



*Grupo Red Eléctrica*

**Annual Report on the  
Management of the Code of Ethics  
2019**

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## 1. Introduction

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The Annual Report on the Management of the Code of Ethics sets out the circumstances arising in relation to the corporate ethics management system of the Red Eléctrica Group within the 2019 fiscal year: how the enquiries and whistle-blowing channel works and is managed, awareness-raising actions, alliances promoted, recognitions awarded and measures to be promoted.

The Code of Ethics of the Company seeks to provide an ethical guide for all the people of the companies that make up the Red Eléctrica Group, establishing the values and commitments that shall govern their business conduct when carrying out any of the Groups' activities.

Many of these values and commitments have been ingrained in Red Eléctrica since 1987 when it published its first set of shared values, entitled 'Core principles in the performance of duties'. In 2007, Red Eléctrica's ethical commitment was strengthened with the approval of the document entitled 'Code of Ethics and Corporate Values', the implementation of a whistle-blowing channel for enquiries and grievances, and the creation of the figure of the Ethics Manager.

The current edition of the Code of Ethics of the Red Eléctrica Group was approved by the Board of Directors of its parent company on 28 May 2013, undertaking the requirements demanded by stakeholders and the recommendations of organisations of repute with influence in this field.

The Code of Ethics is incumbent on the entire workforce of the Group, which is understood as its Board of Directors, its senior management and employees, in the performance of their duties and responsibilities. It represents a regulatory instrument implemented throughout the organisation that establishes the rules and guidelines of professional conduct related to the values enshrined within the Code of Ethics, in the different fields within the professional sphere in which the people of the Red out their activity. The purpose of the Code is to serve as a general guideline that embraces the aforementioned values and that shall be taken into consideration by employees of the Red Eléctrica Group when they are involved in a decision-making process.

Such Code is applied in all the companies of the Group, i.e. those in which the Group has majority of shareholding, regardless of their geographical location, and in those countries where they are temporarily performing activities, providing professional services or any other activity related to the Group.

The justification for this report is set out in the guidelines regarding the ethics management system, defined in the Code of Ethics, which establishes the need to draft and disclose an annual report on the management of ethics within the organisation, reporting on the issues or situations that have occurred in the year, and outlining how the system was applied and managed.

The timeline and scope of information contained within this report corresponds to 2019.



## 2. Ethics Manager and Stakeholder Ombudsman

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To ensure understanding, implementation and enforcement of the Code of Ethics, Red Eléctrica appointed Rafael García de Diego, General Counsel and Secretary of the Board of Directors, as Ethics Manager and Stakeholder Ombudsman.

The responsibilities of the Ethics Manager are the following:

- Resolve enquiries and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.
- Institute proceedings regarding grievances through the verification and investigation of the conduct of those employees or organisational units reported.
- Develop action plans to resolve the grievances reported and submit them for approval by the Chairperson of Red Eléctrica Group or the Chairperson of the Audit Committee if it affects any member of the Executive Committee.
- Keep an updated record on the process (enquiries, grievances, procedures and communications with stakeholders).
- Keep complainants abreast of the status and resolution of enquiries or grievances reported, as and when deemed necessary.
- Draft a periodic report on the review of the system and propose actions aimed at improving the management system associated with the Code of Ethics.
- Maintain at all times the confidentiality of the complainant, unless legally required to disclose such information.
- Carry out the duties and functions assigned under the principles of independence, rigour and fairness.

The enquiry and grievance management procedure of the Red Eléctrica Group was approved in order to help promote its application. This procedure, which is audited to ensure compliance, guarantees the confidentiality of the complainant.



### 3. Whistle-blowing channel

In order to promote the application of the Code of Ethics, Red Eléctrica has an easily accessible whistle-blowing channel, available on the corporate website, through which enquiries, grievances or suggestions can be submitted and conveyed to the Ethics Manager.

