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THIS REPORT



LETTER FROM
THE CHAIRMAN
AND THE CEO



KEY PERFORMANCE
INDICATORS 2017



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CONTRIBUTION TO SOCIAL, ECONOMIC AND ENVIRONMENTAL DEVELOPMENT

Contribution to social, economic and environmental development

Commitment to society

Companies are increasingly aware that their long-term sustainability depends on providing a service that contributes value to society. Therefore, it is necessary to generate a positive impact on society through social, economic and environmental development, whereby its social footprint is one of the key drivers of its corporate management.

In this regard, the Red Eléctrica Group takes on the following commitment a sustainability priority:

Contribute to the social, economic, and environmental development of society, through the provision of a key service in a safe and efficient manner. This is achieved by promoting environmental conservation, the quality of life and social well-being of people and involving the community in the execution of our activities, with the goal of generating mutual benefit that is perceived by society in general.



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COMMITMENT TO SOCIETY





Commitment to society / 103-1 / 103-2 / 103-3

Red Eléctrica focuses its socio-environmental commitment on the creation of shared value with society, promoting actions and investments aligned with its business objectives. At the same time, this commitment generates value for the Company while having a positive impact on the territory and its inhabitants. In turn, this represents a contribution of the Company to the achievement of various challenges such as those related to the United Nations' Sustainable Development Goals or those addressed in the European 2030 Energy Strategy.

Similarly, Red Eléctrica accompanies its projects in the territory with collaborative programmes that generate shared value in the communities in which the Company's facilities are located.



**CREATING
SHARED
VALUE**
throughout
the life cycle
of the
infrastructure



**Operating the
electricity system**

**Developing and
maintaining the new
transmission grid
infrastructure**

Integrating **renewable energy**

Managing the transmission grid
in a **neutral and efficient** manner

Ensuring an **efficient, secure and
sustainable** electricity supply for citizens
and businesses

Accompanying projects with **collaboration
programmes** that contribute to the development
of communities where facilities are located

Respect for the environmental and social
setting as an essential principle of action

Seeking solutions that generate the
least possible environmental impact

Promoting the **participation** of society in
the process, through permanent dialogue
and collaboration



SOCIAL COMMITMENT

Red Eléctrica's social programme mainly includes actions aimed at the socio-economic development of the territory; the conservation, protection and enhancement of the natural heritage of the municipalities; the dissemination of knowledge regarding how the electricity system works; and transparency in reporting.

Socio-economic development of the territory

In 2017, Red Eléctrica has promoted and collaborated on more than 260

initiatives, among which we can highlight construction projects or improvement of municipal infrastructure, collaboration on projects of social relevance with an impact on tourism, promotion of the cultural wealth of the territories and projects for the restoration of emblematic buildings, among others.

Protection of natural heritage

One of the challenges undertaken by Red Eléctrica in keeping with its biodiversity commitment is to promote the conservation

Social innovation: one step further in the creation of shared value

Red Eléctrica is committed to social innovation as a reinforcement to its approach to generate shared value with society and its contribution to solve the current challenges of the territories in which its facilities are located; considered as an additional element of its business model.

For this, the Company has created a **generic social innovation model** based on the management of the territory, conceived as an element that determines the quality of life of the populations living there and which may have an impact on their development.

Through this model, Red Eléctrica provides the relevant knowledge and training, so that the public can have a positive impact on the areas in which they live.

Associated with the transmission grid investment projects, the model will help identify issues, needs and opportunities in each territory in order to later collaborate with all the different players in order to agree on innovative and more effective solutions for their social, economic and environmental development.

of natural heritage through active participation or the promotion of projects in collaboration with the public administration, NGOs and other stakeholders.

In this regard, as indicated in the 'Biodiversity' section in chapter

The Red Eléctrica Marine Forest: project for the recovery of Posidonia oceanica seagrass meadows / 304-3

Posidonia oceanica is a marine plant endemic to the Mediterranean. It forms a habitat of priority interest as it is an essential ecosystem for many organisms to complete their life cycle. *Posidonia* contributes to the control of water quality and the protection of the coastline, and also constitutes one of the main CO₂ sinks in the sea.

The *Posidonia* seagrass meadows can be affected due to various reasons, among them the construction works for submarine electricity cables, and for this reason, Red Eléctrica decided to promote this Project.

· **2012-2016:** an R&D+i project was carried out in collaboration with the Mediterranean Institute for Advanced Studies [CESIC-IMEDEA], through which it was possible to determine the feasibility of

6, the Company participates in various projects, mainly related to the conservation of birdlife and the restoration of habitats. Among the latter, noteworthy are the 'Red Eléctrica Forest' and the 'Red Eléctrica Marine Forest'

planting *posidonia oceanica* using fragments and seeds grown in the laboratory and later replanted on the seabed.

· **2017:** agreements signed with CSIC and the Balearic Islands Government and work began on the actual restoration of 2 hectares of *Posidonia oceanica* seagrass meadows in a degraded area of Pollensa Bay (Balearic Islands), following the methodology which resulted from the research carried out.

The *Posidonia oceanica* seagrass meadows recovery project received the 'Good Practice of the Year Award 2017' from the Renewable Grid Initiative [RGI] in the Environmental Protection category





Red Eléctrica Forest / 304-3

Started in 2009 and of an ongoing nature, this project is twofold: to offset part of Red Eléctrica's emissions through planting trees and the recovery of degraded natural areas of public 'common' land, thus contributing to the conservation of biodiversity. This initiative also seeks to contribute to the development of local economies by contracting work out to companies or groups in the area, and also raise awareness and involve the local population and Company employees.

Relevant milestones in 2017
Firgas Forest (Gran Canaria). 17 hectares have been restored on the Firgas mountain, within the protected natural area of the Doramas Rural Park, with 8,908 native trees characteristic of the Canary Islands' *monteverde* ecosystem (made up of laurel forest and evergreen heathland). In addition to greatly improving the landscape, the restoration of this space will contribute to the fight against desertification and the reintroduction of the Laurel pigeon on the island. Throughout the next year various awareness and promotional activities regarding the recreational use of the area will be conducted.

