

TAX TRANSPARENCY
REPORT

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TAX
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Tax transparency

The Red Eléctrica Group assumes its fiscal responsibility with full transparency, thus contributing to the economic and social development of the countries in which it operates through the tax contribution paid to the corresponding tax authorities.

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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 its stakeholder groups a greater level of transparency on its tax information, the Group has been publishing its total tax contribution since 2014.

The Red Eléctrica Group continues to publish this tax transparency report as a way to continue to improve on the best 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 on the Group's tax situation.

This report includes information on the main aspects and stance of the Group on tax matters. The report includes, among other things, 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 its ties with society as a whole.



This report was approved by the Audit Committee and the Sustainability Committee in July 2020.

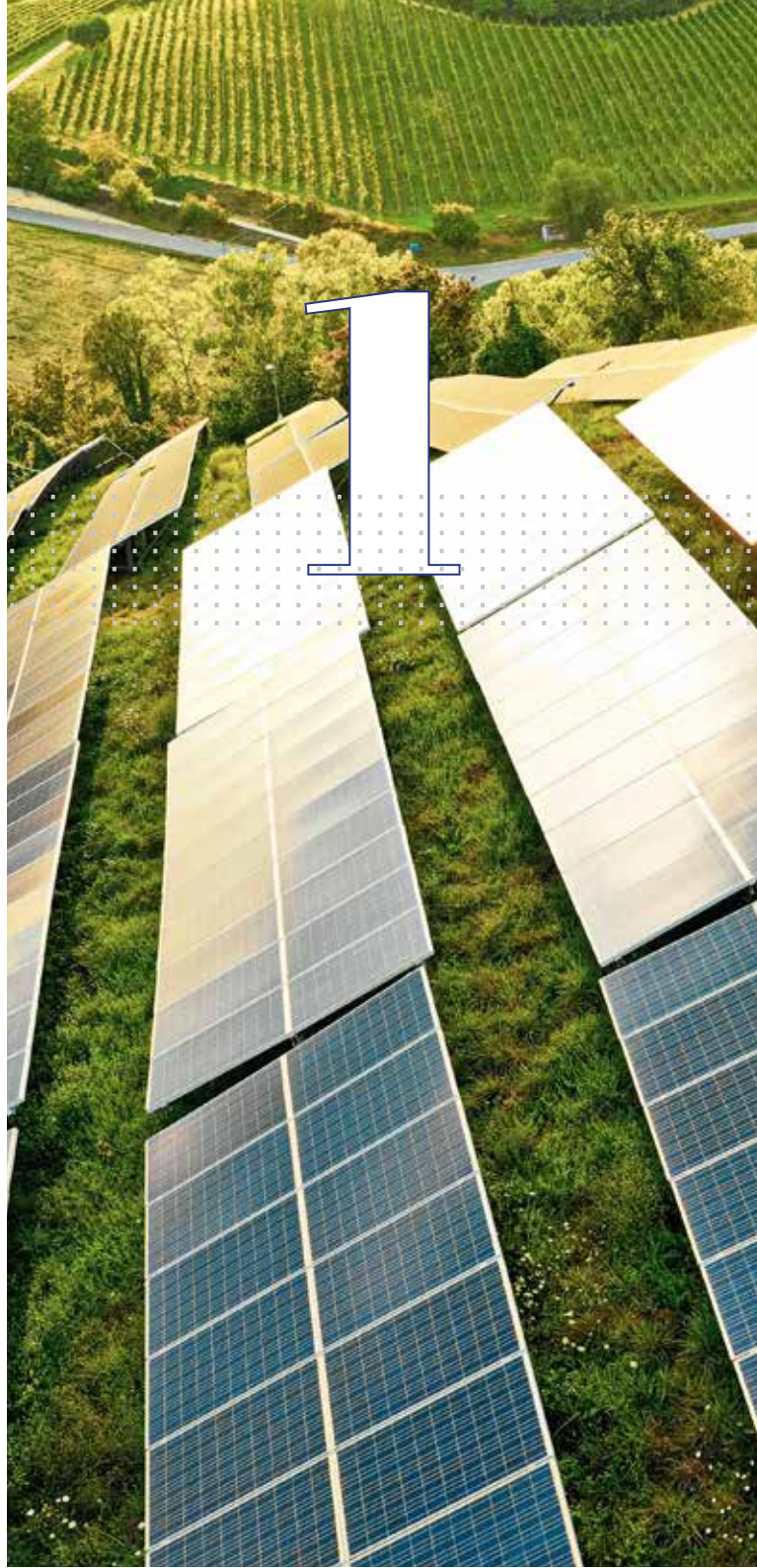
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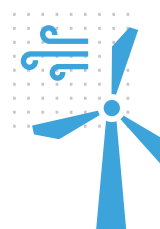
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€ **718** M
NET PROFIT FOR THE YEAR



