

FACING THE CHALLENGES OF THE FUTURE

Trends that represent an opportunity for ACCIONA

GLOBAL WARMING⁴

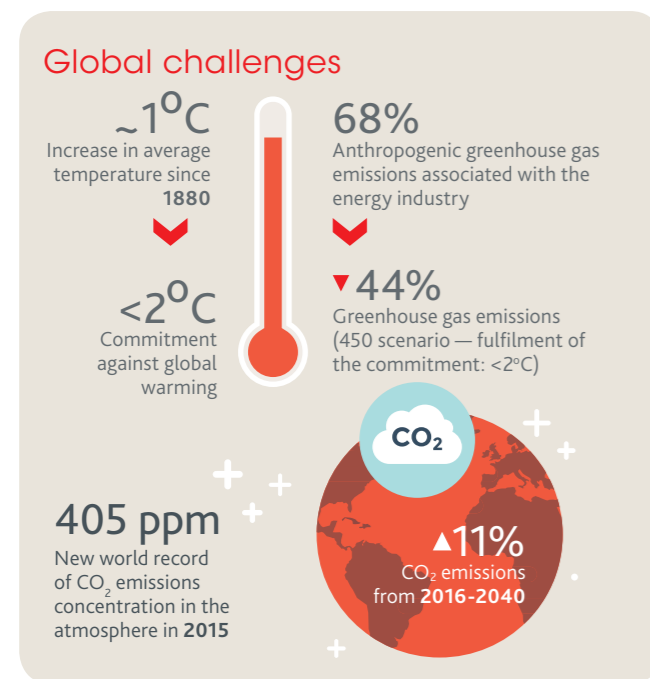
The ratification of the Paris Agreement represents a global commitment to combat climate change, restricting the increase in the temperature of the planet to less than 2°C.

The global challenge is to reduce greenhouse gas emissions below pre-industrial levels.

WATER SCARCITY^{5,6}

Water is a fundamental resource for the economic and social development of humanity.

One of the biggest challenges facing society is ensuring the protection and appropriate management of water resources.



Opportunity for ACCIONA

- Main focus on renewable energies, the only solution for a decarbonised energy model.
- Specialisation in the most competitive technologies, not only in terms of cost but also as regards the reliability and security of supply over the long term.
- Use of circular economy criteria, thereby reducing waste generation and promoting resource reutilisation.

Opportunity for ACCIONA

- Supply of high quality water on the five continents, especially in developing countries.
- Development of desalination, waste water treatment and potabilisation technology, based on sustainable management of water resources throughout the water cycle and on technological innovation.
- Implementation of renewable energies — with almost zero water consumption — in water stress areas.

(4) Scenario 450 refers to the concentration of CO₂ in the atmosphere, in parts per million (ppm), which, in an ideal scenario of environmental sustainability, should not be exceeded in order to keep the temperature increase below 2° C.

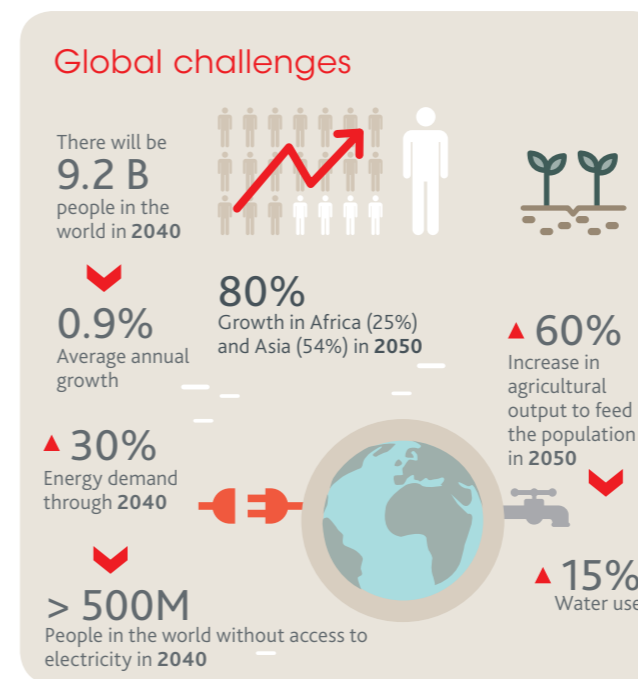
(5) United Nations. 2015. Sustainable Development Goals (Goal 6).

