

Tax Transparency Report

2018 FINANCIAL YEAR

GRUPO RED
ELÉCTRICA

TABLE OF CONTENTS

TAX
TRANSPARENCY



1. OUR
COMMITMENT TO
SUSTAINABILITY



2. TAX
STRATEGY AND
COMPLIANCE



3. OUR TAX
CONTRIBUTION



4. CORPORATE TAX



5. CREATING
VALUE
FOR SOCIETY



Tax Transparency

The total tax contribution of the Red Eléctrica Group, which is paid to the corresponding tax authorities, contributes to the economic and social development of the countries in which it operates.

The Red Eléctrica Group is fully committed to tax transparency and considers it essential to contribute to economic and social development through the payment of taxes in the countries in which it operates. In order to voluntarily offer a greater level of transparency to its stakeholder groups in terms of tax information, the Group has been publishing its total tax contribution since 2014.

This report, that has been drafted for the first time, represents a new boost to help propel us further along the road we are on in terms of good tax practices. This report provides supplementary information to the tax data we currently offer on the corporate website and in the various reports we publish, and it represents a tool that seeks to offer greater clarity and accessibility for our stakeholders regarding the Group's tax situation.

This report includes information on the main aspects regarding the Group's tax matters as well as the stance taken by the Group in this field. The report includes, among other things, detailed information on the Group's tax strategy, the various elements that make up tax compliance, the control and management of tax risks, tax contribution, country-by-country reporting and data related to corporate tax. Furthermore, it also showcases the key role that the Red Eléctrica Group places on the close-knit ties it maintains with society as a whole.

1

Our
commitment to
sustainability

2

Tax
strategy and
compliance

3

Our tax
contribution

4

Corporate tax

5

Creating
value
for society

1 / Our Commitment to Sustainability

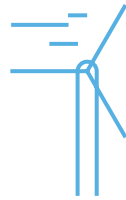




704.6 M€
NET PROFIT FOR
THE YEAR

40.1%

INTEGRATION OF
RENEWABLE ENERGY
into the electricity system in 2018



- The RED ELÉCTRICA GROUP has consolidated itself as a global operator of strategic infrastructure, both in Spain and internationally, managing electricity grids and dark fibre optic networks.
- The main activity of the Group [the electricity business in Spain] is carried out by RED ELÉCTRICA DE ESPAÑA, which performs the functions of the Spanish TSO – the sole transmission agent and operator of the Spanish electricity system.

€378 million investment in new infrastructure in 2018 focused on strengthening the transmission grid.

- We are a worldwide reference in the safe integration of renewable energy [40.1% integration of renewables into the electricity system in 2018].
- Our international business is oriented to the construction, maintenance and operation of electricity transmission infrastructure abroad [currently in Peru and Chile].
- We have diversified the Group's activities by driving the telecommunications business, whose purpose is the commercial operation and maintenance of the dark fibre optic network.
- We maintain a good position in terms of solvency and profitability, with a revenue of €1,948.5 million and with a net profit for the year of €704.6 million.

743 M€

TOTAL TAX
CONTRIBUTION



MORE THAN
3.5 B€

TAXES BORNE IN
THE 2014-2018
PERIOD



- €743 million total tax contribution and more than €3.5 billion in taxes borne in the 2014-2018 period.
- €1.6 million [0.7% of the total corporate tax paid] was allocated to social purposes/ solidarity causes [by marking 'X' in the 'Solidarity' checkbox on the corporate tax return].
- We have renewed our presence in the prestigious Dow Jones Sustainability Index.

Recognition from 'Fundación Compromiso y Transparencia' [Commitment and Transparency Foundation] for heading the ranking in the Tax Transparency Report of IBEX 35 Companies for the 2018 financial year.





2030 Sustainability Commitment

Noteworthy principles linked
to tax management

- FINANCIAL

SUSTAINABILITY

- SHARED VALUE

- TRANSPARENCY

One of the priorities of our 2030 Sustainability Commitment, which includes and sets out our tax strategy, is to contribute to the development of the environment through economic, environmental and social progress.

- The tax strategy is aligned with the **2030 Sustainability Commitment** of the Red Eléctrica Group, which defines the contribution to the development of the socio-economic environment as one of its four priorities. Within this commitment, the Group undertakes to contribute to the social, economic and environmental development of the areas in which it carries out its activity, generating a mutual benefit for all stakeholders.
- The 2030 Sustainability Commitment is based on ten principles, which have taken into consideration the tax strategy. Among them, directly linked to the organisation's tax management, the following are noteworthy:
 - Ensure the **financial sustainability** of the Red Eléctrica Group, acting under the principles of generating economic value and with a responsible tax strategy.
 - Generate **shared value** with our stakeholders and society to contribute to the development of a more prosperous and sustainable socio-economic environment.
 - Proactively and continuously disclose and showcase the progress made by the Company regarding our sustainability commitments with transparent criteria, offering clear, reliable and balanced information.

