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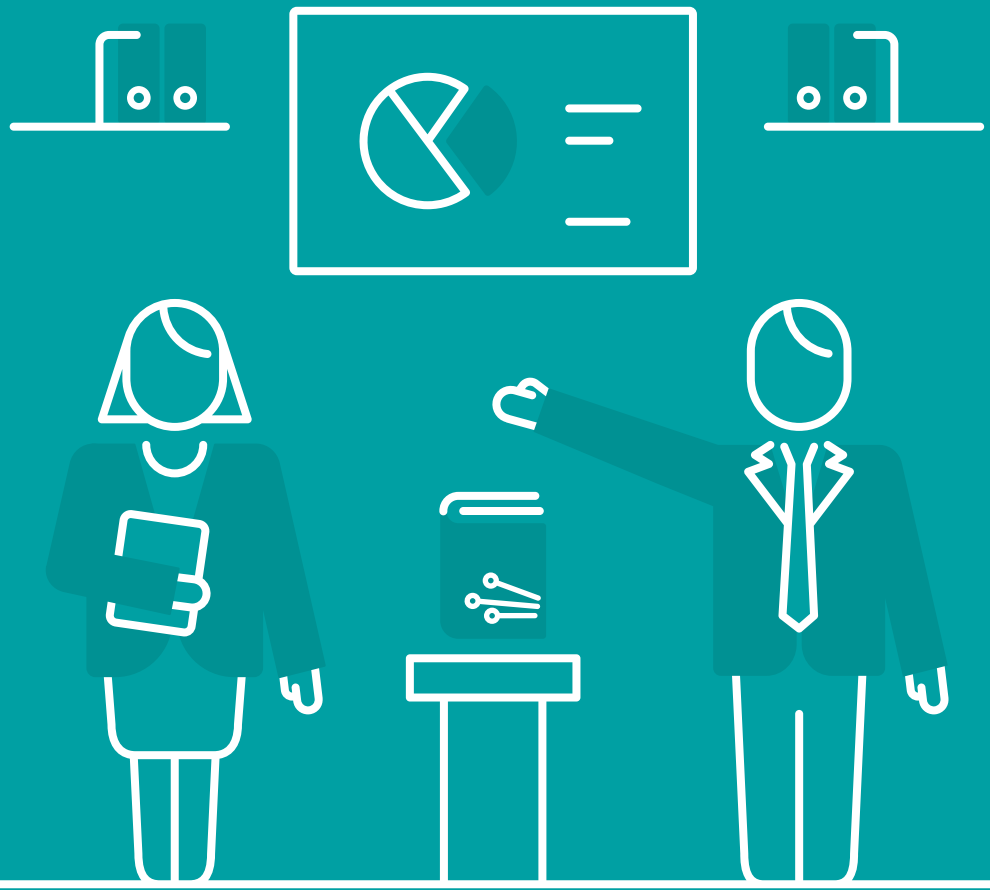
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# CORPORATE GOVERNANCE

CONNECTED TO ETHICS, INTEGRITY, TRANSPARENCY AND GOOD GOVERNANCE

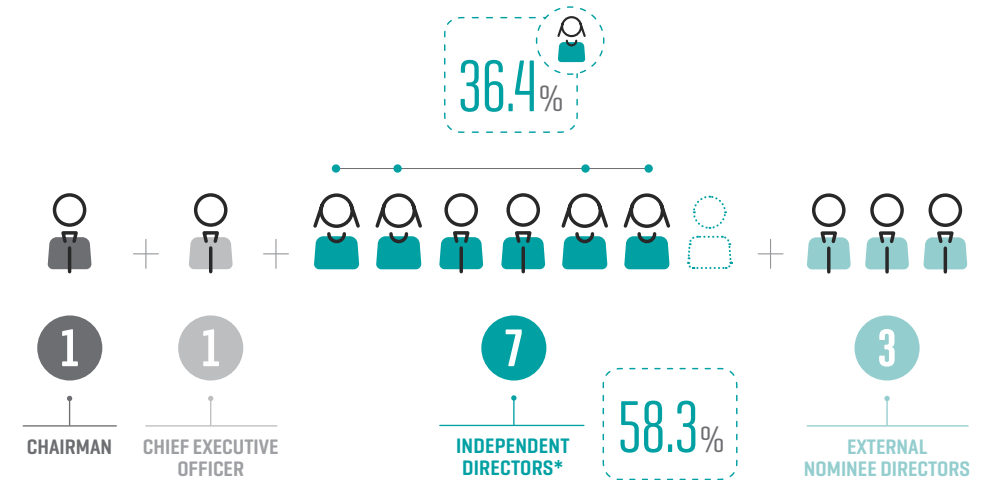


# GOVERNANCE STRUCTURE OF THE COMPANY

G4-34 / G4-38

## GENERAL SHAREHOLDERS' MEETING

### BOARD OF DIRECTORS / AS AT 31 DECEMBER 2016



#### APPOINTMENTS AND REMUNERATION COMMITTEE\*

**CHAIRWOMAN**  
Female lead independent director



#### AUDIT COMMITTEE

**CHAIRMAN**  
Independent director



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

# GOOD GOVERNANCE OF THE COMPANY

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

This is made possible not only by complying with the applicable legal regulations and the most widespread national and international recommendations on the subject but also by voluntarily implementing a series of measures and initiatives

targeted at the core of the most important issues regarding good governance of the Company, and which are of most concern and are demanded by shareholders, investors and the markets.

