Sustainability Report

SUMMARY

2018

COMMİTTED
TO
INTELLİGENT
ENERGY
This Report presents a summary of the Sustainability Report 2018. The full version, as well as the legal information (Consolidated Annual Accounts 2018 and Corporate Governance Report 2018) are published solely in electronic format (browsable PDF format) and are available on the corporate website www.ree.es/en.

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One of the greatest challenges facing humanity is that of combating climate change. Halting global warming requires urgent action worldwide to reconcile economic growth with the reduction of polluting emissions and this will only be possible through the transition to a decarbonised energy model.

To a large extent, the road to decarbonisation involves the electrification of the economy, a vector that will enable emissions to be reduced, more renewables to be integrated and energy efficiency to be improved. To achieve this, the transformation of the electricity sector towards a more dynamic and flexible model will be crucial, where the combination of non-manageable renewable energies, distributed generation and self-consumption will play an increasingly important role, placing consumers at the heart of the energy transition. Therefore, it will be key to contribute to helping them take on a more active role and optimise their decisions through innovative solutions associated with smart grids and digital transformation.

Within this context, Red Eléctrica needs to play a leading role in the energy transition of our country. This will require us to take on enormous challenges as transmission agent and operator of the electricity system that we will need to face through innovation.

As a result of the strategic nature of the Sustainability Commitment of the Red Eléctrica Group, in 2018 the Sustainability Committee was created within the Board of Directors and its aim is to generate a proactive attitude for the integration of sustainability into the decision-making process of the organisation.

Red Eléctrica has strategies in place regarding innovation and digital transformation that act as levers for growth and efficiency. The objective is to incorporate tools and new ways of working that enable a cultural change and promote transformation in the management of the Company and in the way it carries out its business.

An essential element to advance in this aspect is to promote a quality working environment based on ethical business conduct, respect, diversity and equality. To materialise this commitment, the Company approved the Comprehensive Diversity Plan in 2018, which addresses such important issues as gender equality and equal employment opportunities, the promotion of women into positions of responsibility and equal pay between men and women.

Proof of this is the significant progress that the Company is making in these areas, as reflected in the progressive increase in women in the workforce and in managerial positions in recent years. In 2018, 67% of the new appointments for managerial positions were filled by women.
**Red Eléctrica needs to play a leading role in the energy transition. This will require us to take on enormous challenges as transmission agent and operator of the electricity system that we will need to face through innovation.**

Similarly, noteworthy is the increase in the representation of women on the Board of Directors, which currently stands at 41.7%, one of the highest among the IBEX 35 companies.

The Red Eléctrica Group is aware that its long-term sustainability depends on delivering a service that provides value to society and generates a positive impact. For this reason, the Company fosters the development of social innovation projects, that promote sustainability, transformation and collaboration, with the aim of providing innovative solutions with a positive and ongoing social impact nationwide.

This contribution is complemented, throughout the life cycle of the facilities, with a commitment to act with the utmost care and respect for the environment in the execution of the Company’s activities, as well as through the promotion of actions for the protection of biodiversity, via the implementation of various initiatives aimed at improving conservation or the promotion of projects in collaboration with government administrations, NGOs and other stakeholder groups.

Furthermore, the Company actively works to contribute to achieving the Sustainable Development Goals (SDGs) and to strengthen its commitment in this field. Therefore, during 2018, a process was carried out for prioritising those SDGs on which the Red Eléctrica Group has the greatest impact, according to the countries and sectors of activity in which it operates, and which match those SDGs of medium and high relevance for the Company.

**In 2018, the Sustainability Committee was created within the Board of Directors, and its aim is to generate a proactive attitude for the integration of sustainability into the decision-making process of the organisation.**

All these actions showcase the Company’s outstanding performance in terms of sustainability and position the Red Eléctrica Group as the only company in its sector that has maintained its continued presence, for the last four years, in the Dow Jones Sustainability World and Dow Jones Sustainability Europe Indexes.

Lastly, it should be noted that Red Eléctrica is voluntarily adhering to various initiatives that strengthen its commitment to sustainability, noteworthy among which is the Spanish Global Compact Network in support of the 10 principles of the United Nations on human rights, labour, the environment and anti-corruption.

**EQUAL OPPORTUNITIES**

67% of the new appointments for managerial positions were filled by women.
In order to successfully fulfil the role that Red Eléctrica must play in the energy transition, it will not only be essential to increase the flexibility of the electricity system in order to guarantee its safe and secure operation, but it will also be imperative that we invest in innovation for the design of new system management tools. Furthermore, it will be necessary to invest heavily in the transmission grid, making it smart, more reliable and modern, and with greater capacity for energy exchanges with neighbouring systems.

The Company’s firm stance on this aspect is set out in its Action Plan regarding the fight against climate change, which, in addition to committing to achieve ambitious targets for reducing the carbon footprint in the 2030 horizon, includes various courses of action to contribute to a zero-emission energy model.

During 2018, we continued to make progress in this aspect. Investment in new infrastructure to bolster the transmission grid totalled 378 million euros. Similarly, we have worked on strengthening international interconnections, especially with France, through the design and development of the submarine link project across the Bay of Biscay, to progress towards achieving the energy targets, set by the EU, for an interconnection capacity of 15% by 2030.

Furthermore, we have continued to maximise the integration of renewables into the electricity system in a safe manner, which has led to the fact that 40% of the peninsular demand was covered with renewable generation. At the same time, we have worked on promoting initiatives aimed at the development of smart grids, energy efficiency and electric mobility, as well as on the development of energy storage tools that, in addition to improving security of supply in isolated systems, will enable a greater amount of renewable energy to be integrated into the system.

Focusing on international business, the Red Eléctrica Group has continued to expand its business by having been awarded new electricity infrastructure projects abroad. In relation to this, the Company has strengthened its position in the north of Chile, by having been awarded a new project undertaken by Redenor 2, one of our subsidiaries in Chile. Also, noteworthy is the acquisition of Redelnor in Peru, the company responsible for the development of infrastructures in the north of the country. With the incorporation of these new projects, the Red Eléctrica Group will manage 1,729 km of line in Chile and 1,686 km in Peru.

In the telecommunications business, the subsidiary, Reintel, has continued to consolidate its position as the reference telecommunications infrastructure operator in Spain, through the management and commercial operation of the largest dark fibre optic network in the country.

For yet another year, the Red Eléctrica Group has shown stable growth. The Company has achieved sound results and has significantly strengthened its main solvency ratios, maintaining a clear orientation towards operational efficiency and the constant generation of value.

In 2018, the profit for the period rose to €704.6 million, 5.2% up on 2017. With regard to shareholder return in the form of dividends, this grew 7% year-on-year, in line with that set out in the 2014-2019 Strategic Plan.
The data of the business, environmental and social indicators refer to the companies of the Group in Spain.
The Red Eléctrica Group has consolidated itself as a global operator of strategic electricity and telecommunications infrastructures, both in Spain and internationally.
Activities of the Red Eléctrica Group

Electricity business in Spain (RED ELÉCTRICA DE ESPAÑA)

Construction and maintenance of electricity lines and substations of the transmission grid (including international interconnections and links between islands) that connects generation with consumption.

- 44,000 km of electricity line circuit
- 268,000 GWh of energy managed

Real-time operation of the Spanish electricity system, guaranteeing the continuity of supply and the safe integration of renewable energy.

Electricity business abroad (RED ELÉCTRICA INTERNACIONAL)

Construction, maintenance and operation of energy transmission infrastructure in Peru and Chile and the provision of electricity infrastructure maintenance services in Peru.

- 2,635 km of infrastructure in service in Peru and Chile

Design and construction of energy storage infrastructure in the Canary Islands that serve as tools for electricity system operation in order to improve the integration of renewables and increase security of supply on the islands.