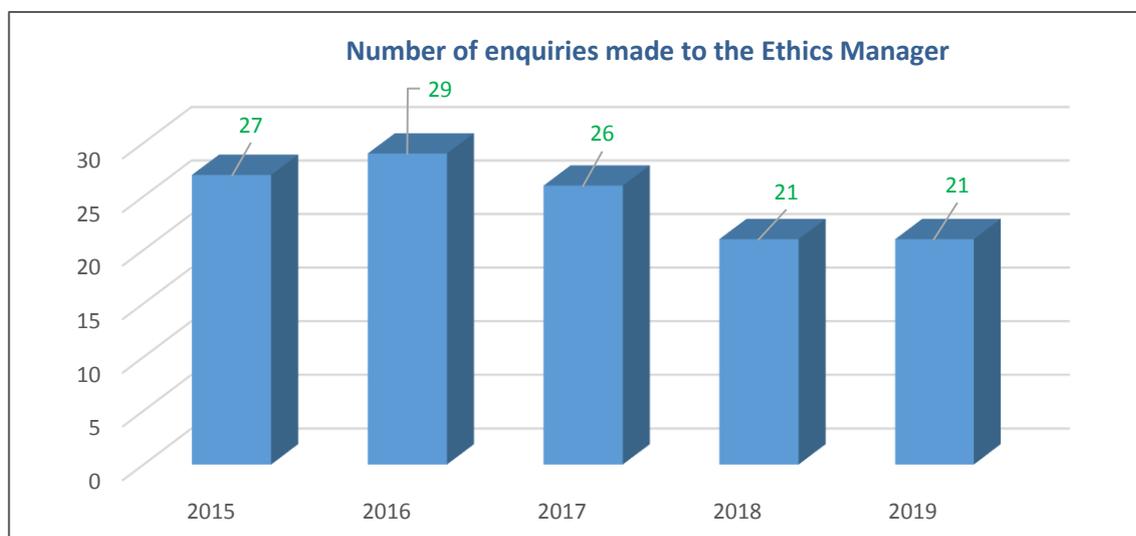
Additionally, Red Eléctrica has another channel, the DÍGAME service (the Group's Stakeholder Attention Centre) that can be used for reporting non-compliances, grievances, enquiries and suggestions regarding ethical matters. The DÍGAME service represents another reporting channel for external stakeholders who are not aware of the whistle-blowing channel. This service transfers to the Ethics Manager any non-compliance, grievance, enquiry or suggestion received regarding ethical matters whilst preserving the confidentiality of those who use this alternative channel.

Regarding the whistle-blowing channel for the detection and handling of possible non-compliances, grievances, enquiries and suggestions, in 2019, 21 enquiries were made to the Ethics Manager, each with a maximum resolution time of 10 days.

The enquiries made have referred to the following business behaviour guidelines:

