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Society now enjoys a level of empowerment which allows it to demand that companies act more responsibly in the way they do business. This responsibility encompasses not only all the activities carried out by a company, but to all those necessary for the development of its products and services, including the management of its supply chain and the relationship with its customers and stakeholders.

In this regard, the Red Eléctrica Group takes on the following commitment as one of its sustainability priorities:

Extend our commitment to responsibility to all links in the value chain, ranging from our own people to suppliers and customers, accomplishing this through the creation of partnerships and by basing it on our governance and integrity model.



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CORPORATE GOVERNANCE





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Corporate governance

GOVERNANCE OF THE RED ELÉCTRICA GROUP

Red Eléctrica's commitment to adopting the best corporate governance practices is materialised in a management that goes beyond legal compliance and the main recommendations at both national and international level.

The Company has voluntarily implemented measures and initiatives that seek to respond to the concerns of shareholders, investors and markets, addressing the core issues of greatest relevance in the good governance of the Company.



Corporate governance recognition by the 'Ethical Boardroom Magazine' for the second year in a row.



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Noteworthy actions in 2017

BOARD ACTIVITY

- Implementation of the Regulations of the Board of Directors approved in December 2016.
- Complete digitalisation of the sessions of the Board of Directors and its Committees.
- Ongoing reinforcement of gender diversity on the Board of Directors with the appointment of a female nominee director.
- Appointment, ratification and re-election of three board members at the General Shareholders' Meeting, with an average of 97.88% of the votes in favour.
- Development and implementation of the new Compliance System.
- Assessment of the Board of Directors with the collaboration of a new external consultant.

ADAPTATION AND REVISION OF PROCEDURES

- Review and approval of the contingency plans for the succession of the Chairman of the Board and the CEO.

- Adaptation of the Internal Code of Conduct on the Securities Market to the European Regulation on Market Abuse.
- Approval of the new Induction Plan for new board members.

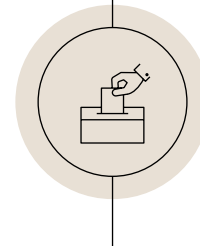
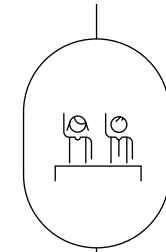
COMMUNICATION

- New design and revision of the contents of the Annual Corporate Governance Report 2017 in order to maintain a position of leadership in corporate governance.
- Transparency in matters of tax policy.
- Annual disclosure of improvements regarding corporate governance.

RECOGNITIONS

- Corporate governance recognition, for the second year in a row, by the prestigious English publication 'Ethical Boardroom Magazine'.
- Recognition as a World and European leader in the electric utilities and utilities super-sector in the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index.

Appointment of BOARD MEMBERS



3 new members

97.88

%

of the votes in favour

at the Ordinary General Shareholders' Meeting

Internal rules of governance

31 December 2017

- Code of Ethics
- Corporate By-laws
- Regulations of the Board of Directors
- Internal Code of Conduct on the Securities Market
- Regulations of the General Shareholders' Meeting
- Procedure on proxies, voting and information by remote means at the General Shareholders' Meeting [referring to the Ordinary General Shareholders' Meeting held in 2017]
- Operating Rules of the Shareholders' Electronic Forum [referring to the Ordinary General Shareholders' Meeting held in 2017]

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CORPORATE SHAREHOLDING STRUCTURE

As at 31 December 2017, 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 coming 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



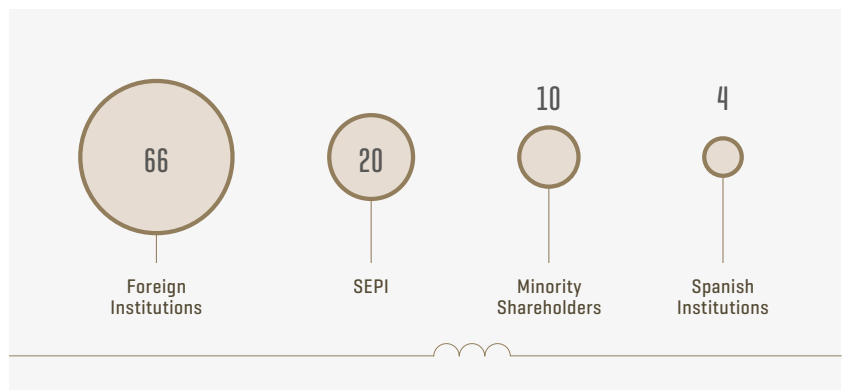
and agents. In this regard, the following limits were established:

- 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.
- 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.

- 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.

In 2017, the share capital of the Company was comprised of a 20% shareholding owned by SEPI, with the remaining 80% being free float.

Shareholding structure %

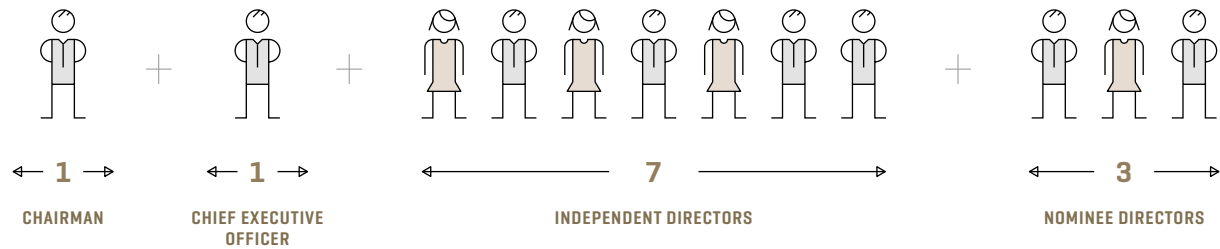


GOVERNANCE STRUCTURE
102-18 / 102-22

GENERAL SHAREHOLDERS' MEETING

BOARD OF DIRECTORS
AS AT 31 DEC 2017

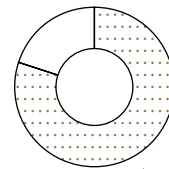
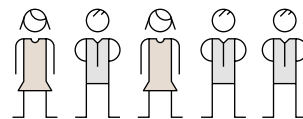
33.3% WOMEN



58.3%

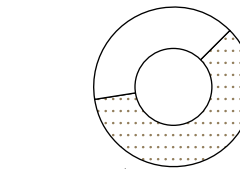
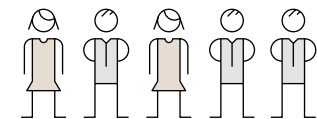
AUDIT COMMITTEE

CHAIRMAN
Independent director



APPOINTMENTS AND REMUNERATION COMMITTEE

CHAIRMAN
Independent director



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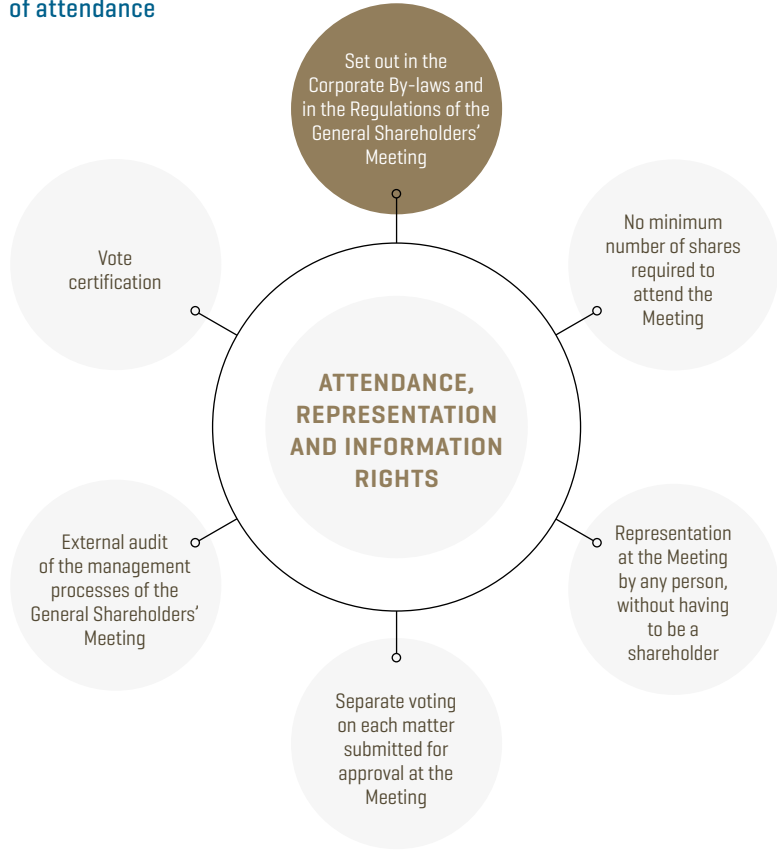
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GENERAL SHAREHOLDERS' MEETING

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

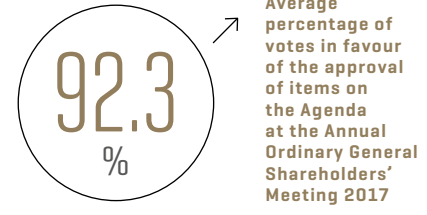


Transparency and participation

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:

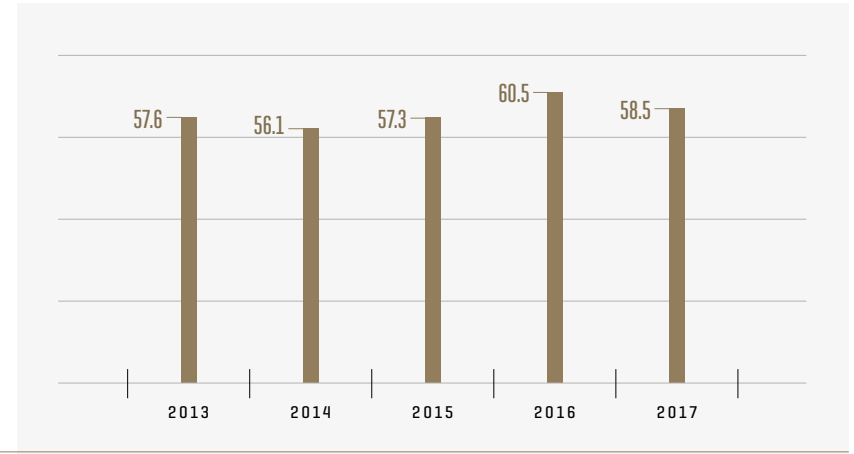
- Live broadcast of the Meeting via Internet, with simultaneous translation in English and sign language in Spanish.
- Shareholders' Electronic Forum.
- Dissemination via social networks.
- Shareholders and investors office.

- Implementation of the electronic voting system at the General Shareholders' Meeting since 2005.
- Section on the corporate website with complete information regarding the Meeting.



Percentage of attendees at the Ordinary General Shareholders' Meeting

% over share capital



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BOARD OF DIRECTORS 102-22 / 102-26

The Board of Directors governs, manages and represents the Company, notwithstanding the powers that correspond to the General Shareholders' Meeting. It carries out its duties and responsibilities according to

the rules of organisation and functioning 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

Approval of the general policies and strategies of the Company and the Group, with special mention for the risk management control policy.



Decision

Decision-making on appointments of senior directors who may report directly to the Board or any of its members, remuneration of board members, financial information, strategic investments or transactions, creation or participation in special purpose entities or with registered offices in tax havens and authorisation regarding related-party transactions.



Assessment

Annual assessment of the quality and efficiency of the Board and the functioning of its Committees.

During 2017, the Board of Directors held eleven (11) sessions and in the course of these sessions there were 4 attendances by proxy, so the

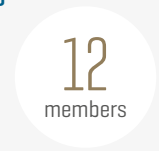
number of physical attendances stood at 128, representing an overall 97% attendance.

KEY INDICATORS OF THE BOARD OF DIRECTORS

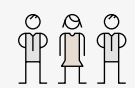
REDUCED AND BALANCED BOARD



1 Chairman



1 Executive board member

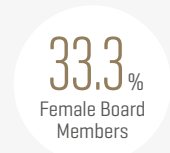


3 Nominee directors



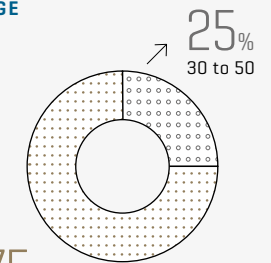
7 Independent directors

DIVERSITY ON THE BOARD



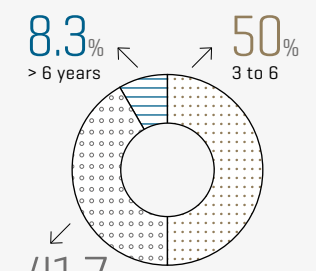
IBEX 35 Average: 19.7% [CNMV. 2016 data]

AGE



75% > 50 years

LENGTH OF SERVICE (1)



41.7% < 3 years

(1) Average term of office of Directors 3.6 years.



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Full separation of duties and powers, since 2016, between the position of Chairman of the Board of Directors and that of Chief Executive Officer.

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 interest of its stakeholders and of society as a whole, as well as the sustainability of the Company.

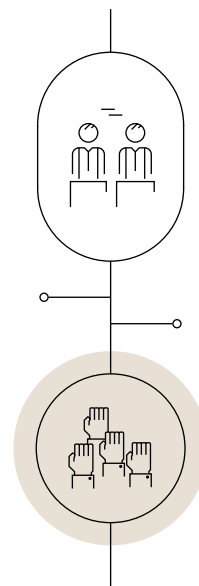
Separation of the positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) / 102-23

Responding to the commitment undertaken by the Company's Chairman at the General Shareholders' Meeting held in April 2012, and the 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 Francisco 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 Francisco Lasala Bernad as the new CEO of the Company.

In order to complete the process for the separation of powers, a transition phase was established which culminated at the Annual Ordinary General Shareholders'

Separation OF POSITIONS



Between that of Chairman and CEO after the favourable vote of

99 %

of the shareholders

58% percentage attendance

Meeting in 2016, with the full separation of the duties between 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 the 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 said role, is recognised by shareholders and proxy advisors as an effective corporate governance practice.

BOARD OF DIRECTORS / AS AT 31 DEC 2017
CHAIRMAN


**José
Folgado Blanco**

**CHIEF EXECUTIVE
OFFICER**


**Juan Francisco
Lasala Bernad**

**NOMINEE
DIRECTORS
[SEPI] ***


**Fernando
Fernández
Méndez de Andés**
*Member of the
Audit Committee*



**Santiago
Lanzuela Marina**
*Member of the
Appointments and
Remuneration Committee*



**Mercedes Real
Rodríguez**
*Member of the
Appointments and
Remuneration Committee*



**Carmen Gómez
de Barreda
Tous de
Monsalve**
*Member of the
Appointments and
Remuneration Committee
and Lead Independent
Director*

**GENERAL COUNSEL
AND SECRETARY
OF THE BOARD**


**Rafael García
de Diego Barber**
Non-Board Director

INDEPENDENT DIRECTORS


**María José
García Beato**
*Member of the
Audit Committee*



**Socorro
Fernández Larrea**
*Member of the
Audit Committee*



**Arsenio Fernández
de Mesa y Díaz del Río**
*Member of the
Audit Committee*



**Antonio
Gómez Ciria**
*Chairman of the
Audit Committee*



**José Luis
Feito Higuera**
*Chairman of the
Appointments and
Remuneration Committee*



**Alberto
Carbajo Josa**
*Member of the
Appointments and
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The Company has a reduced, effective and efficient Board. It is the key driver and lever of good corporate governance and the cornerstone of the Company's strategic framework.

[*] SEPI: State-owned Industrial Holding Company.



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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 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 2017, this commission held 11 meetings, with one absence and one attendance by proxy having been registered.

APPOINTMENTS AND REMUNERATION COMMITTEE

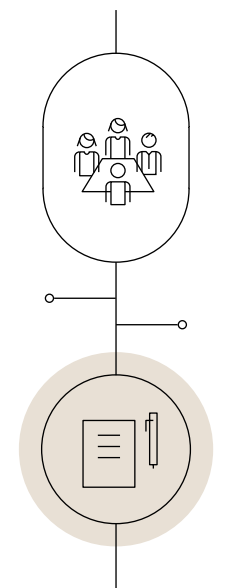
This Committee has duties and powers assigned to it regarding the appointment and removal of board members and senior executives, their remuneration, the fulfilment of their duties as administrators and their respect for the principles and rules of corporate governance and that of the Corporate Responsibility Policy. In addition, on an annual basis, it drafts a specific report on diversity and gender equality that is submitted to the Board for approval.

During 2017, the Appointments and Remuneration Committee held 11 meetings, with one attendance by proxy having been registered.

DELEGATION OF ECONOMIC, SOCIAL AND ENVIRONMENTAL MATTERS 102-19 / 102-20

The policy of the Board is to delegate the day-to-day management of the Company and that of the Group to the executive bodies and the

Meetings 2017



11

MEETINGS

of the Audit Committee and of the Appointments and Remuneration Committee



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management team and focus its activity on the overall supervision and approval of the essential guidelines for action.

As a result of the separation of the duties and powers of the Chairman of the Board and of the Chief Executive Officer, the Company has two clearly differentiated management bodies composed of senior executives:

The Advisory Committee to the Chairman's Office, headed by the Chairman of the Board and the Executive Committee, chaired by the CEO. In both committees, the secretary of the Board of Directors acts as secretary.

With the creation of both separate committees, attempts have been made to replicate, within the organisation, the model of

separation of duties and powers between the Chairman and the Chief Executive Officer so that the Committee chaired by the Chairman exercises the duty of strategic supervision and control, while the Committee chaired by the CEO carries out a permanent monitoring of the development of the business and of the corporate activities.

is: to consolidate, develop and nurture symmetrical mechanisms of dialogue and engagement with shareholders, investors and key stakeholders seeking to improve relationships, increase levels of engagement and thereby increase their confidence in the organisation.

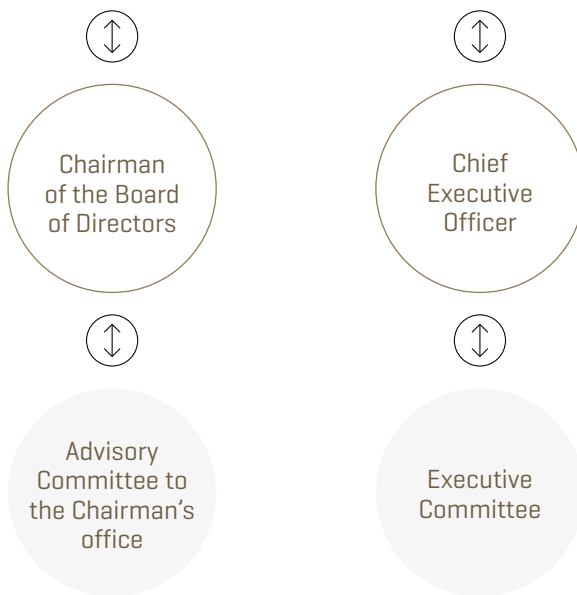
In compliance with this principle, Red Eléctrica strives to fulfil the demands of institutional shareholders, given their noteworthy presence in the Company's shareholding structure, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relationship with them, increase commitment and strengthen their trust, notwithstanding the guarantees and equal treatment enjoyed by other shareholders.

DIALOGUE BETWEEN STAKEHOLDERS AND THE HIGHEST GOVERNANCE BODY 102-21 / 102-33 / 102-34

One of the underlying principles of the Corporate Governance Policy of Red Eléctrica and that serves as a benchmark for the performance of the Company in its relationship with its stakeholders

Red Eléctrica seeks to improve relationships, increase the level of engagement with shareholders, investors and key stakeholders and thereby increase their confidence in the organisation.

BOARD OF DIRECTORS





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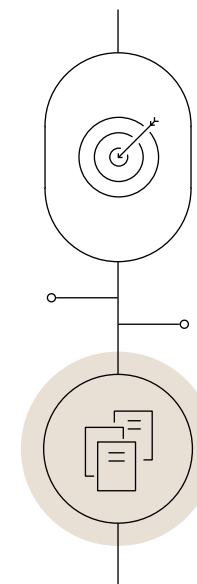
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Commitment TO SHAREHOLDERS



Periodic and standardised information **REGARDING** the environmental, social and good corporate governance **OBJECTIVES**

Red Eléctrica undertakes the commitment to provide its shareholders with periodic and standardised information that communicates the corporate environmental, social and good governance objectives that are part of the Company's social interest.

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

Governance Report and in the Regulations of the Board [Articles 39-44], and in the criteria regarding communication with shareholders, institutional investors and proxy advisors, the highest governance body has other consultation mechanisms for the interaction with stakeholders among which the following are noteworthy:

- Consultation and whistle-blowing channels regarding the Code of Ethics.

- Social representation/ committees.
- Stakeholder satisfaction reports.
- *Dígame* Service.

During 2017, there have not been any relevant issues stemming from the management reports of said channels that required their submission to the Board.



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The Appointments and Remuneration Committee defines the ideal profile for the Board member position considering aspects such as: expertise in the energy, business and financial sectors; experience on Boards of Directors, as well as in the management of organisations and management teams.

SELECTION OF BOARD MEMBERS 102-24

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.

Similarly, in this matter, the Appointments and Remuneration Committee has criteria that define the ideal profile to take up the position of board member, defining

the qualities, competencies and experience that the ideal candidate should meet in order to hold a position on the Board.

As initial values for the analysis of the candidate for board member, said profile takes into account, experience and knowledge of the energy sector, experience in business and on boards of directors and other governing bodies of public or private entities, on the boards of directors of listed companies, experience in finance and financial markets, and the management of organisations and management teams, as well as knowledge of other languages.

In addition, before issuing its report or formulating a proposal for the appointment of a board member, the Appointments and Remuneration Committee always analyses the diversity of profiles and contributions of the current members of the Board of Directors,

in order to ensure that at all times the Board has the knowledge and experience necessary to successfully address upcoming challenges and efficiently and proactively progress in the fulfilment of the strategies and objectives of the Company and the Red Eléctrica Group.

For the drafting of the aforementioned proposal, the Appointments and Remuneration Committee request, when deemed necessary, among other proposals and suggestions, the opinion of international external advisors specialised in the selection process of board members. These advisors propose different candidates and issue the corresponding reports in which they assess the competences and experience of each candidate. These reports are carefully analysed and

assessed by the Appointments and Remuneration Committee so that a proposal for the appointment of a board member can be drafted and submitted to the Board.

In this regard, when evaluating the candidates participating in the selection process, the procedure takes into account the competences, training, experience, professionalism, suitability, gender, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at each moment, being the Appointments and Remuneration Committee that takes on the most important role in this process.

The appointment and removal of board members, as well as the ratification of appointments by co-optation, if applicable, is subject to approval at the General Shareholders' Meeting.

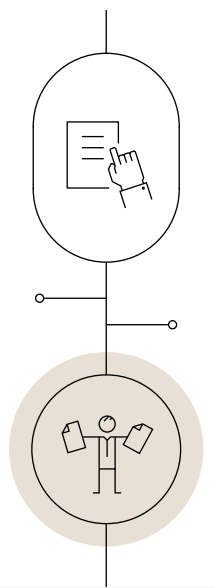
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CONFLICTS OF INTEREST 102-25

In relation to the board members, in accordance with article 31 e) of the Regulations of the Board, they must adopt the necessary measures to avoid situations in which their interests, whether for their own account or that of another, can come into conflict with the corporate interests and their duties to the Company. Article 32 of the Regulations of the Board sets out details regarding the duty to avoid situations of conflicts of interest referred to in article 31 e) and specifically in relation to those situations in which the board member must abstain. In all events, board members must disclose to the Board of Directors any situation of direct or indirect conflict that they, or their related persons may have with the interest of the Company. The situations of conflict of interest that involve board members shall be disclosed in the notes to the annual financial statements.

Regarding the senior management, conflicts of interest are regulated by the Code of Ethics, specifically in Section 6 of said Code.

Regulations OF THE BOARD



Article 32 establishes the duty to avoid **CONFLICT OF INTEREST** situations

The situations of conflict of interest that involve board members shall be disclosed in the notes to the annual financial statements

The annual assessment of the functioning and performance of the Board of Directors had **the collaboration of a new external consultant.**

ASSESSMENT OF THE COMPETENCIES AND PERFORMANCE OF THE BOARD 102-27 / 102-28

For many 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 this is conducted with the support of independent external advisors. The process corresponding to 2016 has had the collaboration of a new external consultant and was 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 published in the Annual Corporate Governance Report. The Board of Directors has agreed to initiate a new process of self-assessment of the Board, related to 2017, with the support of an external consultant.

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. As a new element in this regard, in 2017

APPROVAL of the new Induction Plan for new board members.

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a new induction plan was approved for new board members that sets out the essential information, documentation and training that must be provided to new board members incorporated into to the Company.

In addition, on a periodic basis, 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 **Board members intranet**, in which relevant information is published, such as the minutes of the meetings held by the Board and its Committees, as well as corporate information of interest regarding economic, social and environmental issues. Also, noteworthy in 2017 was the full digitalisation of the sessions of the Board of Directors and the Board Committees, whereby meetings are already being held via mobile devices [tablets and smart phones] and in addition access to a custom-designed corporate intranet was made available.

Since 2015, **ESG criteria** [environmental, social and corporate governance] has been applied in the calculation of the **variable remuneration** of the Chief Executive Officer and senior management.

REMUNERATION OF THE BOARD 102-35 / 102-36 / 102-37

Red Eléctrica 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 and 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 executive board members also includes variable remuneration elements linked and aligned with the short and long-term objectives of the

Company. The proposal regarding remuneration of the Board was approved by a clear majority at the General Shareholders' Meeting held on 31 March 2017 with just 0.7 percent of votes against. It is a well-known fact that for many years the public shareholder SEPI abstains with regard to the vote at the Ordinary General Shareholders' Meeting on proposals regarding Board remuneration and that this is the stance it maintains in the listed companies in which it has a minority shareholding.

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Noteworthy aspects regarding the remuneration of the Board

Since 2010, Red Eléctrica has voluntarily submitted the Annual Report on Remuneration of Directors and, since 2007, the proposal for 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 Shareholders' Meeting. Therefore, the proposals and reports on these matters are submitted to the shareholders and are binding in nature.