- 2,635 km of infrastructure in service in Peru and Chile
- 200 MW of power in the Chira-Soria pumped-storage hydroelectric power station in Gran Canaria

Energy storage infrastructure (REINCAN)

Telecommunications services (REINTEL)

Commercial operation of the surplus dark fibre optic network associated with both the electricity transmission grid and the railway network, as well as shelters and technical spaces for the housing of telecommunications equipment.

- More than 33,000 km of fibre optic network
The 2014-2019 Strategic Plan focuses not only on the execution of Red Eléctrica’s role as TSO in Spain, but also on reinforcing efficiency criteria and boosting the expansion of the business base as an alternative path for growth and value creation.
2014-2019 Strategic Plan

Essential strategies

- Development of the TSO role
  Within this scope, the essential strategy of the Company is focused on:
  - the development of an increasingly meshed transmission grid that is more robust and better interconnected, and
  - the efficient operation of the electricity system, with the aim of contributing to a sustainable energy model through the safe integration of renewable energy.

- Efficiency
  Improvement of efficiency levels, generating value through the optimisation of operating margins, in order to mitigate the impact of the decrease in the profitability of new investments as a result of the new remuneration model.

- Expansion of the business base
  Development of regulated activities, other than those already underway, and non-regulated activities in the field of telecommunications, as well as expanding the business into other geographical areas.

Cross-cutting strategies

- Innovation
  Promote innovation as an integral part of the operational process, boosting technological innovation as a lever for growth and efficiency.

- Excellence
  Consolidate ourselves as a sustainable company, through management that is both ethical and committed to stakeholders, maintaining a position of reference in the field of excellence.

- People
  Commitment to a healthy working environment that favours the organisation of work and the well-being of employees and promotes talent in order to tackle the challenges faced by the Company.

2014-2019 STRATEGIC PLAN SNAPSHOT

2014-2019

<table>
<thead>
<tr>
<th>TARGETS</th>
<th>ACHIEVEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTMENT</td>
<td></td>
</tr>
<tr>
<td>2014-2019</td>
<td>4,575 M€</td>
</tr>
<tr>
<td>INVESTMENTS MADE</td>
<td>3,456 M€</td>
</tr>
<tr>
<td>INVESTMENTS EARMARKED</td>
<td>1,462 M€</td>
</tr>
</tbody>
</table>

EFFICIENCY

- 2014-2019
  Margin in 2019
  \[ \geq 200 \text{ b.p.} \]

FINANCIAL STRUCTURE

- 2014-2019
  Net debt / EBITDA (average)
  \[ 3.5 \times \] Average for the period

GROWTH

- 2014-2019
  EPS growth
  \[ 5-6\% \]
  DPS growth
  \[ 7\% \]

2018-2022 Strategic Plan, diversified and sustainable growth

The new Strategic Plan approved in early 2019, is based on 4 pillars: facilitate the energy transition, consolidate the position as an operator of reference regarding telecommunications infrastructure, expand the business abroad and accelerate innovation in Spain.

This roadmap contemplates a business model that seeks the balance between regulated activities and those activities subject to market risk.

The new Plan responds to the challenges posed by the transformation of the production system model, marked by sustainability and the technological disruption. Electricity, telecommunications and talent are considered today as the new raw materials of economic development and are also the distinguishing features of Red Eléctrica’s new strategy.
The Red Eléctrica Group has undertaken a commitment to sustainability which is strategic, cross-cutting and with a long-term vision.

In 2017, the Board of Directors approved the 2030 Sustainability Commitment of the Red Eléctrica Group. With this commitment, the Company is committed to its long-term sustainability through a business model capable of responding to the challenges of the future by creating shared value with all its stakeholders in the responsible development of our activities.
In 2018, as a consequence of the strategic nature of sustainability for the Company, noteworthy was the creation of a new Sustainability Committee within the Board of Directors.

The 2030 Sustainability Commitment of the Red Eléctrica Group is deployed through multi-year plans and projects which are programmed on an annual basis. The 2017-2019 Sustainability Plan consists of 18 basic courses of action that ensure a responsible and sustainable management of the business and make it possible to respond to the expectations of stakeholders. The overall degree of fulfilment of the sustainability programme was 86% at the close of 2018.

In 2018, Red Eléctrica was recognised with the distinction of ‘Ambassador of European Excellence’ awarded by the Club Excelencia en la Gestión, which is EFQM’s representative in Spain.

Sustainability priorities

The 2030 Sustainability Commitment of the Red Eléctrica Group is deployed through multi-year plans and projects which are programmed on an annual basis. The 2017-2019 Sustainability Plan consists of 18 basic courses of action that ensure a responsible and sustainable management of the business and make it possible to respond to the expectations of stakeholders. The overall degree of fulfilment of the sustainability programme was 86% at the close of 2018.

In 2018, Red Eléctrica was recognised with the distinction of ‘Ambassador of European Excellence’ awarded by the Club Excelencia en la Gestión, which is EFQM’s representative in Spain.
Red Eléctrica es la única empresa en su sector que ha mantenido su presencia continua en las índices Dow Jones Sustainability World and Dow Jones Sustainability Europe Indexes.

**OVERALL SATISFACTION LEVEL**

Del 1 al 10, el nivel de satisfacción de todos los stakeholders en 2018 fue de 8.4.

**STAKEHOLDER MANAGEMENT**

El objetivo principal de Red Eléctrica es establecer una relación duradera, basada en la confianza, con los stakeholders afectados por los servicios o actividades de la compañía, y con aquellos cuyas opiniones y decisiones influyen en los resultados económicos o tienen un impacto en la reputación de la compañía.

Para el tercer año consecutivo consecutivo, la compañía ha alcanzado el puntuación más alta (100 puntos de 100) de su excelente rendimiento y su compromiso con los stakeholders en la evaluación que determina a cuáles forman parte del índice Dow Jones Sustainability.

**LEADERSHIP IN SUSTAINABILITY**

El rendimiento de la compañía en términos de sostenibilidad está sometido a un riguroso escrutinio por parte de diversas agencias de evaluación especializadas. La compañía ha mantenido su presencia en prestigiosos índices globales y ha recibido reconocimientos en el ámbito de la sostenibilidad que muestran su excelente nivel de compromiso y su firme compromiso con la integridad y la transparencia.

Red Eléctrica activamente participa en la transición hacia una nueva modelo energético, más competitivo y sostenible, como agente clave para garantizar que aspectos como el desarrollo de la red de transmisión y las interconexiones, la integración eficiente de la energía renovable y el manejo de la demanda de electricidad se realicen con éxito en el sistema eléctrico español.

En 2018, la compañía llevó a cabo un proceso de identificación y priorización de los SDGs más relevantes para el grupo en los países y sectores de actividad en los que opera.

**SUSTAINABLE DEVELOPMENT GOALS (SDGS)**

**SDGs OF HIGH RELEVANCE FOR THE GROUP**

- Red Eléctrica se compromete voluntariamente a luchar contra el cambio climático, definiendo y aprobando su estrategia de cambio climático y estableciendo un plan de acción en este campo. Similarmente, la compañía es una agente clave en la transición hacia un nuevo modelo energético esencial para combatir el cambio climático.

**SDGs OF MEDIUM RELEVANCE FOR THE GROUP**

1. Red Eléctrica genera un impacto en los ecosistemas marinos en los que se construyen las interconexiones submarinas, con el objetivo de minimizar este impacto, la compañía tiene criterios para la preservación y protección de los ecosistemas marinos cuando se llevan a cabo interconexiones, así como en el desarrollo de proyectos de recuperación de las praderas de Posidonia oceánica.