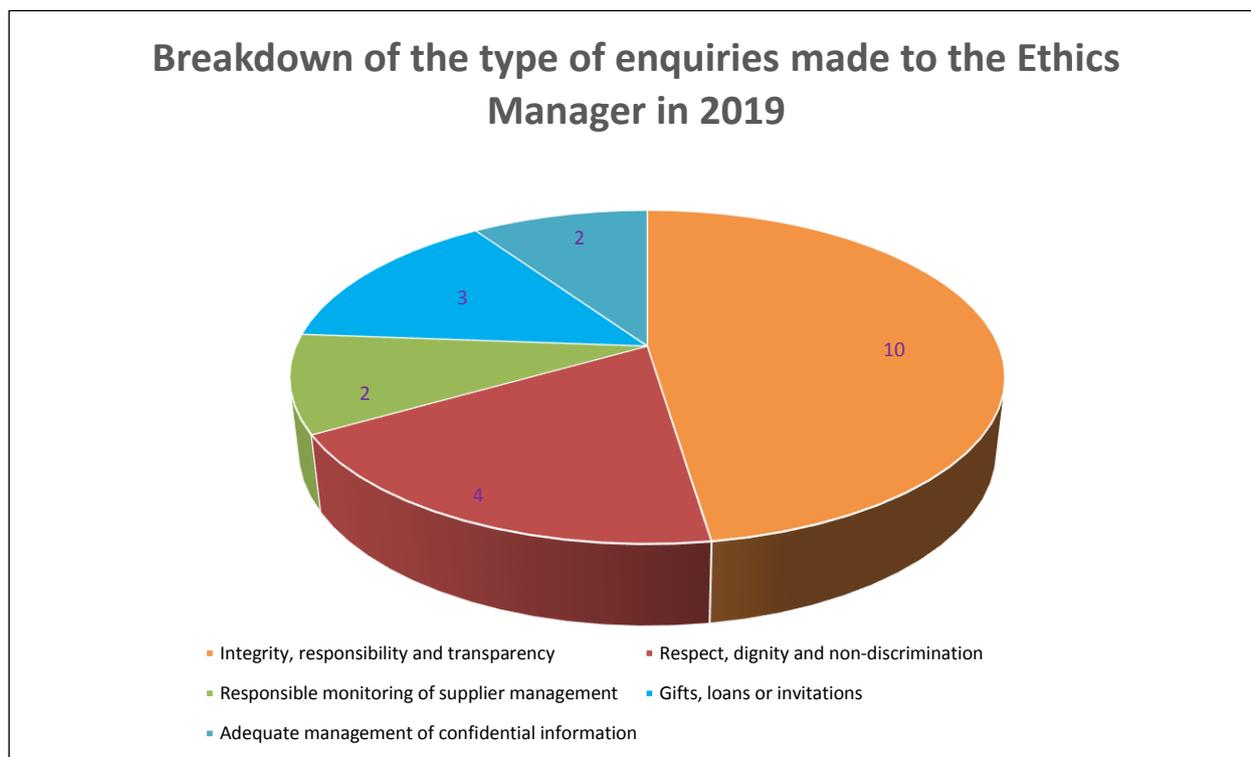
- Integrity, accountability and transparency.
- Respect, dignity and non-discrimination.
- Responsible monitoring of the management of suppliers.
- Limitation on the acceptance of gifts, loans or invitations.
- Adequate handling and safeguarding of information.

The following bar chart is provided to show the evolution of the number of enquiries made to the Ethics Manager over the last five years.





The following pie chart shows the distribution of the number of enquiries made to the Ethics Manager in 2019, broken down by business conduct guideline affected.



In 2019, three (3) grievances were received regarding compliance with the Code of Ethics. The details of each grievance are shown below:

- Grievance regarding the corporate value 'Respect', filed by an employee of Red Eléctrica, in relation to an alleged situation of employment discrimination. The grievance was archived due to the fact that the complainant requested, based on the nature of the grievance, the application of the 'Action Guide on the Prevention of Moral, Sexual and Gender-based Harassment', which establishes that the intervention of the Ethics Manager is not necessary in procedures that are regulated in said Guide.
- Grievance filled by an employee of a Red Eléctrica supplier, regarding an alleged incident that occurred in a Red Eléctrica project. The claimant informed the Ethics Manager of the start of possible legal actions. The Ethics Manager proceeded to file the grievance because he could not intervene in the clarification of a series of facts that are the subject to a legal proceeding.
- Grievance regarding the corporate value 'Environmental awareness', filed by a private individual, motivated by the emission of noise by a facility of the Company. At the close of 2019, said grievance was in the processing stage.

The following bar chart is provided to show the evolution of the number of grievances regarding non-compliance of the Code of Ethics and that were submitted to the Ethics Manager over the last five years.



Additionally, among the functions undertaken by the Ethics Manager is the obligation to communicate and convey to the appropriate bodies the grievances that could lead to a criminal risk for the companies of the Red Eléctrica Group, in order for the Criminal Risk Prevention Committee of the Group, of which the Ethics Manager is a member, to be able to assess such grievances and, if deemed appropriate, initiate an investigation into the grievance until it is resolved.

In 2019, as was the case in previous years, the Ethics Manager received no grievance on non-compliance related to criminal risk, and none of the companies of the Red Eléctrica Group have been investigated or convicted by any law court for infringements related to criminal risks of the organisation.



