

**RED**  
**ELÉCTRICA**  
CORPORACIÓN

**Annual Report on the  
Management of the Code  
of Ethics 2017**



## Contents

<b>1. Introduction .....</b>	<b>3</b>
<b>2. Ethics Manager and Stakeholder Ombudsman.....</b>	<b>4</b>
<b>3. Whistle-blowing Channel.....</b>	<b>5</b>
<b>4. Audit regarding compliance with the Supplier Code of Conduct .....</b>	<b>8</b>
<b>5. Integrity and Transparency.....</b>	<b>8</b>
<b>6. Recognitions.....</b>	<b>9</b>
<b>7. Alliances.....</b>	<b>10</b>
<b>8. Measures to be promoted in 2018.....</b>	<b>11</b>



## 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 2017 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 employees, in the performance of their duties and responsibilities. It represents a regulatory instrument, in the general sense of establishing 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.

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.

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 2017.



## 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 Executive 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.

The enquiry and grievance management procedure of the Red Eléctrica Group was approved in order to help promote its application. This procedure, which has been computerized and audited, guarantees the confidentiality of the claimant.



### 3. Whistle-blowing Channel

In order to facilitate the application of the Code of Ethics, Red Eléctrica has an easy-to-access whistle-blowing channel, available on the corporate website, through which enquiries, grievances or suggestions can be submitted to the Ethics Manager.

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

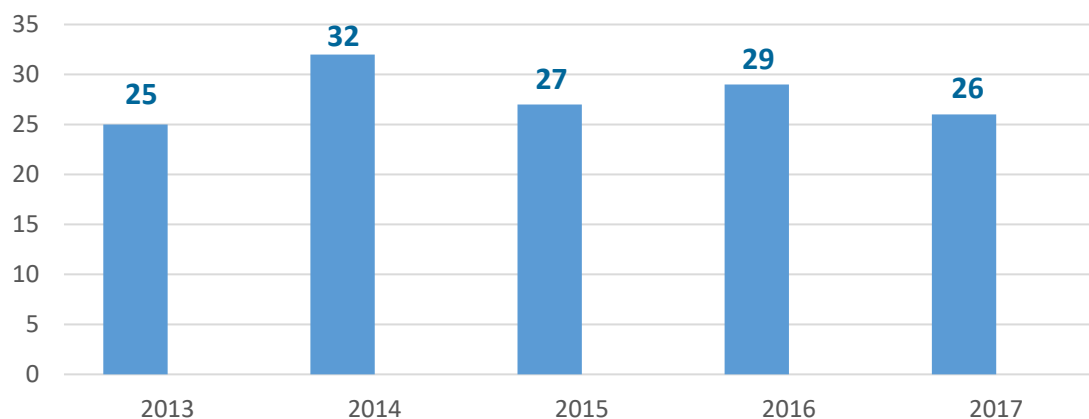
Regarding the system for the detection and handling of possible non-compliances, grievances, enquiries and suggestions, in 2017, 26 enquiries were made to the Ethics Manager, all of which, with the exception of specific cases where it was justified, were resolved in a maximum period of time of 10 days or less.

The enquiries made have referred to the following aspects of business conduct:

- Integrity, accountability and transparency.
- Respect, dignity and non-discrimination.
- Responsible monitoring of the management of suppliers.
- Limitation on the acceptance of gifts, loans or invitations.
- Adequate safeguarding of information systems.

A graph is provided below showing the evolution of the number of enquiries made to the Ethics Manager during the last five years.

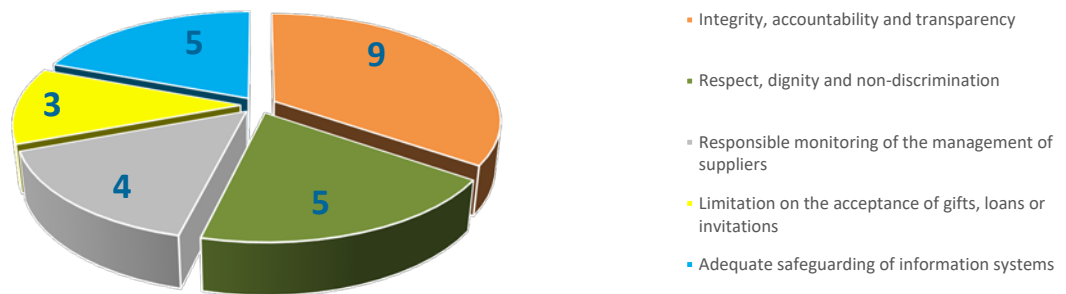
**Number of enquiries made to the Ethics Manager**





The following graph shows the distribution of the type of enquiries, broken down by business conduct affected, made to the Ethics Manager in 2017.