2 / Tax Strategy and Compliance



The Red Eléctrica Group is committed to complying with tax legislation and its tax obligations and fosters a collaborative relationship with the Tax Authorities.

WHAT IS THE OBJECTIVE?

Define the approach to be taken regarding tax matters, in a way that is consistent and aligned with the Group's strategy.

WHAT IS THE VISION?

Manage tax matters in a proactive and responsible manner, making it transparent for all stakeholders, with the aim of complying with tax legislation and minimising reputational risk, whilst making it compatible with the protection of shareholder value.

TAX STRATEGY

WHO DOES IT APPLY TO?

To all the companies of the Red Eléctrica Group.

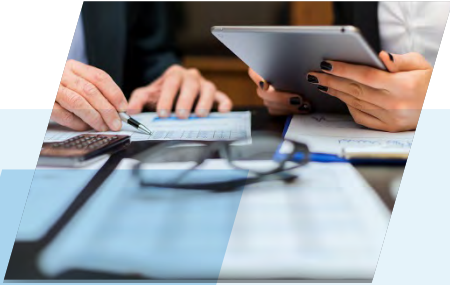
WHAT ARE ITS FUNDAMENTAL VALUES?

- Transparency.
- Good governance.
- Responsibility / Accountability.

What role does the BOARD OF DIRECTORS have?

- Determine and approve the tax strategy.
- Promote the monitoring of principles, guidelines and good practices in tax matters.

THE AUDIT COMMITTEE informs the Board of Directors about the tax policies and criteria applied by the Group.



What do we understand by tax risks?

Those produced by applying tax legislation, the interpretative complexity or the modifications of such regulations and the possible reputational impacts derived from the management of tax matters.

How do we manage tax risks?

- The aspects regarding the **Tax Risk Control and Management Policy** of the Red Eléctrica Group, approved by the Board of Directors, are integrated into the Comprehensive Risk Management Policy, establishing the specific guidelines for action for the management of said risks.
- The Group's **comprehensive risk management system** includes the relevant tax risks for the Group.
- Additionally, the Group 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 submitted to internal and external audits.

RISK CONTROL AND MANAGEMENT

What are the specific action guidelines?

- Develop and maintain a proactive and responsible vision in the management of tax risks in all the companies that make up the Red Eléctrica Group.
- Include in the tax activity the analysis of specific risks and the controls necessary to mitigate, manage and control those risks. In relation to the analysis of the tax risks regarding investments or transactions that are of a strategic nature or have a special tax risk due to their high monetary amount or special characteristics, it is established that these investments or transactions shall be submitted to the Board of Directors for their approval.
- Foster relationships with tax authorities in order to reduce tax risks and prevent those business conducts that could potentially generate them.





Control mechanisms

- **Mechanisms for the prevention of illicit operations, money laundering and asset stripping.** Noteworthy among these are 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 on the corporate website. The Red Eléctrica Group carries out awareness and training activities on an ongoing basis to make its members more familiar with the aforementioned documents.

- System for submitting **enquiries and suggestions**, contemplated within the Code of Ethics, as well as a system for receiving and managing possible **non-compliances and grievances**.

- Approval by the **Audit Committee** in 2018 of the following:

- The tax policies applied in the annual corporate tax statement for 2017 prior to the annual presentation of the tax report.

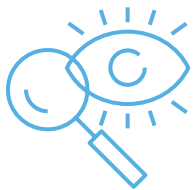
- The tax policies applied in the first half of 2018.

- The Country-by-Country Tax Reporting 2017.

- Tax policies applied in the annual corporate tax statement for 2018 prior to the annual presentation of the tax report for 2018.

- Information presented to the Audit Committee in 2018 regarding the Annual Tax Transparency Report for 2017.

- The **Digital Transformation Strategy** of the Red Eléctrica Group establishes the need for transformation and the adoption of cultural change, which are also reflected in how the tax function is carried out.





Since 2015, the Red Eléctrica Group has adhered to the Code of Good Tax Practices adopted by the Spanish State Tax Authority (AEAT) within the framework of the Large Businesses Forum.