## Noteworthy actions in 2016

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



## Internal rules of governance / 31 December 2016

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

## RECOGNITION 2016



**EUROPEAN UTILITY WITH THE BEST**  
CORPORATE GOVERNANCE

By the prestigious publication 'Ethical Boardroom Magazine'

## IN 2016

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

# CORPORATE SHAREHOLDING STRUCTURE

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

The entry into force of Law 17/2007, of 4 July, introduced a series of legal limitations on participation and voting rights applicable to the Company's shareholders, with the aim of guaranteeing the independence of the Company

vis-a-vis all other electricity sector activities and agents.

In this regard, the following limits were established:

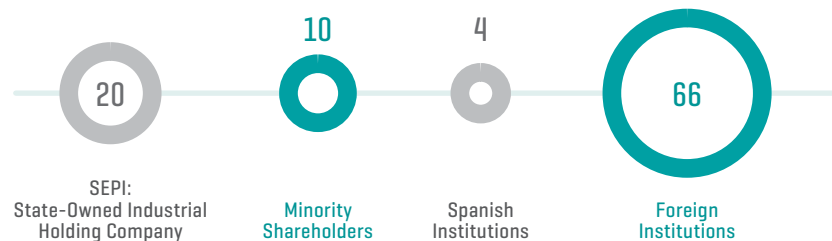
- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they do not hold more than 3% of the voting rights.

- Parties that engage in activities in the electricity sector, and those individuals or legal entities that directly or indirectly hold more than 5% of its capital, may not exercise more than 1% of the voting rights in the Company.

- The special regime for the State Industrial Holding Company [SEPI] is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

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

## SHAREHOLDER STRUCTURE



## STOCK SPLIT IN 2016



# 4

## NEW SHARES FOR EACH OLD ONE

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

## IN 2016

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

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

## General Shareholders' Meeting

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

### Guarantees and rights of attendance

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

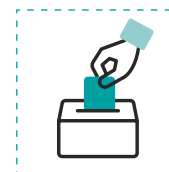
- No minimum number of shares required to attend the Meeting.
- Representation by proxy at the Meeting by any person, without having to be a shareholder.
- Separate voting on each matter submitted for approval at the Meeting.

### PERCENTAGE OF ATTENDEES AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING



% over share capital.

### AVERAGE PERCENTAGE OF VOTES



90.5 %

OF VOTES IN FAVOUR OF THE APPROVAL OF AGREEMENTS

In the Annual Ordinary General Shareholders' Meeting 2016



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

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

- Vote certification.

### Transparency and participation

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

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

## Board of directors / 64-38

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

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

- Approval of the general policies and strategies of the Company and the Group, with a special mention for the risk management control policy.
- Decisions on the appointment of senior-level directors, remuneration of board members,

financial reporting, strategic investments (except those that correspond to the General Meeting), the creation or participation in special purpose entities or those registered in tax havens and authorisation of related-party transactions.

- Annual assessment of the quality and efficiency of the Board and the performance of its Committees.

### Balance of powers

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

### BOARD OF DIRECTORS



**36.4**

%  
WOMEN

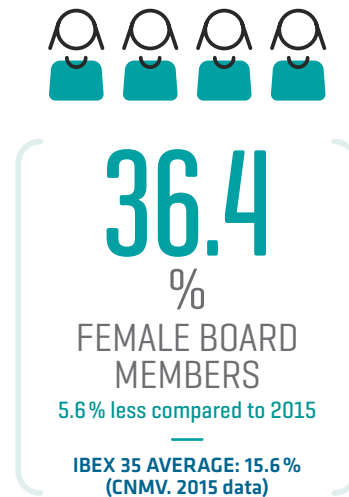
Out of a total of 12 members

### REDUCED AND BALANCED BOARD



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

### DIVERSITY ON THE BOARD



### Separation of the positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) / 64-39

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

LEAD INDEPENDENT DIRECTOR



SINCE 2013

RECOGNISED BY SHAREHOLDERS AND PROXY ADVISORS

As a figure of efficient corporate governance

#### SEPARATION OF POWERS

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

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

Until the Annual Ordinary General Shareholders' Meeting 2016, the Chairman maintained his executive powers, focusing his efforts on managing, supporting and fostering the transfer of executive powers

to the new CEO in order for said transfer to take place in a rational and organised manner during the transition phase. Therefore, the CEO took on executive duties as of the date of his appointment.

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

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





## BOARD OF DIRECTORS / AS AT 31 DECEMBER 2016

### CHAIRMAN

**José Folgado Blanco**



### EXTERNAL NOMINEE DIRECTORS (SEPI)

**Fernando Fernández Méndez de Andés**

Member of the Audit Committee



### EXTERNAL INDEPENDENT DIRECTORS\*

**Antonio Gómez Ciria**

Member of the Audit Committee



**M<sup>a</sup> Ángeles Amador Millán**

Member of the Appointments and Remuneration Committee



### CHIEF EXECUTIVE OFFICER

**Juan Lasala Bernad**



**Santiago Lanzuela Marina**

Member of the Audit Committee



**Carmen Gómez de Barrada Tous De Monsalve**

Chairwoman of the Appointments and Remuneration Committee and Independent Lead Director



**José Luis Feito Higuera**

Chairman of the Audit Committee



**José Ángel Partearroyo Martín**

Member of the Appointments and Remuneration Committee



**María José García Beato**

Member of the Audit Committee



### GENERAL COUNSEL AND SECRETARY OF THE BOARD

**Rafael García de Diego**

Non-Board Director



**Socorro Fernández Larrea**

Member of the Appointments and Remuneration Committee



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

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



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

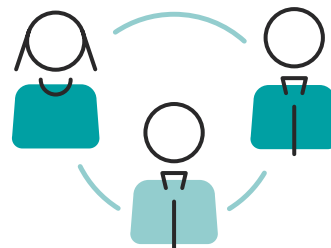
## Audit committee

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

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

## Appointments and remuneration committee

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



report on gender diversity that is submitted to the Board for approval.