2. Los principales impactos medioambientales de Red Eléctrica son aquellos que surgen de la presencia de infraestructuras en el territorio. Por lo tanto, la compañía trabaja intensivamente para integrar de manera eficaz dichas infraestructuras en el entorno y en las áreas en las que se encuentran, considerando el ciclo de vida completo de las infraestructuras y poniendo especial atención al conservación de la biodiversidad.
The current global context is determined by a constant change in which companies must identify the trends that will affect them in the future, focusing their management in a proactive way thus allowing potential risks to be converted into opportunities.

In this regard, the Red Eléctrica Group takes on the following commitment as one of its sustainability priorities.

**Anticipating Change and Taking Action**

We proactively carry out our business management based on a culture of innovation as a lever for growth and value creation.

Promote a corporate culture of innovation and flexibility that allows us to identify growth opportunities and respond to the challenges of the future, anticipating and adapting both to global trends and to the regulatory environment arising from the new energy model.
Within the 2030 Sustainability Commitment, the Red Eléctrica Group has identified a series of global challenges and opportunities that define the roadmap for the coming years.

The fight against climate change is one of the main challenges that offers the opportunity to advance towards a more sustainable energy model. To a large extent, it is all about promoting the electrification of the economy, a vector that will enable the polluting emissions to be reduced, more renewable energy to be integrated and it will also allow the improvement not only of energy efficiency but also of the air in our cities by fostering electric mobility.

In this regard, the need to increase the share of renewable energy in the electricity system through the connection of new facilities and the optimisation of their management, together with the enhancements necessary to improve the efficiency and flexibility of the electricity system, represent a clear need for new investment. Therefore, this represents a business opportunity for the Company in terms of the development of more modern electricity infrastructure equipped with smarter technology.

The Red Eléctrica Group has a Comprehensive Risk Management System in place that facilitates the fulfilment of the Group’s strategies and objectives, ensuring that risks that could affect them are identified, analysed, assessed, managed and controlled systematically, with uniform criteria and within the level of acceptable risk approved by the Board of Directors.

In addition, the Group has a Comprehensive Risk Management Policy and a General Procedure for Comprehensive Risk Management and Control, which sets the level of risk considered to be acceptable and provides specific action guidelines for managing and mitigating the different categories of risks, including tax risks.

Following the risk analysis performed by the Red Eléctrica Group, the latest Risk Map identifies 120 risks, which are shown below by risk category:

### Risk structure 2018

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Nº</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>24</td>
</tr>
<tr>
<td>Operational</td>
<td>64</td>
</tr>
<tr>
<td>Financial</td>
<td>12</td>
</tr>
</tbody>
</table>

### Distribution of risks by category

- Regulatory Framework: 19
- Business: 6
- Sustainability and Good Governance: 4
- Assets Planned and / Or in Progress: 15
- Assets in Service: 15
- Information Systems: 9
- People and Organisation: 3
- Compliance: 10
- Market: 5
- Solvency: 1
- Counterparty: 5
- Insurance: 3
The risk management system includes the monitoring of more than 500 action plans aimed at reducing the level of risk and more than 300 performance indicators to monitor their evolution.

Innovation

The Innovation Strategy extends to all areas of the Group’s activity.

Innovation Strategy

- People
  - Boosting innovation.
  - Healthy workplace.
  - Digital transformation.
- Digitalisation
  - Digital transformation.
  - Optimisation of systems.
  - Cybersecurity.
  - Virtualisation.
- Sustainability and social innovation
  - Environmental management.
  - Biodiversity and Natural Capital.
  - The fight against climate change.
  - Social acceptance of facilities/infrastructure.
- Technology
  - Disruptive research.
  - Discontinuous innovation.
  - Automatisation and robotics.
  - The state of the equipment and facilities.
  - Taking advantage of new resources.

Noteworthy actions in 2018

- Review of the methodology for measuring the impact of reputational axis.
- Analysis and redefinition of the structure and reporting of the Group’s risks.
- Deployment of the risk management office in investment projects.
- Evolution of the methodology for quantifying the impact on the electricity supply.

MONITORING AND CONTINGENCY PLANS

In the process of identification, analysis, assessment and control of risks, the necessary actions are established to reduce the level of risk and bring it to the acceptable risk value.

In this regard, the Company has contingency plans that govern various crisis situations that could potentially arise in the event of an electrical incident [in order to guarantee the security of supply], or of a non-electrical nature that could affect the environment, people, the operational aspects of the Company, the availability of its systems, the business results or any other event with an impact on the reputation of the Company.

In addition, in 2018, the Company progressed in the development of the Business Continuity Plan with the aim of planning the necessary procedures to be able to respond adequately to a disaster, crisis or emergency situation, from the moment in which it occurs, until the moment it returns to normal.

The Red Eléctrica Group remains committed to promoting innovation as a lever for growth and efficiency by incorporating technologies, solutions and new ways of working that promote and facilitate a cultural change in the Group in order to tackle future challenges and for its long-term sustainability.

For this, the Company has in place its 2016-2019 Innovation Strategy aimed at spreading innovation to all areas of business activity, focusing mainly on four vectors: people, digitalisation, technology, sustainability and social innovation.
The Red Eléctrica Group understands digital transformation as the process of changing operations, business models and ways of working, in order to add more value through the development of new digital technologies.

In this regard, the Company has a digital transformation strategy, aligned with its Strategic Plan, which makes it possible to address the changes faced by its sector of activity and whose objectives are: improving operational efficiency, the development of new business models and the adaptation of human capital to the digital environment.

The digital transformation strategy is structured on three interrelated axes:

### BEST PATHS
- European project to overcome the technical barriers that the current pan-European electricity grid may encounter when attempting to integrate massive amounts of energy from renewable sources safely.

### MIGRATE
- Project aimed at improving the understanding of the behaviour of the electricity system with a high penetration of devices based on power electronics.

### SUSTAINABLE TRANSFORMER
- Technical validation of the substitution of mineral oil used as an insulating and cooling element in transformers for a biodegradable vegetable oil that is more sustainable and respectful with the environment.

### VEGETA
- Methodology to optimise the plan for managing the treatment cycle of the vegetation growing within the security corridors of lines.

Over the last three years, the average investment in innovation projects stood at 9.37 million euros per year.

The commitment of the Red Eléctrica Group to innovation is evidenced by the investment in a portfolio of projects sustained in recent years. During 2018, the Company had 86 innovation projects underway.

Grid2030 Innovation programme

Multi-year collaborative innovation programme, a pioneering initiative in Spain, which explores innovation of a technical or socio-economic nature related to the operation and transmission of electricity.

Together with other actors of the sector (researchers, start-ups and companies), we anticipate the future of electricity systems, identify the associated challenges and accelerate the development of disruptive technological solutions.

Significant projects

- **BEST PATHS**
  - European project to overcome the technical barriers that the current pan-European electricity grid may encounter when attempting to integrate massive amounts of energy from renewable sources safely.

- **MIGRATE**
  - Project aimed at improving the understanding of the behaviour of the electricity system with a high penetration of devices based on power electronics.

- **SUSTAINABLE TRANSFORMER**
  - Technical validation of the substitution of mineral oil used as an insulating and cooling element in transformers for a biodegradable vegetable oil that is more sustainable and respectful with the environment.

- **VEGETA**
  - Methodology to optimise the plan for managing the treatment cycle of the vegetation growing within the security corridors of lines.

**Innovation expenditure (M€)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Innovation expenditure (M€)</th>
<th>Number of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>10.2</td>
<td></td>
</tr>
</tbody>
</table>

**IMAGINA, cultural axis for transformation**

One of the objectives of the Group's digital transformation is to promote a cultural change in human capital to improve its efficiency within a digital company. Imagina is a project for transforming ways of working, through cultural, technological, process and spatial initiatives, which are driven by the figure of the Imagineers.