In 2017, this same course of action was continued and the proposal for the remuneration of the Board of Directors for 2017 and the Annual Report on Remuneration of Directors were submitted to the

ALL THE DETAILED INFORMATION

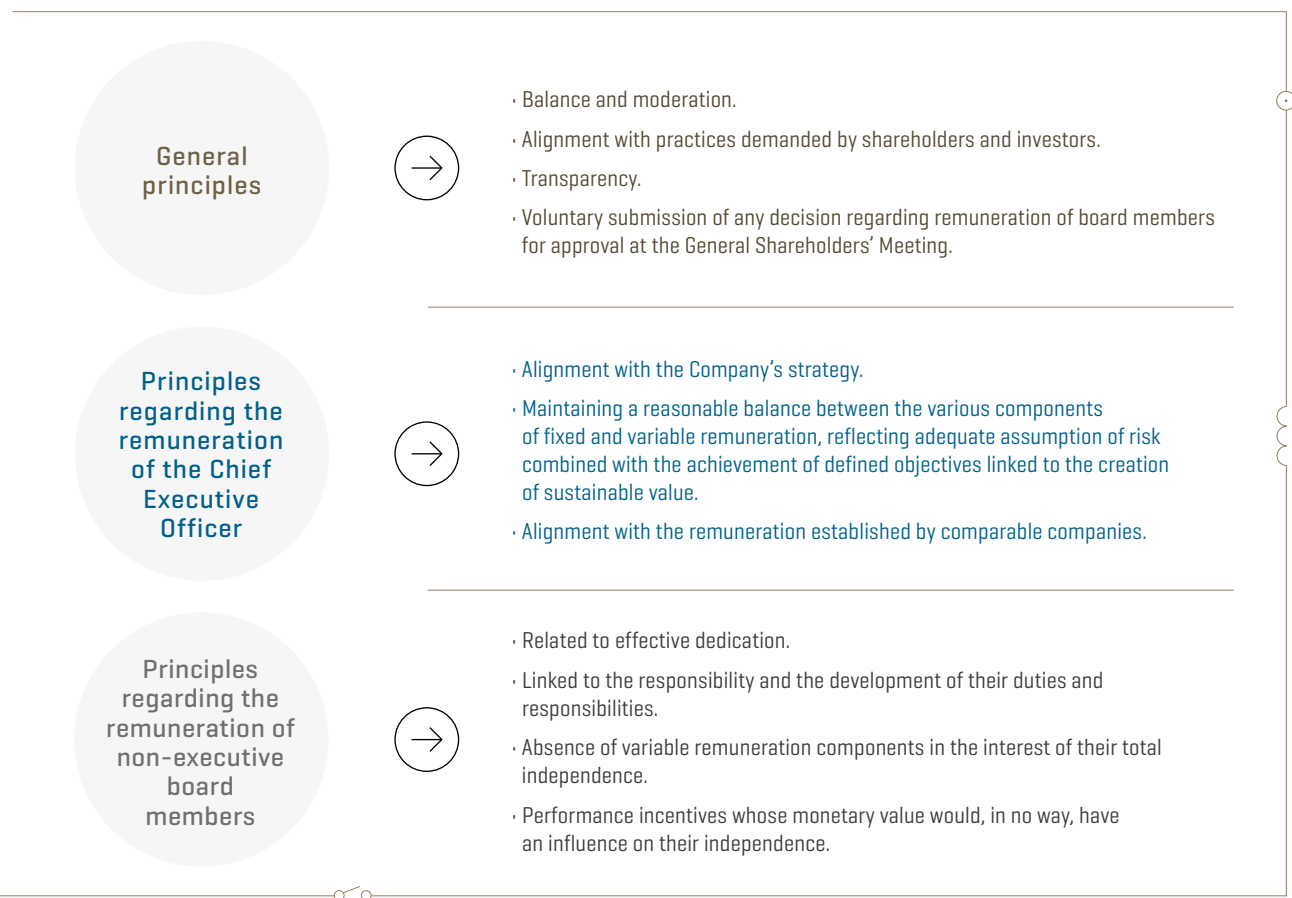
regarding the remuneration of the Board of Directors can be found in the Annual Report on Remuneration of Directors and in the remuneration policy of the Board of Directors, available in the Corporate Governance section on the corporate website.

shareholders' approval (binding vote) as separate and independent items on the Agenda of the Ordinary General Shareholders' Meeting. In this way, Red Eléctrica Corporación S.A. has continued to align itself with the best practices of corporate governance, which aim to provide shareholders

with sufficient autonomy and independence of criteria to vote individually and separately on each of the items on the Agenda, of a diverse nature, which correspond to the competence of the General Shareholders' Meeting.

Principles of the remuneration policy

The Remuneration Policy of Directors, 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 principles shown below:





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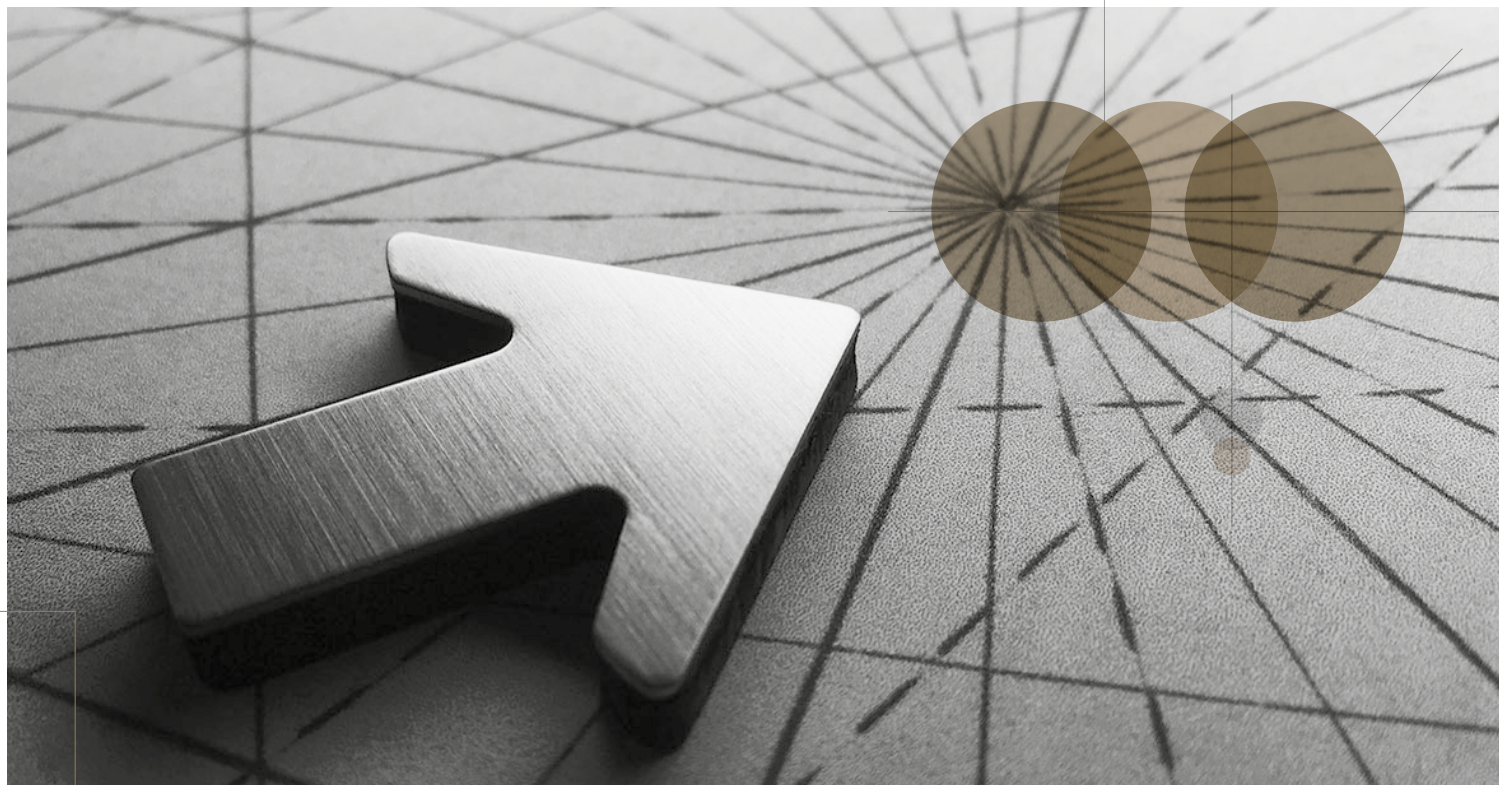


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ETHICS AND COMPLIANCE OF THE RED ELÉCTRICA GROUP



Ethics and compliance of the Red Eléctrica Group

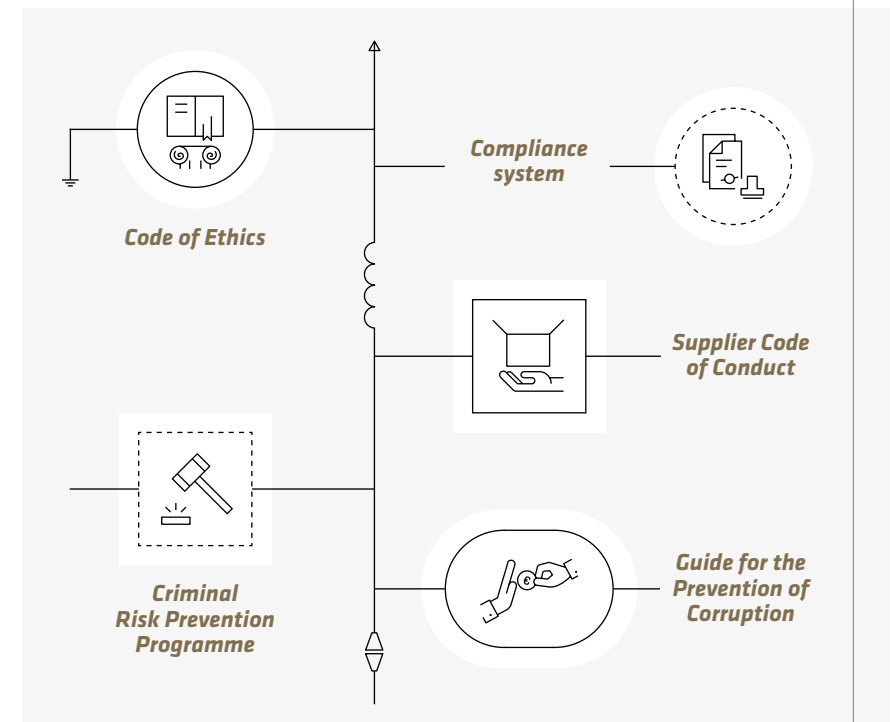
[/102-16](#) / [/102-17](#) / [/103-1](#) / [/103-2](#) / [/103-3](#)

Ethics and compliance for the Red Eléctrica Group are fundamental pillars for the proper functioning of the business activity. This means acting with the utmost integrity in carrying out the obligations and commitments entrusted to the Group, as well as in the relationship with its stakeholders.

The Red Eléctrica Group has a series of corporate conduct rules that establish the values and business conduct guidelines that must be undertaken by every single person in the Group in the performance of their professional activities.

In addition, the Group has a Compliance System aligned with the best practices in this area, in order that the organisation adequately respects the established obligations and commitments undertaken, all based on a proactive culture regarding the management of compliance risks.

INTEGRITY MODEL OF THE RED ELÉCTRICA GROUP



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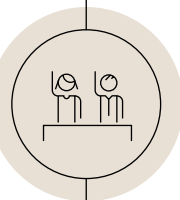
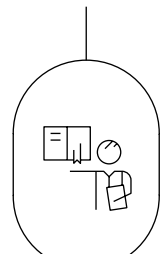
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CODE OF ETHICS

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 Group.

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 the aim of taking on board the requirements of stakeholders and the recommendations of the international organisations of repute 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.

Code of ETHICS



APPROVED IN 2013

by the Board of Directors

Professional ethical guide for the corporate management and employees of the Group



SUPPLIER CODE OF CONDUCT

The Red Eléctrica Group has a specific code of conduct for its suppliers in which it stresses the requirement to comply with the respect for **human rights**, and compliance with the requirements of the **environment and occupational health and safety**

by its suppliers, in the procurement of products or services required by the Group, whether they are carried out directly or through other companies.



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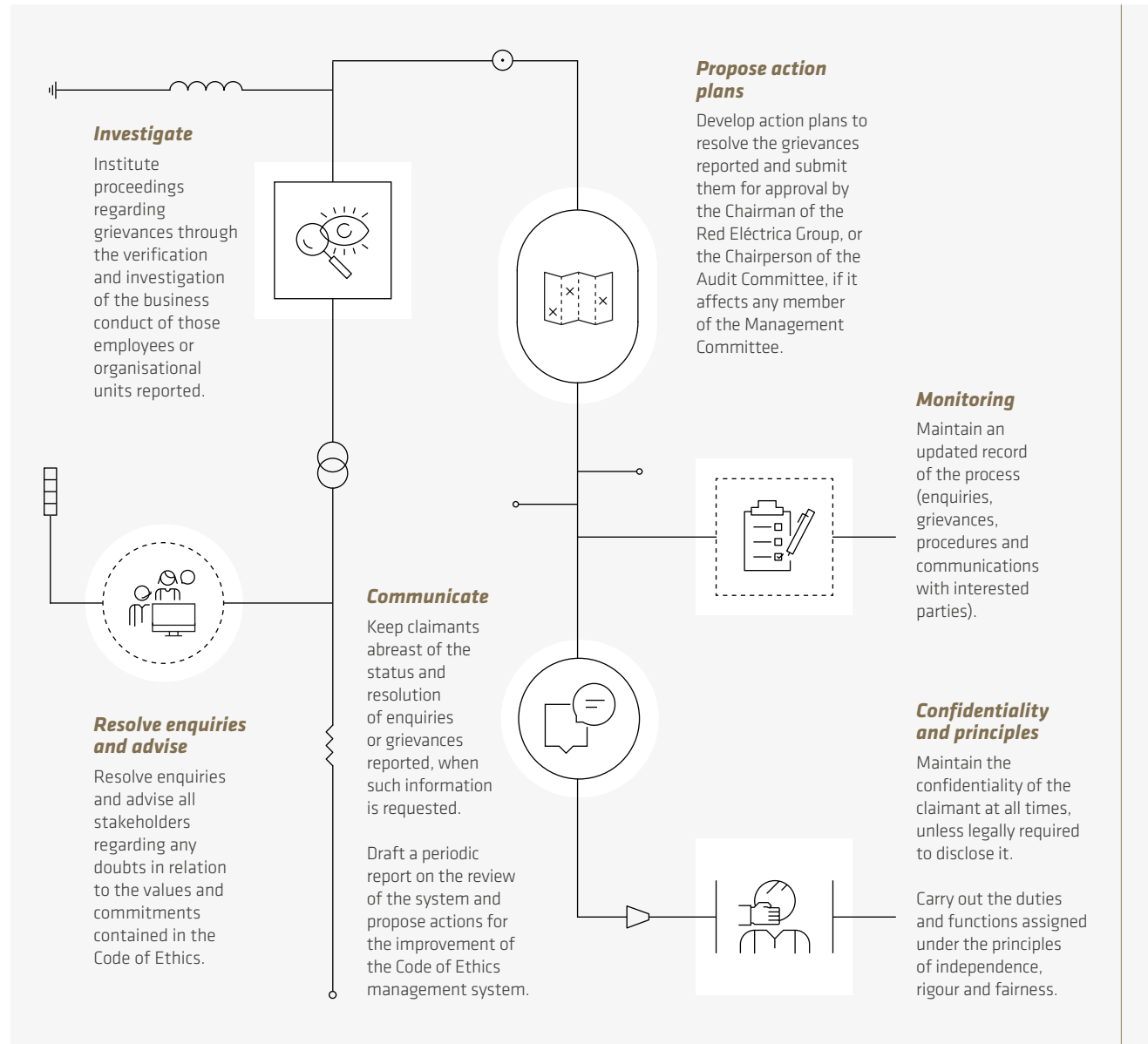
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ETHICS MANAGER

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:



Investigate

Institute proceedings regarding grievances through the verification and investigation of the business conduct of those employees or organisational units reported.

Propose action plans

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.

Monitoring

Maintain an updated record of the process (enquiries, grievances, procedures and communications with interested parties).

Resolve enquiries and advise

Resolve enquiries and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.

Communicate

Keep claimants abreast of the status and resolution of enquiries or grievances reported, when such information is requested.

Draft a periodic report on the review of the system and propose actions for the improvement of the Code of Ethics management system.

Confidentiality and principles

Maintain the confidentiality of the claimant at all times, unless legally required to disclose it. Carry out the duties and functions assigned under the principles of independence, rigour and fairness.

In 2017, the Ethics Manager received a total of 26 enquiries through the whistle-blowing channel with a maximum resolution time of 10 days.



WHISTLE-BLOWING CHANNEL 102-16 / 102-17 / 406-1

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 communicated to the Ethics Manager. This channel is audited periodically and guarantees the confidentiality of all users.

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.

CHANNELS OF COMMUNICATION WITH THE ETHICS MANAGER



DÍGAME SERVICE



In 2017, 26 enquiries were received by the Ethics Manager through the whistle-blowing channel, with a maximum resolution period of 10 days. Enquiries received have referred to the following areas of business conduct:

- Integrity, accountability and transparency.
- Respect, dignity and non-discrimination.
- Responsible monitoring of the management of suppliers.
- Limitation on the acceptance of gifts, loans or invitations.
- Adequate safeguarding of information and related systems [Information Assurance].

In 2017, seven grievances were received in relation to compliance with the Code of Ethics, five of them were resolved during the year and two are in the resolution phase. More precise information on 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.



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The compliance function has the objective of promoting a global and anticipatory vision of compliance risks, ensuring an efficient control of said risks, guaranteeing the coordination and standardisation of its management at a corporate level.

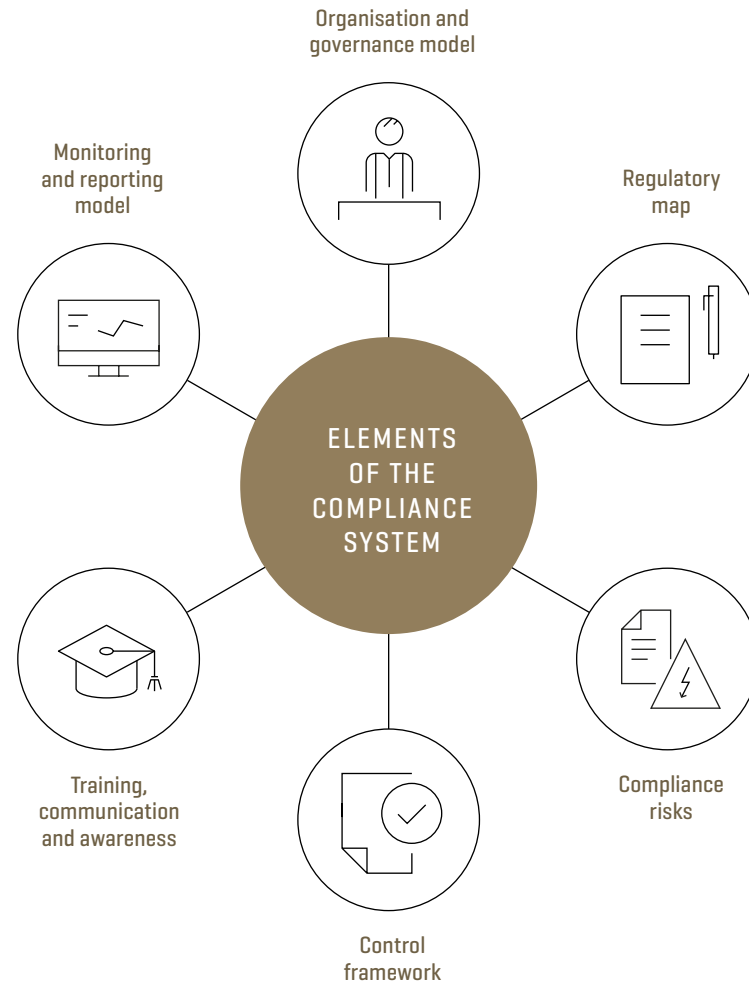
COMPLIANCE SYSTEM

The strengthening of the compliance function is one of the priority actions of Red Eléctrica. This is due, among other reasons, to the demands made by stakeholders requiring the Company to maintain high levels of service excellence and ethical standards when carrying out its functions. Other reasons include the increasing geographical diversification of the Red Eléctrica Group and the progressive development of its scope of activities.

Red Eléctrica has a Compliance System aligned with the best practices in this area, in order that the organisation adequately respects the established obligations and commitments undertaken.

The compliance function has the objective of promoting a global and anticipatory vision of compliance risks, ensuring an efficient control of said risks, guaranteeing the coordination and standardisation of its management at a corporate level, as well as improving internal control in the organisation.

Compliance SYSTEM





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The Compliance Unit, part of the Internal Audit and Risk Control Management Area, is entrusted with the design, development, implementation and monitoring of the Compliance System of the Red Eléctrica Group.

Objectives of the Compliance System

Ensure that external and internal obligations included in the regulations and voluntary commitments are both known and followed, as well as provide due control for their compliance.

Define and develop a compliance risk map for each of the defined regulatory areas.

Systematically identify, analyse and assess with uniform criteria the key controls that mitigate compliance risks.

Inform the control bodies of the Red Eléctrica Group of the status and evolution of compliance in each of the defined regulatory areas.

Promote a corporate culture based on ethics and compliance.

Red Eléctrica continuously promotes a culture based on ethics and compliance, as a fundamental element of due diligence in the management of compliance risks.

Development of a compliance culture

Awareness and training are key factors for the development of a compliance culture within the organisation. The Compliance Unit is responsible for promoting adequate awareness and dissemination actions to the entire organisation regarding the relevance and strategic nature of the Compliance System for

the Red Eléctrica Group within the integrity culture of the organisation.

Within its commitment to compliance, Red Eléctrica has become part of the Spanish Compliance Association (ASCOM). This organisation was set up in 2014 as the first association whose objective is to give professional status to the function of Compliance. In addition, it acts as a think tank to exchange ideas and best practices among the professionals and entities belonging to it.





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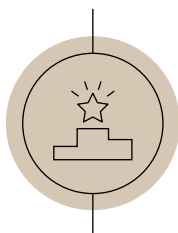


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Maximum SCORE

For the third consecutive year



IN THE SECTION
Code of Ethics / Compliance /
Anti-Corruption and Bribery

of the Dow Jones
Sustainability Index 2017

Noteworthy actions 2017

- Definition of a specific methodology for the assessment of compliance risks.
- Drafting of a preliminary map of compliance risks.
- Development of the awareness and dissemination plan regarding the compliance system.
- Implementation of the Compliance Forum.
- Maximum score (100 out of 100 points) in the Code of Ethics / Compliance / Corruption and Bribery section of the Dow Jones Sustainability Index 2017, for the third consecutive year.

Objectives 2018

- Review and update of the Code of Ethics of the Red Eléctrica Group to adapt it to the best practices in Compliance.
- Progress in the organisation and governance model of the Compliance System for the Red Eléctrica Group.
- Progress in the methodology for monitoring and controlling compliance risks.
- Development of the plan for training, awareness and dissemination of the compliance culture for 2018.



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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 a breach of

official regulations that carry criminal implications applicable to the Company and its staff, and to adapt it to the regulatory environment. The management and prevention of criminal risks that could affect it, according to its activity and business sector, is thus incorporated into the due diligence exercised by the Red Eléctrica Group.

This programme, approved by the Board of Directors of Red Eléctrica 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 2017, the Ethics Manager received no grievance regarding non-compliances related to criminal risks, and none of the companies of the Group have been investigated or convicted by any law court for breaches related to criminal risks of the organisation.

Members

- Ethics Manager
- Representative of the Internal Audit Department
- Representative of the Risk Control, Compliance and Quality Department
- Representative of the Legal Department
- Representative of the Organisation and Human Resources Planning Department

Receives reports from

- Internal Audit Department
- Risk Control, Compliance and Quality Department
- Legal Department
- Organisation and Human Resources Planning Department

In addition, the Ethics Manager reports on the grievances received with possible criminal implications, maintaining at all times the confidentiality of all the information received.



Functions

Periodically inform the Audit Committee about:

- actions carried out
- proposed improvements
- updates implemented
- agreed measures

Monitor the control measures associated with the scope of criminal risk prevention, its compliance and periodicity.

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PREVENTION OF CORRUPTION
 103-1 / 103-2 / 103-3 / 205-1 / 205-2 / 205-3

The **Code of Ethics** and the corresponding **management system for enquiries 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. The Code of Ethics must be observed by, and is incumbent upon, the governance bodies and employees of Red Eléctrica. Suppliers must, in turn, fully embrace and undertake to respect the organisation's **Supplier Code of Conduct**.

In addition, the Board of Directors approved the **Guide for the Prevention of Corruption** that sets out corporate values and business conduct guidelines contained in the Code of Ethics related to the main warning signs of corruption. All persons of the Red Eléctrica Group are obliged to know and accept the contents of this guide and review their conduct based on the principles, commitments and controls established therein.

In addition to the aforementioned, processes which could entail vulnerabilities regarding corruption or fraud risk are periodically monitored through internal audits by means of criminal risk and fraud risk prevention programmes which incorporate specific controls on said risks.

In 2017, in accordance with the business conduct guidelines contained in the Code of Ethics, in which any contribution to political parties or organisations is prohibited, no donations, grants or loans to political parties have been made on behalf of the Group.

Furthermore, Red Eléctrica carries out a corruption-risk assessment of its processes. In 2017, the highest levels of corruption risk were assessed.

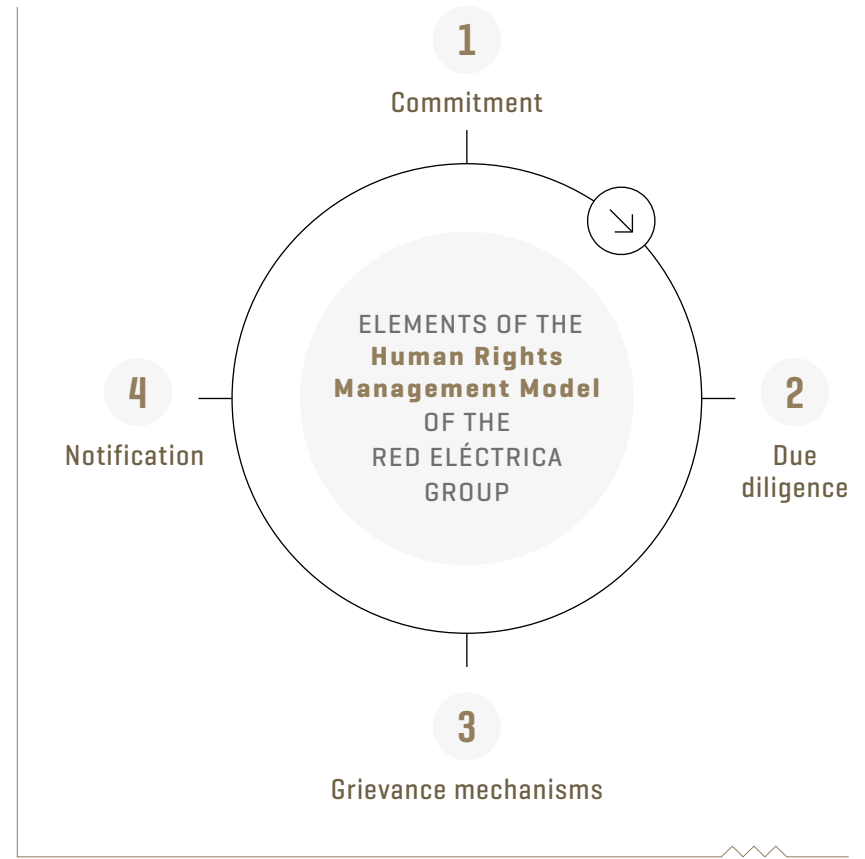
HUMAN RIGHTS
 103-1 / 103-2 / 103-3

Red Eléctrica formalised its Human Rights Management Model in 2017, which has been approved by the Sustainability Steering Committee. The development of this model, which follows the methodology defined by the Guiding Principles on Business and Human Rights of the

United Nations (UN), has had the participation of key organisational units of the Company that ensure a coordinated work effort regarding the respect for human rights.

The model embodies the full scope of the activities of the Red Eléctrica Group, defining commitments and

global grievance mechanisms for the main business activities and geographical areas in which the Group operates.





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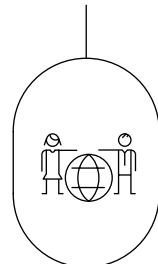
Although the activity of the Company, for the sector in which it belongs, has risks mainly linked to the areas of health and safety of people, working conditions, the supply chain and the impact on communities, the Red Eléctrica Group has control policies and mechanisms that minimise these risks and ensure respect for human rights.

Commitment to human rights
103-1 / 103-2 / 103-3 / 407-1 / 408-1 / 409-1

The Red Eléctrica Group maintains an explicit and public commitment to respect and promote human rights in the undertaking of its activities in all the territories in which it operates, paying special attention to vulnerable groups.

This commitment is included in the corporate values and in the business conduct guidelines established in the **Code of Ethics**. Similarly, the **Group's Corporate Responsibility Policy** establishes the promotion and respect of human rights as one of the basic principles and guidelines, implementing the

Commitment TO HUMAN RIGHTS



BY MEANS OF THE

Code of Ethics, the Corporate Responsibility Policy and the Supplier Code of Conduct

Red Eléctrica's commitment to human rights is reinforced by its membership of the **Spanish Network of the United Nations Global Compact** and its adherence to the ten principles of the Global Compact.

necessary mechanisms to ensure the absence of child labour, forced or compulsory, freedom of association and collective bargaining and the elimination of any practice that may represent a violation of individual or collective dignity.

In the undertaking of these commitments, the Red Eléctrica Group takes into account the internationally recognised principles contained in the Universal Declaration on Human Rights, the International Covenant on Economic, Social and Cultural Rights and the regulations of the International Labour Organisation.

Similarly, with the aim of extending the principles of sustainability

throughout the supply chain, the **Supplier Code of Conduct** of the Red Eléctrica Group establishes the duty of this stakeholder group to respect the principles of the Universal Declaration on Human Rights, and its associated implementing conventions.

WITH THE ACCEPTANCE of the general conditions of contract, all our suppliers undertake to comply with the **Supplier Code of Conduct**, which can be verified through the conducting of social audits.