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

## Delegation of economic, social and environmental matters / G4-35 / G4-36 / G4-42

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

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

## BOARD OF DIRECTORS



## AUDIT COMMITTEE

11 MEETINGS

## APPOINTMENTS AND REMUNERATION COMMITTEE

13 MEETINGS

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

### Dialogue between stakeholders and the highest governance body / G4-37 / G4-49 / G4-50

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

In application of this principle, Red Eléctrica strives to fulfil the demands of institutional shareholders, given their noteworthy presence in the

#### CONSULTATION MECHANISMS



## WITH STAKEHOLDERS

PROVIDE HOMOGENOUS AND SYSTEMATISED INFORMATION

And foster dialogue between the Company and shareholders and investors

Company's shareholding, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relationship with them, increase commitment and strengthen their trust, without neglecting the guarantees and equal treatment enjoyed by other shareholders.

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

Besides the direct communication channels indicated in the 'Transparency and Participation' section of this report, and detailed in the Annual Corporate Governance

Report and in the Regulations of the Board (Articles 39-44), the highest governance body has access to other consultation mechanisms with stakeholders among which the following are noteworthy:

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

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

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



## Selection of board members / G4-40

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

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

To this end, when evaluating candidates participating in the selection process, the procedure

considers, at all times, any competences, experience, professionalism, suitability, gender, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors; a process in which the Appointments and Remuneration Committee plays a relevant role.

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

### Conflicts of interest / G4-41

Regarding the Board members, Article 32 of the Regulations of the Board establishes the possible conflicts of interest and the

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

## BOARD REGULATIONS



## ARTICLE 32

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

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

## BOARD MEMBER ASSESSMENT

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

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

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

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

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

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

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

One of the tools that has contributed to increasing the efficiency of the Board and its Committees has been the Intranet tool for Board members, in which

relevant information is published, such as the minutes of the meeting held by the Board and its Committees, as well as corporate information of interest regarding economic, social and environmental matters.

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

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

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

BOARD MEMBER INTRANET



PUBLISHES RELEVANT INFORMATION

Regarding corporate, economic, social and environmental aspects

## REMUNERATION STRUCTURE

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

### Noteworthy aspects of Board Remuneration

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

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

#### ANNUAL REMUNERATION REPORT



**SINCE 2010**  
SUBMITTED TO THE SHAREHOLDERS' APPROVAL  
By means of a binding vote

#### SHAREHOLDERS' VOTE

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

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

independence of criteria to vote individually and separately on each of the agreements, of a diverse nature, which correspond to the competence of the General Shareholders' Meeting.

#### Principles of the remuneration policy

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

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

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

- Alignment of the CEO's remuneration policy with the Company's strategy.
- Maintaining a reasonable balance between the various

components of fixed (short-term) and variable (annual and long-term) remuneration reflecting adequate risk-taking combined with the achievement of defined objectives linked to the creation of sustainable value.

- Alignment with the remuneration established by comparable companies.

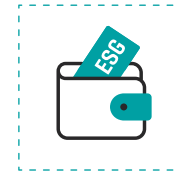


Regarding the remuneration of the non-executive board members, the following principles have been established as per their status as members of the Board Directors:

- Related to effective dedication.

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

### EXECUTIVE BOARD DIRECTOR AND DIRECTORS' REMUNERATION



### INCORPORATES ESG CRITERIA

Relating to corporate, economic, social and environmental matters

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

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

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

# RISK MANAGEMENT / G4-14

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

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

This system has a Comprehensive Risk Management Policy and a General Procedure for the comprehensive control and management of risks, approved by the Board of Directors and

the Management Committee respectively, which are based on the Comprehensive Framework for Corporate Risk Management COSO II (Committee of Sponsoring Organisations of the Treadway Commission).

The Comprehensive Risk Management Policy and the General Procedure for Comprehensive Risk Management and Control have been updated in November 2016. In addition, the Comprehensive Risk Management System conforms

to the ISO 31000 standard on principles and guidelines on risk management.

### Comprehensive risk management policy

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

### COMPREHENSIVE RISK MANAGEMENT SYSTEM



CONFORMS TO THE ISO 31000 STANDARD

Regarding principles and guidelines on risk management

### IN 2016

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

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

### Procedure for the comprehensive management and control of risks

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

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

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

This process is undertaken in order to ensure that different levels of responsibility of the Group understand and appreciate the risks that threaten the Group's strategies and objectives, and that



### RISK MANAGEMENT AND CONTROL PROCEDURE



## REGULATES

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

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

### ON THE CORPORATE WEBSITE

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

their management takes them into account, and is carried out within the established acceptable risk levels.

