricity generation in the peninsular electrical system.

9. Order ETU/315/2017, of 6 April, regulating the procedure for assigning the specific remuneration regime in the call for new installations for the production of electric power from renewable energy sources, convened under the auspices of Royal Decree 359/2017, of March 31, and approving its remuneration parameters.

10. Royal Decree 650/2017, of June 16, which establishes a quota of 3,000 MW of installed power, for new installations of renewable electricity generation in the peninsular electrical system, which may be granted the specific remuneration regime.

11. Order ETU/615/2017, of June 27, which determines the procedure for assigning the specific remuneration regime, the corresponding remuneration parameters, and other aspects that will be applicable for the quota of 3,000 MW of installed capacity, convened under the auspices of Royal Decree 650/2017, of June 16.

3.2. Challenges facing the decarbonisation of the economy

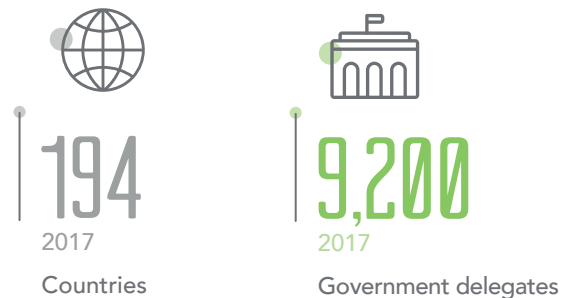
The Bonn challenge: implementing the Paris Agreement

The 23rd Conference of the Parties (COP 23) to the United Nations Framework Convention on Climate Change was held in Bonn in November 2017, being attended by 194 countries and 9,200 delegates from their respective governments.

The Bonn Summit has provided a major political boost for the fight against climate change and, more specifically, it has permitted further developing the Paris Agreement Work Programme, approving the design and forms of the Facilitative Dialogue (Talanoa Dialogue) and driving the vulnerability agenda put forward by Fiji's presidency for those populations and states that are most heavily exposed to the effects of climate change.

The Bonn Summit was vital for moving on to COP 24 in Katowice with a defined and agreed work programme involving all the countries for implementing the commitments embraced at COP 21 in Paris.

The Climate Change:



Energy transition in Spain

Future legislation on climate change and the energy transition in Spain will be a key instrument to ensure the implementation of Spain's commitments to the EU in the field of energy and climate under the Paris Agreement on global warming. In this context, in 2017, the Government held a public consultation and set up an Interministerial Group to prepare the new legislation.

In addition, on 7 July 2017, the Council of Ministers agreed on the creation of a

Committee of Experts on energy transition scenarios in charge of preparing a report that analyzes potential energy policy proposals, environmental impact, existing alternatives and their corresponding economic cost and the strategy necessary to meet the objectives in the most efficient way. This Committee of Experts delivered its report to the Government on 2 April 2018. Among the various issues addressed in the report, it is worth highlighting the important role played by the electrification of energy consumption in the decarbonisation process.

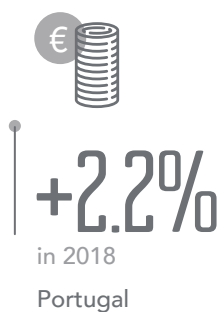
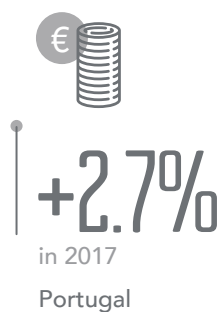
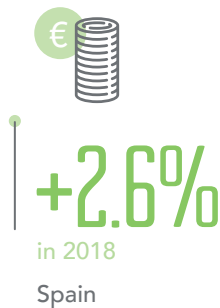
3.3. Macroeconomic and energy environment

Our company operates the electricity market within a positive macroeconomic environment. The recovery of global business has accelerated in 2017, with most of the world's economies recording growth rates that are higher than initially forecasted. Within this global setting, the eurozone as a whole grew 2.4% in 2017 and the

Spanish and Portuguese economies recorded stronger growth.

In Spain's case, GDP rose 3.1% in 2017 and, according to the European Commission's forecasts, the figure will be 2.6% in 2018. As for Portugal, its GDP rose 2.7% in 2017, and the EC's estimate for 2018 is 2.2%.

GDP growth:



The recovery of global business has accelerated in 2017, with most of the world's economies recording growth rates that are higher than initially forecasted.

Return to a scenario of higher oil prices

There have also been highly significant developments in the commodities markets in 2017. The average price of West Texas Intermediate (WTI) was 51 \$/barrel, 7 \$ above the average in 2016, and the price of Brent increased by 10 \$/barrel to 65 \$

at the year end, its highest level since 2013. According to the forecasts made by the International Energy Agency (IEA), the price of oil will stay within the range of 50 to 70 \$/barrel from now through to 2040.

Price of Brent:



Forecasts International Energy Agency (IEA):



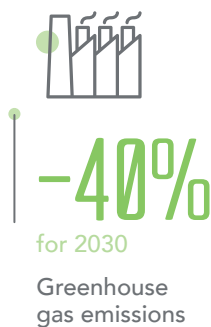
Review of the European model of the Emission Trading System (ETS)

Pricing on spot markets also depends on the functioning of the European market for emission rights.

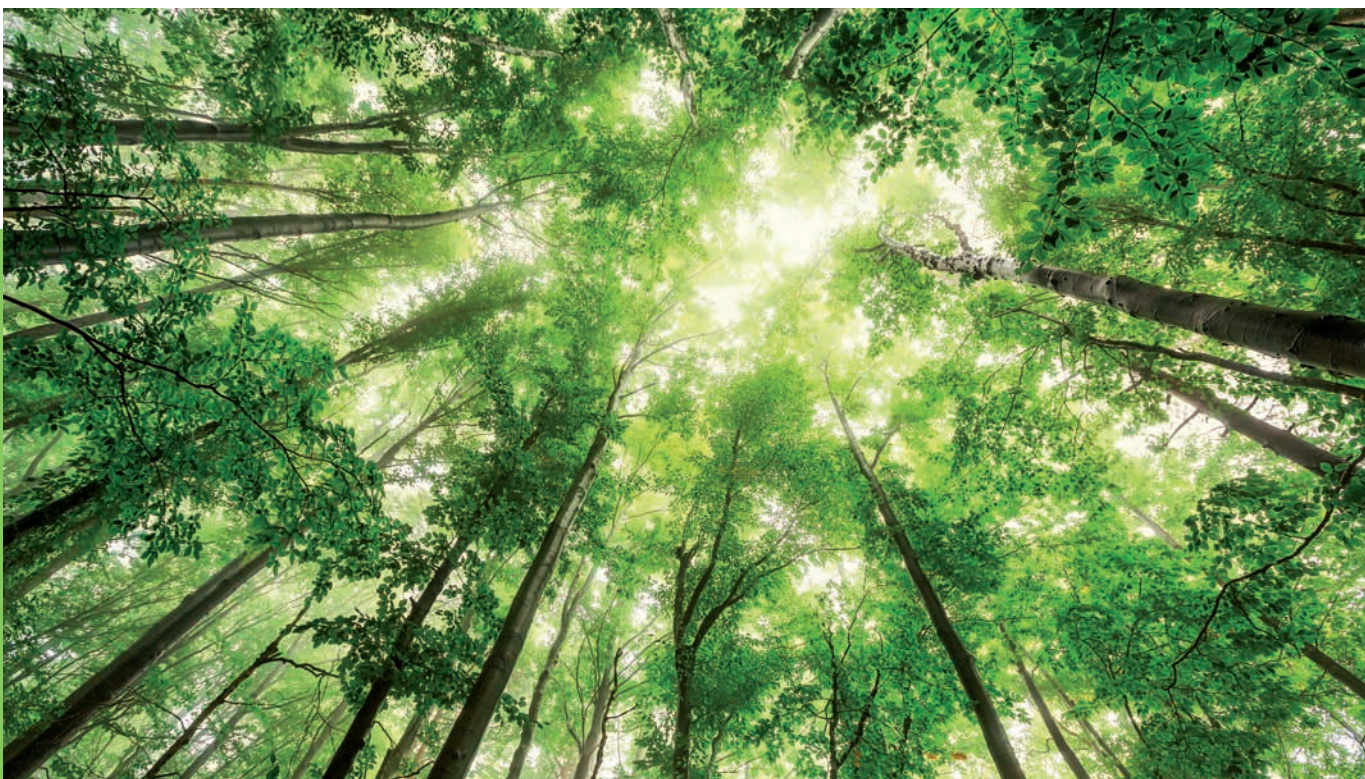
Accordingly, and given the falling price of CO₂ in recent years, the European Council recently approved the reform of the ETS for the period 2021-2030. The new Directive¹² is a significant step toward achieving the target of a 40% cut

in greenhouse gas emissions by 2030 regarding the figure recorded in 1990. This reform introduces a more ambitious roadmap for the reduction in emissions, with an annual figure of 2.2%, consolidates the market stability reserve (MSR) mechanism, reviews the criteria for protecting industries subject to a potential risk of carbon leakage, and restricts the validity period for emission rights.