ALL-TIME RECORD
2019 witnessed the integration
of a total generation capacity of

6.5 GW

of new renewable energy, mainly
from wind and solar PV sources



- The Red Eléctrica Group has consolidated its position as a global operator of essential infrastructures, managing electricity transmission grids in Spain, Peru and Chile, and telecommunications networks (fibre optics and satellites) while providing a notable component of innovation and technological development.
- The main activity of the Group (the electricity business in Spain) is carried out by Red Eléctrica de España S.A.U., which performs the functions of transmission agent and operator (TSO) of the Spanish electricity system.

We have continued to make progress in the sustainable development of the transmission grid with an investment of €396 million in 2019.

- We have successfully met the challenge of integrating 6.5 GW of new renewable energy capacity into the electricity system, an all-time record.
- In October 2019, the company acquired 89.68% of Hispasat S.A., the leading satellite infrastructure operator in Spain and Portugal in terms of turnover, the fourth largest operator in Latin America and the eighth worldwide. In addition, to comply with its international development goals, the Red Eléctrica Group has agreed to acquire 50% of the company Argo Energía in Brazil. In order to accelerate technological innovation, generate competitive advantages and create business opportunities, the company RETIT has been created in Spain.
- We maintain stable growth, with solid results and an important strengthening of the main financial indicators, with a turnover of €2,007.2 million and a net profit for the year of €718 million.

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€ **732** M
TOTAL TAX CONTRIBUTION



MORE THAN
€ **3,400** M
TAX BORNE IN THE 2015-2019
PERIOD



- €732 million total tax contribution and more than €3.4 billion in taxes borne in the 2015-2019 period.
- 0.7 % of the total corporate tax paid was allocated to social 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 (DJSI), and we also obtained the highest rating (AAA) granted by the rating agency Morgan Stanley Capital International (MSCI) placing us in first place in the sector in the ESG rating made by ISS ESG.

Red Eléctrica leads the 2019 fiscal responsibility and transparency ranking published by the Fundación Compromiso y Transparencia (Commitment and Transparency Foundation) in its latest IBEX 35 Corporate Tax Responsibility Transparency Report for the year 2019, having obtained the highest score

The Red Eléctrica Group supports the achievement of the United Nations Sustainable Development Goals (SDGs) through its tax contribution in all the countries where it operates.



Sustainability commitment 2030

Noteworthy principles linked to tax management

- FINANCIAL SUSTAINABILITY.
- SHARED VALU.
- TRANSPARENCY.

- 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 its stakeholders.

Likewise, the Red Eléctrica Group extends fiscal responsibility throughout its supply chain, contributing to the company's sustainability priority of consolidating a responsible value chain.

- The 2030 Sustainability Commitment is based on ten principles, all of them aligned with the fiscal 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 financial value 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.

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TAX STRATEGY AND COMPLIANCE

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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 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.

WHAT IS THE OBJECTIVE?

Define the approach to be taken on 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.

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

+ Want to know more? Check out the Tax Strategy of the Red Eléctrica Group.

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What do we understand by tax risks?

How do we manage tax risks?

RISK CONTROL AND MANAGEMENT

What are the specific action guidelines?

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.

- 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 II (Committee of Sponsoring Organisations of the Treadway Commission) methodology.
- These processes and systems are systematically submitted to internal and external audits.
- 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 from strategic investments or transactions, or those which have a special tax risk due to their high value or special characteristics, to prepare reports for the Board of Directors for their approval.
- Develop relationships with tax authorities in order to reduce tax risks and prevent business conduct that could potentially generate them.

+ For more information, check out the Group's Comprehensive Risk Management Policy.

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Control mechanisms

- Mechanisms for the prevention of illicit operations, money laundering and asset stripping. Noteworthy among these are the Code of Ethics, the Compliance Policy, the Crime Prevention System Guide, the Supplier Code of Conduct 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**.
- Actions of the **Audit Committee** related to tax matters in 2019:

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

- The Annual Tax Transparency Report for companies adhering to the Code of Good Tax Practices.