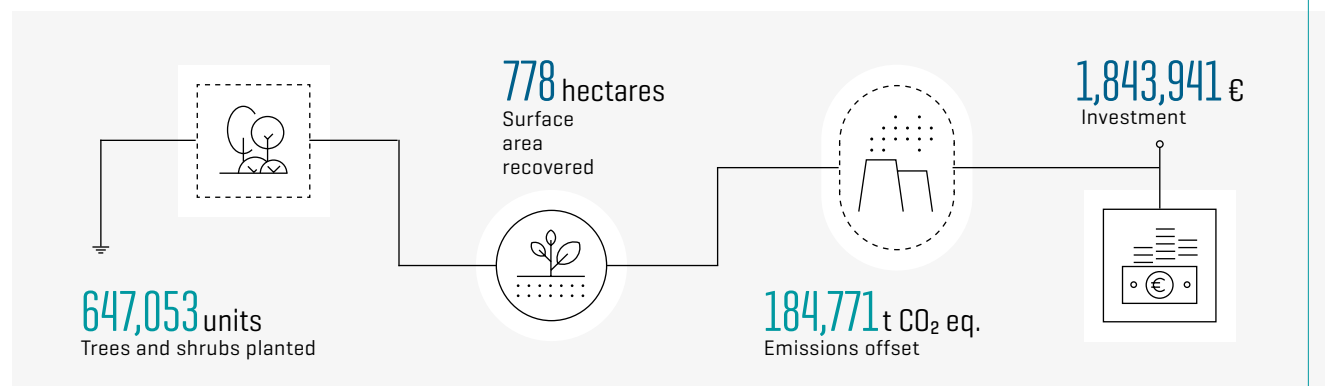
Chajaña Forest (Tenerife).

Work has begun on the restoration of 23 hectares in the Corona Forestal Natural Park (municipalities of Arico and Fasnía). In addition, work is being done on the design of an ethnographic route through the different forest areas.

Asturias Forest. The signing of an agreement for the restoration of 29 hectares in the Cordel de Santín and San Fernando highland areas, in the municipality of Boal, has been approved.



THE RED ELÉCTRICA FOREST IN FIGURES 2009-2017





On the other hand, and within the framework of the Company's forestry management (explained in greater detail in the 'Biodiversity' section of chapter 6), Red Eléctrica continuously collaborates actively with public administrations involved

in forestry management, through the signing of collaboration agreements (currently 12 agreements in force) that involve the undertaking of various actions aimed at the prevention and fight against forest fires.

Actions linked to collaboration agreements for the prevention and fight against forest fires 2017

- **Development of a network of surveillance systems** and improvement of communications in the Bierzo region (Castilla y León), allowing fires to be detected faster and earlier, and enabling greater coordination and response capacity.
- **Creation of a fire break** in the municipality of Andraxt (Majorca).
- **Selective clearing of vegetation** for fire prevention in Vizcaya.
- **Purchase of equipment for firefighting crews** and the installation of a water hydrant point for extinguishing fires [Navarra].
- **Training and awareness actions:** informative campaign in Andalusia, providing material to raise awareness in Aragon, courses in La Palma on fire prevention and how to extinguish fires safely, management courses in extinguishing forest fires in Extremadura, collaboration in the Campaign 'El Bosc Vital' (Valencia), drafting of a volunteering project in Tenerife and sponsorship of the 4th Training workshops on forest fires and international awards for innovation and management in the fight against forest fires (2nd edition) in Castilla-La Mancha.

TRAINING PROGRAMME

in the prevention and fight against forest fires 2012-2017: 6,200 attendees [1,556 in 2017].

Dissemination of knowledge

Within the scope of **knowledge dissemination**, Red Eléctrica plays an active role in disseminating and raising awareness on how the electricity system works as a whole, as we are aware that a more informed society has a greater capacity to develop and maintain a sustainable energy model that effectively meets the energy needs of citizens.

Red Eléctrica also pays special attention to higher education and training in the area of energy and the environment. During 2017, noteworthy was its support for the training of 1,021 students of masters or specialisation courses from more than 34 schools and universities, through 51 visits to Company facilities. Similarly, noteworthy are the 15 collaboration agreements signed with universities and training entities, and the collaboration on the teaching of conferences and lectures at universities, in which Red Eléctrica participates to disseminate information on aspects related to the management of electricity grids and systems.

'A highway behind the wall socket' exhibition

The objective of this exhibition is to explain the electricity supply process, from generation to consumption, showcasing the activities of the Company as TSO of the Spanish electricity system, in addition to making citizens aware of the need to consume electricity in an efficient and responsible manner. Also, at the same time, the exhibition serves as a communication vehicle to improve citizens' understanding of the need to develop electricity infrastructure, thus facilitating their implementation in the territory. In this regard, in 2014 the exhibition was chosen by the Directorate General for Energy of the European Commission as one of the five best practices of the European TSOs aimed at facilitating the social acceptance of the projects.

In April 2017, this travelling exhibition moved to the City of Arts and Sciences in Valencia, where it received more than 560,000 visitors. This exhibition, which began its journey in 2010, has travelled to nine Spanish cities accumulating a total of more than 900,000 visits.



On the other hand, during 2010, 109 visits were organised to the electricity control centres CECOEL and CECRE, 17 to the control centres on the islands, and 47 to various transmission grid facilities nationwide. In total, 1,745 people visited the Company's facilities and control centres.

REE in the classroom

Education for children is a high priority for Red Eléctrica. This project is aimed at helping children become more environmentally-friendly and efficient consumers in the future and, through their actions, contribute to the sustainability of the electricity system.

For this reason, in 2015, Red Eléctrica created 'entreREdes' <http://www.ree.es/en/publications/education/study-while-you-play-entreredes> a digital educational game through which students of secondary education learn about how the electricity system works in a fun and entertaining way.

Until 2017, the Company, in collaboration with educational institutions, organised 18 training activities within the framework of the 'Juego entreREdes' project, in which more than 8,000 schoolchildren have participated. According to the surveys they have completed, 86.5% liked the game a lot and 96.1% would recommend it to their teachers as an educational resource to be used in class.



66% of the information published in the 'Entrelíneas' blog, is focused on highlighting sustainability projects.

Information transparency

Transparency in the disclosure of information along with an educational approach has continued to be the basis of Red Eléctrica's relationship with the Media, as well as with other stakeholders. Efforts have focused on reporting on the development of the core activity - the transmission of electricity and system operation - as well as the Company's international business and all its activity in the field of sustainability.

Communication on the regulated activity has focused on the projects included in the 2015-2020 Strategic Plan, paying special attention to the importance that the infrastructure has in guaranteeing the quality and security of supply in the whole of the Spanish electricity system and in the territories where facilities are located.