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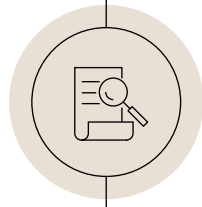
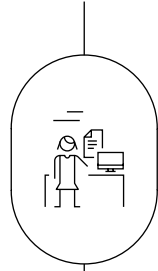
Since 2013, Red Eléctrica conducts a **periodic due diligence analysis** to identify the human rights risks associated with its activities, encompassing all the companies of the Group. This analysis is supplemented by an identification of specific risks associated with suppliers through the impact matrix of the supply chain.

In 2017, compliance with 108 recommendations of the Global Compact was assessed, structured in the following areas: labour rights; civil and political rights; economic, social and cultural rights; rights of local communities; and management of the supply chain. The degree of compliance with these recommendations was 99.3%.



About Grievance Mechanisms on [pg 36](#) and about the *Dígame* Service and ASA on [pg 215](#) of this report.

External AUDITS



Conducted in

32 %

of the total work centres

In the head offices and work centres of the northeast and northwest zones

On the other hand, the assurance of the corporate responsibility management system involves auditing all work centres in three-year cycles in aspects related to respect for human rights.

It should be noted that, given the geographical scope of action of the Company, the activities carried out by the Red Eléctrica Group have no impact on indigenous peoples.

Grievance mechanisms

The Red Eléctrica Group makes the Whistle-Blowing Channel available to all its stakeholders as a formal mechanism for responding to enquiries and grievances related to human rights.

Additionally, the Company has other communication channels available to its stakeholders,

where they can share their concerns regarding any breach in this area:

- **Dígame** service that manages the enquiries and suggestions from external stakeholders.
- **ASA** channel (Procurement Support and Helpdesk) for the specific attention of suppliers.

Red Eléctrica has provided specific training on human rights to those responsible for the *Dígame* and ASA services, with the aim of promoting the categorisation of the enquiries received, as well as their subsequent classification and registration. This initiative results in the improved handling of enquiries or grievances received regarding human rights.

Grievances regarding human rights in 2017

Channel	Received	Resolved
Whistle-Blowing Channel	0	-
<i>Dígame</i>	3	3
ASA	0	-

In 2017, the Company organised a training workshop on the implementation of the **Guiding Principles on Business and Human Rights of the United Nations**, managed by the Spanish Global Compact Network specifically for 23 experts from key organisational units.



Communication 412-2

The Red Eléctrica Group updates stakeholders on its performance on human rights issues through the **Sustainability Report**. Similarly, the **Ethics Management Report** is published annually, which includes an analysis of the possible grievances received on this aspect.

Red Eléctrica, as a founding partner of the Spanish Global Compact Network, actively participates in human rights actions, sharing good practices and supporting different initiatives, noteworthy among which is the design of the **online tool for the implementation of the Guiding Principles on Business and Human rights of the United Nations**.

In addition, the Group promotes periodic training and internal awareness campaigns aimed at its employees so that respect for human rights remains integrated into the corporate culture of the Group.

In this regard, in 2017, Red Eléctrica organised a **workshop** on the implementation of the Guiding Principles on Business and Human Rights of the United Nations and has made a 20-minute '**training pill**' on human rights and the Group's management model available to all its employees. In 2017, the training has been completed by 71 people.



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FINANCIAL RESULTS AND ECONOMIC SOUNDNESS



Evolution of results

/103-1 / 103-2 / 103-3

During 2017, Red Eléctrica showed stable growth having obtained solid results and an important strengthening of its main solvency ratios, maintaining a clear

orientation towards operational efficiency and the permanent generation of value.

Key financial indicators

	2016	2017	Δ%
Revenue	1,932.3	1,941.2	0.5
Gross operating profit (EBITDA)	1,486.0	1,519.5	2.3
Net operating profit (EBIT)	1,003.3	1,031.4	2.8
Profit before tax	636.9	669.8	5.2
Non-current assets	9,256.7	9,214.2	-0.5
Net equity	2,920.5	3,093.4	5.9
Operating cash flow after taxes	1,146.9	1,187.9	3.6
Total investment (1)	643.1	510.2	-20.7
Net financial debt	4,949.5	4,791.8	-3.2

(1) Investment in 2016 included 199.8 million euros corresponding to the acquisition of 50% of the Chilean company TEN.

Economic value generated and distributed (Group) 201-1

	2015	2016	2017
Economic value generated	1,992.2	2,014.3	2,065.8
Revenue	1,938.9	1,932.3	1,941.2
Other net profits and losses (1)	53.3	81.9	124.7
Economic value distributed to stakeholders	-1,330.2	-1,336.0	-1,378.0
Employees: personnel costs	-139.6	-145.1	-148.7
Company: Corporate Income Tax (2)	-223.0	-212.2	-220.4
Investment in the community (3)	-6.6	-6.4	-6.5
Suppliers: other operating expenses (4)	-367.5	-356.4	-362.7
Shareholders: dividends (5)	-434.2	-464.6	-497.1
Other Capital providers: net financial costs	-159.3	-151.3	-142.6
Economic value retained	662.1	678.2	687.8
Reserves	172.5	174.0	172.7
Amortisation and depreciation (6)	489.5	504.2	515.2

Note: Data obtained from Consolidated Annual Accounts. (1) Includes: other operating income/net results obtained via equity method/results from divestment of non-current assets (divestitures)/capital subsidies and other subsidies, in accordance with that indicated in the Annual Consolidated Accounts/deferred incomes transferred to the fiscal year's results/works performed by the Company on its assets. In 2017, 1.3 million euros were received from official entities for the construction of electricity facilities. Similarly, the Company has recognised deductions for investments in the Canary Islands for a total of 72.6 million euros. In 2017, 11.8 million euros were transferred to results corresponding to subsidies received by Red Eléctrica de España S.A.U. for the construction of electricity facilities of official entities and deductions for investments. More information in note 12 of the Consolidated Annual Accounts / 201-4. (2) Costs due to Corporate Income Tax. (3) Investments in the community: data obtained by applying the LBG methodology and subsequently subjected to external verification. (4) Procurements and other operating costs (excluding investments in the community). (5) Includes the interim dividend and complementary dividend. (6) Includes: Amortisation / Depreciations (includes mainly provisions for deterioration in asset value).



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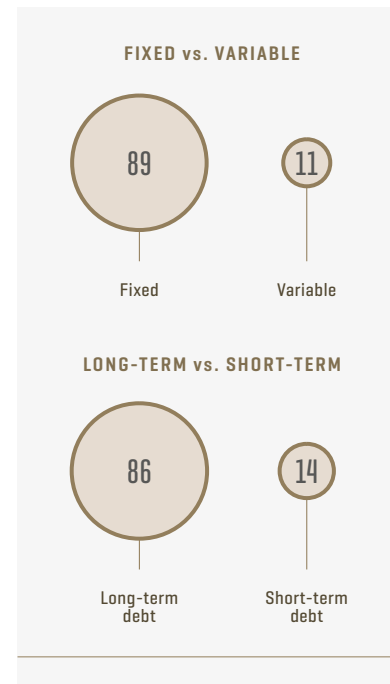
Financial strategy

The financial strategy traditionally followed by Red Eléctrica is geared towards reflecting the nature of the business it carries out, whilst adapting to the legislation in force at each moment.

The transmission of electricity and the operation of the electricity system are very capital-intensive activities, wherein investments mature over long periods. In addition, the remuneration of these assets is for periods of 40 years at rates linked to Spanish long-term government debt. Therefore, our financial debt is primarily long-term and referenced mainly at fixed rates. The net financial debt at the end of 2017 totalled 4,792 million euros, which, depending

on interest rates, can be classified according to the following chart:

Financial Debt Structure %



The classification of the financial debt according to its maturity can be seen in the following chart, where all the debt whose maturity will occur in the next twelve months is classified as short-term.

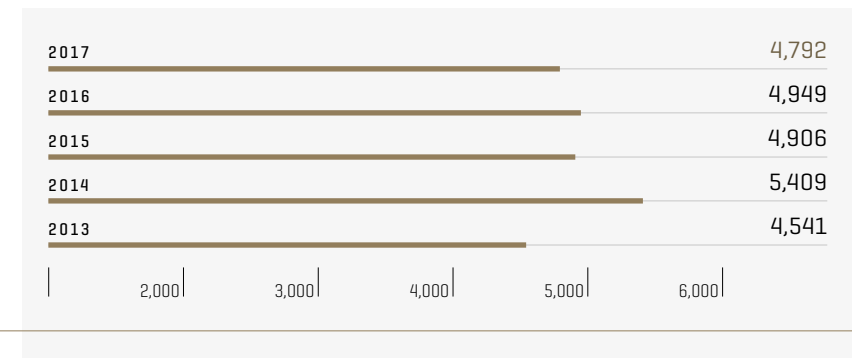
Credit rating

Red Eléctrica has been given a long-term credit rating of 'A-' by Standard & Poor's with a stable outlook and a short-term rating of 'A-2'. Meanwhile, Fitch has given Red Eléctrica a long-term rating of 'A' with a stable outlook, and 'F1' in the short term.

Both rating agencies indicated the predictability and recurring nature of earnings as well as the soundness of the income statement as some of Company's strengths.

Evolution of net financial debt

m€



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Shareholder return

STOCK MARKET PERFORMANCE

2017 has been a good year from a stock market perspective. There have been several reasons for the causes of this bonanza, but possibly the main one is due to the good situation that the world economy is going through. Similarly, there have been other elements that have contributed to investing in variable income and these have been among those preferred by investors, the lax monetary policy followed by central banks in the main economic areas, the recovery of the price of raw materials and oil or the good performance of business results have boosted stock indexes.

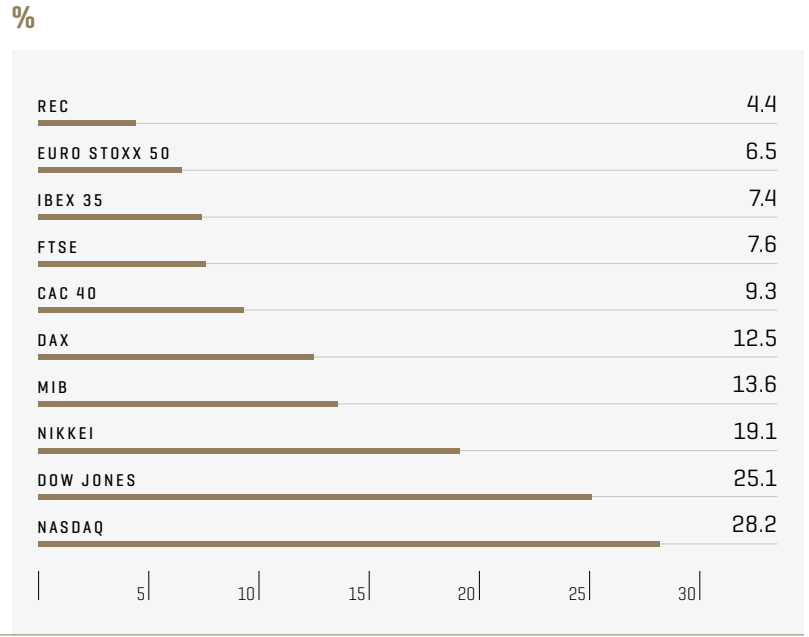
The positive performance of Wall Street has been surprising once again, its main indexes have experienced increases some of which have increased over 20% and the series of records reached throughout the year has been highly significant. In the case of the Dow Jones this happened on almost 70 occasions. In addition, the tax reform approved at the end of 2017 has been another element that has facilitated the good performance of the New York Stock Exchange.

More moderate has been the performance of stock exchanges in other areas of the world. In Europe, however, we have also seen that throughout 2017 the German DAX or the British FTSE have surpassed their previous all-time highs. Nevertheless, increases in the

value of the main European stock markets have been more modest, noteworthy being the

stock market indexes of Milan and Frankfurt, both registering increases of over 12%.

Evolution of Red Eléctrica and the main stock market indexes - 2017



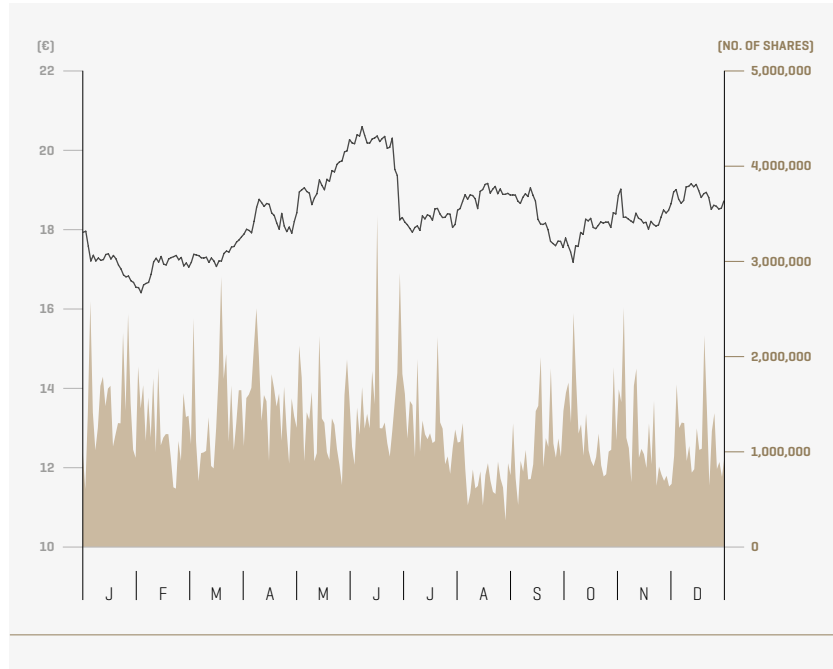
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The performance of the Spanish market deserves special mention as, with an increase in value of almost 20% at the beginning of the month of May, the IBEX-35 was the index that performed best compared to its European counterparts. The progressive deterioration of the political situation in our country, as a consequence of the crisis in Catalonia, reduced the valuation of our stock market to just 7.4% over the year as a whole.

RED ELÉCTRICA'S SHARE

Throughout 2017, Red Eléctrica's share price increased by 4.4%, with this new figure out performing that of most regulated European energy companies. The efforts made by the Company in terms of efficiency, its shareholder remuneration policy and its diversification policy have been valued by the markets in an environment that has been less favourable to companies such as ours.

Share price performance and daily volume



In 2017, direct shareholder return in the form of dividends grew 7% compared to the previous year.

In 2017 as a whole, 596 million shares were traded, representing 1.1 times the Company's share capital. Purchases made in cash in the Spanish continuous market was 10,958 million euros.

Shareholder's Meeting with a charge to 2017 profit, is 0.9188 euros per share. On 5 January 2018, a gross interim dividend payout of 0.2549 euros per share was made, with 0.6639 euros per share pending distribution, as part of a gross complementary dividend.

DISTRIBUTION OF DIVIDENDS

In 2017, the direct shareholder return in the form of dividends increased by 7% over the previous year. The gross dividend proposed at the General

Main stock market indicators 2017

	2017
Share price (in €)	
Maximum	20.770
Minimum	16.330
Year end	18.710
Market capitalisation at close of fiscal year (in M€)	10,123.6
Earnings per share [EPS] (in €)	1.24
Share price/EPS (Nº of times)	15.11
Dividend per share (in €)	0.9188



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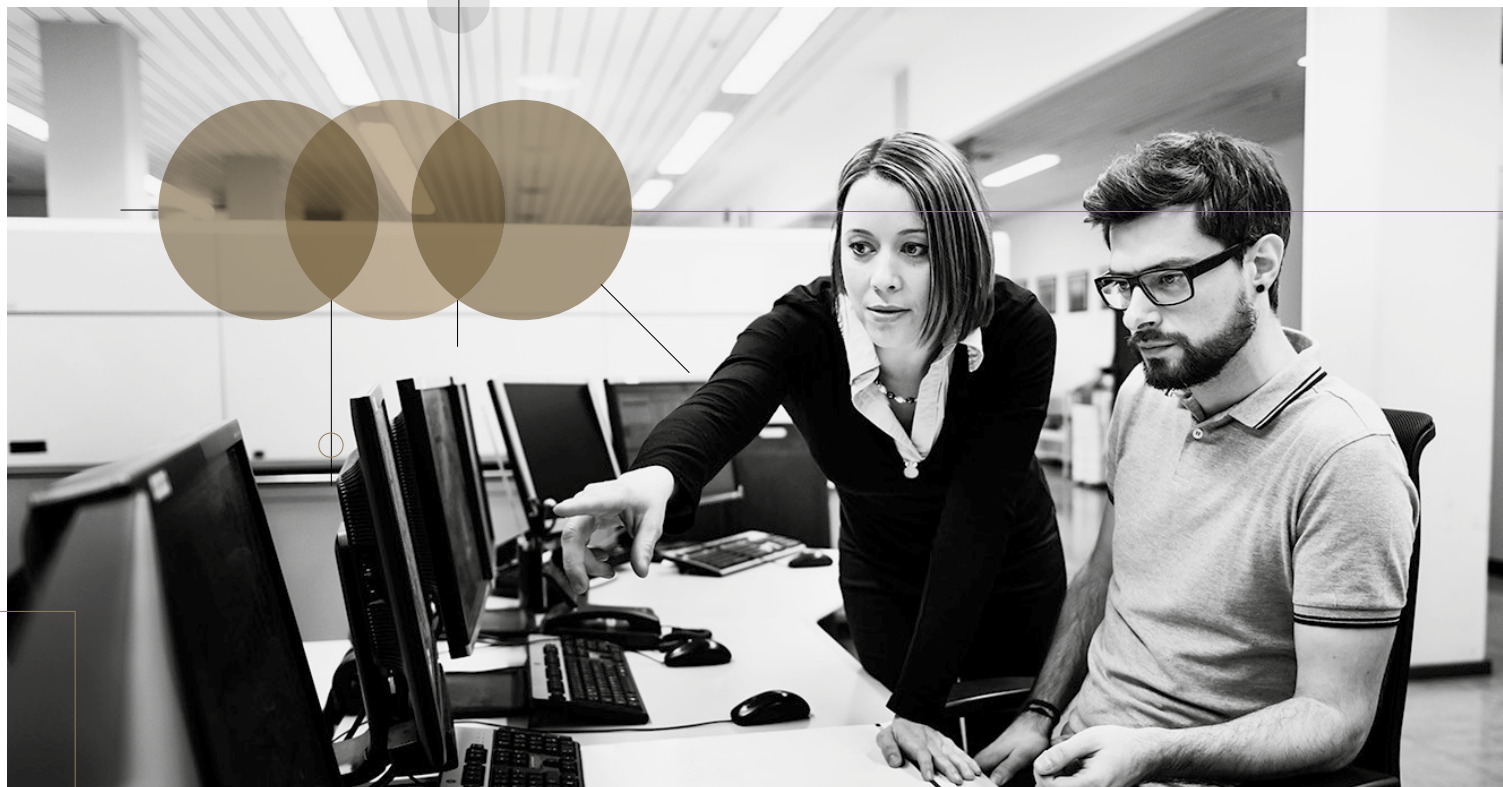


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EMPLOYEES



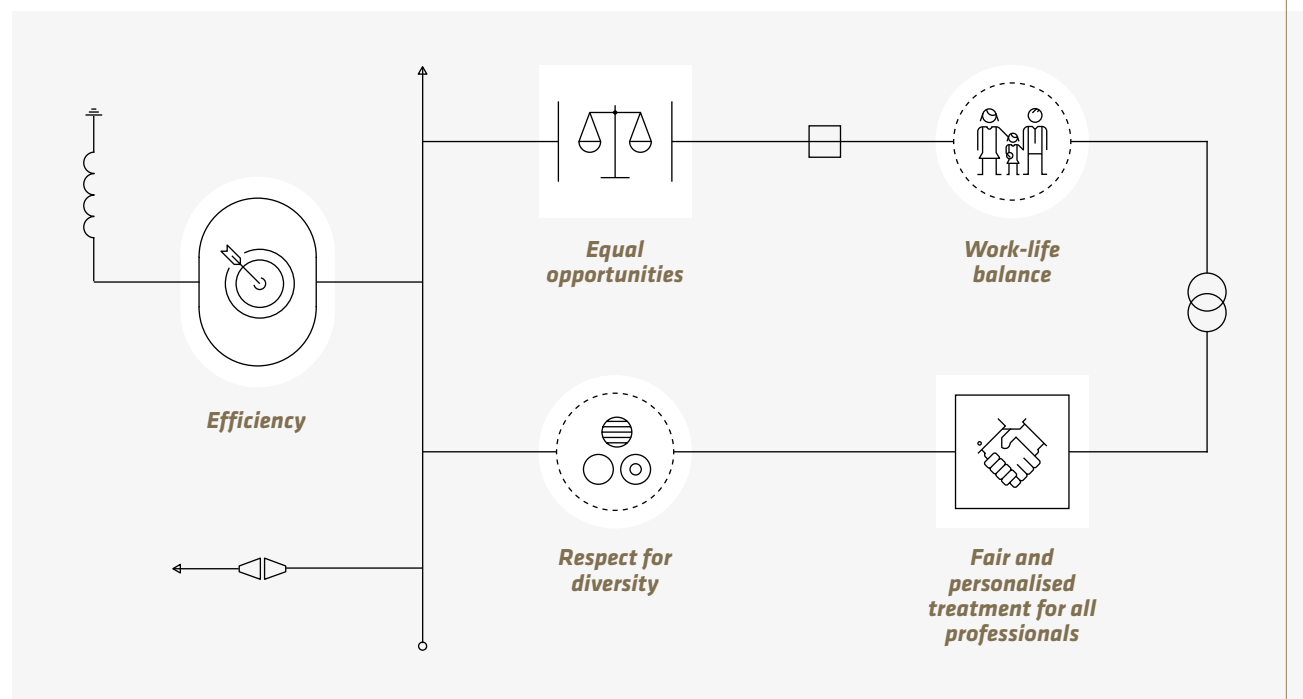
Stability and quality of employment / 103-1 / 103-2 / 103-3

The Human Resources Master Plan of Red Eléctrica is linked to the Company's strategy and is based on five essential principles that promote an atmosphere of commitment, sustainability and good social climate.

During 2017, the plan was updated with a 2017-2019 horizon structured on four main courses of action:

- Change management.
- Optimisation and simplification of processes.
- Talent management and development.
- Leadership in occupational health and safety: healthy workplace.

PRINCIPLES OF THE HUMAN RESOURCES MASTER PLAN



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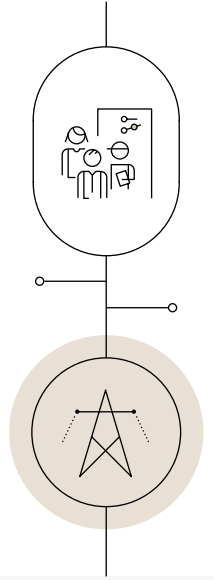
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These courses of action are developed through various key initiatives aimed at enhancing cultural change through people, processes, technology and work spaces as strategic elements for transformation and new ways of working.

Red Eléctrica's ranking

- **Sector leader** in the Dow Jones Sustainability Index [DJSI], having obtained the highest score in the criteria of Human Capital Development and Labour Practices.
- **Ranked 51st** in the Equileap gender equality ranking (top-ranked Spanish company).
- **Ranked 33rd** in the Universum ranking of the most attractive companies to work for.
- **Ranked 30th** in the Merco Talento ranking.
- **Korn Ferry Employee Engagement Award**, which recognises the highest level of employee commitment.

Permanent CONTRACTS

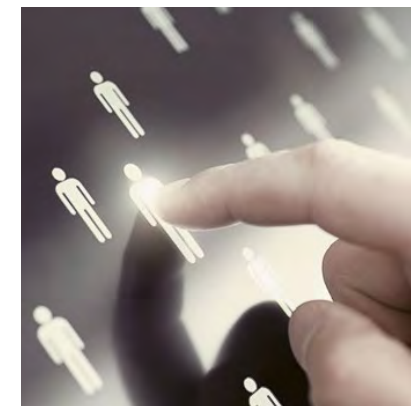


98.3
%

Red Eléctrica offers its employees stable and quality employment

A STABLE, COMMITTED AND HIGHLY QUALIFIED TEAM 401-1

At the end of 2017, the Red Eléctrica Group had a total workforce of 1,815 people, 2.3% more than in 2016. 96% of the total [1,741 people] employed in Spain and 4% in Peru and Chile. However, it should be noted that Red Eléctrica de España is responsible for the core activity of the Group and employs the highest share of the workforce.



Key employment indicators ⁽¹⁾

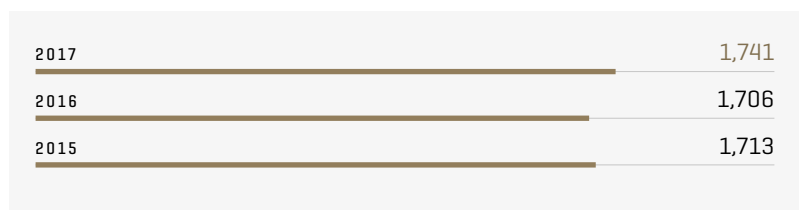
	2015	2016	2017
Total workforce	1,697	1,682	1,741
Women [%]	23.1	23.7	24.4
Men [%]	76.9	76.3	75.6
Women in managerial positions [%]	20.2	21.8	24.8
People with some type of disability [%]	0.8	0.8	0.8
Creation of net employment [N° of job positions]	15	-15	35
Average age	44	45	45
Average length of service [years]	15	16	16
Undesired external turnover [%] ⁽²⁾	1.6	2.0	2.6
Total turnover [%] ⁽²⁾	2.1	2.8	3.7
Permanent contracts [%]	99.9	99.8	98.3

⁽¹⁾ As of 2017, the REINCAN + REI + REINTEL data is included in the REE and REC companies. Total staff of REE + REC + REINCAN + REI + REINTEL in 2016 1,706 employees.
⁽²⁾ Scope of the data REE + REC.

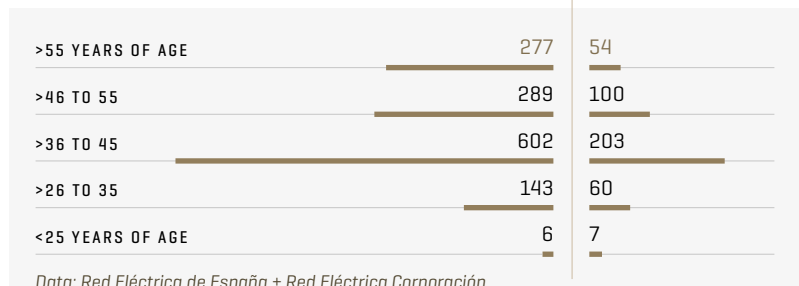
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Red Eléctrica offers its employees stable and quality employment (98.3% of the positions are on permanent contracts) and an outstanding professional career development (100% of the appointments to managerial positions have been covered through internal promotion). Similarly, it is committed to employability and functional mobility as a lever for professional growth and development (6.4% functional mobility, more than 100 people).

Evolution of the workforce in Spain N°



Workforce distribution by age and sex



Data: Red Eléctrica de España + Red Eléctrica Corporación

In 2017, a total remuneration model was defined that includes different elements: economic, financial, intangible and emotional, in a way that facilitates and supports the organisational and cultural transformation and promotes new ways of working in the Group.

COMPENSATION AND REMUNERATION

The Red Eléctrica Group works to consolidate, in all companies of the Group, a remuneration model that responds to the following universal principles:

- Internal equity and external competitiveness.
- Coherence with the organisational and development model.
- Offering opportunities for salary progression.
- Highlighting superior performance through recognition.

On this basis, Red Eléctrica's remuneration model for non-managerial staff is composed of monetary elements (a fixed salary within broad salary bands that allow a differentiated salary recognition and an extraordinary bonus that recognises the most outstanding contributions) and non-monetary, that allow the personalised configuration of the remuneration of the professionals.

In addition to the list of products offered such as health insurance, training, life insurance, public transportation card, luncheon vouchers and childcare vouchers, participation in the Company's share purchase plan is also available to employees.



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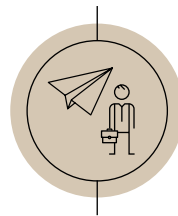
Within the commitment of the Red Eléctrica Group to the mobility and development of the employees, a Guide for International Assignments has been approved that promotes the international mobility of professionals from a perspective of salary progression, promotes internal equity and career development and meets not only the needs of the employee but also those of their family unit.