- The Country by Country Information Statement.

- Tax policies applied in the annual corporate tax statement for 2019 prior to the annual presentation of the tax report for 2019.

- The comprehensive annual Tax Transparency report published on the corporate website.

- The Digital Transformation is one of the cross-cutting strategic lines of the 2018-2022 Strategic Plan. The tax function is in constant transformation in order to adapt itself to the new technologies.

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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.



Compromisos y buenas prácticas tributarias

- 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, the Red Eléctrica Group has voluntarily submitted its Annual Tax Transparency Report to the AEAT since 2017.
- Compliance with the standards 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**.
- Early adoption of the new Global Reporting Initiative (GRI) standards on tax matters in the 2019 Sustainability Report. This information is verified externally by an independent third party.
- Non-provision of tax services by the audit firm contracted to carry out the legal **audit** of the accounts. The breakdown of services other than tax services provided by the audit firm can be found in the **Report on the Independence of the External Auditor**.

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The Red Eléctrica Group does not have a presence or 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 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 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 presence of the Group in both the Netherlands and Luxembourg, territories considered by certain external observers as low tax territories, ensures better access to financial markets and international reinsurance markets.

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OUR TAX CONTRIBUTION

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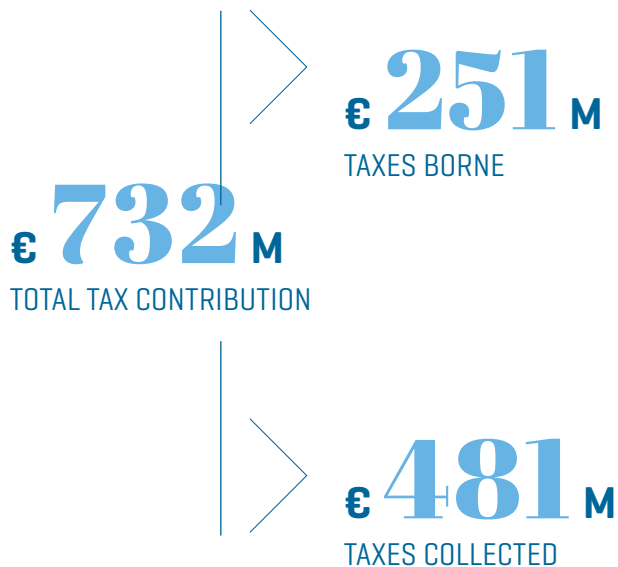
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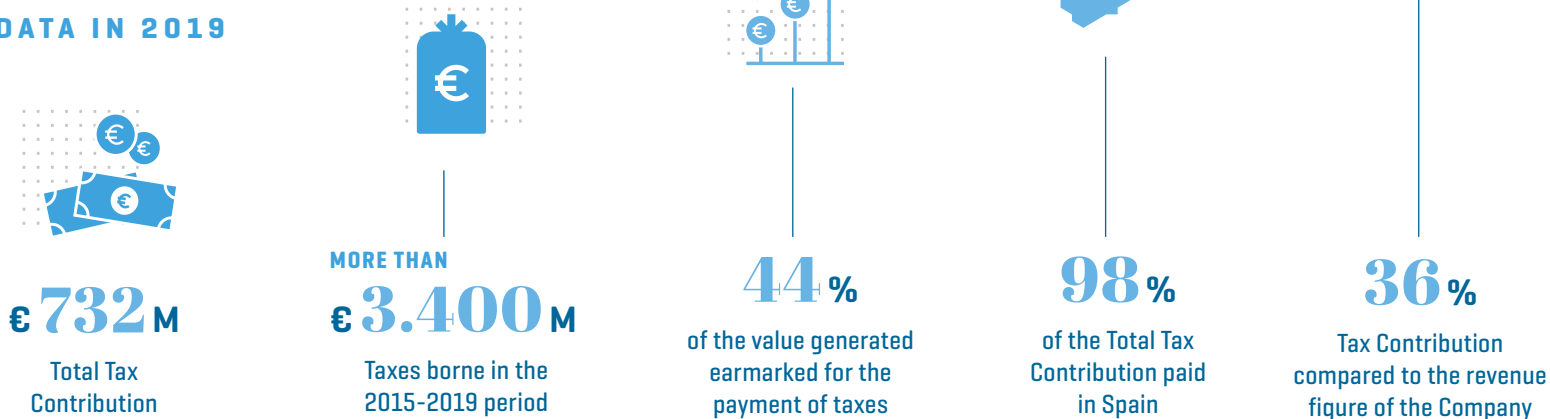
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- Since 2014, the Group has voluntarily published its Total Tax Contribution in order to offer stakeholders more **transparent tax information**, highlighting the relevant economic and social function derived from the Group's tax contribution.
- The total tax contribution of the Red Eléctrica Group measures the overall impact that the payment of taxes by the Group has.