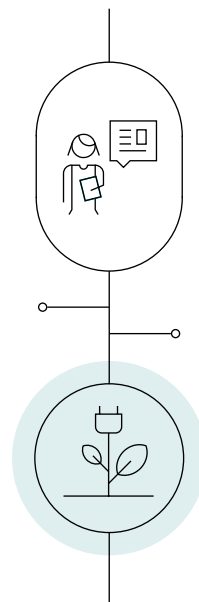
Noteworthy is the communication regarding **the new energy model of the Canary Islands and the new submarine interconnection with France across the Bay of Biscay.**

In the first case, highlighting the importance of the Company in the implementation of the new model, based on renewable energy and interconnections between islands, and in the case of interconnection with France, the central messages have been the need for new links with Europe to increase security of supply and the development of a single European electricity market.

In the Canary Islands, information on the Soria-Chira pumped-storage hydroelectric power station has been relevant, both with the issuance of a press release at the beginning of the public information and consultation process and with the published articles and requests for information addressing this matter.

On the other hand, it should be noted that the information disseminated on environmental projects, innovation, as well as other initiatives related to human resources, social responsibility and good governance have accounted for 25% of the total number of press releases issued. 66% of the information published in

Entrelíneas BLOG



66
%

of the information
published

-
was focused on
highlighting
sustainability projects
developed and carried
out by the Company.

The Entrelíneas blog has become a useful tool to publicise our activity in a way that is both educational and entertaining.

the 'Entrelíneas' blog was focused on highlighting the sustainability projects developed and carried out by the Company.

At an international level, noteworthy is the information on investments and the awarding of contracts in Peru, as well as on the commissioning of facilities in Chile.

Promotion of digital channels

Due to the transformation process of the Media, whose digitalisation is ever more apparent, the publishing of news related to the Company in

digital media has been promoted, including opinion articles from managers, interviews and special reports.

In the same way, the use of the Company's digital channels, with the use of social networks, the Press Office of the website and, especially, the *Entrelíneas* blog [<http://entrelíneas.ree.es/en>] has become especially relevant. In 2017, 79 news articles were published in the 'Latest news' section of this blog.

Key indicators (information issued)

	2015	2016	2017
Press releases	79	64	71
Press conferences and meetings	23	10	14
Interviews and statements	69	74	57
New content in the blog	64	107	81



Corporate website

The corporate website www.ree.es/en is an interactive and informative space that contributes to reinforcing the Company's brand and increasing knowledge on its activities and maintaining a direct channel of contact with its stakeholders.

In 2017, noteworthy was the launch of several relevant web communication projects for various business areas of the Red Eléctrica Group. Directly related to the electricity transmission sector were both the launch of the European Innovation Programme called Grid2030 and the development of an interactive map for monitoring the management status of requests for access and connection to the transmission grid. The Grid2030 programme is a multi-year collaborative innovation programme aimed at researchers, start-ups and companies that seek to explore disruptive innovation in the electricity transmission sector. From the corporate website, a specific section has been set up to provide information and for the integral management of the programme.

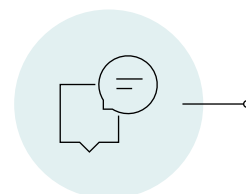
In addition, the Reintel website www.reintel.es/en, was launched in 2017, a subsidiary belonging to the

Group that operates as a neutral supplier of telecommunications infrastructure. In general, on this website, Reintel customers and users will find detailed information about the Company's product portfolio and the infrastructure it operates and a map, by province, that shows the deployment of the dark fibre optic network.

Also noteworthy is the important role of Red Eléctrica as a reference for information on the electricity system, providing various publications and statistics on the operation of the Spanish electricity system on its website. In 2017, worth highlighting was the publication of a specific report on the evolution and operation of renewable energy in Spain.



CORPORATE WEBSITE INDICATORS 2017



More than

2

million visits

1.2
MILLION

downloads of digital
publications

RANKED
12th

among the best
websites of the
IBEX 35 companies,
according to the
international
Webanking survey
2017-2018 of the
consultancy firm
Comprend.



Amicable agreements were reached with 94% of landowners affected by projects whose permitting process was completed in 2017.

TIES WITH THE COMMUNITY

103-1 / 103-2 / 103-3 / 413-1

Red Eléctrica promotes and maintains a permanent relationship with the local communities in which its facilities are located, not only during the process of construction of new infrastructure but also throughout the entire lifecycle of the facilities. To do this, it has an organisational structure distributed nationwide that facilitates institutional communication and collaboration with administrations and public and private institutions.

In 2017, noteworthy was the signing of 96 collaboration agreements with public and social entities for the execution of projects mainly regarding socio-economic, environmental, educational and cultural development aspects.

In the case of local councils, and in relation with the construction of new infrastructure, the Company fosters close-knit ties with communities to inform on the need for facilities and their role within the transmission grid, as well as to promote dialogue that facilitates the carrying out of projects in a sustainable manner and with complete social acceptance.

AN OPEN AND PARTICIPATIVE STRATEGY TO ESTABLISH RELATIONSHIPS OF TRUST AND COLLABORATION THAT MAKE IT POSSIBLE TO:

Integrate the presence of the Company into the social, environmental and institutional fabric of the territories in which investment projects are implemented, through collaboration agreements.

Explain and disclose the need for projects and give the appropriate response to the request for information generated by society.

Maintain information transparency and facilitate maximum public participation.

Find a balance between the general interests of the territory and the needs of the project, thus facilitating its social acceptance.

Promote the maximum social and institutional consensus in the implementation of investment projects.



Stakeholder management for investment projects in the transmission grid

Red Eléctrica has set up a **stakeholder management system related to investment projects in the transmission grid** in order to improve the efficiency in the implementation of its infrastructure in the territory.

The objective is to integrate a systematic and homogeneous way of managing stakeholders in the projects, so as to enhance the sustainability of Red Eléctrica's activity, while generating shared value for society.

This system incorporates the principles of the corporate stakeholder management model: **transparency, dialogue and mutual collaboration**, as well as the main elements of its management, stakeholder identification, knowledge of their needs and expectations, establishment of the commitments and relationship frameworks and

the development of evaluation and improvement tools.

The perspective is to develop a methodology applicable to any type of project, adaptable to the unique aspects of each case, with an application in the Company that enables continuous improvement and addresses the change management involved in the process.

The system includes a continuous assessments of the actions to be carried out with the stakeholders that intervene in the projects, which will allow the rapid adaptation of the management to the successive changes in society, accelerating the Company's responses to its needs and expectations.

CORPORATE VOLUNTEERING

Since 2005, the promotion of corporate volunteering actions has been one of the Company's cornerstones, the result of the firm commitment to improving society that has allowed us to channel the spirit of solidarity and address the social concerns of our employees.