(6) World Bank Group. 2016. High and dry: climate change, water and the economy.

DEMOGRAPHIC GROWTH^{7,8,9}

The world's population will grow by around 26% in the next 25 years and purchasing power will increase across the board.

The challenge facing markets is to ensure the availability of sufficient resources and infrastructures to guarantee living standards for a growing population.



Opportunity for ACCIONA

- Development of infrastructure and services that meet the demand for quality water and energy supply in a secure, cost-competitive and environmentally friendly way.
- Greater energy planning based on the electrification of the economy and the empowerment of consumers to manage their demand.

(7) United Nations Department of Economic and Social Affairs: Population division. 2015. World Population Prospects: The 2015 Revision.

(8) International Energy Agency. 2016. World Energy Outlook 2016.

(9) World Bank. 2016. Water: Overview.

(10) McKinsey Global Institute. 2016. Urban World: meeting the demographic challenge.

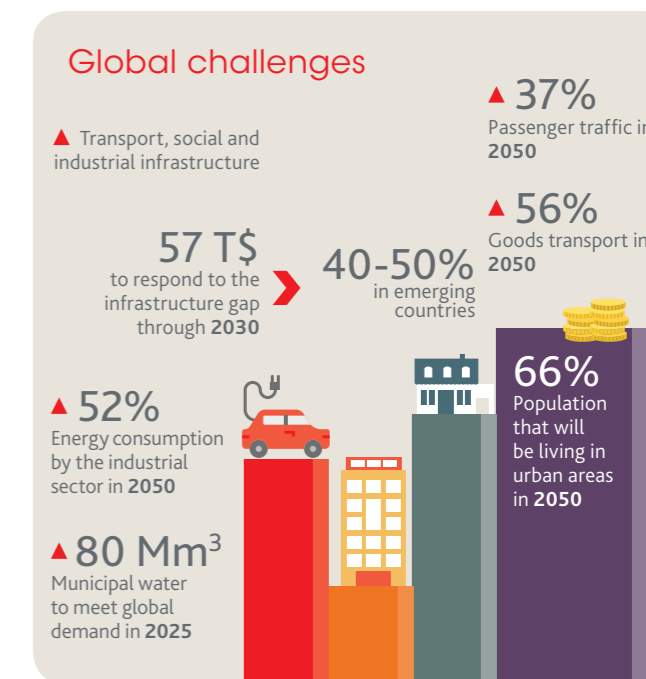
(11) Bloomberg New Energy Finance. 2016. Electric vehicles to be 35% of global new car sales by 2040. (12) United Nations. 2014. World Urbanization Prospects.

(13) Institute for Sustainable Development and International Relations. State of the Low-Carbon Energy Union: Assessing the EU's progress towards its 2030 and 2050 climate objectives.

URBAN CONCENTRATION^{10, 11, 12, 13}

66% of the world's population will live in cities by 2050.

As 80% of global GDP is generated by cities, the challenge lies in ensuring an intelligent urbanisation (smart cities) that meets the needs of the population and safeguards the well-being of citizens and the environment.



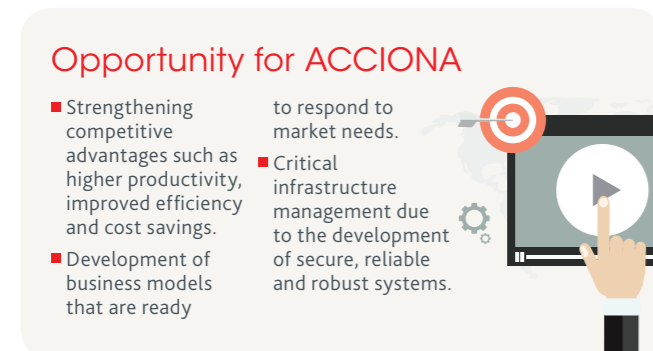
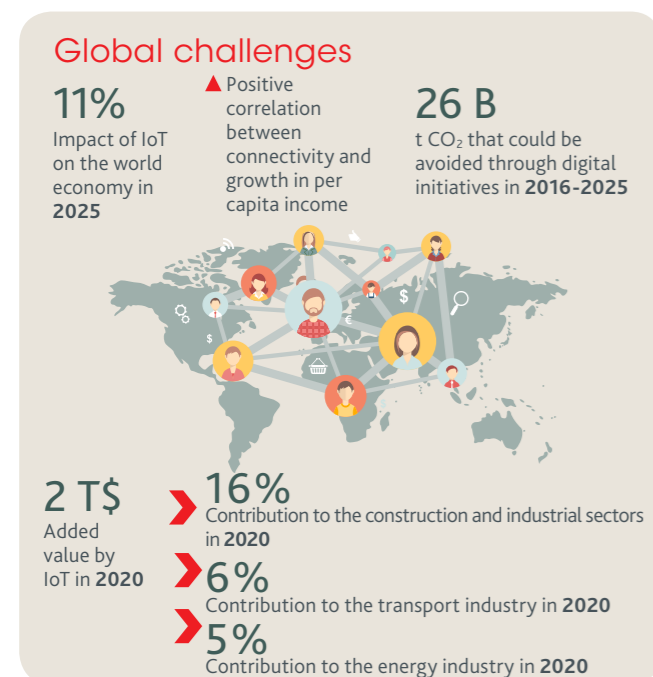
Opportunity for ACCIONA