## 4. Review and update of the Code of Ethics of the Red Eléctrica Group

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In 2018, the process for reviewing and updating the Code of Ethics was begun in order to adapt it to best practices in the field of ethics management and compliance as well as to the changes in the structure of the Red Eléctrica Group.

The changes that have taken place since the approval of the Code of Ethics currently in force in terms of the implementation of the compliance function in the organization, the structure of the Red Eléctrica Group and the evolution in the requirements of stakeholders regarding ethics management, have made it advisable to review and update the Code of Ethics of the Red Eléctrica Group.

The aforementioned project is carried out through an internal working group established for this purpose in which the following participate: the Ethics Manager and Stakeholder Ombudsman, the Human Resources Area, the Corporate Governance Department, the Sustainability Department, the Special Project Contract Management Department, the Risk Control, Compliance and Quality Department, and the Internal Audit and Risk Control Management Area

Within the framework of this project, an analysis report on best practices was prepared in 2018 in order to help define the most suitable way to update the Code of Ethics of the Red Eléctrica Group. The benchmarking study spanned 35 companies, some of which were IBEX-35 companies, European TSOs and other international benchmark companies in corporate governance and compliance. The analysis included a study of 26 aspects concerning the structure and form of the codes of ethics of the companies analysed, and 53 aspects on the areas or conducts that were dealt with in such codes.

Based on the content of the Code of Ethics currently in force and the conclusions set out in the previously indicated analysis report, a proposal was drafted regarding the update of the Code. Said proposal was submitted to internal and external review, and subsequent approval. The following actions were carried out in 2019:

- Internal review by the Company's organisational units of the proposed update of the Code of Ethics.

This review was carried out with the participation of the Sustainability Steering Committee and sustainability promoters, interlocutors in the field of sustainability which are present in different areas of the organisation.

Forty-seven people belonging to 31 units (management areas and departments) representing all the major Divisions of the Company and Corporate Management Areas, and the companies of the Red Eléctrica Group took part in the aforementioned review.

- External review by a benchmark entity in the field of business integrity.

This review was carried out with the participation of the international benchmark entity on business integrity 'Transparency International'. The conclusions of the report regarding the proposed version of the updated Code of Ethics were that it meets the highest standards of quality and also covers the essential aspects that guarantee the implementation of a corporate culture that is both robust and fully respects all applicable laws.

- Employee assessment survey of the proposed Code of Ethics.

This survey gave the employees of the Red Eléctrica Group the opportunity to participate in assessing the structure, content and language used in the proposed Code of Ethics.

The general conclusions of the survey were:

- The decision to reduce the number of ethical values included in the Code obtained positive feedback, and those values selected for the updated version were well received.



- The ethical values were considered to be entirely relevant and fully applicable to the Red Eléctrica Group, with an average score above 9.2 (out of 10). The average score regarding the level of understanding of the values by participants was greater than 8.8 (out of 10).
- The principles of conduct were considered clear and easy to understand by 93% of those who took part in the survey.

There were no significant differences in the scores received from all the companies of the Group, except for the aspect regarding awareness of the whistle-blowing channel. Employees of the Group's companies in Chile and Peru were less aware of this channel and therefore gave it a lower rating.

121 employees participated and 56 comments were received, and these suggestions were taken into account in the updated version of the proposed Code of Ethics.



## 5. Audit regarding compliance with the Supplier Code of Conduct

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The Supply Area has continued to promote in 2019 that social audits be conducted on the Company's suppliers in order to verify compliance with the Supplier Code of Conduct; a Code which supplements the Code of Ethics.

The Company has focused its social audits on the verification of the working conditions of the suppliers that provide their services in Red Eléctrica's facilities and that interact, directly and permanently, with the employees of the Company, thus reinforcing the message regarding the importance the Company places on the aspects in this field.

In addition to other communications channels, Red Eléctrica makes the whistle-blowing channel available to all its stakeholders so that any suspected non-compliance by Red Eléctrica's suppliers in regard to the Code of Ethics and/or Supplier Code of Conduct can be reported, ensuring the confidentiality of the complainant at all times.

Red Eléctrica has verified the high level of compliance of its suppliers with the Supplier Code of Conduct and will continue working on this course of action in order to continue promoting and disseminating this type of initiatives among its suppliers.