The management team has a remuneration model that incorporates the principles of internal equity and external competitiveness. The annual variable remuneration assesses the contribution to the achievement of individual objectives related to economic, efficiency, quality and managerial variables (such as corporate responsibility and occupational health & safety). Following the best practices in the market, leadership objectives have been strengthened, which incentivise and link variable remuneration to the leadership model of the management team, as well as to the Company's strategy.

Within this model, senior management has a deferred variable whose purpose is to



Guide for international ASSIGNMENTS



INTERNATIONAL MOBILITY of professionals

With salary progression, internal equity, career development and meeting the needs of the family unit.

encourage maximum motivation and commitment to the achievement of the Company's strategic plan.

The remuneration of new employees is established depending on the training and experience provided within the previous schemes. These criteria are applied universally and equally to both men and women. New incorporations with little experience have a differentiated system of salary progression

according to their growth and professional development. This enables the internal equity within the Group to be safeguarded and the new incorporations to enjoy career opportunities.



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Diversity / 103-1 / 103-2 / 103-3

For Red Eléctrica it is essential to promote a quality working environment based on ethical conduct, respect, diversity and equality and this is a commitment integrated into the corporate culture and the internal policies of the Company. In order to ensure that the commitment to these

principles is fulfilled, Red Eléctrica develops various initiatives aimed at guaranteeing a discrimination-free people-focused environment geared towards their social, working and personal development when faced with cultural barriers and stereotypes.

Principles regarding actions in the field of diversity and equality

- Equal Opportunities in employment.
- Promotion of women into positions of responsibility.
- Protection against gender-based violence.
- Protection against moral, sexual and gender-based harassment.
- Coexistence between generations and adapting to change.
- Inclusion of professionals with disabilities.
- Integration of people at risk of social exclusion.

Recognitions 2017

- Presence in the 'Top 200' in the '2017 Gender Equality: Global Report & Ranking' published by Equileap, in which only six Spanish companies are included, with Red Eléctrica being the highest ranked of these 6.
- Recognition as a **company involved in the commitment to gender equality** granted by the General Directorate for Women of the Community of Madrid, the European Social Fund and the Association of Employers of Alcobendas- AICA.

Among the actions carried out in 2017, noteworthy is the deployment of initiatives associated with the action plan regarding the age management model and the disability management model, both approved in 2015. Also noteworthy is the progress made in the definition of a new comprehensive model of diversity that encompasses and promotes the undertaking of different initiatives on gender, age and disability.

GENDER EQUALITY AND EQUAL OPPORTUNITIES

Red Eléctrica carries out its activities committing itself to gender equality through its Code of Ethics, the Protocol for the Prevention of Workplace, Sexual and Gender-based Harassment and a specific plan drawn up in conjunction with social

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representation, which includes a set of actions aimed at promoting equality in all areas (selection, recruitment, promotion, training, remuneration, communication and awareness), as well as the monitoring of the indicators to measure the progress of the defined objectives.



Evolution of women %



The percentage of women in the Red Eléctrica workforce increased to 24.3% [23.7% in 2016]. Similarly, the number of women in managerial positions has increased for yet another year, reaching 25.9% at the end of 2017 [21.8% in 2016]. The results exceed the targets foreseen for 2017 [23.7% of women in the workforce and 24.3% of women in the management team].

GENERAL DIRECTORATE OF WOMEN of the Community of Madrid, the European Social Fund and the Association of Employers of Alcobendas - AICA, have recognised the support of Red Eléctrica in 2017, as a company involved in the commitment to gender equality.

Red Eléctrica de España has renewed the **Corporate Equality seal** granted by the Ministry of Health, Social Services and Equality.

Red Eléctrica offers the same professional development opportunities for both men and women. In this regard, the actions carried out in favour of female professional development has led to 83.3% of the new appointments to managerial positions being taken up by women.

EQUAL OPPORTUNITIES

83.3%

of new appointments to managerial positions have been women



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As for the indicator that measures the equality of opportunities in promotion (men/women), in this year it stood at 1.28 surpassing the target of 1.20 set for 2017.

AGE MANAGEMENT

One of the key actions in terms of diversity in 2017 was the deployment of the Age Management Model. This Model responds to the challenge in which we find ourselves regarding an ageing population and represents an important advance in our commitment to generational diversity.

In this regard, in 2017 a series of multidisciplinary actions (occupational health & safety, talent

MAIN INITIATIVES FOR THE PROMOTION OF EQUALITY

AWARENESS AND TRAINING

Internal awareness campaigns and access to a training course on equality for all employees on the corporate intranet.

FORUMS AND WORKING GROUPS

Collaboration in various forums and working groups on subjects such as the Gender Tension Gap Study, promoted by IE Business School, or the study of initiatives and good practices on issues of gender equality, work-life balance and disability carried out jointly with ENAGAS and CLH. The experiences and results of this study will also be incorporated into the female leadership observatory.

ADHERED TO INITIATIVES AND AGREEMENTS WITH THE MINISTRY OF HEALTH, SOCIAL SERVICES AND EQUALITY

- Agreement to promote the balanced participation of women and men on boards of directors.
- Collaboration Agreement to promote a more balanced participation of women and men in positions of high responsibility.
- 'Network of companies for a society free of gender violence', collaboration agreement.
- Participation in the Promociona Project that promotes training and professional development as a strategy for female access to managerial positions.
- Signing of a General Protocol for the design, implementation and assessment of the blind curriculum vitae for personnel selection, with the office of the Secretary of State for Social Services and Equality.

DELPHI METHOD FOR THE VALIDATION OF THE GENDER PERSPECTIVE IN THE INITIATIVES OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Participation in this research project, which is being carried out by the University of the Basque Country in collaboration with the Institute for Women and Opportunities (IMIO) of the Ministry of Health, Social Services and Equality.

M + 50

Participation in the 'M + 50' programme of the Ministry of Social Affairs of the Community of Madrid, for the promotion of the employability of professional and managerial women over the age of 50.



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and organisation] was initiated, integrated into the life cycle of the employee. The initial steps for its implementation (shown below) have already been carried out:

- generational change programme.
- temporary mobilities of specific positions.
- analysis and planning of staff according to age.

The implementation of actions for the groups linked to positions with greater risks associated with age is foreseen for 2018.

On the other hand, Red Eléctrica has joined the Observatory of Demography and Generational Diversity, coordinated by the Instituto de Empresa (IE), whose objective is to conduct a study on generational diversity.

INCLUSION OF PEOPLE WITH DISABILITIES

During 2017, progress was made in the action plan associated with the disability management model. For its development, Red Eléctrica has the collaboration of the Adecco Foundation and maintains important

During this year, more than 40% of the workforce has participated in specific training activities regarding disability.

contracts for the procurement of goods and services with Special Employment Centres.

The involvement of the management team and the work carried out in raising awareness and increasing the employees' understanding of disability has been instrumental in making headway with the objectives of the plan. Furthermore, noteworthy are the **Corporate volunteering initiatives** which have helped raise the profile of inclusion and laid the foundations for a new line of support for diversity that will be enhanced in the Multi-Year Corporate Volunteering Plan 2018-2020.

In 2017, 2.6% of the equivalent employment of people with

disabilities was achieved. Of this percentage, 0.8% corresponds to direct employment and the rest to LGD agreements (General Law on the Rights of People with Disabilities).

The procurement of goods and services offered by Special Employment Centres has helped create employment equivalent to the hiring of 30 people with disabilities. Support for the Adecco Foundation's 'Jobs for All' Programme has continued, through which 3,241 jobs have been created for people with some form of disability, and 8,564 people with disabilities or at risk of exclusion have been assisted.

MAIN ACTIONS REGARDING DISABILITY



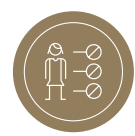
Creation of employment: procurement of goods and services from Special Employment Centres



Corporate volunteering: support for the 2018-2020 diversity plan



Plan Familia: care programme for employees whose family members have some form of disability



Plan Aflora: support for employees who may qualify for the disability certificate



Employee awareness campaigns



Support for the 'Jobs for All' Programme of the Adecco Foundation





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Talent management / 103-1 / 103-2 / 103-3 / 404-2

The global talent management model, aligned with the Company's strategy, is one of the four essential pillars of the Human Resources Master Plan. In order to attract, nurture, develop, train, transform and retain talent and exchange knowledge, the Company follows a systemic approach regarding the following areas: employment (recruitment, selection and internal mobility), training (technical and skills training), development (programmes for professional growth), knowledge management and leadership, and performance assessment.

KNOWLEDGE MANAGEMENT AND LEADERSHIP MODEL

The transmission of key knowledge regarding the Company and the involvement of leadership figures are levers that promote commitment

and facilitate learning that ensures the employability of people. The leadership model (competencies, assessment, remuneration and the development plan) is deployed through the Human Resources Master Plan.

The leadership model establishes the leadership figure as:

- a reference in the organisation,
- a promotor of Company values and
- as a developer of teams and a driver of change.

In 2017, competency development programmes based on an agile, flexible leadership style oriented towards the creation of collaborative and participative environments were initiated. Within the LideraT programme, customised

In 2017, 100% of Red Eléctrica's appointments to managerial positions were covered through internal promotion.



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The Leadership and Strategy Institute, designed in 2017, aims to detect **key knowledge and drive the Company's cultural transformation with a new leadership approach.**

actions were developed, focused on the integration and transition of people who during the year have taken up new or different management positions within Red Eléctrica.

Similarly, in 2017 the Red Eléctrica Leadership and Strategy Institute was designed with the objective of promoting the Company's cultural transformation with a new leadership approach, as well as detecting key knowledge for the Company.

On the other hand, to further deploy the leadership model, work has continued on the development programme aimed at non-managerial personnel, holding specialised or technical degrees and who coordinate the work of functional teams.

The **knowledge management model** is used to channel and manage new and existing knowledge and facilitates the generation of new knowledge that enables us to innovate. In 2017, the deployment of the model initiated the previous year continued, sharing its content with all employees, as well as the White Paper on knowledge management, and the experience acquired with the implementation of the pilot project within the Transmission Management Department was communicated throughout the Company.

This model is linked to the Company's Strategic Plan, the Human Resources Master Plan, the digital transformation project and integrates its actions within the scope of the Red Eléctrica Campus.

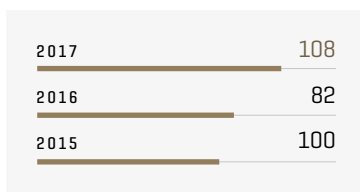
TRAINING AND DEVELOPMENT

In 2017, work was carried out on the design and optimisation of the training model, aligning the contents with the three levers of the Company's Corporate University [Red Eléctrica CAMPUS]: business knowledge and technical training; strategy and leadership; and cultural transformation and innovation.

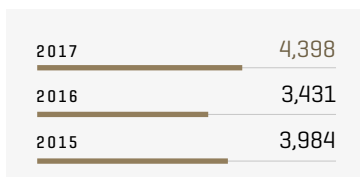
A key element, within the global talent management model, is the learning strategy and its standardisation. This strategy is centred around:

- A set of principles.
- A methodology [70-20-10].
- Incorporation of technological advances [virtual classroom for on-line training].
- A series of standard professional development roadmaps.
- An assessment system that contemplates different levels: satisfaction regarding training; acquired and applicable knowledge and impact of the training, culminating in the calculation of the overall ROI and per programme.

Training hours per student



Investment in training per employee €



Note: data regarding national subsidiaries: REE + REC + REINCAN + REI + REINTEL.

The various training and development programmes are grouped into four areas: technical training, skills development, corporate training and training for specific groups.

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In 2017, Red Eléctrica provided more than 177,000 hours of training to employees of all professional levels, representing an average of 108 hours of training and an investment of 4,398 euros per employee. 18% of the total training hours were aimed at promoting the employability of workers in technical areas, languages, skills and abilities; not directly related to the functions of the job currently being performed and more than 1,300

hours to strengthen the leadership of the management team.

Among the various training activities carried out during 2017, the following are noteworthy:

- Development of the Bank of Experts programme to apply and disseminate knowledge in the work environment and to train other employees as internal trainers.

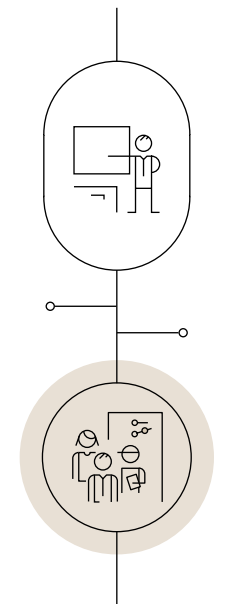
- Hands-on training in an electricity substation with actual facilities which are out of service.
- Development of hands-on training, in the Company's facilities, between control centre operators and future operators responsible for local manoeuvre operations.
- Pilot training project for virtual reality geared towards local training regarding operation.
- First editions of the courses of the electricity measurement system (SIMEL) with the participation of 16 distribution companies and 16 electricity marketers.



It should be noted that internal training is a lever for the development and transmission of essential knowledge in Red Eléctrica. 9% of employees, specialists or experts with relevant knowledge in their respective areas, participate as internal trainers.

Among the objectives for 2018, noteworthy is the development of the training project regarding IT technology aimed at promoting cultural change. Similarly, technological innovation applied

Training OF EMPLOYEES IN 2017



More than

177,000 HOURS

An average of 108 hours per employee

Investment of 4,398 euros per employee

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to professional development and learning will be promoted: design of simulators, new virtual courses, recording of technical operational sequences for future reference.

RED ELÉCTRICA CAMPUS - CORPORATE UNIVERSITY

In 2017, the Red Eléctrica Campus project was completed, as the Company's corporate university, and new facilities were set up in the Madrid Technology Park in Tres Cantos. The Campus is equipped with a modern infrastructure and advanced technology and applies an innovative training methodology.

The new Campus constitutes a significant disruptive approach regarding previous internal training centres, from having a mainly technical approach compared to a comprehensive approach and its design has been carried out under the Corporate Learning Improvement Process (CLIP) accreditation tool of the European Foundation for Management Development (EFMD).



REE Campus Motto: Creer, Crear y Crecer (C³) [Believe, Create and Grow]

Red Eléctrica Campus is structured around three fundamental pillars called institutes with the capacity to continuously transform and learn through their permanent contact with the Company and the global environment:

Cultural Transformation and Innovation Institute, oriented to the development of the necessary competences to drive Red Eléctrica's organisational transformation through its professionals with special emphasis on culture and innovation.

Strategy and Leadership Institute, responsible for the deployment of the leadership model required to manage the change that is set by the strategy of the organisation.

Business Knowledge and Technical Training Institute, linked to the core business and responsible for the training of specific skills necessary to achieve the business objectives of the Red Eléctrica Group.

The mission of the Campus is to serve as a platform for the deployment of the strategy, values and culture of the Red Eléctrica Group that facilitates the achievement of business objectives.

It also acts as a meeting space that fosters an environment that enables employees to learn more about and better understand knowledge obtained from the Company's stakeholders.



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Performance interviews continuously evaluate all employees of Red Eléctrica, management and non-management teams, on competences, commitment and contribution.

ASSESSMENT AND MANAGEMENT OF PROFESSIONAL DEVELOPMENT 404-3

The assessment model of Red Eléctrica is oriented to facilitate the professional and career development of employees, as well as to manage their performance in an efficient way.

All employees of Red Eléctrica, the management team and non-directors, are continuously assessed on competences, commitment and contribution. Through the performance interview, the corresponding assessment is transmitted, and improvements are agreed between collaborators and line managers.

In 2017, an analysis and revision of the current model was carried out, with the participation and involvement of different internal cross-cutting working groups, with the aim of promoting a culture of development and recognition of professionals and teams, which guides and motivates a continuous improvement of their performance and that drives the evolution of the Red Eléctrica Group.



Based on the results of this analysis, in 2018 the implementation of a new model is foreseen that will emphasise its approach to development, as it is based on continuous feedback and will promote internal dialogue as a basis for interpersonal relationships, with a greater level of cross-cutting, transparent and frequent communication.

MOBILITY MODEL

The main objective of the internal mobility model is to strengthen the capabilities of the employees of the Red Eléctrica Group, increasing their versatility and employability, in order to respond to the needs of the business in the short and medium term.

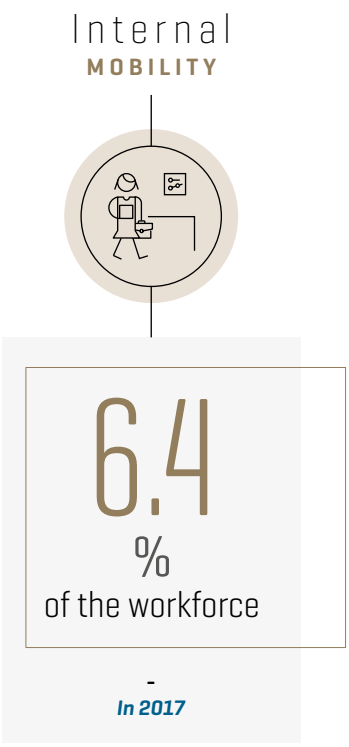
In 2017, an internal mobility plan was integrated into the

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Talent Management Model and the Professional Development Model. The associated policy has been reviewed and communicated through internal channels, incorporating a tool (LinkRED) that can be accessed by 100% of the employees to share their experience and interests regarding the areas of professional development and mobility, valuing their knowledge and experience, as well as sharing their personal and professional interests. The implementation of this tool will be consolidated throughout 2018.

One of the key principles of this mobility plan is its voluntary and proactive nature, arising from the opportunities generated by the Company's needs, or from personal interests and motivations

One of the key principles of this mobility plan is its **voluntary and proactive nature.**



COLLABORATION WITH THE EDUCATIONAL SECTOR 404-2

The training programmes for young graduates are a firm commitment that Red Eléctrica has with society. The objective of these programmes is to provide qualified professionals with access to the labour market.

Throughout 2017, 140 people participated as interns in different units of the Company. From the outset, these people have counted on the support of a tutor who has accompanied them throughout the period of their stay in the Company providing professional guidance and ongoing support.

To promote the internships of students in post-secondary higher education (FP - *Formación Profesional*), Red Eléctrica has been actively involved in the creation of a **professional training programme for the Advanced Technical Qualification for Power stations**, within the **FP Dual system**. This initiative has as its objectives: to have professionals of this advanced technical qualification for their

immediate incorporation into positions of technical maintenance specialists, to provide the sector with trained professionals with the know-how of Red Eléctrica and therefore increase the employability of young people for their incorporation to the industrial fabric.

In 2017, the first edition of this programme was held, consisting of three courses, 50% of the second course will take place at the Red Eléctrica Campus and will be taught by the Company's technical experts.

FP DUAL SYSTEM

First edition of the programme for the Advanced Technical Qualification for Power Stations.



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Dialogue and transparency

INTERNAL COMMUNICATION

Red Eléctrica considers internal communication instrumental to sharing the mission and goals of the Company, involving employees in the various projects and improving the working climate by increasing their pride of belonging.

In 2017, the internal communication model enabled the development of the criteria framework for the effective development and execution of internal communication actions in the various companies of the Group. The planning of these actions, requested by different units, has enabled efforts to be optimised and messages to be structured at all times.

Top-down communication has been reinforced this year through the incorporation of leadership objectives, linking them all to communication milestones [disseminating the functions handbook, communicating the Comprehensive Corporate Security Management Model and involving the management team in the climate survey for the improvement of the overall satisfaction of employees].

In addition, work has been carried out to improve communication as a competence of the management team with the initiative known as 'REE Leaders'. Also, a more innovative focus has been proposed regarding teamworking so that attendees in the management team meetings have a greater level



of involvement both before and during the meetings.

Among the actions planned for 2018, noteworthy is the design of actions aimed at supporting change management which has been defined as one of the pillars of the Human Resources Master Plan.

DIALOGUE TOOLS AND CHANNELS

The breakfasts with the CEO enable the senior executive not only to foster greater contact with employees, but also to exchange information about the Company's activities. In 2017, 3 breakfasts were held in which 29 employees attended.

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'Positive current' is a new cultural programme to encourage the participation of employees in cultural, social and leisure activities.

As part of the various internal channels, new collaborative tools were launched on the intranet (polls and Q&As) that seek to encourage participation and dialogue among all users as a tool to foster collaboration and the generation and exchange of knowledge.

Similarly, during 2017 work was carried out on the design of action plans arising from the internal communication survey carried out in 2016, in which 51.9% of the workforce participated.

SOCIAL CLIMATE

Knowing employee satisfaction is a key element of Red Eléctrica's commitment to people. The 2017 climate survey, launched for the first time to all companies of the Red Eléctrica Group, offers a global vision of the organisation and allows for segmented results that help to identify strengths and areas for improvement for each of the companies. This survey has been developed with a methodology and

approach oriented to the analysis of the 'Sustainable Commitment', which has included the following fundamental elements of the working climate: individual well-being (physical, interpersonal and emotional), rational and emotional engagement and organisational support. In 2018, the **action plans** arising from the results obtained will be defined.

SOCIAL DIALOGUE 102-41 / 103-1 / 103-2 / 103-3 / 402-1

Red Eléctrica guarantees its employees the right to union-affiliation, association and collective bargaining within the framework of existing labour laws and the applicable Collective Bargaining Agreement.



In 2017, work continued on the implementation of the 10th Collective Bargaining Agreement of Red Eléctrica de España, which entered into force on 1 May 2014. The expiry date of the current Agreement (31 December 2017)

has been taken into account during the meetings between the Workers' representatives and those of the Company regarding negotiations for the next Collective Bargaining Agreement.

WORKING CLIMATE SURVEY 2017





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Communication with the social representation: 19 meetings within the different established committees and the creation of specific collaborative spaces on the intranet.

The Collective Bargaining Agreement of Red Eléctrica de España covers the majority of the workforce, excluded from its scope are: the management team [6.67%] and employees who voluntarily and reversibly accept the proposal of the management of the Company for exclusion from the Collective Bargaining Agreement [1.19%]. However, social agreements are universally applicable.

In 2017, 16 grievances [legal grievance cases against REE S.A.U.] on labour practices received through formal mechanisms were managed. All of these grievances were addressed during the year, 6 are pending resolution, due to the corresponding appeals, and 10 have been resolved.

Continuing with the positive trend of previous years, there have been no cases of discrimination in the Company during 2017. As a consequence, it has not been necessary to apply corrective measures within the same period.

In any event, in 2017 the application of the principles that inspired said Agreement continued, that is:

- efficiency and productivity.
- flexibility and sustainability.

The Company maintains a close-knit communication that is both accessible and flexible with the social representation, which allows the dialogue between both parties to be fluid. As an additional

measure regarding communication with the social representation, two collaborative spaces on the intranet were created in 2017 in which the relationship with the workers' representatives is managed. One of them is earmarked for the committees of the Agreement and the other for the various Company committees that exist in the organisation. During 2017, a total of 19 meetings were held within the different committees foreseen under the 10th Agreement.



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Notification of organisational changes is carried out pursuant to current legislation. The organisational changes which entail the geographical mobility of employees are communicated with thirty days' notice, to both the worker and the social representation. In all cases, a consultation process is carried out.

As for substantial modifications to the employment contract, in the case of changes to an employee's contract, these shall be communicated fifteen days in advance to both the affected worker and social representatives. If it concerns company-wide changes, a consultation period will be opened with legal representatives which may be replaced by a mediation or arbitration procedure.

Furthermore, the 10th Red Eléctrica Collective Bargaining Agreement includes specific working schemes, such as the special shift-working scheme or that of flexi-time. In reference to the latter, legislation establishes different notification periods for the carrying out of work on non-working days or at night. In this regard, it is important to note that the agreement foresees penalties for the Company in the event of the cancellation of work scheduled for non-working days.



COMMITTEES CONTEMPLATED WITHIN THE 10TH COLLECTIVE BARGAINING AGREEMENT

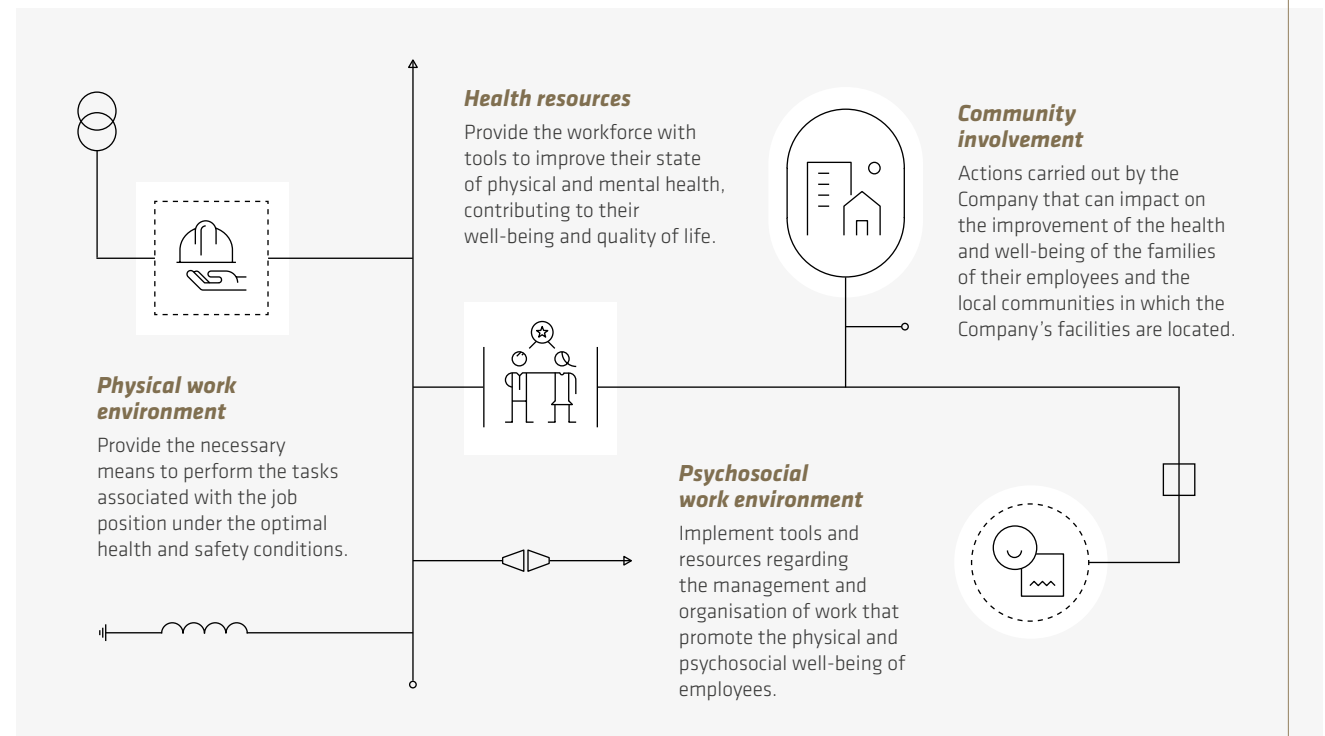


Red Eléctrica - a healthy workplace

/ 103-1 / 103-2 / 103-3

Red Eléctrica promotes, with the commitment and leadership of the management team, the best practices in occupational health and safety and well-being. The 'healthy workplace' model, a strategic pillar of the Human Resources Master Plan and a key element for the promotion of occupational health and safety, is based on four main cornerstones.

HEALTHY WORKPLACE MODEL / PRINCIPLES



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For the second consecutive year, Red Eléctrica has obtained the **Runner-up prize in the Naos Awards** (initiative of the Ministry of Health and Consumer Affairs).

The Action Plan associated with the model, revised with a 2016-2019 horizon, aims to consolidate Red Eléctrica as a leading company in good practices regarding prevention. This plan is structured on three main courses of action:

- a culture of prevention.
- training and skills of people.
- operational control of the work undertaken.

For each of the above various actions and objectives are established. In 2017, noteworthy is the implementation of the prevention plan associated with the results of the psychosocial risk assessment carried out in 2016. This plan has been launched with a specific communication programme aimed at the entire workforce, as well as through actions for the

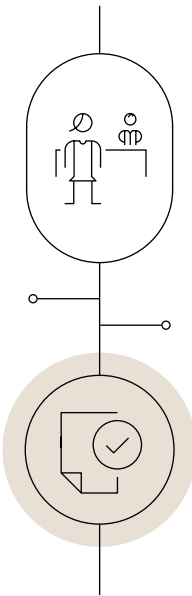
development of competencies, leadership, team cohesion and integration plans, which have a direct impact on emotional / psychosocial well-being.