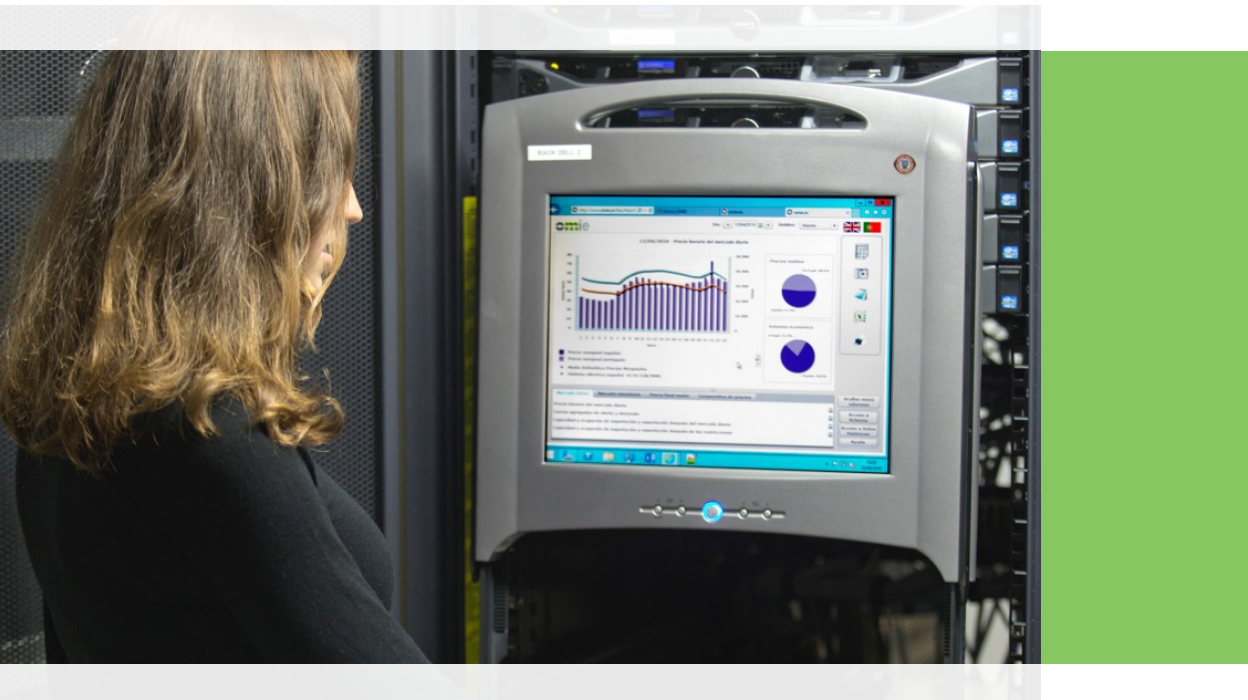
Objective:



12. At 27 April 2018 the new Directive has yet to be published.



4. OMIE's activity





In our company we work to offer our clients a daily best-in-class service and create shareholder value.



Electricity is one of the country's main vectors of competitiveness, fundamental in people's everyday lives and of the essence for the economy to work. At OMIE we manage the wholesale electricity market, where participant buyers and sellers trade the quantities they need at public and transparent prices.

OMIE deals with the integrated management of the (day-ahead and intraday) markets for the entire Iberian Peninsula and the operating model is the same as that of all other European electricity markets. The energy volume traded in OMIE accounted in 2017 for 85% of the Iberian market demand.

Market participation takes place through a platform which allows a large number of participants to participate at the same time and a great many bids to buy and offers to sell electricity to be managed. OMIE also invoices and settles the energy purchased and sold in those markets and reports all transactions to regulators for supervisory purposes.

In our company we work to offer our clients a daily best-in-class service and create shareholder value.



OMIE deals with the integrated management of the (day-ahead and intraday) markets for the entire Iberian Peninsula and the operating model is the same as that of all other European electricity markets.

4.1. Operating the Iberian market more efficiently

Our company (formerly OMEL) began to operate the Spanish electricity market in the month of January 1998. In July 2007, the (day-ahead and intraday) spot market of Spain and Portugal were integrated.



At present, 1,079 participants trade in the market. Eligible market participants are electricity producers, including energy producers from renewable energy, cogeneration and waste sources, marketers, consumers so desiring, representatives of participating sellers and representatives of participating buyers.

Market participation takes place through a straightforward IT system which allows a large number of participants to participate at the same time and a great many bids to buy and offers to sell electricity to be managed within a short space of time, and the relevant economic settlements to be prepared.

The electricity market managed by OMIE is essentially a venue for all participants to buy and sell at arm's length. They all receive an equal treatment, they are governed by the same rules and they buy and sell at the same marginal price the energy matched in the market, regardless of their nationality and size.

In turn, the regulatory organised market transaction confidentiality and transparency terms are designed, on the one hand, to preserve participants' requisite anonymous trading condition and, on the other, to ensure that all actions carried out by participants are fully transparent once the statutory periods have elapsed. Accordingly, within not more than three months since the end of a market session, all session details are public.

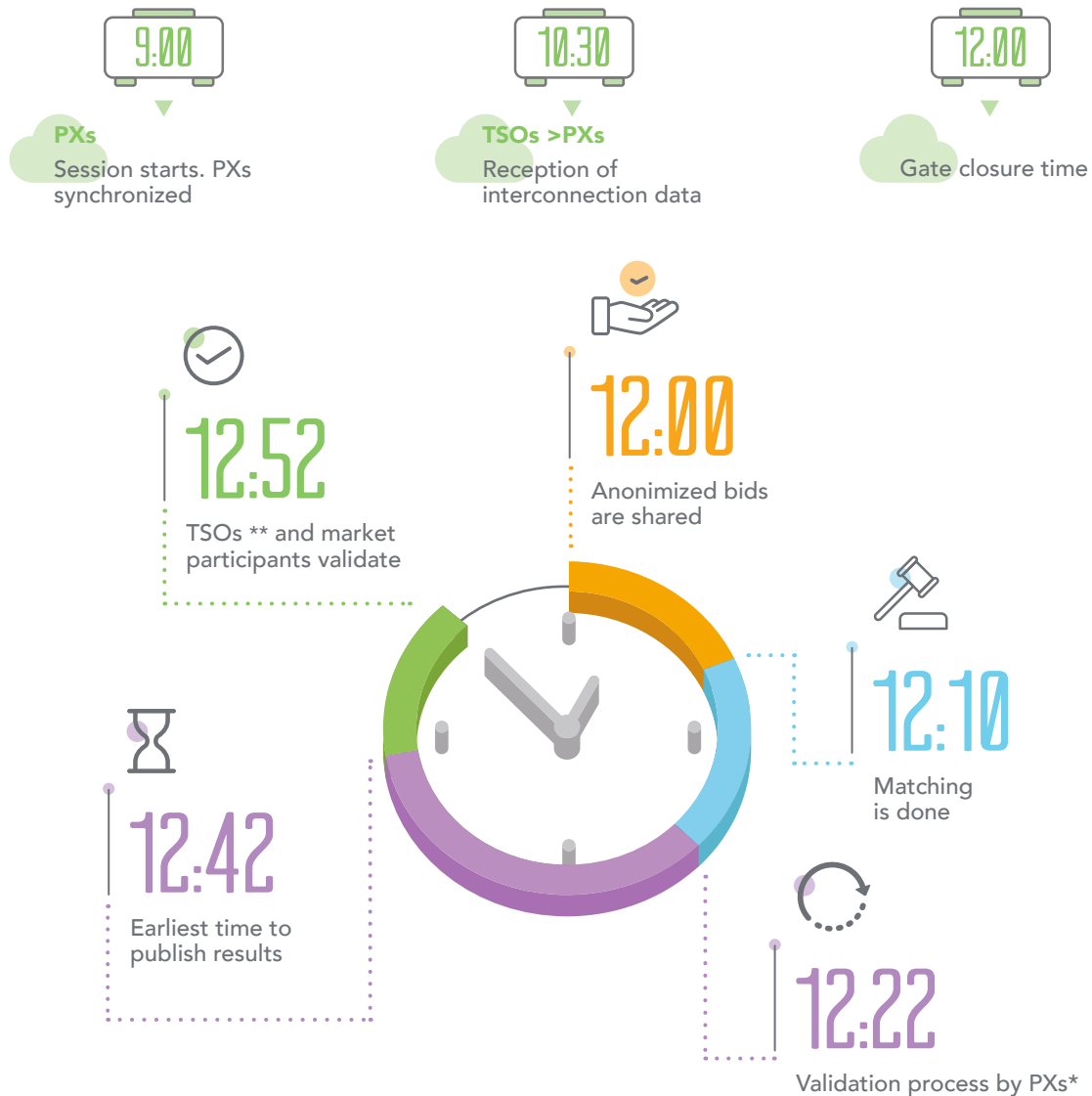
This operating method defines us as a very open institution when it comes to providing information, being transparent as to our actions and broadly disseminating the result of our work and activities.

Day-ahead and intraday market operation

The day-ahead market is the main market for trading electricity in the Iberian Peninsula and is open for business every day of the year. Bids to buy and offers to sell electricity for a given day may be submitted until 12:00

midday on the previous day, the closing time for receiving bids and offers for all coupled European countries. Figures 1 and 2 show the market timing and processes carried out in MIBEL.

