



**Annual Report on the
Management of the Code
of Ethics 2018**



Table of Contents

1. Introduction	1
2. Ethics Manager and Stakeholder Ombudsman	2
3. Whistle-blowing Channel	3
4. Review and update of the Code of Ethics of the Red Eléctrica Group	6
5. Audit regarding compliance with the Supplier Code of Conduct	7
6. Integrity and transparency	8
7. Recognitions.....	9
8. Alliances	10
9. Measures to be promoted in 2019	11





1. Introduction

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 2018 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 Group seeks to provide an ethical guide for 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 area.

The Code of Ethics is incumbent on all persons in the Group, understood as its Board of Directors, its senior management and all its employees, in the performance of their duties and responsibilities. It represents a regulatory instrument, in the sense of establishing general business conduct and guidelines with regard to the values enshrined within the Code of Ethics, in the different fields within the professional sphere in which the people of the Red Eléctrica Group carry out their activity. Its purpose is to serve as a general guideline when making decisions aligned with the aforementioned values in certain situations where professionals of the Red Eléctrica Group may find themselves involved.

Such Code is applied in all the companies of the Group, i.e. those in which the Group has a 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 found in the guidelines of the ethics management system, included in the Code of Ethics, which establishes the need to draft and disseminate an annual report on ethics within the organisation, which provides information on events or situations that have arisen and on how the system works and is managed.

The scope of the information contained within this report corresponds to 2018.



2. Ethics Manager and Stakeholder Ombudsman

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 the 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 followed and communications with interested parties).
- Keep claimants abreast of the status and resolution of enquiries or grievances reported, when such information is requested.
- Draft a periodic report on the review of the system and propose actions to improve the management system.
- Maintain at all times the confidentiality of the claimant, unless legally required to disclose this 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 claimant.



3. Whistle-blowing Channel

In order to promote the application of the Code of Ethics, the Red Eléctrica Group 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.

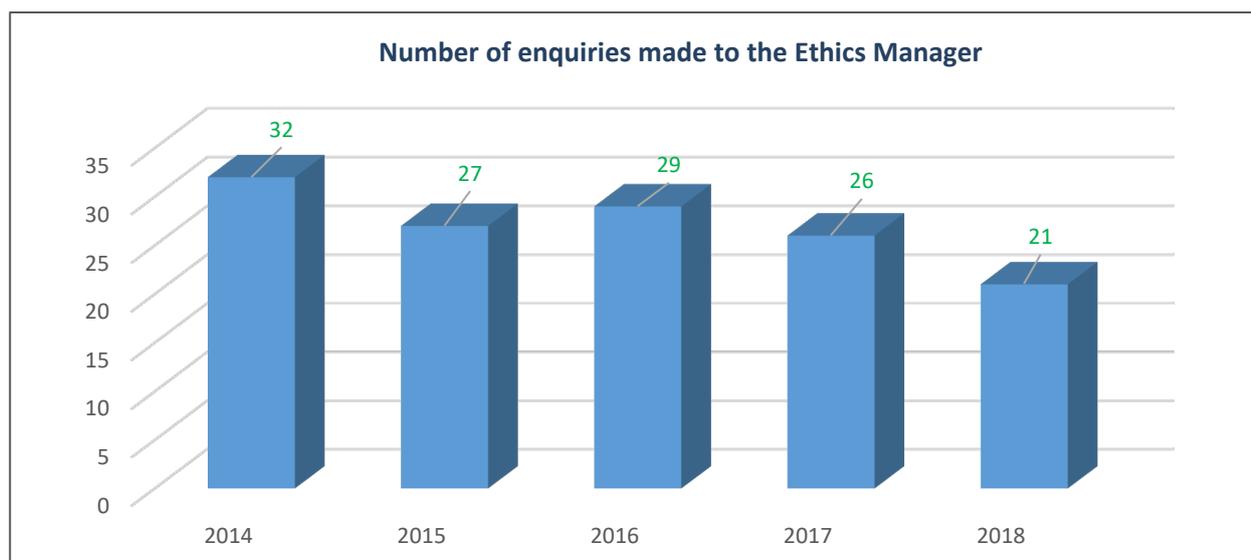
In addition, the Red Eléctrica Group has another channel, the DÍGAME service (the Group's Stakeholder Attention Centre) that can be used for reporting non-compliances, grievances, enquiries and suggestions regarding ethical matters. The DÍGAME service represents another reporting channel for external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

Regarding the whistle-blowing channel for the detection and handling of possible non-compliances, grievances, enquiries and suggestions, in 2018, 21 enquiries were made to the Ethics Manager, all with a maximum resolution time, except for justified exceptions, of 10 days.