1. People
2. Working environment
3. Digitalisation
4. Ways of working
Red Eléctrica is a key agent in taking on the challenges of decarbonisation and helping to accelerate the energy transition towards a more efficient and sustainable model.

Climate change is a global challenge that is a high priority on the international agenda. The objective is to make economic growth compatible with the reduction of greenhouse gases (GHG), in the medium and long term, in order to limit the global warming of the planet.

In this context, the Red Eléctrica Group takes on the following commitment as one of its sustainability priorities.

Be a proactive agent in the energy transition towards a zero-emission model, advocating for the electrification of the economy and the efficient integration of renewable energy, through a robust and better interconnected grid, as well as through the development and operation of energy storage systems.

Be a proactive agent in the energy transition towards a zero-emission model, advocating for the electrification of the economy and the efficient integration of renewable energy, through a robust and better interconnected grid, as well as through the development and operation of energy storage systems.
Energy transition and climate change

The Red Eléctrica Group gears all its actions towards making the European Union’s commitment to energy targets and the fight against climate change a reality, and thus contribute to an acceleration of the energy transition that favours the change towards a more sustainable and efficient model.

Since 2011, the Company has demonstrated its firm stance on climate change. A commitment that is materialised in the 2015-2020-2030 Climate Change Action Plan, and which was updated in 2018, with the purpose of introducing more ambitious targets in terms of emission reduction.

TRANSITION TO A NEW ENERGY MODEL

<table>
<thead>
<tr>
<th>Key Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrification of the economy</td>
</tr>
<tr>
<td>Energy efficiency</td>
</tr>
<tr>
<td>Security of supply</td>
</tr>
<tr>
<td>Maximum integration of renewables</td>
</tr>
</tbody>
</table>

The core mission of electricity system operation is to guarantee the security and quality of the electricity supply, maximising the integration of renewable energy.

In order to make the high penetration of renewable energy in the electricity system compatible with the security of supply, Red Eléctrica has the Control Centre of Renewable Energies (CECRE).

During 2018, renewable energy sources represented 40.1% of the total energy generated in the peninsular electricity system, 6.3 percentage points up on 2017.

In line with previous years, noteworthy has been the important share of wind generation, whose contribution to total energy production reached 19.8%, which places this technology in second...
The construction of the Chira-Soria hydroelectric power station will be an essential tool to advance towards the sustainability of the new energy model in the Canary Islands, improving security of supply.

**WIND POWER GENERATION**

**19.8 %**

share in the peninsular electricity generation mix

**ENERGY STORAGE**
In order to improve the guarantee and security of the system and the integration of renewable energy, Red Eléctrica is developing and carrying out several projects aimed at energy storage, conceived as a tool for the system operator that helps optimise the efficiency of the electricity system.

- **CHIRA-SORIA POWER STATION**
  - This pumped-storage hydroelectric power station will have a power capacity of 200 MW, a figure that represents 36% of the current peak demand of Gran Canaria.

- **The construction** of this power station between the reservoirs of Chira and Soria will be an essential tool to advance towards the sustainability of the new energy model in the Canary Islands, since, in addition to improving the security of supply, it will enable a greater development of renewable energy on the island of Gran Canaria.

- **Other energy storage projects**
  - **ALISIOS**: Project aimed at maximising the integration of renewables on the island of Tenerife through the implementation of a power-intensive electricity storage system with a power of 25 MW and a capacity of 6.25 MWh.
  - **ALMACENA**: Electrochemical energy storage solution to improve the efficiency of the electricity system, consisting of a lithium-ion battery with a power of 1 MW and a capacity of 3 MWh.

The development of transmission grid infrastructure is carried out in accordance with that set out in the current Infrastructure Planning (2015-2020), which is binding in nature for Red Eléctrica.

The electricity planning includes the projects of new electricity infrastructure necessary to guarantee the supply nationwide, taking into consideration economic efficiency and environmental sustainability.
Red Eléctrica has made an investment of 378 million euros in new electricity transmission infrastructure that guarantees supply nationwide.

**SERVICE QUALITY**
For yet another year, Red Eléctrica’s service quality indicators show the high level of security and quality of supply provided by its facilities, as reflected in the availability rates of not only the peninsular grid but also those of the Balearic Islands and the Canary Islands.

This is achieved, in part, through the efficient application of sustainable, smart and responsible maintenance policies regarding the transmission grid facilities.

**Transmission grid infrastructure**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>km of line</td>
<td>44,069</td>
</tr>
<tr>
<td>Overhead line (km)</td>
<td>42,243</td>
</tr>
<tr>
<td>Submarine cable (km)</td>
<td>835</td>
</tr>
<tr>
<td>Underground cable (km)</td>
<td>992</td>
</tr>
<tr>
<td>Substation bays [n°]</td>
<td>5,750</td>
</tr>
<tr>
<td>Transformer capacity (MVA)</td>
<td>86,846</td>
</tr>
</tbody>
</table>

Peninsular and non-paninsular cumulative data as at 31 December 2018.
Provisional data pending audit.

**Service quality**

<table>
<thead>
<tr>
<th>Transmission grid availability rate</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular transmission grid</td>
<td>98.31</td>
<td>98.28</td>
<td>98.13</td>
</tr>
<tr>
<td>Balearic Islands transmission grid</td>
<td>96.93</td>
<td>97.84</td>
<td>96.80</td>
</tr>
<tr>
<td>Canary Islands transmission grid</td>
<td>98.06</td>
<td>98.12</td>
<td>98.45</td>
</tr>
</tbody>
</table>

Provisional data pending audit.

**NEW CIRCUIT LINE IN 2018**

- **277 KM**
- and 149 new substation bays

Investment in the transmission grid €

**TRANSMISSION GRID CONSTRUCTION**
In 2018, investment in the transmission grid primarily responded to security of supply, the resolution of technical constraints, interconnections between electricity systems and providing electrical power for the high-speed train.

Throughout 2018, 277 km of new line and 149 new substation bays were commissioned, and the transformer capacity was increased by 2,592 MVA, with an overall total investment in the transmission grid of 378 million euros.

**HIGH DEGREE OF SECURITY AND QUALITY**

Red Eléctrica manages around 44,000 km of electricity line nationwide.
Smart grids and demand-side management

Red Eléctrica continues working actively on the promotion, development and dissemination of initiatives that allow the current electricity grid to evolve towards a smarter transmission grid that will enable the energy transition to take place.

Faced with the challenge of maintaining security of supply in a decarbonised electricity system, Red Eléctrica promotes continuous improvement, innovation and communication initiatives with its stakeholders that pave the way towards a smart grid and help us anticipate solutions, in different fields, and which are future-oriented already shaping the electricity grid of the future.

Smart grids: classification of projects and initiatives

| Advanced monitoring and control | New analytical models |
| Increasing the monitoring of system parameters for improved operation. | Development of new analytical models to gain greater knowledge and better predict the necessary variables, based on the information received from the smart grid. |
| Electric vehicle | Telecommunications and cybersecurity |
| Solutions that facilitate the integration of electric mobility into the system via smart charging. | Development of the communication network, which enables the smart grid, ensuring the cybersecurity of the connected network. |

Optimised management and operation of assets

| Development of new solutions that allow the management and operation of smart grid assets to be optimised. |
| Energy storage | Incorporation of new energy storage technologies to integrate renewable energy, guarantee supply and system security. |

Smart meters

| Promoting this initiative so that consumption data reaches the consumers and other system users in order to carry out a more efficient management of the system. |
| Active consumer initiatives that facilitate information, regarding the electricity system, to consumers allowing them to interact in an active manner. |

New solutions for the grid

| Incorporation of new types of assets into the transmission grid that enable its functionalities to be supplemented and increased. |
| One of the cornerstones of the Company’s climate change strategy is the commitment to the implementation of energy efficiency measures at all levels. In this regard, during 2018 there was a reduction of 86.4% in the emissions associated with electricity consumption in the work centres and 85% of the electricity consumed was of renewable origin. |

In 2018, the Company redefined its targets in this area in 2018, committing to reduce its emissions of scope 1 and 2 per MWh transported by 40% in 2030 compared to 2015, which in absolute terms translates into a reduction of 30% for that same year. In addition, a preliminary reduction target of 10%, compared to the 2015 figure, has been set for the 2020 horizon.