Figure 1. Day-ahead market timings at European level



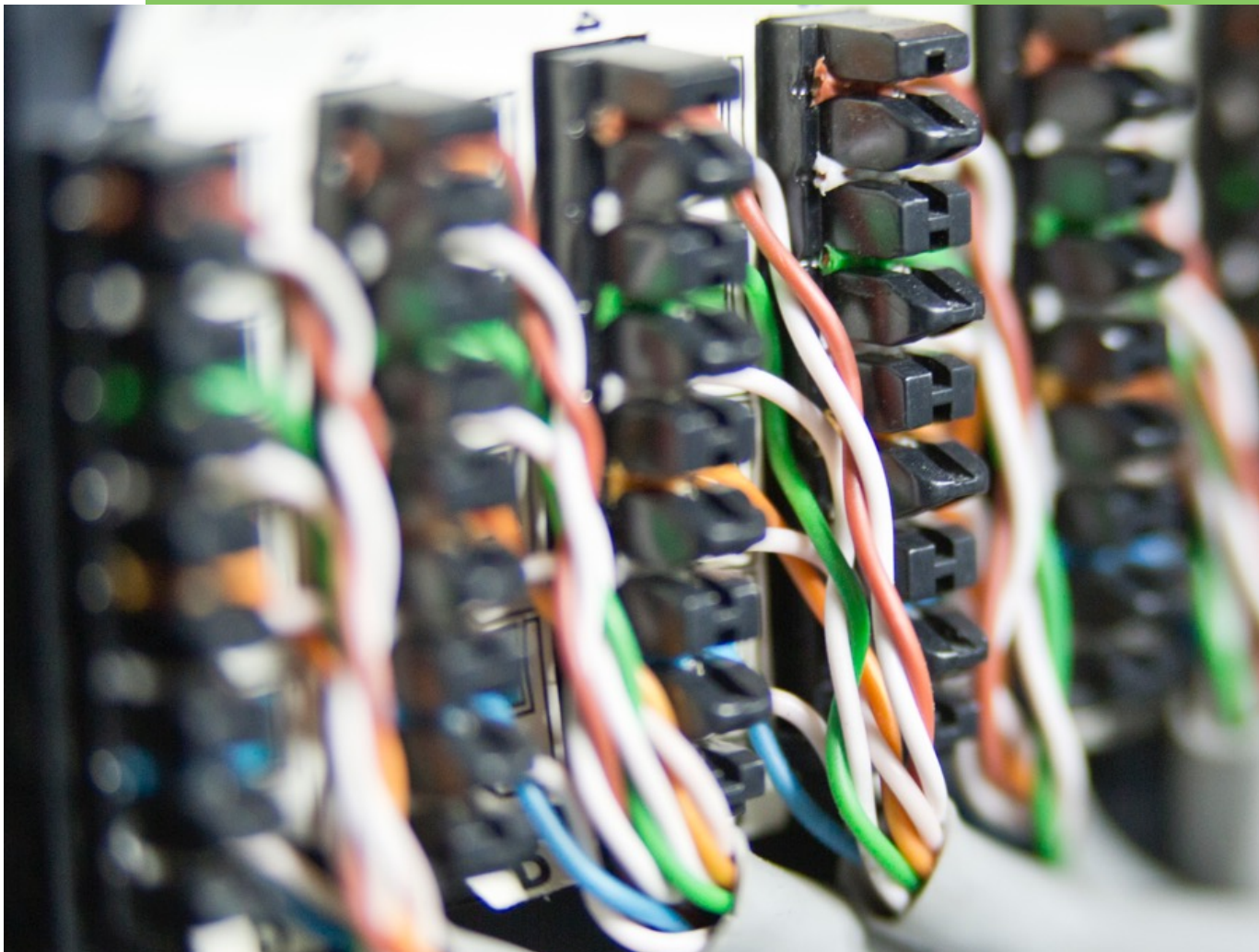
*PXs: Market operators ** TSOs: System operators

These bids and offers are then processed in the OMIE IT system (SIOM) and bids and offers are matched jointly with all other coupled market operators using the EUPHEMIA¹³ algorithm jointly developed by market operators on the PCR (Price Coupling of Regions) platform. That algorithm calculates the prices in each bid and offer area defined in the European system participating in that project, and allocates flows between areas. Next, OMIE communicates prices and energy sold and purchased in each of the hours of the following day using the SIOM system. The

day-ahead and intraday markets traded 85% of the energy consumed in the Iberian market in 2017.

When the day-ahead market is over, and until 12:45 on the following day, 6 market sessions, so-called intraday markets, are held that allow buyers and sellers so wishing to submit bids to buy and offers to sell electricity in order to adjust their production and consumption programmes to their best forecasts of what they are to generate or need in real time.

13. The markets altogether matching the day-ahead market using that algorithm account for more than 75% of the electricity demand in Europe.



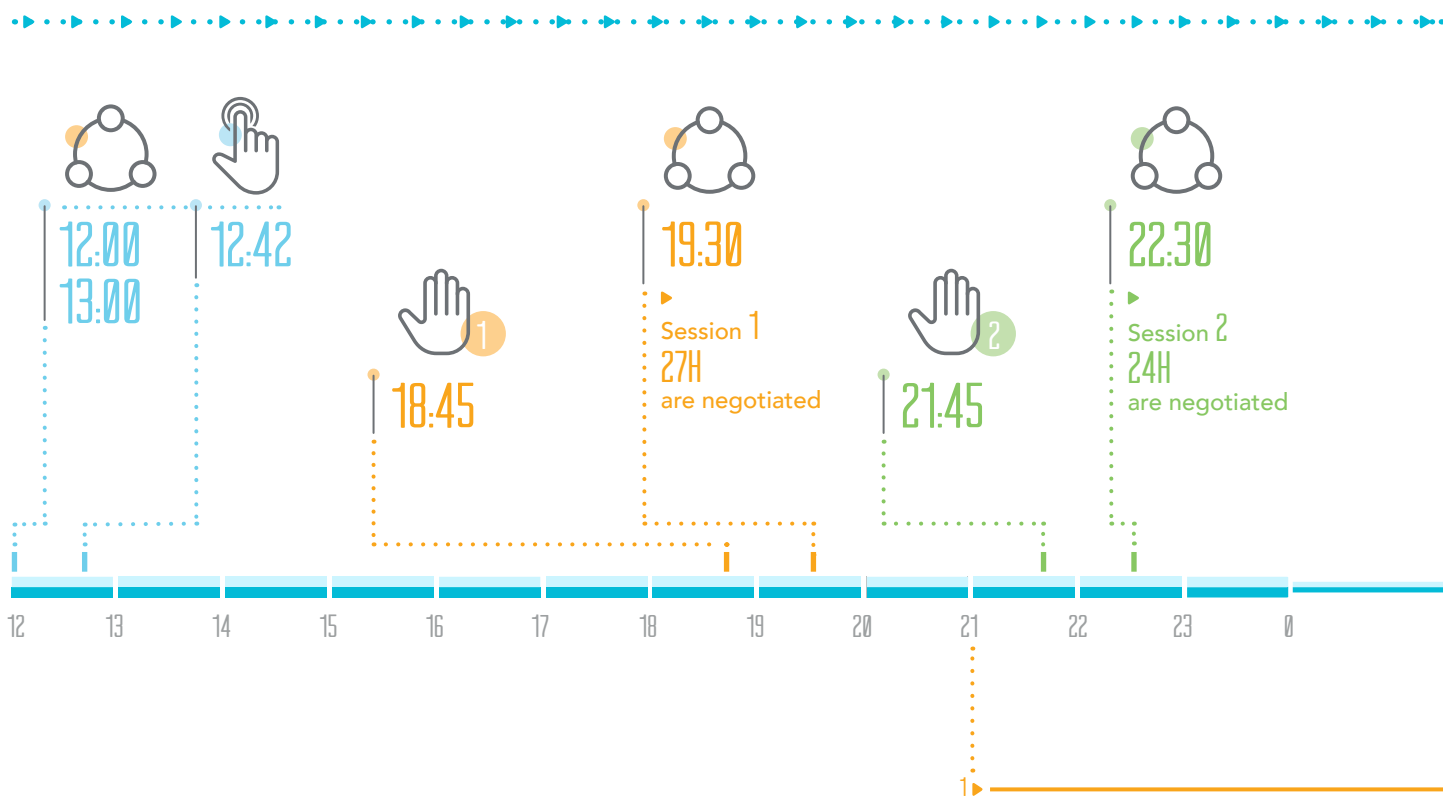
Participants are then settled the energy bought and sold in the different markets. This settlement and the relevant invoice are made available to them on a daily basis. The digital certificate provides an assurance of confidentiality and allows each participant to access their settlement and invoicing.