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

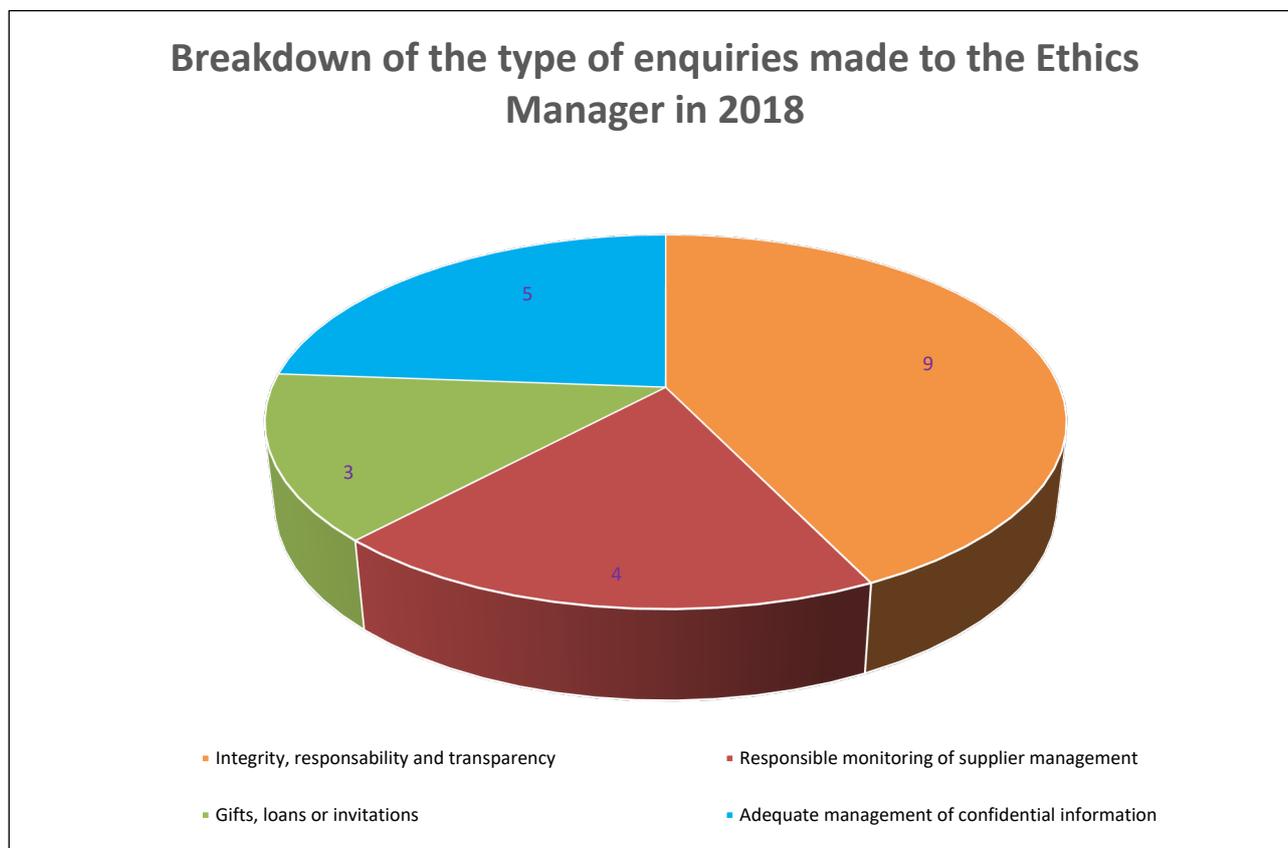
- Integrity, accountability and transparency.
- Responsible monitoring of the management of suppliers.
- Limitation on the acceptance of gifts, loans or invitations.
- Adequate handling and safeguarding of confidential information.

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 2018, broken down by business conduct guideline affected.