In addition, in 2017 work was carried out on the alignment of the policies of the companies of the Group in matters of occupational health and safety. Nationally, all the activities carried out have an equal impact on all companies in the Group. Internationally, an analysis and a diagnosis of the situation of Peruvian companies of the Group has been carried out, and an action plan has been designed to implement the healthy workplace model.

THE PROMOTION OF HEALTH

The promotion of health at work is for Red Eléctrica a commitment that is evidenced internally through the

Absenteeism INDEXES



Reduction in the absenteeism indexes of

2
%

In cases linked to common illnesses

various campaigns, implemented over the years, and also externally with the recognition granted by different entities and organisations that position the Company as a benchmark in this field.

In addition, on an ongoing basis Red Eléctrica carries out preventive monitoring of the health of its workers through an in-house medical service, responsible for monitoring employee health through periodic medical examinations and healthcare consultations. Thanks to the preventive measures applied, no incidence or risk of certain occupational or work-related illnesses has been identified. / 403-3

RED ELÉCTRICA

received recognition from the Spanish National Institute of Safety, Health and Well-being at Work for its 'Best Practices for the Promotion of Health in the Workplace' model and has won the **Ágora Bienestar Award 2017**



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In 2017, health campaigns were extended to more work centres and to other groups.

MAIN CAMPAIGNS FOR PREVENTION AND HEALTH PROMOTION



Medical examinations. Medical and nursing consultation



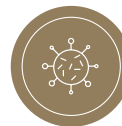
Healthy nutrition



Physical examinations



Promotion of physical activity



Prevention of cancer: breast, colon, prostate



Sleep disorders



Eye health promotion



Psychosocial risks: emotional fitness and mindfulness workshops



Flu vaccinations



Stress management

Health campaigns respond to needs previously identified and whose main objective is the incorporation of healthy lifestyles. In 2017, previous campaigns continued, extending them to more people from other work centres and other groups. Among the various campaigns, this year we should highlight the physical examination programme, evaluating different parameters and their impact on general health. With the results obtained, an individualised improvement plan is proposed. Among the actions planned for 2018, noteworthy is

the creation of a **wellness space** in the Company's head office.

PHYSICAL WORK ENVIRONMENT

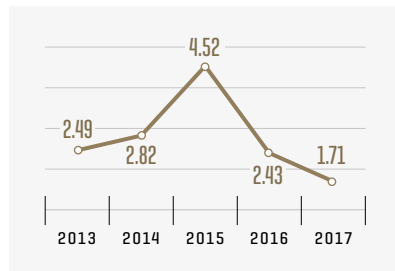
For Red Eléctrica, the prevention of occupational risks constitutes a differentiating element and an indispensable requirement to guarantee the health and safety of employees and collaborators.



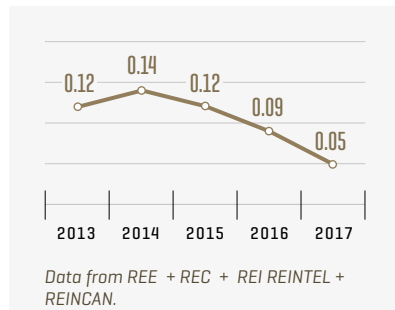
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In this regard, Red Eléctrica has a strategy and a specific action plan that promotes best practices in the field of occupational health and safety risks during the execution of activities and work in its facilities. Its objective is to comply with legal requirements; train, inform and make everyone

Accident Frequency Rate / 403-2 (EMPLOYEES)



Accident Severity Rate / 403-2 (EMPLOYEES)



aware of the obligations and responsibilities, and seek the full commitment of the entire organisation for its fulfilment.

To minimise the risks involved in the construction and maintenance of electricity infrastructure, special emphasis is placed on training, raising awareness, consultation and participation (OHAS Committee, internal audits, working groups), improving safety behaviour and measures during the works carried out both by own personnel as well as external staff (contracted).

In terms of risk prevention, the continual monitoring of work and activities of greater risk through safety inspection programmes, is key to achieving the high levels of safety required by Red Eléctrica. In this regard, in 2017, **13,000 safety inspections** were carried out in works in facilities, which involved 2,654 corrective actions, of which **97%** were resolved.

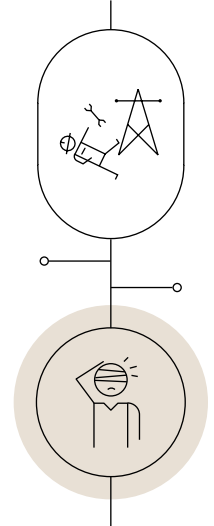
The measures taken in the Occupational Health and Safety Improvement Action Plan that have been implemented since 2016,

the increase in the control of work through internal inspections and audits, as well as the tightening of controls regarding compliance with Occupational Health and Safety measures carried out on all stakeholders, together with the improvement in the training and awareness of the intervening agents, has enabled a significant improvement in accident rates for both our own staff and that of our suppliers.

There was an improvement in the main accident indicators in Red Eléctrica for both Company employees and contractors, with the frequency and severity rates in 2017 being reduced by **29.6%** and **44.4%** respectively compared to 2016.

The results exceed the objectives foreseen for 2017 (0.15 severity rate and 3.52 frequency rate).

Significant reduction IN ACCIDENT INDICATORS [regarding employees]



29.6%
in the frequency rate

44.4%
in the severity rate

Compared to 2016



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The number of
training hours
in occupational
health and safety
has doubled
compared to
2016.

Training hours in occupational health and safety

2017	15,841
2016	7,145
2015	5,850

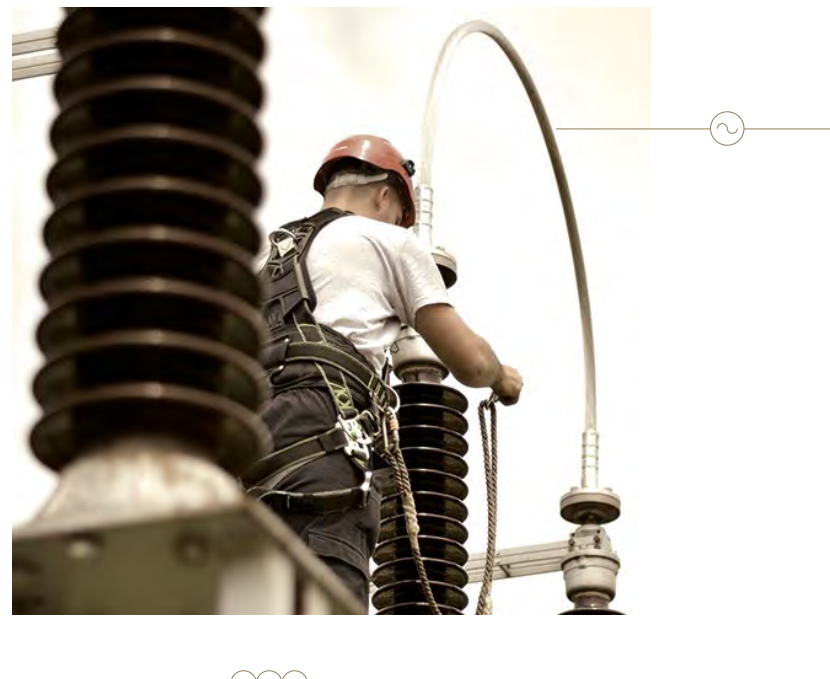
TRAINING AND AWARENESS 404-1

Red Eléctrica considers training and awareness in the field of occupational risk prevention essential to reduce accidents and to safeguard the health and safety of all its personnel. During 2017, a total of **15,841 hours of training** in this field were given. Of these hours, 43.6% were earmarked for specific training regarding electrical risk.

CONSULTATION AND PARTICIPATION 403-1 / 403-4

Red Eléctrica de España has an Occupational Health and Safety Committee whose composition and functions are set out in Chapter 7 of the 10th Collective Bargaining Agreement.

This Committee is a joint and collective body set up for regular and periodic consultation regarding the Company's actions on the prevention of occupational risks. The Committee consists of six representatives nominated by the Company and six prevention delegates chosen



from representatives of the workers, representing 100% of the employees. In addition, the Company's Risk Prevention Service experts attend the meetings of this Committee.

Meetings are held on a quarterly basis (in accordance with Law 31/95 on the prevention of occupational risks), but also may be held as and when requested by any

of the parties concerned. In 2017, four meetings were held fulfilling the foreseen objectives.

During these meetings, monitoring is carried out on the following: all occupational health and safety activities, the new applicable legislation, the review of processes and internal regulations, and the analysis and monitoring of the occupational health and safety



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In 2017, in the companies contracted by Red Eléctrica, the frequency rate was reduced by 29.2% and the severity rate by 12.9%.

programmes and their results in addition to monitoring safety equipment and materials.

The minutes of these meetings are available to all employees in a specific section of the corporate intranet, 'miRED'.

Also, this Committee is made aware of the results of internal and external audits conducted and the improvement actions implemented.

On the other hand, to encourage employee participation, a specific community in this field has been created on the corporate intranet through which consultations and suggestions regarding safety can be made and any doubts resolved.

SAFETY IN THE SUPPLY CHAIN EU18

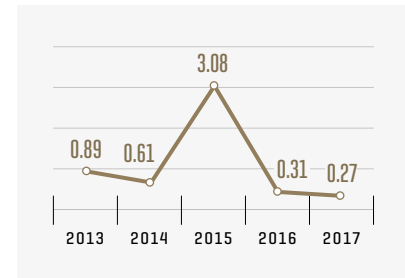
All suppliers who work in the facilities and work centres of Red Eléctrica are approved and qualified in occupational health and safety and, in the case of carrying out activities with risk, these activities are managed by the supplier's works supervisors who have been previously qualified by the Red Eléctrica prevention service. Red Eléctrica has certified more than **2,000** works supervisors, and more than **400** worksite managers.

In addition, Red Eléctrica randomly requests, from its suppliers, proof of the health and safety training of its employees. It also requests proof of training in occupational health and safety for any new incorporations into the suppliers' database in the corporate occupational health and safety application (PRER).

During 2017, work was carried out within the UNESA [Spanish Electrical Industry Association] working groups on the preparation of a draft for the standardisation of training for occupational risk prevention for the health and safety of workers of contractor companies, which sets minimum recommended training standards for service companies that work in the electricity sector.

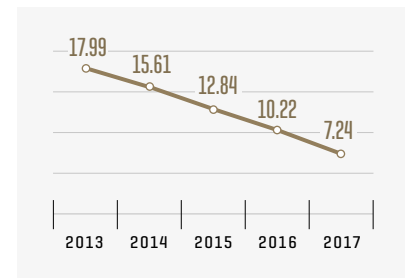
Accident Severity Rate of Red Eléctrica contractors / EU-17

[Target 2017: 1.16]



Accident Frequency Rate of Red Eléctrica contractors / EU-17

[Target 2017: 15.62]





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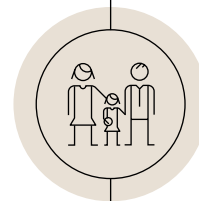
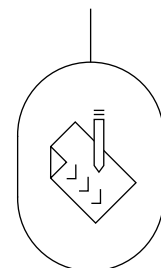


THE WORK-LIFE BALANCE 401-2

The management of the work-life balance, as contemplated in Red Eléctrica is much more than a simple organisational tool. It is a **model based on the EFR (Family-Responsible Company) guidelines** and a key factor of emotional and psychosocial well-being. This environment includes the organisation of work, institutional culture and attitudes, values, and practices that are exhibited daily in the organisation and affect the psychological and physical well-being of people.

The more than 60 work-life balance measures, actions and initiatives implemented by Red Eléctrica, which apply equally to all staff, regardless of the type of contract, are one of the fundamental axes that make up the management model. The 10th Collective Bargaining Agreement also represents a clear advance in this field as it complements or broadens the scope of existing measures. With all of these measures, Red Eléctrica aims to provide tools that will improve the well-being and quality of life of its employees, increase people's commitment and their pride of belonging.

Work-life BALANCE



Perception survey regarding the work-life balance

7 OUT OF 10

62% participation

In 2017, 100% of the actions foreseen in the 2nd Comprehensive Work-life Balance Plan (2014-2017) were carried out. A large part of these actions: days without school, urban camps or the role of work-life balance interlocutors, allow the Company to respond to individual situations. Among the objectives for 2018, noteworthy is the development of the 3rd Comprehensive Work-life Balance Plan and the renewal of the EFR certificate.

Periodically the management model is evaluated as well as the measures developed through perception surveys, in which the knowledge, use and satisfaction of the people are assessed with regard to the work-life management system. In the survey carried out in 2017, with a participation of 62%, the results have been highly satisfactory, reaching an average score of 7 out of 10, which is considered a strong score in the scale used. The survey allows new needs and aspects for improvement to be identified.

On the other hand, the establishment of a specific indicator [work-life balance ROI] will enable the return on investment in this matter to be quantified.

Indicators



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Information regarding employees and other workers / Spain ^[1]

102-8

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Workforce	1,305	392	1,697	1,284	398	1,682	1,317	424	1,741
Employees with permanent contract	1,304	392	1,696	1,282	397	1,679	1,302	409	1,711
Employees with temporary contract ^[2]	1	0	1	2	1	3	15	15	30
Permanent contracts [%]	99.9	100.0	99.9	99.8	99.7	99.8	98.9	96.5	98.3
Part-time contracts	0	0	0	0	0	0	0	0	0
Workers from temporary employment agencies ^[3]	13	15	28	6	9	15	1	4	5
Interns ^[3]	31	26	57	35	32	67	36	19	55

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017.

[2] The increase of temporary contracts in 2017 is due to the promotion of the development of young professionals.

[3] These workers are not included in the workforce count as they are not employees of Red Eléctrica.

Note: Red Eléctrica has no self-employed workers that are legally recognised.

Employees covered by the collective bargaining agreement / Spain ^[1]

102-41

[%]

	2015	2016	2017
Employees included in the Collective Bargaining Agreement	98.8	98.8	98.6
Employees excluded from the Collective Bargaining Agreement ^[2]	1.2	1.2	1.4

[1] Data regarding REE+REC up to 2016 and for REE+REC+REINCAN+REI+REINTEL as of 2017.

[2] Employees who voluntarily and reversibly accept the proposal of the management of the Company to be excluded from the agreement. The management team was not taken into account in the overall calculation and represents 7.2% of the total workforce.



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New recruitment by age and gender / Spain ^[1]

401-1

	2015						2016						2017					
	N° of new recruits			Recruitment rate [%]			N° of new recruits			Recruitment rate [%]			N° of new recruits			Recruitment rate [%]		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Less than 30	10	6	16	32.3	54.5	38.1	4	3	7	16.0	27.3	43.3	18	15	33	45.0	57.7	50.0
30 to 50	23	11	34	2.7	3.7	2.9	11	15	26	1.3	5.1	6.4	28	13	41	3.3	4.3	3.5
Over 50	0	0	0	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0	2	0	2	0.5	0.0	0.4
Total recruitment	33	17	50	2.5	4.3	2.9	15	18	33	1.2	4.5	5.7	48	28	76	3.6	6.6	4.4

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017 (new recruitment that is still working as at 31.12.2017 is included).
M: Men W: Women

Employee turnover by age and gender / Spain ^[1]

401-1

	2015				2016				2017			
	N° people leaving		Turnover rate [%]		N° people leaving		Turnover rate [%]		N° people leaving		Turnover rate [%]	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Less than 30	0	0	0.0	0.0	0	1	0.0	9.1	7	10	38.5	25.8
30 to 50	11	8	1.2	2.6	7	8	0.8	2.7	8	5	1.7	1.1
Over 50	15	1	4.0	1.5	29	3	7.0	3.7	27	3	3.1	5.8
Total turnover	26	9	2.0	2.3	36	12	2.8	3.1	42	18	4.2	3.4

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017.
Note. Average length of service of those leaving: 15.87 years.


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Maternity/paternity leave rates (M/P) / Spain [1]

401-3

[No.]

	2015		2016		2017	
	Men	Women	Men	Women	Men	Women
Employees with the right to M/P leave	80	40	69	26	67	29
Employees who have taken M/P leave	80	40	69	26	67	29
Re-incorporations at the end of M/P leave [2]	80	36	69	23	66	27
Employees with M/P leave who remain in the workforce [%] [3]	100	90	100	89	99	93

[1] Data for Red Eléctrica de España S.A.U. + REC.

[2] The difference between the number of re-incorporations of women and men in relation to those who have enjoyed leave is due to 3 authorised leaves due to childcare.

[3] Employees who return to work after M/P leave and continued at work in the twelve months after their reincorporation. Data as at year end.

Occupational health and safety indicators / Spain [1]

403-2

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Average workforce	1,313	391	1,704	1,306	398	1,704	1,313	418	1,731
Hours worked (thousands)	2,214	659	2,873	2,207	673	2,880	2,219	706	2,925
Accidents with sick leave	8	5	13	7	0	7	5	0	5
Fatal accidents	0	0	0	0	0	0	0	0	0
Days lost due to accidents [2]	202	146	348	255	0	255	139	0	139
Accident frequency rate	3.61	7.58	4.52	3.17	0	2.43	2.25	0	1.71
Accident severity rate	0.09	0.22	0.12	0.12	0	0.09	0.06	0	0.05
Incidence rate	6.09	12.79	7.63	5.36	0	4.11	3.81	0	2.89
Absenteeism rate due to common illness [a]	1.80	3.19	2.12	1.87	2.34	1.98	1.53	3.24	1.94
Absenteeism rate due to occupational illness [b]	1.89	3.30	2.20	1.95	2.35	2.05	1.64	3.26	2.03

[1] Data for REE+REC+REI+REINTEL+REINCAN.

[2] The calculation is based on 6,000 working days per fatal accident and 4,500 for total permanent incapacity.

Serious accident: Those classified as serious by each doctor that issued the sick leave certificate.

Accident frequency rate: The number of work-related accidents with leave of absence per million hours worked.

Accident severity rate: The number of work days lost due to work-related accidents + incapacity scale, per thousand hours worked.

Incidence rate: The number of accidents with sick leave x 1,000 / average headcount.

Absenteeism rate: [a] Days absent due to common TI (temporary incapacity) > 3 days + days absent TI <3 days / average headcount x 365 x 100. [b] Days absent due to common TI (temporary incapacity) TI <3 days + days absent due to Work-related Accidents + Work-related Illness / average headcount x 365 x 100.

Note 1. The data for accident and absenteeism rates for 2017 is provisional.

Note 2. The registering and reporting of accidents is done based on Spanish law and as set out in the Red Eléctrica management system, certified according to OHSAS 18001.



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Average hours of training by professional group and gender / Spain [1]

404-1

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Management team	112	163	122	110	120	112	112	95	104
Specialist / technical experts (G1 + G2 + G3)	95	130	101	83	90	84	108	115	111
Administrative personnel (G4)	30	54	48	23	36	32	15	50	33
Total	86	114	100	83	79	82	109	105	108

[1] Data for REE+REC+REI+REINTEL+REINCAN.

Percentage of employees whose work performance and professional development is appraised periodically / Spain [1]

404-3

[%]

	2015		2016		2017	
	Men	Women	Men	Women	Men	Women
Employees with a performance appraisal	100	100	100	100	100	100

[1] Data for REE+REC+REI+REINTEL+REINCAN.

Composition of the corporate governance bodies

405-1

[No.]

	2015				2016				2017			
	M	W	Total	%W	M	W	Total	%W	M	W	Total	%W
Board of Directors	7	5	12	41.7	7	4	11	36.4	8	4	12	33.3
Audit Committee	4	1	5	20.0	4	1	5	20.0	3	2	5	40.0
Appointments and Remuneration Committee	0	4	4	100.0	1	3	4	75.0	3	2	5	40.0

Note: The Board of Directors is composed of 12 members, although at the end of 2016 there was a vacancy. Similarly, in 2016 there was also a vacancy in the Appointments and Remuneration Committee.



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Composition of the corporate governance bodies by age

405-1

[%]

	2017		
	Under 30	30 to 50	Over 50
Board of Directors	0	25	75
Audit Committee	0	0	100
Appointments and Remuneration Committee	0	40	60

Workforce distribution by age, gender and professional group / Spain [1]

405-1

[%]

	2015						2016						2017					
	Under 30		30 - 50		Over 50		Under 30		30 - 50		Over 50		Under 30		30 - 50		Over 50	
	M	W	M	W	M	W	M	W	M	W	M	W	M	W	M	W	M	W
Management team	0.0	0.0	69.6	30.4	88.9	11.1	0.0	0.0	69.4	30.6	87.7	12.3	0.0	0.0	62.9	37.1	87.0	13.0
Specialist / technical experts [G1 + G2 + G3]	73.8	26.2	77.5	22.5	91.6	8.4	69.4	30.6	76.9	23.1	90.8	9.2	60.0	40.0	77.3	22.7	90.4	9.6
Administrative personnel [G4]	0.0	0.0	17.9	82.1	32.3	67.7	0.0	0.0	18.4	81.6	28.2	71.8	0.0	0.0	15.9	84.1	29.7	70.3
TOTAL	73.8	26.2	74.2	25.8	83.5	16.5	69.4	30.6	74.0	26.0	82.0	18.0	60.0	40.0	74.1	25.9	81.3	18.8

[1] Data for Red Eléctrica de España S.A.U. + REC.

M: Men W: Women

Workforce breakdown by age and gender / Spain [1]

405-1

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	31	11	42	25	11	36	40	26	66
30 to 50	860	299	1,159	832	293	1,125	858	300	1,158
Over 50	414	82	496	427	94	521	419	98	517
Total	1,305	392	1,697	1,284	398	1,682	1,317	424	1,741

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017.



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Ratio of base salaries of men compared to women / Spain [1]

405-2

[M/W]

	2015	2016	2017
Management team	1.01	1.03	1.05
Specialist / technical experts [G1 + G2 + G3]	0.94	0.94	0.98
Administrative personnel [G4]	1.01	1.01	1.06
Total	1.02	1.01	1.02

[1] Data from REE+REC.

Occupational health and safety indicators. REE contractors [1]

EU17

[N°]

	2015	2016	2017
Average workforce [1]	2,950	2,666	2,940
Hours worked (thousands)	4,986	4,502	4,969
Accidents with sick leave	62	46	36
Fatal accidents	2	0	0
Days lost due to accidents [2]	15,347	1,402	1,366
Accident frequency rate	12.84	10.22	7.24
Accident severity rate	3.08	0.31	0.27
Incidence rate	21.69	17.26	12.24

[1] Based on hours worked, considering 1,690 hours per worker.

[2] Calculation based on 6,000 working days per fatal accident and 4,500 for total permanent incapacity.

Note: provisional data for 2017.

Employees with the possibility of retirement in the next 5 or 10 years/ Spain [1]

EU15

[%]

	In the next 5 years 2018-2022	In the following 5 years 2023-2027
Management team	1.1	1.0
Specialist / technical experts [G1+G2+G3]	6.0	9.2
Administrative personnel [G4]	0.8	2.1
Total	7.8	12.3

[1] Data for Red Eléctrica de España S.A.U. (workforce 1,709)

Note 1. Considering retirement age as a sole requirement and estimating this as 65 years of age.

Note 2. In the first period (2018-2022), employees considered are those whose age is equal to or greater than 65.



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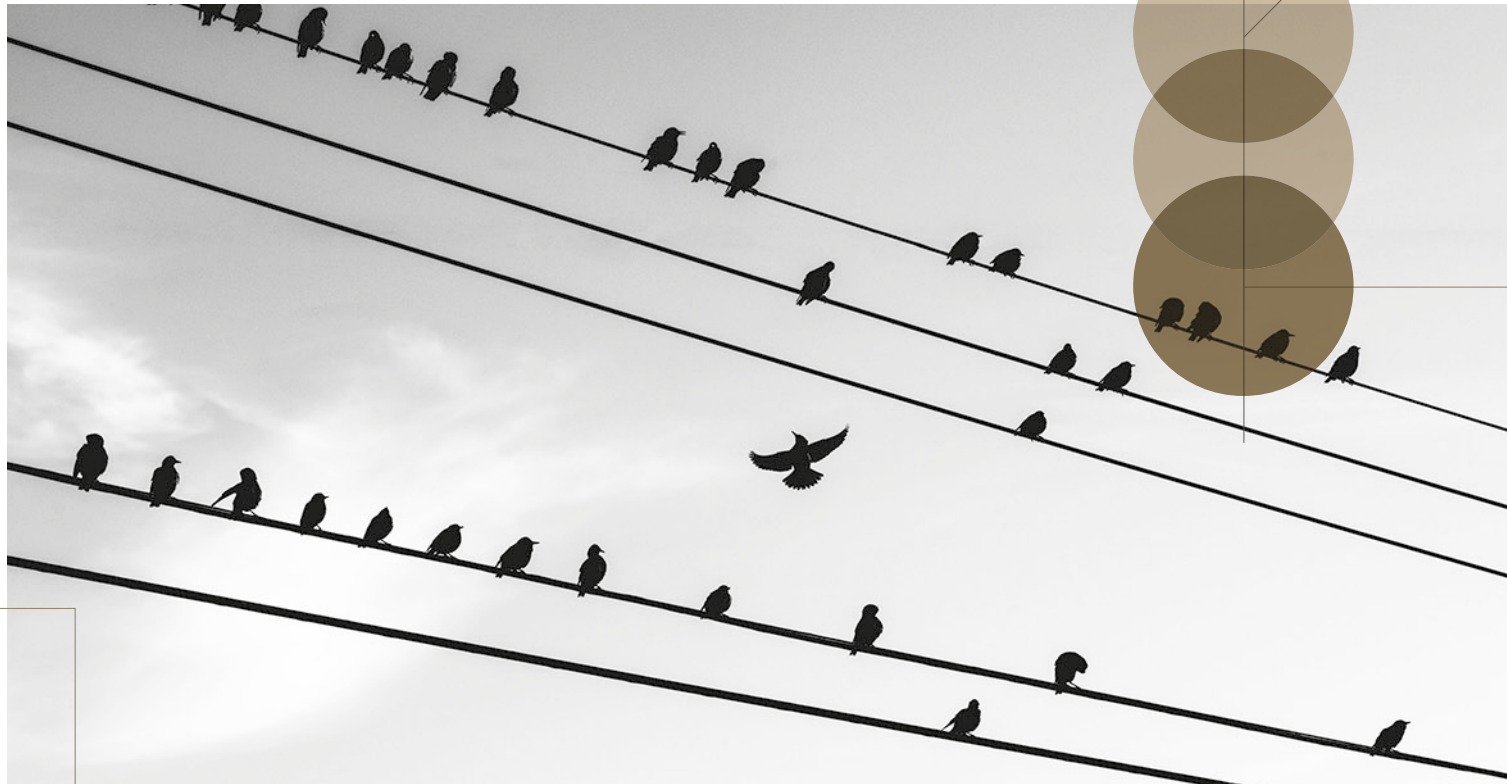


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RESPONSIBLE ENVIRONMENTAL MANAGEMENT



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Our environmental management / 103-1 / 103-2 / 103-3

Red Eléctrica carries out all its activities taking into account environmental protection, in accordance with the principles established in its **environmental policy**, including the commitment to prevent pollution and the principle of precaution. / 102-11

The main environmental impacts of Red Eléctrica are those that arise from the presence of the facilities in the territory, which is why the Company works intensively to make them compatible with the environment, considering their entire life cycle and paying special attention to the conservation of biodiversity.

In addition, Red Eléctrica is committed to a sustainable energy model, thus acquiring a specific commitment to climate change and energy efficiency.

Red Eléctrica's commitment not only covers its own activities, but also extends to those of its supply chain.

MANAGEMENT SYSTEM
In order to carry out a continuous improvement of environmental performance, Red Eléctrica has implemented an environmental management system certified according to ISO 14001 and registered, since October 2001, in the **Community Eco-Management and Audit System (EMAS)**.



One of the fundamental elements of the management system is the annual environmental programme, the scope of which was extended in 2017 to include all the activities with an environmental component, in a global and cross-cutting way to the entire company, which is now called the **annual environmental plan**.