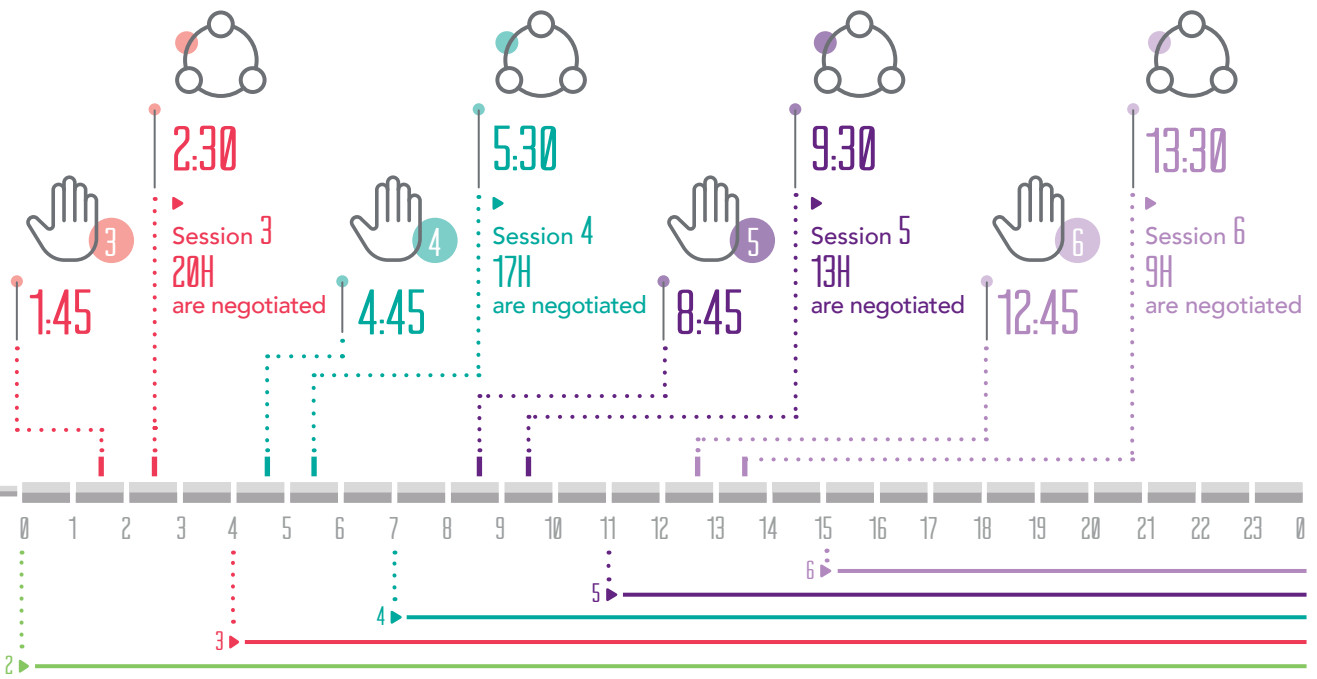
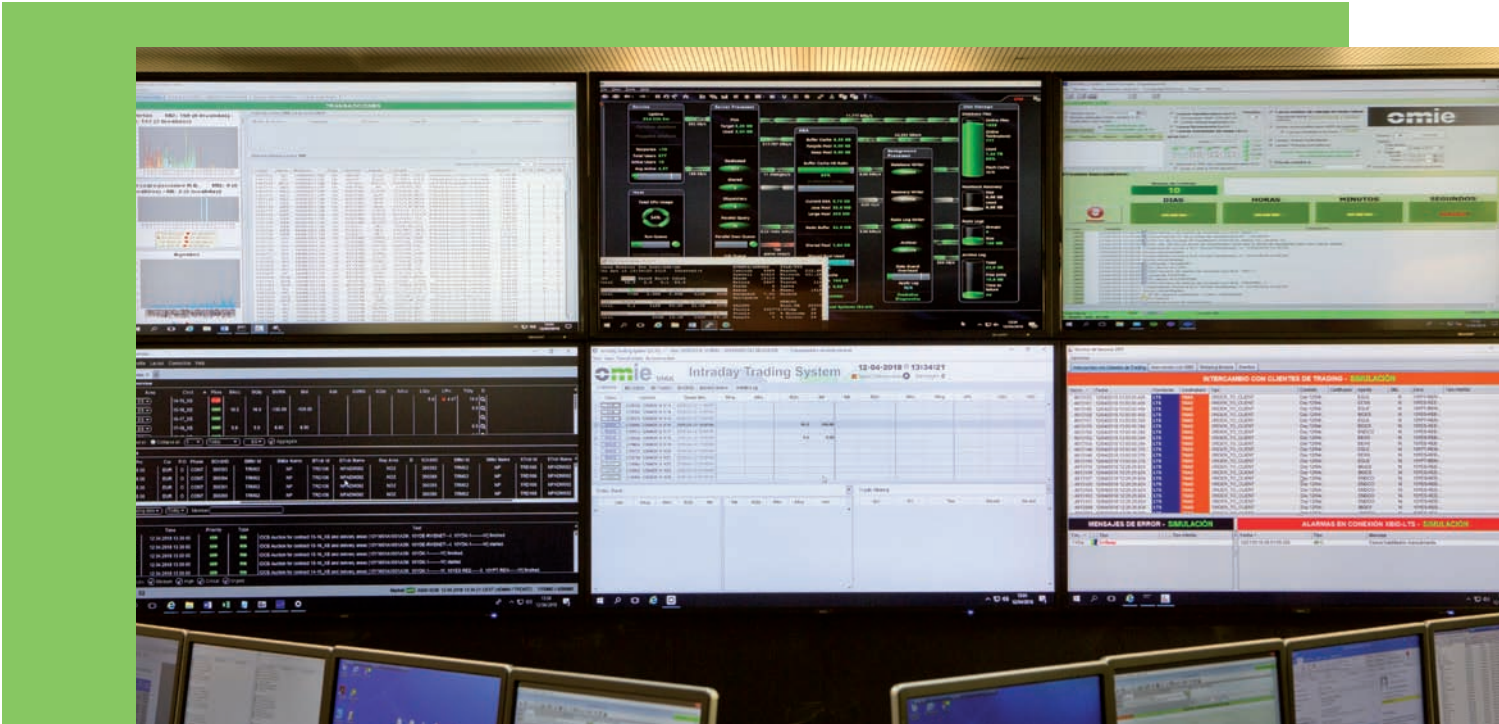
Additionally to the market monitoring functions the Iberian Market Operator has since it was created, Regulation 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT) established new obligations for NEMOs to identify and report transactions

to regulators where they suspect the existence of manipulation and/or insider trading.

OMIE has reinforced this function with a Market Monitoring Division. Work is under way to reinforce cooperation with national regulators and ACER in this field, and the monitoring procedures are being revised in the context of the implementation of changes in the markets due to the launch of the new continuous intraday market set forth by Regulation (EU) 2015/1222 of the Commission, of 24 July 2015, establishing a guideline on capacity allocation and congestion management.

Figure 2. Day-ahead and intraday market timings at MIBEL level





▲ Delivery periods

4.2. Our activity in figures

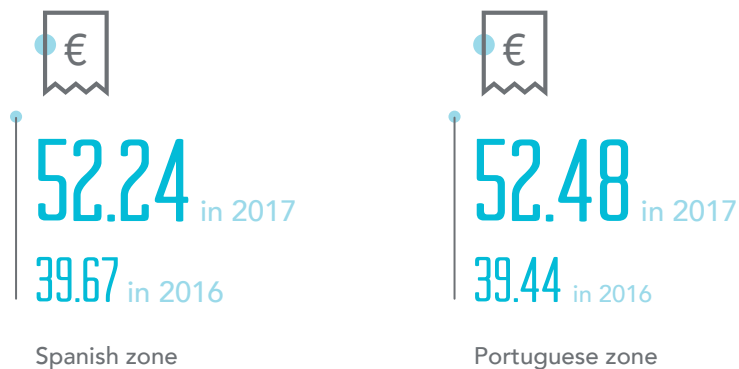
The financial volume of the electricity market managed by OMIE in 2017 amounted to EUR 15,193 million and in terms of energy to 281 TWh. More than 170,000 invoices were issued.

Throughout the year, 365 day-ahead market sessions and 2,190 of intraday market sessions were held, and around 16.5 million transactions were carried out during the year.

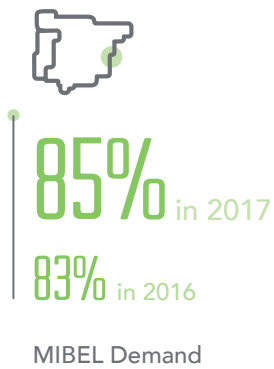
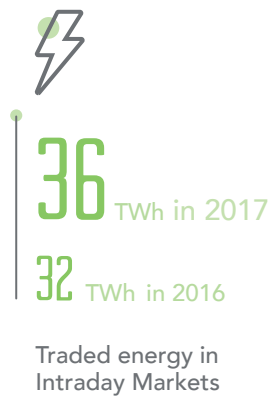
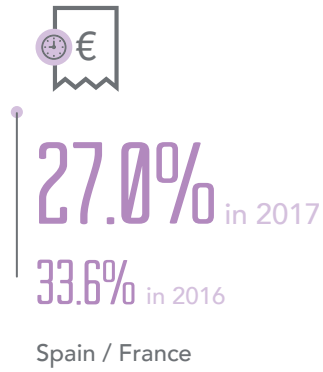
Out of the 1,079 participants trading in 2017, 560 were generators, 3% fewer than in 2016, 319 were retailers, 14% more than a year before, 194 were direct consumers, this being the most significant growth group (23%), and 6 were reference retailers.