### Organisational structure

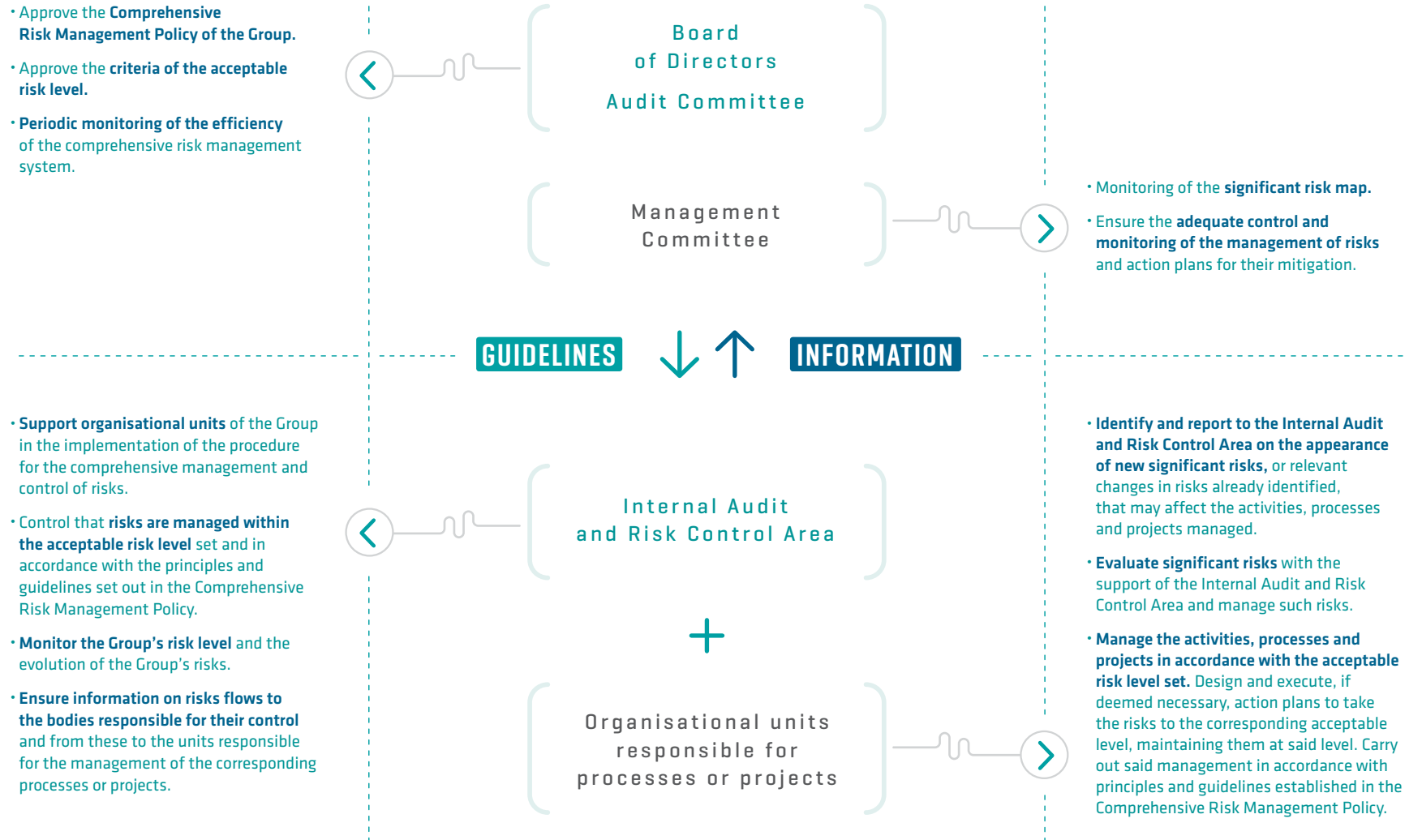
The Risk Policy and Procedure define the different responsibilities of the governing bodies and those of each of the organisational units, as well as defining the flow of information and the activities to be undertaken by the various bodies (see organisational chart).

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





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



### Management system / G4-2

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

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

- **Electricity supply:** measured by the Energy Not Supplied (ENS) that would result in the possible event taking place.
- **Achievement of the essential strategies:** degree of impact on the achievement of the essential strategies.

- **Reputation:** degree of impact on the reputation (geographical scope, duration and reparability).
- **Economic loss:** impact on the income statement before Corporate Tax.

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

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

#### Acceptable risk at an individual level

The individual acceptable level defined by the Red Eléctrica Group only considers admissible those risks whose assessment, according to the aforementioned matrix, is considered of low level. According to the risk policy, any risk that exceeds this acceptable level, shall be the target of actions to achieve said value, in as far as the risk be

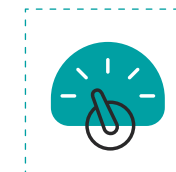
manageable, and the costs of the measures for its mitigation be justifiable, owing to the possible impact that the materialisation of the risk may have on the Group.

#### Acceptable risk at an overall level

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

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

#### RISK ASSESSMENT



## TWO PARAMETERS

Probability of risk occurring

Impact its materialisation can have

#### RISK ANALYSIS

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

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

## Response and monitoring plans

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

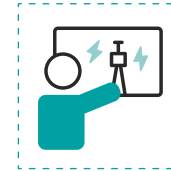
For the monitoring of risks, the current risk management system includes the monitoring of over 500 action plans that seek to reduce the level of risk, and more than 300 indicators to monitor their progress.