CONTROL OF SF6 EMISSIONS

The main direct emissions derived from the activities of Red Eléctrica are those of sulfur hexafluoride (SF6). This is a priority issue for the Company and, therefore, it has different courses of action and research underway aimed at a better handling and control of the gas and the reduction of leaks.

OFFSETTING EMISSIONS

In order to advance more quickly in reducing the carbon footprint, it is important to work on ways of offsetting emissions. In this regard, the Company offsets its emissions through the planting of trees as part of the ‘Red Eléctrica Forest’ project, in addition to the offsetting measures resulting from the purchase of 2,090 Verified Carbon Units.
The Red Eléctrica Group maintains its commitments to extending its corporate responsibility, based on transparency, integrity and sustainability, to all stakeholders that are related to the development and execution of its activities.

Society now enjoys a level of empowerment which allows it to demand that companies act more responsibly in the way they do business. This responsibility encompasses all the activities carried out by a company, including the management of its supply chain and the relationship with its customers and stakeholders.

In this regard, the Red Eléctrica Group takes on the following commitment as one of its sustainability priorities:

**Extend our commitment to responsibility to all links in the value chain, ranging from our own people to suppliers and customers, accomplishing this through the creation of alliances and by basing it on our governance and integrity model.**
Corporate governance

The Red Eléctrica Group has a robust and transparent corporate governance system, aligned with international best practices and recommendations, and voluntarily implements initiatives that go beyond legal compliance, in order to strengthen commitments and align its interests with those of shareholders, investors, markets and other stakeholders.

Noteworthy actions in 2018

<table>
<thead>
<tr>
<th>Effectiveness, efficiency and professionalism</th>
<th>Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Appointment of the new non-executive Chairman of the Board of Directors.</td>
<td>- Development of a new individual skills and competencies matrix for the Board of Directors.</td>
</tr>
<tr>
<td>- Orderly succession of the Chairman of the Company.</td>
<td>- Women represent 41.7% of the Board of Directors, one of the highest levels in the IBEX 35.</td>
</tr>
<tr>
<td>- Appointment of two proprietary directors with extensive and proven professional experience in the activity sector of the Company.</td>
<td></td>
</tr>
<tr>
<td>- Application, during the financial year, of the induction plan for new board members.</td>
<td></td>
</tr>
<tr>
<td>- Reorganisation of the committees of the Board of Directors.</td>
<td></td>
</tr>
<tr>
<td>- Updating contingency plans for the succession of the Chairman of the Board of Directors and the CEO.</td>
<td></td>
</tr>
<tr>
<td>- Re-election of two independent directors and ratification of a proprietary director at the Ordinary General Shareholders’ Meeting, with an average percentage of 96.9% of the votes in favour.</td>
<td></td>
</tr>
<tr>
<td>- Assessment of the Board of Directors with the collaboration of an external consultant.</td>
<td></td>
</tr>
</tbody>
</table>

Commitment to sustainability

- Creation of a new committee within the Board of Directors - the Sustainability Committee.
- New responsibilities assigned to the Appointments and Remuneration Committee in its relationship with employees.

Recognitions

- Recognition by the prestigious publication ‘Ethical Boardroom Magazine’ for excellence in corporate governance. The Company was included among the leading European companies receiving an award in the Ethical Boardroom Corporate Governance Awards 2018.

Shareholder structure

- SEPI: 20%
- FOREIGN INSTITUTIONS: 66%
- SPANISH INSTITUTIONS: 4%
- MINORITY SHAREHOLDERS: 10%

Shareholders’/Meeting Board of Directors

- 41.7% Women
- 58.3% Men

Appointments and Remuneration Committee

- CHAIRPERSON: Independent director

Audit Committee

- CHAIRPERSON: Independent director

Sustainability Committee

- CHAIRPERSON: Independent director
Ethics and compliance

Similarly, the Company has a Human Rights Management Model aligned with the Guiding Principles on Business and Human Rights of the United Nations (UN).

Noteworthy actions in 2018

- Design and implementation of the data protection compliance system.
- Designation of the data protection delegate and creation of the data protection advisory body.
- Approval of the guide for the management of conflicts of interest of the management team.
- Creation of the consultative body to deal with conflicts of interest.
- Development of the awareness and dissemination plan regarding the 2018 Compliance System.
- Design of a specific criminal prevention compliance system for the subsidiaries of the Red Eléctrica Group in Latin America.
- Definition of a specific methodology for the identification and assessment of compliance controls.

INTEGRITY MODEL OF THE RED ELÉCTRICA GROUP

Code of Ethics
Supplier Code of Conduct
Compliance System
Criminal Prevention Compliance System
During 2018, Red Eléctrica showed stable growth, in line with that established in its strategic plan. The Company has achieved sound results and has significantly strengthened its main solvency ratios, maintaining a clear orientation towards operational efficiency and the constant generation of value.

SHAREHOLDER RETURN

In 2018, direct return to the shareholder in the form of dividends grew by 7% compared to the previous year.

Credit rating

Red Eléctrica has been given a long-term credit rating of ‘A-‘ by Standard & Poor’s with a stable outlook and a short-term rating of ‘A-2’. Meanwhile, Fitch has given Red Eléctrica a long-term rating of ‘A’ with a stable outlook, and ‘F1’ in the short term.

Both rating agencies indicated the predictability and recurring nature of earnings as well as the soundness of the income statement as some of the Company’s strengths.

THE RED ELÉCTRICA GROUP

- is committed to employability and functional mobility as a lever for growth and professional development (8.9% functional mobility in 2018).

Employees

As at 31 December 2018, the Red Eléctrica Group had a total workforce of 1,799 people. 96% of the total (1,721 people) carry out their activity in Spain and 4% in Peru and Chile.

Red Eléctrica offers its employees stable and quality employment (99.4% of job positions are of an indefinite nature), undertaking the commitment to employability and functional mobility as a lever for growth and professional development (8.9% functional mobility in 2018).