KEY DATA IN 2019





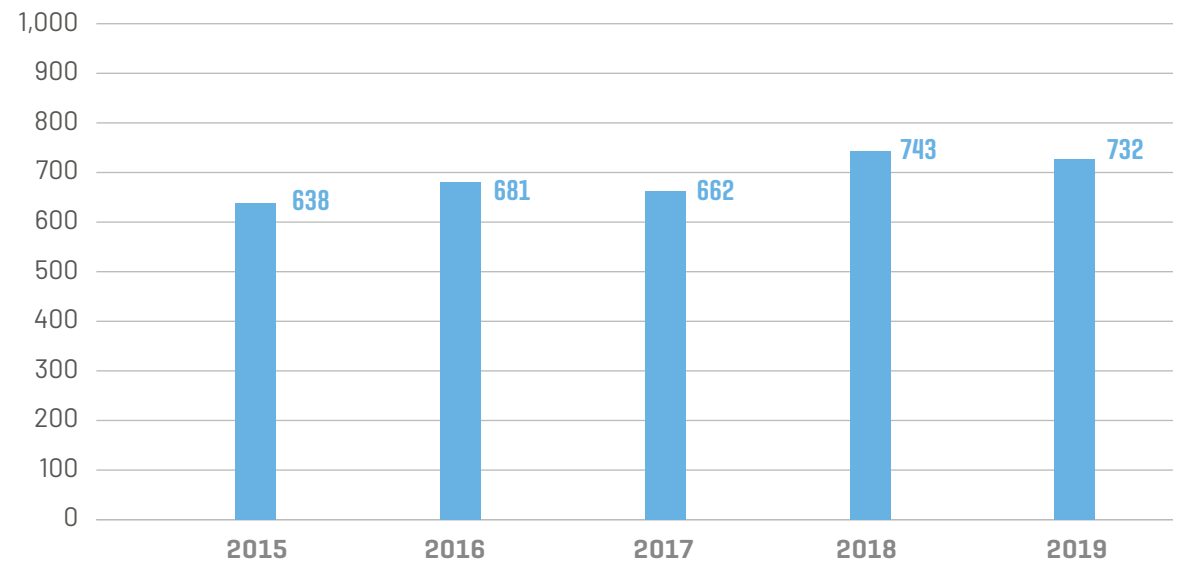
Evolution of the total tax contribution of the Red Eléctrica Group

- In 2019, the total tax contribution of the Red Eléctrica Group amounted to €732 million.
- More than €3.4 billion in taxes paid by the Red Eléctrica Group the 2015-2019 period.

MORE THAN
€3.400 M
TAXES BORNE 2015-2019 PERIOD



TOTAL TAX CONTRIBUTION (M€)



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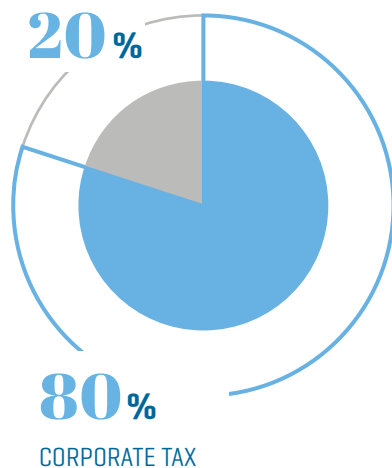
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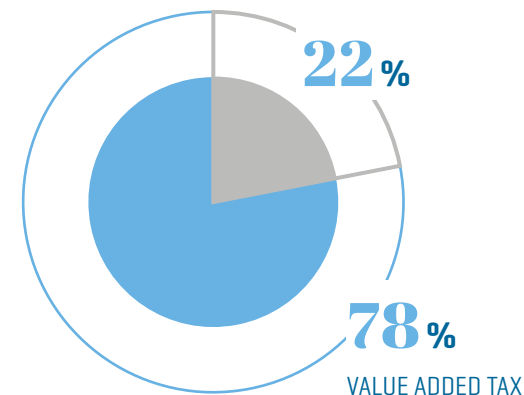
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TAXES BORNE (%)