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

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

In addition, Red Eléctrica has contingency plans that regulate the various crisis situations that could occur in the case of electrical

### MONITORING OF RISKS



OVER 500 ACTION PLANS

And more than 300 indicators to monitor their progress

### MANAGEMENT OF CYBER INCIDENTS

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

incidents (to guarantee security of supply), or non-electrical incidents that may impact upon the environment, people, the operational aspects of the Company, the availability of its systems, business results, or any other events that could have an impact on the Company's reputation.

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

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

## Risk structure / G4-2

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

This classification as a regulated activity affects both the setting of revenues and the environment

and conditions in which it must undertake its principal activities. In this context, due to their importance and specificity, it is important to highlight the following risks: the regulatory and operational risks, as well as others which are common to the undertaking of economic and business activities.

### RISK STRUCTURE 2016



## Risk types of the Red Eléctrica Group

### REGULATORY RISKS

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

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

### OPERATIONAL RISKS

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

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

### FINANCIAL AND COUNTERPARTY RISKS

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

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

### OTHER RISKS

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

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

### Materialised risks in 2016

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

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

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

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

### RESULTS 2016

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

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

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

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



### OBJECTIVES 2016

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

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

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

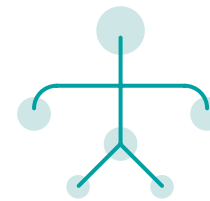


### CHALLENGES 2017

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

Evolution and improvement of integrated risk reporting.

Improvements in the methodology of risk identification and assessment.



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

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
<b>REGULATORY RISKS AS TSO</b>		
<b>Risk of changes in the electricity system regulation</b>	<ul style="list-style-type: none"> <li>• Risk of regulatory changes occurring that could have a negative impact on the activities related to transmission and system operation.</li> </ul>	<ul style="list-style-type: none"> <li>• Dialogue with the Regulator.</li> <li>• Presentation of proposals to the Regulator.</li> </ul>
<b>OTHER REGULATORY RISKS</b>		
<b>Other regulatory risks</b>	<ul style="list-style-type: none"> <li>• Tax risks.</li> <li>• Changes in environmental regulation.</li> </ul>	<ul style="list-style-type: none"> <li>• Adherence to the Code of Good Tax Practices.</li> <li>• Setting up of the tax strategy of the Red Eléctrica Group.</li> <li>• Incorporation of Tax Risk Policy into the Comprehensive Risk Management Policy of the Group.</li> <li>• Adaptation to the legislation related to climate change.</li> </ul>
<b>OPERATIONAL RISKS OF THE ELECTRICITY SYSTEM</b>		
<b>Risks related to power outages and the evacuation of generation</b>	<ul style="list-style-type: none"> <li>• Risk of a breakdown/fault occurring in the facilities that may significantly impact on the electricity system, causing power outages on the Spanish peninsula or the islands.</li> </ul>	<ul style="list-style-type: none"> <li>• Emergency equipment and procedures.</li> <li>• Periodic inspections of equipment and systems.</li> <li>• Preventive and predictive maintenance programmes.</li> <li>• Renovation and improvement plans for facilities.</li> <li>• Improvement of grid meshing and increase in the construction of facilities to deal with the Electricity Infrastructures Plan approved by the Government.</li> <li>• Contracting insurance policies to cover possible damages that can be derived from an incident.</li> <li>• Contingency plans.</li> </ul>
<b>Risks associated with the operation of the system</b>	<ul style="list-style-type: none"> <li>• Human errors in the coordination or configuration of equipment.</li> <li>• Malfunction of telecommunications.</li> <li>• Failure of computer systems that support the activity.</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening of the transmission grid in certain areas where the situation is precarious.</li> <li>• Power service restoration plans.</li> <li>• Plan for the renovation and improvement of facilities.</li> <li>• Improvement of the telecommunication systems.</li> <li>• Implementation of security mechanisms in the IT information systems used.</li> <li>• Ongoing training of operators.</li> <li>• Contingency plans.</li> </ul>