Day-ahead market average price €/MWh



% hours with a price difference <1€/MWh

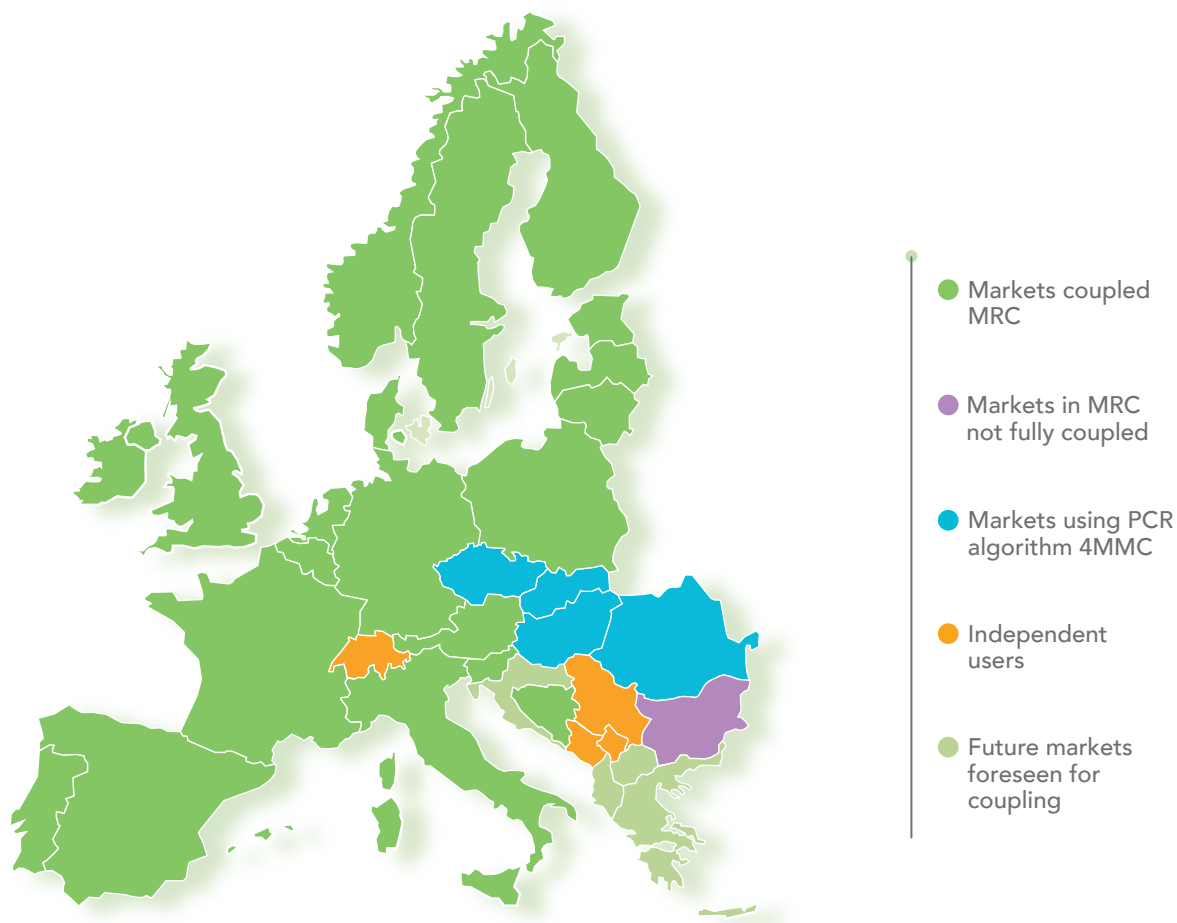


4.3. A key player in the Internal Electricity Market

OMIE has assisted from the outset in the process to create the Internal Electricity Market for the European Union. The following are the main milestones: inception of the electricity market in Spain in 1998, successful integration into an Iberian market

in 2007, subsequent participation in the process to negotiate the European market model that coupled the day-ahead market in 2014 and will be completed with the cross-border intraday market.

Figure 3. Countries coupled in Multi-Regional Coupling (MRC), in 4MMC and users of PCR algorithm



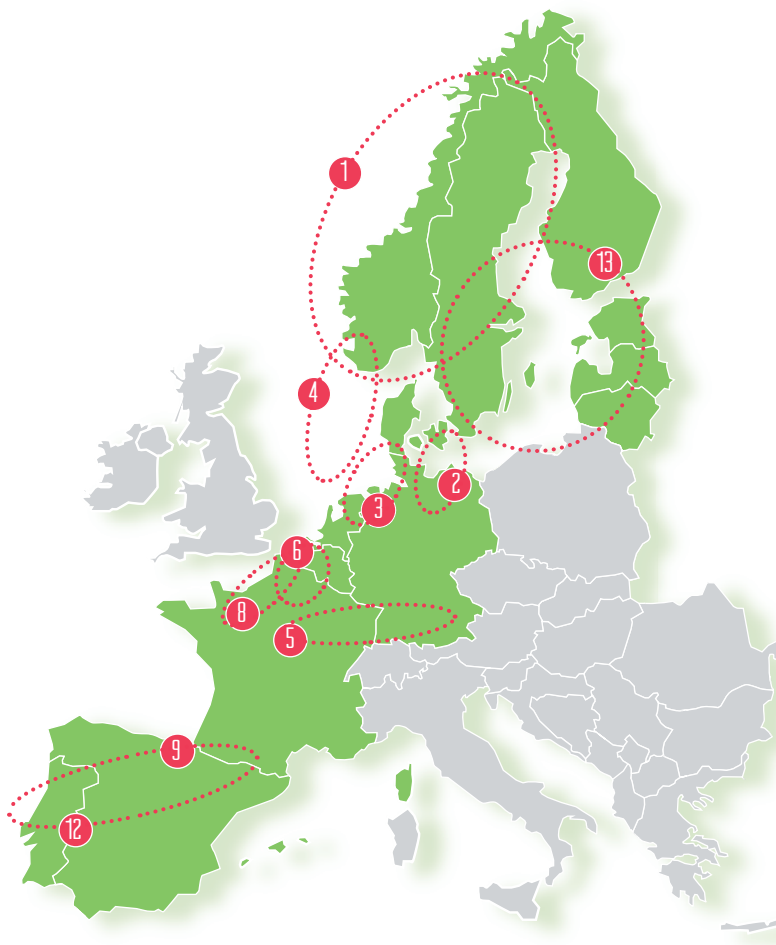
Source: MRC, 2018

Negotiations for the European continuous cross-border intraday project (XBID) ended in the year 2017. The new intraday market will allow energy to be continuously traded between the various areas in Europe and enhance overall intraday market transaction efficiency across Europe. The final solution for XBID will allow a European integrated intraday market to be created, compatible with current trading in the different intraday

markets in each country, leading to higher liquidity in transactions occurring over a time horizon shorter than day-ahead.

Now that negotiations are over, all necessary trials are under way to go live in 2018. When the European continuous intraday market goes live, the European integration of wholesale electricity spot markets in the European Union will be complete.

Figure 4. NEMOs, TSOs and LIPs* in the first "Go-Live" of the XBID project



.IP		Participants
1	Nordic	Fingrid, Energinet, SvK, Statnett, Nord Pool, EPEX
2	Kontek	Energinet, 50Hz, Nord Pool, EPEX
3	DK1/DE, DE/NL	Energinet, TenneT NL& DE, Amprion, EPEX, Nord Pool
4	NordNed	Statnett, TenneT NL, EPEX, Nord Pool
5	FR/DE, DE/AT	Amprion, TransnetBW, APG, RTE, EPEX, Nord Pool, Tennet DE
6	NL/BE	Elia, TenneT NL, EPEX, Nord Pool
8	FR/BE	RTE, Elia, EPEX, Nord Pool
9 12	FR/ES& ES/PT	RTE, EPEX, OMIE, REE, REN, Nord Pool
13	Baltic	Elering, Litgrid, AST, Fingrid (Estlink), Svenska Kraftnät (NordBalt), Nord Pool

Source: XBID, 2018 *LIPs: Local Implementation Project

4.4. Working with national and European regulators

Another element that was given a boost in 2017 was the aspect of OMIE's institutional relations with industry stakeholders as a whole, focussing particularly on regulators.

OMIE contributes to the public consultations of ACER or Transmission System Operators with relevant remarks to the proposals for the implementation of the European electricity market.

Throughout 2017, OMIE participated actively in the Coordination Group constituted by NEMOs and National Regulatory Authorities of the EU. This Group plays a key role in the implementation of Commission Regulation (EU) 2015/1222, of 24 July 2015, establishing

a guideline on capacity allocation and congestion management. OMIE also tables market regulation enhancement proposals and cooperates with the MIBEL authorities through the legally established channels.

Specifically, OMIE cooperates on a regular basis with Spain's Energy, Tourism and Digital Agenda Ministry, Portugal's Economy Ministry, Portugal's Energy Services Regulatory Authority (ERSE), Spain's National Markets and Competition Commission (CNMC) and the MIBEL Board of Regulators. The latter provides the natural setting to strengthen cooperation between OMIE and the regulators on the MIBEL.