### Breakdown of the type of enquiries made to the Ethics Manager in 2017



In 2017, seven grievances were received regarding compliance with the Code of Ethics. The details of each grievance are shown below:

- 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 to a Red Eléctrica contract. Once the grievance was analysed, it was found that the claimant had abandoned the work without just cause, and that the supplier had passed on to the claimant the extra cost because they had to again subcontract out the completion of the unfinished work.
- Grievance filed by a former employee of a Red Eléctrica supplier, related to an alleged incident that occurred during the execution of work contracted by Red Eléctrica. Once the grievance was analysed, clear contradictions were detected between the versions of the supplier and the worker, which in turn activated a social audit aimed at verifying the supplier's compliance with the Supplier Code of Conduct.
- Grievance filed by an employee of Red Eléctrica, related to the Company's corporate values 'Trustworthiness', 'Accountability' and 'Respect', alleging the possibility that a private email message of a professional nature was used as an element of criticism in the eyes of fellow colleagues of the organisation, claiming that such criticism affected the performance of person's duties as a social representative. The processing of this Ethics Code grievance case was suspended due to the opening of an information procedure by the Human Resources Department in relation to the facts reported through the whistleblowing channel. Once this procedure was completed and in view of its conclusions, the processing of the grievance case reporting the breach of the Code of Ethics was resumed. At the close of 2017, said grievance case was in the processing stage.
- Grievance filed by a member of a partnership of landowners affected by Red Eléctrica facilities. The grievance refers to a supposed lack of respect in the manner in which the interlocutor of Red Eléctrica dealt with the partnership of landowners. As the facts reported cannot be confirmed, a communication has been sent to the interlocutor in question, reminding such interlocutor of the commitments laid down in the Code of Ethics regarding the due respect that employees of the Red Eléctrica Group must show to their colleagues, stakeholders and third parties with whom they establish any kind of relationship in the performance of the duties and responsibilities associated to their activity.



- Grievance related to the Company’s corporate values ‘Trustworthiness’ and ‘Accountability’, filed by a private individual, motivated by the occupation of a plot of land by a Red Eléctrica facility, alleging that the occupation was not duly authorised and that no formal easement existed. Once the grievance was analysed, and after having reviewed the information and evidence provided by the units involved, a response was sent by Red Eléctrica to the claimant, justifying the authorisation that allows said occupation of land.
- Grievance related to the corporate values ‘Trustworthiness’ and ‘Accountability’, filed by a private individual, alleging a possible improper claiming of expenses by a member of the Company. In the absence of any evidence to support said grievance, the claimant was granted sufficient time to correct the fact that it had omitted providing evidence; the omission of evidence was never corrected whereby the grievance was closed.
- Grievance related to the corporate value ‘Accountability’, filed by a private individual, reporting supposed voltage drops caused by Red Eléctrica. Once the grievance was analysed, and after having reviewed the information and evidence provided by the units involved, it was verified that there were no incidents of any type in Red Eléctrica’s facilities that could be coincident with the voltage drops specified in the grievance.

A graph is provided below showing the evolution of the number of grievances made to the Ethics Manager regarding a possible non-compliance with the Code of Ethics during the last five years.



On the other hand, 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 2017, as occurred in previous years, the Ethics Manager received no grievance on 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. Audit regarding compliance with the Supplier Code of Conduct

The Supply Area requested in 2017 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 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.

#### 5. 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 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. None of the companies 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, in line with what has been reported in previous years.





## 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 2017. For the third consecutive year, Red Eléctrica obtained the highest score (100 out of 100 points) in that section, 30 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 among the companies distinguished by the 'Ethical Boardroom Corporate Governance Awards 2017'. Said recognition was awarded to the Company for being one of the top European companies in the Utilities sector with best practices in corporate governance and business ethics during the 2015-2016 period. Similarly, Red Eléctrica has been distinguished in the 2018 edition of the 'Ethical Boardroom Corporate Governance Awards', as the best European company in its sector in relation to good governance practices and business ethics.

The Ethical Boardroom Awards recognise European listed companies that have shown exceptional leadership in the area of corporate governance. They highlight the important role that this framework of guidelines and practices plays in dictating the success of a company and the contribution of the Board of Directors to the creation of long-term value for shareholders.

Red Eléctrica has been included in the Euronext Vigeo sustainability indexes (Eurozone 120, Europe 120, World 120), which selects companies that stand out for their performance in areas such as environmental protection or ethics or for their contribution to the socio-economic 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 second consecutive year), as well as its inclusion in the Ethibel Excellence Index since 2009.



## 7. 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 area.



## 8. Measures to be promoted in 2018

The following are the relevant issues in which progress is being made or are being analysed regarding ethics management:

- Revision and updating of the Code of Ethics of the Red Eléctrica Group to adapt it to best practices in the field of compliance and 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.
- Promotion of the training plan for raising awareness and disseminating the culture of integrity of the Red Eléctrica Group.



Paseo del Conde de los Gaitanes, 177  
28109 Alcobendas (Madrid, Spain)

Tel. +34 91 650 85 00 / 20 12

[www.ree.es/en](http://www.ree.es/en)