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

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
<b>COMPREHENSIVE CORPORATE SECURITY RISKS</b>		
<b>Risks that may affect the security of facilities</b>	<ul style="list-style-type: none"> <li>Impact on security in facilities (substations, control centres, buildings, etc.) such as vandalism, sabotage, theft, terrorism, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Security systems in facilities.</li> <li>Service for the permanent monitoring of facilities.</li> <li>Contact with the Spanish Security Forces (National Police and Guardia Civil).</li> <li>Comprehensive Corporate Security Management Model.</li> <li>Consultation and collaboration with the CNPIC (National Centre for Critical Infrastructure Protection).</li> <li>Operator Security Plan (OSP) and Specific Protection Plans (SPP).</li> </ul>
<b>Risks related to cybersecurity</b>	<ul style="list-style-type: none"> <li>Non-availability of systems.</li> <li>Unauthorised access to specific IT applications.</li> </ul>	<ul style="list-style-type: none"> <li>Firewalls and anti-intrusion systems.</li> <li>Antivirus systems.</li> <li>Increase in the security of access requirements.</li> <li>Mechanisms for the detection of incidents.</li> <li>Software updates.</li> <li>Hacking simulations.</li> <li>Training and awareness programmes.</li> <li>Comprehensive Corporate Security Management Model.</li> <li>Consultation and collaboration with the CNPIC (National Centre for Critical Infrastructure Protection).</li> <li>Development of the Operator Security Plan (OSP) and Specific Protection Plans (SPP).</li> <li>Action guide in the event of cyber incidents.</li> </ul>
<b>RISKS ASSOCIATED TO THE ENVIRONMENT AND THE HEALTH AND SAFETY OF PEOPLE</b>		
<b>Risks of impact on the environment</b>	<ul style="list-style-type: none"> <li>Impact on flora.</li> <li>Impact on fauna.</li> <li>Contamination of soil.</li> <li>Impact on archaeological heritage.</li> <li>Risk of fires.</li> </ul>	<ul style="list-style-type: none"> <li>Application of strict environmental criteria in all phases of planning, development and maintenance of facilities.</li> <li>Environmental supervision of construction works.</li> <li>Biodiversity strategy and actions.</li> <li>Development of research projects and fire prevention plans.</li> <li>Projects for birdlife conservation.</li> <li>Environmental training courses for field staff.</li> <li>Environmental awareness of suppliers.</li> <li>Environmental supervision of construction works.</li> <li>Implementation of Environmental Work Certification.</li> <li>Establishment of collaboration agreements in the field of environmental protection with the various Regional Governments.</li> <li>Fire protection plans.</li> <li>Contingency plans.</li> <li>Internal environmental audits.</li> </ul>

Continued on the following page

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

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
<b>Risks associated to the environment and the health and safety of people / G4-EC2</b> <i>Risks derived from climate change / G4-EC2</i>	<ul style="list-style-type: none"> <li>• Reduction in rainfall.</li> <li>• Increase in temperatures.</li> <li>• Changes in wind currents.</li> <li>• Impacts on structural elements due to wind, ice, electrical discharges (lightning) etc.</li> <li>• Alteration in the properties of the conductors.</li> <li>• Erosion around the foundations of the towers and the towers themselves.</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change strategy.</li> <li>• Voluntary Agreement for the comprehensive management of SF<sub>6</sub> in the electricity industry, between the Ministry of Agriculture, Food and Environment, equipment manufacturers (AFBEL), UNESA, REE and waste management companies.</li> <li>• Internal audits of the SF<sub>6</sub> management process.</li> <li>• Development of system operation tools (CECRE).</li> <li>• Construction of new transmission lines for the evacuation of renewable energy.</li> <li>• Strengthening of international interconnections.</li> <li>• Development of demand-side management initiatives (interruptibility service, measures to achieve a more efficient consumption profile, and initiatives for the implementation of the electric vehicle).</li> <li>• Development of research and innovation projects: new technologies and technical solutions for efficient system management, new tools for emergency situations, smart demand-side management, energy storage.</li> </ul>
<b>Risks related to management and employees</b>	<ul style="list-style-type: none"> <li>• Lack of motivation and competencies of staff to reach the Company objectives.</li> <li>• Fraud and corruption.</li> <li>• Workplace accident rate.</li> <li>• Adaptation of occupational health and safety risk prevention.</li> </ul>	<ul style="list-style-type: none"> <li>• Development programmes for experts and directors.</li> <li>• Work-life balance policy and implementation of a management system.</li> <li>• Hiring of young employees with potential.</li> <li>• Maintenance and improvement of the structured risk prevention system in accordance with the OHSAS 18001 standard.</li> <li>• EFR1000 certification and internal audits.</li> <li>• Implementation of the Code of Ethics, the grievance system and audits.</li> <li>• Application of the staff appraisal system.</li> <li>• Technical Procedures for the organisation of safety.</li> <li>• General procedure for accident management and incidents.</li> <li>• Operational Group regarding Prevention.</li> </ul>
<b>Other operational risks</b>	<ul style="list-style-type: none"> <li>• Failure of the processes associated with certain activities of the Group such as engineering, construction, procurement, human resources, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Controls implemented in each process.</li> <li>• Specific action plans.</li> <li>• Contingency plans.</li> </ul>



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

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
<b>FINANCIAL AND COUNTERPARTY RISKS</b>		
<b><i>Risk of increased costs of equipment and raw materials</i></b>	<ul style="list-style-type: none"> <li>The control of the price of equipment and raw materials is a key part of the management of the construction and maintenance activities.</li> </ul>	<ul style="list-style-type: none"> <li>Promote competition.</li> <li>Increase normalisation and standardisation.</li> <li>Drafting of turnkey contracts.</li> <li>Use of hedging mechanisms.</li> </ul>
<b><i>Risk of increase in the interest rates</i></b>	<ul style="list-style-type: none"> <li>Variations in interest rates that may detract from that contemplated in the Strategic Plans of the Company.</li> </ul>	<ul style="list-style-type: none"> <li>Periodic reviews of the interest rates and their impact on the accounts.</li> <li>Maintenance of the fixed/variable percentages of the financial structure.</li> <li>Development of a financial risk policy and mechanisms for its management and control.</li> </ul>
<b><i>Unfavourable variations in exchange rates</i></b>	<ul style="list-style-type: none"> <li>Although the part of the business managed in non-euro currencies is not very significant, unfavourable variations in exchange rates may have a negative impact.</li> </ul>	<ul style="list-style-type: none"> <li>Establishing hedging mechanisms for transactions performed in non-euro currencies.</li> <li>Development of a Financial Risk Policy and mechanisms for its management and control.</li> </ul>
<b><i>Inadequate coverage when facing claims</i></b>	<ul style="list-style-type: none"> <li>Insufficient coverage when faced with a significant increase in claims made against the Company.</li> <li>Loss of solvency of the reinsurance company.</li> </ul>	<ul style="list-style-type: none"> <li>Provisioning.</li> <li>Ongoing monitoring of the level of claims.</li> <li>Reinsurance risk.</li> </ul>