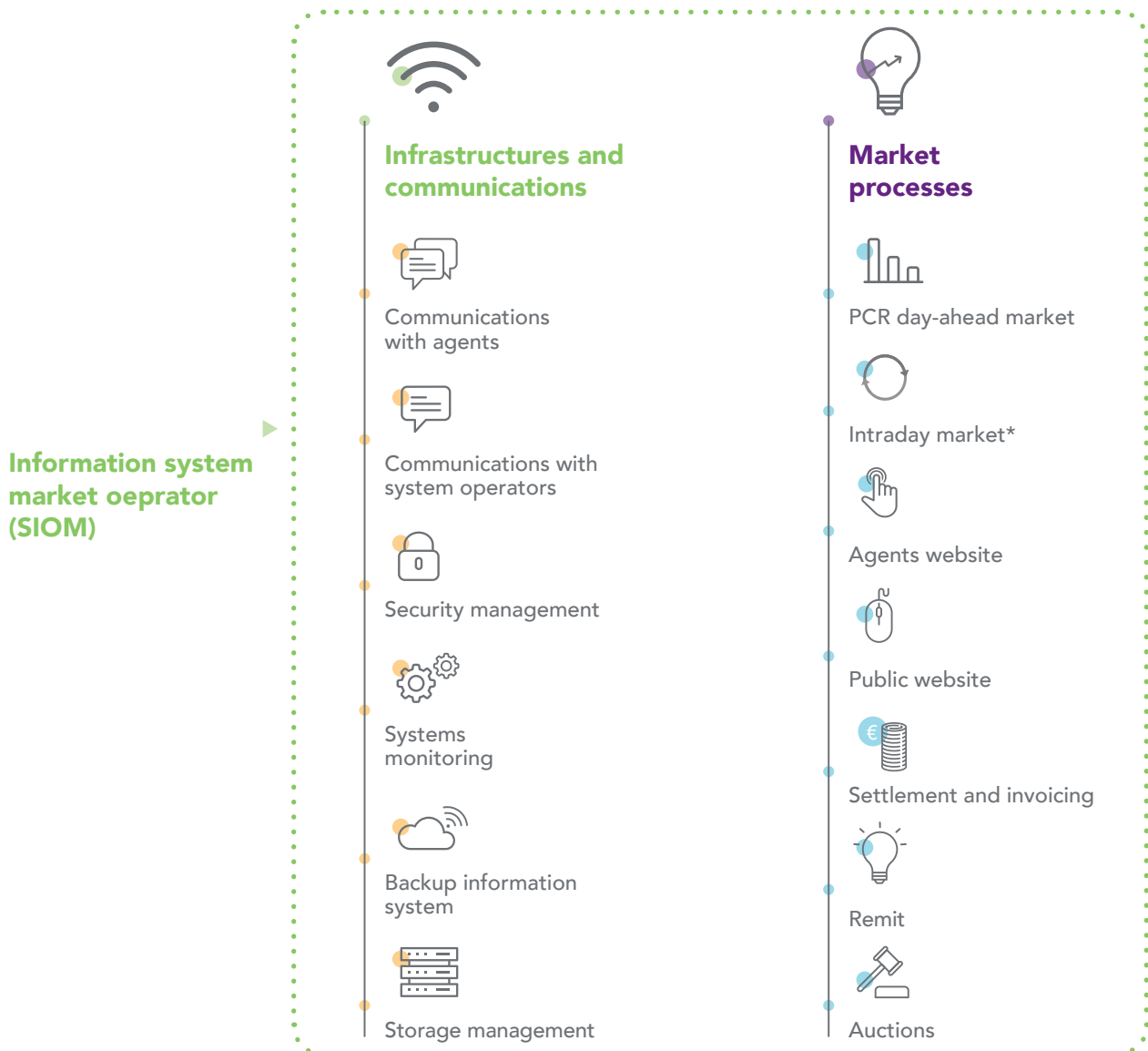


4.5. We progress with state-of-the-art technology. First in digitalisation

OMIE wishes to offer its participants the latest developments and in order to do so systems need to be constantly evolving to continuously adapt requirements and

remain at the forefront of technology catering for all of our clients' needs whilst ensuring market continuity and security.

Figure 5. OMIE's systems



* In the future: Also XBID continuous market

Since the beginning of its activity twenty years ago managing the wholesale electricity market, OMIE has always been at the forefront in digital technologies. Since 1998, market operation has been managed entirely with electronic system. OMIE was one of the pioneers to offer an easy access internet-based platform.

The IT system designed by OMIE (SIOM) allows users with varying needs and requirements to participate in the market, ranging from participants executing hundreds of transactions every day to those who only make a bid or an offer when they need to sell or purchase energy from time to time.

The SIOM system is the basis for all market transactions carried out, i.e. matching processes, settlements, publication of information, invoicing and collection and payment processes. In addition, it also allows participants to actually manage their registration and maintain their data.

During the year 2017, significant changes were made in addition to IT developments associated with the continuous improvement of functionalities and capabilities provided by the different applications. Noteworthy among these are the European coupled day-ahead market infrastructure enhancements (Price Coupling of Regions) to improve integration of MIBEL within PCR, and specifically the developments associated with the XBID project to create a European integrated intraday market, which should go live in 2018, have been finalised during 2017.

Within the PCR environment, a new version was implemented of the PCR Matcher-Broker application and of the EUPHEMIA algorithm, providing enhanced capabilities and allowing the requirements the new countries to join the European pricing process to be addressed.

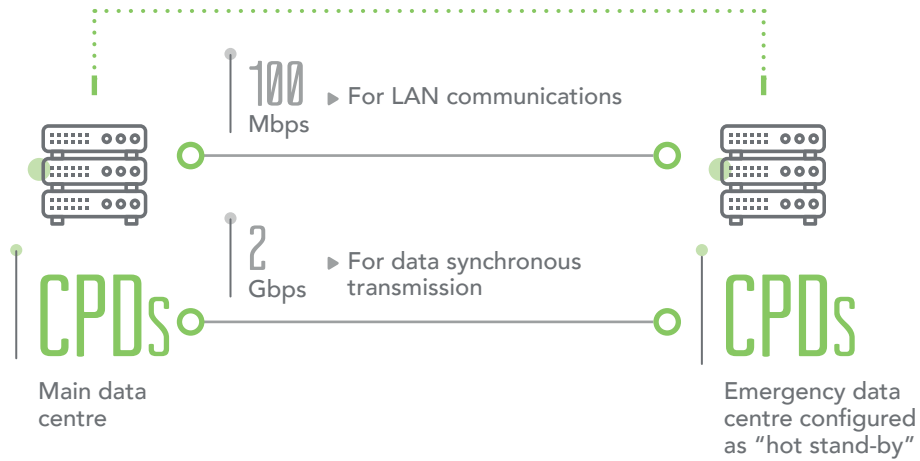
In connection with the XBID project to create a European integrated intraday market, in addition to the tasks and developments common to the other project market operators and system participants, development has begun of the local trading system to be used by OMIE to communicate with the central XBID platform. Also, internal and participant trials are now under way and will continue during the months preceding the new market go-live date.

In addition to this work, all necessary developments were made during 2017 to execute two new auctions of new installed capacity from renewable sources, incorporating all the requirements set by the regulators.



OMIE was one of the pioneers to offer an easy access internet-based platform.





CPDs

Power supply guaranteed through double connections with transformer centres, redundant uninterruptible power supply systems (UPS) and emergency power generators

+200 Servers

+150TB For data storage



OMIE has redundant communication lines for the processes related to day-ahead and intraday markets and more than 25 communication lines for the purpose of exchanging information with system operators and market agents.

Electric Market

Daily offers

Intraday market



+150,000

Daily offers



+23,500

Daily transaction records



+200,000

Offers



+23,000

Daily transaction records



+27,400

Economic documents (Notes, invoices and certificates)



+3M

As regards REMIT communications, OMIE reports more than 3 million transactions a year



5. Our commitment





OMIE seeks to have a workforce made up of highly qualified professionals and who are the company's most valuable asset.



5.1. With the staff

OMIE is committed to providing the people that work in the company with professional development through continuous training and properly managing their needs.

The following are noteworthy among the main action points in those spheres:

Quality and stable employment

Within difficult economic circumstances, OMIE is still looking to optimise its human resources in order to ensure a proper operation of the market.

OMIE seeks to have a workforce made up of highly qualified professionals, committed to achieving the business purposes, and who are the company's most valuable asset. Our commitment to equality and non-discrimination has resulted in the percentage of women both on the Board

(20%) and in the workforce (36%) taking us above both the industry and indeed the IBEX 35 company average.

The human team, which suits the current organisational structure's needs, comprises around 84 permanent employees, averaging approximately 38 years of age.

University graduates account for 89% of the workforce, and 95% of them have honours degrees.

Protection of health and safety at work

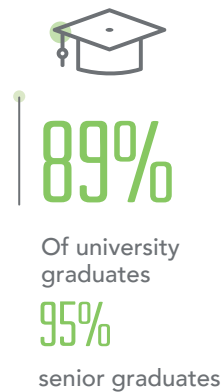
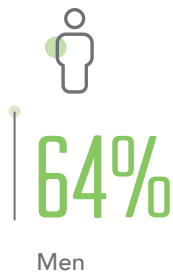
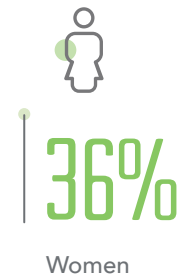
During the financial year 2017, OMIE honoured its commitment to health and safety at work promoting a preventative culture through yearly medical examinations and improving system management to both eliminate health risks and prevent occupational risks, with the relevant staff training plans.



Staff training and professional development policy

In order to adapt the human team to emerging technologies and promote the staff's professional and personal development, OMIE encourages the involvement of staff in training programmes as both students and

instructors. OMIE promotes defined plans for the enhancement of each employee's knowledge based on the employee's job description.



OMIE promotes defined plans for the enhancement of each employee's knowledge based on the employee's job description.

5.2. Dialogue with stakeholder groups

The cornerstone of OMIE's social responsibility is continued, transparent dialogue with civil society representatives who are close to us, i.e., shareholders, market participants, suppliers, employees, the media and in general the social environment associated with the electricity market managed by the company.

OMIE's relationship with its stakeholders is guided by a transparency policy to raise awareness as to the company's activity and reply to any questions arising as to the company.

The following procedures and means are among those used:

Market Participants Committee

In accordance with the market regulation¹⁴ and in order to supervise the operation of the day-ahead and intraday markets and propose measures designed to manage both markets, market participants are present on a committee, referred to as the Market Participants Committee, which meets on a regular basis every two months and on an ad-hoc basis in case of relevant regulatory changes.

The meetings of the Market Participants Committee give market participants, system operators and market operator the opportunity to address issues of relevance for all the stakeholders that operate in the Iberian Peninsula and facilitate first hand exchanges of any enhancement proposal that market participants may have about market operation or the evolution of the relevant regulation.

In the year 2017, the Market Participants Committee held six ordinary meetings and an extraordinary meeting.