The environmental plan is built on three vectors: environmental management of facilities, biodiversity and climate change. With the aim of further promoting the environmental commitment of Red Eléctrica, the environmental plan of 2018 includes, as a new aspect, the main challenges identified by





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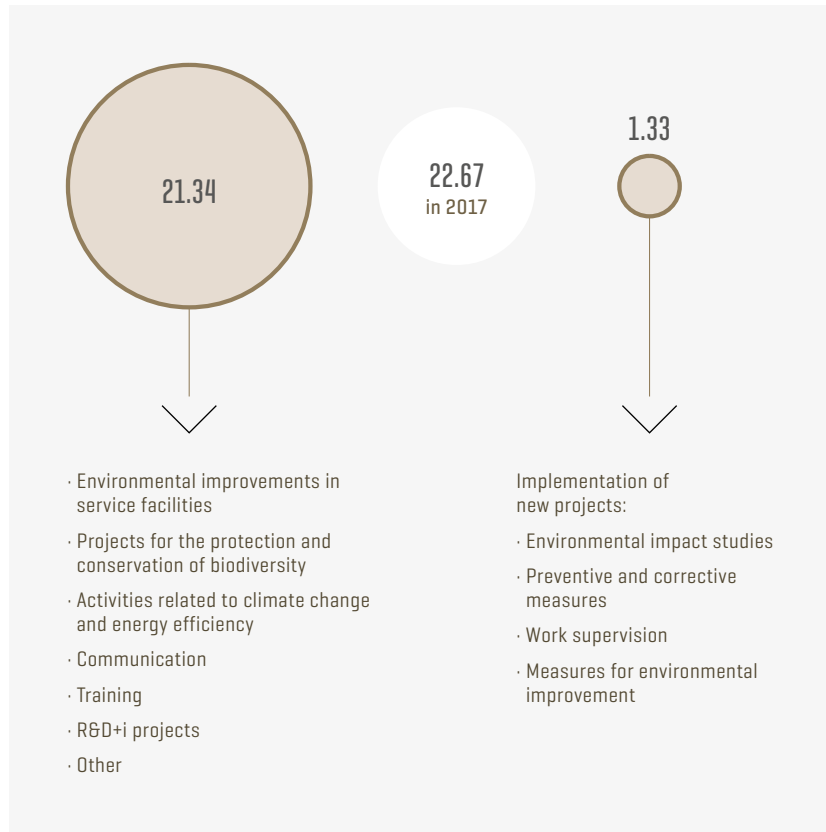
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each vector and the objectives to be achieved in the 2020 horizon for each one of them. Fulfilment of the 2017 Environmental Plan stood at 73%.

ENVIRONMENTAL EXPENDITURE

Red Eléctrica sets aside significant financial resources for environmental protection. In 2017, the Company earmarked 22.67 million euros to environmental issues.

Environmental expenditure Millions of euros



SUPPLY CHAIN 103-1 / 103-2 / 103-3 / 308-1 / 308-2

Red Eléctrica requires that all those suppliers that have a greater environmental impact have an environmental management system documented or certified by a third party. In 2017, this requirement was requested from 224 new suppliers.

With the aim of improving the environmental performance of the supply chain, a project was launched in 2015 seeking to adjust the requirements requested from different suppliers to the impacts [potential or real] associated with each one of them. After a process of identification and assessment of the impacts on the contracted services, and the conducting of tests with a significant group of suppliers, the project was finalised in 2017. Said project concluded that the requirement for a system certified by a third party was in line with the type of impacts associated with the services provided by Red Eléctrica's suppliers, whereby it was considered appropriate to continue with this prerequisite going forward without the need to add any further mandatory requirements.

Nevertheless, work will continue to be carried out with suppliers through a questionnaire on sustainability issues, with an associated scoring system, that will help identify areas for improvement and collaborative projects that will help boost and advance their environmental performance.

The environmental requirements, in terms of training and specifications, for the execution of works are part of the contractual documentation for those services where it has been deemed necessary. In the case of the activities with the greatest potential impact, such as construction, refurbishment of facilities and some maintenance activities, a part of the payment for the contracted work is conditional on the result of the environmental certification process of the works, which implies a meticulous monitoring of the established environmental requirements.





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Integrating facilities into the environment / 103-1 / 103-2 / 103-3

The main measure to reduce and even avoid the undesired effects of Red Eléctrica's facilities in the environment and in local communities is the selection of the site where facilities will be located. For this reason, the Company carries out a detailed study of the territory and works in coordination with the public administrations and the main stakeholders in the definition of the substation sites and the routes of the lines.

In addition, Red Eléctrica establishes the appropriate preventive and corrective measures to be applied in the execution of the construction or maintenance

works, in order to reduce, as much as possible, the potential impacts that these activities may have on the territory.

The best tool to carry out the definition of the best project and the appropriate preventive and corrective measures is the procedure of **Environmental Impact Assessment**, to which most of Red Eléctrica's projects are subject to by law.

To ensure the commencement and effectiveness of the defined measures, **environmental monitoring programmes** are defined and carried out. These are applied in the construction of the facilities and in the first years of operation and facilitate the definition of new measures if necessary.





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When the law does not require a regulated procedure, the Company also carries out an **assessment of an environmental nature** and establishes **voluntary communication** with the public administration concerned.



For facilities undergoing maintenance, the Company carries out periodic inspections in order to verify compliance with environmental standards and identify the necessary improvement actions.

Among the preventive and corrective measures applied, noteworthy are those aimed at the protection of habitats and species (measures for the protection of biodiversity) or those geared towards reducing potential impacts on the socioeconomic environment.

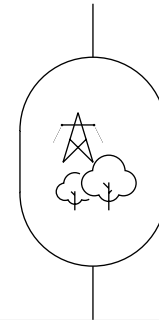
All these measures are described in further detail in the following sections of this chapter.

PUBLIC PARTICIPATION

Currently, one of the most relevant issues in relation to the integration of facilities into the environment is how to improve their social acceptance. The development of public participation processes is a key tool for this.

During 2017, Red Eléctrica worked on the public participation and consultation process for the submarine interconnection project with France across the Bay of Biscay as, given its status as a Project of Community Interest (PCI), it requires this type of procedure.

Integration OF FACILITIES



In 2017 a methodology was developed that will be applied in

11
PROJECTS
during 2018

With the aim of improving social acceptance regarding the integration of facilities

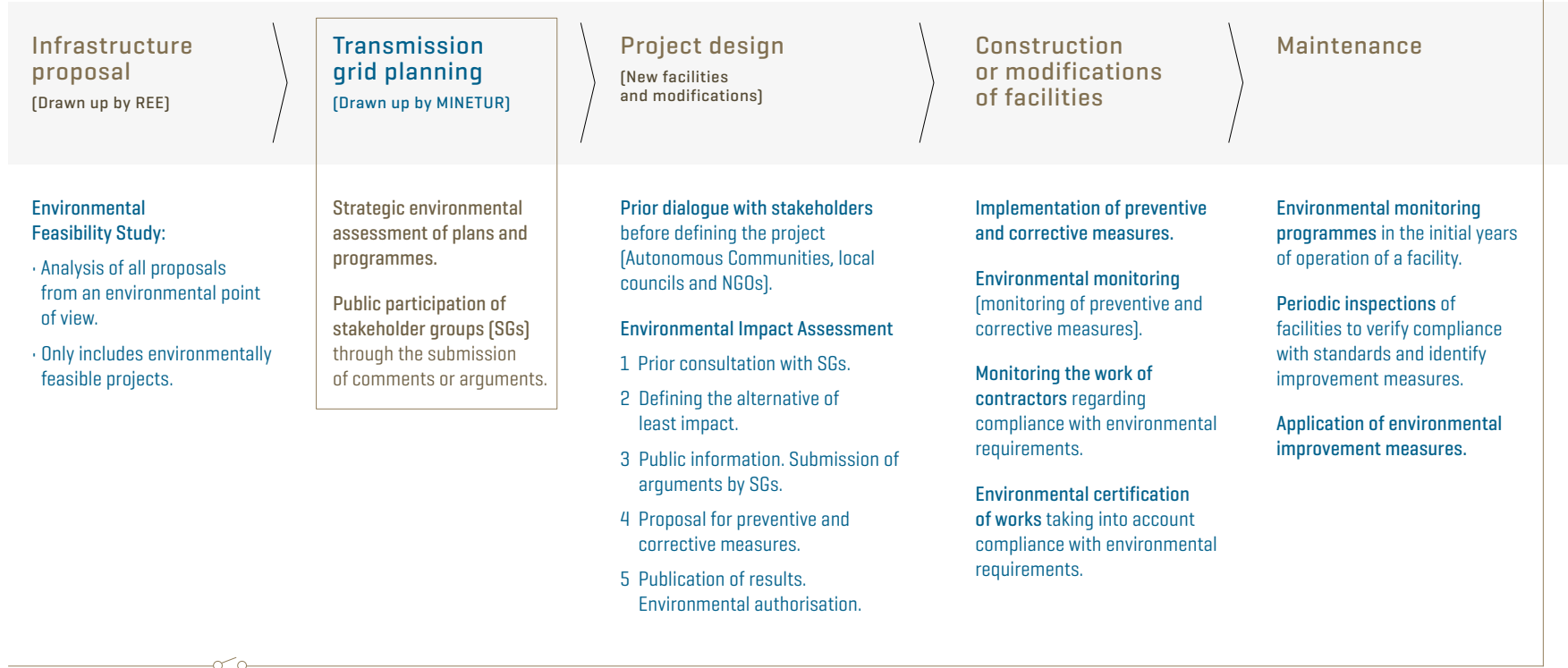


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In addition, the Company is strengthening stakeholder management by establishing plans for public participation and consultation processes for other projects. The objectives that are pursued are the following:

- Strengthen information for the stakeholders involved regarding the need for the projects and their environmental and social impact.
 - Collate information that serves to enrich the project impact assessment process.
 - Foresee and minimise potential conflicts.
- During 2017, a methodology was developed for this purpose, which will be applied in eleven projects during 2018.

DEVELOPMENT AND IMPLEMENTATION PHASES FOR TRANSMISSION GRID INFRASTRUCTURE





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In 2017, noteworthy was the use of helicopters in the replacement of 74 towers in various lines, mainly to avoid the opening up of access routes and the associated impacts.



SOCIO-ECONOMIC ENVIRONMENT 413-2

The presence of electricity infrastructure in no case represents a significant alteration in the way of life of the communities affected. In the case of substations, these produce a total and irreversible occupation of land, however in the case of electricity lines, land use is limited to the feet of the towers and the newly created accesses to the infrastructure. The land surface with overhead electricity lines is subject

to a right of way easement during the useful life of the infrastructure. Livestock and agricultural activities are compatible with the lines, allowing all kinds of agricultural crops to be grown under them and the free movement of the machinery necessary for its management.

The social aspects are integrated into the environmental assessment that takes place in the design phase of facilities.

Main conditioning factors in the definition of siting locations of facilities and the design of access routes



- Incompatible use of the land
- Areas of high agricultural yield and agroforestry plantations
- Touristic resources
- Cultural resources
- Landscape

Main preventive and corrective measures



- Use of existing accesses
- Use of special techniques [e.g. use of boom crane or helicopter] for assembling towers
- Restoration of areas affected by the works: slopes, roads, accesses, enclosures and the replanting of crops

These restorations may be accompanied by other measures agreed with the land owners, such as:

- improvement of forest trails or roads
- construction of waterways
- piped irrigation channels
- clearing of farmland



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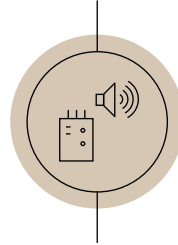
NOISE

On some occasions, electricity substations can be an annoyance for the neighbours, due to the noise generated by some of its elements. Red Eléctrica works on the implementation of the most effective measures for mitigating noise pollution.

In addition, the **ACURED R&D+i project** was launched in 2016, with the aim of improving knowledge of the nature of the noise generated and evaluating different technical solutions to mitigate it. So far, the phases of prior study, assessment, classification and prioritisation of noise sources and the proposal and simulation of corrective measures have been conducted.

In 2017, a longitudinal vegetation screen was built to reduce the noise generated by the power transformer in the 400/220 KV Solórzano substation; and a ridge was created with surplus soil that

ACURED R&D+i PROJECT



MITIGATE NOISE generated in substations

is planned to be replanted with vegetation to mitigate the noise produced in the 220 KV Arkale substation.

BLENDING FACILITIES INTO THE LANDSCAPE

One of the principal challenges regarding the integration of electricity transmission infrastructure into the environment is the ability to blend them into the

landscape. In order to progress in this integration, it is essential to improve the tools for evaluating the visual impact of the facilities. For this reason, in recent years, Red Eléctrica has been promoting different projects in this field.

Tools for assessing the visual impact of facilities

Taking the landscape into account in the environmental impact studies of electricity lines. Since 2016, a methodology for the analysis and integration of the landscape has been applied, which makes it possible to evaluate the landscape impact of future facilities and systematically integrate the landscape variable into the decision-making process.

Landscape assessment system for Red Eléctrica facilities. The Company is working on the development of a system that incorporates social variables related to the visual perception of the facilities. This system has already been applied as a pilot in the province of Leon and in the autonomous communities of Asturias and Galicia. For 2018, the application and assessment of results in Castilla y León is foreseen.

Methodology for visibility analysis of electricity lines. This permits the drafting of intervisibility maps and visual basins, and a view of existing or planned lines, through 3D simulations, using the corporate geographical information system (GeoRed). Therefore, it is very useful for making comparisons between alternatives or for presentations to different stakeholder groups.

Other landscape integration measures

Standardisation and design of towers that blend better into the landscape.

Landscape integration of substation buildings through the development of designs adapted to the environment in which the facilities are located.

Restoration of the areas affected by the works: supply of topsoil, adaptation of slopes and work camps and carrying out sowing and planting works.

Creation of vegetation screens and gardened areas in the vicinity of the facilities.





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In 2017, archaeological supervision was carried out in the construction of 10 new substations and in 24 works on new and existing lines. Permanent presence, during the works, of an archaeologist for 60% of the substations and 75% of the lines.

PROTECTION OF ARCHAEOLOGICAL AND ETHNOLOGICAL HERITAGE

The protection of archaeological and ethnological heritage is an important factor in the design and construction of facilities.

Before carrying out any earthworks, an archaeological survey is made, the intensity and scope of which depend on the probability that there is material of interest in the area. According to the results, the need for the continuous presence of an archaeologist during the works is determined and, if necessary, the preventive measures to be applied during the works are defined.

On the other hand, in 2014 work began on the ArqueoRED project, whose objective is to have the

information regarding catalogued cultural heritage digitally mapped for the entire national territory. The consultation of this information prior to the execution of works in the facilities enables the necessary measures to be defined in each case and thus avoid potential impacts. Thanks to the close collaboration with the administrations concerned, the information of all the autonomous communities is already available.

Adaptation of the 'Era de Son Telm' (Ferreries, Menorca)

Restoration of a stone 'threshing floor' of about 100-120 years old that was in very poor condition, located on one of the farms along which the 132 kV Ciudadela-Mercadal line runs. The restoration consisted of the removal of undergrowth, the repair of the paving and the collecting of perimeter stones that were scattered

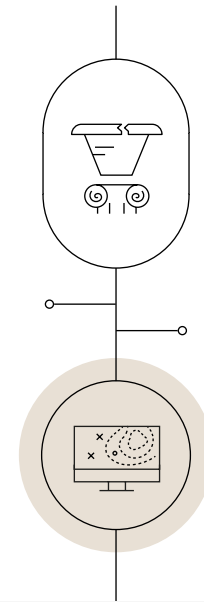
In 2017, work was done on the field review of the information obtained from four communities, with the intention of continuing the process in a further ten communities in 2018.

In addition, Red Eléctrica collaborates actively with the public administration on the conservation of cultural heritage.

around the area for them to be put back in their original place.

The conservation of this element is important both for the value of the structure itself and for relevance as a symbol of the agricultural tradition in the area.

ArqueoRED PROJECT



DIGITAL MAPPING

of catalogued heritage nationwide

Started in 2014

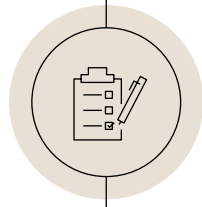
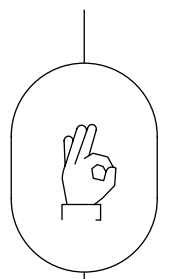
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ELECTRIC AND MAGNETIC FIELDS 103-1 / 103-2 / 103-3 / 416-1

Thanks to the criteria applied in the design of facilities, the levels of electric and magnetic fields (EMFs) stay below those recommended by the Council of the European Union (The Official Journal of the European Communities 1999/519/EC: establishes exposure limit values for the general public in sites where they may remain for a period of time at 5kV/m for electric fields and 100µT for magnetic fields). The most important measures are the following:

- Construction of double circuits and transposition of phases in lines.
- Increasing the height of towers, thus increasing the safety distances.
- Establishing the minimum distance of electricity lines from population nuclei and isolated houses.

Legal COMPLIANCE



ZERO INCIDENTS
of non-compliance with regulations

Red Eléctrica has assessed and validated compliance with the regulations for 100% of its facilities.

In order to verify compliance with the recommendation, Red Eléctrica has a tool that uses specific line parameters to accurately calculate the maximum EMF levels that said facilities can generate.

It is only necessary to make measurements in situ when the values of the parameters necessary for the calculation are not available. This is the case of some facilities acquired by the Company in 2010 in the island systems, for which a specific plan of measures was developed during 2015 and 2016, all the values were found to be within the recommended exposure limit values.

In addition, in specific cases, Red Eléctrica conducts some

measurements at the request of interested parties. In 2017, measurements have been taken for three lines and one substation, in all cases with results being below the limit values recommended by the European Union. During the year, there were no incidents registered due to non-compliance with the regulations in this matter. / 416-2

Nonetheless, aware that electromagnetic fields are an aspect that generate significant interest in the territories where electricity facilities are located, this issue is addressed with special relevance in the informative sessions regarding future projects, as has been the case with those sessions carried out in the local councils of Astillero and Camargo in 2017.



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Red Eléctrica keeps abreast of all new developments regarding electromagnetic fields, participating in working groups and actively supporting research projects in this field.

On the other hand, Red Eléctrica considers it of utmost importance to keep abreast of all new developments regarding electromagnetic fields, participating in different working groups and actively supporting research projects in this field:

- The Company is subscribed to an international information service (ELF Gateway), which informs its customers by email, on almost a daily basis, of all the new developments in this subject that appear worldwide.
- In 2017, the Company took part in the round table on 'Electromagnetic Radiation' included as part of the Health and Environment Plan of the Principality of Asturias [PASYMA].
- The Company has worked with UNESA in updating the publication '50 HZ electric and magnetic fields. Analysis of the current state of knowledge', which is available through the corporate website.



+ information in the Natural environment section of the Corporate website

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Biodiversity /103-1 /103-2 /103-3

The protection and conservation of biodiversity have always been basic elements in the environmental management of Red Eléctrica. In 2017, Red Eléctrica renewed its commitment to biodiversity

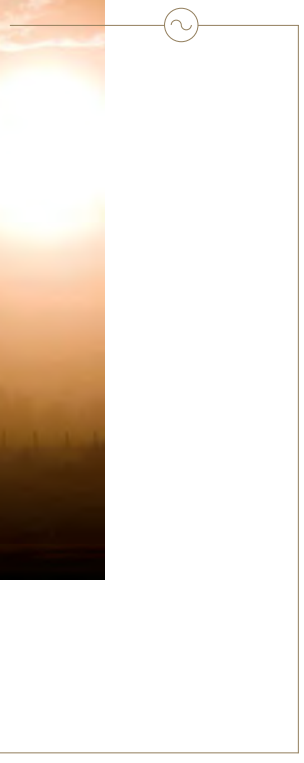
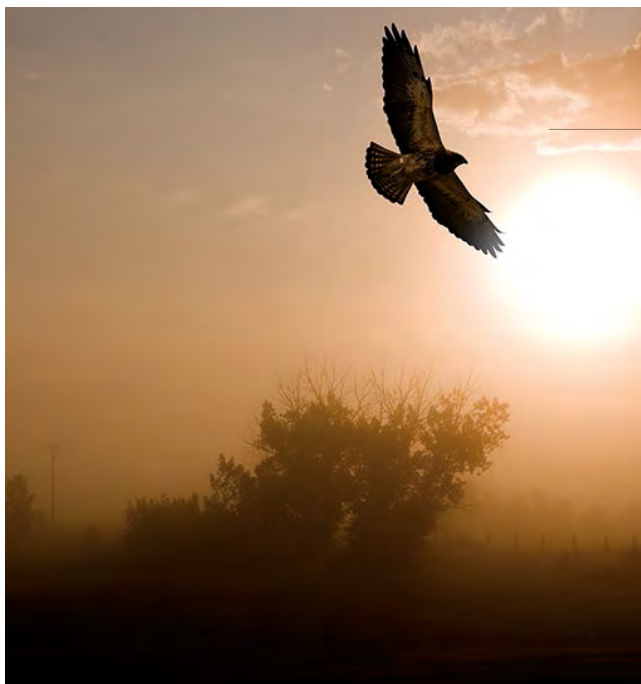
and approved a new **multi-year Biodiversity Action Plan** that includes the challenges and main objectives for the period 2017-2021, as well as the main projects to be carried out during this period.

Partnerships

- Adhered to the **Biodiversity Pact** [2013-2018]. Red Eléctrica is part of the Spanish Initiative for Enterprise and Biodiversity [IEBB] promoted by the Ministry of Agriculture, Food and Environment.
- Adhered to **The Ocean Conference** [UN] _ SDG 14.
- Adhered to the Spanish maritime cluster.

Recognitions

- ‘**Good Practice of the Year Award 2017**’ from the **Renewables Grid Initiative (RGI)** in the Environmental Protection category.
- Maximum score [100 out of 100] in the biodiversity criteria in the **Dow Jones Sustainability Index 2017**.
- Recognition of Red Eléctrica de España for its **contribution to the biodiversity data bank** of the Government of Valencia.



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BIODIVERSITY MANAGEMENT 103-2

Red Eléctrica's facilities are distributed nationwide, as the aim of the electricity transmission

grid is to connect the points of energy generation with those of consumption. **Avoiding** areas rich in biodiversity is one of the priority criteria taken into account both in the grid planning phase as well as

in the definition of each project. However, considering that 25% of the area of Spain has some form of environmental protection, it is inevitable that in some cases infrastructure crosses, or is located in protected areas or areas with species of interest.

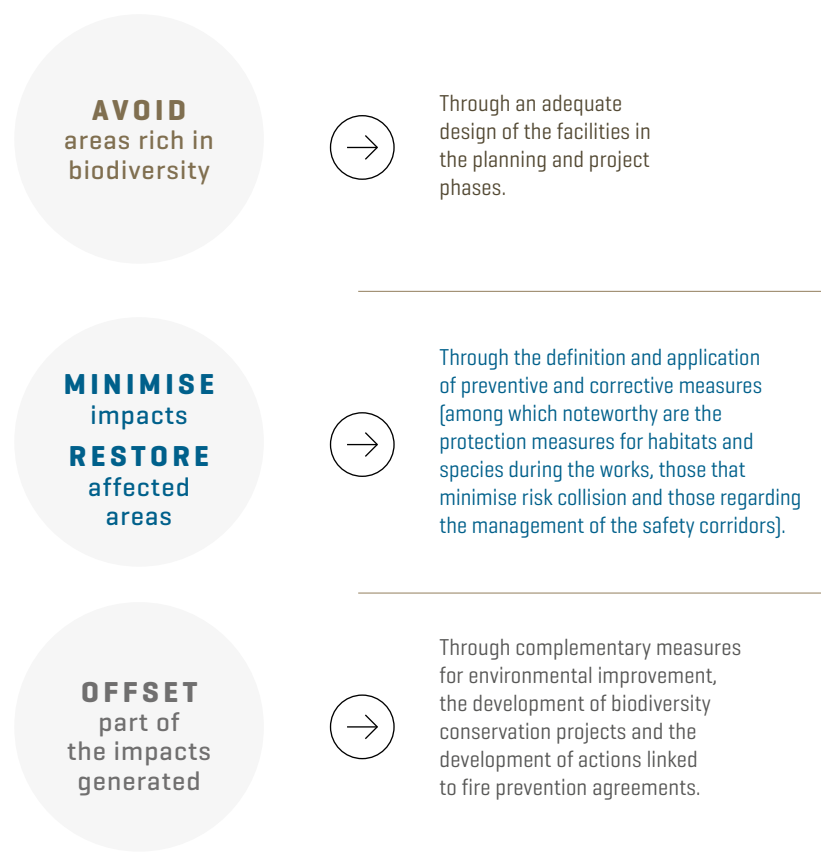
complemented by **environmental improvement actions** to enhance biodiversity in those areas where the facilities are located, and which seek to **offset** some of the impacts that may have occurred.

Lastly, Red Eléctrica promotes and collaborates with the public administration, non-governmental organisations, research organisations and other interested parties in the development of biodiversity **conservation projects**, mainly focused on the species most related to the Company's activities.

On these occasions, Red Eléctrica implements all the preventive and corrective measures required to **minimise** the possible impacts on habitats and species (impacts associated with construction work and the modification of facilities, impacts on birdlife as a result of collisions and fire risks). These measures also include the **restoration** of affected areas, when possible. In addition, they are

Red Eléctrica's current facilities occupy just 0.08% of the Spanish Natura Network. Of the total infrastructure existing in 2017, only 15% of the lines and 5.9% of the substations are in protected areas (Red Natura).

Hierarchy followed for the mitigation of impacts on biodiversity



BIODIVERSITY CHALLENGES: BIODIVERSITY ACTION PLAN (2017-2021)

CHALLENGES	MOST RELEVANT ACTIVITIES	ADVANCE	TARGETS 2021
Improve the management of biodiversity in the Company, incorporating new approaches and expanding the scope	<ul style="list-style-type: none"> · Definition of a new assessment methodology for investment projects. · Promoting the management of biodiversity in the Group's subsidiaries. · Extending commitment to the supply chain. 	Actions underway.	Completion of the three proposed actions.
	Make facilities compatible with biodiversity	<p>BIRDLIFE: Multi-year line marking plan.</p> <p>45% of the Critical priority area marked.</p>	100% critical priority areas marked by 2023.
	<p>FORESTED AREAS: Signing of agreements for the prevention of forest fires.</p> <p>12 agreements in force.</p> <p>HABITAT OF HIGH ECOLOGICAL VALUE: HABITAT Project.</p> <p>Obtaining field-validated mapping for 16 Autonomous Communities.</p>	<p>Mapping designed, field-validated state of conservation and management plans for the conservation of the habitats identified in all the Autonomous Communities.</p>	
Promote the conservation of biodiversity	Participation in wildlife conservation projects (especially birdlife) and flora.	11 birdlife projects in force, all of them on focal species.	6 annual projects in force, 5 of them on focal species.
	REE Forest.	Surface area recovered: 778 ha. Investment: 1,843,941 euros.	Exceed 1,000 ha recovered and reach a total investment of 2,500,000 euros.
	REE Marine Forest.	Signed agreements with the CSIC and the Government of the Balearic Islands for the planting of a marine forest of 2 ha.	Development of the Posidonia forest: 2 ha.
Raise awareness on Red Eléctrica's stance on biodiversity matters	Increase employee awareness.	Publication of information related to biodiversity on the corporate intranet.	Publication of internal news and the carrying out of specific campaigns.
	Promote corporate volunteering in the field of biodiversity.	Volunteering actions developed within the framework of the Natura 2000 Network Day.	Development of new actions (at least one a year).
	Increase the visibility of Red Eléctrica externally with regard to biodiversity.	Dissemination of projects in the press and on social networks. Publication of brochures and videos. Participation in forums and specialised working groups.	New informative products. Participation in events related to biodiversity (at least 2 per year).
Promote innovation in biodiversity	Implementation of innovation projects that contribute to the achievement of biodiversity challenges.	<i>Biotransporte</i> Project. <i>Vegeta</i> Project.	A minimum of three innovation projects implemented in the period.



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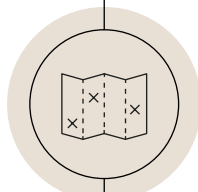
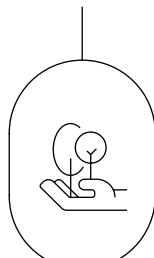
PROTECTION OF HABITATS AND SPECIES DURING WORKS 304-2

In works for the construction of lines or the modification of facilities, the main impacts to be avoided are the alteration of the habitat of certain species of fauna and flora, and also the impact on vegetation due to the opening up of safety corridors, necessary to prevent fires in the operation of the line.

Among the preventive and corrective measures applied, noteworthy are the following:

- Detailed field studies on specific issues, such as impact reports for Red Natura and surveys to identify the presence of protected flora and fauna.
- Introduction of modifications in the design of facilities to mitigate their impact on flora: compacting or increasing the height of towers, relocation of towers, modification of access roads etc.