RISK	DESCRIPTION	MANAGEMENT
<b>RISKS OF THE TELECOMMUNICATIONS BUSINESS</b>		
<b><i>Risks that can affect the business</i></b>	<ul style="list-style-type: none"> <li>Operational and business risks related to the telecommunications business.</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring the quality of service provided.</li> <li>Monitoring the portfolio of clients.</li> </ul>

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

RISK	DESCRIPTION	MANAGEMENT
<b>RISKS OF BUSINESS ABROAD</b>		
<i>Risks to foreign subsidiaries</i>	<ul style="list-style-type: none"> <li>Regulatory and operational risks of foreign subsidiaries.</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining good relationships with agencies and organisations where the subsidiaries are located.</li> <li>High-quality standards in the services offered.</li> <li>Monitoring of regulatory developments and economic evolution.</li> <li>Monitoring of the projects undertaken by subsidiaries.</li> </ul>

RISK	POTENTIAL IMPACT ON THE BUSINESS	ACTION PLAN
<b>RISKS THAT MAY EMERGE IN THE FUTURE</b>		
<i>Uncertainty in the development of the european regulatory framework</i>	<ul style="list-style-type: none"> <li>Regulatory changes with an impact on the activities of Red Eléctrica.</li> </ul>	<ul style="list-style-type: none"> <li>Active participation in ENTSO-E.</li> <li>Increased role in international forums.</li> <li>Communication with the European regulator.</li> </ul>
<i>Major environmental and social demands in projects</i>	<ul style="list-style-type: none"> <li>Delays or increased costs in the execution of projects.</li> </ul>	<ul style="list-style-type: none"> <li>Communication plan for the environmental and social activity.</li> <li>Maintain relationships with relevant institutions.</li> </ul>
<i>Increase in uncertainty regarding international policy</i>	<ul style="list-style-type: none"> <li>Worsening of the situation regarding markets and international relations.</li> </ul>	<ul style="list-style-type: none"> <li>Development of business diversification activities in countries and regions with political and economic stability.</li> </ul>
<i>Changes in the electricity model due to the appearance of new technologies</i>	<ul style="list-style-type: none"> <li>Cost to adapt to the changes.</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency action contemplated in the Group's Strategic Plan.</li> <li>Approval of the innovation strategy of the Group.</li> </ul>



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

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

To do this, Red Eléctrica has a set of rules of conduct that establish

corporate values and performance criteria that must be undertaken by all persons within the Company in the execution of their professional activities.

In addition, the Company is developing a new Regulatory Compliance System aligned with best practices in this area, in order for the organisation to adequately respect the obligations established and the commitments undertaken

and thus develop a proactive culture towards the management of risk regarding non-compliance.

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

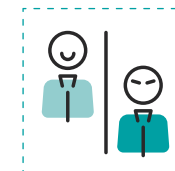
## Code of Ethics

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

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



## RED ELÉCTRICA'S CODE OF ETHICS



## PROFESSIONAL ETHICS GUIDE FOR ADMINISTRATORS AND EMPLOYEES

**Sets out the values and commitments that should govern their activity**

## COMPLIANCE SYSTEM

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

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

### Awareness-raising actions

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

### ETHICS MANAGEMENT SYSTEM



25 SESSIONS HELD WITH THE ETHICS MANAGER

With 89.8% of the workforce attending

### 'REE VALUES' PROJECT

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

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

Manager. These sessions have the participation of the Ethics Manager and Stakeholder Ombudsman of Red Eléctrica.

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

In this process of bringing the values and commitments set out in the Code of Ethics closer to its staff, the 'Red Eléctrica's Values' initiative was approved as a leadership objective and was carried out in 2016. The aim of

this initiative was to communicate Company values among employees and generate internal debate regarding its application within each unit, taking into consideration the singularities of each of the units. This communication and debate process has involved all employees and has had the involvement of those responsible for the various units of the Company. In these sessions, the current values were presented and those, which were considered most relevant in the opinion of its employees of each unit, were debated and the possible areas for improvement were also discussed. / G4-S04

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

## Supplier code of conduct

Red Eléctrica has a specific code of conduct for its suppliers in which stresses the requirement to comply with the respect for human rights, equality and the integration of people with disabilities and supplier compliance with the requirements regarding the environment and occupational health and safety in the procurement of products

or services required by the Company, whether they are carried out directly or through other companies.

## Ethics manager

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

- Resolve enquiries and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.
- Establish proceedings regarding grievances through the verification and investigation of the business conduct of those employees or organisational units reported.
- Develop action plans to resolve the grievances reported and submit them for approval by the Chairman of the Red Eléctrica Group or the Chairperson of the Audit Committee if it affects any member of the Management Committee.