In 2018, seven (7) grievances were received regarding compliance with the Code of Ethics. The details of each grievance are shown below:

- Grievance filed regarding the corporate value 'Respect', motivated by a discussion occurred between a private citizen and an employee of Red Eléctrica in relation to the obtainment of a permit to carry out pruning of flora/vegetation. During the analysis and processing of the grievance, the Ethics Manager became aware of the grievance filed with the General Police Directorate by the Red Eléctrica employee against said private citizen for an alleged aggression. The Ethics Manager proceeded to file the grievance because he could not intervene in the clarification of facts that are the subject to a legal proceeding or an investigation by the police.
- Grievance filed by a Red Eléctrica supplier for the non-payment of certain expenses and compensation for damages allegedly caused by Red Eléctrica, within the framework of a contract for the provision of construction services. As a result of the analysis and handling of the grievance process, ultimately a negotiated settlement was reached between the parties that put an end to the controversy, which in turn resulted in the grievance being closed and filed.
- Grievance filed by a subcontractor of a Red Eléctrica supplier, in relation to a non-payment by the supplier to the subcontractor, for work associated with a Red Eléctrica contract. Once the grievance was analysed, clear contradictions were detected between the versions of the supplier and the worker, which in turn activated, among other actions, a social audit aimed at verifying compliance with the Supplier Code of Conduct. At the close of 2018, said grievance case was in the processing stage.
- Grievance regarding the corporate value "Accountability", filed by an employee of Red Eléctrica, regarding the behaviour of a worker in terms of occupational safety. The facts were communicated to the Human Resources Area for the adoption of the corresponding corrective action.



- Grievance regarding the corporate value "Respect", filed by a former employee of Red Eléctrica, in relation to an alleged situation of employment discrimination. At the close of 2018, said grievance case was in the processing stage.
- Grievance regarding non-compliance with the values of the Code of Ethics for an alleged behaviour that hinders the purpose of the work of the employee unions in the organization. The grievance was closed and filed due to the fact that the claimant did not ratify such grievance through the mechanisms established for this purpose by the Code of Ethics.
- Grievance regarding the corporate value "Respect", filed by a former employee of Red Eléctrica, related to an alleged situation of workplace harassment. At the close of 2018, said grievance case 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 Control and Monitoring body of the Criminal Risk Prevention Programme 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 2018, as occurred 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

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.

Within the framework of this process, the following initiatives were carried out in 2018:

- An analysis report on best practices was drafted in order to help decide how to best update the Code of Ethics of the Red Eléctrica Group.

The report prepared included the following: analysis of the benchmarking study on codes of ethics conducted for this purpose; analysis of the benchmarking study of ethical principles in the business world, and analysis of possible areas for improving the Code of Ethics of the Red Eléctrica Group using the aforementioned benchmarking studies as a basis.

- A proposal for updating the Code of Ethics of the Red Eléctrica Group was drafted.

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 prepared regarding the update the Code of Ethics. It is expected that the proposal will be validated (internally and externally) and approved in 2019.

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, Special Project Contract Management Department, the Risk Control, Compliance and Quality Department, and the Internal Audit and Risk Control Management Area.



5. Audit regarding compliance with the Supplier Code of Conduct

The Supply Area promoted in 2018 that social audits be conducted on the Company's suppliers in order to verify compliance with the Supplier Code of Conduct; a Code which complements 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 claimant 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

The Code of Ethics and the corresponding management system for enquiries and grievances, which include 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.



7. Recognitions

In the area of external recognition, noteworthy is the leadership achieved by Red Eléctrica in the Ethics / Compliance / Corruption and Bribery section of the 2018 Dow Jones Sustainability Index. For the fourth consecutive year, Red Eléctrica obtained the highest score (100 out of 100 points) in that section, 37 points above the average of the companies in its sector participating in said index, having also reached not only the maximum percentage (100) in the assessment but also ranking first in leadership in its sector.

Red Eléctrica has been included in the Euronext Vigeo-Eiris sustainability indexes (Eurozone 120, Europe 120, World 120), having achieved the leadership position within its sector within the business behaviour 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 its continued presence for 3 consecutive years in the Ethibel Sustainability Index (ESI) Excellence Europe, as well as its inclusion in the Ethibel Excellence Index since 2009.



8. Alliances

Among the initiatives in which Red Eléctrica has participated in the promotion of business ethics noteworthy is the Integrity Forum of the non-governmental organisation Transparency International España. The Forum is a reflection platform facilitated by Transparency International España for the improvement of compliance and ethical management in Spanish companies, which is structured through various working groups and periodic thematic sessions on business ethics.

Red Eléctrica has joined the group of large companies that are part of the Transparency, Good Governance and Integrity Cluster. It is a platform of companies coordinated by the Spanish association for the promotion of the culture of ethical and socially responsible management, Forética, with the aim of serving as a business meeting point in leadership, knowledge, exchange and dialogue in this field.



9. Measures to be promoted in 2019

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 carrying out of the training and awareness-raising plan regarding the ethics and compliance culture of the Red Eléctrica Group.



Paseo del Conde de los Gaitanes, 177
28109 Alcobendas (Madrid)
Tel. +34 91 650 85 00 / 20 12

www.ree.es/en