Commitments and good tax practices

- Since 2015, the Red Eléctrica Group has adhered to the **Code of Good Tax Practices** adopted by the Spanish State Tax Authority (AEAT) within the framework of the Large Businesses Forum.
- With the aim of strengthening good tax practices, in 2017 and 2018, the Red Eléctrica Group voluntarily submitted its **Annual Tax Transparency Report** to the AEAT.
- Compliance with that established in the '**OECD Guidelines for Multinational Enterprises**' in tax matters. In terms of transfer pricing, the Red Eléctrica Group acts in accordance with the arm's length principle.
- Alignment with **BEPS** (Base Erosion and Profit Shifting) principles and actions.
- Presentation in Spain of the **Country-by-Country Tax Reporting**.
- The auditing company hired to conduct the legal audit of the accounts may not provide corporate tax services. The breakdown of the other services provided by the audit company, except for those directly related to corporate tax services, can be found in the '**Report on the independence of the external auditor**'.



The Red Eléctrica Group does not have a presence or develops any activity in those territories considered as tax havens.



Tax havens

- The Code of Ethics and the Tax Strategy of the Red Eléctrica Group includes the commitment not to create companies in territories considered tax havens in order to evade taxes.

- **The Red Eléctrica Group does not have a presence or develops any activity in those territories considered as tax havens** in accordance with Spanish regulations contained in Royal Decree 1080/91 of 5 July, subsequently modified by Royal Decree 116/2003, of 31 January.

Furthermore, the Red Eléctrica Group also has no presence in any country or territory classified as a non-cooperative tax jurisdiction as per those published in the European Union's List of non-cooperative tax jurisdictions, or in any territory on the List of non-cooperative tax havens prepared by the OECD.

- The Group has a presence in both the Netherlands and Luxembourg, territories considered by certain external observers as low tax territories, in order to ensure better access to financial markets and international reinsurance markets.