Key financial indicators (1)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>Δ%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,941.2</td>
<td>1,948.5</td>
<td>0.4%</td>
</tr>
<tr>
<td>Gross operating profit (EBITDA)</td>
<td>1,519.5</td>
<td>1,539.7</td>
<td>1.3%</td>
</tr>
<tr>
<td>Net operating profit (EBIT)</td>
<td>1,031.4</td>
<td>1,069.8</td>
<td>3.7%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>880.2</td>
<td>936.3</td>
<td>6.2%</td>
</tr>
<tr>
<td>Net profit</td>
<td>669.8</td>
<td>704.6</td>
<td>4.9%</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>9,214.2</td>
<td>9,303.5</td>
<td>1.0%</td>
</tr>
<tr>
<td>Net equity</td>
<td>3,093.4</td>
<td>3,361.4</td>
<td>8.7%</td>
</tr>
<tr>
<td>Operating cash flow after tax</td>
<td>1,187.9</td>
<td>1,218.9</td>
<td>2.6%</td>
</tr>
<tr>
<td>Total investment</td>
<td>510.2</td>
<td>546.6</td>
<td>7.1%</td>
</tr>
<tr>
<td>Net Financial Debt</td>
<td>4,701.8</td>
<td>4,682.7</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

Key employment indicators (2)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total workforce</td>
<td>1,682</td>
<td>1,741</td>
<td>1,721</td>
</tr>
<tr>
<td>Women (%)</td>
<td>23.7</td>
<td>24.4</td>
<td>24.1</td>
</tr>
<tr>
<td>Men (%)</td>
<td>76.3</td>
<td>75.6</td>
<td>75.9</td>
</tr>
<tr>
<td>Women in managerial positions (%)</td>
<td>21.8</td>
<td>24.8</td>
<td>28.8</td>
</tr>
<tr>
<td>People with some type of disability (%)</td>
<td>0.77</td>
<td>0.83</td>
<td>0.88</td>
</tr>
<tr>
<td>Creation of net employment ( Nº of posts)</td>
<td>-15</td>
<td>35</td>
<td>-20</td>
</tr>
<tr>
<td>Average age</td>
<td>45</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>Average length of service (years)</td>
<td>16</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Undesired external turnover (%)</td>
<td>2.0</td>
<td>2.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Total turnover (%)</td>
<td>2.8</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Permanent contracts (%)</td>
<td>99.8</td>
<td>98.3</td>
<td>99.4</td>
</tr>
</tbody>
</table>

(1) Data regarding the following companies: Red Eléctrica de España + Red Eléctrica Corporación until 2016. As of 2017 it encompasses the following: Red Eléctrica de España + Red Eléctrica Corporación + REINCAN + Red Eléctrica Internacional + RENTEL.

(2) Scope of the data: Red Eléctrica de España + Red Eléctrica Corporación.
Responsible value chain

Sustainability Report 2018 | SUMMARY

Similarly, progress has been made in the action plan associated with the Disability Management Model, reaching 2.63% of full-time equivalent employment for people with disabilities.

GENDER EQUALITY AND EQUAL OPPORTUNITIES

Gender equality is one of the vectors included in the Comprehensive Diversity Plan that addresses important issues such as gender equality and employment opportunities, the promotion of women into positions of responsibility and equal pay for both men and women. In 2018, noteworthy was the signing of the agreement with the Royal Academy of Engineering for the creation of a female talent pro-

Diversity Management Model, set out in the Comprehensive Diversity Plan, approved in 2018, which enables the previous models of equality, disability and age to be incorporated into the same framework. This is accomplished through the commitment to talent diversity, social and labour inclusion and non-discrimination, therefore challenging stereotypes and cultural barriers.

In 2018, 67% of the new appointments to managerial positions were filled by women, which highlights the Company’s commitment to equal opportunities for both men and women.

Courses of action regarding the 2017-2019 Human Resources Master Plan

- Change management
- Process optimisation and simplification
- Talent management and development
- Leadership in occupational health and safety: healthy workplace.

DIVERSITY

The Red Eléctrica Group materialises its commitment to diversity, inclusion and non-discrimination through the implementation of the Diversity Management Model, set out in the Comprehensive Diversity Plan, approved in 2018, which enables the previous models of equality, disability and age to be incorporated into the same framework. This is accomplished through the commitment to talent diversity, social and labour inclusion and non-discrimination, therefore challenging stereotypes and cultural barriers.

PRINCIPLES OF THE HUMAN RESOURCES MASTER PLAN

- Efficiency
- Work-life balance
- Respect for diversity
- Equal opportunities
- Fair and personalised treatment for all professionals

Training hours per employee

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours</td>
<td>82</td>
<td>108</td>
<td>72</td>
</tr>
</tbody>
</table>

Investment in training per employee (M€)

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>3,431</td>
<td>4,398</td>
<td>3,767</td>
</tr>
</tbody>
</table>

Percentage of women

<table>
<thead>
<tr>
<th>Year</th>
<th>Workforce</th>
<th>Managerial</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>28.8%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>24.1%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>28.8%</td>
<td></td>
</tr>
</tbody>
</table>

Data regarding the Group in Spain.

www.ree.es/en
During 2018, ‘REE Avanza’ was created, an initiative aimed at sharing technical knowledge and experience, and encouraging debate and the exchange of ideas.

**TALENT MANAGEMENT**
Red Eléctrica’s Talent Management Model constitutes an essential principle of the Human Resources Master Plan. Its objective is to attract, nurture, develop, train and retain talent, as well as to promote the exchange of knowledge.

In 2018, the Company consolidated, within the Red Eléctrica Group Campus, the Leadership and Strategy Institute whose objective is to promote cultural transformation with a new leadership approach.

Under the ‘Transformative Leadership’ initiative, a series of managerial skills are deployed:

- Development of leaders (directors) and team development (heads of department).
- Transformation and innovation.
- Impact, influence and management of stakeholders.
- Change management.
- Strategic vision.
- Business development.

**HEALTHY WORKPLACE**
The Company has a Healthy Workplace Management Model that promotes the implementation of best practices in safety, health and well-being.

In this area, the prevention of occupational risks is an essential requirement to guarantee the health and safety of employees and collaborators. The action strategy goes beyond legal compliance and its purpose is to train, inform and raise awareness about obligations and responsibilities, seeking the commitment of all people.

Health promotion in the workplace
In 2018, various awareness and training initiatives were developed that were oriented to improve knowledge on various health issues, with a dedication of 700 hours.

These initiatives position Red Eléctrica as a benchmark in this field and allow it to collaborate as an expert on projects led by official entities such as the project ‘Benefits of promoting physical and sporting activity in terms of improving health, well-being and business productivity’ led by the National Institute of Health and Safety at Work and the Ministry of Employment and Social Security.
Red Eléctrica carries out all its environmental protection activities in accordance with the principles established in its Environmental Policy and has an Environmental Management System certified according to the ISO 14001 standard and registered in the Community Eco-Management and Audit System (EMAS).

Similarly, the Company has a multi-year Biodiversity Action Plan that sets out the challenges and main objectives for the period 2017-2021.

**Biodiversity**
The management of biodiversity is carried out taking into account the hierarchy of actions geared towards mitigating environmental impacts.

In this regard, avoiding protected areas is a basic criterion in selecting the location for facilities (only 15% of the lines and 5.9% of the substations are in protected areas).

**Main actions for the integration of facilities into the environment**

<table>
<thead>
<tr>
<th>Minimising the impact on the environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Use of a boom crane or helicopter for assembling electricity towers.</td>
</tr>
<tr>
<td>- Restoration of areas affected by the works (slopes, roads, accesses, enclosures) and the recovery of crops.</td>
</tr>
<tr>
<td>- Improvement in the noise reduction levels generated by the facilities (ACURED Project).</td>
</tr>
<tr>
<td>- Switching off external lighting at night in substations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reducing the visual impact of facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Design of electricity towers that blend better into the landscape.</td>
</tr>
<tr>
<td>- Landscape integration of substation buildings.</td>
</tr>
<tr>
<td>- Restoration of affected areas and the creation of vegetation screens.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Protection of archaeological and ethnological heritage</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Archaeological survey prior to the works.</td>
</tr>
<tr>
<td>- Presence of an archaeologist when the results of the survey so determine.</td>
</tr>
<tr>
<td>- Digital mapping of catalogued heritage (ARQUEORED Project).</td>
</tr>
</tbody>
</table>

**100% of the projects are submitted to an environmental impact assessment.**

In addition, the application of the corresponding preventive and corrective measures, including the restoration of affected areas, allows the possible impacts on the habitats and species to be minimised.

Lastly, different actions and projects for environmental improvement are carried out, in order to offset part of the impacts that may have been produced.