During 2017, we have designed a **new more ambitious corporate volunteering model** that seeks to respond to the socio-environmental needs and general interests of the territories in which our facilities are located, showcasing corporate values through the voluntary participation of employees. Based on this, corporate volunteering programmes must be aligned with the Sustainability Commitment taken on by the Company and must contribute to achieving the Sustainable Development Goals, meeting the needs of society.

The plan for the period 2018-2020, approved by the Sustainability Steering Committee, responds to a two-fold approach: strategic and transformational. In the coming years, we will focus our efforts on the carrying out of actions aimed at developing employee competencies and the creation of value in the territory. On the one hand, the plan seeks to increase the level of internal talent in corporate volunteering, and on the other hand, implement voluntary actions adapted to the different realities of the territories, which provide innovative solutions to social and environmental issues.

Corporate volunteering programmes must be aligned with the **2030 Sustainability Commitment** taken on by the Company and contribute to the achievement of the **Sustainable Development Goals**



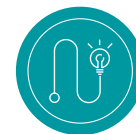
The actions carried out in 2017, which respond to the new strategic approach, have contributed primarily to improving the quality of life of groups at risk of social exclusion, promoting employability and addressing specific and real demands of society. With the development of these initiatives we have helped, through the solidarity and voluntary involvement of our employees, to transform the world and contribute to meeting the global objectives of the 2030 Agenda for Sustainable Development.

MAIN VOLUNTEERING ACTIONS IN 2017



COMPANIES4SDGs

The Company has joined the COMPANIES4SDGs campaign aimed at promoting the knowledge and application of the Sustainable Development Goals in the business world. As part of this campaign, Red Eléctrica participates in multi-company volunteering activities aligned with the 17 SDGs.



Mentoring Programme

Red Eléctrica collaborates in the CAMPUS mentoring programme of the A LA PAR Foundation in which the volunteers act as mentors for students with intellectual disabilities. Throughout the academic year, young people receive training sessions accompanied and advised by their mentors to help them better integrate into the world of work.



Employment School

Volunteers from the Company participated in the ADECCO Foundation's Employment School programme that seeks to improve employability and inclusion into the day-to-day working environment, of high-potential people with disabilities. Workshops focus on addressing key areas that a person must master in order to effectively and independently seek employment.



Action Against Hunger 'Challenge'

Red Eléctrica has left an important solidarity footprint in the Action Against Hunger 'Challenge' 2017 that aims to combat child malnutrition and eradicate hunger [SDG2]. In this edition, employees and relatives, distributed across eight cities, ran a total of 3,000 km, which translates into a total of 30,000 days of therapeutic nutritional treatments for children from disadvantaged populations.



'Companies Solidarity Day' (DSE)

The Company participated in the latest edition of this corporate volunteering day organised by *Cooperación Internacional*. Volunteers showing their high level of solidarity accompanied various vulnerable groups, spread across six cities nationwide, such as homeless, disabled or elderly, and engaged in leisure activities with children at risk of social exclusion.



'A Smile for Christmas' Campaign

Red Eléctrica has collaborated on the solidarity campaign to collect toys 'Una Sonrisa por Navidad' organised by *Cooperación Internacional*, which aims to send a Christmas gift to thousands of children in situations of poverty and vulnerability. The generous response of employees from various territories has contributed to bringing smiles to the faces of many children nationwide.



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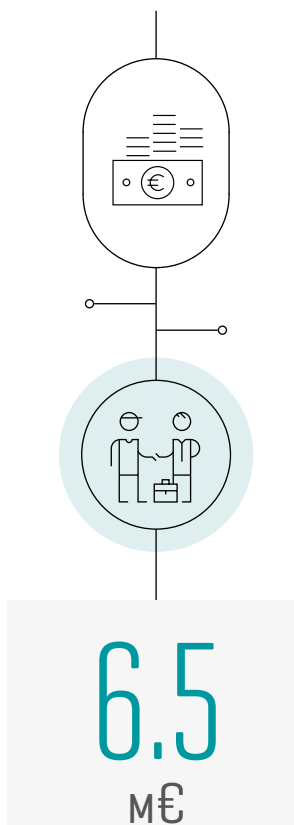
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INVESTMENT IN THE COMMUNITY

Within the framework of the business development strategy, Red Eléctrica considers and promotes social action as an essential element of its Corporate Responsibility Policy, which is carried out through actions defined in collaboration with various institutions and public entities and to respond to the demands for collaboration raised by stakeholders.

In 2017, the Company contributed 6.5 million euros (1.05% of its net profit) to the development or promotion of social initiatives; an amount obtained by applying the methodology of the LBG (London Benchmarking Group).

Investment in THE COMMUNITY

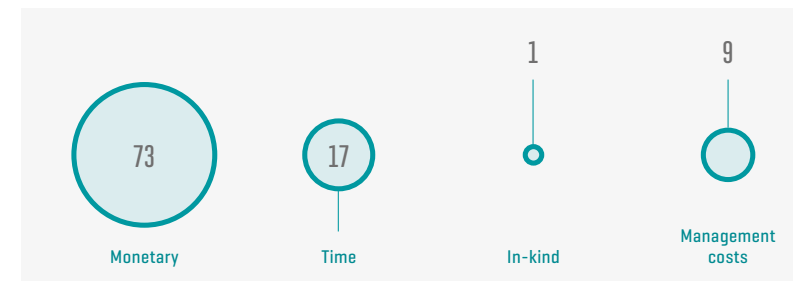


earmarked for
the development
and promotion
of social
initiatives

59% aligned with the
activities of the business

CONTRIBUTION 2017

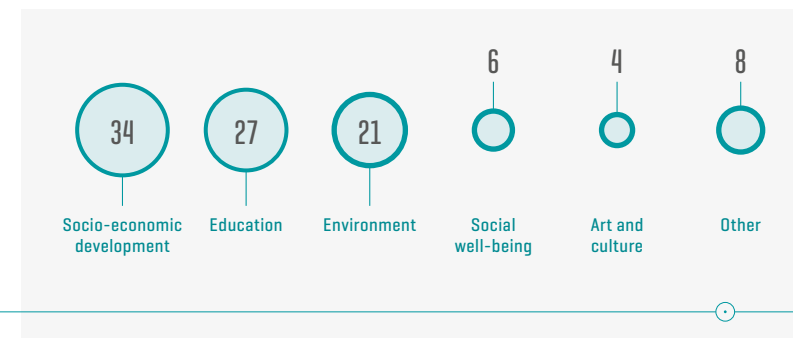
Type of contribution %



Reasons for action %



Area of action of social initiatives %





ECONOMIC AND SOCIAL CONTRIBUTION OF PROJECTS

The activity carried out by Red Eléctrica has undeniable benefits for society, among which the most obvious is that of maintaining the continuity and security of electricity supply with high levels of quality.