3 / Our Tax Contribution



250 M€
TAXES BORNE

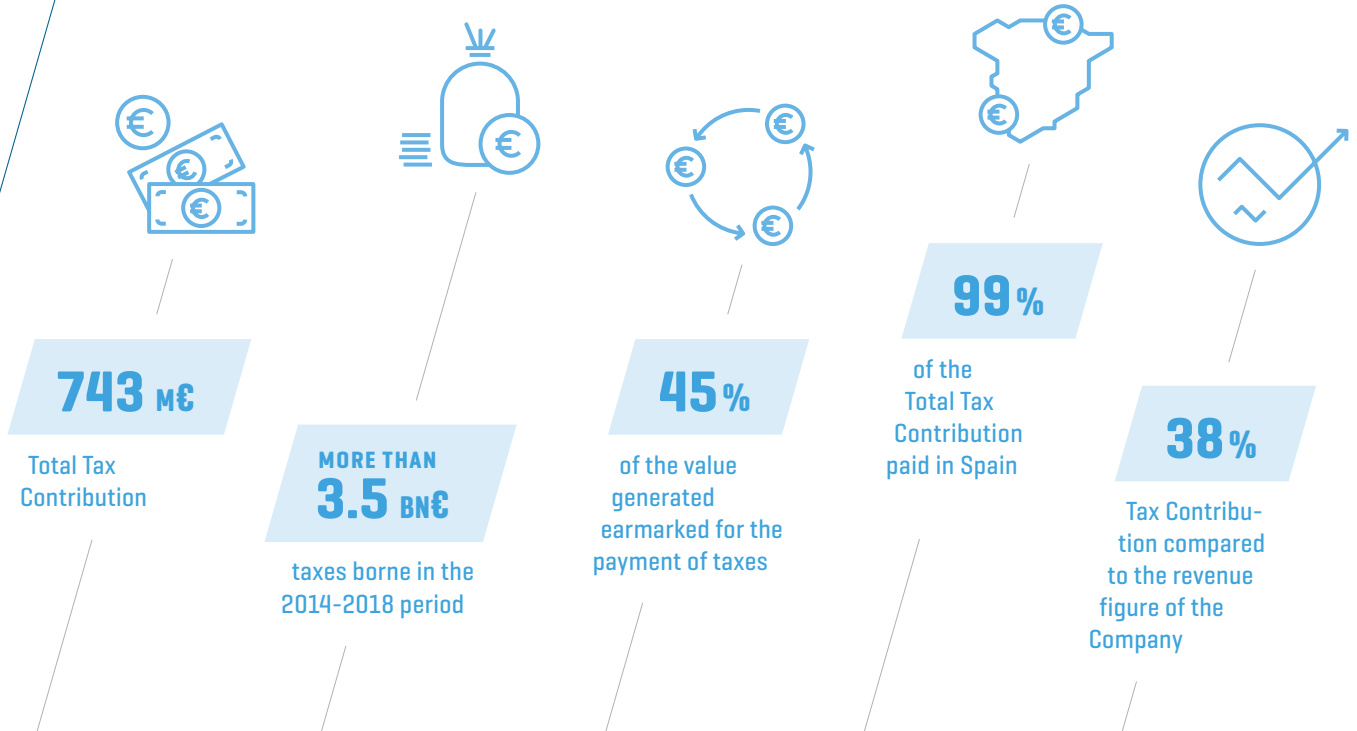
743 M€
TOTAL TAX
CONTRIBUTION

493 M€
TAXES
COLLECTED

• Since 2014, the Group has voluntarily published its Total Tax Contribution in order to offer greater **transparency regarding tax information** to the various stakeholders, highlighting the relevant economic and social function derived from the Group's tax contribution.

• The total tax contribution of the Red Eléctrica Group measures the overall impact that the payment of taxes by the Group has.

KEY DATA IN 2018





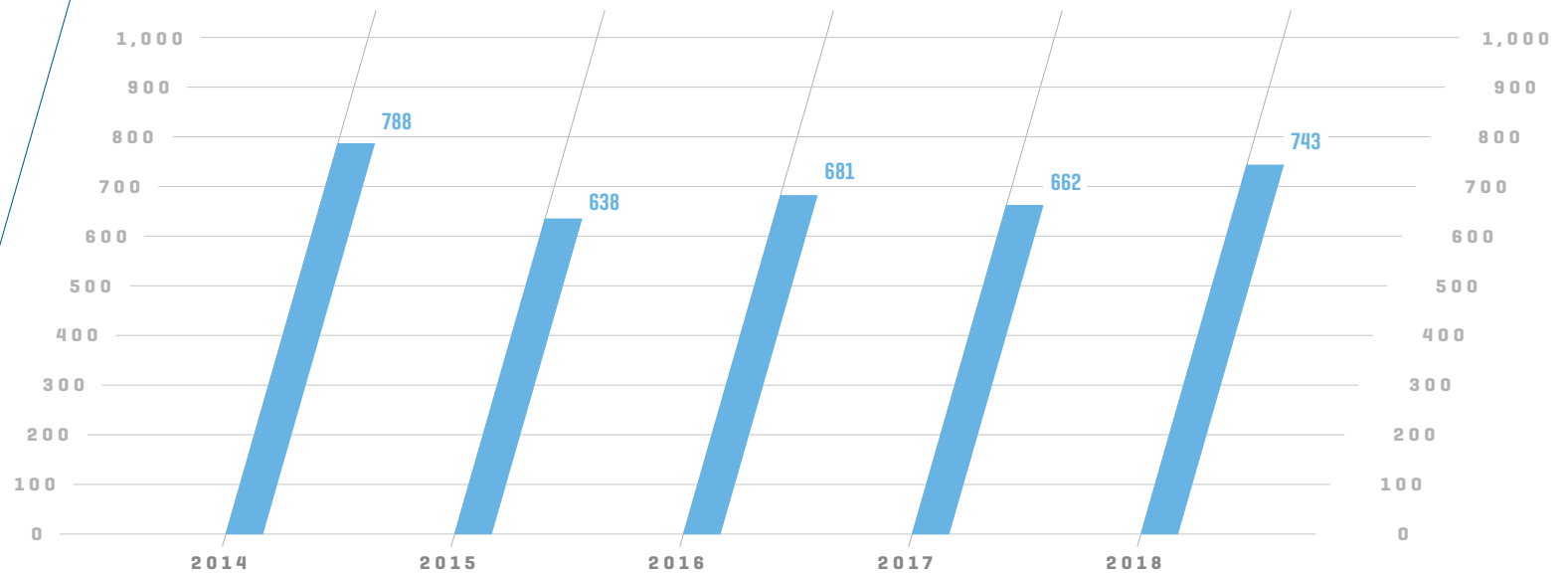
Evolution of the total tax contribution of the Red Eléctrica Group