**Main actions in the protection of biodiversity**

<table>
<thead>
<tr>
<th>Protection of habitats and species</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Preventive and corrective measures to avoid the alteration of the habitat of certain species of fauna and flora, as well as the impact on vegetation (HABITAT Project).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prevention of forest fires</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Signing of agreements for the prevention of forest fires, collaborating with public administrations (13 agreements).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Biodiversity conservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Participation in projects for the conservation of wildlife (11 birdlife projects) and flora (Red Electrica Forest and Posidonia Oceanica Marine Forest in Majorca).</td>
</tr>
<tr>
<td>- Development of innovation projects (VEGETA Project and the Prodint Project).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Protection of birdlife</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Multi-year power line marking plan with bird-saving devices for electricity infrastructure in critical priority areas, 357.7 km of line marked (51.2% of the total of critical areas).</td>
</tr>
</tbody>
</table>
Supply chain

In order to manage its supply chain, Red Eléctrica has in place a responsible management model based on the principles of non-discrimination, mutual recognition, proportionality, equal treatment and transparency.

The management of the supply chain is developed within the framework of the Supplier Code of Conduct that establishes the ethical, social and environmental requirements that all suppliers must accept and comply with, with the commitment to extend it to their own supply chain.

In 2018, Red Eléctrica carried out civil works through the use of 1,049 suppliers, for a total of 580 million euros. 82% of this amount corresponds to services and civil works, while the remaining 18% was for materials and equipment.

96% of the purchases were awarded to suppliers with head offices in Spain and 99% of purchases were made within the European Union. This consolidates the Company as a driver for the development of business, industrial and social growth in its socio-economic environment, through the creation of employment throughout the supply chain.

In accordance with its commitment to sustainability, Red Eléctrica has continued to go into greater depth regarding the identification of requirements that must be fulfilled by its suppliers in this field, for which it has prepared the matrix of impacts corresponding to the supplies of equipment and/or materials; and has updated the one related to services and civil works. Additionally, the impacts associated with suppliers located in countries with potential risk in socio-labour conditions have been identified.

In addition, with the aim of extending its sustainability commitment throughout the supply chain, Red Eléctrica places special emphasis on the areas of occupational health and safety, the environment and respect for human rights. Therefore, it carries out a monitoring process of the severity and frequency of accident rates of its contractors and implements measures to guarantee maximum levels of safety during work.

Sustainable management pillars regarding the supply chain

- Segregation of functions in the supply process and transparency in its management.
- Ethical management of suppliers and contractors and their ongoing sustainable development.
- Minimisation of risks associated with the supply chain.
- Continual search for the lowest expected cost.

Certifications

100% of suppliers with environmental and occupational health and safety impacts are certified under ISO 14001, OHSAS 18001 or equivalent.

Customer orientation

Red Eléctrica has a System Operator Code of Conduct, which guarantees transparency, confidentiality, ethics and objectivity in its duties and responsibilities as electricity system operator.

Furthermore, the Company is obliged to publish information regarding the price of energy in the markets, as well as information on processes associated to system operation, guaranteeing at all times the confidentiality of the data provided by the market agents in accordance with the criteria of information transparency and confidentiality established in the applicable European and national regulations in force. This communication and publication of information is done through various channels and information platforms.

Information platforms

- e-sios website. Platform to ensure compliance with the legal requirements for communication and disclosure of information on system operation.
- IESOE website. Regional information platform for operators of the French, Portuguese, Moroccan and Spanish electricity systems.
- SmartViu App. Application for mobile devices that shows the status of the peninsular electricity system in real time.
- ENTSO-E transparency website. Platform designed for sending data from the electricity markets, in accordance with the provisions set out in the Transparency Regulation.
- Bi-monthly committee CTSESEL in which information is provided on the operation of the electricity systems of Spain and Portugal.
- Voluntary Price for the Small Consumer (PVPC). Information related to the PVPC in compliance with the provisions of Royal Decree 218/2014.

Other information channels

- Reporting to ACER (Agency for the Cooperation of Energy Regulators). Information on explicit capacity auctions and electricity nomination programmes regarding capacities communicated by the participants in said auctions.
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 the socio-economic environment, whereby the social footprint is one of the key drivers of a company’s corporate management.

In this regard, the Red Eléctrica Group takes on the following commitment as one of its sustainability priorities.

Contribute to the economic, environmental and social progress 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.

Our commitment to social, economic and environmental aspects are geared toward the creation of shared value with society, involving communities in the development of our activities to generate mutual benefit.
Contribution of the activity

The investment made by the Company incentivises production, generating an increase in wealth (measured through the country’s GDP), which at the same time promotes employment and generates tax contributions for the public administration that can then be dedicated to improving the overall well-being of society.

In 2018, Red Eléctrica made a total investment in the transmission grid of 378 million euros, of which it is estimated that 103 million euros were allocated to the import of the goods needed to carry out the activity. The remaining 276 million euros were for direct investment in Spain, and the impact of this investment is outlined in the table below.

**Impacts of the investments**

- **Direct Impact**
  - Estimation and valuation of the supply and production chain and the creation of employment and incomes that are generated in the national economic system stemming from an initial investment.

- **Indirect Impact**
  - Generation of income and new employment derived from the fact that, in order to execute the investments, the direct awardees need to acquire other goods and services from the rest of the supply and production chain (intermediate consumption). This then generates demand for other goods and services further down the chain.

- **Induced Impact**
  - Impact derived from all the income generated in the previous stages. This effect includes 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.

**Total impact of the investment in the transmission grid**

<table>
<thead>
<tr>
<th></th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production (M€)</td>
<td>276</td>
<td>262</td>
<td>26</td>
<td>564</td>
</tr>
<tr>
<td>Income - GDP (M€)</td>
<td>110</td>
<td>110</td>
<td>9</td>
<td>228</td>
</tr>
<tr>
<td>Employment (number of jobs)</td>
<td>1,892</td>
<td>1,982</td>
<td>272</td>
<td>4,146</td>
</tr>
<tr>
<td>Tax revenue (M€)</td>
<td>43</td>
<td>42</td>
<td>4</td>
<td>89</td>
</tr>
</tbody>
</table>

Impacts calculated with the methodology based on the implicit activity multipliers obtained in the Input-Output Tables that allow the overall level of activity generated, stemming from an initial investment, to be estimated.

**TAX TRANSPARENCY AND CONTRIBUTION**

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.

In this regard, the vision of the tax strategy is to manage tax matters in a proactive, transparent manner and that is accountable to all stakeholders, in order to comply with tax legislation and minimise reputational risk, in addition to making it compatible with the protection of shareholder value.

**Key data in 2018**

<table>
<thead>
<tr>
<th></th>
<th>Spain (2)</th>
<th>Peru</th>
<th>Chile</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes borne</td>
<td>246</td>
<td>3</td>
<td>1</td>
<td>250</td>
</tr>
<tr>
<td>Corporate tax</td>
<td>202</td>
<td>3</td>
<td>1</td>
<td>206</td>
</tr>
<tr>
<td>Other taxes</td>
<td>44</td>
<td>-</td>
<td>-</td>
<td>44</td>
</tr>
<tr>
<td>Taxes collected</td>
<td>490</td>
<td>3</td>
<td>-</td>
<td>493</td>
</tr>
<tr>
<td>VAT</td>
<td>398</td>
<td>2</td>
<td>-</td>
<td>400</td>
</tr>
<tr>
<td>Other taxes</td>
<td>92</td>
<td>1</td>
<td>-</td>
<td>93</td>
</tr>
<tr>
<td>Tax Contribution</td>
<td>736</td>
<td>6</td>
<td>1</td>
<td>743</td>
</tr>
</tbody>
</table>

More than

- 45% of the generated value earmarked for the payment of taxes
- 99% of the Total Tax Contribution paid in Spain
- 38% Tax Contribution compared to the revenue figure of the Company

(1) Includes other EU countries.
The long-term sustainability of the Company depends on delivering a service that provides value to society and generates a positive impact.