## 6. Integrity and transparency

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The Code of Ethics and the corresponding enquiry and grievance management system, which includes aspects related to the fight against corruption, constitutes a mechanism that is considered effective for the detection and handling of possible cases of corruption and fraud. The Code of Ethics must be observed by and is incumbent on all governing bodies, senior management and employees of the Red Eléctrica Group. Suppliers must accept and undertake to respect the Group's Supplier Code of Conduct.

As a result of the commitment undertaken by Red Eléctrica to prevent any practices related to corruption, bribery or facilitation payments, the Board of Directors of the parent company approved on 22 December 2015 the '**Guide for the Prevention of Corruption: zero tolerance**' as a fundamental element of the integrity model of the Red Eléctrica Group. It aims to provide a guide regarding the prevention of corruption for all professionals in the companies of the Red Eléctrica Group, setting out the commitments and action criteria, thereto, that should govern their professional activities within the same. Its purpose is to provide members of the Red Eléctrica Group an analysis of the circumstances and the risks they face regarding corruption and advance the dissemination of the criteria and the instruments available to the Company for its eradication.

Over the last year, no grievance has been registered through the whistle-blowing channel regarding possible cases of corruption. No company of the Red Eléctrica Group has been subject to investigation or convicted by any court of law for any non-compliance related to cases of corruption, which is in keeping with previous years.



## 7. Recognitions

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Red Eléctrica is included in the Euronext Vigeo-Eiris sustainability indexes (Eurozone 120, Europe 120, World 120), having achieved the leadership position in its sector within the business conduct and ethics criteria. Vigeo Eiris is one of the most reputable providers of sustainability investment services and which stands out for advising investors on how to incorporate ESG factors into their financial decisions.

Lastly, noteworthy is the fact that Red Eléctrica has maintained its presence in business ethics indexes; of note is the Ethibel Sustainability Index (ESI) Excellence Europe, as well as the Company's inclusion in the Ethibel Excellence Index since 2009.



## 8. Alliances

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Among the initiatives in which Red Eléctrica has participated for the promotion of business ethics, noteworthy is its premium membership in the 'Integrity Forum' of the non-governmental organisation Transparency International España. The Forum brings together large companies committed to promoting and developing a business culture of compliance, integrity and transparency. It is a space for reflection, analysis and debate, in which perspectives, knowledge and experiences are exchanged in areas related to regulatory compliance, prevention of corruption, corporate transparency and good practices, in order to collaborate in the continuous improvement of the integrity models of its members.

In 2019, the Company has carried out, in collaboration with the Spanish Network of the United Nations Global Compact, a training programme on the fight against corruption with the aim of training our suppliers in this area and consolidating with our suppliers the ethical values of the Red Eléctrica Group.

Red Eléctrica is a member of the group of large companies that are part of the Transparency, Good Governance and Integrity Cluster. Said entity represents a platform of companies coordinated by the Spanish association for the promotion of the culture of ethical and socially responsible management, 'Forética', which aims to serve as a business meeting point regarding leadership, knowledge, exchange and dialogue in this field.



## 9. Courses of action and measures to promote in 2020

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The following are the relevant issues in which progress is being made or are being analysed regarding ethics management:

- Finalise the review and updating of the Code of Ethics of the Red Eléctrica Group to adapt it to best practices in the field of compliance and ethics management as well as to the changes in the structure of the Red Eléctrica Group.
- Review and update of the whistle-blowing channel to adapt it to best practices in the field of ethics management and to the new regulations on data protection and privacy.
- Review and update of the Supplier Code of Conduct.
- Design and implement a system that enables the ethics and compliance culture of the Red Eléctrica Group to be promoted, measured and by means of which its compliance can be proven.
- Design and carrying out of a training and awareness-raising plan regarding the ethics and compliance culture of the Red Eléctrica Group, linked to the approval of the new Code of Conduct and Ethics.
- Updating of the 'Action Guide on the Prevention of Moral, Sexual and Gender-based Harassment'.



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