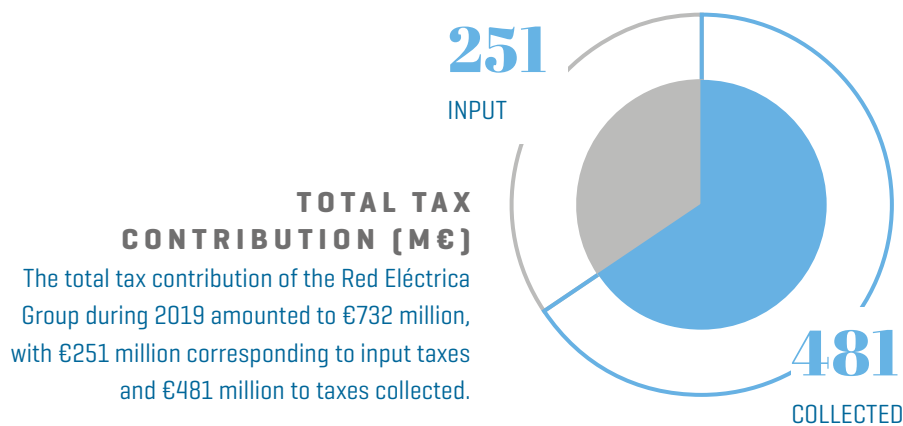
The most significant of the taxes paid is corporate income tax, which represents 80 % of the total taxes paid to the various public administrations, mainly the Spanish tax authority.



**TAXES
COLLECTED (%)**

Taxes on products and services stand out among the total tax collected in 2019, especially value added tax ^[1] which accounts for 78 % of the total.

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



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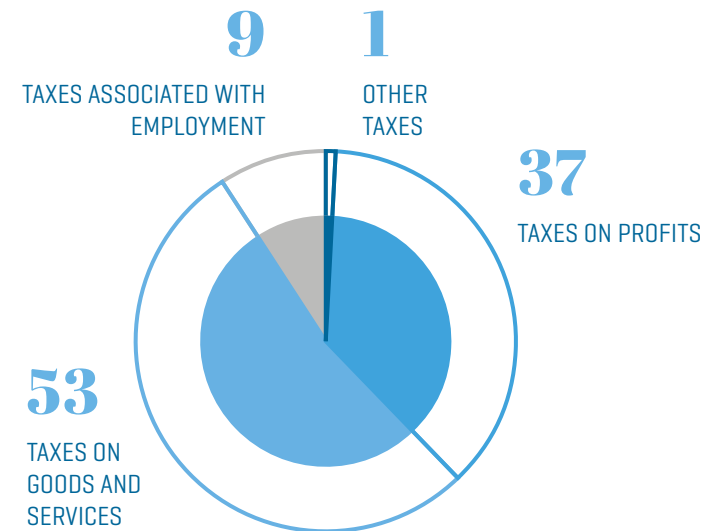
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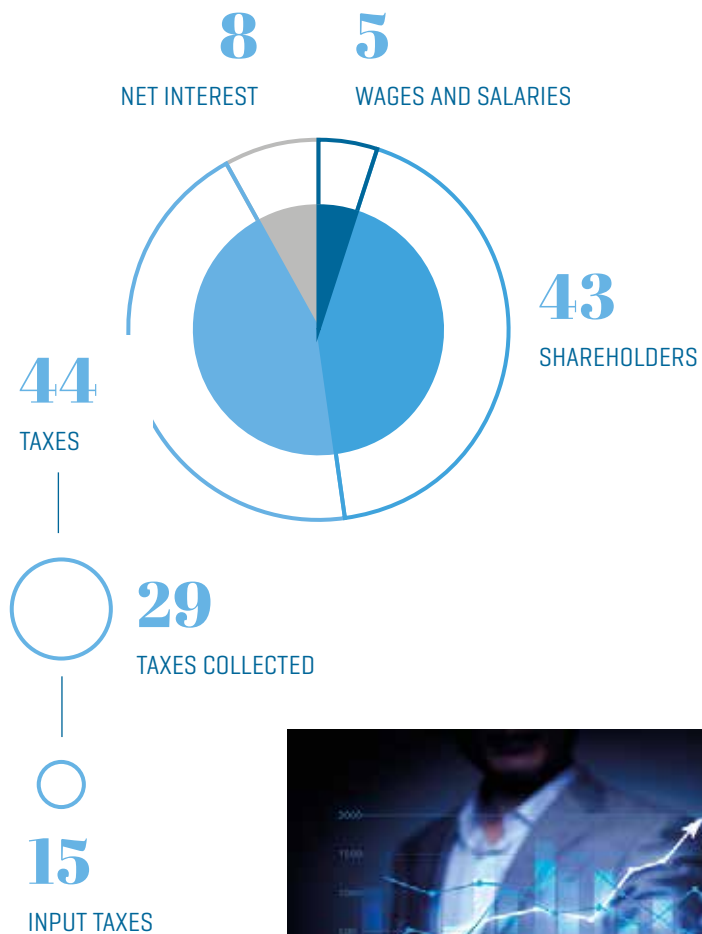
**TOTAL TAX CONTRIBUTION
BY TAX TYPE [%]**