In addition to the aforementioned, the high level of investment made by Red Eléctrica entails other benefits for society in that the investment has a boosting effect on the country's economic activity. By encouraging production, an increase in wealth is generated (measured through GDP) and, as a consequence, employment is promoted, and public administrations have more income that can be devoted to improvements in the general well-being of society.

Red Eléctrica has adopted a methodology based on the multipliers derived from the Input-Output Tables that allows the level of general activity that is generated from an initial investment to be estimated. The calculations are made taking into consideration three major impacts: direct, indirect and induced.

IMPACTS OF THE INVESTMENTS

DIRECT IMPACT

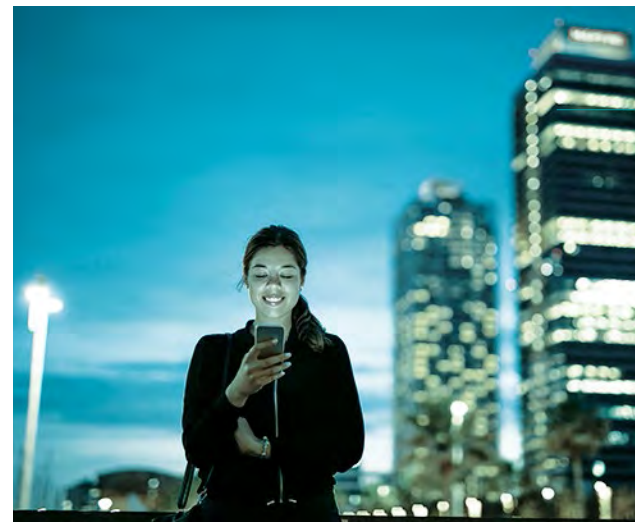
Estimation and valuation of the following: the production chain, the creation of employment and the incomes generated in the national economic system as a result of an initial investment.

INDIRECT IMPACT

In order to execute the initial investment, the direct awardees need to acquire other goods and services (intermediate consumption) from the rest of the production systems, which, in turn, demand other goods and services from their own suppliers, which ends up generating new income and new employment.

INDUCED IMPACT

This impact reflects the effect derived from all the income generated in the previous stages. In this regard, it incorporates both the impact of final consumption derived from all the income generated, as well as the tax collected by all public administrations when applying the various taxes to the total of the activity and the income generated.



In 2017, Red Eléctrica made a total investment in the transmission grid of 412 million euros, of which it is estimated that 102 million euros were allocated to the purchase of equipment and materials necessary

to carry out the activity. The remaining, 310 million euros, corresponds to direct investment in Spain whose impacts, after applying the methodology adopted, are outlined below:

Total impact of the investment in the transmission grid

	Direct	Indirect	Induced	Total
Production (M€)	310	300	30	640
Income - GDP (M€)	121	126	10	257
Employment (No. of jobs)	2,100	2,276	307	4,683
Tax revenue (M€)	48	48	4	100



In 2017, Red Eléctrica's contribution to the country's GDP has amounted to 257 million euros, generating work activities for an equivalent of 4,683 jobs and revenues for the public coffers of 100 million euros.

The investment made in Spain has generated a production in the activity sectors involved of 640 million euros, which represents more than twice the direct investment made by Red Eléctrica in Spain. This has contributed 257 million euros to the country's GDP [it represents around 13% of the revenue of the Red Eléctrica Group], which has led to the generation of work activities for an equivalent of 4,683 jobs. Therefore, this would represent, as a whole, incomes for the public coffers of 100 million euros [this figure represents 7.5% of the total tax collected in 2016 resulting from the special electricity tax].

This same methodology is already being applied to specific investment projects, thus obtaining the socio-economic contribution in the region and in the country in terms of increased wealth, measured through GDP, increased production, promotion of employment and income for public administrations.



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PARTICIPATION IN ORGANISATIONS AND ASSOCIATIONS





Participation in organisations and associations / 102-13

Red Eléctrica forms part of various national and international organisations or associations in order to promote the development and knowledge of their activities. It is worth highlighting its presence in the institutions of the European Union and international organisations, mainly in ENTSO-E, an entity that groups together the European TSOs.

International organisations

ENTSO-E *[European Network of Transmission System Operators for Electricity]*

Network that groups together the transmission agents and operators of electricity systems (TSOs) in Europe, constituted according to the mandate of regulation EC 714/2009. The members of ENTSO-E share the same objective: to establish the internal energy market and ensure the optimisation of its operation, as well as to support the ambitious European energy and climate agenda. One of the most prominent issues on the current agenda is the growing integration of renewables in the European energy system, which entails greater flexibility and a more customer-focused approach.

CIGRE *[International Council on Large Electric Systems]*

Organisation which groups together electricity companies, manufacturers of capital equipment and goods, engineering companies, universities and research centres from around the world with the aim of exchanging technical knowledge. Red Eléctrica holds the position of President and Secretary of the Spanish Committee and is also member of various committees.

RGI *[Renewable Grid Initiative]*

Initiative between European TSOs and NGOs that promotes a network of efficient, sustainable, clean and socially acceptable electricity infrastructure capable of integrating generation from decentralised renewable resources and on a large-scale.

IESOE *[Interconnexion de l'électricité du Sud-ouest de l'Europe]*

Regional organisation that brings together the TSOs of south-western Europe [Spain, Portugal and France] and those of Morocco, Algeria and Tunisia, the latter organised under the so-called Maghrebien de l'Electricité Committee, mainly oriented to aspects of system operation.

GO 15 *[Reliable and Sustainable Power Grids]*

Organisation which groups together the 18 largest Power Grid Operators in the world primarily geared towards sharing knowledge on a mutual basis.



International organisations

Med-TSO (Mediterranean Transmission System Operators)

Association of the TSOs of the Mediterranean basin whose objective is to coordinate development plans as well as the operation of electricity grids in the countries of this region.

EASE (European Association for the Storage of Energy)

European association that promotes energy storage as an essential tool to improve flexibility and provide services for the energy system with full respect to the EU's climate and energy policies.

CORESO (CooRdination of Electricity System Operators)

Organisation whose main objective is to promote coordination between European operators to guarantee security of supply in electricity systems. This body has the functions of coordinating the programming of the operation in the systems of Western Europe, the analysis of the coverage of the region in the short and medium term; as well as the coordination of the calculation of the exchange capacity and the non-availabilities that can condition said capacity, for which it must build common network models based on the models supplied by each of the TSO members.