- Design, construction and management of new infrastructure and the reconversion and adaptation of obsolete infrastructure (in mature markets).
- Development of innovative solutions related to municipal services such as public transport, hospital infrastructure, waste treatment, water management and other services associated with the needs of a city.

DIGITAL REVOLUTION^{14, 15, 16, 17, 18}

Consumer habits and business dynamic have been strongly influenced by technological progress and the Internet of Things.

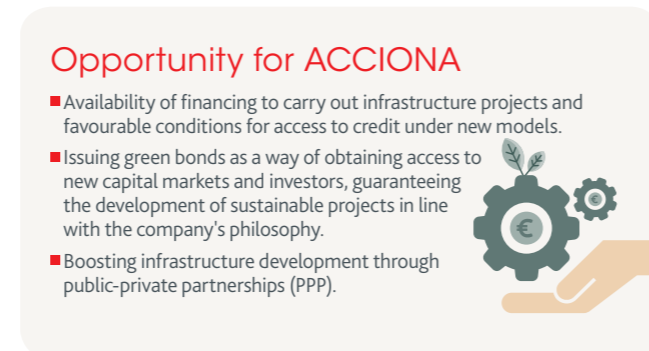
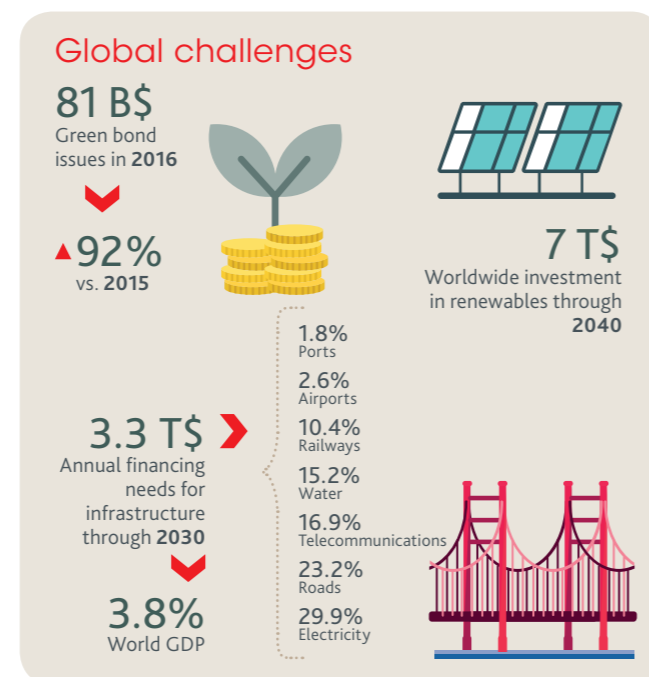
The challenge lies in using the advantages provided by technology in favour of society.