**The total tax contribution
of the Red Eléctrica Group (€732 million)
is distributed according to the types
of taxes shown in the chart.**



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): €718 M
- Taxes (€732 million); input (€251 million) and collected (€481 million).
- Net interest (€133 million).
- Wages and salaries after taxes collected (€81 million).

The ratio of tax value distributed clearly indicates what percentage of the total value generated is earmarked for the payment of taxes (input 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.

44 out of every 100 euros of value generated by the Red Eléctrica Group in 2019 were earmarked to pay taxes.

[1] PwC Total Tax Contribution Methodology.

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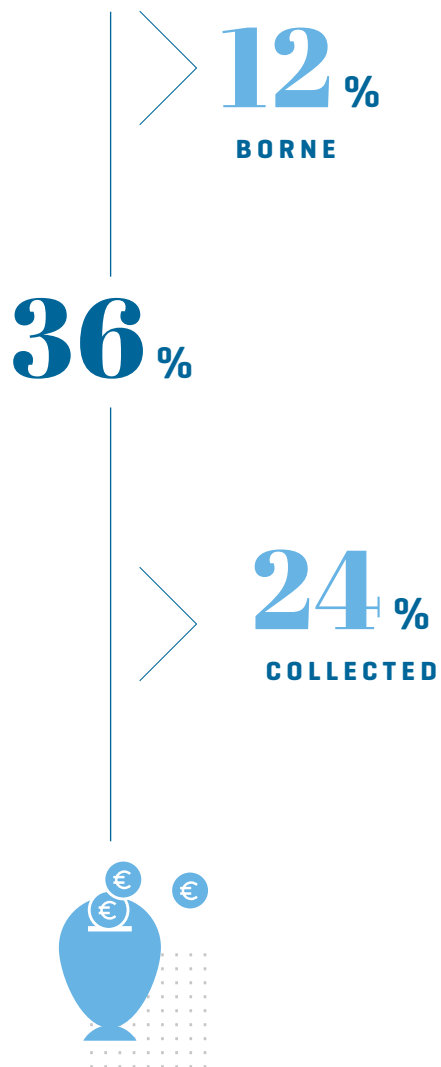
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Tax contribution compared to revenue

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 [€2,007 billion].
- Taxes borne [€251 million].
- Taxes collected [€481 million].



In 2019, the Red Eléctrica Group made a total corporate tax payment of €200 million, of which €195 million (98 %) correspond to the Spanish tax authority.