The following were among the items of business discussed:

- Analysis of market operation and settlement of transactions.
- Day-ahead and intraday market operating issues, settlement of energy purchases and sales and collection and payment processes.
- Information on the operation of the European coupled market.
- European projects and regulation status.

¹⁴. Rules for the functioning of day-ahead and intraday electricity production market.

- Adaptation of the Market Operation Rules to the new European intraday market (XBID).

OMIE's International Workshop

After more than five years promoting the OMIE International Workshop, its 10th edition was held in May 2017 entitled "Tackling disruptive trends in power markets". This workshop, conceived as a high-level think tank on the various challenges faced by the electricity markets, hosts leading international academics, senior officers from Iberian energy companies and European regulators.

Public website

The website (www.omie.es) is the main tool used by OMIE to provide information to all stakeholder groups, which allows all those with an interest in the market to be able to access the same information on the same terms.

Through the website www.omie.es the public can have access to information about the company and its activities and governing bodies as well as the legal framework applicable to OMIE and to the electricity sector.

Information as to how to become a market participant is also provided. Detailed information as to the functions, structure and membership of the Market Participants Committee is provided as well. The website shows transparently, at no cost, information of the markets managed by OMIE, and the different products managed at the auctions organised by the company's subsidiaries.

Furthermore, in an easy and intuitive way, all the publications of the company are accessible: Inter alia annual report, prices report and monthly reports on recorded market activity.

In addition, the new Market Data section was launched in December 2017 which dynamically highlights the main day-ahead market metrics.

www.datosdelmercado.omie.es



Media

OMIE is frequently in contact with the media, providing objective market information at arm's length for all of them with the purpose to report on relevant news that originate in the day-ahead and intraday markets in coordination with other market operators. For example, communication actions were intensified in 2017 in the context of developments in the "Cross-Border Intraday Market Project".

Entities and institutions interested in specific aspects

The liberalisation of the electricity market in the Iberian Peninsula is the source of growing interest as to several of its aspects.

Since the market operator was, since the market operator was incorporated, its organisation has put in place means to respond to all concerns raised in two ways:

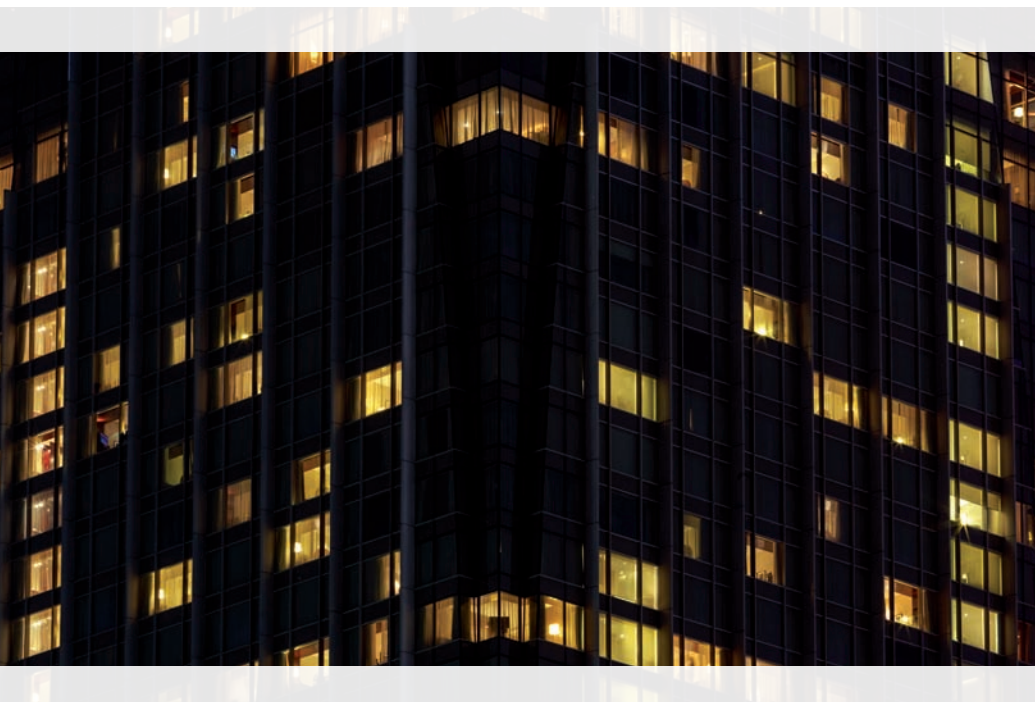
- Replying in writing to issues raised through our website contact email account. During the year 2017, a reply was sent to the 700 plus emails received.
- Specific personalised meetings to inform about the operation of the market and the activities carried out by OMIE.



OMIE is frequently in contact with the media, providing objective market information.



6. Energy for all





OMIE is an active member of national and international bodies and associations related to both the Iberian and European energy industry.



6.1. Training activities



OMIE engages in training activities nationally and internationally with both energy sector entities and educational entities in general.

OMIE engages in training activities nationally and internationally with both energy sector entities and educational entities in general.

During the year 2017, OMIE carried on promoting training and information activities consisting of both teaching courses to electricity market participants and interested firms on OMIE's premises, and taking part in master's degrees and special workshops in cooperation with public and private institutions and other academic entities interested in the electricity sector.

Specifically, more than 120 energy industry professionals participated in the six electricity market courses given in 2017. In addition, OMIE has held gas auction information, training and trial sessions.

Moreover, several masterclasses were given in the framework of agreements. OMIE participated in teaching activities at

institutions, noteworthy among these being the Carlos III University, Cremades & Calvo Sotelo in cooperation with the European University, the Comillas Pontifical University, the Spanish Energy Club, Madrid's Complutense University through the Technological Energy Institute (ITE) and Oviedo University.

OMIE also participated in informative workshops on the subject of the economic, financial, legal and technological aspects of the energy markets, working with the Spanish Energy Club, the Cantabrian Association of Economists, the Gas Natural Fenosa Foundation, the Energy Athenaeum, etc.

OMIE is an active member of national and international bodies and associations related to both the Iberian and European energy industry, such as Europex.

6.2. Social commitment

OMIE also works with social institutions and organisations for the purpose of satisfying the needs of different groups.

OMIE cooperates with these institutions:



Our company is a patron of the Energy Without Borders Foundation (Esf). This humanitarian organisation has for 15 years now been combatting poverty, and its mission is to provide access to drinking water and energy services to isolated rural communities which still have no such services or have rudimentary services.

Esf's most outstanding projects in 2017 were the PV-based electrification of the Association of Women Against Abuse (MUM) close to Madrid, electrification of the residential and healthcare facility at the Madjré leper colony in Benin, and the Renewable Energy Vocational Training centre at the Kumo Farm-School in Cameroon.



In cooperation with other entities, we provided technical support for PV water pumping, storage and distribution at the Catholic Missionary Community of Saint Paul in Ethiopia and in the north of Kenya.

In keeping with UN guidelines, Esf focusses its future action within the framework of cooperation on establishing alliances with other players, contributing as the case may be its technological and managerial experience. During the first six months of 2018, we cooperated actively with the Town Council of Alcobendas, Mutua Madrileña, Aid in Action or International Plan Spain, inter alia.

In turn, work was intensified during 2018 to look for diverse project funding sources, in

response to the marked decrease in recent years in the contribution of institutional funding. The proposal for an electricity supply project commenced by Esf in Honduras is to introduce the supply co-pay concept, which would rescue the investment made so that it could subsequently be used in new projects in the same region.

In 2017, OMIE cooperated with UNICEF through the purchase of Christmas Cards aiming to contribute to the important initiative developed by this organisation in water treatment that will give access to a wide range of people who live in places in which this resource is scarce.

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2017

Annual
report

Corporate
report

► Economic
report

Index

1

Balance
sheet

58

2

Income
statement

59

3

Statement of
changes in equity

60

4

Cash flow
statement

61

5

Auditor's
report

62

1. Balance sheet

Balance Sheet at 31 December 2017

(Expressed in Euro)

ASSETS	2017	2016
A. NON-CURRENT ASSETS	11,269,724	11,490,228
Intangible assets	68,206	80,049
Property, plant and equipment	843,493	826,632
Long-term investments in group companies and associates	7,062,917	7,062,917
Long-term investments	3,295,108	3,520,630
B. CURRENT ASSETS	194,682,173	280,310,578
Trade and other receivables	3,849,424	3,700,455
Trade receivables for market operations	164,985,918	225,847,255
Short-term investments in group companies and associates	-	65,969
Short-term financial investments	17,758	17,758
Cash and cash equivalents	6,220,030	6,271,684
Cash and equivalents for market operations	19,609,043	44,407,457
TOTAL ASSETS	205,951,897	291,800,806
EQUITY AND LIABILITIES	2017	2016
EQUITY	12,754,842	12,291,372
Shareholders' funds	12,754,842	12,291,372
NON-CURRENT LIABILITIES	3,630,757	4,731,448
Long-term provisions	3,630,757	4,731,448
CURRENT LIABILITIES	189,566,298	274,777,986
Short-term payables	29,620,138	50,968,650
Short-term payables to Group companies	1,200	1,200
Trade and other payables	5,317,421	22,921,066
Trade payables for market operations	154,627,539	200,887,069
TOTAL EQUITY AND LIABILITIES	205,951,897	291,800,806

2. Income statement

Income statement for the year ended 31 December 2017

(Expressed in Euro)