INVESTMENT AVAILABILITY^{19, 20, 21}

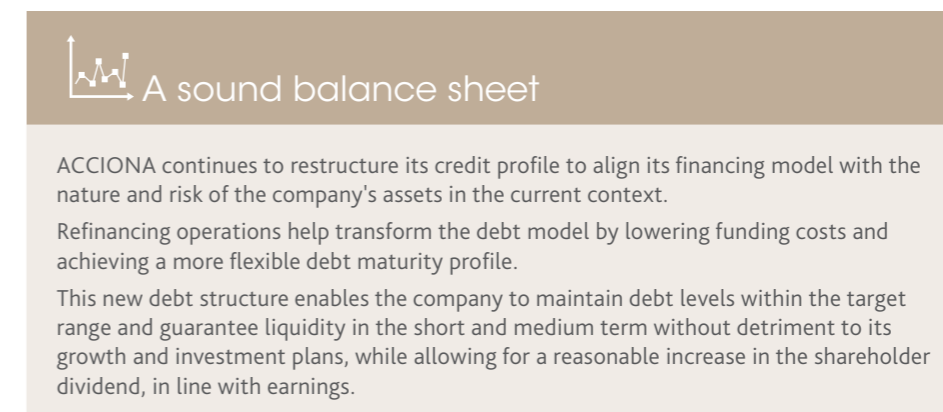
Economic growth is tied to investment requirements in order to close the infrastructure gap (mainly in energy).

The challenge lies in ensuring the development of new financing models and instruments that drive the creation of sustainable projects.



A strategy focused on consolidating the change in trend

Having overcome the pressures of the recent past, ACCIONA is facing a new era in which it can look to the future with optimism thanks to a solid balance sheet that enables it to increase investment again — without losing its focus on selective growth and project profitability — and exploit the growth potential offered by its businesses.



- In 2016**
- Improved net financial debt/EBITDA ratio: 4.31x (vs 4.39x in 2015).
 - Refinancing of energy assets with corporate debt.
 - A proposed dividend per share of €2.875*.

- 2017 outlook**
- Continue reducing leverage: net financial debt/EBITDA ratio in the lower part of the 4.0x-4.5x range.
 - Continue with pro-active balance sheet management.
 - Sustained dividend growth.

i More information about the company's balance sheet and the expected trends in debt and the credit profile can be found in the following sections of this Report:
 ■ 2016 milestones: pages 16-19
 ■ Current and projected debt - page 26

(14) Eversis. 2016. *Tech giants, corporations and disruptives. Start-ups: the truth of the IoT ecosystem.*
 (15) Research Centre of Governance, Sustainability and Reputation, an initiative of Corporate Excellence and IE Business School. 2017. *Approaching the future: tendencias en gestión de intangibles.*
 (16) McKinsey Global Institute. 2015. *The internet of things: Mapping the value beyond the hype.*
 (17) World Economic Forum. 2016. *Global Information Technology Report.*
 (18) Gartner. *Global Internet of Things Market Size – IoT Market Growth Analysis*
 (19) Climate Bond Initiative. 2017. *Green Bonds Highlights 2016.*
 (20) McKinsey Global Institute. 2016. *Bridging global infrastructure gap.*
 (21) World Energy Outlook (WEO) 2016. International Energy Agency, IEA.

* Dividend proposed by the Board of Directors to the 2017 General Shareholders' Meeting.



Driving investment

ACCIONA's strategy is based on significant growth in investment in the coming years, in line with the expected development of the business and without compromising the balance sheet structure. This change in trend is the result of a new cycle of capital-intensive growth that has the aim of exploiting the opportunities offered by international markets in the areas of energy and infrastructure development.

Investment in energy assets favours the generation of stable long-term cash flows, enabling the Energy division to remain a solid core business with significant visibility for ACCIONA.

In Infrastructure, investment is focused mainly on injections of capital into the concessions the company builds and then operates, and on machinery and installations for executing large construction projects.

In 2016

- Gross capital expenditure of 916 M€
 - Energy: 489 M€
 - Infrastructure: 358 M€
 - Other businesses: 69 M€
- Divestments: -64 M€
- Net investment cash flow*: 719 M€

2017 outlook

- Gross capital expenditure similar to 2016:
 - Energy: ~60% investment.
 - Infrastructure: lower ordinary CAPEX.
- Partial divestment of concessions and real estate assets.
- Net investment cash flow*: ~650 M€

i More information about capital expenditure can be found in the following sections of this Report:
 ■ 2016 milestones pages 16-19
 ■ A significant increase in investment: page 24



Focused growth

ACCIONA pursues controlled profitable growth in the international markets where it is present, providing distinctive value to its customers while also being willing to seize new business opportunities that may arise in other markets involving specific projects that offer a high return or new opportunities for long-term business development.

Geographical diversification strengthens the company's international profile and reduces its vulnerability to adverse situations in any given country.

Each of ACCIONA's main divisions focuses expansion in line with strategic interests with the aim of maximising the potential of its activities.