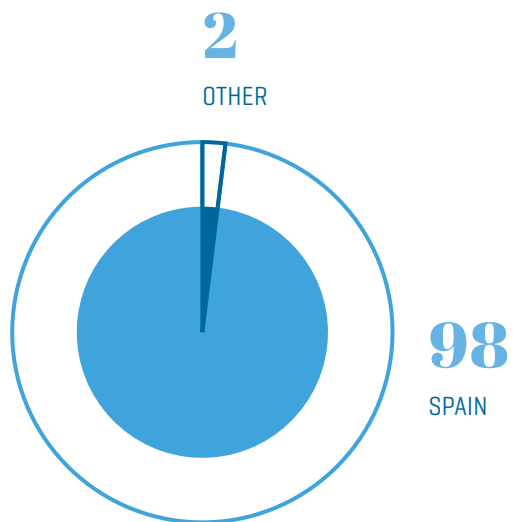
COUNTRY BY COUNTRY INFORMATION

	Spain	PerU	Chile	Brazil	Others ^[1]	Total
Profit before corporate tax [M€]						
Profit before corporate tax ^[2]	930	7	-7	3	-	933
Total tax contribution 2019 [M€]						
Taxes borne	243	4	2	2	-	251
Corporate tax ^[3]	195	4	1	-	-	200
Taxes associated with employment	27	-	-	-	-	27
Other taxes borne	21	-	1	2	-	24
Taxes collected	472	8	1	-	-	481
VAT	370	5	-	-	-	375
Taxes collected on profits	67	3	-	-	-	70
Other taxes collected	35	-	1	-	-	36
Total Tax Contribution	715	12	3	2	-	732
Subvenciones públicas recibidas [M€]						
Subvenciones públicas recibidas	-	-	-	-	-	-

^[1] Includes France, Netherlands and Luxembourg in the European Union, and other countries in America, with amounts below 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 21.43 % 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 €732 million in 2019, with the highest tax contribution being made to the tax authority in Spain (98 %).

The highest tax contribution of the Red Eléctrica Group is made to the Spanish tax authority, as its revenues are mainly generated in Spain (96 %).



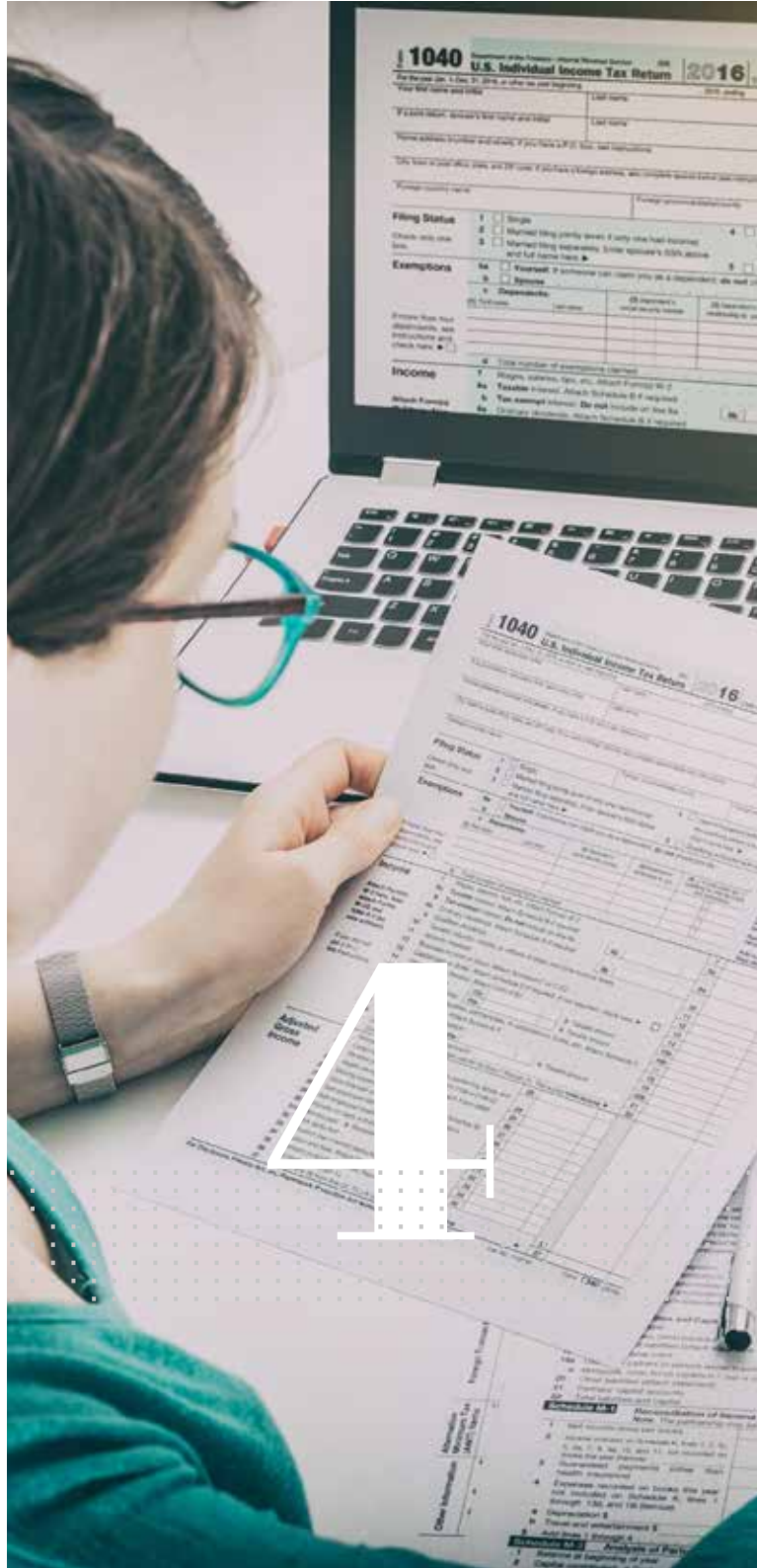
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**RECONCILIATION
OF THE EFFECTIVE TAX RATE
OF CORPORATE TAX (M€)**