Creating Shared Value Throughout the Life Cycle of Infrastructures

The Red Eléctrica Group is aware that its long-term sustainability depends on delivering a service that provides value to society and generates a positive impact. For this reason, it accompanies its projects for new electricity infrastructures nationwide with collaborative programmes that reflect its social commitment and pursue the objective of contributing to the development of the communities in which its facilities are located. This contribution is supplemented by a commitment to ensuring the utmost care and respect for environment in the execution of activities, throughout the life cycle of the facilities. Furthermore, it fosters the protection of biodiversity, through the development of various initiatives and projects aimed at its conservation.

Social Development of the Territory

Red Eléctrica understands social innovation as an open and collaborative model to respond to the needs of society.

The social commitment of the Red Eléctrica Group is aimed at creating sustainable value in the territories in which it is present and with which it maintains a constant communication to identify its needs and improve the quality of life of citizens.

The contribution of the Company to society is materialised through the set of projects and actions that are carried out in response to the sustainable development of the territory, such as: local development and education, culture and heritage.

Social Innovation

Red Eléctrica promotes an open and collaborative model of social innovation with external stakeholders, with the intention of responding to their needs through innovative and more effective solutions. This model allows opportunities to be identified in each territory, taking into account their interests to establish firm, participatory and permanent links with the various social entities.

In this regard, the Company promotes the development of sustainable, transformative, scalable and replicable projects, with the aim of developing initiatives of long-term positive social impact nationwide.

Lecrinnova, a pioneering social innovation project for socio-economic development in Granada

Within the commitment to social innovation, in 2018, in the Valle de Lecrín (Granada), Lecrinnova was launched, a pioneering project that stems from the commitment to creating shared value with society.

The aim of the Lecrinnova project is to implement new innovative solutions in the territory and is conceived as a comprehensive public-private collaboration programme.

Its implementation is developed through three courses of action:

- Training for young unemployed women.
- Support for entrepreneurs.
- Design of new food products.
- These three initiatives aim to help make the Valle de Lecrín an attractive place to live, reversing the depopulation process, retaining its youth and local talent, and encouraging the arrival of new residents to the area.

The ultimate goal of the project is for municipalities and local entities to take over and continue to promote this territory both economically and socially.
Red Eléctrica fosters the dissemination of information regarding how the electricity system works and also raises the awareness of citizens regarding the sustainable and responsible use of energy.

**DISSEMINATION OF KNOWLEDGE**

In the field of knowledge dissemination, Red Eléctrica plays an active role to disseminate and showcase the functioning of the electricity system as a whole, as we are aware that a more informed society has a greater capacity to develop and maintain a sustainable energy model.

The Company also pays special attention to higher education and training in the area of energy and the environment. During 2018, noteworthy was the organisation of 38 visits to facilities to help with the training of 926 students of master’s degree programmes or specialisation courses from schools and universities. Also noteworthy were the 20 collaboration agreements signed with universities and training entities.

### ‘A highway behind the wall socket’

This travelling exhibition aims to explain the electricity supply process, from generation to consumption, showcasing the activities of Red Eléctrica in the operation of the Spanish electricity system, in addition to making citizens aware of the need to consume electricity in an efficient and responsible manner. This exhibition, which began its journey in 2010, has travelled to ten Spanish cities accumulating a total of more than 1,000,000 visits.

### REE in the classroom

This project is an educational programme aimed at children which seeks to show them how the electricity arrives to their homes and instil in them the concept of responsible consumption. The educational activities revolve around ‘entreREDes’, a digital educational application based on answering questions which allows the students to take a virtual tour of Spain travelling along the main electricity lines and substations. Since 2016 more than 15,600 students nationwide have played the game.
One of the challenges undertaken by the Company in keeping with its biodiversity commitment is to promote the conservation of natural heritage through active participation or the promotion of projects in collaboration with the public administration, NGOs and other stakeholders. Among these, the following are noteworthy:

- The ‘Red Eléctrica Forest’: the planting of trees in order to recover degraded natural spaces, support for the development of local economies and offset a part of the Company’s emissions.
- Forestry management and the fight against forest fires: development of collaboration agreements with public administrations, to carry out various prevention actions (13 agreements in force).
- The ‘Red Eléctrica Marine Forest’: the restoration of Posidonia oceanica seagrass meadows in the Bay of Pollença (Balearic Islands).

RED / ELÉCTRICA / FOREST
IN FIGURES / 2009 - 2018

| TREES AND SHRUBS PLANTED | 682,093 |
| EMISSIONS OFFSET | 194,791 t CO₂ eq. |
| SURFACE AREA RECOVERED | 843 ha |
| INVESTMENT | 2,126,327 € |

Conservation of natural capital

Red Eléctrica promotes and maintains a permanent relationship with local communities throughout the life cycle of the facilities. For this reason, it has an organisational structure distributed nationwide that facilitates communication and institutional collaboration with public and private administrations and institutions.

In the case of municipalities, the Company fosters engagement to provide information and raise awareness regarding the need for facilities and their role within the transmission grid, as well as to promote dialogue that facilitates the development of projects in a sustainable manner and which is accepted by all.

In 2018, it is worth noting the signing of 99 collaboration agreements with public and social entities associated mainly with the execution of socio-economic, environmental, educational and cultural development projects.
The communication policy has focused mainly on the energy transition, the decarbonisation of the economy, the interconnections between electricity systems and energy storage.

**PARTICIPATION IN ORGANISATIONS AND ASSOCIATIONS**

The Company is part of and actively participates in various national and international organisations and associations, in order to publicise and raise awareness of their position in key aspects of their activity, strengthen the consolidation of alliances and maximise their contribution to the achievement of common goals. In 2018, the Company has formalised its membership with 59 organisations and professional entities.

**INFORMATION TRANSPARENCY**

Raising awareness and disseminating knowledge have continued to be the informative pillars of Red Eléctrica during 2018. For this reason, 108 press releases were issued, 17 meetings and press conferences were held with various media channels and 90 interviews and statements were issued. On the other hand, 250 enquiries from the media on issues related to the Company’s activity were dealt with.

Red Eléctrica’s communication policy has focused mainly on the energy transition, decarbonisation of the economy, international interconnections and links between the islands, and energy storage projects for isolated electricity systems.

**Promoting digital channels**

Red Eléctrica has continued to promote the Company’s presence in digital media, especially with content on transmission grid projects, sustainability and innovation. The Company has promoted audio-visual content, editing and publishing 14 videos that include both information and testimonials.

Red Eléctrica now has more than 16,600 followers on Twitter, 3,400 on Facebook, 21,200 on LinkedIn and 894 subscribers on YouTube.

In 2018, digital media has played a prominent role, representing 35.5% of the total of publications about the Company.

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**CORPORATE WEBSITE INDICATORS 2018**

<table>
<thead>
<tr>
<th>More than</th>
<th>1</th>
<th>7th</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 MILLION</td>
<td>1 MILLION</td>
<td>POSITION</td>
</tr>
<tr>
<td>visits</td>
<td>downloads of digital content</td>
<td>in the ranking of the best websites of the IBEX 35 companies, according to the international Webranking survey 2017-2018 conducted by the consultancy firm Comprend</td>
</tr>
</tbody>
</table>
Red Eléctrica works on selecting the most legible typographical font for their publications. The typographical fonts Geogrotesque have been used for the texts and graphics in this report.