In 2016

- ACCIONA Energy: significant profitable growth in the project portfolio thanks to the success in auctions and tenders in Chile, Mexico and Australia, with a total of 750 MW to be built in the next 3 years.
- ACCIONA Infrastructure: obtained large international projects with good prospects for profitability in the United Arab Emirates, New Zealand and the Philippines, among others.

2017 outlook

- ACCIONA Energy: expansion in markets with significant growth potential that combine an abundance of renewable resources with growing demand for energy.
- ACCIONA Infrastructure: taking advantage of strategic opportunities for each business, providing solutions to sector challenges.

i More information about the company's international presence and business growth strategy can be found in the following sections of this Report:
 ■ ACCIONA around the world – page 14-15
 ■ ACCIONA Energy – page 45
 ■ ACCIONA Infrastructure – page 68

* Net investment cash flow calculated as gross capital expenditure minus divestments and +/- other investment flows (in connection with deferred payments).

The Other businesses contribute significantly to the company's profitability and growth



Maximising the value of complementary businesses

The diversification of ACCIONA's activities beyond the energy and infrastructure areas provides new opportunities for the company, not just in terms of profitability and growth (they are less capital-intensive than the core businesses), but also as regards contributing to the overall bottom line. They may also favour new business operations in the future, given the optimistic outlook for the sectors in which ACCIONA is present.

In 2016

- ACCIONA Inmobiliaria: implementation of a new strategy.
- Bestinver: managed assets are significantly outperforming their benchmark indices.
- Trasmediterranea: significant increase in its contribution to earnings.
- Grupo Bodegas Palacio 1894: entering a new era of brand transformation.

2017 outlook

- ACCIONA Inmobiliaria: expand property development and rotate rental assets.
- Bestinver: ensure attractive long-term returns and growth by managed funds.
- Trasmediterranea: new opportunities and focus on customer services.
- Grupo Bodegas Palacio 1894: innovation and an improved positioning in Premium segments.

i More information about these businesses and the value they contribute to the company can be found in the following sections of this Report:

- 2016 milestones: pages 16-19
- Other businesses: page 90



SUSTAINABILITY MAKES US BETTER

ACCIONA has taken up the challenge of sustainability and incorporated it into its business models. The highest levels of the company's governance lead the way in this respect. Since 2009, ACCIONA has had a Sustainability Committee within the Board of Directors, charged with approving and monitoring targets and initiatives in respect of sustainability.

ACCIONA's sustainability strategy is implemented via the Sustainability Master Plan (SMP). After analysing the achievements and challenges in the five years of the previous Plan (2010-2015),

the company has established a new strategy for the period until 2020.

The Sustainability Master Plan 2020 (SMP 2020) is based on a number of strategic and operating targets in respect of society, climate change, the environment, corporate governance, people, the value chain and innovation. These targets are to be applied across the organisation while adapting to the specific features of each business area.

Among other commitments, ACCIONA is also working on:

- improving people's living standards;
- mitigating climate change, including the goal of becoming a carbon-neutral company (successfully achieved in 2016);
- providing sustainable environmental solutions and responding to challenges such as water stress.

i For more information, see the Sustainability Master Plan 2020 (<http://smp2020.acciona.com/>) and the Sustainability Report 2016.



A DISTINCTIVE APPROACH TO MANAGING HUMAN CAPITAL

A significant part of the company's success is due to fostering an environment in which employees have the freedom to create, contribute and innovate, and where equality of opportunity, meritocracy, diversity and transparency predominate.

ACCIONA has highly specialised personnel with technical, business and management skills that add high value to the company, helping to achieve its strategic objectives and to distinguish it from its competitors.

Given the importance for ACCIONA of attracting the best talent, both now and in the future, the company is working on the following areas:

- Revision of programmes for attracting and selecting the best professionals: actions aimed at strengthening the employer brand, and a revision of internal candidate selection procedures.
 - Strengthening processes for identifying and developing internal talent:
 - A new system to enhance the evaluation procedure, resulting in more efficient and flexible identification and management of internal talent throughout the company (Performance Status).
 - New initiatives so that each employee can manage their own development within the organisation.
 - Development of certain critical professional groups: technical leaders, project managers, and people with high management potential, among others.
 - A new system for setting and managing objectives.
- In 2016, the four priority areas were:
- Globalisation;
 - Simplification and optimisation of personnel management procedures;
 - Digitisation and digital transformation;
 - Improvement of information quality.

i For more information, see the 'People' section of ACCIONA's website (<https://www.acciona.com/people/>) and the Sustainability Report 2016.