European Foundation for Quality Management

Non-profit foundation that defines a model of Quality and Excellence as a way for self-evaluation and determination of the processes of continuous improvement in private and public business environments.

ICGN (International Corporate Governance Network)

Investor-led organisation whose mission is to promote effective standards of corporate governance and investor management to advance in efficient markets and sustainable economies around the world, guided by the Global Governance Principles and the Global Principles of Global Accountability of ICGN.





ABOUT
THIS REPORT



LETTER FROM
THE CHAIRMAN
AND THE CEO



KEY PERFORMANCE
INDICATORS 2017



01
THE COMPANY



02
STRATEGY



03
COMMITMENT
TO SUSTAINABILITY



04
ANTICIPATING
CHANGE AND
TAKING ACTION



05
DECARBONISATION
OF THE ECONOMY



06
RESPONSIBLE
VALUE CHAIN



07
CONTRIBUTION TO
SOCIAL, ECONOMIC
AND ENVIRONMENTAL
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National organisations

ASCOM (Spanish Compliance Association)

First association constituted with the objective of giving 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.

Spanish Association for Quality

Association focused on raising awareness, training, qualification and certification of professionals of Spanish organisations, thereby promoting the culture of quality, sustainable management, brand value in services, knowledge management and other processes of social interest.

Spanish Association for Standardisation and Certification

Private entity whose activity contributes to improve the quality and competitiveness of companies, their products and services, through the development of technical standards and certifications.

Círculo Cívico de Opinión

Non-profit association conceived as an open, plural and independent forum of civil society. Its objective is to identify, analyse and discuss the main problems that Spanish society poses, in order that the conclusions and suggestions of its debates be transferred to the public arena.

Club Excelencia en Gestión e Innovación

Non-profit business association to enhance the global competitiveness of organisations and professionals, through the values of excellence, providing its partners with an infrastructure to share knowledge, develop competencies and give visibility to their levels of excellence.

Club de Excelencia en Sostenibilidad

Non-profit business association that seeks to promote sustainability by sharing and disseminating good practices.

Spanish issuers

Association representing more than 70 % of the Spanish stock market and 75 % of the IBEX 35 index for the promotion of measures that reinforce legal certainty in the issue of listed securities, participation in the development of a better national and European legal framework and the contribution to the development of high standards of corporate governance.

Forética

Association of companies and professionals of corporate social responsibility / sustainability whose mission is to promote the integration of social, environmental and good governance aspects of the strategy and management of companies and organisations.

Transparency International España Integrity Forum

Reflection platform facilitated by Transparency International España for the improvement of compliance and ethical management in Spanish companies, which is structured through different working groups and periodic thematic sessions on business ethics.

Biodiversity Foundation

Foundation promoted by the Ministry of Agriculture, Fisheries, Food and Environment that is formed by companies committed to sustainable development. Its objective is to position itself as a leader in responsible and innovative business management, committed to the integration of biodiversity conservation into its policies and strategies.

COTEC Foundation

Private non-profit organisation whose mission is to promote innovation as a driver of economic and social development. Its activity is mainly focused on serving as an observatory of R&D+i in Spain, and providing analysis and advice on innovation, technology and economics.

Chile-España Foundation

Entity whose main objective is to increase the cultural, social, economic and artistic exchange between Chile and Spain. Red Eléctrica is part of the Board of Trustees.



National organisations

Energy Without Borders Foundation

Foundation, whose mission is to extend and facilitate access to energy and drinkable water services, in a continuous fashion, to those who still do not have them or who receive them in non-suitable conditions.

FEDEA Foundation

Foundation that aims to positively influence society, researching current economic and social issues and later disclosing that research. Bridging the gap between academia, society and public administrations to join efforts with a view to contributing to the progress of Spanish society.

Lealtad Foundation

A pioneering non-profit organisation in Spain whose mission is to promote Spanish society's confidence in NGOs.

Perú-España Foundation

Foundation whose main job is to drive and develop activities that promote the image and presence of Peru in Spain, in the economic, business, cultural and artistic, social, scientific and educational fields; as well as to strengthen the links between institutions and people of both countries. Red Eléctrica is part of the Board of Trustees.

Seres Foundation

Foundation whose mission is to promote the commitment of companies to the development of society. Red Eléctrica is part of the Board of Trustees.

Victims of Terrorism Foundation

Entity whose objective is to promote democratic values, the defence of human rights and the freedom of citizens.

Voluntare Foundation

A global corporate volunteering network that connects businesses with organisations in the third sector.

FUNSEAM

[Foundation for Energy and Environmental Sustainability]

Non-profit institution whose fundamental mission is to develop activities in the area of energy and environmental sustainability.

London Benchmarking Group (LBG)

Organisation made up of companies committed to promoting social action in business, using an internationally accepted methodology for the comparative assessment and measurement of commitment to society.

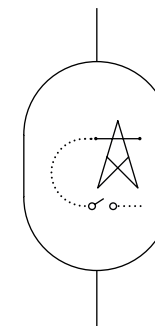
Real Instituto Elcano

Entity whose main task is to conduct international and strategic studies looking at the world from a Spanish, European and global perspective. Red Eléctrica is part of the Board of Trustees.

Spanish Network of the Global Compact

Entity for the promotion of the implementation of the 10 Principles of the Global Compact. Red Eléctrica is a founding member of the Spanish Network of the Global Compact.

Red Eléctrica PARTICIPATES IN



ENTSO-E

*European Network
of Transmission
System Operators
for Electricity*

Network that
groups together
the transmission
agents and
operators of
electricity
systems (TSOs)
in Europe

-
**increased integration
of renewables into
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ANNEXES