Preventive MEASURES



Marking and protection of habitats and species of

VERY HIGH ECOLOGICAL VALUE

to avoid them being harmed when carrying out works



- Construction of decanting pools and filters to prevent contamination of waterways.
- Signage and protection of habitats and species of ecological value to avoid them being harmed when carrying out works.

- Use of construction techniques that minimise earthworks and the occupation of land (reducing the opening up of access roads, size of work sites and storage areas for materials): hoisting structures with a boom crane, hanging of line by hand, or carrying out works using a helicopter or drone.

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- Transfer of species affected by the work to other areas to be replanted.
- Biological stoppages in 100% of the works during breeding or nesting periods to reduce impacts on the fauna that may be affected.
- Halting of works in periods or situations of high fire risk.
- Recovery of affected areas: restoration of slopes, sowing of seed and the planting of flora.
- Accompanying measures and the development of specific projects to improve biodiversity in affected areas.

In 2017, the following specific measures for the protection of habitats and species were carried out:

- **Concreting with the use of a helicopter** of 7 towers in the construction works of the 132 kV Puerto del Rosario-La Oliva line to protect the surface of this barren rocky area.

- **Hanging by hand of two spans** in the 132 kV Gran Tarajal-Matas Blancas line to protect palm groves and salt cedar trees (included in habitats of community interest) and the entire 132 kV Puerto del Rosario-la Oliva line (83 spans) for the protection of the surface of this barren rocky area (lava rock).
- **Biological stoppages** of various durations (periods between 3 and 6 months) on 5 lines, to avoid the impacts on various species, among which noteworthy are: Egyptian

Habitat Project (2015-2021)

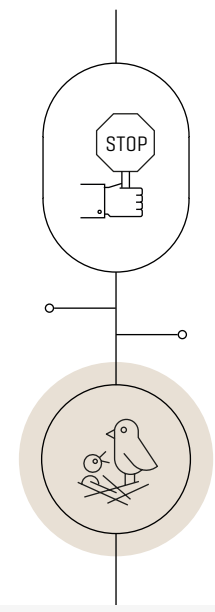
This project aims to know in detail the natural values present in the sphere of influence of Red Eléctrica facilities and their state of conservation. The final objective is to be able to monitor the interaction of electricity transmission lines and natural habitats of community interest, information that can be used in the decision-making process regarding their operation and maintenance.

- vulture, Houbara bustard, Great bustard, Little bustard, Dupont's lark, Lesser kestrel, Bonelli's eagle, Kite, European honey buzzard, European sand martin, Trumpeter finch, Black-bellied sandgrouse and Eurasian stone-curlew.
- **Installation of 37 nesting boxes** for European roller, owls and kestrels on the 220 kV Plasencia-Almaraz I/O line.

The first phase consisted of the **development of a digital map with all the information**, which is obtained by working in collaboration with the different autonomous communities and experts in the field and carrying out a subsequent validation in the field. This phase has already been completed for 16 autonomous communities.

Subsequently, work will be done on the design of management plans or measures that encourage the conservation of these habitats.

Biological STOPPAGES



For

3-6 MONTHS

To avoid impacts on various species

Implemented for 5 lines



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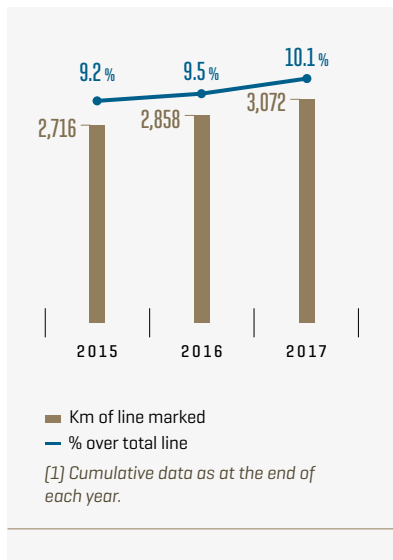
The 2016-2023 multi-year line marking plan will reduce the potential risk of birds colliding with overhead electricity lines by 25%.

MINIMISING THE RISK OF BIRD COLLISIONS

The main impact on fauna by Red Eléctrica's facilities is the risk of birds colliding with grounding cables that protect the lines

from electrical discharges during storms. The main measure to reduce that risk is marking the grounding cables with devices that increase their visibility. / 304-2

Marking of lines with bird-flight diverters (1)



Marking of lines with bird-flight diverters in areas of critical priority. 2016-2023 Plan (1)



Thanks to the project 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines', which ended in 2016, a multi-year line marking plan for 2016-2023 was put in place in which priority is given to actions on sections of line with the greatest potential impact on birdlife. The execution of this plan will mean a reduction of 25% in the potential risk of birds colliding with overhead electricity lines.

Red Eléctrica also works on other relevant projects in relation to protecting birds from colliding with lines:

- Analysis of the effectiveness of the blade-type bird-flight diverter in different bird communities. Project in collaboration with the Doñana Biological Station (CSIC) (2013-2018).
- Collaboration with SEO BirdLife in the development of the 3rd Atlas of birds in breeding season in Spain (2014-2018). The information obtained will enable the updating of data relevant to the 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines' project.

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FIRE PREVENTION

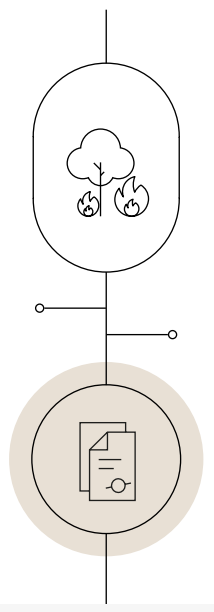
In order to minimise the risk of fire associated with the presence of transmission lines, strict compliance with the safety distances between flora and facilities is critical. Red Eléctrica ensures this compliance through the proper design of the safety corridors and the actions of predictive and preventive maintenance, such as the annual inspection of all facilities and the periodic conducting forestry work.

The Company applies best practices in the design and maintenance of safety corridors, respecting shrubs and small size/slow growing tree species, minimising the impact on protected species and refraining from using chemical treatment methods.

In addition, noteworthy is the importance of the active and continuous collaboration of Red Eléctrica with the public administrations involved in forestry management. This collaboration

⊕ In Chapter 7 of this Report and in the Natural environment section of the corporate website.

Fire PREVENTION



Currently in force
12
AGREEMENTS

-
for collaboration with the public administrations involved in forestry management

Red Eléctrica ensures compliance with safety distances between flora and facilities through the proper design of the safety corridors and the actions of predictive and preventive maintenance.

is formalised through the signing of **collaboration agreements for the prevention and fight against forest fires**. In 2017, a new agreement was signed, there are currently 12 in force, with a budget of more than 1,200,000 euros every

five years. The Company has set the goal of establishing this type of agreement with all the administrations concerned, a total of 21.

Vegeta Project (2015-2021)

The objective of this R&D+i project is to **optimise vegetation management tasks**. In 2016, work was carried out on the definition of an algorithm that, by analysing different variables (vegetation status and growth rate, distance to the electricity line, legal requirements and other established criteria), enables felling works to be established with greater efficiency. In addition, the project includes the carrying out of detailed inventories

of the vegetation inside the safety corridors, which makes it possible to identify compatible and incompatible species more accurately, thus facilitating the application of environmental criteria in maintenance tasks.

Up to 2017, progress has been made in the execution of pilot projects in two autonomous communities.



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CONTRIBUTION TO BIODIVERSITY CONSERVATION 304-3 / 304-4

Red Eléctrica actively contributes to the conservation of Spain's biodiversity, leading or participating in various projects and carrying out dissemination and training activities in environmental matters. Although working in different areas,

within the biodiversity action plan, the objective of the project is the development of wildlife conservation projects, mainly related to focal bird species [prone to collision].

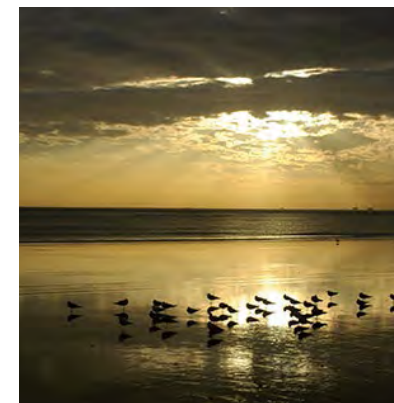
Other actions aimed at improving the conservation of biodiversity are included in the 'Contribution to social, economic and environmental development' chapter.

Conservation projects in connection with endangered species

- Platforms for the Osprey [*Pandion haliaetus*] in Andalusia. [1]
- Reintroduction of the Bonelli's eagle [*Hieraetus fasciatus*] in Majorca. [1]
- The actual impact of supplementary feeding on the spatial and reproductive ecology of the Bonelli's eagle [*Hieraetus fasciatus*] in the Community of Valencia. [1]
- Monitoring, conservation and recovery of the population of the Spanish Imperial eagle [*Aquila adalberti*] in Doñana. [2] [3]
- Foraging areas and movements of the Canarian Hubara [*Chlamydotis undulata fuertaventurae*]. [2] [3]
- Effects of global change on the Iberian populations of Egyptian vulture [*Neophron percnopterus*]. [1] [4]
- Reintroduction of the Black vulture [*Aegyptius monachus*] in the province of Burgos. [1]
- Conservation of the White-headed Malvasia [*Oxyura leucocephala*] in the Community of Valencia. [2] [4]

[1] Vulnerable species according to the national catalogue of endangered species. [2] Species in danger of extinction according to the national catalogue of endangered species. [3] Vulnerable species according to the IUCN red list. [4] Endangered species according to the IUCN red list.

The biodiversity action plan contemplates the carrying out of conservation projects regarding focal bird species, most prone to collision.



Biotransporte project (R&D+i)

This is an innovative project to analyse, identify, diagnose and assess the effectiveness of how the base or footing of electricity transmission towers can act as corridors, means or stepping-stones for the development of fauna of different protected natural areas of the Spanish Peninsula and Balearic Islands and Canary Islands and its connections with the electricity lines of Portugal and France.

populations of certain species of animals with dispersal problems. For this reason, the species most affected by habitat fragmentation problems will be analysed as a priority [regardless of their level of protection], and subsequently electricity lines suitable to connect distant populations of said species will be selected.

In 2017, the works focused on the identification of the target species and optimal spaces.

The objective is to use this information to improve the



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Effluents and waste /103-1 /103-2 /103-3

Red Eléctrica has established processes that help **minimise both the quantity and the hazardous risk level of waste generated**, such as the in-situ regeneration of power transformer oil for its reuse and the avoidance of the need to deal with large quantities of oil as waste. Work is also being carried out on the 'Minimisation of cleaning waste from transformer containment pits' and 'Sustainable Stock' projects.

Nevertheless, given the nature of the waste generating activities, it is very difficult to predict the evolution of the quantities generated and establish quantitative reduction targets. For example, the activity for the renovation and adaptation of

facilities generates a large amount of waste, but it cannot be limited as this activity is often linked to the reduction of environmental risks.

Therefore, most of the efforts are geared towards finding **better solutions for the final management of the waste**, promoting good practices through training and awareness and seeking the best options among our suppliers.

PREVENTIVE OR CORRECTIVE MAINTENANCE TASKS: inspections, changing of parts, oil renewal, etc.

IMPROVEMENT OF FACILITIES: renewal of obsolete switchgear, adaptation of accident prevention systems etc.

ACTIONS AGAINST ACCIDENTS: the containment measures used in the case of leaks or spillages and the associated cleaning works may lead to a large amount of waste.



GENERATION OF WASTE IN RED ELÉCTRICA



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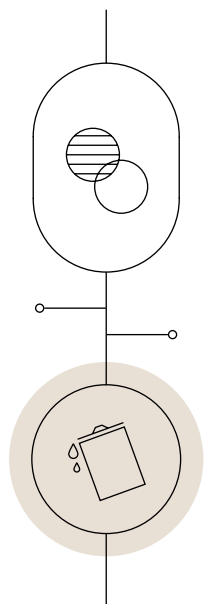
The **Waste Management Plan** establishes the management that will be undertaken in each project, establishing the criteria of minimisation and reuse as a priority.

'Sustainable stock' Project

Based on a reverse logistics project that faithfully follows the 3R principle: **reduce, reuse and recycle**.

The project allows the useful life of some materials to be extended, or the recovery of their components or materials through their sale through an auction system.

Waste **MANAGEMENT**



Sizeable reduction in waste coming from an **OIL AND WATER MIXTURE** - **Compared to previous years**

The waste generated in **construction activities** is managed by contractors. For all works there is a waste management plan which sets out the management to be carried out in each project, establishing the criteria of minimisation and reuse as a priority (which is especially important for surplus excavation material). In addition, Red Eléctrica includes specific waste management requirements in the contractual documentation of works and reviews compliance

through monitoring visits to works and via the control of documentation.

PROTECTION AGAINST LEAKS AND SPILLAGES

Red Eléctrica has established numerous preventive and corrective measures to minimise the risk of contamination of soil or groundwater due to leaks or spillages of oils, fuels and hazardous substances.

R&D+i project. Minimisation of cleaning waste from transformer containment pits

Oil containment pits may contain an oil and water mixture, therefore a catalyst has been developed that enables the water to be separated from the oil, so that the oil on its own can be managed as waste and not the oil and water mixture as a whole.

and, in this way, the waste to be managed and dealt with would be significantly reduced.

The treated water can then be reused in the same tanks, in order to maintain the level of water needed

In 2017, this process is starting to be applied in the management of facilities, resulting in a considerable reduction in the oil and water mixture waste compared to previous years.

	2015	2016	2017
Oil and water mixture waste	445,095 kg	721,785 kg	182,393 kg



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An innovative approach has been put in place to assess the risks associated with submarine cables taking into account the potential impacts generated on ecosystem services (direct and indirect benefits of ecosystems for human well-being).

On the one hand, proper maintenance of equipment is carried out and strict working procedures that reduce the number of incidents are established. On the other hand, adequate containment systems are installed, especially relevant in the case of power transformers containing large amounts of oil, and incident response protocols when faced with possible events that lead to a reduction in the severity of the consequences should accidents occur.

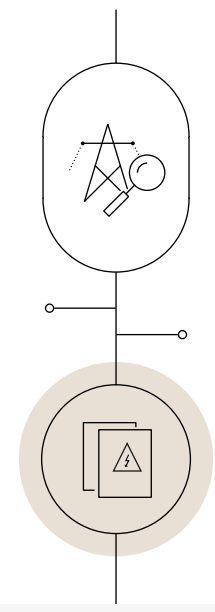
In addition to these measures, the Company has decided to promote work aimed at minimising the risks related to leaks and spillages of hazardous substances. For this reason, in the last two years, the project of environmental risk assessment and identification of environmental liabilities in electricity substations was developed, which has led to a plan of actions, prioritised by their urgency, to reduce, control or eliminate completely the risks identified.

In 2017, the environmental risk associated with cables containing oil was evaluated. For terrestrial cables, a model has been applied that integrates technical, historical, environmental and social data, and calculates the level of environmental risk based on a certain probability

of occurrence of an event and the severity of its impact. In the case of submarine cables, an innovative approach has been used when assessing risks taking into account the potential impacts generated on ecosystem services (direct and indirect benefits of ecosystems for human well-being).

Based on the results, risk maps have been drawn up from which specific actions will be developed in each case.

ENVIRONMENTAL RISK assessment



Red Eléctrica has an action **PLAN** THAT PRIORITISES ACTIONS BASED ON THEIR URGENCY

to reduce, control or eliminate completely the risks identified

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Indicators

Presence of facilities in Red Natura spaces 304-1

Spanish national grid	2015	2016	2017
Km of line in Red Natura/total km of line	15.0	15.1	15.0
Number of substations in Red Natura/number of substations	5.96	5.92	5.86
Surface area of facilities in Red Natura/total surface in Red Natura (1)	0.08	0.08	0.08

Red Natura (Natura 2000 Network) includes: SCI (Site of Community Importance) and SPA (Specially Protected Areas for birds).

[1] Surface area occupied by lines, substations and submarine cables. The surface area occupied by lines has been calculated assuming an occupation of 20 m on each side of the line. It is necessary to keep in mind that the occupation is overhead, there is only actual land occupation in the case of the towers. The surface occupied by submarine cables has been estimated at 1 metre on each side of the line.

Note 1: For the calculation of these indicators, the most up-to-date database published by MAPAMA is used.

Note 2: The mapping of in-service facilities is improved and updated annually, whereby some variations in calculations not related to the increase or decrease in the number of facilities may result.

Collisions of endangered species detected in 2017

Species	Nº of birds affected
Great bustard (<i>Otis tarda</i>) (1)	10
European turtle dove (<i>Streptopelia turtur</i>) (1)	2
Eurasian stone-curlew (<i>Burhinus oedicephalus</i>) (2)	5

[1] Vulnerable species according to IUCN Red List. / 304-4
 [2] Vulnerable species according to the National Catalogue of Endangered Species. / 304-4

Collisions are mainly detected during monitoring plans or specific studies: the 5 collisions of the Eurasian stone-curlew and 3 Great bustard collisions are related to specific studies.

Description of the most significant impacts on biodiversity 304-2

Most relevant impacts on protected spaces

Impact on 20 m² of soil inside a substation located in Red Natura 2000, due to spillage of 106 litres of oil as a result of the breakdown of a piece of equipment.

Most relevant impacts on vegetation

Clearing of marsh vegetation in 'Marismas and Riberas del Tinto' SAC (Special Area of Conservation) [1,050 m²], 'Estero de Domingo Rubio' SPA and SCI [1,300 m²]

Felling of Oaks (*Quercus pyrenaica*) in 'Riberas del Tuela' SAC 2,700 m² and its tributaries - (trees over 40 cm in diameter were felled)

Cutting back of 400 m² of riverside vegetation (*Salix*, *Fraxinus*, *Populus*) in the 'Riberas del Río Arlanzón' SCI and its tributaries.

Impact on 30 individual plants of Mediterranean saltwort (*Salsola vermiculata*), hawthorn (*Lycium intricatum*) and gorse (*Launaea arborescens*) in SPA and in 'Peninsula of Jandía' Natural Park.



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Species included in the IUCN red list and the national conservation list whose habitats are located in areas affected by operations

304-4

Scientific name	Common name	Classification according to MAPAMA (2016) (National Catalogue)	Classification according to the IUCN red list
1 <i>Aquila adalberti</i>	Imperial Eagle	In danger of extinction	Vulnerable [VU]
2 <i>Hieraetus fasciatus</i>	Bonelli's Eagle	Vulnerable	Least concern [LC]
3 <i>Pandion haliaetus</i>	Osprey	Vulnerable	Least concern [LC]
4 <i>Neophron percnopterus</i>	Griffon Vulture	Vulnerable	Endangered [E]
5 <i>Neophron percnopterus majorensis</i>	Canarian Egyptian Vulture	In danger of extinction	Not evaluated [NE] - species endemic to the Canary Islands
6 <i>Chersophilus duponti</i>	Dupont's Lark	Vulnerable	Near threatened [NT]
7 <i>Botaurus stellaris</i>	Euroasian Bittern	In danger of extinction	Least concern [LC]
8 <i>Otis tarda</i>	Great Bustard	-	Vulnerable [VU]
9 <i>Chlamydotis undulata</i>	Houbara Bustard	In danger of extinction	Vulnerable [VU]
10 <i>Aegypius monachus</i>	Black Vulture	Vulnerable	Near threatened [NT]
11 <i>Marmaronetta angustirostris</i>	Marbled Duck	In danger of extinction	Vulnerable [VU]
12 <i>Ciconia nigra</i>	Black Stork	Vulnerable	Least concern [LC]
13 <i>Corvus corax canariensis</i>	Common Raven	Not included	Not Evaluated [NE] - species endemic to the Canary Islands
14 <i>Fulica cristata</i>	Crested Coot	In danger of extinction	Least concern [LC]
15 <i>Pterocles alchata</i>	Pin-tailed Sandgrouse	Vulnerable	Least concern [LC]
16 <i>Pterocles orientalis</i>	Black-bellied Sandgrouse	Vulnerable	Least concern [LC]
17 <i>Ardeala ralloides</i>	Squacco Heron	Vulnerable	Least concern [LC]
18 <i>Falco pelegrinoides</i>	Barbary Falcon	In danger of extinction	Least concern [LC]
19 <i>Geraniticus eremita</i>	Northern Bald Ibis	-	Critically endangered [CR]
20 <i>Oxyura leucocephala</i>	White-headed Duck	In danger of extinction	Endangered [E]
21 <i>Milvus milvus</i>	Red Kite	In danger of extinction	Least concern [LC]
22 <i>Sterna nilotica</i>	Gull-billed Tern	Not included	Not evaluated [NE]
23 <i>Columba Ballii</i>	Bolle's pigeon	Vulnerable	Least concern [LC]
24 <i>Lagopus muta</i>	Rock Ptarmigan	Vulnerable	Least concern [LC]
25 <i>Dendrocopos leucatos</i>	White-backed Woodpecker	In danger of extinction	Least concern [LC]
26 <i>Fringilla teydea subsp</i>	Blue Chaffinch	In danger of extinction (Gran Canaria) / Vulnerable (Tenerife)	Near threatened [NT]
27 <i>Aythya nyra</i>	Ferruginous Duck	In danger of extinction	Near threatened [NT]
28 <i>Gypaetus barbatus</i>	The Bearded-Vulture	In danger of extinction	Near threatened [NT]
29 <i>Tetrax tetrax</i>	Little Bustard	Vulnerable	Near threatened [NT]
30 <i>Tetrao urogallus cantabricus</i>	Cantabrian Capercaillie	In danger of extinction	Not Evaluated [NE]
31 <i>Tetrao urogallus aquitanicus</i>	Aquitanian Capercaillie	Vulnerable	Not Evaluated [NE]
32 <i>Streptopelia turtur</i>	European turtle dove	Not included	Vulnerable [VU]
33 <i>Burhinus oedincnemus distinctus</i>	Eurasian stone-curlew	Vulnerable	Not evaluated [NE]

The main impact on protected species caused by REE's operations is that arising from the collision of the birds with the lines. In the framework of the project of 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines' 2010-2014, species that are prone to colliding with the REE lines have been identified (focal species, a total of 47) and whose habitats are in areas where these lines exist. Of the 47-registered species, 31 have been identified as threatened.

In addition, two species have been included in the list for which accidental collisions have been identified in 2017, although they are not focal species [32 and 33].



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Waste broken down by type and disposal method [kg]

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Type of waste	2015	2016	2017
Non-hazardous waste (1)	1,857,536	1,522,422	1,688,540
Hazardous waste (2)	1,183,925	2,035,645	4,102,096

Waste management method (3)	Non-hazardous	Hazardous
Recycling/Composting/Anaerobic digestion	50.0	72.7
Regeneration	0.2	19.5
Valuation	1.5	0.7
Disposal (by any method)	48.3	7.1

[1] Metal waste not included as an adjustment is being made in the process of collecting and recording the information. Its disposal method is 100% recycling. Waste vegetation is not included either because it cannot be quantified, most is incorporated into the land or given to landowners.

[2] The increase in the amount of waste produced is related to the increase in remodelling and refurbishment of facilities, mainly the renewal of power transformers that has led to the increase of waste oil and electrical and electronic equipment.

[3] The waste management corresponds to the information provided by the contractor (the one that appears in the legal documentation of waste management). The categories of final waste management have been broadened to unify criteria with national legislation. **The amount of waste whose destination has been recycling has been 80%** [it is included in the generic category of recycling: recycling, composting, anaerobic digestion and regeneration].

306-4: The treatment of used SF₆ gas waste, which consists in the regeneration of the gas for its subsequent reuse, is carried out outside Spain. This means that 0.09% of the total hazardous waste has been transported internationally.

Note: Once the plan for the disposal / decontamination of transformers, equipment and oil with PCBs was completed in 2010, waste continues to be generated due to the disposal of old closed equipment that turns out to be contaminated at the end of its useful life. In 2017, 12,611 Kg of equipment contaminated with PCBs was managed. / **306-1**

Leaks and spillages 2017^{[1][2]}

306-3



[1] Events classified as being of very little relevance as incidents are not included.

[2] Classification of accidents according to their severity with a scale of 1 to 5 (1 mild - 5 serious). There was a total of 8 accidents, involving an **approximate volume of 3,596 litres of spilled oil or diesel oil**. There were no accidents of a serious nature in 2017. No spillage has been included in the financial statements of the organisation.

[3] Significant accidents: two of them due to the explosion of measurement transformers and the rest generated by breakdowns in the equipment. As a whole, these have affected an approximate area of land of about 117 m². The land has been cleaned and the contaminated material removed except in a case where this task is still in process.

[4] Major accident: spillage occurred of 1,469 litres of diesel from a generator due to a leak in a seal of one of its deposits. Surveys have been carried out and the result of the characterisation of the soil is pending to carry out the corrective actions.



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Non-compliance with environmental laws and regulations

307-1

[No.]

Type of infringement	2015		2016		2017	
	No. of cases	Amount (euros)	No. of cases	Amount (euros)	No. of cases	Amount (euros)
Fire risk (lack of maintenance of vegetation or the abandoning of material)	2	811	2 (1)	751 (1)	-	-
Unauthorised felling and pruning	2 (1)	200 (1)	2	7,060	-	-
Obstruction of waterway / Unauthorised works in certain areas	-	-	-	-	-	-
Opening up of a forest trail without authorisation	1	2,000	-	-	-	-
Use of a helicopter in a critical birdlife area without authorisation	1	1,000	-	-	-	-
Crossing of a livestock route with an electricity line without authorisation	1	30,051	1	30,051	-	-
Incorrect waste management	1	2,500	-	-	-	-
Total	8 (1)	36,562 (1)	5 (1)	38,863 (1)	-	-

(1) Data updated in 2017 following the resolution of one case opened in 2015 and two opened in 2016. No case opened in 2017 has been closed.

Total water withdrawal by source

303-1

 [m³]

	2015	2016	2017
Head Office	9,018	9,166	8,064
Other work centres	18,232	17,276	19,563
Total of all work centres (1)	27,250	26,442	27,627

(1) The data provided has a coverage of 80%, in terms of personnel (taking into account all the personnel working in the different work centres: Group employees, interns, employees from temporary staffing agencies and collaborators). The data is not available for some centres, mainly those that are not owned by the Company (rented).

Note 1: The water consumed comes from: the municipal mains (63.1%), wells (33.7%), cisterns (3.1%). In some work centres cisterns are available for the collection of rainwater for sanitary use, fire prevention and irrigation. In general, the cisterns do not have mechanisms to measure the water stored, so the actual % of utilisation of rainwater cannot be calculated. / 303-3



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Supply chain /103-1 /103-2 /103-3

The globalisation of markets has broadened the limits of responsibility of companies and brought about a change in the role of the supplier, whereby they now play a more prominent role. In this regard, Red Eléctrica, which is governed by a responsible management model, has extended its responsibility to encompass the supply chain. The Company implements its management model based on the principles of non-discrimination, mutual recognition, proportionality, equal treatment and transparency, as well as a framework of legislation and codes, policies and internal regulations of the Company, as shown on the next page.





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MODEL FOR THE RESPONSIBLE MANAGEMENT OF THE SUPPLY CHAIN

Framework

DIRECTIVE 2014/25/EU	LAW 31/2007	REE CODE OF ETHICS	SUPPLIER CODE OF CONDUCT	PROCUREMENT POLICY	CR POLICY	GUIDE FOR THE PREVENTION OF CORRUPTION	INTERNAL REGULATION
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Levers for ongoing improvement

REE STRATEGIC PLAN	HUMAN RESOURCES MASTER PLAN (2016-2019)	PROCUREMENT MASTER PLAN (2016-2019)	AUDIT ASSESSMENTS	SUSTAINABILITY PLAN 2017-2019	CUSTOMER AND SUPPLIER SATISFACTION SURVEYS	OBJECTIVES AND PROJECTS
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Pillars

CONTINUOUS SEARCH FOR THE LOWEST EXPECTED TOTAL COST



- Search for efficiency, effectiveness and simplification of processes.
- Implementation of sourcing strategies to optimise own resources.

TRANSPARENCY AND THE SEPARATION OF FUNCTIONS WITHIN THE MANAGEMENT PROCESSES



- Centralised management of the chain through segregated functions.
- Existence of a specific independent department for suppliers.
- Maximum communication with the supplier in all processes.
- Supplier qualification process open to any supplier.
- Processes in systems (traceable and auditable).