An agent for change

ACCIONA presents itself as an agent for change, actively leading the response to the global challenges and trends that affect its businesses. ACCIONA's strategy, competitive edge and effective collaboration with stakeholders make it a global benchmark in energy, infrastructure, water and services.

In the energy field		
Working with governments and regulators	Collaboration with businesses and sectoral associations	Participation in fora and events
<p>ACCIONA works with governments and regulatory bodies to support and foster the growth and competitiveness of clean technologies.</p> <ul style="list-style-type: none"> In Spain, one of the group's main achievements in 2016 in relation to energy regulation was to ensure a greater role for wind power as a provider of system adjustment services. Within the EU, several of ACCIONA's petitions have been reflected in proposals within the European Commission's Clean Energy Package: to provide renewable energies with a secure and stable legal framework by prohibiting adverse retroactive changes, and the proposal for a market with a much greater focus on renewable energies. 	<p>ACCIONA continues to work, on an individual basis and through co-operation with businesses and sectoral associations, on drafting and presenting regulatory proposals aimed at improving the competitive position of renewable energies:</p> <ul style="list-style-type: none"> On a national and regional basis with: the Spanish Wind Energy Association (AEE), the Association of Spanish Renewable Energy Generators (APPA), the Spanish Photovoltaic Industry Association (UNEF) and the Spanish Solar Thermoelectric Industry Association (Protermosolar). On a European basis with: WindEurope, ESTELA (European Solar Thermoelectric Association) and EUROFES (the European Forum for Renewable Energy Sources). In the international arena with: GWEC (Global Wind Energy Council). 	<p>Top-level ACCIONA representatives have taken part in events held by Spanish organisations and media, including:</p> <ul style="list-style-type: none"> A conference on Business Commitment to sustainability. The debate about political proposals for renewable energies. <p>ACCIONA sponsors and promotes events for discussing the future of energy in the EU:</p> <ul style="list-style-type: none"> The public debate on Energy Costs and the Competitiveness of industry in the EU. Participation and collaboration with EUFORES on the 16th Interparliamentary Meeting.
In the field of infrastructure, water and services		
Working with governments and regulators	Collaboration with businesses and sectoral associations	Participation in fora and events
<p>ACCIONA is constantly engaging with public administrations and stakeholders to ensure that the transposition of EU directives results in a legal framework that is attractive to investors and facilitates a contract awarding process that generates sustained and sustainable growth in economic, social and environmental terms. ACCIONA's position is that bid selection criteria should always include quality, innovation and environmental and social aspects.</p>	<p>ACCIONA is a member of associations such as:</p> <ul style="list-style-type: none"> In the field of infrastructure, SEOPAN, the Association of Spanish Construction Companies and Infrastructure Concession Holders. In the area of railways, The Association of Spanish Private Railway Companies. In the area of water, the Association of Spanish Municipal Water Services Companies (AGA), and the Spanish Water Supply and Sanitation Association (AEAS), which promote and defend the common interests of companies that provide services related to the entire water cycle. 	<p>ACCIONA takes part in fora and events as a member of:</p> <ul style="list-style-type: none"> the Board of Directors of the Water Supply and Sanitation Technology Platform (WssTP). the Board of Directors of the European Desalination Society (EDS).

ACCIONA promotes a favourable environment capable of influencing governments, business and society actions in the transition towards a sustainable economic model

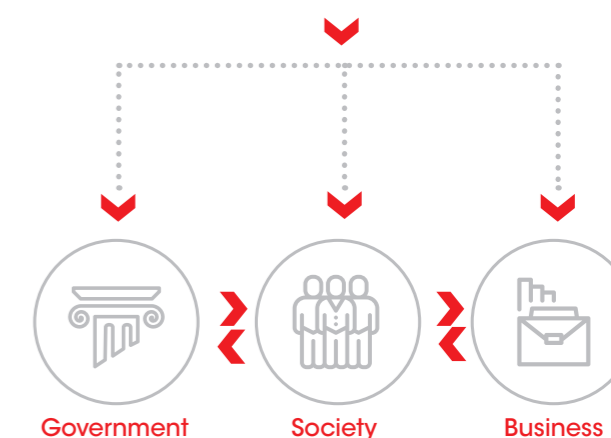
Aware of current challenges, ACCIONA is directing its businesses towards a model that ensures the transition to a decarbonised economy, thereby meeting the commitment to fight climate change adopted in the Paris Agreement.