	2019	2018
Consolidated accounting result for the year before tax [*]	948	936
Permanent differences and consolidation adjustments	[31]	[22]
Consolidated taxable accounting income	917	914
Tax rate	25%	25%
Profit multiplied by tax rate	229	229
Effect of applying different tax rates	4	1
Tax calculated at the tax rate of each country	233	230
Deductions	[7]	[1]
Other adjustments	4	3
Corporate tax	230	232
Current tax on profits	249	247
Deferred tax on profits	[19]	[15]
Effective tax rate	24.27%	24.75%

[*] 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.

24,27%
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 % of the total amount of corporate tax declared [1] to solidarity-based Third Sector organisations to finance social projects and charitable causes, and to strengthen the social commitment of the Red Eléctrica Group.

[1] Allocation of 1.6 million euros in the last tax return filed in 2019.

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

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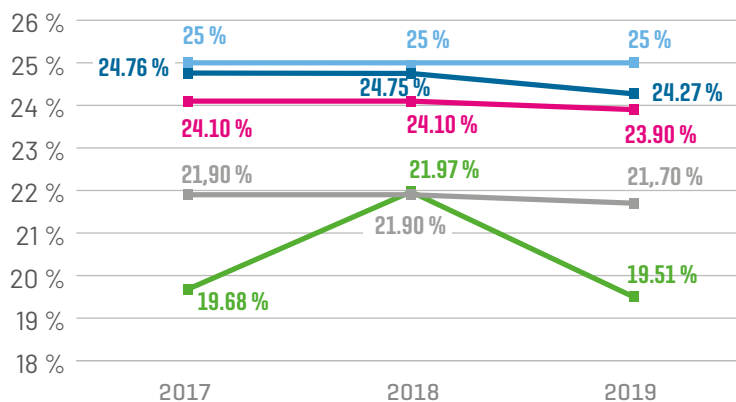
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**EFFECTIVE TAX RATE
OF CORPORATE TAX OF THE
RED ELÉCTRICA GROUP (2017-2019)**



The **effective rate of corporate** tax applied to the Red Eléctrica Group in 2019 was **24.27 %**. 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 %], the average nominal tax rate of the 28 European Union countries [21.70 %], and the average effective tax rate of IBEX 35 [19.14 %].

- Nominal tax rate in Spain
- Effective tax rate in Red Eléctrica Group
- Average nominal tax rate of the 19 eurozone countries [Eurostat] [1]
- Average nominal tax rate of the 28 EU countries [Eurostat] [1]
- Average effective tax rate of IBEX 35 [2]



Source: [1] 'Taxation trends in the European Union'. 2019 Edition. Eurostat. European Commission.
[2] PwC analysis based on public information.

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CREATING VALUE FOR SOCIETY

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€ **732 M**
TOTAL TAX
CONTRIBUTION



The same amount
as the budget ^[1] for
scientific research

[+ More information](#)

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47%
of the budget ^[1]
for internships and
student support

[+ More inform](#)

5 times
5 times the budget ^[1]
for supporting small
and medium companies

[+ More information](#)



15 times
the budget ^[1]] to finance
actions to support energy-efficient
and sustainable mobility

[+ More information](#)



[1] Reference: Comparison with items
in the General State Budgets carried
over from 2018 to 2019.



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and Brand Department