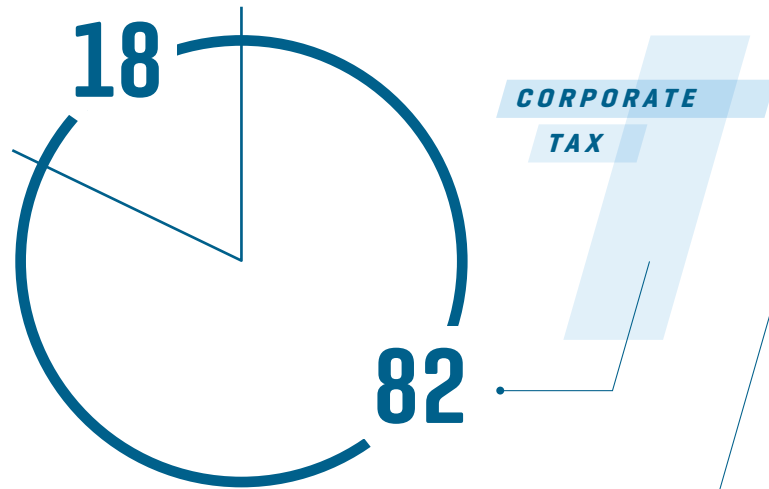
- In 2018, the total tax contribution of the Red Eléctrica Group amounted to €743 million.
- More than €3.5 billion in taxes borne by the Red Eléctrica Group the 2014 - 2018 period.

MORE THAN
3.5 BN€
TAXES BORNE 2014-2018



TOTAL TAX CONTRIBUTION (M€)



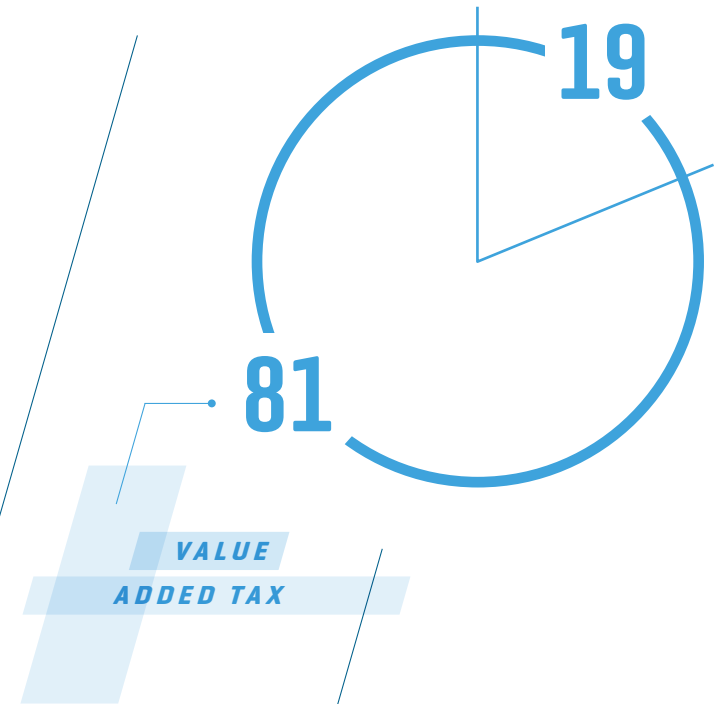
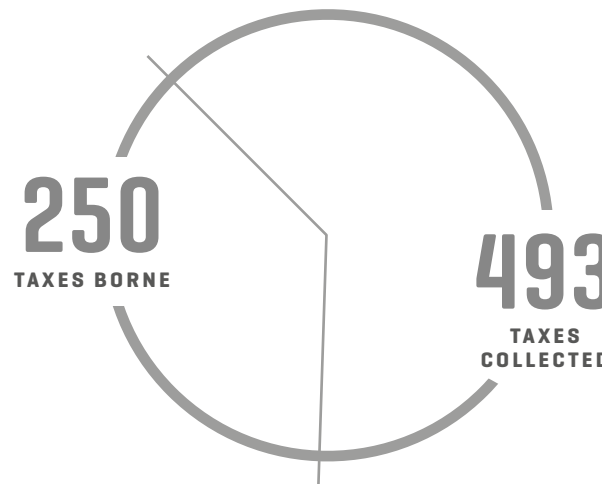


TAXES BORNE [%]

Regarding taxes borne, noteworthy is corporate tax which represents 82% of the total taxes borne that have been paid to the various tax authorities, mostly in Spain.

TOTAL TAX CONTRIBUTION [M€]

The total tax contribution of the Red Eléctrica Group during 2018 amounted to €743 million, corresponding to €250 million to taxes borne and €493 million to taxes collected.