In this context, ACCIONA promotes cooperation between the public and private sectors, as well as consensus among all political groups and the main industry players as essential drivers for effecting this change. The company also collaborates in establishing a stable, robust and transparent regulatory framework with a solid legal base in order to mobilise investment. Consequently, ACCIONA considers efficient carbon markets (which internalise pollution costs), innovation and the elimination of fossil fuel subsidies as key to transforming the economy.

In order for this message to be heard, ACCIONA fosters an environment of favourable social opinion capable of influencing government, the private sector and society. In this respect, ACCIONA seeks to encourage a change of attitude among consumers through the differentiation and promotion of renewable energies and energy efficiency, with the goal that they should set an example for policy makers.



ACCIONA
An agent for change
Raise awareness in society so as to drive the transition towards a decarbonised economy



ACCIONA, carbon-neutral since 2016

ACCIONA is already a carbon-neutral company, having fulfilled the commitment announced by the company Chairman, José Manuel Entrecanales, at the Paris Climate Summit held in December 2015.

As part of the 2020 Sustainability Master Plan, ACCIONA offset its emissions in 2016 with the acquisition of UN Certified Emission Reductions (CERs) from socially and environmentally responsible projects in emerging countries.

The main aim of this system of offsetting carbon emissions is to encourage businesses to make a commitment to reducing emissions through the implementation of energy efficiency measures.

The company achieved carbon neutrality by advancing in energy efficiency, increasing its use of electricity from renewable sources and offsetting emissions by purchasing CERs

In accordance with its global sustainability strategy, ACCIONA takes a leading role in initiatives, fora and organisations, and in collaboration with international bodies.



COP22 - MARRAKECH CLIMATE SUMMIT

The company took an active role in the Marrakech Climate Summit in November

2016. COP22 was considered the 'COP of action', giving rise to: The Marrakech Action Proclamation, the Marrakech Partnership for Global Climate Action, and the creation of the decision-making body of the Paris Agreement.



WORLD ECONOMIC FORUM

The Chairman of ACCIONA, José Manuel Entrecanales, attended the recent World Economic Forum in Davos,

taking part in the launch of the Carbon Pricing Corridors working group. This is an initiative promoted by CDP and the We Mean Business Coalition to set a price on carbon that encourages the transition towards a low-carbon economy.



UNITED NATIONS GLOBAL COMPACT

Since 2005, ACCIONA has been an active member of the United

Nations Global Compact, which fosters compliance with Ten Principles relating to human and labour rights, the environment and the fight against corruption. The company belongs to the Steering Committees of Global Compact LEAD and Caring for Climate, and the Advisory Board of the Sustainable Energy for All initiative.



WORLD BANK

Regarding climate change, the World Bank promotes initiatives aimed at setting a price on carbon, including

the Carbon Pricing Leadership Coalition (CPLC). In 2016, ACCIONA took part in a high level assembly of the CPLC held in Washington (USA). At the beginning of 2017, CPLC published the "Carbon Pricing Leadership report- carbon pricing stories", a document to which ACCIONA contributed its experience in carbon pricing within the company.



CORPORATE LEADERS GROUP (CLG)

CLG is a European group of business leaders whose aim is to promote

policies to fight climate change over the long term. In 2016, the company took part in numerous working groups and in drafting publications such as the report entitled "21st century energy: Business reflections on renewables in Europe". It also hosted a general assembly meeting to discuss climate change mitigation strategies with the group.



SPANISH GREEN GROWTH PLATFORM (GECV)

ACCIONA has been a member of the GECV and its Management Board since

its inception in May 2015. This group promotes collaboration with companies and official bodies to create a roadmap towards a low-carbon economy with the aim of driving medium- and long-term initiatives and demonstrating a commitment to incorporate climate policies into corporate strategy. In 2016, ACCIONA participated actively in working groups on the circular economy, financing, climate change policies and energy transition.



WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT (WBCSD)

ACCIONA takes part in the Low Carbon Technology Partnerships initiative (LCTPi) aimed at accelerating the transition towards the use of low-carbon technologies. The company also takes part in the WISE Power project, which fosters the participation of local communities in the planning and development of wind power projects.