TAX TRANSPARENCY





Tax transparency

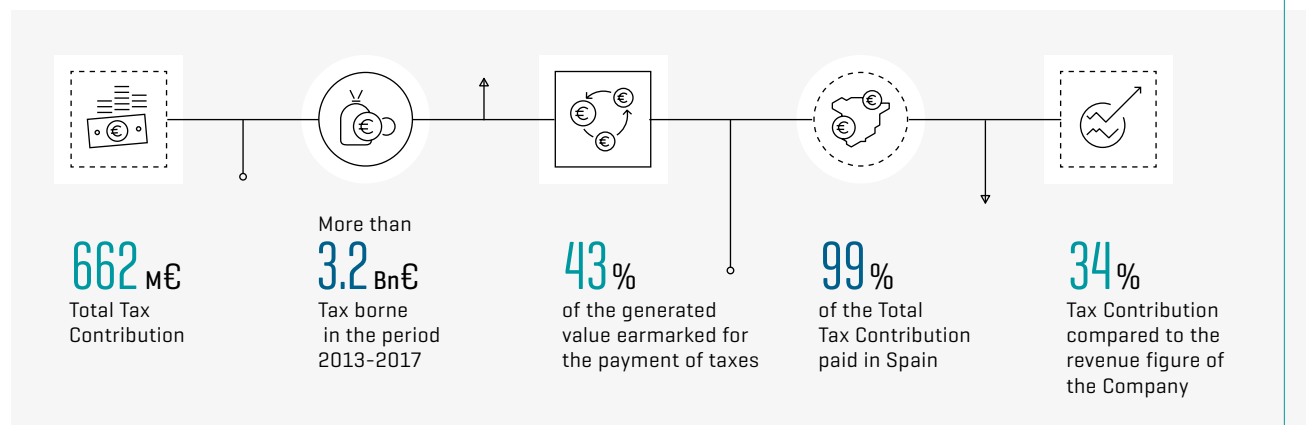
The **Tax Strategy** of the Red Eléctrica Group, approved by the Board of Directors, is based on three core values: transparency, good governance and accountability.

TAX STRATEGY VISION

Manage tax matters in a proactive, transparent and responsible manner with all stakeholders, in order to comply with tax legislation and minimise reputational risk, making it compatible with the protection of shareholder value.

Since 2014, Red Eléctrica voluntarily publishes its Total Tax Contribution, highlighting the relevant economic and social function derived from the Group's tax contribution.

KEY DATA IN 2017





TOTAL TAX CONTRIBUTION

In order to calculate its Total Tax Contribution, Red Eléctrica has followed the Total Tax Contribution (TTC) methodology of PwC, whose characteristics are:

- Measures the **impact** of tax payments on companies.
- Considers the **total amount of all taxes borne** (which represent an effective cost for the company) and **collected** (which are paid by other taxpayers for the economic activity generated), at any level of the Public Administration.
- Includes **all tax payments** made to Public Administrations.
- It adapts to any tax regime in the world and its use is easy even for people who do not have tax knowledge.

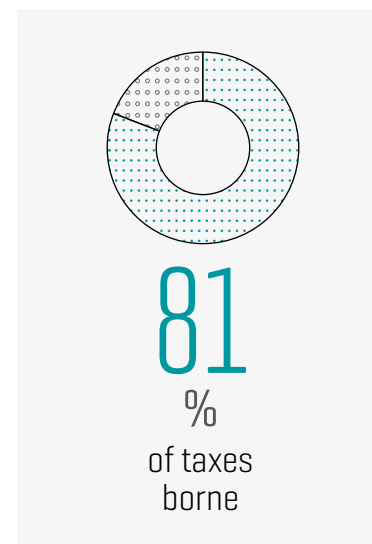
662 million euros in Total Tax Contribution:

242 million euros in taxes borne and 420 million euros in taxes collected.

TAXES BORNE

Tax on profits, mainly Corporate Income Tax ⁽¹⁾ represents 81% of total taxes borne that have been paid to the various tax authorities, mostly to the Spanish tax authority.

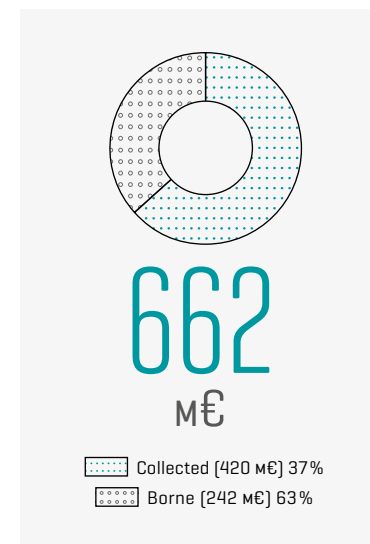
Corporate Income Tax %



TOTAL TAX CONTRIBUTION 2017

Red Eléctrica's Total Tax Contribution during 2017 amounted to 662 million euros, 242 million euros corresponding to taxes borne and 420 million euros to taxes collected.

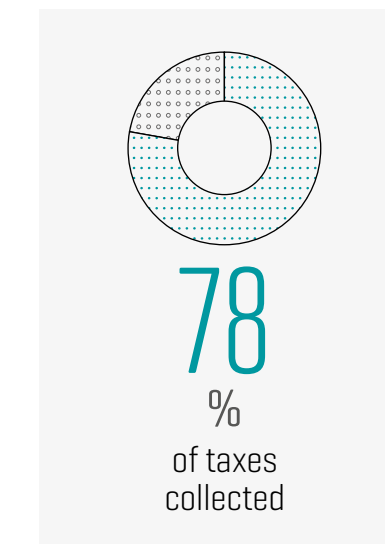
Total Tax Contribution €



TAXES COLLECTED

Of the total taxes collected during 2017, the taxes on products and services are noteworthy, fundamentally the Value-Added Tax which accounts for 78% of the total.

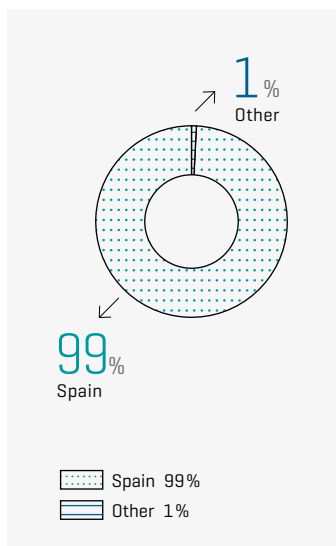
Value Added Tax %



⁽¹⁾ The Consolidated Annual Accounts set out and explain the tax situation: effective tax rate, accounting deductions, etc. The effective tax rate of Corporate Income Tax in 2017 was 24.76%.



Geographic distribution of Total Tax Contribution €



The revenue of the Red Eléctrica Group is mainly generated in Spain [98%].

The Total Tax Contribution of the Red Eléctrica Group to the public administrations in all the countries in which it operates grew to 662 million euros in 2017, with the greatest contribution being made in Spain [99%].