TAXES COLLECTED [%]

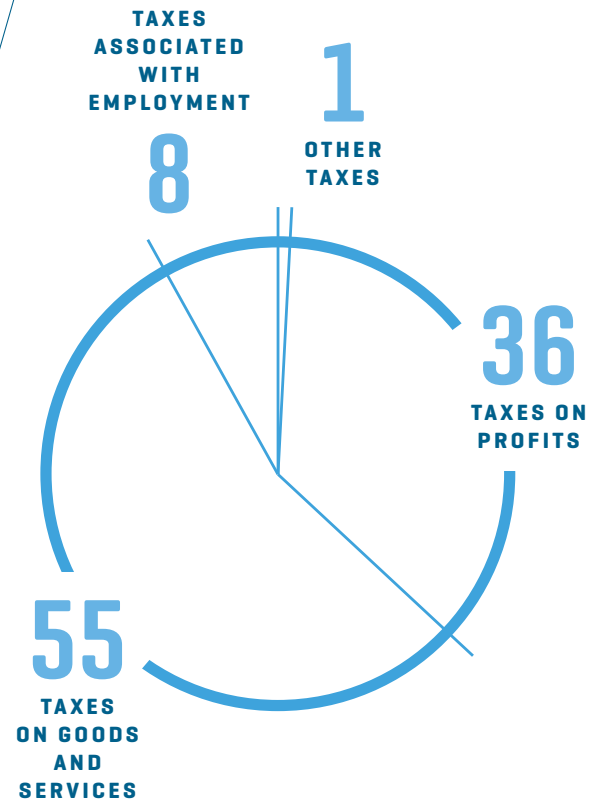
Of all the taxes collected in 2018, the taxes on goods and services are noteworthy, mainly Value Added Tax [1], which represents 81% of the total.

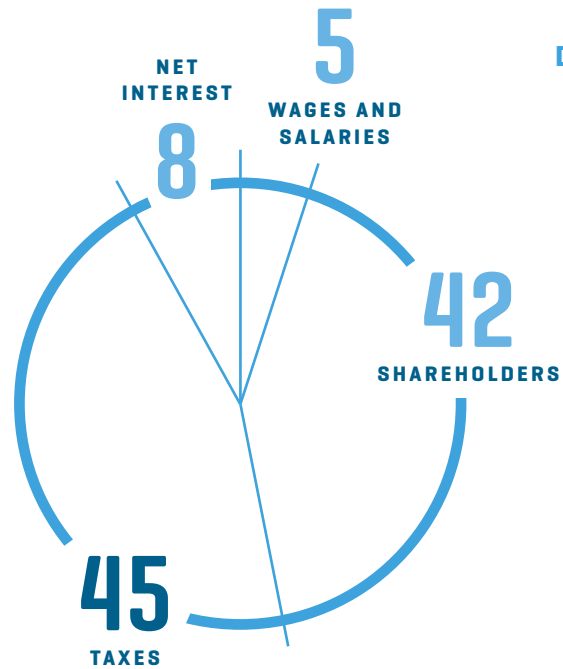
[1] Understood as those indirect taxes equivalent to Spanish IVA [VAT] that are levied on consumption.



The total tax contribution
of the Red Eléctrica Group
[€743 million] is distributed
according to the types of taxes
shown in the chart.

TOTAL TAX
CONTRIBUTION
BY TAX TYPE
[%]





VALUE
DISTRIBUTED
[%]

Tax Value Distributed

Applying the Total Tax Contribution (TTC) methodology [1], the distributed tax value of the Red Eléctrica Group in 2018 is composed of the sum of the following elements:

- Shareholder value (profit after tax): €705 million.
- Taxes (€743 million): borne (€250 million) and collected (€493 million).
- Net interest (€133 million).
- Wages and salaries after taxes collected (€78 million).

The ratio of tax value distributed clearly indicates what percentage of the total value generated is earmarked for the payment of taxes (borne and collected) to the tax authorities. In essence, the tax value distributed is a reflection of how the economic value generated by the Red Eléctrica Group contributes to society.



Of every 100 euros of value generated by the Red Eléctrica Group in 2018, 45 euros were earmarked to pay taxes.

[1] PwC Total Tax Contribution Methodology.



38%

13%

BORNE

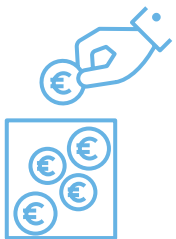
25%

COLLECTED

Tax contribution compared to revenue

The comparison between total tax contribution and total revenue is an indicator that determines the monetary amount of the contribution made by the Red Eléctrica Group in relation to the size of its business:

- Revenue (€1.949 billion).
- Taxes borne (€250 million).
- Taxes collected (€493 million).



In 2018, the Red Eléctrica Group made a total payment of €206 million that corresponds to corporate tax, of which €202 million (98%) correspond to the Spanish tax authority.