	Year ended 31 December	
	2017	2016
CONTINUING OPERATIONS		
Revenue	17,613,681	17,154,409
Operating expenses	(14,522,955)	(13,708,746)
Fixed asset amortisation/depreciation	(359,709)	(301,816)
Profit/(loss) obtained on the disposal of assets	-	3,390
OPERATING PROFIT/(LOSS)	2,731,017	3,147,237
Financial income	10,857	66,901
FINANCIAL RESULTS	10,857	66,901
PROFIT/(LOSS) BEFORE TAX	2,741,874	3,214,138
Corporate income tax	(135,837)	(833,509)
PROFIT/(LOSS) FOR THE YEAR	2,606,037	2,380,629

3. Statement of changes in equity

Statement Of Changes In Equity For The Year Ended 31 December 2017

(Expressed in Euro)

	Year ended 31 December					
	2017	2016				
A. STATEMENT OF RECOGNISED INCOME AND EXPENSES						
Profit/(loss) recognised in the income statement	2,606,037	2,380,629				
Income and expense taken directly to equity	-	-				
Transfers to the income statement	-	-				
TOTAL RECOGNISED INCOME AND EXPENSES	2,606,037	2,380,629				
B. TOTAL STATEMENT OF CHANGES IN EQUITY						
	Authorised capital	Share premium	Reserves	Prior-year results	Profit / (loss) for the year	TOTAL
CLOSING BALANCE 2015	8,200,000	738,235	742,206	-	2,303,016	11,983,457
Total recognised income and expenses	-	-	-	-	2,380,629	2,380,629
Operations with shareholders						
Dividends distributed	-	-	-	(2,072,714)	-	(2,072,714)
Other changes in equity	-	-	230,302	2,072,714	(2,303,016)	-
CLOSING BALANCE 2016	8,200,000	738,235	972,508	-	2,380,629	12,291,372
Total recognised income and expenses	-	-	-	-	2,606,037	2,606,037
Operations with shareholders						
Dividends distributed	-	-	-	(2,142,567)	-	(2,142,567)
Other changes in equity	-	-	238,062	2,142,567	(2,380,629)	-
CLOSING BALANCE 2017	8,200,000	738,235	1,210,570	-	2,606,037	12,754,842

4. Cash flow statement

Cash Flow Statement for the year ended 31 December 2017

(Expressed in Euro)

	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year before tax	2,741,874	3,214,138
Adjustments	914,647	1,201,525
Changes in working capital	(4,250,335)	(6,332,473)
Other cash flows from operating activities	(691,951)	(1,060,148)
Cash flows from operating activities	(1,285,765)	(2,976,958)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for investments	(384,274)	(1,474,769)
Proceeds from disinvestments	311,036	90,060
Cash flows from investing activities	(73,238)	(1,384,709)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts and payments financial liability instruments	(21,348,499)	50,968,186
Dividend payments and return on other equity instruments	(2,142,567)	(2,072,714)
Cash flows from financing activities	(23,491,066)	48,895,472
NET INCREASE / DECREASE IN CASH OR CASH EQUIVALENTS	(24,850,068)	44,533,805
Cash and cash equivalents at beginning of the year	50,679,141	6,145,336
Cash and cash equivalents at end of the year	25,829,073	50,679,141

5. Auditor's report



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the annual accounts

To the shareholders of OMI - Polo Español, S.A. (OMIE),

Opinion

We have audited the annual accounts of OMI - Polo Español, S.A. (OMIE), (the Company), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2017, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2.a of the notes to the annual accounts), and in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Most relevant aspects of the audit

The most relevant aspects of the audit are those that, in our professional judgment, were considered to be the most significant risks of material misstatement in our audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

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1



OMI - Polo Español, S.A. (OMIE)

Most relevant aspects of the audit
How our audit addressed the most relevant aspects of the audit
Assessment of the recovery of the carrying amount of investments in group companies and associates

The accompanying annual accounts present the investments in group companies and associates that are detailed in Note 7, amounting to €7,063 thousand.

As indicated in Note 2.c) to the accompanying annual accounts in order to corroborate whether there are indications of impairment of such investments, Management compares the equity of the group companies and associates with their carrying amount in the Company. If there are indications of impairment because carrying amount is higher, Management determines the recoverable amount of the assets. These cash flows are calculated based on the business plans approved by Management. The key assumptions are detailed in Note 2.c) to the accompanying annual accounts.

In addition, Management has carried out a sensitivity analysis on the key assumptions which, based on earlier experience, may reasonably show variations.

As a result of the aforementioned analyses, Company management has concluded that there is no need to recognise any impairment in 2017.

This area is relevant because it entails the existence of significant estimates with respect to the key assumptions (that depend on market conditions) used in the calculations performed by Management to assess the recovery of the value of such assets, and that, if different, may have a significant impact on the Company's annual accounts.

Our analysis started by identifying the investments that should be assessed for impairment under accounting regulations.

Also, we verified that the cash flow projections prepared by the Company in the past have been consistently in keeping with real data, including monitoring delivery on the Company's business plans.

Also, we assessed the process used to prepare the calculations and concluded that that process is subject to the relevant oversight and verification by management.

We assessed the adequacy of the measurement models used by Management, the assumptions and estimates used in the calculations and the discount rates.

In addition, we confirmed the mathematical accuracy of the calculations and models prepared and the sensitivity calculations carried out by Management and assessed the estimation of the magnitude of the change required in the key assumptions to trigger impairment of the assets.

We also assessed the sufficiency of the information disclosed in the annual accounts with respect to the assessment of the recoverable amount of these assets.

Based on the work performed, we can conclude that management's approach is reasonable and is supported by available evidence.

Revenue recognition on regulated businesses

A significant part of the Company's activities are subject to compliance with legislation applicable to the Electricity Market Operator, as indicated in Note 16 to the accompanying annual accounts. The regulations governing the main activities are detailed in Notes 1 and 16 to the accompanying annual accounts. Remuneration for 2017 amounted to €14,568 thousand.

Our audit response in relation to the recognition of regulatory income starts by obtaining an understanding of the regulatory framework applicable to the Company's activities.

Also, we performed an analysis of the changes arising during the year, the legislative amendments approved and their impact on the annual accounts.



OMI - Polo Español, S.A. (OMIE)

As mentioned in Note 16, remuneration is calculated through the prices charged to generation entities in the market, both under the ordinary scheme and special scheme, and is financed through the prices that the market operator charges production market agents that operate in the Iberian Electricity Market.

As a result of the above, this is an area of significant audit scrutiny.

Similarly, we verified through tests of detail that regulated income has been calculated in accordance with applicable regulations.

Finally, we considered the sufficiency and adequacy of the information disclosed in the annual accounts with respect to the regulatory framework and its accounting implications.

Based on the procedures performed, the impacts related to the regulatory frameworks to which the Company is exposed are reasonably reflected in the accompanying annual accounts.

Provisions

The accompanying annual accounts present provisos amounting to €3,631 thousand, which are detailed in Note 13.

As described in note 2.c to the accompanying annual accounts, the criteria for recognising and disclosing provisions include estimates that are subject to interpretation of the facts and current circumstances, projections of future events and estimates of the future effects of such events.

Also, Provisions are carried at the present value of the payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation.

This area is relevant because it entails the use of significant estimates and the application of critical judgements by Management.

Our audit procedures included the following, among others:

Obtaining the list of provisions prepared by Management verifying the amounts with the accounting records and preparing the movement for the year, analysing both additions and derecognitions.

Similarly, we read the minutes of the Board of Directors' meetings.

We selected a sample of the main provisions and analysed them using the relevant documentation.

Finally we considered the sufficiency and adequacy of the information disclosed in the annual accounts.

Based on the work performed, we can conclude that management's approach is reasonable and is supported by available evidence.

Trade receivables and payables on market operations

As mentioned in Notes 11 and 14 to the accompanying annual accounts, trade receivables for sales related to market operations and trade payables for market operations amount to €157 million and €155 million, respectively

The amounts recognised have arisen following the adoption of applicable legislation as indicated in Note 1 to the accompanying annual accounts, according to which the Company acts as the central counterparty for purchases and sales on the daily production market given that

Our work for assessing this area included, the following procedures, among others:

We obtained the list of amounts to check them against the amounts in the accounting records.

We verified that trade receivables and trade payables are consistent with income and expense by analysing a sample of outstanding collections and payments at the year end.

We involved our IT specialists to verify that the amounts in the systems agree with those in the accounting records.



OMI - Polo Español, S.A. (OMIE)

it is responsible for the system's economic management and receives offers for the sale and acquisition of electricity, and carries out the settlement of electricity traded on the daily and intraday electricity market.

Also, because it operates as the counterparty, it includes the balance of the guarantees received from daily production market operators under the headings "cash and other cash equivalent on market operations" and "other payables," on its balance sheet.

This area is significant due to the magnitude of the amounts recognised.

We obtained external confirmation from the relevant financial institutions in relation to the amount recognised under "cash and equivalents on market operations"

Finally we considered the sufficiency and adequacy of the information disclosed in the annual accounts.

Based on the procedures performed, the impacts related to the regulatory frameworks to which the Company is exposed are reasonably reflected in the accompanying annual accounts.

Other information: Management report

Other information comprises only the management report for the 2017 financial year, the formulation of which is the responsibility of the Company's directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the management report and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the management report is consistent with that contained in the annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors for the annual accounts

The Company's directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of OMI - Polo Español, S.A. (OMIE), in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company's directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



OMI - Polo Español, S.A. (OMIE)

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



OMI - Polo Español, S.A. (OMIE)

From the significant risks communicated with the Company's directors, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are, therefore, considered to be the most significant risks.

We describe these risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Originally signed by Iñaki Goiriena Basualdu (16198)

May 3, 2018

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