Geographic distribution



Total Tax Contribution 2017

	Spain (*)	Peru	Chile	Total
Taxes borne	238	2	2	242
Taxes collected	414	5	1	420
Total tax contribution	652	7	3	662

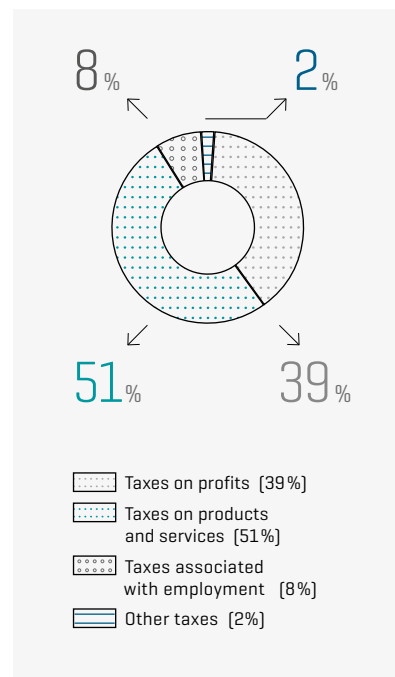
(*) Includes EU Countries.



Total Tax Contribution by tax category

The Total Tax Contribution of the Red Eléctrica Group (662 M€) is distributed according to the following tax categories: taxes on profits (39%), taxes on products and services (51%), taxes associated with employment (8%) and other taxes (2%).

Total Tax Contribution by tax category %



Of every 100 euros in value generated by the Red Eléctrica Group in 2017, 43 euros went to tax payments.

WEIGHT OF TAXES ON VALUE DISTRIBUTED

Applying the Total Tax Contribution (TTC) methodology, the value distributed by the Red Eléctrica Group in 2017 would total 1,550 million euros, a figure which is composed of the sum of the following elements:

- After-tax profit or shareholder value (670 million euros).
- Taxes (662 million euros): borne (242 million euros) and collected (420 million euros).
- Net interest (143 million euros).
- Wages and salaries after taxes collected (75 million euros).

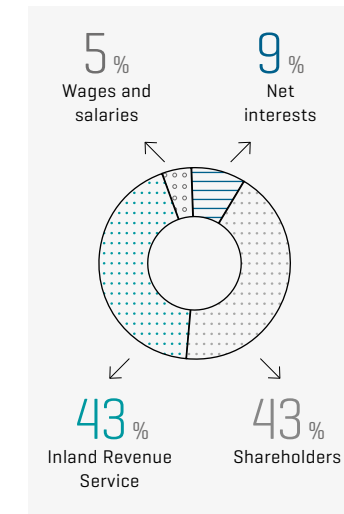
TAX CONTRIBUTION COMPARED TO REVENUES

The comparison of Total Tax Contribution to total revenues is an indicator that shows the amount of the contribution made by Red Eléctrica in relation to the size of its business.

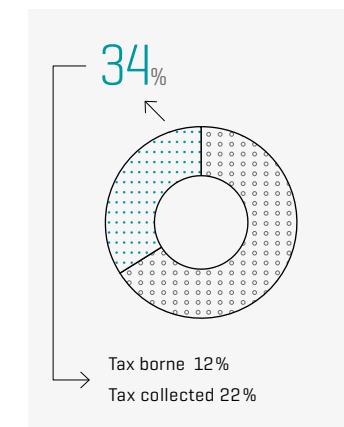
The ratio of Total Tax Contribution compared to total revenues is 34%, of which:

- 12% are taxes borne.
- 22% are taxes collected.

Value distributed %



Tax Contribution compared to revenue %





TAX RESPONSIBILITY

Regarding Red Eléctrica's tax responsibility, noteworthy are the following aspects:

- The Red Eléctrica Group is committed to complying with tax legislation and tax obligations in the countries in which it operates.
- The Red Eléctrica Group is committed to complying with the provisions of the 'OECD Guidelines for multinational companies' in tax matters. In terms of transfer pricing, the Red Eléctrica Group acts in accordance with the arm's length principle.
- The tax behaviour of the Red Eléctrica Group is coherent with the Base Erosion and Profit Shifting [BEPS] principles and actions, as it has not carried out operations, acts or events that could lead to double deduction of expenses, double tax benefit utilisation, double-loss utilisation, double non-taxation, nor has used hybrid instruments or entities.

- Red Eléctrica has a Comprehensive Risk Management System that includes any relevant tax risks for the Group. The aspects regarding the **Control and Management Policy of Tax Risks** of the Red Eléctrica Group, approved by the Board of Directors, which are integrated into the Comprehensive Risk Management Policy, establish the specific guidelines for action for the management of said risks.
- The Group also has a specific Internal Control Over Financial Reporting [ICFR], which includes tax data and processes, as well as the controls associated with them, based on the COSO [Committee of Sponsoring Organisations of the Treadway Commission] methodology. These processes and systems are systematically subject to internal and external audits.



- The Red Eléctrica Group has various mechanisms in place to prevent illicit operations, money laundering and concealment of assets. These include the Code of Ethics, the Supplier Code of Conduct, the Crime Risk Prevention Programme and the Guide for the Prevention of Corruption: zero tolerance, which are available to Red Eléctrica Group employees, its suppliers and the various stakeholder groups through the corporate website. In the

same way, the Red Eléctrica Group carries out awareness and training activities in an ongoing manner to make its members more familiar with the aforementioned documents.



Within the framework of the Code of Good Tax Practices, the Red Eléctrica Group has voluntarily submitted the **Annual Tax Transparency Report 2016** to the Spanish Tax Authority.



- The Red Eléctrica Group has adhered to the Code of Good Tax Practices (CGTP) adopted by the State Tax Administration Authority within the framework of the Large Business Forum. Said undertaking took place in 2015 and is aligned with the principles and guidelines for action on tax matters established in the Tax Strategy of the Group.

- On 28 October 2016, the Large Business Forum approved the proposal for the reinforcement of good practices in corporate tax transparency, articulating a proposal for a report called '**Annual Report on Tax Transparency** for companies adhering to the Code of Good Tax Practices'. In accordance with the foregoing, the Red Eléctrica Group has voluntarily submitted the aforementioned Tax Transparency Report for 2016 to the Spanish Tax Authority.

- Additionally, in 2017 the new tax declaration called Country by Country Reporting for the year 2016 was filed with the Tax Administration in Spain.

- Red Eléctrica's Code of Ethics and tax strategy sets out the commitment not to create companies to evade taxes in territories considered tax havens. The Red Eléctrica Group has no presence, nor does it carry out any activity in those territories considered as tax havens in accordance with current regulations:

- Spanish regulations contained in Royal Decree 1080/91 of 5 July, amended subsequently by Royal Decree 116/2003, of 31 January.
- European list of non-cooperative jurisdictions in tax matters approved by ECOFIN at its meeting on 5 December 2017.
- List of non-cooperative tax havens prepared by the OECD.