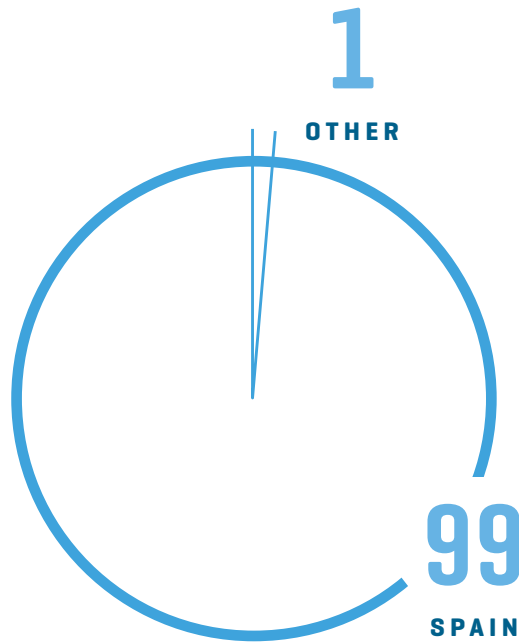
COUNTRY BY COUNTRY INFORMATION

	Spain	Peru	Chile	Other EU countries ⁽¹⁾	Total
Profit before corporate tax [M€]					
Profit before corporate tax ⁽²⁾	921	6	-6	-	921
Total tax contribution 2018 [M€]					
Taxes borne	246	3	1	-	250
Corporation tax ⁽³⁾	202	3	1	-	206
Taxes associated with employment	25	-	-	-	25
Other taxes borne	19	-	-	-	19
Taxes collected	490	3	-	-	493
VAT	398	2	-	-	400
Taxes collected on profits	60	-	-	-	60
Other taxes collected	32	1	-	-	33
Total Tax Contribution	736	6	1	-	743
Public subsidies received [M€]					
Public subsidies received	3	-	-	-	3

⁽¹⁾ France, Holland and Luxembourg. (Amounts less than 1 million euros).

⁽²⁾ Includes, aggregated by country, the revenue and expenses before taxes of each of the Group's companies, excluding dividends coming from Group entities.

⁽³⁾ The corporate tax paid equates to 22.36% of the profit before deducting corporate tax (effective tax rate).



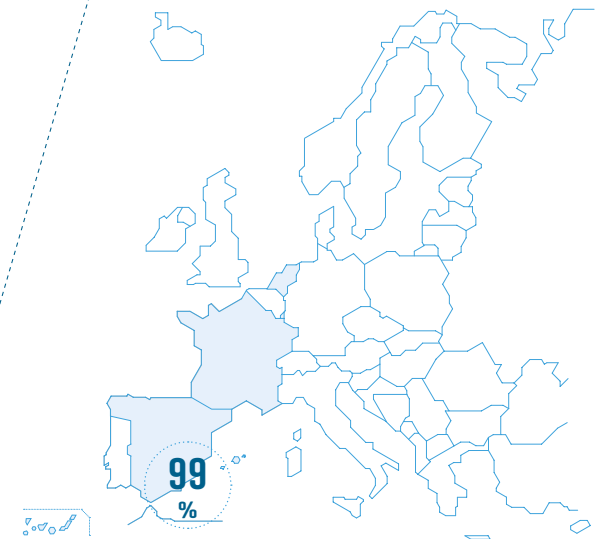
TOTAL TAX CONTRIBUTION GEOGRAPHICAL DISTRIBUTION [%]

The total tax contribution of the Red Eléctrica Group to tax authorities in all the countries in which it operates amounted to €743 million in 2018, with the highest tax contribution being made to the tax authority in Spain [99%].

The highest tax contribution of the Red Eléctrica Group is made to the Spanish tax authority, as its revenues are mainly generated in Spain [98%].



PERU / CHILE



SPAIN / FRANCE
LUXEMBOURG / HOLLAND

4 / Corporate Tax





RECONCILIATION OF THE EFFECTIVE TAX RATE OF CORPORATE TAX (M€)

	2018	2017
Consolidated accounting result for the year before tax [*]	936	890
Permanent differences and consolidation adjustments	[22]	[17]
Consolidated taxable accounting income	914	873
Tax rate	25%	25%
Profit multiplied by tax rate	229	218
Effect of applying different tax rates	1	1
Tax calculated at the tax rate of each country	230	219
Deductions	[1]	[1]
Other adjustments	3	2
Corporate tax	232	220
Current income tax	247	232
Deferred income tax	[15]	[12]
Effective tax rate	24.75%	24.76%

[*] Consolidated result in accordance with IFRS-EU Standards.

The Red Eléctrica Group publishes the effective tax rate of corporate income tax in its Annual Accounts, in the Sustainability Report and in its Financial Results Quarterly Report.