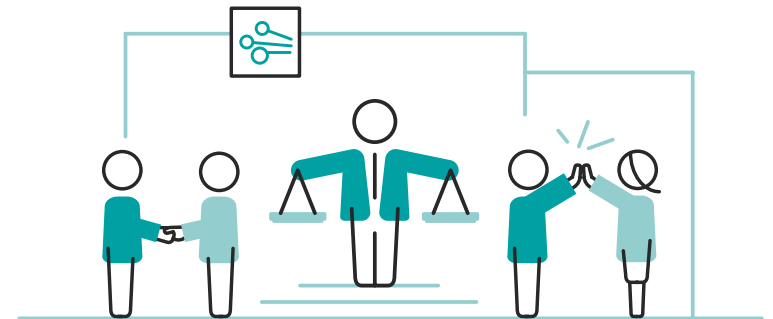
## SUPPLIER CODE OF CONDUCT



## RESPECT FOR HUMAN RIGHTS

Affects both direct and indirect suppliers

- Keep an updated record on the process [enquiries, grievances, administrative proceedings and communications with interested parties].
- Keep claimant abreast on the status and resolution of enquiries or grievances, when required.
- Draft a periodic report on the review of the reporting system and propose actions to improve the management system.
- Maintain at all times the confidentiality of the claimant, unless legally required to disclose this information.
- Carry out the functions assigned under the principles of independence, rigour and fairness.



## Whistle-blowing channel / G4-DMA / G4-57 / G4-58 / G4-HR12 / G4-LA16 / G4-S05 / G4-S011

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

In addition, Red Eléctrica has another channel for reporting non-compliance, grievances, enquiries and suggestions regarding ethical matters through its Stakeholder Attention Centre DÍGAME, in order to provide a reporting channel for requests

from external stakeholders who are not aware of the whistle-blowing channel. This service will transfer to the Ethics Manager the requests received, preserving their confidentiality.

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

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

- Responsible monitoring of the management of suppliers.
- Safeguarding of information and data.

- Limitation on the acceptance of gifts, loans or invitations.
- Rational use of energy and basic resources.
- Respect, integrity, accountability and transparency within the organisation.

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

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

## WHISTLE-BLOWING CHANNEL



## AUDITED CHANNEL GUARANTEEING CONFIDENTIALITY

For communicating enquiries, grievances or suggestions

## DÍGAME SERVICE

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

## Criminal risk prevention

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

This programme, approved by the Board of Directors of the Red Eléctrica Group at its meeting on 24 November 2011, has a control body that monitors its compliance and undertakes specific measures

to ensure it is adequately updated and implemented. In addition, it regularly reports to the Audit Committee on the actions taken, improvements proposed, updates thereto, measures agreed as well as any other aspect considered relevant in the performance of its duties.

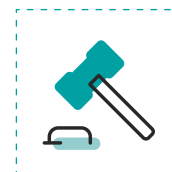
This body is composed of the following members:

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

## Noteworthy actions 2016

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

### CRIMINAL RISK PREVENTION



SINCE  
**2011**

IT HAS  
A CONTROL  
BODY AND  
PROGRAMME

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

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

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

Also, the Ethics Manager informs the Control and Monitoring Body

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

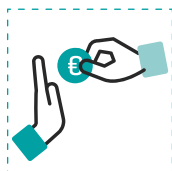
In 2016, the Ethics Manager received no grievances regarding infringements related to criminal risks and none of the companies of the Group has been investigated or convicted of infringements related to the criminal risks of the organisation.

### Prevention of corruption / G4-DMA

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

In addition, the Board of Directors approved the Guide for the Prevention of Corruption that sets

### CORRUPTION ASSESSMENT



IN  
**100**  
%  
OF THE  
MANAGEMENT  
AREAS OF  
RED ELÉCTRICA

No risks were identified in said audits

out corporate values and business behaviour contained in the Code of Ethics related to the main manifestations of corruption. All persons of the Red Eléctrica Group are obliged to know and accept the contents of this guide and review their behaviour based on the principles, commitments and controls established. / G4-S04

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

In 2016, 100% of the management areas of Red Eléctrica de España have been assessed regarding the various risks related to corruption; no risks were identified in said audits. / G4-S03 / G4-S05

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

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

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







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

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

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

### Human rights / G4-DMA

Red Eléctrica defines an explicit commitment to Human Rights in its corporate values and its

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

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

through the formal grievance mechanisms on human rights. / G4-HR12

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

SPANISH GLOBAL COMPACT NETWORK



# 2016

RED ELÉCTRICA OBTAINED THE EVALUATION OF **EFFICIENT MANAGEMENT** REGARDING HUMAN RIGHTS MATTERS

According to the application of this organisation

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

In 2016, in order to achieve the adequate adoption of the Guiding Principles, Red Eléctrica reviewed the analysis of the Company's current management in this area using the IT application of the Spanish Network of the Global Compact. Red Eléctrica was awarded the 'efficient management' rating. The analysis,

## SUPPLIER CODE OF CONDUCT



ESTABLISHES THE **DUTY OF RESPECTING** THE PRINCIPLES OF THE UNIVERSAL DECLARATION ON HUMAN RIGHTS

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

which identified a low risk level for Red Eléctrica in all categories of Human Rights, aims to serve as a roadmap for the Company in the implementation of a management model focused on protecting, respecting and repairing Human Rights at all levels within the Company.

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

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

all those units that, due to the responsibility incumbent on them, are strategic for its implementation.

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