



RED
ELÉCTRICA
CORPORACIÓN

**ANNUAL EXECUTIVE REPORT
ON THE MANAGEMENT OF
THE CODE OF ETHICS 2016**



1. INTRODUCTION

The Annual Report on the Management of the Code of Ethics sets out the circumstances arising in relation to the corporate system for the management of ethics of the Red Eléctrica Group within the 2016 fiscal year.

The Code of Ethics of the Company seeks to provide an ethical guide for the people of the companies of the Red Eléctrica Group, establishing the values and commitments that should govern their activity within the Company.

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

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 Chairman of Red Eléctrica Group or the Chairperson of the Audit Committee if it affects any member of the Management Committee.
- Keep an updated record on the process (enquiries, grievances, procedures 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.



3. WHISTLE-BLOWING CHANNEL

To promote the application of the Code of Ethics, Red Eléctrica has a whistle-blowing channel, available on the corporate website, through which enquiries, grievances or suggestions can be conveyed to the Ethics Manager.

In addition, Red Eléctrica has another channel for reporting non-compliance, grievances, enquiries and suggestions regarding ethical matters through its Stakeholder Attention Centre DÍ-GAME, in order to provide a reporting channel for requests from external stakeholders who are not aware of the whistle-blowing channel. This service will transfer to the Ethics Manager the requests received, preserving their confidentiality.

Regarding the whistle-blowing channel for the detection and handling of possible non-compliances, complaints, queries and suggestions, in 2016, 29 queries were made to the Ethics Manager, all with a maximum resolution time of 10 days or less.

The enquiries made have referred to the following patterns of business behaviour:

- Responsible monitoring of the management of suppliers,
- Adequate handling of confidential information.
- Protection and use of facilities and equipment of the Organisation.
- Limitation on the acceptance of gifts, loans or invitations.
- Respect, integrity, accountability and transparency within the organisation.

In 2016, three grievances were received regarding compliance with the Code of Ethics.

The first one of them, formulated from within the organisation itself, concerned issues related to the rational use of computer power. Once the grievance was analysed, and the information and evidence obtained during the processing of the case, it was filed because there was no breach of the values included in the Code of Ethics of the Red Eléctrica Group, and after having verified that the control criteria and energy efficiency information in the use of computer equipment of the Company is being applied.

The second of the grievances, reported by a private individual, referred to the corporate value 'responsibility' and was motivated by slight damages caused on a farm as a result of the maintenance work on one of Red Eléctrica's facilities. At the request of the Ethics Manager, an action plan for the repair of the damages, object of the complaint, was designed, which was carried out by the unit responsible in the Company with the agreement of the landowner.

The third of the grievances reported refers to the corporate value 'environmental conscience', made by a private individual, was motivated due to the noise emission of one of the Company's facilities. From the study, it was shown that the levels emitted were in accordance with legal standards and recommended practices. Notwithstanding this, the Ethics Manager proposed that a series of improvements were carried out in the screening of the facility in order to increase the absorption of noise and at the same time improve the landscape impact of the facility. The implementation of this action plan is expected to be completed during the first half of 2017.



Among the functions undertaken by the Ethics Manager is the obligation to communicate the grievances that could lead to a criminal risk for the companies of the Red Eléctrica Group, for which the Control and Monitoring body of the Criminal Risk Prevention Programme of the Group, of which the Ethics Manager is a member, can assess the aforementioned grievances and, where appropriate, initiate an investigation into the event until it is resolved.

In 2016, as occurred in previous years, the Ethics Manager received no complaint about non-compliances 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. 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 an effective mechanism for the detection and handling of possible cases of corruption and fraud. The governing bodies, managers and other employees of Red Eléctrica must accept the content of the Code of Ethics and, the suppliers, the Code of Conduct for suppliers of the organisation.

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 accused of or convicted by any court of law on non-compliances related to cases of corruption, in the same way as in previous years.

5. AWARENESS ACTIONS

Within the Awareness Plan on ethical management, approved by the Corporate Responsibility Committee of the Company (currently the Sustainability Management Committee), a number of forums were held during the 2014-2016 period at all work centres of the Group's companies, with the aim of improving knowledge regarding the ethics management system, reflecting the values and commitments made by the organisation, and strengthening the figure and functions of the Ethics Manager. These sessions include the participation of the Ethics Manager and the Red Eléctrica Stakeholder Ombudsman.



From outset of the awareness campaign in November 2014, and until its conclusion in June 2016, 25 awareness training sessions were held, with a total of 1,589 people attending, representing 89.8% of the workforce. In this process of bringing the values and commitments, encompassed within the Code of Ethics, to its members, the accomplishment of the 'Values of Red Eléctrica' project, which was undertaken during 2016, was approved as a leadership objective. The aim of the process is to communicate the values of the Company to all members and generate internal debate about its application within each unit, taking into account its peculiarities. This communication and debate has been undertaken with all the employees and with the involvement of those responsible for the different units of the Company. In these sessions, the current values were presented and the most significant in the opinion of its members were discussed within each unit, and proposals were made on possible areas for improvement.

6. 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 Dow Jones Sustainability Index 2016. For the second consecutive year, Red Eléctrica obtained the highest score (100 out of 100 points) in that section, 28 points above the average of the companies in its sector participating in said index, having also reached the maximum percentage (100) in the assessment.

Noteworthy is the inclusion of Red Eléctrica in the Euronext-Vigeo Sustainability Indexes (Eurozone 120, Europe 120, Global 120) which selects the companies that stand out for their performance in areas such as environmental protection, ethics or contribution to economic and social development of the communities in which they operate.

Lastly, noteworthy is the continued presence of Red Eléctrica in the business ethics indexes, such as the Ethibel Sustainability Index (ESI) Excellence Europe for the second year running, as well as its inclusion in the Ethibel Excellence since 2009.

7. ALLIANCES

Among the initiatives in which Red Eléctrica has participated in the promotion of business ethics noteworthy is the establishment of 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.

On the other hand, Red Eléctrica has joined the group of large companies that are part of the recently constituted 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 area.