ETHICAL MANAGEMENT AND DEVELOPMENT OF SUPPLIERS AND SUBCONTRACTORS



- Communication channels available to suppliers: ASA + *Dígame* + whistle-blowing channel.
- Campaigns for extending the Company's principles and policies to suppliers.
- Specific development plans resulting from their supervision and monitoring.
- Development of medium to long-term partnerships.

MINIMISATION OF THE RISK ASSOCIATED WITH THE PROCUREMENT PROCESSES



- Identification of legal / business / technical / sustainable impacts and risks and categorisation of REE's suppliers based on their risk level.
- Establishment of requirements that mitigate said impacts and continuous verification of them in:
 - The supplier selection process and the awarding of contracts.
 - The qualification, subcontracting and corporate monitoring of suppliers.
- Acceptance of Supplier Code of Conduct and verification of compliance with said Code through social audits.
- Wide range of suppliers.

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DESCRIPTION OF THE SUPPLY CHAIN 102-9 / 204-1

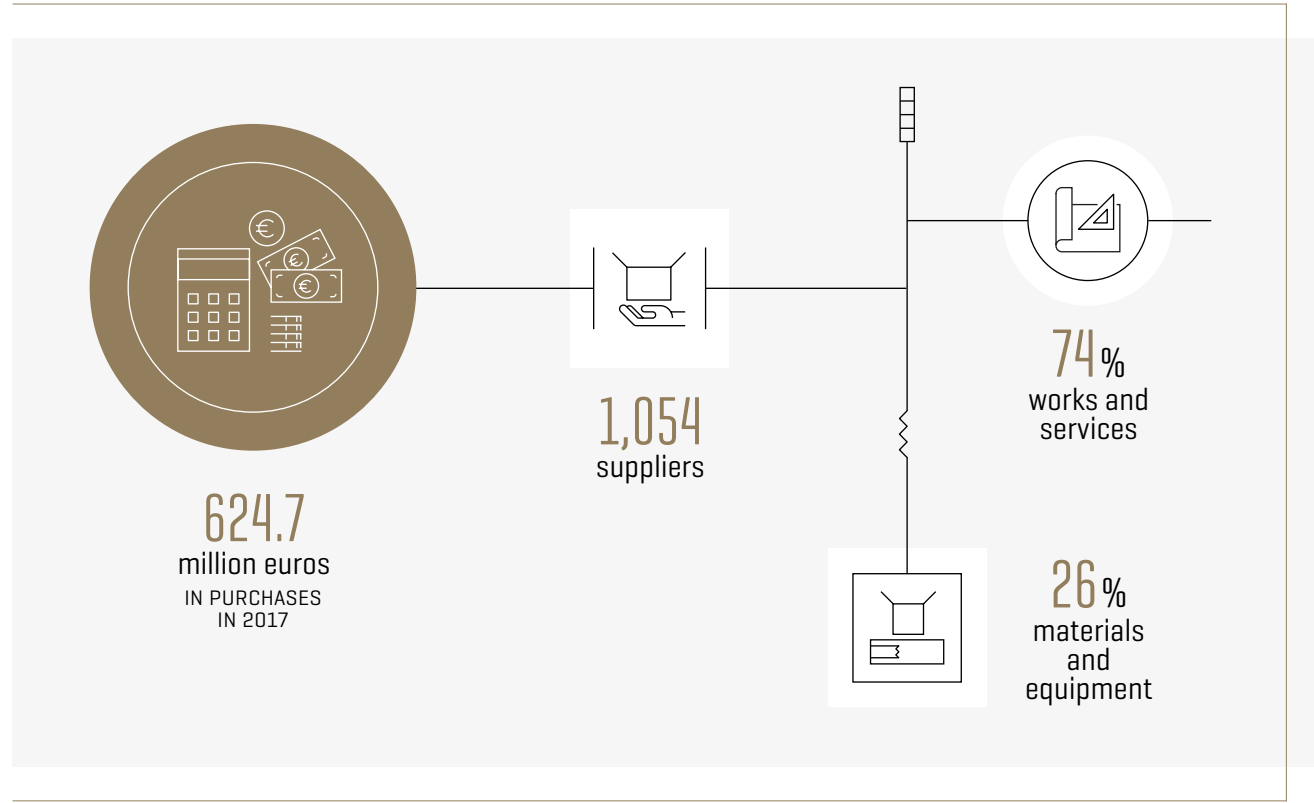
In 2017, the Company managed its procurement of goods and services (including the manufacture of materials and equipment and the execution of services and works) through 1,054 suppliers, for a total of 624.7 million euros. 74% of this amount corresponds to services and construction works, while the remaining 26% was for materials and equipment.

94% of the aforementioned amount was awarded to suppliers with head offices in Spain and 99% of purchases were made within the European Union.

In addition to the 1,054 suppliers mentioned with whom Red Eléctrica has worked, it is necessary to add 1,034 companies (subcontractors) that have also carried out work for the Company, so that the total number of companies that have worked within the framework of Red Eléctrica contracts stands at 2,088. In this context, it should be noted that the average time for managing subcontracting requests was 1.5 days, in line with that achieved in 2016.

In line with previous years, a limited number of suppliers still undertake the majority of works, in such a way that 20 suppliers (Top20) represent 57% of the total amount of work carried out in 2017.

In 2017, the total number of companies that have worked within the framework of Red Eléctrica contracts stood at 2,088.





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Risks and impacts identified in the supply chain / 308-2 / 414-2

The identification and prioritisation of the risks and impacts of our supply chain has allowed the Company to establish adequate controls for their minimisation.



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The sustainability assessment model of suppliers aims to promote their sustainable development to progressively increase the maturity of the supply chain in terms of sustainability.

During 2017, Red Eléctrica has drawn up a model for assessing the sustainability of suppliers. This model consists of 29 questions, grouped into 3 blocks: ethics and working conditions, environment and occupational health and safety. With this knowledge, the Company aims to promote the sustainable development of its suppliers to progressively increase the maturity of the supply chain in terms of sustainability.

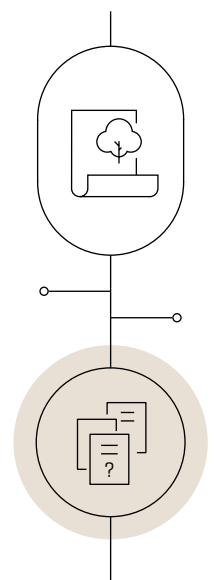
Among the initiatives addressed throughout the year and aimed at mitigating risks in the relationship with its suppliers noteworthy are:

- Addressing risks regarding legal infringements arising from the new legal framework according to the European Directive 2014/25/ EU of 26 February 2014, on

procurement by entities operating in the water, energy, transport and postal services sectors:

- The new general conditions of contract for equipment and materials, the supply of services and the provision of construction works have been updated.
- Criteria have been identified to generate shared value with strategic suppliers within the applicable legal framework.
- Dealing with the risk regarding the inability of suppliers to complete the execution of the works contracted by the Company:
- The increased control and monitoring of suppliers in financial difficulties, allowing the continuity of business

Sustainability ASSESSMENT MODEL



Consists of **29** QUESTIONS grouped in three blocks

- **Ethics and working conditions, the environment and occupational health and safety**

relationships with suppliers in a delicate financial situation.

- Dealing with the risk associated with the supplier's country of origin:
- As part of the business diversification strategy, the range of suppliers is being expanded by searching companies located in Asian, African, Central American and South American countries. Aware of the existence of certain risks in these countries such as political, CSR, climate, economic and legislative, a methodology has been established to identify specific requirements that these suppliers must meet.

During 2018, work is expected to continue advancing in terms of the sustainability requirements for suppliers located in countries with a potential risk in terms of social climate and working conditions. Work will also continue on the development of a specific impact matrix taking into account this variable regarding geographical location.



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PROCUREMENT PROCESS

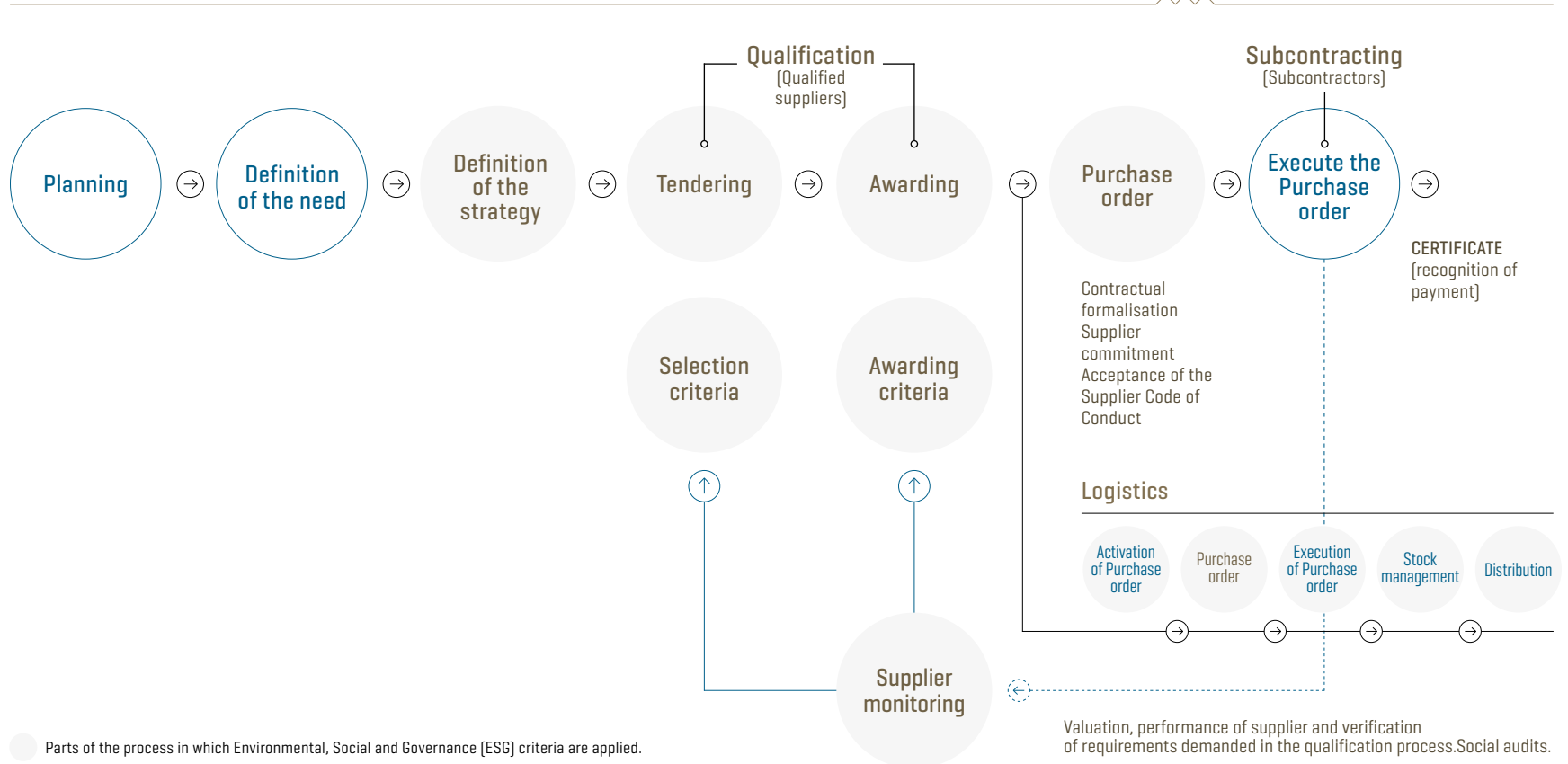
Red Eléctrica integrates criteria regarding occupational health and safety, the environment, ethics and working conditions requirements throughout its entire procurement process. Moreover, the contracting of Special Employment Centres

is promoted to execute certain services such as the ASA channel (Procurement Support and Helpdesk), which attends to around 1,500 supplier enquiries annually.

For relevant and recurring supplies, these requirements are verified initially in the qualification of

the supplier and, subsequently, monitored in an ongoing manner as part of the relationship of Red Eléctrica with its suppliers. For one-off purchases, the qualification process is conducted at the moment of tendering.

On the other hand, when the activity is relevant in terms of its nature and its magnitude and it is subcontracted out, the subcontractors involved must comply with the same requirements demanded from those suppliers who have been awarded contracts and have been previously qualified by the Company.



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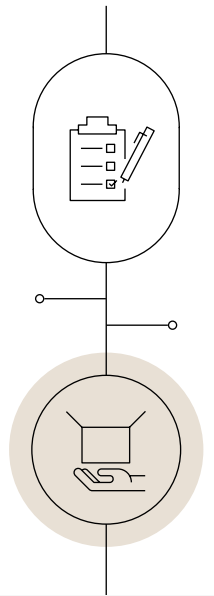
In 2017, the Company worked on initiatives aimed at obtaining the lowest total expected cost of the supplies purchased and the optimisation of the associated resources. In this regard, a methodology has been developed, called 'Total cost ownership', aimed at awarding purchases based on the total expected cost according to the life cycle of the supply.

QUALIFICATION OF SUPPLIERS
308-1 / 414-1

The Company's commitment in this area is to manage the requests from all companies that request supplier qualification. In 2017, 770 qualification requests were handled. These requests correspond to 377 suppliers (many opting to provide more than one type of supply) and affected supplies that require various verification processes depending on the impact they may have on sustainability:

- 23% of requests (corresponding to 102 suppliers) required specific verifications regarding occupational health and safety prevention.

Qualification
REQUESTS



In 2017

770

REQUESTS

were managed

-
Corresponding to 377 suppliers (many opting to provide more than one type of supply)



- 56% of requests (corresponding to 224 suppliers) required specific verifications regarding the environment.

- 100% of requests were verified according to labour practices and Human Rights criteria.

Additionally, in 2017, the redesign of the technical qualification of suppliers was addressed, seeking to improve its efficiency and effectiveness. In this regard,

work has been carried out on the definition of a supplier profile for each supply, through a series of questionnaires, with the aim of publishing the profile so that suppliers are aware of it prior to beginning the qualification process. In this way, transparency is increased, and the supplier's expectations are better managed.

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The Company continuously monitors the performance of the suppliers regarding their contracts, as well as the fulfilment of the requirements demanded from them at the time of qualification.

MONITORING AND DEVELOPMENT OF SUPPLIERS

The Company's commitment in this area is to continuously monitor the performance of suppliers within the framework of the contracts they have with Red Eléctrica and the fulfilment of the requirements demanded from them at the time of qualification.

As part of the due responsibility each area of the Company has regarding the monitoring of the performance of the suppliers who have contracts with them, the Procurement Area, in 2017, has carried out the following monitoring tasks, according to type:

• Business

- The financial solvency of all the suppliers with which the Company has contractual relations has been monitored and mitigating measures have been applied to

100 suppliers owing to their weak financial situation.

- Additionally, compliance with business requirements has been reviewed for 404 qualified suppliers for the Company's relevant supplies. As a result, 63 of them were permanently disqualified and, 1 temporarily disqualified.

- On the other hand, in order to provide a level playing field for the Company's supplier market, 259 supplies underwent a review process regarding the capabilities and resources of the associated suppliers (259 specialised suppliers) as a first step to establish the minimum requirements to be fulfilled by all these suppliers for each supply in question.

• Technical

- In collaboration with different areas responsible for the contracts,

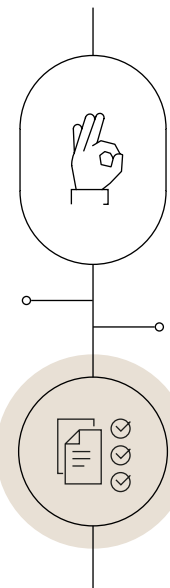
67 incidents have been analysed, affecting 60 suppliers related to performance in the execution of the works. As a result, 2 suppliers have been permanently disqualified.

• Corporate responsibility

- Social audits have been carried out on 75 suppliers (See details in the Social Audits section).

In addition to all of the above and in order to obtain an overall view of the supplier's situation, prior to their participation in tendering processes that have a significant impact on the Company, a comprehensive assessment was carried out (incorporating business, technical and corporate responsibility aspects) on 297 suppliers affecting 72 supplies. As a result of these assessments, 8 suppliers have been temporarily disqualified and 3 permanently disqualified.

Comprehensive ASSESSMENT OF SUPPLIERS



Carried out on

297 SUPPLIERS

relating to 72 supplies

Result: 8 suppliers temporarily disqualified and 3 permanently disqualified



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Red Eléctrica focuses on the areas of occupational health and safety, the environment and respect for human rights in its quest to achieve sustainability in the supply chain.



On the other hand, work has continued on the following initiatives aimed at improving the monitoring process:

- Definition of a communication methodology with suppliers in the monitoring process.
- Greater development and empowerment of the figure of the Key Supplier Manager to improve the management of the relationship with the most significant suppliers.
- Gradual implementation of service level agreements and performance indicators in contracts.

On the other hand, as part of its objective to extend its principles of sustainability throughout the supply chain, Red Eléctrica focuses on the areas of occupational health and safety, the environment and respect for human rights. In this regard, the Company monitors the severity and frequency of accidents of its contractors and

implements measures to ensure the safety of all persons who carry out their activity in Red Eléctrica's facilities.

With regard to environmental matters, the Company has developed a methodology for the measurement of emissions associated with the supply chain, as a key area in compliance with Red Eléctrica's Climate Change Commitment.

It should be noted that, in 2017, Red Eléctrica has made a guide available to all of its suppliers to help them incorporate sustainable aspects in their business management such as:

- The drafting of a code of ethics.
- The drawing up of a sustainability policy.
- The promotion of respect for human rights within the company and its supply chain.
- The identification and management of the company's stakeholders.
- The drafting of a periodic sustainability report.



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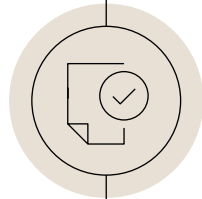
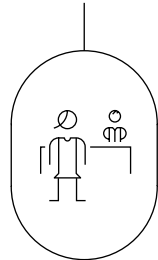
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Social audits have led to improvements or action plans agreed with 63% of the suppliers. The monitoring of these plans has allowed Red Eléctrica to measure their evolution and verify the improvements implemented, and therefore avoid the need to disqualify any of the audited suppliers.

Code OF CONDUCT



75 AUDITS

conducted on suppliers during 2017

Regarding compliance with the Supplier Code of Conduct

SOCIAL AUDITS 308-1/414-2

In order to verify compliance with the Supplier Code of Conduct among our suppliers, during 2017 the Company conducted social audits on 75 suppliers. These audits, whose objective is to assess compliance with the Code of Conduct, focus on those supplies with a high potential or actual impact on working conditions and ethical behaviour, or on suppliers where an incident of an ethical nature has been detected.

As a result of the audits, improvements or action plans have been agreed with 63% of the suppliers. The monitoring of these plans has allowed Red Eléctrica to measure their evolution and verify the improvements implemented.

Additionally, it should be noted that the results found in 2017 have not been significant enough to result in the disqualification of any of the audited suppliers.

It should be noted that all our suppliers explicitly accept the Supplier Code of Conduct in the acceptance of the purchase order, thereby accepting the possibility of being audited to verify compliance with said Code.

RED ELÉCTRICA

integrates criteria related to occupational health and safety, the environment, ethics and working conditions throughout its procurement process.



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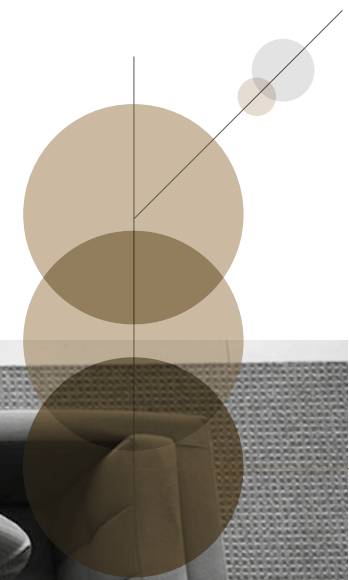


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Customer orientation /103-1 /103-2 /103-3

CUSTOMER PROFILES /EU3

The customers of Red Eléctrica are those organisations and companies that receive the services provided by the Group and are grouped into the following broad categories:

• Regulatory bodies

[Ministry of Energy, Tourism and Digital Agenda (MINETAD) and National Commission on Markets and Competition (CNMC)], responsible for regulating and evaluating the management, and establishing the remuneration of the Company's activity. Also, the General Directorates of Energy of the various Autonomous Communities, in charge of the regulation in the scope of their management.

• Subjects participating in the electricity market.

These are all the market participants [544 in December 2017], who participate in organised markets, or execute bilateral contracts with the physical delivery of energy.



In accordance with Law 24/2013 of the Electricity Sector, the system operator must exercise its functions under the principles of transparency, objectivity, independence and economic efficiency.





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Red Eléctrica has a System Operator Code of Conduct that guarantees transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system.

TRANSPARENCY, NEUTRALITY AND INDEPENDENCE

Red Eléctrica has a System Operator Code of Conduct, which guarantees transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system. And, at the same time, it performs its business management under the principles of neutrality, independence and economic efficiency on which it bases its success as manager of the Spanish electricity system.

The Company has the duty to publish the information about the results of the markets or operating processes of the system, guaranteeing the confidentiality of the data provided by the market participants. To do this, the Company adheres to applicable legal requirements as well as other guidelines, and sets this out in its internal procedures. The communication and publication of information takes place through various channels, as shown on the next page.

• Operators of the interconnected electricity systems.

These are the distribution companies, the operators of the European energy contracting markets, participants in the coupling processes of the organised markets (OMIE, EPEX and NordPool), the different providers of system ancillary services and the suppliers

of the interruptibility demand-side management service.

• Other groups. Requesters of local operation and maintenance services, and those requesting adaptations or changes to the routes of high-voltage electricity lines.



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BASIS FOR THE PUBLICATION OF INFORMATION REGARDING THE RESULTS OF THE MARKETS AND PROCESSES OF SYSTEM OPERATION

LEGISLATION

- Regulation (EU) 543/2013 on Transparency.
- Regulation (EU) 1227/2011 on Wholesale Energy Market Integrity and Transparency (REMIT).
- Implementing Regulation (EU) 1348/2014 of the EC, of 17 December, on data reporting.
- Royal Decree 2019/1997, of 26 December, by which the Electricity Power Production Market is organised and regulated.
- Royal Decree-Law 6/2000, of 23 June, on Urgent Measures for Intensification of Competition in Goods and Services Markets.
- Royal Decree 216/2014, of 28 March, which establishes the methodology for calculating the voluntary price for the small consumer of electricity and the legal framework for contracting it.

PROCEDURE GUIDE FOR THE EXCHANGE OF DATA (ENTSO-E)

OPERATING PROCEDURE N° 9 (P.O.9) 'EXCHANGES OF INFORMATION WITH THE SYSTEM OPERATOR'
approved by the Ministerial Resolution of 18 December 2015.

OTHER GUIDELINES

- Regulation (EU) 2017/2195 of the European Commission establishing a guideline on electricity balancing.
- Regulation (EU) 2015/1222 of the European Commission establishing a guideline on capacity allocation and congestion management.
- Regulation (EU) 2017/1485 of the European Commission establishing a guideline on the electricity transmission system operation.



INFORMATION PLATFORMS

E-SIOS

Platform to ensure compliance with the legal requirements for communication and publication of information. There is a web for market subjects, accessible through a digital certificate <http://sujetos.esios.ree.es> and a public website <https://www.esios.ree.es>. The public website also allows temporary analysis of the services managed by the system operator.

ENTSO-E TRANSPARENCY WEB

Since January 2015, Red Eléctrica has forwarded 100% of the data on electricity markets to the ENTSO-E transparency platform www.transparency.entsoe.eu, in accordance with the Transparency Regulation.

IESOE WEB

Red Eléctrica manages this regional information platform www.iesoe.eu, where the operators of the French, Portuguese, Moroccan and Spanish electricity systems publish, in a centralised way, the capacity and usage data of the electricity interconnections between these countries.

SMARTVIU APP

Application for mobile devices that shows in real time the status of the Spanish Peninsula Electricity System through the monitoring of a series of relevant indicators on System Operation.

OTHER CHANNELS OF COMMUNICATION

VOLUNTARY PRICE FOR THE SMALL CONSUMER (PVPC)

Since 2014, Red Eléctrica has included among its publications the information related to the PVPC, in compliance with the provisions of Royal Decree 216/2014.

CTSOSEI

In this committee, organised bimonthly by Red Eléctrica, market subjects and regulatory bodies are provided with information on the operation of the electricity systems of the Iberian Peninsula and information on the ancillary services markets for electricity systems in Spain and Portugal, and energy exchanges through the interconnections between the Iberian electricity systems.

REPORTING TO ACER

In application of the Commission Implementing Regulation (EU) 1348/2014 of the EC, since April 2016 Red Eléctrica is reporting to ACER (Agency for the Cooperation of Energy Regulators) the results of the explicit capacity auctions and the programme's in-use nominations of the capacities reported by the participants in said auctions.





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LETTER FROM THE CHAIRMAN AND THE CEO



KEY PERFORMANCE INDICATORS 2017



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Coinciding with the commissioning of the ENTSO-E Transparency Platform, the structure and contents of the e-sios public website has been renovated to present data in a clearer, more modern and more educational manner.

In 2015, the Company strengthened its commitment to transparency in order to fully implement the internal energy market by completely renovating the structure and contents of the e-sios public website, to present data in a clearer, more modern and more educational manner, coinciding with the commissioning of the ENTSO-E Transparency Platform. After two years have elapsed since the implementation of this new e-sios public website, Red Eléctrica will launch a new process to identify possible improvements, through the participation and collaboration of market participants.

In relation to the ENTSO-E Transparency Platform, and in line with the provisions of article 5 of the Transparency Regulation, the changes that have resulted from the first revision of the Procedure

Guide for the exchange of data with said platform will be implemented in 2018, in order to improve the quality of the information published. A review of the Procedure Guide has also been initiated to incorporate the new information that must be published in accordance with that set out in the European Guidelines on Electricity Balancing [EU Regulation 2017/2195] and Electricity Transmission System Operation [EU Regulation 2017/1485].

Additionally, the Company participates in, and spearheads in some cases, working groups that aim to increase communication and transparency, such as the Incident Analysis Group [GRAI].



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MANAGEMENT OF INCIDENTS AND GRIEVANCES

Red Eléctrica manages the grievances associated with the impact of its activities and the services it offers, through the application of clearly defined and precise criteria, to ensure that the management of the grievances is carried out under criteria of transparency, complete objectivity and non-discrimination.

To this end, the **e-sios website** for market agents contains a 'Grievances' section, which allows the online processing of grievances regarding the system ancillary services markets and the international energy exchange schedule managed by the system operator. In addition, market agents can consult the status of their grievances and obtain information on how they are being dealt with. Red Eléctrica also publishes, on this website, periodic reports on incidents identified, the handling of the grievances received, and the solutions adopted.

SATISFACTION SURVEYS OF CUSTOMERS AND BUSINESS AGENTS

Red Eléctrica carries out satisfaction surveys every two years, focused on its customers and business agents. The last one conducted in 2016 provided an overall average rating of 8.3 out of 10. Based on these results and on the analysis of the requirements and expectations gathered, the 2017-2018 Improvement Plan was drawn up, which contained 28 actions. The Plan, as with the final results obtained, is notified to customers and business agents who took part in the survey.

In 2017, a project was carried out to improve the voice of the external customer in order to streamline the process for gathering and processing the information regarding satisfaction levels, as well as to facilitate the implementation of improvement actions resulting from the analysis of requirements and expectations.

The customer satisfaction survey conducted in 2016 obtained an overall average rating of 8.3 out of 10.

Key indicators

	2015	2016	2017
Number of applicable grievances related to ancillary services markets and the international energy exchange schedule	3	0	2
Applicable grievances per 1,000 GWh of energy managed in the ancillary services markets.	0.17	0	0.10
Percentage of grievances resolved (%)	100	-	100

Satisfaction indicators of customers and market agents [1]

	2012	2014	2016
Overall satisfaction level	8.0	8.1	8.3
Level of satisfaction of quality factors	7.7	7.9	8.0
Level of satisfaction of services provided	7.7	7.7	8.1
Customer attention	7.9	7.7	7.9
Evaluation of improvement actions undertaken as a result of the previous satisfaction survey.	6.9	6.6	7.1

[1] Survey carried out every two years