24.75%

EFFECTIVE TAX RATE



25%

NOMINAL TAX
RATE IN SPAIN

**The Red Eléctrica Group
marks 'X' in the 'Solidarity'
checkbox on the corporate tax return**

**The Group allocated 0.7% (€1.6 million)
of the total amount of corporate tax declared
in 2018 to solidarity-based Third Sector
organisations to finance social projects and
solidarity causes, and to strengthen the social
commitment of the Red Eléctrica Group.**

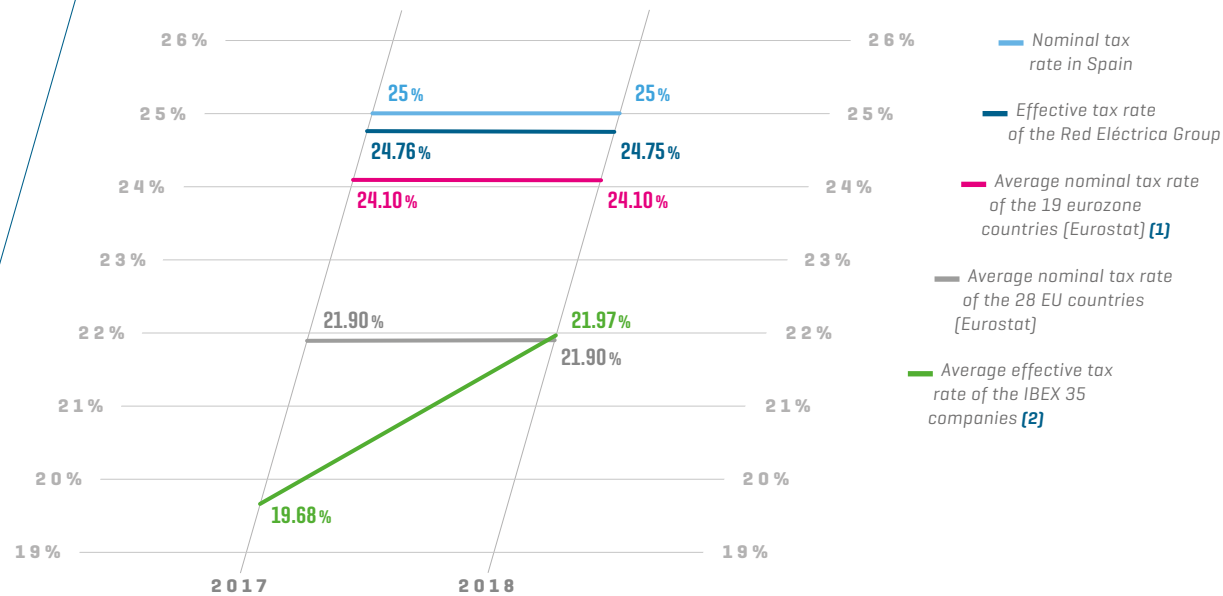
+ More information available in the Consolidated Annual Accounts [in the Taxation section].

The effective rate of corporate tax applied to the Red Eléctrica Group in 2018 reached 24.75%. This rate is aligned with the nominal tax rate in force in Spain [25%].

The foregoing effective rate of corporate tax is above the average nominal tax rate of the 19 eurozone countries [24.10%], of the average effective tax rate of IBEX 35 companies [21.97%] and of the average nominal tax rate of the 28 countries of the European Union [21.90%].



EFFECTIVE TAX RATE OF CORPORATE TAX OF THE RED ELÉCTRICA GROUP (2017-2018)



Source: [1] 'Taxation trends in the European Union'. 2018 Edition Eurostat European Commission.
[2] PwC analysis based on public information.



5 / Creating Value for Society



1.18 times
the budget ⁽¹⁾ for
scientific research

[+](#) More information



743
M€

TOTAL TAX
CONTRIBUTION

47%
of the budget ⁽¹⁾
for internships
and student aid

[+](#) More information



14.87 times
the budget ⁽¹⁾
to finance actions
to support efficient
and sustainable
energy mobility

[+](#) More information



[1] Reference: Comparison with items of the General State Budget 2018.



GRUPO  **RED**
ELÉCTRICA

Published by

RED ELÉCTRICA DE ESPAÑA
Paseo del Conde de los Gaitanes, 177
28109 Alcobendas [Madrid]

www.ree.es

Graphic design and layout

dis_ñ
estudio@dis-n.es

English translation by

Wayman English International · www.waymanenglish.com

This English version is a translation of the original and authentic Spanish text found in the 'Informe de transparencia tributaria Ejercicio 2018' originally issued in Spanish. In the event of discrepancy, the Spanish-language version shall prevail.